GEAR ENERGY

Monthly Update

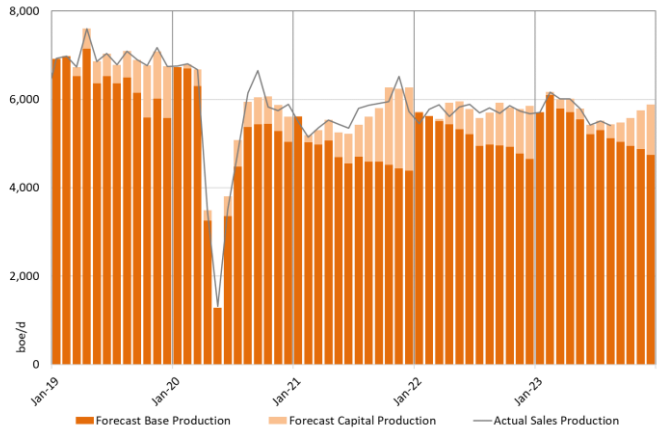
September 21, 2023
Vol. 10 Issue 8

FROM THE DESK OF INGRAM GILLMORE, PRESIDENT & CEO

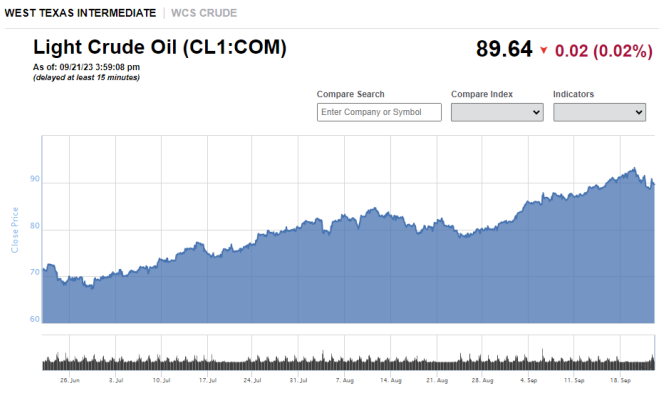
Gear is pleased to provide the following key operational and financial information for investors:

	Q3 22	Q4 22	2022	Q1 23	Jun-23	Q2 23	Jul-23	Aug-23	Q3 23	2023 TD
WTI Benchmark Price ($US/bbl)	91.55	82.65	94.23	76.13	70.27	73.78	76.03	81.32	78.68	75.88
WCS Heavy Oil Differential ($US/bbl)	(19.89)	(25.42)	(18.16)	(24.76)	(13.85)	(15.06)	(11.91)	(11.19)	(11.55)	(17.82)
MSW Light Oil Differential (US$/bbl)	(2.05)	(1.61)	(1.78)	(2.86)	(3.28)	(2.96)	(2.40)	(0.80)	(1.60)	(2.58)
Funds from Operations ($MM)	22.5	18.7	93.8	13.0	5.0	17.1	6.5	6.6	13.1	43.2
Capital and Abandonment Expenditures ($MM)	17.7	20.3	56.8	18.4	4.0	8.3	4.8	5.0	9.8	36.5
Net Surplus (Debt) ($MM)	7.0	(2.2)	(2.2)	(15.3)	(14.3)	(14.3)	(15.3)	(15.0)	(15.0)	(15.0)
Production (boe/d)	5,727	5,755	5,739	5,952	5,423	5,742	5,509	5,408	5,458	5,748
Note: All items are based on estimates; actuals will vary from estimates due to accruals and adjustments. Such variances may be material.										

August production essentially came in right on budget, and Gear remains on track to start growing production from this point forward through to year-end. See chart below for the forecasted monthly profile included in the current investor presentation.



The forecasted production growth appears to be well timed to a similar shape in the WTI oil price curve over the last few months.



The combination of higher prices and higher production highlights the strong torque embedded in Gear's funds from operations. Just to put it in perspective, we can take a quick look at the current market and Gear guidance to get a flavour of future potential.

If we start with current Gear guidance for annual 2023.

	2023 Revised Guidance
Annual production (boe/d)	5,700 – 5,900
Heavy oil weighting (%)	49
Light oil, medium oil and NGLs weighting (%)	37
Royalty rate (%)	13
Operating and transportation costs ($/boe)	25.00
General and administrative expense ($/boe)	3.50
Interest and other ($/boe)	1.00
Capital and abandonment expenditures ($ millions)[1]	50

Then we add recent prompt WTI price of approximately US$90 per barrel, as well as a few other price assumptions. (WCS differential of US$18 per barrel, MSW differential of $2.80 per barrel, LSB differential of $3.80 per barrel, exchange rate of 0.745 and AECO of CAD $2.80 per mcf).

Then we apply that pricing to the following high-level assumptions on 2023 product splits, and estimated pricing.

Product	Pricing Assumptions	Splits
Heavy Oil	(WTI-WCS)/fx - $6.50	48%
Light Oil	(WTI-MSW)/fx*98.6%	23%
Medium Oil	(WTI)/fx - $15	11%
Gas	AECO - $0.25	14%
NGL	WTI/fx - $55	4%

The end result of all these numbers is a potential point in time funds from operations of more than $45 per boe, a record high when compared to any previous full year in Gear's history.

In the essentially impossible scenario where every one of these variables stays the same for an entire year, the cash flow generation capability (at mid range production guidance) would be a record high approaching $100 million of FFO. That would be almost half of the current market capitalization of GXE and would provide a massive amount of free FFO compared to the current $50 million capital budget. Free FFO that could then be directed to increased potential growth, shareholder returns and balance sheet stability.

Certain information in this monthly update is forward-looking within the meaning of certain securities laws, and is subject to important risks, uncertainties and assumptions. This forward-looking information may include, among other things, estimated production, expected funds from operations and profit from certain assets of Gear, expectations of commodity prices and price differentials, demand for oil, capital expenditure budgets and estimates, royalty rates, operating costs, credit/debt requirements, and drilling inventory and locations. Readers should not rely on such forward-looking information to make investment decisions as the results or events anticipated or predicted in such forward-looking information may differ materially from actual results or events as a result of a number of factors including based on the risk factors as set forth in Gear's most recent annual information form (the "**AIF**"), which is available on this website and at www.sedar.com. Gear has based the forward-looking information on a number of assumptions including the assumptions identified in such monthly updates, which may not be realized. It has also assumed that the risk factors discussed in the AIF will not cause such forward-looking information to differ materially from actual results or events. The forward-looking information in this monthly update describes the expectations of management of Gear as of the respective dates of this monthly update and Gear does not assume any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable laws. Readers should not rely on the views of management of Gear as set out in this monthly update to make investment decisions with respect to Gear or other companies in the oil and gas industry and should instead consult with their own investment advisors.

This monthly update may include certain key performance indicators to analyze financial and operating performance such as funds from operations, funds from operations per debt adjusted share, production per day per thousand debt adjusted shares, operating netbacks, corporate netbacks and net debt, which do not have any standardized meaning prescribed by Canadian generally accepted accounting principles ("**GAAP**") and therefore may not be comparable with the calculation of similar measures for other entities. For additional information on these non-GAAP measures, see Gear's most recent management's discussion and analysis which is available on Gear's website at www.gearenergy.com and at www.sedar.com.

Barrel of oil equivalent ("boe") used in the monthly updates have been based on a conversion ratio of 1 barrel of oil to 6 thousand cubic feet of natural gas. A boe may be misleading, particularly if used in isolation, as such conversion ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.