Gear Energy Ltd. Announces First Quarter 2023 Operating Results

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Calgary, May 3, 2023 - Gear Energy Ltd. (TSX: GXE) ("Gear" or the "Company") is pleased to provide the following first quarter operating update to shareholders. Gear's Interim Condensed Consolidated Financial Statements and related Management's Discussion and Analysis for the period ended March 31, 2023 are available for review on Gear's website at www.gearenergy.com and on www.sedar.com.

	Three months ended		
(Cdn$ thousands, except per share, share and per boe amounts)	Mar 31, 2023	Mar 31, 2022	Dec 31, 2022
FINANCIAL			
Funds from operations (1)	13,012	18,782	18,676
Per boe	24.29	36.61	35.27
Per weighted average basic share	0.05	0.07	0.07
Cash flows from operating activities	14,933	15,340	18,565
Per boe	27.88	29.90	35.06
Per weighted average basic share	0.06	0.06	0.07
Net income	1,990	6,227	27,695
Per weighted average basic share	0.01	0.02	0.11
Capital expenditures	17,992	8,687	18,899
Decommissioning liabilities settled - Gear	441	912	1,417
Decommissioning liabilities settled - Government (2)	37	-	532
Net debt (1)	(15,276)	(6,706)	(2,220)
Dividends declared and paid	7,826	-	7,795
Dividends declared and paid per share	0.03	-	0.03
Weighted average shares, basic (thousands)	260,693	260,331	259,908
Shares outstanding, end of period (thousands)	261,212	260,759	260,693
OPERATING			
Production			
Heavy oil (bbl/d)	2,734	3,043	2,772
Light and medium oil (bbl/d)	2,045	1,580	1,835
Natural gas liquids (bbl/d)	292	269	299
Natural gas (mcf/d)	5,287	4,855	5,091
Total (boe/d)	5,952	5,701	5,755
Average prices			
Heavy oil ($/bbl)	56.80	95.91	69.72
Light and medium oil ($/bbl)	91.68	110.32	103.62
Natural gas liquids ($/bbl)	50.69	63.88	58.48
Natural gas ($/mcf)	3.13	4.64	5.11
Netback ($/boe)			
Petroleum and natural gas sales	62.86	88.73	74.19
Royalties	(7.64)	(9.38)	(10.40)
Operating costs	(22.45)	(19.80)	(21.55)
Transportation costs	(4.25)	(3.43)	(4.03)
Operating netback (1)	28.52	56.12	38.21
Realized risk management gain (loss)	0.87	(14.11)	-
General and administrative	(4.36)	(4.83)	(2.62)
Interest and other	(0.74)	(0.57)	(0.32)

(1) Funds from operations, net debt and operating netback do not have any standardized meanings under Canadian generally accepted accounting principles ("GAAP") and therefore may not be comparable to

similar measures presented by other entities. For additional information related to these measures, including a reconciliation to the nearest GAAP measures, where applicable, see "Non-GAAP and Other Financial Measures" in Gear's management's discussion and analysis.
(2) Decommissioning liabilities settled by the federal government's Site Rehabilitation Program, which ended during the first quarter of 2023.

MESSAGE TO SHAREHOLDERS

The first quarter of 2023 was a busy one for Gear with significant activity occurring across the majority of the asset base. However, operational execution was partially offset by macro commodity price weakness and ongoing inflationary pressure. The quarter experienced weaker commodity prices including lower West Texas Intermediate ("WTI") prices, wider Western Canada Select ("WCS") heavy oil differentials, and higher diluent blending costs. In response to these macro pressures, Gear has reevaluated its capital plans for the remainder of the year. The goals for 2023 remain the same: to strike a balance between strong returns on capital, production and reserves stability, continued dividends, and balance sheet strength. Although the first quarter of 2023 saw an increase in net debt due to the aggressive capital program, the second quarter is expected to reverse that course as capital investment is reduced through spring break-up. Additionally, funds from operations in the second quarter is estimated to improve over the first quarter due to improved oil prices and the new production associated with the recently invested capital. Despite these anticipated improvements, the Gear team has re-evaluated and optimized the 2023 budget to better reflect the current commodity price forecast. This will include a scale back of planned capital as well as a small reduction in associated production. Together these adjustments will provide Gear with a more sustainable future and a strong foundation for incremental activity should prices improve further as the year progresses.

QUARTERLY HIGHLIGHTS

- Production for the first quarter of 2023 was 5,952 boe per day, a four per cent increase over the 5,701 boe per day reported in the first quarter of 2022 and a three per cent increase from the fourth quarter of 2022 of 5,755 boe per day. First quarter production was slightly lower than guided as a result of the four new wells drilled in Killam, Alberta in 2022 not being able to produce at full capacity due to a facility restriction through the quarter. This restriction resulted in lower initial rates but should assist the area production to remain stable for a longer period of time. Additionally, as noted below, Gear only drilled four of the originally planned six wells in the first quarter of 2023.

- Gear invested $18.4 million of capital through the first quarter of 2023. This included the drilling of four (four net) successful wells including one unlined multi-lateral medium oil well in Provost, Alberta, two multi-stage fractured heavy oil wells in Hoosier, Saskatchewan, and one unlined multi-lateral heavy oil well in Wildmere, Alberta. In addition, Gear initiated or expanded waterfloods in Maidstone, Saskatchewan, Provost, Alberta, Wilson Creek, Alberta and Tableland, Saskatchewan. Gear also fractured and completed two Tableland, Saskatchewan light oil wells in the first quarter. Over the last 30 days, the six new wells cumulatively averaged approximately 650 boe per day of production. Gear's original plan was to drill six wells for the first quarter of 2023 but due to inflationary cost pressures and lower commodity prices, two wells were deferred to later in 2023.

- Funds from operations for the first quarter of 2023 was $13.0 million, a decrease of 31 per cent from the first quarter of 2022 as a result of lower commodity prices. WTI pricing fell from US$94.29 per barrel in the first quarter of 2022 to US$76.13 per barrel in the first quarter of 2023. In addition, WCS heavy oil differentials widened from US$14.53 per barrel to $24.76 per barrel. Finally, heavy oil pricing was further negatively impacted due to higher diluent blending costs through the colder months, all of which resulted in a 41 per cent lower realized heavy oil price for Gear.

- Gear distributed $7.8 million of dividends or $0.03 per share through the first quarter of 2023, bringing the inception to date total cumulative distributions to $26.0 million, or $0.10 per share.

- Net debt to quarterly annualized funds from operations was 0.3 times, with net debt increasing from $2.2 million on December 31, 2022 to $15.3 million on March 31, 2023. This increase was a result of capital expenditures and dividends exceeding funds from operations through the quarter. For the second quarter of 2023, with the reduction in capital spending and using the current outlook on commodity prices, net debt is forecasted to fall considerably.

REVISED 2023 GUIDANCE

In light of ongoing commodity price volatility, Gear has strategically reduced its planned 2023 capital expenditures by 12 per cent to $58 million. The optimized budget now includes 15 (14.5 net) wells across all three core areas. The reduced well count reflects a higher weighting to light oil opportunities than was planned with the original budget released in November of 2022. The new budget includes one medium oil well in Provost, Alberta (successfully drilled in Q1), four heavy oil wells in Hoosier, Saskatchewan (two successfully drilled in Q1, with two follow-ups planned in the second half of 2023), six multi-lateral heavy oil wells in the general Lloydminster area (one successfully drilled in Q1), two light oil wells in Wilson Creek, Alberta and two light oil wells in Tableland, Saskatchewan. This compares to the original budget of 22 net wells with six of those originally planned in the first quarter of 2023. Annual production guidance has now been reduced by approximately three per cent to range from 5,800 to 6,000 boe per day due to the reduced drill count to date (and go forward) as well as ongoing capacity limitations at Gear's Killam oil facility and an unplanned third-party infrastructure turnaround now expected in Central Alberta in the second quarter of 2023.

Total drill capital is now forecast to be $40 million, with an additional $7 million invested in waterfloods in Wilson Creek, Tableland and Wildmere, $6 million invested in abandonment and reclamation activities and the remaining capital dedicated to land, seismic, and other corporate costs. Within the revised guidance there are some associated increases in per unit costs related to the lower annual volumes, continued inflationary pressures and the weaker forecasted commodity prices under the current forward strip.

	2023 Revised Guidance	2023 Previous Guidance	Q1 2023 YTD Actuals
Annual production (boe/d)	5,800 - 6,000	6,100	5,952
Q1 2023 production (boe/d)		6,100	5,952
Heavy oil weighting (%)	48	48	46
Light oil, medium oil and NGLs weighting (%)	38	37	39
Royalty rate (%)	13	13	12
Operating and transportation costs ($/boe)	25.00	23.00	26.70
General and administrative expense ($/boe)	3.50	3.50	4.36
Interest and other expense ($/boe)	0.80	0.30	0.74
Capital and abandonment expenditures ($ millions)(1)	58	66	18

(1) Capital and abandonment expenditures includes decommissioning liability expenditures made by Gear and excludes any expenditures made by the federal government's Site Rehabilitation Program.

Forward-looking Information and Statements
This press release contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends", "strategy" and similar expressions are intended to identify forward-looking information or statements. In particular, but without limiting the foregoing, this press release contains forward-looking information and statements pertaining to the following: Gear's goals for 2023 to strike a balance between strong returns on capital, production and reserves stability, continued dividends and balance sheet strength; the expectation of a reversal of an increase to net debt in the second quarter; the reevaluated 2023 budget being optimized to better reflect the current commodity price forecast; the revised 2023 budget to provide Gear with a more sustainable future and a strong foundation for incremental activity should prices improve even further as the year progresses; the expectation of the facility restriction in Killam to assist the area production to remain stable for a longer period of time; the forecast of net debt falling considerably for the second quarter of 2023 under the current outlook on commodity prices; the budget plans to drill 15 gross (14.5 net) wells in 2023 with 11 additional wells to be drilled in the remainder of 2023; the forecasted annual production guidance being reduced by three per cent; the expected third-party infrastructure turnaround in Central Alberta in the second quarter of 2023; the forecast of total drill capital of $40 million, with an additional $7 million invested in waterfloods in Wilson Creek, Tableland and Wildmere and $6 million invested in abandonment and reclamation activities; and Gear's revised 2023 guidance including expected first quarter and annual average production (including commodity weightings), expected royalty rate, expected operating and transportation costs, expected general and administrative costs, expected interest and other expense and expected capital and abandonment expenditures.

The forward-looking information and statements contained in this press release reflect several material factors and expectations and assumptions of Gear including, without limitation: that Gear will continue to conduct its operations in a manner consistent with past operations; the general continuance of current industry conditions; the continuance of existing (and in certain circumstances, the implementation of proposed) tax, royalty and regulatory regimes; the accuracy of the estimates of Gear's reserves and resource volumes; certain commodity price and other cost assumptions; and the continued availability of adequate debt and equity financing and funds from operations to fund its planned expenditures. Gear believes the material factors, expectations and assumptions reflected in the forward-looking information and statements are reasonable but no assurance can be given that these factors, expectations and assumptions will prove to be correct.

To the extent that any forward-looking information contained herein may be considered a financial outlook, such information has been included to provide readers with an understanding of management's assumptions used for budgeting and developing future plans and readers are cautioned that the information may not be appropriate for other purposes. The forward-looking information and statements included in this press release are not guarantees of future performance and should not be unduly relied upon. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements including, without limitation: the impact of the Russian-Ukraine war on the global economy and commodity prices; the impacts of inflation and supply chain issues; the continued impact of the COVID-19 pandemic; changes in commodity prices; changes in the demand for or supply of Gear's products; unanticipated operating results or production declines; changes in tax or environmental laws, royalty rates or other regulatory matters; changes in development plans of Gear or by third party operators of Gear's properties, increased debt levels or debt service requirements; inability to obtain debt or equity financing as necessary to fund operations, capital expenditures and any potential acquisitions; any ability for Gear to repay any of its indebtedness when due; inaccurate estimation of Gear's oil and gas reserve and resource volumes; limited, unfavorable or a lack of access to capital markets; increased costs; a lack of adequate insurance coverage; the impact of competitors; and certain other risks detailed from time to time in Gear's public documents including in Gear's most current annual information form which is available on SEDAR at www.sedar.com.

The amount of future cash dividends paid by Gear, if any, will be subject to the discretion of the Board of Directors of Gear and may vary depending on a variety of factors and conditions existing from time to time, including, among other things, funds from operations, fluctuations in commodity prices, production levels, capital expenditure requirements, debt service requirements and debt levels, operating costs, royalty burdens, foreign exchange rates and the satisfaction of the liquidity and solvency tests imposed by applicable corporate law for the declaration and payment of dividends. Depending on these and various other factors, many of which will be beyond the control of the Company, the dividend policy of the Company from time to time and, as a result, future cash dividends may not be paid or if paid could at a later date be reduced or suspended entirely.

The forward-looking information and statements contained in this press release speak only as of the date of this press release, 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.

Non-GAAP and Other Financial Measures
This press release includes references to non-GAAP and other financial measures that Gear uses to analyze financial performance. These specified financial measures include non-GAAP financial measures, non-GAAP ratios, capital management measures and supplementary financial measures, and are not defined by IFRS and are therefore referred to as non-GAAP and other financial measures. Management believes that the non-GAAP and other financial measures used by the Company are key performance measures for Gear and provide investors with information that is commonly used by other oil and gas companies. These key performance indicators and benchmarks as presented do not have any standardized meaning prescribed by Canadian GAAP and therefore may not be comparable with the calculation of similar measures for other entities. These non-GAAP and other financial measures should not be considered an alternative to or more meaningful than their most directly comparable financial measure presented in the financial statements, as an indication of the Company's performance. Descriptions of the non-GAAP and other financial measures used by the Company as well as reconciliations to the most directly comparable GAAP measure for the quarter ended March 31, 2023 and year ended December 31, 2022, where applicable, is provided below.

Funds from Operations
Funds from operations is a non-GAAP financial measure defined as cash flows from operating activities before changes in non-cash operating working capital and decommissioning liabilities settled. Gear evaluates its financial performance primarily on funds from operations and considers it a key measure for management and investors as it demonstrates the Company's ability to generate the funds from operations necessary to fund its capital program, settle decommissioning liabilities, repay debt, finance dividends and/or repurchase common shares under the Company's Normal Course Issuer Bid ("NCIB"), if the Company

chooses to do so.

Reconciliation of cash flows from operating activities to funds from operations:

	Three months ended		
($ thousands)	Mar 31, 2023	Mar 31, 2022	Dec 31, 2022
Cash flows from operating activities	14,933	15,340	18,565
Decommissioning liabilities settled (1)	441	912	1,417
Change in non-cash operating working capital	(2,362)	2,530	(1,306)
Funds from operations	13,012	18,782	18,676

(1) Decommissioning liabilities settled includes only expenditures made by Gear.

Funds from Operations per BOE
Funds from operations per boe is a non-GAAP ratio calculated as funds from operations, as defined and reconciled to cash flows from operating activities above, divided by sales production for the period. Gear considers this a useful non-GAAP ratio for management and investors as it evaluates financial performance on a per boe level, which enables better comparison to other oil and gas companies in demonstrating its ability to generate the funds from operations necessary to fund its capital program, settle decommissioning liabilities, repay debt, finance dividends and/or repurchase common shares under the Company's NCIB, if the Company chooses to do so.

Funds from operations per weighted average basic share
Funds from operations per weighted average basic share is a non-GAAP ratio calculated as funds from operations, as defined and reconciled to cash flows from operating activities above, divided by the weighted average basic share amount. Gear considers this non-GAAP ratio a useful measure for management and investors as it demonstrates its ability to generate the funds from operations, on a per weighted average basic share basis, necessary to fund its capital program, settle decommissioning liabilities, repay debt, finance dividends and/or repurchase common shares under the Company's NCIB, if the Company chooses to do so.

Net (debt) surplus
Net (debt) surplus is a capital management measure defined as debt less current working capital items (excluding debt, risk management contracts and decommissioning liabilities). Gear believes net (debt) surplus provides management and investors with a measure that is a key indicator of its leverage and strength of its balance sheet. Changes in net (debt) surplus are primarily a result of funds from operations, capital and abandonment expenditures, equity issuances, dividends paid and equity repurchases pursuant to the NCIB, if the Company chooses to do so.

Reconciliation of debt to net debt:

Capital Structure and Liquidity ($ thousands)	Mar 31, 2023	Dec 31, 2022
Debt	(20,724)	(7,123)
Working capital surplus (1)	5,448	4,903
Net debt	(15,276)	(2,220)

(1) Excludes risk management contracts, debt and decommissioning liabilities.

Net Debt to Quarterly Annualized Funds from Operations
Net debt to quarterly annualized funds from operations is a non-GAAP ratio and is defined as net debt, as defined and reconciled to debt above, divided by the annualized funds from operations, as defined and reconciled to cash flows from operating activities above, for the most recently completed quarter. Gear uses net debt to quarterly annualized funds from operations to analyze financial and operating performance. Gear considers this a key measure for management and investors as it demonstrates the Company's ability to pay off its debt and take on new debt, if necessary, using the most recent quarter's results. When the Company is in a net surplus position, the Company's net debt to annualized funds from operations is not applicable.

Operating Netback
Operating netbacks are non-GAAP ratios calculated based on the amount of revenues received on a per unit of production basis after royalties and operating costs. Management considers operating netback to be a key measure of operating performance and profitability on a per unit basis of production. Management believes that netback provides investors with information that is commonly used by other oil and gas companies. The measurement on a per boe basis assists management and investors with evaluating operating performance on a comparable basis.

Barrels of Oil Equivalent
Disclosure provided herein in respect of BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of six Mcf to one Bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Additionally, given that the value ratio based on the current price of crude oil, as compared to natural gas, is significantly different from the energy equivalency of 6:1; utilizing a conversion ratio of 6:1 may be misleading as an indication of value.

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