

Gear Energy Ltd. Announces First Quarter 2024 Operating Results

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Calgary, May 1, 2024 - [Gear Energy Ltd.](#) ("Gear" or the "Company") (TSX: GXE) (OTCQX: GENGF) 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, 2024 are available for review on Gear's website at www.gearenergy.com and on www.sedarplus.ca.

	Three months ended		
(Cdn\$ thousands, except per share, share and per boe amounts)	Mar 31, 2024	Mar 31, 2023	Dec 31, 2023
FINANCIAL			
Funds from operations (1)	15,182	13,012	16,717
Per boe	29.20	24.29	30.28
Per weighted average basic share	0.06	0.05	0.06
Cash flows from operating activities	10,466	14,933	17,813
Per boe	20.13	27.88	32.27
Per weighted average basic share	0.04	0.06	0.07
Net income (loss)	2,581	1,990	(7,104)
Per weighted average basic share	0.01	0.01	(0.03)
Capital expenditures	7,600	17,992	10,751
Decommissioning liabilities settled - Gear	2,299	441	2,560
Decommissioning liabilities settled - Government (2)	-	37	-
Net debt (1)	(12,462)	(15,276)	(14,099)
Dividends declared and paid	3,935	7,826	3,934
Dividends declared and paid per share	0.015	0.03	0.015
Weighted average shares, basic (thousands)	262,399	260,693	262,247
Shares outstanding, end of period (thousands)	263,264	261,212	262,250
OPERATING			
Production			
Heavy oil (bbl/d)	2,633	2,734	2,937
Light and medium oil (bbl/d)	2,007	2,045	1,920
Natural gas liquids (bbl/d)	311	292	327
Natural gas (mcf/d)	4,579	5,287	4,893
Total (boe/d)	5,714	5,952	6,000
Average prices			
Heavy oil (\$/bbl)	72.15	56.80	70.74
Light and medium oil (\$/bbl)	87.16	91.68	91.01
Natural gas liquids (\$/bbl)	51.67	50.69	44.44
Natural gas (\$/mcf)	2.42	3.13	2.21
Netback (\$/boe)			
Petroleum and natural gas sales	68.60	62.86	67.98
Royalties	(9.12)	(7.64)	(10.11)
Operating costs	(19.92)	(22.45)	(21.52)
Transportation costs	(3.57)	(4.25)	(3.48)
Operating netback (1)	35.99	28.52	32.87
Realized risk management gain	-	0.87	1.24
General and administrative	(5.60)	(4.36)	(2.70)
Interest and other	(1.19)	(0.74)	(1.13)

(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

In March 2024, Gear announced the retirement of Ingram Gillmore from his role as President and Chief Executive Officer ("CEO") and the appointment of Kevin Johnson as the new President and CEO. With this transition, Gear has been diligently reviewing near-term capital investment decisions and execution plans. In addition, Gear has focused efforts on re-establishing momentum, maximizing and expanding our high quality inventory-rich asset base with the singular goal of delivering meaningful, long-term, outsized shareholder value creation. In parallel, Gear intends on rewarding long-term shareholders with a reliable and sustainable monthly dividend while maintaining a strong balance sheet.

QUARTERLY HIGHLIGHTS

- Production for the first quarter of 2024 was 5,714 boe per day, a four per cent decrease over the 5,952 boe per day reported in the first quarter of 2023 and a five per cent decrease from the fourth quarter of 2023 of 6,000 boe per day. The decrease in production is due to the extreme cold snap in January 2024 that temporarily froze off approximately 25 per cent of Gear's production. Production recovered and averaged approximately 6,000 boe per day for the month of March 2024.
- Gear invested \$7.6 million of capital through the first quarter of 2024. This included the drilling of four gross (four net) successful wells including one unlined multi-lateral heavy oil well in Wildmere, Alberta, two lined single lateral heavy oil wells in Celtic, Saskatchewan, and one lined single lateral heavy oil well in Maidstone, Saskatchewan. The Maidstone heavy oil well was equipped with a circulation string that should assist with sand mobility in the wellbore. Over the last 30 days, the four new wells cumulatively averaged approximately 400 barrels per day of oil production.
- Funds from operations for the first quarter of 2024 was \$15.2 million, an increase of 17 per cent from the first quarter of 2023 as a result of higher commodity prices. Although WTI oil pricing remained relatively unchanged, Canadian heavy oil differentials narrowed from US\$24.76 discount per barrel in the first quarter of 2023 to US\$19.33 discount per barrel in the first quarter of 2024. With the Trans Mountain pipeline expansion slated to be operational in the second quarter of 2024, Canadian heavy oil differentials are currently forecasted to be below US\$12 discount per barrel for the third quarter of 2024.
- Gear distributed \$3.9 million of dividends or \$0.015 per share through the first quarter of 2024, bringing the total cumulative dividends to \$46.9 million, or \$0.18 per share, paid from inception to the date hereof.
- Net debt to quarterly annualized funds from operations was 0.2 times, with net debt decreasing from \$14.1 million on December 31, 2023 to \$12.5 million on March 31, 2024. This decrease was a result of funds from operations exceeding capital expenditures and dividends through the quarter. For the second quarter of 2024, using the current outlook on commodity prices, net debt is forecasted to fall considerably.
- In the first quarter, Gear announced a normal course issuer bid ("NCIB"). Gear does not expect to purchase any shares under the NCIB at this time as it allocates funds from operations to capital investments and growth.
- After ten years of service, Harry English announced he will not be seeking re-election at Gear's May 1, 2024 Annual General Meeting (the "AGM"). Gear would like to extend its sincerest gratitude to Mr. English for his valuable contributions and guidance as a director to the Company. Kathy Turgeon, formerly the Vice-President, Finance and Chief Financial Officer of [Peyto Exploration & Development Corp.](#), has been nominated for election as a director of Gear at the AGM. Ms. Turgeon's extensive financial experience will be very complementary to the skills and experience of the other members of the Gear Board of Directors.

- In April, Gear appointed Steve Power to role of Vice President of Exploration, replacing Dustin Ressler in the role. Gear would like to thank Mr. Ressler for his significant contributions to Gear over the last 13 years and wish him the very best in his future endeavours. Mr. Power brings significant experience in both conventional and unconventional plays across the Western Canadian Sedimentary Basin. Throughout his career, Mr. Power has consistently demonstrated his ability to identify, capture and deliver top-tier inventory across numerous oil and condensate rich resource plays.

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 focus on re-establishing momentum, maximizing and expanding its high quality inventory rich asset base with the singular goal of delivering meaningful, long-term, out-sized shareholder value creation; Gear's intention to reward long-term shareholders with a reliable and sustainable monthly dividend while maintaining a strong balance sheet; Gear's expectation of the Trans Mountain pipeline expansion to be operational in the second quarter of 2024; the forecast of Canadian heavy oil differentials; the forecast of net debt falling considerably for the second quarter of 2024 under the current outlook on commodity prices; and Gear's expectations and beliefs relating to the NCIB including Gear's expectations to not purchase any shares under the NCIB as it allocates funds from operations to capital investments and growth.

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 and the Israel-Palestine war on the global economy and commodity prices; the impacts of inflation and supply chain issues; pandemics, political events, natural disasters and terrorism ; 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.sedarplus.ca.

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, 2024 and year ended December 31, 2023, where applicable, are 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 NCIB, if the Company chooses to do so.

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

(\$ thousands)	Three months ended	
	Mar 31, 2023	Dec 31, 2023
Cash flows from operating activities	30,453	17,813
Decommissioning liabilities settled (1)	2,239	2,560
Change in non-cash operating working capital	2,162	(3,656)
Funds from operations	15,182	16,717

(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, 2024	Dec 31, 2023
Debt	(22,167)	(21,155)
Working capital surplus (1)	9,705	7,056
Net debt	(12,462)	(14,099)

(1) Excludes risk management contracts 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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