August 23, 2016

Monthly Update

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From the desk of Ingram Gillmore, President & CEO

We regularly include the following data populated with estimated monthly results:

Capital * ($k CAD)	Q2 15	Q3 15	Q4 15	2015	Q1 16	May-16	Jun-16	Q2 16	Jul-16
Drill & Complete	1,656	4,899	2,109	6,901	91	-2	606	593	2,037
Facilities	1,957	1,396	1,867	7,113	225	330	921	1,337	593
Land & Seismic	332	314	462	1,440	-29	2	8	42	11
A&D	-554	0	0	-687	-480	45	-16	29	75
Other	340	-177	-443	-570	-186	0	-807	-809	0
TOTAL	**3,731**	**6,432**	**3,995**	**14,197**	**-379**	**375**	**712**	**1,192**	**2,716**

Production (boe/d) *									
Sales	**5,632**	**5,430**	**5,015**	**5,670**	**4,435**	**3,900**	**5,428**	**4,536**	**4,209**
Field	5,642	5,531	5,011	5,625	4,453	4,051	4,184	4,112	4,131

** Estimates based on field data, actuals will vary from estimates due to accruals and adjustments. Such variances may be material.*

If you have already read through the second quarter report, you know that June sales volumes (and revenue) were boosted by a one-time adjustment relating to historical joint interest operations. So do not get too excited about that 5,400 boe/d number, as it is not representative of true run-rate production. It is always safer to focus on the field volumes as they are more indicative of actual production, which was in the 4,100 boe/d range through the end of the second quarter. The July numbers (both sales and field) have been boosted slightly by the inclusion of five days of production from the 2,000 boe/d Striker transaction. Pro-forma production guidance for the second half of 2016 remains at 6,000 boe/d.

Speaking of the Striker deal, we are pleased to conclude that transaction and set Gear up to resume economic growth within the current price environment. I have extolled the virtues of the deal many times, but I would like to briefly do so again.

Diversification
Gear has now expanded focus to include a new light oil core area with the Basal Belly River play. This provides us an excellent opportunity to use our existing horizontal resource play execution ability on a new low-risk high-netback oil prospect.

Financial Flexibility
At the conclusion of 2016, we are forecasting total net debt of approximately $40 million, including $14.8 million of convertible debentures due in 2020. This number is down almost 60% from the $98.4 million of net debt Gear had outstanding at the end of 2014. The amount drawn on the new $50 million credit facility is forecast to be approximately $30 million. And perhaps most importantly, the fourth quarter (which will be the first full pro-forma quarter since the deal) is forecasted to have an annualized net debt to cash flow ratio of approximately 1.0 times. This number indicates exceptional financial flexibility and gives us one of the strongest balance sheets in our peer group.

Cost Synergies
As a result of the acquired production and the reduced debt balance, general and administrative costs and interest charges on a per boe basis are expected to improve materially. In addition, the current record low operating costs in the field are forecast to remain competitive with the growth of new low cost production from the 2016 drilling program.

The ancillary appeal of the Striker transaction is that it provided the catalyst to get the Gear team back in the field drilling again. This eight month period of capital starvation and inactivity has been the longest that I have personally experienced in my career and it is a relief to be back in action and on the path to renewed growth. One of our rig hands recently took this picture early in the morning as the sun was rising on the Gear rig, and if you think I am excited to be back in action, you need to talk to the guys on the rig. They are ecstatic, as they have gone through a very tough time of late.

As a reminder, the 2016 drilling program is forecast to include 12 horizontal oil wells, as follows:

Wildmere Cummings
Three quad leg, unlined horizontal oil wells to follow up on the first ever successful quad well drilled by Gear last year. The three wells have been successfully drilled, and on average they encountered 30% more reservoir than last year’s well, which is encouraging.

Paradise Hill
Six half-section lined horizontal McLaren oil wells are budgeted and three of them have been successfully drilled to date. After the last three are drilled we anticipate the rig taking a break and then restarting later in the fall.

Wilson Creek
The budget includes two full section Basal Belly River horizontal light oil wells, currently scheduled for early in the fourth quarter.

Exploration well
To conclude the drilling program, we plan to drill a horizontal heavy oil well into a new play for Gear in order to de-risk some of the 20 sections of land that we purchased within our core heavy oil area through 2015 and into 2016.

As it stands we are now half way through our 2016 drilling program and we are boldly hoping to duplicate our 100% success rate from last year. Further updates, and 2017 budget guidance, should be released in November.