GEAR ENERGY

Monthly Update

August 21, 2017
Vol. 4 Issue 8

FROM THE DESK OF INGRAM GILLMORE, PRESIDENT & CEO

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

Capital *

($k CAD)	Q3 16	Q4 16	**2016**	Q1 17	May-17	Jun-17	Q2 17	17-Jul	**2017 YTD**
Drill & Complete	5,734	3,083	**9,501**	14,563	480	2,401	3,856	3,282	**21,701**
Facilities	1,396	2,106	**5,064**	3,193	1,014	1,328	2,718	771	**6,682**
Land & Seismic	287	978	**1,278**	1,147	-2	140	262	194	**1,603**
A&D	58,141	-74	**57,616**	-68	30	128	128	-273	**-213**
Other	-384	-100	**-1,479**	-119	0	-676	-676	0	**-795**
TOTAL	**65,174**	**5,993**	**71,980**	**18,716**	**1,522**	**3,321**	**6,288**	**3,974**	**28,978**

Production (boe/d) *

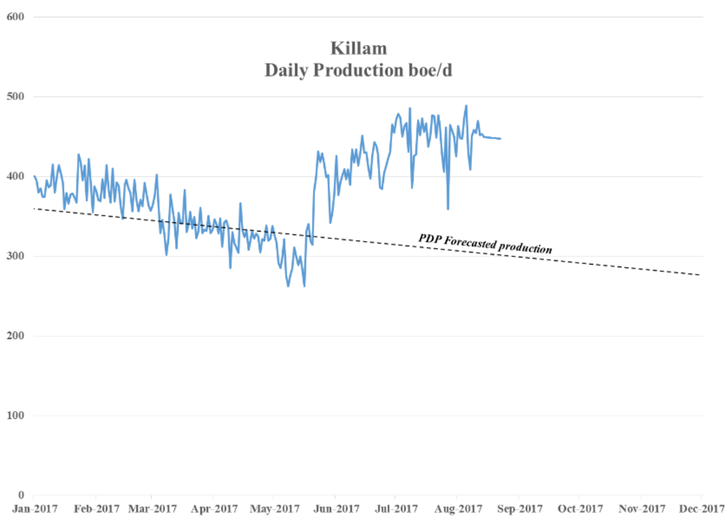
Sales	**5,420**	**6,203**	**5,152**	**5,907**	**6,841**	**6,997**	**6,510**	**6,515**	**6,255**
Field	5,447	5,942	4,992	6,084	6,465	6,603	6,468	6,629	**6,328**

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

The core strategy at Gear is to grow cash flow per debt adjusted share. It is not a revolutionary strategy. Essentially we come to work every day thinking about ways that we can economically add production, and lower costs. Basically, produce as many barrels as possible and get as much cash flow as possible from each and every one of those barrels and then invest that cash flow in finding more barrels. The traditional way to accomplish this is through drilling new wells. However, sometimes when you look a little closer at what you already have you can find a few opportunities within your existing barrels instead. It is for this reason, that we dedicate a portion of our budget each year to recompletions and optimizations. Although generally on a much smaller scale, often times the results we achieve from these activities end up being far superior to anything we could accomplish through the drill bit.

Earlier this year we kicked off one of these optimization projects at our oil producing property in Killam, Alberta. Gear acquired this asset last summer as part of the larger Wilson Creek focused deal. After performing a detailed review of the existing operations the technical team in the office and the operators in the field determined that there were some opportunities to improve the existing operations without investing any material capital. Through a combination of gas pressure reduction initiatives and pump upgrades, the team were able to improve not only the existing production but also the outlook for our ten estimated future potential drilling locations in the area.

Although the scale of production gained from this successful project is not necessarily material, you can see from the chart that the percentage increase in production very much is. The team were successfully able to ramp up the production in Killam by over 40%, and the best part about the project is that the cost of this incremental production was just under $200,000.



The capital efficiency of this project is absolutely spectacular. The $200,000 we spent divided by an incremental 150 boe/d equates to a production adding cost of just over $1,300/boe per day. That result is about ten times better than the already competitive total corporate capital efficiency we currently have forecasted for 2017.

From a cash flow standpoint the project has already fully paid out and is currently making free cash flow. The current operating netback in Killam is about $20/boe, which means that the $200,000 investment was paid back in approximately 80 days. An 80 day payout period is about seven times faster than what we forecast for a typical drilling project. The only problem, is that we do not have a limitless supply of projects like these. However, the good news is that the teams will continue to come to work every day constantly trying to find similar opportunities so we can accomplish our core strategy of growing Gear’s cash flow per debt adjusted share.