GEAR ENERGY

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)	Q3 16	Q4 16	2016	Q1 17	Q2 17	17-Jul	17-Aug	Q3TD 17	2017 YTD
Drill & Complete	5,734	3,083	**9,501**	14,563	3,856	3,282	1,678	4,960	**23,379**
Facilities	1,396	2,106	**5,064**	3,193	2,718	771	955	1,726	**7,637**
Land & Seismic	287	978	**1,278**	1,147	262	194	55	249	**1,658**
A&D	58,141	-74	**57,616**	-68	128	-273	2,075	1,802	**1,862**
Other	-384	-100	**-1,479**	-119	-676	0	0	0	**-795**
TOTAL	**65,174**	**5,993**	**71,980**	**18,716**	**6,288**	**3,974**	**4,763**	**8,737**	**33,741**

Production (boe/d) *	Q3 16	Q4 16	2016	Q1 17	Q2 17	17-Jul	17-Aug	Q3TD 17	2017 YTD
Sales	**5,420**	**6,203**	**5,152**	**5,907**	**6,510**	**6,515**	**6,374**	**6,445**	**6,270**
Field	5,447	5,942	4,992	6,084	6,468	6,629	6,506	**6,568**	**6,351**

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

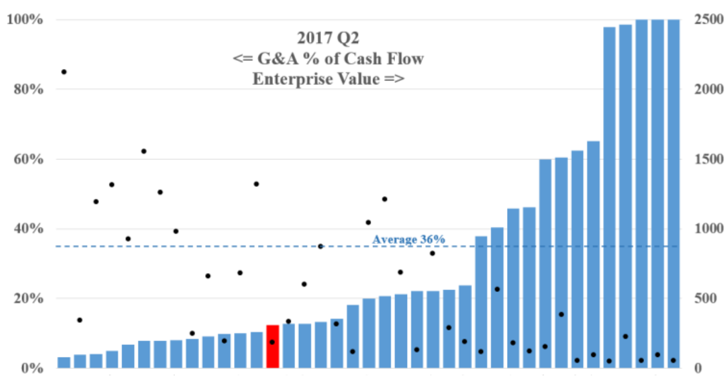
In past updates we have touched on operating costs more than a few times. This month I want to focus on something a little different, specifically general and administrative costs, or G&A costs. For clarity, these annual costs for Gear are currently forecast to include the following items at approximately the following weightings:

- 60% Compensation for employees and consultants
- 20% Office space, software licenses, etc.
- 20% Investor relations, engineering and legal costs

G&A costs are an essential and unavoidable part of any business. They are not often considered important, but in our minds anything that expands the delta between revenue and cash flow is always important, and you need to ensure that you are doing everything in your power to keep the costs as low as possible and to ensure the money is being well spent.

At Gear we like our benchmarking, so to help provide some perspective we had a look at recent second quarter financials for a broad group of peer energy companies. In this case, we looked at 38 Canadian energy companies with Q2 enterprise values ranging from a low of $50 million to a high of $2.1 billion. Gear's enterprise value worked out to $186 million at the end of the quarter, so we are definitely one of the smaller companies in the group. Typically, larger companies should have lower G&A costs per boe, however that is not always the case.

We feel the best way to look at G&A per boe is to divide the costs by the associated cash flow and look at the impact of your costs to run the business compared to the actual money you are making. For Q2, Gear's G&A as a percentage of cash flow was 12%. How does that rank? Have a look at the following chart, Gear is shown in the red bar.



Gear is ranked second quartile in this broad peer group. Not bad, but not great either. However, to put it into perspective, every company to the left of Gear on the chart (ie: better) has a larger enterprise value, and the average enterprise value of those "better" companies is approximately $1 billion, so perhaps we are in pretty decent company with our ranking after all. That being said, "not bad" is not good enough. Gear will continue to focus on reducing the G&A percentage of cash flow over time as it is an excellent way to increase the returns of the business. Fortunately, with continued production growth, cost control and a bit of commodity price support, I think we are on the right track