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)	Q2 17	Q3 17	Q4 17	**2017**	18-Feb	18-Mar	Q1 18	18-Apr
Drill & Complete	3,856	7,610	7,737	**33,766**	1,747	1,407	3,624	424
Facilities	2,718	3,065	5,247	**14,223**	1,439	1,059	3,742	178
Land & Seismic	262	288	583	**2,280**	1,417	16	2,766	249
A&D	128	1,636	14	**1,710**	364	-35	390	0
Other	-676	-450	-1,260	**-2,505**	0	-889	-889	0
TOTAL	**6,288**	**12,149**	**12,321**	**49,474**	**4,967**	**1,558**	**9,633**	**851**

Production (boe/d) *

	Q2 17	Q3 17	Q4 17	2017	18-Feb	18-Mar	Q1 18	18-Apr
Sales	**6,510**	**6,525**	**7,091**	**6,511**	**6,778**	**5,596**	**6,522**	**7,307**
Field	6,468	6,646	7,380	6,648	6,995	6,123	6,810	6,421

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

The first quarter of 2018 was quite the adventure for Canadian heavy oil producers. With a perfect storm of increased production, pipeline constraints and crude-by-rail challenges, the Western Canada Select (“WCS”) heavy oil differential blew out to a discount of more than US$30/bbl at one point. That was a material shift from the 2017 annual average discount of approximately US$12/bbl. Fortunately, as a result of many factors, the discount has since compressed to the point where May settled at a US$16.73/bbl discount and June is looking even better.

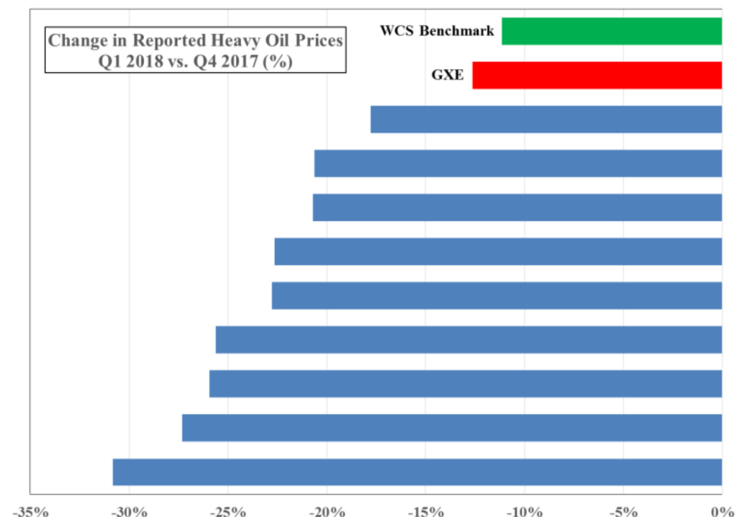
For this update I would like to focus on how the Gear team handled the egress and pricing challenges and I would also like to provide some perspective on the results of those decisions (so far).

To kick things off, first I need to quickly explain how we market and sell our heavy oil. Basically, every month we provide an estimate (nomination) to our purchasers of the volumes we would like to sell the following month. The nomination is essentially a proposed contract for a certain amount of oil at a “contracted’ price based off of an index. The purchasers tally up all these requests and then they determine how much volume they can actually physically purchase (and transport). Lately, the contracts have come back to us with agreed to prices, but with reduced (apportioned) volumes. However, more often than not, there is also an ability to sell incremental volumes beyond your apportioned nominations, but those extra volumes will not receive the contracted price. They will be sold at the prevailing current market price (the spot price) which is usually a discounted price to the indexed price, and sometimes a very heavily discounted price.

The situation described above presented itself in the most extreme manner during March of 2018. As a result of the widened WCS differential, the contracted heavy oil price for Gear heavy oil in March was under CDN$40/bbl. In addition to the weak pricing, March also had large apportionments on both pipeline and rail connects. This meant our contracted volumes were materially restricted, and if we wanted to sell incremental oil it was going to be at a severe pricing discount. We were quoted in the order of an additional CDN$10/bbl reduction from the contracted index price. Ouch.

So, the Gear team was presented a choice: keep producing at full capability with a large percentage of the oil being sold at extremely discounted prices, or keep the oil in tanks and in the reservoir to sell it at a later date. As you can tell from the production numbers shown above, we chose the latter.

Interestingly, if you look at the first quarter results for a group of public Canadian heavy oil producers, it appears that we were the minority in that decision. Including Gear, we looked at 10 companies ranging from a couple thousand barrels per day to hundreds of thousands of barrels per day of heavy oil production. As you can see from the chart below, Gear outperformed on realized heavy oil pricing when compared to the preceding quarter.



In fairness to some of our peers, they likely would not have the same flexibility that Gear has with regards to production variations. For example, it is difficult to slow down a massive oil sands surface mine or a large scale thermal heavy oil operation. Fortunately for Gear, we do have significant flexibility and storage capability which we have never hesitated to utilize. In addition, some of the peers may have been under various forms of financial pressure that necessitated maximizing near-term cash flow at any cost.

Now, two short months later the world looks very different. With a quick improvement in both the WTI price and the WCS differential, we are currently very happy with the decision to temporarily curtail sales production. Those barrels that we could have sold in March at the discounted price of less than CDN$30/bbl are now able to be sold in April and May for prices that are higher by approximately $12/bbl and $33/bbl, respectively. At an incremental $12/bbl price, the estimated 27,000 barrels of heavy oil we sold from inventory in April netted Gear an incremental $324,000. And in May if we are able to sell the remaining excess inventory of approximately 13,000 barrels at an incremental price of $33/bbl the total gain (including April) could be almost $800,000.

Sometimes it is very good to be flexible… and patient.

Certain information in this monthly update is forward-looking within the meaning of certain securities laws, and is subject to important risks, uncertainties and assumptions. This forward-looking information may include, among other things, estimated production, expected cash flow and profit from certain assets of Gear, expectations of commodity prices and price differentials, demand for oil, capital expenditure budgets and estimates, royalty rates, operating costs, credit/debt requirements, and drilling inventory and locations. Readers should not rely on such forward-looking information to make investment decisions as the results or events anticipated or predicted in such forward-looking information may differ materially from actual results or events as a result of a number of factors including based on the risk factors as set forth in Gear's most recent annual information form (the "**AIF**"), which is available on this website and at www.sedar.com. Gear has based the forward-looking information on a number of assumptions including the assumptions identified in such monthly updates, which may not be realized. It has also assumed that the risk factors discussed in the AIF will not cause such forward-looking information to differ materially from actual results or events. The forward-looking information in this monthly update describes the expectations of management of Gear as of the respective dates of this monthly update 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. Readers should not rely on the views of management of Gear as set out in this monthly update to make investment decisions with respect to Gear or other companies in the oil and gas industry and should instead consult with their own investment advisors.

This monthly update may include certain key performance indicators to analyze financial and operating performance such as cash flow from operations, cash flow from operations per debt adjusted share, production per day per thousand debt adjusted shares, operating netbacks, corporate netbacks and net debt, which do not have any standardized meaning prescribed by Canadian generally accepted accounting principles ("**GAAP**") and therefore may not be comparable with the calculation of similar measures for other entities. For additional information on these non-GAAP measures, see Gear's most recent management's discussion and analysis which is available on Gear's website at www.gearenergy.com and at www.sedar.com.

Barrel of oil equivalent ("boe") used in the monthly updates have been based on a conversion ratio of 1 barrel of oil to 6 thousand cubic feet of natural gas. A boe may be misleading, particularly if used in isolation, as such conversion ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.