GEAR ENERGY

February 26, 2016

Vol. 3 Issue 1

Monthly Update

From the desk of Ingram Gillmore, President & CEO

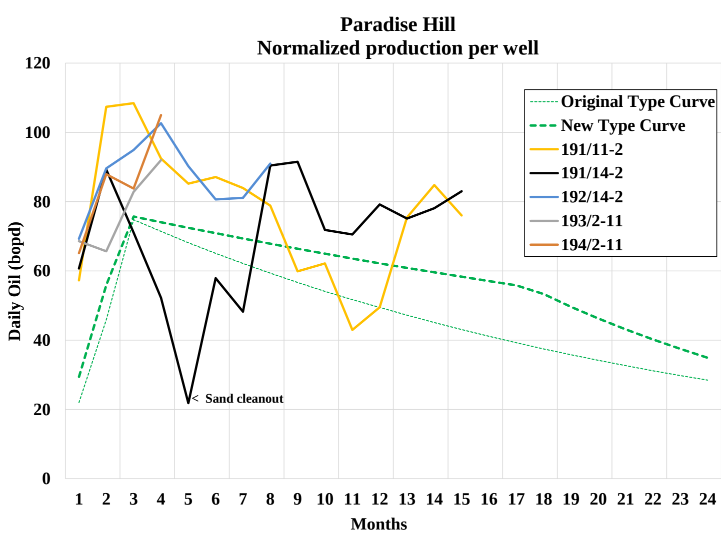
We regularly include the following data populated with estimated monthly results:

Capital * *($k CAD)*	Q1 15	Q2 15	Q3 15	Nov-15	Dec-15	Q4 15	**2015**	Jan-16
Drill & Complete	-1,763	1,656	4,899	2	18	2,109	6,901	113
Facilities	1,893	1,957	1,396	633	299	1,867	7,113	-31
Land & Seismic	332	332	314	32	428	462	1,440	-14
A&D	-133	-554	0	0	0	0	-687	-80
Other	-290	340	-177	182	-625	-443	-570	-10
TOTAL	**39**	**3,731**	**6,432**	**849**	**120**	**3,995**	**14,197**	**-22**

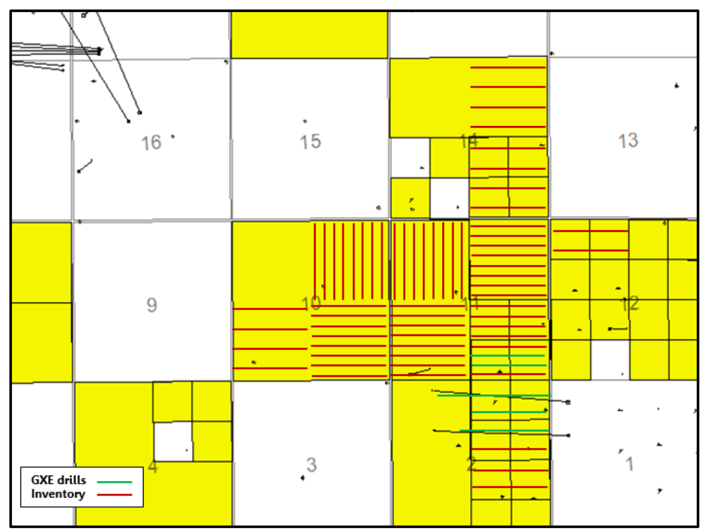
Production (boe/d) *								
Sales	**6,624**	**5,632**	**5,430**	**5,237**	**4,792**	**5,015**	**5,670**	**4,665**
Field	6,332	5,642	5,531	5,033	4,791	5,011	5,625	4,560

On February 1, 2016 we announced that our 2016 budgeted drilling program was going to be deferred until oil prices improve. I thought I would provide a little perspective on what we think is required for a resumption of activity, and why we are excited to get back to work on our large inventory of economic opportunities.

If you have been looking regularly at the Gear corporate presentations, you likely have noticed that we provide production updates for our core area wells every month. While all our areas have maintained strong results, the one area in particular that really stands out is the Paradise Hill asset in Saskatchewan. To date, the five horizontal McLaren wells have consistently outperformed expectations with average results running about 50% above our original risked type curve. As encouraging as this data is, we do not want to get too aggressive with our expectations as this is a new area for Gear with the longest wells having been on for about 15 months. That being said, we have decided to bump up our expectations and have revised the **risked** type curve for our future drills in Paradise.



I really like Paradise because I think it is an excellent example of the strategy that has driven Gears historical success. The team highlighted a large oil reservoir that was unsuccessfully drilled with vertical wells and we quickly built a material land position for the relatively low cost of just over $2 million. Then late in 2014 the team started drilling horizontal wells. The first well was a bit of a learning experience with a total cost of approximately $1.1 million, however, the last well went much smoother with a total cost of only $670,000. Now we have over 400 bbl/d of oil from 5 wells that are all exceeding expectations. Royalties in the area are below 5% and operating costs are sub $7/bbl. We also believe that we have a large inventory of follow-up drilling locations in the pool, (as defined by existing vertical well control). There are currently 65 potential future wells recognized by management, with only 18 of those booked by our independent reserves engineers. Hopefully we are drilling in Paradise for many years to come.



So, back to the original question, when are we going to start drilling again? The answer is price dependent, but an area like Paradise Hill provides a much lower economic threshold than you might think for a conventional heavy oil asset. With our lower capital estimates, and our new risked type curve, the economics look as follows; (using **flat** $US WTI prices, a WCS differential of 30% and 0.75 for foreign exchange).

	$40/bbl	$45/bbl	$50/bbl
Capital: $675k	49% ROR	81% ROR	117% ROR
IP365: 65 bbl/d	1.4yr payout	1.2yr payout	1.0yr payout
Reserves: 55 mbbls	1.6 recycle	1.9 recycle	2.2 recycle

So, notionally, once prices show some stability near or above the US$40/bbl mark, Gear will start thinking about moving a rig back out to the field so that we can get back to doing what we do best.