June 29, 2016

Monthly Update

Vol. 3 Issue 5

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	Apr-16	May-16	Q2 16
Drill & Complete	1,656	4,899	2,109	6,901	91	-11	-2	-13
Facilities	1,957	1,396	1,867	7,113	225	86	330	416
Land & Seismic	332	314	462	1,440	-29	32	2	34
A&D	-554	0	0	-687	-480	0	45	45
Other	340	-177	-443	-570	-186	-2	0	-2
TOTAL	**3,731**	**6,432**	**3,995**	**14,197**	**-379**	**105**	**375**	**480**

Production (boe/d) *	Q2 15	Q3 15	Q4 15	2015	Q1 16	Apr-16	May-16	Q2 16
Sales	**5,632**	**5,430**	**5,015**	**5,670**	**4,435**	**4,301**	**3,900**	**4,097**
Field	5,642	5,531	5,011	5,625	4,453	4,102	4,051	4,076

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

Thank you for your patience regarding the timing of this letter. It was recommended that I hold off sending it until our equity financing closed. Fortunately, today is that day! Gear's balance sheet has just been materially improved with the financing that was announced on June 7th, 2016. After the announcement was made, the financing was upsized to $17.5 million and there was full exercise of the overallotment option, with the final result being Gear net debt reduced by approximately $19 million dollars, (before consideration of the POSITIVE cash flow net of capital for the quarter to date).

I am also pleased to report that, after eight long months of sitting on the sidelines waiting for commodity prices to recover, we kicked off our 2016 drilling program last week. The Gear program is forecasted to include 10 low risk horizontal heavy oil wells and is planned to be funded through second half cash flow. Which means that the reduced debt should stay reduced while we start to grow production again!

For the time being, all commentary and numbers will exclude any of the benefits of the planned business combination with Striker Exploration Corp. The arrangement is scheduled to close on July 26th, 2016 contingent on, among other things, requisite shareholder approvals being received by both companies. (See Gear's material change report dated June 13, 2016 on www.sedar.com for more details).

Following on the theme of acquisitions, I would also like to speak about the surprise bulletin last week regarding liability ratios from the Alberta Energy Regulator. See link for details: https://www.aer.ca/rules-and-regulations/bulletins/bulletin-2016-16.
Go forward, these new rules from the AER are going to have a material impact on acquisition and divestment activity in Alberta. The rules will significantly shorten the list of eligible companies who can acquire assets in Alberta due to the new focus on liability ratios for standalone operations, as well as pro-forma any future acquisitions. At the time of release, approximately 72% of the energy companies in Alberta may be unable to complete asset acquisitions. Simply put, a liability ratio, (or "LLR"), is the government deemed asset value divided by the deemed liabilities. The new rules dictate that to acquire assets from another operator, the new combined entity must have a liability ratio greater than two times or the transfers will not be approved. So, in order to successfully complete an asset acquisition, the resulting company will need to have twice as much asset value as it has liabilities in Alberta. From a Gear perspective it is important to note that the new regulations do not affect corporate acquisitions and therefore will not impede the closing of the Striker acquisition.

For better or for worse, Gear has not historically had a keen focus on the government assessed liabilities in Alberta. The team felt it was a priority to minimize and maintain a reasonable amount of ACTUAL liabilities, but not necessarily spend time auditing the individual AER estimates for accuracy. Well, that has now quickly changed.

The AER system shows that Gear Energy has a deemed liability ratio of 1.3 times for June 2016. This number, on first glance, appears to be of some concern with regards to Gear's ability to orchestrate future A&D activity. However, the number does not tell the whole story. Like most of the challenges the Gear team has historically encountered, this is another example where a rapid response and attention to detail provides clarity and a path to improvement. We have performed a well by well and facility by facility audit of the AER's estimated assets and liabilities for Gear and we found multiple opportunities to quickly improve the numbers without spending material funds. The most significant revisions include:

1. Multiple Gear wellbores in the AER system indicate tubing and rods are in the hole when the equipment has actually been removed but was not reported. Each well like this has its liability overstated by approximately $30,000. This has been corrected and should show up in the August LLR.

2. Gear also has many multi-well surface leases and for ease of accounting we set up administrative battery codes to link all the individual wells. Unfortunately, the AER assumes these 'paper' batteries are actual facilities and designates material abandonment and reclamation cost estimates to each of them, when actually there should be no cost at all. Gear is currently removing all of these 'facilities' from the system.

3. When it comes to actually abandoning a multi-well surface lease, the AER also does not account for the fact that the wells share a single surface lease, or the low per well cost of performing multiple abandonments on a single lease. In order to have the AER consider revising what the liabilities should actually be, Gear is currently abandoning the five wells on a multi-well pad. Our internal estimate is that the work will be completed for approximately 10% of the AER estimated cost, and we have a lot of multi-well pads at Gear.

In aggregate, we forecast that all of this work will get Gear quickly onside with the new rules and ensure there are no limitations on our ability to keep looking for deals in Alberta. We believe that we have what it takes to be on that short list of eligible acquirers.

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