## From the desk of Ingram Gillmore, President & CEO

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

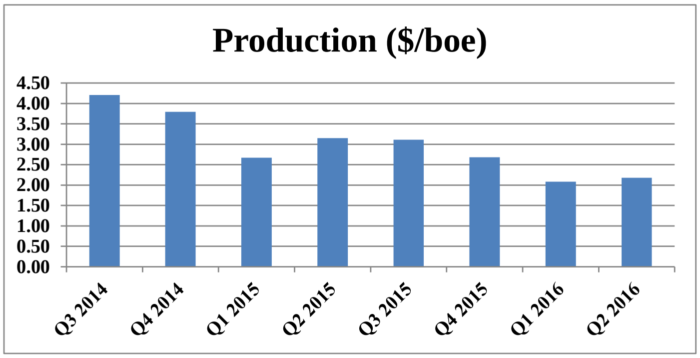
| **Capital ***<br>*($k CAD)* | Q3 15 | Q4 15 | **2015** | Q1 16 | Q2 16 | Jul-16 | Aug-16 | Sep-16 | Q3 16 |
|---|---|---|---|---|---|---|---|---|---|
| Drill & Complete | 4,899 | 2,109 | 6,901 | 91 | 593 | 2,037 | 2,405 | 1,292 | 5,734 |
| Facilities | 1,396 | 1,867 | 7,113 | 225 | 1,337 | 593 | 180 | 623 | 1,396 |
| Land & Seismic | 314 | 462 | 1,440 | -29 | 42 | 11 | 254 | 22 | 287 |
| A&D | 0 | 0 | -687 | -480 | 29 | 75 | 57,706 | 60 | 57,841 |
| Other | -177 | -443 | -570 | -186 | -809 | 0 | 0 | -329 | -329 |
| **TOTAL** | **6,432** | **3,995** | **14,197** | **-379** | **1,192** | **2,716** | **60,545** | **1,668** | **64,929** |

| **Production (boe/d) *** | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Sales** | **5,430** | **5,015** | **5,670** | **4,435** | **4,536** | **4,187** | **5,729** | **6,373** | **5,420** |
| Field | 5,531 | 5,011 | 5,625 | 4,453 | 4,112 | 4,109 | 5,967 | 6,292 | 5,447 |

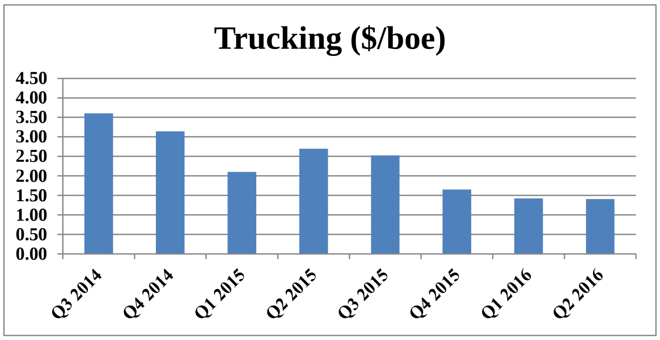
** Estimates based on field data, actuals will vary from estimates due to accruals and adjustments. Such variances may be material.*

This month I want to talk about operating costs, because we have just reported two quarters in a row of record low operating costs, and our current costs per boe are almost 40% lower than the levels seen in 2014. One of the most common questions I hear lately is, "how did you guys make such a drastic reduction even while your production was declining?" So, without giving away any corporate secrets, here are some details on how our field staff accomplished these reductions.

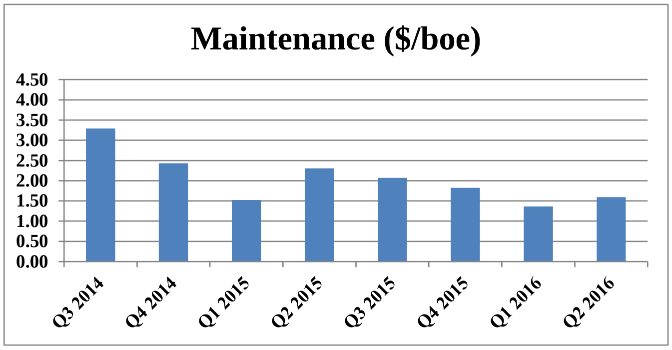
All of our costs are categorized into various buckets and the top six account for about 75% of the total costs. Starting with the largest those buckets are; Production, Trucking, Maintenance, Transportation, Labour and Taxes & Licenses. I will walk through each of them.



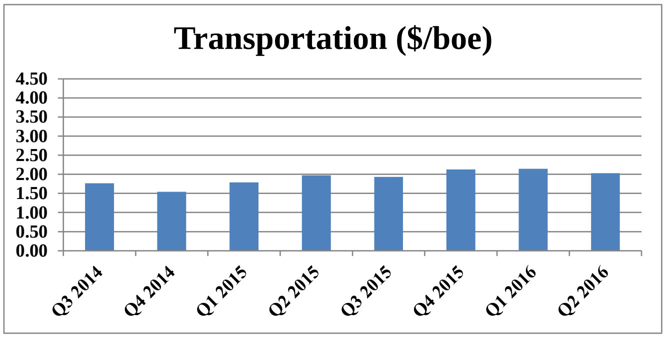

Over the last seven quarters we have reduced the production costs by approximately 50% on a per unit basis. The main factors contributing to the savings are; shut-in of high water producing wells, utilization of 100% Gear owned water disposal wells and purchasing our own pressure truck and water hauling trailers. In addition we were able to negotiate lower third party rates by signing long term contracts for flushbys, sand disposal and trucking.



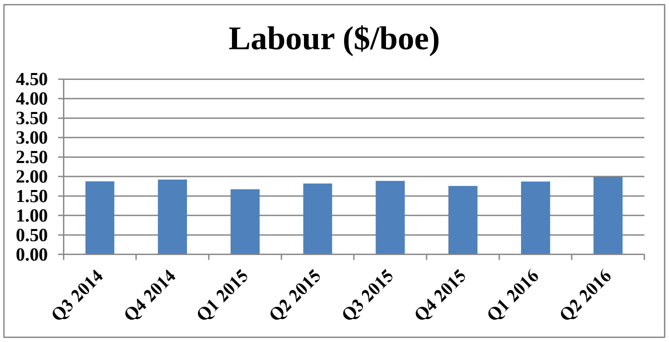

Trucking costs have been reduced by over 60% by implementing similar strategies as the Production costs. By shutting in high water producing wells we have less water to truck, and utilizing Gear trailers reduces the cost to haul that water. The field team have also worked hard to optimize tank treating at the wellsites so more of our oil is sold directly to sales and those costs roll up under transporation.



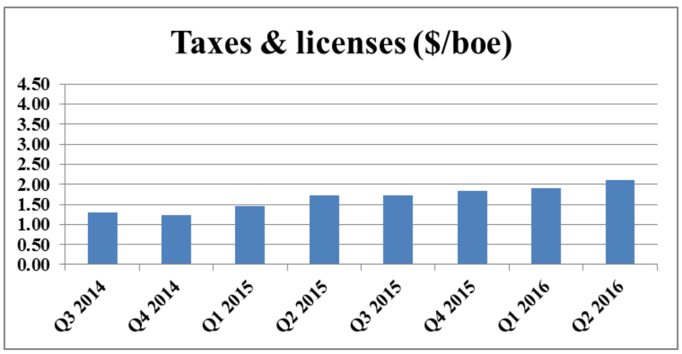

Maintenance costs have been reduced by over 50% as a result of many excellent iniatives from our field personel, including; buying large blocks of equipment in bulk, optimizing the scope of our third party mechanics and increased training in the field to enable our operators to tackle some of the mechanical repairs themselves. We have also purchased some of the smaller equipment regularly utilized in the field, including water pumps and pressure washers. Last but not least, any remaining third party work like road and lease maintenance is regularly rebid, usually under long term contracts.




Transportation costs have increased since 2014 by 15% per boe primarily as a result of better tank treating equating to more sales oil trucking directly from the wellsites. On an absolute basis the increase is approximately $0.25/boe.




Labour costs have increased by a marginal 6% per boe which is the result of corporate production declining faster than the cost and number of operators in the field. The absolute increase is approximately $0.10/boe.




The sixth largest cost for Gear is the one where we have the least amount of control. Since 2014 our annual costs for taxes and licenses has increased by over 60% per boe. Even the absolute amount of the increase at just over $0.80/boe is fairly meaningful. A portion of this increase is associated with declining production, but unfortunately the more impactful piece is the continuous increase in annual costs from all levels of government, from the national level right down to the individual communities that we operate in.

All in we have been able to reduce our top three costs by an average of approximately 50% per boe which has more than offset some of the other uncontrollable costs. The good news is that by returning to growth mode, we will be able to keep downward pressure on the operating costs by continuing to add new production from high productivity horizontal oil wells with average operating costs below $10 per boe. In a time of volatile pricing the best insurance will always be to remain the low cost operator and we hope to maintain that position for many years to come.