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 15	Q4 15	**2015**	Q1 16	Q2 16	Aug-16	Sep-16	Q3 16	Oct-16
Drill & Complete	4,899	2,109	**6,901**	91	593	2,405	1,292	5,734	25
Facilities	1,396	1,867	**7,113**	225	1,337	180	623	1,396	176
Land & Seismic	314	462	**1,440**	-29	42	254	22	287	495
A&D	0	0	**-687**	-480	29	57,706	60	57,841	-261
Other	-177	-443	**-570**	-186	-809	0	-329	-329	-20
TOTAL	**6,432**	**3,995**	**14,197**	**-379**	**1,192**	**60,545**	**1,668**	**64,929**	**415**

Production (boe/d) *

	Q3 15	Q4 15	2015	Q1 16	Q2 16	Aug-16	Sep-16	Q3 16	Oct-16
Sales	**5,430**	**5,015**	**5,670**	**4,435**	**4,536**	**5,729**	**6,373**	**5,420**	**5,868**
Field	5,531	5,011	**5,625**	4,453	4,112	5,967	6,292	5,447	6,128

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

There is rampant speculation in the media as we approach the November 30th OPEC meeting. Will they commit to a cut? Will they not? Will they adhere to a cut? Will it be enough to put the market back into balance?

So many questions, and if you are looking for answers from us, you are probably looking in the wrong place.

The one thing I can tell you is that on a recent investor marketing trip, the theme of questions has started to change from where we were a couple of year ago. In fact, I had one portfolio manager ask me what our hedging losses might be in 2017 if the WTI oil price averages US$70/bbl next year. Off the top of my head I didn't know the answer, but with some quick math and a few assumptions we jointly calculated a potential loss of $20 million. Wow, compared to 2016 estimated cash flow of around $29 million, that sure seems like a large number. However, to put it into perspective, at that same US$70 oil price the total notional cash flow (after the 'hedging loss' and without adjusting capital or production volumes) is in the range of $70 to 75 million dollars. That would be a pretty big gain on revenue compared to a relatively small loss. So, for the record, we support OPEC cutting production to levels that can balance prices in the US$70 per barrel range.

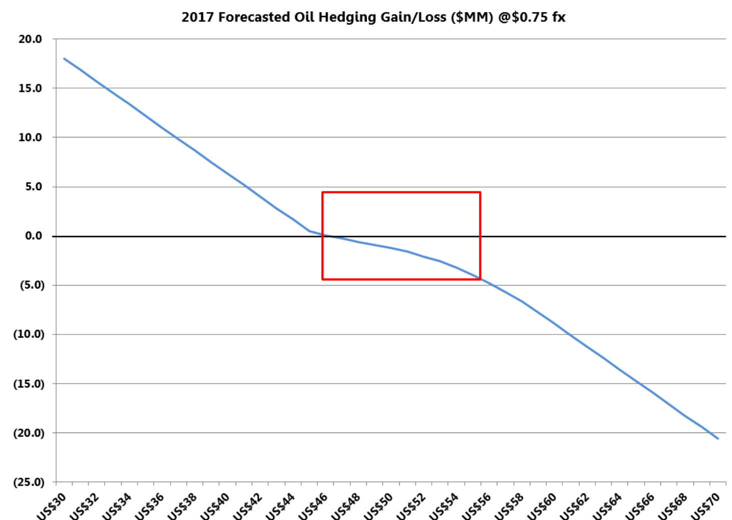
The goals of the Gear hedging program have been consistent over the years: we attempt to protect a base level of cash flow to support the stability of our production and bank debt, and we also look for a price level that supports the economics of investing in the drilling of new wells. With the new lower cost profile for Gear, that targeted floor has been around US$45/bbl WTI. Then, if possible, we try to push the price ceilings up as far as possible so as to maintain Gear's exposure to a recovery in commodity prices. For 2017 those ceilings are at an average of approximately CDN$70 WTI. The last thing we do is to stay disciplined by applying incremental contracts to our program at somewhat regular intervals, which is why our hedging summary reads like a short novella.

Our gas hedging strategy is similar however, I have excluded discussing the gas piece due to a relative lack of materiality. For details on the gas hedging, please see our current corporate presentation or our MD&A.

The current oil hedging summary is show below:

	WTI Risk Management	
2017 H1	900 bbl/d	$61.39 CAD Swap (Average)
	200 bbl/d	$60.00 x $71.00 CAD collar
	200 bbl/d	$60.00 x $72.50 CAD collar
	300 bbl/d	$60.00 x $67.25 CAD collar
	400 bbl/d	$60.00 x $75.00 CAD collar
	200 bbl/d	$60.00 x $79.01 CAD collar
	200 bbl/d	$62.00 x $77.00 CAD collar
2017 H2	400 bbl/d	$61.78 CAD Swap (Average)
	200 bbl/d	$60.00 x $71.00 CAD collar
	200 bbl/d	$60.00 x $72.50 CAD collar
	500 bbl/d	$60.00 x $70.20 CAD collar
	300 bbl/d	$60.00 x $67.25 CAD collar
	400 bbl/d	$60.00 x $75.00 CAD collar
	200 bbl/d	$60.00 x $79.01 CAD collar
	200 bbl/d	$62.00 x $77.00 CAD collar

To make the standalone impacts of our oil hedge book clear, we plotted the estimated gains and losses versus US WTI prices.



As you can see, we have material downside protection approaching almost $20 million in gains if WTI falls to a price of US$30 per barrel. And on the contrary, similar potential losses are shown in an upside scenario. The red box shows the somewhat reduced impacts of the collars in the US$45 to US$55 WTI range.

To date Gear's hedging strategy has been very helpful in reducing outstanding debt and protecting the company's downside risk. Over the last seven quarters, Gear has realized almost $25 million in hedging gains. However, all things considered, we would prefer to start showing some hedging losses in 2017… So, for the record, again… my vote is for OPEC to cut.