



**ANNUAL INFORMATION FORM**

for the year ended December 31, 2017

**March 26, 2018**

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## ABBREVIATIONS

### Crude Oil and Natural Gas Liquids

bbbl	one barrel
Bbl	barrels
bbbl/d	barrels per day
Mbbl	thousand barrels
BOE	barrels of oil equivalent of natural gas on the basis of 1 BOE for 6 Mcf of natural gas (unless otherwise indicated)
MBOE	one thousand barrels of oil equivalent
MMBOE	one million barrels of oil equivalent
BOE/d	barrels of oil equivalent per day
NGL	natural gas liquids
Stb	standard stock tank barrel

### Natural Gas

Mcf	one thousand cubic feet
Mcf	one thousand cubic feet of natural gas equivalent on the basis of 6 Mcfe for 1 bbl of oil (unless otherwise indicated)
MMcf	one million cubic feet
Bcf	one billion cubic feet
Mcf/d	one thousand cubic feet per day
MMcf/d	one million cubic feet per day
GJ	gigajoule
GJs/d	gigajoules per day
Btu	British thermal unit
MMbtu	million British thermal units

**BOEs or Mcfe may be misleading, particularly if used in isolation. A BOE or Mcfe conversion ratio of six Mcf to one bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. This conversion factor is an industry accepted norm and is not based on either energy content or current prices. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6 Mcf:1 bbl, utilizing a conversion on a 6 Mcf:1 bbl basis may be misleading as an indication of value.**

### Other

AECO	EnCana Corp.'s natural gas storage facility located at Suffield, Alberta
API	American Petroleum Institute
°API	an indication of the specific gravity of crude oil measured on the API gravity scale
m <sup>3</sup>	cubic metres
\$000's	thousands of dollars
WCS	Western Canadian Select, the standard reference for heavy blended crude, price paid at Hardisty, Alberta
WTI	West Texas Intermediate, the reference price paid in U.S. dollars at Cushing, Oklahoma for crude oil of standard grade

## CONVERSIONS

The following table sets forth certain standard conversions between Standard Imperial Units and the International System of Units (or metric units).

To Convert From	To	Multiply By
Mcf	thousand cubic metres (" <b>10<sup>3</sup>m<sup>3</sup></b> ")	0.0282
thousand cubic metres	Mcf	35.494
bbl	cubic metres (" <b>m<sup>3</sup></b> ")	0.159
cubic metres	bbl	6.290
feet	metres	0.305
metres	feet	3.281
miles	kilometres	1.609
kilometres	miles	0.621
acres	hectares	0.405
hectares	acres	2.471

## CERTAIN DEFINITIONS

In this Annual Information Form, the following words and phrases have the following meanings, unless the context otherwise requires:

"**ABCA**" means the *Business Corporations Act*, R.S.A. 2000, c. B-9, as amended, including the regulations promulgated thereunder;

"**BMEC**" means Black Mountain Energy Corporation, a corporation incorporated under the laws of Alberta which was amalgamated with Old Gear on May 1, 2010;

"**BMEC Acquisition**" means the offer of BMEC to purchase all of the issued and outstanding Class A common shares of Old Gear from the shareholders of Old Gear in exchange for 1.4 common shares of BMEC and 0.258125 non-voting preferred shares of BMEC for each Class A common share of Old Gear outstanding;

"**Board**" means the board of directors of the Corporation;

"**COGE Handbook**" means the Canadian Oil and Gas Evaluation Handbook prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum;

"**Common Shares**" means common shares in the capital of Gear;

"**Convertible Debenture Indenture**" means the convertible debenture indenture dated November 30, 2015 between the Corporation and Computershare Trust Company of Canada governing the terms of the Convertible Debentures;

"**Convertible Debentures**" means the \$14.8 million aggregate principal amount of 4.00% convertible unsecured subordinated debentures of Gear;

"**Corporation**" or "**Gear**" means Gear Energy Ltd., a corporation amalgamated under the laws of the Province of Alberta;

"**EOR**" means enhanced oil recovery;

"**GLJ**" means GLJ Petroleum Consultants Ltd., independent oil and natural gas reservoir engineers of Calgary, Alberta;

"**GLJ Report**" means the independent engineering evaluation of Gear's oil, natural gas liquids and natural gas interests prepared by GLJ effective December 31, 2017 and dated February 21, 2018;

"**Gross**" means:

- (a) in relation to an entity's interest in production and reserves, its "company gross reserves", which are such entity's working interest (operating and non-operating) before deduction of royalties and without including any royalty interest of such entity;
- (b) in relation to wells, the total number of wells in which an entity has an interest; and
- (c) in relation to properties, the total area of properties in which an entity has an interest;

"**Net**" means:

- (a) in relation to an entity's interest in production and reserves, such entity's interest (operating and non-operating) after deduction of royalties obligations, plus the entity's royalty interest in production or reserves;
- (b) in relation to wells, the number of wells obtained by aggregating an entity's working interest in each of its gross wells; and

- (c) in relation to the Corporation's interest in a property, the total area in which an entity has an interest multiplied by the working interest owned by it;

"**New Credit Facilities**" means the \$50 million credit facility with a syndicate of lenders led by Alberta Treasury Branches entered into by Gear on July 27, 2016 concurrently with the completion of the Striker Arrangement, as amended and increased to \$55 million on May 25, 2017;

"**NI 51-101**" means National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities* adopted by the Canadian Securities Administrators;

"**Old Gear**" means Gear Energy Ltd., a corporation incorporated under the laws of Alberta which was amalgamated with BMEC on May 1, 2010;

"**Old Credit Facility**" means the \$60 million credit facility with a syndicate of banks entered into by Gear on April 25, 2013, as amended from time to time, which was repaid in full and terminated on July 27, 2016 concurrently with the completion of the Striker Arrangement;

"**OPEC**" means the Organization of the Petroleum Exporting Countries;

"**Options**" means options to purchase Common Shares granted under the share option plan of the Corporation;

"**Preferred Shares**" means preferred shares, issuable in series, in the capital of Gear;

"**SEDAR**" means the System for Electronic Document Analysis and Retrieval, accessible at [www.sedar.com](http://www.sedar.com);

"**Series 1 Preferred Shares**" means the authorized Series 1 preferred shares in the capital of Gear;

"**Striker**" means Striker Exploration Corp. a corporation amalgamated under the laws of Alberta which was amalgamated with Gear on July 29, 2016;

"**Striker Arrangement**" means the acquisition by Gear of all the issued and outstanding common shares of Striker pursuant to a plan of arrangement under the ABCA whereby shareholders of Striker received 2.325 Common Shares for each share of Striker;

"**Tax Act**" means the *Income Tax Act* (Canada), R.S.C. 1985, c. 1 (5<sup>th</sup> Supp.), as amended, including the regulations;

"**TSX**" means the Toronto Stock Exchange;

"**2015 Debenture Private Placement**" has the meaning ascribed to it in the section "*General Development of the Business – Three Year History – Year Ended December 31, 2015*";

"**2015 Prospectus Offering**" has the meaning ascribed to it in the section "*General Development of the Business – Three Year History – Year Ended December 31, 2015*";

"**2015 Share Private Placement**" has the meaning ascribed to it in the section "*General Development of the Business – Three Year History – Year Ended December 31, 2015*"; and

"**2016 Prospectus Offering**" has the meaning ascribed to it in the section "*General Development of the Business – Three Year History – Year Ended December 31, 2016*".

## CONVENTIONS

Certain terms used herein are defined under the heading "*Certain Definitions*".

Unless otherwise indicated, references herein to "\$" or "dollars" are to Canadian dollars.

Certain other terms used herein but not defined herein are defined in NI 51-101 and, unless the context otherwise requires, shall have the same meanings herein as in NI 51-101.

Unless otherwise specified, information in this Annual Information Form is as at the end of the Corporation's most recently completed financial year, being December 31, 2017.

## READER ADVISORY REGARDING FORWARD-LOOKING STATEMENTS

Certain of the statements contained herein including, without limitation, the financial and business prospects and financial outlook, reserve and production estimates, drilling and re-completion plans, timing of drilling, re-completion and tie-in of wells, expected abandonment and reclamation activities, expected future abandonment and reclamation obligations, productive capacity of wells, details of capital expenditure activity and the timing thereof, the effect of government announcements, proposals and legislation, plans regarding hedging, expected or anticipated production rates, timing of expected production increases, weighting of production between different commodities, expected commodity prices, price differentials, exchange rates, production expenses, transportation costs and other costs and expenses, maintenance of productive capacity and capital expenditures and methods of financing thereof, may be forward-looking statements or forward-looking information (collectively, "**forward-looking statements**"). Words such as "may", "will", "should", "could", "anticipate", "believe", "expect", "intend", "plan", "potential", "continue" and similar expressions may be used to identify these forward-looking statements. These forward-looking statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risk and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including, but not limited to, risks associated with volatility of commodity prices, oil and gas exploration, development, exploitation, production, changes to the Corporation's capital budget, marketing and transportation, loss of markets, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, inability to retain drilling rigs and other services, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, delays resulting from or inability to obtain required regulatory approvals, ability to access sufficient capital from internal and external sources, risks relating to the Corporation's ability to repay amounts outstanding under the New Credit Facilities when, and if, required and the risk factors outlined under "*Risk Factors*" and elsewhere herein. The recovery and reserve estimates of the Corporation's reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. As a consequence, actual results may differ materially from those anticipated in the forward-looking statements.

Forward-looking statements are based on a number of factors and assumptions which have been used to develop such forward-looking statements but which may prove to be incorrect. Although the Corporation believes that the expectations reflected in such forward-looking statements are reasonable, undue reliance should not be placed on forward-looking statements because the Corporation can give no assurance that such expectations will prove to be correct. In addition to other factors and assumptions which may be identified in this Annual Information Form, assumptions have been made regarding, among other things: future oil and natural gas prices; the Corporation's current capital budget for 2018; the Corporation's potential drilling locations and budget for 2018 if commodity prices change, upwards or downwards, in a material fashion; the general stability of the economic and political environment in which the Corporation operates; the impact of increasing competition; the timely receipt of any required regulatory approvals; the ability of the Corporation to obtain qualified staff, equipment and services in a timely and cost efficient manner; drilling results; the ability of the operator of the projects which the Corporation has an interest in to operate the field in a safe, efficient and effective manner; the ability of the Corporation to obtain financing on acceptable terms; field production rates and decline rates; the ability to replace and expand oil and natural gas reserves through acquisition, development and exploration; the timing and costs of pipeline, storage and facility construction and expansion and the ability of the Corporation to secure adequate product transportation; currency, exchange and interest rates; the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which the Corporation operates; and the ability of the Corporation to successfully market its oil and natural gas products.

Readers are cautioned that the foregoing list of factors is not exhaustive. Although the forward-looking statements contained herein are based upon what management believes to be reasonable assumptions, management cannot assure that actual results will be consistent with these forward-looking statements. Investors should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof and the Corporation assumes no obligation to update or review them to reflect new events or circumstances except as required by applicable securities laws.

Forward-looking statements contained herein concerning the oil and gas industry and the Corporation's general expectations concerning this industry is based on estimates prepared by management using data from publicly available industry sources as well as from reserve reports, market research and industry analysis and on assumptions based on data and knowledge of this industry which the Corporation believes to be reasonable. However, this data is inherently imprecise, although generally indicative of relative market positions, market shares and performance characteristics. While the Corporation is not aware of any misstatements regarding any industry data presented herein, the industry involves risks and uncertainties and is subject to change based on various factors.

## CORPORATE STRUCTURE

### Name, Address and Incorporation

Gear is a Canadian exploration and production company with heavy and light oil production in central Alberta and west central Saskatchewan.

Gear was incorporated on June 25, 2007 under the ABCA as "Black Mountain Energy Corporation". On January 29, 2010, BMEC acquired all of the issued and outstanding common shares of Old Gear pursuant to the BMEC Acquisition. BMEC and Old Gear amalgamated on May 1, 2010 and continued under the name "Gear Energy Ltd."

On June 3, 2010, Gear amended its articles to: (i) consolidate the Common Shares on the basis of one post-consolidation Common Share for every five pre-consolidation Common Shares; and (ii) to convert the then-issued and outstanding Series 1 Preferred Shares to Common Shares on the basis of one post-consolidation Common Share for every five pre-consolidation Series 1 Preferred Shares.

Gear was amalgamated under the provisions of the ABCA on September 21, 2011 with its wholly-owned subsidiary, Lift Resources Inc., and continued under the name "Gear Energy Ltd."

Pursuant to the Striker Arrangement, Gear was amalgamated with Striker on July 27, 2016, and continued under the name "Gear Energy Ltd."

The head office of Gear is located at Suite 2600, 240 – 4<sup>th</sup> Avenue S.W., Calgary, Alberta T2P 4H4 and its registered office is located at Suite 2400, 525 – 8<sup>th</sup> Avenue S.W., Calgary, Alberta T2P 1G1.

## GENERAL DEVELOPMENT OF THE BUSINESS

### Three Year History

The following is a summary of the significant events in the development of the Corporation's business over the last three completed financial years.

#### *Year Ended December 31, 2015*

On June 30, 2015, Mr. Bryan Dozzi was appointed as Vice President, Engineering and the Old Credit Facility was decreased from \$130 million to \$90 million.

On November 30, 2015, Gear completed: (i) a public offering of 12,000,000 Common Shares at a price of \$0.75 per Common Share (the "**2015 Prospectus Offering**"); (ii) a private placement of 2,666,700 Common Shares at a price of \$0.75 per Common Share (the "**2015 Share Private Placement**"); and (iii) a private placement of \$14,800,000 aggregate principal amount of Convertible Debentures at a price of \$1,000 per Convertible Debenture (the "**2015 Debenture Private Placement**"), for aggregate gross proceeds from the 2015 Prospectus Offering, 2015 Share Private Placement and 2015 Debenture Private Placement of approximately \$25.8 million. A significant shareholder of Gear purchased all of the Common Shares pursuant to the 2015 Share Private Placement and \$11.593 million aggregate principal amount of Convertible Debentures pursuant to the 2015 Debenture Private Placement, representing 78.3% of the 2015 Debenture Private Placement. As a result, on closing of the 2015 Prospectus Offering, 2015 Share Private Placement and 2015 Debenture Private Placement, the significant shareholder owned, controlled or directed, directly or indirectly, approximately 19.7% of the issued and outstanding Common Shares and \$11.593 million aggregate principal amount of Convertible Debentures. For a description of the material characteristics of the Convertible Debentures, see "*Description of Capital Structure – Convertible Debentures*". Additionally on November 30, 2015, Gear's Old Credit Facility was amended and restated to provide for a new borrowing base of \$60 million.



Total capital spending in 2015, including net acquisitions, was \$14 million. The majority of these funds were spent to drill 12 gross (12 net) horizontal oil wells with a 100% success rate. The 2015 drilling program focussed on multiple areas including Wildmere, Alberta, Morgan, Alberta and Paradise Hill, Saskatchewan.

#### *Year Ended December 31, 2016*

On June 29, 2016, Gear completed a public offering of 28,750,000 Common Shares at a price of \$0.70 per Common Share (the "**2016 Prospectus Offering**"), for aggregate gross proceeds from the 2016 Prospectus Offering of approximately \$20.1 million.

On July 27, 2016, Gear completed the Striker Arrangement whereby the Corporation acquired all of the issued and outstanding common shares of Striker pursuant to a plan of arrangement under the ABCA. Shareholders of Striker received 2.325 Common Shares for each share of Striker owned resulting in the issuance of 76.2 million Common Shares by Gear. Gear also assumed Striker's debt of approximately \$9 million, after taking into account Striker's transaction costs. Pursuant to the rules of the TSX, Gear required the approval of the Corporation's shareholders for the issuance of Common Shares pursuant to the Striker Arrangement which was received at a special meeting of the Corporation's shareholders held on July 26, 2016. Concurrent with the closing of the Striker Arrangement, Messrs. Neil Roszell, John O'Connell and Kevin Olson, three former members of Striker's board of directors, were also appointed to the Board and Mr. Greg Bay retired from the Board. Striker warrants (the "**Warrants**") to purchase 650,000 Striker common shares held or controlled by certain directors of Striker who were appointed to the Board survived the Striker Arrangement. The Warrants entitle the holders to purchase an aggregate of 1,511,250 Common Shares at an exercise price of \$1.03 per Common Share. Following completion of the Striker Arrangement, on July 29, 2016, Gear amalgamated with Striker, then a wholly-owned subsidiary, and continued under the name "Gear Energy Ltd."

Concurrent with the completion of the Striker Arrangement, on July 27, 2016, Gear repaid all amounts owing and terminated both the Old Credit Facilities and Striker's credit facility and entered into the New Credit Facilities to provide for a new borrowing base of \$50 million, consisting of a \$42,500,000 syndicated credit facility and a \$7,500,000 operating credit facility available on a fully revolving basis with the borrowing base being subject to a semi-annual review. The New Credit Facilities contain a financial covenant to maintain an adjusted working capital ratio of not less than 1.0:1, with adjusted working capital ratio being defined as current assets less unrealized hedging gains, plus the undrawn portion of the credit facilities divided by accounts payable and accrued liabilities. The undrawn portion of the New Credit Facilities is subject to a standby fee in the range of 50 bps to 100 bps.

On November 9, 2016, Mr. Dustin Ressler was appointed Vice President, Exploration.

On November 24, 2016, Gear completed a non-brokered private placement offering of 1,176,500 Common Shares at a price of \$0.85 per share, issued on a Canadian exploration expense ("**CEE**") flow-through basis pursuant to the provisions of the Tax Act for gross proceeds to the Corporation of \$1,000,025. Pursuant to the provisions in the Tax Act, Gear renounced the eligible CEE to purchasers of the flow-through Common Shares prior to December 31, 2016 in the aggregate amount of the gross proceeds raised from the issue and sale of the flow-through Common Shares and will be required to incur the CEE effective on or prior to December 31, 2017.

Total capital spending in 2016, including net acquisitions, was \$72 million. Aside from the Striker Arrangement, the majority of these funds were spent to drill 13 gross (13 net) horizontal oil wells with a 100% success rate. The 2016 drilling program focussed on multiple areas including Wildmere, Alberta, Wilson Creek, Alberta and Paradise Hill, Saskatchewan.

#### *Year Ended December 31, 2017*

On May 10, 2017 at the Corporation's annual meeting of shareholders, Messrs. Peter Verburg and Neil Roszell retired from the Board. As a consequence of Mr. Roszell retiring from the Board, 400,000 Warrants were cancelled, leaving 250,000 Warrants currently outstanding which entitle the holders to purchase 581,250 Common Shares at an exercise price of \$1.03 per Common Share.

On May 25, 2017, the Corporation increased the borrowing base under the New Credit Facilities to \$55 million. In conjunction with the increase of the borrowing base, the current revolving period was extended until May 31, 2018 and is

extendible for 364 days with the consent of the lenders. If the revolving period is not extended the maturity date of the New Credit Facilities will be one year after the end of the revolving period. The next semi-annual borrowing base review of the New Credit Facilities will occur on or about May 31, 2018.

Total capital spending in 2017, including net acquisitions, was \$49 million. The majority of these funds were spent to drill 34 gross (34 net) horizontal oil wells with a 97% success rate. The 2017 drilling program focussed on multiple areas including Wildmere, Paradise Hill, Hoosier, Wilson Creek and Killam.

### **Recent Developments**

Gear's currently approved capital budget for 2018 is approximately \$50 million. The plan targets an estimated 25 horizontal oil wells with 40 per cent of the capital focused on the drilling of light and medium oil wells, 35 per cent of the capital directed to heavy oil drilling, and the remaining capital dedicated to recompletions, waterflood development, land, seismic and other corporate expenditures. See "*Description of the Business – Business Plan and Corporate Strategy*".

### **Significant Acquisitions**

There were no significant acquisitions completed by the Corporation during its most recently completed financial year for which disclosure is required under Part 8 of National Instrument 51-102 – *Continuous Disclosure Obligations*.

## **DESCRIPTION OF THE BUSINESS**

### **General**

Gear is a Calgary, Alberta based junior Canadian crude oil and natural gas exploration and production company. All of the Corporation's oil and gas properties are located in Alberta, British Columbia and Saskatchewan. The Corporation currently has core holdings in central Alberta and west central Saskatchewan. The Corporation has a significant land position in Alberta, British Columbia and Saskatchewan and intends to continue to evaluate additional oil and gas assets in Alberta, British Columbia and Saskatchewan.

### **Business Plan and Corporate Strategy**

Gear's strategy is to provide long term production and cash flow growth on a per debt adjusted share basis as a low cost oil and gas operator. The Corporation's business plan contemplates that the Corporation will pursue exploration, development and exploitation drilling, complemented with property or corporate acquisitions exhibiting synergies in land, facilities, production and operating efficiencies.

Gear plans to achieve this growth by pursuing assets with the following characteristics:

- Geographically focused
- Definable resource base with low risk production
- Repeatable projects that are statistically economic
- Horizontally amenable producing horizons
- Easy surface access and existing infrastructure
- High operatorship percentage

See "*Risk Factors*".

Gear's strategy to attempt to enhance returns on its assets is by:

- Drilling and developing on controlled lands
- Focusing on operational and cost efficiencies
- Continually improving operations through innovation and imitation
- Adopting and refining advanced drilling and completing techniques
- Pursuing strategic acquisitions with significant potential synergies

In reviewing potential drilling or acquisition opportunities, Gear gives consideration to a variety of criteria, including: (i) the capital required to secure or evaluate the investment opportunity; (ii) if successful, the potential return on the project; (iii) the

likelihood of success; (iv) the risk of return versus cost of capital; (v) the strategic benefits to Gear; and (vi) Gear's ability to operate a project.

The Board may, in its discretion, approve asset or corporate acquisitions or investments, including those acquisition or investments that do not conform to the guidelines discussed above based upon the Board's consideration of, among other things, the qualitative aspects of the subject properties, including risk profile, technical upside, productive life and asset quality.

In light of the uncertain condition of world oil prices, which began a modest rebound in the latter half of 2016 that continued through 2017, the Board has approved a conservative \$50 million (approximately) capital expenditure budget for 2018 that principally targets a low risk horizontal oil well drilling program. Gear intends to continuously monitor prices and control capital expenditures throughout 2018 to ensure maintenance of strong project returns and a conservative balance sheet

The amount of capital the Corporation will expend for its 2018 exploration and development program and the nature of its expenditures may vary materially based on commodity prices, market access, transportation constraints, other industry conditions and the Corporation's drilling results as the year progresses. Access to additional capital may spur an expansion of the program; however, any significant reduction in commodity prices, any unexpected reduction in Gear's access to capital or any constraints on Gear's ability to transport and market its production may lead to a reduction in the Corporation's 2018 exploration and development program. Although Gear's management remains committed to the above strategy, the current instability and uncertainty in the oil and gas industry and the challenges oil and gas producers continue to face with respect to the availability of funds and access to markets may impact Gear's ability to continue to pursue its business strategy. See "*Industry Conditions*" and "*Risk Factors*" for further details.

### **Specialized Skill and Knowledge**

Gear believes that its team has all of the key components to successfully implement its business plan: strong technical skills; expertise in planning and financial controls; ability to execute on business development opportunities; capital markets expertise; extensive experience in oil and gas exploration and development in Western Canada; and an entrepreneurial spirit that allows Gear to effectively identify, evaluate and execute on value-added initiatives. See "*Directors and Executive Officers*".

### **Competitive Conditions**

The oil and natural gas industry is intensely competitive in all its phases. Companies operating in the upstream petroleum industry must manage risks which are beyond the direct control of company personnel. Among these risks are those associated with exploration and development, commodity prices, foreign exchange rates, interest rates, environmental damages, market access and the current weakness impacting the oil and gas industry as a whole. See "*Risk Factors – Competition*".

Gear expects the intense level of competition to continue in the future. Gear competes with a substantial number of other entities, certain of which have greater technical or financial resources particularly when it comes to acquiring reserves, oil and gas mineral rights, skilled industry personnel, access to end user markets and capital to finance their activities. With the maturing nature of the Western Canadian Sedimentary Basin, access to new prospects is becoming more competitive and complex and Gear's ability to execute its business plan of growing its oil and gas reserves and cash flow will depend not only on the Corporation's ability to exploit and develop existing properties but also its ability to identify and acquire additional properties or prospects for exploratory and development drilling. Gear believes that its competitive position is equivalent to that of other oil and gas issuers of similar size and at a similar stage of development.

### **Cyclical Nature of Business**

In general, the energy business is cyclical in nature and heavily dependent on macro-economic cycles. In periods of economic expansion and growth the demand for energy increases as economies build inventory and productive capacity. Generally speaking in periods of economic contraction or recession, demand for energy declines. These macroeconomic cycles often impact global, North American and local prices for commodities, particularly oil and gas prices. In addition, the actions of

OPEC and other oil producing countries and other factors impacting supply of oil will impact the price of oil. See "*Risk Factors – Weakness in the Oil and Gas Industry*".

Demand for heavy oil begins to increase in the spring time and peaks in the summer months as heavy oil is often the base feed stocks which supply refineries, which make end products such as transportation fuels, heating oils, and asphalt for road paving. During the fall, refiners switch from making gasoline for summer driving season and asphalt for paving season and enter turn around season creating temporary lower demand for heavy crudes while these refineries undergo maintenance and repairs. Demand picks up again with a focus on making heating fuels until the spring comes and refiners again switch to focus on building gasoline stocks for the summer season. Demand for light oil can also vary throughout the year, although not usually with the same volatility as heavy oil.

The level of activity in the Canadian oil and natural gas industry is influenced by seasonal weather patterns. Wet weather and spring thaw may make the ground unstable. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. Also, certain oil and natural gas producing areas are located in areas that are inaccessible other than during the winter months because the ground surrounding the sites in these areas consists of swampy terrain.

In anticipation of the operational delays associated with "spring break up", the Corporation takes certain steps to mitigate interruption to its activities including, scheduling drilling and completion activities to be completed well before the spring break up season, setting up extra batteries to collect the oil and natural gas produced during such time, servicing pipelines and facilities to ensure they are in working order in the event access is limited. Through the duration of spring break up, drilling and exploratory activities slow and the Corporation's production which is not otherwise tied-in may be shut in temporarily if access is limited.

In addition, extreme cold weather, heavy snowfall and heavy rainfall may restrict the Corporation's ability to access its properties, cause operational difficulties including damage to machinery or contribute to personnel injury as a result of dangerous working conditions. Seasonal factors and unexpected weather patterns may lead to declines in exploration and production activity (including temporary production shut-ins), damage to the Corporation's equipment or injury to its personnel.

See "*Risk Factors – Seasonality and Extreme Weather Conditions*".

### **Environmental Considerations and Protection**

The Corporation is required to comply with various federal, provincial and municipal laws related to climate change and protection of the environment. Compliance with such laws affect a variety of aspects of the Corporation's operations including, among others, abandonment and reclamation of wells, facilities and related infrastructure, flaring and venting of natural gas, water usage and disposal, greenhouse gas emissions and clean-ups of spills.

In addition to compliance with the minimal abandonment and reclamation obligations under provincial legislation in Alberta, British Columbia and Saskatchewan, Gear believes in well abandonment and site restoration in a timely manner to ensure minimal damage to the environment and lower overall costs. As a result, Gear allocates a portion of its annual capital budget to such activities. During 2017, Gear spent approximately \$2.6 million in the abandonment and reclamation of wells and related facilities and infrastructure. For further information relating to the abandonment and reclamation programs in Alberta, British Columbia and Saskatchewan and see "*Industry Conditions - Regulatory Authorities and Environmental Regulation - Liability Management Rating Programs*".

The federal government and certain provincial governments have enacted legislation aimed at discouraging the use of fossil fuels in an effort to decrease greenhouse gas emissions. Over the long-term laws designed to curb the use of fossil fuels in Canada and other countries could have an impact on the demand for fossil fuels and have a negative impact on the price of oil and natural gas, which would have an effect on the Corporation's financial results and ultimately the sustainability of the Corporation's business model. In the short-term, carbon taxes and other legislative measures designed to curb greenhouse gas emissions may adversely affect Gear's financial results as such taxes increase the costs of fuels used to operate Gear's machinery and vehicles; however, as Gear does not have any facilities that exceed current emissions thresholds that would subject Gear to more onerous requirements, the short-term impact of carbon taxes and similar measures are not expected to

have a material effect on the Corporation's financial results. See "*Industry Conditions – Regulatory Authorities and Environmental Regulation - Climate Change Regulation*" and "*Risk Factors – Carbon Pricing Risks*".

Partially in response to legislative measures aimed at curbing flaring and venting of natural gas and the associated release of methane and other greenhouse gases into the atmosphere, Gear strives to collect and market gas in order to decrease the volume that is flared or vented. In 2017, Gear spent approximately \$2.0 million on transportation and other infrastructure to allow gas from its production to be collected and brought to market rather than such gas being vented or flared. See "*Industry Conditions – Regulatory Authorities and Environmental Regulation - Climate Change Regulation*" and "*Risk Factors – Carbon Pricing Risks*".

Gear undertakes waterflooding and fracing activities as part of its operations. The majority of the water is reused and recycled in the waterflood and completion activities therefore there is immaterial financial costs associated with disposal. Although minimal, Gear works to ensure the safe disposal of the fluids to avoid the contamination of ground water. In addition to the costs associated to waterflooding/fracing activities, Gear may from time to time have limited access to sufficient volumes of fluids or there may be restrictions imposed on such activities in the areas in which it operates which would have a negative effect on Gear's production volumes and revenues. See "*Risk Factors – Disposal of Fluids Used in Operations*" and "*Risk Factors – Waterflood*".

Although Gear operates in compliance with all applicable regulations and ensures that all staff and contractors employ sound practices to protect the environment and to ensure employee and public health and safety, occasionally fluid spills and other incidents threatening the environment may occur. The costs of cleaning up such spills could negatively affect the Corporation's financial and operating results as the Corporation has to incur costs and utilize resources in cleaning up such spills. In 2017, the Corporation experienced one material spill and one material release and, as a result, reported approximately \$180,000 in cleaning up spills and releases from its operations.

#### **Health, Safety, Environmental and Social Policies**

Gear's management, employees and all contractors are responsible and accountable for the overall health, safety and environmental program of the Corporation. Gear operates in compliance with all applicable regulations and ensures that all staff and contractors employ sound practices to protect the environment and to ensure employee and public health and safety.

Gear maintains a safe and environmentally responsible work place and provides training, equipment and procedures to all individuals in adhering to its policies. It also solicits and takes into consideration input from neighbors, communities and other stakeholders in regard to protecting people and the environment.

At the field level, Gear has a corporate Environment Management System which is continuously updated and meets the regulatory guidelines. Procedures are put in place to ensure that the utmost care is taken in the day-to-day management of Gear oil and gas properties with an emphasis on incident prevention. In addition, Gear requires each of its field workers to have completed industry standard courses.

The Corporation also has Emergency Response Plans ("**ERPs**") which are prepared in accordance with applicable regulations. The ERPs are designed to provide the policies, practices and procedures to be implemented in the event of an emergency situation that arises at or as a result of Gear's operations, including but not limited to: a serious injury or fatality, fire or explosion, uncontrolled or hazardous product release and oil or hazardous chemical spill. The purpose of the ERPs is to protect the health, safety and welfare of the public and workers and minimize the potential adverse environmental effects. Management intends to test the ERPs in 2018 to ensure their effectiveness and procedures are revised to ensure the Corporation is adhering to the highest industry standards.

The Board receives a report from management at each quarterly Board meeting outlining any environmental or safety incidents that occurred or areas of concern that have arisen since the last quarterly Board meeting. More significant incidents, if any, are discussed in greater detail and management and the Board consider whether any changes should be implemented as a result of the incident.

## Employees

As at December 31, 2017, Gear had 18 full time employees and 5 consultants located at its Calgary office, and 10 full time employees, 2 consultants and a number of contract operators in various field locations.

## STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION

The statement of reserves data and other oil and gas information set forth below (the "**Statement**") is dated February 21, 2018. The effective date of the Statement is December 31, 2017 and the preparation date of the Statement is February 21, 2018.

### Disclosure of Reserves Data

The Corporation engaged GLJ to provide an evaluation of the Corporation's proved and proved plus probable reserves as at December 31, 2017. The reserves data set forth below (the "**Reserves Data**") is based upon the GLJ Report. The Reserves Data summarizes the crude oil, natural gas liquids and natural gas proved and probable reserves of the Corporation and the net present values of future net revenue for these reserves using forecast prices and costs. The GLJ Report has been prepared in accordance with the standards and the reserve definitions contained in the COGE Handbook and NI 51-101. The Reserves Committee of the Board has reviewed and approved the GLJ Report and this statement. The Report of Management and Directors on Oil and Gas Disclosure and the Report on Reserves Data by the Independent Qualified Reserves Evaluator are attached as Schedules "A" and "B" hereto, respectively.

All of the Corporation's reserves are in Canada and, specifically, in the Provinces of Alberta, British Columbia and Saskatchewan.

**All evaluations of future net production revenue set forth in the tables below are based on forecast prices and costs and are after direct lifting costs and future capital investments. It should not be assumed that the estimates of future net revenues presented in the tables below represent the fair market value of the reserves. There is no assurance that the forecast prices and costs assumptions will be attained and variances could be material. The recovery and reserve estimates of the Corporation's crude oil, natural gas liquids and natural gas reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual crude oil, natural gas and natural gas liquid reserves may be greater than or less than the estimates provided herein.**

### Reserves Data (Forecast Prices and Costs)

SUMMARY OF CORPORATION OIL AND GAS RESERVES  
AND NET PRESENT VALUES OF FUTURE NET REVENUE  
AS OF DECEMBER 31, 2017  
FORECAST PRICES AND COSTS

RESERVES CATEGORY	RESERVES									
	LIGHT AND MEDIUM CRUDE OIL		HEAVY OIL		CONVENTIONAL NATURAL GAS		NATURAL GAS LIQUIDS		TOTAL	
	Gross (Mbbbl)	Net (Mbbbl)	Gross (Mbbbl)	Net (Mbbbl)	Gross (MMcft)	Net (MMcft)	Gross (Mbbbl)	Net (Mbbbl)	Gross (MBOE)	Net (MBOE)
Proved Developed										
Producing	2,148	1,873	3,913	3,585	8,043	7,153	509	395	7,910	7,045
Non-Producing	40	39	784	720	175	161	8	7	861	793
Proved										
Undeveloped	1,448	1,229	3,032	2,781	5,931	5,252	224	187	5,692	5,072
Total Proved	3,636	3,140	7,728	7,087	14,148	12,566	741	589	14,464	12,910

RESERVES CATEGORY	RESERVES									
	LIGHT AND MEDIUM CRUDE OIL		HEAVY OIL		CONVENTIONAL NATURAL GAS		NATURAL GAS LIQUIDS		TOTAL	
	Gross (Mbbbl)	Net (Mbbbl)	Gross (Mbbbl)	Net (Mbbbl)	Gross (MMcf)	Net (MMcf)	Gross (Mbbbl)	Net (Mbbbl)	Gross (MBOE)	Net (MBOE)
Probable	2,235	1,896	7,282	6,455	6,606	5,797	422	352	11,039	9,670
Total Proved plus Probable	5,871	5,036	15,010	13,542	20,754	18,364	1,163	941	25,503	22,579

## NET PRESENT VALUES OF FUTURE NET REVENUE

RESERVES CATEGORY	BEFORE INCOME TAXES DISCOUNTED AT (%/year)					AFTER INCOME TAXES DISCOUNTED AT (%/year)					UNIT VALUE BEFORE INCOME TAX DISCOUNTED AT 10%/year (\$/BOE)
	0	5	10	15	20	0	5	10	15	20	
	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	
Proved Developed											
Producing	166,881	145,701	130,501	118,959	109,809	166,881	145,701	130,501	118,959	109,809	18.52
Non-Producing	17,126	15,309	13,653	12,212	10,976	17,126	15,309	13,653	12,212	10,976	17.22
Proved Undeveloped	86,677	66,299	51,108	39,785	31,212	86,677	66,299	51,108	39,785	31,212	10.08
Total Proved	270,684	227,309	195,263	170,955	151,997	270,684	227,309	195,263	170,955	151,997	15.13
Probable	277,654	200,890	154,565	123,931	102,292	242,816	175,792	135,561	109,054	90,363	15.98
Total Proved plus Probable	548,338	428,199	349,828	294,886	254,288	513,500	403,101	330,824	280,009	242,360	15.49

TOTAL FUTURE NET REVENUE  
(UNDISCOUNTED)  
AS OF DECEMBER 31, 2017  
FORECAST PRICES AND COSTS

RESERVES CATEGORY	REVENUE (M\$)	ROYALTIES (M\$)	OPERATING COSTS (M\$)	DEVELOPMENT COSTS (M\$)	ABANDONMENT AND RECLAMATION COSTS <sup>(1)</sup> (M\$)	FUTURE NET REVENUE BEFORE INCOME TAXES (M\$)	INCOME TAXES (M\$)	FUTURE NET REVENUE AFTER INCOME TAXES (M\$)
Total Proved	727,062	84,014	255,510	86,175	30,679	270,684	-	270,684
Total Proved plus Probable	1,370,721	167,697	470,130	146,766	37,790	548,338	34,838	513,500

Note:

- (1) Reflects estimated abandonment and reclamation for all wells (both existing and undrilled wells) that have been attributed reserves. See "Additional Information Relating to Reserves Data – Additional Information Concerning Abandonment and

Reclamation Costs".

FUTURE NET REVENUE  
BY PRODUCT TYPE  
AS OF DECEMBER 31, 2017  
FORECAST PRICES AND COSTS

RESERVES CATEGORY	PRODUCT TYPE	FUTURE NET REVENUE BEFORE INCOME TAXES (discounted at 10%/year) (M\$)	UNIT VALUE BEFORE INCOME TAX DISCOUNTED AT 10%/year
Proved Reserves	Light and Medium Crude Oil <sup>(1)</sup>	73,008	\$15.92/boe
	Heavy Crude Oil <sup>(1)</sup>	119,061	\$16.78/boe
	Conventional Natural Gas <sup>(2)</sup>	3,194	\$0.43/Mcfe
Proved Plus Probable Reserves	Light Crude Oil and Medium Crude Oil <sup>(1)</sup>	108,969	\$14.96/boe
	Heavy Crude Oil <sup>(1)</sup>	235,469	\$17.35/boe
	Conventional Natural Gas <sup>(2)</sup>	5,390	\$0.52/Mcfe

Notes:

- (1) Including solution gas and other by-products.
- (2) Including by-products, but excluding solution gas and by-products from oil wells.
- (3) Unit values are based on net reserve volumes.
- (4) Columns may not add due to rounding.

**Notes to Reserves Data Tables:**

1. Columns may not add due to rounding.
2. The crude oil, natural gas liquids and natural gas reserve estimates presented in the GLJ Report are based on the definitions and guidelines contained in the COGE Handbook. A summary of those definitions is set forth in the "Certain Definitions" and below.
3. Levels of Certainty for Reported Reserves:

The qualitative certainty levels referred to below are applicable to individual reserve entities (which refers to the lowest level at which reserves calculations are performed) and to reported reserves (which refers to the highest level sum of individual entity estimates for which reserve estimates are prepared). Reported reserves should target the following levels of certainty under a specific set of economic conditions:

- (a) at least a 90% probability that the quantities actually recovered will equal or exceed the estimated proved reserves; and
- (b) at least a 50% probability that the quantities actually recovered will equal or exceed the estimated proved plus probable reserves.

A quantitative measure of the certainty levels pertaining to estimates prepared for the various reserves categories is desirable to provide a clearer understanding of the associated risks and uncertainties. However, the majority of reserves estimates will be prepared using deterministic methods that do not provide a mathematically derived quantitative measure of probability. In principle, there should be no difference between estimates prepared using probabilistic or deterministic methods.

Additional clarification of certainty levels associated with reserves estimates and the effect of aggregation is provided in the COGE Handbook.



## 4. Forecast Costs and Price Assumptions

The forecast cost and price assumptions assume increases in wellhead selling prices and take into account inflation with respect to future operating and capital costs. Crude oil and natural gas benchmark reference pricing, inflation and exchange rates utilized by GLJ in the GLJ Report published by GLJ as at December 31, 2017 are as follows:

SUMMARY OF PRICING AND INFLATION RATE ASSUMPTIONS  
FORECAST PRICES AND COSTS

Year	OIL			Natural Gas AB Plant Gate Spot Gas Price (\$Cdn/MMBtu)	Pentanes Plus Edmonton (\$Cdn/bbl)	Butanes Price Edmonton (\$Cdn/bbl)	Inflation Rates <sup>(1)</sup> %/Year	Exchange Rate <sup>(2)</sup> (\$US/\$Cdn)
	WTI Cushing Oklahoma (\$US/bbl)	Edmonton Oil Price 40° API (\$Cdn/bbl)	WCS Oil Price (\$Cdn/bbl)					
Forecast								
2018	59.00	70.25	48.89	1.94	76.42	53.74	2.0	0.790
2019	59.00	70.25	53.16	2.28	74.68	49.18	2.0	0.790
2020	60.00	70.31	56.25	2.62	74.38	49.22	2.0	0.800
2021	63.00	72.84	59.26	2.97	77.16	50.99	2.0	0.810
2022	66.00	75.61	62.20	3.20	79.88	52.93	2.0	0.820
2023	69.00	78.31	65.06	3.31	82.53	54.82	2.0	0.830
2024	72.00	81.93	68.67	3.38	86.14	57.35	2.0	0.830
2025	75.00	85.54	72.29	3.45	89.76	59.88	2.0	0.830
2026	77.33	88.35	75.10	3.53	92.57	61.84	2.0	0.830
2027	78.88	90.22	76.96	3.60	94.43	63.15	2.0	0.830
2028+	Escalated oil, gas and product prices at 2% per year thereafter							

## Notes:

- (1) Inflation rates for forecasting prices and costs.  
(2) Exchange rates used to generate the benchmark reference prices in this table.

Weighted average historical prices realized, before transportation and financial derivative contracts, by the Corporation for the year ended December 31, 2017 were \$2.32/Mcf for natural gas, \$59.40/bbl for light and medium oil, \$45.49/bbl for heavy oil and \$26.80/bbl for NGLs.

5. Well abandonment and lease reclamation costs have only been included for wells (both existing and undrilled wells) that have been attributed reserves. Additional abandonment and lease reclamation costs associated with existing wells with no attributed reserves and facility abandonment and reclamation expenses have not been included in this analysis.
6. The forecast price and cost assumptions assume the continuance of current laws and regulations.
7. The extent and character of all factual data supplied to GLJ were accepted by GLJ as represented. No field inspection was conducted.
8. The after-tax net present value of the Corporation's properties here reflects the tax burden on the properties on a stand-alone basis and utilizing the Corporation's tax pools. It does not consider the business-entity-level tax situation, or tax planning. It does not provide an estimate of the value at the level of the business entity, which may be significantly different. The financial statements and the management's discussion and analysis of the Corporation should be consulted for information at the level of the business entity. Furthermore, the tax methodology used assumes that all tax pools are utilized to the maximum depreciation rate as currently permitted.

*Reconciliations of Changes in Gross Reserves*

RECONCILIATION OF CORPORATION GROSS RESERVES BY PRINCIPAL PRODUCT TYPE  
FORECAST PRICES AND COSTS

FACTORS	LIGHT AND MEDIUM CRUDE OIL			HEAVY CRUDE OIL			NATURAL GAS LIQUIDS		
	Gross Proved	Gross Probable	Gross Proved Plus Probable	Gross Proved	Gross Probable	Gross Proved Plus Probable	Gross Proved	Gross Probable	Gross Proved Plus Probable
	(Mbbbl)	(Mbbbl)	(Mbbbl)	(Mbbbl)	(Mbbbl)	(Mbbbl)	(Mbbbl)	(Mbbbl)	(Mbbbl)
<b>December 31, 2016</b>	<u>3,677</u>	<u>2,330</u>	<u>6,006</u>	<u>6,527</u>	<u>7,335</u>	<u>13,862</u>	<u>727</u>	<u>498</u>	<u>1,225</u>
Discoveries <sup>(1)</sup>	-	-	-	-	-	-	-	-	-
Extensions	181	(91)	90	2,127	524	2,651	84	3	88
Infill Drilling	-	-	-	143	(143)	-	-	-	-
Improved Recovery	245	135	380	20	10	30	26	17	43
Technical Revisions <sup>(2)</sup>	135	(133)	3	714	(192)	522	68	(29)	39
Acquisitions	-	-	-	40	14	55	-	-	-
Dispositions	(1)	(7)	(7)	(15)	(9)	(24)	(3)	(1)	(4)
Economic Factors <sup>(2)</sup>	(149)	-	(149)	(329)	(257)	(585)	(65)	(67)	(131)
Production	(452)	-	(452)	(1,500)	-	(1,500)	(96)	-	(96)
<b>December 31, 2017</b>	<u>3,636</u>	<u>2,235</u>	<u>5,871</u>	<u>7,728</u>	<u>7,282</u>	<u>15,010</u>	<u>741</u>	<u>422</u>	<u>1,163</u>

## Notes:

- (1) Columns may not add due to rounding.
- (2) The reconciliation data presented in these tables for Technical Revisions and Economic Factors categories does not match the data presented in the year-end reserves press release dated February 21, 2018 (the "**Reserves Press Release**"). Subsequent to the year-end Reserves Press Release, an error was discovered in GLJ's calculation of Technical Revisions and Economic Factors categories within the reserves reconciliation table presented in the Reserves Press Release. The opening and closing balances remain unchanged and the sum of the Technical Revisions and Economic Factors remain unchanged; however, the distribution between the reserves adjustments categorized as Technical Revisions and Economic Factors was revised.

FACTORS	CONVENTIONAL NATURAL GAS			COAL BED METHANE			TOTAL		
	Gross Proved (MMcf)	Gross Probable (MMcf)	Gross Proved Plus Probable (MMcf)	Gross Proved (MMcf)	Gross Probable (MMcf)	Gross Proved Plus Probable (MMcf)	Gross Proved (MBOE)	Gross Probable (MBOE)	Gross Proved Plus Probable (MBOE)
<b>December 31, 2016</b>	<u>17,073</u>	<u>12,071</u>	<u>29,144</u>	<u>94</u>	<u>29</u>	<u>123</u>	<u>13,792</u>	<u>12,179</u>	<u>25,971</u>
Discoveries <sup>(1)</sup>	-	-	-	-	-	-	-	-	-
Extensions	478	27	504	-	-	-	2,472	441	2,913
Infill Drilling	-	-	-	-	-	-	143	(143)	-
Improved Recovery	147	93	241	-	-	-	316	177	493
Technical Revisions	381	(1,092)	(711)	-	-	-	981	(536)	445
Acquisitions	-	-	-	-	-	-	40	14	55
Dispositions	(215)	(85)	(300)	(84)	(29)	(113)	(69)	(36)	(105)
Economic Factors	(1,765)	(4,408)	(6,173)	-	-	-	(837)	(1,057)	(1,894)
Production	<u>(1,951)</u>	<u>-</u>	<u>(1,951)</u>	<u>(10)</u>	<u>-</u>	<u>(10)</u>	<u>(2,374)</u>	<u>-</u>	<u>(2,374)</u>
<b>December 31, 2017</b>	<u>14,148</u>	<u>6,606</u>	<u>20,754</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,464</u>	<u>11,039</u>	<u>25,503</u>

Notes:

- (1) Columns may not add due to rounding.
- (2) The reconciliation data presented in these tables for Technical Revisions and Economic Factors categories does not match the data presented in the year-end Reserves Press Release. Subsequent to the year-end Reserves Press Release, an error was discovered in GLJ's calculation of Technical Revisions and Economic Factors categories within the reserves reconciliation table presented in the Reserves Press Release. The opening and closing balances remain unchanged and the sum of the Technical Revisions and Economic Factors remain unchanged; however, the distribution between the reserves adjustments categorized as Technical Revisions and Economic Factors was revised.

## Additional Information Relating to Reserves Data

### Undeveloped Reserves

The following tables set forth the remaining proved undeveloped reserves and the remaining probable undeveloped reserves, each by product type, attributed to Gear's assets for the years ended December 31, 2017, 2016 and 2015.

#### Proved Undeveloped Reserves

Year	Light and Medium Crude Oil (Mbbbl)		Heavy Crude Oil (Mbbbl)		Conventional Natural Gas (MMcf)		Natural Gas Liquids (Mbbbl)		Oil Equivalent (MBOE)	
	First Attributed	Cumulative at Year End	First Attributed	Cumulative at Year End	First Attributed	Cumulative at Year End	First Attributed	Cumulative at Year End	First Attributed	Cumulative at Year End
2015	-	-	668	2,402	-	4,061	-	59	668	3,138
2016	1,597	1,597	801	2,457	2,759	6,861	181	240	3,039	5,438
2017	65	1,448	785	3,032	320	5,931	57	224	961	5,692

Notes:

- (1) "First Attributed" refers to reserves first attributed at the year end of the corresponding fiscal year.
- (2) Columns may not add due to rounding.

### Probable Undeveloped Reserves

Year	Light and Medium Crude Oil (Mbbl)		Heavy Crude Oil (Mbbl)		Conventional Natural Gas (MMcf)	
	First Attributed	Cumulative at Year End	First Attributed	Cumulative at Year End	First Attributed	Cumulative at Year End
2015	-	-	970	3,806	-	5,126
2016	1,461	1,461	2,163	4,903	3,687	8,772
2017	25	1,310	1,415	4,766	170	3,505

Notes:

- (1) "First Attributed" refers to reserves first attributed at the year end of the corresponding fiscal year.
- (2) Columns may not add due to rounding.

Year	Shale Gas <sup>(1)</sup> (MMcf)		Natural Gas Liquids (Mbbl)		Oil Equivalent (MBOE)	
	First Attributed	Cumulative at Year End	First Attributed	Cumulative at Year End	First Attributed	Cumulative at Year End
2015	-	2,700	-	179	970	5,289
2016	-	-	257	331	4,496	8,157
2017	-	-	30	231	1,499	6,890

Notes:

- (1) Prior to 2015, shale gas was included with conventional natural gas.
- (2) "First Attributed" refers to reserves first attributed at the year end of the corresponding fiscal year.
- (3) Columns may not add due to rounding.

In general, once proved and/or probable reserves are identified, they are included in Gear's development plans. Normally, the Corporation plans to develop its proved and probable undeveloped reserves within two to three years; however, these locations will continue to be re-evaluated to assess their relative economic merits when compared to other projects available to the Corporation. A number of factors that could result in delayed or cancelled development are as follows:

- development of a superior opportunity inventory to select from;
- changing economic conditions (due to pricing, royalties, operating and capital expenditure fluctuations);
- changing technical conditions (production anomalies (such as water breakthrough, accelerated depletion));
- multi-zone developments (such as a prospective formation completion may be delayed until the initial completion is no longer economic);
- a larger development program may need to be spread out over several years to optimize capital allocation and facility utilization; and
- surface access issues (landowners, weather conditions, regulatory approvals).

See "Other Oil and Gas Information – Principal Properties", "Other Oil and Gas Information – Future Development Costs" and "Other Oil and Gas Information – Capital Expenditures" for a description of the Corporation's exploration and development plans and expenditures.

### ***Significant Factors or Uncertainties***

The process of evaluating reserves is inherently complex. It requires significant judgments and decisions based on available geological, geophysical, engineering and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and costs change. The reserve estimates contained herein are based on current production forecasts, prices and economic conditions and other factors and assumptions that may affect the reserve estimates and the present worth of the future net revenue therefrom. These factors and assumptions include, among others: (i) historical production in the area compared with production rates from analogous producing areas; (ii) initial production rates; (iii) production decline rates; (iv) ultimate recovery of reserves; (v) success of future development activities; (vi) marketability and pricing of production; (vii) effects of government regulations; and (viii) other government levies imposed over the life of the reserves.

As circumstances change and additional data becomes available, reserve estimates also change. Estimates are reviewed and revised, either upward or downward, as warranted by the new information. Revisions are often required due to changes in well performance, prices, economic conditions and government restrictions. Revisions to reserve estimates can arise from changes in year-end prices, reservoir performance and geologic conditions or production. These revisions can be either positive or negative.

The Corporation does not anticipate any unusually high development costs or operating costs to produce and sell any material portion of its reserves. Where required, capital to construct facilities and pipelines necessary to deliver the forecasted products to market has been deducted from the estimates of cash flows used to calculate future net revenue. The Corporation has not entered into any contractual obligations to produce and sell a significant portion of production at prices substantially below those which could be realized except for those contractual obligations described under the heading "Other Oil and Gas Information – Forward Contracts and Marketing".

The Corporation does not anticipate any unusually high abandonment or reclamation costs. Additional information related to our estimated share of future environmental and reclamation obligations for the working interest properties (including all abandonment and reclamation costs associated with all existing wells, facilities, pipelines and leases) can be found in Gear's audited financial statements for the year ended December 31, 2017 and the accompanying management's discussion and analysis, which are available on SEDAR at [www.sedar.com](http://www.sedar.com)

### ***Future Development Costs***

The following table sets forth development costs deducted in the estimation of the Corporation's future net revenue attributable to the reserve categories noted below:

Year	Forecast Capital Costs (M\$)	
	Proved Reserves	Proved Plus Probable Reserves
2018	25,791	33,930
2019	31,095	46,834
2020	26,848	52,152
2021	2,441	7,171
2022	-	6,679
Thereafter	-	-
Total Undiscounted	86,175	146,766

On an ongoing basis, Gear will use internally generated cash flow from operations, debt and new equity issues if available on favourable terms to finance its capital expenditure program. The cost of funding is not expected to have any effect on disclosed reserves or future net revenue nor make the development of a property uneconomic for the Corporation.

## **Other Oil and Gas Information**

### *Principal Properties*

The Corporation is engaged in the exploration for and development and production of crude oil and natural gas in Western Canada. All of the Corporation's current operations are in the Provinces of Alberta and Saskatchewan, with some minor operations in the Province of British Columbia.

The following is a description of the Corporation's oil and natural gas properties as at the date hereof, unless otherwise stated. The reserve amounts stated are gross reserves, as at December 31, 2017 based on forecast costs and prices as evaluated in the GLJ Report (see "*Reserves Data*"). The estimates of reserves for individual properties may not reflect the same confidence level as estimates of reserves for all properties, due to the effects of aggregation. The production values are all stated on a company interest basis, which includes Gear's royalty interests but does not deduct for royalties payable by Gear.

#### *Celtic/Paradise Hill, Saskatchewan*

The Celtic/Paradise Hill property was acquired as primarily undeveloped non-producing land starting in March 2014 and is located within Township 52, and Ranges 23 and 24 W3 and is approximately 40 kilometres northeast of Lloydminster Alberta. It is currently comprised of approximately 5,800 gross (5,600 net) acres of land. There are no material expiries expected as the majority of lands have been continued pursuant to the applicable tenure regulations.

Celtic/Paradise Hill is characterized by unconsolidated Upper Mannville group clastic reservoirs with depths ranging from 500 meters to 650 meters. While the McLaren formation has been the most exploited interval, Sparky and Waseca also hold significant potential as future development targets on Gear acreage.

Consistent with Gear's other heavy oil sites, each one to four well pad is equipped to operate independently and as such, the risk of a single event culminating into a material production loss is mitigated. Solution gas is gathered through a pipeline system and is used to heat production tanks. All oil production is tank treated to produce sales quality oil before being trucked to sales points. In 2014 Gear successfully drilled the first two gross (2 net) half section lined horizontal McLaren oil wells into the area. In 2015, a further three gross (3 net) horizontal wells were successfully drilled. In 2016, Gear drilled an additional eight gross (8 net) successful horizontal McLaren oil wells. In 2017, Gear drilled fifteen gross (15 net) successful horizontal McLaren oil wells. The current plan for 2018 is for a budget of seven gross (7 net) McLaren horizontal oil wells to be drilled in the area. See "*Description of the Business – Business Plan and Corporate Strategy*".

The GLJ Report assigns total proved plus probable reserves of 5,893 Mbbbls of heavy crude oil at December 31, 2017 within the Celtic area. The average production from the area for the fourth quarter of 2017 was 1,991 BOE/d.

#### *Wildmere Area, Alberta*

The Wildmere field is located within Townships 47, 48 and 49, and Ranges 3, 4, 5 and 6W4, is approximately 200 kilometres southeast of Edmonton, Alberta and is Gear's second largest producing property. The property consists of approximately 33,000 gross (31,000 net) acres of lands with no material expiries as the majority of the lands have been continued pursuant to the applicable tenure regulations.

The Wildmere area is a heavy oil area characterized by unconsolidated Upper Mannville group clastic reservoirs with depths ranging from 600 meters to 700 meters. While the Lloydminster and Cummings formations have been the most exploited intervals, the General Petroleum, Colony and Sparky formations have also proven to be successful development targets for heavy oil on Gear acreage.

Each of Gear's Wildmere heavy oil sites is the surface location for one to four wells. Every pad is equipped to operate independently and, as such, the risk of a single event resulting in a material production loss is mitigated. Solution gas is

pipeline connected through most of the field allowing wells to share gas for tank heating, to sell gas, or to deliver purchased gas if desired in order to offset propane otherwise used for tank heating. All Wildmere oil production is tank treated to produce sales quality oil before being trucked to sales points.

In 2016, Gear drilled three gross (3 net) quad-lateral un-lined horizontal wells in the Cummings at Wildmere. The original 2016 budget included plans to drill eleven multi-lateral horizontal Wildmere wells into the Cummings formation; however, that plan was put on hold due to poor oil prices. In 2017, Gear drilled five gross (5 net) multi-lateral un-lined horizontal wells in the Cummings at Wildmere. During 2017, six gross (6 net) dual-lateral un-lined horizontal wells targeting the GP formation were also drilled in Wildmere. The current plan for 2018 has budgeted to drill six gross (6 net) multi-lateral un-lined horizontal heavy oil wells in the Wildmere area. As was the case with the drilling activity in the year ended December 31, 2017, the Corporation continues to expect that future drilling activity will focus more significantly on Cummings and GP multi-lateral un-lined horizontals initially in low risk areas already proven by existing producing wells. See "*Description of the Business – Business Plan and Corporate Strategy*".

The GLJ Report assigns total proved plus probable reserves of 3,724 Mbbbls of heavy crude oil and NGLs and 0.16 Bcf of natural gas as at December 31, 2017 within the Wildmere area. The average production from the area for the fourth quarter of 2017 was 1,727 BOE/d.

#### *Wilson Creek*

The Wilson Creek property was acquired in July 2016 pursuant to the Striker Arrangement and is located primarily within Townships 42 and 43, and Ranges 4 and 5 W5 in Central Alberta. The primary target zone is the regional Basal Belly River consolidated sandstone formation, which is a light oil pool that requires hydraulic fracturing. It is comprised of approximately 35,000 gross (26,000 net) acres of land. There are no material expiries expected as the majority of lands have been continued pursuant to the applicable tenure regulations.

Wilson Creek development is primarily characterized by the Basal Belly River reservoir with depth of approximately 1,300 meters. The light oil in the area is processed partially at single well batteries and partially with individual wells flow-lined to central facilities. In both cases, the resulting clean oil is trucked to the various sales points. The associated gas from Wilson Creek is gathered through third party infrastructure and sold to various parties.

In 2016 following completion of the Striker Arrangement, Gear drilled 2 gross wells (2 net) full section horizontal light oil wells into the Basal Belly River, one of which was completed in late 2016 and the other which was completed in early 2017. In 2017, Gear drilled three gross wells (2.81 net) full section horizontal light oil wells into the Basal Belly River. Gear plans on drilling five gross (4.9 net) full section or extended reach light oil horizontal light oil wells through 2018. See "*Description of the Business – Business Plan and Corporate Strategy*".

The GLJ Report assigns total proved plus probable reserves of 3,432 Mbbbls of light crude oil and NGLs and 4.9 Bcf of natural gas as at December 31, 2017 within Wilson Creek. The total average production from this area for the fourth quarter of 2017 was 943 BOE/d.

#### *Other Areas*

The Corporation held interests in a number of wells and lands in other portions of Alberta, British Columbia and Saskatchewan at December 31, 2017. In 2017, Gear drilled three heavy oil wells in Hoosier, Saskatchewan, and two medium oil wells in Killam, Alberta. For 2018, in addition to the six wells budgeted to be drilled in Wildmere, the seven wells to be drilled in the Celtic/Paradise Hill area and the five gross (4.9 net) light oil wells in Wilson Creek, the current budget includes drilling one heavy oil well in Hoosier, Saskatchewan, two heavy oil wells in undisclosed areas, and four medium oil wells in the Killam area of Alberta. See "*Description of the Business – Business Plan and Corporate Strategy*".

The GLJ Report assigns total proved plus probable reserves of 8,995 Mbbbls of light, medium and heavy crude oil and NGLs and 15.7 Bcf of natural gas as at December 31, 2017 within these other areas. The total average production from these areas for the fourth quarter of 2017 was 2,429 BOE/d.

**Oil and Gas Wells**

The following table sets forth the number and status of oil and gas wells in which the Corporation had a working interest as at December 31, 2017.

	Oil Wells				Natural Gas Wells			
	Producing		Non-Producing		Producing		Non-Producing	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Alberta	379	327	772	722	441	73	26	193
British Columbia	-	-	-	-	1	1	7	7
Saskatchewan	69	67	154	123	-	-	77	72
Total	448	394	926	846	442	74	320	272

Note:

- (1) This table does not include water source wells, injection wells, abandoned wells or wells which have never produced. Producing wells are based on public data status.

**Land Holdings Including Properties with no Attributable Reserves**

The following table sets out the Corporation's developed and undeveloped land holdings as at December 31, 2017.

	Developed Acres		Undeveloped Acres		Total Acres	
	Gross	Net	Gross	Net	Gross	Net
Alberta	150,015	116,665	116,638	104,610	266,653	221,275
British Columbia	5,475	4,875	6,960	6,360	12,435	11,235
Saskatchewan	36,918	32,855	43,105	41,605	80,023	74,460
Total	192,408	154,395	166,703	152,575	359,110	306,970

Gear calculates both its gross and net acres on a per lease basis. Undeveloped lands are calculated by adding the surface area acreage covered by the leases or agreements or portions of the leases or agreements without producing or potentially producing wells. In certain limited circumstances where the Corporation has rights in different formations under the same surface area pursuant to different leases or agreements, we have included the acreage with respect to all such leases or agreements. There are no significant factors or uncertainties associated with the undeveloped land.

Gear has approximately 32,500 net acres of its undeveloped land holdings that may expire by December 31, 2018, a portion of which may be continued pursuant to applicable tenure regulations. Gear plans to drill or submit application to continue selected portions of the above acreage.

**Forward Contracts and Marketing**

Most of Gear's crude oil and all natural gas production is sold to major marketers on prearranged terms with indexing to published spot pricing. In a typical month, Gear splits the sale of its crude oil between five separate purchasers, one purchaser at a railway terminal and four at pipeline connected terminals. Gear does not set targets on the amount of crude oil to be sold into railway terminals; rather, it directs its oil sales to the highest received price net of transportation. Gear's established method of mitigating counter party risk is to deal with counterparties with strong credit ratings and to accept pre-payment on oil deliveries from smaller purchasers or those with less established credit ratings.



The contract term is generally a 30-day evergreen in the case of pipeline connected crude oil buyers and up to one year for natural gas and natural gas liquids. For crude oil purchaser contracts at rail terminals, Gear generally enters into volume based purchase contracts with 1 to 12 month terms. None of Gear's purchase agreements currently contain material non-performance penalties.

Gear may periodically hedge the price of a portion of its crude oil and natural gas production. The Corporation has no firm gas transportation contracts. The terms of the New Credit Facilities required Gear to establish hedges through December 31, 2018 by September 30, 2017.

As of the date hereof, the Corporation has the following crude oil and natural gas financial derivatives in place:

<b>Financial WTI Crude Oil Contracts</b>								
Term	Contract	Currency	Volume	Sold Swap	Sold Call	Bought Put	Sold Put	
			bb/d	\$/bbl	\$/bbl	\$/bbl	\$/bbl	\$/bbl
Jan 1, 2018	Apr 30, 2018	Collar	500	-	51.00	46.00	-	-
Jan 1, 2018	Apr 30, 2018	Collar	1,000	-	52.25	46.00	-	-
Jan 1, 2018	Dec 31, 2018	Collar	300	-	52.50	47.50	-	-
Jan 1, 2018	Dec 31, 2018	Collar	600	-	57.00	50.00	-	-
May 1, 2018	Aug 31, 2018	Collar	500	-	52.25	46.00	-	-
May 1, 2018	Aug 31, 2018	Collar	1,000	-	56.00	46.00	-	-
Sep 1, 2018	Dec 31, 2018	Collar	1,500	-	56.00	46.00	-	-
Apr 1, 2018	Dec 31, 2018	Collar	400	-	82.00	62.50	-	-
Jan 1, 2019	Dec 31, 2019	Three-way Collar	400	-	US\$66.00	C\$62.00	C\$52.00	-

<b>Financial AECO Gas Contracts</b>								
Term	Contract	Currency	Volume	Sold Swap	Sold Call	Bought Put	Sold Put	
			GJ/d	\$/GJ	\$/GJ	\$/GJ	\$/GJ	\$/GJ
Jan 1, 2018	Dec 31, 2018	Swap	1,700	2.65	-	-	-	-
Jan 1, 2018	Dec 31, 2018	Collar	1,700	-	2.60	2.40	-	-

### ***Tax Horizon***

Based on current forward commodity prices, the Corporation does not expect to pay current income tax for the 2018 fiscal year. Gear does not expect to pay income tax in the next 5 years. There are multiple factors which impact the tax horizon of the Corporation, the most notable being production, commodity prices and capital spending levels. Gear currently recognizes a deferred tax asset as current tax pools exceed the book value of property, plant and equipment.

### ***Capital Expenditures***

The following table summarizes capital expenditures related to the Corporation's activities for the year ended December 31, 2017:

	(M\$)
Corporate Acquisition Cost	135
Property Acquisition Costs	
Proved properties	2,147
Undeveloped properties	-
Exploration costs	2,281
Development costs	45,484
Dispositions	(573)
Total	<u>49,474</u>

### ***Exploration and Development Activities***

The following table sets forth the gross and net exploratory and development wells in which the Corporation participated during the year ended December 31, 2017:

	Exploratory Wells		Development Wells	
	Gross	Net	Gross	Net
Light and Medium Crude Oil	-	-	5	5
Heavy Oil	-	-	28	28
Conventional Natural Gas	-	-	-	-
Dry	-	-	1	1
Service/Other	-	-	-	-
Stratigraphic Test	-	-	-	-
Total	-	-	34	34

See "Statement of Reserves Data and Other Oil and Gas Information – Principal Properties" for a description of the Corporation's exploration and development plans.

Gear expects to continue focusing on low risk production growth in 2018, primarily targeting high return development drilling, including drilling at Wildmere, Celtic/Paradise Hill, Wilson Creek and select other play areas. Gear also expects to conduct low risk exploration and development activity across a select portion of its asset base, and will continue to monitor prices throughout the year with a vision to potential budget expansion if oil prices strengthen. However, the focus will remain on the delivery of strong project returns and the maintenance of a solid balance sheet. See "Statement of Reserves Data and Other Oil and Gas Information – Principal Properties".

### ***Production Estimates***

The following tables disclose, by product type, and by area, the total volume of the Corporation's gross production estimated by GLJ for 2018 in the estimates of future net revenue from gross proved and gross probable reserves disclosed under "Disclosure of Reserves Data".

<b>From Gross Proved Reserves:</b>	Light and Medium Crude Oil	Heavy Crude Oil	Conventional Natural Gas	Natural Gas Liquids	BOE	%
	(bbls/d)	(bbls/d)	(Mcf/d)	(bbls/d)	(BOE/d)	
Wildmere	0	1,355	67	0	1,366	18
Celtic	0	2,534	0	0	2,534	34
Wilson Creek	648	0	1,435	257	1,144	15
Other	647	1,155	3,396	55	2,423	33
Total	1,295	5,044	4,898	312	7,467	100

Note:

- (1) Columns may not add due to rounding.

<b>From Gross Probable Reserves:</b>	Light and Medium Crude Oil	Heavy Crude Oil	Conventional Natural Gas	Natural Gas Liquids	BOE	
	(bbls/d)	(bbls/d)	(Mcf/d)	(bbls/d)	(BOE/d)	%
Wildmere	0	344	8	0	345	31
Celtic	0	422	0	0	422	38
Wilson Creek	46	0	86	15	75	7
Other	55	130	442	3	262	24
<b>Total</b>	<b>101</b>	<b>896</b>	<b>536</b>	<b>18</b>	<b>1,104</b>	<b>100</b>

Note:

(1) Columns may not add due to rounding.

### ***Production History***

The following tables summarize certain information in respect of production (which includes royalty interest volumes), product prices received, royalties paid, operating expenses and resulting netback for the periods indicated below:

	2017			
	Dec. 31	Sept. 30	June 30	Mar. 31
<b>Average Daily Production<sup>(1)</sup></b>				
Light and Medium Crude Oil (bbls/d) <sup>(2)</sup>	1,161	1,290	1,412	1,085
Heavy Crude Oil (bbls/d) <sup>(2)</sup>	4,760	4,054	3,887	3,739
Conventional Natural Gas (Mcf/d) <sup>(3)</sup>	5,566	5,415	5,334	5,197
NGLs (bbls/d)	242	279	322	217
Combined (BOE/d)	7,090	6,525	6,510	5,907
<b>Average Price Received</b>				
Light and Medium Crude Oil (\$/bbl) <sup>(2)</sup>	64.71	53.12	59.64	60.91
Heavy Crude Oil (\$/bbl) <sup>(2)</sup>	49.18	44.00	44.72	43.13
Conventional Natural Gas (\$/Mcf) <sup>(3)</sup>	1.90	1.52	2.91	3.00
NGLs (\$/bbl)	27.79	27.28	28.11	23.08
Combined (\$/BOE)	46.07	40.41	43.77	41.98
<b>Royalties Paid</b>				
Light and Medium Crude Oil (\$/bbl) <sup>(2)</sup>	8.88	8.27	10.54	10.26
Heavy Crude Oil (\$/bbl) <sup>(2)</sup>	3.71	4.43	3.85	3.19
Conventional Natural Gas (\$/Mcf) <sup>(3)</sup>	0.00	0.05	0.14	(0.17)
NGLs (\$/bbl)	6.32	1.54	5.26	5.75
Combined (\$/BOE)	4.15	4.50	4.96	3.97

	2017			
	Dec. 31	Sept. 30	June 30	Mar. 31
Operating Expenses (\$/BOE)				
Light and Medium Crude Oil (\$/bbl) <sup>(2)</sup>	15.58	15.36	16.74	16.85
Heavy Crude Oil (\$/bbl) <sup>(2)</sup>	16.21	17.26	18.45	15.99
Conventional Natural Gas (\$/Mcf) <sup>(3)</sup>	2.63	2.60	2.81	2.78
NGLs (\$/bbl)	15.67	15.38	16.71	16.75
Combined (\$/BOE)	16.03	16.57	17.78	16.28
Netback Received (\$/BOE) <sup>(4)</sup>				
Light and Medium Crude Oil (\$/bbl) <sup>(2)</sup>	40.25	29.49	32.36	33.80
Heavy Crude Oil (\$/bbl) <sup>(2)</sup>	29.26	22.31	22.42	23.95
Conventional Natural Gas (\$/Mcf) <sup>(3)</sup>	(0.71)	(1.13)	(0.04)	0.39
NGLs (\$/bbl)	5.80	10.36	6.14	0.58
Combined (\$/BOE)	25.89	19.34	21.03	21.73

## Notes:

- (1) Before deduction of royalties.
- (2) Including solution gas and other by-products.
- (3) Including by-products, but excluding solution gas and by-products from oil wells. Includes immaterial volumes of production from coal bed methane reserves.
- (4) Netbacks are calculated by subtracting royalties, and operating and transportation costs from revenues.
- (5) Unit values are based on net reserve volumes.

The following table indicates the Corporation's average daily production from its important areas for the year ended December 31, 2017:

	Light and Medium Crude Oil <sup>(1)</sup> (bbls/d)	Heavy Crude Oil <sup>(1)</sup> (bbls/d)	Conventional Natural Gas <sup>(2)</sup> (Mcf/d)	NGLs (bbls/d)	BOE (BOE/d)
Wildmere	-	1,398	280	-	1,445
Celtic	-	1,393	-	-	1,393
Wilson Creek	615	-	1,202	196	1,013
Other	622	1,321	3,897	69	2,661
Total	1,237	4,112	5,379	265	6,511

## Notes:

- (1) Including solution gas and other by-products.
- (2) Including by-products, but excluding solution gas and by-products from oil wells.

The Corporation's production for the year ended December 31, 2017 was 63% heavy oil, 19% light and medium oil and 14% natural gas. For the year ended December 31, 2017, approximately 96% of the Corporation's gross revenue was derived from crude oil and NGLs production and 4% was derived from natural gas production.

## **DIVIDEND POLICY**

The Corporation has never declared or paid any cash dividends on the Common Shares. The Corporation currently intends to retain future earnings, if any, for future operations, expansion and debt repayment. Any decision to declare and pay dividends will be made at the discretion of the Board and will depend on, among other things, the Corporation's results of operations, current and anticipated cash requirements and surplus, financial condition, contractual restrictions and financing agreement covenants, solvency tests imposed by corporate law and other factors that the Board may deem relevant.

In addition to the foregoing, the Corporation's ability to pay dividends now or in the future may be limited by covenants contained in the agreements governing any indebtedness that the Corporation has incurred or may incur in the future including the terms of the New Credit Facilities. The New Credit Facilities prohibits the Corporation from declaring or paying any dividends to any of its shareholders if: (i) if declaring or paying the dividend would result in a default under the New Credit Facilities; or (ii) during the continuance of a borrowing base shortfall, which is the amount by which the aggregate of all outstanding obligations under the New Credit Facilities exceeds the then current borrowing base of the New Credit Facilities as a result of a reduction or redetermination of the borrowing base (until cured).

## **DESCRIPTION OF CAPITAL STRUCTURE**

The Corporation is authorized to issue an unlimited number of Common Shares, an unlimited number of Preferred Shares, issuable in series, and an unlimited number of Series 1 Preferred Shares, of which 194,968,097 Common Shares and no Series 1 Preferred Shares are currently issued and outstanding. Additionally, the Corporation has \$13.7 million aggregate principal amount of Convertible Debentures outstanding. The following is a summary description of the rights, privileges, restrictions and conditions attaching to the Common Shares, the Preferred Shares, the Series 1 Preferred Shares and the Convertible Debentures.

### **Common Shares**

The Corporation has an unlimited number of Common Shares authorized. The holders of Common Shares are entitled to: dividends if, as and when declared by the Board; to vote at any meetings of the holders of Common Shares of the Corporation; and upon liquidation, dissolution or winding up of the Corporation, receive the remaining property and assets of the Corporation. All of the Common Shares outstanding are fully paid and non-assessable.

### **Preferred Shares**

Gear is authorized to issue an unlimited number of Preferred Shares issuable in series, each series consisting of such number of shares and having such rights, privileges, restrictions and conditions as may be determined by the Board of Gear prior to the issuance thereof. With respect to the payment of dividends and the distribution of assets in the event of liquidation, dissolution or winding up of Gear, whether voluntary or involuntary, the Preferred Shares are entitled to preference over the Common Shares and any other shares ranking junior to the Preferred Shares from time to time and may also be given such other preferences over the Common Shares and any other shares ranking junior to the Preferred Shares as may be determined at the time of creation of such series.

### ***Series 1 Preferred Shares***

At the date hereof, Gear has created Series 1 Preferred Shares; however, no Series 1 Preferred Shares are outstanding. The holders of Series 1 Preferred Shares are not entitled to receive notice of, attend nor vote at any meetings of the shareholders of the Corporation. Subject to the provisions of any other series of Preferred Shares created after the date of the creation of the Series 1 Preferred Shares, the holders of Series 1 Preferred Shares are entitled to receive, if, as and when declared by the Board, any dividends declared by the Board. Any dividends declared and paid on the Common Shares must also be declared and paid on the Series 1 Preferred Shares, which shall be in priority to the holders of the Common Shares. In the event of liquidation, dissolution or winding-up of the Corporation or any other distribution of assets of the Corporation among its shareholders for the purposes of winding up the affairs of the Corporation, the Series 1 Preferred Shares shall rank in priority to the Common Shares in a sum equivalent to the value of the Series 1 Preferred Shares; provided that the amount to be received by the Series 1 Preferred Shares will be equivalent to the amount to be received per Common Share upon such

liquidation, dissolution or winding up and subject to the provisions of any other series of Preferred Shares created after the date of the creation of the Series 1 Preferred Shares.

### ***Convertible Debentures***

On November 30, 2015, the Corporation issued \$14.8 million aggregate principal amount of Convertible Debentures at a price of \$1,000 per Convertible Debenture. The Convertible Debentures are governed by the Convertible Debenture Indenture, which is available for review on [www.sedar.com](http://www.sedar.com). The Convertible Debentures have a maturity date of November 30, 2020 and carry a coupon of 4.00% per annum payable semi-annually in arrears on November 30<sup>th</sup> and May 31<sup>st</sup> until maturity. Each \$1,000 principal amount of Convertible Debentures is convertible at the option of the holder at any time prior to the maturity date of the Convertible Debentures, into 1,149.43 Common Shares, representing a conversion price of \$0.87 per Common Share. Holders converting their Convertible Debentures are entitled to receive accrued and unpaid interest thereon for the period from the date of the latest interest payment date to, but excluding, the date of conversion. The conversion right of a portion of Convertible Debentures required certain approvals of the shareholders of Gear in accordance with the policies of the TSX, which were received at Gear's annual and special meeting of its shareholders held on May 11, 2016. An aggregate of approximately \$1.1 million of Convertible Debentures have been converted resulting in the issuance of approximately 1.3 million Common Shares, leaving \$13.7 million in Convertible Debentures outstanding.

The Convertible Debentures will not be redeemable before December 31, 2018. On and after December 31, 2018 and prior to December 31, 2019, the Convertible Debentures will be redeemable at the Corporation's option, in whole or in part, at par plus accrued unpaid interest if the weighted average trading price of the Common Shares for the specified period is not less than 125% of the conversion price of the Convertible Debentures. After December 31, 2019, the Convertible Debentures will be redeemable at the Corporation's option, in whole or in part, at any time at par plus accrued and unpaid interest.

In certain circumstances, the Corporation has the option to satisfy its obligation to repay the principal amount of the Convertible Debentures due at maturity or redemption of the Convertible Debentures by the issuance of Common Shares and the number of such Common Shares will be based on 95% of the weighted average trading price of the Common Shares prior to the date fixed for maturity or redemption.

The Convertible Debentures are direct, subordinated unsecured obligations of the Corporation and rank equally with one another and with all other existing and future subordinated unsecured indebtedness of the Corporation. The conversion price of the Convertible Debentures is subject to standard anti-dilution adjustments as set forth in the Convertible Debenture Indenture.

## **MARKET FOR SECURITIES**

### **Trading Price and Volume**

The Common Shares are listed and posted for trading on the TSX under the symbol "GXE". The following table sets forth the high and low sales prices (which are not necessarily the closing prices) and the trading volumes for the Common Shares on the TSX as reported by the TSX for the periods indicated since the beginning of the year ended December 31, 2017:

<b>Period</b>	<b>Price Range (\$)</b>		<b>Trading Volume</b>
	<b>High</b>	<b>Low</b>	
<b><u>2017</u></b>			
January	1.25	0.91	9,163,411
February	1.14	0.88	7,549,248
March	0.95	0.76	6,942,050
April	0.94	0.81	4,844,522
May	0.86	0.75	3,004,135
June	0.80	0.60	2,677,915
July	0.80	0.67	2,190,808
August	0.78	0.65	2,700,960
September	0.86	0.67	8,153,027
October	0.83	0.70	7,066,545
November	0.92	0.76	7,341,418

<b>Period</b>	<b>Price Range (\$)</b>		<b>Trading Volume</b>
	<b>High</b>	<b>Low</b>	
December	0.87	0.76	5,749,906
<b>2018</b>			
January	1.00	0.83	11,916,240
February	0.87	0.70	4,412,794
March (1 – 23)	0.76	0.68	2,907,734

### Prior Sales

The following table sets forth the securities of the Corporation issued during the year ended December 31, 2017 that are not listed on the TSX (or any other stock exchange):

<b>Date</b>	<b>Number of Securities</b>	<b>Issue Price Per Security<sup>(1)</sup> (\$)</b>	<b>Type of Security</b>
May 19, 2017	603,000	0.82	Options
August 23, 2017	3,012,000	0.69	Options

Note:

(1) Represents the exercise price of Options.

### ESCROWED SECURITIES AND SECURITIES SUBJECT TO CONTRACTUAL RESTRICTION ON TRANSFER

To the knowledge of management of the Corporation, none of the securities of the Corporation are held in escrow or are subject to a contractual restriction on transfer as at the date hereof.

### DIRECTORS AND EXECUTIVE OFFICERS

#### Name, Occupation and Security Holding

The following table sets forth certain information in respect to Gear's directors and executive officers:

<b>Name, Province and Country of Residence</b>	<b>Position(s) with Gear</b>	<b>Principal Occupation During the Five Years Preceding</b>
Don T. Gray <sup>(1)(2)(3)</sup> Arizona, United States of America	Chairman since January 2010 and a Director since February 2009	Private investor; a director of the Corporation since February 2009 and Chairman of the Corporation since January 2010; a founding partner and President of EIQ Capital Corp., a private capital management company from May 2007 to September 2013; Chairman of the Board of Petrus Resources Ltd., a public oil and gas company, since 2010; prior thereto, Mr. Gray was the Chief Executive Officer of Peyto Exploration & Development Corp. (formerly Peyto Energy Trust) (" <b>Peyto</b> ") from August 2006 to January 2007; prior thereto, Mr. Gray was the President and Chief Executive Officer of Peyto from October 1998 to August 2006.
Raymond Cej <sup>(2)(3)</sup> Alberta, Canada	Director since January 2013	An independent businessman; President of Teine Energy Ltd., a private oil and gas company from July 2010 to April 2014; President of Marble Point Energy Ltd. from January 2010 to July 2010; prior thereto, a senior executive for Shell Canada for 26 years.

<u>Name, Province and Country of Residence</u>	<u>Position(s) with Gear</u>	<u>Principal Occupation During the Five Years Preceding</u>
Harry English <sup>(1)</sup> Alberta, Canada	Director since June 2014	Corporate director and independent businessman since June 2014. Prior thereto, partner at Deloitte LLP, Calgary since 2002.
John O'Connell <sup>(3)</sup> Alberta, Canada	Director since July 2016	Since November 2010, Chairman and Chief Executive Officer of Davis-Rea Ltd., an investment management company.
Kevin Olson <sup>(1)(2)(3)</sup> Alberta, Canada	Director since July 2016	Since June 2011, President of Kyklopes Capital Management Ltd. Prior thereto, Mr. Olson was a Portfolio Manager with EnergyX Equity Inc. from 2001 to 2011.
Ingram Gillmore Alberta, Canada	President, Chief Executive Officer since May 2010 and a Director since June 2010	President and Chief Executive Officer of the Corporation since May 2010; prior thereto Vice President, Engineering at ARC Resources Ltd. ("ARC") since January 2007; prior thereto, Manager Engineering at ARC since 2005.
Yvan Chretien Alberta, Canada	Vice President, Land since September 2010	Vice President, Land of Gear since September 2010; prior thereto, Vice-President, Land at ARC from 2006 to March 2010.
Bryan Dozzi Alberta, Canada	Vice President, Engineering since June 2015	Vice President, Engineering since June 2015; prior thereto, Engineering Manager of the Corporation from April 2014 to June 2015 and Vice President, Business Development at Rock Energy Inc. from December 2010 to December 2012.
David Hwang Alberta, Canada	Vice President, Finance and Chief Financial Officer since June 2011	Vice President, Finance of Gear since June 2011; prior thereto, controller at ARC since 2010 and, prior thereto, manager at ARC since 2006.
Jason Kaluski Alberta, Canada	Vice President, Operations since March 2011	Vice President, Operations of Gear since March 2011; prior thereto, manager of operations for Questerre Energy Corporation from 2008 to 2011.
Dustin Ressler Alberta, Canada	Vice President, Exploration since November 2016	Vice President, Exploration since November 2016; prior thereto, Geology Manager with the Corporation from April 2014 to October 2016 and geologist at Gear from October 2010 to April 2014.
Edward (Ted) Brown Alberta, Canada	Corporate Secretary since August 2015	Partner at the Calgary based law firm of Burnet, Duckworth & Palmer LLP and has practiced corporate and securities law since 2005.

## Notes:

- (1) Member of the Audit Committee.
- (2) Member of the Reserves Committee.
- (3) Member of the Compensation and Governance Committee.
- (4) Gear does not have an Executive Committee.
- (5) Gear's directors will hold office until the next annual general meeting of the Corporation's shareholders or until each director's successor is appointed or elected pursuant to the ABCA.

As at the date of this Annual Information Form, the number of Common Shares beneficially owned, or controlled or directed, directly or indirectly, by all of the directors and officers of Gear is 30,348,005 Common Shares constituting approximately 15.6% of the issued and outstanding Common Shares.



## **Cease Trade Orders, Bankruptcies, Penalties or Sanctions**

### ***Cease Trade Orders***

Other than as disclosed below, to the knowledge of Gear, no director or executive officer of Gear (nor any personal holding company of any of such persons) is, as of the date of this Annual Information Form, or was within ten years before the date of this Annual Information Form, a director, chief executive officer or chief financial officer of any company (including Gear), that: (a) was subject to a cease trade order (including a management cease trade order), an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, in each case that was in effect for a period of more than 30 consecutive days (collectively, an "**Order**"), that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or (b) was subject to an Order that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

### ***Bankruptcies***

To the knowledge of Gear, except as described above, no director or executive officer of Gear (nor any personal holding company of any of such persons) or shareholder holding a sufficient number of securities of Gear to affect materially the control of Gear: (a) is, as of the date of this Annual Information Form, or has been within the ten years before the date of this Annual Information Form, a director or executive officer of any company (including Gear) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or (b) has, within the ten years before the date of this Annual Information Form, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

Mr. Cej was, prior to January 26, 2010, a trustee of Impax Energy Services Income Trust (the "**Trust**"). On December 14, 2009, the Trust filed for creditor protection in order to facilitate an orderly sale and wind-up of operations. On January 26, 2010, all of the trustees and directors of the Trust resigned following the sale of substantially all of the assets of the Trust. Upon the resignations of the trustees and directors, trading in the units of the Trust was suspended for failure to maintain a minimum number of directors as required under the rules of the TSX Venture Exchange.

### ***Penalties or Sanctions***

To the knowledge of Gear, no director or executive officer of Gear (nor any personal holding company of any of such persons), or shareholder holding a sufficient number of securities of Gear to affect materially the control of Gear, has been subject to: (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

### ***Conflicts of Interest***

There are potential conflicts of interest to which the directors and officers of the Corporation will be subject in connection with the operations of the Corporation. In particular, certain of the directors and officers of the Corporation are involved in managerial and/or director positions with other oil and gas companies whose operations may, from time to time, be in direct competition with those of the Corporation or with entities which may, from time to time, provide financing to, or make equity investments in, competitors of the Corporation. Conflicts, if any, will be subject to the procedures and remedies available under the ABCA. The ABCA provides that in the event that a director has an interest in a contract or proposed contract or agreement, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided by the ABCA.

## LEGAL PROCEEDINGS AND REGULATORY ACTIONS

### Legal Proceedings

None of the Corporation or any of its subsidiaries is a party to any legal proceeding nor was it a party to any legal proceeding during the financial year ended December 31, 2017, nor is the Corporation aware of any contemplated legal proceeding involving the Corporation or its subsidiaries or any of its property which involves a claim for damages exclusive of interest and costs that may exceed 10% of the current assets of the Corporation.

### Regulatory Actions

During the year ended December 31, 2017, there were no (i) penalties or sanctions imposed against the Corporation by a court relating to securities legislation or by a securities regulatory authority; (ii) any other penalties or sanctions imposed by a court or regulatory body against the Corporation that would likely be considered important to a reasonable investor in making an investment decision, or (iii) settlement agreements the Corporation entered into before a court relating to securities legislation or with a securities regulatory authority.

## INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as set forth herein, there are no material interests, direct or indirect, of any director or executive officer of the Corporation, any person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10% of any class or series of the Corporation's outstanding voting securities, or any associate or affiliate of any of the foregoing persons or companies, in any transaction within the three most recently completed financial years or during the current financial year which has materially affected or is reasonably expected to materially affect the Corporation, other than as disclosed elsewhere in this Annual Information Form.

Certain directors and officers of the Corporation subscribed for approximately 10% of the Common Shares sold pursuant to the 2015 Prospectus Offering. Additionally, the Corporation's significant shareholder subscribed for all of the Common Shares pursuant to the 2015 Share Private Placement and \$11.593 million aggregate principal amount of Convertible Debentures, representing approximately 78.3% of the Convertible Debentures sold pursuant to the 2015 Debenture Private Placement. See "*General Development of the Business – Three Year History – Year Ended December 31, 2015*" for further descriptions of the Prospectus Offering, 2015 Share Private Placement and 2015 Debenture Private Placement.

Certain directors and officers of the Corporation (including certain former directors of Striker who became directors of Gear upon completion of the Striker Arrangement) subscribed for approximately 15.6% of the Common Shares sold pursuant to the 2016 Prospectus Offering.

Pursuant to the Striker Arrangement, Warrants to purchase 650,000 Striker common shares held or controlled by certain directors of Striker who were appointed to the Board survived the Striker Arrangement. The Warrants entitle the holders to purchase an aggregate of 1,511,250 Common Shares at an exercise price of \$1.03 per Common Share. In May 2017, in conjunction with the retirement of Mr. Neil Roszell from the Board, 400,000 Warrants were cancelled, leaving 250,000 currently outstanding which entitle the holders to purchase 581,250 Common Shares at an exercise price of \$1.03 per Common Share.

## TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Common Shares is Computershare Trust Company of Canada at its principal offices in Calgary, Alberta and Toronto, Ontario.

## MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business (unless otherwise required by applicable securities requirements to be disclosed), the Corporation has not entered into any material contracts during the last financial year, or before the last financial year which are still in effect, other than the Convertible Debenture Indenture (see "*General*

*Development of the Business – Three Year History – Year Ended December 31, 2015" and "Description of Capital Structure – Convertible Debentures")*, which is available on [www.sedar.com](http://www.sedar.com).

## INTERESTS OF EXPERTS

### Names of Experts

The only persons or companies who are named as having prepared or certified a report, valuation, statement or opinion described or included in a filing, or referred to in a filing, made under National Instrument 51-102 by the Corporation during, or relating to, the Corporation's most recently completed financial year, and whose profession or business gives authority to the report, valuation statement or opinion made by the person or company, are Deloitte LLP, the Corporation's independent auditors and GLJ, the Corporation's independent engineering evaluators.

### Interests of Experts

To the Corporation's knowledge, there were no registered or beneficial interests, direct or indirect, in any securities or other property of the Corporation or of one of its associates or affiliates: (i) held by GLJ or by the "designated professionals" (as defined in Form 51-102F2 to National Instrument 51-102) of GLJ, when GLJ prepared the report, valuation, statement or opinion referred to herein as having been prepared by GLJ; (ii) received by GLJ or by the "designated professionals" of GLJ, after the time specified above; or (iii) to be received by GLJ or by the "designated professionals" of GLJ; except in each case for the ownership of Common Shares, which in respect of GLJ and GLJ's "designated professionals", as a group, has at all relevant times represented less than one percent of the outstanding Common Shares. In addition, neither GLJ, nor any director, officer or employee of GLJ, is or is expected to be elected, appointed or employed as a director, officer or employee of the Corporation or of any associate or affiliate of the Corporation.

Deloitte LLP is independent within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Alberta.

## AUDIT COMMITTEE INFORMATION

### Audit Committee Mandate and Terms of Reference

The Mandate and Terms of Reference of the Audit Committee of the Board of Directors is attached hereto as Schedule "C".

### Composition of the Audit Committee

The audit committee (the "**Audit Committee**") is comprised of Messrs. Harry English (Chair), Don T. Gray and Kevin Olson. The following chart sets out the assessment of each of the proposed Audit Committee member's independence, financial literacy and relevant educational background and experience supporting such financial literacy.

<u>Name, Province and Country of Residence</u>	<u>Independent</u>	<u>Financially Literate</u>	<u>Relevant Education and Experience</u>
Don T. Gray Alberta, Canada	Yes	Yes	Mr. Gray holds a BSc. in petroleum engineering from Texas A&M University and has over 25 years' experience in the Canadian oil and gas business in various capacities. Mr. Gray is a Co-Founder and former President and Chief Executive Officer of Peyto and is also Chairman and co-founder of Petrus Resources Ltd. and former Chairman of EIQ Capital Corp., a private investment company.

<u>Name, Province and Country of Residence</u>	<u>Independent</u>	<u>Financially Literate</u>	<u>Relevant Education and Experience</u>
Harry English Alberta, Canada	Yes	Yes	Mr. English graduated with a Bachelor of Science (Honours) from the University of St. Andrews, Scotland in 1976 and is a Chartered Professional Accountant. He spent his 37-year career until May 2014 in professional practice, primarily in the energy business, most recently as a senior audit partner with Deloitte LLP.
Kevin Olson Alberta, Canada	Yes	Yes	Mr. Olson holds a Bachelor of Commerce from the University of Calgary and has in excess of 20 years' experience in the Canadian oil and gas business in various capacities. He is the President of Kyklopes Capital Management, being the manager of a private equity fund, and has held a similar position since October 2001. From 2000 to 2001, Mr. Olson served as Vice-President, Corporate Development of Northrock Resources Ltd. Prior thereto, Mr. Olson was Vice President, Corporate Finance at FirstEnergy Capital Corp.

Each of the members of the Audit Committee is considered "financially literate" and is considered "independent" within the meaning of National Instrument 52-110 – *Audit Committees*.

The Corporation believes that each of the members of the Audit Committee possesses: (a) an understanding of the accounting principles used by the Corporation to prepare its financial statements; (b) the ability to assess the general application of such accounting principles in connection with the accounting for estimates, accruals and reserves; (c) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Corporation's financial statements, or experience actively supervising one or more individuals engaged in such activities; and (d) an understanding of internal controls and procedures for financial reporting.

### Pre-Approval of Policies and Procedures

The Corporation has adopted policies and procedures with respect to the pre-approval of audit and permitted non-audit services to be provided by Deloitte LLP. The Audit Committee will approve the provision of a specified list of audit and permitted non-audit services that the Audit Committee believes to be typical, reoccurring or otherwise likely to be provided by Deloitte LLP during the current fiscal year and the Audit Committee will be informed of each non-audit service, as applicable. The list of services will be sufficiently detailed as to the particular services to be provided to ensure that the Audit Committee knows precisely what services it is being asked to pre-approve and it will not be necessary for any member of management to make a judgment as to whether a proposed service fits within pre-approved services.

### External Auditors Service Fees

The following table summarizes the fees billed to the Corporation by its auditors, Deloitte LLP, for external audit and other services during the periods indicated:

<u>Year</u>	<u>Audit Fees<sup>(1)</sup></u>	<u>Audit -Related Fees<sup>(2)</sup></u>	<u>Tax Fees<sup>(3)</sup></u>	<u>All Other Fees<sup>(4)</sup></u>
	(\$)	(\$)	(\$)	(\$)
2017	169,155	-	-	86,381
2016	173,981	76,980	23,849	170,571

Notes:

- (1) Represents the aggregate fees billed by the Corporation's external auditor in each of the last two fiscal years for audit services.
- (2) Represents the aggregate fees billed in each of the last two fiscal years by the Corporation's external auditor for assurance and related services that are reasonably related to the performance of the audit or review of the Corporation's financial statements (and not reported under the heading "Audit Fees").

- (3) Represents the aggregate fees billed in each of the last two fiscal years by the Corporation's external auditor for professional services for tax compliance (2017: \$nil; 2016: \$nil), tax advice (2017: \$nil; 2016: \$23,849) and tax planning (2017: \$nil; 2016: \$nil).
- (4) Represents the aggregate fees billed in each of the last two fiscal years by the Corporation's external auditor for products and services not included under the headings "Audit Fees", "Audit Related Fees" and "Tax Fees". In both 2016 and 2017 these amounts relate to consulting fees paid to Deloitte LLP for Gear's regulatory, safety and environmental program.

## **INDUSTRY CONDITIONS**

Companies carrying on business in the crude oil and natural gas sector in Canada are subject to extensive controls and regulations imposed through legislation of the federal government and the provincial governments where the companies have assets or operations. While these regulations do not affect the Corporation's operations in any manner that is materially different than they affect other similarly-sized industry participants with similar assets and operations, investors should consider such regulations carefully. Although governmental legislation is a matter of public record, the Corporation is unable to predict what additional legislation or amendments governments may enact in the future.

The Corporation holds interests in crude oil and natural gas properties, along with related assets, primarily in the Canadian provinces of Alberta, Saskatchewan and British Columbia. The Corporation's assets and operations are regulated by administrative agencies deriving authority from underlying legislation. Regulated aspects of the Corporation's upstream crude oil and natural gas business include all manner of activities associated with the exploration for and production of crude oil and natural gas, including, among other matters: (i) permits for the drilling of wells; (ii) technical drilling and well requirements; (iii) permitted locations and access of operation sites; (iv) operating standards regarding conservation of produced substances and avoidance of waste, such as restricting flaring and venting; (v) minimizing environmental impacts; (vi) storage, injection and disposal of substances associated with production operations; and (vii) the abandonment and reclamation of impacted sites. In order to conduct crude oil and natural gas operations and remain in good standing with the applicable provincial regulatory scheme, producers must comply with applicable legislation, regulations, orders, directives and other directions (all of which are subject to governmental oversight, review and revision, from time to time). Compliance in this regard can be costly and a breach of the same may result in fines or other sanctions. The discussion below outlines certain pertinent conditions and regulations that impact the crude oil and natural gas industry in Western Canada.

### **Pricing and Marketing in Canada**

#### ***Crude Oil***

Producers of crude oil are entitled to negotiate sales contracts directly with crude oil purchasers, which results in the market determining the price of crude oil. Worldwide supply and demand factors primarily determine crude oil prices; however, regional market and transportation issues also influence prices. The specific price depends, in part, on crude oil quality, prices of competing fuels, distance to market, availability of transportation, value of refined products, supply/demand balance and contractual terms of sale.

#### ***Natural Gas***

The price of natural gas sold in intra-provincial, interprovincial and international trade is determined by negotiation between buyers and sellers. The price received by a natural gas producer depends, in part, on the price of competing natural gas supplies and other fuels, natural gas quality, distance to market, availability of transportation, length of contract term, weather conditions, supply/demand balance and other contractual terms. Spot and future prices can also be influenced by supply and demand fundamentals on various trading platforms.

#### ***Natural Gas Liquids***

The price of condensate and other NGLs sold in intra-provincial, interprovincial and international trade is determined by negotiation between buyers and sellers. Such price depends, in part, on the quality of the NGLs, price of competing chemical stock, distance to market, access to downstream transportation, length of contract term, supply/demand balance and other contractual terms.

## Exports from Canada

Crude oil, natural gas and NGLs exports from Canada are subject to the *National Energy Board Act (Canada)* (the "**NEB Act**") and the *National Energy Board Act Part VI (Oil and Gas) Regulation* (the "**Part VI Regulation**"). The NEB Act and the Part VI Regulation authorize crude oil, natural gas and NGLs exports under either short-term orders or long-term licences. To obtain a crude oil export licence, a mandatory public hearing with the National Energy Board (the "**NEB**") is required, which is no longer the case for natural gas and NGLs. For natural gas and NGLs, the NEB uses a written process that includes a public comment period for impacted persons. Following the comment period, the NEB completes its assessment of the application and either approves or denies the application. For natural gas, the maximum duration of an export licence is 40 years and, for crude oil and other gas substances (e.g. NGLs), the maximum term is 25 years. All crude oil, natural gas and NGLs licences require the approval of the cabinet of the Canadian federal government.

Orders from the NEB provide a short-term alternative to export licences and may be issued more expediently, since they do not require a public hearing or approval from the cabinet of the Canadian federal government. Orders are issued pursuant to the Part VI Regulation for up to one or two years depending on the substance, with the exception of natural gas (other than NGLs) for which an order may be issued for up to twenty years for quantities not exceeding 30,000 m<sup>3</sup> per day.

As to price, exporters are free to negotiate prices and other terms with purchasers, provided that the export contracts continue to meet certain other criteria prescribed by the NEB and the federal government.

Pursuant to the draft legislation introduced by the Government of Canada on February 8, 2018, if enacted the NEB will be replaced by the Canadian Energy Regulator ("**CER**") who will take on the NEB's responsibilities with respect to exports of crude oil, natural gas and NGL exports from Canada; however, at the present time it is not proposed that the legislative regime relating to exports of crude oil, natural gas and NGL exports from Canada will substantively change under the new regime.

The Corporation does not directly enter into contracts to export its production outside of Canada.

As discussed in more detail below, one major constraint to the export of crude oil, natural gas and NGLs outside of Canada is the deficit of overall pipeline and other transportation capacity to transport production from Western Canada to the United States and other international markets. Although certain pipeline or other transportation projects are underway, many contemplated projects have been cancelled or are delayed due to regulatory hurdles, court challenges and economic and political factors. The transportation capacity deficit is not likely to be resolved quickly given the significant length of time required to complete major pipeline or other transportation projects once all regulatory and other hurdles have been cleared. In addition, production of crude oil, natural gas and NGLs in Canada is expected to continue to increase, which may further exacerbate the transportation capacity deficit.

## Transportation Constraints and Market Access

Producers negotiate with pipeline operators (or other transport providers) to transport their products, which may be done on a firm or interruptible basis. Due to growing production and a lack of new and expanded pipeline and rail infrastructure capacity, producers in Western Canada have experienced low pricing relative to other markets in the last several years. Transportation availability is highly variable across different areas and regions, which can determine the nature of transportation commitments available, the numbers of potential customers that can be reached in a cost-effective manner and the price received.

Developing a strong network of transportation infrastructure for crude oil, natural gas and NGLs, including by means of pipelines, rail, marine and trucks, in order to obtain better access to domestic and international markets has been a significant challenge to the Canadian crude oil and natural gas industry. Improved means of access to global markets, especially the Midwest United States and export shipping terminals on the west coast of Canada, would help to alleviate the pressures of pricing discussed. Several proposals have been announced to increase pipeline capacity out of Western Canada, to reach Eastern Canada, the United States and international markets via export shipping terminals on the west coast of Canada. While certain projects are proceeding, the regulatory approval process as well as economic and political factors for transportation and other export infrastructure has led to the delay of many pipeline projects or their cancellation altogether.

Under the Canadian constitution, interprovincial and international pipelines fall within the federal government's jurisdiction and require approval by both the NEB and the cabinet of the federal government. However, recent years have seen a perceived lack of policy and regulatory certainty at a federal level. Although the current federal government recently introduced draft legislation to amend the current federal approval processes, it is uncertain when the new legislation will be brought into force and whether any changes to the draft legislation will be made before the legislation is brought into force. It is also uncertain whether any new approval process adopted by the federal government will result in a more efficient approval process. The lack of regulatory certainty is likely to have an influence on investment decisions for major projects. Even when projects are approved on a federal level, such projects often face further delays due to interference by provincial and municipal governments as well as court challenges on various issues such as indigenous title, the government's duty to consult and accommodate indigenous peoples and the sufficiency of environmental review processes, which creates further uncertainty. Export pipelines from Canada to the United States face additional uncertainty as such pipelines require approvals of several levels of government in the United States.

Natural gas prices in Alberta and British Columbia have also been constrained in recent years due to increasing North American supply, limited access to markets and limited storage capacity. While companies that secure firm access to transport their natural gas production out of Western Canada may be able to access more markets and obtain better pricing, other companies may be forced to accept spot pricing in Western Canada for their natural gas, which in the last several years has generally been depressed (at times producers have received negative pricing for their natural gas production). Required repairs or upgrades to existing pipeline systems have also led to further reduced capacity and apportionment of firm access, which in Western Canada may be further exacerbated by natural gas storage limitations. Additionally, while a number of liquefied natural gas export plants have been proposed for the west coast of Canada, government decision-making, regulatory uncertainty, opposition from environmental and indigenous groups, and changing market conditions, have resulted in the cancellation or delay of many of these projects.

### **The North American Free Trade Agreement and Other Trade Agreements**

The North American Free Trade Agreement ("NAFTA") among the governments of Canada, the United States and Mexico came into force on January 1, 1994. Under the terms of NAFTA, Canada remains free to determine whether exports of energy resources to the United States or Mexico will be allowed, provided that any export restrictions do not: (i) reduce the proportion of energy resources exported relative to the total supply of goods of Canada as compared to the proportion prevailing in the most recent 36 month period; (ii) impose an export price higher than the domestic price (subject to an exception with respect to certain measures which only restrict the volume of exports); and (iii) disrupt normal channels of supply. Further, all three signatory countries are prohibited from imposing a minimum or maximum price requirement on exports (where any other form of quantitative restriction is prohibited) and imports (except as permitted in the enforcement of countervailing and anti-dumping orders and undertakings). NAFTA also requires energy regulators to ensure the orderly and equitable implementation of any regulatory changes and to ensure that the application of such changes will cause minimal disruption to contractual arrangements and avoid undue interference with pricing, marketing and distribution arrangements.

In 2017, the United States government announced its intention to renegotiate NAFTA. As a result, Canada, the United States and Mexico began renegotiating the terms of NAFTA in mid-2017. The United States has also suggested that it might give notice of the termination of NAFTA if it is not satisfied with the outcome of the renegotiations. If the United States does give notice of its intent to terminate or withdraw from NAFTA, the earliest such termination or withdrawal could occur would be six months after such notice is given. The renegotiations are still underway and the outcome of such negotiations remain unclear, but as the United States remains by far Canada's largest trade partner and the largest international market for the export of crude oil, natural gas and NGLs from Canada, any changes to, or termination of, NAFTA could have an impact on Western Canada's crude oil and natural gas industry at large, including the Corporation's business.

Canada has also pursued a number of other international free trade agreements with other countries around the world. As a result, a number of free trade or similar agreements are in force between Canada and certain other countries while in other circumstances Canada has been unsuccessful in its efforts. Canada and the European Union recently agreed to the Comprehensive Economic and Trade Agreement ("CETA"), which provides for duty-free, quota-free market access for Canadian oil and gas products to the European Union. Although CETA remains subject to ratification by certain national legislatures in the European Union, provisional application of CETA commenced on September 21, 2017. In addition, Canada and ten other countries recently concluded discussions and agreed on the draft text of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership ("CPTPP"), which is intended to allow for preferential market access among the countries that are parties to the CPTPP. The text of CPTPP has not been finalized or published and the agreement remains

subject to ratification by the governments of each of the countries involved. While it is uncertain what effect CETA, CPTPP or any other trade agreements will have on the oil and gas industry in Canada, the lack of available infrastructure for the offshore export of oil and gas may limit the ability of Canadian oil and gas producers to benefit from such trade agreements.

## **Land Tenure**

The respective provincial governments (i.e. the Crown), predominantly own the mineral rights to crude oil and natural gas located in Western Canada, with the exception of Manitoba (which only owns 20% of the mineral rights). Provincial governments grant rights to explore for and produce crude oil and natural gas pursuant to leases, licences and permits for varying terms, and on conditions set forth in provincial legislation, including requirements to perform specific work or make payments. The provincial governments in Western Canada's provinces conduct regular land sales where crude oil and natural gas companies bid for leases to explore for and produce crude oil and natural gas pursuant to mineral rights owned by the respective provincial governments. The leases generally have a fixed term; however, a lease may generally be continued after the initial term where certain minimum thresholds of production have been reached, all lease rental payments have been paid on time and other conditions are satisfied.

To develop crude oil and natural gas resources, it is necessary for the mineral estate owner to have access to the surface lands as well. Each province has developed its own process for obtaining surface access to conduct operations that operators must follow throughout the lifespan of a well, including notification requirements and providing compensation for affected persons for lost land use and surface damage.

Each of the provinces of Alberta, British Columbia, Saskatchewan and Manitoba have implemented legislation providing for the reversion to the Crown of mineral rights to deep, non-productive geological formations at the conclusion of the primary term of a lease or licence. Additionally, the provinces of Alberta and British Columbia have shallow rights reversion for shallow, non-productive geological formations for new leases and licences.

In addition to Crown ownership of the rights to crude oil and natural gas, private ownership of crude oil and natural gas (i.e. freehold mineral lands) also exists in the provinces of Alberta, British Columbia, Saskatchewan and Manitoba. In each of the provinces of Alberta, British Columbia, Saskatchewan and Manitoba approximately 19%, 6%, 20% and 80%, respectively, of the mineral rights are owned by private freehold owners. Rights to explore for and produce such crude oil and natural gas are granted by a lease or other contract on such terms and conditions as may be negotiated between the owner of such mineral rights and crude oil and natural gas explorers and producers.

An additional category of mineral rights ownership includes ownership by the Canadian federal government of some legacy mineral lands and within indigenous reservations designated under the *Indian Act* (Canada). Indian Oil and Gas Canada ("IOGC"), which is a federal government agency, manages subsurface and surface leases, in consultation with the applicable indigenous peoples, for exploration and production of crude oil and natural gas on indigenous reservations.

## **Royalties and Incentives**

### ***General***

Each province has legislation and regulations that govern royalties, production rates and other matters. The royalty regime in a given province is a significant factor in the profitability of oil sands projects and crude oil, natural gas and NGLs production. Royalties payable on production from lands where the Crown does not hold the mineral rights are determined by negotiation between the mineral freehold owner and the lessee, although production from such lands is subject to certain provincial taxes and royalties. Royalties from production on Crown lands are determined by governmental regulation and are generally calculated as a percentage of the value of gross production. The rate of royalties payable generally depends in part on prescribed reference prices, well productivity, geographical location, field discovery date, method of recovery and the type or quality of the petroleum substance produced.

Occasionally the governments of Western Canada's provinces create incentive programs for exploration and development. Such programs often provide for royalty rate reductions, royalty holidays or royalty tax credits and are often introduced when commodity prices are low to encourage exploration and development activity. In addition, such programs may be introduced



to encourage producers to undertake initiatives using new technologies that may enhance or improve recovery of crude oil, natural gas and NGLs.

Producers and working interest owners of crude oil and natural gas rights may also carve out additional royalties or royalty-like interests through non-public transactions, which include the creation of instruments such as overriding royalties, net profits interests and net carried interests.

### *Alberta*

In Alberta, the provincial government royalty rates apply to Crown-owned mineral rights. In 2016, Alberta adopted a modernized Alberta royalty framework (the "**Modernized Framework**") that applies to all wells drilled after January 1, 2017. The previous royalty framework (the "**Old Framework**") will continue to apply to wells drilled prior to January 1, 2017 for a period of ten years ending on December 31, 2026. After the expiry of this ten-year period, these older wells will become subject to the Modernized Framework.

The Modernized Framework applies to all hydrocarbons other than oil sands which will remain subject to their existing royalty regime. Royalties on production from non-oil sands wells under the Modernized Framework are determined on a "revenue-minus-costs" basis with the cost component based on a Drilling and Completion Cost Allowance formula for each well, depending on its vertical depth and/or horizontal length. The formula is based on the industry's average drilling and completion costs as determined by the Alberta Energy Regulator (the "**AER**") on an annual basis.

Producers pay a flat royalty rate of 5% of gross revenue from each well that is subject to the Modernized Framework until the well reaches payout. Payout for a well is the point at which cumulative gross revenues from the well equals the Drilling and Completion Cost Allowance for the well set by the AER. After payout, producers pay an increased post-payout royalty on revenues of between 5% and 40% determined by reference to the then current commodity prices of the various hydrocarbons. Similar to the Old Framework, the post-payout royalty rate under the Modernized Framework varies with commodity prices. Once production in a mature well drops below a threshold level where the rate of production is too low to sustain the full royalty burden, its royalty rate is adjusted downward towards a minimum of 5% as the mature well's production declines. As the Modernized Framework uses deemed drilling and completion costs in calculating the royalty and not the actual drilling and completion costs incurred by a producer, low cost producers benefit if their well costs are lower than the Drilling and Completion Cost Allowance and, accordingly, they continue to pay the lower 5% royalty rate for a period of time after their wells achieve actual payout.

The Old Framework is applicable to all conventional crude oil and natural gas wells drilled prior to January 1, 2017 and bitumen production. Subject to certain available incentives, effective from the January 2011 production month, royalty rates for conventional crude oil production under the Old Framework range from a base rate of 0% to a cap of 40%. Subject to certain available incentives, effective from the January 2011 production month, royalty rates for natural gas production under the Old Framework range from a base rate of 5% to a cap of 36%. The Old Framework also includes a natural gas royalty formula which provides for a reduction based on the measured depth of the well below 2,000 metres deep, as well as the acid gas content of the produced gas. Under the Old Framework, the royalty rate applicable to NGLs is a flat rate of 40% for pentanes and 30% for butanes and propane. Currently, producers of crude oil and natural gas from Crown lands in Alberta are also required to pay annual rental payments, at a rate of \$3.50 per hectare, and make monthly royalty payments in respect of crude oil and natural gas produced.

The Government of Alberta has from time to time implemented drilling credits, incentives or transitional royalty programs to encourage crude oil and natural gas development and new drilling. In addition, the Government of Alberta has implemented certain initiatives intended to accelerate technological development and facilitate the development of unconventional resources, including as applied to coalbed methane wells, shale gas wells and horizontal crude oil and natural gas wells.

Freehold mineral taxes are levied for production from freehold mineral lands on an annual basis on calendar year production. Freehold mineral taxes are calculated using a tax formula that takes into consideration, among other things, the amount of production, the hours of production, the value of each unit of production, the tax rate and the percentages that the owners hold in the title. On average, in Alberta the tax levied is 4% of revenues reported from freehold mineral title properties. The freehold mineral taxes would be in addition to any royalty or other payment paid to the owner of such freehold mineral rights, which are established through private negotiation.

### ***British Columbia***

Producers of crude oil in British Columbia receive royalty invoices each month for every well or unitized tract that is producing and/or reporting sales. The royalty calculation takes into account the production of crude oil on a well-by-well basis, which can be up to 40%, based on factors such as the volume of crude oil produced by the well or tract and the crude oil vintage, which depends on density of the substance and when the crude oil pool was located. Royalty rates are reduced on low-productivity wells and other wells with applicable royalty exemptions to reflect higher per-unit costs of exploration and extraction.

Producers of natural gas and NGLs in British Columbia receive royalty invoices each month for every well or unitized tract that is producing and/or reporting sales. Different royalty rates apply for natural gas, NGLs and natural gas by-products. For natural gas, the royalty rate can be up to 27% of the value of the natural gas and is based on whether the gas is classified as conservation gas or non-conservation gas, as well as reference prices and the select price. For NGLs and condensates, the royalty rate is fixed at 20%.

The royalties payable by each producer will thus vary depending on the types of wells and the characteristics of the substances being produced. Additionally, the Government of British Columbia maintains a number of targeted royalty programs for key resource areas intended to increase the competitiveness of British Columbia's low productivity natural gas wells. These include both royalty credit and royalty reduction programs.

Producers of crude oil and natural gas from freehold lands in British Columbia are required to pay monthly freehold production taxes. For crude oil, the applicable freehold production tax is based on the volume of monthly production, which is either a flat rate, or, beyond a certain production level, is determined using a sliding scale formula based on the production level. For natural gas, the applicable freehold production tax is a flat rate, or, at certain production levels, is determined using a sliding scale formula based on a reference price, and depends on whether the natural gas is conservation gas or non-conservation gas. The production tax rate for freehold NGLs is a flat rate of 12.25%. Additionally, owners of mineral rights in British Columbia must pay an annual mineral land tax that is equivalent to \$4.94 per hectare of producing lands. Non-producing lands are taxed on a sliding scale depending on the total number of hectares owned by the entity.

### ***Saskatchewan***

In Saskatchewan, the Crown owns approximately 80% of the crude oil and natural gas rights, with the remainder being freehold lands. For Crown lands, taxes (the "**Resource Surcharge**") and royalties are applicable to revenue generated by entities focused on crude oil and natural gas operations. The Resource Surcharge rate is 3% of the value of sales of all crude oil and natural gas produced from wells drilled in Saskatchewan prior to October 1, 2002. For crude oil and natural gas produced from wells drilled in Saskatchewan after September 30, 2002, the Resource Surcharge rate is 1.7% of the value of sales. In addition, a mineral rights tax is charged to mineral rights holders paid on an annual basis at the rate of \$1.50 per acre owned.

In addition to such surcharges and taxes, the Crown royalty payable in respect of crude oil depends on the type and vintage of crude oil, the quantity of crude oil produced in a month, the value of the crude oil produced and specified adjustment factors determined monthly by the provincial government. The ultimate royalty payable ranges from 5% to 20% depending on the classification of the crude oil, and additional marginal royalty rates may apply, between 30% and 45%, where average wellhead prices received are above base prices. This means that producers may pay varying royalties each month, depending on pricing factors, governmental adjustments and the underlying characteristics of the producer's assets.

The amount payable as a Crown royalty in respect of production of natural gas and NGLs is determined by a sliding scale based on the monthly provincial average gas price published by the Government of Saskatchewan, the quantity produced in a given month, the type of natural gas, the classification of the natural gas and the finished drilling date of the respective well. Similar to crude oil royalties, the royalties payable on natural gas will range from 5% to 20%, and additional marginal royalty rates may apply between 30% to 45%, where average wellhead prices are above base prices. Again, this means that may pay varying royalties each month, depending on pricing factors, governmental adjustments and the underlying characteristics of the producer's assets.

The Government of Saskatchewan currently provides a number of targeted incentive programs. These include both royalty reduction and incentive volume programs, with targeted programs in effect for certain vertical crude oil wells, exploratory gas wells, horizontal crude oil and natural gas wells, enhanced crude oil recovery wells and high water-cut crude oil wells.

For production from freehold lands, producers must pay a freehold production tax, determined by first determining the Crown royalty rate, and then subtracting a calculated production tax factor. Depending on the classification of the petroleum substance produced, this subtraction factor may range between 6.9 and 12.5, however, in certain circumstances, the minimum rate for freehold production tax can be zero. This means that the ultimate tax payable to the Crown by producers on freehold lands will vary based on the underlying characteristics of the producer's assets.

### ***Freehold and Other Types of Non-Crown Royalties***

Royalties on production from privately-owned freehold lands are negotiated between the mineral freehold owner and the lessee under a negotiated lease or other contract.

In addition to the royalties payable to the mineral owners, producers of crude oil and natural gas from freehold lands in each of the Western Canadian provinces are required to pay freehold mineral taxes or production taxes. Freehold mineral taxes or production taxes are taxes levied by a provincial government on crude oil and natural gas production from lands where the Crown does not hold the mineral rights. A description of the freehold mineral taxes payable in each of the Western Canadian provinces is included in the above descriptions of the royalty regimes in such provinces.

IOGC is a special agency responsible for managing and regulating the crude oil and natural gas resources located on indigenous reservations across Canada. IOGC's responsibilities include negotiating and issuing the crude oil and natural gas agreements between indigenous groups and crude oil and natural gas companies, as well as collecting royalty revenues on behalf of indigenous groups and depositing the revenues in their trust accounts. While certain standards exist, the exact terms and conditions of each crude oil and natural gas lease dictate the calculation of royalties owed, which may vary depending on the involvement of the specific indigenous group. Ultimately, the relevant indigenous group must approve the terms.

## **Regulatory Authorities and Environmental Regulation**

### ***General***

The crude oil and natural gas industry is currently subject to environmental regulation under a variety of Canadian federal, provincial, territorial and municipal laws and regulations, all of which are subject to governmental review and revision from time to time. Such regulations provide for, among other things, restrictions and prohibitions on the spill, release or emission of various substances produced in association with certain crude oil and natural gas industry operations, such as sulphur dioxide and nitrous oxide. The regulatory regimes set out the requirements with respect to oilfield waste handling and storage, habitat protection and the satisfactory operation, maintenance, abandonment and reclamation of well and facility sites. Compliance with such regulations can require significant expenditures and a breach of such requirements may result in suspension or revocation of necessary licences and authorizations, civil liability and the imposition of material fines and penalties. In addition to these specific, known requirements, future changes to environmental legislation, including anticipated legislation for air pollution and greenhouse gas ("**GHG**") emissions, may impose further requirements on operators and other companies in the crude oil and natural gas industry.

### ***Federal***

Canadian environmental regulation is the responsibility of both the federal and provincial governments. Where there is a direct conflict between federal and provincial environmental legislation in relation to the same matter, the federal law will prevail. However, such conflicts are uncommon. The federal government has primary jurisdiction over federal works, undertakings and federally regulated industries such as railways, aviation and interprovincial transport including interprovincial pipelines.

On June 20, 2016, the federal government launched a review of current environmental and regulatory processes. On February 8, 2018, the Government of Canada introduced draft legislation to overhaul the existing environmental assessment process and replace the NEB with the CER. Pursuant to the draft legislation, the Impact Assessment Agency of Canada (the "**Agency**")

would replace the Canadian Environmental Assessment Agency. It appears that additional categories of projects may be included within the new impact assessment process, such as large-scale wind power facilities and in-situ oilsands facilities. The revamped approval process for applicable major developments will have specific legislated timelines at each stage of the formal impact assessment process. The Agency's process would focus on: (i) early engagement by proponents to engage the Agency and all stakeholders such as the public and indigenous groups prior to the formal impact assessment process; (ii) potentially increased public participation where the project undergoes a panel review; (iii) providing analysis of the potential impacts and effects of a project without making recommendations, to support a public-interest approach to decision-making, with cost-benefit determinations and approvals made by the Minister of Environment and Climate Change or the cabinet of the federal government; (iv) analyzing further specified factors for projects such as alternatives to the project and social and indigenous issues in addition to health, environmental and economic impacts; and (v) overseeing an expanded follow-up, monitoring and enforcement process with increased involvement of indigenous peoples and communities. As to the proposed CER, many of its activities would be similar to the NEB, albeit with a different structure and the notable exception that the CER would no longer have primary responsibility in the consideration of the new major projects, instead focusing on the lifecycle regulation (e.g. overseeing construction, tolls and tariffs, operations and eventual winding down) of approved projects, while providing for expanded participation by communities and indigenous peoples. It is unclear when the new regulatory scheme will come into force or whether any amendments will be made prior to coming into force. Until then, the federal government's interim principles released on January 27, 2016 will continue to guide decision-making authorities for projects currently undergoing environmental assessment. The eventual effects of the proposed regulatory scheme on proponents of major projects remains unclear.

On May 12, 2017, the federal government introduced the *Oil Tanker Moratorium Act* in Parliament. This legislation is aimed at providing coastal protection in northern British Columbia by prohibiting crude oil tankers carrying more than 12,500 metric tonnes of crude oil or persistent crude oil products from stopping, loading, or unloading crude oil in that area. Parliament is still considering the bill, which passed second reading on October 4, 2017. If implemented, the legislation may prevent the building of pipelines to, and export terminals located on, the portion of the British Columbia coast subject to the moratorium and, as a result, negatively affect the ability of producers to access global markets.

### *Alberta*

The AER is the single regulator responsible for all resource development in Alberta. The AER is responsible for ensuring the safe, efficient, orderly and environmentally responsible development of hydrocarbon resources including allocating and conserving water resources, managing public lands, and protecting the environment. The AER's responsibilities exclude the functions of the Alberta Utilities Commission and the Surface Rights Board, as well as Alberta Energy's responsibility for mineral tenure. The objective behind a single regulator is an enhanced regulatory regime that is intended to be efficient, attractive to business and investors and effective in supporting public safety, environmental management and resource conservation while respecting the rights of landowners.

The Government of Alberta relies on regional planning to accomplish its responsible resource development goals. Its approach to natural resource management provides for engagement and consultation with stakeholders and the public and examines the cumulative impacts of development on the environment and communities by incorporating the management of all resources, including energy, minerals, land, air, water and biodiversity. While the AER is the primary regulator for energy development, several other governmental departments and agencies may be involved in land use issues, including Alberta Environment and Parks, Alberta Energy, the Policy Management Office, the Aboriginal Consultation Office and the Land Use Secretariat.

The Government of Alberta's land-use policy for surface land in Alberta sets out an approach to manage public and private land use and natural resource development in a manner that is consistent with the long-term economic, environmental and social goals of the province. It calls for the development of seven region-specific land-use plans in order to manage the combined impacts of existing and future land use within a specific region and the incorporation of a cumulative effects management approach into such plans. As a result, several regional plans have been implemented and others are in the process of being implemented. These regional plans may affect further development and operations in such regions.

### *British Columbia*

In British Columbia, the *Oil and Gas Activities Act* (the "**OGAA**") impacts conventional crude oil and natural gas producers, shale gas producers and other operators of crude oil and natural gas facilities in the province. Under the OGAA, the British Columbia Oil and Gas Commission (the "**Commission**") has broad powers, particularly with respect to compliance and

enforcement and the setting of technical safety and operational standards for crude oil and natural gas activities. The *Environmental Protection and Management Regulation* establishes the government's environmental objectives for water, riparian habitats, wildlife and wildlife habitat, old-growth forests and cultural heritage resources. The OGAA requires the Commission to consider these environmental objectives in deciding whether or not to authorize a crude oil or natural gas activity. In addition, although not an exclusively environmental statute, the *Petroleum and Natural Gas Act*, in conjunction with the OGAA, requires proponents to obtain various approvals before undertaking exploration or production work, such as geophysical licences, geophysical exploration project approvals, permits for the exclusive right to do geological work and geophysical exploration work, and well, test hole and water-source well authorizations. Such approvals are given subject to environmental considerations and licences and project approvals can be suspended or cancelled for failure to comply with this legislation or its regulations.

#### *Saskatchewan*

The Saskatchewan Ministry of the Economy, Petroleum Branch, is the primary regulator of crude oil and natural gas activities in the province. In May 2011, the Government of Saskatchewan passed changes to *The Oil and Gas Conservation Act* (the "**SKOGCA**"), the act governing the regulation of resource development operations in the province. Although the associated Bill received Royal Assent on May 18, 2011, it was not proclaimed into force until April 1, 2012, in conjunction with the release of *The Oil and Gas Conservation Regulations, 2012* (the "**OGCR**") and *The Petroleum Registry and Electronic Documents Regulations* (the "**Registry Regulations**"). The aim of the amendments to the SKOGCA, and the associated regulations, is to provide resource companies investing in Saskatchewan's energy and resource industries with the best support services and business and regulatory systems available. With the enactment of the Registry Regulations and the OGCR, the Government of Saskatchewan has implemented a number of operational requirements, including the increased demand for record-keeping, increased testing requirements for injection wells and increased investigation and enforcement powers; and, procedural requirements including those related to Saskatchewan's participation as partner in the Petroleum Registry of Alberta.

#### ***Liability Management Rating Program***

##### *Alberta*

The AER administers the Licensee Liability Rating Program (the "**AB LLR Program**"). The AB LLR Program is a liability management program governing most conventional upstream crude oil and natural gas wells, facilities and pipelines. Alberta's *Oil and Gas Conservation Act* (the "**OGCA**") establishes an orphan fund (the "**Orphan Fund**") to pay the costs to suspend, abandon, remediate and reclaim a well, facility or pipeline included in the AB LLR Program if a licensee or working interest participant ("**WIP**") becomes insolvent or is unable to meet its obligations. The Orphan Fund is funded by licensees in the AB LLR Program through a levy administered by the AER. The AB LLR Program is designed to minimize the risk to the Orphan Fund posed by unfunded liability of licensees and to prevent the taxpayers of Alberta from incurring costs to suspend, abandon, remediate and reclaim wells, facilities or pipelines. The AB LLR Program requires a licensee whose deemed liabilities exceed its deemed assets to provide the AER with a security deposit. The ratio of deemed assets to deemed liabilities is assessed once each month and where a security deposit is deemed to be required, the failure to post any required amounts may result in the initiation of enforcement action by the AER. The AER publishes the liability management rating for each licensee on a monthly basis on its public website.

In *Redwater Energy Corporation (Re)* ("**Redwater**"), the Court of Queen's Bench of Alberta found that there was an operational conflict between the abandonment and reclamation provisions of the OGCA, including the AB LLR Program, and the *Bankruptcy and Insolvency Act* (the "**BIA**"). This ruling meant that receivers and trustees have the right to renounce assets within insolvency proceedings, which was affirmed by a majority of the Alberta Court of Appeal. Such a conflict renders the AER's legislated authority unenforceable to impose abandonment orders against licensees or to require a licensee to pay a security deposit before approving a transfer when such a licensee is insolvent. Effectively, this means that abandonment costs will be borne by the industry-funded Orphan Well Fund or the province in these instances because any financial resources of the insolvent licensee will first be used to satisfy secured creditors under the BIA. This decision is currently under appeal to the Supreme Court of Canada, with final resolution expected in 2018.

In response to Redwater, the AER issued several bulletins and interim rule changes to govern while the case is appealed and to allow the Government of Alberta to develop appropriate regulatory measures to adequately address environmental liabilities. The AER's *Directive 067: Eligibility Requirements for Acquiring and Holding Energy Licences and Approvals*, which deals

with licence eligibility to operate wells and facilities, was amended and now requires extensive corporate governance and shareholder information, with a particular focus on any previous companies of directors and officers that have been subject to insolvency proceedings in the last five years. All transfers of well, facility and pipeline licences in the province are subject to AER approval. As a condition of transferring existing AER licences, approvals and permits, all are assessed on a non-routine basis and the AER now requires all transferees to demonstrate that they have a liability management rating ("**LMR**"), being the ratio of a licensee's assets to liabilities, of 2.0 or higher immediately following the transfer, or to otherwise prove that it can satisfy its abandonment and reclamation obligations. The AER may make further rule changes in response to Redwater at any time, especially as the case heads towards a final determination, which means that additional obligations and/or different requirements may be forthcoming.

The AER has also implemented the Inactive Well Compliance Program (the "**IWCP**") to address the growing inventory of inactive wells in Alberta and to increase the AER's surveillance and compliance efforts under *Directive 013: Suspension Requirements for Wells* ("**Directive 013**"). The IWCP applies to all inactive wells that are noncompliant with Directive 013 as of April 1, 2015. The objective is to bring all inactive noncompliant wells under the IWCP into compliance with the requirements of Directive 013 within five years. As of April 1, 2015, each licensee is required to bring 20% of its inactive wells into compliance every year, either by reactivating or by suspending the wells in accordance with Directive 013 or by abandoning them in accordance with *Directive 020: Well Abandonment*. The list of current wells subject to the IWCP is available on the AER's Digital Data Submission system. The AER has announced that from April 1, 2015 to April 1, 2016, the number of noncompliant wells subject to the IWCP fell from 25,792 to 17,470, with 76% of licensees operating in the province having met their annual quota. The IWCP completed its second year on March 31, 2017. Overall, the AER has announced that licensees brought 19% of non-compliant wells in the IWCP into compliance with AER requirements in the second year of the IWCP.

#### *British Columbia*

The Commission oversees a similar Liability Management Rating Program (the "**BC LMR Program**"), which is designed to manage public liability exposure related to crude oil and natural gas activities by ensuring that permit holders carry the financial risks and regulatory responsibility of their operations through to regulatory closure. Under the BC LMR Program, the Commission determines the required security deposits for permit holders under the OGAA. The LMR is the ratio of a permit holder's deemed assets to deemed liabilities. Permit holders whose deemed liabilities exceed deemed assets (i.e., an LMR of below a ratio of 1.0) will be considered at-risk and reviewed for a security deposit. Permit holders that fail to comply with security deposit requirements are deemed non-compliant under the OGAA and enter the compliance and enforcement framework. The Commission has announced that it is working to determine how best to manage risks in light of the Redwater decision, so changes may be forthcoming.

#### *Saskatchewan*

The Ministry of the Economy administers the Licensee Liability Rating Program (the "**SK LLR Program**"). The SK LLR Program is designed to assess and manage the financial risk that a licensee's well and facility abandonment and reclamation liabilities pose to an orphan fund (the "**Oil and Gas Orphan Fund**") established under the SKOGCA. The Oil and Gas Orphan Fund is responsible for carrying out the abandonment and reclamation of wells and facilities contained within the SK LLR Program when a licensee or WIP is defunct or missing. The SK LLR Program requires a licensee whose deemed liabilities exceed its deemed assets (i.e., an LLR of below 1.0) to post a security deposit. The ratio of deemed assets to deemed liabilities is assessed once each month for all licensees of crude oil, natural gas and service wells and upstream crude oil and natural gas facilities. On August 19, 2016, the Ministry of the Economy released a notice to all operators introducing interim measures in response to Redwater. Among other things, the Ministry announced that it considers all licence transfer applications non-routine as the Ministry does not strictly rely on the standard LMR calculation in evaluating deposit requirements, and that further changes may be forthcoming.

#### ***Climate Change Regulation***

Climate change regulation at both the federal and provincial level has the potential to significantly affect the regulatory environment of the crude oil and natural gas industry in Canada.

In general, there is some uncertainty with regard to the impacts of federal or provincial climate change and environmental laws and regulations, as it is currently not possible to predict the extent of future requirements. Any new laws and regulations,

or additional requirements to existing laws and regulations, could have a material impact on the Corporation's operations and cash flow.

### *Federal*

Canada has been a signatory to the United Nations Framework Convention on Climate Change (the "UNFCCC") since 1992. Since its inception, the UNFCCC has instigated numerous policy experiments with respect to climate governance. On April 22, 2016, 197 countries signed the Paris Agreement, committing to prevent global temperatures from rising more than 2° Celsius above pre-industrial levels and to pursue efforts to limit this rise to no more than 1.5° Celsius. As of February 1, 2018, 174 of the 197 parties to the convention have ratified the Paris Agreement.

Following the Paris Agreement and its ratification in Canada, the Government of Canada pledged to cut its emissions by 30% from 2005 levels by 2030. Further, on December 9, 2016, the Government of Canada released the Pan-Canadian Framework on Clean Growth and Climate Change (the "**Framework**"). The Framework provided for a carbon-pricing strategy, with a carbon tax starting at \$10/tonne, increasing annually until it reaches \$50/tonne in 2022. A draft legislative proposal for the federal carbon pricing system was released on January 15, 2018. This system would apply in provinces and territories that request it and in those that do not have a carbon pricing system in place that meets the federal standards in 2018. Four provinces currently have carbon pricing systems in place that would meet federal requirements (Alberta, British Columbia, Ontario and Quebec). The federal government will accept comments on the draft legislative proposals to implement the federal carbon pricing system until February 12, 2018.

On May 27, 2017, the federal government published draft regulations to reduce emissions of methane from the crude oil and natural gas sector. The proposed regulations aim to reduce unintentional leaks and intentional venting of methane, as well as ensuring that crude oil and natural gas operations use low-emission equipment and processes, by introducing new control measures. Among other things, the proposed regulations limit how much methane upstream oil and gas facilities are permitted to vent. These facilities would need to capture the gas and either re-use it, re-inject it, send it to a sales pipeline, or route it to a flare. In addition, in provinces other than Alberta and British Columbia (which already regulate such activities), well completions by hydraulic fracturing would be required to conserve or destroy gas instead of venting. The federal government anticipates that these actions will reduce annual GHG emissions by about 20 megatonnes by 2030.

### *Alberta*

On November 22, 2015, the Government of Alberta introduced its Climate Leadership Plan (the "**CLP**"). The CLP has four areas of focus: implementing a carbon price on GHG emissions, phasing out coal-generated electricity and developing renewable energy, legislating an oil sands emission limit, and introducing a new methane emissions reduction plan. The Government of Alberta has since introduced new legislation to give effect to these initiatives. The *Climate Leadership Act* came into force on January 1, 2017 and enabled a carbon levy that increased from \$20 to \$30 per tonne on January 1, 2018. The levy is anticipated to increase again in 2021 in line with the federal legislation. On December 14, 2016, the *Oil Sands Emissions Limit Act* came into force, establishing an annual 100 megatonne limit for GHG emissions from all oil sands sites, excluding some attributable to upgraders, the electric energy portion of cogeneration and other prescribed emissions.

The *Carbon Competitiveness Incentives Regulation* (the "**CCIR**"), which replaces the *Specified Gas Emitters Regulation*, came into effect on January 1, 2018. Unlike the previous regulation, which set emission reduction requirements, the CCIR imposes an output-based benchmark on competitors in the same emitting industry. The aim is to reduce annual GHG emissions by 20 megatonnes by 2020 and 50 megatonnes by 2030, and targets facilities that emit more than 100,000 tonnes of GHGs per year and mandates quarterly and final reporting requirements. The CCIR compliance obligations will be reduced by 50% and 25% for 2018 and 2019, respectively, with no reduction for 2020 onward. In addition to the industry-specific benchmarks, each benchmark will decrease annually at a rate of 1%, beginning in 2020. The Government of Alberta intends for this strategy to align with the federal Framework.

The Government of Alberta also signaled its intention through its CLP to implement regulations that would lower annual methane emissions by 45% by 2025. Regulations are planned to take effect in 2020 to ensure the 2025 target is met.

Alberta was also the first jurisdiction in North America to direct dedicated funding to implement carbon capture and storage technology across industrial sectors. Alberta has committed \$1.24 billion over 15 years to fund two large-scale carbon capture

and storage projects that will begin commercializing the technology on the scale needed to be successful. On December 2, 2010, the Government of Alberta passed the *Carbon Capture and Storage Statutes Amendment Act, 2010*. It deemed the pore space underlying all land in Alberta to be, and to have always been the property of the Crown and provided for the assumption of long-term liability for carbon sequestration projects by the Crown, subject to the satisfaction of certain conditions.

#### *British Columbia*

On August 19, 2016, the Government of British Columbia launched its Climate Leadership Plan, which aims to reduce British Columbia's net annual emissions by up to 25 million tonnes below current forecasts by 2050 and recommit the province to achieving its target of reducing emissions by 80% below 2007 levels by 2050. Additionally, British Columbia seeks to generate at least 93% of its electricity from clean or renewable sources and build the infrastructure necessary to transmit it. The legislation established no date for this target.

British Columbia was also the first Canadian province to implement a revenue-neutral carbon tax. In 2012, the carbon tax was frozen at \$30/tonne. However, in its September update to the 2017/2018 Budget, the Government signalled raising the carbon tax to \$35/tonne in April 2018.

On January 1, 2016, the Greenhouse Gas Industrial Reporting and Control Act (the "**GGIRCA**") came into effect, which streamlined the regulatory process for large emitting facilities. The GGIRCA sets out various performance standards for different industrial sectors and provides for emissions offsets through the purchase of credits or through emission offsetting projects.

#### *Saskatchewan*

On May 11, 2009, the Government of Saskatchewan announced the *Management and Reduction of Greenhouse Gases Act* (the "**MRGGA**") to regulate GHG emissions in the province. The MRGGA, partially proclaimed into force on January 1, 2018, establishes a framework to reduce GHG emissions by 20% of 2006 levels by 2020. On October 18, 2016, the Government of Saskatchewan released a White Paper on Climate Change, resisting a carbon tax and committing to an approach that focuses on technological innovation and adaptation.

### **Accountability and Transparency**

In 2015, the federal government's *Extractive Sector Transparency Measures Act* (the "**ESTMA**") came into effect, which imposed mandatory reporting requirements on certain entities engaged in the "commercial development of oil, gas or minerals", including exploration, extraction and holding permits. All companies subject to ESTMA must report payments over CAD\$100,000 made to any level of a Canadian or foreign government (including indigenous groups), including royalty payments, taxes (other than consumption taxes and personal income taxes), fees, production entitlements, bonuses, dividends (other than ordinary dividends paid to shareholders), infrastructure improvement payments and other prescribed categories of payments.

## **RISK FACTORS**

**Investors should carefully consider the risk factors set out below and consider all other information contained herein and in the Corporation's other public filings before making an investment decision. The risks set out below are not an exhaustive list and should not be taken as a complete summary or description of all the risks associated with the Corporation's business and the oil and natural gas business generally.**

### **Exploration, Development and Production Risks**

*The Corporation's future performance may be affected by the financial, operational, environmental and safety risks associated with the exploration, development and production of oil and natural gas*

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of the Corporation depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, the



Corporation's existing reserves, and the production from them, will decline over time as the Corporation produces from such reserves. A future increase in the Corporation's reserves will depend on both the ability of the Corporation to explore and develop its existing properties and its ability to select and acquire suitable producing properties or prospects. There is no assurance that the Corporation will be able continue to find satisfactory properties to acquire or participate in. Moreover, management of the Corporation may determine that current markets, terms of acquisition, participation or pricing conditions make potential acquisitions or participation uneconomic. There is also no assurance that the Corporation will discover or acquire further commercial quantities of oil and natural gas.

Future oil and natural gas exploration may involve unprofitable efforts from dry wells as well as from wells that are productive but do not produce sufficient petroleum substances to return a profit after drilling, completing (including hydraulic fracturing), operating and other costs. Completion of a well does not ensure a profit on the investment or recovery of drilling, completion and operating costs.

Drilling hazards, environmental damage and various field operating conditions could greatly increase the cost of operations and adversely affect the production from successful wells. Field operating conditions include, but are not limited to, delays in obtaining governmental approvals or consents, shut-ins of wells resulting from extreme weather conditions, insufficient storage or transportation capacity or geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, it is not possible to eliminate production delays and declines from normal field operating conditions, which can negatively affect revenue and cash flow levels to varying degrees.

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including, but not limited to, fire, explosion, blowouts, cratering, sour gas releases, spills and other environmental hazards. These typical risks and hazards could result in substantial damage to oil and natural gas wells, production facilities, other property, the environment and personal injury. Particularly, the Corporation may explore for and produce sour natural gas in certain areas. An unintentional leak of sour natural gas could result in personal injury, loss of life or damage to property and may necessitate an evacuation of populated areas, all of which could result in liability to the Corporation.

Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations. Losses resulting from the occurrence of any of these risks may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

As is standard industry practice, the Corporation is not fully insured against all risks, nor are all risks insurable. Although the Corporation maintains liability insurance in an amount that it considers consistent with industry practice, liabilities associated with certain risks could exceed policy limits or not be covered. In either event, the Corporation could incur significant costs.

### **Weakness in the Oil and Gas Industry**

***Weakness and volatility in the market conditions for the oil and gas industry may affect the value of the Corporation's reserves, restrict its cash flow and its ability to access capital to fund the development of its properties***

Recent market events and conditions, including global excess oil and natural gas supply, recent actions taken by OPEC, slowing growth in emerging economies, market volatility and disruptions in Asia, sovereign debt levels and political upheavals in various countries have caused significant weakness and volatility in commodity prices. These events and conditions have caused a significant decrease in the valuation of oil and gas companies and a decrease in confidence in the oil and gas industry. These difficulties have been exacerbated in Canada by political and other actions resulting in uncertainty surrounding regulatory, tax, royalty changes and environmental regulation. In addition, the inability to get the necessary approvals to build pipelines, liquefied natural gas plants and other facilities to provide better access to markets for the oil and gas industry in Western Canada has led to additional downward price pressure on oil and gas produced in Western Canada and uncertainty and reduced confidence in the oil and gas industry in Western Canada. Lower commodity prices may also affect the volume and value of the Corporation's reserves, rendering certain reserves uneconomic. In addition, lower commodity prices restrict the Corporation's cash flow resulting in less funds from operations being available to fund the Corporation's capital expenditure budget. Consequently, the Corporation may not be able to replace its production with additional reserves and both the Corporation's production and reserves could be reduced on a year over year basis. Any decrease in value of the

Corporation's reserves may reduce the borrowing base under its credit facilities, which, depending on the level of the Corporation's indebtedness, could result in the Corporation having to repay a portion of its indebtedness. In addition to possibly resulting in a decrease in the value of the Corporation's economically recoverable reserves, lower commodity prices may also result in a decrease in the value of the Corporation's infrastructure and facilities, all of which could also have the effect of requiring a write down of the carrying value of the Corporation's oil and gas assets on its balance sheet and the recognition of an impairment charge in its income statement. Given the current market conditions and the lack of confidence in the Canadian oil and gas industry, the Corporation may have difficulty raising additional funds or if it is able to do so, it may be on unfavourable and highly dilutive terms.

### **Prices, Markets and Marketing**

*Various factors may adversely impact the marketability of oil and natural gas, affecting net production revenue, production volumes and development and exploration activities*

Numerous factors beyond the Corporation's control do, and will continue to, affect the marketability and price of oil and natural gas acquired, produced, or discovered by the Corporation. The Corporation's ability to market its oil and natural gas may depend upon its ability to acquire capacity on pipelines that deliver natural gas to commercial markets or contract for the delivery of crude oil by rail. Deliverability uncertainties related to the distance the Corporation's reserves are from pipelines, railway lines, processing and storage facilities; operational problems affecting pipelines, railway lines and facilities; and government regulation relating to prices, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business may also affect the Corporation.

Prices for oil and natural gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty and a variety of additional factors beyond the control of the Corporation. These factors include economic and political conditions in the United States, Canada, Europe, China and emerging markets, the actions of OPEC and other oil and gas exporting nations, governmental regulation, political stability in the Middle East, Northern Africa and elsewhere, the foreign supply and demand of oil and natural gas, risks of supply disruption, the price of foreign imports and the availability of alternative fuel sources. Prices for oil and natural gas are also subject to the availability of foreign markets and the Corporation's ability to access such markets. A material decline in prices could result in a reduction of the Corporation's net production revenue. The economics of producing from some wells may change because of lower prices, which could result in reduced production of oil or natural gas and a reduction in the volumes and the value of the Corporation's reserves. The Corporation might also elect not to produce from certain wells at lower prices.

All these factors could result in a material decrease in the Corporation's expected net production revenue and a reduction in its oil and natural gas production, development and exploration activities. Any substantial and extended decline in the price of oil and natural gas would have an adverse effect on the Corporation's carrying value of its reserves, borrowing capacity, revenues, profitability and cash flows from operations and may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

Oil and natural gas prices are expected to remain volatile for the near future because of market uncertainties over the supply and the demand of these commodities due to the current state of the world economies, increased growth of shale oil production in the United States, OPEC actions, political uncertainties, sanctions imposed on certain oil producing nations by other countries and ongoing credit and liquidity concerns. Volatile oil and natural gas prices make it difficult to estimate the value of producing properties for acquisitions and often cause disruption in the market for oil and natural gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for, and project the return on, acquisitions and development and exploitation projects.

See "*Weakness in the Oil and Gas Industry*".

### **Market Price of Common Shares**

*The trading price of the Common Shares may be adversely affected by factors related and unrelated to the oil and natural gas industry*

The trading price of securities of oil and natural gas issuers is subject to substantial volatility often based on factors related and unrelated to the financial performance or prospects of the issuers involved. Factors unrelated to the Corporation's performance could include macroeconomic developments nationally, within North America or globally, domestic and global commodity prices, or current perceptions of the oil and gas market. In certain jurisdictions institutions, including government sponsored entities, have determined to decrease their ownership in oil and gas entities which may impact the liquidity of certain securities and may put downward pressure on the trading price of those securities. Similarly, the market price of the Common Shares could be subject to significant fluctuations in response to variations in the Corporation's operating results, financial condition, liquidity and other internal factors. Accordingly, the price at which the Common Shares will trade cannot be accurately predicted.

#### **Failure to Realize Anticipated Benefits of Acquisitions and Dispositions**

*The anticipated benefits of acquisitions may not be achieved and the Corporation may dispose of non-core assets for less than their carrying value on the financial statements as a result of weak market conditions*

The Corporation considers acquisitions and dispositions of businesses and assets in the ordinary course of business. Achieving the benefits of acquisitions depends on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner and the Corporation's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of the Corporation. The integration of acquired businesses may require substantial management effort, time and resources diverting management's focus from other strategic opportunities and operational matters. Management continually assesses the value and contribution of services provided by third parties and assets required to provide such services. In this regard, non-core assets may be periodically disposed of so the Corporation can focus its efforts and resources more efficiently. Depending on the state of the market for such non-core assets, certain non-core assets of the Corporation may realize less on disposition than their carrying value on the financial statements of the Corporation.

#### **Political Uncertainty**

*The Corporation's business may be adversely affected by recent political and social events and decisions made in Canada, the United States, Europe and elsewhere*

In the last several years, the United States and certain European countries have experienced significant political events that have cast uncertainty on global financial and economic markets. During the 2016 presidential campaign a number of election promises were made and the new American administration has begun taking steps to implement certain of these promises. The administration has announced withdrawal of the United States from the Trans-Pacific Partnership and Congress has passed sweeping tax reform, which, among other things, significantly reduces US corporate tax rates. This may affect competitiveness of other jurisdictions, including Canada. The North American Free Trade Agreement is currently under renegotiation and the result is uncertain at this time. The administration has also taken action with respect to reduction of regulation which may also affect relative competitiveness of other jurisdictions. It is unclear exactly what other actions the administration in the United States will implement, and if implemented, how these actions may impact Canada and in particular the oil and gas industry. Any actions taken by the new United States administration may have a negative impact on the Canadian economy and on the businesses, financial conditions, results of operations and the valuation of Canadian oil and gas companies, including the Corporation.

In addition to the political disruption in the United States, the citizens of the United Kingdom recently voted to withdraw from the European Union and the Government of the United Kingdom has begun taken steps to implement such withdrawal. Some European countries have also experienced the rise of anti-establishment political parties and public protests held against open-door immigration policies, trade and globalization. To the extent that certain political actions taken in North America, Europe and elsewhere in the world result in a marked decrease in free trade, access to personnel and freedom of movement it could have an adverse effect on the Corporation's ability to market its products internationally, increase costs for goods and services required for the Corporation's operations, reduce access to skilled labour and negatively impact the Corporation's business, operations, financial conditions and the market value of its Common Shares.

A change in federal, provincial or municipal governments in Canada may have an impact on the directions taken by such governments on matters that may impact the oil and gas industry including the balance between economic development and environmental policy such as the potential impact of the recent change of government in British Columbia and announcements

and actions by the government of British Columbia that may impact the completion of the Trans-Mountain Pipeline project and other infrastructure projects.

### **Project Risks**

*The success of the Corporation's operations may be negatively impacted by factors outside of its control resulting in operational delays, cost overruns and marketing challenges*

The Corporation manages a variety of small and large projects in the conduct of its business. Project delays may delay expected revenues from operations. Significant project cost over-runs could make a project uneconomic. The Corporation's ability to execute projects and market oil and natural gas depends upon numerous factors beyond the Corporation's control, including:

- the availability of processing capacity;
- the availability and proximity of pipeline capacity;
- the availability of storage capacity;
- the availability of, and the ability to acquire, water supplies needed for drilling hydraulic fracturing and waterfloods or the Corporation's ability to dispose of water used or removed from strata at a reasonable cost and in accordance with applicable environmental regulations;
- the effects of inclement weather;
- the availability of drilling and related equipment;
- unexpected cost increases;
- accidental events;
- currency fluctuations;
- regulatory changes;
- the availability and productivity of skilled labour; and
- the regulation of the oil and natural gas industry by various levels of government and governmental agencies.

Because of these factors, the Corporation could be unable to execute projects on time, on budget, or at all, and may be unable to market the oil and natural gas that it produces effectively.

### **Reliance on Key Personnel**

*Loss of key personnel would negatively impact the Corporation's operations*

The Corporation's success depends in large measure on certain key personnel. The loss of the services of such key personnel may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. The Corporation does not have any key personnel insurance in effect for the Corporation. The contributions of the existing management team to the immediate and near term operations of the Corporation are likely to be of central importance. In addition, the competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that the Corporation will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of the Corporation.

### **Gathering and Processing Facilities, Pipeline Systems and Rail**

*Lack of capacity and/or regulatory constraints on gathering and processing facilities, pipeline systems and railway lines may have a negative impact on the Corporation's ability to produce and sell its oil and natural gas*

The Corporation delivers its products through gathering and processing facilities, pipeline systems and, in certain circumstances, by rail. The amount of oil and natural gas that the Corporation can produce and sell is subject to the accessibility, availability, proximity and capacity of these gathering and processing facilities, pipeline systems and railway lines. The lack of availability of capacity in any of the gathering and processing facilities, pipeline systems and railway lines could result in the Corporation's inability to realize the full economic potential of its production or in a reduction of the price offered for the Corporation's production. The lack of firm pipeline capacity continues to affect the oil and natural gas industry

and limit the ability to transport produced oil and gas to market. In addition, the pro-rationing of capacity on inter-provincial pipeline systems continues to affect the ability to export oil and natural gas. Unexpected shut downs or curtailment of capacity of pipelines for maintenance or integrity work or because of actions taken by regulators could also affect the Corporation's production, operations and financial results. As a result, producers are increasingly turning to rail as an alternative means of transportation. In recent years, the volume of crude oil shipped by rail in North America has increased dramatically. Any significant change in market factors or other conditions affecting these infrastructure systems and facilities, as well as any delays or uncertainty in constructing new infrastructure systems and facilities could harm the Corporation's business and, in turn, the Corporation's financial condition, operations and cash flows. Announcements and actions taken by the governments of British Columbia and Alberta relating to approval of infrastructure projects may continue to intensify, leading to increased challenges to interprovincial and international infrastructure projects moving forward. In addition, while the federal government has recently introduced draft legislation to overhaul the existing environmental assessment process and replace the NEB with a new regulatory agency, the impact of the new proposed regulatory scheme on proponents and the timing of receipt of approvals of major projects remains unclear.

Following major accidents in Lac-Mégantic, Quebec and North Dakota, the Transportation Safety Board of Canada and the U.S. National Transportation Board have recommended additional regulations for railway tank cars carrying crude oil. In June 2015, as a result of these recommendations, the Government of Canada passed the *Safe and Accountable Rail Act* which increased insurance obligations on the shipment of crude oil by rail and imposed a per tonne levy of \$1.65 on crude oil shipped by rail to compensate victims and for environmental cleanup in the event of a railway accident. In addition to this legislation, new regulations have implemented the TC-117 standard for all rail tank cars carrying flammable liquids which formalized the commitment to retrofit, and eventually phase out DOT-111 tank cars carrying crude oil. The increased regulation of rail transportation may reduce the ability of railway lines to alleviate pipeline capacity issues and adds additional costs to the transportation of crude oil by rail. On July 13, 2016, the Minister of Transport (Canada) issued Protective Direction No. 38, which directed that the shipping of crude oil on DOT-111 tank cars end by November 1, 2016. Tank cars entering Canada from the United States will be monitored to ensure they are compliant with Protective Direction No. 38.

A portion of the Corporation's production may, from time to time, be processed through facilities owned by third parties and over which the Corporation does not have control. From time to time, these facilities may discontinue or decrease operations either as a result of normal servicing requirements or as a result of unexpected events. A discontinuation or decrease of operations could have a materially adverse effect on the Corporation's ability to process its production and deliver the same for sale. Midstream and pipeline companies may take actions to maximize their return on investment which may in turn adversely affect producers and shippers, especially when combined with a regulatory framework that may not always align with the interests of particular shippers.

## **Operational Dependence**

### ***The successful operation of a portion of the Corporation's properties is dependent on third parties***

Other companies operate some of the assets in which the Corporation has an interest. The Corporation has limited ability to exercise influence over the operation of those assets or their associated costs, which could adversely affect the Corporation's financial performance. The Corporation's return on assets operated by others depends upon a number of factors that may be outside of the Corporation's control, including, but not limited to, the timing and amount of capital expenditures, the operator's expertise and financial resources, the approval of other participants, the selection of technology and risk management practices.

In addition, due to the current low and volatile commodity prices, many companies, including companies that may operate some of the assets in which the Corporation has an interest, may be in financial difficulty, which could impact their ability to fund and pursue capital expenditures, carry out their operations in a safe and effective manner and satisfy regulatory requirements with respect to abandonment and reclamation obligations. If companies that operate some of the assets in which the Corporation has an interest fail to satisfy regulatory requirements with respect to abandonment and reclamation obligations the Corporation may be required to satisfy such obligations and to seek reimbursement from such companies. To the extent that any of such companies go bankrupt, become insolvent or make a proposal or institute any proceedings relating to bankruptcy or insolvency, it could result in such assets being shut-in, the Corporation potentially becoming subject to additional liabilities relating to such assets and the Corporation having difficulty collecting revenue due from such operators or recovering amounts owing to the Corporation from such operators for their share of abandonment and reclamation obligations. Any of these factors could have a material adverse affect on the Corporation's financial and operational results.

## **Cost of New Technologies**

***The Corporation's ability to successfully implement new technologies into its operations in a timely and efficient manner will affect its ability to compete***

The petroleum industry is characterized by rapid and significant technological advancements and introductions of new products and services utilizing new technologies. Other companies may have greater financial, technical and personnel resources that allow them to enjoy technological advantages and may in the future allow them to implement new technologies before the Corporation. There can be no assurance that the Corporation will be able to respond to such competitive pressures and implement such technologies on a timely basis or at an acceptable cost. If the Corporation does implement such technologies, there is no assurance that the Corporation will do so successfully. One or more of the technologies currently utilized by the Corporation or implemented in the future may become obsolete. In such case, the Corporation's business, financial condition and results of operations could be affected adversely and materially. If the Corporation is unable to utilize the most advanced commercially available technology, or is unsuccessful in implementing certain technologies, its business, financial condition and results of operations could also be adversely affected in a material way.

## **Alternatives to and Changing Demand for Petroleum Products**

***Changes to the demand for oil and natural gas products and the rise of petroleum alternatives may negatively affect the Corporation's financial condition, results of operations and cash flow***

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas and technological advances in fuel economy and renewable energy generation devices could reduce the demand for oil, natural gas and liquid hydrocarbons. Recently, certain jurisdictions have implemented policies or incentives to decrease the use of fossil fuels and encourage the use of renewable fuel alternatives, which may lessen the demand for petroleum products and put downward pressure on commodity prices. In addition, advancements in energy efficient products have a similar effect on the demand for oil and gas products. The Corporation cannot predict the impact of changing demand for oil and natural gas products, and any major changes may have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows by decreasing the Corporation's profitability, increasing its costs, limiting its access to capital and decreasing the value of its assets.

## **Regulatory**

***Modification to current or implementation of additional regulations may reduce the demand for oil and natural gas and/or increase the Corporation's costs and/or delay planned operations***

Various levels of governments impose extensive controls and regulations on oil and natural gas operations (including exploration, development, production, pricing, marketing and transportation). Governments may regulate or intervene with respect to exploration and production activities, prices, taxes, royalties and the exportation of oil and natural gas. Amendments to these controls and regulations may occur from time to time in response to economic or political conditions. See "*Industry Conditions*". The implementation of new regulations or the modification of existing regulations affecting the oil and natural gas industry could reduce demand for crude oil and natural gas and increase the Corporation's costs, either of which may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. Recently, the federal government and certain provincial governments have taken steps to initiate protocols and regulations to limit the release of methane from oil and gas operations. Such draft regulations and protocols may require additional expenditures or otherwise negatively impact the Corporation's operations, which may affect the Corporation's profitability. See "*Industry Conditions – Regulatory Authorities and Environmental Regulation – Climate Change Regulations*".

In order to conduct oil and natural gas operations, the Corporation will require regulatory permits, licenses, registrations, approvals and authorizations from various governmental authorities at the municipal, provincial and federal level. There can be no assurance that the Corporation will be able to obtain all of the permits, licenses, registrations, approvals and authorizations that may be required to conduct operations that it may wish to undertake. In addition, certain federal legislation such as the *Competition Act* and the *Investment Canada Act* could negatively affect the Corporation's business, financial condition and the market value of its Common Shares or its assets, particularly when undertaking, or attempting to undertake, acquisition or disposition activity.

## **Royalty Regimes**

### ***Changes to royalty regimes may negatively impact the Corporation's cash flows***

There can be no assurance that the governments in the jurisdictions in which the Corporation has assets will not adopt new royalty regimes or modify the existing royalty regimes which may have an impact on the economics of the Corporation's projects. An increase in royalties would reduce the Corporation's earnings and could make future capital investments, or the Corporation's operations, less economic. On January 29, 2016, the Government of Alberta adopted a new royalty regime which took effect on January 1, 2017. Details of this new regime are scheduled to be finalized and released before March 31, 2016. See "*Industry Conditions - Royalties and Incentives*".

## **Environmental**

### ***Compliance with environmental regulations requires the dedication of a portion of the Corporation's financial and operational resources***

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on the spill, release or emission of various substances produced in association with oil and gas industry operations. In addition, such legislation sets out the requirements with respect to oilfield waste handling and storage, habitat protection and the satisfactory operation, maintenance, abandonment and reclamation of well and facility sites.

Compliance with environmental legislation can require significant expenditures and a breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Corporation to incur costs to remedy such discharge. Although the Corporation believes that it will be in material compliance with current applicable environmental legislation, no assurance can be given that environmental compliance requirements will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

## **Liability Management**

### ***Liability management programs enacted by regulators in the western provinces may prevent or interfere with the Corporation's ability to acquire properties or require a substantial cash deposit with the regulator***

Alberta, Saskatchewan and British Columbia have developed liability management programs designed to prevent taxpayers from incurring costs associated with suspension, abandonment, remediation and reclamation of wells, facilities and pipelines in the event that a licensee or permit holder is unable to satisfy its regulatory obligations. These programs involve an assessment of the ratio of a licensee's deemed assets to deemed liabilities. If a licensee's deemed liabilities exceed its deemed assets, a security deposit is generally required. Changes to the required ratio of the Corporation's deemed assets to deemed liabilities or other changes to the requirements of liability management programs may result in significant increases to the Corporation's compliance obligations. In addition, the liability management regime may prevent or interfere with the Corporation's ability to acquire or dispose of assets, as both the vendor and the purchaser of oil and gas assets must be in compliance with the liability management programs (both before and after the transfer of the assets) for the applicable regulatory agency to allow for the transfer of such assets. This is of particular concern to junior oil and gas companies that may be disproportionately affected by price instability. The recent Alberta Court of Queen's Bench decision, Redwater, found an operational conflict between the *Bankruptcy and Insolvency Act* and the AER's abandonment and reclamation powers when the licensee is insolvent, which was affirmed by a majority of the Alberta Court of Appeal, and has been appealed by the AER to the Supreme Court of Canada for final determination. In response to the decision, the AER issued interim rules to administer the liability management program and until the Government of Alberta can develop new regulatory measures to adequately address environmental liabilities. There remains a great deal of uncertainty as to what new regulatory measures will be developed by the provinces or in concert with the federal government, as the final ruling will become binding in all

Canadian jurisdictions. See "*Industry Conditions – Regulatory Authorities and Environmental Regulation – Liability Management Rating Programs*".

## **Climate Change**

### ***Compliance with greenhouse gas emissions regulations may result in increased operational costs to the Corporation***

The Corporation's exploration and production facilities and other operations and activities emit greenhouse gases which may require the Corporation to comply with GHG emissions legislation at the provincial or federal level. Climate change policy is evolving at regional, national and international levels, and political and economic events may significantly affect the scope and timing of climate change measures that are ultimately put in place. As a signatory to UNFCCC and a signatory to the Paris Agreement, which was ratified in Canada on October 3, 2016, the Government of Canada pledged to cut its GHG emissions by 30 per cent from 2005 levels by 2030. One of the pertinent policies announced to date by the Government of Canada to reduce GHG emission is the planned implementation of a nation-wide price on carbon emissions. Provincially, the Government of Alberta has already implemented a carbon levy on almost all sources of GHG emissions, now at a rate of \$30 per tonne. The direct or indirect costs of compliance with GHG-related regulations may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. Some of the Corporation's significant facilities may ultimately be subject to future regional, provincial and/or federal climate change regulations to manage GHG emissions. In addition, concerns about climate change have resulted in a number of environmental activists and members of the public opposing the continued exploitation and development of fossil fuels. Given the evolving nature of the debate related to climate change and the control of GHG and resulting requirements, it is expected that current and future climate change regulations will have the affect of increasing the Corporation's operating expenses and in the long-term reducing the demand for oil and gas production resulting in a decrease in the Corporation's profitability and a reduction in the value of its assets or asset write-offs. See "*Industry Conditions – Regulatory Authorities and Environmental Regulation – Climate Change Regulation*".

## **Variations in Foreign Exchange Rates and Interest Rates**

### ***Variations in foreign exchange rates and interest rates could adversely affect the Corporation's financial condition***

World oil and natural gas prices are quoted in United States dollars. The Canadian/United States dollar exchange rate, which fluctuates over time, consequently affects the price received by Canadian producers of oil and natural gas. Material increases in the value of the Canadian dollar relative to the United States dollar will negatively affect the Corporation's production revenues. Accordingly, exchange rates between Canada and the United States could affect the future value of the Corporation's reserves as determined by independent evaluators. Although a low value of the Canadian dollar relative to the United States dollar may positively affect the price the Corporation receives for its oil and natural gas production, it could also result in an increase in the price for certain goods used for the Corporation's operations, which may have a negative impact on the Corporation's financial results.

To the extent that the Corporation engages in risk management activities related to foreign exchange rates, there is a credit risk associated with counterparties with which the Corporation may contract.

An increase in interest rates could result in a significant increase in the amount the Corporation pays to service debt, resulting in a reduced amount available to fund its exploration and development activities, and if applicable, the cash available for dividends and could negatively impact the market price of the Common Shares.

## **Substantial Capital Requirements**

### ***The Corporation's access to capital may be limited or restricted as a result of factors related and unrelated to it, impacting its ability to conduct future operations, acquire and develop reserves***

The Corporation anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. As future capital expenditures will be financed out of cash generated from operations, borrowings and possible future equity sales, the Corporation's ability to do so is dependent on, among other factors:



- the overall state of the capital markets;
- the Corporation's credit rating (if applicable);
- commodity prices;
- interest rates;
- royalty rates;
- tax burden due to current and future tax laws; and
- investor appetite for investments in the energy industry and the Corporation's securities in particular.

Further, if the Corporation's revenues or reserves decline, it may not have access to the capital necessary to undertake or complete future drilling programs. The current conditions in the oil and gas industry have negatively impacted the ability of oil and gas companies to access additional financing. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Corporation. The Corporation may be required to seek additional equity financing on terms that are highly dilutive to existing shareholders. The inability of the Corporation to access sufficient capital for its operations could have a material adverse effect on the Corporation's business financial condition, results of operations and prospects.

### **Additional Funding Requirements**

*The Corporation may require additional financing from time to time to fund the acquisition, exploration and development of properties and its ability to obtain such financing in a timely fashion and on acceptable terms may be negatively impacted by the current economic and global market volatility*

The Corporation's cash flow from its reserves may not be sufficient to fund its ongoing activities at all times and from time to time, the Corporation may require additional financing in order to carry out its oil and natural gas acquisition, exploration and development activities. Failure to obtain financing on a timely basis could cause the Corporation to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. Due to the conditions in the oil and gas industry and/or global economic and political volatility, the Corporation may from time to time have restricted access to capital and increased borrowing costs. The current conditions in the oil and gas industry have negatively impacted the ability of oil and gas companies to access additional financing.

As a result of global economic and political volatility, the Corporation may from time to time have restricted access to capital and increased borrowing costs. Failure to obtain such financing on a timely basis could cause the Corporation to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If the Corporation's revenues from its reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect the Corporation's ability to expend the necessary capital to replace its reserves or to maintain its production. To the extent that external sources of capital become limited, unavailable or available on onerous terms, the Corporation's ability to make capital investments and maintain existing assets may be impaired, and its assets, liabilities, business, financial condition and results of operations may be affected materially and adversely as a result. In addition, the future development of the Corporation's petroleum properties may require additional financing and there are no assurances that such financing will be available or, if available, will be available upon acceptable terms. Alternatively, any available financing may be highly dilutive to existing shareholders. Failure to obtain any financing necessary for the Corporation's capital expenditure plans may result in a delay in development or production on the Corporation's properties.

### **Credit Facility Arrangements**

*Failing to comply with covenants under the Corporation's credit facility could result in restricted access to capital or being required to repay all amounts owing thereunder*

The Corporation currently has the New Credit Facilities and the amount authorized thereunder is dependent on the borrowing base determined by its lenders. The Corporation is required to comply with covenants under the New Credit Facilities which may, in certain cases, include certain financial ratio tests, which from time to time either affect the availability, or price, of additional funding and in the event that the Corporation does not comply with these covenants, the Corporation's access to capital could be restricted or repayment could be required. Events beyond the Corporation's control may contribute to the failure of the Corporation to comply with such covenants. A failure to comply with covenants could result in default under

the New Credit Facilities, which could result in the Corporation being required to repay amounts owing thereunder. If the Corporation's lenders require repayment of all or portion of the amounts outstanding under the New Credit Facilities for any reason, including for a default of a covenant or the reduction of a borrowing base, there is no certainty that the Corporation would be in a position to make such repayment. Even if the Corporation is able to obtain new financing, it may not be on commercially reasonable terms or terms that are acceptable to the Corporation. If the Corporation is unable to repay amounts owing under the New Credit Facilities, the lenders under the New Credit Facilities could proceed to foreclose or otherwise realize upon the collateral granted to them to secure the indebtedness. The acceleration of the Corporation's indebtedness under one agreement may permit acceleration of indebtedness under other agreements that contain cross default or cross-acceleration provisions. In addition, the New Credit Facilities may impose operating and financial restrictions on the Corporation that could include restrictions on, the payment of dividends, repurchase or making of other distributions with respect to the Corporation's securities, incurring of additional indebtedness, the provision of guarantees, the assumption of loans, making of capital expenditures, entering into of amalgamations, mergers, take-over bids or disposition of assets, among others.

The Corporation's lenders use the Corporation's reserves, commodity prices, applicable discount rate and other factors to periodically determine the Corporation's borrowing base. Commodity prices continue to be depressed and have fallen dramatically since 2014, and while prices have recently increased they remain volatile as a result of various factors including actions taken to limit OPEC and non-OPEC production and increasing production by US shale producers. Depressed commodity prices could reduce the Corporation's borrowing base, reducing the funds available to the Corporation under the New Credit Facilities. This could result in the requirement to repay a portion, or all, of the Corporation's indebtedness.

### **Issuance of Debt**

***Increased debt levels may impair the Corporation's ability to borrow additional capital on a timely basis to fund opportunities as they arise***

From time to time, the Corporation may enter into transactions to acquire assets or shares of other entities. These transactions may be financed in whole or in part with debt, which may increase the Corporation's debt levels above industry standards for oil and natural gas companies of similar size. Depending on future exploration and development plans, the Corporation may require additional debt financing that may not be available or, if available, may not be available on favourable terms. Neither the Corporation's articles nor its by-laws limit the amount of indebtedness that the Corporation may incur. The level of the Corporation's indebtedness from time to time, could impair the Corporation's ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise.

### **Hedging**

***Hedging activities expose the Corporation to the risk of financial loss and counter-party risk***

From time to time, the Corporation may enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline. However, to the extent that the Corporation engages in price risk management activities to protect itself from commodity price declines, it may also be prevented from realizing the full benefits of price increases above the levels of the derivative instruments used to manage price risk. In addition, the Corporation's hedging arrangements may expose it to the risk of financial loss in certain circumstances, including instances in which:

- production falls short of the hedged volumes or prices fall significantly lower than projected;
- there is a widening of price-basis differentials between delivery points for production and the delivery point assumed in the hedge arrangement;
- the counterparties to the hedging arrangements or other price risk management contracts fail to perform under those arrangements; or
- a sudden unexpected event materially impacts oil and natural gas prices.

Similarly, from time to time the Corporation may enter into agreements to fix the exchange rate of Canadian to United States dollars or other currencies in order to offset the risk of revenue losses if the Canadian dollar increases in value compared to

other currencies. However, if the Canadian dollar declines in value compared to such fixed currencies, the Corporation will not benefit from the fluctuating exchange rate.

### **Availability of Drilling Equipment and Access**

#### ***Restrictions on the availability of and access to drilling equipment may impede the Corporation's exploration and development activities***

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment (typically leased from third parties) as well as skilled personnel trained to use such equipment in the areas where such activities will be conducted. Demand for such limited equipment and skilled personnel, or access restrictions, may affect the availability of such equipment and skilled personnel to the Corporation and may delay exploration and development activities.

### **Title to Assets**

#### ***Defects in the title to the Corporation's properties may result in a financial loss***

Although title reviews may be conducted prior to the purchase of oil and natural gas producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that a defect in the chain of title will not arise. The actual interest of the Corporation in properties may accordingly vary from the Corporation's records. If a title defect does exist, it is possible that the Corporation may lose all or a portion of the properties to which the title defect relates, which may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. There may be valid challenges to title or legislative changes, which affect the Corporation's title to the oil and natural gas properties the Corporation controls that could impair the Corporation's activities on them and result in a reduction of the revenue received by the Corporation.

### **Reserves Estimates**

#### ***The Corporation's estimated proved and proved plus probable reserves are based on numerous factors and assumptions which may prove incorrect and which may affect the Corporation***

There are numerous uncertainties inherent in estimating quantities of oil, natural gas and natural gas liquids reserves and the future cash flows attributed to such reserves. The reserve and associated cash flow information set forth in this document are estimates only. Generally, estimates of economically recoverable oil and natural gas reserves and the future net cash flows from such estimated reserves are based upon a number of variable factors and assumptions, such as:

- historical production from the properties;
- production rates;
- ultimate reserve recovery;
- timing and amount of capital expenditures;
- marketability of oil and natural gas;
- royalty rates; and
- the assumed effects of regulation by governmental agencies and future operating costs (all of which may vary materially from actual results).

For those reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues associated with reserves prepared by different engineers, or by the same engineers at different times may vary. The Corporation's actual production, revenues, taxes and development and operating expenditures with respect to its reserves will vary from estimates and such variations could be material.

The estimation of proved reserves that may be developed and produced in the future is often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Recovery factors and drainage areas are often estimated by experience and analogy to similar producing pools. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based

upon production history and production practices will result in variations in the estimated reserves. Such variations could be material.

In accordance with applicable securities laws, the Corporation's independent reserves evaluator has used forecast prices and costs in estimating the reserves and future net cash flows as summarized herein. Actual future net cash flows will be affected by other factors, such as actual production levels, supply and demand for oil and natural gas, curtailments or increases in consumption by oil and natural gas purchasers, changes in governmental regulation or taxation and the impact of inflation on costs.

Actual production and cash flows derived from the Corporation's oil and natural gas reserves will vary from the estimates contained in the reserve evaluation, and such variations could be material. The reserve evaluation is based in part on the assumed success of activities the Corporation intends to undertake in future years. The reserves and estimated cash flows to be derived therefrom and contained in the reserve evaluation will be reduced to the extent that such activities do not achieve the level of success assumed in the reserve evaluation. The reserve evaluation is effective as of a specific effective date and, except as may be specifically stated, has not been updated and therefore does not reflect changes in the Corporation's reserves since that date.

### **Insurance**

*Not all risks of conducting oil and natural gas opportunities are insurable and the occurrence of an uninsurable event may have a materially adverse effect on the Corporation*

The Corporation's involvement in the exploration for and development of oil and natural gas properties may result in the Corporation becoming subject to liability for pollution, blow outs, leaks of sour natural gas, property damage, personal injury or other hazards. Although the Corporation maintains insurance in accordance with industry standards to address certain of these risks, such insurance has limitations on liability and may not be sufficient to cover the full extent of such liabilities. In addition, certain risks are not, in all circumstances, insurable or, in certain circumstances, the Corporation may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of any uninsured liabilities would reduce the funds available to the Corporation. The occurrence of a significant event that the Corporation is not fully insured against, or the insolvency of the insurer of such event, may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

### **Geopolitical Risks**

*Global political events may adversely affect commodity prices which in turn affect the Corporation's cash flow*

Political events throughout the world that cause disruptions in the supply of oil continuously affect the marketability and price of oil and natural gas acquired or discovered by the Corporation. Conflicts, or conversely peaceful developments, arising outside of Canada, including changes in political regimes or the parties in power, have a significant impact on the price of oil and natural gas. Any particular event could result in a material decline in prices and result in a reduction of the Corporation's net production revenue.

### **Eco-Terrorism Risks**

*The Corporation's properties may be subject to terrorist attack*

The Corporation's oil and natural gas properties, wells and facilities could be the subject of a terrorist attack. If any of the Corporation's properties, wells or facilities are the subject of terrorist attack it may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. The Corporation does not have insurance to protect against the risk from terrorism.

### **Dilution**

*The Corporation may issue additional Common Shares, diluting current shareholders*

The Corporation may make future acquisitions or enter into financings or other transactions involving the issuance of securities of the Corporation which may be dilutive.

### **Management of Growth**

#### ***The Corporation may not be able to effectively manage the growth of its business***

The Corporation may be subject to growth related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Corporation to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Corporation to deal with this growth may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

### **Expiration of Licenses and Leases**

#### ***The Corporation or its working interest partners may fail to meet the requirements of a licence or lease, causing its termination or expiry***

The Corporation's properties are held in the form of licences and leases and working interests in licences and leases. If the Corporation or the holder of the licence or lease fails to meet the specific requirement of a licence or lease, the licence or lease may terminate or expire. There can be no assurance that any of the obligations required to maintain each licence or lease will be met. The termination or expiration of the Corporation's licences or leases or the working interests relating to a licence or lease may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

### **Dividends**

#### ***The Corporation does not pay dividends and there is no assurance that it will do so in the future***

The Corporation has not paid any dividends on its outstanding shares. Payment of dividends in the future will be dependent on, among other things, the cash flow, results of operations and financial condition of the Corporation, the need for funds to finance ongoing operations and other considerations, as the Board of Directors of the Corporation considers relevant.

### **Litigation**

#### ***The Corporation may be involved in litigation in the course of its normal operations and the outcome of the litigation may adversely affect the Corporation and its reputation***

In the normal course of the Corporation's operations, it may become involved in, named as a party to, or be the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions, relating to personal injuries, including resulting from exposure to hazardous substances, property damage, property taxes, land and access rights, environmental issues, including claims relating to contamination or natural resource damages and contract disputes. The outcome with respect to outstanding, pending or future proceedings cannot be predicted with certainty and may be determined adversely to the Corporation, and as a result, could have a material adverse effect on the Corporation's assets, liabilities, business, financial condition and results of operations. Even if the Corporation prevails in any such legal proceedings, the proceedings could be costly and time-consuming and may divert the attention of management and key personnel from business operations, which could have an adverse affect on the Corporation's financial condition.

### **Aboriginal Claims**

#### ***Aboriginal claims may affect the Corporation***

Aboriginal peoples have claimed aboriginal title and rights in portions of Western Canada. The Corporation is not aware that any claims have been made in respect of its properties and assets; however, if a claim arose and was successful such claim may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. In

addition, the process of addressing such claims, regardless of the outcome, is expensive and time consuming and could result in delays which could have a material adverse effect on the Corporation's business and financial results.

### **Breach of Confidentiality**

#### ***Breach of confidentiality by a third party could impact the Corporation's competitive advantage or put it at risk of litigation***

While discussing potential business relationships or other transactions with third parties, the Corporation may disclose confidential information relating to the business, operations or affairs of the Corporation. Although confidentiality agreements are generally signed by third parties prior to the disclosure of any confidential information, a breach could put the Corporation at competitive risk and may cause significant damage to its business. The harm to the Corporation's business from a breach of confidentiality cannot presently be quantified, but may be material and may not be compensable in damages. There is no assurance that, in the event of a breach of confidentiality, the Corporation will be able to obtain equitable remedies, such as injunctive relief, from a court of competent jurisdiction in a timely manner, if at all, in order to prevent or mitigate any damage to its business that such a breach of confidentiality may cause.

### **Income Taxes**

#### ***Taxation authorities may reassess the Corporation's tax returns***

The Corporation files all required income tax returns and believes that it is in full compliance with the provisions of the Tax Act and all other applicable provincial tax legislation. However, such returns are subject to reassessment by the applicable taxation authority. In the event of a successful reassessment of the Corporation, whether by re-characterization of exploration and development expenditures or otherwise, such reassessment may have an impact on current and future taxes payable.

Income tax laws relating to the oil and natural gas industry, such as the treatment of resource taxation or dividends, may in the future be changed or interpreted in a manner that adversely affects the Corporation. Furthermore, tax authorities having jurisdiction over the Corporation may disagree with how the Corporation calculates its income for tax purposes or could change administrative practices to the Corporation's detriment.

### **Seasonality and Extreme Weather Conditions**

#### ***Oil and natural gas operations are subject to seasonal and extreme weather conditions and the Corporation may experience significant operational delays as a result***

The level of activity in the Canadian oil and natural gas industry is influenced by seasonal weather patterns. Wet weather and spring thaw may make the ground unstable. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. Road bans and other restrictions generally result in a reduction of drilling and exploratory activities and may also result in the shut-in of some of the Corporation's production if not otherwise tied-in. Certain oil and natural gas producing areas are located in areas that are inaccessible other than during the winter months because the ground surrounding the sites in these areas consists of swampy terrain. In addition, extreme cold weather, heavy snowfall and heavy rainfall may restrict the Corporation's ability to access its properties, cause operational difficulties including damage to machinery or contribute to personnel injury because of dangerous working conditions.

### **Third Party Credit Risk**

#### ***The Corporation is exposed to credit risk of third party operators or partners of properties in which it has an interest***

The Corporation may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of its petroleum and natural gas production and other parties. In addition, the Corporation may be exposed to third party credit risk from operators of properties in which the Corporation has a working or royalty interest. In the event such entities fail to meet their contractual obligations to the Corporation, such failures may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. In addition, poor credit conditions in the industry and of joint venture partners may affect a joint venture partner's willingness to participate in the

Corporation's ongoing capital program, potentially delaying the program and the results of such program until the Corporation finds a suitable alternative partner. To the extent that any of such third parties go bankrupt, become insolvent or make a proposal or institute any proceedings relating to bankruptcy or insolvency, it could result in the Corporation being unable to collect all or portion of any money owing from such parties. Any of these factors could materially adversely affect the Corporation's financial and operational results.

### **Information Technology Systems and Cyber-Security**

#### ***Breaches of the Corporation's cyber-security and loss of, or access to, electronic data may adversely impact its operations and financial position***

The Corporation has become increasingly dependent upon the availability, capacity, reliability and security of our information technology infrastructure and our ability to expand and continually update this infrastructure, to conduct daily operations. The Corporation depends on various information technology systems to estimate reserve quantities, process and record financial data, manage our land base, manage financial resources, analyze seismic information, administer our contracts with our operators and lessees and communicate with employees and third-party partners.

Further, the Corporation is subject to a variety of information technology and system risks as a part of its normal course operations, including potential breakdown, invasion, virus, cyber-attack, cyber-fraud, security breach, and destruction or interruption of the Corporation's information technology systems by third parties or insiders. Unauthorized access to these systems by employees or third parties could lead to corruption or exposure of confidential, fiduciary or proprietary information, interruption to communications or operations or disruption to our business activities or our competitive position. In addition, cyber phishing attempts, in which a malicious party attempts to obtain sensitive information such as usernames, passwords, and credit card details (and money) by disguising as a trustworthy entity in an electronic communication, have become more widespread and sophisticated in recent years. If the Corporation becomes a victim to a cyber phishing attack it could result in a loss or theft of the Corporation's financial resources or critical data and information or could result in a loss of control of the Corporation's technological infrastructure or financial resources. The Corporation applies technical and process controls in line with industry-accepted standards to protect our information assets and systems; however, these controls may not adequately prevent cyber-security breaches. Disruption of critical information technology services, or breaches of information security, could have a negative effect on our performance and earnings, as well as on our reputation. The significance of any such event is difficult to quantify, but may in certain circumstances be material and could have a material adverse effect on the Corporation's business, financial condition and results of operations.

### **Conflicts of Interest**

#### ***Conflicts of interest may arise for the Corporation's directors and officers who are also involved with other industry participants***

Certain directors or officers of the Corporation may also be directors or officers of other oil and natural gas companies and as such may, in certain circumstances, have a conflict of interest. Conflicts of interest, if any, will be subject to and governed by procedures prescribed by the ABCA which require a director or officer of a corporation who is a party to, or is a director or an officer of, or has a material interest in any person who is a party to, a material contract or proposed material contract with the Corporation to disclose his or her interest and, in the case of directors, to refrain from voting on any matter in respect of such contract unless otherwise permitted under the ABCA. See "*Directors and Executive Officers – Conflicts of Interest*".

### **Expansion into New Activities**

#### ***Expanding the Corporation's business exposes it to new risks and uncertainties***

The operations and expertise of the Corporation's management are currently focused primarily on oil and gas production, exploration and development in the Western Canada Sedimentary Basin. In the future the Corporation may acquire or move into new industry related activities or new geographical areas, may acquire different energy related assets, and as a result may face unexpected risks or alternatively, significantly increase the Corporation's exposure to one or more existing risk factors, which may in turn result in the Corporation's future operational and financial conditions being adversely affected.

## **Forward-Looking Information**

### ***Forward-Looking Information May Prove Inaccurate***

Shareholders and prospective investors are cautioned not to place undue reliance on the Corporation's forward-looking information. By its nature, forward-looking information involves numerous assumptions, known and unknown risks and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking information or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate.

## **Hydraulic Fracturing**

### ***Implementation of new regulations on hydraulic fracturing may lead to operational delays, increased costs and/or decreased production volumes, adversely affecting the Corporation's financial position***

Currently the Corporation does not use hydraulic fracturing as a completion technique on its wells, however hydraulic fracturing is a common industry practice and is one that the Corporation may use in the future. Hydraulic fracturing involves the injection of water, sand and small amounts of additives (or such other fluids and materials that may be used from time to time) under pressure into rock formations to stimulate the production of oil and natural gas. Specifically, hydraulic fracturing enables the production of commercial quantities of oil and natural gas from reservoirs that were previously unproductive. Any new laws, regulations or permitting requirements regarding hydraulic fracturing could lead to operational delays, increased operating costs, third party or governmental claims, and could increase the Corporation's costs of compliance and doing business as well as delay the development of oil and natural gas resources from shale formations, which are not commercial without the use of hydraulic fracturing. Restrictions on hydraulic fracturing could also reduce the amount of oil and natural gas that the Corporation is ultimately able to produce from its reserves.

## **Waterflood**

### ***Regulatory water use restrictions and/or limited access to water or other fluids may impact the Corporation's production volumes from its waterflood***

From time to time, the Corporation may undertake certain waterflooding programs which involve the injection of water or other liquids into an oil reservoir to increase production from the reservoir and to decrease production declines. To undertake such waterflooding activities the Corporation needs to have access to sufficient volumes of water, or other liquids, to pump into the reservoir to increase the pressure in the reservoir. There is no certainty that the Corporation will have access to the required volumes of water. In addition, in certain areas there may be restrictions on water use for activities such as waterflooding. If the Corporation is unable to access such water it may not be able to undertake waterflooding activities, which may reduce the amount of oil and natural gas that the Corporation is ultimately able to produce from its reservoirs. In addition, the Corporation may undertake certain waterflood programs that ultimately prove unsuccessful in increasing production from the reservoir and as a result have a negative impact on the Corporation's results of operations.

Additional information on the risks, assumptions and uncertainties are found under the heading "*Reader Advisory Regarding Forward-Looking Statements*" of this Annual Information Form.

## **Competition**

### ***The Corporation competes with other oil and natural gas companies, some of which have greater financial and operational resources***

The petroleum industry is competitive in all of its phases. The Corporation competes with numerous other entities in the exploration, development, production and marketing of oil and natural gas. The Corporation's competitors include oil and natural gas companies that have substantially greater financial resources, staff and facilities than those of the Corporation. Some of these companies not only explore for, develop and produce oil and natural gas, but also carry on refining operations and market oil and natural gas on an international basis. As a result of these complementary activities, some of these competitors may have greater and more diverse competitive resources to draw on than the Corporation. The Corporation's



ability to increase its reserves in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select and acquire other suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and natural gas include price, process, and reliability of delivery and storage.

### **Changing Investor Sentiment**

#### ***Changing investor sentiment towards the oil and gas industry may impact the Corporation's access to, and cost of, capital***

A number of factors, including the concerns of the effects of the use of fossil fuels on climate change, concerns of the impact of oil and gas operations on the environment, concerns of environmental damage relating to spills of petroleum products during transportation and concerns of indigenous rights, have affected certain investors' sentiments towards investing in the oil and gas industry. As a result of these concerns, some institutional, retail and public investors have announced that they no longer are willing to fund or invest in oil and gas properties or companies or are reducing the amount thereof over time. In addition, certain institutional investors are requesting that issuers develop and implement more robust social, environmental and governance policies and practices. Developing and implementing such policies and practices can involve significant costs and require a significant time commitment from the Board, management and employees of the Corporation. Failing to implement the policies and practices as requested by institutional investors may result in such investors reducing their investment in the Corporation or not investing in the Corporation at all. Any reduction in the investor base interested or willing to invest in the oil and gas industry and more specifically, the Corporation, may result in limiting the Corporation's access to capital, increasing the cost of capital, and decreasing the price and liquidity of the Common Shares.

### **Reputational Risk Associated with the Corporation's Operations**

#### ***The Corporation relies on its reputation to continue its operations and to attract and retain investors and employees***

Any environmental damage, loss of life, injury or damage to property caused by the Corporation's operations could damage the Corporation's reputation in the areas in which the Corporation operates. Negative sentiment towards the Corporation could result in a lack of willingness of municipal authorities being willing to grant the necessary licenses or permits for the Corporation to operate its business and in residents in the areas where the Corporation is doing business opposing further operations in the area by the Corporation. If the Corporation develops a reputation of having an unsafe work site it may impact the ability of the Corporation to attract and retain the necessary skilled employees and consultant to operate its business. Further, the Corporation's reputation could be affected by actions and activities of other corporations operating in the oil and gas industry, over which the Corporation has no control. In addition, environmental damage, loss of life, injury or damage to property caused by the Corporation's operations could result in negative investor sentiment towards the Corporation, which may result in limiting the Corporation's access to capital, increasing the cost of capital, and decreasing the price and liquidity of the Common Shares.

### **Diluent Supply**

#### ***A decrease or restriction to diluents supply may increase the Corporation's operating costs***

Heavy oil and bitumen are characterized by high specific gravity or weight and high viscosity or resistance to flow. Diluent is required to facilitate the transportation of heavy oil and bitumen. A shortfall in the supply of diluent may cause its price to increase thereby increasing the cost to transport heavy oil and bitumen to market and correspondingly increasing the Corporation's overall operating cost, decreasing its net revenues and negatively impacting the overall profitability of its heavy oil and bitumen projects.

### **Carbon Pricing Risk**

#### ***Taxes on carbon emissions affect the demand for oil and natural gas, the Corporation's operating expenses and may impair the Corporation's ability to compete***

The majority of countries across the globe have agreed to reduce their carbon emissions in accordance with the Paris Agreement. See "*Industry Conditions – Regulatory Authorities and Environmental Regulation – Climate Change Regulation*". In Canada, the federal and certain provincial governments have implemented legislation aimed at incentivizing the use of

alternatives fuels and in turn reducing carbon emissions. The taxes placed on carbon emissions may have the effect of decreasing the demand for oil and natural gas products and at the same time, increasing the Corporation's operating expenses, each of which may have a material adverse effect on the Corporation's profitability and financial condition. Further, the imposition of carbon taxes puts the Corporation at a disadvantage with its counterparts who operate in jurisdictions where there are less costly carbon regulations.

### **Disposal of Fluids Used in Operations**

*Regulations regarding the disposal of fluids used in the Corporation's operations may increase its costs of compliance or subject it to regulatory penalties or litigation*

The safe disposal of the hydraulic fracturing fluids (including the additives) and water recovered from oil and natural gas wells is subject to ongoing regulatory review by the federal and provincial governments, including its effect on fresh water supplies and the ability of such water to be recycled, amongst other things. While it is difficult to predict the impact of any regulations that may be enacted in response to such review, the implementation of stricter regulations may increase the Corporation's costs of compliance.

### **ADDITIONAL INFORMATION**

Additional information relating to Gear may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of Gear's securities and securities authorized for issuance under equity compensation plans is contained in Gear's management information circular relating to the Corporation's most recent annual meeting of shareholders that involved the election of directors.

Additional information is also provided in Gear's financial statements and management's discussion and analysis for the year ended December 31, 2017, which documents may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

**SCHEDULE "A"**  
**FORM 51-101F2 – REPORT ON RESERVES DATA BY**  
**INDEPENDENT QUALIFIED RESERVES EVALUATOR OR AUDITOR**

To the board of directors of Gear Energy Ltd. (the "**Company**"):

1. We have evaluated the Company's reserves data as at December 31, 2017. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2017, estimated using forecast prices and costs.
2. The reserves data are the responsibility of the Company's management. Our responsibility is to express an opinion on the reserves data based on our evaluation.
3. We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook as amended from time to time (the "**COGE Handbook**") maintained by the Society of Petroleum Evaluation Engineers (Calgary Chapter).
4. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.
5. The following table shows the net present value of future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of the Company evaluated for the year ended December 31, 2017, and identifies the respective portions thereof that we have audited, evaluated and reviewed and reported on to the Company's board of directors:

Independent Qualified Reserves Evaluator	Effective Date of Evaluation Report	Location of Reserves (Country or Foreign Geographic Area)	Net Present Value of Future Net Revenue (before income taxes, 10% discount rate – M\$)			
			Audited	Evaluated	Reviewed	Total
GLJ Petroleum Consultants	December 31, 2017	Canada	-	349,828	-	<b>349,828</b>

6. In our opinion, the reserves data respectively evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook, consistently applied. We express no opinion on the reserves data that we reviewed but did not audit or evaluate.
7. We have no responsibility to update our reports referred to in paragraph 5 for events and circumstances occurring after the effective date of our reports.
8. Because the reserves data are based on judgements regarding future events, actual results will vary and the variations may be material.

EXECUTED as to our report referred to above:

GLJ Petroleum Consultants Ltd., Calgary, Alberta, Canada, February 21, 2018.

(Signed) "Tim R. Freeborn"

Tim R. Freeborn, P. Eng.  
Vice President

## SCHEDULE "B"

### FORM 51-101F3 – REPORT OF MANAGEMENT AND DIRECTORS ON OIL AND GAS DISCLOSURE

Management of Gear Energy Ltd. (the "**Corporation**") is responsible for the preparation and disclosure of information with respect to the Corporation's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data.

An independent qualified reserves evaluator has evaluated the Corporation's reserves data. The report of the independent qualified reserves evaluator is presented in Schedule "A" to this Annual Information Form.

The Reserves Committee of the board of directors of the Corporation has

- (a) reviewed the Corporation's procedures for providing information to the independent qualified reserves evaluator;
- (b) met with the independent qualified reserves evaluator to determine whether any restrictions affected the ability of such independent qualified reserves evaluator to report without reservation; and
- (c) reviewed the reserves data with management and the independent qualified reserves evaluator.

The Reserves Committee of the board of directors has reviewed the Corporation's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The board of directors has, on the recommendation of the Reserves Committee, approved

- (a) the content and filing with securities regulatory authorities of Form 51-101F1 containing the reserves data and other oil and gas information;
- (b) the filing of the Form 51-101F2 which is the report of the independent qualified reserves evaluator on the reserves data, contingent resources data or prospective resources data; and
- (c) the content and filing of this report.

Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

Per: (signed) "Ingram Gillmore"  
Ingram Gillmore  
President, Chief Executive Officer and Director

Per: (signed) "Bryan Dozzi"  
Bryan Dozzi  
Vice President, Engineering

Per: (signed) "Donald T. Gray"  
Donald T. Gray  
Director

Per: (signed) "Raymond Cej"  
Raymond Cej  
Director

March 26, 2018

## SCHEDULE "C"

### GEAR ENERGY LTD.

#### AUDIT COMMITTEE

#### MANDATE AND TERMS OF REFERENCE

##### Role and Objective

The Audit Committee (the "**Committee**") is a committee of the board of directors (the "**Board**") of Gear Energy Ltd. ("**Gear**" or the "**Corporation**") to which the Board has delegated its responsibility for the oversight of the following:

1. nature and scope of the annual audit;
2. the oversight of management's reporting on internal accounting standards and practices;
3. the review of financial information, accounting systems and procedures;
4. financial reporting and financial statements,

and has charged the Committee with the responsibility of recommending, for approval of the Board, the audited financial statements, interim financial statements and other mandatory disclosure releases containing financial information.

The primary objectives of the Committee are as follows:

5. To assist directors of Gear ("**Directors**") in meeting their responsibilities (especially for accountability) in respect of the preparation and disclosure of the financial statements of the Corporation and related matters;
6. To provide better communication between Directors and external auditors;
7. To enhance the external auditor's independence;
8. To increase the credibility and objectivity of financial reports; and
9. To strengthen the role of the outside Directors by facilitating in depth discussions between Directors on the Committee, management of Gear ("**Management**") and external auditors.

##### MEMBERSHIP OF COMMITTEE

1. The Committee will be comprised of at least three (3) Directors or such greater number as the Board may determine from time to time and all members of the Committee shall be "independent" (as such term is used in National Instrument 52-110 – Audit Committees ("**NI 52-110**") unless the Board determines that the exemption contained in NI 52-110 is available and determines to rely thereon.
2. The Board may from time to time designate one of the members of the Committee to be the Chair of the Committee.
3. All of the members of the Committee must be "financially literate" unless the Board determines that an exemption under NI 52-110 from such requirement in respect of any particular member is available and determines to rely thereon in accordance with the provisions of NI 52-110.
4. For the purposes of this Mandate, "financially literate" has the meaning ascribed thereto in NI 52-110 and means that the member has the ability to read and understand a set of financial statements that present a breadth and level of

complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statements.

#### MANDATE AND RESPONSIBILITIES OF COMMITTEE

It is the responsibility of the Committee to:

1. Oversee the work of the external auditors, including the resolution of any disagreements between Management and the external auditors regarding financial reporting.
2. Satisfy itself on behalf of the Board with respect to Gear's internal control systems identifying, monitoring and mitigating business risks; and ensuring compliance with legal, ethical and regulatory requirements.
3. Review the annual and interim financial statements of the Corporation and related management's discussion and analysis ("**MD&A**") prior to their submission to the Board for approval. The process may include but not be limited to:
  - reviewing changes in accounting principles and policies, or in their application, which may have a material impact on the current or future years' financial statements;
  - reviewing significant accruals, reserves or other estimates such as the ceiling test calculation;
  - reviewing accounting treatment of unusual or non-recurring transactions;
  - ascertaining compliance with covenants under loan agreements;
  - reviewing disclosure requirements for commitments and contingencies;
  - reviewing adjustments raised by the external auditors, whether or not included in the financial statements;
  - reviewing unresolved differences between Management and the external auditors; and
  - obtain explanations of significant variances with comparative reporting periods.
4. Review the financial statements, prospectuses, MD&A, annual information forms ("**AIF**") and all public disclosure containing audited or unaudited financial information (including, without limitation, annual and interim press releases and any other press releases disclosing earnings or financial results) before release and prior to Board approval. The Committee must be satisfied that adequate procedures are in place for the review of Gear's disclosure of other financial information and must periodically assess the accuracy of those procedures.
5. With respect to the appointment of external auditors by the Board:
  - recommend to the Board the external auditors to be nominated;
  - recommend to the Board the terms of engagement of the external auditor, including the compensation of the auditors and a confirmation that the external auditors will report directly to the Committee;
  - on an annual basis, review and discuss with the external auditors all significant relationships such auditors have with the Corporation to determine the auditors' independence;
  - when there is to be a change in auditors, review the issues related to the change and the information to be included in the required notice to securities regulators of such change; and

- review and pre-approve any non-audit services to be provided to Gear or its subsidiaries by the external auditors and consider the impact on the independence of such auditors. The Committee may delegate to one or more independent members the authority to pre-approve non-audit services, provided that the member(s) report to the Committee at the next scheduled meeting such pre-approval and the member(s) comply with such other procedures as may be established by the Committee from time to time.
6. Review with external auditors (and internal auditor if one is appointed by Gear) their assessment of the internal controls of Gear, their written reports containing recommendations for improvement, and Management's response and follow-up to any identified weaknesses. The Committee will also review annually with the external auditors their plan for their audit and, upon completion of the audit, their reports upon the financial statements of Gear and its subsidiaries.
  7. Review risk management policies and procedures of the Corporation (i.e., hedging, litigation and insurance).
  8. To review and satisfy itself on behalf of the Board that management has adequate procedures in place for reporting and certification under the *Extractive Sector Transparency Measures Act* (Canada) ("ESTMA") when the Corporation is required to comply with ESTMA.
  9. Establish a procedure for:
    - the receipt, retention and treatment of complaints received by Gear regarding accounting, internal accounting controls or auditing matters; and
    - the confidential, anonymous submission by employees of Gear of concerns regarding questionable accounting or auditing matters.
  10. Review and approve Gear's hiring policies regarding partners and employees and former partners and employees of the present and former external auditors of the Corporation.

The Committee has authority to communicate directly with the internal auditors (if any) and the external auditors of the Corporation. The Committee will also have the authority to investigate any financial activity of Gear. All employees of Gear are to cooperate as requested by the Committee.

The Committee may also retain persons having special expertise and/or obtain independent professional advice to assist in filling their responsibilities at such compensation as established by the Committee and at the expense of Gear without any further approval of the Board.

#### **Meetings and Administrative Matters**

1. At all meetings of the Committee every resolution shall be decided by a majority of the votes cast. In case of an equality of votes, the Chairman of the meeting shall be entitled to a second or casting vote.
2. The Chair will preside at all meetings of the Committee, unless the Chair is not present, in which case the members of the Committee that are present will designate from among such members the Chair for purposes of the meeting.
3. A quorum for meetings of the Committee will be a majority of its members, and the rules for calling, holding, conducting and adjourning meetings of the Committee will be the same as those governing the Board unless otherwise determined by the Committee or the Board.
4. Meetings of the Committee should be scheduled to take place at least four times per year. Minutes of all meetings of the Committee will be taken. The Chief Financial Officer of Gear will attend meetings of the Committee, unless otherwise excused from all or part of any such meeting by the Chairman.

5. The Committee will meet with the external auditor at least once per year (in connection with the preparation of the year-end financial statements) and at such other times as the external auditor and the Committee consider appropriate.
6. Agendas, approved by the Chair, will be circulated to Committee members along with background information on a timely basis prior to the Committee meetings.
7. The Committee may invite such officers, directors and employees of the Corporation and its subsidiaries as it sees fit from time to time to attend at meetings of the Committee and assist in the discussion and consideration of the matters being considered by the Committee.
8. Minutes of the Committee will be recorded and maintained and circulated to Directors who are not members of the Committee or otherwise made available at a subsequent meeting of the Board.
9. The Committee may retain persons having special expertise and may obtain independent professional advice to assist in fulfilling its responsibilities at the expense of the Corporation as determined by the Committee.
10. Any members of the Committee may be removed or replaced at any time by the Board and will cease to be a member of the Committee as soon as such member ceases to be a Director. The Board may fill vacancies on the Committee by appointment from among its members. If and whenever a vacancy exists on the Committee, the remaining members may exercise all its powers so long as a quorum remains. Subject to the foregoing, following appointment as a member of the Committee each member will hold such office until the Committee is reconstituted.
11. Any issues arising from these meetings that bear on the relationship between the Board and Management should be communicated to the Chairman of the Board by the Committee Chair.
12. Nothing contained in this mandate is intended to expand applicable standards of liability under statutory, regulatory, common law or any other legal requirements for the Board or members of the Committee. The Committee may adopt additional policies and procedures as it deems necessary from time to time to fulfill its responsibilities.

March 26, 2018