GEAR ENERGY

Monthly Update

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FROM THE DESK OF INGRAM GILLMORE, PRESIDENT & CEO

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

Capital * ($k CAD)	Q1 18	Q2 18	Q3 18	Q4 18	2018	Q1 19	Q2 19	19-Jul	19-Aug	19-Sep	Q3 19	2019 YTD
Drill & Complete	3,624	3,451	14,936	5,596	**27,607**	6,112	1,818	3,540	3,597	2,116	9,253	**17,183**
Facilities	3,742	2,742	3,490	5,137	**15,110**	2,676	1,658	1,330	908	1,267	3,505	**7,839**
Land & Seismic	2,766	282	39	34	**3,121**	671	31	2	12	5	19	**721**
A & D	390	10	65,471	301	**66,172**	-1,038	-163	0	0	115	115	**-1,086**
Other	-889	-90	285	-1,285	**-1,979**	-207	-173	105	50	-1,132	-977	**-1,357**
TOTAL	**9,633**	**6,395**	**84,220**	**9,783**	**110,032**	**8,214**	**3,172**	**4,977**	**4,567**	**2,370**	**11,914**	**23,300**

Production (boe/d) *	Q1 18	Q2 18	Q3 18	Q4 18	2018	Q1 19	Q2 19	19-Jul	19-Aug	19-Sep	Q3 19	2019 YTD
Sales	**6,522**	**7,025**	**6,747**	**6,847**	**6,786**	**6,877**	**7,161**	**6,780**	**7,091**	**6,893**	**6,922**	**6,987**
Field	6,810	6,532	6,729	7,030	6,776	6,649	6,979	6,800	7,012	6,776	6,864	6,831

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

Well, today is the big day! Who will Canadians decide is qualified to run this amazing country of ours? It has definitely been a long four years, and passions are running high this time around, especially if you care about the future of Canadian Energy.

All the frenzy and fervour of this election inspired me to look back four years ago to see what we were talking about right after the current Government was given its mandate.

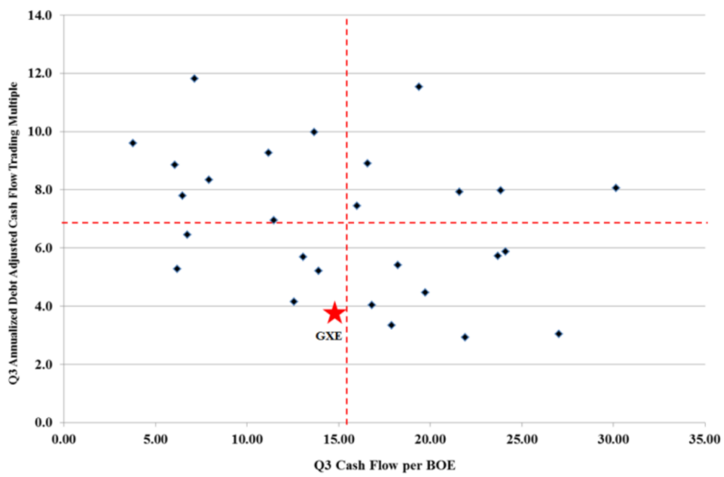
I went back and reviewed the Gear Monthly Update to shareholders from November 30, 2015 (available on our website). The topic at the time was focused on analyzing Gear's Third Quarter 2015 results and market valuation in comparison with peers. What a great subject matter to use to compare how the world has changed. I decided to look at our latest quarterly results from the second quarter of 2019 and compare them to how the Gear world looked four years ago.

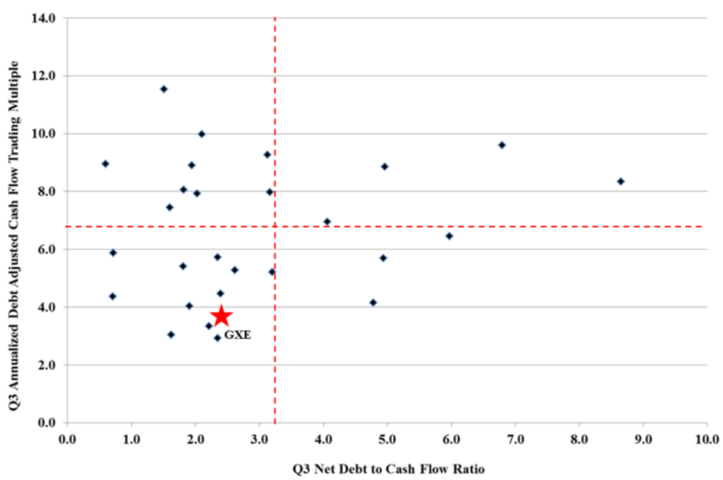
In order to keep everything in perspective, the first thing to do is look at the differences in commodity prices between then and now.

	Q3 2015	Q2 2019	Increase
WTI US$/bbl	46.40	59.82	**29%**
WCS CAD$/bbl	43.37	65.73	**52%**

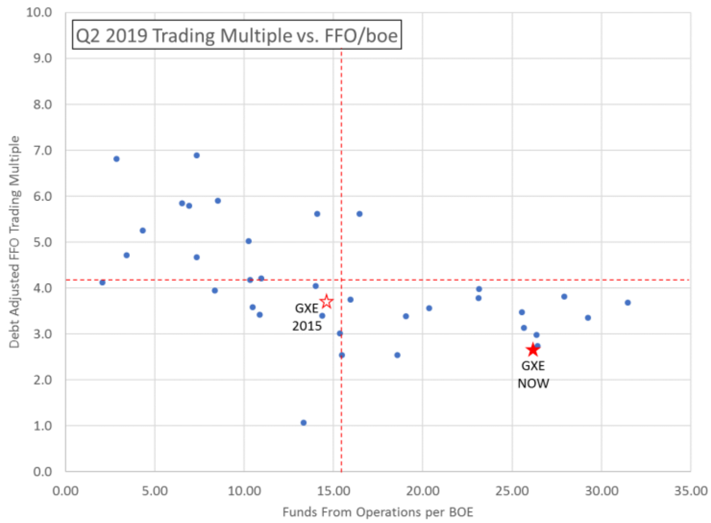
There is quite a dramatic difference; WTI and WCS prices are significantly stronger now than they were four years ago, 29 and 52 per cent increases respectively. Sounds like good news, doesn't it?

The main conclusion of the November 2015 update was straightforward. Despite having near average or better than average financial metrics, Gear's trading multiple was significantly lower than the peer average. The two key metrics presented were funds from operations per boe (called cash flow per boe at the time) and the ratio of net debt to annualized funds from operations for the quarter (called net debt to cash flow at the time). The two charts from 2015 are reproduced here.



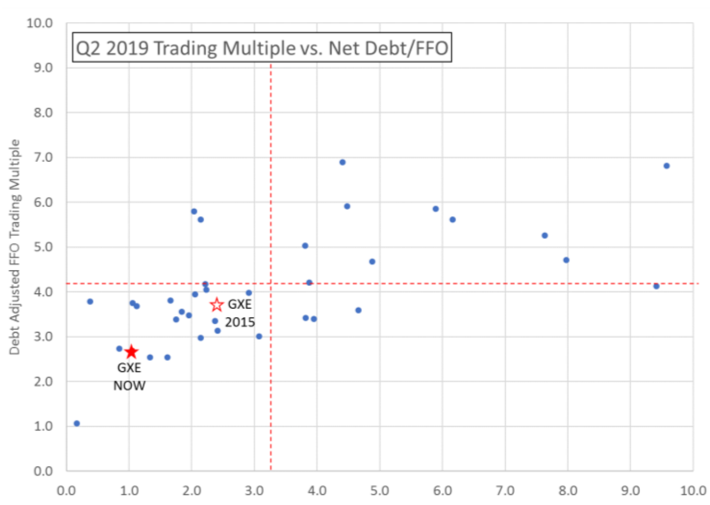


So the real question is, with four years of effort and the improvement in underlying commodity prices, how do the same plots look now? First let's look at the trading multiple versus FFO per boe chart.



For perspective, I highlighted Gear's current position in the solid red star and added the 2015 status from the previous chart in the red outline. What a phenomenal difference. Four years later, Gear's FFO per boe has improved by almost 80 per cent over the 2015 results. On a relative basis, Gear's approximately average position in 2015 is now solidly top quartile in 2019. Yet, despite this material improvement, and the stronger oil prices, Gear's trading multiple is almost 30 per cent lower than it was in 2015, and remains near the bottom end of the peer group. Notwithstanding the fact that the average trading multiple of all the peers has dropped by 40 per cent since 2015, this is still a little tedious to not see Gear ranking better.

The second chart is the trading multiple versus balance sheet strength, or in this case the ratio of net debt to annualized FFO.



The observations here are very similar to the previous chart. In four years, Gear's net debt to FFO ratio has improved by over 50 per cent and Gear's relative position has gone from slightly better than average to almost top decile. However, the relative trading multiple is still lagging despite the improvement in performance.

Before drawing too many conclusions, I should clarify that an unfortunate majority of peers shown in the top left side of all these charts have enterprise values that are dominated by high net debt. So the high trading multiples appear to be propped more by excessive debt and as such, are less correlated to true financial performance.

So what conclusions can one draw from all of this? My thoughts are as follows:

- Over the last four years, Gear has significantly improved both its absolute and relative performance and ultimately has built a stronger and more resilient company than existed back in 2015.
- Investor sentiment is exceptionally low, as proven by the complete lack of correlation between stronger oil prices and lower trading multiples.
- The market apparently has little interest in recognizing relative financial performance improvements and appears more likely to focus on perceptions of market cap size-based risk or commodity type risk or just plain risk in general.

In my mind, the first conclusion is the most important and the last two are more macro in nature and do not materially impact the historical or future strategy at Gear. Although, the improvement in fundamentals paired with the compression in trading multiples were the main drivers for Gear initiating its recently announced share repurchase program.

However, if one of the key negative pressures on realizing shareholder value truly is sentiment, then maybe by the end of today that might start to change.

Certain information in this monthly update is forward-looking within the meaning of certain securities laws, and is subject to important risks, uncertainties and assumptions. This forward-looking information may include, among other things, estimated production, expected cash flow and profit from certain assets of Gear, expectations of commodity prices and price differentials, demand for oil, capital expenditure budgets and estimates, royalty rates, operating costs, credit/debt requirements, and drilling inventory and locations. Readers should not rely on such forward-looking information to make investment decisions as the results or events anticipated or predicted in such forward-looking information may differ materially from actual results or events as a result of a number of factors including based on the risk factors as set forth in Gear's most recent annual information form (the "**AIF**"), which is available on this website and at www.sedar.com. Gear has based the forward-looking information on a number of assumptions including the assumptions identified in such monthly updates, which may not be realized. It has also assumed that the risk factors discussed in the AIF will not cause such forward-looking information to differ materially from actual results or events. The forward-looking information in this monthly update describes the expectations of management of Gear as of the respective dates of this monthly update and Gear does not assume any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable laws. Readers should not rely on the views of management of Gear as set out in this monthly update to make investment decisions with respect to Gear or other companies in the oil and gas industry and should instead consult with their own investment advisors.

This monthly update may include certain key performance indicators to analyze financial and operating performance such as cash flow from operations, cash flow from operations per debt adjusted share, production per day per thousand debt adjusted shares, operating netbacks, corporate netbacks and net debt, which do not have any standardized meaning prescribed by Canadian generally accepted accounting principles ("**GAAP**") and therefore may not be comparable with the calculation of similar measures for other entities. For additional information on these non-GAAP measures, see Gear's most recent management's discussion and analysis which is available on Gear's website at www.gearenergy.com and at www.sedar.com.

Barrel of oil equivalent ("boe") used in the monthly updates have been based on a conversion ratio of 1 barrel of oil to 6 thousand cubic feet of natural gas. A boe may be misleading, particularly if used in isolation, as such conversion ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.