GEAR ENERGY

Monthly Update

August 27, 2020
Vol. 7 Issue 7

FROM THE DESK OF INGRAM GILLMORE, PRESIDENT & CEO

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

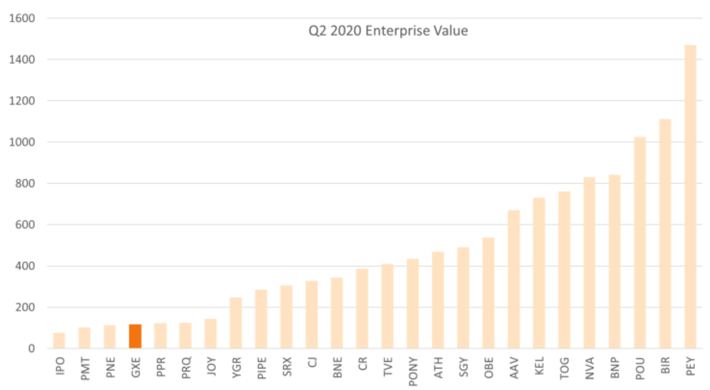
Capital * ($k CAD)	Q1 19	Q2 19	Q3 19	Q4 19	2019	Q1 20	May	Jun	Q2 20	Jul	Q3 20 TD	2020 YTD
Drill & Complete	6,112	1,818	9,253	9,071	**26,253**	7,907	-1	32	341	37	37	**8,285**
Facilities	2,676	1,658	3,505	3,967	**11,806**	3,037	39	98	-98	90	90	**3,029**
Land & Seismic	671	31	19	89	**810**	131	37	6	49	-2	-2	**179**
A&D	-1,038	-163	115	109	**-977**	3	0	0	0	0	0	**3**
Other	-207	-173	-977	-523	**-1,880**	26	-37	-10	-54	-92	-92	**-120**
TOTAL	**8,214**	**3,172**	**11,914**	**12,712**	**36,012**	**11,104**	**38**	**126**	**238**	**34**	**34**	**11,376**

Production (boe/d) *												
Sales	**6,877**	**7,161**	**6,922**	**6,888**	**6,962**	**6,744**	**1,319**	**3,503**	**2,749**	**4,833**	**4,833**	**4,759**
Field	6,649	6,979	6,864	6,917	6,853	6,688	1,343	3,652	3,072	4,759	4,759	4,862

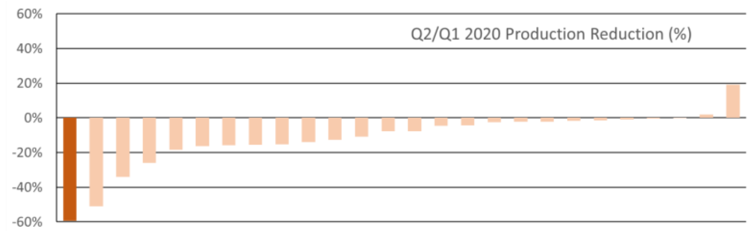
** Estimates based on field data, actuals will vary from estimates due to accruals and adjustments. Such variances may be material.*

The second quarter of 2020 was certainly one for the history books. Negative WTI oil prices was a new and unique experience for all of us that hopefully is never repeated again. As usual, in the face of challenging times, the Gear team responded quickly to the rapidly changing economic environment. Through the quarter, significant costs were reduced, and production was materially curtailed in order to decrease variable costs, maximize the impacts of a strong hedging program and to preserve the long-term value of reserves.

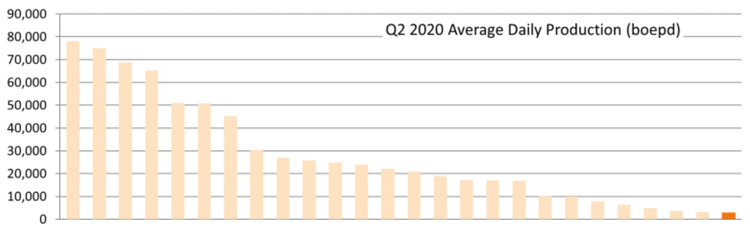
Now that the dust has settled on the quarter, we have a chance to look back on the Gear results and again benchmark them against our public peer group. Based on enterprise value, the following companies were included in our regular review.



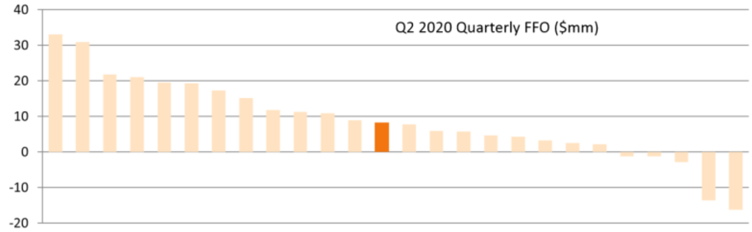
The first thing we thought would be interesting to look at is how various companies responded to the unprecedented price shock during the quarter. The easiest way to present that is to look at the percentage that production was reduced in the second quarter as compared to the first quarter of 2020.



Interestingly, Gear led the pack in reacting to the price weakness. Although not shown, the companies with the least production impact were typically gas weighted companies, which makes sense because second quarter natural gas prices were relatively stable when compared to oil prices. The end result was that Gear produced the lowest amount during the quarter of the entire peer group.

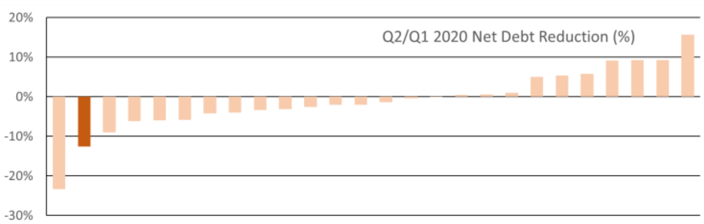


However, despite the low production amount, Gear generated higher Funds From Operations ('FFO') than almost half of the peer group. In fact, the results ranged from only a high of $33 million to a low of minus $16 million with an average of $8.8 million, compared to Gear at $8.1 million.

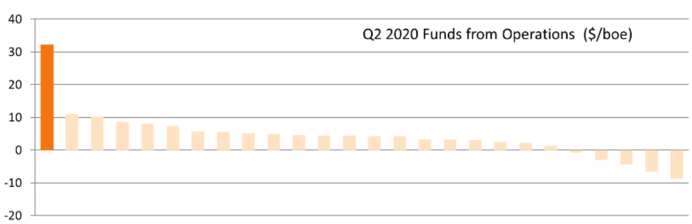


Perhaps even more disturbing is that five of the peer companies generated negative FFO during the quarter. Those five companies produced a combined total of over 100,000 boe/d and lost money doing it. What a challenging quarter indeed.

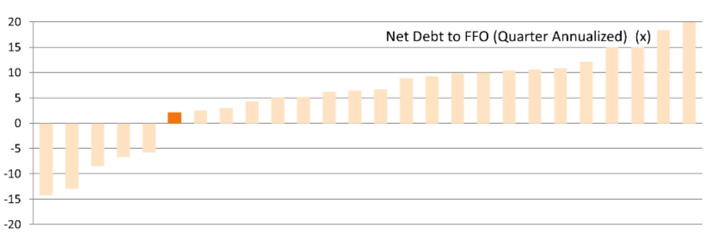
The next question this brings to mind, is what did the companies with positive funds flow decide to do with that money? In Gear's case, we dedicated essentially all of it to reducing outstanding net debt. That did seem to be a common occurrence, although some peers did keep their capital spending moving forward, either due to their gas weightings, external commitments, or some other influencing factors. The end result was the following chart showing the percentage of reduction in outstanding net debt in the second quarter of 2020 compared to the first quarter. Gear delivered the second largest reduction in the peer group.



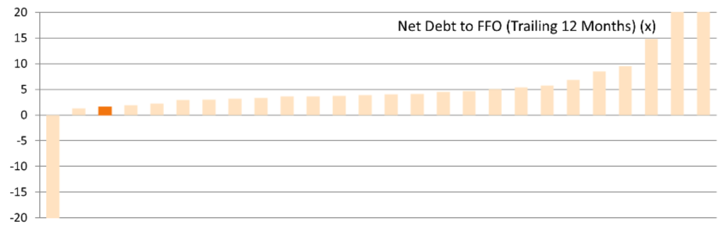
As previously stated, Gear entered the second quarter with the goal of maximizing the impact of the strong hedging program by minimizing field operating losses due to low prices. The following chart demonstrates that we were extremely successful in accomplishing that goal, delivering almost three times higher FFO/boe than the second place peer company and almost ten times higher than the average.



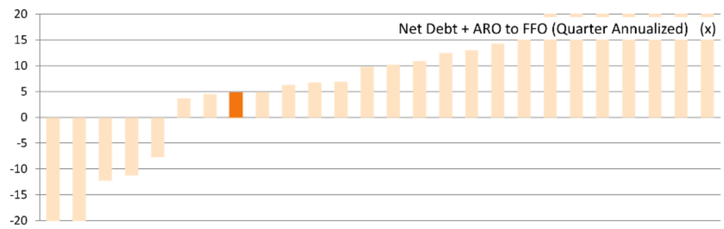
The combination of high funds flow and reduced net debt put Gear solidly in the top position for the ratio of quarterly net debt to FFO. (the five peers on the left all had negative FFO so the numbers are not meaningful).



Even if the data is re-charted using trailing 12 months data instead of just the second quarter, Gear still maintains the second best position in the peer group. (charts were truncated at +20 and -20 for simplicity).



And last but not least, if the decommissioning liability (ARO) is added into the ratio, Gear still benchmarks in the top three. (again the chart was truncated at +20 and -20 for simplicity, and if a peer company discounted their decommissioning liability in their financial statements by greater than 5%, the undiscounted and unescalated number was used instead)



As we have done many times in the past when presented with challenging macro events, the Gear team responded quickly and decisively to provide positive results for our equity holders and our lenders. At the end of the day, despite the unprecedented oil price weakness and economic turmoil, the team at Gear managed to post a great quarter.

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.