

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	Jun	Q2 20	Jul	Aug	Q3 20 TD	2020 YTD
Drill & Complete	6,112	1,818	9,253	9,071	26,253	7,907	32	341	37	45	82	8,330
Facilities	2,676	1,658	3,505	3,967	11,806	3,037	98	-98	90	350	441	3,379
Land & Seismic	671	31	19	89	810	131	6	49	-2	13	11	191
A&D	-1,038	-163	115	109	-977	3	0	0	0	0	0	3
Other	-207	-173	-977	-523	-1,880	26	-10	-54	-92	10	-82	-110
TOTAL	8,214	3,172	11,914	12,712	36,012	11,104	126	238	34	418	452	11,794

Production (boe/d) *

	6,877	7,161	6,922	6,888	6,962	6,744	3,503	2,749	4,833	6,139	5,486	4,934
Sales	6,877	7,161	6,922	6,888	6,962	6,744	3,503	2,749	4,833	6,139	5,486	4,934
Field	6,649	6,979	6,864	6,917	6,853	6,688	3,652	3,072	4,759	6,110	5,435	5,021

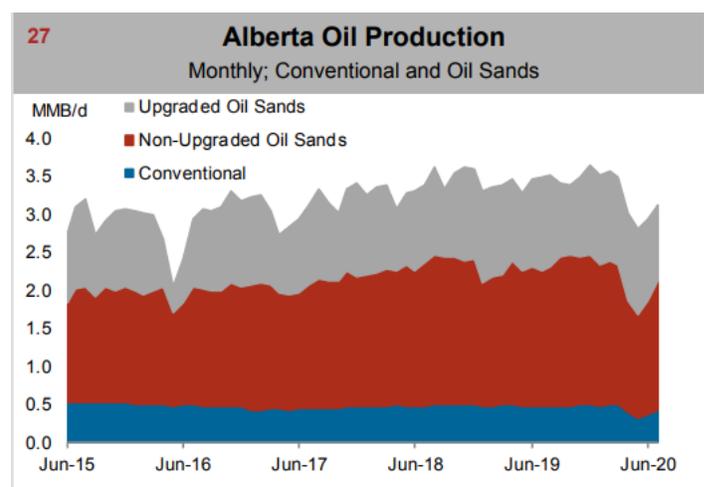
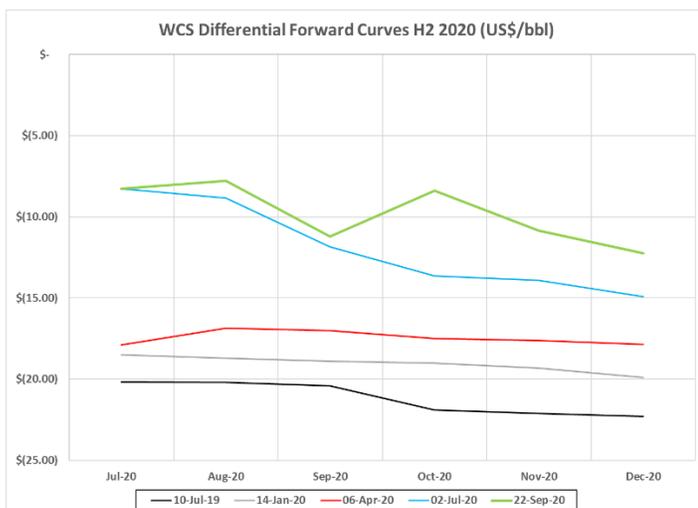
* Estimates based on field data, actuals will vary from estimates due to accruals and adjustments. Such variances may be material.

August was “relatively” busy at Gear, with production being re-started across all three core areas and some minor capital projects being advanced. Funds were invested in completing two of the Paradise hill heavy oil wells that were drilled in the first quarter and then left uncompleted due to weak oil prices. Additionally, Gear invested in a new gas pipeline to tie-in the associated gas being produced from our successful three-well heavy oil pad in Lindbergh. These investments were well timed considering Gear’s August realized heavy oil price of approximately \$44/bbl was more than double the price received during the second quarter, and Gear’s August realized gas price broke above \$2.50/mcf for the first time in nine months.

Speaking of pricing, all eyes seem to be laser focused on the weakness and volatility in US WTI oil prices these days. However, the market appears to be mostly ignoring the continued and dramatic improvements in Canadian heavy oil prices. The WCS differentials have compressed significantly over the last year.

The main driver impacting the strength of Canadian differentials is the continued reduction in Alberta oil inventories. The recent movements have been noteworthy. Back in May there was approximately 35 mmbbls of oil in working storage (only a couple of million barrels shy of the peak five-year range amount), and now within four months, those inventories have dropped to approximately 22 mmbbls. That is close to a 40% drop, and is basically matching the lowest five-year range amount.

There are a lot of moving parts contributing to these changes, but the most meaningful would be production curtailments, (both intentional and otherwise) and of course, volatility of demand. Back in June when WTI oil prices finally got back above US\$40/bbl, the headlines were no longer riddled with production curtailment commentary, instead companies were clarifying how soon they hoped to be back to full productive capacity. This data from ARC Energy Institute (and the AER) is not real time, but it shows the trajectory heading back towards full production levels.



The demand side of the equation is far more complex. But if you look at North American headlines, they seem to be spending a lot of time on the material reduction in air travel while almost ignoring all of the other (larger) users of oil.

According to the EIA, the top use for oil products in 2019 was motor gasoline, which accounted for close to half of all the oil consumed in the US.

Petroleum products consumed in 2019

Product	Annual consumption (million barrels per day)
Finished motor gasoline ¹	9.309
Distillate fuel oil (diesel fuel and heating oil) ¹	4.103
Hydrocarbon gas liquids (HGLs)	3.139
Kerosene-type jet fuel	1.743
Still gas	0.668
Asphalt and road oil	0.348
Petrochemical feedstocks	0.317
Petroleum coke	0.303
Residual fuel oil	0.275
Miscellaneous products and other liquids ²	0.149
Lubricants	0.113
Special naphthas	0.050
Aviation gasoline	0.013
Kerosene	0.007
Waxes	0.005
Total petroleum products	20.543

I don't know about you, but it sure seems to me that the roads have been exceptionally busy lately. While I have not been seeing as many commuters heading downtown in Calgary, the activity outside of the city is off the charts. Try heading out of Calgary to the mountains and you can expect weekend traffic every day of the week, and all the destination parking lots are overflowing pretty much every day. Perhaps this pent-up air travel demand has been rerouted more locally in more places than just Calgary?

The second highest use for oil in 2019 was combined diesel and heating oil. Diesel is mostly used by trucks, just like the ones that deliver your daily dose of online shopping products. If my family is a reliable proxy, that demand should be very strong through 2020. Additionally, the use of heating oil is pretty darn immobile. I don't suspect that the pandemic will cause any delay to the inevitable onset of winter cold.

Despite the headlines, you actually have to move a couple more spots down the list to finally get to the jet fuel consumption, which in 2019 accounted for just over 8% of all the products consumed. I do know that demand for that product has diminished in North America, but it certainly hasn't gone to zero. And of course, before those online products get loaded onto the diesel-powered trucks, they have to be flown from their original sources, dominantly overseas.

So, all these anecdotal discussions aside, the bottom line is that actual realized Canadian oil prices are doing better than one might assume if they limited their research to daily WTI quotes and often misleading headlines. Demand has been outstripping supply in Alberta, and it is showing up in the inventories. It is difficult to predict where we go from here, but here, is not as bad as some people seem to think.

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.