GEAR ENERGY

Monthly Update

October 23, 2020
Vol. 7 Issue 9

FROM THE DESK OF INGRAM GILLMORE, PRESIDENT & CEO

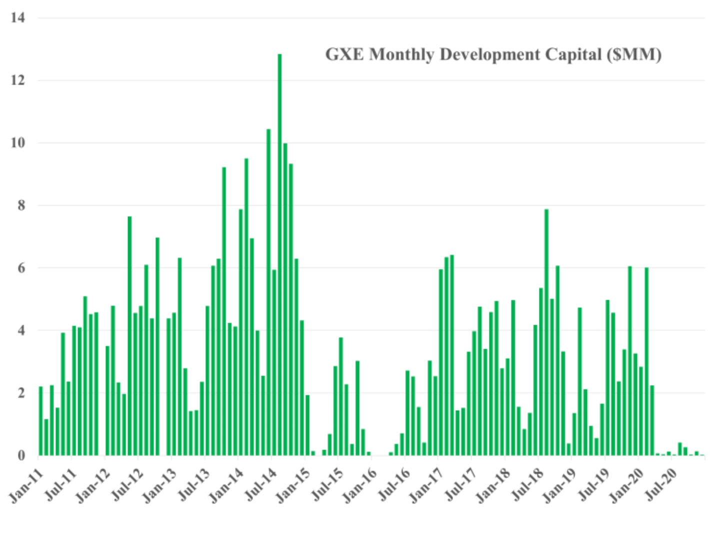
We regularly include the following data populated with estimated monthly results:

Capital * *($k CAD)*	Q1 19	Q2 19	Q3 19	Q4 19	**2019**	Q1 20	Q2 20	20-Jul	20-Aug	20-Sep	Q3 20	**2020 YTD**
Drill & Complete	6,112	1,818	9,253	9,071	**26,253**	7,907	341	37	45	24	106	**8,354**
Facilities	2,676	1,658	3,505	3,967	**11,806**	3,037	-98	90	350	235	676	**3,615**
Land & Seismic	671	31	19	89	**810**	131	49	-2	13	7	18	**198**
A&D	-1,038	-163	115	109	**-977**	3	0	0	0	0	0	**3**
Other	-207	-173	-977	-523	**-1,880**	26	-54	-92	10	-3	-85	**-112**
TOTAL	**8,214**	**3,172**	**11,914**	**12,712**	**36,012**	**11,104**	**238**	**34**	**418**	**264**	**716**	**12,058**

Production (boe/d) *												
Sales	**6,877**	**7,161**	**6,922**	**6,888**	**6,962**	**6,744**	**2,749**	**4,833**	**6,139**	**6,654**	**5,867**	**4,394**
Field	6,649	6,979	6,864	6,917	6,853	6,688	3,072	4,759	6,110	5,980	5,612	4,471

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

I always like to chart things. It helps me to put data into perspective and to use that data to draw conclusions from and to assist in planning for the future. So, with that in mind, I present you the following chart: A historical look at monthly development capital expenditures since 2011, including forecasted amounts for the final quarter of 2020.



So, what does this chart tell me? There are at least a few interesting observations. Over the last decade, the Gear team have invested an average of $3.9 million per month. For the first four years of strong oil prices, that number was $6.2 million per month, and for the last six years of volatile pricing, the amount has been a more modest $2.4 million per month. Interesting, but not particularly helpful in the grand scheme of things.

What I find more helpful is to look at the peaks and the valleys. There was an escalating trajectory and some big clusters of spending pre-2015 that coincided with very healthy oil prices, and a few smaller standout periods of investment since 2015 that can also be linked back to periods of relatively good pricing. Perhaps the real observation here is that the capital investment at Gear has been "consistently dynamic". Gear has always maintained that we are exceptionally nimble with the only thing we can really control, and that is our spending. There are multiple times where you can see a complete dearth of any spending at all. One of the benefits at Gear has always been our ability to act incredibly quickly to the external markets and to do everything we can to maximize the returns on our invested capital and to avoid it completely when the markets turn sour.

One part of the chart that really stands out to me is the materiality of the lack of investment through this year. 2020 is a year most of us in the energy industry look forward to forgetting, for multiple reasons. In the case of Gear, this is the longest period of curtailed capital investment that we have ever experienced. Certainly not a record we ever hope to break again. We continue to believe that our actions through 2020 are fully suited to the environment that we currently find ourselves in: weak demand, over-supply, unsupportive external factors, etc. In light of all these factors, the strategy of focusing solely on reducing outstanding debt has served us well so far and should continue to do so through to the end of the year.

But this market won't last forever, right? So, what's next?...
Well, that is a good question.

As we enter the typical season for budget planning, we always find ourselves spending a lot of time on strategy before we get into any of the details. Of course, one of the key ingredients to any future planning is what kind of price scenario can we expect. Tough question given where things are at currently, but in this case, the plans likely don't change directionally with prices, just the scale would change. Because low oil prices can't last forever, let's be bold and assume some kind of recovery in 2021.

So, without giving away any corporate secrets, what are Gear's main goals going to be if prices are stronger in 2021? (and beyond). The current targets can be roughly outlined as follows:

- Maintain our focus on exceptional capital discipline, targeting only the best returns on our capital, with the intention to underspend funds from operations, no matter how strong the oil prices may be.
- Dedicate maximum effort to regain complete control of the future of the company for the benefit of our shareholders. This can only be accomplished by dramatically reducing, or completely eliminating all outstanding debt, no matter how long it takes.
- Prepare the organization to succeed in that future by ensuring that all the ingredients of a great company continue to be enhanced; a deep inventory of economic future investment opportunities, low cost structures, stable production and reserves levels, diversity of revenue sources, and reduced liabilities.

Once Gear accomplishes these three main targets it will open up so many future potential strategic options for us. Instead of working hard to just preserve value and live within external restrictions, we will be able to get back to strategizing the best ways to really enhance the future value of the company. Everything will be back on the table again, including; investing in exciting organic growth projects, making synergistic and strategic acquisitions, repurchasing shares, and hopefully one day issuing dividends out to our patient and supportive shareholders.

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.