GEAR ENERGY

Monthly Update

January 21, 2021
Vol. 7 Issue 12

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	Q3 20	20-Oct	20-Nov	20-Dec	Q4 20	**2020**
Drill & Complete	6,112	1,818	9,253	9,071	**26,253**	7,907	341	106	83	7	90	179	**8,533**
Facilities	2,676	1,658	3,505	3,967	**11,806**	3,037	-98	676	163	0	171	334	**3,949**
Land & Seismic	671	31	19	89	**810**	131	49	18	5	9	1	14	**212**
A&D	-1,038	-163	115	109	**-977**	3	0	0	0	0	0	0	**3**
Other	-207	-173	-977	-523	**-1,880**	26	-54	-85	-11	-19	-111	-141	**-254**
TOTAL	**8,214**	**3,172**	**11,914**	**12,712**	**36,012**	**11,104**	**238**	**716**	**239**	**-3**	**151**	**386**	**12,444**

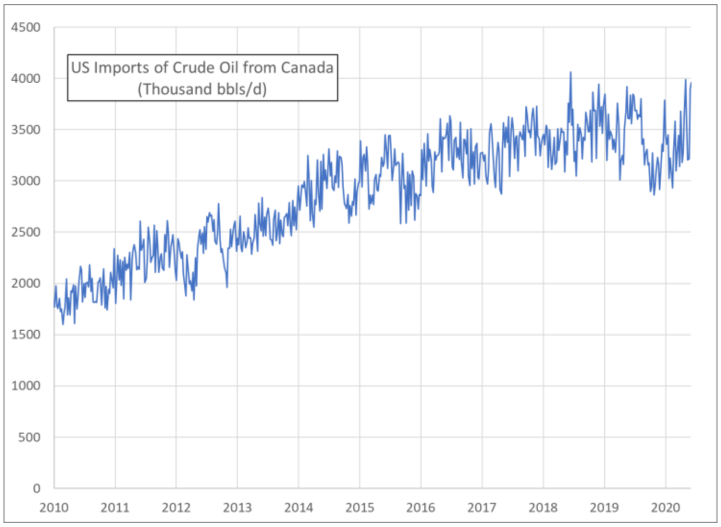
Production (boe/d) *													
Sales	**6,877**	**7,161**	**6,922**	**6,888**	**6,962**	**6,744**	**2,749**	**5,867**	**5,828**	**5,746**	**5,887**	**5,821**	**5,298**
Field	6,649	6,979	6,864	6,917	6,853	6,688	3,072	5,612	5,992	5,900	5,669	5,853	5,309

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

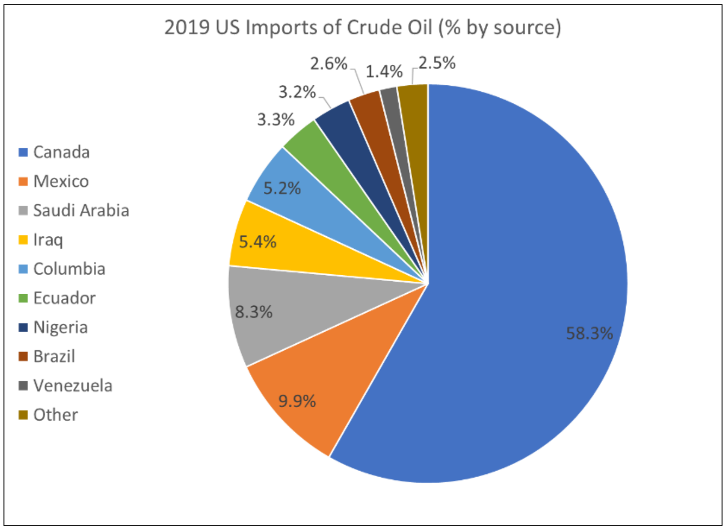
Yesterday was a big day, The United States now has a new president. One truly has to wonder what the stand-up comedians and late night talk show hosts are going to do for content now. We may be entering a bleak period for political humour.

Or maybe not?

On that topic, Canadians have been bombarded the last few days with headlines about President Biden's intention to cancel the permit for TC Energy's Keystone XL pipeline (KXL). So I guess none of us should be shocked that it appears his very first action upon gaining control was to do exactly that. Seems an odd choice of priorities when your country is in the midst of a raging global pandemic.



Now that the president has revoked the permit, one truly has to wonder what he is hoping to accomplish by cancelling KXL? (yet again). Does he feel that the United States are going to move away from oil usage so quickly that new supplies won't be required? If that is the motivation, then he should probably have his people take a closer look at the actual data.



Despite the fact that the US shale boom delivered unprecedented growth in domestic oil supplies over the last decade, the US still steadily increased its imports of Canadian oil over the same period. In fact, Canada is by far the largest supplier of oil imports to the US by a dramatic margin. Probably because we are their closest and most trusted partner and we can ship oil to them via the safest and most efficient means possible, pipelines. (Source: EIA)

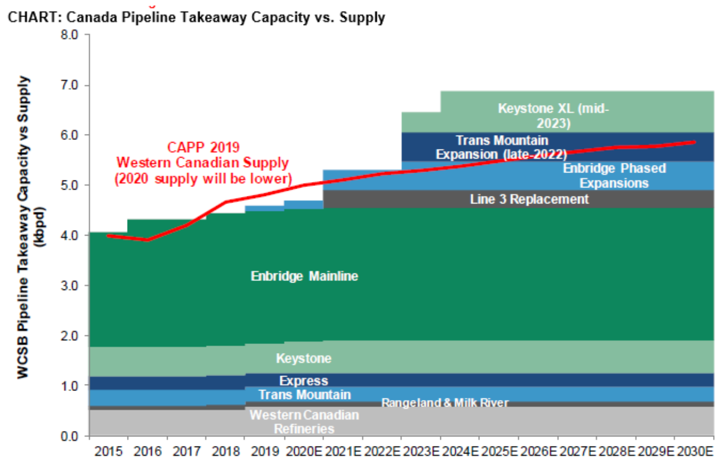
Now that the president has cancelled the KXL pipeline, does he believe that his decision will somehow reverse a decade long trend of increasing imports from Canada? Or possibly he is hoping to spread the business around? Move a little further down the list and import more oil (via ocean bound tankers) from other suppliers like Saudi Arabia, Iraq, and Nigeria. It's not like they really need the business though. They seem to be doing just fine on their own, delivering massive amounts of oil to more proximal purchasers. (Source: worldstopexports.com)

Below are the 15 countries that exported the highest dollar value worth of crude oil during 2019.

1. Saudi Arabia: US$133.6 billion (13.3% of exported crude oil)
2. Russia: $121.4 billion (12.1%)
3. Iraq: $83.3 billion (8.3%)
4. Canada: $68.1 billion (6.8%)
5. United Arab Emirates: $66.1 billion (6.6%)
6. United States: $65.3 billion (6.5%)
7. Kuwait: $42 billion (4.2%)
8. Nigeria: $41 billion (4.1%)
9. Kazakhstan: $33.6 billion (3.3%)
10. Angola: $32.3 billion (3.2%)
11. Norway: $28.8 billion (2.9%)
12. Libya: $24.8 billion (2.5%)
13. Brazil: $24 billion (2.4%)
14. United Kingdom: $23.7 billion (2.4%)
15. Mexico: $22.6 billion (2.2%)

Maybe he might want to consider that of the top 10 oil exporters, Canada ranks in the **number one position** for; Environmental performance index 2018, Best Countries 2019, Corruption Perceptions Index 2018, Global Responsibility Index 2019, Rule of Law index 2019, Democracy index 2018, Global peace index 2019, happiest countries 2019, Social progress index 2019, Pres Freedom Index 2019, Women, Peace & Security Index 2018, and World's Most Reputable Countries 2018. (Source: Canadaaction.ca)

The interesting thing buried in the headlines, is that the decision to cancel the pipeline is mostly being discounted as political grandstanding. Maybe the KXL pipeline won't actually impact any of the supply and demand fundamentals at all. When you step back and look at history, you realize that when there is enough demand, products eventually find their way to market. In the past, the swing capacity has dominantly been via rail. However, if you look into the future, it currently appears that there is likely going to be sufficient pipeline capacity out of Canada for the next decade at least, even without KXL. (Source: Scotiabank)



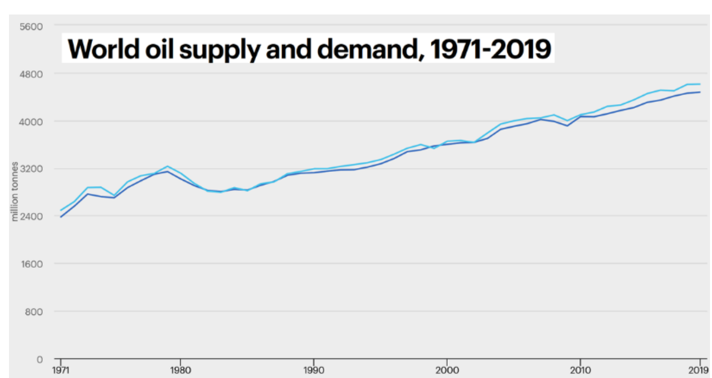
At the end of it all, maybe the headlines are much ado about nothing. (Source: twitter)

Eric Nuttall Retweeted

Eric Nuttall @ericnuttall · Oct 23, 2020

With a Biden win, KXL is likely dead. 10 years ago this would have been negative for Canada. Today in a world of "no growth / maximize free cashflow" TMX+Line 3 provides more than enough future takeaway. Biden win = good for Canadian oil stocks (makes US less appealing), not bad.

Regardless of how this all turns out, I predict that Canadian imports to the United States will continue to rise and I will also boldly predict that total global oil demand will continue to rise for the foreseeable future. There are 40+ years of history to help boost my confidence in that prediction (Source: iea)



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.