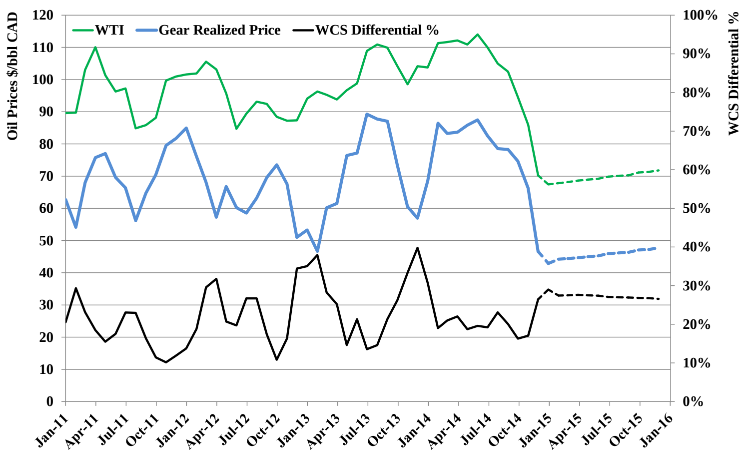
December 2014

Monthly Update

Vol. 1 Issue 2

From the desk of Ingram Gillmore, President & CEO

Wow, what a month it has been! Not a time for the faint of heart.



Oil Forecast: December 17, 2014 Forward Curve

We are now experiencing the weakest and most volatile oil pricing in Gear's history. Combined WTI price declines and widened heavy oil (WCS) differentials on a percentage basis have reduced the current forecast Gear oil price by over 40% in just two quarters. The net result is a reduction in cash flow from $36.57/boe in Q3 2014 to an estimate, using midrange 2015 budget guidance, of approximately $16 to $17/boe, including predicted hedging gains. These numbers are based on the forward curve shown above for December 17, 2014.

I am not an expert on oil price forecasting, however I am happy to place faith in history that the best cure for low oil prices is low oil prices. Reduced prices equals reduced cash flows across the industry resulting in lower capital investment, which is already being seen with many Canadian producers cutting 2015 budgets by 25 to 75%. This lower level of activity will pressure services to decrease costs, and should eventually result in declining supply, ultimately providing a supply-demand and a price-cost rebalance. Assuming this occurs over the next 6 to 24 months how well is Gear prepared to manage through the current price environment?

There are two key drivers for Gear to survive and thrive in times like these: debt and cash flow.

Gear's third quarter net debt was $94.3 million, 1.1 times annualized quarterly cash flow and 72.5% drawn on our $130 million facility. Obviously the forward debt to cash flow ratio will be weakened with the current forecast for reduced oil prices, but at least we are starting at a good level.

In order to manage any concerns about future debt levels the plan is to restrict early 2015 capital investment to be less than or equal to estimated cash flow and to keep net debt below $100 million. This will allow us to be opportunistic with capital providing flexibility to adjust quickly to market conditions.

Cash flow is the other key focus. Gear has been, and is working hard to again be, the lowest cost heavy oil producer in Canada. Costs in 2014 increased with the acquisition completed in April and are being driven down as we continue to optimize and drill on the acquired assets. We are pursuing overall cost reductions on all key services including drilling, completions, equipment, fuel, labor and transportation. General and administrative costs also have room to improve as less activity removes the need for previously planned staffing expansions in the office and in the field. We will do everything we can to maximize the value Gear receives for every barrel produced. The other cash flow consideration is continuous improvement in the way cash flow is reinvested. In the last four months Gear has drilled more 100+ bbl/d oil wells than we have drilled in our entire history. The combination of new pool discoveries and multi-lateral horizontal wells has created a positive step change in our future expected results. With the current low oil price forecast held flat, the capital invested in a dual lateral well is predicted to yield a risked half cycle rate of return of approximately 35%. The same project run at the historical average realized price of $65/bbl has a predicted risked rate of return of over 80%. Additionally, we believe there are multiple opportunities to improve on these returns with pilot projects targeting unlined (less expensive) multi-lateral drilling.

By keeping our debt in line, maximizing both cash flow and the returns on our invested capital, we believe there is reason to be encouraged about the future for Gear.

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

Capital *

($k CAD)	Jun	Jul	Aug	Sep	Q3	Oct	Nov
Drill & Complete	4,893	5,100	8,498	6,040	19,638	5,142	4,979
Facilities	3,009	686	2,911	2,836	6,434	3,856	1,264
Land & Seismic	1,336	144	730	328	1,201	1,049	-56
A&D	1,883	0	687	764	1,451	-725	0
Other	-681	12	11	19	41	9	104
TOTAL	**10,440**	**5,942**	**12,837**	**9,987**	**28,765**	**9,331**	**6,291**

Production *

(boe/d)	Jun	Jul	Aug	Sep	Q3	Oct	Nov
Sales	**6,829**	**6,265**	**6,593**	**7,296**	**6,712**	**6,990**	**7,079**
Field	6,432	6,362	6,851	7,440	6,844	7,148	7,229

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

2600, 500 – 4th Avenue SW, Calgary, Alberta T2P 2V6, www.gearenergy.com