GEAR ENERGY

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Monthly Update

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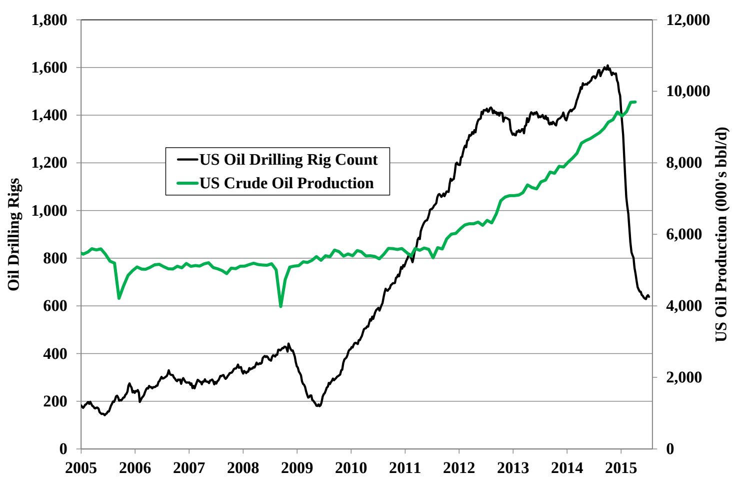
From the desk of Ingram Gillmore, President & CEO

"Patience is bitter, but its fruit is sweet" – Aristotle.

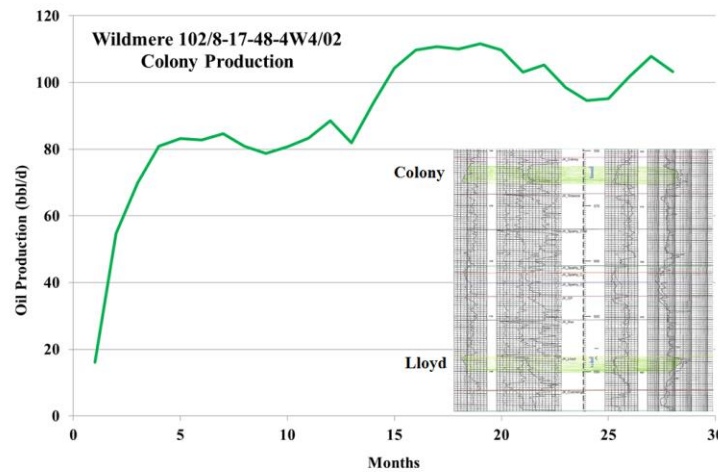
I am pretty sure that Aristotle was not talking about oil prices when he wrote that, but I think his insight still applies to our current commodity market. So what is it going to take to get past the current bitter environment to that sweet fruit of balanced oil supply and demand? If you look at the black line below you might be encouraged by US based oil drilling rigs dropping by over 60% from peak levels. However, then you look at the green line and see that US crude oil production is still persistently climbing. How is that even possible?
(sources – Baker Hughes & EIA)



From what I have been reading, it seems the main culprits spurring the continued US production growth are an inventory of uncompleted wells and a trend towards re-fracking old wells with newer technology. I am not at all surprised to see the US producers target the cheapest and easiest methods to try and keep production levels up and to minimize declines in cash flow. This makes even more sense if their base business model of drilling new shale oil wells is not really economic anymore.

The idea of chasing these low hanging fruit opportunities is not isolated to the US. The same thing is happening in Canada. In fact, in addition to a drilling program that is economic at current prices, Gear has its own basket of anomalously strong development opportunities. We don't have wells to re-frack because we don't do any fracking at all, but what we do have is vertical recompletion opportunities. One of the benefits of Gears operating area is that it is multi-zone with up to six different Mannville sands sometimes being encountered in a single well. A side effect of shutting in uneconomic vertical wells is that it provides an inventory of available wellbores that may have recompletion potential. One of the best examples of success in this regard is the Wildmere 102/8-17-48-4W4 well.

The well was originally drilled for Lloydminster production and successfully produced over 50,000 barrels of oil before the zone was depleted. Like many of our wells, this one has up-hole potential and it was recompleted in the Colony zone in 2013. As you can see, the results have been excellent.



After a recompletion cost of only $44,000, Gear has produced an additional 70,000 barrels of oil (to date), yielding over $3.2 million of cash flow and a current finding cost of only $0.57/bbl. As I mentioned before, this is one of our best examples and is not representative of the results we expect with each recompletion. However, there have been two more recent recompletions in the vicinity and both are producing over 50bbl/d and the Gear team is constantly scouring the asset base looking for more. The good news, (or bad, depending on your perspective), is Gear's recompletion opportunities and the backlog of US oil opportunities both share one important characteristic; they are limited in supply. There is only so much low hanging fruit available before you have to start climbing the tree, and for many companies that climb is more expensive than current oil prices can justify. This diminishing supply of cheap opportunities is the main reason why I continue to believe that US production declines will eventually occur and prices will be "sweet" again. Unfortunately, until that starts to occur things will continue to be somewhat "bitter"

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

Capital *

($k CAD)	Q2 14	Q3 14	Q4 14	**2014**	Q1 15	15-Apr	15-May	15-Jun	Q2 15
Drill & Complete	6,741	19,638	11,891	54,644	-1,763	13	134	1,509	1,656
Facilities	3,541	6,434	7,564	24,861	1,594	708	555	694	1,957
Land & Seismic	1,957	1,201	1,449	4,870	332	4	-9	337	332
A&D	79,086	1,451	-1,028	79,521	-132	0	-678	124	-554
Other	89	41	65	544	8	137	8	195	340
TOTAL	**91,414**	**28,765**	**19,941**	**164,441**	**39**	**862**	**10**	**2,859**	3,731

Production (boe/d) *

Sales	**6,170**	**6,712**	**7,001**	**6,020**	**6,624**	**5,311**	**5,696**	**5,886**	**5,632**
Field	6,086	6,844	7,277	6,147	6,332	5,551	5,930	5,435	5,642

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