Monthly Update

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FROM THE DESK OF INGRAM GILLMORE, PRESIDENT & CEO

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

Capital *

($k CAD)	Q1 16	Q2 16	Q3 16	Q4 16	2016	Jan-17	Feb-17	Mar-17	Q1 17
Drill & Complete	91	593	5,734	3,083	**9,501**	4,312	4,967	5,284	14,563
Facilities	225	1,337	1,396	2,106	**5,064**	673	1,187	1,333	3,193
Land & Seismic	-29	42	287	978	**1,278**	938	229	-20	1,147
A&D	-480	29	58,141	-74	**57,616**	30	-41	-57	-68
Other	-186	-809	-384	-100	**-1,479**	0	2	-121	-119
TOTAL	**-379**	**1,192**	**65,174**	**5,993**	**71,980**	**5,953**	**6,344**	**6,419**	**18,716**

Production (boe/d) *

Sales	**4,435**	**4,536**	**5,420**	**6,203**	**5,152**	**5,756**	**6,119**	**5,866**	**5,907**
Field	4,453	4,112	5,447	5,942	**4,992**	5,806	6,096	6,350	6,084

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

Welcome to break-up in western Canada. Every year with the onset of warmer weather, the snow melts, the ground thaws and we have to overcome some temporarily interesting conditions in the field. The primary restriction of course is the movement of heavy equipment, mainly because some of the lease roads look like this.

So, of course, we temporarily shut down our drilling operations, but we also have some restrictions on our ability to truck our heavy oil production to sales. The Gear field staff do an excellent job keeping our sales production as stable as they can, however, despite their best efforts we do tend to see a temporary drop in sales until the roads dry up. You can see this phenomenon clearly in our March production numbers. Field production was 6,350 boe/d, but sales production was only 5,866 boe/d. That means 484 bbl/d of March oil has remained in the tanks to be sold at a later date.

The interesting thing about our sales production being restricted by break-up, is that it tends to coincide with the beginning of the usual seasonal improvement in heavy oil differentials. The prices tend to strengthen primarily as a result of increased asphalt production to prepare for the summer paving season. So if we have to hold back production anyway, it is very fortuitous that the prices are likely to improve by the time we actually sell the oil.

I borrowed this nice chart from our friends over at Stream Asset Financial that shows seasonal trends for historical heavy oil differentials. Current 2017 values are in red, dropping from US$15/bbl to under US$10/bbl.

To put the improved heavy oil price outlook into perspective you just need to look at the current May predicted numbers; Approximately US$50 WTI minus US$9.70 differential, exchange adjusts to a CAD $54.75 WCS price or a Gear realized heavy oil price of approximately CAD $49.25. Using our current 2017 budget guidance, that May price would yield a corporate heavy oil field netback of over $28/bbl. That is higher than the field netbacks of our entire peer group in the fourth quarter of 2016.

There is additional perspective to be gained if you look at it from a go-forward perspective and focus on our planned heavy oil drilling programs in Paradise Hill and Wildmere, where 70% of our wells are forecast to be drilled in 2017. With average expected royalties in these two areas of 6% and operating costs below $10/bbl, the field netbacks from this horizontal heavy oil program would be approximately $36/bbl, (using the same May prices). Compare that to the fact that over the previous two years, the Gear realized heavy oil sales price only exceeded that netback number nine months out of the 24 months. That is quite the difference in a few short months.