November 2014

Monthly Update

Vol. 1 Issue 1

From the desk of Ingram Gillmore, President & CEO

Recently I was asked by a shareholder to consider releasing a monthly update similar to the very popular version that is currently provided by one of our illustrious public peers. It is no surprise that this request has come about considering the recent volatility in the energy markets and the lengthy quiet periods between quarterly reports. In this world of instant information it seems there can be a perception that "no news is bad news." Ultimately, I think it is an excellent idea to increase transparency and information flow, similar to other unique initiatives Gear currently employs, like posting insider trading directly on our website. I look forward to providing our shareholders with regular perspective on the company and the industry while keeping them up to speed on the health of their investment in Gear. Therefore, it is my pleasure to introduce the first ever President's Monthly Update for Gear Energy.

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

Capital *

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

Production *

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

We just concluded our annual strategic planning session with the Board of Directors, and after almost five years the company's goal remains the same as it has always been: provide long term growth in cash flow per debt adjusted share. This is something that is easy to say but surprisingly hard to do for many companies in our industry, especially for the long term. The things we can control to provide this growth seem pretty straight forward to me; invest every dollar wisely, continuously work to reduce costs and be disciplined in managing the balance sheet. Accomplishing all these objectives will ensure Gear outperforms.

To grow cash flow pretty much requires growing underlying production, and we have been successfully doing that for four years, with estimated compound annual growth in production per debt adjusted share of 20%. With that in mind, I think this is a great opportunity to clarify how Gear actually measures "**Production**", because in heavy oil country it is a little more complicated than you might think.

All of our oil wells produce directly to surface tanks at the wellsite where we heat the emulsion to separate the clean oil. We fill the tanks at the "**Field**" rate and we truck the oil out of the tanks and sell it to our various outlets at the "**Sales**" rate. Each new well we drill will have to partially fill a new tank before sales oil is achievable. This can cause up to a month delay between growth in field and sales rates. There are also times when we are challenged to transport sales oil due to external factors, such as railway service disruptions or bad weather. When that happens we may fall behind on our sales rate even though the wells are producing at steady field rates. Sales are what matter on a monthly basis, but the oil in those tanks also represents real asset value for the shareholders of Gear. We usually catch up the following month and drain that extra inventory, which will then yield higher sales than actual field rates. You can see this in our October numbers. At the end of the month there was a shortage of rail cars and for a couple of days we were unable to ship oil, causing our sales rate to be 158 barrels per day behind our field rate. Through early November the sales rate improved as we reduced that extra inventory from the end of October. The good news is that we have never had to shut in a single well due to shipping limitations. And the even better news is that at times we are able to deliberately increase or decrease our sales numbers from month to month in order to take advantage of pricing volatility, thus targeting incremental value for our barrels.

Another way Gear has been successful at obtaining incremental value from each barrel sold is focusing on cost reductions. The best example I have to demonstrate tangible improvement in this regard is to look at 2013 actual results compared to our current estimates for 2015. Realized prices in 2013 were approximately $65 per boe, very similar to our current estimates for 2015. However, despite that same top line revenue expectation, our bottom line cash flow per boe has risen from $23.57 per boe in 2013 to an estimate of $30 per boe in 2015. That is a forecasted improvement of 27% over two short years, and of course we are working hard to further expand that margin.