GEAR ENERGY

Monthly Update

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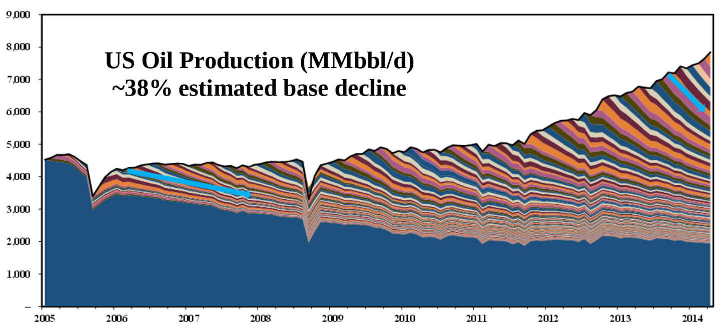
From the desk of Ingram Gillmore, President & CEO

It is pretty much impossible to talk about anything but oil prices right now. Earlier this week the phrase "Oilmageddon of 2015" was coined. No doubt things are not great right now but honestly I am optimistic that prices will improve because essentially, they always do. Every time there has been a major correction since 1980, the prices have rebounded considerably within a year. *(Source: RBC)*

Date	Event	Length of Oil Price Decline	% Change in WTI Price	WTI % Increase 1 Year Post-Low
1986	Saudi Market Protection	80	(67%)	79%
1988	Market Oversupply	295	(44%)	58%
1991	Global Recession	90	(57%)	5%
1998	Asian Financial Crisis	485	(62%)	134%
2001	Global Recession	290	(53%)	46%
2008	Global Financial Crisis	120	(78%)	135%
	Average	**227**	**(60%)**	**76%**
	Current	**133**	**(58%)**	**???**

Beyond simply looking at history, there are key fundamentals that also give me hope. Since the current oil price weakness is being linked to oversupply, the simple solution is to reduce that supply. So let's look at the chances of that occurring. Growing supply in the US was a key contributor to this problem but if you look at the quality of that production a noticeable characteristic is the shockingly steep decline rates. *(Source ITG IR)*



I did some simple math that estimates the capital required to maintain US production is more than double the estimated cash flow provided from the 9 million bbl/d of production at $45/bbl.

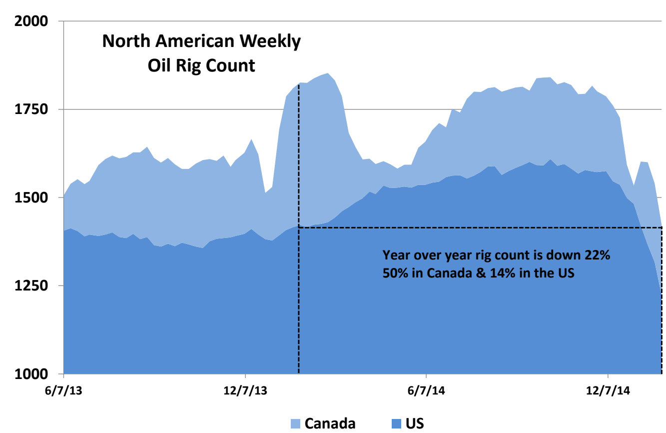
US Oil Simple Model			Oil price	45	$/bbl
Base Production	9,000,000	bbl/d	Royalties	25%	
Base Decline	38%	per year	Costs	15	$/bbl
Annual Decline	3,420,000	bbl/d	Interest	6	$/bbl
Capital Efficiency	25,000	$/boe/d	Cash Flow	12.75	$/bbl
Capital to stay flat	**85,500**	**$ million**	**Cash**	**41,884**	**$ million**

Basically, at these prices there is not enough (unhedged) cash flow to replace production declines and unfortunately the majority of US oil companies are already highly indebted and likely won't be able to borrow any more to drill. This should lead to declining supply, eventually. Like Gear, most North American producers see this lower cash flow estimate and have started cutting their drilling plans.

(Source: Haywood)

Symbol	Company	Market Cap ($MM)	Q3 Production (boe/d)	Interest [1] ($/boe)
U.S. E&P's				
HK	Halcón Resources Corporation	$621	43,554	$9.60
SD	SandRidge Energy, Inc.	$747	79,700	$8.44
DNR	Denbury Resources Inc.	$2,489	73,810	$6.59
CRZO	Carrizo Oil & Gas Inc.	$2,062	33,587	$3.95
CXO	Concho Resources, Inc.	$12,722	113,492	$4.06
CLR	Continental Resources, Inc.	$17,040	182,335	$4.41
WLL	Whiting Petroleum Corp.	$5,135	116,675	$3.62
SN	Sanchez Energy Corporation	$634	38,613	$7.23
Average [3]				**$5.99**
Canadian E&P's				
NVA	NuVista Energy Ltd.	$971	18,030	$0.96
MQL	Marquee Energy	$54	5,143	$1.89
WCP	Whitecap Resources Inc.	$3,037	34,940	$2.12
CPG	Crescent Point Energy Corp.	$13,658	141,183	$2.16
TOG	TORC Oil & Gas Ltd.	$787	11,436	$1.44
BIR	Birchcliff Energy Ltd.	$1,023	34,235	$1.50
GXE	Gear Energy Ltd.	$122	6,712	$1.16
ARX	ARC Resources Ltd.	$7,339	110,501	$1.10
BNE	Bonterra Energy Corp	$1,340	13,355	$1.19
RRX	Raging River Exploration Inc.	$1,380	10,679	$0.91
RE	Rock Energy	$108	4,747	$0.37
Average				**$1.35**

The latest estimate for Canadian companies is over a 30% reduction in capital from 2014 levels and now the active oil rig count is 22% lower than it was a year ago. It will take time, but less drilling will result in lower production.
(Source: Baker Hughes)



Steep declines, not enough money to invest and materially reduced drilling should all help oil prices to improve, but the big question is when? I am not bold enough to predict that. Right now my goal is to focus Gear on managing through the current price environment and ensuring that we are prepared to resume growing once prices do improve. By shutting in cash flow negative production, reducing costs and delaying capital spending we are strengthening the balance sheet and providing significant optionality for the future.

Estimated monthly results:

Capital *

($k CAD)	2013	Q1 14	Q2 14	Q3 14	Oct	Nov	Dec	Q4 14	2014
Drill & Complete	33,701	16,374	6,741	19,638	5,142	4,979	1,770	11,891	54,644
Facilities	16,629	7,322	3,541	6,434	3,856	1,264	2,444	7,564	24,861
Land & Seismic	3,146	264	1,957	1,201	1,049	-56	456	1,449	4,870
A&D	83	12	79,086	1,451	-725	0	-163	-888	79,661
Other	-92	348	89	41	9	104	-48	65	544
TOTAL	**53,467**	**24,320**	**91,414**	**28,765**	**9,331**	**6,291**	**4,459**	**20,081**	**164,581**

Production *

(boe/d)	2013	Q1 14	Q2 14	Q3 14	Oct	Nov	Dec	Q4 14	2014
Sales	**4,079**	**4,158**	**6,170**	**6,712**	**6,990**	**7,079**	**6,935**	**7,001**	**6,020**
Field	3,996	4,382	6,086	6,844	7,148	7,229	7,453	7,277	6,147

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