GEAR ENERGY

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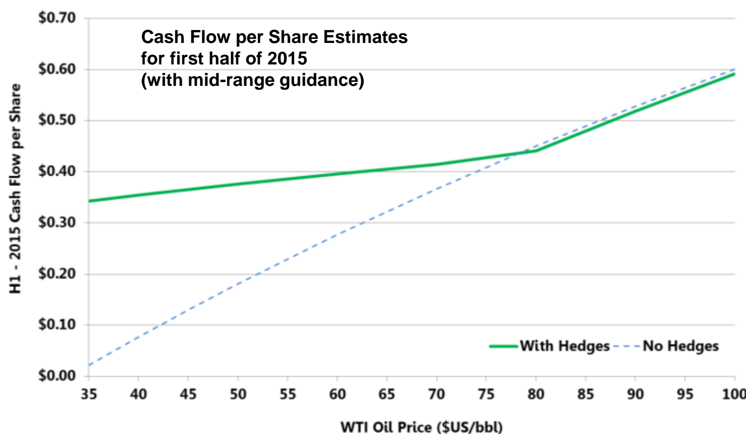
Monthly Update

From the desk of Ingram Gillmore, President & CEO

I presented the Gear Energy story last week at an energy conference in New York and while I was there I observed some interesting themes that I think are worth sharing. The first observation is that many Canadian energy firms have found themselves with fairly challenging debt positions now that their cash flow has dropped so materially in this reduced price environment. The second observation is that many of these companies were repeating the same message over and over, that "We cannot achieve economic rates of return on our projects in the current pricing environment".

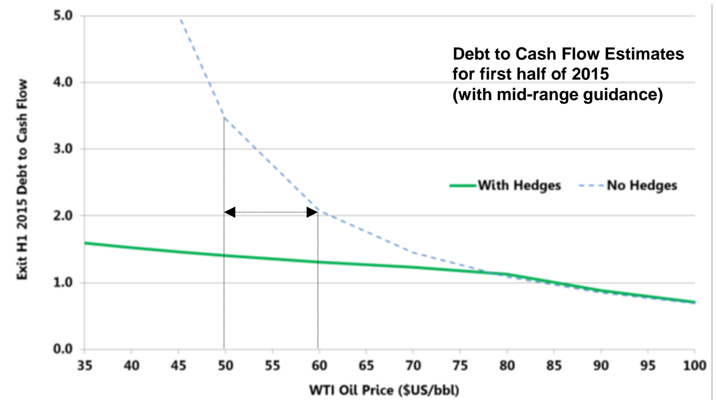
These two themes are not a surprise to me and honestly, they leave me somewhat bullish with regards to future oil prices. Oil companies are significantly cutting capital budgets, allowing production to fall and ultimately telling the world that oil production is unsustainable at current prices. So eventually, we should see production drop and prices correct, in theory.

Coincidental to these observations, I included a new slide in the Gear presentation that I hope clarifies our perspective on a similar theme. The first chart on the new slide is shown below with our estimated cash flow per share for the first half of 2015 plotted against various US WTI oil prices



The green line shows how hedges are helping to stabilize cash flow and the dotted blue line shows why we hope for stronger oil prices in the second half of the year, after our hedges roll off. One of the key points I make when discussing this chart is to highlight the potential upside torque that Gear has with improving prices. If Oil increases by 20%, from $50 to $60/bbl, Gear's estimated un-hedged cash flow per share could increase by over 50%. That is something to pay attention to!

The next chart shows Gear's price sensitivity to estimated net debt to cash flow ratio for the first half of 2015.



Here you can see that again the hedges do a great job of keeping our first half estimates comfortably below our target to 2.0 times net debt to trailing cash flow. However, with this chart it is also important to focus on how we look on July 1, 2015 when we are producing cash flow without the benefit of hedges. As you can see, at $50 US WTI, the run rate value is closer to a 3.5 times debt ratio. That number is likely to be competitive when compared to our peers; however it is not comfortable enough for us to start spending capital, particularly if there is ongoing concern with the future oil price.

The good news is that it does not take a drastic change in pricing to significantly improve our debt outlook. The same $10 improvement I talked about before would have us back to a $60/bbl oil price and an estimated 2.0 times debt ratio. At that point, I feel confident that Gear could start investing capital in some of our heavy oil development projects. And by targeting some of our best areas and multi-lateral horizontal drilling locations, we can not only realize strong returns on our capital, but we can also ensure that the money we spend actually improves our total net debt to cash flow ratio.

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

Capital *

($k CAD)	**2013**	Q1 14	Q2 14	Q3 14	Dec	Q4 14	**2014**	Jan	Feb
Drill & Complete	33,701	16,374	6,741	19,638	1,770	11,891	54,644	500	-84
Facilities	16,629	7,322	3,541	6,434	2,444	7,564	24,861	1,277	213
Land & Seismic	3,146	264	1,957	1,201	456	1,449	4,870	73	233
A&D	83	12	79,086	1,451	-303	-1,028	79,521	82	-227
Other	-92	348	89	41	-48	65	544	0	6
TOTAL	**53,467**	**24,320**	**91,414**	**28,765**	**4,319**	**19,941**	**164,441**	**1,932**	**141**

Production *

(boe/d)	**2013**	Q1 14	Q2 14	Q3 14	Dec	Q4 14	**2014**	Jan	Feb
Sales	**4,079**	**4,158**	**6,170**	**6,712**	**6,935**	**7,001**	**6,020**	**7,142**	**6,399**
Field	3,996	4,382	6,086	6,844	7,453	7,277	6,147	6,768	6,303

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