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Monthly Update

Vol. 2 Issue 3

From the desk of Ingram Gillmore, President & CEO

After almost 25 years in this industry I am still surprised sometimes with how volatile the underlying pricing fundamentals can be. I am going to dedicate this letter to looking a little closer at Gear's historical and predicted oil prices during these interesting times and hopefully provide some reasons to be cautiously optimistic about the future.

First off, let's have a look at the year over year oil pricing change for Gear and what the current forward curve looks like.

$/bbl	Q1 2014	Q1 2015 Estimates*	H2 2015 Curve
WTI US	98.66	48.65	60.42
WCS Diff	-23.12	-14.99	-13.60
WCS Price	75.54	33.66	46.82
Exchange	1.10	1.24	1.21
WCS CAD	83.35	41.76	56.80
Gear Diff	-3.95	-5.52	-5.00
Gear Oil Price	79.50	36.24	51.80

When you line the numbers up like this, it becomes apparent just how material the pricing situation has been for heavy oil producers. The Q1 2015 oil price is approximately 54% lower than the price received just one short year ago. What a difference a year makes! Fortunately, the fundamentals seem to be improving and the forward curve is currently predicting recovery into the remainder of 2015 with Gear's estimated oil price potentially climbing by 43% from our Q1 estimate.

Beyond any potential future strength in WTI pricing, the key factor that could assist the recovery of Gear's oil price is the heavy oil discount, or differential. In the first quarter of 2015 the differential was a staggering 31% of the US WTI oil price, and now the forward curve predicts that discount to compress to approximately 23%. We are not surprised to see that heavy oil appears to be in high demand for the remainder of the year and are hopeful that the predictions come true. Gear was not alone when we shut in our higher operating cost production. Most heavy oil producers were looking at how low the prices were expected to be in the first quarter and they were all temporarily shutting in various levels across North America. Also, if you have been watching the growing inventories of oil throughout the continent you might not be aware that the majority of those inventories are light oil and not heavy. Add these two points to the fact that there is a very significant amount of refining capacity in North America that can only process heavy oil coupled with an improvement in transportation infrastructure, you end up with an improved micro supply demand imbalance that favors continued tight heavy oil discounts for the near future.

The second key point I would like to make is to highlight how oil price protection and continuous improvement in cost structure makes a positive difference in stabilizing Gear cash flow through challenging times like these. Using a similar chart the situation looks as follows:

$/boe	Q1 2014	Q1 2015 Estimates*	Difference %
Revenue	77.38	35.50	-54
Hedging	-4.68	+13.00	
Royalties	-13.02	-6.00	-54
Op Costs	-20.73	-18.00	-13
G&A	-4.76	-3.00	-37
Int & FX	-1.57	-1.00	-36
Cash Flow	32.61	20.50	-37

The startling observation here is that despite a 54% drop in revenue (including gas revenue), Gear has reduced the impact to cash flow to the point where the drop is only 36% from a year ago. Having a prudent risk management strategy in place designed to reduce the impact of downside volatility has aided us greatly, and by compressing all of our other costs of business we end up in a stronger position than you might have guessed when looking at the underlying oil prices.

I will be able to expand this analysis to the remainder of 2015 after full year operating estimates are in place. We intend to clarify guidance for the second half of the year when we release our first quarter results on May 13, 2015.

As it stands today, we are pleased to see potential WTI pricing improvement showing up in the forward curve and even more pleased to see current strength in heavy oil pricing. As this situation stabilizes we hope to shift the company back into growth mode and to resume our primary goal of growing shareholder value.

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

Capital *

($k CAD)	Q1 14	Q2 14	Q3 14	Q4 14	2014	15-Jan	15-Feb	15-Mar
Drill & Complete	16,374	6,741	19,638	11,891	54,644	500	-84	-861
Facilities	7,322	3,541	6,434	7,564	24,861	1,277	213	328
Land & Seismic	264	1,957	1,201	1,449	4,870	73	233	27
A&D	12	79,086	1,451	-1,028	79,521	82	-227	13
Other	348	89	41	65	544	0	6	-2
TOTAL	**24,320**	**91,414**	**28,765**	**19,941**	**164,441**	**1,932**	**141**	**-495**

Production (boe/d) *

	Q1 14	Q2 14	Q3 14	Q4 14	2014	15-Jan	15-Feb	15-Mar
Sales	**4,158**	**6,170**	**6,712**	**7,001**	**6,020**	**7,142**	**6,399**	**6,308**
Field	4,382	6,086	6,844	7,277	6,147	6,768	6,303	5,923

** Estimates based on f ield data, actuals will vary f rom estimates due to accruals an adj ustments. Such variances may be material.*

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