August 27, 2015

Monthly Update

Vol. 2 Issue 7

From the desk of Ingram Gillmore, President & CEO

I will start this month's letter with a quick look at our July estimates and then talk a little about our options for the rest of the year. We regularly include the following data populated with estimated monthly results:

Capital *

($k CAD)	Q1 14	Q2 14	Q3 14	Q4 14	**2014**	Q1 15	15-Apr	15-May	15-Jun	Q2 15	15-Jul
Drill & Complete	16,374	6,741	19,638	11,891	54,644	-1,763	13	134	1,509	1,656	3,206
Facilities	7,322	3,541	6,434	7,564	24,861	1,594	708	555	694	1,957	549
Land & Seismic	264	1,957	1,201	1,449	4,870	332	4	-9	337	332	20
A&D	12	79,086	1,451	-1,028	79,521	-132	0	-678	124	-554	0
Other	348	89	41	65	544	8	137	8	195	340	3
TOTAL	**24,320**	**91,414**	**28,765**	**19,941**	**164,441**	**39**	**862**	**10**	**2,859**	3,731	**3,778**

Production (boe/d) *

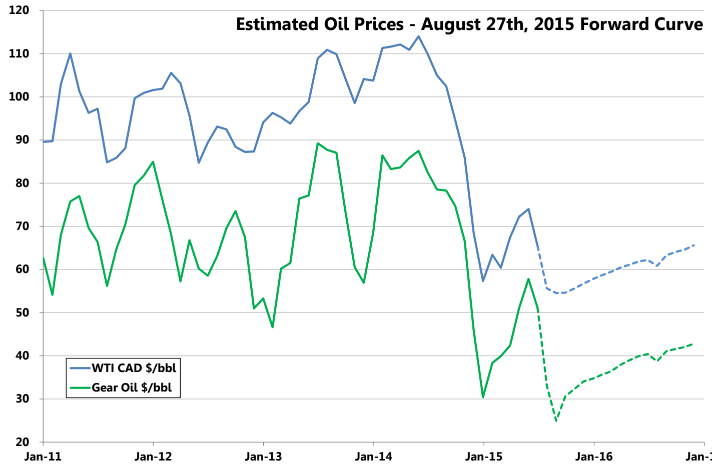
Sales	**4,158**	**6,170**	**6,712**	**7,001**	**6,020**	**6,624**	**5,311**	**5,696**	**5,886**	**5,632**	**5,031**
Field	4,382	6,086	6,844	7,277	6,147	6,332	5,551	5,930	5,435	5,642	5,418

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

As you can see, the estimated sales production in July was slightly below the field estimated amount. This is normal for this time of year for a couple of reasons; we started up the drilling rig near the end of June and it is essential to temporarily shut in adjacent producing wells in order to avoid any mechanical drilling risks, and secondly when new wells come on production the first 500 barrels or so are required to fill the production tanks above the burners before sales oil can be shipped. In total, Gear drilled one well in June and four wells through July, so the oil growth from this drilling will be seen in the August sales number.

It is also worth noting that to the end of July, Gear has invested only $7.5 million dollars, or 30% of the current 2015 annual budget, leaving us with a lot of optionality for the rest of the year. When you look at capital spending relative to cash flow, Gear had invested only 14% of the realized cash flow through the first half of the year, while directing the remaining 86% to reducing net debt. This compares to an eight company peer review where they spent an average capital amount of 110% of cash flow for the first half of the year. The net result is that after spending a relatively small amount of capital, Gear has a strong balance sheet and production is growing through the third quarter, which is the good news.

The not so good news, of course, is what has happened to oil prices in the last couple of months. I have updated the oil price chart that I use in our corporate presentation with today's forward curve data and you can see what I am talking about. The pricing for heavy oil is currently tracking below the value we experienced through the second quarter of 2015. The recent weakness in September pricing is a combination of WTI prices dropping from US$60 per barrel to approximately US$40 per barrel, coupled with temporarily wide heavy oil differentials, as a result of an unplanned 240,000 bbls/d of heavy oil refining capacity offline through August.



That outage at the BP Whiting refinery has now been rectified, just in time for them to enjoy significantly discounted prices for heavy feedstock through September. It appears that fourth quarter heavy oil pricing should improve from current levels, but it seems that a cautious approach to further spending should be on everyone's agenda.

Fortunately, Gear has also protected revenue to a certain degree by ensuring oil hedging contracts are in place. Currently Gear has approximately 50% of net production or 2,200 bbls/d protected at a WTI floor of CAD$65/bbl for the remainder of 2015 and 1,000 bbls/d at an average of approximately CAD$70/bbl for the first half of 2016. In total these contracts currently represent a potential net gain in cash flow of over $5 million.

Gear is maintaining the existing capital budget of $25 million for 2015 with approximately 23 total net wells planned to be drilled. However, we have the ability to be very nimble with the size and profile of our investments and currently it makes no sense to flush initial high rate production from new wells into this low price environment. Because of this, we made the decision to release our drilling rig on August 10th. With price improvement or further cost reductions we will consider re-initiating activity later in the year and completing our drilling program, but for now production is good and there is no reason to over extend ourselves. In addition to delaying capital investment, the other strategy we continue to apply is to find further ways to drive down day to day costs. We have had good success reducing year over year operating costs per boe by over 13% so far, but that is only one piece of the business. We have also reduced our G&A costs per boe in Calgary by approximately 26% from the second quarter of last year, and have again taken a hard look at all the costs of business in both Calgary and the field and pulled even more levers to maximize our cash flow for the rest of the year. Every little bit helps in times like these.