

## From the desk of Ingram Gillmore, President & CEO

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

Capital *	Q1 14	Q2 14	Q3 14	Q4 14	2014	Q1 15	Q2 15	15-Jul	15-Aug	01-Sep	Q3 15
Drill & Complete (\$k CAD)	16,374	6,741	19,638	11,891	54,644	-1,763	1,656	3,206	1,677	16	4,899
Facilities	7,322	3,541	6,434	7,564	24,861	1,594	1,957	549	594	253	1,396
Land & Seismic	264	1,957	1,201	1,449	4,870	332	332	20	9	285	314
A&D	12	79,086	1,451	-1,028	79,521	-132	-554	0	0	0	0
Other	348	89	41	65	544	8	340	3	2	-182	-177
<b>TOTAL</b>	<b>24,320</b>	<b>91,414</b>	<b>28,765</b>	<b>19,941</b>	<b>164,441</b>	<b>39</b>	<b>3,731</b>	<b>3,778</b>	<b>2,282</b>	<b>372</b>	<b>6,432</b>

  

Production (boe/d) *	Q1 14	Q2 14	Q3 14	Q4 14	2014	Q1 15	Q2 15	15-Jul	15-Aug	01-Sep	Q3 15
Sales	4,158	6,170	6,712	7,001	6,020	6,624	5,632	5,031	6,270	4,976	5,430
Field	4,382	6,086	6,844	7,277	6,147	6,332	5,642	5,418	5,809	5,361	5,531

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

The theme this month is to highlight one of the little things we do at Gear to maximize our cash flow. In this case it is all about our ability to shift oil sales from month to month to take advantage of oil price volatility. And of course lately there has been no shortage of that.

You may not realize, but at Gear we essentially tank treat all of our oil. What that means is that we have one or more large oil tanks at each of our producing well sites. Each tank is filled with the oil, water and sand produced daily from the associated well, or wells. That combination of products is called emulsion. We separate the oil from the emulsion by applying heat, and sometimes chemicals, and then we truck the clean sales oil to various nearby pipeline or railway terminals. The additional benefit of this production method is that we have a significant amount of tank capacity across our fields. In fact the latest estimate is over 300,000 barrels of tankage. However, not all that storage can be utilized as there always needs to be a certain amount of emulsion in each tank so that the fluid volume stays above the heaters in the tank, otherwise we cannot separate the oil. Gears total inventory in all these tanks has varied lately from about 170,000 to over 200,000 barrels of oil.

So, what does this all mean? It means that we have the capability to sell more oil in a month to take advantage of high prices or sell less oil to avoid low prices. We essentially have our own storage facility that we can either drain to the heaters, or we can fill almost to the brim.

The best way to clarify this is to provide a quick example:

If you look at our third quarter production you can see that the field rates were relatively consistent, ranging between 5,400 and 5,800 boe/d. However, if you look at the sales number you can see that the range is much wider; the September number was low at 4,976 boe/d and the August number was high at 6,270 boe/d. We basically did what I have been describing, we drained the tanks in August and we let them fill up again in September.

The number that you don't see is the total oil in inventory. On August 31<sup>st</sup> we had 173,000 barrels in inventory, and by September 30<sup>th</sup> we had increased that inventory to 193,000 barrels. We effectively reduced September sales by the difference of 20,000 barrels by either pre-selling it in August, or by holding it in inventory until October.

So how did this maximize cash flow?

August estimated oil price: \$37.02/bbl  
 September estimated oil price: \$30.76/bbl  
 October estimated oil price: \$39.86/bbl\*

(\*warning: October is not over yet, so this will change)

On average August and October prices were about \$7.70 per barrel higher than September. So by moving 20,000 barrels from September to the other two months we believe that we have increased Gears cash flow by approximately \$154,000.

Over the course of a full quarter that is about \$0.30/boe increased cash flow. It is not a lot, but every little bit helps.

