GEAR ENERGY

Monthly Update

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From the desk of Ingram Gillmore, President & CEO

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

Capital *

($k CAD)	Q4 14	2014	Q1 15	Q2 15	Q3 15	Oct-15	Nov-15	Dec-15	Q4 15	2015
Drill & Complete	11,891	54,644	-1,763	1,656	4,899	2,089	2	18	2,109	6,901
Facilities	7,564	24,861	1,893	1,957	1,396	935	633	299	1,867	7,113
Land & Seismic	1,449	4,870	332	332	314	2	32	428	462	1,440
A&D	-1,028	79,521	-133	-554	0	0	0	0	0	-687
Other	65	544	-290	340	-177	0	182	-625	-443	-570
TOTAL	**19,941**	**164,441**	**39**	**3,731**	**6,432**	**3,026**	**849**	**120**	**3,995**	**14,197**

Production (boe/d) *

Sales	**7,001**	**6,020**	**6,624**	**5,632**	**5,430**	**5,025**	**5,237**	**4,792**	**5,015**	**5,670**
Field	7,277	6,147	6,332	5,642	5,531	5,209	5,033	4,791	5,011	5,625

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

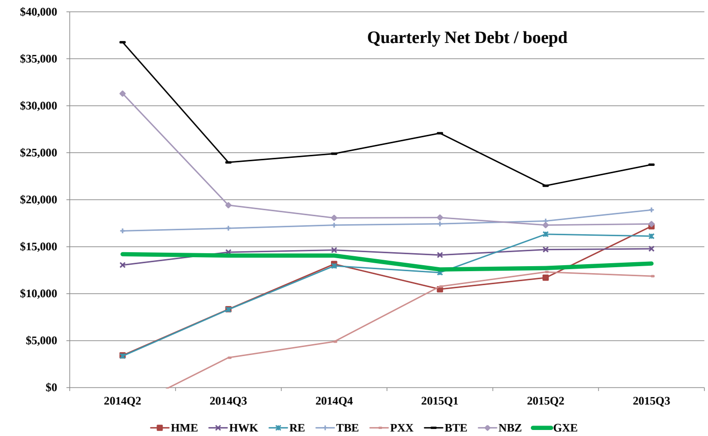
Well, that is a relief… I was delaying this update so that I could include my thoughts on the impacts of the new Alberta Royalty Review. So now that it is hot off the presses, the initial impacts appear to be fairly benign. It is actually quite encouraging for us to hear that our conventional horizontal heavy oil drilling will be subject to the same initial 5% royalty as we have experienced in the past. It seems the most material change is going to be the term of the lower royalty and of course the scale of the "post-holiday" royalty. For now we are assuming that impact will be small, as the majority of our revenue and value for new horizontal wells is achieved in the initial year or so.

The other piece of the program that gives me some encouragement is that the Government will use an industry average capital cost in the calculation of the term for the low royalty, and as a company that has historically outperformed its peers on costs, I am hopeful that this will give Gear an advantage and ultimately help to maximize the returns on our future Alberta drilling projects. For today, I am encouraged. But as usual, I will remain cautious until we are provided all the details and are able to model our future opportunities more rigorously.

Ok, so moving on, let's talk briefly about another topic of great interest to investors these days: **debt**. I have fielded many calls since the oil price has resumed its decline into January. "How is our debt, and can we get through this low price period?"

The short answer is …Our debt is pretty good. As you recall we did a financing in November and the net result estimates that we will exit 2015 with $14.8 million of convertible debentures due in 2020, and approximately $51 million, net of working capital, drawn on a new $60 million bank line. In addition, our trailing 12 month net debt to cash flow ratio for 2015 is competitive, around 1.7 times. Perhaps more importantly, we reduced our net debt from almost $100 million to approximately $66 million (of which $15 million is termed out to the end of 2020).

For interest sake, I pulled some peer data from www.SEDAR.com and as you can see, over the last six quarters, we have managed to slightly reduce our debt per flowing barrel and maintain a very competitive ranking, while many of our peers have had theirs incline or stay flat at levels significantly higher than Gear's.



Of course, debt is only one piece of the equation. The balancing factor for sustainability is future cash flow. I am not surprised that investors have been calling to ask about this, especially when the WCS heavy oil benchmark is hitting record low prices throughout the month, and Gear's realized prices have intermittently dropped below $20/bbl. One part of the answer is that, prior to hedging, we are managing to keep Gear cash flow positive (or very near to it, on the bad days) as a result of five long years of driving down costs and recent continued reduction of per unit costs even with declining production. The other more material part of the answer for 2016 is that we put hedges in place to make sure that Gear can survive times like these and still be around in the future to take advantage of our deep inventory of low risk drilling opportunities. The quick chart below shows that at flat 2016 WTI US$ prices between $35/bbl and $25/bbl, Gear stands to realize hedging gains between $15 and $25 million. Those are material amounts that should go a long way to protecting Gear's future.