GEAR ENERGY

Monthly Update

March 28, 2017
Vol. 4 Issue 3

FROM THE DESK OF INGRAM GILLMORE, PRESIDENT & CEO

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

Capital * *($k CAD)*	**2015**	Q1 16	Q2 16	Q3 16	Dec-16	Q4 16	**2016**	Jan-17	Feb-17
Drill & Complete	**6,901**	91	593	5,734	1,702	3,083	**9,501**	4,312	4,967
Facilities	**7,113**	225	1,337	1,396	744	2,106	**5,064**	673	1,187
Land & Seismic	**1,440**	-29	42	287	96	978	**1,278**	938	229
A&D	**-687**	-480	29	58,141	80	-74	**57,616**	30	-41
Other	**-570**	-186	-809	-384	-80	-100	**-1,479**	0	2
TOTAL	**14,197**	**-379**	**1,192**	**64,929**	**2,542**	**5,993**	**71,980**	**5,953**	**6,344**

Production (boe/d) *									
Sales	**5,670**	**4,435**	**4,536**	**5,420**	**6,629**	**6,203**	**5,152**	**5,756**	**6,119**
Field	5,625	4,453	4,112	5,567	6,006	6,118	5,067	5,806	6,096

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

The energy market appears to have shifted to a "risk-off" mentality of late, with the majority of focus directed towards expanding US crude inventories and inclining US oil production. I choose to see the silver lining embedded in the current statistics, primarily the fact that there is no greater motivation for a continuation of the OPEC supply cuts than the current weakening of oil prices. If the supply cuts are extended through the remainder of the year, there should finally be a rebalancing and hopefully some renewed stability and strength in prices.

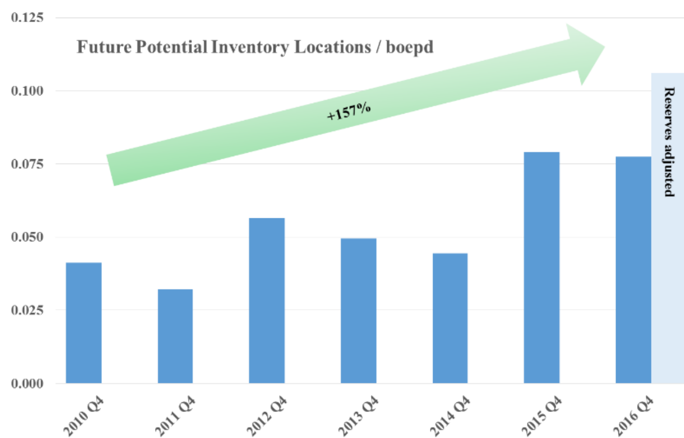
As things currently stand, oil prices remain in a range that supports Gear's 2017 budget objectives of providing production and cash flow growth while investing within forecasted cash flow, and I would not be surprised to see a shift back to "risk-on" as we progress through the year. If that happens then the market can refocus their concerns away from prices and back to more traditional fundamentals, including the maintenance of low costs, and the depth of future inventories.

Interestingly, the toughest questions I used to tackle back when we started in 2010, were all about future drilling inventory. When Gear initially entered into the Lloydminster area, the focus was primarily on drilling heavy oil wells into the Wildmere area. At the time we had about 90 potential locations in inventory and our forecast was for each well to yield an average IP365 of 45bbl/d and average about 60mbbls of recoverable oil. Many conversations were had about how 90 locations wasn't enough and what was Gear going to do when they all ran out…

Fortunately, the Gear strategy was to always invest significant effort and funds towards not only replacing but also expanding that original inventory. Despite some periods of low capital investment, we have been very successful in growing that part of the business through core area organic developments and strategic acquisitions.

In simple terms, we started with 90 locations in 2010, we have drilled over 200 locations to the end of 2016, and our current internal estimate of potential future locations stands at 480, (of which only a third are currently recognized in our P+P reserves evaluation). That is a pretty significant increase in future potential opportunities.

The other interesting consideration is that not only the absolute well count but also the average individual well expectations of our inventory have improved. At the beginning of this year, the forecast average risked IP365 per well for the potential future inventory is 74boe/d (+64% from 2010), and the average recoverable amounts are estimated at 82mboe (+37% from 2010).



To try and demonstrate the results clearly, I took the yearly inventory estimates and divided them by Q4 production. Based on that analysis, the Gear team have grown the potential future inventory per boepd by 88% since 2010. However, if you take the math one step further and reserves adjust the 2016 inventory amount upwards by 37%, the end result is an impressive 157% increase in equivalent inventory per boepd since 2010.

Ultimately the goal has always been to grow Gear for the long term, and that would not be possible without continuing to successfully expand our inventory. Fortunately, we are good at it.