# NEWS RELEASE

## GEAR ENERGY LTD. ANNOUNCES FOURTH QUARTER 2017 OPERATING RESULTS

CALGARY, ALBERTA (February 21, 2018) Gear Energy Ltd. ("Gear" or the "Company") (TSX:GXE) is pleased to provide the following fourth quarter operating update to shareholders. Gear's Interim Financial Statements and related Management's Discussion and Analysis ("MD&A") for the period ended December 31, 2017 are available for review on Gear's website at www.gearenergy.com and on www.sedar.com.

### Financial Summary

| | Three months ended | | | Twelve months ended | |
|---|---|---|---|---|---|
| (Cdn$ thousands, except per share, share and per boe amounts) | **Dec 31, 2017** | Dec 31, 2016 | Sep 30, 2017 | **Dec 31, 2017** | Dec 31, 2016 |
| **FINANCIAL** | | | | | |
| Cash flow from operations (1) | **14,613** | 9,407 | 9,960 | **43,550** | 28,591 |
| Per weighted average basic share | **0.07** | 0.05 | 0.05 | **0.23** | 0.21 |
| Per weighted average diluted share | **0.07** | 0.05 | 0.05 | **0.21** | 0.21 |
| Cash flow from operating activities | **9,964** | 6,888 | 9,197 | **36,768** | 25,306 |
| Net income (loss) | **6,947** | (12,191) | (2,705) | **10,229** | (23,686) |
| Per weighted average basic share | **0.04** | (0.07) | (0.01) | **0.05** | (0.18) |
| Per weighted average diluted share | **0.03** | (0.07) | (0.01) | **0.05** | (0.18) |
| Capital expenditures | **12,307** | 6,067 | 10,513 | **47,765** | 14,368 |
| Net acquisitions (2) | **14** | (74) | 1,635 | **1,709** | 57,612 |
| Net debt outstanding (1) | **43,269** | 36,967 | 44,568 | **43,269** | 36,967 |
| Weighted average shares, basic (thousands) | **194,968** | 191,134 | 193,158 | **193,477** | 133,172 |
| Weighted average shares, diluted (thousands) | **211,310** | 191,134 | 193,158 | **210,029** | 133,172 |
| Shares outstanding, end of period (thousands) | **194,968** | 192,568 | 194,968 | **194,968** | 192,568 |
| **OPERATING** | | | | | |
| Production | | | | | |
| Heavy Oil (bbl/d) | **4,760** | 3,997 | 4,054 | **4,112** | 4,099 |
| Light and Medium Oil (bbl/d) | **1,161** | 989 | 1,290 | **1,237** | 428 |
| Natural gas liquids (bbl/d) | **242** | 308 | 279 | **265** | 114 |
| Natural gas (mcf/d) | **5,566** | 5,456 | 5,415 | **5,379** | 3,064 |
| Total (boe/d) | **7,090** | 6,203 | 6,525 | **6,511** | 5,152 |
| Average prices | | | | | |
| Heavy oil ($/bbl) | **49.18** | 41.21 | 44.00 | **45.49** | 34.74 |
| Light and Medium oil ($/bbl) | **64.71** | 57.98 | 53.12 | **59.40** | 55.30 |
| Natural gas liquids ($/bbl) | **27.79** | 24.16 | 27.28 | **26.80** | 22.89 |
| Natural gas ($/mcf) | **1.90** | 3.07 | 1.52 | **2.32** | 2.50 |
| Netback ($/boe) | | | | | |
| Commodity and other sales | **46.06** | 39.70 | 40.41 | **43.15** | 34.15 |
| Royalties | **(4.15)** | (3.76) | (4.50) | **(4.40)** | (3.19) |
| Operating costs | **(16.03)** | (16.25) | (16.57) | **(16.66)** | (15.46) |
| Operating netback (1) | **25.88** | 19.69 | 19.34 | **22.09** | 15.50 |
| Realized risk management (losses) gains | **(0.73)** | 0.24 | 0.11 | **(0.64)** | 4.67 |
| General and administrative | **(1.92)** | (2.59) | (2.06) | **(2.25)** | (2.85) |
| Interest | **(0.83)** | (0.85) | (0.81) | **(0.84)** | (1.17) |
| Other | **-** | - | - | **(0.04)** | (1.04) |
| Corporate netback (1) | **22.40** | 16.49 | 16.58 | **18.32** | 15.11 |
| **TRADING STATISTICS** | | | | | |
| ($ based on intra-day trading) | | | | | |
| High | **1.00** | 1.18 | 0.86 | **1.26** | 1.18 |
| Low | **0.70** | 0.68 | 0.65 | **0.60** | 0.25 |
| Close | **0.85** | 1.18 | 0.82 | **0.85** | 1.18 |
| Average daily volume (thousands) | **468** | 647 | 326 | **400** | 389 |

(1) Cash flow from operations, net debt, operating netback and corporate netback are non-GAAP measures and additional information with respect to these measures can be found under the heading "*Non-GAAP Measures*" in Gear's MD&A.

(2) Net acquisitions exclude non-cash items for decommissioning liability and deferred taxes and is net of post-closing adjustments.

**QUARTERLY HIGHLIGHTS**

- Achieved record high sales production for the fourth quarter averaging 7,090 boe per day. This was a nine per cent increase compared to the prior quarter and a 14 per cent increase compared to the prior year fourth quarter. Estimated field production was even higher at 7,380 boe per day for the fourth quarter. As a result of takeaway bottlenecks experienced in the fourth quarter, Gear built its heavy oil inventory by approximately 27,000 barrels to exit with approximately 189,000 barrels in storage. As oil egress improves through the remainder of 2018, Gear will look to reduce inventories to regular operating levels.

- Realized quarterly cash flow from operations of $14.6 million, a 46 per cent increase from the third quarter cash flow of $10.0 million and the highest quarterly cash flow in 10 consecutive quarters. The significant increase was primarily due to higher production as a result of Gear's active and successful summer drilling program and an increase in realized pricing.

- Realized operating netback of $25.88 per boe and a corporate netback of $22.40 per boe, an increase of 34 per cent and 35 per cent, respectively, from the third quarter, principally as a result of increased prices and lower costs.

- Drilled 7 gross (7 net) wells during the quarter with 100 per cent success including; three multi-lateral unlined heavy oil wells in Wildmere, two fracture stimulated medium oil wells in Killam, one horizontal heavy oil well in Paradise Hill, and one multi-lateral unlined heavy oil well in Hoosier. Based on preliminary results, aggregate production for the new wells is meeting expectations. Total development capital expenditures during the fourth quarter totaled $12.3 million.

- Reduced outstanding net debt through the fourth quarter to exit 2017 with net debt of $43.3 million and a strong fourth quarter net debt to annualized cash flow from operations ratio of 0.7 times.

**ANNUAL HIGHLIGHTS**

- Realized record annual sales production of 6,511 boe per day for calendar 2017, a 26 per cent increase over the 5,152 boe per day in 2016. This accomplishment was primarily the result of the successful annual drilling program as well as including a full year of production from the acquisition of Striker Exploration Corp. ("Striker") completed in July 2016. Estimated field production for 2017 was 6,648 boe per day.

- Achieved annual cash flow from operations of $43.6 million in 2017, a 52 per cent increase over the $28.6 million recorded in 2016.

- Successfully drilled 33 out of 34 gross wells (32.8 out of 33.8 net) including 15 Paradise Hill heavy oil wells, 11 Wildmere heavy oil wells, three Hoosier heavy oil wells, two Killam medium oil wells, and three Wilson Creek light oil wells. The one unsuccessful well experienced an underground blowout prior to reaching the target reservoir and was abandoned after being safely and effectively contained. All associated expenditures were insured.

- Decreased annual general & administrative and interest expense per boe by 21 per cent and 28 per cent, respectively, compared to 2016. These savings were a result of increasing production and lowering average debt levels. Operating costs increased year over year by eight percent largely as a result of increased gas processing fees associated with the Striker acquisition completed in July 2016.

- Increased Gear's credit facility from $50 million to $55 million and maintained a strong 2017 annual net debt to cash flow from operations ratio of 1.0 times.

**2018 OUTLOOK**

- Commodity prices into early 2018 have continued their trend of volatility with WTI ranging from a high of almost US$67 per barrel to a low below US$58 per barrel. Additionally, Canadian heavy oil differentials have widened, albeit briefly to as much as US$30 per barrel. The theme through the last few months has been focused on transportation challenges for Canadian oil with the market presently looking to crude-by-rail to relieve the current bottlenecks. The recent forward curve prices, after hedging, are indicating a potential $4 per boe reduction in forecasted revenue relative to the pricing Gear used when building the initial 2018 capital budget.

- Fortunately, additional oil takeaway capacity appears to be coming into the market with greater pipeline capacity (through re-configurations) and incremental rail services. At this time, Gear is still planning to largely execute its 2018 program as outlined in its December 14, 2017 budget press release. However, Gear has deferred some of its planned Q1 heavy oil drilling locations into the summer due to the takeaway capacity constraints previously highlighted. Gear is also looking to potentially substitute and accelerate some of its light oil drilling locations in place of heavy oil drilling locations in the first half of the year. As always, the team will remain nimble and adjust capital accordingly to balance growth opportunities with the maintenance of a strong balance sheet.

**GEAR ENERGY LTD.**
**BALANCE SHEETS (unaudited)**
**As at December 31**

| (Cdn$ thousands) | | **2017** | | 2016 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current assets | | | | |
| Accounts receivable | **$** | **13,240** | $ | 9,526 |
| Prepaid expenses | | **2,862** | | 2,774 |
| Inventory | | **7,297** | | 5,723 |
| | | **23,399** | | 18,023 |
| Deferred income tax asset | | **26,531** | | 20,589 |
| Property, plant and equipment | | **256,961** | | 242,837 |
| Total assets | **$** | **306,891** | $ | 281,449 |
| **LIABILITIES** | | | | |
| Current liabilities | | | | |
| Accounts payable and accrued liabilities | **$** | **11,625** | $ | 9,827 |
| Risk management contracts | | **5,295** | | 7,305 |
| Flow-through share liability | | **-** | | 135 |
| | | **16,920** | | 17,267 |
| Debt | | **41,345** | | 31,163 |
| Convertible debentures | | **12,155** | | 11,973 |
| Decommissioning liability | | **80,541** | | 78,814 |
| Total liabilities | | **150,961** | | 139,217 |
| **SHAREHOLDERS' EQUITY** | | | | |
| Share capital | | **311,240** | | 308,900 |
| Warrants | | **129** | | 335 |
| Equity component of convertible debentures | | **2,592** | | 2,649 |
| Contributed surplus | | **15,178** | | 13,786 |
| Deficit | | **(173,209)** | | (183,438) |
| Total shareholders' equity | | **155,930** | | 142,232 |
| Total liabilities and shareholders' equity | **$** | **306,891** | $ | 281,449 |

**GEAR ENERGY LTD.**
**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)**
**For the years ended December 31**
(Cdn$ thousands)

| | Share Capital | Warrants | Equity Component of Convertible Debentures | Contributed Surplus | Deficit | Total Equity |
|---|---|---|---|---|---|---|
| **Balance at December 31, 2015** | **$ 241,535** | **$ -** | **$ -** | **$ 12,377** | **$ (159,752)** | **$ 94,160** |
| Issued on offering of common shares | 20,125 | - | - | - | - | 20,125 |
| Issued as consideration on corporate acquisition | 46,506 | 335 | - | - | - | 46,841 |
| Issued on flow-through share offering | 859 | - | - | - | - | 859 |
| Share issue costs, net of deferred tax of $357 | (979) | - | - | - | - | (979) |
| Approval of conversion feature | - | - | 2,800 | - | - | 2,800 |
| Issued on conversion of convertible debentures | 854 | - | (151) | - | - | 703 |
| Share-based compensation | - | - | - | 1,409 | - | 1,409 |
| Net loss for the year | - | - | - | - | (23,686) | (23,686) |
| **Balance at December 31, 2016** | **$ 308,900** | **$ 335** | **$ 2,649** | **$ 13,786** | **$ (183,438)** | **$ 142,232** |
| Exercise of stock options | 2,022 | - | - | (573) | - | 1,449 |
| Cancellation of warrants | - | (206) | - | 206 | - | - |
| Share issue costs, net of deferred tax of $2 | (5) | - | - | - | - | (5) |
| Issued on conversion of convertible debentures | 323 | - | (57) | - | - | 266 |
| Share-based compensation | - | - | - | 1,759 | - | 1,759 |
| Net income for the year | - | - | - | - | 10,229 | 10,229 |
| **Balance at December 31, 2017** | **$ 311,240** | **$ 129** | **$ 2,592** | **$ 15,178** | **$ (173,209)** | **$ 155,930** |

**GEAR ENERGY LTD.**
**STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) (unaudited)**

| (Cdn$ thousands, except per share amounts) | | Three Months Ended December 31 **2017** | | 2016 | | Twelve Months Ended December 31 **2017** | | 2016 |
|---|---|---|---|---|---|---|---|---|
| **REVENUE** | | | | | | | | |
| Sales of crude oil, natural gas and natural gas liquids | **$** | **30,047** | $ | 22,654 | **$** | **102,551** | $ | 64,400 |
| Royalties | | **(2,705)** | | (2,144) | | **(10,454)** | | (6,006) |
| | | **27,342** | | 20,510 | | **92,097** | | 58,394 |
| Realized cash (loss) gain on risk management contracts | | **(476)** | | 139 | | **(1,524)** | | 8,801 |
| Unrealized (loss) gain on risk management contracts | | **(5,261)** | | (5,586) | | **2,010** | | (16,478) |
| | | **21,605** | | 15,063 | | **92,583** | | 50,717 |
| **EXPENSES** | | | | | | | | |
| Operating | | **10,456** | | 9,275 | | **39,586** | | 29,156 |
| General and administrative | | **1,253** | | 1,479 | | **5,347** | | 5,378 |
| Interest and financing charges | | **540** | | 484 | | **1,986** | | 2,209 |
| Depletion, depreciation and amortization | | **10,450** | | 9,052 | | **37,896** | | 26,917 |
| Accretion | | **578** | | 461 | | **2,199** | | 1,660 |
| Share-based compensation | | **420** | | 497 | | **1,759** | | 1,409 |
| Transaction costs | | **-** | | - | | **-** | | 1,485 |
| Gain on asset disposition | | **-** | | - | | **(445)** | | (1,300) |
| Loss on conversion approval option | | **-** | | - | | **-** | | 1,000 |
| Other | | **1** | | 1 | | **101** | | 484 |
| | | **23,698** | | 21,249 | | **88,429** | | 68,398 |
| Deferred tax recovery (expense) | | **9,040** | | (6,005) | | **6,075** | | (6,005) |
| Net income (loss) and comprehensive income (loss) | **$** | **6,947** | $ | (12,191) | **$** | **10,229** | $ | (23,686) |
| Net income (loss) per share, basic | **$** | **0.04** | $ | (0.07) | **$** | **0.05** | $ | (0.18) |
| Net income (loss) per share, diluted | **$** | **0.03** | $ | (0.07) | **$** | **0.05** | $ | (0.18) |

**GEAR ENERGY LTD.**
**STATEMENTS OF CASH FLOWS (unaudited)**

| (Cdn$ thousands) | Three Months Ended December 31 2017 | Three Months Ended December 31 2016 | Twelve Months Ended December 31 2017 | Twelve Months Ended December 31 2016 |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Net income (loss) | **$ 6,947** | $ (12,191) | **$ 10,229** | $ (23,686) |
| Add items not involving cash: | | | | |
| Unrealized loss (gain) on risk management contracts | **5,261** | 5,584 | **(2,010)** | 16,478 |
| Bad debt (recovery) expense | **(3)** | (1) | **(3)** | 108 |
| Depletion, depreciation and amortization | **10,450** | 9,052 | **37,896** | 26,917 |
| Accretion | **578** | 461 | **2,199** | 1,660 |
| Share-based compensation | **420** | 497 | **1,759** | 1,409 |
| Gain on asset disposition | **-** | - | **(445)** | (1,300) |
| Loss on conversion approval option | **-** | - | **-** | 1,000 |
| Deferred tax (recovery) expense | **(9,040)** | 6,005 | **(6,075)** | 6,005 |
| Decommissioning liabilities settled | **(1,260)** | (210) | **(2,577)** | (1,853) |
| Change in non-cash working capital | **(3,389)** | (2,309) | **(4.205)** | (1,432) |
| | **9,964** | 6,888 | **36,768** | 25,306 |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | | | |
| Borrowings (repayments) of debt under credit facility | **1,937** | (2,372) | **10,182** | (24,562) |
| Repayment of debt assumed on corporate acquisition | **-** | - | **-** | (8,393) |
| Convertible debenture issue costs | **-** | - | **-** | 5 |
| Issuance of share capital, net of share issue costs | **-** | 981 | **1,442** | 19,789 |
| | **1,937** | (1,391) | **11,624** | (13,161) |
| **CASH FLOW USED IN INVESTING ACTIVITIES** | | | | |
| Property, plant and equipment expenditures | **(12,307)** | (6,067) | **(47,765)** | (14,368) |
| Acquisition of petroleum and natural gas properties | **(46)** | (103) | **(2,261)** | (220) |
| Disposition of petroleum and natural gas properties | **(11)** | 285 | **511** | 1,087 |
| Change in non-cash working capital | **463** | 388 | **1,123** | 1,356 |
| | **(11,901)** | (5,497) | **(48,392)** | (12,145) |
| **INCREASE IN CASH AND CASH EQUIVALENTS** | **-** | - | **-** | - |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD** | **-** | - | **-** | - |
| **CASH AND CASH EQUIVALENTS, END OF PERIOD** | **$ -** | $ - | **$ -** | $ - |

## FOR FURTHER INFORMATION PLEASE CONTACT:


Ingram Gillmore
President & CEO
403-538-8463
Email: igillmore@gearenergy.com
Website: www.gearenergy.com

David Hwang
Vice President Finance & CFO
403-538-8437
Email: dhwang@gearenergy.com


**Forward-looking Information and Statements**
This press release contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends", "strategy" and similar expressions are intended to identify forward-looking information or statements. In particular, but without limiting the foregoing, this press release contains forward-looking information and statements pertaining to the following: expectations with respect to commodity prices and differentials; the potential for a reduction on a boe basis for forecasted revenue; the expectation that additional oil takeaway capacity appears to be coming into the market with greater pipeline capacity (through re-configurations) and incremental rail services; Gear's intent to largely execute its 2018 capital program as previously disclosed; the intent to defer some of Gear's planned first quarter heavy oil drilling locations into the summer; the expectation that Gear may potentially substitute and accelerate some of its light oil drilling locations in place of heavy oil drilling locations in the first half of the year; and the expectation that Gear will be able to adjust capital accordingly to balance growth opportunities with the maintenance of a strong balance sheet.

The forward-looking information and statements contained in this press release reflect several material factors and expectations and assumptions of Gear including, without limitation: that Gear will continue to conduct its operations in a manner consistent with past operations; the general continuance of current industry conditions; the continuance of existing (and in certain circumstances, the implementation of proposed) tax, royalty and regulatory regimes; the accuracy of the estimates of Gear's reserves and resource volumes; certain commodity price and other cost assumptions; and the continued availability of adequate debt and equity financing and cash flow from operations to fund its planned expenditures. Gear believes the material factors, expectations and assumptions reflected in the forward-looking information and statements are reasonable but no assurance can be given that these factors, expectations and assumptions will prove to be correct.

To the extent that any forward-looking information contained herein may be considered a financial outlook, such information has been included to provide readers with an understanding of management's assumptions used for budgeting and developing future plans and readers are cautioned that the information may not be appropriate for other purposes. The forward-looking information and statements included in this press release are not guarantees of future performance and should not be unduly relied upon. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements including, without limitation: changes in commodity prices; changes in the demand for or supply of Gear's products; unanticipated operating results or production declines; changes in tax or environmental laws, royalty rates or other regulatory matters; changes in development plans of Gear or by third party operators of Gear's properties, increased debt levels or debt service requirements; inaccurate estimation of Gear's oil and gas reserve and resource volumes; limited, unfavorable or a lack of access to capital markets; increased costs; a lack of adequate insurance coverage; the impact of competitors; and certain other risks detailed from time to time in Gear's public documents including in Gear's most current annual information form which is available on SEDAR at www.sedar.com.

The forward-looking information and statements contained in this press release speak only as of the date of this press release, and Gear does not assume any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable laws**.**

**NON-GAAP Measures**
This press release contains the terms cash flow from operations, net debt, operating netback and corporate netback, which do not have standardized meanings under Canadian generally accepted accounting principles ("GAAP") and therefore may not be comparable with the calculation of similar measures by other companies. Management believes that these key performance indicators and benchmarks are key measures of financial performance for Gear and provide investors with information that is commonly used by other oil and gas companies. Cash flow from operations is calculated as cash flow from operating activities before changes in noncash operating working capital and decommissioning liabilities settled. Net debt is calculated as debt less current working capital items, excluding risk management contracts. Operating netbacks are presented both before and after taking into account the effects of hedging and are calculated based on the amount of revenues received on a per unit of production basis after royalties and operating costs. Corporate netbacks are presented after taking into account the effects of hedging and are calculated based on the amount of revenues received on a per unit of production basis after royalties, operating costs, general and administrative expenses, interest and foreign exchange gain or loss. Additional information relating to certain of these non-GAAP measures, including the reconciliation between cash flow from operations and cash flow from operating activities, can be found in the MD&A.

**Barrels of Oil Equivalent**
Disclosure provided herein in respect of BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of six Mcf to one Bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and do not represent a value equivalency at the wellhead. Additionally, given that the value ratio based on the current price of crude oil, as compared to natural gas, is significantly different from the energy equivalency of 6:1; utilizing a conversion ratio of 6:1 may be misleading as an indication of value.

**Initial and Other Production Rates**
Any references in this document to initial production rates or production rates of new wells over a period of time are useful in confirming the presence of hydrocarbons, however, such rates are not determinative of the rates at which such wells or other future wells will continue production and decline thereafter. Additionally, such rates may also include recovered "load oil" fluids used in well completion stimulation. There is no certainty that other wells on such properties will achieve such production levels. Readers are cautioned not to place reliance on such rates in calculating the aggregate production for Gear.