



NEWS RELEASE

GEAR ENERGY LTD. ANNOUNCES OPERATIONS UPDATE AND 2017 BUDGET

CALGARY, ALBERTA (December 13, 2016) Gear Energy Ltd. (“Gear” or the “Company”) (TSX:GXE) is pleased to provide the following update to shareholders.

OPERATIONS UPDATE

Throughout the fourth quarter of 2016 Gear completed the following items of note:

- Successfully drilled two full section Basal Belly River horizontal wells in Wilson Creek. The first well was fracture stimulated in early December and is currently flowing back. The second well is scheduled to be stimulated near the end of December. Gear is encouraged by the early results and looks forward to providing production updates as the wells stabilize post completion.
- Deferred drilling of the low risk exploratory horizontal heavy oil well in Hoosier, Saskatchewan to the first quarter of 2017 due to temporary surface land delays.
- As a result of the temporary delays in Wilson Creek and Hoosier, fourth quarter production is now expected to be approximately 6,000 boe per day, providing a solid foundation for 2017 growth.
- Successfully extended the maturity date of Gear’s Credit Facilities from May 31, 2017 to May 31, 2018 and confirmed an unchanged borrowing base of \$50 million.

2017 BUDGET

Gear is pleased to announce a 2017 capital budget of \$45 million, targeting low risk production growth of approximately 15 per cent (fourth quarter to fourth quarter) with an annual average production rate of 6,400 boe per day and an estimated 2017 exit rate of approximately 7,200 boe per day. Capital investment is expected to more than offset the estimated 30 per cent base decline by focusing primarily on the continuation of high return development drilling through 2016. Management intends to fully fund the 2017 growth budget with forecasted cash flow at the current strip WTI oil price of approximately US \$53 per barrel. Gear anticipates maintaining a strong balance sheet through 2017 with a forecasted reduction in the annual net debt to cash flow ratio to approximately 0.8 times. Gear will continue to monitor prices throughout the year with a vision to potential budget expansion if oil prices strengthen, however the focus will remain on the delivery of strong project returns and the maintenance of a solid balance sheet.

- Approximately \$33 million, or 80 per cent of the budget will be dedicated to drilling low risk horizontal oil wells. The current plan includes the drilling of 31 gross (31 net) heavy oil wells primarily in Paradise Hill McLaren, Wildmere Cummings and Wildmere GP, one gross (one net) medium oil well in Killam, and six gross (5.2 net) light oil wells in Wilson Creek Basal Belly River and Brazeau Belly River for a total of 38 gross (37 net) wells. Of the 38 wells, 11 are expected to be multi-laterals and 10 are expected to be multi-stage fracs. Approximately 10 per cent of the drilling locations are classified as inventory expansion opportunities designed to push the boundaries of existing resources, or add new resources to the total corporate inventory.
- An additional \$9 million of the budget will be focused on the implementation of pilot water floods in Wilson Creek and Killam, as well as a variety of small infrastructure projects, recompletions, land, seismic and corporate capital.
- The remaining \$3 million will be focused on strategic abandonment and reclamation projects designed to maintain strong corporate liability ratios in both Alberta and Saskatchewan.
- Gear’s 2017 budget includes estimates for continued cost reductions when compared to 2016 results. Both royalties and operating costs are forecasted to remain relatively stable while general and administrative (“G&A”) and interest costs per unit are predicted to improve by 22 per cent and 44 per cent, respectively, as a result of increased production volumes and lower debt levels. The budget also includes a 6 per cent improvement in revenue per boe relative to WTI pricing as a result of the increased contribution of light oil to the commodity mix.

	2017 Guidance
Annual Production (boe/d)	6,400
Per cent heavy oil (%)	62
Per cent light/medium oil & NGLs (%)	24
Royalties (%)	10
Operating and Transportation Costs(\$/boe)	15.50
G&A Costs (\$/boe)	2.15
Interest Costs (\$/boe)	0.70
Capital and Abandonment Expenditures (\$ million)	45
Planned Wells	38 gross (37 net)

- The 2017 budget is based on assumptions of a realized Gear heavy oil price of approximately CAD\$44 per barrel and a realized Gear light oil price of approximately CAD\$63.50 per barrel which is equivalent to WTI price of US\$53, a WCS heavy oil differential of US\$16, a Gear heavy oil quality differential of CAD\$5, a Gear light oil differential to WTI of CAD\$6.50, and a foreign exchange rate of \$0.76 CAD/US. In the event that commodity prices change, Gear will be flexible and adjust capital investments accordingly to balance future growth and balance sheet strength.

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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: expected timing for completing fracture stimulation of new wells; expected fourth quarter 2016 production; expected 2017 net debt to cash flow ratio; intent to continue to monitor prices to maintain project returns and a strong balance sheet; expectation that Gear will be able to fully fund the 2017 capital budget with forecasted cash flow based on current strip prices; intent to complete abandonment and reclamation projects to maintain a strong corporate liability ratio in both Alberta and Saskatchewan; details of expected 2017 capital budget including number of wells to be drilled, associated costs and other capital expenditures, base decline rates and the expectation that capital development will more than offset such decline rates; expectations with respect to commodity weighting, revenue, royalties, operating costs, G&A and interest costs; ; expected production; expectations of future commodity prices and differentials.

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 and net debt, 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. 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.