GEAR ENERGY

GEAR ENERGY LTD. ANNOUNCES 2015 OPERATIONAL UPDATE AND REVISED 2016 OUTLOOK

CALGARY, ALBERTA, February 1, 2016 /Marketwired/ - Gear Energy Ltd. ("Gear") (TSX: GXE) announces operational highlights for the fourth quarter of 2015 and revised outlook for the first half of 2016.

2015 Operational update

- Sales production averaged 5,015 boe/d for the fourth quarter; yielding annual production of 5,670 boe/d. Production declined 400 boe/d from the previous quarter, which includes approximately 200 boe/d of oil shut-in due to weakened prices.
- Drilled four successful oil wells during the fourth quarter; two single lateral horizontal wells in Morgan and two single lateral horizontal wells in Paradise Hill. All four wells are producing above expectations at an average IP60 of 80 bbl/d per well. The drilling rig was released on October 25 after a 100 per cent success rate for the 12 horizontal wells drilled through the year.
- Record annual capital efficiency of approximately $13,500/boe/d after spending an estimate of $15 million to realize December average production of 1,100 boe/d from the new 2015 wells. Capital efficiency has improved by almost 60 per cent compared to the previous four year average as a result of lower costs and improved productivity.
- Continued reduction in per unit costs for the fourth quarter with operating costs decreased approximately five per cent per boe and G&A costs declined over 20 per cent per boe from the previous quarter, despite a reduction in volumes for the same period.
- Detailed fourth quarter and year-end 2015 results planned for release on February 17, 2016.

Revised Outlook for 2016

Given the recent and continued weakness in the price of oil, Gear will again adopt a conservative approach to its capital program. This strategy is similar to the actions taken during 2015 whereupon Gear successfully reduced net debt by over 30 per cent and reduced outstanding debt on its demand credit facility by over 40 per cent. It is expected that Gear will enter this year with approximately $51 million, net of working capital, drawn on the recently renewed credit facility of $60 million, with an additional $14.8 million of convertible debentures due in 2020, for a total year end 2015 net debt of approximately $66 million.

The original 2016 capital budget of $31 million to drill 36 low risk horizontal oil wells will not be initiated in the current price environment as the returns on Gear's extensive inventory of drilling locations can be materially improved by delaying investment until the price of oil improves or a further reduction in service costs occurs. Capital investment will be minimized through the first half of the year with the majority of cash flow and hedging gains again dedicated to reducing outstanding debt. An estimate of $1 million of non-discretionary capital will be invested through the first half of the year, with all budgeted development activity being deferred to the second half of the year, subject to improved oil prices. Under the current forward strip oil forecast, excess cash flow will be used to reduce debt during the first half of 2016. The net result is expected to be approximately $42 to $45 million drawn, net of working capital, on the current $60 million facility at June 30th, 2016. Gear's next scheduled bank facility review is planned for June 1, 2016.

In order to maximize cash flow through this period of low oil prices, Gear has shut-in approximately 250 bbl/d of production since the fall of 2015. This is in addition to the 250 bbl/d of recoverable production that was shut-in near the beginning of 2015. The variable cost savings associated with deferring all of this production will more than offset the estimated revenue losses at current low prices, thus yielding a net positive gain in cash flow. The realized heavy oil price for Gear will need to be in excess of $40/bbl before consideration will be given to restarting this 500 bbl/d of shut-ins. Total corporate production is anticipated to decline through the first half of 2016 as a result of these shut-ins and the limited development activity. The production estimate has been revised to 4,150 boe/d for the first half of 2016. Fortunately, Gear also expects to realize further costs savings from lower royalties, lower operating costs and lower absolute G&A costs.

	H1 - 2016 Guidance
Average Production (boe/d)	**4,150**
Royalties (%)	**10**
Operating Costs including Transportation ($/boe)	**14.00 – 16.00**
G&A Costs ($/boe)	**3.50**
Interest Costs ($/boe)	**1.75**
Capital Expenditures ($ million)	**1**

During January, West Texas Intermediate oil prices intermittently dipped below US$30/bbl and Western Canadian Select heavy oil differentials widened to almost a 50 per cent discount, relative to the four year historical average of only 22.5 per cent. The net result is that WCS heavy barrels have traded at the lowest they ever have since the inception of the WCS benchmark. For perspective, the current first quarter 2016 price estimate for Gear's oil is just over CAD$20/bbl. Ultimately, these low prices are not sustainable, even for a low cost producer like Gear. This recent weakness has started to encourage material capital and production cuts from many North American producers and that should finally catalyze a re-balancing of global supply and demand and eventually bring the price of oil back to a more sustainable level.

Gear believes that during uncertain times like these, the most prudent course of action is to accept temporary production declines by limiting spending and directing all cash flows to reducing outstanding debt. By focusing on the sustainability of the Company, Gear will retain significant optionality in planning future capital spending and be better able to maximize the returns on capital for the large inventory of low risk horizontal heavy oil drilling and select strategic acquisition opportunities. The team at Gear continues to focus on maximizing value to shareholders for the long term.

In view of the reduced expenditures, shareholders and readers should no longer rely on the previously published 2016 guidance.

About Gear Energy Ltd.

Gear is a Canadian exploration and production company with predominantly horizontal heavy oil production in east central Alberta and west central Saskatchewan. The current and ongoing business plan is to continue focusing on being a low cost heavy oil operator, drilling economic wells and acquiring assets on an accretive basis.

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ADVISORY ON FORWARD-LOOKING STATEMENTS: *This press release contains certain forward–looking information and statements within the meaning of applicable securities laws. In particular, this press release contains forward-looking information relating to, among other things: Gear's intention to adopt a conservative approach to capital spending; expectations about net debt levels; intent to minimize capital spending throughout the first half of 2016; the intent to defer capital spending to the second half of 2016, subject to improved oil prices; the expectation that shutting-in certain production will yield positive cash flow; expectations of required realized heavy oil prices to restart shut-in production; guidance with respect to the first half of 2016, including expected average production, royalties, operating costs, G&A costs, interest costs and capital expenditures; expectations of trends in commodity prices and price differentials; the intent to use all cash flows to reducing debt; the belief that by focusing on the sustainability of the Company, Gear will retain significant optionality in planning future capital spending and be better able to maximize the returns on capital for the large inventory of low risk horizontal heavy oil drilling and select strategic acquisition opportunities; the intent that Gear will continue to focus on maximizing value to shareholders for the long term. The use of any of the words "expect", "continue", "estimate", "may", "will", "should", "believe", "plans", "cautions" and similar expressions are intended to identify forward-looking information or statements.*

Forward-looking statements or information are based on a number of material factors, expectations or assumptions of Gear which have been used to develop such statements and information but which may prove to be incorrect. Although Gear believes that the expectations reflected in these forward-looking statements are reasonable, undue reliance should not be placed on them because Gear can give no assurance that they will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. In particular, in addition to other factors and assumptions which may be identified herein, assumptions have been made regarding, among other things: drilling *results; field production rates and decline rates; the general continuance of current or future industry conditions; the timing and cost of pipeline, storage and facility construction and expansion and the ability of Gear to secure adequate product transportation; future commodity prices and heavy oil differentials; currency, exchange and interest rates; regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which Gear operates; the ability of Gear to successfully market its oil and natural gas products; the ability of Gear to obtain financing on terms acceptable to Gear; and the continued availability of credit under the Company's credit facilities.*

Further, events or circumstances may cause actual results to differ materially from those predicted as a result of numerous known and unknown risks, uncertainties, and other factors, many of which are beyond the control of Gear, including, without limitation: changes in commodity prices and heavy oil differentials; 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; any actions by Gear's lenders to reduce the availability under its credit facilities, to demand repayment in full or to enforce its security; limited, unfavourable or a lack of access to capital markets; the impact of competitors; and certain other risks detailed from time-to-time in Gear's public disclosure documents. Additional information regarding some of these risk factors may be found under "Risk Factors" in Gear's Annual Information Form dated March 16, 2015, which is available at www.sedar.com. The reader is cautioned not to place undue reliance on this forward-looking information. In addition, to the extent that any forward-looking information presented herein constitutes future-oriented financial information or a financial outlook such information has been presented to provide management's expectations used for budgeting and planning purposes based on the assumptions presented herein and such information may not be appropriate for other purposes. The forward-looking statements contained in this press release are made as of the date hereof and Gear undertakes no obligations to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

Any references in this press release to test rates, flow rates, initial and/or 30 or 60 day production rates are useful in confirming the presence of hydrocarbons, however, such rates are not necessarily indicative of long-term performance or of ultimate recovery. Readers are cautioned not to place reliance on such rates in calculating the aggregate production for Gear. Gear has also used the term capital efficiency in this press release, which is an oil and gas metric. The term capital efficiency does not have any standardized meaning and therefore Gear's calculation of capital efficiency may not be comparable to the use of the term capital efficiency by other oil and gas companies. Gear has calculated capital efficiency by taking the total capital costs invested throughout 2015 to drill, complete and equip wells, plus other corporate capital including land, seismic and facilities, divided by the average December 2015 production resulting from the aforementioned capital. Gear has provided the calculation of capital efficiency to provide readers with an indication of the efficiency of its past capital spending; however, such results may not be a reliable indicator of future performance and should not be used for other purposes.

ADVISORY ON USE OF "BOEs": *"BOEs" may be misleading, particularly if used in isolation. A BOE conversion ratio of six thousand cubic feet of natural gas to one barrel of oil equivalent (6 mcf: 1 bbl) is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. 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 on a 6:1 basis may be misleading as an indication of value.*