



# NEWS RELEASE

## GEAR ENERGY LTD. ANNOUNCES FOURTH QUARTER AND YEAR-END 2015 RESULTS

CALGARY, ALBERTA (February 17, 2016) Gear Energy Ltd. (“Gear” or the “Company”) (TSX:GXE) is pleased to provide the following fourth quarter and year-end operating update to shareholders. For more information in conjunction with this release, please refer to Gear’s Annual Audited Financial Statements, Management’s Discussion and Analysis (“MD&A”) for the years ended December 31, 2015 and 2014, and 2015 Reserves Press Release titled “*Gear Energy Ltd. Announces Year-End Reserves*”, all of which are available for review on Gear’s website at [www.gearenergy.com](http://www.gearenergy.com) and on [www.sedar.com](http://www.sedar.com).

### Financial Summary

(Cdn\$ thousands, except per boe amounts)	Three months ended			Twelve months ended	
	Dec 31, 2015	Dec 31, 2014	Sep 30, 2015	Dec 31, 2015	Dec 31, 2014
<b>FINANCIAL</b>					
Cash flow from operations <sup>(1)</sup>	4,682	20,602	7,416	39,208	76,044
Per weighted average diluted share	0.06	0.29	0.10	0.54	1.12
Cash flow from operating activities	3,801	13,425	9,873	40,545	65,922
Per weighted average diluted share	0.05	0.19	0.14	0.56	0.97
Net loss	(26,501)	(29,999)	(63,360)	(96,519)	(13,080)
Per weighted average diluted share	(0.35)	(0.42)	(0.89)	(1.34)	(0.20)
Capital expenditures	3,993	20,969	6,433	14,883	84,580
Net acquisitions <sup>(2)</sup>	-	(1,027)	-	(686)	79,861
Net debt outstanding <sup>(1)</sup>	65,972	98,404	71,753	65,972	98,404
Shares outstanding, weighted average, basic	75,918	70,817	70,817	72,103	66,706
Shares outstanding, weighted average, diluted	75,918	71,485	70,817	72,103	67,840
Shares outstanding, end of period	85,484	70,817	70,817	85,484	70,817
<b>OPERATING</b>					
Production					
Oil and liquids (bbl/d)	4,819	6,836	5,295	5,513	5,846
Natural gas (mcf/d)	1,176	991	810	942	1,046
Total (boe/d)	5,015	7,001	5,430	5,670	6,020
Average prices					
Oil and liquids (\$/bbl)	31.68	62.39	39.58	39.47	76.15
Natural gas (\$/mcf)	2.10	3.57	2.60	1.61	4.30
Oil equivalent (\$/boe)	30.93	61.42	38.98	38.84	74.69
Netback (\$/boe)					
Commodity and other sales	30.93	61.48	38.98	38.84	74.82
Royalties	4.72	11.02	4.88	5.52	13.83
Operating costs	16.63	19.94	17.53	17.72	20.96
Operating netback (before hedging) <sup>(1)</sup>	9.58	30.52	16.57	15.60	40.03
Realized risk management gains (losses)	3.86	3.98	1.80	7.34	(0.99)
Operating netback (after hedging) <sup>(1)</sup>	13.44	34.50	18.37	22.94	39.04
General and administrative	2.00	1.86	2.66	2.84	3.35
Interest	1.28	1.31	1.34	1.36	1.36
Foreign exchange loss (gain)	0.06	(0.63)	(0.47)	(0.20)	(0.26)
Corporate netback <sup>(1)</sup>	10.10	31.96	14.84	18.94	34.59
<b>TRADING STATISTICS</b>					
(\$ based on intra-day trading)					
High	1.10	4.86	1.86	2.62	6.41
Low	0.40	1.96	0.67	0.40	1.96
Close	0.53	2.50	0.68	0.53	2.50
Average daily volume (thousands)	157	398	137	172	338

(1) Cash flow from operations, net debt, operating netback and corporate netback, (or as sometimes referred to herein as cash flow 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

## HIGHLIGHTS

In light of continued oil price weakness, Gear focused on sustainability by adopting a cautious view throughout 2015. Of the total \$39 million of cash flow generated through the year, \$25 million or 64 per cent was directed towards reducing outstanding debt. In addition, Gear successfully raised net \$9.5 million through an equity issuance in the fourth quarter of 2015. In total these activities resulted in net debt declining by 33 per cent from the prior year. In addition, \$14.8 million, or 22 per cent of the total \$66 million of current net debt was moved to a five year convertible debenture structure due in November 2020. With the remaining \$14.2 million of cash flow Gear completed a 100 per cent successful 12 well horizontal heavy oil drilling program. The Gear team has a consistent track record of successfully and economically developing its asset base and remains confident in the strength and depth of its undeveloped opportunities. Gear believes that future capital investments can continue to yield strong positive rates of return with only a slight improvement in the oil price environment.

- Production for the fourth quarter was 5,015 boe/d, an eight per cent reduction from the third quarter of 2015 due to natural declines and the shut-in of approximately 200 boe/d of currently uneconomic production. Annual 2015 production of 5,670 boe/d represents a six per cent decline from 2014.
- During the year, Gear drilled 12 successful horizontal heavy oil wells in Wildmere, Paradise Hill and Morgan for a total capital cost of \$10.1 million. An additional \$4.1 million was invested in 20 vertical well recompletions, land, seismic, facilities, and minor acquisitions and divestments. The production and independently assessed reserves resulting from the total \$14.2 million investment yielded a competitive rate of return of greater than 50 per cent, using the Petroleum Consultants Jan 2016 price forecast.
- Gear added over 20 sections of prospective land throughout 2015 for a cost of just over \$1 million. Based on vertical well control, the majority of this new land appears to contain heavy oil bearing reservoirs. Management estimates that if future horizontal drilling is successful in accessing economic oil from these lands, the potential inventory of de-risked follow up locations could add over 150 new locations to the already extensive inventory of low risk drilling opportunities. In total, Gear management currently estimates the Company has an inventory of 396 undeveloped future potential drilling opportunities.
- Gear realized fourth quarter cash flow from operations of \$4.7 million to bring total 2015 cash flow from operations to \$39.2 million or \$0.54 per weighted average share. Gear achieved a cash flow net back of \$10.10/boe for the fourth quarter and \$18.94/boe for the year. The results are significantly lower than the \$31.96/boe and \$34.59/boe achieved in 2014 primarily as a result of declining commodity prices that were partially offset on a per boe basis by lower operating costs, royalties, G&A and interest costs.
- Operating costs, including transportation, were \$16.63/boe for the fourth quarter and \$17.72/boe for 2015. The costs are a 17 per cent reduction from the fourth quarter of 2014, a five per cent reduction from the third quarter of 2015 and a 15 per cent reduction from the prior year.
- General and administrative costs were \$2.00/boe for the fourth quarter and \$2.84/boe for 2015. The costs are a 25 per cent reduction from the third quarter of 2015 and a 15 per cent reduction from the prior year.
- The net debt at December 31, 2015 was \$66 million or 1.7 times 2015 cash flow. The net debt includes \$14.8 million of four per cent coupon convertible debentures due November 2020.
- On February 1, 2016 Gear announced a reduced capital budget for the first half of 2016. In total approximately \$1 million of non-discretionary capital will be invested, while the remaining cash flow and hedging gains will be directed towards continued reduction of outstanding debt. By focusing on balance sheet strength, Gear will retain optionality in planning future capital spending and be better able to maximize the returns on capital for the large inventory of low risk drilling and select acquisition opportunities.
- Gear recorded a total 2015 net loss of \$96.5 million as the result of a \$70.6 million after-tax impairment charge. This non-cash charge does not impact Gear's cash flow from operations or its credit facilities and can be reversed in future periods if commodity prices recover.

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

(Cdn\$ thousands)		2015		2014
<b>ASSETS</b>				
Current assets				
Accounts receivable	\$	5,872	\$	15,295
Prepaid expenses		2,101		2,078
Inventory		3,440		6,810
Risk management contracts		9,173		13,691
		<b>20,586</b>		37,874
Deferred income tax asset		26,243		16,501
Property, plant and equipment		178,905		320,343
<b>Total assets</b>	<b>\$</b>	<b>225,734</b>	<b>\$</b>	<b>374,718</b>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable and accrued liabilities	\$	6,860	\$	23,687
Conversion approval option		1,800		-
Debt		55,725		98,900
		<b>64,385</b>		122,587
Debentures		12,230		-
Decommissioning liability		54,959		74,114
<b>Total liabilities</b>		<b>131,574</b>		196,701
<b>SHAREHOLDERS' EQUITY</b>				
Share capital		241,535		231,067
Contributed surplus		12,377		10,183
Deficit		(159,752)		(63,233)
<b>Total shareholders' equity</b>		<b>94,160</b>		178,017
<b>Total liabilities and shareholders' equity</b>	<b>\$</b>	<b>225,734</b>	<b>\$</b>	<b>374,718</b>

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

(Cdn\$ thousands)

	Share Capital	Contributed Surplus	Deficit	Total Equity
Balance at December 31, 2013	\$ 166,869	\$ 9,446	\$ (50,153)	\$ 126,162
Issued on offering of common shares	63,500	-	-	63,500
Exercise of stock options	3,346	(874)	-	2,472
Share issue costs, net of deferred tax benefit of \$881	(2,648)	-	-	(2,648)
Share-based compensation	-	1,611	-	1,611
Net loss for the year	-	-	(13,080)	(13,080)
<b>Balance at December 31, 2014</b>	<b>\$ 231,067</b>	<b>\$ 10,183</b>	<b>\$ (63,233)</b>	<b>\$ 178,017</b>
Issued on offering of common shares	11,000	-	-	11,000
Share issue costs, net of deferred tax benefit of \$197	(532)	-	-	(532)
Share-based compensation	-	2,194	-	2,194
Net loss for the year	-	-	(96,519)	(96,519)
<b>Balance at December 31, 2015</b>	<b>\$ 241,535</b>	<b>\$ 12,377</b>	<b>\$ (159,752)</b>	<b>\$ 94,160</b>

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

(Cdn\$ thousands, except per share amounts)	Three Months Ended December 31		Twelve Months Ended December 31	
	2015	2014	2015	2014
Sales of crude oil, natural gas and natural gas liquids	\$ 14,274	\$ 39,558	\$ 80,374	\$ 164,116
Royalties	(2,178)	(7,100)	(11,415)	(30,394)
Other income	-	42	-	289
<b>REVENUE</b>	<b>12,096</b>	<b>32,500</b>	<b>68,959</b>	<b>134,011</b>
Gain on risk management contracts	7,761	16,000	10,662	13,637
	<b>19,857</b>	<b>48,500</b>	<b>79,621</b>	<b>147,648</b>
<b>EXPENSES</b>				
Operating	7,672	12,840	36,671	46,049
General and administrative	923	1,197	5,882	7,351
Share-based compensation	518	635	2,194	1,611
Interest and financing charges	592	842	2,815	2,980
Accretion	325	450	1,508	1,453
Depletion, depreciation and amortization	8,564	15,429	40,399	48,330
Impairment	10,840	53,800	96,660	53,800
Exploration expense	-	3,284	-	3,284
Gain on asset disposition	(15)	-	(15)	(540)
Loss (gain) on foreign exchange	28	(408)	(429)	(581)
	<b>29,447</b>	<b>88,069</b>	<b>177,685</b>	<b>163,737</b>
Deferred tax (expense) recovery	(16,911)	9,570	9,545	3,009
Net loss and comprehensive loss	\$ (26,501)	\$ (29,999)	\$ (96,519)	\$ (13,080)
Net loss per share, basic and diluted	\$ (0.35)	\$ (0.42)	\$ (1.34)	\$ (0.20)

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

(Cdn\$ thousands)	Three Months Ended December 31		Twelve Months Ended December 31	
	2015	2014	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net loss	\$ (26,501)	\$ (29,999)	\$ (96,519)	\$ (13,080)
Add items not involving cash:				
Unrealized (gain) loss on risk management contracts	(5,980)	(13,436)	4,517	(15,804)
Share-based compensation	518	635	2,194	1,611
Bad debt expense (recovery)	20	9	9	(1)
Accretion	325	450	1,508	1,453
Depletion, depreciation and amortization	8,564	15,429	40,399	48,330
Impairment	10,840	53,800	96,660	53,800
Exploration expense	-	3,284	-	3,284
Gain on asset disposition	(15)	-	(15)	(540)
Deferred tax expense (recovery)	16,911	(9,570)	(9,545)	(3,009)
Decommissioning liabilities settled	(650)	(728)	(1,383)	(2,636)
Change in non-cash working capital	(231)	(6,449)	2,720	(7,486)
	<b>3,801</b>	<b>13,425</b>	<b>40,545</b>	<b>65,922</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>				
(Repayments) borrowings of debt under demand credit facility	(23,830)	12,238	(43,175)	33,983
Issuance of debentures, net of issue costs	13,990	-	13,990	-
Issuance of share capital, net of share issue costs	10,271	-	10,271	62,444
	<b>431</b>	<b>12,238</b>	<b>(18,914)</b>	<b>96,427</b>
<b>CASH FLOW USED IN INVESTING ACTIVITIES</b>				
Property, plant and equipment expenditures	(3,993)	(20,969)	(14,883)	(84,580)
Acquisition and disposition of petroleum and natural gas properties	14	738	699	(83,141)
Change in non-cash working capital	(253)	(5,432)	(7,447)	4,531
	<b>(4,232)</b>	<b>(25,663)</b>	<b>(21,631)</b>	<b>(163,190)</b>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	-	-	-	(841)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	-	-	-	841
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

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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: expectations as to Gear's undeveloped opportunities, expectations of number of sections of prospective land, expectations of future drilling locations, expected budget for the first half of 2016, expectations that cash flow and hedging gains will be focused on reducing debt and expectation that Gear will retain optionality in planning future capital spending and be better able to maximize the returns on capital for the large inventory of low risk drilling and select acquisition opportunities. 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: that Gear's exploration and development activities will be successful or that material volumes of petroleum and natural gas reserves will be encountered, or if encountered can be produced on a commercial basis; that additional drilling operations will be successful such that further development activities is warranted; that Gear's efforts to raise additional capital will be successful; that Gear will continue to conduct its operations in a manner consistent with past operations; results from drilling and development activities will be consistent with past operations; the accuracy of the estimates of Gear's reserve volumes; the general stability of the economic and political environment in which Gear operates; drilling results; field production rates and decline rates; the general continuance of current 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; and 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; inaccurate estimation of Gear's oil and gas reserve and resource volumes; limited, unfavourable 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 disclosure documents. Additional information regarding some of these risk factors may be found under "Risk Factors" in Gear's annual information form for the year ended December 31, 2015, which is expected to be filed on or before March 31, 2016. The reader is cautioned not to place undue reliance on this forward-looking information. 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.

**NON-GAAP Measures:** This press release contains the terms cash flow from operations, net debt, operating netback and corporate netback (or as sometimes referred to herein as "**cash flow 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.

**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.

**DRILLING LOCATIONS:** This press release discloses future drilling locations, which can be classified in three categories: (i) proved locations; (ii) probable locations; and (iii) unbooked locations. Proved locations and probable locations are derived from GLJ reserves report as of December 31, 2015 and account for drilling locations that have associated proved and/or probable reserves, as applicable. Unbooked locations are internal estimates based on Gear's prospective acreage and an assumption as to the number of wells that can be drilled per section based on industry practice and internal review. Additional information with respect to these drilling locations can be found in Gear's 2015 Reserves Press Release titled "Gear Energy Ltd. Announces Year-End Reserves" which has been filed concurrently with this press release.