

CALGARY, ALBERTA--(Marketwired - May 13, 2015) - [Gear Energy Ltd.](http://www.gearenergy.com) ("Gear" or the "Company") (TSX:GXE) is pleased to provide the following first quarter operating update and budget guidance to shareholders. Gear's Interim Financial Statements and related Management's Discussion and Analysis (MD&A) for the period ended March 31, 2015 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 |                |              |
|-----------------------------------------------------------|--------------------|----------------|--------------|
|                                                           | March 31, 2015     | March 31, 2014 | Dec 31, 2014 |
| <b>FINANCIAL</b>                                          |                    |                |              |
| Cash flow from operations <sup>(1)</sup>                  | 12,210             | 12,202         | 20,602       |
| Per weighted average basic and diluted share              | 0.17               | 0.22           | 0.29         |
| Cash flow from operating activities                       | 12,439             | 10,780         | 13,425       |
| Per weighted average basic and diluted share              | 0.18               | 0.20           | 0.19         |
| Net income (loss)                                         | (4,357             | ) 1,588        | (29,999 )    |
| Per weighted average basic and diluted share              | (0.06              | ) 0.03         | (0.42 )      |
| Capital expenditures                                      | 171                | 23,972         | 20,969       |
| Net acquisitions <sup>(2)</sup>                           | (132               | ) 348          | (1,027 )     |
| Net debt outstanding <sup>(1)</sup>                       | 83,313             | 18,412         | 98,404       |
| Shares outstanding, weighted average, basic               | 70,817             | 54,694         | 70,817       |
| Shares outstanding, weighted average, diluted             | 70,817             | 55,799         | 71,485       |
| <b>OPERATING</b>                                          |                    |                |              |
| Production                                                |                    |                |              |
| Oil and liquids (bbl/d)                                   | 6,466              | 3,975          | 6,836        |
| Natural gas (mcf/d)                                       | 944                | 1,095          | 991          |
| Total (boe/d)                                             | 6,624              | 4,158          | 7,001        |
| Average prices                                            |                    |                |              |
| Oil and liquids (\$/bbl)                                  | 35.93              | 79.50          | 62.39        |
| Natural gas (\$/mcf)                                      | 2.15               | 5.20           | 3.57         |
| Oil equivalent (\$/boe)                                   | 35.39              | 77.38          | 61.42        |
| Netback (\$/boe)                                          |                    |                |              |
| Commodity and other sales                                 | 35.39              | 77.38          | 61.48        |
| Royalties                                                 | 6.28               | 13.02          | 11.02        |
| Operating costs                                           | 17.91              | 20.73          | 19.94        |
| Operating netback (before hedging)                        | 11.20              | 43.63          | 30.52        |
| Realized risk management (losses)                         | 12.91              | (4.68          | ) 3.98       |
| Operating netback (after hedging)                         | 24.11              | 38.95          | 34.50        |
| General and administrative                                | 2.76               | 4.76           | 1.86         |
| Interest                                                  | 1.38               | 1.63           | 1.31         |
| Foreign exchange (gain) loss                              | (0.52              | ) -            | (0.63 )      |
| Corporate netback                                         | 20.49              | 32.56          | 31.97        |
| <b>TRADING STATISTICS (\$ based on intra-day trading)</b> |                    |                |              |
| High                                                      | 2.62               | 4.29           | 4.86         |
| Low                                                       | 1.38               | 3.12           | 1.96         |
| Close                                                     | 1.87               | 4.24           | 2.50         |
| Average daily volume (thousands)                          | 245                | 411            | 398          |

(1) Cash flow from operations and net debt are non-GAAP measures and are reconciled to the nearest GAAP measures 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 response to a material decline in oil prices as well as uncertainty in the future price of oil, Gear stopped its drilling operations in early January and adopted a conservative approach to its capital program for the first quarter of 2015. The belief was that future oil prices would be much higher than the levels seen in January and that returns on capital would be materially improved by delaying investment until the spot price of oil improved along with a significant reduction in service costs. Focus was placed on paying down existing debt, shutting in high cost production, re-iterating a focus on being the lowest cost heavy oil producer, and reducing production declines with minimal capital. Current and predicted future prices have now improved which provides Gear the opportunity to be more aggressive in planning capital spending to maximize value for the long term.

- Realized quarterly cash flow from operations of \$12.2 million, essentially even with the first quarter of 2014 and an \$8.4 million reduction from the fourth quarter of 2014. Cash flow for the quarter was assisted by hedging gains of \$7.7 million and on a per boe basis, lower operating costs, royalties, G&A and interest costs relative to the first quarter of 2014.
- Realized heavy oil prices decreased significantly from \$79.50 per bbl in the first quarter of 2014 to \$35.93 per bbl in the first quarter of 2015 as a result of material weakness in the WTI benchmark oil price offset slightly by narrowing heavy oil differentials, and a weaker Canadian dollar. Forward oil markets have improved recently such that the current estimates of Gear realized pricing for the rest of 2015 have climbed by over 40 per cent to greater than \$50 per bbl. This improvement is a result of stronger WTI pricing coupled with further compression of the WCS discount for heavy oil.
- First quarter operating costs, including transportation, were \$17.91 per boe. The 10 per cent reduction over fourth quarter 2014 costs was due to the shut-in of high cost wells and lower servicing, labour and propane costs.
- Sales production for the first quarter averaged 6,624 boe per day, a decrease from the preceding quarter of 377 boe per day. This reduction is the result of natural declines, the temporary shut in of uneconomic production and no offsetting production growth due to minimal capital investment.
- Gear essentially spent no material net capital in the quarter and significantly reduced the corporate net debt position by \$15 million from \$98.4 million to \$83.3 million by directing all cash flow towards debt reduction. The ratio of net debt to annualized cash flow for the quarter was 1.7 times providing Gear increased optionality in planning future capital spending.
- In light of the improved oil price outlook for the remainder of 2015, the Board of Directors have approved a 2015 capital investment budget of \$28 million, funded primarily through cash flow and targeting the drilling of 20 gross (19.6 net) oil locations. Management estimates that the 2015 capital program will provide a rate of return of approximately 39 per cent using flat WTI US pricing of \$60 per barrel, a material increase over the 14 per cent rate of return estimated had the capital been invested during the first quarter using a flat WTI US pricing of \$50 per barrel. Highlights of the program include plans to drill:
  - Three multi-lateral unlined wells in the Wildmere Cummings and Wildmere GP
  - Six multi-lateral wells in Morgan
  - Five horizontal wells in Paradise Hill
  - Three low risk horizontal exploration wells targeting new pools and/or pool extensions
  - Three vertical wells across various assets

## ANNUAL 2015 GUIDANCE

|                                             | Updated 2015 Guidance |
|---------------------------------------------|-----------------------|
| Production - Annual (boe/d)                 | 5,700 - 5,900         |
| Royalty rate (%)                            | 14 - 16               |
| Operating costs (\$/boe)                    | 18.00 - 20.00         |
| General and administrative expense (\$/boe) | 3.30 - 3.50           |
| Interest expense (\$/boe)                   | 1.40 - 1.60           |
| Capital expenditures (\$ millions)          | 28                    |

## 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: Guidance estimates; expected facility investments; decreased future dependence on propane; planned follow-up wells; the number of future drilling locations; reduced operating costs; timing of capital development program; volume growth and a number of other matters, including future results from operations and operating metrics; future costs, expenses and royalty rates; future interest costs; and future development, exploration, acquisition and development activities (including drilling plans) and related capital expenditures.

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.

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.

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.

#### 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 Production Rates

Any references in this document to initial production rates are useful in confirming the presence of hydrocarbons, however, such rates are not determinative of the rates at which such wells will continue production and decline thereafter. Additionally, such rates may also include recovered "load oil" fluids used in well completion stimulation. While encouraging, readers are cautioned not to place reliance on such rates in calculating the aggregate production for the Gear.

#### Contact

[Gear Energy Ltd.](#)

Ingram Gillmore  
President & CEO

403-538-8463

[igillmore@gearenergy.com](mailto:igillmore@gearenergy.com)

[Gear Energy Ltd.](#)

David Hwang  
Vice President Finance & CFO

403-538-8437

[dhwang@gearenergy.com](mailto:dhwang@gearenergy.com)

[www.gearenergy.com](http://www.gearenergy.com)