

CALGARY, ALBERTA--(Marketwired - Aug 5, 2015) - [Gear Energy Ltd.](#) ("Gear" or the "Company") (TSX:GXE) is pleased to provide the following second quarter operating update to shareholders. Gear's Interim Financial Statements and related Management's Discussion and Analysis (MD&A) for the period ended June 30, 2015 are available for review on Gear's website at [www.gearenergy.com](#) and on [www.sedar.com](#).

Financial Summary

(Cdn\$ thousands, except per boe amounts)	Three months ended			Six months ended	
	Jun 30, 2015	Jun 30, 2014	Mar 31, 2015	Jun 30, 2015	Jun 30, 2014
FINANCIAL					
Cash flow from operations ⁽¹⁾	14,900	20,661	12,210	27,110	32,862
Per weighted average diluted share	0.21	0.29	0.17	0.38	0.52
Cash flow from operating activities	14,432	20,294	12,439	26,871	31,072
Per weighted average diluted share	0.20	0.28	0.18	0.38	0.49
Net (loss) income	(2,301)	) 6,420	(4,357)	) (6,658)	) 8,007
Per weighted average diluted share	(0.03)	) 0.09	(0.06)	) (0.09)	) 0.13
Capital expenditures	4,286	12,328	171	4,457	36,300
Net acquisitions ⁽²⁾	(553)	) 79,086	(132)	) (685)	) 79,434
Net debt outstanding ⁽¹⁾	71,678	87,635	83,313	71,678	87,635
Shares outstanding, weighted average, basic	70,817	70,293	70,817	70,817	62,536
Shares outstanding, weighted average, diluted	70,817	71,768	70,817	70,817	63,696
OPERATING					
Production					
Oil and liquids (bbl/d)	5,492	6,004	6,466	5,976	4,995
Natural gas (mcf/d)	838	998	944	890	1,046
Total (boe/d)	5,632	6,170	6,624	6,125	5,169
Average prices					
Oil and liquids (\$/bbl)	50.72	85.88	35.93	43.37	83.35
Natural gas (\$/mcf)	2.31	4.52	2.15	2.23	4.87
Oil equivalent (\$/boe)	49.81	84.30	35.39	42.06	81.53
Netback (\$/boe)					
Commodity and other sales	49.81	84.49	35.39	42.06	81.65
Royalties	5.96	16.35	6.28	6.13	15.02
Operating costs	18.66	21.37	17.91	18.26	21.12
Operating netback (before hedging) ⁽¹⁾	25.19	46.77	11.20	17.67	45.51
Realized risk management gains (losses)	9.37	(4.16)	) 12.91	11.28	(4.37)
Operating netback (after hedging) ⁽¹⁾	34.56	42.61	24.11	28.95	41.14
General and administrative	3.87	4.27	2.76	3.28	4.46
Interest	1.42	1.45	1.38	1.40	1.52
Foreign exchange (gain) loss	0.17	0.09	(0.52)	) (0.20)	) 0.04
Corporate netback ⁽¹⁾	29.10	36.80	20.49	24.47	35.12
TRADING STATISTICS					
(\$ based on intra-day trading)					
High	2.60	6.41	2.62	2.62	6.41
Low	1.78	4.22	1.38	1.38	3.12
Close	1.88	6.27	1.87	1.88	6.27
Average daily volume (thousands)	147	346	245	196	379

(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".

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

HIGHLIGHTS

During the second quarter, Gear continued the strategy of implementing a conservative approach to its capital program. Gear believed that returns on capital would be materially improved by delaying investments until the oil prices recovered or service costs significantly decreased. As a result of this discipline, Gear paid down existing debt, shut-in high cost production, continued its focus on being the lowest cost heavy oil producer, and reduced production declines with minimal capital during the first half of the year. Costs have now decreased materially and starting in June 2015, Gear commenced its 2015 drilling program.

- Gear decreased net debt in the second quarter by \$11.6 million for a total reduction from year end 2014 of \$26.7 million, or 27 per cent, exiting the second quarter with a ratio of net debt to annualized quarterly cash flow of 1.2 times. Gear has taken prudent measures to strengthen its balance sheet in order to maintain financial flexibility through this low commodity price environment.
- Realized quarterly cash flow from operations of \$14.9 million, a 22 per cent increase from the first quarter of 2015. Gear increased its cash flow as a result of higher pricing and record low royalty rates, achieving a cash flow net back of \$29.10 per boe with a realized oil equivalent price of \$49.81 per boe. The increased cash flow occurred despite a decrease in production due to spring break up, shut-in production and natural declines. In the second quarter of 2014, Gear had a realized oil equivalent price of \$84.49 per boe and a cash flow netback of \$36.80 per boe.
- Realized heavy oil prices recovered by 41 per cent in the second quarter of 2015 to \$50.72 per barrel compared to the first quarter of 2015 price of \$35.93 per barrel as a result of an increase in the WTI benchmark oil price, a narrowing of heavy oil differentials, and a stable Canadian dollar. Looking forward, Gear currently expects further commodity price volatility and potential weakness for the second half of 2015.
- Sales production for the second quarter averaged 5,632 boe per day, a decrease from the first quarter of 992 boe per day. This reduction is the result of surface access issues associated with spring break up, natural declines, the temporary shut in of uneconomic production and no offsetting production growth due to limited capital investment. Production for the remainder of 2015 is expected to remain relatively unchanged from the second quarter with current field production estimated to be approximately 5,650 boe/d.
- During the quarter Gear drilled one well, with five more being drilled subsequent to quarter end. The first well was a successful single leg horizontal drilled into the McLaren at Paradise Hill resulting in average initial oil rates of 90 bbl per day for the first 28 days of production. Gear has amassed a sizeable land position in this area at a very low cost, is further encouraged by the success of the third well into this new area and looks forward to drilling up to four more adjacent wells by year end. The second well was Gear's first ever quadruple horizontal leg un-lined well drilled into the Cummings at Wildmere. This well was successfully drilled as planned, completed and equipped at a total cost of \$1.1 million or 22 per cent below the original cost estimate. The well started producing oil in late July with the first 14 days averaging over 100 bbl per day and the last 7 days averaging over 150 bbl per day. The plan is to optimize the oil production while reducing sand inflow by slowly increasing the pump rate and drawing down the fluid level over the next few weeks of operation. The early results are preliminary but very encouraging. Gear also drilled a dual leg un-lined horizontal well into the GP formation in Wildmere, two single leg horizontal wells and one dual leg horizontal well into the Lloydminster in Morgan with first oil expected in August.
- The capital costs for the first five wells drilled after break up have averaged approximately 17 per cent below budget. As a result of this cost savings, capital guidance for 2015 has now been reduced by 11 per cent to a total capital budget of \$25 million with no associated change in production expectations. Due to reduced costs in other areas of the business, both royalties and operating costs are now being guided lower as well, at 12 to 15 per cent for royalties and \$17.00 to \$19.00 per boe for operating costs.

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; planned follow-up wells; reduced operating costs; timing of capital development program; expected production; expectations of future commodity prices and differentials; number of wells to be drilled; expected ability to maintain financial flexibility incurred in low commodity price environment; 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.

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 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.

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