

CALGARY, ALBERTA--(Marketwired - May 11, 2016) - [Gear Energy Ltd.](#) ("Gear" or the "Company") (TSX:GXE) is pleased to provide the following first quarter operating update to shareholders. Gear's Interim Financial Statements and related Management's Discussion and Analysis (MD&A) for the period ended March 31, 2016 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		
	March 31, 2016	March 31, 2015	Dec 31, 2015
FINANCIAL			
Cash flow from operations ⁽¹⁾	3,985	12,210	4,682
Per weighted average basic and diluted share	0.05	0.17	0.06
Cash flow from operating activities	3,556	12,439	3,801
Per weighted average basic and diluted share	0.04	0.18	0.05
Net income (loss)	(1,716)	) (4,357	) (26,501)
Per weighted average basic and diluted share	(0.02)	) (0.06	) (0.35)
Capital expenditures	101	171	3,993
Net acquisitions ⁽²⁾	(480)	) (132	) -
Net debt outstanding ⁽¹⁾	59,550	83,313	65,972
Shares outstanding, weighted average, basic	85,484	70,817	75,918
Shares outstanding, weighted average, diluted	85,484	70,817	75,918
Shares outstanding, end of period	85,484	70,817	85,484
OPERATING			
Production			
Oil and liquids (bbl/d)	4,192	6,466	4,819
Natural gas (mcf/d)	1,459	944	1,176
Total (boe/d)	4,435	6,624	5,015
Average prices			
Oil and liquids (\$/bbl)	20.90	35.93	31.68
Natural gas (\$/mcf)	1.52	2.15	2.10
Oil equivalent (\$/boe)	20.25	35.39	30.93
Netback (\$/boe)			
Commodity and other sales	20.25	35.39	30.93
Royalties	1.63	6.28	4.72
Operating costs	15.34	17.91	16.63
Operating netback (before hedging)	3.28	11.20	9.58
Realized risk management gains	12.71	12.91	3.86
Operating netback (after hedging)	15.99	24.11	13.44
General and administrative	3.67	2.76	2.00
Interest	1.53	1.38	1.28
Foreign exchange (gain) loss	-	(0.52	) 0.06
Drilling commitments	1.19	-	-
Corporate netback	9.60	20.49	10.10
TRADING STATISTICS (\$ based on intra-day trading)			
High	0.61	2.62	1.10
Low	0.25	1.38	0.40
Close	0.54	1.87	0.53
Average daily volume (thousands)	139	245	157

(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

The first quarter of the year began with another material decline in oil prices and continued uncertainty regarding the future price of oil. As previously announced, Gear chose to defer capital development plans to the second half of the year in order to take advantage of lower cost summer operations and to give the commodity markets an opportunity to stabilize. As a result of this decision, production was allowed to decline and cash flow was dedicated to further reducing outstanding debt. 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.

- Gear realized record low operating costs including transportation of \$15.34 per boe during the first quarter despite the declines in production. The first quarter costs are down 14 per cent over the first quarter of 2015 and down eight per cent from the previous quarter. The reductions were achieved as a result of lower fuel and labor costs, increased operating efficiencies and the shut-in of high cost wells throughout 2015.
- Gear recorded record low royalty costs on a percentage basis and on a per boe basis during the first quarter of 2016. Total royalty expenses for the quarter were eight per cent or \$1.63 per boe. These quarterly costs represent a 55 per cent decrease on a percentage basis and 74 per cent decrease on a per boe basis over the first quarter of 2015.
- During the quarter WCS heavy barrels traded at the lowest they ever have since inception of the WCS benchmark; Gear's realized heavy oil price decreased significantly from \$35.93 per bbl in the first quarter of 2015 to \$20.90 per bbl in the first quarter of 2016. Forward oil markets have improved recently such that the current estimates of Gear realized pricing for the remaining three quarters of 2016 have climbed by almost 70 per cent to greater than \$35 per bbl. This improvement is a result of stronger WTI pricing coupled with further compression in the percentage of WCS discount for heavy oil.
- Sales production for the first quarter averaged 4,435 boe per day, a decrease from the preceding quarter of 580 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 lack of capital investment. The current 2016 budget forecasts a return to activity in July of 2016 with a ten well horizontal drilling program that is anticipated to provide growth through the fourth quarter of 2016. Current production guidance for 2016 is an annual average of 4,000 boe per day
- Realized quarterly cash flow from operations of \$4.0 million was a reduction of 67 per cent relative to the first quarter of 2015 and a 15 per cent reduction from the fourth quarter of 2015. The reduced cash flow is due to record low realized heavy oil prices in combination with lower production volumes. Cash flow for the quarter was dominated by realized hedging gains of \$5.1 million.
- Capital expenditures for the quarter were a net credit after inclusion of a small non-core, non-producing asset disposition for \$0.5 million. This capital credit in combination with quarterly cash flow resulted in a 10 per cent reduction in total net debt from \$66.0 million at December 31, 2015 to \$59.6 million at March 31, 2016. The net debt is inclusive of \$14.8 million of convertible debentures due November 2020.

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.

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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