Gear Energy Ltd. Announces Fourth Quarter 2019 Operating Results

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CALGARY, Feb. 20, 2020 - Gear Energy Ltd. ("Gear" or the "Company") (TSX:GXE) is pleased to provide the following quarter operating update to shareholders. Gear's Consolidated Financial Statements and related Management's Discus Analysis ("MD&A") for the period ended December 31, 2019 are available for review on Gear's website at www.gearen and on www.sedar.com.

Financial Summary

	Three months ended			Twelve months ended	
(Cdn$ thousands, except per share, share and per boe amounts)	Dec 31, 2019	Dec 31, 2018	Sep 30, 2019	Dec 31, 2019	Dec 31, 2018
FINANCIAL					
Funds from operations [(1)]	13,738	2,089	15,968	61,842	35,418
Per boe	21.68	3.32	25.07	24.34	14.28
Per weighted average basic share	0.06	0.01	0.07	0.28	0.18
Cash flows from operating activities	11,401	1,538	13,613	49,876	41,752
Net (loss) income	(8,045)	10,553	3,493	(5,680)	5,094
Per weighted average basic share	(0.04)	0.05	0.02	(0.03)	0.03
Capital expenditures	12,603	9,482	11,800	36,989	43,859
Decommissioning liabilities settled	889	1,401	1,170	2,932	2,981
Net acquisitions (dispositions) [(2)]	109	302	115	(976)	66,172
Net debt [(1)(3)]	69,752	91,908	69,837	69,752	91,908
Weighted average shares, basic (thousands)	218,365	219,013	219,084	218,887	202,020
Shares outstanding, end of period (thousands)	217,610	219,015	218,873	217,610	219,015
OPERATING					
Production					
Heavy oil (bbl/d)	4,034	4,064	3,929	4,053	4,388
Light and medium oil (bbl/d)	1,763	1,834	2,059	1,963	1,374
Natural gas liquids (bbl/d)	269	267	218	238	244
Natural gas (mcf/d)	4,935	4,091	4,295	4,252	4,680

Total (boe/d)	6,888	6,847	6,922	6,962	6,786
Average prices					
Heavy oil ($/bbl)	49.17	22.45	52.93	53.87	45.01
Light and medium oil ($/bbl)	64.82	46.68	65.88	66.69	63.73
Natural gas liquids ($/bbl)	22.79	23.95	26.70	22.26	34.26
Natural gas ($/mcf)	2.36	1.45	0.79	1.63	1.29
Netback ($/boe)					
Commodity and other sales	47.97	27.64	50.97	51.94	44.13
Royalties	(5.52)	(3.44)	(6.06)	(5.71)	(5.19)
Operating costs	(17.93)	(17.13)	(17.20)	(17.98)	(16.97)
Operating netback (1)	24.52	7.07	27.71	28.25	21.97
Realized risk management gain (loss)	0.58	(0.90)	0.80	(0.12)	(4.29)
General and administrative	(2.13)	(1.18)	(2.03)	(2.17)	(2.08)
Interest	(1.30)	(1.50)	(1.52)	(1.65)	(1.10)
Transaction costs	-	(0.19)	-	-	(0.21)
Realized gain (loss) on foreign exchange	0.01	0.02	0.11	0.03	(0.01)

TRADING STATISTICS

($ based on intra-day trading)					
High	0.48	1.23	0.60	0.88	1.47
Low	0.26	0.44	0.41	0.26	0.44
Close	0.46	0.57	0.47	0.46	0.57
Average daily volume (thousands)	529	558	406	418	592

(1) Funds from operations, net debt and operating netback 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 (dispositions) exclude non-cash items for decommissioning liability and deferred taxes and is net of post-closing adjustments.

(3) Net debt includes the risk management liability acquired through the Steppe Resources Inc. corporate acquisition. December 31, 2019 – nil, December 31, 2018 – $4.5 million, September 30, 2019 – $0.7 million.

MESSAGE TO SHAREHOLDERS

Despite ongoing macro volatility in the Canadian energy business, the Gear team delivered exceptional performance th 2019. With annual funds from operations exceeding capital investment by a healthy margin, Gear was able to reduce o net debt by over 24 per cent, exiting 2019 with a strong balance sheet and a very competitive net debt to funds from op ratio of 1.1 times. In the meantime, production was held essentially flat year over year, with a small increase in both the liquids weighting and the portion of those liquids that are classified as light and medium oil. In addition, during 2019 Ge 1.6 million of its common shares for the aggregate purchase price of $0.7 million pursuant to its Normal Course Issuer I ("NCIB") that commenced in September 2019.

The strong 2019 financial and operational results were assisted by an improved Canadian oil price environment compa challenges of 2018 and by continued executional success across three core assets. Although WTI oil prices declined ye year, from US $64.77 to $57.03 per barrel, the Canadian differentials compressed materially. In combination with the in

in commodity mix, Gear's realized pricing increased 18 per cent from $44.13 to $51.94 per boe. This factor combined w
losses on risk management contracts and a stable cost profile helped to drive an impressive 70 per cent year over year
annual funds from operations to a five-year record high figure of $24.34 per boe.

Moving into 2020, the market has delivered some early volatility with WTI oil prices already fluctuating by over 24 per c
However, Canadian differentials currently appear to be improving from the prices seen at the outset of the year to price
line with the expectations outlined in the Gear 2020 budget (See "Gear Energy Ltd. Provides 2020 Budget Guidance" d
December 18, 2019). The Gear team remain cautiously optimistic that 2020 will again support further value creation thr
combination of production stability, continued improvement of the balance sheet and additional purchases of Gear's co
shares under the NCIB.

QUARTERLY HIGHLIGHTS

- Production for the fourth quarter of 6,888 boe per day was essentially unchanged from production in the third qua boe per day.
- Generated $13.7 million of funds from operations ($21.68 per boe) compared to $2.1 million in the fourth quarter $16.0 million in the third quarter of 2019. The 558 per cent increase in the fourth quarter of 2019 was due to a sig narrowing of Canadian oil differentials which had suffered record low benchmark pricing in the fourth quarter of 20 result of egress and inventory issues.
- Exited the quarter with net debt of $69.8 million and a net debt to quarterly annualized funds from operations of 1 debt included $64.3 million of bank debt, $13.2 million of convertible debentures, and positive working capital of $
- Successfully drilled two multi-lateral horizontal heavy oil wells in Wildmere, one multi-lateral horizontal heavy oil w Maidstone, and two light oil wells in Tableland.

ANNUAL HIGHLIGHTS

- Reduced net debt by $22.2 million or 24 per cent from $91.9 million to $69.8 million as a result of strong funds fro operations generation while essentially maintaining stable production and Proved Developed Producing reserves Energy Ltd. Announces 2019 Year-end Reserves" dated February 20, 2020). The net debt to annual funds from o ratio came in at a very competitive 1.1 times.
- Delivered the highest funds from operation, both absolute and per boe, since 2014. Generated $61.8 million of fu operations ($24.34 per boe) compared to $35.4 million ($14.28 per boe) in 2018. The 70 per cent increase in fund operations per boe was due to a combination of stronger commodity prices, increased light oil production, reduce losses on risk management contracts, stable costs and a 3 per cent increase in annual production.
- Reported record high annual production of 6,962 boe per day with a 90 per cent liquids weighting (2018 – cent). Additionally, the light, medium, and NGL weighting improved to 32 per cent (2018 – 24 per cent) wh oil weighting declined to 58 per cent (2018 – 65 per cent). These improvements were the result of a succe drilling program combined with the full annual impacts of the acquisition of Steppe Resources Inc. in late 2018.
- Drilled 16 gross (16 net) wells with a 100 per cent success rate including 10 heavy oil wells (10 net): eight in Wild two in Maidstone; and six light oil wells (six net): five in Tableland and one in Wilson Creek. The 10 well heavy oil met expectations by delivering an average peak IP30 rate per well of approximately 110 barrels per day. The first in Tableland included two core area wells that delivered peak IP30 rates of approximately 200 and 300 barrels pe step out well with a peak IP30 rate closer to 150 barrels per day. The final two wells in Tableland continue to be c with peak IP30 rates to date of approximately 190 and 130 barrels per day.
- During 2019, Gear invested $2.9 million to abandon 77 wells at an average cost that was approximately half of wh estimated by the provincial regulators. Gear abandoned 4.8 times the number of wells that were drilled during the similar amount is forecast to be invested in 2020.

2020 OUTLOOK

- Commodity price volatility has been significant for the first two months of 2020. Early in January, WTI briefly touch per barrel as a result of plateauing US oil production, OPEC production cuts, and continued strong world demand then, WTI has fallen to approximately US$54 as a result of concerns of an economic slowdown in China impacted coronavirus outbreak. As always, balance sheet strength is paramount, and Gear will be nimble in its capital depl ensure that annual capital expenditures approximate funds from operations.

- 2020 Guidance remains unchanged and as follows:

	2020 Guidance
Annual Production (boe/d)	7,000
Heavy Oil Weighting (%)	57
Light/Medium Oil & NGL Weighting (%)	33
Fourth Quarter Production (boe/d)	>7,400
Fourth Quarter Light/Medium Oil & NGL weighting (%)	37
Royalties (%)	11
Operating and Transportation Costs ($/boe)	18.00
G&A Costs ($/boe)	2.35
Interest Costs ($/boe)	1.35
Capital Expenditures ($ million)	46.5
Abandonment Expenditures ($ million)	3.5

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CONSOLIDATED BALANCE SHEETS (unaudited)

As at December 31

	2019	2018
(Cdn$ thousands)		
ASSETS		
Current assets		
Accounts receivable	$ 11,343	$ 5,716
Prepaid expenses	3,196	3,914
Inventory	6,515	7,185
Risk management contracts	-	3,230
	21,054	20,045
Deferred income tax asset	23,281	26,531
Risk management contracts	-	1,644
Property, plant and equipment	317,035	331,622

Total assets	$ 361,370	$ 379,842
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$ 13,348	$ 12,475
Convertible debentures	12,705	-
Decommissioning liability	2,840	1,843
Risk management contracts	3,094	-
	31,987	14,318
Debt	64,254	78,461
Convertible debentures	-	12,297
Decommissioning liability	82,874	86,839
Total liabilities	179,115	191,915
SHAREHOLDERS' EQUITY		
Share capital	335,455	337,740
Warrants	-	129
Equity component of convertible debentures	2,498	2,519
Contributed surplus	18,097	15,654
Deficit	(173,795)	(168,115)
Total shareholders' equity	182,255	187,927
Total liabilities and shareholders' equity	$ 361,370	$ 379,842

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)

For the years ended December 31

(Cdn$ thousands)

	Share Capital	Warrants	Equity Component of Convertible Debentures	Contributed Surplus	Deficit	Total Equity
Balance at December 31, 2017	$ 311,240	$ 129	$ 2,592	$ 15,178	$ (173,209)	$ 155,930
Exercise of stock options	1,355	-	-	(600)	-	755
Issued as consideration on corporate					-	
acquisition	24,743	-	-	-		24,743
Share issue costs	(7)	-	-	-	-	(7)
Issued on conversion of convertible						
debentures	409	-	(73)	-	-	336
Share-based compensation	-	-	-	1,076	-	1,076
Net income for the year	-	-	-	-	5,094	5,094
Balance at December 31, 2018	$ 337,740	$ 129	$ 2,519	$ 15,654	$ (168,115)	$ 187,927
Exercise of stock options	51	-	-	(51)	-	-
Common shares repurchased	(2,455)	-	-	1,713	-	(742)
Warrant expiry	-	(129)	-	129	-	-
Issued on conversion of convertible						
debentures	119	-	(21)	-	-	98
Share-based compensation	-	-	-	652	-	652
Net loss for the year	-	-	-	-	(5,680)	(5,680)
Balance at December 31, 2019	$ 335,455	$ -	$ 2,498	$ 18,097	$ (173,795)	$ 182,255

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CONSOLIDATED STATEMENTS OF (LOSS) INCOME AND COMPREHENSIVE (LOSS) INCOME (unaudited)

	Three Months Ended		Twelve Months Ended	
	December 31		December 31	
(Cdn$ thousands, except per share amounts)	2019	2018	2019	2018
REVENUE				
Sales of crude oil, natural gas and natural gas liquids	$ 30,396	$ 17,408	$ 131,989	$ 109,316
Royalties	(3,497)	(2,164)	(14,513)	(12,858)
	26,899	15,244	117,476	96,458
Realized gain (loss) on risk management contracts	366	(567)	(300)	(10,619)
Unrealized (loss) gain on risk management contracts	(6,426)	21,283	(12,440)	14,641
	20,839	35,960	104,736	100,480
EXPENSES				
Operating	11,363	10,790	45,691	42,033
General and administrative	1,350	745	5,517	5,163
Interest and financing charges	821	944	4,186	2,728
Depletion, depreciation and amortization	12,591	11,959	50,339	42,142
Accretion	497	630	2,190	2,303
Share-based compensation	145	230	652	1,076
Gain on foreign exchange	(596)	(10)	(753)	(17)
Gain on asset disposition	-	-	(776)	(556)
Bad debt expense	113	-	113	-
Transaction costs	-	119	7	514
	26,284	25,407	107,166	95,386
Deferred tax expense	(2,600)	-	(3,250)	-
Net (loss) income and comprehensive (loss) income	$ (8,045)	$ 10,553	$ (5,680)	$ 5,094
Net (loss) income per share, basic and diluted	$ (0.04)	$ 0.05	$ (0.03)	$ 0.03

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CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

	Three Months Ended		Twelve Months Ended	
	December 31		December 31	
(Cdn$ thousands)	2019	2018	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES				
Net (loss) income	$ (8,045)	$ 10,553	$ (5,680)	$ 5,094
Add items not involving cash:				
Unrealized loss (gain) on risk management contracts	6,426	(21,283)	12,440	(14,641)
Depletion, depreciation and amortization	12,591	11,959	50,339	42,142
Accretion	497	630	2,190	2,303
Share-based compensation	145	230	652	1,076
Gain on asset disposition	-	-	(776)	(556)
Unrealized gain on foreign exchange	(589)	-	(686)	-
Bad debt expense	113	-	113	-
Deferred tax expense	2,600	-	3,250	-
Decommissioning liabilities settled	(889)	(1,401)	(2,932)	(2,981)
Change in non-cash working capital	(1,448)	850	(9,034)	9,315
	11,401	1,538	49,876	41,752
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES				
Borrowings (repayments) of debt under credit facility	1,937	12,302	(13,521)	37,116
Common shares repurchased	(623)	-	(742)	-
Repayment of debt assumed on corporate acquisition	-	-	-	(36,251)
Issuance of share capital, net of share issue costs	-	44	-	748
	1,314	12,346	(14,263)	1,613
CASH FLOWS USED IN INVESTING ACTIVITIES				
Property, plant and equipment expenditures	(12,603)	(9,482)	(36,989)	(43,859)
Acquisition of petroleum and natural gas properties	(127)	(2)	(133)	(452)
Disposition of petroleum and natural gas properties	18	-	1,109	556

Cash received on corporate acquisition	-	-	-	693
Change in non-cash working capital	(3)	(5,093)	400	(303)
	(12,715)	(14,577)	(35,613)	(43,365)
DECREASE IN CASH AND CASH EQUIVALENTS	-	(693)	-	-
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	-	693	-	-
CASH AND CASH EQUIVALENTS, END OF YEAR	$ -	$ -	$ -	$ -

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: Gear's expectations as to commodity prices and differentials in 2019; the expectation that 2020 may support further value creation through a combination of production stability, continued improvement of the balance sheet and additional purchases of Gear's common shares under the NCIB; the expectation of future production rates of certain of Gear's wells; Gear's 2019 outlook and guidance for the first half of 2019, including expected average production, commodity weightings, royalties, G&A costs, interest costs and capital and abandonment expenditures; and Gear's intention to be nimble in its capital deployment to ensure that annual capital expenditures approximate funds from operation.

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 funds 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.

To the extent that any forward-looking information contained herein may be considered a financial outlook, such information has been included to provide readers with an understanding of management's assumptions used for budgeting and developing future plans and readers are cautioned that the information may not be appropriate for other purposes. 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 including in Gear's most current annual information form which is available on SEDAR at www.sedar.com.

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 funds 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. Funds from operations is calculated as funds 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 funds 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 and Other Production Rates

Any references in this document to initial production rates or production rates of new wells over a period of time are useful in confirming the presence of hydrocarbons, however, such rates are not determinative of the rates at which such wells or other future wells will continue production and decline thereafter. Additionally, such rates may also include recovered "load oil" fluids used in well completion stimulation. There is no certainty that other wells on such properties will achieve such production levels. Readers are cautioned not to place reliance on such rates in calculating the aggregate production for Gear.

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