

Gear Energy Ltd. Announces 2019 Year-End Reserves

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CALGARY, Feb. 20, 2020 - [Gear Energy Ltd.](#) ("Gear" or the "Company") (TSX:GXE) is pleased to present the following analysis of its 2019 year-end independent reserve report prepared by its independent evaluator Sproule Associates Limited ("Sproule").

During 2019, Gear generated \$61.8 million of funds from operations and reinvested \$38.9 million, or 63 per cent, consisting of \$37.0 million of development capital and \$2.9 million directed towards abandonment and reclamation activities, offset by \$1.0 million in net acquisition and divestiture ("A&D") proceeds. The combined investment provided Gear with a slight increase in annual production year-over-year, and a minor reduction (minus 2%) in Proved Developed Producing reserves compared to 2018. In addition to keeping the Company's reserves essentially stable, Gear was able to direct over \$22 million towards a 24% reduction in outstanding net debt and \$0.7 million towards the acquisition of 1.6 million of Gear common shares pursuant to its Normal Course Issuer Bid that commenced in September 2019.

In prior years, for the purposes of calculating the value associated with the Company's reserves, essentially all operating costs associated with inactive wells were included, but only abandonment and reclamation costs ("ARO") for wells that had no specifically attributed reserves was included. As a result of changes in guidance in the COGE Handbook (as defined hereafter), the value associated with the 2019 year-end reserves now includes the full corporate ARO, including all the ARO associated with active and inactive wells regardless of whether such wells had any attributed reserves. For the purposes of providing meaningful comparisons of the 2018 year-end reserves values to the 2019 year-end reserves values, the 2018 year end reserves values have been re-evaluated to include full ARO as well.

For details on the annual operating results please see the Management's Discussion and Analysis ("MD&A") dated February 20, 2020, which is available on SEDAR at www.sedar.com.

HIGHLIGHTS

- Gear achieved the following reserves highlights through 2019 activity, compared to 2018 results including full corporate ARO costs:

Proved Developed Producing ("PDP")

- 2.38 MMboe of additions
- Reserves decreased 2 per cent
- Reserves value on a Before Tax 10 per cent discounted basis ("BT10") increased 6 per cent
- Replaced 94 per cent of 2019 annual production
- Finding, Development and Acquisition ("FD&A") cost of \$15.14/boe including change in Future Development Capital
- Recycle ratio of 1.9x based on 2019 operating netback of \$28.25/boe

Total Proved ("TP")

- 1.66 MMboe of additions
- Reserves decreased 5 per cent
- Reserves value BT10 was unchanged
- Replaced 65 per cent of 2019 annual production
- FD&A cost of \$20.26/boe including change in FDC
- Recycle ratio of 1.4x

Total Proved plus Probable ("P+P")

- 1.02 MMboe of additions
 - Reserves decreased 5 per cent
 - Reserves value BT10 decreased 2 per cent
 - Replaced 40 per cent of 2019 annual production
 - FD&A cost of \$30.49/boe including change in FDC
 - Recycle ratio of 0.9x
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- Corporate liquids weighting increased to 91 per cent from 90 per cent for the P+P reserves case. Both light/medium Natural Gas Liquids ("NGLs") increased 1% while heavy oil and gas dropped 1% with capital spending in 2019 directed towards lighter oil plays. Corporate P+P liquids reserves are now balanced 51 per cent heavy oil, 45 per cent light oil, and 4 per cent NGLs.
 - In aggregate, the reserves associated with the 2019 capital development program came in on target. Reserves across all categories were achieved primarily through a combination of the following:
 - Successful new drilling in Wildmere and Tableland
 - Recognition of waterflood response in Wilson Creek and Killam
 - Base production outperformance in Paradise Hill
 - Management's annual estimate of future potential drilling locations decreased to 500 net locations as a result of the future inventory through increased use of multi-laterals, increased inter-well spacing, and the impacts of land in 2019. The Sproule evaluation currently recognizes 109 net locations in the TP category and 182 in the P+P category. Booked locations represent 22 and 36 per cent of management's estimates, respectively. The 182 net booked P+P include 42 multi-lateral horizontals, 119 single lateral horizontals and 21 vertical wells.
 - Corporate Net Asset Values ("NAV") BT10 are \$0.45 per share for PDP, \$0.72 per share for Proved plus Probable Producing ("P+PDP"), \$0.81 per share for TP and \$1.65 per share for P+P utilizing the price forecast at January 1, 2020 in the Sproule evaluation. These values represent a respective 34 per cent, 25 per cent, 9 per cent and 2 per cent from the prior year when full corporate ARO is included for both years.
 - Additionally, Corporate NAV BT5 is \$0.49 per share for PDP, \$0.84 per share for P+PDP, \$0.98 per share for TP and \$1.04 per share for P+P.
 - The Reserves Life Index ("RLI") for each category are 4.2 years for PDP, 6.6 years for TP, and 9.4 years for P+P. These values represent 8, 22 and 22 per cent improvements, respectively, when compared to the prior year.

RESERVES SUMMARY

Year-end 2019 reserves were evaluated by independent reserves evaluator Sproule in accordance with the definitions, standards and procedures contained in the Canadian Oil and Gas Evaluation Handbook ("COGE Handbook") and National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities ("NI 51-101"). A reserves committee, comprised of independent board members, reviews the qualifications and appointment of the independent reserves evaluator and reviews the procedures for providing information to the evaluators. The reserves evaluation was based on an average of price forecasts prepared by Sproule, GLJ Petroleum Consultants Ltd. and McDaniel & Associates Consulting Ltd. effective at January 1, 2020. Reserves included herein are stated on a company gross basis (working interest before deduction of royalties without inclusion of any royalty interests) unless noted otherwise. Additional reserves information required under NI 51-101 will be included in Gear's Annual Information Form to be filed on SEDAR on or before March 31, 2020.

The following tables outline Gear's reserves as at December 31, 2019. No provision for interest, risk management contracts, debt service charges and general and administrative expenses have been made and it should not be assumed that the net present values of the reserves estimated by Sproule represents the fair market value of the reserves.

Reserves Summary at Dec 31, 2019 Using Sproule Costs and January 1, 2020 Evaluator Average Forecast Prices

Company Gross	Light & Medium Oil (Mbbbl)	Heavy Oil (Mbbbl)	NGL's (Mbbbl)	Natural Gas (MMcf)	Equivalent (Mboe)	Liquids Ratio (%)
Proved Developed Producing	3,913	3,348	462	6,827	8,861	87
Proved Non-Producing & Undeveloped	2,969	3,558	242	3,713	7,389	92
Total Proved	6,882	6,906	704	10,540	16,249	89
Probable Developed Producing	1,437	1,163	173	2,382	3,170	87
Probable Non-Producing & Undeveloped	2,923	4,636	156	2,279	8,096	95
Total Probable	4,360	5,799	329	4,661	11,265	93
Total Proved plus Probable	11,242	12,705	1,033	15,201	27,515	91

Net Present Value of Future Revenues Including Full ARO Before Income Taxes Under Forecast Prices and Costs

Company Gross (\$ thousands)	Undiscounted	Discounted @ 5%	Discounted @ 10%	Discounted @ 15%	Discounted @ 20%
Proved Developed Producing	150,050	170,449	162,581	150,606	139,370
Proved Non-Producing & Undeveloped	143,776	105,803	78,226	58,857	44,911
Total Proved	293,826	276,252	240,807	209,463	184,281
Probable Developed Producing	107,428	75,158	57,160	45,991	38,438
Probable Non-Producing & Undeveloped	223,420	164,092	125,424	98,959	79,967
Total Probable	330,848	239,250	182,584	144,950	118,405
Total Proved plus Probable	624,674	515,502	423,390	354,413	302,686

Net Future Development Costs ("FDC") Under Forecast Prices and Costs

(\$ thousands)	Proved	Probable	Total
2020	29,480	22,500	51,980
2021	51,219	27,895	79,114
2022	35,776	24,522	60,298
2023	25,051	7,567	32,618
2024	10,519	5,783	16,302
Subsequent Years	0	20,623	20,623
Undiscounted Total	152,046	108,890	260,936
Discounted at 10%	125,535	86,149	211,684

EFFICIENCY RATIOS

The following table highlights annual capital efficiency through finding and development ("F&D") and FD&A costs per boe metrics.

	2019	2018	
Reserves (mboes), Capital (\$ thousands)	Proved	Proved plus	Proved plus
			Probable
		Probable	
Development Reserves Additions	1,659	9,637	234
Net Acquisition Reserves Additions	1	3,511	5,777
Total Reserves Additions	1,660	5,028	6,012
Development capital	36,948	36,949	43,859
Development change in FDC	(2,385)	(7,282)	5,803
Total development capital including FDC	34,563	52,068	49,663
Net acquisition capital	(937)	(63,772)	66,172
Net acquisition change in FDC	0	60,964	113,249
Total net acquisition capital including FDC	(937)	(927,136)	179,421
Total capital	36,012	36,012	110,032
Total change in FDC	(2,385)	(68,256)	119,052
Total capital including FDC	33,627	378,127	229,084
F&D costs with FDC per boe	20.84	32.28	211.86
FD&A costs with FDC per boe	20.26	30.69	38.11
3 Year average FD&A including FDC per boe	24.28	30.69	24.71
Recycle ratio (FD&A with FDC)	1.4	0.6	0.6

Reserves Life Index ("RLI")

(years)	2019	2018	2017
Proved Developed Producing	4.2	3.9	3.4
Total Proved	6.6	5.4	5.3
Total Proved plus Probable	9.4	7.7	8.1

Net Asset Value ("NAV") at December 31, 2019

(\$ millions, except per share amounts)	2019	2018
Value of Company Interest Proved plus Probable		
Reserves Discounted at 10% (Before Tax after ARO costs)	423.4	432.3
Undeveloped Land	6.1	12.8
Net Debt	(69.8)	(91.9)
NAV	359.7	353.2
Shares Outstanding (millions)	217.6	219.0
NAV per Share	1.65	1.61

RESERVES RECONCILIATION

Reserves Reconciliation	Light &		Natural		
Company Gross	Medium Natural Gas		Oil		
	Heavy Oil	Oil	Gas	Liquids	Equivalent
	(Mbbbl)	(Mbbbl)	(MMcf)	(Mbbbl)	(Mboe)
Proved Producing					
Opening Balance, January 1, 2019	3,604	3,722	7,585	437	9,027
Technical Revisions	861	779	669	95	1,846
Drilling Extensions	415	40	97	8	479
Infill Drilling	-	60	161	10	97
Improved Recovery	-	62	145	8	94
Acquisitions	-	12	11	1	15
Dispositions	-	-	-	-	-
Economic Factors	(47)	(49)	(290)	(10)	(153)
Production	(1,484)	(714)	(1,552)	(86)	(2,543)
Closing Balance, December 31, 2019	3,348	3,913	6,827	462	8,861
Total Proved					
Opening Balance, January 1, 2019	7,282	7,207	11,918	658	17,134
Technical Revisions	380	400	47	110	898
Drilling Extensions	782	40	150	8	856
Infill Drilling	-	205	223	18	261

Improved Recovery	-	62	145	8	94
Acquisitions	-	12	11	1	15
Dispositions	-	(12)	(7)	(1)	(14)
Economic Factors	(54)	(319)	(395)	(12)	(450)
Production	(1,484)	(714)	(1,552)	(86)	(2,543)
Closing Balance, December 31, 2019	6,906	6,882	10,540	705	16,249

Proved plus Probable

Opening Balance, January 1, 2019	13,749	11,472	16,962	990	29,037
Technical Revisions	(812)	(66)	(355)	89	(848)
Drilling Extensions	1,325	79	294	15	1,469
Infill Drilling	-	660	332	27	742
Improved Recovery	13	54	65	10	87
Acquisitions	-	45	48	5	58
Dispositions	-	(15)	(9)	(1)	(18)
FORECAST PRICES AND COSTS	(86)	(271)	(584)	(16)	(471)

Production (1,484) (714) (1,552) (86) (2,543)

Evaluator average crude oil and natural gas benchmark reference pricing, inflation, and exchange rates utilized by Sproule as at January 1, 2020 were as follows:

Closing Balance, December 31, 2019 12,705 11,242 15,201 1,033 27,515

Year	Inflation (%)	Exchange Rate (USD/CAD)	WTI Cushing (40 API) (USD/bbl)	Edmonton MSW (40 API) (CAD/bbl)	WCS Hardisty (21 API) (CAD/bbl)	AECO/NIT Spot (CAD/mmbtu)
2020	0.00	0.760	61.00	72.64	57.57	2.04
2021	1.67	0.770	63.75	76.06	62.35	2.32
2022	2.00	0.785	66.18	78.35	64.33	2.62
2023	2.00	0.785	67.91	80.71	66.23	2.71
2024	2.00	0.785	69.48	82.64	67.97	2.81
2025	2.00	0.785	71.07	84.60	69.72	2.89
2026	2.00	0.785	72.68	86.57	71.49	2.96
2027	2.00	0.785	74.24	88.49	73.20	3.03
2028	2.00	0.785	75.73	90.31	74.80	3.09
2029	2.00	0.785	77.24	92.17	76.43	3.16
2030+	2.00	0.785	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr

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: estimates of reserves and future net revenue, estimated number of future drilling locations and estimated future development capital. 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; 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, 2019, which is expected to be filed on or before March 31, 2020. The reader is cautioned not to place undue reliance on this forward-looking information. To the extent that any forward-looking information contained herein may be considered future oriented financial information or 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 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.

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.

OIL AND GAS METRICS: This press release contains a number of oil and gas metrics, including F&D, FD&A, reserves life index, operating netback and recycle ratio, which do not have standardized meanings or standard methods of calculation and therefore such measures may not be comparable to similar measures used by other companies. Such metrics have been included herein to provide readers with additional measures to evaluate the Company's performance; however, such measures are not reliable indicators of the future performance of the Company and future performance may not compare to the performance in previous periods. F&D and FD&A costs are used as a measure of capital efficiency. The calculation for F&D includes all exploration, development capital for that period plus the change in FDC for that period. This total capital including the change in the FDC is then divided by the change in reserves for that period incorporating all revisions for that same period. The calculation for FD&A is calculated in the same manner except it also accounts for any acquisition costs incurred during the period. Reserves life index is calculated by dividing the reserves in each category by the corresponding Sproule forecast annual production. Operating netbacks are presented before 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. Recycle ratio is defined as operating netback per barrel of oil equivalent divided by either F&D or FD&A costs on a per barrel of oil equivalent.

NET ASSET VALUE: For the purposes of calculating the net asset value as presented herein, undeveloped land has been based on internal estimates of the value of the Company's undeveloped land. Net debt represents debt of the Company less working capital items, excluding risk management contracts. The number of shares outstanding does not include any shares issuable on any securities of the Company that are convertible, exchangeable or exercisable into shares of the Company.

DRILLING LOCATIONS: This press release discloses drilling locations in three categories: (i) proved locations; (ii) probable locations; and (iii) unbooked locations. Proved locations and probable locations are derived from Sproule reserves report as of December 31, 2019 and account for drilling locations that have associated proved and/or probable reserves, as applicable. All drilling locations identified herein that are not proved or probable locations are considered unbooked locations. 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. Unbooked locations have been identified by management as an estimation of our multi-year drilling activities based on evaluation of applicable geologic, seismic, engineering, production, pricing assumptions and reserves information. There is no certainty that Gear will drill all unbooked drilling locations and if drilled there is no certainty that such locations will result in additional oil and gas reserves, resources or production. The drilling locations on which Gear actually drill wells will ultimately depend upon the availability of capital, regulatory approvals, seasonal restrictions, oil and natural gas prices, costs, actual drilling results, additional reservoir information that is obtained and other

factors. While the majority of Gear's unbooked locations are extensions or infills of the drilling patterns already recognized by the independent evaluator, other unbooked drilling locations are farther away from existing wells where management has less information about the characteristics of the reservoir and therefore there is more uncertainty whether wells will be drilled in such locations and if drilled there is more uncertainty that such wells will result in additional oil and gas reserves, resources or production.

NON-GAAP MEASURES: This press release contains the terms funds from operations, net debt and operating 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 non-cash operating working capital and decommissioning liabilities settled. Net debt is calculated as debt less current working capital items, excluding risk management contracts. Operating netback is calculated based on the amount of revenues received on a per unit of production basis after royalties and operating costs. Additional information relating to certain of these non-GAAP measures can be found in Gear's MD&A for the year ended December 31, 2019, which is available on SEDAR as www.sedar.com.

SELECTED DEFINITIONS: The following terms used in this press release have the meanings set forth below:

"boe" means barrel of oil equivalent of natural gas and crude oil on the basis of 1 boe for six thousand cubic feet of natural gas (this conversion factor is an industry accepted norm and is not based on either energy content or current prices)

"Mbbbl" means thousand barrels

"Mboe" means 1,000 barrels of oil equivalent

"MMcf" means one million cubic feet

"NGL" means natural gas liquids

SOURCE [Gear Energy Ltd.](#)

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