Gear Energy Ltd. Announces Fourth Quarter and Year End 2013 Results; Record Production and Strong Operational Performance

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CALGARY, ALBERTA--(Marketwired - Mar 4, 2014) - Gear Energy Ltd. (TSX:GXE) ("Gear" or the "Company") is pleased to provide the following fourth quarter operating update to shareholders. In conjunction with this fourth quarter release, please refer to Gear's Reserves Press Release for its 2013 year-end reserves update for more information. Gear's Annual Audited Financial Statements and related Management's Discussion and Analysis (MD&A) for the year's ended December 31, 2013 and 2012 are available for review on Gear's website at www.gearenergy.com and on www.sedar.com.

Financial Summary

	Three months ended			Twelve months ended	
(Cdn$ thousands, except per boe amounts)	December 31, 2013	December 31, 2012	September 30, 2013	December 31, 2013	December 31, 2012
FINANCIAL					
Cash flow from operations (1)	8,309	11,099	12,080	35,103	33,693
Per weighted average basic and diluted share	0.15	0.21	0.22	0.65	0.62
Cash flow from operating activities	7,765	7,411	12,991	39,511	36,226
Per weighted average basic and diluted share	0.14	0.14	0.24	0.73	0.67
Net (loss) income	(539)	1,080	2,449	(1,059)	547
Per weighted average basic and diluted share	(0.01)	0.02	0.05	(0.02)	0.01
Capital expenditures	17,440	5,492	17,342	53,559	45,504
Net acquisitions (2)	(29)	1,683	(200)	(92)	1,750
Net debt outstanding (1)	67,148	47,926	57,615	67,148	47,926
Shares outstanding, weighted average, basic	53,956	53,858	53,956	53,932	53,748
Shares outstanding, weighted average, diluted	54,392	53,858	53,956	54,158	53,748
OPERATING					
Production					
Oil and liquids (bbl/d)	4,369	3,753	3,652	3,786	3,152
Natural gas (mcf/d)	1,641	1,927	1,723	1,757	1,946
Total (boe/d)	4,642	4,073	3,940	4,079	3,476
Average prices					
Oil and liquids ($/bbl)	62.91	64.50	88.01	69.18	66.13
Natural gas ($/mcf)	3.12	3.13	2.53	3.11	2.36
Oil equivalent ($/boe)	60.31	60.89	82.70	65.47	61.28
Netback ($/boe)					
Commodity and other sales	60.37	60.93	82.77	65.55	61.34
Royalties	15.15	14.66	18.59	15.27	14.16
Operating costs	16.72	15.34	17.21	17.90	17.32
Operating netback (before hedging)	28.50	30.93	46.97	32.38	29.86
Realized risk management (losses) gains	(3.53)	3.19	(8.20)	(3.41)	1.38
Operating netback (after hedging)	24.97	34.12	38.77	28.80	31.24
General and administrative	4.31	3.40	3.68	3.94	3.47
Interest	1.24	1.30	1.77	1.46	1.33
Corporate netback	19.42	29.42	33.32	23.57	26.44
TRADING STATISTICS ($ based on intra-day trading)					
High	3.55	n/a	n/a	3.55	n/a
Low	2.55	n/a	n/a	2.55	n/a
Close	3.23	n/a	n/a	3.23	n/a
Average daily volume (thousands)	374	n/a	n/a	374	n/a

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

- Record sales production for the fourth quarter averaging 4,642 barrels of oil equivalent per day ("boe/d"), a five per cent increase per debt adjusted share from 4,073 boe/d in the fourth quarter of 2012. Annual production for 2013 was 4,079 boe/d, a ten per cent increase per debt adjusted share over 2012.

- Realized cash flow from operations of $8.3 million, a 30 per cent decrease per debt adjusted share from $11.1 million in the fourth quarter of 2012 as a result of wider heavy oil differentials. Heavy oil differentials continue to be volatile, with the outlook for 2014 at the time of this release to be materially narrower compared to the fourth quarter of 2013.

- Fourth quarter operating costs, including transportation, were $16.72 per boe, bringing 2013 total year costs to $17.90 per boe, well within company guidance. These strong numbers reflect continued focus on disciplined field operations combined with the operating advantages associated with managing corporate assets that produce approximately 80 per cent from low cost horizontal wells. Guidance for 2014 includes further improvement in costs with annual expectations of $17.00 to $18.00 per boe.

- Execution of an active drilling program in 2013 with a total of 47 gross (42 net) wells drilled at a 98 per cent success rate, including drilling into three new formations, Maidstone Cummings, Wildmere Cummings and Vermilion Sparky. All of these new plays have been proven successful and have added material undeveloped inventory to the Company. Gear will focus on testing several new low risk plays in 2014 to further build future inventory.

- Four horizontal wells were drilled in Gear's new core area in Maidstone Cummings during the fourth quarter completed a nine well program executed throughout 2013. All nine wells were on production at year-end and were contributing approximately 700 boe per day, compared to no production from this area the prior year. The results from these wells strongly support further development in the area and as such approximately 12 horizontal and up to four vertical drills are currently planned in 2014.

- Two horizontal wells were drilled in Gear's second new core area in Wildmere Cummings with initial average 30 day rates of 90 barrels per day. As a result of improved completion techniques these rates are 30 per cent higher than the two Wildmere Cummings drills completed earlier in the year. This new core area makes up 65 potential wells out of total company drilling inventory of 230 locations. Gear's current 2014 capital plan includes drilling approximately seven horizontal wells into this area.

- Gear increased heavy oil amenable land holdings by investing $1.2 million during the fourth quarter bringing the 2013 total to $2.3 million spent on over 2,600 hectares of new prospective lands in Alberta and Saskatchewan. Management is committed to further expanding organic production growth opportunities and as such has dedicated 20 per cent of Gear's 2014 budget to land, seismic and exploration activity.

- Gear is currently undergoing a review of its credit facility and has been given early indications by its two lenders that its $75 million facility can be materially increased. Subject to final review, Gear hopes to finalize a credit facility increase to $100 million in March 2014.

- Gear is anticipating material advances on its enhanced oil recovery programs in 2014. The two pilot projects in the Wildmere Lloydminster pool continue successfully, with no early breakthrough and back-pressure increasing on the injectors for both the waterflood and polymer pilot project. The simulation model and field results to date indicate a definitive response is to be expected very early in 2014. Within the Maidstone Cummings pool an offset operator has recently seen significant early response from water injection into section 23-47-23W3. These results are encouraging and add confidence to Gear's plans for potential waterflood implementation in both the Maidstone and Wildmere Cummings plays. Gear hopes to announce its plans later in 2014, with $5 million currently budgeted for initial commercialization.

OPERATIONS UPDATE

- With the bullish outlook on heavy oil pricing, Gear has decided to accelerate its 2014 capital program by adding a third drilling rig in the first quarter. This more aggressive drilling schedule has resulted in a shift in Gear's production profile for 2014. As with prior years, production volumes in the first quarter are forecasted to be lower than the previous quarter as a result of the drilling operations. Current production is approximately 4,500 boe/d, 500 boe/d lower than our December exit rate. The temporary decline in production is a direct result of drilling multi-well pad sites that take longer to initially produce (but provide both increased capital and operating efficiency), shut-in of several high producing wells to accommodate adjacent drilling, railing interruptions and extreme winter weather.

- Gear is benefiting approximately $4 per barrel by selling its production via rail. At times, Gear has to inventory some of its oil production based on available sales transportation. During the first quarter, rail transportation has been constrained due to both weather and rail network disruptions. As a result, Gear has been building oil inventory levels during the first quarter. As the weather begins to improve, we expect the constraints on shipping oil by rail to diminish, facilitating increased sales production and reducing inventories to normal levels.

- We expect second quarter 2014 production to increase from the current 4,500 boe/d as volumes from new drills are added and shut-in wells are re-activated. Gear expects to average between 5,000 and 5,200 boe/d for 2014.

GEAR ENERGY LTD.
BALANCE SHEETS (unaudited)
As at December 31

(Cdn$ thousands)	2013	
ASSETS		
Current assets		
Cash and cash equivalents	$ 841	
Accounts receivable	9,550	
Prepaid expenses	1,210	
Inventory (Note 5)	4,465	
	16,066	
Deferred income tax asset (Note 12)	12,611	
Exploration and evaluation assets (Note 6)	3,284	
Property, plant and equipment (Note 7)	214,641	
Total assets	$ 246,602	$
LIABILITIES		
Current liabilities		
Accounts payable, accrued liabilities and deferred credits	$ 18,297	
Risk management contracts (Note 10)	2,113	
Debt (Note 8)	64,917	
	85,327	
Decommissioning liability (Note 9)	35,113	
Total liabilities	120,440	
SHAREHOLDERS' EQUITY		
Shareholders' capital (Note 11)	166,869	
Contributed surplus (Note 11)	9,446	
Deficit	(50,153)	
Total shareholders' equity	126,162	
Total liabilities and shareholders' equity	$ 246,602	$

See accompanying notes to the Financial Statements.

GEAR ENERGY LTD.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)
For the years ended December 31

(Cdn$ thousands)

	Shares to be issued	Share capital	Contributed surplus	Deficit	Total Shareholders'equity
Balance at December 31, 2011	3,296	162,542	4,509	(49,641)	120,706
Share-based compensation	-	-	2,617	-	2,617
Issued for share awards	-	589	-	-	589
Issued under share rights agreement	(3,296)	3,493	-	-	197
Income for the year	-	-	-	547	547
Balance at December 31, 2012	-	166,624	7,126	(49,094)	124,656
Share-based compensation	-	-	2,320	-	2,320

Issued for share awards	-	245	-	-	245
Net loss for the year	-	-	-	(1,059)	(1,059)
Balance at December 31, 2013	-	166,869	9,446	(50,153)	126,162

See accompanying notes to the Financial Statements.

GEAR ENERGY LTD.

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

	Three Months Ended December 31		Twelve Months Ended December 31	
(Cdn$ thousands, except per share amounts)	2013	2012	2013	2012
Sales of crude oil, natural gas and natural gas liquids	$ 25,758	$ 22,820	$ 97,462	$ 77,968
Royalties	(6,470)	(5,493)	(22,726)	(18,020)
Other income	26	13	115	70
REVENUE	19,314	17,340	74,851	60,018
(Loss) gain on risk management contracts (Note 10)	(979)	(38)	(7,043)	3,115
	18,335	17,302	67,808	63,133
EXPENSES				
Operating	7,140	5,747	26,641	22,031
General and administrative	1,840	1,274	5,869	4,412
Share-based compensation	404	866	2,565	3,206
Interest and financing charges	528	486	2,179	1,707
Accretion of decommissioning liability (Note 9)	196	189	681	746
Depletion, depreciation and amortization (Note 7)	8,813	8,556	32,027	29,653
Exploration and evaluation expense (Note 6)	-	336	-	336
Gain on asset disposition (Note 6 and 7)	-	(2,222)	(238)	(2,210)
Dilution penalty	-	-	-	197
	18,921	15,232	69,724	60,078
Deferred tax (recovery) expense (Note 12)	(47)	990	(857)	2,508
Net (loss) income and comprehensive (loss) income	$ (539)	$ 1,080	$ (1,059)	$ 547
Net (loss) income per share, basic and diluted (Note 11)	$ (0.01)	0.02	$ (0.02)	0.01

See accompanying notes to the Financial Statements.

GEAR ENERGY LTD.

STATEMENTS OF CASH FLOWS (unaudited)

	Three Months Ended December 31		Twelve Months Ended December 31	
(Cdn$ thousands)	2013	2012	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES				
Net (loss) income	$ (539)	$ 1,080	$ (1,059)	$ 547
Add items not involving cash:				
Unrealized (gain) loss on risk management contracts (Note 10)	(530)	1,232	1,972	(1,362)
Share-based compensation (Note 11)	404	866	2,565	3,206
Bad debt expense	12	72	12	72
Accretion of decommissioning liability	196	189	681	746
Depletion, depreciation and amortization	8,813	8,556	32,027	29,653
Exploration and evaluation expense	-	336	-	336
Gain on asset disposition	-	(2,222)	(238)	(2,210)
Deferred tax (recovery) expense	(47)	990	(857)	2,508
Dilution penalty	-	-	-	197
Decommissioning liabilities settled (Note 9)	(98)	(15)	(602)	(778)
Change in non-cash working capital (Note 15)	(446)	(3,673)	5,010	3,311
	7,765	7,411	39,511	36,226
CASH FLOW FROM FINANCING ACTIVITIES				
Borrowings of debt under demand credit facility	12,246	(438)	12,234	10,873
	12,246	(438)	12,234	10,873
CASH FLOW USED IN INVESTING ACTIVITIES				
Property, plant and equipment expenditures	(17,411)	(10,119)	(53,664)	(50,365)
Proceeds on disposition of petroleum and natural gas properties (Note 7 and 8)	-	2,682	200	2,802
Change in non-cash working capital (Note 15)	(1,759)	464	2,560	464
	(19,170)	(6,973)	(50,904)	(47,099)

INCREASE IN CASH AND CASH EQUIVALENTS	841	-	841	-
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	-	-	-	-
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 841	$ -	$841	$ -
The following are included in cash flow from operating activities:				
Interest paid in cash	$528	$ 486	$2,179	$ 1,707

See accompanying notes to the Financial Statements.

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: the 2014 Guidance estimates; the number of future drilling locations in Maidstone Cummings and Wildmere Cummings; the proposed increase in Gear's credit facility; 2014 pricing outlook; the planned number of wells to be drilled in 2014; anticipated advances in Gear's enhanced oil recovery programs in 2014, including plans in the Maidstone and Wildmere Cummings plays; 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.

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