

Gear Energy Ltd. Announces Record Second Quarter 2014 Cash Flow and Operating Results

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CALGARY, ALBERTA--(Marketwired - Aug 12, 2014) - [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, 2014 are available for review on Gear's website at www.gearenergy.com and on www.sedar.com.

Financial Summary

	Three months ended			Six months ended	
	June 30, 2014	June 30, 2013	March 31, 2014	June 30, 2014	June 30, 2013
(Cdn\$ thousands, except per boe amounts)					
FINANCIAL					
Cash flow from operations ⁽¹⁾	20,661	9,550	12,202	32,862	14,714
Per weighted average diluted share	0.29	0.18	0.22	0.52	0.27
Cash flow from operating activities	20,294	9,997	10,780	31,072	18,758
Per weighted average diluted share	0.28	0.19	0.20	0.49	0.35
Net income (loss)	6,420	643	1,588	8,007	(2,968)
Per weighted average diluted share	0.09	0.01	0.03	0.13	(0.06)
Capital expenditures	12,328	5,166	23,972	36,300	18,777
Net acquisitions ⁽²⁾	79,086	66	348	79,434	136
Net debt outstanding ⁽¹⁾	87,635	52,044	18,412	87,635	52,044
Shares outstanding, weighted average, basic	70,293	53,956	54,694	62,536	53,908
Shares outstanding, weighted average, diluted	71,768	53,956	55,799	63,696	53,908
OPERATING					
Production					
Oil and liquids (bbl/d)	6,004	3,668	3,975	4,995	3,557
Natural gas (mcf/d)	998	1,672	1,095	1,046	1,833
Total (boe/d)	6,170	3,947	4,158	5,169	3,863
Average prices					
Oil and liquids (\$/bbl)	85.88	71.71	79.50	83.35	63.07
Natural gas (\$/mcf)	4.52	3.66	5.20	4.87	3.37
Oil equivalent (\$/boe)	84.30	68.19	77.38	81.53	59.68
Netback (\$/boe)					
Commodity and other sales	84.49	68.26	77.38	81.65	59.78
Royalties	16.35	16.16	13.02	15.02	13.62
Operating costs	21.37	19.13	20.73	21.12	18.97
Operating netback (before hedging)	46.77	32.98	43.63	45.51	27.19
Realized risk management (losses) gains	(4.16)	(1.12)	(4.68)	(4.37)	(0.85)
Operating netback (after hedging)	42.61	31.86	38.95	41.14	26.34
General and administrative	4.27	3.79	4.76	4.46	3.85
Interest	1.45	1.48	1.63	1.52	1.44
Foreign exchange loss	0.09	-	-	0.04	-
Corporate netback	36.80	26.59	32.56	35.12	21.05
TRADING STATISTICS (\$ based on intra-day trading)					

High	6.41	n/a	4.29	6.41	n/a
Low	4.22	n/a	3.12	3.12	n/a
Close	6.27	n/a	4.24	6.27	n/a
Average daily volume (thousands)	346	n/a	411	379	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 quarterly cash flow from operations of \$20.7 million, a 92 per cent increase per debt adjusted share from \$9.6 million in the second quarter of 2013 and a 40 per cent increase per debt adjusted share from \$12.2 million in the first quarter of 2014. Cash flow growth was a result of increased volumes and stronger pricing. Gear achieved a strong field netback for the second quarter of \$46.77 per boe. Gear also realized record net income of \$6.4 million for the second quarter.
- On April 30th, closed a previously disclosed asset acquisition for approximately \$83 million, post normal closing adjustments. The acquisition included approximately 2,100 boe per day of high working interest heavy oil production (98 per cent oil weighted) and a significant inventory of drilling and recompletion opportunities. In conjunction with the acquisition the board of directors of Gear approved an increase of the capital budget from \$70 million to \$85 million with the incremental capital being directed toward initial development of the acquired assets.
- Record production for the second quarter of 6,170 boe per day, a 38 per cent increase per debt adjusted share from 3,947 boe per day in the second quarter of 2013 and a 22 per cent increase per debt adjusted share from 4,158 boe per day in the first quarter of 2014. The acquired heavy oil assets contributed approximately 1,400 boe per day of production on average for the quarter, with the remaining 4,770 boe per day contributed by Gear's existing assets. The increase in production from Q1 2014 was due to both the decrease in oil inventory and the full quarter production of 20.5 net successful wells drilled and completed in the first quarter and on production for the full second quarter.
- Realized heavy oil prices increased from \$71.71 per bbl in the second quarter of 2013 to \$85.88 per bbl in the second quarter of 2014 as a result of increased WTI pricing and a weaker Canadian dollar, offset by a widening of heavy oil differentials. During the second quarter of 2014, Gear shipped 51 per cent of volumes via rail. Despite efforts to ship more volumes via rail, continued logistical challenges persist as a result of increased traffic on the rail network, partially due to apportionment on Enbridge pipelines. On average, Gear was able to realize five per cent stronger pricing on volumes sold through rail compared to volumes sold via pipeline.
- Second quarter operating costs, including transportation, were \$21.37 per boe. The 12 per cent increase over 2013 costs was primarily due to the higher costs on the acquired heavy oil assets, which had an approximate operating cost of \$30 per boe for the second quarter. Stand-alone Gear existing assets had operating costs of approximately \$19 per boe for the second quarter with total operating costs per boe declining from the first quarter of 2014 as a result of lower energy costs and higher production. Further work is planned throughout 2014 to continue lowering operating costs including investing in infrastructure and shutting in production on uneconomic wells.
- During the second quarter, Gear drilled eight gross (eight net) wells following break-up in late May. At Frenchman's Butte, the 16-17 horizontal well was drilled as a step out to the successful exploration discovery drilled in the first quarter of 2014 at 11-16-54-25W3. The 11-16 well continues to outperform expectations with a four month average oil rate of more than 110 barrels of oil per day, while the 16-17 well came in structurally lower and is experiencing a materially higher water cut than the 11-16 well. The well has just commenced production and requires further optimization to evaluate its true potential. Subsequent to quarter end Gear also drilled a pool extension well in the Wildmere Cummings at 14-29-47-3W4. Preliminary results of this well are encouraging with an initial 24 day average rate of 54 barrels of oil per day. Continued strong production from this well could lead to a material expansion in the inventory of economic drilling opportunities from the Wildmere Cummings asset.

- Enhanced oil recovery response was observed through the second quarter of 2014 at Gear's Wildmere Lloydminster polymer pilot. Production to date from the quarter section has tripled from pre-flood levels and has motivated continued efforts towards potential phase one commercial implementation in 2015. Gear has also observed successful water flood response by an adjacent operator in the Maidstone Cummings play where a two to four fold oil response was realized within six months. Gear now has three material enhanced oil recovery opportunities, including the Wildmere Cummings asset, and anticipates advancement at two of the plays throughout 2015 pending final capital decisions.

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.

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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