

# Gear Energy Ltd. Announces Record Third Quarter 2014 Results

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CALGARY, ALBERTA--(Marketwired - Nov 11, 2014) - [Gear Energy Ltd.](#) ("Gear" or the "Company") (TSX:GXE) is pleased to provide the following third quarter operating update to shareholders. Gear's Interim Financial Statements and related Management's Discussion and Analysis (MD&A) for the period ended September 30, 2014 are available for review on Gear's website at [www.gearenergy.com](#) and on [www.sedar.com](#).

(Cdn\$ thousands, except per boe amounts)	Three months ended			Nine months ended	
	Sept 30, 2014	Sept 30, 2013	June 30, 2014	Sept 30, 2014	Sept 30, 2013
<b>FINANCIAL</b>					
Cash flow from operations <sup>(1)</sup>	22,580	12,080	20,661	55,443	26,794
Per weighted average diluted share	0.31	0.22	0.29	0.83	0.50
Cash flow from operating activities	21,428	12,991	20,294	52,500	31,749
Per weighted average diluted share	0.30	0.24	0.28	0.79	0.59
Net income (loss)	8,914	2,449	6,420	16,921	(519)
Per weighted average diluted share	0.12	0.05	0.09	0.25	(0.01)
Capital expenditures	27,314	17,342	12,328	63,611	36,119
Net acquisitions <sup>(2)</sup>	1,451	(200)	79,086	80,888	(64)
Net debt outstanding <sup>(1)</sup>	94,334	57,615	87,635	94,334	57,615
Shares outstanding, weighted average, basic	70,798	53,956	70,293	65,320	53,924
Shares outstanding, weighted average, diluted	72,314	53,956	71,768	66,569	53,924
<b>OPERATING</b>					
Production					
Oil and liquids (bbl/d)	6,529	3,652	6,004	5,512	3,589
Natural gas (mcf/d)	1,101	1,723	998	1,065	1,796
Total (boe/d)	6,712	3,940	6,170	5,689	3,889
Average prices					
Oil and liquids (\$/bbl)	79.72	88.01	85.88	81.90	71.29
Natural gas (\$/mcf)	3.89	2.53	4.52	4.53	3.10
Oil equivalent (\$/boe)	78.17	82.70	84.30	80.20	67.54
Netback (\$/boe)					
Commodity and other sales	78.40	82.77	84.49	80.35	67.63
Royalties	14.97	18.59	16.35	15.00	15.31
Operating costs	21.78	17.21	21.37	21.38	18.37
Operating netback (before hedging)	41.65	46.97	46.77	43.98	33.95
Realized risk management (losses) gains	(1.04)	(8.20)	(4.16)	(3.05)	(3.36)
Operating netback (after hedging)	40.61	38.77	42.61	40.93	30.59
General and administrative	3.20	3.68	4.27	3.96	3.79
Interest	1.16	1.77	1.45	1.38	1.55
Foreign exchange (gain) loss	(0.32)	-	0.09	(0.11)	-
Corporate netback	36.57	33.32	36.80	35.70	25.25
<b>TRADING STATISTICS</b> (\$ based on intra-day trading)					
High	6.35	n/a	6.41	6.41	n/a
Low	4.40	n/a	4.22	3.12	n/a
Close	4.71	n/a	6.27	4.71	n/a
Average daily volume (thousands)	197	n/a	346	318	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.

### THIRD QUARTER HIGHLIGHTS

- Record quarterly cash flow from operations of \$22.6 million or \$0.32 per share, a 48 per cent increase per debt adjusted share from \$12.1 million in the third quarter of 2013. Cash flow per boe was essentially unchanged from the second quarter of 2014 despite a \$6.09 per boe reduction in realized pricing. Gear also realized record net income of \$8.9 million for the third quarter.
- Record production for the third quarter of 6,712 boe per day, a 35 per cent increase per debt adjusted share from 4,642 boe per day in the third quarter of 2013. Despite operational delays due to wet weather early in the quarter, Gear was able to grow production to exit with September averaging over 7,000 boe per day. Fourth quarter production is currently forecast to be 7,100 to 7,300 boe per day.
- Net debt was 1.1 times annualized third quarter cash flow representing a strong balance sheet that provides material flexibility for future opportunities. Effective November 11, 2014, Gear entered into a syndicated demand facility with three banks and increased the borrowing limit from \$100 million to \$130 million.
- Realized heavy oil prices decreased from \$88.01 per bbl in the third quarter of 2013 to \$79.72 per bbl in the third quarter of 2014 as a result of lower WTI CAD pricing and wider heavy oil differentials. The market continues to experience downward pricing pressure with WTI CAD barrels trading approximately \$15 per barrel lower from the third to the fourth quarter of 2014. Despite this decrease, Gear is predicting a received price of approximately \$70 per bbl for the fourth quarter due to continued tight differentials and a favorable foreign exchange ratio. Gear will maintain balance sheet strength in light of expected pricing by optimizing future capital investments and continuing to focus on economic cost cutting initiatives.
- Third quarter operating costs, including transportation, were \$21.78 per boe, essentially unchanged from the previous quarter. This is the first quarter of operations for Gear that fully include the higher cost assets acquired on April 30<sup>th</sup>, 2014. Costs are expected to decline slightly into the fourth quarter with continued optimization and infrastructure investment. Gear expects 2014 costs including transportation to be approximately \$21 per boe.
- Drilled 23 gross (20.5 net) successful horizontal oil wells, including eight in Wildmere Cummings and six in Maidstone Cummings. Five gross (2.3 net) wells were drilled into Morgan and Wildmere Sparky which are pools obtained through the acquisition. These five wells averaged 77 bbl per day per well through September, which exceeded expectations. Gear also successfully drilled its first ever dual lateral horizontal wells with two wells into the General Petroleum formation in Wildmere. This has provided a material improvement in expected economic results over a single horizontal well, with approximately double the productivity at only 40 per cent higher drilling cost. The first well has averaged 185 bbl per day for the first 30 days and continues to produce strongly. These results are very encouraging and will be followed up with four more dual lateral horizontal wells into various plays throughout the fourth quarter of 2014.
- Subsequent to quarter end Gear initiated a three well horizontal drilling program to follow up on the successful Lloydminster pool discovery well at Frenchmans Butte. All wells should be on production in the fourth quarter. Further drilling in this exciting new area will be pursued after Gear has completed a 3-D seismic program in early 2015.

### 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.

### **Contact**

#### [Gear Energy Ltd.](#)

Ingram Gillmore  
President & CEO  
403-538-8463  
igillmore@gearenergy.com  
www.gearenergy.com

[Gear Energy Ltd.](#)  
David Hwang  
Vice President Finance & CFO  
403-538-8437  
dhwang@gearenergy.com

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