

Gear Energy Ltd. Announces Second Quarter 2020 Operating Results

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CALGARY, Aug. 5, 2020 - [Gear Energy Ltd.](#) ("Gear" or the "Company") (TSX: GXE) is pleased to provide the following second quarter operating update to shareholders. Gear's Interim Condensed Consolidated Financial Statements and related Management's Discussion and Analysis ("MD&A") for the period ended June 30, 2020 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 |
|--|--------------------|--------------|--------------|------------------|
| (Cdn\$ thousands, except per share, share and per boe amounts) | Jun 30, 2020 | Jun 30, 2019 | Mar 31, 2020 | Jun 30, 2020 |
| FINANCIAL | | | | |
| Funds from operations ⁽¹⁾ | 8,068 | 17,104 | 6,258 | 14,328 |
| Per boe | 32.26 | 26.25 | 10.20 | 16.59 |
| Per weighted average basic share | 0.04 | 0.08 | 0.03 | 0.07 |
| Cash flows from operating activities | 3,547 | 18,881 | 9,788 | 13,337 |
| Net (loss) income | (5,300) | 5,684 | (110,215) | (115,516) |
| Per weighted average basic share | (0.02) | 0.03 | (0.51) | (0.53) |
| Capital expenditures | 239 | 3,334 | 11,099 | 11,340 |
| Decommissioning liabilities settled | 22 | 474 | 671 | 692 |
| Net (dispositions) acquisitions ⁽²⁾ | - | (162) | 3 | 3 |
| Net debt ⁽¹⁾⁽³⁾ | 70,177 | 72,127 | 80,261 | 70,177 |
| Weighted average shares, basic (thousands) | 216,486 | 219,093 | 216,715 | 216,600 |
| Shares outstanding, end of period (thousands) | 216,490 | 219,093 | 216,468 | 216,490 |
| OPERATING | | | | |
| Production | | | | |
| Heavy oil (bbl/d) | 1,388 | 4,104 | 3,989 | 2,688 |
| Light and medium oil (bbl/d) | 845 | 2,166 | 1,775 | 1,310 |
| Natural gas liquids (bbl/d) | 103 | 228 | 217 | 160 |
| Natural gas (mcf/d) | 2,474 | 3,977 | 4,582 | 3,528 |
| Total (boe/d) | 2,749 | 7,161 | 6,744 | 4,746 |
| Average prices | | | | |

| | | | | |
|--|---------|---------|---------|---------|
| Heavy oil (\$/bbl) | 20.46 | 60.45 | 27.58 | 25.74 |
| Light and medium oil (\$/bbl) | 24.91 | 71.60 | 50.44 | 42.20 |
| Natural gas liquids (\$/bbl) | 25.73 | 13.11 | 10.54 | 15.45 |
| Natural gas (\$/mcf) | 1.98 | 0.92 | 1.93 | 1.95 |
| Netback (\$/boe) | | | | |
| Commodity and other sales | 20.74 | 57.23 | 31.24 | 28.20 |
| Royalties | (1.38) | (6.87) | (3.66) | (3.00) |
| Operating costs | (16.43) | (18.08) | (18.01) | (17.55) |
| Operating netback ⁽¹⁾ | 2.93 | 32.28 | 9.57 | 7.65 |
| Realized risk management gain (loss) | 35.85 | (1.65) | 4.57 | 13.63 |
| General and administrative | (3.84) | (2.47) | (2.77) | (3.08) |
| Interest | (2.71) | (1.90) | (1.33) | (1.73) |
| Transaction costs | - | (0.01) | - | - |
| Realized gain (loss) on foreign exchange | 0.03 | - | 0.16 | 0.12 |

TRADING STATISTICS

(\$ based on intra-day trading)

| | | | | |
|---|------|------|------|------|
| High | 0.28 | 0.88 | 0.50 | 0.50 |
| Low | 0.09 | 0.53 | 0.08 | 0.08 |
| (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. | 0.21 | 0.57 | 0.10 | 0.21 |

(2) Net (dispositions) acquisitions 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. June 30, 2020 – nil, June 30, 2019 – \$1.6 million, March 31, 2020 – nil.

MESSAGE TO SHAREHOLDERS

The dominant headline for 2020 to date has been the COVID-19 pandemic which has adversely impacted the global economy as a result of governments mandating the shut-down of several facets of society. This, in turn, led to significantly reduced world oil consumption. As a result, oil prices initially plummeted with WTI hitting a historical low of negative US\$37 per barrel in April 2020. Since then, WTI has recovered and currently sits at US\$42 per barrel. During the second quarter, Gear chose to shut-in the majority of its production and immediately pursued reductions to the variable costs of the business in an effort to curb the impact of low oil prices. In June, Gear initiated a gradual production re-start across the majority of its asset base as minimum economic pricing thresholds started to be met. The Company estimates current field production to be approximately 6,000 boe/d and expects the majority of its wells to be producing by the third quarter. To date, no issues have been encountered with the start-up of production. In addition, capital expenditures are expected to be minimal for the remainder of 2020. Protection and continued improvement of the corporate balance sheet remains the top priority.

In conjunction with the volatility in commodity prices and the corresponding operational impacts, Gear has been working closely with its lenders on its syndicated credit facilities. In July, Gear completed its annual

borrowing base redetermination with amended terms that provides Gear with ample liquidity under the new credit structure for the remainder of 2020. Lenders continue to be constructive with Gear and acknowledge that persistent uncertainty around commodity prices have warranted a more frequent examination of the borrowing base. As such, the next borrowing base redetermination has been scheduled for August 31, 2020. In addition, Gear has engaged a financial advisor to consider a number of possible strategic alternative transactions to improve liquidity, provide additional flexibility, and enhance shareholder value.

Per unit results in the second quarter will appear slightly unusual as a result of production volatility resulting from Gear's decision to shut-in production due to low commodity prices. Although Gear sold 2,749 boe per day of production in the second quarter at an average price of \$20.74 per boe, it also had WTI oil hedges in place for 3,200 barrels per day at an average price of C\$69.22 per barrel. As a result, hedging gains for the second quarter were \$9.0 million compared to funds from operations of \$8.1 million.

QUARTERLY HIGHLIGHTS

- Net debt decreased by \$10.1 million or 13 per cent from the first quarter to the second quarter of 2020. This was accomplished primarily as a result of funds from operations being applied against debt while capital and abandonment expenditures were minimized for the second quarter. Despite production shut-ins and weak pricing, second quarter net debt to quarterly annualized funds from operations was 2.2 times.
- Production for the second quarter was intentionally reduced to 2,749 boe per day from 6,744 boe per day in the first quarter. Currently, field production is estimated to be approximately 6,000 boe per day as the majority of production has been reactivated. Two additional new wells drilled in the first quarter are expected to be on production later in August and 2020 annual production is expected to be in the range of 5,200 to 5,300 boepd.
- Funds from operations for the second quarter of \$8.1 million was an increase of 29 per cent from the first quarter of 2020 as a result of significantly higher hedging gains offsetting the impacts of historically low oil prices experienced during the quarter. For the remainder of 2020, Gear has hedged 3,200 barrels per day using collars (700 barrels per day at \$C65.00 x C\$94.00) and three-way collar structures (2,500 barrels per day at a blended average of C\$55.00 x C\$65.00 x C\$78.32).
- Operating costs for the second quarter were \$16.43 per boe compared to \$18.01 per boe in the first quarter primarily as a result of the shut-in of higher cost wells. With the majority of Gear's production being restored, annual operating costs are expected to range from \$17.00 to \$18.00 per boe.
- Gear has applied for numerous government grants under provincial and federal Site Rehabilitation Programs. To date, Gear has received \$2.2 million in committed grants to assist Gear with its abandonment and reclamation activities. For 2020, Gear has planned an Area Based Closure program which should allow it to retire these liabilities with greater efficiencies.

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: expectation the majority of Gear's wells to be producing by the third quarter; expectations of minimal capital spending for the remainder of 2020; the intent to continue to focus on protection and improvement of the balance sheet; the expectation that following the annual borrowing base redetermination of Gear's credit facilities that Gear will have ample liquidity under the new credit structure for the remainder of 2020; expectation of 2020 annual average production in the range of 5,200 to 5,300 boepd; the expectation that two new wells will be on production in August 2020; expectation of annual operating costs in the range of \$17.00 to \$18.00 per boe; and plans for an Area Based Closure in 2020.

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: the continuing impact of the COVID-19 pandemic; 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; any action taken by Gear's lenders to reduce borrowing capacity or require repayment under its Credit Facilities; any inability for Gear to repay any of its indebtedness when due; 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 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 cash flow 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. 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.

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Initial Production Rates

~~Any references in this document to initial production (or IP) 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. Readers are cautioned not to place reliance on such rates in calculating the aggregate production for Gear.~~

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