

Gear Energy Ltd. Announces Second Quarter 2022 Operating Results

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Calgary, July 27, 2022 - [Gear Energy Ltd.](#) (TSX: GXE) (OTCQX: GENGF) ("Gear" or the "Company") 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, 2022 are available for review on Gear's website at www.gearenergy.com and on www.sedar.com.

	Three months ended		Six months ended	
	Jun 30, 2022	Jun 30, 2021	Mar 31, 2022	Jun 30, 2021
(Cdn\$ thousands, except per share, share and per boe amounts)				
FINANCIAL				
Funds from operations (1)	33,770	12,222	18,782	52,552
Per boe	64.24	24.69	36.61	50.59
Per weighted average basic share	0.13	0.05	0.07	0.20
Cash flows from operating activities	29,668	14,967	15,340	45,008
Per boe	56.43	30.24	29.90	43.33
Net income (loss)	23,309	(730)	6,227	29,536
Per weighted average basic share	0.09	0.00	0.02	0.11
Capital expenditures	8,091	5,809	8,687	16,778
Decommissioning liabilities settled (2)	1,350	694	912	22,262
Free funds from operations (1)	24,579	6,230	9,183	33,762
Net surplus (debt) (1)	9,775	(33,418)	(6,706)	9,775
Dividends declared	2,610	-	-2,610	-
Dividends declared per share	0.01	-	-0.01	-
Weighted average shares, basic (thousands)	260,561	247,415	260,331	260,447
Shares outstanding, end of period (thousands)	258,173	258,103	260,759	258,173
OPERATING				
Production				
Heavy oil (bbl/d)	2,686	3,207	3,043	2,863
Light and medium oil (bbl/d)	1,980	1,469	1,580	1,781
Natural gas liquids (bbl/d)	243	148	269	256
Natural gas (mcf/d)	5,205	3,694	4,855	5,031
Total (boe/d)	5,777	5,440	5,701	5,739
Average prices				
Heavy oil (\$/bbl)	116.74	62.14	95.91	105.73
Light and medium oil (\$/bbl)	133.18	74.72	110.32	123.10
Natural gas liquids (\$/bbl)	72.59	34.40	63.88	68.03
Natural gas (\$/mcf)	7.38	3.15	4.64	6.06
Netback (\$/boe)				
Petroleum and natural gas sales	109.63	59.90	88.73	99.31
Royalties	(15.56)	(6.64)	(9.38)	(12.51)
Operating costs	(21.86)	(16.66)	(19.80)	(20.84)
Transportation costs	(3.56)	(2.06)	(3.43)	(3.50)
Operating netback (1)	68.65	34.54	56.12	62.46
Realized risk management loss	(0.96)	(5.55)	(14.11)	(7.46)
General and administrative	(2.94)	(2.66)	(4.83)	(3.87)
Interest and other	(0.51)	(1.64)	(0.57)	(0.54)
TRADING STATISTICS				
(\$ based on intra-day trading)				
High	1.73	1.01	1.94	1.94
				1.01

Low	1.15	0.46	0.900.90	0.25
Close	1.24	0.85	1.601.24	0.85
Average daily volume (thousands)	5,269	3,019	4,8595,066	2,181

(1) Funds from operations, free funds from operations, net surplus (debt) and operating netback do not have any standardized meanings under Canadian generally accepted accounting principles ("GAAP") and therefore may not be comparable to similar measures presented by other entities. For additional information related to these measures, including a reconciliation to the nearest GAAP measures, where applicable, see "Non-GAAP and Other Financial Measures" in this press release.

(2) Decommissioning liabilities settled includes expenditures made by both Gear and the Federal Site Rehabilitation Program.

MESSAGE TO SHAREHOLDERS

Gear's second quarter results include a number of significant new records including record high funds from operations, record high field netback, and a first ever net surplus on the balance sheet (as defined below). The business remains very sound during this time of heightened macroeconomic uncertainty and commodity price volatility with record high free funds from operations of \$24.6 million or \$0.095 per share generated in the second quarter. In light of the continued strength of the business, Gear is pleased to announce the revision of the previously declared variable quarterly dividend program to the implementation of a new monthly dividend of \$0.01 per common share. To account for no dividend being distributed in July, the initial dividend for the month of August will be \$0.02 per common share. Further details are included below.

QUARTERLY HIGHLIGHTS

- Record funds from operations for the second quarter of 2022 of \$33.8 million, an increase of 80 per cent from the first quarter of 2022 primarily as a result of higher commodity prices and lower risk management losses. The record funds from operations exceeds the previous quarterly record funds from operations by 50 per cent, with the previous record set back in the third quarter of 2014.
- Second quarter realized prices increased from \$88.73 per boe in the first quarter of 2022 to \$109.63 per boe. The improved commodity prices were driven by an increase in the WTI benchmark oil price which averaged US\$108 per barrel (C\$139 per barrel) in the second quarter.
- Operating netback for the second quarter of 2022 was a record \$68.65 per boe, Gear's highest operating netback since inception.
- In the second quarter of 2022, Gear successfully drilled one light oil well in Tableland, Saskatchewan, one multi-lateral unlined heavy oil well in Wildmere, Alberta, and one water-source well for expanded waterflooding in Killam, Alberta. Gear also rig-released one additional multi-lateral unlined heavy oil well in Swimming, Alberta subsequent to the second quarter. The Tableland light oil well was completed in July and is expected to be on production in August. A total of \$8.1 million of capital was incurred for the quarter including \$1.6 million for facilities and \$0.4 million for undeveloped land purchases. Gear anticipates its drilling rig to remain active to the end of the year with up to two additional rigs active for portions of the second half of 2022.
- Production for the second quarter of 2022 was 5,777 boe per day, a slight increase of one per cent from the first quarter of 2022 as a result of new production from the first quarter drilling program in Provost, Alberta of 6 gross (6 net) wells. For the second quarter, these wells contributed an average of 460 boe per day of sales. Production continues to incline for these wells with the last 30 days of production averaging approximately 520 boe per day. Into the third quarter, production is expected to be approximately 5,500 boe per day in July as a result of weather related delays in bringing on new wells and equipment issues delaying the fracture stimulation of the new well in Tableland until the end of the month. Production is expected to grow through the remainder of the quarter and into year end.
- Achieved Gear's goal of zero net debt in the month of April 2022 and exited the second quarter with a net surplus of \$9.8 million, a \$16.5 million movement from the first quarter of 2022 net debt of \$6.7 million. As of June 30, 2022, the net surplus consists of \$14.4 million of working capital offset by \$4.6 million of bank debt.
- Gear had minimal hedging losses of \$0.5 million or \$0.96 per boe realized during the second quarter. The losses were related to the premium cost of the purchased put spread with no sold calls impeding upper oil price potential.

- In the second quarter of 2022, Gear paid a \$0.01 per share dividend in relation to first quarter free funds from operations and acquired and cancelled 3.6 million shares under its Normal Course Issuer Bid share buyback program at an average price of \$1.45 per share.

2022 EXPANDED CAPITAL PROGRAM AND REVISED GUIDANCE

- As a result of continued strong commodity prices and expanded strategic investment opportunities, Gear intends to increase the planned 2022 capital and abandonment expenditure investment from \$55 million to \$64 million with the majority of the increase relating to two additional light oil wells to be drilled in Tableland, SK. These two wells are currently planned to be drilled and completed at the end of 2022 and are expected to be on production in the first quarter of 2023.
- Production to date for 2022 has been marginally hindered by difficult weather as well as intermittent challenges accessing equipment and manpower. Gear anticipates the majority of these issues to be less relevant through the second half of the year with strong capital activity levels anticipated right through to year-end. Annual production guidance for 2022 is being stepped back slightly at this point. However, for the first quarter of 2023, production is expected to be approximately 6,400 boe per day reflecting the impacts of the strong capital investments currently planned.
- Updated Guidance for 2022 is as follows:

	2022 Revised Guidance	2022 Previous Q2 Guidance	2022 YTD Actuals
2022 annual production (boe/d)	5,700 - 5,900	5,900 - 6,000	5,739
Q1 2023 production (boe/d)	6,400	n/a	n/a
Heavy oil weighting (%)	50	51	50
Light oil, medium oil and NGLs weighting (%)	36	36	35
Royalty rate (%)	13	12	13
Operating and transportation costs (\$/boe)	23.50	23.50	24.34
General and administrative expense (\$/boe)	3.15	3.15	3.87
Interest and other expense (\$/boe)	0.40	0.40	0.54
Capital and abandonment expenditures (\$ millions)	64	55	19

IMPLEMENTATION OF A MONTHLY DIVIDEND

- With the generation of \$24.6 million in free funds from operations during the second quarter and a continued strong outlook, Gear's Board of Directors has approved the implementation of a new monthly dividend of \$0.01 per common share. To account for no dividend being distributed in July, the initial dividend for the month of August will be \$0.02 per common share and thereafter will revert to \$0.01 per common share for the following months. The \$0.02 dividend will be paid on August 31, 2022 to shareholders of record as of close of business on August 15, 2022. The dividend is designated as an "eligible dividend" for income tax purposes.
- After reviewing the impacts and results of the initial variable dividend payment completed in the second quarter, Gear will be revising its dividend program going forward by converting to a monthly dividend program to provide investors with more predictable returns. With the initiation of the new monthly \$0.01 per share dividend, Gear still anticipates maintaining a strong balance sheet with the current forecast (using forward market pricing as of July 26, 2022) showing a continual net surplus in the future. In the first four months of 2022, Gear dedicated all of its free funds from operations to debt repayments. Under the current forecast from May 2022 to December 2022, Gear anticipates approximately 75 per cent of free funds from operations (approximately 25 per cent of funds from operations) will be returned to shareholders as dividends with the remaining free funds from operations dedicated to potential future capital expansions, cash funded acquisitions, share buybacks and/or future dividend increases. Management and the Board of Directors will continue to monitor the future commodity markets and the strength of the business to ensure that the distribution of future dividends remains aligned with all other strategic goals.

SHARE BUYBACKS

- Over the course of the second quarter of 2022, Gear purchased and cancelled a total of 3,638,600 shares at an average cost of \$1.45 per share. Going forward, potential future purchases will be made subject to available free funds from operations and subject to certain strategic net asset value and debt adjusted trading multiple thresholds. Given the increased allocation of free funds from operations to Gear's monthly dividend, the number of shares repurchased through the rest of the year will likely be lower than amounts repurchased to date.

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 expected timing for bringing certain wells on production; the anticipation of Gear's drilling rig remaining active until the end of the year with up to two additional rigs active for portions of the second half of 2022; the planned capital and abandonment expenditure increase for 2022 from \$55 million to \$64 million with the majority of the increase relating to two additional light oil wells to be drilled in Tableland, SK; the two Tableland, SK wells to be drilled and completed at the end of 2022 and on production in the first quarter of 2023; the anticipation that the majority of production issues to be less relevant through the second half of 2022 with strong capital activity levels to the end of 2022; first quarter 2023 production expected to be approximately 6,400 boe per day; updated guidance for 2022 including annual production (including commodity weightings), royalty rate, operating and transportation costs, general and administrative expense, interest and other expense, and capital and abandonment expenditures; and details on Gear's future dividend payments including the portion of dividends from free funds flow for May 2022 to December 2022.

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; the impacts of the Russian-Ukraine war on the global economy and commodity prices; 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; the impacts of inflation and supply chain issues; 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 amount of future cash dividends paid by Gear, if any, will be subject to the discretion of the Board of Directors of Gear and may vary depending on a variety of factors and conditions existing from time to time, including, among other things, funds from operations, fluctuations in commodity prices, production levels, capital expenditure requirements, debt service requirements and debt levels, operating costs, royalty burdens, foreign exchange rates and the satisfaction of the liquidity and solvency tests imposed by applicable corporate law for the declaration and payment of dividends. Depending on these and various other factors, many of which will be beyond the control of the Company, the dividend policy of the Company from time to time and, as a result, future cash dividends may not be paid or if paid could at a later date be reduced or suspended entirely.

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 and Other Financial Measures

This press release includes references to non-GAAP and other financial measures that Gear uses to analyze financial performance. These specified financial measures include non-GAAP financial measures, non-GAAP ratios, capital management measures and supplementary financial measures, and are not defined by IFRS and are therefore referred to as non-GAAP and other financial measures. Management believes that the non-GAAP and other financial measures used by the Company are key performance measures for Gear and provide investors with information that is commonly used by other oil and gas companies. These key performance indicators and benchmarks as presented do not have any standardized meaning prescribed by Canadian GAAP and therefore may not be comparable with the calculation of similar measures for other entities. These non-GAAP and other financial measures should not be considered an alternative to or more meaningful than their most directly comparable financial measure presented in the financial statements, as an indication of the Company's performance. Descriptions of the non-GAAP and other financial measures used by the Company as well as reconciliations to the most directly comparable GAAP measure for the quarter and six months ended June 30, 2022 and year ended December 31, 2021, where applicable, are provided below.

Funds from operations

Funds from operations is a non-GAAP financial measure defined as cash flows from operating activities before changes in non-cash operating working capital and decommissioning liabilities settled. Gear evaluates its financial performance primarily on funds from operations and considers it a key measure for management and investors as it demonstrates the Company's ability to generate the funds from operations necessary to fund its capital program, settle decommissioning liabilities, repay debt, finance dividends and/or repurchase common shares under the Company's NCIB.

Reconciliation of cash flows from operating activities to funds from operations:

(\$ thousands)	Three months ended		Six months ended	
	Jun 30, 2022	Jun 30, 2021	Mar 30, 2022	Jun 30, 2021
Cash flows from operating activities	29,668	14,967	35,340	45,008
Decommissioning liabilities settled (1)	1,100	183	902	2,012
Change in non-cash operating working capital	3,002	(2,928)	2,530	5,532
Funds from operations	33,770	12,222	18,782	25,552
				20,475

(1) Decommissioning liabilities settled includes only expenditures made by Gear.

Funds from operations per BOE

Funds from operations per boe is a non-GAAP ratio calculated as funds from operations, as defined and reconciled to cash flows from operating activities above, divided by sales production for the period. Gear considers this a useful non-GAAP ratio for management and investors as it evaluates financial performance on a per boe level, which enables better comparison to other oil and gas companies in demonstrating its ability to generate the funds from operations necessary to fund its capital program, settle decommissioning liabilities, repay debt, finance dividends and/or repurchase common shares under the Company's NCIB.

Funds from operations per weighted average basic share

Funds from operations per weighted average basic share is a non-GAAP ratio calculated as funds from operations, as defined and reconciled to cash flows from operating activities above, divided by the weighted average basic share amount. Gear considers this non-GAAP ratio a useful measure for management and investors as it demonstrates its ability to generate the funds from operations, on a per weighted average basic share basis, necessary to fund its capital program, settle decommissioning liabilities, repay debt, finance dividends and/or repurchase common shares under the Company's NCIB.

Free funds from operations

Free funds from operations is a non-GAAP financial measure defined as cash flows from operating activities, adjusted for the net change in non-cash operating working capital, less capital expenditures and net

acquisitions funded by funds from operations. Gear evaluates its financial performance on free funds from operations and considers it a key measure for management and investors as it demonstrates the Company's ability to generate the cash flow necessary to fund its capital program, settle decommissioning liabilities, repay debt, finance dividends and/or repurchase common shares under the Company's NCIB.

Reconciliation of cash flows from operating activities to free funds from operations:

(\$ thousands)	Three months ended		Six months ended	
	Jun 30, 2022	Jun 30, 2021	Mar 30, 2022	Jun 30, 2021
Cash flows from operating activities	29,668	14,967 ⁽¹⁾	35,340	45,008
Change in non-cash operating working capital	3,002	(2,928) ⁽²⁾	2,330	5,532
Capital expenditures	(8,091)	(5,809)	(6,687)	(6,778)
Free funds from operations	24,579	6,230	9,183	33,762
				6,204

Net surplus (debt)

Net surplus (debt) is a capital management measure defined as debt less current working capital items (excluding debt, risk management contracts and decommissioning liabilities). Gear believes net surplus (debt) provides management and investors with a measure that is a key indicator of its leverage and strength of its balance sheet. Changes in net surplus (debt) are primarily a result of funds from operations, capital and abandonment expenditures, equity issuances, dividends paid and equity repurchases pursuant to the NCIB.

Reconciliation of debt to net surplus (debt):

Capital Structure and Liquidity	Jun 30, 2022	Dec 31, 2021
(\$ thousands)		
Debt	(4,577)	(26,355)
Working capital surplus (1)	14,352	10,525
Net surplus (debt)	9,775	(15,830)

(1) Excludes risk management contracts, debt and decommissioning liabilities.

Operating netback

Operating netbacks are non-GAAP ratios calculated based on the amount of revenues received on a per unit of production basis after royalties and operating costs. Management considers operating netback to be a key measure of operating performance and profitability on a per unit basis of production. Management believes that netback provides investors with information that is commonly used by other oil and gas companies. The measurement on a per boe basis assists management and investors with evaluating operating performance on a comparable basis.

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 (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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