

**GEAR ENERGY LTD.**  
**INTERIM CONDENSED BALANCE SHEETS** (unaudited)  
**As at**

	<b>March 31, 2015</b>	December 31, 2014
(Cdn\$ thousands)		
<b>ASSETS</b>		
Current assets		
Accounts receivable	\$ 12,067	\$ 15,295
Prepaid expenses	2,552	2,078
Inventory (Note 3)	7,611	6,810
Risk management contracts (Note 7)	7,084	13,691
	<b>29,314</b>	37,874
Deferred income tax asset	17,026	16,501
Property, plant and equipment (Note 4)	313,044	320,343
<b>Total assets</b>	<b>\$ 359,384</b>	<b>\$ 374,718</b>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable, accrued liabilities and deferred credits	\$ 12,416	\$ 23,687
Debt (Note 5)	93,127	98,900
	<b>105,543</b>	122,587
Decommissioning liability (Note 6)	79,610	74,114
<b>Total liabilities</b>	<b>185,153</b>	196,701
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 8)	231,067	231,067
Contributed surplus	10,754	10,183
Deficit	(67,590)	(63,233)
<b>Total shareholders' equity</b>	<b>174,231</b>	178,017
<b>Total liabilities and shareholders' equity</b>	<b>\$ 359,384</b>	<b>\$ 374,718</b>

See accompanying notes to the unaudited Condensed Financial Statements

**GEAR ENERGY LTD.**  
**INTERIM CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY** (unaudited)  
**For the three months ended March 31**  
(Cdn\$ thousands)

	Share Capital	Contributed Surplus	Deficit	Total Equity
Balance, beginning of period	166,869	9,446	(50,153)	126,162
Issued on offering of common shares	63,500	-	-	63,500
Exercise of stock options	475	(152)	-	323
Share issue costs, net of deferred tax benefit of \$919	(2,758)	-	-	(2,758)
Share-based compensation	-	193	-	193
Net income for the period	-	-	1,588	1,588
<b>Balance at Mar 31, 2014</b>	<b>228,086</b>	<b>9,487</b>	<b>(48,565)</b>	<b>189,008</b>
Balance, beginning of period	231,067	10,183	(63,233)	178,017
Share-based compensation	-	571	-	571
Net loss for the period	-	-	(4,357)	(4,357)
<b>Balance at March 31, 2015</b>	<b>231,067</b>	<b>10,754</b>	<b>(67,590)</b>	<b>174,231</b>

See accompanying notes to the unaudited Condensed Financial Statements

**GEAR ENERGY LTD.**

**INTERIM CONDENSED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)** (unaudited)

Three Months Ended March 31

(Cdn\$ thousands, except per share amounts)	2015	2014
Sales of crude oil, natural gas and natural gas liquids	\$ 21,096	\$ 28,954
Royalties	(3,745)	(4,872)
<b>REVENUE</b>	<b>17,351</b>	<b>24,082</b>
Gain (loss) on risk management contracts (Note 7)	1,091	(3,511)
	<b>18,442</b>	<b>20,571</b>
<b>EXPENSES</b>		
Operating	10,675	7,758
General and administrative	1,648	1,781
Share-based compensation	571	193
Interest and financing charges	826	609
Depletion, depreciation and amortization (Note 4)	9,503	7,794
Accretion of decommissioning liability (Note 6)	411	274
Gain on foreign exchange	(310)	(20)
	<b>23,324</b>	<b>18,389</b>
Deferred tax (recovery) expense	(525)	594
Net (loss) income and comprehensive income (loss)	\$ (4,357)	\$ 1,588
Net (loss) income per share, basic and diluted (Note 8)	\$ (0.06)	\$ 0.03

See accompanying notes to the unaudited Condensed Financial Statements

**GEAR ENERGY LTD.**  
**INTERIM CONDENSED STATEMENTS OF CASH FLOWS**  
(unaudited)

Three Months Ended March 31

(Cdn\$ thousands)	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net (loss) income	\$ (4,357)	\$ 1,588
Add items not involving cash:		
Depletion, depreciation and amortization	9,503	7,794
Accretion of decommissioning liability	411	274
Unrealized loss on risk management contracts	6,607	1,759
Deferred tax (recovery) expense	(525)	594
Share-based compensation	571	193
Decommissioning liabilities settled (Note 6)	(298)	(68)
Change in non-cash working capital (Note 9)	527	(1,354)
	<b>12,439</b>	<b>10,780</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Repayments of debt under demand credit facility	(5,773)	(17)
Issuance of shares capital, net of share issue costs	-	60,145
Change in non-cash working capital (Note 9)	-	502
	<b>(5,773)</b>	<b>60,630</b>
<b>CASH FLOW USED IN INVESTING ACTIVITIES</b>		
Property, plant and equipment and exploration and evaluation expenditures	(171)	(23,972)
Acquisition of petroleum and natural gas properties	(95)	(348)
Disposition of petroleum and natural gas properties	227	-
Change in non-cash working capital (Note 9)	(6,627)	2,314
	<b>(6,666)</b>	<b>(22,006)</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	-	49,404
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	-	841
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	\$ -	\$ 50,245
The following are included in cash flow from operating activities:		
Interest paid in cash	\$ 826	\$ 609

See accompanying notes to the unaudited Condensed Financial Statements

**GEAR ENERGY LTD.****NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS** (unaudited)

March 31, 2015 and 2014

(all tabular amounts in Cdn\$ thousands, except as noted)

**1. BASIS OF PRESENTATION**

The principal undertakings of Gear Energy Ltd. (the "Company" or "Gear") are to carry on the business of acquiring, developing and holding interests in petroleum and natural gas properties and assets.

Gear's principal place of business is located at 2600, 500 - 4<sup>th</sup> Avenue SW, Calgary, Alberta T2P 2V6.

These unaudited financial statements (the "financial statements") have been prepared in accordance with International Accounting Standards ("IAS") 34 *Interim Financial Reporting* using accounting policies aligned with International Financial Reporting Standards ("IFRS"). The financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the Audited Financial Statements for the year ended December 31, 2014, which have been prepared in accordance with IFRS.

The financial statements were authorized for issue by the Board of Directors on May 13, 2015.

**2. SIGNIFICANT ACCOUNTING POLICIES****Future Accounting Policy Changes**

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers", which replaces IAS 18 "Revenue", IAS 11 "Construction Contracts" and related interpretations. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2017, with earlier adoption permitted. IFRS 15 will be applied by Gear on January 1, 2017 and the Company is currently evaluating the impact of the standard on Gear's financial statements.

In July 2014, the IASB completed the final elements of IFRS 9 "Financial Instruments." The Standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 "Financial Instruments: Recognition and Measurement." IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The Standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 9 will be applied by Gear on January 1, 2018 and the Company is currently evaluating the impact of the standard on its financial statements.

**3. INVENTORY**

At March 31, 2015 and December 31, 2014 Gear recorded oil inventory valued at its production cost of \$7.6 million and \$6.8 million, respectively. The cost components of the inventory balance are as follows:

(\$ thousands)	Period ended March 31, 2015	Year ended December 31, 2014
Capital	3,417	199
Operating	4,194	6,611
Balance, end of period	7,611	6,810

#### 4. PROPERTY, PLANT AND EQUIPMENT

The following table reconciles Gear's property, plant and equipment:

<b>Cost</b> (\$ thousands)	<b>Development and Production Assets</b>	<b>Administrative Assets</b>	<b>Total</b>
Balance, December 31, 2013	350,900	303	351,203
Additions	84,465	115	84,580
Acquisitions	93,640	-	93,640
Disposals	(681)	-	(681)
Change in decommissioning costs	27,627	-	27,627
Balance, December 31, 2014	555,951	418	556,369
Additions	168	3	171
Acquisitions	95	-	95
Disposals	(227)	-	(227)
Change in decommissioning costs	5,383	-	5,383
Balance, March 31, 2015	561,370	421	561,791

<b>Depletion, depreciation and amortization</b> (\$ thousands)			
Balance, December 31, 2013	136,358	204	136,562
Depletion, depreciation and amortization	50,589	75	50,664
Impairment	48,800	-	48,800
Balance, December 31, 2014	235,747	279	236,026
Depletion, depreciation and amortization	12,700	21	12,721
Balance, March 31, 2015	248,447	300	248,747

<b>Carrying amounts</b> (\$ thousands)	<b>Development and Production Assets</b>	<b>Administrative Assets</b>	<b>Total</b>
As at December 31, 2014	320,204	139	320,343
As at March 31, 2015	312,923	121	313,044

No impairment indicators were identified on the property, plant and equipment as at March 31, 2015.

#### 5. DEBT

As at March 31, 2015 Gear had syndicated demand facilities ("the Facilities") with three banks with a borrowing limit on the Facilities of \$130 million. The Facilities bear interest at Canadian bank prime or, at Gear's option, Canadian bankers' acceptances, plus applicable margin and stamping fee. The total stamping fees range, depending on Gear's debt to cash flow ratio, between 50 bps to 250 bps on Canadian bank prime borrowings and between 175 bps and 375 bps on Canadian dollar bankers' acceptances. The undrawn portion of the Facilities are subject to a standby fee in the range of 20 bps to 45 bps. The Facilities carry a single covenant to maintain an adjusted working capital ratio of not less than 1.0:1. At March 31, 2015 Gear was in compliance with this covenant. The Facilities are secured by a fixed and floating charge on the assets of Gear and are subject to regular reviews. The next scheduled review is to be complete by June 1, 2015.

As at March 31, 2015 Gear had \$93.1 million drawn (December 31, 2014 – \$98.9 million) and had outstanding letters of credit of \$0.7 million (December 31, 2014 - \$0.7 million).

## 6. DECOMMISSIONING LIABILITY

	Three Months Ended March 31, 2015		Year Ended December 31, 2014	
Balance, beginning of period	\$	74,114	\$	35,113
Changes in estimates		5,383		4,047
Additions		-		4,230
Dispositions		-		(56)
Liabilities acquired through acquisitions		-		12,613
Revaluation of acquired decommissioning liabilities <sup>(1)</sup>		-		19,350
Decommissioning liabilities settled		(298)		(2,636)
Accretion		411		1,453
Balance, end of period	\$	79,610	\$	74,114

(1) These amounts relate to the revaluation of acquired decommissioning liabilities at the end of the period using a risk-free discount rate. At the date of acquisition decommissioning liabilities are fair valued.

The liability for the expected cash flows, as reflected in the financial statements, has been inflated at two per cent and discounted using a risk free rate of 1.79 per cent (December 31, 2014 – 2.22 per cent). Abandonments are expected to occur between 2015 and 2034 and related costs will be funded mainly from Gear's cash provided by operating activities.

## 7. RISK MANAGEMENT CONTRACTS

Following is a summary of all risk management contracts in place as at March 31, 2015:

Financial WTI Crude Oil Contracts								
Term		Contract	Currency	Volume	Sold Swap	Sold Call	Bought Put	Sold Put
				bbl/d	\$/bbl	\$/bbl	\$/bbl	\$/bbl
Apr 1, 2015	Jun 30, 2015	Bought put	CAD	3,000	-	-	90.00	-

As at March 31, 2015 the fair value associated with Gear's risk management contracts was an asset of \$7.1 million (\$13.7 million asset at December 31, 2014).

The following table reconciles the gain (loss) on risk management contracts:

(\$ thousands)	Three months ended	
	March 31, 2015	March 31, 2014
Realized cash gain (loss) on risk management contracts	7,698	(1,752)
Unrealized loss on risk management contracts	(6,607)	(1,759)
Total gain (loss) on risk management contracts	1,091	(3,511)

Subsequent to March 31, 2015, Gear entered into the following risk management contracts:

Financial WTI Crude Oil Contracts								
Term		Contract	Currency	Volume	Sold Swap	Sold Call	Bought Put	Sold Put
				bbl/d	\$/bbl	\$/bbl	\$/bbl	\$/bbl
Jul 1, 2015	Dec 31, 2015	Collar	CAD	2,200	-	78.00	65.00	-
Jan 1, 2016	Jun 30, 2016	Collar	CAD	250	-	82.50	65.00	-
Jan 1, 2016	Jun 30, 2016	Collar	CAD	250	-	87.25	65.00	-

## 8. SHAREHOLDERS' EQUITY

### a) Share capital

Common Shares (thousands of shares, \$ thousands)	Three Months Ended March 31, 2015		Year Ended December 31, 2014	
	Shares	Amount	Shares	Amount
Balance, beginning of period	70,817	\$ 231,067	53,956	\$ 166,869
Issued on offering of common shares	-	-	15,875	63,500
Exercise of stock options	-	-	986	3,346
Share issue costs <sup>(1)</sup>	-	-	-	(2,648)
Balance, end of period	70,817	\$ 231,067	70,817	\$ 231,067

(1) Year ended December 31, 2014 amounts are net of deferred tax benefit of \$880.

### b) Stock Option Plan

The following table summarizes Gear's stock option plan and activity during the periods ended March 31, 2015 and December 31, 2014.

(thousands)	Three Months Ended March 31, 2015		Year Ended December 31, 2014	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, beginning of period	4,794	\$ 3.54	4,310	\$ 2.52
Cancelled	-	-	-	-
Granted	617	1.79	1,820	5.23
Exercised	-	-	(986)	2.50
Expired	(263)	2.50	-	-
Forfeited	(10)	5.21	(350)	2.50
Outstanding, end of period	5,138	3.38	4,794	3.54
Exercisable, end of period	1,803	\$ 2.52	2,770	\$ 2.53

During the first three months of 2015, Gear recorded an expense of \$571 thousand to share-based compensation expense related to its stock option plan (\$193 thousand in 2014).

### c) Weighted average common shares

(thousands)	Three months ended March 31	
	2015	2014
Basic	70,817	54,694
Diluted	70,817	55,799

## 9. SUPPLEMENTAL DISCLOSURES CASH FLOW INFORMATION

### Cash Flow Statement Presentation

The following table provides a detailed breakdown of the changes in non-cash working capital within cash flow from operating, financing and investing activities:

(\$ thousands)	Three Months Ended March 31	
	2015	2014
Accounts receivable	3,228	(3,786)
Prepaid expenses	(474)	(2,113)
Inventory	2,417	(1,377)
Accounts payable and accrued liabilities	(11,271)	8,738
Total	(6,100)	1,462
Operating Activities	527	(1,354)
Financing Activities	-	502
Investing Activities	(6,627)	2,314
Total	(6,100)	1,462

## 10. FINANCIAL AND CREDIT RISK

The majority of the credit exposure on accounts receivable at March 31, 2015 pertains to accrued revenue for March 2015 production volumes. Gear transacts with a number of oil and natural gas marketing companies. Marketing companies typically remit amounts to Gear by the 25<sup>th</sup> day of the month following production. A significant portion of Gear's accounts receivable is carried by three marketing companies. At March 31, 2015, 36 per cent, 28 per cent and 21 per cent of total outstanding accounts receivable pertains to these companies. Gear did not have any other customers from which it had outstanding accounts receivable greater than 10 per cent of the total outstanding balance at March 31, 2015.

As at March 31, 2015, 98 per cent of Gear's accounts receivable was current (2014 – 100 per cent) and 2 per cent was greater than 90 days (2014 – 0 per cent).

## 11. COMMITMENTS AND CONTINGENCIES

Following is a summary of Gear's contractual obligations and commitments as at March 31, 2015:

(\$ thousands)	Payments due by period		Total
	2015	2016	
Office leases <sup>(1)</sup>	234	159	393
Purchase commitments	1,377	7,526	8,903
Premiums on derivative contracts	333	-	333
Total contractual obligations	1,944	7,685	9,629

(1) Excludes estimate of occupancy costs.

Gear enters into commitments for capital expenditures in advance of the expenditures being made. At a given point in time, it is estimated that Gear has committed to capital expenditures equal to approximately one quarter of its capital budget by means of giving the necessary authorizations to incur the expenditures in a future period.