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

(Cdn$ thousands)		**June 30, 2014**		December 31, 2013
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**-**	$	841
Accounts receivable		**18,395**		9,550
Prepaid expenses		**2,295**		1,210
Inventory (Note 3)		**10,269**		4,465
		30,959		16,066
Deferred income tax asset		**10,003**		12,611
Exploration and evaluation assets		**3,284**		3,284
Property, plant and equipment (Note 5)		**342,718**		214,641
Total assets	**$**	**386,964**	$	246,602
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**33,567**	$	18,297
Risk management contracts (Note 8)		**2,839**		2,113
Debt (Note 6)		**85,027**		64,917
		121,433		85,327
Decommissioning liability (Note 7)		**67,738**		35,113
Total liabilities		**189,171**		120,440
SHAREHOLDERS' EQUITY				
Share capital (Note 9)		**230,802**		166,869
Contributed surplus		**9,137**		9,446
Deficit		**(42,146)**		(50,153)
Total shareholders' equity		**197,793**		126,162
Total liabilities and shareholders' equity	**$**	**386,964**	$	246,602

See accompanying notes to the unaudited Condensed Financial Statements

GEAR ENERGY LTD.
INTERIM CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)
For the six months ended June 30
(Cdn$ thousands)

	Share Capital	Contributed Surplus	Deficit	Total Equity
Balance, at January 1, 2013	166,624	7,126	(49,094)	124,656
Share-based compensation	-	1,423	-	1,423
Issued for share awards	245			245
Net loss for the period	-	-	(2,968)	(2,968)
Balance at June 30, 2013	166,869	8,549	(52,062)	123,356
Balance, January 1, 2014	166,869	9,446	(50,153)	126,162
Issued on offering of common shares (Note 9)	63,500	-	-	63,500
Exercise of stock options	3,072	(807)	-	2,265
Share issue costs, net of deferred tax benefit of $880	(2,639)	-	-	(2,639)
Share-based compensation	-	498	-	498
Net income for the period	-	-	8,007	8,007
Balance at June 30, 2014	**230,802**	**9,137**	**(42,146)**	**197,793**

See accompanying notes to the unaudited Condensed Financial Statements

GEAR ENERGY LTD.
CONDENSED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) (unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
(Cdn$ thousands, except per share amounts)	**2014**	2013	**2014**	2013
REVENUE				
Sales of crude oil, natural gas and natural gas liquids	**$ 47,331**	$ 24,494	**$ 76,285**	$ 41,728
Royalties	**(9,177)**	(5,803)	**(14,049)**	(9,520)
Other income	**110**	25	**110**	63
	38,264	18,716	**62,346**	32,271
Loss on risk management contracts (Note 8)	**(1,305)**	(414)	**(4,816)**	(2,856)
EXPENSES				
Operating	**12,001**	6,872	**19,759**	13,265
General and administrative	**2,395**	1,361	**4,177**	2,691
Share-based compensation	**304**	390	**498**	1,668
Interest and financing charges	**812**	532	**1,421**	1,008
Depletion, depreciation and amortization (Note 5)	**11,813**	8,136	**19,607**	15,237
Accretion of decommissioning liability (Note 7)	**272**	167	**546**	306
Loss on foreign exchange	**47**	-	**27**	-
	27,644	17,458	**46,035**	34,175
Deferred tax expense (recovery)	**2,895**	201	**3,488**	(1,792)
Net income (loss) and comprehensive income (loss)	**$ 6,420**	$ 643	**$ 8,007**	$ (2,968)
Net income (loss) per share, basic and diluted (Note 9)	**$ 0.09**	$ 0.01	**$ 0.13**	$ (0.06)

See accompanying notes to the unaudited Condensed Financial Statements

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

(Cdn$ thousands)	Three Months Ended June 30 **2014**	Three Months Ended June 30 2013	Six Months Ended June 30 **2014**	Six Months Ended June 30 2013
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income (loss)	**$ 6,420**	$ 643	**$ 8,007**	$ (2,968)
Add items not involving cash:				
Depletion, depreciation and amortization	**11,813**	8,136	**19,607**	15,237
Accretion of decommissioning liability	**272**	167	**546**	306
Unrealized (gain) loss on risk management contracts	**(1,033)**	13	**726**	2,263
Deferred tax expense (recovery)	**2,895**	201	**3,488**	(1,792)
Share-based compensation	**304**	390	**498**	1,668
Bad debt expense	**(10)**	-	**(10)**	-
Decommissioning liabilities settled (Note 7)	**(730)**	-	**(798)**	(2)
Change in non-cash working capital (Note 10)	**363**	447	**(992)**	4,046
	20,294	9,997	**31,072**	18,758
CASH FLOW FROM FINANCING ACTIVITIES				
Borrowings (repayments) of debt under demand credit facilities	**20,127**	(3,280)	**20,110**	(1,343)
Issuance of share capital, net of share issue costs	**2,101**	-	**62,246**	-
Change in non-cash working capital (Note 10)	**(547)**	-	**(44)**	-
	21,681	(3,280)	**82,312**	(1,343)
CASH FLOW USED IN INVESTING ACTIVITIES				
Property, plant and equipment and exploration and evaluation expenditures	**(12,328)**	(5,166)	**(36,300)**	(18,777)
Acquisition and disposition of petroleum and natural gas properties (Note 4)	**(82,842)**	(67)	**(83,190)**	(137)
Change in non-cash working capital (Note 10)	**2,950**	(1,484)	**5,265**	1,499
	(92,220)	(6,717)	**(114,225)**	(17,415)
DECREASE IN CASH AND CASH EQUIVALENTS	**(50,245)**	-	**(841)**	-
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**50,245**	-	**841**	-
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$ -**	$ -	**$ -**	$ -
The following are included in cash flow from operating activities:				
Interest paid in cash	**$ 812**	$ 532	**$ 1,421**	$ 1,008
Income taxes paid in cash	**$ -**	$ -	**$ -**	$ -

See accompanying notes to the unaudited Condensed Financial Statements

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 - 4th 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, 2013, which have been prepared in accordance with IFRS.

The financial statements were authorized for issue by the Board of Directors on August 12, 2014.

2. SIGNIFICANT ACCOUNTING POLICIES

As of January 1, 2014 the Company adopted several new IFRS interpretations and amendments in accordance with the transitional provisions of each standard. A brief description of each new accounting policy and its impact on the Company's financial statements follows below:

- IAS 36 "Impairment of Assets" has been amended to reduce the circumstances in which the recoverable amount of cash generating units ("CGU's") is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. The retrospective adoption of these amendments will only impact Gear's disclosures in the notes to the financial statements in periods when an impairment loss or impairment reversal is recognized.

- IAS 39 "Financial Instruments: Recognition and Measurement" has been amended to clarify that there would be no requirement to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The retrospective adoption of the amendments does not have any impact on Gear's financial statements.

- IFRIC 21 "Levies," was developed by the IFRS Interpretations Committee ("IFRIC") and is applicable to all levies imposed by government under legislation, other than outflows that are within the scope of other standards (e.g., IAS 12 "Income Taxes") and fines or other penalties for breaches of legislation. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. Lastly, the interpretation clarifies that a liability should not be recognized before the specified minimum threshold to trigger that levy is reached. The retrospective adoption of this interpretation does not have any significant impact on Gear's financial statements.

Future Accounting Policy Changes
In February 2014, the IASB decided to require an entity to apply IFRS 9 "Financial Instruments" for annual periods beginning on or after January 1, 2018. IFRS 9 is still available for early adoption. The full impact of the standard on Gear's financial statements will not be known until the changes are finalized.

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.

3. INVENTORY

At June 30, 2014 and December 31, 2013 Gear recorded oil inventory valued at its production cost of $10.3 million and $4.5 million, respectively. The cost components of the inventory balance are as follows:

($ thousands)	**Period ended June 30, 2014**	Year ended December 31, 2013
Capital	**3,792**	1,823
Operating	**6,477**	2,642
Balance, end of period	**10,269**	4,465

4. ACQUISITIONS AND DISPOSITIONS

On April 30, 2014 Gear completed an acquisition of heavy oil assets (the "Assets") for total proceeds of $82.7 million, paid in cash. The acquired Assets are focused near Gear's core producing areas of East Central Alberta and West Central Saskatchewan. The Assets fit Gear's strategy of targeting underexploited, geographically focused production with low risk development locations.

This transaction has been accounted for as a business combination using the acquisition method whereby the assets acquired and the liabilities assumed are recorded at fair value. The following table summarizes the net assets acquired pursuant to the acquisition:

Net Assets Acquired		Amount
Property, plant and equipment	$	91,540
Inventory		2,721
Prepaid expenses		1,035
Decommissioning liability		(12,613)
Total net assets acquired		82,683

Consideration		Amount
Cash	$	82,683

These financial statements incorporate the results of operations of the acquired heavy oil properties from April 30, 2014. The assets generated sales of crude oil, natural gas and natural gas liquids of $11.0 million and $4.1 million of net income from April 30, 2014 to June 30, 2014. Had the acquisition occurred on January 1, 2014, Gear estimates that its sales of crude oil, natural gas and natural gas liquids and net income for the six months ended June 30, 2014 would have incrementally increased by approximately $21.1 million and $7.5 million, respectively.

In addition, Gear completed net acquisitions during the second quarter of 2014 totaling $0.5 million.

5. PROPERTY, PLANT AND EQUIPMENT

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

Cost ($ thousands)	**Development and Production Assets**	**Administrative Assets**	**Total**
Balance, December 31, 2012	286,929	242	287,171
Additions	53,603	61	53,664
Change in decommissioning costs	10,368	-	10,368
Balance, December 31, 2013	350,900	303	351,203
Additions	36,207	93	36,300
Acquisitions	92,231	-	92,231
Disposition	(240)	-	(240)
Change in decommissioning costs	20,319	-	20,319
Balance, June 30, 2014	499,417	396	499,813

Depletion, depreciation and amortization			
Balance, December 31, 2012	104,615	166	104,781
Depletion, depreciation and amortization	31,743	38	31,781
Balance, December 31, 2013	136,358	204	136,562
Depletion, depreciation and amortization	20,508	25	20,533
Balance, June 30, 2014	156,866	229	157,095

Carrying amounts	**Development and Production Assets**	**Administrative Assets**	**Total**
As at December 31, 2013	214,542	99	214,641
As at June 30, 2014	342,551	167	342,718

No impairment indicators were identified on the property, plant and equipment as at June 30, 2014.

6. DEBT

As at June 30, 2014 Gear had syndicated demand facilities ("the Facilities") with two banks with a borrowing limit on the Facilities of $100 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 is subject to a standby fee in the range of 20 bps to 45 bps. The Facilities carry a single covenant which limits the Company's ability to borrow amounts greater than the facility limit. At June 30, 2014 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 November 1, 2014.

As at June 30, 2014 Gear had $85.0 million drawn (December 31, 2013 – $64.9 million) and had outstanding letters of credit of $0.7 million (December 31, 2013 - $2.6 million).

7. DECOMMISSIONING LIABILITY

	Six Months Ended June 30, 2013	Year Ended December 31, 2013
Balance, beginning of period	**$ 35,113**	$ 24,704
Changes in estimates	**1,787**	8,864
Additions	**1,936**	1,504
Liabilities acquired through acquisitions	**12,613**	-
Dispositions	**(55)**	(38)
Revaluation of acquired decommissioning liabilities (1)	**16,596**	-
Decommissioning liabilities settled	**(798)**	(602)
Accretion	**546**	681
Balance, end of period	**$ 67,738**	$ 35,113

(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 2.72 per cent (December 31, 2013 – 3.13 per cent). Abandonments are expected to occur between 2014 and 2033 and related costs will be funded mainly from Gear's cash provided by operating activities.

8. RISK MANAGEMENT CONTRACTS

Following is a summary of all risk management contracts in place as at June 30, 2014:

Financial WTI Crude Oil Contracts								
Term		Contract	Currency	Volume bbl/d	Sold Swap $/bbl	Sold Call $/bbl	Bought Put $/bbl	Sold Put $/bbl
July 1, 2014	Dec 31, 2014	Enhanced swap	CAD	1,000	99.73	-	-	75.00
July 1, 2014	Dec 31, 2014	Collar	CAD	300	-	115.00	90.00	-
July 1, 2014	Dec 31, 2014	Collar	CAD	300	-	117.75	90.00	-
July 1, 2014	Dec 31, 2014	Collar	CAD	300	-	117.60	95.00	-
July 1, 2014	Dec 31, 2014	3-way collar	USD	300	-	97.50	80.00	65.00
July 1, 2014	Dec 31, 2014	3-way collar	USD	300	-	99.22	80.00	65.00

As at June 30, 2014 the fair value associated with Gear's risk management contracts was a liability of $2.8 million ($2.1 million liability at December 31, 2013).

The following table reconciles the loss on risk management contracts:

($ thousands)	Three months ended June 30, 2014	2013	Six months ended June 30, 2014	2013
Realized cash loss on risk management contracts	**2,338**	401	**4,090**	593
Unrealized (gain) loss on risk management contracts	**(1,033)**	13	**726**	2,263
Total loss on risk management contracts	**1,305**	414	**4,816**	2,856

9. SHAREHOLDERS' EQUITY

a) Share capital

Common Shares

(thousands of shares)	**Six Months Ended June 30, 2014** Shares		Amount	Year Ended December 31, 2013 Shares		Amount
Balance, beginning of period	**53,956**	**$**	**166,869**	53,858	$	166,624
Issued on offering of common shares	**15,875**		**63,500**	-		-
Exercise of stock options	**903**		**3,072**	-		-
Share issue costs, net of deferred tax benefit of $880	**-**		**(2,639)**	-		-
Issued to employees for share award	**-**		**-**	98		245
Balance, end of period	**70,734**	**$**	**230,802**	53,956	$	166,869

b) Stock Option Plan

The following table summarizes Gear's stock option plan and activity during the periods ended June 30, 2014 and December 31, 2013.

(thousands)	**Six Months Ended June 30, 2014** Number of stock options		**Weighted average exercise price**	Year Ended December 31, 2013 Number of stock options		Weighted average exercise price
Outstanding, beginning of period	**4,310**	**$**	**2.52**	4,194	$	3.31
Cancelled	**-**		**-**	(2,725)		3.75
Granted	**569**		**5.21**	3,050		2.53
Exercised	**(903)**		**2.50**	-		-
Forfeited	**(335)**		**2.50**	(209)		2.50
Outstanding, end of period	**3,641**		**2.94**	4,310		2.52
Exercisable, end of period	**1,109**	**$**	**2.50**	1,005	$	2.51

The Black-Scholes option-pricing model was used to determine the fair value of stock options granted in the period using the following assumptions:

	Six months ended June 30, 2014	Year ended December 31, 2013
Risk free interest rate (%)	**1.10**	1.44
Dividend yield (%)	**-**	-
Average expected life (years)	**5.0**	5.0
Average expected volatility (%)	**43.0**	30.0
Forfeiture rate (%)	**10.0**	5.0

During the first six months of 2014, Gear recorded an expense of $0.5 million to share-based compensation expense related to its stock option plan ($1.7 million in 2013).

c) Weighted average common shares

	Three months ended June 30,		Six months ended June 30,	
(thousands)	**2014**	2013	**2014**	2013
Basic	**70,293**	53,956	**62,536**	53,908
Diluted	**71,768**	53,956	**63,696**	53,908

10. 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:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
($ thousands)	**2014**	2013	**2014**	2013
Accounts receivable	**(5,049)**	(535)	**(8,835)**	(1,117)
Prepaid expenses	**2,063**	825	**(50)**	(121)
Inventory	**(781)**	59	**(2,156)**	(475)
Accounts payable and accrued liabilities	**6,533**	(1,386)	**15,270**	7,258
Total	**2,766**	(1,037)	**4,229**	5,545
Operating Activities	**363**	447	**(992)**	4,046
Financing Activities	**(547)**	**-**	**(44)**	-
Investing Activities	**2,950**	(1,484)	**5,265**	1,499
Total	**2,766**	(1,037)	**4,229**	5,545

11. MAJOR CUSTOMERS

The majority of the credit exposure on accounts receivable at June 30, 2014 pertains to accrued revenue for June 2014 production volumes. Gear transacts with a number of oil and natural gas marketing companies. Marketing companies typically remit amounts to Gear by the 25th day of the month following production. A significant portion of Gear's accounts receivable is carried by three marketing companies, at June 30, 2014, 39 per cent, 17 per cent and 12 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 June 30, 2014.

12. COMMITMENTS AND CONTINGENCIES

Following is a summary of Gear's contractual obligations and commitments as at June 30, 2014:

	Payments due by period			
($ thousands)	2014	2015	2016	**Total**
Office lease [1]	155	312	159	**626**
Purchase commitments	2,294	3,441	3,441	**9,176**
Total contractual obligations	2,449	3,753	3,600	**9,802**

(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.