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

(Cdn$ thousands)		**June 30, 2017**		December 31, 2016
ASSETS				
Current assets				
Accounts receivable	**$**	**11,454**	$	9,526
Prepaid expenses		**2,637**		2,774
Inventory (Note 3)		**6,582**		5,723
Risk management contracts (Note 8)		**2,388**		-
		23,061		18,023
Deferred income tax asset		**17,488**		20,589
Property, plant and equipment (Note 4)		**254,517**		242,837
Total assets	**$**	**295,066**	$	281,449
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**13,068**	$	9,827
Risk management contracts (Note 8)		**-**		7,305
Flow-through share liability (Note 9)		**-**		135
		13,068		17,267
Debt (Note 5)		**37,316**		31,163
Convertible debentures (Note 6)		**11,925**		11,973
Decommissioning liability (Note 7)		**83,347**		78,814
Total liabilities		**145,656**		139,217
SHAREHOLDERS' EQUITY				
Share capital (Note 9)		**309,236**		308,900
Warrants (Note 9)		**129**		335
Equity component of convertible debentures (Note 6)		**2,592**		2,649
Contributed surplus		**14,904**		13,786
Deficit		**(177,451)**		(183,438)
Total shareholders' equity		**149,410**		142,232
Total liabilities and shareholders' equity	**$**	**295,066**	$	281,449

See accompanying notes to the unaudited interim 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	Warrants	Equity Component of Convertible Debentures	Contributed Surplus	Deficit	Total Equity
Balance, beginning of period	**$ 241,535**	**$ -**	**$ -**	**$ 12,377**	**$ (159,752)**	**$ 94,160**
Issued on offering of common shares (Note 9)	20,125	-	-	-	-	20,125
Share issue costs, net of deferred tax of $357	(965)	-	-	-	-	(965)
Approval of conversion feature (Note 6)	-	-	2,800	-	-	2,800
Share-based compensation	-	-	-	522	-	522
Net loss for the period	-	-	-	-	(9,028)	(9,028)
Balance at June 30, 2016	**$ 260,695**	**$ -**	**$ 2,800**	**$ 12,899**	**$ (168,780)**	**$ 107,614**
Balance, beginning of period	308,900	335	2,649	13,786	(183,438)	142,232
Exercise of stock options	13	-	-	(5)	-	8
Cancellation of warrants (Note 9)	-	(206)	-	206	-	-
Issued on conversion of convertible debentures (Note 6)	323	-	(57)	-	-	266
Share-based compensation	-	-	-	917	-	917
Net income for the period	-	-	-	-	5,987	5,987
Balance at June 30, 2017	**$ 309,236**	**$ 129**	**$ 2,592**	**$ 14,904**	**$ (177,451)**	**$ 149,410**

See accompanying notes to the unaudited interim Condensed Financial Statements

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

(Cdn$ thousands, except per share amounts)	Three Months Ended June 30 **2017**	Three Months Ended June 30 2016	Six Months Ended June 30 **2017**	Six Months Ended June 30 2016
REVENUE				
Sales of crude oil, natural gas and natural gas liquids	**$ 25,929**	$ 15,581	**$ 48,244**	$ 23,754
Royalties	**(2,942)**	(1,224)	**(5,050)**	(1,880)
	22,987	14,357	**43,194**	21,874
Gain (loss) on risk management contracts (Note 8)	**3,919**	(6,153)	**8,579**	(2,171)
	26,906	8,204	**51,773**	19,703
EXPENSES				
Operating	**10,531**	5,549	**19,184**	11,741
General and administrative	**1,259**	1,359	**2,860**	2,840
Transaction costs	**-**	503	**-**	503
Share-based compensation (Note 9)	**438**	348	**917**	522
Interest and financing charges	**491**	641	**959**	1,257
Depletion, depreciation and amortization (Notes 3 and 4)	**9,349**	5,744	**17,784**	10,027
Accretion (Notes 6 and 7)	**545**	372	**1,092**	761
Loss on conversion approval option (Note 6)	**-**	1,000	**-**	1,000
Gain on asset disposition (Note 4)	**-**	-	**(75)**	(400)
Other (Note 11)	**-**	-	**100**	480
	22,613	15,516	**42,821**	28,731
Deferred tax expense	**(1,292)**	-	**(2,965)**	-
Net income (loss) and comprehensive income (loss)	**$ 3,001**	$ (7,312)	**$ 5,987**	$ (9,028)
Net income (loss) per share, basic (Note 9)	**$ 0.02**	$ (0.08)	**$ 0.03**	$ (0.11)
Net income (loss) per share, diluted (Note 9)	**0.01**	(0.08)	**0.03**	(0.11)

See accompanying notes to the unaudited interim Condensed Financial Statements

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

(Cdn$ thousands)	Three Months Ended June 30 **2017**	Three Months Ended June 30 2016	Six Months Ended June 30 **2017**	Six Months Ended June 30 2016
CASH FLOW FROM OPERATING ACTIVITIES				
Net income (loss)	**$ 3,001**	$ (7,312)	**$ 5,987**	$ (9,028)
Add items not involving cash:				
Unrealized (gain) loss on risk management contracts	**(4,377)**	8,181	**(9,693)**	9,327
Share-based compensation	**438**	348	**917**	522
Bad debt expense	**-**	-	**-**	108
Depletion, depreciation and amortization	**9,349**	5,744	**17,784**	10,027
Accretion	**545**	372	**1,092**	761
Loss on conversion approval option	**-**	1,000	**-**	1,000
Gain on asset disposition	**-**	-	**(75)**	(400)
Deferred tax expense	**1,292**	-	**2,965**	-
Decommissioning liabilities settled	**(676)**	(814)	**(798)**	(965)
Change in non-cash working capital (Note 12)	**(4,210)**	(2,453)	**(572)**	(2,730)
	5,362	5,066	**17,607**	8,622
CASH FLOW USED IN FINANCING ACTIVITIES				
Borrowings (repayments) of debt under credit facility	**6,341**	(23,775)	**6,154**	(27,337)
Convertible debenture issue costs	**-**	41	**-**	5
Issuance of share capital, net of share issue costs	**8**	18,803	**8**	18,803
	6,349	(4,931)	**6,162**	(8,529)
CASH FLOW USED IN INVESTING ACTIVITIES				
Property, plant and equipment expenditures	**(6,161)**	(1,165)	**(24,945)**	(1,267)
Acquisition of petroleum and natural gas properties	**(136)**	(42)	**(143)**	(42)
Disposition of petroleum and natural gas properties	**9**	16	**84**	496
Change in non-cash working capital (Note 12)	**(5,423)**	1,056	**1,235**	720
	(11,711)	(135)	**(23,769)**	(93)
INCREASE IN CASH AND CASH EQUIVALENTS	**-**	-	**-**	-
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**-**	-	**-**	-
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$ -**	$ -	**$ -**	$ -
The following are included in cash flow from operating activities:				
Interest paid in cash	**$ 619**	$ 666	**$ 936**	$ 1,134

See accompanying notes to the unaudited interim 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, 240 - 4th Avenue SW, Calgary, Alberta T2P 4H4.

These unaudited interim condensed 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, 2016, which have been prepared in accordance with IFRS.

The financial statements were authorized for issue by the Board of Directors on August 9, 2017.

2. SIGNIFICANT ACCOUNTING POLICIES

Adopted and Future Accounting Policy Changes

As of January 1, 2017 Gear was required to adopt amendments to IAS 7 *Statement of Cash Flows*. The amendments relate to disclosure requirements regarding changes in liabilities arising from financing activities. As of January 1, 2017 the new standard has been adopted and it did not have a material impact on the disclosures in the financial statements.

In April 2016, the IASB issued its final amendments to IFRS 15 *Revenue from Contracts with Customers*, which replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and related interpretations. IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. The standard is required to be adopted either retrospectively or using a modified retrospective approach for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 15 will be applied by Gear on January 1, 2018. The Company has created a project plan and is currently in the process of reviewing its various revenue streams and underlying contracts with customers to determine the impact, if any, that the adoption of IFRS 15 will have on its financial statements, as well as the impact that adoption of the standard will have on disclosure

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 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities, IFRS 9 retains most of the requirements of IAS 39; however, where the fair value option is applied to financial liabilities, any change in fair value resulting from an entity's own credit risk is recorded in OCI rather than the statement of income, unless this creates an accounting mismatch. The Company does not anticipate any material changes in the carrying values of the Company's financial instruments as a result of the adoption of IFRS 9. In addition, IFRS 9 introduces a new expected credit loss model for calculating impairment of financial assets, replacing the incurred loss impairment model required by IAS 39. Gear does not anticipate that the new impairment model will result in material changes to the valuation of its financial assets on adoption of IFRS 9. IFRS 9 also contains a new model to be used for hedge accounting. The Company does not currently apply hedge accounting to its risk management contracts and does not currently intend to apply hedge accounting to any of its existing risk management contracts on adoption of IFRS 9. 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 on a retrospective basis by Gear on January 1, 2018.

In January 2016, the IASB issued IFRS 16 *Leases*, which replaces IAS 17 *Leases*. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 *Revenue from Contracts with Customers*. IFRS 16 will be applied by Gear on January 1, 2019 and the Company is currently evaluating the impact of the standard on Gear's financial statements.

3. INVENTORY

At June 30, 2017 and December 31, 2016 Gear recorded oil inventory valued at its production cost of $6.6 million and $5.7 million, respectively. The cost components of the inventory balance are as follows:

($ thousands)	**Period ended June 30, 2017**	Year ended December 31, 2016
Capital	**2,458**	2,531
Operating	**4,124**	3,192
Balance, end of period	**6,582**	5,723

4. 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, 2015	550,125	1,202	551,327
Additions	14,368	(1)	14,367
Acquisitions	58,897	-	58,897
Disposals	(381)	-	(381)
Change in decommissioning costs	20,214	-	20,214
Balance, December 31, 2016	643,223	1,201	644,424
Additions	24,945	-	24,945
Acquisitions	144	-	144
Disposals	(9)	-	(9)
Change in decommissioning costs	4,457	-	4,457
Balance, June 30, 2017	672,760	1,201	673,961

Depletion, depreciation and amortization ($ thousands)			
Balance, December 31, 2015	371,983	439	372,422
Depletion, depreciation and amortization	28,954	211	29,165
Balance, December 31, 2016	400,937	650	401,587
Depletion, depreciation and amortization	17,775	82	17,857
Balance, June 30, 2017	418,712	732	419,444

Carrying amounts ($ thousands)	**Development and Production Assets**	**Administrative Assets**	**Total**
As at December 31, 2016	242,286	551	242,837
As at June 30, 2017	254,048	469	254,517

No impairment indicators were identified on the property, plant and equipment as at June 30, 2017.

5. DEBT

As at June 30, 2017 Gear had a $47.5 million revolving term credit facility with a syndicate of three banks and a $7.5 million operating facility (the "Credit Facilities"). The maturity date on the Credit Facilities is May 30, 2019. The total stamping fees range, depending on Gear's Debt to EBITDA ratio, between 100 bps to 300 bps on Canadian bank prime borrowings and between 200 bps and 400 bps on Canadian dollar bankers' acceptances.

The undrawn portion of the Credit Facilities is subject to a standby fee in the range of 50 bps to 100 bps. The Credit Facilities carry a single covenant to maintain an adjusted working capital ratio of not less than 1.0:1. Adjusted working capital ratio is defined as current assets less unrealized hedging gains, plus the undrawn portion of the credit facilities divided by accounts payable and accrued liabilities. At June 30, 2017 Gear was in compliance with this covenant. The next semi-annual borrowing base review of the facilities will be complete on or about November 30, 2017.

As at June 30, 2017 Gear had $37.3 million drawn on the Credit Facilities (December 31, 2016 – $31.2 million).

6. CONVERTIBLE DEBENTURES

On November 30, 2015, the Company completed the issuance of unsecured subordinated debentures (the "Convertible Debentures") for gross proceeds of $14.8 million. The Convertible Debentures have a maturity date of November 30, 2020 and carry a coupon of 4 per cent per annum payable semi-annually in arrears on May 31 and November 30 until maturity. The Convertible Debentures are convertible at the option of the holder at any time prior to the maturity date at a conversion price of $0.87 per common share such that for every $1,000 principal amount of Convertible Debentures a holder will receive approximately 1,149.43 common shares. Holders converting their Convertible Debentures will be entitled to receive accrued and unpaid interest thereon for the period from the date of the latest interest payment date to, but excluding, the date of conversion.

The Convertible Debentures may be redeemable on or after December 31, 2018 by Gear if the current market price of Gear's common shares at such time is at least 125 per cent of the conversion price. On or after December 31, 2019, the Convertible Debentures may be redeemed by Gear at a redemption price equal to the principal amount plus accrued and unpaid interest up to the date of redemption. Gear has the option to satisfy its obligation to repay the principal amount of the Convertible Debentures due at maturity or redemption of the Convertible Debentures by the issuance of common shares with the number of such common shares based on 95% of the weighted average trading price of the common shares prior to the date of maturity or redemption.

The following tables provide a continuity of balances of the Convertible Debentures, the conversion approval option and the equity component from December 31, 2015 to June 30, 2017:

($ thousands)	**Convertible Debentures**	**Conversion approval option**	**Equity component**
Balance, December 31, 2015	12,230	1,800	-
Accretion using effective interest rate at 8%	441	-	-
Adjustment of issuance costs	5	-	-
Change in fair value of conversion approval option	-	1,000	-
Approval of conversion feature	-	(2,800)	2,800
Conversions	(703)	-	(151)
Balance, December 31, 2016	11,973	-	2,649
Accretion using effective interest rate at 8%	218	-	-
Conversions	(266)	-	(57)
Balance, June 30, 2017	**11,925**	**-**	**2,592**

7. DECOMMISSIONING LIABILITY

($thousands)	**Six months ended June 30, 2017**	Year ended December 31, 2016
Balance, beginning of period	**78,814**	54,959
Changes in estimates	**3,657**	(6,855)
Additions	**800**	865
Dispositions	**-**	(465)
Liabilities acquired through acquisitions	**-**	4,670
Revaluation of acquired decommissioning liabilities [(1)]	**-**	26,274
Decommissioning liabilities settled	**(798)**	(1,853)
Accretion	**874**	1,219
Balance, end of period	**83,347**	78,814

(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 undiscounted and unescalated amount of the expected cash flows required to settle the decommissioning liability is estimated to be $83.2 million as at June 30, 2017 (December 31, 2016 - $82.8 million). 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 1.99 per cent (December 31, 2016 – 2.24 per cent). Abandonments are expected to occur between 2017 and 2050 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, 2017:

Financial WTI Crude Oil Contracts

Term		Contract	Currency	Volume bbl/d	Sold Swap $/bbl	Sold Call $/bbl	Bought Put $/bbl	Sold Put $/bbl
Jul 1, 2017	Dec 31, 2017	Swap	CAD	400	61.78	-	-	-
Jul 1, 2017	Dec 31, 2017	Collar	CAD	200	-	71.00	60.00	-
Jul 1, 2017	Dec 31, 2017	Collar	CAD	200	-	72.50	60.00	-
Jul 1, 2017	Dec 31, 2017	Collar	CAD	300	-	67.25	60.00	-
Jul 1, 2017	Dec 31, 2017	Collar	CAD	500	-	70.20	60.00	-
Jul 1, 2017	Dec 31, 2017	Collar	CAD	400	-	75.00	60.00	-
Jul 1, 2017	Dec 31, 2017	Collar	CAD	200	-	79.01	60.00	-
Jul 1, 2017	Dec 31, 2017	Collar	CAD	200	-	77.00	62.00	-
Jan 1, 2018	Dec 31, 2018	Collar	USD	300	-	52.50	47.50	-
Jan 1, 2018	Dec 31, 2018	Collar	USD	600	-	57.00	50.00	-

Financial WCS Differential Crude Oil Contracts

Term		Contract	Currency	Volume bbl/d	Sold Swap $/bbl	Sold Call $/bbl	Bought Put $/bbl	Sold Put $/bbl
Jul 1, 2017	Dec 31, 2017	Swap	CAD	400	(21.40)	-	-	-

Financial AECO Gas Contracts

Term		Contract	Currency	Volume GJ/d	Sold Swap $/GJ	Sold Call $/GJ	Bought Put $/GJ	Sold Put $/GJ
Jul 1, 2017	Dec 31, 2017	Collar	CAD	750	-	3.30	2.00	-
Jul 1, 2017	Dec 31, 2017	Collar	CAD	1,000	-	3.31	2.70	-
Jul 1, 2017	Dec 31, 2017	Swap	CAD	1,900	3.00	-	-	-
Jan 1, 2018	Dec 31, 2018	Collar	CAD	1,700	-	2.60	2.40	-
Jan 1, 2018	Dec 31, 2018	Swap	CAD	1,700	2.65	-	-	-

As at June 30, 2017, the fair value associated with Gear’s risk management contracts was an asset of $2.4 million (December 31, 2016 – liability of $7.3 million).

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

	Three months ended June 30,		Six months ended June 30,	
($ thousands)	**2017**	2016	**2017**	2016
Realized cash (loss) gain on risk management contracts	**(458)**	2,028	**(1,114)**	7,156
Unrealized gain (loss) on risk management contracts	**4,377**	(8,181)	**9,693**	(9,327)
Total gain (loss) on risk management contracts	**3,919**	(6,153)	**8,579**	(2,171)

Subsequent to June 30, 2017, Gear entered into the following risk management contracts:

Financial WTI Crude Oil Contracts								
Term		Contract	Currency	Volume bbl/d	Sold Swap $/bbl	Sold Call $/bbl	Bought Put $/bbl	Sold Put $/bbl
Jan 1, 2018	Apr 30, 2018	Collar	USD	500	-	51.00	46.00	-

9. SHAREHOLDERS' EQUITY

a) Share capital

Common Shares

(thousands of shares and $ thousands)	**Six months ended June 30, 2017**			Year ended December 31, 2016		
	Shares		**Amount**	Shares		Amount
Balance, beginning of period	**192,568**	**$**	**308,900**	85,484	$	241,535
Issued on offering of common shares	**-**		**-**	28,750		20,125
Exercise of stock options	**20**		**13**	-		-
Issued on acquisition of Striker	**-**		**-**	76,238		46,506
Issued on offering of flow through shares	**-**		**-**	1,176		859
Issued on conversion of debentures	**347**		**323**	920		854
Share issue costs, net of deferred tax benefit of nil (2016 - $357)	**-**		**-**	-		(979)
Balance, end of period	**192,935**	**$**	**309,236**	192,568	$	308,900

b) Warrants

Consideration for the purchase of Striker Exploration Corp. ("Striker") which closed on July 27, 2016 included the continuation of 650 thousand fully vested Striker warrants held by certain directors of Striker who were appointed to the board of directors of Gear at the effective time of the arrangement. Each warrant gives the holder an option to purchase 2.325 Gear shares at an exercise price of $1.03 per share. These warrants expire on July 8, 2019. In May 2017, 400 thousand of the outstanding warrants were cancelled, leaving 250 thousand warrants outstanding at June 30, 2017.

c) Stock option plan

The following table summarizes Gear's stock option plan and activity during the periods ended June 30, 2017 and December 31, 2016.

	Six months ended June 30, 2017			Year ended December 31, 2016		
(thousands)	**Number of stock options**		**Weighted average exercise price**	Number of stock options		Weighted average exercise price
Outstanding, beginning of period	**12,546**	**$**	**1.54**	6,380	$	2.83
Granted	**768**		**0.86**	7,405		0.67
Exercised	**(20)**		**0.45**	-		-
Expired	**(158)**		**2.50**	-		-
Forfeited	**(165)**		**0.99**	(1,239)		3.02
Outstanding, end of period	**12,971**		**1.49**	12,546		1.54
Exercisable, end of period	**4,017**	**$**	**2.79**	3,299	$	3.00

During the first half of 2017, Gear recorded an expense of $0.9 million to share-based compensation expense related to its stock option plan ($0.5 million in 2016).

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

	Period ended June 30, 2017
Risk free interest rate (%)	**0.70**
Dividend yield (%)	**-**
Average expected life (years)	**2.08**
Average expected volatility (%)	**69.9**
Forfeiture rate (%)	**10.0**

d) Weighted average common shares

	Three months ended June 30,		Six months ended June 30,	
(thousands)	**2017**	2016	**2017**	2016
Basic	**192,922**	86,117	**192,881**	85,800
Dilutive impact of Convertible Debentures	**15,744**	-	**15,782**	-
Dilutive impact of stock options	**305**	-	**411**	-
Diluted	**208,971**	86,117	**209,074**	85,800

For the periods ended June 30, 2016 the dilutive impact of Convertible Debentures and stock options were excluded from the diluted weighted average number of common shares as they were anti-dilutive.

e) Flow-through shares

On November 24, 2016, Gear issued 1,176,500 flow-through common shares at $0.85 per flow-through share for gross proceeds of $1.0 million via private placement. A flow-through share premium of $0.1 million was recognized. For each flow-through share Gear renounced to the purchaser Canadian Exploration Expense equal to the purchase price of such shares in 2016. As at June 30, 2017 Gear had fully spent the committed amount.

10. FINANCIAL INSTRUMENTS

Classification and Measurement
Gear's financial instruments on the balance sheet are carried at amortized cost with the exception of risk management contracts which are carried at fair value. As at June 30, 2017 and December 31, 2016, no significant differences existed between the carrying value of financial instruments and their estimated fair values.

All of Gear's risk management contracts are transacted in active markets. Gear classifies the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Gear's risk management contracts have been assessed on the fair value hierarchy described above and are classified as Level 2. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

Market Risk Management

Credit risk
The majority of the credit exposure on accounts receivable at June 30, 2017 pertains to accrued revenue for June 2017 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, 2017, 24 per cent, 20 per cent, and 15 per cent of total outstanding accounts receivable pertains to these companies. In addition, Gear has accrued a $1.6 million insurance receivable which accounts for 14 per cent of total outstanding accounts receivables at June 30, 2017. 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 2017.

When determining whether amounts that are past due are collectable, management assesses the credit worthiness and past payment history of the counterparty, as well as the nature of the past due amount. Gear considers all amounts greater than 90 days to be past due.

As at June 30, 2017, 99 per cent of Gear's accounts receivable was current (December 31, 2016 – 95 per cent) and 1 per cent was greater than 90 days (December 31, 2016 – 5 per cent).

11. OTHER

In the first quarter of 2017 Gear incurred a loss of $2.3 million related to costs incurred during the drilling of a well in Saskatchewan. Insurance proceeds have been estimated by management to be equal to the costs incurred and have been accrued as at June 30, 2017, net of the $0.1 million policy deductible.

In the first quarter of 2016 Gear negotiated certain drilling commitments to extend the service period of previously existing contracts and incurred a renegotiation fee of $0.5 million, which has been included in the Statement of Loss and Comprehensive Loss.

12. 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)	**2017**	2016	**2017**	2016
Accounts receivable	**(769)**	(3,604)	**(1,928)**	(3,144)
Prepaid expenses	**67**	(51)	**137**	(4)
Inventory	**(205)**	127	**(787)**	394
Accounts payable and accrued liabilities	**(8,726)**	2,131	**3,241**	744
Total	**(9,633)**	(1,397)	**663**	(2,010)
Operating Activities	**(4,210)**	(2,453)	**(572)**	(2,730)
Financing Activities	**-**	-	**-**	-
Investing Activities	**(5,423)**	1,056	**1,235**	720
Total	**(9,633)**	(1,397)	**663**	(2,010)

13. COMMITMENTS AND CONTINGENCIES

Following is a summary of Gear's contractual obligations and commitments as at June 30, 2017:

	Payments due by period				
($ thousands)	2017	2018	2019	2020	Total
Office leases	140	238	238	20	636
Drilling commitment	908	1,939	1,939	1,939	6,725
Total contractual obligations	1,048	2,177	2,177	1,959	7,361

(1) Excludes estimate of occupancy costs.

Gear enters into commitments for capital and decommissioning 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.

Gear is involved in litigation and claims arising in the normal course of operations. Management is of the opinion that pending litigation will not have a material impact on Gear's financial position or results of operations.