

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

	June 30, 2015	December 31, 2014
(Cdn\$ thousands)		
ASSETS		
Current assets		
Accounts receivable	\$ 11,663	\$ 15,295
Prepaid expenses	2,992	2,078
Inventory (Note 3)	8,187	6,810
Risk management contracts (Note 7)	-	13,691
	22,842	37,874
Deferred income tax asset	19,726	16,501
Property, plant and equipment (Note 4)	297,686	320,343
Total assets	\$ 340,254	\$ 374,718
LIABILITIES		
Current liabilities		
Accounts payable, accrued liabilities and deferred credits	\$ 12,602	\$ 23,687
Risk management contracts (Note 7)	760	-
Debt (Note 5)	81,918	98,900
	95,280	122,587
Decommissioning liability (Note 6)	72,488	74,114
Total liabilities	167,768	196,701
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	231,067	231,067
Contributed surplus	11,310	10,183
Deficit	(69,891)	(63,233)
Total shareholders' equity	172,486	178,017
Total liabilities and shareholders' equity	\$ 340,254	\$ 374,718

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, 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	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
Balance, beginning of period	\$ 231,067	\$ 10,183	(63,233)	178,017
Share-based compensation	-	1,127	-	1,127
Net loss for the period	-	-	(6,658)	(6,658)
Balance at June 30, 2015	\$ 231,067	\$ 11,310	\$ (69,891)	\$ 172,486

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 June 30		Six Months Ended June 30	
(Cdn\$ thousands, except per share amounts)	2015	2014	2015	2014
REVENUE				
Sales of crude oil, natural gas and natural gas liquids	\$ 25,528	\$ 47,331	\$ 46,624	\$ 76,285
Royalties	(3,054)	(9,177)	(6,799)	(14,049)
Other income	-	110	-	110
	22,474	38,264	39,825	62,346
Loss on risk management contracts (Note 7)	(3,042)	(1,305)	(1,951)	(4,816)
	19,432	36,959	37,874	57,530
EXPENSES				
Operating	9,565	12,001	20,240	19,759
General and administrative	1,984	2,395	3,632	4,177
Share-based compensation	556	304	1,127	498
Interest and financing charges	729	812	1,555	1,421
Depletion, depreciation and amortization	11,155	11,813	20,658	19,607
Accretion of decommissioning liability (Note 6)	357	272	768	546
Loss (gain) on foreign exchange	87	47	(223)	27
	24,433	27,644	47,757	46,035
Deferred tax (recovery) expense	(2,700)	2,895	(3,225)	3,488
Net (loss) income and comprehensive (loss) income	\$ (2,301)	\$ 6,420	\$ (6,658)	\$ 8,007
Net (loss) income per share, basic and diluted (Note 8)	\$ (0.03)	\$ 0.09	\$ (0.09)	\$ 0.13

See accompanying notes to the unaudited Condensed Financial Statements

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

	Three Months Ended June 30		Six Months Ended June 30	
(Cdn\$ thousands)	2015	2014	2015	2014
CASH FLOW FROM OPERATING ACTIVITIES				
Net (loss) income	\$ (2,301)	\$ 6,420	\$ (6,658)	\$ 8,007
Add items not involving cash:				
Depletion, depreciation and amortization	11,155	11,813	20,658	19,607
Accretion of decommissioning liability	357	272	768	546
Unrealized loss (gain) on risk management contracts	7,844	(1,033)	14,451	726
Deferred tax (recovery) expense	(2,700)	2,895	(3,225)	3,488
Share-based compensation	556	304	1,127	498
Bad debt expense	(11)	(10)	(11)	(10)
Decommissioning liabilities settled (Note 6)	(140)	(730)	(438)	(798)
Change in non-cash working capital (Note 9)	(328)	363	199	(992)
	14,432	20,294	26,871	31,072
CASH FLOW (USED) / FROM FINANCING ACTIVITIES				
(Repayments) borrowings of debt under demand credit facilities	(11,209)	20,127	(16,982)	20,110
Issuance of share capital, net of share issue costs	-	2,101	-	62,246
Change in non-cash working capital (Note 9)	-	(547)	-	(44)
	(11,209)	21,681	(16,982)	82,312
CASH FLOW USED IN INVESTING ACTIVITIES				
Property, plant and equipment and exploration and evaluation expenditures	(4,286)	(12,328)	(4,457)	(36,300)
Acquisition of petroleum and natural gas properties (Note 4)	553	(82,842)	458	(83,375)
Disposition of petroleum and natural gas properties (Note 4)	-	-	227	185
Change in non-cash working capital (Note 9)	510	2,950	(6,117)	5,265
	(3,223)	(92,220)	(9,889)	(114,225)
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	\$ 729	\$ 812	\$ 1,555	\$ 1,421

See accompanying notes to the unaudited Condensed Financial Statements

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

June 30, 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 - 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, 2014, which have been prepared in accordance with IFRS.

The financial statements were authorized for issue by the Board of Directors on August 5, 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, 2018, with earlier adoption permitted. IFRS 15 will be applied by Gear on January 1, 2018 and the Company is currently evaluating the impact of the standard on its 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 June 30, 2015 and December 31, 2014 Gear recorded oil inventory valued at its production cost of \$8.2 million and \$6.8 million, respectively. The cost components of the inventory balance are as follows:

(\$ thousands)	Period ended June 30, 2015	Year ended December 31, 2014
Capital	4,014	199
Operating	4,173	6,611
Balance, end of period	8,187	6,810

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, 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	3,976	481	4,457
Acquisitions	(458)	-	(458)
Disposals	(227)	-	(227)
Change in decommissioning costs	(1,956)	-	(1,956)
Balance, June 30, 2015	557,286	899	558,185

Depletion, depreciation and amortization (\$ 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	24,435	38	24,473
Balance, June 30, 2015	260,182	317	260,499

Carrying amounts (\$ thousands)	Development and Production Assets	Administrative Assets	Total
As at December 31, 2014	320,204	139	320,343
As at June 30, 2015	297,104	582	297,686

No impairment indicators were identified on the property, plant and equipment as at June 30, 2015.

During the second quarter of 2015, Gear recorded a purchase price reduction of \$553 thousand relating to an acquisition that occurred in 2014. Proceeds from the acquisition adjustment were received as at June 30, 2015.

5. DEBT

As at June 30, 2015 Gear had syndicated demand facilities ("the Facilities") with three banks with a borrowing limit on the Facilities of \$90 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 to maintain an adjusted working capital ratio of not less than 1.0:1. At June 30, 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 semi-annual reviews. The next scheduled review is to be complete by November 1, 2015.

As at June 30, 2015 Gear had \$81.9 million drawn (December 31, 2014 – \$98.9 million) and had no outstanding letters of credit (December 31, 2014 - \$0.7 million).

6. DECOMMISSIONING LIABILITY

(\$ thousands)	Six Months Ended June 30, 2015	Year Ended December 31, 2014
Balance, beginning of period	74,114	35,113
Changes in estimates	(2,079)	4,047
Additions	123	4,230
Dispositions	-	(56)
Liabilities acquired through acquisitions	-	12,613
Revaluation of acquired decommissioning liabilities ⁽¹⁾	-	19,350
Decommissioning liabilities settled	(438)	(2,636)
Accretion	768	1,453
Balance, end of period	72,488	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 2.29 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 June 30, 2015:

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	-	87.25	65.00	-
Jan 1, 2016	Jun 30, 2016	Collar	CAD	250	-	82.50	65.00	-
Jan 1, 2016	Jun 30, 2016	Collar	USD	230	-	67.65	57.00	-
Jan 1, 2016	Jun 30, 2016	Collar	USD	270	-	67.50	57.00	-

As at June 30, 2015 the fair value associated with Gear's risk management contracts was a liability of \$0.8 million (\$13.7 million asset at December 31, 2014).

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

(\$ thousands)	Three months ended		Six months ended	
	2015	June 30, 2014	2015	June 30, 2014
Realized cash gain (loss) on risk management contracts	4,802	(2,338)	12,500	(4,090)
Unrealized (loss) gain on risk management contracts	(7,844)	1,033	(14,451)	(726)
Total (loss) on risk management contracts	(3,042)	(1,305)	(1,951)	(4,816)

8. SHAREHOLDERS' EQUITY

a) Share capital

Common Shares (thousands of shares, \$ thousands)	Six Months Ended June 30, 2015		Year Ended December 31, 2014	
	Shares	Amount	Shares	Amount
	Balance, beginning of period	70,817	\$ 231,067	53,956
Issued on offering of common shares	-	-	15,875	63,500
Exercise of stock options	-	-	986	3,346
Share issue costs ⁽¹⁾	-	-	-	(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 June 30, 2015 and December 31, 2014.

(thousands)	Six Months Ended June 30, 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
Granted	1,723	1.92	1,820	5.23
Exercised	-	-	(986)	2.50
Expired	(663)	2.50	-	-
Forfeited	(258)	3.87	(350)	2.50
Outstanding, end of period	5,596	3.15	4,794	3.54
Exercisable, end of period	1,634	\$ 2.83	2,770	\$ 2.53

During the first six months of 2015, Gear recorded an expense of \$1.1 million to share-based compensation expense related to its stock option plan (\$498 thousand in 2014).

c) Weighted average common shares

(thousands)	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Basic	70,817	70,293	70,817	62,536
Diluted	70,817	71,768	70,817	63,696

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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Accounts receivable	415	(5,049)	3,643	(8,835)
Prepaid expenses	(440)	2,063	(914)	(50)
Inventory	21	(781)	2,438	(2,156)
Accounts payable and accrued liabilities	186	6,533	(11,085)	15,270
Total	182	2,766	(5,918)	4,229
Operating Activities	(328)	363	199	(992)
Financing Activities	-	(547)	-	(44)
Investing Activities	510	2,950	(6,117)	5,265
Total	182	2,766	(5,918)	4,229

10. FINANCIAL AND CREDIT RISK

The majority of the credit exposure on accounts receivable at June 30, 2015 pertains to accrued revenue for June 2015 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, 2015, 25 per cent, 24 per cent and 23 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, 2015.

As at June 30, 2015, 99 per cent of Gear's accounts receivable was current (2014 – 100 per cent) and 1 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 June 30, 2015:

(\$ thousands)	Payments due by period		
	2015	2016	Total
Office leases ⁽¹⁾	156	159	315
Purchase commitments	1,324	7,364	8,688
Total contractual obligations	1,480	7,523	9,003

(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.