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

(Cdn$ thousands)		**June 30, 2016**		December 31, 2015
ASSETS				
Current assets				
Accounts receivable	**$**	**8,908**	$	5,872
Prepaid expenses		**2,105**		2,101
Inventory (Note 3)		**5,580**		3,440
Risk management contracts (Note 8)		**-**		9,173
		16,593		20,586
Deferred income tax asset		**26,600**		26,243
Property, plant and equipment (Note 4)		**171,573**		178,905
Total assets	**$**	**214,766**	$	225,734
LIABILITIES				
Current liabilities				
Accounts payable, accrued liabilities and deferred credits	**$**	**7,604**	$	6,860
Risk management contracts (Note 8)		**154**		-
Conversion approval option (Note 6)		**-**		1,800
Debt (Note 5)		**28,388**		55,725
		36,146		64,385
Convertible Debentures (Note 6)		**12,452**		12,230
Decommissioning liability (Note 7)		**58,554**		54,959
Total liabilities		**107,152**		131,574
SHAREHOLDERS' EQUITY				
Share capital (Note 9)		**260,695**		241,535
Equity component of convertible debentures (Note 6)		**2,800**		-
Contributed surplus		**12,899**		12,377
Deficit		**(168,780)**		(159,752)
Total shareholders' equity		**107,614**		94,160
Total liabilities and shareholders' equity	**$**	**214,766**	$	225,734

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	Equity Component of Convertible Debentures	Contributed Surplus	Deficit	Total Equity
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**
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**

See accompanying notes to the unaudited interim Condensed Financial Statements

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

	Three Months Ended June 30		Six Months Ended June 30	
(Cdn$ thousands, except per share amounts)	**2016**	2015	**2016**	2015
REVENUE				
Sales of crude oil, natural gas and natural gas liquids	**$ 15,581**	$ 25,528	**$ 23,754**	$ 46,624
Royalties	**(1,224)**	(3,054)	**(1,880)**	(6,799)
	14,357	22,474	**21,874**	39,825
Loss on risk management contracts (Note 8)	**(6,153)**	(3,042)	**(2,171)**	(1,951)
	8,204	19,432	**19,703**	37,874
EXPENSES				
Operating	**5,549**	9,565	**11,741**	20,240
General and administrative	**1,356**	1,984	**2,837**	3,632
Transaction costs (Note 13)	**503**	-	**503**	-
Share-based compensation (Note 9)	**348**	556	**522**	1,127
Interest and financing charges	**641**	729	**1,257**	1,555
Depletion, depreciation and amortization (Notes 3 and 4)	**5,744**	11,155	**10,027**	20,658
Accretion (Note 6 and 7)	**372**	357	**761**	768
Drilling commitments (Note 12)	**-**	-	**480**	-
Loss on conversion approval option (Note 6)	**1,000**	-	**1,000**	-
Loss (gain) on foreign exchange	**3**	87	**3**	(223)
Gain on asset disposition (Note 4)	**-**	-	**(400)**	-
	15,516	24,433	**28,731**	47,757
Deferred tax recovery	**-**	(2,700)	**-**	(3,225)
Net loss and comprehensive loss	**$ (7,312)**	$ (2,301)	**$ (9,028)**	$ (6,658)
Net loss per share, basic and diluted (Note 9)	**$ (0.08)**	$ (0.03)	**$ (0.11)**	$ (0.09)

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 **2016**	Three Months Ended June 30 2015	Six Months Ended June 30 **2016**	Six Months Ended June 30 2015
CASH FLOW FROM OPERATING ACTIVITIES				
Net loss	**$ (7,312)**	$ (2,301)	**$ (9,028)**	$ (6,658)
Add items not involving cash:				
Depletion, depreciation and amortization	**5,744**	11,155	**10,027**	20,658
Accretion	**372**	357	**761**	768
Unrealized loss on risk management contracts (Note 8)	**8,181**	7,844	**9,327**	14,451
Share-based compensation (Note 9)	**348**	556	**522**	1,127
Bad debt expense	**-**	(11)	**108**	(11)
Deferred tax recovery	-	(2,700)	-	(3,225)
Gain on asset disposition	**-**	-	**(400)**	-
Loss on conversion approval option (Note 6)	**1,000**	-	**1,000**	-
Decommissioning liabilities settled (Note 7)	**(814)**	(140)	**(965)**	(438)
Change in non-cash working capital (Note 11)	**(2,453)**	(328)	**(2,730)**	199
	5,066	14,432	**8,622**	26,871
CASH FLOW USED IN FINANCING ACTIVITIES				
Repayments of debt under demand credit facilities	**(23,775)**	(11,209)	**(27,337)**	(16,982)
Convertible debenture issue costs (Note 6)	**41**	-	**5**	-
Issuance of share capital, net of share issue costs	**18,803**	-	**18,803**	-
	(4,931)	(11,209)	**(8,529)**	(16,982)
CASH FLOW USED IN INVESTING ACTIVITIES				
Property, plant and equipment expenditures	**(1,165)**	(4,286)	**(1,267)**	(4,457)
Acquisition of petroleum and natural gas properties	**(42)**	553	**(42)**	458
Disposition of petroleum and natural gas properties	**16**	-	**496**	227
Change in non-cash working capital (Note 11)	**1,056**	510	**720**	(6,117)
	(135)	(3,223)	**(93)**	(9,889)
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	**$ 666**	$ 729	**$ 1,134**	$ 1,555

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, 2015, which have been prepared in accordance with IFRS.

The financial statements were authorized for issue by the Board of Directors on August 3, 2016.

2. SIGNIFICANT ACCOUNTING POLICIES

Future Accounting Policy Changes

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*, which replaces International Accounting Standard ("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 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 on a retrospective basis by Gear on January 1, 2018 and the Company is currently evaluating the impact of the standard on Gear’s financial statements.

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, 2016 Gear recorded oil inventory valued at its production cost of $5.6 million (December 31, 2015 at its market price of $3.4 million). The cost components of the inventory balance are as follows:

($ thousands)	**Period ended June 30, 2016**	Year ended December 31, 2015
Capital	**2,533**	-
Operating	**3,047**	3,440
Balance, end of period	**5,580**	3,440

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, 2014	555,951	418	556,369
Additions	14,099	784	14,883
Acquisitions	(458)	-	(458)
Disposals	(227)	-	(227)
Change in decommissioning costs	(19,240)	-	(19,240)
Balance, December 31, 2015	550,125	1,202	551,327
Additions	1,257	10	1,267
Acquisitions	42	-	42
Disposals	(96)	-	(96)
Change in decommissioning costs	4,015	-	4,015
Balance, June 30, 2016	555,343	1,212	556,555

Depletion, depreciation and amortization ($ thousands)			
Balance, December 31, 2014	235,747	279	236,026
Depletion, depreciation and amortization	43,536	160	43,696
Impairment	92,700	-	92,700
Balance, December 31, 2015	371,983	439	372,422
Depletion, depreciation and amortization	12,445	115	12,560
Balance, June 30, 2016	384,428	554	384,982

Carrying amounts ($ thousands)	**Development and Production Assets**	**Administrative Assets**	**Total**
As at December 31, 2015	178,142	763	178,905
As at June 30, 2016	170,915	658	171,573

No impairment indicators were identified on the property, plant and equipment as at June 30, 2016.

5. DEBT

As at June 30, 2016 Gear had syndicated demand facilities ("the Credit Facilities") with three banks with a borrowing limit on the Credit Facilities of $60 million. The Credit 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 senior debt to EBITDA 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 Credit Facilities is subject to a standby fee in the range of 20 bps to 45 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, 2016 Gear was in compliance with this covenant. The Credit Facilities are secured by a fixed and floating charge on the assets of Gear and are subject to semi-annual reviews.

As at June 30, 2016 Gear had $28.4 million drawn (December 31, 2015 – $55.7 million) and had no outstanding letters of credit (December 31, 2015 - nil).

Subsequent to June 30, 2016 Gear entered into new credit facilities with a syndicate of three banks. See Note 13 for more information.

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, commencing May 31, 2016. These Convertible Debentures carry an equity conversion feature which was subject to shareholder approval. Gear received shareholder approval for conversion of the Convertible Debentures at its annual and special meeting of shareholders on May 11, 2016. 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.

A derivative financial instrument was identified associated with the shareholder vote - an option existed for Gear's shareholders to approve the conversion feature of the Convertible Debentures. The instrument was valued using a Monte Carlo valuation model to calculate various scenarios on how shareholders would vote based on the future probability of the intrinsic difference between the share price and the conversion price. As at the date of issuance the fair value of this conversion approval option was determined to be a $1.8 million liability, based on an 80 per cent probability that shareholders would vote to approve the conversion option of the Convertible Debentures, and was recorded on the Balance Sheet. Changes in fair value of the instrument were negligible at December 31, 2015 and March 31, 2016 and as such no gain or loss was recorded in the Statement of Loss and Comprehensive Loss in those periods. The host liability component of the Convertible Debentures was measured as the residual value from deducting the fair value of the derivative liability from the transaction price. Issuance costs have been added to the carrying amount of the Convertible Debentures. The balance of the Convertible Debenture liability will be accreted to the principal amount at maturity through the effective interest rate method.

The conversion approval option was exercised on May 11, 2016, coincident with the shareholder vote. The fair value of the instrument on May 11, 2016 was determined to be $2.8 million using a 100% probability that shareholders would vote to approve the conversion feature. This amount was recorded on the Balance Sheet with the corresponding change recorded in the Statement of Loss and Comprehensive Loss. Subsequent to the shareholder vote the value ascribed to the conversion approval option was reclassified to Shareholders' Equity.

The following tables provide a continuity of balances of the Convertible Debentures and the conversion approval option from December 31, 2015 to June 30, 2016:

($ thousands)	**Convertible Debentures**	**Conversion approval option**	**Equity component**
Balance, December 31, 2015	12,230	1,800	-
Accretion using effective interest rate at 8%	217	-	-
Adjustment of issuance costs	5	-	-
Change in fair value of conversion approval option	-	1,000	-
Approval of conversion feature	-	(2,800)	2,800
Balance, June 30, 2016	**12,452**	**-**	**2,800**

7. DECOMMISSIONING LIABILITY

($ thousands)	**Six Months Ended June 30, 2016**	Year Ended December 31, 2015
Balance, beginning of period	**54,959**	74,114
Changes in estimates	**3,967**	(19,653)
Additions	**49**	413
Decommissioning liabilities settled	**(965)**	(1,383)
Accretion	**544**	1,468
Balance, end of period	**58,554**	54,959

The undiscounted and unescalated amount of the expected cash flows required to settle the decommissioning liability is estimated to be $55.0 million as at June 30, 2016 (December 31, 2015 - $55.3 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 1.67 per cent (December 31, 2015 – 2.04 per cent). Abandonments are expected to occur between 2016 and 2035 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, 2016:

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, 2016	Dec 31, 2016	Swap	CAD	2,000	67.13	-	-	-
Jan 1, 2017	Jun 30, 2017	Swap	CAD	600	60.83	-	-	-
Jan 1, 2017	Dec 31, 2017	Collar	CAD	200	-	71.00	60.00	-
Jan 1, 2017	Dec 31, 2017	Collar	CAD	200	-	72.50	60.00	-
Jul 1, 2017	Dec 31, 2017	Swap	CAD	400	61.78	-	-	-

As at June 30, 2016, the fair value associated with Gear's risk management contracts was a liability of $0.2 million (December 31, 2015 – asset of $9.2 million).

The following table reconciles the loss on risk management contracts:

	Three months ended June 30,		Six months ended June 30,	
($ thousands)	**2016**	2015	**2016**	2015
Realized cash gain on risk management contracts	**2,028**	4,802	**7,156**	12,500
Unrealized loss on risk management contracts	**(8,181)**	(7,844)	**(9,327)**	(14,451)
Total loss on risk management contracts	**(6,153)**	(3,042)	**(2,171)**	(1,951)

9. SHAREHOLDERS' EQUITY

a) Share capital

Common Shares

(thousands of shares, $ thousands)	**Six Months Ended June 30, 2016**			Year Ended December 31, 2015		
	Shares		**Amount**	Shares		Amount
Balance, beginning of period	**85,484**	**$**	**241,535**	70,817	$	231,067
Issued on offering of common shares	**28,750**		**20,125**	14,667		11,000
Share issue costs, net of deferred tax $357 (2015 - $197)	**-**		**(965)**	-		(532)
Balance, end of period	**114,234**	**$**	**260,695**	85,484	$	241,535

b) Stock Option Plan

The following table summarizes Gear's stock option plan and activity during the periods ended June 30, 2016 and December 31, 2015.

(thousands)	**Six Months Ended June 30, 2016**			Year Ended December 31, 2015		
	Number of stock options		**Weighted average exercise price**	Number of stock options		Weighted average exercise price
Outstanding, beginning of period	**6,380**	**$**	**2.83**	4,794	$	3.54
Granted	**855**		**0.35**	2,608		1.53
Expired	**-**		**-**	(663)		2.50
Forfeited	**(983)**		**3.28**	(359)		3.49
Outstanding, end of period	**6,252**		**2.44**	6,380		2.83
Exercisable, end of period	**2,961**	**$**	**2.93**	1,900	$	3.33

During the first half of 2016, Gear recorded an expense of $0.5 million to share-based compensation expense related to its stock option plan (June 30, 2015 - $1.1 million).

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, 2016
Risk free interest rate (%)	**0.66**
Dividend yield (%)	**-**
Average expected life (years)	**5.0**
Average expected volatility (%)	**73.0**
Forfeiture rate (%)	**10.0**

c) Weighted average common shares

(thousands)	Three months ended June 30, **2016**	2015	Six months ended June 30, **2016**	2015
Basic	**86,117**	70,817	**85,800**	70,817
Diluted	**86,117**	70,817	**85,800**	70,817

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

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, 2016 and December 31, 2015, 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. Gear's cash is classified as Level 1, risk management contracts as Level 2, and the conversion approval option as Level 3. 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.

Credit Risk

The majority of the credit exposure on accounts receivable at June 30, 2016 pertains to accrued revenue for June 2016 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 two marketing companies. At June 30, 2016, 32 per cent and 21 per cent of total outstanding accounts receivable pertains to these companies. In addition, at June 30, 2016, 32 per cent of total outstanding accounts receivable pertains to amounts owing from one of Gear's joint venture partners resulting from a one-time adjustment relating to prior periods. Management has determined that no prior period financial statements were materially misstated as a result of this adjustment.

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. At June 30, 2016 management determined $0.1 million of accounts receivable past due to be uncollectable and as such recorded an expense in the Statement of Loss and Comprehensive Loss for these amounts (nil in 2015).

As at June 30, 2016, 96 per cent of Gear's accounts receivable was current (2015 – 99 per cent) and 4 per cent was greater than 90 days (2015 – 1 per cent).

11. 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)	**2016**	2015	**2016**	2015
Accounts receivable	**(3,604)**	415	**(3,144)**	3,643
Prepaid expenses	**(51)**	(440)	**(4)**	(914)
Inventory	**127**	21	**394**	2,438
Accounts payable and accrued liabilities	**2,131**	186	**744**	(11,085)
Total	**(1,397)**	182	**(2,010)**	(5,918)
Operating Activities	**(2,453)**	(328)	**(2,730)**	199
Financing Activities	**-**	-	**-**	-
Investing Activities	**1,056**	510	**720**	(6,117)
Total	**(1,397)**	182	**(2,010)**	(5,918)

12. COMMITMENTS AND CONTINGENCIES

Following is a summary of Gear's contractual obligations and commitments as at June 30, 2016:

	Payments due by period					
($ thousands)	2016	2017	2018	2019	2020	Total
Office leases (1)	59	143	214	214	18	648
Drilling commitments	620	1,939	1,939	1,939	1,939	8,376
Total contractual obligations	679	2,082	2,153	2,153	1,957	9,024

(1) Excludes estimate of occupancy costs.

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

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.

13. SUBSEQUENT EVENTS

On July 27, 2016, Gear completed the acquisition, by way of plan of arrangement, of all issued and outstanding common shares of Striker Exploration Corp ('Striker'), a public oil and gas company with properties in Alberta and Saskatchewan. Total consideration for the transaction is estimated to be $46.9 million comprised of the issuance of 76.2 million Gear shares at a price of $0.61 per share and the fair value of Striker warrants that continue after the acquisition. As part of the net assets acquired, Gear will assume a net working capital deficit estimated at $9 million. The acquisition provides Gear with an additional 2,000 boe/d of 60 per cent light and medium oil production, approximately 90 net sections of undeveloped land, a new core focus area in the emerging Belly River light oil resource play and a materially strengthened balance sheet. As at the date that these financial statements were authorized for issuance initial accounting for the acquisition is incomplete and as such the value of the assets acquired and the liabilities assumed have not been disclosed.

In conjunction with the close of the acquisition, Gear entered into a new $42.5 million revolving term credit facility with a syndicate of three banks and a $7.5 million operating facility (the "Credit Facilities"), both with a maturity date of May 31, 2017. 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. The first semi-annual borrowing base review of the facilities will occur on or about October 31, 2016.