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

(Cdn$ thousands)		**September 30, 2014**		December 31, 2013
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**-**	$	841
Accounts receivable		**17,994**		9,550
Prepaid expenses		**2,370**		1,210
Inventory (Note 3)		**11,167**		4,465
Risk management contracts (Note 8)		**256**		-
		31,787		16,066
Deferred income tax asset		**6,931**		12,611
Exploration and evaluation assets		**3,284**		3,284
Property, plant and equipment (Note 5)		**360,166**		214,641
Total assets	**$**	**402,168**	$	246,602
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**39,204**	$	18,297
Risk management contracts (Note 8)		**-**		2,113
Debt (Note 6)		**86,662**		64,917
		125,866		85,327
Decommissioning liability (Note 7)		**68,919**		35,113
Total liabilities		**194,785**		120,440
SHAREHOLDERS' EQUITY				
Share capital (Note 9)		**231,067**		166,869
Contributed surplus		**9,548**		9,446
Deficit		**(33,232)**		(50,153)
Total shareholders' equity		**207,383**		126,162
Total liabilities and shareholders' equity	**$**	**402,168**	$	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 nine months ended September 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	-	1,916	-	1,916
Issued for share awards	245			245
Net loss for the period	-	-	(519)	(519)
Balance at September 30, 2013	166,869	9,042	(49,613)	126,298
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	3,346	(874)	-	2,472
Share issue costs, net of deferred tax benefit of $880	(2,648)	-	-	(2,648)
Share-based compensation	-	976	-	976
Net income for the period	-	-	16,921	16,921
Balance at September 30, 2014	**231,067**	**9,548**	**(33,232)**	**207,383**

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 September 30		Nine Months Ended September 30	
(Cdn$ thousands, except per share amounts)	**2014**	2013	**2014**	2013
REVENUE				
Sales of crude oil, natural gas and natural gas liquids	**$ 48,273**	$ 29,976	**$ 124,558**	$ 71,704
Royalties	**(9,245)**	(6,737)	**(23,295)**	(16,257)
Other income	**138**	25	**247**	89
	39,166	23,264	**101,510**	55,536
Gain (loss) on risk management contracts (Note 8)	**2,453**	(3,209)	**(2,363)**	(6,065)
EXPENSES				
Operating	**13,449**	6,236	**33,208**	19,501
General and administrative	**1,978**	1,335	**6,152**	4,027
Share-based compensation	**478**	493	**976**	2,161
Interest and financing charges	**717**	642	**2,138**	1,650
Depletion, depreciation and amortization (Note 5)	**13,294**	7,977	**32,901**	23,214
Accretion of decommissioning liability (Note 7)	**457**	179	**1,003**	485
Gain on asset disposition	**(540)**	(238)	**(540)**	(238)
Gain on foreign exchange	**(200)**	-	**(173)**	-
	29,633	16,624	**75,665**	50,800
Deferred tax expense (recovery)	**3,072**	982	**6,561**	(810)
Net income (loss) and comprehensive income (loss)	**$ 8,914**	$ 2,449	**$ 16,921**	$ (519)
Net income (loss) per share, basic (Note 9)	**$ 0.13**	$ 0.05	**$ 0.26**	$ (0.01)
Net income (loss) per share, diluted (Note 9)	**$ 0.12**	$ 0.05	**$ 0.25**	$ (0.01)

See accompanying notes to the unaudited Condensed Financial Statements

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

	Three Months Ended September 30		Nine Months Ended September 30	
(Cdn$ thousands)	**2014**	2013	**2014**	2013
CASH FLOW FROM OPERATING ACTIVITIES				
Net income (loss)	**$ 8,914**	$ 2,449	**$ 16,921**	$ (519)
Add items not involving cash:				
Depletion, depreciation and amortization	**13,294**	7,977	**32,901**	23,214
Accretion of decommissioning liability	**457**	179	**1,003**	485
Unrealized (gain) loss on risk management contracts	**(3,095)**	238	**(2,369)**	2,501
Deferred tax expense (recovery)	**3,072**	982	**6,561**	(810)
Share-based compensation	**478**	493	**976**	2,161
Bad debt expense	**-**	-	**(10)**	-
Gain on asset disposition	**(540)**	(238)	**(540)**	(238)
Decommissioning liabilities settled (Note 7)	**(1,110)**	(502)	**(1,908)**	(504)
Change in non-cash working capital (Note 10)	**(42)**	1,413	**(1,035)**	5,459
	21,428	12,991	**52,500**	31,749
CASH FLOW FROM FINANCING ACTIVITIES				
Borrowings (repayments) of debt under demand credit facilities	**1,635**	1,330	**21,745**	(12)
Issuance of share capital, net of share issue costs	**197**	-	**62,443**	-
Change in non-cash working capital (Note 10)	**44**	-	**-**	-
	1,876	1,330	**84,188**	(12)
CASH FLOW USED IN INVESTING ACTIVITIES				
Property, plant and equipment and exploration and evaluation expenditures	**(27,315)**	(17,342)	**(63,615)**	(36,119)
Acquisition and disposition of petroleum and natural gas properties (Note 4)	**(687)**	200	**(83,877)**	63
Change in non-cash working capital (Note 10)	**4,698**	2,821	**9,963**	4,319
	(23,304)	(14,321)	**(137,529)**	(31,737)
DECREASE IN CASH AND CASH EQUIVALENTS	**-**	-	**(841)**	-
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**-**	-	**841**	-
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$ -**	$ -	**$ -**	$ -
The following are included in cash flow from operating activities:				
Interest paid in cash	**$ 717**	$ 642	**$ 2,138**	$ 1,650

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

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

3. INVENTORY

At September 30, 2014 and December 31, 2013 Gear recorded oil inventory valued at its production cost of $11.2 million and $4.5 million, respectively. The cost components of the inventory balance are as follows:

($ thousands)	**Period ended September 30, 2014**	Year ended December 31, 2013
Capital	**4,191**	1,823
Operating	**6,976**	2,642
Balance, end of period	**11,167**	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	$	92,304
Inventory		2,721
Prepaid expenses		1,035
Accounts payable		(764)
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 $26.4 million and $10.2 million of net income from April 30, 2014 to September 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 nine months ended September 30, 2014 would have incrementally increased by approximately $21.1 million and $7.5 million, respectively.

In addition, Gear completed minor net acquisitions throughout 2014 totaling $1.2 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	63,506	105	63,611
Acquisitions	94,227	-	94,227
Disposition	(240)	-	(240)
Change in decommissioning costs	22,153	-	22,153
Balance, September 30, 2014	530,546	408	530,954

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	34,175	51	34,226
Balance, September 30, 2014	170,533	255	170,788

Carrying amounts	**Development and Production Assets**	**Administrative Assets**	**Total**
As at December 31, 2013	214,542	99	214,641
As at September 30, 2014	360,013	153	360,166

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

6. DEBT

As at September 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 September 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.

Subsequent to September 30, 2014, Gear entered into syndicated demand facilities with three banks and increased the borrowing limit on the Facilities to $130 million. The terms and conditions of the Facilities have remained unchanged from December 31, 2013. The Facilities are secured by a fixed and floating charge of the assets of Gear and are subject to regular reviews. The next scheduled review is to be complete by June 1, 2015.

As at September 30, 2014 Gear had $86.7 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

	Nine Months Ended September 30, 2014	Year Ended December 31, 2013
Balance, beginning of period	**$ 35,113**	$ 24,704
Changes in estimates	**1,870**	8,864
Additions	**3,101**	1,504
Liabilities acquired through acquisitions	**12,613**	-
Dispositions	**(55)**	(38)
Revaluation of acquired decommissioning liabilities (1)	**17,182**	-
Decommissioning liabilities settled	**(1,908)**	(602)
Accretion	**1,003**	681
Balance, end of period	**$ 68,919**	$ 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 2.61 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 September 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**
Oct 1, 2014	Dec 31, 2014	Enhanced swap	CAD	1,000	99.73	-	-	75.00
Oct 1, 2014	Dec 31, 2014	Collar	CAD	300	-	115.00	90.00	-
Oct 1, 2014	Dec 31, 2014	Collar	CAD	300	-	117.75	90.00	-
Oct 1, 2014	Dec 31, 2014	Collar	CAD	300	-	117.60	95.00	-
Oct 1, 2014	Dec 31, 2014	3-way collar	USD	300	-	97.50	80.00	65.00
Oct 1, 2014	Dec 31, 2014	3-way collar	USD	300	-	99.22	80.00	65.00
Jan 1, 2015	Jun 30, 2015	Bought put	CAD	3,000	-	-	90.00	-

As at September 30, 2014 the fair value associated with Gear’s risk management contracts was an asset of $0.3 million ($2.1 million liability at December 31, 2013).

The following table reconciles the loss on risk management contracts:

	Three months ended September 30,		Nine months ended September 30,	
($ thousands)	**2014**	2013	**2014**	2013
Realized cash loss on risk management contracts	**642**	2,971	**4,732**	3,564
Unrealized (gain) loss on risk management contracts	**(3,095)**	238	**(2,369)**	2,501
Total (gain) loss on risk management contracts	**(2,453)**	3,209	**2,363**	6,065

9. SHAREHOLDERS’ EQUITY

a) Share capital

Common Shares

(thousands of shares)	**Nine Months Ended September 30, 2014**			Year Ended December 31, 2013		
	Shares		**Amount**	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	**986**		**3,346**	-		-
Share issue costs, net of deferred tax benefit of $880	**-**		**(2,648)**	-		-
Issued to employees for share award	**-**		**-**	98		245
Balance, end of period	**70,817**	**$**	**231,067**	53,956	$	166,869

b) Stock Option Plan

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

	Nine Months Ended September 30, 2014			Year Ended December 31, 2013		
(thousands)	**Number of stock options**		**Weighted average exercise price**	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	**1,701**		**5.35**	3,050		2.53
Exercised	**(986)**		**2.50**	-		-
Forfeited	**(335)**		**2.50**	(209)		2.50
Outstanding, end of period	**4,690**		**3.55**	4,310		2.52
Exercisable, end of period	**1,008**	**$**	**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:

	Nine months ended September 30, 2014	Year ended December 31, 2013
Risk free interest rate (%)	**1.0**	1.44
Dividend yield (%)	**-**	-
Average expected life (years)	**5.0**	5.0
Average expected volatility (%)	**41.1**	30.0
Forfeiture rate (%)	**10.0**	5.0

During the first nine months of 2014, Gear recorded an expense of $1.0 million to share-based compensation expense related to its stock option plan ($2.2 million in 2013).

c) Weighted average common shares

	Three months ended Sep 30,		Nine months ended Sep 30,	
(thousands)	**2014**	2013	**2014**	2013
Basic	**70,798**	53,956	**65,320**	53,924
Diluted	**72,314**	53,956	**66,569**	53,924

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 September 30,		Nine Months Ended September 30,	
($ thousands)	**2014**	2013	**2014**	2013
Accounts receivable	**401**	(1,573)	**(8,434)**	(2,690)
Prepaid expenses	**(75)**	(127)	**(125)**	(248)
Inventory	**(499)**	(94)	**(2,656)**	(570)
Accounts payable and accrued liabilities	**4,873**	6,028	**20,143**	13,286
Total	**4,700**	4,234	**8,928**	9,778
Operating Activities	**(42)**	1,413	**(1,035)**	5,459
Financing Activities	**44**	-	**-**	-
Investing Activities	**4,698**	2,821	**9,963**	4,319
Total	**4,700**	4,234	**8,928**	9,778

11. MAJOR CUSTOMERS

The majority of the credit exposure on accounts receivable at September 30, 2014 pertains to accrued revenue for September 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 September 30, 2014, 29 per cent, 26 per cent and 24 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 September 30, 2014.

12. COMMITMENTS AND CONTINGENCIES

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

	Payments due by period			
($ thousands)	2014	2015	2016	**Total**
Office lease (1)	78	312	159	**549**
Purchase commitments	845	3,381	3,381	**7,607**
Premiums on derivative contracts	-	662	-	**662**
Total contractual obligations	923	4,355	3,540	**8,818**

(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.