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

(Cdn$ thousands)		**September 30, 2015**		December 31, 2014
ASSETS				
Current assets				
Accounts receivable	**$**	**5,575**	$	15,295
Prepaid expenses		**3,466**		2,078
Inventory (Note 3)		**7,542**		6,810
Risk management contracts (Note 7)		**3,194**		13,691
		19,777		37,874
Deferred income tax asset		**42,957**		16,501
Property, plant and equipment (Note 4)		**189,866**		320,343
Total assets	**$**	**252,600**	$	374,718
LIABILITIES				
Current liabilities				
Accounts payable, accrued liabilities and deferred credits	**$**	**8,781**	$	23,687
Debt (Note 5)		**79,555**		98,900
		88,336		122,587
Decommissioning liability (Note 6)		**54,589**		74,114
Total liabilities		**142,925**		196,701
SHAREHOLDERS' EQUITY				
Share capital (Note 8)		**231,067**		231,067
Contributed surplus		**11,859**		10,183
Deficit		**(133,251)**		(63,233)
Total shareholders' equity		**109,675**		178,017
Total liabilities and shareholders' equity	**$**	**252,600**	$	374,718

See accompanying notes to the unaudited Condensed Financial Statements

GEAR ENERGY LTD.
INTERIM CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)
For the nine months ended September 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		3,346		(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**
Balance, beginning of period	$	231,067	$	10,183	$	(63,233)	$	178,017
Share-based compensation		-		1,676		-		1,676
Net loss for the period		-		-		(70,018)		(70,018)
Balance at September 30, 2015	**$**	**231,067**	**$**	**11,859**	**$**	**(133,251)**	**$**	**109,675**

See accompanying notes to the unaudited 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 September 30 **2015**	2014	Nine Months Ended September 30 **2015**	2014
REVENUE				
Sales of crude oil, natural gas and natural gas liquids	**$ 19,476**	$ 48,273	**$ 66,100**	$ 124,558
Royalties	**(2,438)**	(9,245)	**(9,237)**	(23,295)
Other income	**-**	138	**-**	247
	17,038	39,166	**56,863**	101,510
Gain (loss) on risk management contracts (Note 7)	**4,852**	2,453	**2,901**	(2,363)
	21,890	41,619	**59,764**	99,147
EXPENSES				
Operating	**8,759**	13,449	**28,999**	33,208
General and administrative	**1,327**	1,978	**4,959**	6,152
Share-based compensation	**549**	478	**1,676**	976
Interest and financing charges	**668**	717	**2,223**	2,138
Depletion, depreciation and amortization	**11,177**	13,294	**31,835**	32,901
Accretion of decommissioning liability (Note 6)	**415**	457	**1,183**	1,003
Impairment (Note 3 and 4)	**85,820**	-	**85,820**	-
Gain on asset disposition	**-**	(540)	**-**	(540)
Gain on foreign exchange	**(234)**	(200)	**(457)**	(173)
	108,481	29,633	**156,238**	75,665
Deferred tax (recovery) expense	**(23,231)**	3,072	**(26,456)**	6,561
Net (loss) income and comprehensive (loss) income	**$ (63,360)**	$ 8,914	**$ (70,018)**	$ 16,921
Net (loss) income per share, basic (Note 8)	**$ (0.89)**	$ 0.13	**$ (0.99)**	$ 0.26
Net (loss) income per share, diluted (Note 8)	**(0.89)**	$ 0.12	**(0.99)**	$ 0.25

See accompanying notes to the unaudited Condensed Financial Statements

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

(Cdn$ thousands)	Three months ended September 30 **2015**	2014	Nine months ended September 30 **2015**	2014
CASH FLOW FROM OPERATING ACTIVITIES				
Net (loss) income	**$ (63,360)**	$ 8,914	**$ (70,018)**	$ 16,921
Add items not involving cash:				
Depletion, depreciation and amortization	**11,177**	13,294	**31,835**	32,901
Accretion of decommissioning liability	**415**	457	**1,183**	1,003
Impairment (Note 3 and 4)	**85,820**	-	**85,820**	-
Unrealized (gain) loss on risk management contracts	**(3,954)**	(3,095)	**10,497**	(2,369)
Deferred tax (recovery) expense	**(23,231)**	3,072	**(26,456)**	6,561
Share-based compensation	**549**	478	**1,676**	976
Bad debt expense	**-**	-	**(11)**	(10)
Gain on asset disposition	**-**	(540)	**-**	(540)
Decommissioning liabilities settled (Note 6)	**(295)**	(1,110)	**(733)**	(1,908)
Change in non-cash working capital (Note 9)	**2,752**	(42)	**2,951**	(1,035)
	9,873	21,428	**36,744**	52,500
CASH FLOW (USED) / FROM FINANCING ACTIVITIES				
(Repayments) borrowings of debt under demand credit facilities	**(2,363)**	1,635	**(19,345)**	21,745
Issuance of share capital, net of share issue costs	**-**	197	**-**	62,443
Change in non-cash working capital (Note 9)	**-**	44	**-**	-
	(2,363)	1,876	**(19,345)**	84,188
CASH FLOW USED IN INVESTING ACTIVITIES				
Property, plant and equipment and exploration and evaluation expenditures	**(6,433)**	(27,315)	**(10,890)**	(63,615)
Acquisition of petroleum and natural gas properties (Note 4)	**-**	(687)	**458**	(83,877)
Disposition of petroleum and natural gas properties (Note 4)	**-**	-	**227**	-
Change in non-cash working capital (Note 9)	**(1,077)**	4,698	**(7,194)**	9,963
	(7,510)	(23,304)	**(17,399)**	(137,529)
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	**$ 668**	$ 717	**$ 2,223**	$ 2,138

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, 2014, which have been prepared in accordance with IFRS.

The financial statements were authorized for issue by the Board of Directors on November 10, 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 September 30, 2015 and December 31, 2014 Gear recorded oil inventory valued at its net realizable value of $7.5 million and $6.8 million, respectively. The cost components of the inventory balance are as follows:

($ thousands)	**Period ended September 30, 2015**	Year ended December 31, 2014
Capital	**3,251**	199
Operating	**4,291**	6,611
Balance, end of period	**7,542**	6,810

At September 30, 2015, Gear recognized an impairment on its inventory balance in the amount of $1.1 million, recognized in impairment in the statement of income (loss).

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	10,291	599	10,890
Acquisitions	(458)	-	(458)
Disposals	(227)	-	(227)
Change in decommissioning costs	(19,975)	-	(19,975)
Balance, September 30, 2015	545,582	1,017	546,599

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	35,910	97	36,007
Impairment	84,700	-	84,700
Balance, September 30, 2015	356,357	376	356,733

Carrying amounts ($ thousands)	**Development and Production Assets**	**Administrative Assets**	**Total**
As at December 31, 2014	320,204	139	320,343
As at September 30, 2015	189,225	641	189,866

As a result of declining commodity prices for crude oil, Gear determined that there were indicators of impairment. An impairment test was carried out at September 30, 2015 on Gear's CGU. The estimated recoverable amounts were based on the net present value of the before tax cash flows from crude oil and natural gas proved plus probable reserves, originally estimated by Gear's third party reserve evaluators and internally updated for production since December 31, 2014, plus an internal estimate of incremental development drilling locations, using a discount rate of 15% and using revised estimates of future operating costs. The discount rate was determined based on an estimated Gear's weighted cost of capital. The following table outlines the forward commodity price estimates used in the impairment assessment:

Year	**West Texas Intermediate Oil (US$/bbl)**	**Western Canadian Select Differential (Cdn$/bbl)**	**Western Canadian Select Oil (Cdn$/bbl)**	**Cdn$/US$ Exchange Rates**
2015	47.17	18.66	43.98	1.33
2016	50.75	18.25	49.08	1.33
2017	54.15	19.82	51.25	1.31
2018	56.12	19.76	53.67	1.31
2019	58.35	19.64	56.25	1.30
2020	60.28	19.52	58.41	1.29
2021	61.34	19.50	59.72	1.29
2022	61.86	19.50	60.39	1.29
2023	62.40	19.50	61.09	1.29
2024	62.50	19.71	61.01	1.29
Remainder (1)	0.0%	0.0%	0.0%	1.29

(1) Percentage change represents the change in each subsequent year to the end of the reserve life.

For the quarter ended September 30, 2015, Gear recorded a before tax impairment of $84.7 million which was recognized in impairment in the statement of income (loss).

5. DEBT

As at September 30, 2015 Gear had syndicated demand facilities ("the Credit Facilities") with three banks with a borrowing limit on the Credit Facilities of $90 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 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 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. At September 30, 2015 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. See Note 12 for a subsequent change to the Credit Facilities.

As at September 30, 2015 Gear had $79.6 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)	**Nine months ended September 30, 2015**	Year ended December 31, 2014
Balance, beginning of period	**74,114**	35,113
Changes in estimates	**(20,201)**	4,047
Additions	**226**	4,230
Dispositions	**-**	(56)
Liabilities acquired through acquisitions	**-**	12,613
Revaluation of acquired decommissioning liabilities [1]	**-**	19,350
Decommissioning liabilities settled	**(733)**	(2,636)
Accretion	**1,183**	1,453
Balance, end of period	**54,589**	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 2.09 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 September 30, 2015:

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, 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	-
Jan 1, 2016	Dec 31, 2016	Swap	CAD	1,000	66.00	-	-	-

As at September 30, 2015 the fair value associated with Gear's risk management contracts was an asset of $3.2 million ($13.7 million asset at December 31, 2014).

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

($ thousands)	Three months ended September 30, 2015	2014	Nine months ended September 30, 2015	2014
Realized cash gain (loss) on risk management contracts	**898**	(642)	**13,398**	(4,732)
Unrealized gain (loss) on risk management contracts	**3,954**	3,095	**(10,497)**	2,369
Total gain (loss) on risk management contracts	**4,852**	2,453	**2,901**	(2,363)

Subsequent to September 30, 2015, 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, 2016	Dec 31, 2016	Swap	CAD	500	68.00	-	-	-
Jul 1, 2016	Dec 31, 2016	Swap	CAD	500	68.50	-	-	-

8. SHAREHOLDERS' EQUITY

a) Share capital

Common Shares

(thousands of shares, $ thousands)	**Nine months ended September 30, 2015 Shares**		**Amount**	Year ended December 31, 2014 Shares		Amount
Balance, beginning of period	**70,817**	**$**	**231,067**	53,956	$	166,869
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 September 30, 2015 and December 31, 2014.

(thousands)	**Nine months ended September 30, 2015 Number of stock options**		**Weighted average exercise price**	Year ended December 31, 2014 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	**(359)**		**3.49**	(350)		2.50
Outstanding, end of period	**5,495**		**3.16**	4,794		3.54
Exercisable, end of period	**1,634**	**$**	**3.35**	2,770	$	2.53

During the first nine months of 2015, Gear recorded an expense of $1.7 million to share-based compensation expense related to its stock option plan ($1.0 million in 2014).

c) Weighted average common shares

	Three months ended September 30,		Nine months ended September 30,	
(thousands)	**2015**	2014	**2015**	2014
Basic	**70,817**	70,798	**70,817**	65,320
Diluted	**70,817**	72,314	**70,817**	66,569

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:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
($ thousands)	**2015**	2014	**2015**	2014
Accounts receivable	**6,088**	401	**9,731**	(8,434)
Prepaid expenses	**(474)**	(75)	**(1,388)**	(125)
Inventory	**(118)**	(499)	**2,320**	(2,656)
Accounts payable and accrued liabilities	**(3,821)**	4,873	**(14,906)**	20,143
Total	**1,675**	4,700	**(4,243)**	8,928
Operating Activities	**2,752**	(42)	**2,951**	(1,035)
Financing Activities	**-**	44	**-**	-
Investing Activities	**(1,077)**	4,698	**(7,194)**	9,963
Total	**1,675**	4,700	**(4,243)**	8,928

10. FINANCIAL AND CREDIT RISK

The majority of the credit exposure on accounts receivable at September 30, 2015 pertains to accrued revenue for September 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 September 30, 2015, 41 per cent, 23 per cent and 14 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, 2015.

As at September 30, 2015, 94 per cent of Gear's accounts receivable was current (2014 – 100 per cent) and 6 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 September 30, 2015:

	Payments due by period		
($ thousands)	2015	2016	**Total**
Office leases [(1)]	78	159	**237**
Purchase commitments	1,138	6,808	**7,946**
Total contractual obligations	1,216	6,967	**8,183**

(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.

12. SUBSEQUENT EVENTS

On November 10, 2015 Gear entered into a bought deal financing and private placement (the "Offering") with a syndicate of underwriters to issue 14.7 million common shares at $0.75 per share and $14.8 million of convertible unsecured subordinated debentures with a coupon rate of 4 per cent and a conversion price of $0.87 per share. The Offering is expected to close on or about November 30, 2015.

Gear's Credit Facilities will be reduced from $90 million to $60 million upon completion of the Offering. No other changes with respect to cost, covenants, and security were made to the Credit Facilities. The next scheduled review is to be complete by June 1, 2016.