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

(Cdn$ thousands)		**March 31, 2019**		December 31, 2018
ASSETS				
Current assets				
Accounts receivable	**$**	**14,791**	$	5,716
Prepaid expenses		**4,447**		3,914
Inventory (Note 3)		**7,366**		7,185
Risk management contracts (Note 8)		**-**		3,230
		26,604		20,045
Deferred income tax asset		**26,531**		26,531
Risk management contracts (Note 8)		**345**		1,644
Property, plant and equipment (Note 4)		**332,135**		331,622
Total assets	**$**	**385,615**	$	379,842
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**16,256**	$	12,475
Decommissioning liability (Note 7)		**1,925**		1,843
Risk management contracts (Note 8)		**3,765**		-
		21,946		14,318
Debt (Note 5)		**79,851**		78,461
Convertible debentures (Note 6)		**12,397**		12,297
Decommissioning liability (Note 7)		**90,066**		86,839
Total liabilities		**204,260**		191,915
SHAREHOLDERS' EQUITY				
Share capital (Note 9)		**337,767**		337,740
Warrants (Note 9)		**129**		129
Equity component of convertible debentures (Note 6)		**2,514**		2,519
Contributed surplus		**15,872**		15,654
Deficit		**(174,927)**		(168,115)
Total shareholders' equity		**181,355**		187,927
Total liabilities and shareholders' equity	**$**	**385,615**	$	379,842

See accompanying notes to the unaudited Condensed Consolidated Financial Statements

GEAR ENERGY LTD.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)
For the three months ended March 31
(Cdn$ thousands)

		Share Capital		Warrants		Equity Component of Convertible Debentures		Contributed Surplus		Deficit		Total Equity
Balance, beginning of period		311,240		129		2,592		15,178		(173,209)		155,930
Share-based compensation (Note 9)		-		-		-		291		-		291
Net loss for the period		-		-		-		-		(4,294)		(4,294)
Balance at March 31, 2018	**$**	**311,240**	**$**	**129**	**$**	**2,592**	**$**	**15,469**	**$**	**(177,503)**	**$**	**151,927**
Balance, beginning of period		337,740	$	129	$	2,519	$	15,654	$	(168,115)	$	187,927
Issued on conversion of convertible debentures (Note 6)		27		-		(5)		-		-		22
Share-based compensation (Note 9)		-		-		-		218		-		218
Net loss for the period		-		-		-		-		(6,812)		(6,812)
Balance at March 31, 2019	**$**	**337,767**	**$**	**129**	**$**	**2,514**	**$**	**15,872**	**$**	**(174,927)**	**$**	**181,355**

See accompanying notes to the unaudited Condensed Consolidated Financial Statements

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

(Cdn$ thousands, except per share amounts)		Three Months Ended March 31 **2019**		2018
REVENUE				
Sales of crude oil, natural gas and natural gas liquids (Note 11)	**$**	**31,837**	$	24,900
Royalties		**(2,680)**		(2,906)
		29,157		21,994
Realized cash loss on risk management contracts		**(101)**		(2,436)
Unrealized loss on risk management contracts		**(9,819)**		(2,009)
		19,237		17,549
EXPENSES				
Operating		**11,591**		9,293
General and administrative		**1,265**		1,664
Interest and financing charges		**1,161**		539
Depletion, depreciation and amortization (Note 3 and 4)		**11,978**		9,523
Accretion (Notes 6 and 7)		**605**		549
Share-based compensation (Note 9)		**218**		291
Gain on asset disposition		**(776)**		-
Transaction costs		**7**		-
Other		**-**		(16)
		26,049		21,843
Deferred tax expense		**-**		-
Net loss and comprehensive loss	**$**	**(6,812)**	$	(4,294)
Net loss per share, basic and diluted (Note 9)	**$**	**(0.03)**	$	(0.02)

See accompanying notes to the unaudited Condensed Consolidated Financial Statements

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

	Three Months Ended March 31	
(Cdn$ thousands)	**2019**	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	**$ (6,812)**	$ (4,294)
Add items not involving cash:		
Unrealized loss on risk management contracts	**9,819**	2,009
Depletion, depreciation and amortization	**11,978**	9,523
Accretion	**605**	549
Share-based compensation	**218**	291
Gain on asset disposition	**(776)**	-
Decommissioning liabilities settled	**(399)**	(889)
Change in non-cash working capital (Note 12)	**(8,652)**	7,598
	5,981	14,787
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings (repayments) of debt under credit facility	**1,390**	(5,118)
	1,390	(5,118)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Property, plant and equipment expenditures	**(9,252)**	(9,243)
Acquisition of petroleum and natural gas properties	**(28)**	(390)
Disposition of petroleum and natural gas properties	**1,066**	-
Change in non-cash working capital (Note 12)	**843**	(36)
	(7,371)	(9,669)
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 flows from operating activities:		
Interest paid in cash	**$ 984**	$ 382

See accompanying notes to the unaudited Condensed Consolidated 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 consolidated 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 Consolidated Financial Statements for the year ended December 31, 2018, which have been prepared in accordance with IFRS.

The financial statements were authorized for issue by the Board of Directors on May 8, 2019.

2. NEWLY ADOPTED ACCOUNTING POLICY

IFRS 16 *Leases*

As of January 1, 2019, The Company adopted IFRS 16 which replaces sections IAS 17 "*Leases*", IFRIC 4 "*Determining whether an arrangement contains a lease*", SIC-15 *"Operating leases - incentives*" and SIC-27 "*Evaluating the substance of transactions involving the legal form of a lease*". IFRS 16 introduces a single lease accounting model for lessees which requires the recognition of a right of use asset and a lease liability on the Consolidated Balance Sheet for contracts that are, or contain, a lease. The Company adopted IFRS 16 using the modified retrospective approach. Under this method of adoption, the right of use assets recognized were measured at amounts equal to the present value of the lease obligations. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effective of IFRS 16 as an adjustment to opening retained earnings and applies the standard prospectively. Gear elected to not apply lease accounting to certain leases for which the lease term ends within 12 months or is low value as of the date of adoption.

The Company did a complete evaluation of the contracts it has entered, and it was determined there is no material impact as a result of adopting IFRS 16 and as such no adjustment or additional disclosures have been made. The Company has included an accounting policy for leases as follows:

Leases
Leases or contractual obligations are capitalized as right of use assets with a corresponding right of use lease obligation using the present value of future lease payments in the Consolidated Balance Sheet. The discount rate used to determine the right of use asset is disclosed in the lease contract or the company's incremental borrowing rate, if none is provided. Certain lease payments will continue to be expensed in the Consolidated Statements of Loss and Comprehensive Loss. These leases are contractual obligations that contain any of the following: are equal to or less than twelve months; are for oil and gas extraction; are variable payments; the Company does not control the asset; or no asset is identified in the lease.

3. INVENTORY

At March 31, 2019 Gear recorded oil inventory valued at its production cost of $7.4 million (December 31, 2018 - $7.2 million). Gear records changes in both the capital and operating components to the Consolidated Statements of Loss and Comprehensive Loss. The cost components of the inventory balance are as follows:

($ thousands)	**March 31, 2019**	December 31, 2018
Capital	**3,415**	3,691
Operating	**3,951**	3,494
Balance, end of period	**7,366**	7,185

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, 2017	695,665	1,273	696,938
Additions	43,770	89	43,859
Acquisitions	66,728	-	66,728
Disposals	(1)	-	(1)
Change in decommissioning costs	6,639	-	6,639
Balance, December 31, 2018	812,801	1,362	814,163
Additions	9,238	14	9,252
Acquisitions	28	-	28
Disposals	(290)	-	(290)
Change in decommissioning costs	3,225	-	3,225
Balance, March 31, 2019	825,002	1,376	826,378
Depletion, depreciation and amortization			
Balance, December 31, 2017	439,172	805	439,977
Depletion, depreciation and amortization	42,298	266	42,564
Balance, December 31, 2018	481,470	1,071	482,541
Depletion, depreciation and amortization	11,667	35	11,702
Balance, March 31, 2019	493,137	1,106	494,243

Carrying amounts ($ thousands)	**Development and Production Assets**	**Administrative Assets**	**Total**
As at December 31, 2018	331,331	291	331,622
As at March 31, 2019	331,865	270	332,135

No impairment indicators were identified on the property, plant and equipment as at March 31, 2019.

5. DEBT

As at March 31, 2019, Gear had a $95.0 million revolving term credit facility with a syndicate of three banks (the "Syndicate") and a $20.0 million operating facility (the "Credit Facilities"). The maturity date on the Credit Facilities is May 29, 2020. The total stamping fees range, depending on Gear's Debt to EBITDA ratio, between 50 bps to 300 bps on Canadian bank prime borrowings and between 150 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 34 bps to 90 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 risk management contracts, plus the undrawn portion of the credit facilities divided by current liabilities less risk management contracts. At March 31, 2019 Gear was in compliance with this covenant. Gear is currently undergoing its semi-annual borrowing base review which is expected to be completed on or about May 31, 2019.

At March 31, 2019 Gear had $79.9 million drawn on the Credit Facilities (December 31, 2018 – $78.5 million) and an outstanding letter of credit of $0.2 million (December 31, 2018 – $0.2 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 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 table provides a continuity of balances of the Convertible Debentures and the equity component from December 31, 2017 to March 31, 2019:

($ thousands)	**Convertible Debentures**	**Equity component**
Balance, December 31, 2017	12,155	2,592
Accretion using effective interest rate at 8%	478	-
Conversions	(336)	(73)
Balance, December 31, 2018	**12,297**	**2,519**
Accretion using effective interest rate at 8%	122	-
Conversions	(22)	(5)
Balance, March 31, 2019	**12,397**	**2,514**

7. DECOMMISSIONING LIABILITY

($ thousands)	**Three months ended March 31, 2019**	Year ended December 31, 2018
Balance, beginning of period	**88,682**	80,541
Changes in estimates	**3,179**	260
Additions	**97**	1,400
Acquisitions (dispositions)	**(51)**	240
Liabilities acquired on acquisition of Steppe	**-**	2,658
Revaluation of acquired decommissioning liabilities (1)	**-**	4,739
Decommissioning liabilities settled	**(399)**	(2,981)
Accretion	**483**	1,825
Balance, end of period	**91,991**	88,682
Expected to be incurred within one year	**1,925**	1,843
Expected to be incurred beyond one year	**90,066**	86,839

(1) These amounts relate to the revaluation of acquired decommissioning liabilities using a risk-free discount rate. At the date of acquisition, decommissioning liabilities are recorded at fair value.

The undiscounted and unescalated amount of the expected cash flows required to settle the decommissioning liability is estimated to be $90.7 million as at March 31, 2019 (December 31, 2018 – $91.0 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 1.90 per cent (December 31, 2018 – 2.18 per cent). Abandonments are expected to occur between 2019 and 2044 and related costs will be funded mainly from Gear's cash provided by operating activities.

8. RISK MANAGEMENT CONTRACTS

The following is a summary of all risk management contracts in place as at March 31, 2019:

Financial WTI Crude Oil Contracts

Term		Contract	Currency	Volume	Sold Swap	Sold Call	Bought Put	Sold Put
				bbl/d	$/bbl	$/bbl	$/bbl	$/bbl
Apr 1, 2019	Dec 31, 2019	Three-way Collar	USD/CAD	600	-	U$66.00	C$62.00	C$52.00
Apr 1, 2019	Dec 31, 2019	Three-way Collar	USD/CAD	600	-	U$72.00	C$65.00	C$55.00
Apr 1, 2019	Dec 31, 2019	Three-way Collar	CAD	1,200	-	100.00	65.00	55.00
Apr 1, 2019	Dec 31, 2019	Collar	CAD	100	-	103.00	65.00	-
Jan 1, 2020	Dec 31, 2020	Collar	CAD	700	-	94.00	65.00	-
Apr 1, 2019	Jul 31, 2019	Swap(1)	CAD	400	61.20	-	-	-
Apr 1, 2019	Jun 30, 2019	Swap(1)	CAD	250	68.90	-	-	-
Jul 1, 2019	Jul 31, 2019	Swap(1)	CAD	200	67.30	-	-	-
Aug 1, 2019	Dec 31, 2019	Swap(1)	CAD	400	67.30	-	-	-

(1) Acquired through the acquisition of Steppe.

Financial WCS Crude Oil Contracts

Term		Contract	Currency	Volume	Sold Swap	Sold Call	Bought Put	Sold Put
				bbl/d	$/bbl	$/bbl	$/bbl	$/bbl
Apr 1, 2019	Jun 30, 2019	Swap	USD	1,500	(19.00)	-	-	-

As at March 31, 2019, the fair value associated with Gear's risk management contracts was a combined net liability of $3.4 million ($4.9 million asset at December 31, 2018).

The following table summarizes the change in the net risk management contracts (liability) asset during the periods ended March 31, 2019 and December 31, 2018:

($ thousands)	**Three months ended March 31, 2019**	Year ended December 31, 2018
Balance, beginning of period	**4,874**	(5,295)
Unrealized (loss) gain on risk management contracts	**(9,819)**	14,641
Unrealized risk management liability assumed on acquisition of Steppe(1)	**1,525**	(4,472)
Balance, end of period	**(3,420)**	4,874

(1) Gear assumed an unrealized risk management liability of $6.2 million on acquisition of Steppe. This liability is reduced as the underlying risk management contracts settle.

9. SHAREHOLDERS' EQUITY

a) Share capital

	Three months ended March 31, 2019			Year ended December 31, 2018		
(thousands of shares and $ thousands)	**Shares**		**Amount**	Shares		Amount
Balance, beginning of period	**219,015**	**$**	**337,740**	194,968	$	311,240
Issued on acquisition of Steppe	**-**		**-**	21,896		24,743
Exercise of stock options	**-**		**-**	1,711		1,355
Issued on conversion of debentures	**29**		**27**	440		409
Share issue costs	**-**		**-**	-		(7)
Balance, end of period	**219,044**	**$**	**337,767**	219,015	$	337,740

b) Warrants

Consideration for the purchase of Striker Exploration Corp. ("Striker") which closed on July 27, 2016 included the continuation of 0.7 million fully vested Striker warrants held, controlled or directed 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. At March 31, 2019, 0.3 million warrants were outstanding.

c) Stock option plan

Gear's stock option plan provides for the grant of options to purchase common shares of Gear to directors, officers, employees and consultants of Gear. In the third quarter of 2016, the Board of Directors of Gear determined that future grants of options under the option plan would vest as to one third on each of the first, second and third anniversary dates of the date of grant and expire 30 business days after such vesting dates. The terms of options outstanding prior to the determination by the Gear Board of Directors of the new terms remained unchanged and had the same vesting terms as the new terms but had a five year expiry.

The following table summarizes Gear's stock option plan activity during the periods ended March 31, 2019 and December 31, 2018 for grants made under the plan with a five year expiry.

(thousands)	**Three months ended March 31, 2019** Number of stock options	**Weighted average exercise price**	Year ended December 31, 2018 Number of stock options		Weighted average exercise price
Outstanding, beginning of period	**4,002**	**2.50**	5,580	$	2.46
Exercised	**-**	**-**	(117)		0.45
Expired	**-**	**-**	(1,430)		2.53
Forfeited	**-**	**-**	(31)		2.22
Outstanding, end of period	**4,002**	**2.50**	4,002		2.50
Exercisable, end of period	**4,002**	**2.50**	3,738	$	2.65

The following table summarizes Gear's stock option plan activity during the periods ended March 31, 2019 and December 31, 2018 for grants made under the plan with a 30 day expiry following their vesting date.

(thousands)	**Three months ended March 31, 2019** Number of stock options	**Weighted average exercise price**	Year ended December 31, 2018 Number of stock options		Weighted average exercise price
Outstanding, beginning of period	**10,086**	**0.87**	7,941	$	0.71
Granted	**480**	**0.61**	5,472		1.00
Exercised	**-**	**-**	(3,188)		0.71
Expired	**(133)**	**0.76**	-		-
Forfeited	**-**	**-**	(139)		0.72
Outstanding, end of period	**10,433**	**0.86**	10,086		0.87
Exercisable, end of period	**518**	**0.73**	**134**	$	**0.76**

In the first quarter of 2019, Gear has recorded an expense of $0.2 million (2018 - $0.3 million) to share-based compensation expense recognizing the stock option activity for the period based on the fair value of options issued, amortized using a graded vesting calculation.

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

	Period ended March 31, 2019
Risk free interest rate (%)	**1.66**
Average expected life (years)	**2.08**
Average expected volatility (%)	**21**
Forfeiture rate (%)	**10.0**

d) Weighted average common shares

(thousands)	**Three months ended March 31, 2019**	Three months ended March 31, 2018
Basic and diluted	**219,016**	194,968

The dilutive impact of Convertible Debentures and stock options are excluded from the diluted weighted average number of common shares when the impact in anti-dilutive.

10. FINANCIAL INSTRUMENTS

Classification and Measurement
Gear's financial instruments on the Consolidated Balance Sheet are carried at amortized cost with the exception of risk management contracts which are carried at fair value. As at March 31, 2019 and December 31, 2018, 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 cash is classified as Level 1 and risk management contracts 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 March 31, 2019 pertains to accrued revenue for March 2019 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 March 31, 2019, 13 per cent and 12 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 March 31, 2019.

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 March 31, 2019, $1.5 million of accounts receivable are past due with all amounts collectible.

11. SALES OF CRUDE OIL, NATURAL GAS AND NATURAL GAS LIQUIDS

Gear sells its production pursuant to variable-price contracts. The transaction price for these contracts is based on commodity prices adjusted for quality and other factors. The contracts to sell the Company's crude oil, natural gas and natural gas liquids have varying terms not longer than one year. The following table provides a summary of Gear's revenue streams for the three months ended March 31:

($ thousands)	**Three months ended March 31, 2019**	Three months ended March 31, 2018
Heavy oil	**19,793**	16,368
Light and medium oil	**10,669**	6,953
Natural gas liquids	**558**	796
Natural gas	**817**	783
Total sales of crude oil, natural gas and natural gas liquids	**31,837**	24,900

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:

($ thousands)	**Three months ended March 31, 2019**	Three months ended March 31, 2018
Accounts receivable	**(9,075)**	3,761
Prepaid expenses	**(533)**	166
Inventory	**(457)**	(653)
Accounts payable and accrued liabilities	**2,256**	4,288
Total	**(7,809)**	7,562
Operating Activities	**(8,652)**	7,598
Investing Activities	**843**	(36)
Total	**(7,809)**	7,562

13. COMMITMENTS AND CONTINGENCIES

Following is a summary of Gear's contractual obligations and commitments as at March 31, 2019:

	Payments due by period		
($ thousands)	2019	2020	Total
Office leases	283	152	435
Drilling commitment	976	1,939	2,915
Total contractual obligations	1,259	2,091	3,350

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.