MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis ("MD&A") is Gear Energy Ltd. ("Gear" or the "Company") management's analysis of its financial performance. It is dated May 7, 2014 and should be read in conjunction with the unaudited Financial Statements as at and for the three months ended March 31, 2014 and the audited Financial Statements as at and for the year ended December 31, 2013. Both statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The MD&A contains non-generally accepted accounting principles ("GAAP") measures and forward-looking statements and readers are cautioned that the MD&A should be read in conjunction with Gear's disclosure under "Non-GAAP Measures" and "Forward-Looking Statements" included at the end of this MD&A. All figures are in Canadian dollar thousands unless otherwise noted.

ABOUT GEAR ENERGY LTD.

Gear is a Canadian exploration and production company with predominantly heavy oil production in East Central Alberta and West Central Saskatchewan. Presently, Gear has 27 employees with 18 staff in the Calgary office and 9 employees located in Gear's operating areas in Alberta, British Columbia, and Saskatchewan. Gear also has a number of contract operators in the field. The Company trades on the Toronto Stock Exchange under the symbol GXE.

Gear is return-driven with a focus on delivering per share growth by pursuing assets with the following characteristics:

- Geographically focused
- Definable resource base with low risk production
- Repeatable projects that are statistically economic
- Multiple producing horizons
- Easy surface access and existing infrastructure
- High operatorship

Gear enhances returns of acquired assets by:

- Drilling and developing on acquired lands
- Focusing on operational and cost efficiencies
- Continually improving operations through innovation and imitation
- Adopting and refining advanced drilling and completing techniques
- Pursuing strategic acquisitions with significant potential synergies

2014 GUIDANCE

Table 1 summarizes 2014 guidance estimates.

Table 1

	Updated 2014 Guidance	Previous 2014 Guidance
Production – Annual (boe/d)	**6,200 – 6,400**	5,000 – 5,200
Royalty rate (%)	**16 – 18**	18 – 20
Operating costs ($/boe)	**19.00 – 21.00**	17.00 – 18.00
General and administrative expense ($/boe)	**3.70 – 3.90**	3.40 – 3.60
Interest expense ($/boe)	**1.05 – 1.25**	1.15 – 1.25
Capital expenditures ($ millions)	**85**	70

On April 30, 2014 Gear closed an acquisition of heavy oil assets focused near the company's core producing areas of Wildmere, Alberta and Maidstone Saskatchewan for proceeds of $85 million ("the Acquisition"). The acquired assets include over 2,000 boepd of high working interest, operated heavy gravity oil production. Guidance for 2014 has been updated to include the expected results of operations from these newly acquired assets. General and administrative expense in the 2014 guidance includes $1.0 million of transaction costs related to this Acquisition expected to be incurred in the second quarter.

METRICS

Gear measures its performance on its ability to grow value on a debt adjusted per share basis. Table 2 details cash flow from operations, and production per debt adjusted share:

Table 2

	Three months ended			
	Mar 31, 2014	Mar 31, 2013	% Change	Dec 31, 2013
Cash flow from operations per debt adjusted share (1)	**0.184**	0.072	156	0.112
Production, boepd per debt adjusted thousand shares (1)	**0.063**	0.053	19	0.062

(1) Cash flow from operations per debt adjusted share and production boepd per debt adjusted thousand shares are non-GAAP measures and are reconciled to the nearest GAAP measure below under the heading "*Non-GAAP Measures*".

2014 FIRST QUARTER FINANCIAL AND OPERATIONAL RESULTS

Cash flow from operations

Cash flow from operations for the three months was $12.2 million, an increase of $7.0 million from the same period in 2013. This increase is attributable to higher production volumes and increased commodity prices, offset by increased losses on risk management contracts and increased royalty, operating, general and administrative and interest expenses.

The following table details the change in cash flow from operations for 2014 relative to 2013:

Table 3

	($ thousands)	$/Share
Q1 2013 Cash flow from operations (1)	5,165	0.10
Volume variance	1,740	0.03
Price variance	9,941	0.18
Cash gains on risk management contracts	(1,560)	(0.03)
Royalties	(1,156)	(0.02)
Expenses:		
Operating	(1,364)	(0.03)
General and administrative	(450)	(0.01)
Interest	(133)	-
Realized foreign exchange gain	19	-
Q1 2014 Cash flow from operations (1)	12,202	0.22

(1) Cash flow from operations is a non-GAAP measure and is reconciled to the nearest GAAP measure below under the heading "*Non-GAAP Measures*".

Net income

For the three months ended March 31, 2014, Gear generated net income of $1.6 million. This compares to net loss of $3.6 million in the same period in 2013. The changes in net income are due to several factors discussed below.

Production

Sales production volumes averaged 4,158 boepd in the first quarter of 2014, compared to 3,777 boepd in the same period in 2013. This 10 per cent year over year increase is the result of strong well results from an active drilling program. In the first quarter Gear brought 23 new wells on production. Gear's core area in Maidstone Saskatchewan has grown from no production in the first quarter of 2013 to an average of 760 boepd in the first quarter of 2014 and its production profile is expected to continue to increase throughout 2014. Production from Wildmere Cummings averaged 180 boepd in the first quarter and is also expected to increase throughout 2014.

Sales volumes decreased in the first quarter of 2014 compared with the fourth quarter of 2013 as a result of wells being shut-in to accommodate drilling and delivery constraints to rail terminals. Due to these delivery constraints, Gear had an inventory build in the quarter from 90 thousand barrels at December 31, 2013 to 124 thousand barrels at March 31, 2014. This incremental 34 thousand barrels represent approximately 375 bbl/d over the first quarter. Gear receives pricing premiums on volumes sold via rail and intends to reduce this inventory through the remainder of the year to maximize revenue.

Table 4

	Three months ended			
Production	**Mar 31, 2014**	Mar 31, 2013	% Change	Dec 31, 2013
Oil and NGL (bbl/d)	**3,975**	3,445	15	4,369
Natural gas (mcf/d)	**1,095**	1,995	(45)	1,641
Total production (boe/d) (1)	**4,158**	3,777	10	4,642
% Oil and NGL production	**96**	91	5	94
% Natural gas production	**4**	9	(56)	6

(1) Reported production for a period may include minor adjustments from previous production periods.

Gear's crude oil production consists predominantly of heavy oil which remains the strategic focus. At the end of the fourth quarter of 2013 Gear shut-in 150 boepd of uneconomic gas production in the Bonnyville area and, as such, gas production declined in the first quarter of 2014. Any associated gas with new wells is expected to be tied into Gear's gas gathering system and used primarily to fuel oil production operations.

Despite a potentially lengthy break-up period due to wet winter conditions, Gear expects sales production to improve for the second quarter of 2014 due to first quarter drills being on production for the full quarter. Production volume guidance for 2014 is currently set between 6,200 and 6,400 boepd, of which approximately 1,300 boepd relate to the heavy oil assets acquired in April 2014. Although these acquired assets are expected to contribute approximately 1,950 boepd from May 1, 2014 to December 31, 2014, the annualized production contribution has been pro-rated by 8 months for a 2014 contribution of 1,300 boepd.

Revenue

Sales of crude oil, natural gas and natural gas liquids for the first quarter of 2013 totaled $29.0 million, a 68 per cent increase over the first quarter 2013 sales of $17.2 million. This increase is the result of higher realized commodity prices and increased production volumes. A breakdown of sales by product is outlined in Table 5:

Table 5

Sales by product		Three months ended		
($ thousands)	**Mar 31, 2014**	Mar 31, 2013	% Change	Dec 31, 2013
Oil and natural gas liquids	**28,442**	16,672	71	25,286
Natural gas	**512**	562	(9)	472
Total sales	**28,954**	17,234	68	25,758
Other revenue	**-**	38	(100)	26
Total revenue	**28,954**	17,272	68	25,784

Commodity Prices

Table 6

		Three months ended		
Average Benchmark Prices	**Mar 31, 2014**	Mar 31, 2013	% Change	Dec 31, 2013
WTI oil (US$/bbl) (1)	**98.66**	94.37	5	97.43
Cdn$ / US$ exchange rate	**1.10**	1.01	9	1.05
WTI oil (Cdn$/bbl)	**108.53**	95.31	14	102.30
WCS differential (US$/bbl) (2)	**(23.12)**	(31.96)	(28)	(32.20)
AECO natural gas ($/mcf) (3)	**4.77**	3.08	55	3.15
Gear Realized Prices				
Oil and NGL ($/bbl)	**79.50**	53.77	48	62.91
Natural gas ($/mcf)	**5.20**	3.13	66	3.12
Total commodity price ($/boe)	**77.38**	50.69	53	60.31
Other revenue ($/boe)	**-**	0.12	(100)	0.06
Total revenue ($/boe)	**77.38**	50.81	52	60.37

(1) WTI represents posting price of West Texas Intermediate oil.
(2) WCS represents the differential between the average market price for the benchmark Western Canadian Select heavy oil and WTI.
(3) Represents the AECO 7a monthly index

Commodity prices strengthened considerably from the first quarter of 2013 to the first quarter of 2014. US denominated WTI increased by five per cent to $98.66 per barrel and the WCS differential narrowed from $31.96 per barrel to $23.12 per barrel. These two movements combined with the nine percent weakening of the Canadian dollar exchange rate resulted in an overall increase in Gear's realized commodity price of 53 per cent to $77.38/boe.

Pricing into the second quarter of 2014 is expected to further strengthen as the WCS differential has narrowed, settling at US$22.47 per barrel in April 2014 with a forward market indicating differentials below $20 per barrel for the second half of 2014. To protect against a volatile WCS differential, Gear has options to deliver approximately half of its volumes into rail terminals shipping to the US Gulf Coast throughout 2014. Gear evaluates this option on a regular basis to optimize its received price on heavy oil.

Royalties

In the first quarter of 2014, royalties as a percentage of commodity product sales were 16.8 per cent, a decrease of 22 per cent from the same period in 2013. Gear's production profile has shifted in 2014 to be more heavily weighted to wells drilled on crown lands where royalty rates are significantly lower. Increased production from the Wildmere Cummings play in Alberta and the Maidstone Cummings play in Saskatchewan are significant contributors to this decreased royalty rate as these two crown properties have initial crown royalty rates of 5 per cent and 2.5 per cent, respectively, as well as a small gross overriding royalty on the Maidstone Cummings play.

Royalty rates throughout 2014 are expected to average between 16 and 18 per cent as production volumes on crown lands continue to increase on the Wildmere Cummings play in Alberta and the Maidstone Cummings play in Saskatchewan. The heavy oil properties acquired on April 30, 2014 carry a royalty burden of approximately 13 per cent, which has been factored in the guidance quoted above.

Table 7

Royalty expense		Three months ended		
($ thousands except per boe and %)	**Mar 31, 2013**	Mar 31, 2013	% Change	Dec 31, 2013
Royalty expense	**4,872**	3,716	31	6,470
Royalty expense as a % of Sales	**16.8**	21.5	(22)	25.1
Royalty expense per boe	**13.02**	10.93	19	15.15

Operating and Transportation costs
Operating costs were $20.73 per boe in the first quarter of 2014, a 10 per cent increase over the same period in 2013. Gear experienced increased energy costs in the quarter as a result of higher propane costs through higher per unit costs and increased consumption as certain wells await tie-in to a gas gathering system. Expansion of Gear's gas gathering system is expected to commence in the summer of 2014 and to be completed before the next winter season. Trucking costs also increased in the first quarter of 2014 due to higher water production from two high volume lift wells and inter-battery transfers performed to accommodate for delivery constraints to rail terminals.

In the second quarter of 2014 operating expenses per boe are expected to trend downwards as a result of seasonal influences and increased production volumes. The impact of typical seasonal declines will be muted as a result of the current cost profile on the heavy oil assets acquired on April 30, 2014. The acquired assets currently carry operating costs of approximately $30 per boe. Gear plans on reducing the operating costs of the acquired assets to $25 per boe by the end of 2014 and below $20 per boe by mid-2015 through a variety of capital infrastructure investments, field process improvements and synergies with Gear's existing assets. Guidance for 2014, including the impact of the newly acquired heavy oil assets, is $19.00 to $21.00 per boe. Table 8 below summarizes the operating and transportation expense:

Table 8

Operating and Transportation expense	Three months ended			
($ thousands except per boe)	**Mar 31, 2014**	Mar 31, 2013	% Change	Dec 31, 2013
Operating expense	**6,673**	5,316	26	6,200
Transportation expense	**1,085**	1,077	1	940
Operating and transportation expense	**7,758**	6,393	21	7,140
Operating expense per boe	**17.83**	15.64	14	14.52
Transportation expense per boe	**2.90**	3.17	(9)	2.20
Operating and transportation expense per boe	**20.73**	18.81	10	16.72

Operating Netbacks
Gear's operating netback was $43.63 per boe in the first quarter of 2014 compared to $31.07 per boe in the same period of 2013. The increase is primarily due to increased commodity prices, offset by increased royalty and operating costs.

The components of operating netbacks are summarized in Table 9:

Table 9

Netbacks ($ per boe)	**Q1 2014 Total** **($/boe)**	Q1 2013 Total ($/boe)	% Change	Q4 2013 Total ($/boe)
Weighted average sales price	**77.38**	50.69	53	60.31
Other	**-**	0.12	(100)	0.06
Total sales	**77.38**	50.81	52	60.37
Royalties	**(13.02)**	(10.93)	19	(15.15)
Operating costs	**(20.73)**	(18.81)	10	(16.72)
Netback	**43.63**	21.07	107	28.50

General and Administrative ("G&A") Expenses and Share-based compensation ("SBC")
G&A totaled $1.8 million for the three months ended March 31, 2014, an increase of $0.5 million when compared to the same period in 2013. This increase is primarily the result of staff bonus compensation for work performed throughout 2013. On a per boe basis, G&A increased by 22 per cent for the three months ended March 31, 2014.

G&A per boe is expected to remain relatively unchanged in the second quarter of 2014, despite an increase in sales production volumes, as approximately $1.0 million of one-time transaction costs associated with the April 30, 2014 acquisition of heavy oil assets will be incurred. Guidance for the full year 2014 is $3.70/boe - $3.90/boe.

SBC is related to bonus awards through the granting of actual common shares and stock options to Gear's employees. There were no new options granted during the first quarter of 2014, 129 thousand options were exercised at an average exercise price of $2.50 and 93 thousand options were forfeited with an average exercise price of $2.50. As at March 31, 2014, a total of 4.1 million options were outstanding or six per cent of the 70 million total common shares outstanding. Table 10 is a breakdown of G&A and SBC expense:

Table 10

G&A and SBC expense	Three months ended			
($ thousands except per boe)	**Mar 31, 2014**	Mar 31, 2013	% Change	Dec 31, 2013
G&A expenses	**1,781**	1,330	34	1,840
SBC expense	**193**	1,278	(85)	404
G&A expenses per boe	**4.76**	3.91	22	4.31
SBC expense per boe	**0.52**	3.76	(86)	0.95

Interest and financing charges

Interest and financing charges totaled $0.6 million in the first quarter of 2014, an increase of 28 per cent over the first quarter of 2013. This increase is primarily attributable to an increase in average debt levels of 26 percent, from $52.3 million in the first quarter of 2013 to $66.1 million in the first quarter of 2014. Year over year Gear's average cost of borrowing remained relatively unchanged at 3.7 per cent in 2014 and 3.6 per cent in 2013.

Table 11 is a breakdown of interest expense:

Table 11

Interest and financing charges	Three months ended			
($ thousands except per boe)	**Mar 31, 2014**	Mar 31, 2013	% Change	Dec 31, 2013
Interest expense	**533**	465	15	488
Financing charges	**65**	-	100	15
Standby and letter of credit fees	**11**	11	-	25
Interest and financing charges	**609**	476	28	528
Interest and financing charges per boe	**1.63**	1.40	16	1.24

The entire debt balance has been classified as current as Gear's borrowings are under a revolving operating demand facility that can be called at any time.

Risk Management Contracts

Gear uses or plans to use a variety of derivative instruments to reduce its exposure to fluctuations in commodity prices, foreign exchange rates and interest rates. All present and future transactions are considered to be effective economic hedges; however, Gear's current contracts and future contracts thereafter may not qualify as effective hedges for accounting purposes. The board of directors has authorized a hedging limit of up to 65 per cent of its production, net of royalties, for the current and following calendar year. For the first quarter of 2014, Gear had 1,800 barrels per day hedged at a WTI price of Cdn$98.02 per barrel, generating cash hedging losses of $1.8 million.

Gear has entered into 3-way enhanced WTI swaps to hedge 1,800 barrels per day at a price of Cdn$98.02 per barrel for the second quarter of 2014 and 1,000 barrels per day at a price of Cdn$99.81 for the second half of 2014. Gear has also entered into 3-way WTI collars for the second half of 2014. The material hedging losses in 2013 prompted Gear to reassess its risk management strategy. By entering into collars, Gear attains a floor price necessary to maintain a loan value on its reserves for its credit facility but still allows for the upside participation in crude oil prices on 600 barrels per day. For further details on Gear's hedging contracts, see the notes to the financial statements.

Gear has a mandate to protect its capital program funding for the current and upcoming year by reducing fluctuations in both its cash flow from operations and assigned loan value on its credit facility. In doing so, Gear ensures a high degree of probability in its capital program rate of return given that its heavy oil properties pay out in under two years. Internally, Gear strives to maintain a debt to cash flow of less than two times and optimally in the range of 1 to 1.5 times. All contracts are entered into with counterparties that maintain a very high credit rating. Fair value of all contracts are derived using Gear's internal model and compared to valuations performed by Gear's counterparties for reasonability. These fair values are reflected on both the balance sheet and income statement and are recognized in their entirety.

Depletion, Depreciation and Amortization Expense ("DD&A")

DD&A was $20.83 per boe for the three months ended March 31, 2014 and $20.88 per boe for the three months ended March 31, 2013.

Table 12

DD&A Rate	Three Months Ended			
($ thousands except per boe)	**Mar 31, 2014**	Mar 31, 2013	% Change	Dec 31, 2013
DD&A	**7,794**	7,101	10	8,813
DD&A rate per boe	**20.83**	20.88	-	20.64

Taxes

During the first quarter of 2014, a deferred tax expense of $0.6 million was recorded compared to a $2.0 million recovery in 2013. The 2014 expense is primarily influenced by temporary differences relating to the book basis of Gear's property, plant and equipment relative to its tax basis. As at March 31, 2014 Gear's estimated tax pools were $246.2 million ($231.1 million at December 31, 2013). These income tax pools are deductible at various rates and annual deductions associated with the initial tax pools will decline over time. No cash income taxes were paid in 2014 and 2013.

Capital Expenditures, Acquisitions and Dispositions
Capital expenditures, including acquisitions and dispositions, totaled $24.3 million in the first quarter of 2014 as compared to $13.7 million in the first quarter of 2013. The majority of the activity continues to relate to drilling, with Gear drilling a total of 26 gross (24 net) wells in the first quarter of 2014 with an 88 per cent success rate. All but one of the successful wells were completed and equipped prior to the end of the quarter. On average, approximately $1.0 million to $1.2 million is incurred on each drilled horizontal well, including the completion and facility equipping costs.

Two exploratory drills were completed in the quarter in two new plays in Saskatchewan. Results are still early for these two drills and Gear is monitoring both wells carefully; however, preliminary results are strong with initial average IP30 rates of 90 barrels per day per well. Follow-up wells are planned in both of these new areas later in 2014 and 2015.

Coincident with the announcement of the April 30, 2014 acquisition of heavy oil properties, Gear increased its 2014 capital budget to from $70 million to $85 million, with the $15 million increase entirely dedicated to the acquired assets. This revised capital budget is allocated as: $57 million to development drilling and recompletions, $14 million to land, seismic and exploration, and $14 million in total for enhanced oil recovery commercialization and facilities, maintenance and abandonments. Gear is planning to drill 73 gross (69 net) wells in 2014.

A breakdown of capital expenditures and net acquisitions is shown in Table 13:

Table 13

Capital expenditures	Three Months Ended			
($ thousands)	**Mar 31, 2014**	Mar 31, 2013	% Change	Dec 31, 2013
Geological and geophysical	**172**	495	(65)	141
Drilling and completions	**16,374**	8,091	102	9,818
Production equipment and facilities	**7,322**	3,974	84	6,268
Undeveloped land purchased at crown land sales	**92**	1,021	(91)	1,192
Other	**12**	30	(60)	21
Total capital expenditures	**23,972**	13,611	76	17,440
Property acquisitions and dispositions, net (1)	**348**	70	397	(29)
Total capital expenditures and net acquisitions	**24,320**	13,681	27	17,411

(1) Includes post-closing adjustments.

Decommissioning Liability
At March 31, 2014, Gear has recorded a decommissioning liability of $38.6 million ($35.1 million at December 31, 2013) for the future abandonment and reclamation of Gear's properties. The estimated decommissioning liability includes assumptions in respect of actual costs to abandon wells or reclaim the property, the time frame in which such costs will be incurred as well as annual inflation factors in order to calculate the undiscounted total future liability. The future liability has been discounted at the risk free rate of 2.82 per cent (3.13 per cent at December 31, 2013). Abandonment cost estimates are derived from third party government sources and, as a result, can fluctuate from time to time. The increase in liability is due to the addition of 24 net wells drilled as part of Gears 2014 capital program as well as a reduction in the risk free rate.

Environmental stewardship is a core value at Gear and abandonment and reclamation investments continue to be made in a prudent and responsible manner with oversight by the Board of Directors. Ongoing abandonment expenditures for all of Gear's assets are funded entirely out of cash flow from operations.

Capitalization, Financial Resources and Liquidity
A breakdown of Gear's capital structure is outlined in Table 14, as at December 31, 2013 and December 31, 2012:

Table 14

Debt		
($ thousands except ratio amounts)	**Mar 31, 2014**	Dec 31, 2013
Net debt (1)	**18,412**	67,148
Net debt to annualized cash flow from operations	**0.4**	2.0

(1) Net debt is a non-GAAP measure and is reconciled to the nearest GAAP measure below under the heading "*Non-GAAP Measures*".

In March, 2014 Gear increased its total credit facilities from $75 million to $100 million. The terms and conditions of the Gear Credit Facilities were not substantially modified from the previous credit facility. With a debt balance of $64.9 million, letters of credit of $0.7 million, and a cash balance of $50.2 million, Gear currently has $84.6 million in unused credit available. 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 from operations ratio, between 50 bps to 250 bps on Canadian bank prime borrowings and between 175 bps and 375 bps on Canadian dollar banker's acceptances. The undrawn portion of the facility is subject to a standby fee in the range of 20 to 45 bps. The facility is secured by a fixed and floating charge on the assets of Gear and is subject to regular reviews with the next scheduled review to be complete by November 1, 2014. As at March 31, 2014, Gear was in compliance with all externally imposed capital requirements.

Gear’s long-term strategy is to keep debt at less than two times cash flow from operations. For the first quarter of 2014, the debt to annualized cash from for operations ratio was 0.4 times, a decrease from the fourth quarter of 2013 where net debt to cash flow from operations ratio was 2.0 times. Net debt decreased during the first quarter of 2014 as a result of the issuance of 15,875 thousand shares for total net cash proceeds of $59.8 million. Based on forward prices, Gear expects a net debt to cash flow of approximately one times for the remainder of 2014.

Gear typically uses two markets to raise capital: equity and bank debt with the expectation that future capital programs will be financed with cash flow from operations and existing credit capacity. Gear’s 2014 capital program is expected to be financed primarily through cash flow from operations. Gear’s ability to increase its borrowing capacity is based on its reserves value as determined by its external reserve evaluator.

If Gear undertakes any major acquisitions, management would expect to finance the transactions with a combination of debt and equity in a cost effective manner. Gear will continue to be very active looking at acquisitions that meet our investment criteria.

Shareholders’ Equity

As at March 31, 2014, 70 million Gear common shares were outstanding, an increase of 16 million from December 31, 2013. On March 28, 2014 Gear closed a bought deal offering of 15.9 million common shares issued for total gross proceeds of $63.5 million. In addition to the bought deal financing, Gear issued 0.1 million common shares resulting from stock option exercises for total gross proceeds of $0.3 million.

Environmental Initiatives Impacting Gear

There are no new material environmental initiatives impacting Gear at this time.

Contractual Obligations and Commitments

Gear has contractual obligations in the normal course of operations including purchase of assets and services, operating agreements, transportation commitments, sales commitments, royalty obligations, lease rental obligations and employee agreements. These obligations are of a recurring, consistent nature and impact Gear’s cash flows in an ongoing manner. Gear also has contractual obligations and commitments that are of a less routine nature as disclosed in its financial statements.

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.

As at March 31, 2014, Gear had three contractual commitments:

- a lease agreement for its head office and its field office, and
- a drilling rig commitment.

The lease agreement for Gear's new head office commenced November 1, 2013 and expires on July 30, 2016 with an annual commitment of $0.3 million and a total commitment of $0.6 million. The lease agreement for Gear's field office is effective until December 31, 2015 with a total commitment of $0.1 million. Finally, the drilling rig commitment is effective until June 15, 2016 with an annual commitment of $3.7 million and a total commitment of $10.0 million.

At this time, Gear does not have any contractual or regulatory obligations to settle any asset retirement obligations in the next five years; however, Gear has internally acknowledged that some of these obligations may be settled over the course of the next five years.

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.

See note 11 of the audited Financial Statements for further information.

Off Balance Sheet Arrangements

Gear has certain lease agreements that were entered into in the normal course of operations, all of which are discussed in the Contractual Obligations and Commitments above and disclosed in the notes to the unaudited Financial Statements. All leases have been treated as operating leases whereby the lease payments are included in operating expenses or G&A expenses depending on the nature of the lease. No asset or liability value has been assigned to these leases on the balance sheet as of March 31, 2014. In addition, Gear also has one letter of credit which has not been reflected on its unaudited Balance Sheet but has been disclosed accordingly in the notes to the unaudited Financial Statements. This letter of credit is with the British Columbia government in order to offset abandonment liabilities existing in the province.

Related Party Transactions

Other than the payment of compensation to key management personnel, the Corporation has not entered into any related party transactions since January 1, 2012.

Non-GAAP Measures

Management uses certain key performance indicators and industry benchmarks such as cash flow from operations, cash flow from operations per debt adjusted share, production per day per thousand debt adjusted share, operating netbacks ("netbacks") and net debt to analyze financial and operating performance. Management believes that these key performance indicators and benchmarks are key measures of profitability for Gear and provide investors with information that is commonly used by other oil and gas companies. These key performance indicators and benchmarks as presented do not have any standardized meaning prescribed by Canadian GAAP and therefore may not be comparable with the calculation of similar measures for other entities.

Cash Flow from Operations

Cash flow from operations is a non-GAAP measure defined as cash flow from operating activities before changes in non-cash operating working capital and decommissioning liabilities settled. Gear evaluates its financial performance primarily on cash flow from operations and considers it a key measure as it demonstrates its ability to generate the cash flow necessary to fund our capital program and repay debt. Cash flow from operations is unlikely to be comparable with the calculation of similar measures for other companies.

Table 15 below reconciles cash flow from operating activities to cash flow from operations.

Table 15

	Three months ended		
($ thousands)	**Mar 31, 2014**	Mar 31, 2013	Dec 31, 2013
Cash flow from operating activities	**10,780**	8,762	7,765
Expenditures on site restoration and reclamation	**68**	2	98
Change in non-cash working capital	**1,354**	(3,599)	446
Cash flow from operations	**12,202**	5,165	8,309

Net Debt

Net debt is a non-GAAP measure defined as debt less current working capital items, excluding risk management contracts. Gear uses net debt as a key indicator of its leverage and strength of its balance sheet. Net debt is directly tied to Gear's cash flow from operations and capital investment. Net debt is unlikely to be comparable with the calculation of similar measures for other companies.

Table 16

Capital Structure and Liquidity		
($ thousands)	**Mar 31, 2014**	Dec 31, 2013
Debt	**64,900**	64,917
Working capital deficit (surplus) (1)	**(46,488)**	2,231
Net debt obligations	**18,412**	67,148

(1) Excludes risk management contracts.

At December 31, 2013, Gear had a working capital deficit of $2.2 million. When in a deficit position, the Corporation is able to meet obligations as they come due by drawing on the Gear Credit Facility, which had $7.5 million available as of December 31, 2013. Gear actively manages its liquidity through strategies such as continuously monitoring forecasted and actual cash flows from operating, financing and investing activities, available credit under existing banking arrangements and opportunities to issue additional equity. Management believes that future cash flows generated from these sources will be adequate to settle Gear's financial liabilities.

Debt adjusted shares

Debt adjusted shares are calculated by the weighted average shares plus the share equivalent on Gear's average net debt over the period, assuming that the debt were to be extinguished with a share issuance. Prior to November 18, 2013, Gear was a privately held company with no public share price data, Gear assumed a share price of five times a rolling twelve month cash flow from operations per weighted average share in order to determine the price to convert Gear's debt to shares. The five times multiple is proximal to Gear's actual trading multiple since becoming a publically traded entity and, as such, prior period amounts have not been re-stated. In the first quarter of 2014 and go forward Gear's actual weighted average share price in the period will be used to calculate the number of shares issued through extinguishment of debt. Table 17 below reconciles the debt adjusted shares.

Table 17

(thousands, except per share amounts)	Three months ended **Mar 31, 2014**	Mar 31, 2013	Dec 31, 2013
Weighted average shares	**54,694**	53,858	53,956
Rolling Twelve Month Cash flow from operations	**n/a**	31,577	n/a
Share price to extinguish debt	**3.67**	2.95	3.04
Average net debt (1)	**42,780**	52,026	62,380
Share equivalent on average net debt	**11,657**	17,738	20,519
Debt adjusted shares	**66,351**	71,596	74,475

(1) Average net debt obtained by a simple average between opening and ending net debt for the three and twelve months ended.

Critical Accounting Estimates

Gear's financial and operating results incorporate certain estimates including:

- Estimated revenues, royalties and operating expenses on production as at a specific reporting date but for which actual revenues and costs have not yet been received;
- Estimated capital expenditures on projects that are in progress;
- Estimated DD&A charges that are based on estimates of oil and gas reserves that Gear expects to recover in the future;
- Estimated fair values of derivative contracts that are subject to fluctuation depending upon the underlying commodity prices;
- Estimated value of decommissioning liabilities that are dependent upon estimates of future costs and timing of expenditures; and
- Estimated future recoverable value of property, plant and equipment and any associated impairment charges or recoveries.

Gear has hired individuals and consultants who have the skills required to make such estimates and ensures that individuals or departments with the most knowledge of the activity are responsible for the estimates. Further, past estimates are reviewed and compared to actual results, and actual results are compared to budgets in order to make more informed decisions on future estimates. For further information on the determination of certain estimates inherent in the financial statements refer to Note 4 "Management Judgments and Estimation uncertainty" in the audited financial statements for the year ended December 31, 2013.

Gear's leadership team is committed to the ongoing development of procedures, standards and systems to allow Gear staff to make the best decisions possible and ensuring those decisions are in compliance with the Gear's environment, health and safety policies.

Disclosure Controls and Procedures

Disclosure controls and procedures ("DC&P"), as defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, are designed to provide reasonable assurance that information required to be disclosed in the Company's annual filings, interim filings or other reports filed, or submitted by the Company under securities legislation is recorded, processed, summarized and reported within the time periods specified under securities legislation and include controls and procedures designed to ensure that information required to be so disclosed is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Internal Controls over Financial Reporting

Gear's Chief Executive Officer and the Chief Financial Officer are responsible for establishing and maintaining internal control over financial reporting ("ICFR") for Gear. They have, as at March 31, 2014, designed ICFR, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The control framework Gear's officers used to design the Company's ICFR is the Internal Control - Integrated Framework ("COSO Framework") published by The Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

There were no changes in Gear's ICFR during the three months ended March 31, 2014 that materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Financial Reporting Update

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 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 February 2014, the IASB decided to require an entity to apply IFRS 9 "Financial Instruments" for annual periods beginning on or after January 1, 2018. IFRS 9 is still available for early adoption. The full impact of the standard on Gear's financial statements will not be known until the changes are finalized.

Forward-looking Information and Statements

This first quarter report contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends", "strategy" and similar expressions are intended to identify forward-looking information or statements. In particular, but without limiting the foregoing, this first quarter report contains forward-looking information and statements pertaining to the following: Guidance estimates, expected volume growth, number of future drilling locations, production profiles, expected production, pricing, differentials, royalty rate expectations, expected G&A per boe, planned number of gross and net wells drilled, future operating cost trends, expected net debt to cash flow, financing sources for future capital drilling, estimates of normal course obligations, and a number of other matters, including the amount of future decommissioning costs; future liquidity and financial capacity; future results from operations and operating metrics; future costs, expenses and royalty rates; future interest costs; and future development, exploration, acquisition and development activities (including drilling plans) and related capital expenditures.

The forward-looking information and statements contained in this first quarter report reflect several material factors and expectations and assumptions of Gear including, without limitation: that Gear will continue to conduct its operations in a manner consistent with past operations; the general continuance of current industry conditions; the continuance of existing (and in certain circumstances, the implementation of proposed) tax, royalty and regulatory regimes; the accuracy of the estimates of Gear's reserves and resource volumes; certain commodity price and other cost assumptions; and the continued availability of adequate debt and equity financing and cash flow from operations to fund its planned expenditures. Gear believes the material factors, expectations and assumptions reflected in the forward-looking information and statements are reasonable but no assurance can be given that these factors, expectations and assumptions will prove to be correct.

The forward-looking information and statements included in this first quarter report are not guarantees of future performance and should not be unduly relied upon. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements including, without limitation: changes in commodity prices; changes in the demand for or supply of Gear's products; unanticipated operating results or production declines; changes in tax or environmental laws, royalty rates or other regulatory matters; changes in development plans of Gear or by third party operators of Gear's properties, increased debt levels or debt service requirements; inaccurate estimation of Gear's oil and gas reserve and resource volumes; limited, unfavorable or a lack of access to capital markets; increased costs; a lack of adequate insurance coverage; the impact of competitors; and certain other risks detailed from time to time in Gear's public documents.

The forward-looking information and statements contained in this first quarter report speak only as of the date of this first quarter report, and Gear does not assume any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable laws.

Barrels of Oil Equivalent

Disclosure provided herein in respect of BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of six Mcf to one Bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and do not represent a value equivalency at the wellhead. Additionally, given that the value ratio based on the current price of crude oil, as compared to natural gas, is significantly different from the energy equivalency of 6:1; utilizing a conversion ratio of 6:1 may be misleading as an indication of value.

QUARTERLY HISTORICAL REVIEW

	2014	2013				2012		
(Cdn$ thousands, except per share, share, and per boe amounts)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
FINANCIAL								
Sales of crude oil, natural gas and NGLs	28,954	25,758	29,976	24,494	17,234	22,820	19,572	16,853
Cash flow from operations (1)	12,202	8,309	12,080	9,550	5,165	11,099	8,344	6,973
Per basic and diluted	0.22	0.15	0.22	0.18	0.10	0.21	0.15	0.13
Cash flow from operating activities	10,780	7,765	12,991	9,997	8,762	7,411	6,024	9,367
Per basic and diluted	0.20	0.14	0.24	0.19	0.16	0.14	0.11	0.17
Net income (loss)	1,588	(539)	2,449	643	(3,611)	1,080	(1,540)	1,108
Per basic and diluted	0.03	(0.01)	0.05	0.01	(0.07)	0.02	(0.03)	0.02
Capital expenditures	23,972	17,440	17,342	5,166	13,611	5,492	15,286	13,885
Net acquisitions (2)	348	(29)	(200)	66	70	1,683	(15)	82
Net debt outstanding (1)	18,412	67,148	57,615	52,044	56,128	47,926	50,921	44,110
Weighted average shares outstanding, basic (thousands)	54,694	53,956	53,956	53,956	53,858	53,858	53,858	53,748
Weighted average shares outstanding, diluted (thousands)	55,799	54,392	53,956	53,956	53,858	53,858	53,858	53,748
Shares outstanding, end of period (thousands)	69,960	53,956	53,956	53,956	53,858	53,858	53,858	53,780
OPERATING								
Production								
Oil and liquids (bbl/d)	3,975	4,369	3,652	3,668	3,445	3,753	3,260	2,935
Natural gas (mcf/d)	1,095	1,641	1,723	1,672	1,995	1,927	1,803	1,920
Total (boe/d)	4,158	4,642	3,940	3,947	3,777	4,073	3,560	3,255
Average prices								
Oil and liquids ($/bbl)	79.50	62.91	88.01	71.71	53.77	64.50	64.00	61.86
Natural gas ($/mcf)	5.20	3.12	2.53	3.66	3.13	3.13	2.28	1.90
Oil equivalent ($/boe)	77.38	60.31	82.70	68.19	50.69	60.89	59.75	56.90
Netback ($/boe)								
Commodity and other sales	77.38	60.37	82.77	68.26	50.81	60.93	59.78	56.98
Royalties	13.02	15.15	18.59	16.16	10.93	14.66	15.36	11.99
Operating costs	20.73	16.72	17.21	19.13	18.81	15.34	17.21	17.56
Operating netback (before hedging)	43.63	28.50	46.97	32.98	21.07	30.93	27.22	27.43
Realized risk management gains (losses)	(4.68)	(3.53)	(8.20)	(1.12)	(0.57)	3.19	2.82	0.87
Operating netback (after hedging)	38.95	24.97	38.77	31.86	20.50	34.12	30.03	28.30
General and administrative	4.76	4.31	3.68	3.79	3.91	3.40	3.32	3.38
Interest	1.63	1.24	1.77	1.48	1.40	1.30	1.25	1.37
Corporate netback	32.56	19.42	33.32	26.59	15.19	29.42	25.46	23.55

(1) Cash flow from operations and net debt are non-GAAP measures and are reconciled to the nearest GAAP measure under the heading "*Non-GAAP Measures*".

(2) Net acquisitions exclude non-cash items for decommissioning liability and deferred taxes and is net of post-closing adjustments.

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Peter Verburg
President, EIQ Capital Corp.
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OFFICERS

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Vice-President Finance & CFO

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