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 13, 2015 and should be read in conjunction with the unaudited Financial Statements as at and for the three months ended March 31, 2015 and the audited Financial Statements as at and for the year ended December 31, 2014. 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 29 employees with 20 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

ECONOMIC ENVIRONMENT

In the last six months, Gear has seen a material decrease in its realized commodity prices, spurred by a significant drop in the West Texas Intermediate (WTI) crude oil benchmark. The decrease is due to a current supply-demand imbalance, with North American crude oil levels in storage surpassing historical highs. As a response to the challenging economic environment, Gear stopped all drilling activities in early January 2015 and dedicated all generated cash flows towards reducing its modest debt levels. In the last month, heavy oil commodity prices have recovered enough to once again warrant capital investment. As such, Gear expects to recommence drilling in mid-June 2015.

2015 GUIDANCE

Table 1 summarizes 2015 guidance estimates.

Table 1

	2015 Guidance	Q1 2015
Production – Annual (boe/d)	**5,700 – 5,900**	6,624
Royalty rate (%)	**14 – 16**	18
Operating costs ($/boe)	**18.00 – 20.00**	17.91
General and administrative expense ($/boe)	**3.30 – 3.50**	2.76
Interest expense ($/boe)	**1.40 – 1.60**	1.38
Capital expenditures ($ millions)	**28**	-

With the recommencement of capital investment, Gear plans on drilling 20 gross (19.6 net) wells for the remainder of the year and spending approximately $28 million in capital expenditures. Production from new wells is expected to offset any further base declines and provide annual volumes in the range of 5,700 to 5,900 boepd. Royalty rates are expected to decline from Q1 2015 as Gear's crown production reference price matches actual received price. General and administrative costs on a per boe basis are expected to increase as Gear's production decreases from Q1 2015.

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, 2015	Mar 31, 2014	% Change	Dec 31, 2014
Cash flow from operations per debt adjusted share (1)	**0.100**	0.184	(46)	0.207
Production, boepd per debt adjusted thousand shares (1)	**0.054**	0.063	(14)	0.070

(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*".

2015 FIRST QUARTER FINANCIAL AND OPERATIONAL RESULTS

Cash flow from operations
Cash flow from operations for the three months was $12.2 million, unchanged from the first quarter of 2014. Commodity prices decreased significantly in the quarter but Gear was able to maintain its cash flow as a result of higher production volumes, increased gains on risk management contracts and foreign exchange, decreased royalty and general and administrative costs, offset by increased operating and interest expenses.

The following table details the change in cash flow from operations for 2015 relative to 2014:

Table 3

	Three months ended Mar 31,	
	$ thousands	$/boe
Q1 2014 Cash flow from operations (1)	12,202	32.61
Volume variance	17,172	-
Price variance	(25,030)	(41.99)
Cash gains/losses on risk management contracts	9,450	17.59
Royalties	1,127	6.75
Expenses:		
Operating	(2,917)	2.82
General and administrative	133	1.99
Interest	(217)	0.24
Foreign exchange	290	0.47
Q1 2015 Cash flow from operations (1)	12,210	20.48

(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, 2015, Gear generated a net loss of $4.4 million. This compares to net income of $1.6 million in the same period in 2014. The changes in net income are due to several factors discussed below.

Production
Sales production volumes averaged 6,624 boepd in the first quarter of 2015, compared to 4,158 boepd in the same period in 2014. This 59 per cent year over year increase is the result of the 2014 drilling program and the acquisition of heavy oil assets completed in the second quarter of 2014.

Production decreased 377 boe/d in the first quarter of 2015 compared with the fourth quarter of 2014. Weak oil prices prompted the temporary shut-in of approximately 350 bbl/d of uneconomic production in January expanding to approximately 400 bbl/d by April. The negative production impact of these shut-ins and natural declines was partially mitigated by Gear bringing on two Morgan dual lateral horizontal wells in late January which contributed production of 110 bbl/d in the quarter.

Table 4

	Three months ended			
Production	**Mar 31, 2015**	Mar 31, 2014	% Change	Dec 31, 2014
Oil and NGL (bbl/d)	**6,466**	3,975	63	6,836
Natural gas (mcf/d)	**944**	1,095	(14)	991
Total production (boe/d) (1)	**6,624**	4,158	59	7,001
% Oil and NGL production	**98**	96	2	98
% Natural gas production	**2**	4	(50)	2

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

Subsequent to quarter end, heavy oil prices have recovered to the point where management has deemed it appropriate to re-commence drilling operations. Depending on weather and continued oil price stability, Gear anticipates mobilizing the drilling rig by mid-June.

Production near the end of the first quarter and into the beginning of the second quarter was negatively impacted by operational challenges on three strong vertical wells in Saskatchewan and access restrictions due to spring break-up. The three wells in Hillmond, Maidstone, and West Hazel accounted for drop in April volumes of approximately 300 bbl/d. Two of the wells have now been serviced and have regained production to approximately 100 bbl/d. As a result of these temporary issues, second quarter field production will start at approximately 5,500 boe/d. Production for the remainder of the second quarter, and the year is expected to grow slightly as a result of drilling, recompletions, and the reactivation of approximately 250 bbl/d of previously shut-in production. Current field production is estimated to be approximately 5,900 boe/d

Revenue

Sales of crude oil, natural gas and natural gas liquids for the first quarter of 2015 totaled $21.1 million, a 27 per cent decrease over the first quarter 2014 sales of $29.0 million. This decrease is the result of lower realized commodity prices offset by 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, 2015**	Mar 31, 2014	% Change	Dec 31, 2014
Oil and natural gas liquids	**20,913**	28,442	(26)	39,233
Natural gas	**183**	512	(64)	325
Total sales	**21,096**	28,954	(27)	39,558
Other revenue	**-**	-	-	42
Total revenue	**21,096**	28,954	(27)	39,600

Commodity Prices
Table 6

	Three months ended			
Average Benchmark Prices	**Mar 31, 2015**	Mar 31, 2014	% Change	Dec 31, 2014
WTI oil (US$/bbl) (1)	**48.65**	98.66	(51)	73.20
Cdn$ / US$ exchange rate	**1.23**	1.10	12	1.14
WTI oil (Cdn$/bbl)	**60.06**	108.53	(45)	83.45
WCS differential (US$/bbl) (2)	**(14.99)**	(23.12)	(35)	(14.24)
AECO natural gas ($/mcf) (3)	**2.95**	4.77	(38)	4.01
Gear Realized Prices				
Oil and NGL ($/bbl)	**35.93**	79.50	(55)	62.39
Natural gas ($/mcf)	**2.15**	5.20	(59)	3.57
Total commodity price ($/boe)	**35.39**	77.38	(54)	61.42
Other revenue ($/boe)	**-**	-	-	0.06
Total revenue ($/boe)	**35.39**	77.38	(54)	61.48

(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 weakened considerably in the first quarter of 2015 compared to both the first and fourth quarters of 2014. US denominated WTI decreased by 51 per cent to $48.65 per barrel offset by a narrowing of the WCS differential from $23.12 per barrel to $14.99 per barrel. These two movements combined with the twelve per cent weakening of the Canadian dollar exchange rate resulted in an overall decrease in Gear's realized commodity price of 54 per cent to $35.39 per boe. Looking beyond the first quarter, the forward outlook on commodity prices has improved. At the time of writing, the second half of 2015 WTI is forecasted to be approximately Cdn$75 per barrel, the WCS differential is forecasted to be approximately Cdn$16 per barrel, and Gear's heavy oil realized price is expected to be Cdn$54 per barrel. Despite this promising outlook, considerable risks exist on heavy oil pricing including supply of US shale oil, supply policy decisions from OPEC, and general demand for oil. Gear remains cautiously optimistic on a gradual commodity price recovery.

Royalties

In the first quarter of 2015, royalties as a percentage of commodity sales were 17.8 per cent, an increase of 6 per cent from the same period in 2014. Gear's 2014 drilling program focused on wells drilled on crown lands where incentive rates apply on most new horizontally drilled production ranging from 2.5 per cent to 5 percent. Royalties paid on non-incentive based crown lands are based on a sliding scale with sensitivity to both price and total volume produced. Due to the decreased pricing environment throughout the first quarter, Gear's royalty rate on produced volumes decreased, however, Gear sold approximately 400 bbl/d from inventory in the first quarter which were originally produced in a higher pricing environment, resulting in an increased royalty rate in the period. Without the effects of inventoried sales, the royalty run rate for the first quarter would have been approximately12 per cent.

Royalty rates throughout 2015 are expected to average between 14 and 16 per cent.

Table 7

Royalty expense		Three months ended		
($ thousands except per boe and %)	**Mar 31, 2015**	Mar 31, 2014	% Change	Dec 31, 2014
Royalty expense	**3,745**	4,872	(23)	7,100
Royalty expense as a % of Sales	**17.8**	16.8	6	17.9
Royalty expense per boe	**6.28**	13.02	(52)	11.02

Operating and Transportation costs

Operating costs were $17.91 per boe in the first quarter of 2015, a 14 per cent decrease over the same period in 2014 and a 10 per cent decrease over the fourth quarter of 2014. Gear's operating cost profile increased in 2014 as a result of the heavy oil assets that Gear acquired in the second quarter which carried a higher cost profile than Gear's previously owned assets. Gear staff worked diligently throughout 2014 to decrease the costs on these properties through a variety of capital infrastructure investments, field process improvements, and volume additions. Total corporate operating costs are now in line with Gear legacy assets. In addition, during the first quarter of 2015 Gear shut-in several high cost wells deemed uneconomic in the current commodity price environment.

For 2015, Gear expects operating costs to range from $18 per boe to $20 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, 2015**	Mar 31, 2014	% Change	Dec 31, 2014
Operating expense	**9,658**	6,673	45	11,798
Transportation expense	**1,017**	1,085	(6)	1,042
Operating and transportation expense	**10,675**	7,758	38	12,840
Operating expense per boe	**16.20**	17.83	(9)	18.32
Transportation expense per boe	**1.71**	2.90	(41)	1.62
Operating and transportation expense per boe	**17.91**	20.73	(14)	19.94

Operating Netbacks

Gear's operating netback was $11.20 per boe in the first quarter of 2015 compared to $43.63 per boe in the same period of 2014. The decrease is primarily due to decreased commodity prices, offset by decreased royalty and operating costs.

The components of operating netbacks are summarized in Table 9:

Table 9

Netbacks	**Q1 2015 Total**	Q1 2014 Total	% Change	Q4 2014 Total
($ per boe)	**($/boe)**	($/boe)		($/boe)
Weighted average sales price	**35.39**	77.38	(54)	61.42
Other	**-**	-	-	0.06
Total sales	**35.39**	77.38	(54)	61.48
Royalties	**(6.28)**	(13.02)	(52)	(11.02)
Operating costs	**(17.91)**	(20.73)	(14)	(19.94)
Netback	**11.20**	43.63	(74)	30.52

General and Administrative ("G&A") Expenses and Share-based compensation ("SBC")

G&A totaled $1.6 million for the three months ended March 31, 2015, a decrease of $0.1 million when compared to the same period in 2014. On a per boe basis, G&A decreased by 42 per cent for the three months ended March 31, 2015. G&A per boe is expected to increase slightly in the second quarter of 2015, as a result of decreased sales production volumes. Guidance for the full year 2015 is $3.40 per boe - $3.60 per boe.

SBC is related to bonus awards through the granting of actual common shares and stock options to Gear's employees. There were 617 thousand options granted during the first quarter of 2015 at an average price of $1.79. In addition, 263 thousand options expired and 10 thousand options were forfeited all with an average exercise price of $2.50. As at March 31, 2015, a total of 5.1 million options were outstanding or seven per cent of the 71 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, 2015**	Mar 31, 2014	% Change	Dec 31, 2014
G&A expenses	**1,648**	1,781	(7)	1,197
SBC expense	**571**	193	196	635
G&A expenses per boe	**2.76**	4.76	(42)	1.86
SBC expense per boe	**0.96**	0.52	85	0.99

Interest and financing charges

Interest and financing charges totaled $0.8 million in the first quarter of 2015, an increase of 36 per cent over the first quarter of 2014. This increase is primarily attributable to an increase in average debt levels in the first quarter of 2015. Year over year Gear's average cost of borrowing decreased slightly from 3.7 per cent in the first quarter of 2014 to 3.3 per cent in 2015.

Gear's interest rate on its demand facility is dependent on the second proceeding quarter's debt to cash flow ratio. Second quarter 2015 stamping fees are based on Gear's previously reported fourth quarter net debt to annualized cash flow from operations ratio of 1.2 times. As a result, interest rates are expected to remain relatively unchanged for the second quarter of 2015.

Table 11 is a breakdown of interest expense:

Table 11

Interest and financing charges		Three months ended		
($ thousands except per boe)	**Mar 31, 2015**	Mar 31, 2014	% Change	Dec 31, 2014
Interest expense	**762**	533	43	793
Financing charges	**50**	65	(23)	41
Standby and letter of credit fees	**14**	11	27	8
Interest and financing charges	**826**	609	36	842
Interest and financing charges per boe	**1.38**	1.63	(15)	1.31

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 2015, Gear had 3,000 barrels per day hedged at a WTI price of Cdn$90 per barrel, generating cash hedging gains of $7.7 million.

Table 12 summarizes Gear's hedged volumes for the remainder of 2015 through the first half of 2016.

Table 12

Financial WTI Crude Oil Contracts

Term		**Contract**	**Currency**	**Volume bbl/d**	**Sold Swap $/bbl**	**Sold Call $/bbl**	**Bought Put $/bbl**	**Sold Put $/bbl**
Apr 1, 2015	Jun 30, 2015	Bought put	CAD	3,000	-	-	90.00	-
Jul 1, 2015	Dec 31, 2015	Collar	CAD	2,200	-	78.00	65.00	-
Jan 1, 2016	Jun 30, 2016	Collar	CAD	250	-	82.50	65.00	-
Jan 1, 2015	Jun 30, 2016	Collar	CAD	250	-	87.25	65.00	-

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. 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.

For further details on Gear's hedging contracts, see the notes to the financial statements.

Depletion, Depreciation and Amortization Expense ("DD&A")
DD&A was $15.94 per boe for the three months ended March 31, 2015 and $20.83 per boe for the same period in 2014, a decrease of 23 per cent. Low commodity prices at December 31 resulted in Gear recognizing an impairment on the capital component of its inventory value in the fourth quarter of 2014; these inventory volumes were subsequently sold in the first quarter of 2015 with minimal associated cost recorded in DD&A. The trailing impact of the inventory impairment in 2014 is a decreased DD&A rate in the current quarter.

Table 13

DD&A Rate	Three Months Ended			
($ thousands except per boe)	**Mar 31, 2015**	Mar 31, 2014	% Change	Dec 31, 2014
DD&A	**9,503**	7,794	22	15,429
DD&A rate per boe	**15.94**	20.83	(23)	23.96
Impairment charges	**-**	-	-	53,800

Taxes
During the first quarter of 2015, a deferred tax recovery of $0.5 million was recorded compared to a $0.6 million expense in 2014. The 2015 recovery 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, 2015 Gear's estimated tax pools were $308.6 million ($325.9 million at December 31, 2014). 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 2015 or 2014.

Capital Expenditures, Acquisitions and Dispositions
Capital expenditures, including acquisitions and dispositions, totaled a nominal $39 thousand in the first quarter of 2015 as compared to $24.3 million in the first quarter of 2014. In early January, in response to the steep decline in oil prices, Gear decided to put its 2015 drilling program on hold and to limit spending to only unavoidable capital. Management is committed to maximizing shareholder value and believed that returns on Gear's existing inventory of locations could be materially improved by delaying development of the large inventory of drilling locations until the oil price improved along with a significant reduction in service costs

In the last month, oil prices have recovered and are predicted to stabilize for the remainder of the 2015 to the point where Management has deemed it appropriate to resume its 2015 drilling program. Gear plans to reinitiate drilling in the Wildmere Cummings area in mid-June. The Cummings well is planned as Gear's first unlined multi-lateral horizontal well; it is estimated that it will take 10 days to drill and will cost approximately $1.3 million, including completion and facility equipping costs. The economic efficiency of drilling wells in this manner is significant, and, if successful, could unlock a number of additional opportunities for the Company. In total Gear is planning to drill 20 gross (19.6 Net) wells by the end of 2015 at an average cost of $1.2 million, including the completion and facility equipping costs

A breakdown of capital expenditures and net acquisitions is shown in Table 14:

Table 14

Capital expenditures (1)	Three Months Ended			
($ thousands)	**Mar 31, 2015**	Mar 31, 2014	% Change	Dec 31, 2014
Geological and geophysical	**47**	172	(73)	252
Drilling and completions	**(1,763)**	16,374	(111)	11,891
Production equipment and facilities	**1,594**	7,322	(78)	7,564
Undeveloped land purchased at crown land sales	**285**	92	210	1,197
Other	**8**	12	(33)	65
Total capital expenditures	**171**	23,972	(99)	20,969
Acquisition through business combination(2)	**-**	-	-	(302)
Property acquisitions and dispositions, net(2)	**(132)**	348	(138)	(725)
Total capital expenditures and net acquisitions	**39**	24,320	(100)	19,942

(1) Values are inclusive of changes in estimates from prior periods.
(2) Includes post-closing adjustments.

Decommissioning Liability
At March 31, 2015, Gear has recorded a decommissioning liability of $79.6 million ($74.1 million at December 31, 2014) 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 1.79 per cent (2.22 per cent at December 31, 2014). 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 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 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 March 31, 2015 and December 31, 2014:

Table 15

Debt ($ thousands except ratio amounts)	**Mar 31, 2015**	Dec 31, 2014
Net debt [1]	**83,313**	98,404
Net debt to annualized cash flow from operations	**1.7**	1.2

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

At March 31, 2015 Gear had syndicated demand credit facilities (the "Facilities") with three banks and a borrowing limit of $130 million. Gear is currently undergoing a scheduled review of the Facilities and expects this to be finalized by the end of May. The amount of credit extended to Gear is dependent primarily in its reserves and a forward price determined by Gear's lenders and is expected to provide sufficient financial flexibility to execute on its $28 million capital program. The Facilities bear interest at Canadian bank prime or, at Gear's option, Canadian bankers' acceptances, plus applicable margin and stamping fee. The total stamping fees range, depending on Gear's debt to cash flow 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 Facilities is subject to a standby fee in the range of 20 to 45 bps. In addition, the Facilities are secured by a fixed and floating charge on the assets of Gear and are subject to semi-annual reviews. As at March 31, 2015, 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 2015, the debt to annualized cash from for operations ratio was 1.7 times, an increase from the fourth quarter of 2014 where net debt to cash flow from operations ratio was 1.2 times. Based on forward prices, Gear expects a net debt to cash flow of approximately two times for the remainder of 2015.

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 2015 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 equity and debt in a cost effective manner. Gear will continue to be very active looking at acquisitions that meet its investment criteria.

Shareholders' Equity
As at March 31, 2015, 70.8 million Gear common shares were outstanding; this amount remains unchanged as at the date of this MD&A and from December 31, 2014.

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, 2015, Gear had four contractual commitments:
- lease agreements for its head office and its field office,
- two drilling rig commitments, and
- fixed premiums to be paid in future periods on risk management contracts.

The lease agreement for Gear's head office commenced November 1, 2013 and expires on July 30, 2016 with an annual commitment of $0.2 million and a total commitment of $0.4 million. The lease agreement for Gear's field office is effective until December 31, 2015 with a total commitment of $0.1 million. The first drilling rig commitment is effective until December 15, 2016 with a total commitment of $5.5 million; the second commitment is effective until September 15, 2016 with a total commitment of $3.4 million. Finally, premium commitments on certain risk management contracts are payable throughout 2015 with a total commitment of $0.3 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 may choose to settle some of these obligations over 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.

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, 2015. 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.

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 16 below reconciles cash flow from operating activities to cash flow from operations.

Table 16

	Three months ended		
($ thousands)	**Mar 31, 2015**	Mar 31, 2014	Dec 31, 2014
Cash flow from operating activities	**12,439**	10,780	13,425
Expenditures on site restoration and reclamation	**298**	68	728
Change in non-cash working capital	**(527)**	1,354	6,449
Cash flow from operations	**12,210**	12,202	20,602

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 17

Capital Structure and Liquidity		
($ thousands)	**Mar 31, 2015**	Dec 31, 2014
Debt	**93,127**	98,900
Working capital deficit (surplus) (1)	**(9,814)**	(496)
Net debt obligations	**83,313**	98,404

(1) Excludes risk management contracts.

At March 31, 2015 and December 31, 2014, Gear had a working capital surplus. When in a deficit position, the Corporation is able to meet obligations as they come due by drawing on the Gear Credit Facility. 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 based on the weighted average share price in the period. Table 18 below reconciles the debt adjusted shares.

Table 18

		Three months ended	
(thousands, except per share amounts)	**Mar 31, 2015**	Mar 31, 2014	Dec 31, 2014
Weighted average shares	**70,817**	54,694	70,817
Average share price	**1.78**	3.67	3.37
Average net debt (1)	**90,858**	42,780	96,369
Share equivalent on average net debt	**51,044**	11,657	28,596
Debt adjusted shares	**121,861**	66,351	99,413

(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 determined;
- 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 decommissioning liabilities that are dependent upon estimates of future costs and timing of expenditures;
- Estimated future recoverable value of property, plant and equipment and any associated impairment charges or recoveries; and
- Estimated employee stock based compensation costs.

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, 2014.

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, 2015, 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, 2015 that materially affected, or are reasonably likely to materially affect, the Company's ICFR.

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

In July 2014, the IASB completed the final elements of IFRS 9 “Financial Instruments.” The Standard supersedes earlier versions of the 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 and the Company is currently evaluating the impact of the standard on Gear’s financial statements.

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 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 are made 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

	2015	2014				2013		
(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	21,096	39,558	48,273	47,331	28,954	25,758	29,976	24,494
Cash flow from operations (1)	12,210	20,602	22,580	20,661	12,202	8,309	12,080	9,550
Per basic	0.17	0.29	0.32	0.29	0.22	0.15	0.22	0.18
Per diluted	0.17	0.29	0.31	0.29	0.22	0.15	0.22	0.18
Cash flow from operating activities	12,439	13,425	21,428	20,294	10,780	7,765	12,991	9,997
Per basic and diluted	0.18	0.19	0.30	0.28	0.20	0.14	0.24	0.19
Net income (loss)	(4,357)	(29,999)	8,914	6,420	1,588	(539)	2,449	643
Per basic	(0.06)	(0.42)	0.13	0.09	0.03	(0.01)	0.05	0.01
Per diluted	(0.06)	(0.42)	0.12	0.09	0.03	(0.01)	0.05	0.01
Capital expenditures	171	20,969	27,314	12,328	23,972	17,440	17,342	5,166
Net acquisitions (2)	(132)	(1,027)	1,451	79,086	348	(29)	(200)	66
Net debt outstanding (1)	83,313	98,404	94,334	87,635	18,412	67,148	57,615	52,044
Weighted average shares outstanding, basic (thousands)	70,817	70,817	70,798	70,293	54,694	53,956	53,956	53,956
Weighted average shares outstanding, diluted (thousands)	70,817	71,485	72,314	71,768	55,799	54,392	53,956	53,956
Shares outstanding, end of period (thousands)	70,817	70,817	70,817	70,734	69,960	53,956	53,956	53,956
OPERATING								
Production								
Oil and liquids (bbl/d)	6,466	6,836	6,529	6,004	3,975	4,369	3,652	3,668
Natural gas (mcf/d)	944	991	1,101	998	1,095	1,641	1,723	1,672
Total (boe/d)	6,624	7,001	6,712	6,170	4,158	4,642	3,940	3,947
Average prices								
Oil and liquids ($/bbl)	35.93	62.39	79.72	85.88	79.50	62.91	88.01	71.71
Natural gas ($/mcf)	2.15	3.57	3.89	4.52	5.20	3.12	2.53	3.66
Oil equivalent ($/boe)	35.39	61.42	78.17	84.30	77.38	60.31	82.70	68.19
Netback ($/boe)								
Commodity and other sales	35.39	61.48	78.40	84.49	77.38	60.37	82.77	68.26
Royalties	6.28	11.02	14.97	16.35	13.02	15.15	18.59	16.16
Operating costs	17.91	19.94	21.78	21.37	20.73	16.72	17.21	19.13
Operating netback (before hedging)	11.20	30.52	41.65	46.77	43.63	28.50	46.97	32.97
Realized risk management gains (losses)	12.91	3.98	(1.04)	(4.16)	(4.68)	(3.53)	(8.20)	(1.12)
Operating netback (after hedging)	24.11	34.50	40.61	42.61	38.95	24.97	38.77	31.85
General and administrative	2.76	1.86	3.20	4.27	4.76	4.31	3.68	3.79
Interest	1.38	1.31	1.16	1.45	1.63	1.24	1.77	1.48
Foreign exchange (gain) loss	(0.52)	(0.63)	(0.32)	0.09	-	-	-	-
Corporate netback	20.49	31.96	36.57	36.80	32.56	19.42	33.32	26.58

(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.

Quarter over quarter fluctuations in revenue is the result of both the amount of oil volumes sent to sale as well as Gear's received price. Volume fluctuations are the result well productivity and success of deliveries to the sales point. The amount of volumes delivered to sale can be influenced by a variety of factors some of which include weather, truck and rail car availability, as well as pipeline apportionments. Gear's received price is based off of WTI less the WCS differential and is further decremented for the quality differential on its specific grade of oil. Net income is further impacted by royalty and operating expenses. Royalty expenses are directly linked to the price received by Gear and, on crown lands, the productivity of each producing well. Gear's royalty profile changes based on Gear's drilling program as well as well results on its existing producing wells. Operating costs are heavily impacted by weather as well as the productivity of each well. Operating costs are typically higher in the winter months due to increased maintenance and energy costs. Transportation costs are included in operating costs, which fluctuate with the amount of volumes sold.

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