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 November 11, 2014 and should be read in conjunction with the unaudited Financial Statements as at and for the three and nine months ended September 30, 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 33 employees with 24 staff in the Calgary office and 9 employees located in Gear's operating areas in Alberta, Saskatchewan, and British Columbia. 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

2015 GUIDANCE

Table 1 summarizes 2015 guidance estimates compared to 2014 YTD results. Please refer to Gear's press release entitled "Gear Energy Ltd. Announces 2015 Capital Budget" on November 11, 2014.

Table 1

	2015 Guidance	2014 YTD
Production – Annual (boe/d)	**7,300 to 7,700**	5,689
Royalty rate (%)	**15 to 17**	18.7
Operating costs ($/boe)	**19.75 – 21.75**	21.38
General and administrative expense ($/boe)	**3.10 – 3.30**	3.96
Interest expense ($/boe)	**1.20 – 1.40**	1.38
Capital expenditures ($ millions)	**95 – 105**	63.6

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				Nine months ended		
	Sep 30, 2014	Sep 30, 2013	% Change	Jun 30, 2014	**Sep 30, 2014**	Sep 30, 2013	% Change
Cash flow from operations per debt adjusted share (1)	**0.258**	0.174	48	0.257	**0.668**	0.389	72
Production, boepd per debt adjusted thousand shares (1)	**0.077**	0.057	35	0.077	**0.069**	0.056	23

(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 THIRD QUARTER FINANCIAL AND OPERATIONAL RESULTS

Cash flow from operations

Cash flow from operations for the three months ended September 30, 2014 was $22.6 million, a $10.5 million increase when compared to the same period in 2013. Increased cash flow is the result of increased volumes, reduced losses on risk management contracts and gains on foreign exchange, offset by lower commodity prices as well as increased royalties, operating, general and administrative and interest expenses.

On a year to date basis, cash flow from operations is $55.4 million, an increase of $28.6 million compared with 2013. The increase in year to date cash flow is the result of higher production volumes, stronger commodity prices and foreign exchange gains, offset by increased losses on risk management contracts as well as 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

	Three months ended Sep 30		Nine months ended Sep 30	
	$ thousands	$/boe	$ thousands	$/boe
Q3 2013 Cash flow from operations (1)	12,080	33.32	26,794	25.24
Volume variance	21,113	-	33,244	-
Price variance	(2,704)	(4.38)	19,767	12.73
Cash losses on risk management contracts	2,329	7.17	(1,168)	0.31
Royalties	(2,508)	3.62	(7,038)	0.31
Expenses:				
Operating	(7,213)	(4.57)	(13,707)	(3.01)
General and administrative	(642)	0.48	(2,135)	(0.17)
Interest	(75)	0.61	(487)	0.18
Foreign exchange	200	0.32	173	0.11
Q3 2014 Cash flow from operations (1)	22,580	36.57	55,443	35.70

(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 and nine months ended September 30, 2014, Gear generated net income of $8.9 million and $16.9 million, respectively. This compares to net income of $2.4 million and a net loss of $0.5 million for the same periods in 2013. The changes in net income are due to several factors discussed below.

Production

Production volumes averaged 6,712 boe/d in the third quarter of 2014 compared to 3,940 boe/d in the same period in 2013. Similarly, for the third quarter of 2014 year to date, production volumes increased from 3,889 boe/d to 5,689 boe/d. With the acquisition of heavy oil assets during the second quarter and strong results from an active 2014 drilling program, production increased by 70 per cent and 46 per cent, respectively.

Year to date 42.5 net wells have been brought on production resulting in positive organic production growth throughout 2014, specifically in Gear's core areas of Wildmere Alberta and Maidstone Saskatchewan. Gear's 2014 drilling program in Wildmere specifically targeted the Cummings pool, with production increasing from 100 boe/d at the end of 2013 to 800 boe/d in September 2014. Similarly, production growth in Maidstone has increased significantly from 500 boe/d at the end of 2013 to an average of 1,100 boe/d in September 2014.

Table 4

	Three months ended				Nine months ended		
Production	**Sep 30, 2014**	Sep 30, 2013	% Change	Jun 30, 2014	**Sep 30, 2014**	Sep 30, 2013	% Change
Oil and NGL (bbl/d)	**6,529**	3,652	79	6,004	**5,512**	3,589	54
Natural gas (mcf/d)	**1,101**	1,723	(36)	998	**1,065**	1,796	(41)
Total production (boe/d) (1)	**6,712**	3,940	70	6,170	**5,689**	3,889	46
% Oil and NGL production	**97**	93	4	97	**97**	92	5
% Natural gas production	**3**	7	(57)	3	**3**	8	(63)

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

Gear expects sales production will increase for the fourth quarter of 2014 as a result of third quarter drills being on production for the entire quarter as well as the incremental production resulting from executing the remainder of the Company's 2014 capital plan. Current expectations for the fourth quarter is 7,100 to 7,300 boe/d.

Revenue

Sales of crude oil, natural gas and natural gas liquids for the third quarter of 2014 totaled $48.3 million, a 61 per cent increase over the third quarter 2013 sales of $30.0 million. These increases are the result of increased production volumes offset by lower realized commodity prices.

Year to date sales have increased 74 per cent in 2014 compared to 2013. These increases are the result of increased production volumes and higher realized commodity prices. These increases are the result of increased production volumes and higher realized commodity prices.

A breakdown of sales by product is outlined in Table 5:

Table 5

Sales by product		Three months ended				Nine months ended	
($ thousands)	**Sep 30, 2014**	Sep 30, 2013	% Change	Jun 30, 2014	**Sep 30, 2014**	Sep 30, 2013	% Change
Oil and natural gas liquids	**47,880**	29,575	62	46,921	**123,242**	70,184	76
Natural gas	**393**	401	(2)	410	**1,316**	1,520	(13)
Total sales	**48,273**	29,976	61	47,331	**124,558**	71,704	74
Other revenue	**138**	25	452	110	**247**	89	178
Total revenue	**48,411**	30,001	61	47,441	**124,805**	71,793	74

Commodity Prices
Table 6

		Three months ended				Nine months ended	
Average Benchmark Prices	**Sep 30, 2014**	Sep 30, 2013	% Change	Jun 30, 2014	**Sep 30, 2014**	Sep 30, 2013	% Change
WTI oil (US$/bbl) (1)	**97.17**	105.82	(8)	102.97	**99.60**	98.13	1
Cdn$ / US$ exchange rate	**1.09**	1.03	6	1.09	**1.10**	1.02	8
WTI oil (Cdn$/bbl)	**105.92**	108.99	(3)	112.24	**109.56**	100.09	9
WCS differential (US$/bbl) (2)	**(20.17)**	(17.48)	15	(20.36)	**(21.22)**	(22.64)	(6)
AECO natural gas ($/mcf) (3)	**4.22**	2.82	50	4.68	**4.55**	3.12	46
Gear Realized Prices							
Oil and NGL ($/bbl)	**79.72**	88.01	(9)	85.88	**81.90**	71.29	15
Natural gas ($/mcf)	**3.89**	2.53	54	4.52	**4.53**	3.10	46
Total commodity price ($/boe)	**78.17**	82.70	(5)	84.30	**80.20**	67.54	19
Other revenue ($/boe)	**0.23**	0.07	229	0.19	**0.15**	0.09	67
Total revenue ($/boe)	**78.40**	82.77	(5)	84.49	**80.35**	67.63	19

(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

US denominated WTI prices for the third quarter decreased by eight per cent over the third quarter of 2013. This was compounded with a widening of the WCS differential by 15 per cent from US$17.48 per barrel to US$20.17 per barrel. These downward trends in commodity prices were slightly offset by the weakening of the Canadian dollar resulting in Gear’s realized commodity price of $78.17 per boe.

On a year-to-date basis, US denominated WTI remained relatively constant from 2013 to 2014 and the WCS differential strengthened by six per cent. This, combined with the weakening of the Canadian dollar, resulted in an overall increase in Gear’s realized commodity price of 19 per cent in 2014 to $80.20 per boe.

Pricing into the fourth quarter of 2014 is expected to soften as the forward market for US WTI has weakened, offset by a weaker Canadian dollar and narrowing WCS differentials. Gear endeavors to maximize pricing received for its oil by shipping via rail, where a premium price is received. During the third quarter, Gear shipped 63 per cent of its sales via rail. It is important to note that there is delivery risk associated with railing since it is subject to a number of external logistical factors culminating in unpredictable rail car availability. At times, Gear may be forced to carry crude oil in inventory as it awaits takeaway capacity. Gear actively manages the delivery risks and balances them with the objective of receiving the maximum price for its production.

Royalties

In the third quarter of 2014, royalties as a percentage of commodity product sales were 19.1 per cent, a decrease of 15 per cent from the same period in 2013. Since 2013, Gear’s production profile has shifted 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 are forecasted to trend downwards in the fourth quarter as production volumes from horizontal wells on crown lands continue to increase within the Wildmere Cummings play in Alberta and the Maidstone Cummings play in Saskatchewan and general crown rates decrease as a result of the decreased pricing environment. As Gear shifts towards a larger crown royalty profile, royalty rates will be subject to greater price sensitivities.

Table 7

Royalty expense	Three months ended				Nine months ended		
($ thousands except % and per boe)	**Sep 30, 2014**	Sep 30, 2013	% Change	Jun 30, 2014	**Sep 30, 2014**	Sep 30, 2013	% Change
Royalty expense	**9,245**	6,737	37	9,177	**23,295**	16,257	43
Royalty expense as a % of Sales	**19.1**	22.5	(15)	19.3	**18.7**	22.6	(17)
Royalty expense per boe	**14.97**	18.59	(19)	16.35	**15.00**	15.31	(2)

Operating and Transportation costs
Operating costs increased to $21.78 per boe in the third quarter of 2014 compared to $17.21 per boe in the third quarter of 2013, but have remained relatively unchanged from the second quarter of 2014. Despite optimization work done on the heavy oil assets acquired on April 30th, operating costs have remained unchanged from second quarter primarily due to the acquired assets being included in operations for the full quarter. In addition to the impact of the cost profile of the acquired assets, Gear incurred high trucking costs related to two temporary high volume lift projects executed in the quarter.

Gear plans on continuing to reduce the operating costs of the acquired assets through volume additions and a variety of capital infrastructure investments, field process improvements and synergies with Gear's existing assets.

Table 8 below summarizes the operating and transportation expense:

Table 8

Operating and Transportation Expense	Three months ended				Nine months ended		
($ thousands except per boe)	**Sep 30, 2014**	Sep 30, 2013	% Change	Jun 30, 2014	**Sep 30, 2014**	Sep 30, 2013	% Change
Operating expense	**12,156**	5,128	137	10,541	**29,370**	16,114	82
Transportation expense	**1,293**	1,108	17	1,460	**3,838**	3,387	13
Operating and transportation expense	**13,449**	6,236	116	12,001	**33,208**	19,501	70
Operating expense per boe	**19.69**	14.15	39	18.77	**18.91**	15.18	25
Transportation expense per boe	**2.09**	3.06	(32)	2.60	**2.47**	3.19	(23)
Operating and transportation expense per boe	**21.78**	17.21	27	21.37	**21.38**	18.37	16

Operating Netbacks
Gear's operating netback was $41.65 per boe in the third quarter of 2014 compared to $46.97 per boe in the same period of 2013. The decrease is the result of decreased commodity prices and increased operating costs, offset by decreased royalties.

The components of operating netbacks are summarized in Table 9:

Table 9

Netbacks ($ per boe)	**Q3 2014 Total ($/boe)**	Q3 2013 Total ($/boe)	% Change	Q2 2014 Total ($/boe)	**YTD Q3 2014 Total ($/boe)**	YTD Q3 2013 Total ($/boe)	% Change
Weighted average sales price	**78.17**	82.70	(5)	84.30	**80.20**	67.54	19
Other	**0.23**	0.07	229	0.19	**0.15**	0.09	67
Total sales	**78.40**	82.77	(5)	84.49	**80.35**	67.63	19
Royalties	**(14.97)**	(18.59)	(19)	(16.35)	**(15.00)**	(15.31)	(2)
Operating costs	**(21.78)**	(17.21)	27	(21.37)	**(21.38)**	(18.37)	16
Netback	**41.65**	46.97	(11)	46.77	**43.98**	33.95	30

General and Administrative ("G&A") Expenses and Share-based compensation ("SBC")
G&A totaled $2.0 million and $6.2 million for the three and nine months ended September 30, 2014 respectively, an increase of $0.6 million and $2.1 million when compared to the same periods in 2013. On a per boe basis, G&A decreased by 13 per cent and increased four per cent for the three and nine months ended September 30, 2014. The quarterly and year to date increase in G&A is the result of the acquisition of heavy oil properties completed on April 30, 2014. As a result of the acquisition, Gear added additional staff, thereby increasing overall employee compensation. Second quarter G&A also included $0.5 million of one-time transaction costs associated with the acquisition as well as a one-time severance payment of $0.2 million.

SBC is related to bonus awards through the granting of actual common shares and stock options to Gear's employees. During 2014, 1.7 million options were granted at an average exercise price of $5.35, 1.0 million options were exercised at an average exercise price of $2.50 and 0.3 million options were forfeited at an average exercise price of $2.50. As at September 30, 2014, a total of 4.7 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				Nine months ended		
($ thousands except per boe)	**Sep 30, 2014**	Sep 30, 2013	% Change	Jun 30, 2014	**Sep 30, 2014**	Sep 30, 2013	% Change
G&A expenses	**1,978**	1,335	48	2,395	**6,152**	4,027	53
SBC expense	**478**	493	(3)	304	**976**	2,161	(55)
G&A expenses per boe	**3.20**	3.68	(13)	4.27	**3.96**	3.79	4
SBC expense per boe	**0.77**	1.36	(43)	0.54	**0.63**	2.04	(69)

Interest and financing charges

Interest and financing charges totaled $0.7 million in the third quarter of 2014, an increase of 12 per cent over the third quarter of 2013. The majority of the increase is due to a 61 per cent increase in average debt levels from $54.9 million in the third quarter of 2013 to $88.4 million in the third quarter of 2014. The impact on interest expense from increased debt levels was muted by the fact that Gear's average interest rate decreased from 4.68 per cent in the third quarter of 2013 to 3.25 per cent in the third quarter of 2014. Gear's interest rate on its demand facility is dependent on the second proceeding quarter's debt to cash flow ratio. For instance, Gear's third quarter 2014 interest rate is dependent on the first quarter 2014 debt to cash flow ratio. The debt to cash flow ratio decreased from 2.7 times in the first quarter of 2013 to 0.4 times in the first quarter of 2014. Fourth quarter 2014 stamping fees are based on Gear's previously reported second quarter net debt to annualized cash flow from operations ratio of 1.1 times. As a result, interest rates are expected to rise to approximately 3.5 per cent.

Table 11 is a breakdown of interest expense:

Table 11

Interest and financing charges	Three months ended				Nine months ended		
($ thousands except per boe)	**Sep 30, 2014**	Sep 30, 2013	% Change	Jun 30, 2014	**Sep 30, 2014**	Sep 30, 2013	% Change
Interest expense	**686**	597	15	763	**1,981**	1,536	29
Financing charges	**23**	10	130	28	**115**	50	130
Standby and letter of credit fees	**8**	35	(77)	21	**42**	64	(34)
Interest and financing charges	**717**	642	12	812	**2,138**	1,650	30
Interest and financing charges per boe	**1.16**	1.77	(34)	1.45	**1.38**	1.55	(11)_

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. Currently, Gear's risk management strategy consists of entering into structures whereby Gear maintains a floor price necessary to maintain a loan value on its reserves for its credit facility but still allowing for the upside participation in crude oil prices. 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 third quarter of 2014, Gear had 1,000 barrels per day hedged at a fixed WTI price of Cdn$99.73 per barrel as well as 1,500 barrels per day at various collar prices, generating cash hedging losses of $0.6 million.

For the fourth quarter of 2014, Gear has hedged 1,000 barrels per day with 3-way enhanced WTI swaps at a price of Cdn$99.73 per barrel and 1,500 barrels per day at various collars. Going into the first half of 2015, Gear has purchased Cdn$90 WTI floors for 3,000 barrels per day of production at an average premium cost of $1.22 per barrel. 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 risk management 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 $21.52 per boe and $21.18 per boe for the three and nine months ended September 30, 2014. This compares with DD&A rates of $22.00 per boe and $21.86 per boe for the three and nine months ended September 30, 2013. Gear's finding and development costs decreased marginally year over year resulting in a decreased DD&A rate. This is consistent with Gear's mandate to increase capital efficiencies as a key component of value creation.

Table 12

DD&A Rate	Three Months Ended				Nine Months Ended		
($ thousands except per boe)	**Sep 30, 2014**	Sep 30, 2013	% Change	Jun 30, 2014	**Sep 30, 2014**	Sep 30, 2013	% Change
DD&A	**13,294**	7,977	67	11,813	**32,901**	23,214	42
DD&A rate per boe	**21.52**	22.00	(2)	21.03	**21.18**	21.86	(3)

Taxes

During the third quarter of 2014, a deferred tax expense of $3.1 million was recorded compared to an expense of $1.0 million 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 September 30, 2014 Gear's estimated tax pools were $322.5 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 $28.8 million in the third quarter of 2014 as compared to $17.1 million in the third quarter of 2013. The majority of capital activity in the quarter relates to drilling, with Gear drilling 24 gross (20.4 net) wells in the quarter. Year to date Gear has drilled 58 gross (52.4 net) wells and spent $63.6 million of its $85 million capital budget. In the fourth quarter Gear plans to drill approximately 21 gross (19 net) wells.

In September Gear successfully drilled its first two dual leg horizontal wells in Wildmere Alberta. This has provided a material improvement in expected economic results over a single horizontal well, with approximately double the productivity at only 40 per cent higher drilling cost. The first well has averaged 185 bbl per day for the first 30 days and continues to produce strongly. These results are very encouraging and will be followed up with four more multi-lateral horizontal wells into various plays throughout the fourth quarter of 2014. In the third quarter, Gear also commenced drilling on new lands acquired through the April 30th Acquisition. Five gross (2.3 net) wells were drilled in the areas of Morgan and Wildmere Sparky. These five wells averaged 77 bbl per day per well through September, exceeding expectations.

Results of the Wildmere Lloydminster polymer pilot continue to be encouraging, with oil production tripling since the pilot was initiated and no breakthrough of polymer observed to date. However, in light of current reduced pricing expectations for 2015, Gear has decided to defer commercial EOR expenditures and will instead focus on refining the simulation models and facility designs.

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

Table 13

Capital expenditures	Three Months Ended				Nine Months Ended		
($ thousands)	**Sep 30, 2014**	Sep 30, 2013	% Change	Jun 31, 2014	**Sep 30, 2014**	Sep 30, 2013	% Change
Geological and geophysical	**503**	224	125	117	**792**	702	13
Drilling and completions	**19,638**	13,149	49	6,741	**43,010**	23,882	80
Production equipment and facilities	**6,434**	3,917	64	3,541	**17,038**	10,361	64
Undeveloped land purchased at crown land sales	**698**	25	-	1,840	**2,608**	1,111	135
Other	**41**	27	52	89	**163**	63	159
Total capital expenditures	**27,314**	17,342	58	12,328	**63,611**	36,119	76
Acquisition through business combination[1]	**764**	-	-	78,927	**79,691**	-	-
Property acquisitions and dispositions, net [1]	**687**	(200)	(444)	159	**1,197**	(64)	-
Total capital expenditures and net acquisitions	**28,765**	17,142	68	91,414	**144,499**	36,055	301

(1) Includes post-closing adjustments.

Decommissioning Liability

At September 30, 2014, Gear has recorded a decommissioning liability of $68.9 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 2.61 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 530 net wells from the acquisition of heavy oil properties completed on April 30th, the addition of 52.4 net wells drilled as part of Gear's 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 September 30, 2014 and December 31, 2013:

Table 14

Debt ($ thousands except ratio amounts)	**Sep 30, 2014**	Dec 31, 2013
Net debt [(1)]	**94,334**	67,148
Net debt to annualized cash flow from operations	**1.1**	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*".

At September 30, 2014 Gear had syndicated demand facilities with two banks with a borrowing limit on the facilities of $100 million. With a debt balance of $86.7 million and a letter of credit for $0.7 million at September 30th, Gear had $12.6 million in unused credit available. Subsequent to September 30, 2014, Gear entered into syndicated demand facilities with three banks and increased the borrowing limit on the Facilities to $130 million. The terms and conditions of the Facilities were not substantially modified from the previous credit facility. 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 facilities are 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 June 1, 2015. As at September 30, 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 third quarter of 2014, the debt to annualized cash flow from operations ratio was 1.1 times, a decrease from the fourth quarter of 2013 where net debt to cash flow from operations ratio was 2.0 times. Net debt increased during the third quarter of 2014 as a result of the acquisition of heavy oil properties for total proceeds of $82.7 million. Based on forward prices, Gear expects a net debt to cash flow of approximately 1.2 times for the fourth quarter of 2014.

Gear typically uses two markets to raise capital: equity and bank debt. It is expected 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 September 30, 2014, 70.8 million Gear common shares were outstanding, an increase of 16.9 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 1.0 million common shares from stock option exercises for total gross proceeds of $2.5 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 September 30, 2014, Gear had four contractual commitments:

- lease agreements for its head office and its field office,
- a drilling rig commitment, 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 $0.3 million and a total commitment of $0.5 million. The lease agreement for Gear's field office is effective until December 31, 2015 with a total commitment of $0.1 million. The drilling rig commitment is effective until June 15, 2016 with an annual commitment of $3.4 million and a total commitment of $7.6 million. Finally, premium commitments on certain risk management contracts payable throughout 2015 with a total commitment of $0.7 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 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 September 30, 2014. In addition, Gear also has one letter of credit which has not been reflected on its unaudited Balance Sheet but has been disclosed 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, 2013.

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			Nine months ended	
($ thousands)	**Sep 30, 2014**	Sep 30, 2013	Jun 30, 2014	**Sep 30, 2014**	Sep 30, 2013
Cash flow from operating activities	**21,428**	12,991	20,294	**52,500**	31,749
Expenditures on site restoration and reclamation	**1,110**	502	730	**1,908**	504
Change in non-cash working capital	**42**	(1,413)	(363)	**1,035**	(5,459)
Cash flow from operations	**22,580**	12,080	20,661	**55,443**	26,794

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)	**Sep 30, 2014**	Dec 31, 2013
Debt	**86,662**	64,917
Working capital deficit (surplus) (1)	**7,672**	2,231
Net debt obligations	**94,334**	67,148

(1) Excludes risk management contracts.

At September 30, 2014 Gear had a working capital deficit of $7.7 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 $12.6 million available as of September 30, 2014. 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

	Three months ended			Nine months ended	
(thousands, except per share amounts)	**Sep 30, 2014**	Sep 30, 2013	Jun 30, 2014	**Sep 30, 2014**	Sep 30, 2013
Weighted average shares	**70,798**	53,956	70,293	**65,320**	53,924
Rolling Twelve Month Cash flow from operations	**n/a**	37,893	n/a	**n/a**	37,893
Share price to extinguish debt	**5.41**	3.50	5.24	**4.58**	3.50
Average net debt (1)	**90,985**	54,828	53,023	**80,741**	52,769
Share equivalent on average net debt	**16,818**	15,665	10,119	**17,629**	15,077
Debt adjusted shares	**87,616**	69,621	80,412	**82,949**	69,001

(1) Average net debt obtained by a simple average between opening and ending net debt for the three and nine 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 September 30, 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 September 30, 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 to clarify the disclosures required when an impairment loss has been recognized or reversed in the period. The retrospective adoption of these amendments will only impact Gear’s disclosures in the notes to the financial statements in periods when an impairment loss or impairment reversal is recognized.

- IAS 39 "Financial Instruments: Recognition and Measurement" has been amended to clarify that there would be no requirement to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The retrospective adoption of the amendments does not have any impact on Gear’s financial statements.

- IFRIC 21 "Levies," was developed by the IFRS Interpretations Committee ("IFRIC") and is applicable to all levies imposed by government under legislation, other than outflows that are within the scope of other standards (e.g., IAS 12 “Income Taxes”) and fines or other penalties for breaches of legislation. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. Lastly, the interpretation clarifies that a liability should not be recognized before the specified minimum threshold to trigger that levy is reached. The retrospective adoption of this interpretation does not have any significant impact on Gear’s financial statements.

Future Accounting Policy Changes

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

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

Forward-looking Information and Statements

This third 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 third 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 third 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 third 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 third quarter report are made as of the date of this third 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)	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
FINANCIAL								
Sales of crude oil, natural gas and NGLs	48,273	47,331	28,954	25,758	29,976	24,494	17,234	22,820
Cash flow from operations [(1)]	22,580	20,661	12,202	8,309	12,080	9,550	5,165	11,099
Per basic	0.32	0.29	0.22	0.15	0.22	0.18	0.10	0.21
Per diluted	0.31	0.29	0.22	0.15	0.22	0.18	0.10	0.21
Cash flow from operating activities	21,428	20,294	10,780	7,765	12,991	9,997	8,762	7,411
Per basic and diluted	0.30	0.28	0.20	0.14	0.24	0.19	0.16	0.14
Net income (loss)	8,914	6,420	1,588	(539)	2,449	643	(3,611)	1,080
Per basic	0.13	0.09	0.03	(0.01)	0.05	0.01	(0.07)	0.02
Per diluted	0.12	0.09	0.03	(0.01)	0.05	0.01	(0.07)	0.02
Capital expenditures	27,314	12,328	23,972	17,440	17,342	5,166	13,611	5,492
Net acquisitions [(2)]	1,451	79,086	348	(29)	(200)	66	70	1,683
Net debt outstanding [(1)]	94,334	87,635	18,412	67,148	57,615	52,044	56,128	47,926
Weighted average shares outstanding, basic (thousands)	70,798	70,293	54,694	53,956	53,956	53,956	53,858	53,858
Weighted average shares outstanding, diluted (thousands)	72,314	71,768	55,799	54,392	53,956	53,956	53,858	53,858
Shares outstanding, end of period (thousands)	70,817	70,734	69,960	53,956	53,956	53,956	53,858	53,858
OPERATING								
Production								
Oil and liquids (bbl/d)	6,529	6,004	3,975	4,369	3,652	3,668	3,445	3,753
Natural gas (mcf/d)	1,101	998	1,095	1,641	1,723	1,672	1,995	1,927
Total (boe/d)	6,712	6,170	4,158	4,642	3,940	3,947	3,777	4,073
Average prices								
Oil and liquids ($/bbl)	79.72	85.88	79.50	62.91	88.01	71.71	53.77	64.50
Natural gas ($/mcf)	3.89	4.52	5.20	3.12	2.53	3.66	3.13	3.13
Oil equivalent ($/boe)	78.17	84.30	77.38	60.31	82.70	68.19	50.69	60.89
Netback ($/boe)								
Commodity and other sales	78.40	84.49	77.38	60.37	82.77	68.26	50.81	60.93
Royalties	14.97	16.35	13.02	15.15	18.59	16.16	10.93	14.66
Operating costs	21.78	21.37	20.73	16.72	17.21	19.13	18.81	15.34
Operating netback (before hedging)	41.65	46.77	43.63	28.50	46.97	32.97	21.07	30.93
Realized risk management gains (losses)	(1.04)	(4.16)	(4.68)	(3.53)	(8.20)	(1.12)	(0.57)	3.19
Operating netback (after hedging)	40.61	42.61	38.95	24.97	38.77	31.85	20.50	34.12
General and administrative	3.20	4.27	4.76	4.31	3.68	3.79	3.91	3.40
Interest	1.16	1.45	1.63	1.24	1.77	1.48	1.40	1.30
Foreign exchange (gain) loss	(0.32)	0.09	(0.05)	-	-	-	-	-
Corporate netback	36.57	36.80	32.61	19.42	33.32	26.58	15.19	29.42

(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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