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 March 10, 2015 and should be read in conjunction with the unaudited Financial Statements as at and for the three and twelve months ended December 31, 2014 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 Information and 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 21 staff in the Calgary office and 8 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

ECONOMIC ENVIRONMENT

In the last few months, Gear has seen a very 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 changing economic environment, Gear has decreased its original $100 million capital budget plan for 2015 to a $3 million capital budget plan for the first half of 2015. Not surprisingly, the global energy sector has also responded by decreasing capital investment. Gear believes that a lack of capital investment in the sector will result in an eventual re-balancing of the supply-demand equation and an eventual increase in crude oil prices. For the first six months of 2015, Gear expects to reduce its debt levels by applying generated cash flows to debt repayment. In addition, once crude oil prices eventually recover and industry service costs decrease meaningfully, Gear anticipates the recommencement of drilling new wells.

2014 AND 2015 GUIDANCE

Table 1 summarizes first half 2015 guidance and 2014 guidance compared to 2014 results.

Table 1

	H1-2015 Guidance	2014 Guidance	Actual 2014
Production – Annual (boe/d)	**6,400**	6,200 – 6,400	6,020
Royalty rate (%)	**16 – 18**	16 – 18	18.5
Operating costs ($/boe)	**17.00 – 19.00**	19.00 – 21.00	20.96
General and administrative expense ($/boe)	**3.00 – 3.25**	3.70 – 3.90	3.35
Interest expense ($/boe)	**1.30 – 1.50**	1.05 – 1.25	1.36
Capital expenditures ($ millions)	**3**	85	84.6

Through the fourth quarter Gear shut in approximately 150 boepd of oil production that was considered uneconomic at current prices. On April 30, 2014 Gear closed an acquisition of heavy oil assets focused near the company's core producing areas of West Central Alberta and East Central Saskatchewan ("the Acquisition"). The acquired assets include approximately 2,100 boepd of high working interest, operated heavy oil production.

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				Twelve months ended		
	Dec 31, 2014	Dec 31, 2013	% Change	Sep 30, 2014	**Dec 31, 2014**	Dec 31, 2013	% Change
Cash flow from operations per debt adjusted share (1)	**0.207**	0.112	85	0.258	**0.881**	0.490	80
Production, boepd per debt adjusted thousand shares (1)	**0.070**	0.062	13	0.077	**0.070**	0.057	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*".

KEY PROPERTIES
Wildmere Lloyd
Since 2010, Wildmere Lloyd has been Gear's most prolific property to date. Currently, Wildmere Lloyd accounts for 31 per cent of total production. There were seven gross (4.8 net) single leg horizontal wells drilled during 2014 with varying degrees of success. Future Lloydminster development will be targeted with multi-lateral horizontal wells in an effort to improve the economics of the play. In September 2012, Gear commenced a horizontal polymer pilot project. To date, all indicators have been positive, with no early breakthrough and a fourfold production response from the adjacent producers. In the current price environment, commercial polymer flood plans are on hold however should prices improve, management believes there is potential for significant value creation through an increase in recovery factor of the large oil in place, based on the pilot success and comparable analogues.

Wildmere Cummings
The Wildmere Cummings is an oil pool southeast and northwest of Gear's Wildmere Lloyd pool and currently accounts for eight percent of total production. In 2012, Gear acquired numerous sections through crown land sales. In the past, this property was vertically drilled with limited success. Well logs have shown that a large pool exists and Gear has now applied horizontal drilling to successfully unlock oil from the Cummings zone. In 2014, Gear drilled 15 gross (15 net) wells and an additional step-out well that has extended the pool eastward. Based on success to date, Gear believes it has 100 potential horizontal legs that can be drilled within the pool. As in the Wildmere Lloyd pool, Gear is applying various techniques to assess optimal drilling, completions and EOR techniques to maximize recovery and ultimate profitability from the Wildmere Cummings play. The next well to be drilled in the Cummings will be a four legged multi-lateral unlined well which has the potential to yield a material improvement in capital efficiency.

Maidstone
The Maidstone area is currently producing almost 20 per cent of total corporate production. In December 2012, Gear acquired various lands through a receivership sale for approximately $4 million. The primary focus was two and a half sections of land proven up by a number of Cummings heavy oil wells drilled by various other parties. Gear has now successfully grown this area by drilling 22 horizontal wells into the Cummings. Gear also targeted a second zone in the Waseca through vertical drilling and reactivations. Gear drilled 17 gross (17 net) wells through 2014 in the Maidstone area.

Morgan
In April 2014, Gear acquired various heavy oil properties in Alberta and Saskatchewan, including the Morgan Lloydminster pool. Through the drilling of seven gross wells (four net), two of which started producing in January 2015, Gear has increased production from approximately 200 bbl/d to 600 bbl/d in December 2014. The Morgan area currently produces approximately 10 per cent of total corporate production.

Exploration
In 2014, Gear dedicated significant efforts towards finding and developing new heavy oil resources through both organic means and acquisitions. Through 2014 alone, Gear has acquired more than 45 sections of undeveloped heavy oil prospective land. Gear has been and continues to methodically assess the viability of these new lands with seismic and low risk exploratory drilling. For 2014, Gear drilled eight exploratory wells resulting in five expanded pools and/or potential new core areas.

2014 FOURTH QUARTER FINANCIAL AND OPERATIONAL RESULTS

Cash flow from operations
Cash flow from operations for the three months ended December 31, 2014 was $20.6 million, a $12.3 million increase when compared to the same period in 2013. Increased cash flow is the result of increased volumes, higher commodity prices, reduced losses on risk management contracts, lower general and administrative expenses and higher gains on foreign exchange, offset by increased royalties, operating and interest expenses.

For the twelve months ended December 31, 2014 cash flow from operations was $76.0 million, a $40.9 million increase over 2013. This increase is the result of higher production volumes, stronger commodity prices, reduced losses on risk management contracts and increased foreign exchange gains, offset by increased royalties, 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 Dec 31		Twelve months ended Dec 31	
	$ thousands	$/boe	$ thousands	$/boe
Q4 2013 Cash flow from operations (1)	8,309	19.45	35,103	23.58
Volume variance	13,099		46,442	
Price variance	716	1.11	20,384	9.26
Cash gains/losses on risk management contracts	4,075	7.49	2,907	2.42
Royalties	(630)	4.13	(7,668)	1.43
Expenses:				
Operating	(5,701)	(3.22)	(19,408)	(3.06)
General and administrative	640	2.44	(1,496)	0.59
Interest	(314)	(0.07)	(801)	0.11
Foreign exchange	408	0.63	581	0.26
Q4 2014 Cash flow from operations (1)	20,602	31.96	76,044	34.59

(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 twelve months ended December 31, 2014, Gear generated net losses of $30.0 million and $13.1million, respectively. This compares to net losses of $0.5 million and $1.1 million for the same periods in 2013. The changes in net income are due to several factors discussed below.

Production

Production volumes averaged a record 7,001 barrels per day in the fourth quarter of 2014, compared to 4,642 barrels per day in the same period in 2013. Production volumes for the full year increased from 4,079 barrels per day in 2013 to 6,020 barrels per day in 2014. With the acquisition of heavy oil assets during the second quarter and strong results from an active 2014 drilling program, production increased by 51 per cent and 48 per cent, respectively.

Throughout 2014 Gear brought 70 wells on production resulting in positive organic production growth through the year. The most notable production additions came from Gear's core areas in Maidstone Saskatchewan, Wildmere Alberta (Cummings pool) and Morgan Alberta. Production in Maidstone increased 125 per cent from December 2013, contributing 1,200 barrels per day at December 31, 2014. Similarly, production growth in Wildmere Cummings increased from 100 barrels per day at the end of 2013 to 600 barrels per day at the end of 2014. Gear's property in Morgan Alberta was acquired through the acquisition of heavy oil assets in the second quarter. With successful drilling, Gear increased production from approximately 200 barrels per day to 600 barrels per day in December 2014.

Table 4

	Three months ended				Twelve months ended		
Production	**Dec 31, 2014**	Dec 31, 2013	% Change	Sep 30, 2014	**Dec 31, 2014**	Dec 31, 2013	% Change
Oil and NGL (bbl/d)	**6,836**	4,369	56	6,529	**5,846**	3,786	54
Natural gas (mcf/d)	**991**	1,641	(40)	1,101	**1,046**	1,757	(40)
Total production (boe/d) (1)	**7,001**	4,642	51	6,712	**6,020**	4,079	48
% Oil and NGL production	**98**	94	4	97	**97**	93	4
% Natural gas production	**2**	6	(67)	3	**3**	7	(57)

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

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

Through the fourth quarter of 2014 Gear shut in approximately 150 boepd of oil that was deemed to be uneconomic at current low prices. In January 2015 Gear shut-in an additional 350 boepd of uneconomic heavy oil production with a further 150 boepd shut in through February; as a result first quarter production is expected to decrease slightly. Current expectations are for production to average 6,400 boepd through the first half of 2015. With oil price improvement Gear will look to restart much of this shut in production and reinitiate our growth plans. .

Revenue
Sales of crude oil, natural gas and natural gas liquids for the fourth quarter of 2014 totaled $39.6 million, a 54 per cent increase over the fourth quarter 2013 sales of $25.8 million. Annual sales of crude oil, natural gas and natural gas liquids increased 68 per cent in 2014 compared to 2013. These year-over-year increases in revenue are attributable to increased production volumes as well as increased realized prices.

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

Table 5

Sales by product	Three months ended				Twelve months ended		
($ thousands)	**Dec 31, 2014**	Dec 31, 2013	% Change	Sep 30, 2014	**Dec 31, 2014**	Dec 31, 2013	% Change
Oil and natural gas liquids	**39,233**	25,286	55	47,880	**162,475**	95,470	70
Natural gas	**325**	472	(31)	393	**1,641**	1,992	(18)
Total sales	**39,558**	25,758	54	48,273	**164,116**	97,462	68
Other revenue	**42**	26	62	138	**289**	115	151
Total revenue	**39,600**	25,784	54	48,411	**164,405**	97,577	68

Commodity Prices
Table 6

	Three months ended				Twelve months ended		
Average Benchmark Prices	**Dec 31, 2014**	Dec 31, 2013	% Change	Sep 30, 2014	**Dec 31, 2014**	Dec 31, 2013	% Change
WTI oil (US$/bbl) (1)	**73.20**	97.43	(25)	97.17	**92.91**	97.96	(5)
Cdn$ / US$ exchange rate	**1.14**	1.05	9	1.09	**1.10**	1.03	7
WTI oil (Cdn$/bbl)	**83.45**	102.30	(18)	105.92	**102.20**	100.90	1
WCS differential (US$/bbl) (2)	**(14.24)**	(32.20)	(56)	(20.17)	**(19.47)**	(25.03)	(22)
AECO natural gas ($/mcf) (3)	**4.01**	3.15	27	4.22	**4.42**	3.16	40
Gear Realized Prices							
Oil and NGL ($/bbl)	**62.39**	62.91	(1)	79.72	**76.15**	69.18	10
Natural gas ($/mcf)	**3.57**	3.12	14	3.89	**4.30**	3.11	38
Total commodity price ($/boe)	**61.42**	60.31	2	78.17	**74.69**	65.47	14
Other revenue ($/boe)	**0.06**	0.06	0	0.23	**0.13**	0.08	63
Total revenue ($/boe)	**61.48**	60.37	2	78.40	**74.82**	65.55	14

(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 fourth quarter decreased by 25 per cent over the fourth quarter of 2013. This was offset with a narrowing of the WCS differential by 56 per cent from US$32.20 per barrel to US$14.24 per barrel and the weakening of the Canadian dollar resulting in Gear's realized commodity price of $61.42 per boe.

On a year-to-date basis, US denominated WTI decreased from $97.96 in 2013 to $92.91 and the WCS differential narrowed by 22 percent. These movements combined with the weakening of the Canadian dollar resulted in an overall increase the Gear's realized commodity price of 14 per cent in 2014 to $74.69 per boe.

Starting in November 2014, global crude oil prices decreased significantly as a result of increased supply and softening demand. Based on the current forward curve, Gear's realized heavy oil price for the first and second quarter of 2015 is expected to range from $37/bbl to $43/bbl. Although the expected WCS differential has narrowed in this period, it has widened as a percentage of WTI, resulting in the lowest heavy oil prices in Gear's history. Gear expects crude oil prices to be highly volatile in 2015 as the market struggles to find a balance between supply and demand.

In order to maximize the price received for crude oil and to minimize risks associated with infrastructure, Gear sells its oil via three outlets: pipelines, rail, and trucking. In December 2014, Gear encountered takeaway challenges on both pipeline (through apportionments) and rail (through logistics). As a result, Gear was unable to sell some of its produced oil. These constraints have been alleviated in 2015; however, such risks may still arise from time to time.

Royalties
In the fourth quarter of 2014, royalties as a percentage of commodity product sales were 17.9 per cent, an improvement of 29 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.

Table 7

Royalty expense		Three months ended				Twelve months ended	
($ thousands except % and per boe)	**Dec 31, 2014**	Dec 31, 2013	% Change	Sep 30, 2014	**Dec 31, 2014**	Dec 31, 2013	% Change
Royalty expense	**7,100**	6,470	10	9,245	**30,394**	22,726	34
Royalty expense as a % of Sales	**17.9**	25.1	(29)	19.1	**18.5**	23.3	(21)
Royalty expense per boe	**11.02**	15.15	(27)	14.97	**13.83**	15.27	(9)

In both Alberta and Saskatchewan crown royalties are based on a sliding scale with sensitivity to both price and total production per well. Using current forward prices the outlook for 2015 is much lower than that realized in 2014 which may result in a lower corporate royalty rate in 2015.

Operating and Transportation costs

Operating costs increased to $19.94 per boe in the fourth quarter of 2014 compared to $16.72 per boe in the fourth quarter of 2013, but have decreased from the third quarter of 2014. On a year-to-date basis operating costs have increased to $20.96 per boe in 2014 from $17.90 per boe in 2013.

The heavy oil assets Gear acquired in the second quarter of 2014 carried a much higher cost profile than Gear's previously owned assets, with approximately $30 per boe of operating costs when they were first acquired. Immediately after the acquisition Gear staff worked to decrease costs on these properties through volume additions and a variety of capital infrastructure investments and field process improvements. The results of this optimization work were first realized in the fourth quarter and are expected to continue into the first quarter of 2015.

Table 8 below summarizes the operating and transportation expense:

Table 8

Operating and Transportation expense		Three months ended				Twelve months ended	
($ thousands except per boe)	**Dec 31, 2014**	Dec 31, 2013	% Change	Sep 30, 2014	**Dec 31, 2014**	Dec 31, 2013	% Change
Operating expense	**11,798**	6,200	90	12,156	**41,682**	22,314	87
Transportation expense	**1,042**	940	11	1,293	**4,367**	4,327	1
Operating and transportation expense	**12,840**	7,140	80	13,449	**46,049**	26,641	73
Operating expense per boe	**18.32**	14.52	26	19.69	**18.97**	14.99	27
Transportation expense per boe	**1.62**	2.20	(26)	2.09	**1.99**	2.91	(32)
Operating and transportation expense per boe	**19.94**	16.72	19	21.78	**20.96**	17.90	17

Operating Netbacks

Gear's operating netback was $30.52 per boe in the fourth quarter of 2014 compared to $28.50 per boe in the same period of 2013. The increase is the result of higher commodity prices and lower royalties, offset by increased operating costs. For the full year 2014, Gear's operating netback increased to $40.03 per boe from $32.38 per boe in 2013 due to similar reasons as above.

The components of operating netbacks are summarized in Table 9:

Table 9

Netbacks ($ per boe)	**Q4 2014 Total ($/boe)**	Q4 2013 Total ($/boe)	% Change	Q3 2014 Total ($/boe)	**YTD Q4 2014 Total ($/boe)**	YTD Q4 2013 Total ($/boe)	% Change
Weighted average sales price	**61.42**	60.31	2	78.17	**74.69**	65.47	14
Other	**0.06**	0.06	0	0.23	**0.13**	0.08	63
Total sales	**61.48**	60.37	2	78.40	**74.82**	65.55	14
Royalties	**(11.02)**	(15.15)	(27)	(14.97)	**(13.83)**	(15.27)	(9)
Operating costs	**(19.94)**	(16.72)	19	(21.78)	**(20.96)**	(17.90)	17
Netback	**30.52**	28.50	7	41.65	**40.03**	32.38	24

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

G&A totaled $1.2 million and $1.86/boe for the three months ended December 31, 2014 this compares to $1.8 million and $4.31/boe in same period in 2013. The decrease in G&A is the result of a revision to the accrued compensation estimate for 2014 as well as increased production volumes.

On a year-to-date basis G&A increased from $5.9 million in 2013 to $7.4 million in 2014. This increase 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. On a per boe basis year to date G&A was $3.35/boe, a decrease of 15 per cent from the same time period in 2013.

SBC is related to bonus awards through the granting of actual common shares and stock options to Gear's employees. During 2014 1.8 million options were granted at an average exercise price of $5.23, 1.0 million options were exercised at an average exercise price of $2.50 and 0.4 million options were forfeited at an average exercise price of $2.50. As at December 31, 2014, a total of 4.8 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				Twelve months ended	
($ thousands except per boe)	**Dec 31, 2014**	Dec 31, 2013	% Change	Sep 30, 2014	**Dec 31, 2014**	Dec 31, 2013	% Change
G&A expenses	**1,197**	1,840	(35)	1,978	**7,351**	5,869	25
SBC expense	**635**	404	57	478	**1,611**	2,565	(37)
G&A expenses per boe	**1.86**	4.31	(57)	3.20	**3.35**	3.94	(15)
SBC expense per boe	**0.99**	0.95	4	0.77	**0.73**	1.72	(58)

Interest and financing charges

Interest and financing charges totaled $0.8 million in the fourth quarter of 2014, an increase of 59 per cent over the fourth quarter of 2013. The majority of the increase is due to a 58 per cent increase in average debt levels from $60.8 million in the fourth quarter of 2013 to $96.4 million in the fourth quarter of 2014. Gear's average interest rate remained unchanged for the fourth quarter year-over-year at 3.5 per cent. 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 fourth quarter 2014 interest rate is dependent on the second quarter 2014 debt to cash flow ratio. The debt to cash flow ratio decreased from 1.4 times in the second quarter of 2013 to 1.1 times in the second quarter of 2014. First quarter 2015 stamping fees are based on Gear's previously reported third quarter net debt to annualized cash flow from operations ratio of 1.1 times. As a result, based on Gear's pricing grid, interest rates are expected to remain relatively unchanged.

Table 11 is a breakdown of interest expense:

Table 11

Interest and financing charges		Three months ended				Twelve months ended	
($ thousands except per boe)	**Dec 31, 2014**	Dec 31, 2013	% Change	Sep 30, 2014	**Dec 31, 2014**	Dec 31, 2013	% Change
Interest expense	**793**	488	63	686	**2,774**	2,025	37
Financing charges	**41**	15	173	23	**156**	70	123
Standby and letter of credit fees	**8**	25	(68)	8	**50**	84	(40)
Interest and financing charges	**842**	528	59	717	**2,980**	2,179	37
Interest and financing charges per boe	**1.31**	1.24	6	1.16	**1.36**	1.46	(7)

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 contract does not, and contracts entered into in the future 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 production, net of royalties, for the current and following calendar year. For the fourth 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 gains of $2.6 million.

For the first half of 2015, Gear has hedged 3,000 barrels per day of production through Cdn$90 WTI floors 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 higher 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.

Depletion, Depreciation and Amortization Expense ("DD&A") and Impairment Charges
DD&A, prior to any impairment, was $23.96 per boe and $22.00 per boe for the three and twelve months ended December 31, 2014. This compares with DD&A rates of $20.64 per boe and $21.50 per boe for the three and twelve months ended December 31, 2013. Gear's finding and development costs increased year over year resulting in an increased DD&A rate.

At December 31, 2014, an impairment charge of $48.8 million was recognized associated with Gear's single CGU as a result of lower forward commodity pricing. There were no impairment charges or recoveries in 2013. See Note 4 "Management Judgments and Estimation Uncertainty" to Gear's financial statements for the year ended December 31, 2014 for more information.

Gear records its inventory at the lower of cost and net realizable value. At December 31, 2014 an impairment charge of $5.0 million was recorded as the historical cost of the inventory exceeded its net realizable value. This impairment was included in the statement of loss for the three and twelve months ended December 31, 2014. See Note 5 "Inventory" to Gear's financial statements for the year ended December 31, 2014.

As future commodity prices remain volatile, impairment charges or recoveries could be recorded in future periods.

Table 12

DD&A Expense	Three Months Ended				Twelve Months Ended		
($ thousands except per boe)	**Dec 31, 2014**	Dec 31, 2013	% Change	Sep 30, 2014	**Dec 31, 2014**	Dec 31, 2013	% Change
DD&A	**15,429**	8,813	75	13,294	**48,330**	32,027	51
DD&A rate per boe	**23.96**	20.64	16	21.52	**22.00**	21.50	2
Impairment charges	**53,800**	-	-	-	**53,800**	-	-

Exploration Expense
For the year ended December 31, 2014 Gear recorded $3.3 million of exploration expense. Gear's E&E balance comprised of a single gas property located in northern British Columbia. After considering the recoverable amount of these assets, their geographic location to Gear's current producing properties as well as remaining land tenure, management concluded that future development in the area is unlikely and the full amount was charged to income in the current period.

Taxes
During the fourth quarter of 2014, a deferred tax recovery of $9.6 million was recorded compared to a recovery of $0.1 million in 2013. The 2014 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 December 31, 2014 Gear's estimated tax pools were $325.9 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 $19.9 million in the fourth quarter of 2014 as compared to $17.4 million in the fourth quarter of 2013. The majority of capital activity in the quarter relates to drilling, with Gear drilling 17.1 net (19 gross) wells in the quarter. Year-to-date Gear has drilled 68.6 net (76 gross) wells and spent $84.6 million of its $85 million capital budget.

Given the current weakness and uncertainty in the future price of oil, Gear has adopted a conservative approach to its capital for the first half of 2015. At the time of writing, the future price of oil is much higher than the current spot price based on forward strip pricing. Management is committed to maximizing shareholder value and believes that returns on Gear's existing inventory of drilling locations can be materially improved by delaying investment until the spot price of oil improves along with a significant reduction in service costs. Gear intends to spend approximately $3 million in the first half of 2015, the majority of which will be spent completing and bringing on two dual lateral wells at Morgan and performing selective re-completion and optimization projects.

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

Table 13

Capital expenditures	Three Months Ended				Twelve Months Ended		
($ thousands)	**Dec 31, 2014**	Dec 31, 2013	% Change	Sep 30, 2014	**Dec 31, 2014**	Dec 31, 2013	% Change
Geological and geophysical	**252**	141	79	503	**1,044**	844	24
Drilling and completions	**11,891**	9,818	21	19,638	**54,901**	33,701	63
Production equipment and facilities	**7,564**	6,268	21	6,434	**24,601**	16,629	48
Undeveloped land purchased at crown land sales	**1,197**	1,192	-	698	**3,806**	2,302	65
Other	**65**	21	210	41	**228**	83	175
Total capital expenditures	**20,969**	17,440	20	27,314	**84,580**	53,559	58
Acquisition through business combination (1)	**(302)**	-	-	764	**79,099**	-	-
Property acquisitions and dispositions, net (1)	**(725)**	(29)	-	687	**762**	(92)	928
Total capital expenditures and net acquisitions	**19,942**	17,411	15	28,765	**164,441**	53,467	208

(1) Includes post-closing adjustments.

Decommissioning Liability

At December 31, 2014, Gear has recorded a decommissioning liability of $74.1 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 2.22 per cent (3.13 per cent at December 31, 2013). Abandonment cost estimates are derived from third party government sources and 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 68.6 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. Ongoing abandonment expenditures for all of Gear's assets are funded entirely out of cash flow from operations.

Capitalization, Financial Resources and Liquidity

A breakdown of Gear's capital structure is outlined in Table 14, as at December 31, 2014 and 2013:

Table 14

Debt		
($ thousands except ratio amounts)	**Dec 31, 2014**	Dec 31, 2013
Net debt (1)	**98,404**	67,148
Net debt to annualized fourth quarter cash flow from operations	**1.2**	2.0

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

In November 2014, Gear entered into syndicated demand facilities with three banks and increased the borrowing limit on the Facilities from $100 million to $130 million. The terms and conditions of the Facilities were not substantially modified from the previous credit facility. With a debt balance of $98.9 million and letters of credit of $0.7 million, Gear currently has $30.4 million in unused credit available. The credit facilities bear interest at Canadian bank prime or, at Gear's option, Canadian bankers' acceptances, plus applicable margin and stamping fee. The total stamping fees range, depending on Gear's debt to cash flow from operations ratio, between 50 bps to 250 bps on Canadian bank prime borrowings and between 175 bps and 375 bps on Canadian dollar banker's acceptances. The undrawn portion of the facilities are 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 regular reviews with the next scheduled review to be complete by June 1, 2015. As at December 31, 2014, Gear was in compliance with all externally imposed capital requirements.

Gear's long-term strategy is to target debt at less than two times cash flow from operations. For the fourth quarter of 2014, the debt to annualized cash flow from operations ratio was 1.2 times, a decrease from the fourth quarter of 2013 where net debt to cash flow from operations ratio was 2.0 times. The uncertainty of the future price of oil and recent volatility in the market has prompted Gear to curtail capital spending in the first half of 2015 in order to pay down debt and preserve the strength of Gear's balance sheet. If prices do not recover in the second half of 2015 Gear's debt to cash flow may exceed two times. Based on forward prices, Gear expects a net debt to cash flow ranging from 1.5 to two times for the first half of 2015.

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 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 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 December 31, 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 December 31, 2014, 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 $0.3 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 $5.7 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 $0.7 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 audited 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 December 31, 2014. In addition, Gear also has one letter of credit which has not been reflected on its audited Balance Sheet but has been disclosed in the notes to the audited 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 shares, 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 its 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			Twelve months ended	
($ thousands)	**Dec 31, 2014**	Dec 31, 2013	Sep 30, 2014	**Dec 31, 2014**	Dec 31, 2013
Cash flow from operating activities	**13,425**	7,765	21,428	**65,922**	39,511
Expenditures on site restoration and reclamation	**728**	98	1,110	**2,636**	602
Change in non-cash working capital	**6,449**	446	42	**7,486**	(5,010)
Cash flow from operations	**20,602**	8,309	22,580	**76,044**	35,103

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)	**Dec 31, 2014**	Dec 31, 2013
Debt	**98,900**	64,917
Working capital deficit (surplus) (1)	**(496)**	2,231
Net debt obligations	**98,404**	67,148

(1) Excludes risk management contracts and debt.

At December 31, 2014 Gear had a working capital surplus of $0.5 million ($2.2 million deficit at December 31, 2013). 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. 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 was 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			Twelve months ended	
(thousands, except per share amounts)	**Dec 31, 2014**	Dec 31, 2013	Sep 30, 2014	**Dec 31, 2014**	Dec 31, 2013
Weighted average shares	**70,817**	53,956	70,798	**66,706**	53,932
Rolling Twelve Month Cash flow from operations	**n/a**	n/a	n/a	**n/a**	35,103
Average share price	**3.37**	3.04	5.41	**4.22**	3.25
Average net debt (1)	**96,369**	62,380	90,985	**82,776**	57,537
Share equivalent on average net debt	**28,596**	20,519	16,818	**19,615**	17,703
Debt adjusted shares	**99,413**	74,475	87,616	**86,321**	71,635

(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.

Risk Factors

The Gear management team is focused on long-term strategic planning and has identified the key risks, uncertainties and opportunities associated with Gear’s business that can impact the financial results. They include, but are not limited to:

Prices, Markets and Marketing

Gear’s operational results and financial condition, and therefore the amount of capital expenditures, are dependent on the prices received for oil and natural gas production. Prices for oil and natural gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty and a variety of additional factors beyond the control of the Company. A material decline in prices could result in a reduction of net production revenue. The economics of producing from some wells may change because of lower prices, which could result in reduced production of oil or natural gas and a reduction in the volumes of Gear’s reserves. Management might also elect not to produce from certain wells at lower prices.

Gear’s ability to market its oil and natural gas may depend upon its ability to acquire space on pipelines or rail cars that deliver oil and natural gas to commercial markets. Deliverability uncertainties related to the distance that Gear’s reserves are to pipelines, processing and storage facilities, operational problems affecting pipelines and facilities as well as government regulation relating to prices, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business may also affect the Company.

These factors could result in a material decrease in Gear’s expected net production revenue and a reduction in its oil and natural gas acquisition, development and exploration activities. Any substantial and extended decline in the price of oil and natural gas would have an adverse effect on the Company’s carrying value of its assets and its borrowing capacity, revenues, profitability and cash flows from operations.

Refinancing

Gear currently has a $130 million syndicated demand facility with three banks. The lenders review the facility each year and determine if they will extend for another year. In the event that the facility is not extended, indebtedness under the facility will become repayable at that time. There is also a risk that the facility will not be renewed for the same amount or on the same terms. Any of these events could affect Gear’s ability to fund ongoing operations.

Operational Matters

Drilling hazards, environmental damage and various field operating conditions could greatly increase the cost of operations and adversely affect the production from successful wells. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, it is not possible to eliminate production delays and declines from normal field operating conditions, which can negatively affect revenue and cash flow levels to varying degrees. Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including, but not limited to, fire, explosion, blowouts, cratering, sour gas releases, and spills or other environmental hazards. These typical risks and hazards could result in substantial damage to oil and natural gas wells, production facilities, other property, the environment and personal injury. As is standard industry practice, Gear is not fully insured against all risks, nor are all risks insurable. Although Gear maintains liability insurance in an amount that it considers consistent with industry practice, liabilities associated with certain risks could exceed policy limits or not be covered. In either event, the Company could incur significant costs.

Reserve Estimates
The reserves and recovery information contained in Gear's independent reserves evaluation is only an estimate. The actual production and ultimate reserves from the properties may be greater or less than the estimates prepared by the independent reserves evaluator. The reserves report was prepared using certain commodity price assumptions. If lower prices for crude oil, natural gas, condensate and NGLs are realized by Gear and substituted for the price assumptions utilized in those reserves reports, the present value of estimated future net cash flows as well as the amount of the reserves would be reduced and the reduction could be significant.

Acquisitions
The price paid for acquisitions is based on engineering and economic estimates of the potential reserves made by independent engineers modified to reflect the technical views of management. These assessments include a number of material assumptions regarding such factors as recoverability and marketability of oil, natural gas, and NGLs, future prices of oil, natural gas and NGLs, and operating costs, future capital expenditures and royalties and other government levies that will be imposed over the producing life of the reserves. Many of these factors are subject to change and are beyond the control of management. In particular, changes in the prices of and markets for oil, natural gas and NGLs from those anticipated at the time of making such assessments will affect the value of Gear's shares. In addition, all such estimates involve a measure of geological and engineering uncertainty that could result in lower production and reserves. Actual reserves could vary materially from these estimates.

Royalty Regimes
There can be no assurance that the federal government and the provincial governments of the western provinces will not adopt new royalty regimes or modify the existing royalty regimes which may have an impact on the economics of the Company's projects. An increase in royalties would reduce Gear's earnings and could make future capital investments, or operations, less economic.

Variations in Foreign Exchange Rates and Interest Rates
World oil and natural gas prices are quoted in United States dollars. The Canadian/United States dollar exchange rate, which fluctuates over time, consequently affects the price received by Canadian producers of oil and natural gas. Material increases in the value of the Canadian dollar negatively affects production revenues. Future Canadian/United States exchange rates could accordingly affect the future value of reserves as determined by independent evaluators.

An increase in interest rates could result in a significant increase in the amount Gear pays to service debt, resulting in a reduced amount available to fund its exploration and development activities.

Third Party Credit Risk
Gear assumes customer credit risk associated with oil and gas sales, financial hedging and joint venture participants. In the event that Gear's counterparties default on payments to Gear, cash flows will be impacted. A diversified customer base is maintained and exposure to individual entities is reviewed on a regular basis.

Environmental
All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Although Gear believes that it is in material compliance with current applicable environmental regulations, no assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise have a material adverse effect on the Gear's business, financial condition, results of operations and prospects.

Project Risks
Gear manages a variety of small and large projects. Project delays may delay expected revenues from operations. Significant project cost over-runs could make a project uneconomic. Gear's ability to execute projects and market oil and natural gas depends upon numerous factors beyond the Company's control, including:

- commodity prices and heavy oil differentials;
- the availability of processing capacity;
- the availability and proximity of pipeline capacity;
- the availability of storage capacity;
- the availability of, and the ability to acquire, water supplies needed for drilling and hydraulic fracturing, or Gear's ability to dispose of water used or removed from strata at a reasonable cost and within applicable environmental regulations;

- the supply of and demand for oil and natural gas;
- the availability of alternative fuel sources;
- the effects of inclement weather;
- the availability of drilling and related equipment;
- unexpected cost increases;
- accidental events;
- currency fluctuations;
- changes in regulations;
- the availability and productivity of skilled labour; and
- the regulation of the oil and natural gas industry by various levels of government and governmental agencies.

Because of these factors, Gear could be unable to execute projects on time, on budget, or at all, and may be unable to market the oil and natural gas that the Company produces.

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. The Chief Executive Officer and the Chief Financial Officer of Gear evaluated the effectiveness of the design and operation of the Company's DC&P. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that Gear's DC&P were effective as at December 31, 2014.

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 the financial year ended December 31, 2014, designed ICFR, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The control framework Gear's officers used to design the Company's ICFR is the Internal Control - Integrated Framework ("COSO Framework") published by The Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Under the supervision of the Chief Executive Officer and the Chief Financial Officer, Gear conducted an evaluation of the effectiveness of the Company's ICFR as at December 31, 2014 based on the COSO Framework. Based on this evaluation, the officers concluded that as of December 31, 2014, Gear maintained effective ICFR. It should be noted that while Gear's officers believe that the Company's controls provide a reasonable level of assurance with regard to their effectiveness, they do not expect that the DC&P and ICFR will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, but not absolute, assurance that the objectives of the control system are met.

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

Financial Reporting Update

As of January 1, 2014 the Company adopted several new IFRS interpretations and amendments in accordance with the transitional provisions of each standard. A brief description of each new accounting policy and its impact on the Company's financial statements follows below:

- IAS 36 "Impairment of Assets" has been amended to reduce the circumstances in which the recoverable amount of cash generating units ("CGU's") is required to be disclosed and 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 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 fourth 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 fourth 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 fourth 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 fourth 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 fourth quarter report are made as of the date of this fourth 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			
(Cdn$ thousands, except per share, share, and per boe amounts)	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
FINANCIAL								
Sales of crude oil, natural gas and NGLs	39,558	48,273	47,331	28,954	25,758	29,976	24,494	17,234
Cash flow from operations (1)	20,602	22,580	20,661	12,202	8,309	12,080	9,550	5,165
Per basic	0.29	0.32	0.29	0.22	0.15	0.22	0.18	0.10
Per diluted	0.29	0.31	0.29	0.22	0.15	0.22	0.18	0.10
Cash flow from operating activities	13,425	21,428	20,294	10,780	7,765	12,991	9,997	8,762
Per basic and diluted	0.19	0.30	0.28	0.20	0.14	0.24	0.19	0.16
Net (loss) income	(29,999)	8,914	6,420	1,588	(539)	2,449	643	(3,611)
Per basic	(0.42)	0.13	0.09	0.03	(0.01)	0.05	0.01	(0.07)
Per diluted	(0.42)	0.12	0.09	0.03	(0.01)	0.05	0.01	(0.07)
Capital expenditures	20,969	27,314	12,328	23,972	17,440	17,342	5,166	13,611
Net acquisitions (2)	(1,027)	1,451	79,086	348	(29)	(200)	66	70
Net debt outstanding (1)	98,404	94,334	87,635	18,412	67,148	57,615	52,044	56,128
Weighted average shares outstanding, basic (thousands)	70,817	70,798	70,293	54,694	53,956	53,956	53,956	53,858
Weighted average shares outstanding, diluted (thousands)	71,485	72,314	71,768	55,799	54,392	53,956	53,956	53,858
Shares outstanding, end of period (thousands)	70,817	70,817	70,734	69,960	53,956	53,956	53,956	53,858
OPERATING								
Production								
Oil and liquids (bbl/d)	6,836	6,529	6,004	3,975	4,369	3,652	3,668	3,445
Natural gas (mcf/d)	991	1,101	998	1,095	1,641	1,723	1,672	1,995
Total (boe/d)	7,001	6,712	6,170	4,158	4,642	3,940	3,947	3,777
Average prices								
Oil and liquids ($/bbl)	62.39	79.72	85.88	79.50	62.91	88.01	71.71	53.77
Natural gas ($/mcf)	3.57	3.89	4.52	5.20	3.12	2.53	3.66	3.13
Oil equivalent ($/boe)	61.42	78.17	84.30	77.38	60.31	82.70	68.19	50.69
Netback ($/boe)								
Commodity and other sales	61.48	78.40	84.49	77.38	60.37	82.77	68.26	50.81
Royalties	11.02	14.97	16.35	13.02	15.15	18.59	16.16	10.93
Operating costs	19.94	21.78	21.37	20.73	16.72	17.21	19.13	18.81
Operating netback (before hedging)	30.52	41.65	46.77	43.63	28.50	46.97	32.97	21.07
Realized risk management gains (losses)	3.98	(1.04)	(4.16)	(4.68)	(3.53)	(8.20)	(1.12)	(0.57)
Operating netback (after hedging)	34.50	40.61	42.61	38.95	24.97	38.77	31.85	20.50
General and administrative	1.86	3.20	4.27	4.76	4.31	3.68	3.79	3.91
Interest	1.31	1.16	1.45	1.63	1.24	1.77	1.48	1.40
Foreign exchange (gain) loss	(0.63)	(0.32)	0.09	(0.05)	-	-	-	-
Corporate netback	31.96	36.57	36.80	32.61	19.42	33.32	26.58	15.19

(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.

CORPORATE INFORMATION

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Harry English Independent Businessman Calgary, Alberta	**Bankers**
Ingram Gillmore President & CEO, Gear Energy Ltd. Calgary, Alberta	National Bank of Canada 1800, 311 – 6th Avenue SW Calgary, Alberta T2P 3H2
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