FINANCIAL AND OPERATIONAL HIGHLIGHTS

	Three months ended			Twelve months ended	
(Cdn$ thousands, except per boe amounts)	**Dec 31, 2015**	Dec 31, 2014	Sep 30, 2015	**Dec 31, 2015**	Dec 31, 2014
FINANCIAL					
Cash flow from operations (1)	**4,682**	20,602	7,416	**39,208**	76,044
Per weighted average diluted share	**0.06**	0.29	0.10	**0.54**	1.12
Cash flow from operating activities	**3,801**	13,425	9,873	**40,545**	65,922
Per weighted average diluted share	**0.05**	0.19	0.14	**0.56**	0.97
Net loss	**(26,501)**	(29,999)	(63,360)	**(96,519)**	(13,080)
Per weighted average diluted share	**(0.35)**	(0.42)	(0.89)	**(1.34)**	(0.20)
Capital expenditures	**3,993**	20,969	6,433	**14,883**	84,580
Net acquisitions (2)	**-**	(1,027)	-	**(686)**	79,861
Net debt outstanding (1)	**65,972**	98,404	71,753	**65,972**	98,404
Shares outstanding, weighted average, basic	**75,918**	70,817	70,817	**72,103**	66,706
Shares outstanding, weighted average, diluted	**75,918**	71,485	70,817	**72,103**	67,840
Shares outstanding, end of period	**85,484**	70,817	70,817	**85,484**	70,817
OPERATING					
Production					
Oil and liquids (bbl/d)	**4,819**	6,836	5,295	**5,513**	5,846
Natural gas (mcf/d)	**1,176**	991	810	**942**	1,046
Total (boe/d)	**5,015**	7,001	5,430	**5,670**	6,020
Average prices					
Oil and liquids ($/bbl)	**31.68**	62.39	39.58	**39.47**	76.15
Natural gas ($/mcf)	**2.10**	3.57	2.60	**1.61**	4.30
Oil equivalent ($/boe)	**30.93**	61.42	38.98	**38.84**	74.69
Netback ($/boe)					
Commodity and other sales	**30.93**	61.48	38.98	**38.84**	74.82
Royalties	**4.72**	11.02	4.88	**5.52**	13.83
Operating costs	**16.63**	19.94	17.53	**17.72**	20.96
Operating netback (before hedging) (1)	**9.58**	30.52	16.57	**15.60**	40.03
Realized risk management gains (losses)	**3.86**	3.98	1.80	**7.34**	(0.99)
Operating netback (after hedging) (1)	**13.44**	34.50	18.37	**22.94**	39.04
General and administrative	**2.00**	1.86	2.66	**2.84**	3.35
Interest	**1.28**	1.31	1.34	**1.36**	1.36
Foreign exchange loss (gain)	**0.06**	(0.63)	(0.47)	**(0.20)**	(0.26)
Corporate netback (1)	**10.10**	31.96	14.84	**18.94**	34.59
TRADING STATISTICS					
($ based on intra-day trading)					
High	**1.10**	4.86	1.86	**2.62**	6.41
Low	**0.40**	1.96	0.67	**0.40**	1.96
Close	**0.53**	2.50	0.68	**0.53**	2.50
Average daily volume (thousands)	**157**	398	137	**172**	338

(1) Cash flow from operations, net debt, operating netback and corporate netback are non-GAAP measures and additional information with respect to these measures can be found under the heading "*Non-GAAP Measures*" in Gear's MD&A.

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

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 February 17, 2016 and should be read in conjunction with the unaudited Financial Statements as at and for the three and twelve months ended December 31, 2015 and the audited Financial Statements as at and for the year ended December 31, 2015. 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 dollars 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 22 employees with 14 staff in the Calgary office and 8 employees located in Gear's operating areas in Alberta and Saskatchewan. Gear also has a number of contract operators in the field. The Company trades on the Toronto Stock Exchange under the symbol GXE.

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

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

Gear enhances returns of acquired assets by:

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

ECONOMIC ENVIRONMENT

The pervasive bearish market sentiment in the world oil markets continues, spurring the new catch-phrase "lower for longer". The market continues to be over supplied with oil inventories reaching historic highs, OPEC remaining on course to defend market share, Iranian sanctions ending resulting in added oil barrels, and concerns about global growth principally in China. As with every past resource cycle however, there has been a massive investment response to low oil prices with significant capital investment reductions by the industry. Major long-life oil projects have been put on hold, spurring predictions of a very volatile oil price environment in the future with a greater and sharper upward price response the longer capital investment continues to erode.

In response to the low price environment, Gear has reduced its first half 2016 capital expenditure guidance to minimal levels similar to the beginning of 2015. Focus on the balance sheet and reducing debt levels remain the key strategy for the near-term while continually looking at opportunities for the long-term. In addition, Gear has continued to reduce costs and maintain its status as a low cost producer.

2016 GUIDANCE

Table 1 summarizes first half 2016 guidance and 2015 guidance compared to 2015 results.

Table 1

	H1-2016 Guidance	2015 Guidance	Actual 2015
Production (boe/d)	**4,150**	5,700 – 5,900	5,670
Royalty rate (%)	**10**	12 – 15	14.2
Operating costs ($/boe)	**14.00 – 16.00**	17.00 – 19.00	17.72
General and administrative expense ($/boe)	**3.50**	3.00 – 3.20	2.84
Interest expense ($/boe)	**1.75**	1.30 – 1.50	1.36
Capital expenditures ($ millions)	**1**	15	14.9

In November 2015, Gear released its original 2016 capital budget to spend $31 million to drill 36 gross wells. This budget targeted low risk growth and focused primarily on a continuation of Gear's 100% successful 2015 drilling program. This original budget was based on a realized Gear oil price of Cdn$44 per barrel; at current prices Gear's forecasted realized price for 2016 is around $24 per barrel, rendering the previously announced budget unrealistic. As such, Gear has decided to suspend all 2016 drilling until such time when prices recover to a point where positive returns exceeding its hurdle rate can be achieved. Management has determined that with a sustained price outlook of greater than WTI US$40 Gear will re-commence all of, or a portion of, its 2016 drilling program. In the event further cost reductions are achieved, this price threshold is reduced.

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, 2015	Dec 31, 2014	% Change	Sep 30, 2015	**Dec 31, 2015**	Dec 31, 2014	% Change
Cash flow from operations per debt adjusted share (1)	**0.026**	0.207	(87)	0.055	**0.305**	0.881	(65)
Production, boepd per debt adjusted thousand shares (1)	**0.028**	0.070	(60)	0.040	**0.044**	0.070	(37)

(1) Cash flow from operations per debt adjusted share and production boepd per debt adjusted thousand shares are non-GAAP measures and additional information with respect to these measures can be found under the heading "*Non-GAAP Measures*".

KEY PROPERTIES

Paradise Hill

The Paradise Hill is an oil pool northeast of Lloydminster in Saskatchewan and produces from the McLaren zone. To date, Gear has five wells into this organically exploited pool, which was first drilled horizontally in late 2014. The area consists of 6.5 sections of undeveloped land with two overlapping sandstones which are each approximately three meters thick. All 5 wells have been very productive, with average IP90 oil rates of 80 bbl/d per well.

Wildmere Cummings

The Wildmere Cummings is an oil pool southeast and northwest of Gear's Wildmere Lloyd pool and currently accounts for nine percent of total company production. In 2012, Gear acquired numerous sections through crown land sales, with Gear's land base currently sitting at approximately ten sections. In the past, this property was vertically drilled with limited success. Well logs show that a large pool exists and Gear has now applied horizontal drilling to successfully unlock oil from the Cummings zone. In 2015, Gear successfully drilled its first quad lateral unlined well with the first six months of production averaging 250 per cent of the oil from the adjacent five single lateral wells. The quad lateral unlined well was drilled at approximately the same average cost as a single lateral well and further material cost efficiencies are expected in the next drill.

Morgan

In April 2014, Gear acquired various heavy oil properties in Alberta and Saskatchewan, including the Morgan Lloydminster pool. Production has grown by a factor of 5 through successful horizontal drilling of a vertically developed pool. The property now consists of approximately 16 per cent of Gear's total corporate production. In addition, Gear has been able to decrease operating costs from $33 per boe in the first month Morgan was acquired to under $9 per boe in the fourth quarter of 2015.

Exploration

In 2015, Gear continued to dedicate efforts towards finding and developing new heavy oil resources through both organic means and acquisitions. Over 20 undeveloped sections of crown land were acquired for approximately $1 million with approximately half of the crown land acquired having a 15 year tenure.

2015 FOURTH QUARTER FINANCIAL AND OPERATIONAL RESULTS

Cash flow from operations

Cash flow from operations for the three and twelve months ended December 31, 2015 were $4.7 million and $39.2 million, respectively. This represents decreases in cash flow from operations of $15.9 million and $36.8 million when compared to the same periods in 2014. The decrease in fourth quarter cash flow is the result of decreased commodity prices, lower production volumes, decreased gains on risk management contracts and foreign exchange, offset by decreased royalty, operating, general and administrative and interest expenses.

On a year to date basis decreased cash flow is the result of decreased commodity prices, lower production volumes and decreased gains on foreign exchange, offset by increased realized gains on risk management contracts and decreased royalty, operating and general and administrative and interest expenses.

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

Table 3

	Three months ended Dec 31		Twelve months ended Dec 31	
	$ thousands	$/boe	$ thousands	$/boe
2014 Cash flow from operations (1)	20,602	31.96	76,044	34.59
Volume variance	(11,230)	-	(9,554)	-
Price variance	(14,096)	(30.52)	(74,477)	(35.98)
Cash gains on risk management contracts	(783)	(0.12)	17,347	8.32
Royalties	4,921	6.30	18,979	8.32
Expenses:				
Operating	5,168	3.31	9,378	3.24
General and administrative	286	(0.11)	1,479	0.51
Interest	251	0.03	165	-
Foreign exchange	(437)	(0.70)	(153)	(0.06)
2015 Cash flow from operations (1)	4,682	10.15	39,208	18.94

(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 loss

For the three and twelve months ended December 31, 2015, Gear generated net losses of $26.5 million and $96.5 million, respectively. This compares to net losses of $30.0 million and $13.1 million for the same periods in 2014. The changes in net loss are due to several factors discussed below.

Production

Production volumes averaged 5,015 barrels per day in the fourth quarter of 2015, compared to 7,001 barrels per day in the same period in 2014. Gear's full year 2015 production averaged 5,670 barrels per day, a decrease of 6 per cent when compared to 2014. In January Gear reacted quickly to the depressed commodity price outlook by temporarily shutting in uneconomic production and putting its original 2015 drilling program on hold. These two actions coupled with natural declines on Gear's producing assets are the main factors contributing to decreased production volumes.

Throughout 2015 Gear monitored its production to determine wells which were cash flow negative on a variable cost basis. This resulted in the shut-in of approximately 250 barrels per day of recoverable production at the beginning of 2015 and then an additional 250 barrels per day in the fall of 2015. The variable cost savings associated with deferring this production will more than offset the estimated revenue losses at current low oil prices, thus yielding a net positive gain in cash flow.

Table 4

	Three months ended				Twelve months ended		
Production	**Dec 31, 2015**	Dec 31, 2014	% Change	Sep 30, 2015	**Dec 31, 2015**	Dec 31, 2014	% Change
Oil and NGL (bbl/d)	**4,819**	6,836	(30)	5,295	**5,513**	5,846	(6)
Natural gas (mcf/d)	**1,176**	991	19	810	**942**	1,046	(10)
Total production (boe/d) (1)	**5,015**	7,001	(28)	5,430	**5,670**	6,020	(6)
% Oil and NGL production	**96**	98	(2)	98	**97**	97	-
% Natural gas production	**4**	2	100	2	**3**	3	-

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

Similar to actions taken in 2015, Gear has decided to defer all 2016 development activity to the second half of the year, subject to improved oil prices. As such, production volumes are forecasted to decline, with production guidance for the first half of the year set at 4,150 barrels per day.

Revenue

Sales of crude oil, natural gas and natural gas liquids for the fourth quarter of 2015 totaled $14.3 million, a 64 per cent decrease over the fourth quarter 2014 sales of $39.6 million. Year to date sales of crude oil, natural gas and natural gas liquids decreased 51 per cent in 2015 compared to 2014. These decreases are the result of lower realized commodity prices and lower production volumes.

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

Table 5

Sales by product ($ thousands)	Three months ended **Dec 31, 2015**	Dec 31, 2014	% Change	Sep 30, 2015	Twelve months ended **Dec 31, 2015**	Dec 31, 2014	% Change
Oil and natural gas liquids	**14,046**	39,233	(64)	19,282	**79,594**	162,475	(51)
Natural gas	**228**	325	(30)	194	**780**	1,641	(52)
Total sales	**14,274**	39,558	(64)	19,476	**80,374**	164,116	(51)
Other revenue	**-**	42	(100)	-	**-**	289	(100)
Total revenue	**14,274**	39,600	(64)	19,476	**80,374**	164,405	(51)

Commodity Prices
Table 6

Average Benchmark Prices	Three months ended **Dec 31, 2015**	Dec 31, 2014	% Change	Sep 30, 2015	Twelve months ended **Dec 31, 2015**	Dec 31, 2014	% Change
WTI oil (US$/bbl) (1)	**42.16**	73.20	(42)	46.40	**48.78**	92.91	(47)
WCS differential (US$/bbl) (2)	**(14.49)**	(14.24)	2	(13.27)	**(13.59)**	(19.47)	(30)
Cdn$ / US$ exchange rate	**1.33**	1.14	17	1.31	**1.28**	1.10	16
WCS (Cdn$/bbl)	**36.94**	66.92	(45)	43.37	**44.94**	81.18	(45)
AECO natural gas ($/mcf) (3)	**2.65**	4.01	(34)	2.80	**2.77**	4.42	(37)
Gear Realized Prices							
WCS (Cdn$/bbl)	**36.94**	66.92	(45)	43.37	**44.94**	81.18	(45)
Gear differential (4)	**(5.26)**	(4.53)	16	(3.79)	**(5.47)**	(5.03)	9
Oil and NGL ($/bbl)	**31.68**	62.39	(49)	39.58	**39.47**	76.15	(48)
Natural gas ($/mcf)	**2.10**	3.57	(41)	2.60	**1.61**	4.30	(63)
Total commodity price ($/boe)	**30.93**	61.42	(50)	38.98	**38.84**	74.69	(48)
Other revenue ($/boe)	**-**	0.06	(100)	-	**-**	0.13	(100)
Total revenue ($/boe)	**30.93**	61.48	(50)	38.98	**38.84**	74.82	(48)

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

In the fourth quarter oil prices dropped to their lowest point in 2015 with US denominated WTI averaging US$42.16. The WCS differential as a percentage of WTI was 34 per cent, where historically it has been in the 20 to 25 per cent range. In January 2016 US denominated WTI prices intermittently dipped below US$30 per barrel and the WCS differential widened to almost a 50 per cent discount. The net result is that WCS heavy barrels have traded at the lowest they ever have since inception of the WCS benchmark. Considerable risks continue to exist on heavy oil pricing including supply of US shale oil, supply policy decisions from OPEC, and the general demand for oil. Continued concerns about worldwide over-supply of crude oil have resulted in the forward outlook on commodity prices into 2016 remaining weak. However, there has been a significant reduction in capital investment in the oil sector which historically has resulted in a re-balancing of oil supply and demand.

US denominated WTI prices for the fourth quarter decreased by 42 per cent over the same period in 2014 and the WCS differential widened slightly from US$14.24 per barrel to US$14.49 per barrel. These two movements combined with the weakening of the Canadian dollar resulted in Gear's realized commodity price decreasing to $30.93 per boe. On a year-to-date basis, US denominated WTI prices decreased by 47 per cent, the WCS differential narrowed from $19.47 per barrel in 2014 to $13.59 per barrel in 2015 and the Canadian dollar weakened resulting in Gear's realized commodity price decreasing to $38.84 per boe.

Royalties

In the fourth quarter of 2015, royalties as a percentage of commodity sales were 15.3 per cent, a decrease of 15 per cent from the same period in 2014. On a year to date basis Gear's 2015 royalties as a percentage of commodity sales decreased 23 per cent from 2014. Gear's 2014 and 2015 drilling programs focused on wells drilled on crown lands where incentive rates apply on new horizontally drilled production ranging from 2.5 per cent to 5 percent. Royalties paid on non-incentive based crown lands are based on a sliding scale with sensitivity to both price and total volume produced. As such, due to the lower pricing environment throughout 2015, Gear's royalty rate on produced volumes decreased. The increase in royalty rate from the third quarter of 2015 is due to a one-time prior period adjustment.

Table 7

Royalty expense		Three months ended				Twelve months ended	
($ thousands except % and per boe)	**Dec 31, 2015**	Dec 31, 2014	% Change	Sep 30, 2015	**Dec 31, 2015**	Dec 31, 2014	% Change
Royalty expense	**2,178**	7,100	(69)	2,438	**11,415**	30,394	(62)
Royalty expense as a % of Sales	**15.3**	17.9	(15)	12.5	**14.2**	18.5	(23)
Royalty expense per boe	**4.72**	11.02	(57)	4.88	**5.52**	13.83	(60)

Operating and Transportation costs

For the three and twelve months ended December 31, 2015 operating costs were $16.63 and $17.72 per boe, respectively. This represents decreases of 17 and 15 per cent when compared with the same periods in 2014. Quarter over quarter operating costs per boe decreased 5 per cent. Supplier and contractor relationships have always been of the utmost importance to Gear and in the current depressed commodity price environment these relationships have become even more important. Throughout 2015 Gear has successfully reduced operating costs through supplier cost reductions, increased operating efficiencies and decreased labor costs. In addition, Gear shut-in 250 barrels per day of high operating cost production in early 2015 and then an additional 250 barrels per day in the fall of 2015.

Gear's operating cost profile increased in 2014 as a result of the heavy oil assets that Gear acquired in the second quarter which carried a higher cost profile than Gear's previously owned assets. Gear staff worked diligently throughout 2014 to decrease the costs on these properties through a variety of capital infrastructure investments, field process improvements, and volume additions. Total corporate operating costs are now in line with Gear's previously owned assets.

Gear anticipates further success in the field with operating costs for the first half of 2016 estimated between $14 and $16 per boe.

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, 2015**	Dec 31, 2014	% Change	Sep 30, 2015	**Dec 31, 2015**	Dec 31, 2014	% Change
Operating expense	**6,693**	11,798	(43)	7,793	**32,696**	41,682	(22)
Transportation expense	**979**	1,042	(6)	966	**3,975**	4,367	(9)
Operating and transportation expense	**7,672**	12,840	(40)	8,759	**36,671**	46,049	(20)
Operating expense per boe	**14.51**	18.32	(21)	15.60	**15.80**	18.97	(17)
Transportation expense per boe	**2.12**	1.62	31	1.93	**1.92**	1.99	(4)
Operating and transportation expense per boe	**16.63**	19.94	(17)	17.53	**17.72**	20.96	(15)

Operating Netback

Gear's operating netback prior to hedging was $9.58 per boe in the fourth quarter of 2015 compared to $30.52 per boe in the same period of 2014. On a year to date basis Gear's operating netback was $15.60 per boe in 2015 compared with $40.03 in 2014. The quarterly and year to date decreases are the result of decreased commodity prices, offset by decreased royalty and operating costs.

The components of operating netbacks are summarized in Table 9:

Table 9

Netbacks ($ per boe)	**Q4 2015 Total ($/boe)**	Q4 2014 Total ($/boe)	% Change	Q3 2015 Total ($/boe)	**YTD Q4 2015 Total ($/boe)**	YTD Q4 2014 Total ($/boe)	% Change
Weighted average sales price	**30.93**	61.42	(50)	38.98	**38.84**	74.69	(48)
Other	**-**	0.06	(100)	-	**-**	0.13	(100)
Total sales	**30.93**	61.48	(50)	38.98	**38.84**	74.82	(48)
Royalties	**(4.72)**	(11.02)	(57)	(4.88)	**(5.52)**	(13.83)	(60)
Operating costs	**(16.63)**	(19.94)	(17)	(17.53)	**(17.72)**	(20.96)	(15)
Netback	**9.58**	30.52	(69)	16.57	**15.60**	40.03	(61)

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

G&A totaled $0.9 million and $5.9 million for the three and twelve months ended December 31, 2015, respectively, a decrease of $0.3 million and $1.5 million when compared to the same periods in 2014. On a per boe basis, G&A decreased by 8 per cent and 15 per cent for the three and twelve months ended December 31, 2015.

Throughout 2015 Gear has worked with its service providers to achieve cost savings, including an 11 per cent decrease in professional fees compared to 2014, a reduction in directors fees to zero and reduced compensation expenses resultant from salary reductions for all employees and contractors, effective October 1. Increased operating recoveries also contributed to decreased G&A expense in the fourth quarter due to prior period adjustments on partnered wells.

Subsequent to year end staffing levels were reduced which will result in decreased compensation expense starting in the second quarter 2016.

SBC is related to bonus awards through the granting of actual common shares and stock options. There were 2,608 thousand options granted during 2015 at an average price of $1.53. In addition, 663 thousand options expired at an average price of $2.50 and 359 thousand options were forfeited with an average exercise price of $3.49. As at December 31, 2015, a total of 6.4 million options were outstanding or seven per cent of the 85 million total common shares outstanding. Table 10 is a breakdown of G&A and SBC expense:

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, 2015**	Dec 31, 2014	% Change	Sep 30, 2015	**Dec 31, 2015**	Dec 31, 2014	% Change
G&A expenses	**923**	1,197	(23)	1,327	**5,882**	7,351	(20)
SBC expense	**518**	635	(18)	549	**2,194**	1,611	36
G&A expenses per boe	**2.00**	1.86	8	2.66	**2.84**	3.35	(15)
SBC expense per boe	**1.12**	0.99	13	1.10	**1.06**	0.73	45

Interest and financing charges

Interest and financing charges totaled $0.6 million in the fourth quarter of 2015, a decrease of 30 per cent over the fourth quarter of 2014. This decrease is due to a reduction in average debt levels to $75.5 million in the fourth quarter of 2015 compared from $93.4 million in the same period in 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 fourth quarter 2015 interest rate is dependent on the second quarter 2015 debt to cash flow ratio. The debt to cash flow ratio remained relatively unchanged from 1.1 times in the second quarter of 2014 to 1.2 times in the second quarter of 2015. Gear's current annualized borrowing costs, inclusive of financing charges on its credit facility, approximated 3.2 per cent for the fourth quarter of 2015. Effective April 1, 2016, Gear's interest costs will depend on the second proceeding quarters borrowings on its demand facility in comparison to its earnings before interest, taxes, depletion, depreciation, amortization, and accretion.

Gear's average borrowing costs on its Credit Facilities are expected to remain relatively unchanged in the first quarter of 2016 compared to the fourth quarter of 2015.

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, 2015**	Dec 31, 2014	% Change	Sep 30, 2015	**Dec 31, 2015**	Dec 31, 2014	% Change
Interest expense	**538**	793	(32)	604	**2,583**	2,774	(7)
Financing charges	**47**	41	15	35	**164**	156	5
Standby and letter of credit fees	**7**	8	(13)	29	**68**	50	36
Interest and financing charges	**592**	842	(30)	668	**2,815**	2,980	(6)
Interest and financing charges per boe	**1.28**	1.31	(2)	1.34	**1.36**	1.36	-

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

Risk Management Contracts

Gear uses or plans to use a variety of derivative instruments to reduce its exposure to fluctuations in commodity prices, foreign exchange rates and interest rates. All present and future transactions are considered to be effective economic hedges; however, Gear's current contracts and future contracts thereafter may not qualify as effective hedges for accounting purposes. The board of directors has authorized a hedging limit of up to 65 per cent of its production, net of royalties, for the current and following calendar year. For the first half of 2015, Gear had 3,000 barrels per day hedged at a floor WTI price of Cdn$90 per barrel, generating cash hedging gains of $12.5 million. For the second half of 2015 Gear entered into WTI collars for 2,200 barrels per day at Cdn$65 by Cdn$78, generating cash hedging gains of $2.7 million. Entering into collars allows Gear to maintain a loan value on its reserves for its credit facility but still allows for upside participation in crude oil prices should they recover.

Gear's hedging strategy continues to be dynamic to the current economic environment. With commodity prices remaining weak in the second half of 2015 and volatility high into 2016, Gear determined that targeting price certainty is of the utmost importance. 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. As such, Gear has begun to incorporate fixed price swaps into its hedging program for 2016.

Gear's hedging program will play a significant role in the company's ability to reduce its debt throughout 2016 in order to preserve the balance sheet and provide financial flexibility in the future should prices recover. Gear evaluates hedging opportunities on a regular basis and acknowledges the importance its hedging program plays in the determination of its borrowing base. Currently Gear has no hedging contracts in place for 2017, but fully intends to transact should a reasonable pricing opportunity present itself.

Table 12 summarizes Gear's hedged volumes for 2016 as at the date of this report.

Table 12

Financial WTI Crude Oil Contracts

Term		**Contract**	**Currency**	**Volume bbl/d**	**Sold Swap $/bbl**	**Sold Call $/bbl**	**Bought Put $/bbl**	**Sold Put $/bbl**
Jan 1, 2016	Jun 30, 2016	Collar	CAD	250	-	87.25	65.00	-
Jan 1, 2016	Jun 30, 2016	Collar	CAD	250	-	82.50	65.00	-
Jan 1, 2016	Jun 30, 2016	Collar	USD	230	-	67.65	57.00	-
Jan 1, 2016	Jun 30, 2016	Collar	USD	270	-	67.50	57.00	-
Jan 1, 2016	Dec 31, 2016	Swap	CAD	1,000	66.00	-	-	-
Jan 1, 2016	Dec 31, 2016	Swap	CAD	500	68.00	-	-	-
Jul 1, 2016	Dec 31, 2016	Swap	CAD	500	68.50	-	-	-

All contracts are entered into with counterparties that maintain a very high credit rating. The fair values of all contracts are derived using Gear's internal model and compared to valuations performed by Gear's counterparties for reasonability.

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

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

On an annual basis Gear's finding and development costs decreased, resulting in a DD&A rate of $19.52 per boe in 2015 compared to $22.00 per boe in 2014.

For the twelve months ended December 31, 2015, an impairment charge of $92.7 million ($67.7 million after-tax) was recognized associated with Gear's single Cash Generating Unit as a result of lower forward commodity pricing and an increase to the discount rate from 12 per cent to 15 per cent. Impairment charges for 2014 were $48.8 million. See Note 4 "Management Judgements and Estimation Uncertainty" to Gear's financial statements for the year ended December 31, 2015 for more information.

Gear records its inventory at the lower of cost and net realizable value. For the twelve months ended December 31, 2015 impairment charges of $4.0 million were recorded as the historical cost of the inventory exceeded its net realizable value. The historical cost of inventory includes royalties, certain operating cost components, and a capital component equivalent to the depletion charge. This impairment was included in the statement of loss for the three and twelve months ended December 31, 2015. See Note 5 "Inventory" to Gear's financial statements for the year ended December 31, 2015.

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

Table 13

DD&A Rate	Three Months Ended				Twelve Months Ended		
($ thousands except per boe)	**Dec 31, 2015**	Dec 31, 2014	% Change	Sep 30, 2015	**Dec 31, 2015**	Dec 31, 2014	% Change
DD&A	**8,564**	15,429	(45)	11,177	**40,399**	48,330	(16)
DD&A rate per boe	**18.56**	23.96	(23)	22.37	**19.52**	22.00	(11)
Impairment charges	**10,840**	53,800	(80)	85,820	**96,660**	53,800	80

Taxes

For the three and twelve months ended December 31, 2015 Gear recorded deferred tax expense of $16.9 million and a recovery of $9.5 million, respectively. This compares to deferred tax recoveries of $9.6 million and $3.0 million in the same periods in 2014. The 2015 amounts are primarily influenced by temporary differences relating to the book basis of Gear's property, plant and equipment relative to its tax basis as well as an increase in the future tax rate of 2 per cent. In the fourth quarter of 2015, Gear re-evaluated estimates associated with the ultimate utilization of its tax pools and recorded a reduction of its deferred tax asset of $19.2 million. As at December 31, 2015 Gear's estimated tax pools were $302.1 million ($325.9 million at December 31, 2014). These income tax pools are deductible at various rates and annual deductions associated with the initial tax pools will decline over time. No cash income taxes were paid in 2015 and 2014.

Capital Expenditures, Acquisitions and Dispositions

In early January, in response to declining oil prices, Gear put its original 2015 drilling program on hold and limited spending to only unavoidable capital. In mid-June Gear determined that the reductions in drilling costs and the forward price outlook on oil were at appropriate levels to support the commencement of a smaller strategic 2015 drilling program. The program focused on drilling low risk, high rate of return projects. Capital expenditures totaled $4.0 million in the fourth quarter of 2015 with which Gear drilled 4 gross (4 net) wells; two single lateral horizontal wells in Morgan and two single lateral horizontal wells in Paradise Hill. All four wells are producing above expectations at an average IP60 of 80 bbl/d. The Paradise Hill wells served to de-risk both the upper and lower Maclaren zone and have unlocked a number of new future potential locations for Gear.

Year-to-date Gear invested $14.9 million dollars to drill 12 gross (12 net) wells which contributed 1,100 boe/d average production in the month of December. Gear's 2015 drilling program achieved record annual capital efficiencies of approximately $13,500/boe/d, an improvement of over 60 per cent when compared to the previous four year average.

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

Table 14

Capital expenditures	Three Months Ended				Twelve Months Ended		
($ thousands)	**Dec 31, 2015**	Dec 31, 2014	% Change	Sep 30, 2015	**Dec 31, 2015**	Dec 31, 2014	% Change
Geological and geophysical	**48**	252	(81)	2	**124**	1,044	(88)
Drilling and completions	**2,109**	11,891	(82)	4,899	**6,900**	54,901	(87)
Production equipment and facilities	**1,217**	7,564	(84)	1,102	**5,729**	24,601	(77)
Undeveloped land purchased at crown land sales	**413**	1,197	(65)	312	**1,316**	3,806	(65)
Other	**206**	65	217	118	**814**	228	257
Total capital expenditures	**3,993**	20,969	(81)	6,433	**14,883**	84,580	(82)
Acquisition through business combination[1]	**-**	(302)	(100)	-	**(553)**	79,099	(101)
Property acquisitions and dispositions, net [1]	**-**	(725)	(100)	-	**(132)**	762	(117)
Total capital expenditures and net acquisitions	**3,993**	19,942	(80)	6,433	**14,198**	164,441	(91)

(1) Includes post-closing adjustments.

As previously discussed under the Guidance section of this MD&A Gear has deferred development activity to the second half of 2016, with only an estimated one million in unavoidable capital expenditures being incurred from January through to June. The Gear team spent 2015 evaluating drilling inventory and, should prices recover, Gear is prepared to react quickly drilling those locations identified that will create the most value for Gear and its shareholders.

Decommissioning Liability

At December 31, 2015, Gear has recorded a decommissioning liability of $55.0 million ($74.1 million at December 31, 2014) for the future abandonment and reclamation of Gear's properties. The estimated decommissioning liability includes assumptions in respect of actual costs to abandon wells or reclaim the property, the time frame in which such costs will be incurred as well as annual inflation factors in order to calculate the undiscounted total future liability. The future liability has been discounted at the risk free rate of 2.04 per cent (2.22 per cent at December 31, 2014). Abandonment cost estimates are derived from a combination of third party government sources and internal cost estimates and, as a result, can fluctuate from time to time. The $19.2 million decrease in liability is due to a downward revision of cost estimates. Current cost estimates reflect both regulatory estimates as well current field activity estimates.

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

Capitalization, Financial Resources and Liquidity

A breakdown of Gear's capital structure is outlined in Table 15:

Table 15

Debt ($ thousands except ratio amounts)	**Dec 31, 2015**	Dec 31, 2014
Net debt [1]	**65,972**	98,404
Net debt to fourth quarter annualized cash flow from operations	**3.6**	1.2
Net debt to annual cash flow from operations	**1.7**	1.3
Common shares outstanding	**85,484**	70,817

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

By reducing capital spending in 2015 Gear was able to apply the majority of its cash flow against outstanding debt balances, reducing net debt by 33 per cent from $98.4 million at December 31, 2014 to $66 million at December 31, 2015. Gear continues to believe that a proactive disciplined approach to operations and diligent management of its capital structure provides flexibility to react appropriately to volatile market conditions. Looking forward to the first half of 2016 Gear's approach will be similar to that of 2015, with only an estimated $1 million of non-discretionary capital being invested the majority of cash flow and hedging gains will again be dedicated to reducing outstanding debt. Under the current forward strip oil forecast the net result is expected to be approximately $42 to $45 million drawn, net of working capital, on Gear's current $60 million facility at June 30, 2016

In October 2015, Gear underwent a regular scheduled review of its syndicated demand credit facilities (the "Credit Facilities") which resulted in a decrease of its borrowing limit from $90 million to $60 million. The reduction is primarily a result of reduced commodity pricing forecasts by the lenders. Concurrent with the banking update, Gear decided to further de-lever its balance sheet and reduce its outstanding indebtedness by announcing on November 10, 2015 a bought deal financing and private placement (the "Offering") with a syndicate of underwriters to issue 14.7 million common shares at $0.75 per share and $14.8 million of convertible unsecured subordinated debentures (the "Debentures") for total gross proceeds of $26 million. The Offering closed on November 30, 2015, upon which the Credit Facilities were set at the new borrowing limit of $60 million. At December 31, 2015 Gear had $55.7 million drawn on the Credit Facilities, leaving $4.3 million in borrowing capacity.

The next scheduled review of the Credit Facilities is to be complete by June 1, 2016. The amount of credit extended to Gear is dependent primarily on its reserves and a forward price determined by Gear's lenders. The terms of the Credit Facilities at December 31, 2015 are unchanged from the previous arrangement. 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 bankers' acceptances. The undrawn portion of the Credit Facilities is subject to a standby fee in the range of 20 to 45 bps. In addition, the Credit Facilities are secured by a fixed and floating charge on the assets of Gear and are subject to semi-annual reviews. As at December 31, 2015, Gear was in compliance with all externally imposed capital requirements.

In anticipation of the next renewal date, Gear will be giving consideration to convert its existing demand facilities to a committed termed facility. A committed termed facility carries more certainty in that Gear's lenders cannot request repayment on demand unless agreed upon covenants have been breached. The certainty comes at a cost, however, through higher interest rates. As stated before, Gear's fourth quarter 2015 all-in borrowing rate was 3.2 per cent which it believes is amongst the lowest in the sector. Gear will carefully weigh the merits of increased certainty with increased cost.

The Debentures issued on November 30, 2015 have a maturity date of November 30, 2020 and carry a coupon of 4 per cent per annum payable semi-annually in arrears on May 31 and November 30 until maturity, commencing May 31, 2016. These Debentures carry an equity conversion feature which is subject to shareholder approval. Gear intends to seek shareholder approval for conversion of the Convertible Debentures prior to May 31, 2016 at its next Annual General Meeting. If shareholder approval is received, the Debentures will be convertible at the option of the holder at any time prior to the maturity date at a conversion price of $0.87 per common share such that for every $1,000 principal amount of Debentures a holder will receive approximately 1,149.43 common shares. Holders converting their Debentures will be entitled to receive accrued and unpaid interest thereon for the period from the date of the latest interest payment date to, but excluding, the date of conversion. If shareholder approval is not received prior to May 31, 2016 the annual interest rate on the Debentures will increase to 6.0 per cent per annum. The Debentures are redeemable on or after November 30, 2018 by Gear if the current market price of Gear's common shares is at least 125 per cent of the conversion price at a redemption price equal to the principal amount plus accrued and unpaid interest up to the date of redemption. On or after November 30, 2019, the Debentures may be redeemed by Gear at a redemption price equal to the principal amount plus accrued and unpaid interest up to the date of redemption. For additional information regarding the Debentures see note 10 "Debentures" in the notes the financial statements for the year ended December 31, 2015.

Gear typically uses two markets to raise capital: equity and bank debt with the expectation that future capital programs will be financed with cash flow from operations and existing credit capacity. Gear's 2016 capital program is expected to be financed primarily through cash flow from operations. Gear's ability to increase its borrowing capacity is based on its reserves value as determined by its external reserve evaluator.

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

Shareholders' Equity

On December 31, 2015 and as at the date of this MD&A Gear has 85.5 million common shares outstanding, an increase of 14.7 million shares from the December 31, 2014 balance of 70.8 million. On November 30, 2015 Gear closed a bought deal financing whereby 14.7 million common shares were issued at a price of $0.75 per share for total gross proceeds of $11 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 the 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, 2015, Gear had four contractual commitments:

- lease agreements for its head office and its field office, and
- two drilling rig commitments.

The lease agreement for Gear's head office commenced November 1, 2013 and expires on July 30, 2016, the lease agreement for Gear's field office is effective until December 31, 2016. The total annual commitment for both lease agreements is $0.2 million. The first drilling rig commitment is effective until December 15, 2016 with a total commitment of $6.8 million; the second commitment is effective until September 15, 2016 with a total commitment of $3.4 million.

At this time, Gear does not have any contractual or regulatory obligations to settle any asset retirement obligations in the next five years; however, Gear may choose to settle some of these obligations over the next five years.

Gear is involved in litigation and claims arising in the normal course of operations. Management is of the opinion that pending litigation will not have a material impact on Gear's financial position or results of operations.

Off Balance Sheet Arrangements
Gear has certain lease agreements that were entered into in the normal course of operations, all of which are discussed in the Contractual Obligations and Commitments section 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, 2015.

Related Party Transactions
Other than the payment of compensation to key management personnel, the Corporation has not entered into any related party transactions.

Non-GAAP Measures
Management uses certain key performance indicators and industry benchmarks such as cash flow from operations, cash flow from operations per debt adjusted share, production per day per thousand debt adjusted shares, operating netbacks, corporate 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 16 below reconciles cash flow from operating activities to cash flow from operations.

Table 16

	Three months ended			Twelve months ended	
($ thousands)	**Dec 31, 2015**	Dec 31, 2014	Sep 30, 2015	**Dec 31, 2015**	Dec 31, 2014
Cash flow from operating activities	**3,801**	13,425	9,873	**40,545**	65,922
Expenditures on site restoration and reclamation	**650**	728	295	**1,383**	2,636
Change in non-cash working capital	**231**	6,449	(2,752)	**(2,720)**	7,486
Cash flow from operations	**4,682**	20,602	7,416	**39,208**	76,044

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

Table 17

Capital Structure and Liquidity ($ thousands)	**Dec 31, 2015**	Dec 31, 2014
Debt	**55,725**	98,900
Debentures (at face value) (1)	**14,800**	-
Working capital surplus (2)	**(4,553)**	(496)
Net debt obligations	**65,972**	98,404

(1) Excludes unamortized portion of issuance costs.
(2) Excludes risk management contracts.

At December 31, 2015 and December 31, 2014, Gear had a working capital surplus. When in a deficit position, the Company is able to meet obligations as they come due by drawing on the Credit Facilities. Gear actively manages its liquidity through strategies such as continuously monitoring forecasted and actual cash flows from operating, financing and investing activities, available credit under existing banking arrangements and opportunities to issue additional equity. Management believes that future cash flows generated from these sources will be adequate to settle Gear's financial liabilities.

Debt adjusted shares
Debt adjusted shares are calculated by the weighted average shares plus the share equivalent on Gear's average net debt over the period, assuming that the debt were to be extinguished with a share issuance based on the weighted average share price in the period. Table 18 below reconciles the debt adjusted shares.

Table 18

	Three months ended			Twelve months ended	
(thousands, except per share amounts)	**Dec 31, 2015**	Dec 31, 2014	Sep 30, 2015	**Dec 31, 2015**	Dec 31, 2014
Weighted average shares	**75,918**	70,817	70,817	**72,103**	66,706
Average share price	**0.67**	3.37	1.10	**1.46**	4.22
Average net debt (1)	**68,862**	96,369	71,716	**82,187**	82,776
Share equivalent on average net debt	**102,731**	28,596	65,196	**56,387**	19,615
Debt adjusted shares	**178,649**	99,413	136,013	**128,490**	86,321

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

Operating and Corporate Netbacks
Operating netbacks are presented both before and after taking into account the effects of hedging and are calculated based on the amount of revenues received on a per unit of production basis after royalties and operating costs. Corporate netbacks are presented after taking into account the effects of hedging and are calculated based on the amount of revenues received on a per unit of production basis after royalties, operating costs, general and administrative expenses, interest and foreign exchange gain or loss.

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;
- Estimated future utilization of tax pools; 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, 2015.

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 the items listed below. In addition to the risks identified below please see the risks outlined in Gear's most recent annual information form which is available on SEDAR at www.sedar.com.

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 $60 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. The next scheduled review is for June 1, 2016.

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, 2015.

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, 2015, designed ICFR, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The control framework Gear's officers used to design the Company's ICFR is the Internal Control - Integrated Framework ("COSO Framework") published by The Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

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, 2015 based on the COSO Framework. Based on this evaluation, the officers concluded that as of December 31, 2015, 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, 2015 that materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Future Accounting Policy Changes

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*, which replaces International Accounting Standard ("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, 2018, with earlier adoption permitted. IFRS 15 will be applied by Gear on January 1, 2018 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 on a retrospective basis by Gear on January 1, 2018 and the Company is currently evaluating the impact of the standard on Gear's financial statements.

In January 2016, the IASB issued IFRS 16 *Leases*, which replaces IAS 17 *Leases*. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 *Revenue from Contracts with Customers*. IFRS 16 will be applied by Gear on January 1, 2019 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.

To the extent that any forward-looking information contained herein may be considered future oriented financial information or a financial outlook, such information has been included to provide readers with an understanding of management's assumptions used for budgeted and developing future plans and readers are cautioned that the information may not be appropriate for other purposes. 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 including risk factors set out in Gear's most recent annual information form, which is available on SEDAR at www.sedar.com.

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 does 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.

Initial Production Rates
Any references in this document to initial production rates are useful in confirming the presence of hydrocarbons, however, such rates are not determinative of the rates at which such wells will continue production and decline thereafter. Additionally, such rates may also include recovered "load oil" fluids used in well completion stimulation. While encouraging, readers are cautioned not to place reliance on such rates in calculating the aggregate production for the Gear.

QUARTERLY HISTORICAL REVIEW

	2015				2014			
(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	14,274	19,476	25,528	21,096	39,558	48,273	47,331	28,954
Cash flow from operations (1)	4,682	7,416	14,900	12,210	20,602	22,580	20,661	12,202
Per basic	0.06	0.10	0.21	0.17	0.29	0.32	0.29	0.22
Per diluted	0.06	0.10	0.21	0.17	0.29	0.31	0.29	0.22
Cash flow from operating activities	3,801	9,873	14,432	12,439	13,425	21,428	20,294	10,780
Per basic and diluted	0.05	0.14	0.20	0.18	0.19	0.30	0.28	0.20
Net (loss) income	(26,501)	(63,360)	(2,301)	(4,357)	(29,999)	8,914	6,420	1,588
Per basic	(0.35)	(0.89)	(0.03)	(0.06)	(0.42)	0.13	0.09	0.03
Per diluted	-	(0.89)	(0.03)	(0.06)	(0.42)	0.12	0.09	0.03
Capital expenditures	3,993	6,433	4,286	171	20,969	27,314	12,328	23,972
Net acquisitions (2)	-	-	(553)	(132)	(1,027)	1,451	79,086	348
Net debt outstanding (1)	65,972	71,753	71,678	83,313	98,404	94,334	87,635	18,412
Weighted average shares outstanding, basic (thousands)	75,918	70,817	70,817	70,817	70,817	70,798	70,293	54,694
Weighted average shares outstanding, diluted (thousands)	75,918	70,817	70,817	70,817	71,485	72,314	71,768	55,799
Shares outstanding, end of period (thousands)	85,484	70,817	70,817	70,817	70,817	70,817	70,734	69,960
OPERATING								
Production								
Oil and liquids (bbl/d)	4,819	5,295	5,492	6,466	6,836	6,529	6,004	3,975
Natural gas (mcf/d)	1,176	810	838	944	991	1,101	998	1,095
Total (boe/d)	5,015	5,430	5,632	6,624	7,001	6,712	6,170	4,158
Average prices								
Oil and liquids ($/bbl)	31.68	39.58	50.72	35.93	62.39	79.72	85.88	79.50
Natural gas ($/mcf)	2.10	2.60	2.31	2.15	3.57	3.89	4.52	5.20
Oil equivalent ($/boe)	30.93	38.98	49.81	35.39	61.42	78.17	84.30	77.38
Netback ($/boe)								
Commodity and other sales	30.93	38.98	49.81	35.39	61.48	78.40	84.49	77.38
Royalties	4.72	4.88	5.96	6.28	11.02	14.97	16.35	13.02
Operating costs	16.63	17.53	18.66	17.91	19.94	21.78	21.37	20.73
Operating netback (before hedging) (1)	9.58	16.57	25.19	11.20	30.52	41.65	46.77	43.63
Realized risk management gains (losses)	3.86	1.80	9.37	12.91	3.98	(1.04)	(4.16)	(4.68)
Operating netback (after hedging) (1)	13.44	18.37	34.56	24.11	34.50	40.61	42.61	38.95
General and administrative	2.00	2.66	3.87	2.76	1.86	3.20	4.27	4.76
Interest	1.28	1.34	1.42	1.38	1.31	1.16	1.45	1.63
Foreign exchange loss (gain)	0.06	(0.47)	0.17	(0.52)	(0.63)	(0.32)	0.09	-
Corporate netback (1)	10.10	14.84	29.10	20.49	31.96	36.57	36.80	32.56

(1) Cash flow from operations, net debt, operating netback and corporate netback are non-GAAP measures and additional information with respect to these measures can be found under the heading "*Non-GAAP Measures*".
(2) Net acquisitions exclude non-cash items for decommissioning liability and deferred taxes and is net of post-closing adjustments.

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

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 acquired assets included approximately 2,100 boepd of high working interest, operated heavy oil production. The acquisition of these assets resulted in increased sales, cash flow from operations and production in the second quarter of 2014 and thereafter.

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