MANAGEMENT'S REPORT

To the Shareholders of Gear Energy Ltd.

Management's Responsibility on Financial Statements

Management is responsible for the preparation of Gear Energy Ltd.'s annual financial statements. The financial statements have been prepared in accordance with the accounting policies detailed in the notes thereto. In Management's opinion, the financial statements are in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and include certain estimates that reflect Management's best judgments.

Management is responsible for the integrity of the financial statements. Management has developed and maintains an adequate system of internal control over financial reporting which provides reasonable assurance that all transactions are recorded, that the financial statements realistically report the Company's operating and financial results, and that the Company's assets are safeguarded from loss or unauthorized use. Management believes that this system of internal controls has operated effectively for the year ended December 31, 2014. The Company has effective disclosure controls and procedures to ensure timely and accurate disclosure of material information relating to the Company which complies with the requirements of Canadian securities legislation.

The Board of Directors has approved the information contained in the financial statements. Its financial statement related responsibilities are fulfilled mainly through the Audit Committee which is composed entirely of independent directors, and includes at least one director with financial expertise. The Audit Committee meets regularly with management and the external auditors to discuss reporting issues and ensures each party is properly discharging its responsibilities. The Audit Committee also considers the independence of the external auditors and reviews their fees.

The financial statements have been audited by Deloitte LLP, Chartered Accountants, in accordance with Canadian generally accepted auditing standards, on behalf of the shareholders.

(signed)
Ingram Gillmore
President and Chief Executive Officer

(signed)
David Hwang
Vice-President and Chief Financial Officer

March 10, 2015
Calgary, Alberta

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Gear Energy Ltd.:

We have audited the accompanying financial statements of Gear Energy Ltd., which comprise the balance sheets as at December 31, 2014 and 2013, and the statements of loss and comprehensive loss, statements of changes in shareholders' equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Gear Energy Ltd. as at December 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

(signed) "Deloitte LLP"
Chartered Accountants
March 10, 2015
Calgary, Alberta

GEAR ENERGY LTD.
BALANCE SHEETS
As at December 31

(Cdn$ thousands)		2014		2013
ASSETS				
Current assets				
Cash	$	-	$	841
Accounts receivable		15,295		9,550
Prepaid expenses		2,078		1,210
Inventory (Note 5)		6,810		4,465
Risk management contracts (Note 11)		13,691		-
		37,874		16,066
Deferred income tax asset (Note 13)		16,501		12,611
Exploration and evaluation assets (Note 7)		-		3,284
Property, plant and equipment (Notes 4 and 8)		320,343		214,641
Total assets	$	374,718	$	246,602
LIABILITIES				
Current liabilities				
Accounts payable, accrued liabilities and deferred credits	$	23,687	$	18,297
Risk management contracts (Note 11)		-		2,113
Debt (Note 9)		98,900		64,917
		122,587		85,327
Decommissioning liability (Note 10)		74,114		35,113
Total liabilities		196,701		120,440
SHAREHOLDERS' EQUITY				
Share capital (Note 12)		231,067		166,869
Contributed surplus		10,183		9,446
Deficit		(63,233)		(50,153)
Total shareholders' equity		178,017		126,162
Total liabilities and shareholders' equity	$	374,718	$	246,602

See accompanying notes to the Financial Statements

Approved by the Board of Directors

(signed)
Don Gray
Chairman of the Board of Directors and Director

(signed)
Harry English
Chair of the Audit Committee and Director

GEAR ENERGY LTD.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended December 31

(Cdn$ thousands)

	Share capital	Contributed surplus	Deficit	Total Shareholders'equity
Balance at December 31, 2012	**$ 166,624**	**$ 7,126**	**$ (49,094)**	**$ 124,656**
Share-based compensation	-	2,320	-	2,320
Issued for share awards	245	-	-	245
Net loss for the year	-	-	(1,059)	(1,059)
Balance at December 31, 2013	**$ 166,869**	**$ 9,446**	**$ (50,153)**	**$ 126,162**
Issued on offering of common shares (Note 12)	63,500	-	-	63,500
Exercise of stock options	3,346	(874)	-	2,472
Share issue costs, net of deferred tax benefit of $880	(2,648)	-	-	(2,648)
Share-based compensation	-	1,611	-	1,611
Net loss for the year	-	-	(13,080)	(13,080)
Balance at December 31, 2014	**$ 231,067**	**$ 10,183**	**$ (63,233)**	**$ 178,017**

See accompanying notes to the Financial Statements

GEAR ENERGY LTD.
STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
For the years ended December 31

(Cdn$ thousands, except per share amounts)	**2014**	2013
Sales of crude oil, natural gas and natural gas liquids	**$ 164,116**	$ 97,462
Royalties	**(30,394)**	(22,726)
Other income	**289**	115
REVENUE	**134,011**	74,851
Gain (loss) on risk management contracts (Note 11)	**13,637**	(7,043)
	147,648	67,808
EXPENSES		
Operating	**46,049**	26,641
General and administrative	**7,351**	5,869
Share-based compensation	**1,611**	2,565
Interest and financing charges	**2,980**	2,179
Accretion of decommissioning liability (Note 10)	**1,453**	681
Depletion, depreciation and amortization (Note 8)	**48,330**	32,027
Impairment (Notes 4, 5 and 8)	**53,800**	-
Exploration expense (Note 7)	**3,284**	-
Gain on asset disposition	**(540)**	(238)
Gain on foreign exchange	**(581)**	-
	163,737	69,724
Deferred tax recovery (Note 13)	**3,009**	857
Net loss and comprehensive loss	**$ (13,080)**	$ (1,059)
Net loss per share, basic and diluted (Note 12)	**$ (0.20)**	$ (0.02)

See accompanying notes to the Financial Statements

GEAR ENERGY LTD.
STATEMENTS OF CASH FLOWS
For the years ended December 31

(Cdn$ thousands)		2014		2013
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss	$	(13,080)	$	(1,059)
Add items not involving cash:				
Unrealized (gain) loss on risk management contracts (Note 11)		(15,804)		1,972
Share-based compensation (Note 12)		1,611		2,565
Bad debt expense		(1)		12
Accretion of decommissioning liability (Note 10)		1,453		681
Depletion, depreciation and amortization (Note 8)		48,330		32,027
Impairment (Notes 4, 5 and 8)		53,800		-
Exploration expense (Note 7)		3,284		-
Gain on asset disposition		(540)		(238)
Deferred tax recovery		(3,009)		(857)
Decommissioning liabilities settled (Note 10)		(2,636)		(602)
Change in non-cash working capital (Note 16)		(7,486)		5,010
		65,922		39,511
CASH FLOW FROM FINANCING ACTIVITIES				
Borrowings of debt under demand credit facility		33,983		12,234
Issuance of share capital, net of share issue costs		62,444		-
		96,427		12,234
CASH FLOW USED IN INVESTING ACTIVITIES				
Property, plant and equipment expenditures		(84,580)		(53,664)
Acquisition and disposition of petroleum and natural gas properties (Note 6 and 8)		(83,141)		200
Change in non-cash working capital (Note 16)		4,531		2,560
		(163,190)		(50,904)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(841)		841
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		841		-
CASH AND CASH EQUIVALENTS, END OF YEAR	$	-	$	841
The following are included in cash flow from operating activities:				
Interest paid in cash	$	2,980	$	2,179

See accompanying notes to the Financial Statements

1. STRUCTURE OF THE BUSINESS

The principal undertakings of Gear Energy Ltd. (the "Company" or "Gear") are to carry on the business of acquiring, developing and holding interests in petroleum and natural gas properties and assets. On November 18, 2013 Gear commenced trading publically on the Toronto Stock Exchange.

Gear's principal place of business is located at 2600, 500 – 4th Avenue SW, Calgary, Alberta T2P 2V6.

2. BASIS OF PREPARATION

These financial statements (the "financial statements") have been prepared under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and were prepared using accounting policies consistent with IFRS.

A summary of Gear's significant accounting policies under IFRS is presented in Note 3. The financial statements have been prepared on the historical cost basis with the exception of risk management contracts, which are measured at fair value.

The financial statements were authorized for issue by the Board of Directors on March 10, 2015.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Revenue recognition
Revenue associated with the sale of crude oil, natural gas, and natural gas liquids ("NGLs") owned by Gear is recognized when title is transferred from Gear to its customers. Revenue is measured at the fair value of the consideration received or receivable. Revenue from the sale of crude oil, natural gas, and NGLs (prior to deduction of transportation costs) is recognized when all of the following conditions have been satisfied:

- Gear has transferred the significant risks and rewards of ownership of the goods to the buyer;
- Gear retains no continuing managerial involvement to the degree usually associated with ownership or effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to Gear; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

(b) Joint operations
Some of the Company's petroleum and natural gas exploration activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities. Joint control exists for contractual arrangements governing Gear's assets wereby Gear has less than 100 per cent working interest, all of the partners have control of the arrangement collectively, and spending on the project requires unanimous consent of all parties that collectively control the arrangement and share the associated risks. Gear does not have any joint arrangements that are material to the Company or that are structured through joint venture arrangements.

(c) Share-based compensation
The Company accounts for its share-based compensation plan using the fair value method estimated using the Black-Scholes model. Under this method, a compensation expense is charged over the vesting period for stock options granted using the graded vesting method with a corresponding increase to contributed surplus. Upon exercise of the stock options, consideration paid, together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. Forfeitures of stock options are estimated on the grant date and are adjusted to reflect the actual number of options that vest.

(d) Crude oil inventory
Crude oil inventory consists of amounts produced and in storage tanks and is recorded at the lower of cost, determined on a weighted-average basis, and net realizable value. Net realizable value is the estimated selling price in the normal course of business less applicable selling expenses.

(e) Exploration and Evaluation Assets ("E&E")
Costs incurred prior to acquiring the legal right to explore an area are charged directly to net income (loss). Costs incurred after the legal right to explore is obtained but before technical feasibility and commercial viability of the area has been established are capitalized as E&E assets. These costs generally include unproved property acquisition costs, geological and geophysical costs, sampling and appraisals, drilling and completion costs and directly attributable internal costs.

Once an area is determined to be technically feasible and commercially viable the accumulated costs are tested for impairment. The carrying value, net of any impairment, is then reclassified to property plant and equipment as a Developed and Producing (D&P) asset. If an area is determined not to be technically feasible and commercially viable, or the Company discontinues its exploration and evaluation activity, any unrecoverable costs are charged to net income (loss).

(f) Property, plant and equipment ("PP&E")
Items of PP&E, which include oil and gas development and production assets and administrative assets, are measured at cost less accumulated depletion, depreciation and accumulated impairment losses.

Gains and losses on disposals of properties are determined by comparing the proceeds to the net carrying value of the property and are recognized in the statement of loss and comprehensive loss.

(g) Depletion and Depreciation
Development and production assets are componentized into groups of assets with similar useful lives for the purposes of performing depletion calculations. Depletion expense is calculated on the unit-of-production basis based on:

(i) total estimated proved and probable reserves calculated in accordance with National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities;
(ii) total capitalized costs plus estimated future development costs of proved and probable reserves, including future estimated asset retirement costs; and
(iii) relative volumes of petroleum and natural gas reserves and production, before royalties, converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil.

E&E assets are not depleted.

Administrative assets are depreciated using the declining balance method over the useful lives of the assets.

(h) Impairment

Development and Production Assets
Development and production assets are aggregated into cash-generating units (CGUs) for the purposes of impairment testing and depletion calculations. CGUs are groups of assets that generate independent cash inflows and are generally defined based on geographic areas, with consideration given to how the assets are managed.

Development and production assets are reviewed for impairment at a CGU level when indicators of impairment exist. When indicators of impairment exist, the carrying value of each CGU is compared to its recoverable amount which is defined as the higher of its fair value less cost to sell or its value in use.

When the carrying value exceeds the recoverable amount an impairment loss exists and is recognized in the statement of loss and comprehensive loss.

Reversals of impairments are recognized when events or circumstances that triggered the original impairment have changed. Impairments can only be reversed in future periods up to the carrying amount that would have been determined, net of depletion and depreciation, had no impairment losses been previously recognized.

E&E and Administrative Assets
E&E and administrative assets are assessed for impairment at the operating segment level. Impairment tests are carried out when E&E assets are transferred to development and production assets following the declaration of commercial reserves, and any time that circumstances arise which could indicate a potential impairment. An impairment is recognized if the total carrying values of E&E assets and administrative assets exceed the aggregate impairment cushions calculated for Gear's CGU's and is applied to reduce the carrying amount of E&E and administrative assets on a pro-rata basis.

If E&E and administrative assets are subject to impairment testing in the same period in which there is an indication of impairment in one of Gear's CGU's, that CGU is first tested for impairment and any resulting impairment loss is recorded prior to conducting impairment tests on assets at the operating segment level.

(i) Financial Instruments

(i) Non-derivative financial instruments

All financial instruments are initially recognized at fair value on the balance sheet. The Company has made the following classifications:

i) Cash and cash equivalents are classified as fair value through profit and loss financial assets and are measured at fair value. Gains and losses from revaluation are recognized in the statement of loss and comprehensive loss.

ii) Accounts receivable are classified as loans and receivables and accounts payable and accrued liabilities and debt are classified as other liabilities. These classifications are initially measured at fair value. Subsequent revaluations are recorded at amortized cost using the effective interest method.

The carrying value approximates fair value due to the short term nature of these instruments.

(ii) Risk Management Contracts

Gear enters into risk management contracts in order to manage its exposure to market risks from fluctuations in commodity prices, foreign exchange rates and interest rates in the normal course of operations. Gear has not designated its risk management contracts as effective hedges, and thus has not applied hedge accounting, even though it considers most of these contracts to be economic hedges. As a result, all risk management contracts are classified as fair value through profit or loss and are recorded at fair value on the balance sheet with changes in fair value recorded in the statement of loss and comprehensive loss. The fair values of these derivative instruments are generally based on an estimate of the amounts that would be paid or received to settle these instruments at the balance sheet date.

(j) Deferred Credits

Under certain marketing arrangements Gear is paid a deposit on revenue prior to meeting its revenue recognition criteria discussed in (a) above. These amounts are included as a deferred credit on the balance sheet until such time when revenue recognition criteria are met, then the amounts are recognized as revenue.

(k) Decommissioning Liabilities

Gear's oil and gas operating activities give rise to dismantling, decommissioning and site remediation activities. Gear recognizes a liability for the estimated present value of the future decommissioning liabilities at each balance sheet date using a risk free discount rate. The associated decommissioning cost is capitalized and amortized over the same period as the underlying asset. Changes in the estimated liability resulting from revisions to estimated timing, amount of cash flows, or changes in the discount rate are recognized as a change in the decommissioning liability and related capitalized decommissioning cost.

Amortization of capitalized decommissioning costs is included in depreciation, depletion and amortization in net loss. Increases in decommissioning liabilities resulting from the passage of time are recorded as accretion. Actual expenditures incurred are charged against the decommissioning liability.

(l) Deferred income taxes

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting dates.

Deferred tax is recognized in the statement of loss and comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Deferred tax assets are only recognized for temporary differences, unused tax losses and unused tax credits if it is probable that future tax amounts will arise to utilize those amounts.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

(m) Per Share Amounts

Basic per share amounts are computed by dividing net income or loss by the weighted average number of common shares outstanding during the period. Diluted per share amounts reflect the potential dilution that would occur if dilutive instruments were exercised and common shares issued.

(n) New Accounting Policies

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 result in incremental 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.

4. MANAGEMENT JUDGMENTS AND ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingencies at the date of the financial statements, and revenues and expenses during the reporting year. Actual results could differ from those estimated. The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities are discussed below.

Recoverability of asset carrying values
The recoverability of development and production asset carrying values is assessed at the CGU level. Determination of what constitutes a CGU is subject to management judgments. The asset composition of a CGU can directly impact the recoverability of the assets included therein. In assessing the recoverability of oil and gas properties, each CGU's carrying value is compared to its recoverable amount, defined as the greater of its fair value less cost to sell and value in use. Management has determined that Gear's asset base represents a single CGU supported by the fact that Gear's properties are all heavy oil properties in close proximity to each other, with similar cost structures and marketing arrangements.

At December 31, 2014 and 2013 the recoverable amount of Gear's CGU was estimated as fair value less cost to sell based on the following information:

i) the net present value of the after-tax cash flows from oil and gas reserves of the CGU based on reserves estimated by Gear's independent reserve evaluator;

ii) the fair value of undeveloped land based on internal estimates using recent land transactions as a proxy; and

iii) the fair value of seismic data based on internal estimates using recent transactions as a proxy.

Consideration was also given to acquisition metrics of recent transactions completed on similar assets to those contained within the CGU.

Key input estimates used in the determination of cash flows from oil and gas reserves include the following:

i) Reserves. Assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs or recovery rates may change the economic status of reserves and may ultimately result in reserves being restated.

ii) Oil and natural gas prices. Forward price estimates of the oil and natural gas prices are used in the cash flow model. Commodity prices have fluctuated widely in recent years due to global and regional factors including supply and demand fundamentals, inventory levels, exchange rates, weather, economic and geopolitical factors.

iii) Discount rate. The discount rate used to calculate the net present value of cash flows is based on estimates of an approximate industry peer group weighted average cost of capital. Changes in the general economic environment could result in significant changes to this estimate.

As a result of declining commodity prices for crude oil, an impairment test was carried out at December 31, 2014 on Gear's CGU as well on Gear's E&E and administrative assets. The estimated recoverable amounts were based on fair value less costs of disposal calculations using a discount rate determined based on an estimated industry weighted cost of capital, and the following forward commodity price estimates:

Year	Western Canadian Select Oil (CAD$/bbl)	AECO Gas (Cdn$/mmbtu)	Cdn$/US$ Exchange Rates
2015	54.35	3.31	1.177
2016	67.20	3.77	1.143
2017	72.00	4.02	1.143
2018	76.80	4.27	1.143
2019	81.60	4.53	1.143
2020	86.40	4.78	1.143
2021	89.19	5.03	1.143
2022	90.98	5.28	1.143
2023	92.79	5.53	1.143
2024	94.65	5.71	1.143
Remainder (1)	2.0%	2.0%	1.143

(1) Percentage change represents the change in each subsequent year to the end of the reserve life.

For the year ended December 31, 2014, Gear recorded an impairment of $48.8 million on its one existing CGU, which was recognized in impairment in the statement of loss. The recoverable amount of $320.2 million was determined using a discount rate of 12 per cent before tax.

The fair value less cost to sell value used to determine the recoverable amount of the impaired PP&E are classified as Level 2 fair value measurements. Refer to Note 14 for information on fair value hierarchy classifications.

Depletion of oil and gas assets

Depletion of oil and gas assets is determined based on total proved and probable reserve values as well as future development costs as estimated by Gear's external reserve evaluator. See (i) above for discussion of estimates and judgments involved in reserve estimation.

Decommissioning liability

The provision for abandonment and reclamation is based on current legal and constructive requirements, technology, price levels and expected plans for remediation. Actual costs and cash outflows can differ from estimates because of changes in laws and regulations, public expectations, market conditions, discovery and analysis of site conditions and changes in technology.

Derivative Instruments

The estimated fair value of derivative instruments resulting in financial assets and liabilities is reliant upon forward commodity prices. Any change in the forward commodity price curves could result in a change to the estimated valuation of the instrument.

Employee Compensation Costs

Compensation expense recorded for Gear's stock option plan is based on a Black-Scholes pricing model. The inputs to this model such as average expected volatility and estimated forfeiture rates rely on management judgment.

Accrual Estimates

Revenue, royalty, operating expense and capital amounts are estimated at each reporting date, before actual results are known. These estimates rely on management judgment and could vary from actual results.

5. INVENTORY

At December 31, 2014 Gear recorded oil inventory valued at its market price of $6.8 million. The cost components of the inventory balance are as follows:

($ thousands)	Year ended December 31, 2014	Year ended December 31, 2013
Capital	199	1,823
Operating	6,611	2,642
Balance, end of year	6,810	4,465

At December 31, 2014, Gear recognized an impairment on its inventory balance in the amount of $5.0 million, recognized in impairment in the statement of loss.

6. ACQUISITIONS AND DISPOSITIONS

On April 30, 2014 Gear completed an acquisition of heavy oil assets (the "Assets") for total proceeds of $82.4 million, paid in cash. The acquired Assets are focused near Gear's core producing areas of East Central Alberta and West Central Saskatchewan. The Assets fit Gear's strategy of targeting underexploited, geographically focused production with low risk development locations.

This transaction has been accounted for as a business combination using the acquisition method whereby the assets acquired and the liabilities assumed are recorded at fair value. The following table summarizes the net assets acquired pursuant to the acquisition:

Net Assets Acquired		Amount
Property, plant and equipment	$	91,712
Inventory		2,721
Prepaid expenses		1,035
Accounts payable		(475)
Decommissioning liability		(12,613)
Total net assets acquired		82,380

Consideration		Amount
Cash	$	82,380

These financial statements incorporate the results of operations of the acquired heavy oil properties from April 30, 2014. The assets generated sales of crude oil, natural gas and natural gas liquids of $37.9 million and $13.8 million of net income from April 30, 2014 to December 31, 2014. Had the acquisition occurred on January 1, 2014, Gear estimates that its sales of crude oil, natural gas and natural gas liquids and net income for year ended December 31, 2014 would have incrementally increased by approximately $21.1 million and $7.5 million, respectively.

In addition, Gear completed minor net acquisitions throughout 2014 totaling $0.8 million.

7. EXPLORATION AND EVALUATION ASSETS

Cost ($ thousands)	**E&E Assets**
Balance, December 31, 2012 and 2013	3,284
Exploration expense	(3,284)
Balance, December 31, 2014	-

Exploration and evaluation assets consist of the Company's exploration projects which are pending economic production. During the year ended December 31, 2014 exploration expense of $3.3 million was recognized.

Gear's E&E assets consisted of a single gas property located in northern British Columbia, apart from Gear's existing producing assets. Management's assessment of this property considered geographic location, the low commodity price environment and existing land tenure. This assessment resulted in the conclusion that the likelihood of development was negligible and accordingly, the carrying value of the property was expensed.

8. PROPERTY, PLANT AND EQUIPMENT

The following table reconciles Gear's property, plant and equipment:

Cost ($ thousands)	**Development and Production Assets**	**Administrative Assets**	**Total**
Balance, December 31, 2012	286,929	242	287,171
Additions	53,603	61	53,664
Change in decommissioning costs	10,368	-	10,368
Balance, December 31, 2013	350,900	303	351,203
Additions	84,465	115	84,580
Acquisitions	93,640	-	93,640
Disposals	(681)	-	(681)
Change in decommissioning costs	27,627	-	27,627
Balance, December 31, 2014	555,951	418	556,369
Depletion, depreciation and amortization			
Balance, December 31, 2012	104,615	166	104,781
Depletion, depreciation, amortization	31,743	38	31,781
Balance, December 31, 2013	136,358	204	136,562
Depletion, depreciation and amortization	50,589	75	50,664
Impairment	48,800	-	48,800
Balance, December 31, 2014	235,747	279	236,026

Carrying amounts ($ thousands)	**Development and Production Assets**	**Administrative Assets**	**Total**
As at December 31, 2013	214,542	99	214,641
As at December 31, 2014	320,204	139	320,343

9. DEBT

In November 2014, Gear entered into syndicated demand facilities ("Facilities") with three banks with a borrowing limit on the Facilities of $130 million. The Facilities bear interest at Canadian bank prime or, at Gear's option, Canadian bankers' acceptances, plus applicable margin and stamping fee. The total stamping fees range, depending on Gear's debt to cash flow 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 Facilities are subject to a standby fee in the range of 20 bps to 45 bps. The Facilities carry a single financial covenant to maintain a working capital ratio of not less than 1.0:1, see Note 15 for further details on covenant calculation. At December 31, 2014 Gear was in compliance with this covenant. The Facilities are secured by a fixed and floating charge on the assets of Gear and are subject to regular reviews. The next scheduled review is to be complete by June 1, 2015.

As at December 31, 2014 Gear had $98.9 million drawn (December 31, 2012 – $64.9 million) and had outstanding letters of credit of $0.7 million (December 31, 2013 - $2.6 million).

10. DECOMMISSIONING LIABILITY

($thousands)	**Year Ended December 31, 2014**	Year Ended December 31, 2013
Balance, beginning of year	**35,113**	24,704
Changes in estimates	**4,047**	8,864
Additions	**4,230**	1,504
Dispositions	**(56)**	(38)
Liabilities acquired through acquisitions	**12,613**	-
Revaluation of acquired decommissioning liabilities (1)	**19,350**	-
Decommissioning liabilities settled	**(2,636)**	(602)
Accretion	**1,453**	681
Balance, end of year	**74,114**	35,113

(1) These amounts relate to the revaluation of acquired decommissioning liabilities at the end of the period using a risk-free discount rate. At the date of acquisition decommissioning liabilities are fair valued.

The undiscounted and unescalated amount of the expected cash flows required to settle the decommissioning liability is estimated to be $77.2 million as at December 31, 2014 (December 31, 2013 - $43.5 million). The liability for the expected cash flows, as reflected in the financial statements, has been inflated at two per cent and discounted using a risk free rate of 2.22 per cent (December 31, 2013 – 3.13 per cent). Abandonments are expected to occur between 2015 and 2034 and related costs will be funded mainly from Gear's cash provided by operating activities.

11. 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. Gear considers all of these present and future transactions 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.

Following is a summary of all risk management contracts in place as at December 31, 2014:

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, 2015	Jun 30, 2015	Bought put	CAD	3,000	-	-	90.00	-

As at December 31, 2014, the fair value associated with Gear's risk management contracts was an asset of $13.7 million ($2.1 million liability at December 31, 2013).

The following table reconciles the gain (loss) on risk management contracts:

($ thousands)	**Year ended December 31, 2014**	Year ended December 31, 2013
Realized cash gain (loss) on risk management contracts	**(2,167)**	(5,071)
Unrealized cash gain (loss) on risk management contracts	**15,804**	(1,972)
Total gain (loss) on risk management contracts	**13,637**	(7,043)

12. SHAREHOLDERS' EQUITY

a) Share Capital

(thousands of shares)	**Year Ended December 31, 2014**			Year Ended December 31, 2013		
	Shares		**Amount**	Shares		Amount
Balance, beginning of year	**53,956**	**$**	**166,869**	53,858	$	166,624
Issued on offering of common shares	**15,875**		**63,500**	-		-
Exercise of stock options	**986**		**3,346**	-		-
Share issue costs, net of deferred tax benefit of $880	**-**		**(2,648)**	-		-
Issued to employees for share award	**-**		**-**	98		245
Balance, end of year	**70,817**	**$**	**231,067**	53,956	$	166,869

b) Stock Options

Gear has a stock option plan under which employees, directors and consultants are eligible to receive grants. Under the plan, options may be granted to purchase up to 10% of the outstanding shares of Gear and the maximum term of options granted is five years. Unless otherwise determined by the Board of Directors at the time of grant, options vest as to one-third on each of the first, second and third anniversary dates of the date of grant. The following table summarizes Gear's stock option plan during the years ended December 31, 2014 and 2013.

	Year Ended December 31, 2014			Year Ended December 31, 2013		
(thousands)	**Number of stock options**		**Weighted average exercise price**	Number of stock options		Weighted average exercise price
Outstanding, beginning of year	**4,310**	**$**	**2.52**	4,194	$	3.31
Cancelled	**-**		**-**	(2,725)		3.75
Granted	**1,820**		**5.23**	3,050		2.53
Exercised	**(986)**		**2.50**	-		-
Forfeited	**(350)**		**2.50**	(209)		2.50

Outstanding, end of year	**4,794**		**3.54**	4,310	2.52
Exercisable, end of year	**2,770**	**$**	**2.53**	1,005 $	2.51

During 2014, Gear has recorded an expense of $1,611 thousand (2013 - $2,565 thousand) to share-based compensation expense recognizing the stock option activity for the period based on the fair value of options issued amortized using a graded vesting calculation.

The Black-Scholes option-pricing model was used to determine the fair value of stock options granted using the following assumptions:

	Year ended December 31,	
	2014	2013
Risk free interest rate (%)	**1.03**	**1.44**
Dividend yield (%)	**-**	**-**
Average expected life (years)	**5.0**	**5.0**
Average expected volatility (%)	**41.3**	**30.0**
Forfeiture rate (%)	**10.0**	**5.0**

c) **Weighted average common shares**

($ thousands)	**Year ended December 31, 2014**	Year ended December 31, 2013
Basic	**66,706**	**53,932**
Diluted	**67,840**	**54,158**

13. INCOME TAXES

The tax provision differs from the amount computed by applying the combined Canadian federal and provincial statutory income tax rates to loss before deferred income tax expense as follows:

($ thousands)	**December 31, 2014**	December 31, 2013
Loss before income taxes	**(16,089)**	(1,916)
Canadian statutory rate [1]	**25.0%**	25.0%
Expected income tax recovery at statutory rates	**(4,022)**	(479)
Effect on income tax of:		
Change in estimated pool balances	**541**	(1,020)
Shared-based compensation	**403**	642
Other	**69**	-
Deferred income tax recovery	**(3,009)**	(857)

(1) The statutory rate consists of the combined statutory tax rate for Gear.

($ thousands)	**December 31, 2014**	December 31, 2013
Deferred tax assets		
Decommissioning liability	**18,528**	8,778
Non-capital losses carry forward	**7,340**	9,116
Financing fees	**933**	535
Deferred tax liabilities		
Capital assets in excess of tax value	**(6,877)**	(6,346)
Risk management contracts	**(3,423)**	528
Deferred income tax asset	**16,501**	12,611

The petroleum and natural gas properties and facilities owned by Gear have an approximate tax basis of $325.9 million ($231.1 million in 2013) available for future use as deductions from taxable income. Included in this tax basis are estimated non-capital loss carry forwards that expire in the years 2027 through 2030.

The following is a summary of the estimated Gear tax pools:

($ thousands)	**December 31, 2014**	December 31, 2013
Canadian oil and gas property expenses	**132,846**	80,038
Canadian development expenses	**76,539**	56,099
Canadian exploration expenses	**18,113**	13,452
Undepreciated capital cost	**65,355**	42,951
Non-capital losses	**29,361**	36,464
Other	**3,730**	2,141

Estimated tax pools, federal and provincial	**325,944**	231,145

14. FINANCIAL INSTRUMENTS

Classification and Measurement
Gear's financial instruments on the Balance Sheet are carried at amortized cost with the exception of cash and risk management contracts, which are carried at fair value. As at December 31, 2014 and 2013, no significant differences existed between the carrying value of financial instruments and their estimated fair values

All of Gear's cash and risk management contracts are transacted in active markets. Gear classifies the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Gear's cash and cash equivalents and risk management contracts have been assessed on the fair value hierarchy described above. Gear's cash is classified as Level 1 and risk management contracts as Level 2. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

Market Risk Management
Gear is exposed to a number of different financial risks arising from normal course business exposures, as well as the Company's use of financial instruments. These risk factors include market risks relating to commodity prices, foreign currency risk and interest rate risk, as well as liquidity risk and credit risk. There have been no changes in the Company's objectives, policies or risks surrounding financial instruments.

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of the business. The market price movements that could adversely affect the value of the Company's financial assets, liabilities and expected future cash flows include commodity price risk (crude oil and natural gas), and foreign currency exchange risk.

(a) *Commodity price and foreign currency exchange risk*
Gear is subject to commodity price risk on the delivery of crude oil, and to a lesser extent, natural gas. These prices have a significant impact on its financial condition and can be subject to volatility as a result of a number of different external factors. North American crude oil and natural gas prices are based upon US dollar denominated commodity prices. As a result, the price received by Canadian producers is affected by the Canadian/US dollar exchange rate. Gear manages the risks associated with changes in commodity prices and foreign currency exchange by entering into a variety of risk management contracts (see Note 11).

The following table illustrates the effects of movement in commodity prices on net income due to changes in the fair value of risk management contracts in place at December 31, 2014. The sensitivity is based on a 10 per cent increase and 10 per cent decrease in the price of WTI. The commodity price assumptions are based on management's assessment of reasonably possible changes in oil and natural gas prices that could occur in the future.

Sensitivity of Commodity Price Risk management Contracts as at December 31, 2014
($ thousands)

	10% Decrease in WTI	10% Increase in WTI
Net income increase (decrease)	1,369	(1,369)

The sensitivities are hypothetical and based on management's assessment of reasonably possible changes in commodity prices after the balance sheet date. The results of the sensitivity should not be considered to be predictive of future performance. Changes in the fair value of risk management contracts cannot generally be extrapolated because the relationship of change in certain variables to a change in fair value may not be linear.

(b) *Interest Rate Risk*

Gear has variable interest rates on all of its debt instruments, therefore, changes in interest rates could result in an increase or decrease in the amount Gear pays to service its debt. Gear had no risk management contracts that would be affected by interest rates in place at December 31, 2014.

(c) *Liquidity Risk*
Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company believes that it has access to sufficient capital through internally generated cash flows and external sources (bank credit markets and equity financing) to meet current spending forecasts. All the accounts payable and accrued liabilities are due in less than one year and all debt is due on demand.

(d) *Credit Risk*
Gear is or may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of petroleum and natural gas and other parties. In the event such entities fail to meet their contractual obligations to Gear, such failures could have a material adverse effect. The Company manages the risk by reviewing the credit risk of these entities and by entering agreements only with parties that meet certain credit tests. The maximum credit risk that the Company is exposed to is the carrying value of cash and accounts receivable.

The majority of the credit exposure on accounts receivable at December 31, 2014 pertains to accrued revenue for December 2014 production volumes. Gear transacts with a number of oil and natural gas marketing companies. Marketing companies typically remit amounts to Gear by the 25th day of the month following production. A significant portion of Gear's accounts receivable is carried by four marketing companies. At December 31, 2014, 34 per cent, 22 per cent, 12 per cent and 11 per cent of total outstanding accounts receivable pertains to these companies. Gear did not have any other customers from which it had outstanding accounts receivable greater than 10 per cent of the total outstanding balance at December 31, 2014.

When determining whether amounts that are past due are collectable, management assesses the credit worthiness and past payment history of the counterparty, as well as the nature of the past due amount. Gear considers all amounts greater than 90 days to be past due. At December 31, 2014 management determined $9 thousand of accounts receivable past due to be uncollectable and as such booked an allowance for these amounts ($12 thousand in 2013).

15. CAPITAL MANAGEMENT

Gear's capital management objective is to maintain a structure that will allow it to:

- Fund its development, exploration program and long-term enhanced oil recovery project;
- Provide financial flexibility to execute on strategic opportunities;
- Weather periods of low commodity prices in light of changes in economic conditions.

Gear considers its capital structure to include shareholders' equity and net debt, which includes debt and working capital. As at December 31, these amounts are as follows:

($ thousands)	**December 31, 2014**	December 31, 2013
Debt	**98,900**	64,917
Accounts payable and accrued liabilities	**23,687**	18,297
Cash and cash equivalents, accounts receivable, prepaid expenses, and inventory	**(24,183)**	(16,066)
Net debt obligations (1)	**98,404**	67,148
Shareholders' equity	**178,017**	126,162
Total capital	**276,421**	193,310

(1) Net debt obligations exclude current unrealized amounts pertaining to risk management contracts.

Gear's objective is to limit net debt at two times cash flow from operating activities excluding settlement of decommissioning liabilities and changes in non-cash working capital. At certain times, this ratio may be exceeded as a result of strategic acquisitions or low commodity prices. Gear manages its capital structure and makes adjustments to it in response to changes in economic conditions and the risk characteristics of its underlying assets. This is achieved by issuing new shares or adjusting its net debt position through the management of capital expenditures. For 2014, Gear's net debt to cash flow from operating activities excluding settlement of decommissioning liabilities and changes in non-cash working capital is 1.3 (2013 - 1.9).

In addition to internal capital management, Gear's credit facility contains a financial covenant to maintain a working capital ratio of not less than 1.0:1. Working Capital ratio is defined by the credit facility agreement as current assets plus the undrawn portion of the revolving operating loan facility less the fair value of commodity price contracts, compared to current liabilities less outstanding bank debt less the fair value of commodity price contracts. As at December 31, 2014, Gear was in compliance with this financial covenant.

There has been no change in Gear's capital management objectives during the year ended December 31, 2014.

16. SUPPLEMENTAL DISCLOSURES CASH FLOW INFORMATION

Cash Flow Statement Presentation

The following table provides a detailed breakdown of the changes in non-cash working capital within cash flow from operating activities:

($ thousands)	**Year Ended December 31, 2014**	Year Ended December 31, 2013
Accounts receivable	**(5,745)**	(3,425)
Prepaid expenses	**167**	(78)
Inventory	**(2,292)**	(205)
Accounts payable and accrued liabilities	**4,915**	11,278
Total	**(2,955)**	7,570
Operating Activities	**(7,486)**	5,010
Investing Activities	**4,531**	2,560
Total	**(2,955)**	7,570

17. COMMITMENTS AND CONTINGENCIES

Following are summaries of Gear's contractual obligations and commitments as at December 31, 2014:

	Payments due by period		
($ thousands)	2015	2016	**Total**
Office leases (1)	312	159	**471**
Purchase commitments	3,133	6,005	**9,138**
Premiums on derivative contracts	662	-	**662**
Total contractual obligations	4,107	6,164	**10,271**

(1) Excludes estimate of occupancy costs.

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.

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.

18. RELATED PARTY TRANSACTIONS

Key Management Personnel Compensation

Gear has determined that the key management personnel of the Company consists of its officers and directors. In addition to the salaries paid to officers, Gear also provides compensation through participation in Gear's stock option plan. The compensation included in general and administrative expenses relating to key management personnel for the year was $1.9 million (2013 - $1.5 million).