FINANCIAL AND OPERATIONAL HIGHLIGHTS

GEAR ENERGY

(Cdn$ thousands, except per boe amounts)	Three months ended Jun 30, 2016	Jun 30, 2015	Mar 31, 2016	Six months ended Jun 30, 2016	Jun 30, 2015
FINANCIAL					
Cash flow from operations (1)	**8,333**	14,900	3,985	**12,317**	27,110
Per weighted average diluted share	**0.10**	0.21	0.05	**0.14**	0.38
Cash flow from operating activities	**5,066**	14,432	3,556	**8,622**	26,871
Per weighted average diluted share	**0.06**	0.20	0.04	**0.10**	0.38
Net (loss) income	**(7,312)**	(2,301)	(1,716)	**(9,028)**	(6,658)
Per weighted average diluted share	**(0.08)**	(0.03)	(0.02)	**(0.11)**	(0.09)
Capital expenditures	**1,165**	4,286	101	**1,267**	4,457
Net acquisitions (2)	**26**	(553)	(480)	**(454)**	(685)
Net debt outstanding (1)	**34,200**	71,678	59,550	**34,200**	71,678
Weighted average shares, basic and diluted	**86,117**	70,817	85,484	**85,800**	70,817
Shares outstanding, end of period	**114,234**	70,817	85,484	**114,234**	70,817
OPERATING					
Production					
Oil and liquids (bbl/d)	**4,358**	5,492	4,192	**4,275**	5,976
Natural gas (mcf/d)	**1,070**	838	1,459	**1,265**	890
Total (boe/d)	**4,536**	5,632	4,435	**4,485**	6,125
Average prices					
Oil and liquids ($/bbl)	**39.00**	50.72	20.90	**29.95**	43.37
Natural gas ($/mcf)	**1.20**	2.31	1.52	**1.39**	2.23
Oil equivalent ($/boe)	**37.75**	49.81	20.25	**29.10**	42.06
Netback ($/boe)					
Commodity and other sales	**37.75**	49.81	20.25	**29.10**	42.06
Royalties	**2.96**	5.96	1.63	**2.30**	6.13
Operating costs	**13.44**	18.66	15.34	**14.38**	18.26
Operating netback (before hedging) (1)	**21.34**	25.19	3.28	**12.41**	17.67
Realized risk management gains (losses)	**4.91**	9.37	12.71	**8.76**	11.28
Operating netback (after hedging) (1)	**26.25**	34.56	15.99	**21.17**	28.95
General and administrative	**3.28**	3.87	3.67	**3.47**	3.28
Transaction costs	**1.22**	-	-	**0.62**	-
Interest	**1.56**	1.42	1.53	**1.54**	1.40
Foreign exchange (gain) loss	**-**	0.17	-	**-**	(0.20)
Drilling commitments	**-**	-	1.19	**0.59**	-
Corporate netback (1)	**20.19**	29.10	9.60	**14.95**	24.47
TRADING STATISTICS					
($ based on intra-day trading)					
High	**0.82**	2.60	0.61	**0.82**	2.62
Low	**0.46**	1.78	0.25	**0.25**	1.38
Close	**0.61**	1.88	0.54	**0.61**	1.88
Average daily volume (thousands)	**272**	147	139	**206**	196

(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 August 3, 2016 and should be read in conjunction with the unaudited Financial Statements as at and for the three and six months ended June 30, 2016 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 dollar thousands unless otherwise noted.

ABOUT GEAR ENERGY LTD.

Gear is a Canadian exploration and production company with predominantly heavy oil production in East Central Alberta and West Central Saskatchewan. Presently, Gear has 25 employees with 18 staff in the Calgary office and 7 employees located in Gear's operating areas in Alberta, British Columbia, and Saskatchewan. Gear also has a number of contract operators in the field. The Company trades on the Toronto Stock Exchange under the symbol GXE.

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

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

Gear enhances returns of acquired assets by:

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

ECONOMIC ENVIRONMENT

The start of the second quarter of 2016 brought renewed optimism to the industry, with a prevailing sentiment that the worst of the supply glut was over. Non-OPEC production was declining due to ongoing reductions in capital investment as well as supply disruptions in Nigeria, Venezuela, and the Canadian oil sands. These factors combined to reduce the amount of barrels trying to find a home in a world awash with oil. A growth in global oil demand was also expected based on the economic law of demand that postulates the inverse relationship between price and demand: as oil prices fall, oil demand increases. In aggregate, global oil prices increased in the second quarter with WTI averaging US$45.59 per barrel or 36 per cent higher than the first quarter.

Unfortunately, the oil price recovery has recently stalled as a result of persistent global oil supply and fears of softening demand. A renewed sense of price volatility has creeped back into the market as market participants struggle with macro expectations. To combat the uncertainty of commodity prices, Gear continues to focus on reducing its cost structure both on operating and capital costs and executing on value creation through the drilling of economically positive rate of return wells all while maintaining a strong balance sheet. In addition, Gear continues to have interest in acquisition opportunities in this weak commodity price market with the expectation that oil prices will continue to recover.

GUIDANCE

Table 1 summarizes 2016 guidance estimates upon completion of the Striker Acquisition (as defined below).

	Full Year 2016 Guidance	H2 - 2016 Guidance	Q2 2016 YTD
Production – Annual (boe/d)	**5,250**	**6,000**	**4,485**
Exit Production (boe/d)	**6,400**	**6,400**	**n/a**
Percent oil and liquids (%)	**88**	**85**	**95**
Royalty rate (%)	**11**	**12**	**7.9**
Operating costs ($/boe)	**14.00 – 16.00**	**14.00 – 16.00**	**14.38**
General and administrative expense ($/boe)	**2.80**	**2.50**	**3.47**
Interest expense ($/boe)	**1.25**	**1.00**	**1.54**
Capital expenditures ($ millions)	**12.5**	**11.2**	**1.3**
Year-end Shares outstanding (millions)	**190.5**	**190.5**	**114.2**

On July 27, 2016, Gear completed the acquisition, by way of plan of arrangement, of all issued and outstanding common shares of Striker Exploration Corp (the "Striker Acquisition"), a public oil and gas company with properties predominantly in Central Alberta. The combination of Gear and Striker provides the combined company with an additional 2,000 boe/d of 60 per cent light and medium oil production, approximately 90 net sections of undeveloped land, a new core focus area in the emerging Belly River light oil resource play and a materially strengthened balance sheet. The combination creates a diversified, low-cost, low decline, oil weighted growth company. Guidance for 2016 includes the expected results of operations from these newly acquired assets subsequent to July 27, 2016.

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				Six months ended		
	Jun 30, 2016	Jun 30, 2015	% Change	Mar 31, 2016	**Jun 30, 2016**	Jun 30, 2015	% Change
Cash flow from operations per debt adjusted share (1)	**0.052**	0.138	(62)	0.016	**0.070**	0.235	(70)
Production, boepd per debt adjusted thousand shares (1)	**0.028**	0.052	(46)	0.018	**0.026**	0.053	(51)

(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*".

2016 SECOND QUARTER FINANCIAL AND OPERATIONAL RESULTS

Cash flow from operations

Cash flow from operations for the three and six months ended June 30, 2016 were $8.3 million and $12.3 million, respectively. This represents decreases in cash flow from operations of $6.6 million and $14.8 million when compared to the same periods in 2015. The decrease in second quarter cash flow is the result of decreased commodity prices, lower production volumes, and lower gains on risk management contracts offset by decreased royalty, operating, general and administrative, interest and foreign exchange expenses.

On a year to date basis, decreased cash flow is the result of decreased commodity prices, lower production volumes, lower gains on risk management contracts and foreign exchange and a one-time renegotiation fee on previously existing drilling contracts offset by decreased royalty, operating, general and administrative, and interest expenses.

The following table details the change in cash flow from operations for 2016 relative to 2015:

Table 3

	Three months ended June 30		Six months ended June 30	
	$ thousands	$/boe	$ thousands	$/boe
Q2 2015 Cash flow from operations (1)	14,900	29.07	27,110	24.47
Volume variance	(4,966)	-	(12,295)	-
Price variance	(4,978)	(12.06)	(10,575)	(12.96)
Cash gains on risk management contracts	(2,777)	(4.46)	(5,345)	(2.51)
Royalties	1,830	3.00	4,921	3.83
Expenses:				
Operating	4,017	5.22	8,500	3.87
General and administrative	134	(0.61)	411	(0.67)
Interest	89	(0.14)	296	(0.14)
Foreign exchange	84	0.16	(226)	(0.20)
Drilling commitments	-	-	(480)	(0.59)
Q2 2016 Cash flow from operations (1)	8,333	20.19	12,317	15.09

(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 six months ended June 30, 2016, Gear generated net losses of $7.3 million and $9.0 million, respectively, this compares to net loss of $2.3 million and $6.7 million for the same periods in 2015. The changes in net loss are due to several factors discussed below.

Production

Production volumes averaged 4,536 barrels per day and 4,485 barrels per day for the three and six months ended June 30, 2016, compared to 5,632 barrels per day and 6,125 barrels per day in the same periods in 2015. These production decreases are the direct result of minimal capital investment in 2015 and 2016, partially offset by a one-time 400 barrel per day adjustment relating to prior periods on amounts owed to Gear from a joint venture partner. Gear drilled 12 wells in 2015 with a 100% success rate and the results from these wells were exceptional; however, the capital investment was not sufficient enough to offset Gear's natural production base declines.

During the quarter Gear re-activated 100 barrels per day of previously uneconomic production. Approximately 250 bbl/d of uneconomic production remains shut-in, which will be re-activated should pricing return to levels under which these wells would be cash flow positive

Table 4

Production		Three months ended			Six months ended		
	Jun 30, 2016	Jun 30, 2015	% Change	Mar 31, 2016	**Jun 30, 2016**	Jun 30, 2015	% Change
Oil and NGL (bbl/d)	**4,358**	5,492	(21)	4,192	**4,275**	5,976	28
Natural gas (mcf/d)	**1,070**	838	28	1,459	**1,265**	890	(42)
Total production (boe/d) (1)	**4,536**	5,632	(19)	4,435	**4,485**	6,125	27
% Oil and NGL production	**96**	98	(2)	94	**95**	98	(3)
% Natural gas production	**4**	2	100	6	**5**	2	150

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

Gear expects sales production to increase for the third quarter due to the assets acquired pursuant to the Striker Acquisition as well as the incremental production resulting from the initiation of the Company's 2016 capital program. Average production volume guidance for the year is currently set at 5,250 boepd, of which approximately 1,000 boe per day relate to the assets acquired through the Striker Acquisition on July 26, 2016. Although these acquired assets are expected to contribute approximately 2,000 boepd from July 27, 2016 to December 31, 2016, the annualized production contribution has been pro-rated by 5 months for a 2016 contribution of 1,000 boe per day.

Revenue

Sales of crude oil, natural gas and natural gas liquids for the second quarter of 2016 totaled $15.6 million, a 39 per cent decrease over the second quarter 2015 sales of $25.5 million. Year to date sales of crude oil, natural gas and natural gas liquids decreased 49 per cent in 2016 compared to the same period in 2015. This decrease is the result of lower realized commodity prices and lower production volumes, partially offset by a $2.1 million one-time adjustment relating to prior periods on amounts owed to Gear from a joint venture partner.

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

Table 5

Sales by product ($ thousands)		Three months ended			Six months ended		
	Jun 30, 2016	Jun 30, 2015	% Change	Mar 31, 2016	**Jun 30, 2016**	Jun 30, 2015	% Change
Oil and natural gas liquids	**15,465**	25,352	(39)	7,971	**23,436**	46,265	(49)
Natural gas	**116**	176	(34)	202	**318**	359	(11)
Total revenue	**15,581**	25,528	(39)	8,173	**23,754**	46,624	(49)

Commodity Prices

Table 6

Average Benchmark Prices		Three months ended			Six months ended		
	Jun 30, 2016	Jun 30, 2015	% Change	Mar 31, 2016	**Jun 30, 2016**	Jun 30, 2015	% Change
WTI oil (US$/bbl) (1)	**45.59**	57.90	(21)	33.45	**39.52**	53.28	(26)
WCS differential (US$/bbl) (2)	**(13.30)**	(11.59)	15	(14.24)	**(13.77)**	(13.29)	4
Cdn$ / US$ exchange rate	**1.28**	1.23	4	1.37	**1.33**	1.24	7
WCS (Cdn$/bbl)	**41.61**	56.93	(27)	26.39	**34.24**	49.38	(31)
AECO natural gas ($/mcf) (3)	**1.25**	2.67	(53)	2.11	**1.68**	2.81	(40)
Gear Realized Prices							
WCS (Cdn$/bbl)	**41.61**	56.93	(27)	26.39	**34.24**	49.38	(31)
Gear differential (4)	**(2.61)**	(6.21)	(58)	(5.49)	**(4.29)**	(6.01)	(29)
Oil and NGL ($/bbl)	**39.00**	50.72	(23)	20.90	**29.95**	43.37	(31)
Natural gas ($/mcf)	**1.20**	2.31	(48)	1.52	**1.39**	2.23	(38)
Total revenue ($/boe)	**37.75**	49.81	(24)	20.25	**29.10**	42.06	(31)

(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

Throughout the second quarter commodity prices strengthened in comparison to the record lows experienced in the first part of the year, however, considerable risks continue to exist on oil pricing including supply of US shale oil, supply policy decisions from OPEC, and global demand for oil. Continued concerns about worldwide over-supply of crude oil has resulted in the forward outlook on commodity prices for the second half of the year remaining weak. At the time of writing, the second half of 2016 WTI is forecasted to be approximately US$45 per barrel and the WCS differential is forecasted to be approximately US$14 per barrel.

US denominated WTI prices for the second quarter decreased by 21 per cent over the same period in 2015 and the WCS differential widened from US$11.59 per barrel to US$13.30 per barrel. These two movements were offset by the weakening of the Canadian dollar and resulted in Gear's realized commodity price decreasing by 24 per cent to $37.75 per boe compared to the prior year. On a year-to-date basis, US denominated WTI and the WCS differential weakened by 26 per cent and 4 per cent, respectively. This combined with the weakening of the Canadian dollar, resulted in an overall decrease in Gear's realized commodity price of 31 per cent in 2016 to $29.10 per boe.

Royalties

In the second quarter of 2016, royalties as a percentage of commodity sales reached record lows for the Company at 7.9 per cent, a decrease of 34 per cent from the same period in 2015. On a year to date basis Gear's royalty rate decreased 45 per cent compared with the same period in 2015. Gear's most recent 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 per cent. Royalties paid on non-incentive based crown lands are based on as sliding scale with sensitivity to both price and total volume produced. As such, due to the lower pricing environment throughout 2016, Gear's royalty rate on produced volume decreased.

Table 7

Royalty expense		Three months ended				Six months ended	
($ thousands except % and per boe)	**Jun 30, 2016**	Jun 30, 2015	% Change	Mar 31, 2016	**Jun 30, 2016**	Jun 30, 2015	% Change
Royalty expense	**1,224**	3,054	(60)	656	**1,880**	6,799	(72)
Royalty expense as a % of Sales	**7.9**	12.0	(34)	8.0	**7.9**	14.6	(46)
Royalty expense per boe	**2.96**	5.96	(50)	1.63	**2.30**	6.13	(62)

The properties acquired through the Striker Acquisition carry a higher royalty burden than Gear's historical properties, as a result, royalty rates for the remainder of the year are expected to increase slightly to 12 per cent.

Operating and Transportation costs

Operating costs plus transportation for the second quarter of 2016 came in at a record low for the Company at $13.44 per boe, representing a 28 per cent decrease over the same period in 2015 and a 12 per cent decrease over the first quarter of 2016. On a year-to-date basis operating costs plus transportation decreased by 21 per cent. Throughout the prior year and the first half of 2016 Gear's field staff worked to identify cost saving opportunities across the organization. The reduction in operating costs can be attributed to supplier cost reductions, increased operating efficiencies, decreased labor and fuel costs, reduction of costs sourced from high cost wells that were shut-in, and increased volumes resultant from a one-time adjustment relating to prior periods for revenue owed to Gear from a joint venture partner. 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.

Table 8 below summarizes the operating and transportation expense:

Table 8

Operating and Transportation expense		Three months ended				Six months ended	
($ thousands except per boe)	**Jun 30, 2016**	Jun 30, 2015	% Change	Mar 31, 2016	**Jun 30, 2016**	Jun 30, 2015	% Change
Operating expense	**4,796**	8,552	(44)	5,351	**10,147**	18,210	(44)
Transportation expense	**753**	1,013	(26)	841	**1,594**	2,030	(21)
Operating and transportation expense	**5,549**	9,565	(42)	6,192	**11,741**	20,240	(42)
Operating expense per boe	**11.62**	16.69	(30)	13.26	**12.44**	16.43	(24)
Transportation expense per boe	**1.82**	1.97	(8)	2.08	**1.94**	1.83	6
Operating and transportation expense per boe	**13.44**	18.66	(28)	15.34	**14.38**	18.26	(21)

Operating expenses are expected to increase in the second half of the year yielding an annual average in the range of $14.00 to $16.00 per boe.

Operating Netbacks

Gear's operating netback was $21.34 per boe in the second quarter of 2016 compared to $25.19 per boe in the same period of 2015. On a year to date basis Gear's operating netback was $12.41 per boe in 2016 compared with $17.67 in 2015. 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)	**Q2 2016 Total ($/boe)**	Q2 2015 Total ($/boe)	% Change	Q1 2016 Total ($/boe)	**YTD Q2 2016Total ($/boe)**	YTD Q2 2015 Total ($/boe)	% Change
Total sales	**37.75**	49.81	(24)	20.25	**29.10**	42.06	(31)
Royalties	**(2.96)**	(5.96)	(50)	(1.63)	**(2.30)**	(6.13)	(62)
Operating costs	**(13.44)**	(18.66)	(28)	(15.34)	**(14.38)**	(18.26)	(21)
Netback	**21.34**	25.19	(15)	3.28	**12.41**	17.67	(30)

General and Administrative ("G&A") Expenses, Transaction Costs and Share-based compensation ("SBC")
G&A totaled $1.4 million and $2.8 million for the three and six months ended June 30, 2016, respectively, a decrease of $0.1 million and $0.3 million when compared to the same periods in 2015. On a per boe basis, G&A increased by 16 per cent and 25 per cent for the three and six months ended June 30, 2016. G&A guidance for the full year 2016 remains unchanged at $2.80 per boe. Gear does not capitalize G&A.

During the second quarter $0.5 million of transaction costs were incurred relating to the Striker Acquisition. Transaction costs include amounts relating to advisor fees, legal and accounting and other acquisition related costs. Additional transaction costs for the Striker Acquisition are expected to be incurred for the third quarter of 2016.

SBC is related to bonus awards through the granting of actual common shares and stock options. There were 855 thousand options granted during the first six months of 2016 at an average price of $0.35. In addition, 983 thousand options were forfeited all with an average exercise price of $3.28. As at June 30, 2016, a total of 6.3 million options were outstanding or five per cent of the 114.2 million total common shares outstanding.

Table 10 is a breakdown of G&A and SBC expense:

Table 10

G&A, Transaction costs and SBC expense	Three months ended				Six months ended		
($ thousands except per boe)	**Jun 30, 2016**	Jun 30, 2015	% Change	Mar 31, 2016	**Jun 30, 2016**	Jun 30, 2015	% Change
General and administrative	**1,356**	1,984	(32)	1,481	**2,837**	3,632	(22)
Transaction costs	**503**	-	100	-	**503**	-	100
SBC expense	**348**	556	(37)	174	**522**	1,127	(54)
General and administrative per boe	**3.28**	3.87	(15)	3.67	**3.47**	3.28	(6)
Transaction costs per boe	**1.22**	-	100	-	**0.62**	-	100
SBC expense per boe	**0.84**	1.09	(23)	0.43	**0.64**	1.02	(37)

Interest and financing charges
Interest and financing charges totaled $0.6 million and $1.3 million for the three and six months ended June 30, 2016, a decrease of 12 percent and 19 per cent from the same periods in 2015. This decrease is primarily attributable to a 41 per cent decrease in average debt levels in 2016 compared to 2015.

Gear's interest rate on its demand facility is dependent on the second preceding quarter's borrowings on its demand facility in comparison to its earnings before interest, taxes, depletion, depreciation, amortization, and accretion. Gear's current annualized borrowing costs, inclusive of financing charges on its credit facility approximated 3.9 per cent for the second quarter of 2016.

Table 11 is a breakdown of interest expense:

Table 11

Interest and financing charges	Three months ended				Six months ended		
($ thousands except per boe)	**Jun 30, 2016**	Jun 30, 2015	% Change	Mar 31, 2016	**Jun 30, 2016**	Jun 30, 2015	% Change
Interest expense	**625**	678	(8)	590	**1,217**	1,439	(15)
Financing charges	**8**	33	(76)	23	**30**	83	(64)
Standby and letter of credit fees	**8**	18	(56)	3	**10**	33	(70)
Interest and financing charges	**641**	729	(12)	616	**1,257**	1,555	(19)
Interest and financing charges per boe	**1.56**	1.42	10	1.53	**1.54**	1.40	10

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.

On June 29, 2016 Gear closed a bought deal financing with a syndicate of underwriters resulting in net proceeds to the Company of $18.8 million. The proceeds were used to reduce indebtedness and as such average debt levels will decline into the second half of the year and interest expense is expected to decrease. Full year guidance remains unchanged at $1.25 per boe.

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 forecast production, net of royalties, for the current and following calendar year.

Gear's hedging strategy continues to be dynamic to the current economic environment. Gear has a mandate to protect its balance sheet and its capital program 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 been incorporating both fixed price swaps and collars into its hedging program for 2016 and 2017. Fixed price swaps give Gear price certainty and 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.

Throughout the first half of the year Gear's hedging program continues to play a significant role in the Company's ability to reduce its debt and to protect the balance sheet. Gear evaluates hedging opportunities on a regular basis and acknowledges the importance its hedging program plays in the determination of its borrowing base.

Table 12 summarizes Gear's hedged volumes for the remainder of 2016 through 2017:

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**
Jul 1, 2016	Dec 31, 2016	Swap	CAD	2,000	67.13	-	-	-
Jan 1, 2017	Jun 30, 2017	Swap	CAD	600	60.83	-	-	-
Jan 1, 2017	Dec 31, 2017	Collar	CAD	200	-	71.00	60.00	-
Jan 1, 2017	Dec 31, 2017	Collar	CAD	200	-	72.50	60.00	-
Jul 1, 2017	Dec 31, 2017	Swap	CAD	400	61.78	-	-	-

Subsequent to June 30, 2016, Gear inherited one additional contract from the Striker Acquisition for 500 barrels per day from July 1, 2016 to December 31, 2016 for an Edmonton Sweet Light Blend to WTI differential contract at a price of Cdn$5 per barrel.

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

DD&A during the second quarter of 2016 was $13.92 per boe compared to $21.77 per boe in the same period in 2015. On a year-to-date basis Gear's DD&A rate decreased 34 per cent. These decreases in the DD&A rate are due to reductions in Gear's finding and development costs year over year as well as from selling volumes from inventory that did not have any carrying value ascribed to them as a result of inventory impairments taken in 2015. Gear records its inventory at the lower of cost and net realizable value.

Table 13

DD&A Rate	Three Months Ended				Six Months Ended		
($ thousands except per boe)	**Jun 30, 2015**	Jun 30, 2015	% Change	Mar 31, 2016	**Jun 30, 2015**	Jun 30, 2015	% Change
DD&A	**5,744**	11,155	(49)	4,283	**10,027**	20,658	(51)
Total DD&A rate per boe	**13.92**	21.77	(36)	10.61	**12.28**	18.63	(34)

Taxes

A deferred tax recovery was not recorded in the quarter due to the uncertainty of the recoverability of additional deferred income tax assets in the current low commodity price environment. The deferred income tax asset is primarily influenced by temporary differences relating to the book basis of Gear's property, plant and equipment relative to its tax basis. As at June 30, 2016 Gear's estimated tax pools were $295 million ($302.1 million at December 31, 2015). 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 2016 or 2015.

Capital Expenditures, Acquisitions and Dispositions

In response to continued weakness in the price of oil, Gear adopted a conservative approach to its capital program in the first half of the year, with spending focused on compulsory capital. At the end of the second quarter Gear spudded the first well of its 2016 capital program, a four leg un-lined horizontal well drilled into the Wildmere Cummings play. The well was rig released in early July and recently brought on production. The initial results are encouraging. A second Wildmere Cummings well was then successfully drilled and the rig is currently finishing the third well in the three well program.

In total Gear plans to spend $12.5 million on its capital development program in 2016 consisting of $10.5 million of drilling and recompletion activity, $1.0 million of field optimization projects and $1.0 million of land, seismic and other corporate costs. The drilling program includes twelve 100 per cent heavy oil wells; three unlined quad laterals in Wildmere Cummings, six single lateral horizontal McLaren wells in Paradise Hill, one low risk exploration well into be drilled into a potential new core area and two Wilson Creek Basal Belly River light oil wells on lands acquired through the Striker Acquisition. Gear intends to complete the majority of its capital program in the third quarter in order to take advantage of lower drilling costs in the summer months.

Gear continues to evaluate small non-core property acquisitions and dispositions in order to optimize its asset base. Net proceeds from these transactions totaled $0.5 million in the first half of 2016.

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

Table 14

Capital expenditures	Three Months Ended				Six Months Ended		
($ thousands)	**Jun 30, 2016**	Jun 30, 2015	% Change	Mar 31, 2016	**Jun 30, 2016**	Jun 30, 2015	% Change
Geological and geophysical	**(2)**	27	(107)	(15)	**(17)**	74	(123)
Drilling and completions	**593**	2,049	(71)	91	**684**	532	29
Production equipment and facilities	**517**	1,424	(64)	39	**557**	2,775	(80)
Undeveloped land purchased at crown land sales	**47**	306	(85)	(14)	**33**	591	(94)
Other	**10**	480	(98)	-	**10**	485	(98)
Total capital expenditures	**1,165**	4,286	(73)	101	**1,267**	4,457	(72)
Acquisition through business combination[(1)]	**-**	(553)	(100)	-	**-**	(458)	(100)
Property acquisitions and dispositions, net [(1)]	**26**	-	100	(480)	**(454)**	(227)	(100)
Total capital expenditures and net acquisitions	**1,191**	3,733	(68)	(379)	**813**	3,772	(78)

(1) Includes post-closing adjustments.

Decommissioning Liability

At June 30, 2016, Gear has recorded a decommissioning liability of $58.6 million ($55.0 million at December 31, 2015) for the future abandonment and reclamation of Gear's properties. The estimated decommissioning liability includes assumptions in respect of actual costs to abandon wells or reclaim the property, the time frame in which such costs will be incurred as well as annual inflation factors in order to calculate the undiscounted total future liability. The future liability has been discounted at the risk free rate of 1.67 per cent (2.04 per cent at December 31, 2015). Abandonment cost estimates are derived from third party government sources and, as a result, can fluctuate from time to time. The increase in liability is due to the reduction in the risk free rate.

Environmental stewardship is a core value at Gear and abandonment and reclamation investments continue to be made in a prudent and responsible manner with oversight by the Board of Directors. Ongoing abandonment expenditures for all of Gear's assets are funded out of cash flow from operations. As at June 30, 2016 Gear's licensee liability rating in Alberta was 2.2 times and 3.96 times in Saskatchewan.

Capitalization, Financial Resources and Liquidity

A breakdown of Gear's capital structure is outlined in Table 15, as at June 30, 2016 and December 31, 2015:

Table 15

Debt ($ thousands except ratio amounts)	**Jun 30, 2016**	Dec 31, 2015
Net debt [(1)]	**34,200**	65,972
Net debt to quarterly annualized cash flow from operations	**1.0**	3.5
Net debt to year-to-date annual cash flow from operations	**1.4**	1.7
Common shares outstanding	**114,234**	85,484

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

Gear's focus in the first half of 2016 has been on strengthening its balance sheet in order to provide the Company with the ability to operate effectively in periods of reduced commodity prices and to provide financial flexibility in order to grow the business. As a result of minimizing capital spending Gear was able to apply essentially all of its cash flow against outstanding debt balances in the first six months of the year. In addition, Gear closed a bought deal financing on June 29, 2016 for net proceeds of $18.8 million. These factors have resulted in debt balances being reduced by 48 per cent in the year. Since the beginning of the economic downturn Gear has reduced its outstanding debt balances by 65 per cent. This successful de-levering provides Gear with one of the strongest balance sheets in its peer group. On July 27, 2016, Gear issued an additional 76.2 million shares associated with the Striker Acquisition and, as at the date of this MD&A, has 190.5 million common shares outstanding.

Credit Facilities

At June 30, Gear had syndicated demand credit facilities (the "Demand Credit Facilities") with a borrowing limit of $60 million. The Demand 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 borrowings on its demand facility in comparison to its earnings before interest, taxes, depletion, depreciation, amortization, and accretion, 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. At June 30, 2016 Gear had $28.4 million drawn on the Credit Facilities, leaving $31.6 million in borrowing capacity. The debt has been classified as current as Gear's borrowings are under a revolving operating demand facility that can be called at any time. As at June 30, 2016, Gear was in compliance with its externally imposed financial covenant.

In conjunction with the close of the Striker Acquisition, Gear entered into a new $50 million facility consisting of a $42.5 million revolving term credit facility with a syndicate of three banks and a $7.5 million operating facility (the "Credit Facilities"), both with a maturity date of May 31, 2017. The total stamping fees range, depending on Gear's borrowings on its Credit Facilities to EBITDA ratio, between 100 bps to 300 bps on Canadian bank prime borrowings and between 200 bps and 400 bps on Canadian dollar bankers' acceptances. The undrawn portion of the Credit Facilities is subject to a standby fee in the range of 50 bps to 100 bps. The Credit Facilities carry a single covenant to maintain an adjusted working capital ratio of not less than 1.0:1. Adjusted working capital ratio is defined as current assets less unrealized hedging gains, plus the undrawn portion of the credit facilities divided by accounts payable and accrued liabilities. The first semi-annual borrowing base review of the facilities will occur on or about October 31, 2016. Upon entering into the new credit agreement for the Credit Facilities, the Demand Credit Facility was repaid in full.

Convertible Debentures

On November 10, 2015 Gear completed a bought deal financing and private placement to issue 14.7 million common shares at $0.75 per share and $14.8 million of convertible unsecured subordinated debentures for total gross proceeds of $26 million. The Offering closed on November 30, 2015.

The Convertible 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 Convertible Debentures carry an equity conversion feature which was subject to shareholder approval. Gear received shareholder approval for conversion of the Convertible Debentures at its annual and special meeting of shareholders on May 11, 2016. The Convertible Debentures are 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 Convertible Debentures a holder will receive approximately 1,149.43 common shares. Holders converting their Convertible 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. The Convertible Debentures are redeemable on or after December 31, 2018 by Gear if the current market price of Gear's common shares at such time 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 December 31, 2019, the Convertible 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 Convertible Debentures see Note 6 "Convertible Debentures" in the notes to the financial statements for the three months ended June 30, 2016.

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 June 30, 2016 Gear had 114.2 million common shares outstanding, an increase of 28.75 million shares from the December 31, 2015 balance of 85.5 million shares. On June 29, 2016 Gear closed a bought deal financing whereby 28.75 million common shares were issued at a price of $0.70 per share for total gross proceeds of $20.125 million. Gear issued an additional 76.2 million shares associated with the Striker Acquisition and, as at the date of this MD&A, has 190.5 million common shares outstanding.

As at December 31, 2015, a total of 6.4 million options were outstanding with a weighted average exercise price of $2.83 per share and each option entitled the holder to acquire one Gear common share. As at June 30, 2016, a total of 6.3 million options were outstanding with a weighted average exercise price of $2.44 per share and each option entitled the holder to acquire one Gear common share. As at date of this MD&A, a total of 6.2 million options were outstanding with a weighted average exercise price of $2.44 per share and each option entitled the holder to acquire one Gear common share.

Pursuant to the Striker Acquisition, Gear assumed Striker's obligations for certain warrants that were outstanding to acquire common shares of Striker and as a result as at the date hereof there are now warrants to acquire 1,511,250 common shares of Gear at a price of $1.03 per share that will expire on July 9, 2019 (prior to the Striker Acquisition the warrants entitled the holders to acquire 650,000 common shares of Striker at a price of $2.40 per Striker common share).

As at June 30, 2016, $14.8 million of Convertible Debentures were outstanding; this amount remains unchanged as at the date of this MD&A and from December 31, 2015. The conversion of the Convertible Debentures was approved by Gear shareholders at the annual and special meeting of shareholders held on May 11, 2016, the Convertible Debentures (at the option of the holder) will be convertible into Gear common shares based on a conversion price of $0.87. As such an aggregate of up to 17,011,494 Gear common shares may be issued on conversion of the Convertible Debentures. Gear will also have the option to satisfy its obligation to repay the principal amount of the Convertible Debentures due at maturity or redemption of the Convertible Debentures by the issuance of Gear common shares and the number of such common shares will be based on 95% of the weighted average trading price of the common shares prior to the date fixed for maturity or redemption. As the number of common shares to be issued on redemption or maturity is based on a price to be determined at a later date, the maximum number of Gear common shares that may be issued upon such redemption or maturity is not determinable at the present time.

Environmental Initiatives Impacting Gear

There are no new material environmental initiatives impacting Gear at this time.

Contractual Obligations and Commitments

Gear has contractual obligations in the normal course of operations including purchase of assets and services, operating agreements, transportation commitments, sales commitments, royalty obligations, lease rental obligations and employee agreements. These obligations are of a recurring, consistent nature and impact Gear’s cash flows in an ongoing manner. Gear also has contractual obligations and commitments that are of a less routine nature as disclosed in its financial statements.

Gear enters into commitments for capital and decommissioning 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 June 30, 2016, Gear had four contractual commitments:

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

The lease agreement for Gear's head office commenced July 1, 2016 and expires on January 30, 2020 and the lease agreement for Gear's field office is effective until December 31, 2016. The total commitment for both lease agreements is $0.6 million. The first drilling rig commitment is effective until December 31, 2016 with a total commitment of $0.6 million; the second commitment is effective January 1, 2017 through December 31, 2020 with a total commitment of $7.7 million. Total outstanding drilling commitments are $8.4 million. For further information see Note 12 “Commitments and Contingencies” in the notes to the financial statements for the three months ended June 30, 2016.

In conjunction with the Striker Acquisition Gear acquired a lease agreement for Striker’s head office with a total commitment, as at the acquisition date, of $0.3 million. The acquired lease expires on June 30, 2017.

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 unaudited Financial Statements. All leases have been treated as operating leases whereby the lease payments are included in operating expenses or G&A expenses depending on the nature of the lease. No asset or liability value has been assigned to these leases on the balance sheet as of June 30, 2016.

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

($ thousands)	Three months ended **Jun 30, 2016**	Jun 30, 2015	Mar 31, 2016	Six months ended **Jun 30, 2016**	Jun 30, 2015
Cash flow from operating activities	**5,066**	14,432	3,556	**8,622**	26,871
Expenditures on site restoration and reclamation	**814**	140	151	**965**	438
Change in non-cash working capital	**2,453**	328	278	**2,730**	(199)
Cash flow from operations	**8,333**	14,900	3,985	**12,317**	27,110

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)	**Jun 30, 2016**	Dec 31, 2015
Debt	**28,388**	55,725
Convertible debentures (at face value) (1)	**14,800**	14,800
Working capital surplus (2)	**(8,989)**	(4,553)
Net debt obligations	**34,200**	65,972

(1) Excludes unamortized portion of issuance costs.
(2) Excludes risk management contracts and the conversion approval option.

At June 30, 2016 and December 31, 2015, 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; however, there is no certainty that such debt and equity financing will be available.

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

(thousands, except per share amounts)	Three months ended **Jun 30, 2016**	Jun 30, 2015	Mar 31, 2016	Six months ended **Jun 30, 2016**	Jun 30, 2015
Weighted average shares	**86,117**	70,817	85,484	**85,800**	70,817
Average share price	**0.63**	2.10	0.40	**0.56**	1.90
Average net debt (1)	**46,875**	77,495	62,760	**50,086**	85,040
Share equivalent on average net debt	**74,404**	36,902	156,900	**89,439**	44,758
Debt adjusted shares	**160,521**	107,719	243,384	**175,239**	115,575

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

Disclosure Controls and Procedures

Gear's Chief Executive Officer and Chief Financial Officer are responsible for the establishment of disclosure controls and procedures ("DC&P"). DC&P, as defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, are designed to provide reasonable assurance that information required to be disclosed in the Company's annual filings, interim filings or other reports filed, or submitted by the Company under securities legislation is recorded, processed, summarized and reported within the time periods specified under securities legislation and include controls and procedures designed to ensure that information required to be so disclosed is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Internal Controls over Financial Reporting

Gear's Chief Executive Officer and the Chief Financial Officer are responsible for establishing and maintaining internal control over financial reporting ("ICFR") for Gear. They have, as at June 30, 2016, designed ICFR, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The control framework Gear's officers used to design the Company's ICFR is the Internal Control - Integrated Framework ("COSO Framework") published by The Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

There were no changes in Gear's ICFR during the three months ended June 30, 2016 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 second 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 second 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 and for operations, expected ability to raise funds as needed, estimates of normal course obligations, and a number of other matters, including the amount of future decommissioning costs and the expected funding sources for such 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 second 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 second 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; any action taken by Gear's lenders to reduce the borrowing capacity under the credit facilities; 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 second quarter report are made as of the date of this second 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

	2016		2015				2014	
(Cdn$ thousands, except per share, share, and per boe amounts)	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
FINANCIAL								
Sales of crude oil, natural gas and NGLs	15,581	8,173	14,274	19,476	25,528	21,096	39,558	48,273
Cash flow from operations (1)	8,333	3,985	4,682	7,416	14,900	12,210	20,602	22,580
Per basic	0.10	0.05	0.06	0.10	0.21	0.17	0.29	0.32
Per diluted	0.10	0.05	0.06	0.10	0.21	0.17	0.29	0.31
Cash flow from operating activities	5,066	3,556	3,801	9,873	14,432	12,439	13,425	21,428
Per basic and diluted	0.06	0.04	0.05	0.14	0.20	0.18	0.19	0.30
Net income (loss)	(7,312)	(1,716)	(26,501)	(63,360)	(2,301)	(4,357)	(29,999)	8,914
Per basic	(0.08)	(0.02)	(0.35)	(0.89)	(0.03)	(0.06)	(0.42)	0.13
Per diluted	(0.08)	(0.02)	(0.35)	(0.89)	(0.03)	(0.06)	(0.42)	0.12
Capital expenditures	1,165	101	3,993	6,433	4,286	171	20,969	27,314
Net acquisitions (2)	26	(480)	-	-	(553)	(132)	(1,027)	1,451
Net debt outstanding (1)	34,200	59,550	65,972	71,753	71,678	83,313	98,404	94,334
Weighted average shares outstanding, basic (thousands)	86,117	85,484	75,918	70,817	70,817	70,817	70,817	70,798
Weighted average shares outstanding, diluted (thousands)	86,117	85,484	75,918	70,817	70,817	70,817	71,485	72,314
Shares outstanding, end of period (thousands)	114,234	85,484	85,484	70,817	70,817	70,817	70,817	70,817
OPERATING								
Production								
Oil and liquids (bbl/d)	4,358	4,192	4,819	5,295	5,492	6,466	6,836	6,529
Natural gas (mcf/d)	1,070	1,459	1,176	810	838	944	991	1,101
Total (boe/d)	4,536	4,435	5,015	5,430	5,632	6,624	7,001	6,712
Average prices								
Oil and liquids ($/bbl)	39.00	20.90	31.68	39.58	50.72	35.93	62.39	79.72
Natural gas ($/mcf)	1.20	1.52	2.10	2.60	2.31	2.15	3.57	3.89
Oil equivalent ($/boe)	37.75	20.25	30.93	38.98	49.81	35.39	61.42	78.17
Netback ($/boe)								
Commodity and other sales	37.75	20.25	30.93	38.98	49.81	35.39	61.48	78.40
Royalties	2.96	1.63	4.72	4.88	5.96	6.28	11.02	14.97
Operating costs	13.44	15.34	16.63	17.53	18.66	17.91	19.94	21.78
Operating netback (before hedging) (1)	21.34	3.28	9.58	16.57	25.19	11.20	30.52	41.65
Realized risk management gains (losses)	4.91	12.71	3.86	1.80	9.37	12.91	3.98	(1.04)
Operating netback (after hedging) (1)	26.25	15.99	13.44	18.37	34.56	24.11	34.50	40.61
General and administrative	3.28	3.67	2.00	2.66	3.87	2.76	1.86	3.20
Transaction costs	1.22	-	-	-	-	-	-	-
Interest	1.56	1.53	1.28	1.34	1.42	1.38	1.31	1.16
Foreign exchange (gain) loss	-	-	0.06	(0.47)	0.17	(0.52)	(0.63)	(0.32)
Drilling commitments	-	1.19	-	-	-	-	-	-
Corporate netback (1)	20.19	9.60	10.10	14.84	29.10	20.49	31.96	36.57

(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.

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