FINANCIAL AND OPERATIONAL HIGHLIGHTS

GEAR ENERGY

(Cdn$ thousands, except per boe amounts)	Three months ended Jun 30, 2018	Jun 30, 2017	Mar 31, 2018	Six months ended Jun 30, 2018	Jun 30, 2017
FINANCIAL					
Funds from operations (1)	**13,674**	10,248	8,078	**21,753**	18,977
Per weighted average basic share	**0.07**	0.05	0.04	**0.11**	0.10
Per weighted average diluted share	**0.07**	0.05	0.04	**0.11**	0.09
Cash flow from operating activities	**8,596**	5,362	14,787	**23,383**	17,607
Net (loss) income	**(1,869)**	3,001	(4,294)	**(6,163)**	5,987
Per weighted average basic share	**(0.01)**	0.02	(0.02)	**(0.03)**	0.03
Per weighted average diluted share	**(0.01)**	0.01	(0.02)	**(0.03)**	0.03
Capital expenditures	**6,385**	6,161	9,243	**15,628**	24,945
Net acquisitions (2)	**10**	127	390	**400**	59
Net debt (1)	**38,960**	43,409	45,330	**38,960**	43,409
Weighted average shares, basic (thousands)	**195,045**	192,922	194,968	**195,007**	192,881
Weighted average shares, diluted (thousands)	**195,045**	208,971	194,968	**195,007**	209,074
Shares outstanding, end of period (thousands)	**195,213**	192,935	194,968	**195,213**	192,935
OPERATING					
Production					
Heavy oil (bbl/d)	**4,774**	3,887	4,231	**4,504**	3,813
Light and medium oil (bbl/d)	**1,232**	1,412	1,197	**1,215**	1,249
Natural gas liquids (bbl/d)	**219**	322	223	**221**	270
Natural gas (mcf/d)	**4,806**	5,334	5,229	**5,016**	5,266
Total (boe/d)	**7,025**	6,510	6,522	**6,775**	6,210
Average prices					
Heavy oil ($/bbl)	**55.04**	44.72	42.97	**49.40**	43.94
Light and medium oil ($/bbl)	**75.67**	59.64	64.53	**70.21**	60.19
Natural gas liquids ($/bbl)	**40.51**	28.11	39.74	**40.12**	26.10
Natural gas ($/mcf)	**1.08**	2.91	1.66	**1.38**	2.96
Netback ($/boe)					
Commodity and other sales	**52.67**	43.77	42.42	**47.76**	42.92
Royalties	**(5.06)**	(4.96)	(4.95)	**(5.01)**	(4.49)
Operating costs	**(17.16)**	(17.78)	(15.83)	**(16.52)**	(17.07)
Operating netback (1)	**30.45**	21.03	21.64	**26.23**	21.36
Realized risk management losses	**(5.55)**	(0.77)	(4.15)	**(4.88)**	(0.99)
General and administrative	**(2.55)**	(2.13)	(2.83)	**(2.69)**	(2.54)
Interest	**(0.93)**	(0.83)	(0.92)	**(0.92)**	(0.85)
Other	**(0.02)**	-	0.02	**-**	(0.09)
Corporate netback (1)	**21.40**	17.30	13.76	**17.74**	16.89
TRADING STATISTICS					
($ based on intra-day trading)					
High	**1.37**	0.94	1.01	**1.37**	1.26
Low	**0.68**	0.60	0.66	**0.66**	0.60
Close	**1.35**	0.74	0.70	**1.35**	0.74
Average daily volume (thousands)	**820**	253	458	**642**	403

(1) Funds from operations, net debt, operating netback and corporate netback are non-GAAP measures and are reconciled to the nearest GAAP measures 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 8, 2018 and should be read in conjunction with the unaudited Interim Condensed Financial Statements as at and for the three and six months ended June 30, 2018 and the audited Financial Statements as at and for the year ended December 31, 2017. 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 heavy and light oil production in Central Alberta and West Central Saskatchewan. Presently, Gear has 37 employees with 25 staff in the Calgary office and 12 employees located in Gear’s operating areas in Alberta and Saskatchewan. Gear also has a number of contract operators in the field. The Company trades on the Toronto Stock Exchange under the symbol GXE.

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

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

Gear enhances returns of acquired assets by:

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

ECONOMIC ENVIRONMENT

Recent developments on the Enbridge Line 3 pipeline replacement and the Trans Mountain pipeline expansion have injected optimism into the Canadian crude market that has been transportation constrained for quite some time. Both these projects are slated to increase oil takeaway out of Canada with Enbridge Line 3 capacity adding approximately 375,000 barrels per day to increase its throughput from 50 per cent utilization to full utilization and Trans Mountain adding nearly triple the existing pipelines capacity to 890,000 barrels per day. However, the optimism is still cautious as the first of these projects is not expected to be on stream until late 2019. As a result, egress challenges will likely persist for the next 18 months and Canadian crude differentials will continue to see volatility. As always, Gear will continue to be nimble with its capital investments and ensure that funds are invested wisely to generate maximum positive returns on its capital while balancing risk and maintaining a strong balance sheet.

ACQUISITION OF STEPPE RESOURCES INC. (“STEPPE’)

On July 23, 2018, Gear announced it had entered into an agreement for the acquisition of Steppe for approximately $70.4 million through a combination of 21.9 million Gear shares and the assumption of approximately $40.9 million of net debt. Steppe's assets consist primarily of a material land position and high netback light oil production of approximately 1,175 boe/d in Southeast Saskatchewan. The acquisition, which has been structured as a plan of arrangement under the *Business Corporations Act* (Alberta), is subject to certain conditions including the approval of Steppe shareholders, approval of the Court of Queen's Bench and certain regulatory and third-party approvals. The Steppe acquisition is expected to close by the end of the third quarter of 2018. In conjunction with the close of the acquisition, Gear expects to increase its credit facilities from $75 million to $115 million.

2018 GUIDANCE

Table 1 summarizes 2018 guidance estimates and first half 2018 actual results, before the effect of the acquisition of Steppe:

Table 1

	2018 Guidance	H1 2018 YTD Actuals
Production – Annual (boe/d)	**7,350**	6,775
Per cent heavy oil (%)	**61**	66
Per cent light/medium oil and NGLs (%)	**25**	21
Royalty rate (%)	**11**	10.5
Operating costs ($/boe)	**15.85**	16.52
General and administrative expense ($/boe)	**2.25**	2.69
Interest expense ($/boe)	**0.80**	0.92
Capital and abandonment expenditures ($ millions)	**50**	16

METRICS

Gear measures its performance on its ability to grow value on a debt adjusted per share basis. Table 2 details funds from operations, and production per debt adjusted share:

Table 2

	Three months ended				Six months ended		
	Jun 30, 2018	Jun 30, 2017	% Change	Mar 31, 2018	**Jun 30, 2018**	Jun 30, 2017	% Change
Funds from operations per debt adjusted share (1)	**0.059**	0.041	44	0.033	**0.092**	0.080	15
Production, boepd per debt adjusted thousand shares (1)	**0.030**	0.026	15	0.026	**0.029**	0.026	12

(1) Funds from operations per debt adjusted share and production boepd per debt adjusted thousand shares are non-GAAP measures and are reconciled to the nearest GAAP measure below under the heading "*Non-GAAP Measures*".

2018 SECOND QUARTER FINANCIAL AND OPERATIONAL RESULTS

Funds from Operations

Funds from operations for the second quarter was $13.7 million or $21.40 per boe, compared to $10.2 million or $17.30 per boe from the second quarter of 2017. On a year-to-date basis, funds from operations increased from $19.0 million and $16.89 per boe to $21.8 million and $17.74 per boe. The increase in funds from operations for the three and six months ended June 30, 2018 is the result of increased revenues due to higher production volumes and realized commodity prices, offset by increased losses on risk management contracts, royalty, operating and general and administrative costs.

The following table details the change in funds from operations for 2018 relative to 2017:

Table 3

	Three months ended June 30		Six months ended June 30	
	$ thousands	$/boe	$ thousands	$/boe
Q2 2017 Funds from operations (1)	10,248	17.30	18,977	16.89
Volume variance	2,052	-	4,389	-
Price variance	5,695	8.92	5,942	4.84
Cash gains on risk management contracts	(3,095)	(4.78)	(4,873)	(3.89)
Royalties	(297)	(0.10)	(1,095)	(0.52)
Expenses:				
Operating	(442)	0.61	(1,081)	0.54
General and administrative	(368)	(0.42)	(436)	(0.14)
Interest	(101)	(0.10)	(172)	(0.07)
Other	(18)	(0.03)	102	0.09
Q2 2018 Funds from operations (1)	13,674	21.40	21,753	17.74

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

Net income

For the three and six months ended June 30, 2018, Gear generated a net loss of $1.9 million and $6.2 million compared to net income of $3.0 million and $6.0 million in the same periods in 2017. The changes in net income are due to several factors discussed below.

Production

Production volumes averaged 7,025 boe per day and 6,775 boe per day for the three and six months ended June 30, 2018, this represents increases of 8 per cent and 9 per cent over the same periods in 2017, respectively. These increases in production are due to strong well results from Gear's 2017 and first half 2018 capital programs, offset by natural declines on Gear's base production.

The ability to ship oil to market deteriorated in late 2017 and throughout the first quarter of 2018. As a result, Gear slowed production and increased inventory levels throughout the first quarter of the year, exiting with over 40 thousand excess saleable barrels in inventory. Egress issues were somewhat alleviated early in the second quarter and Gear was able to draw down inventory levels to normalized operating levels; approximately 500 barrels per day of inventoried volumes were sold throughout the second quarter.

Egress may continue to be a concern for the remainder of the year and Gear will continue to add market access options where possible and monitor the physical market to adjust accordingly. Gear's 2018 capital program is heavily weighted to the second half of the year; production volumes are expected to remain relatively unchanged in the third quarter, but are expected to incline in the fourth quarter with volumes from new drills.

Table 4

Production	Jun 30, 2018	Jun 30, 2017	% Change	Mar 31, 2018	Jun 30, 2018	Jun 30, 2017	% Change
	Three months ended				Six months ended		
Liquids (bbl/d)							
Heavy oil (bbl/d)	**4,774**	3,887	23	4,231	**4,504**	3,813	18
Light and Medium oil (bbl/d)	**1,232**	1,412	(13)	1,197	**1,215**	1,249	(3)
Natural gas liquids (mcf/d)	**219**	322	(32)	223	**221**	270	(18)
Total liquids (bbl/d)	**6,225**	5,621	11	5,651	**5,940**	5,332	11
Natural gas (mcf/d)	**4,806**	5,334	(10)	5,229	**5,016**	5,266	(5)
Total production (boe/d) (1)	**7,025**	6,510	8	6,522	**6,775**	6,210	9
% Liquids production	**89**	86	3	87	**88**	86	2
% Natural gas production	**11**	14	(21)	13	**12**	14	(14)

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

Revenue

Sales of crude oil, natural gas and natural gas liquids for the second quarter of 2018 totaled $33.7 million, a 30 per cent increase over the second quarter 2017 sales of $25.9 million. This increase is the result of higher production volumes and higher realized commodity prices. A breakdown of sales by product is outlined in Table 5:

Table 5

Sales by product ($ thousands)	Jun 30, 2018	Jun 30, 2017	% Change	Mar 31, 2018	Jun 30, 2018	Jun 30, 2017	% Change
	Three months ended				Six months ended		
Oil and natural gas liquids	**33,200**	24,518	35	24,117	**57,317**	45,427	26
Natural gas	**474**	1,411	(66)	783	**1,257**	2,817	(55)
Total revenue	**33,674**	25,929	30	24,900	**58,574**	48,244	21

Commodity Prices

Table 6

Average Benchmark Prices	Jun 30, 2018	Jun 30, 2017	% Change	Mar 31, 2018	Jun 30, 2018	Jun 30, 2017	% Change
	Three months ended				Six months ended		
WTI oil (US$/bbl) (1)	**67.88**	48.29	41	62.87	**65.37**	50.10	30
WCS heavy oil (US$/bbl) (2)	**48.61**	37.16	31	38.60	**43.60**	37.25	17
WCS heavy oil (Cdn$/bbl)	**62.75**	49.97	26	48.81	**55.71**	49.68	12
Cdn$ / US$ exchange rate	**1.29**	1.34	(4)	1.26	**1.28**	1.33	(4)
Edmonton Par (Cdn$/bbl)	**80.47**	61.92	30	72.14	**76.31**	62.95	21
AECO natural gas ($/mcf) (3)	**0.99**	2.78	(64)	1.77	**1.38**	2.79	(51)
Gear Realized Prices							
Heavy oil ($/bbl)	**55.04**	44.72	23	42.97	**49.40**	43.94	12
Light and medium oil ($/bbl)	**75.67**	59.64	27	64.53	**70.21**	60.19	17
Natural gas liquids ($/bbl)	**40.51**	28.11	44	39.74	**40.12**	26.10	54
Natural gas ($/mcf)	**1.08**	2.91	(63)	1.66	**1.38**	2.96	(53)
Weighted average, before hedging ($/boe)	**52.67**	43.77	20	42.42	**47.76**	42.92	11
Realized risk management losses ($/boe)	**(5.55)**	(0.77)	621	(4.15)	**(4.88)**	(0.99)	393
Weighted average, after hedging ($/boe)	**47.12**	43.00	10	38.27	**42.88**	41.93	2

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

US denominated WTI prices for the second quarter increased by 41 per cent over the same period in 2017, the WCS differential widened from US$11.13 per barrel to US$19.27 per barrel and the Edmonton Par differential widened from US$2.29 per barrel to US$5.51 per barrel. These pricing movements offset by the strengthening of the Canadian dollar resulted in an increase in Gear's realized pricing from $43.77 per boe to $52.67 per boe.

On a 2018 year-to-date basis WTI increased by 30 per cent over the same period in 2017, the WCS differential widened from US$12.85 per barrel to US$21.77 per barrel and the Edmonton Par differential widened from US$2.93 per barrel to US$5.67 per barrel. These pricing movements offset by the strengthening of the Canadian dollar resulted in an increase in Gear's realized pricing from $42.92 per boe to $47.76 per boe. In the second half of the year WTI is forecasted to average US$69 per barrel and the WCS and Edmonton Par differentials are expected to approximate 36 per cent and 10 per cent of WTI, respectively.

Royalties

In the second quarter of 2018, royalties as a percentage of commodity sales were 9.6 per cent, a decrease of 16 per cent from the same period in 2017. Gear's most recent drilling programs have 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. Increased production weighting from incentive based lands resulted in the decrease in royalty rate period over period. On year-to-date basis royalties as a percentage of commodity sales remained unchanged at 10.5 per cent.

Table 7

Royalty expense	Three months ended				Six months ended		
($ thousands except % and per boe)	**Jun 30, 2018**	Jun 30, 2017	% Change	Mar 31, 2018	**Jun 30, 2018**	Jun 30, 2017	% Change
Royalty expense	**3,238**	2,942	10	2,906	**6,144**	5,050	22
Royalty expense as a % of Sales	**9.6**	11.4	(16)	11.7	**10.5**	10.5	-
Royalty expense per boe	**5.06**	4.96	2	4.95	**5.01**	4.49	12

Operating and Transportation Expenses

Operating costs plus transportation for the three and six months ended June 30, 2018 were $17.16 per boe and $16.52 per boe, respectively, a decrease of 3 per cent when compared with the same periods in 2017. Operating costs plus transportation increased $1.33 per boe from the first quarter of 2018 to the second quarter of 2018 as maintenance work that was deferred in the first quarter due to egress issues was completed, as well as increased seasonal costs related to breakup. Operating costs per boe are expected to trend downwards in the second half of the year as volumes from the 2018 capital program come online. Full year guidance remains unchanged at $15.85 per boe.

Table 8 below summarizes the operating and transportation expenses:

Table 8

Operating and Transportation expense	Three months ended				Six months ended		
($ thousands except per boe)	**Jun 30, 2018**	Jun 30, 2017	% Change	Mar 31, 2018	**Jun 30, 2018**	Jun 30, 2017	% Change
Operating expense	**9,684**	9,478	2	8,152	**17,833**	17,191	4
Transportation expense	**1,289**	1,053	22	1,141	**2,431**	1,993	22
Operating and transportation expense	**10,973**	10,531	4	9,293	**20,264**	19,184	6
Operating expense per boe	**15.14**	16.00	(5)	13.89	**14.54**	15.30	(5)
Transportation expense per boe	**2.02**	1.78	13	1.94	**1.98**	1.77	12
Operating and transportation expense per boe	**17.16**	17.78	(3)	15.83	**16.52**	17.07	(3)

Operating Netbacks

Gear's operating netback was $30.45 per boe in the second quarter of 2018 and $26.23 per boe in the first half of 2018, an increase of 45 per cent and 23 per cent from the same periods in 2017, respectively. The increase in operating netbacks was primarily the result of increased commodity prices and lower operating costs.

The components of operating netbacks are summarized in Table 9:

Table 9

Netbacks	Three months ended				Six months ended		
($ per boe)	**Jun 30, 2018**	Jun 30, 2017	% Change	Mar 31, 2018	**Jun 30, 2018**	Jun 30, 2017	% Change
Total sales	**52.67**	43.77	20	42.42	**47.76**	42.92	11
Royalties	**(5.06)**	(4.96)	2	(4.95)	**(5.01)**	(4.49)	12
Operating costs	**(17.16)**	(17.78)	(3)	(15.83)	**(16.52)**	(17.07)	(3)
Netback	**30.45**	21.03	45	21.64	**26.23**	21.36	23

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

G&A expenses totaled $1.6 million and $3.3 million for the three and six months ended June 30, 2018 an increase of $0.4 million when compared with the same periods in 2017. The increase in G&A costs is primarily the result of increased staffing. G&A on a per boe basis was $2.55 per boe and $2.69 per boe for the three and six months ended June 30, 2018, representing increases of 20 per cent and 6 per cent over the same periods in 2017, respectively. G&A is expected to compress for the second half of 2018 to approximately $2.00 per boe as production volumes increase from Gear's drilling program.

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

Table 10

G&A and SBC expense		Three months ended				Six months ended	
($ thousands except per boe)	**Jun 30, 2018**	Jun 30, 2017	% Change	Mar 31, 2018	**Jun 30, 2018**	Jun 30, 2017	% Change
General and administrative	**2,090**	1,669	25	1,936	**4,026**	3,561	13
Overhead recoveries	**(159)**	(213)	(25)	(155)	**(314)**	(333)	(6)
Capitalized G&A	**(302)**	(197)	53	(117)	**(419)**	(368)	14
Net general and administrative expenses	**1,629**	1,259	29	1,664	**3,293**	2,860	15
SBC expense	**251**	438	(43)	291	**543**	917	(41)
Net general and administrative per boe	**2.55**	2.13	20	2.83	**2.69**	2.54	6
SBC expense per boe	**0.39**	0.74	(47)	0.50	**0.44**	0.82	(46)

Gear's stock option plan provides for the grant of options to purchase common shares of Gear to directors, officers, employees and consultants of Gear. In the third quarter of 2016, the Board of Directors of Gear determined that future grants of options under the option plan would vest as to one third on each of the first, second and third anniversary dates of the date of grant and expire 30 business days after such vesting dates. The terms of options outstanding prior to the determination by the Gear Board of Directors of the new terms remained unchanged and had the same vesting terms as the new terms but had a five-year expiry.

SBC is related to the granting of stock options. There were 2 million options granted during the six months ended June 30, 2018 at an average price of $0.84, 485 thousand options exercised at an average price of $0.70, 1,350 thousand options expired at an average price of $2.50 and 170 thousand options forfeited at an average exercise price of $0.99. As at June 30, 2018 and the date of this MD&A, a total of 13.5 million options with a weighted average exercise price of $1.27 per share were outstanding, representing approximately 6.9 per cent of the 195.2 million total common shares outstanding. Each option entitles the holder to acquire one Gear common share. As at December 31, 2017 a total of 13.5 million options were outstanding with a weighted average exercise price of $1.43 per common share. For further information on Gear's stock options, see the notes to the financial statements.

Interest and financing charges

Interest and financing charges totaled $0.6 million and $1.1 million for the three and six months ended June 30, 2018, respectively, a 21 per cent and 18 per cent increase over the same periods in 2017. This increase is primarily attributable to an increase in average debt levels to $55.1 million and $55.3 million for the three and six months ended June 30, 2018, compared to $53.7 million and $50.2 million in the same periods in 2017. Gear also incurred fees in the second quarter to increase the borrowing base of its Credit Facilities (as defined below) from $55 million to $75 million. Gear's interest rate on its Credit Facilities is dependent on its facilities borrowings, inclusive of working capital, in comparison to its earnings before interest, taxes, depletion, depreciation, amortization, and accretion. Gear's current annualized borrowing costs, inclusive of financing charges and standby fees on its Credit Facilities, approximated 4.0 per cent for the second quarter of 2018.

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, 2018**	Jun 30, 2017	% Change	Mar 31, 2018	**Jun 30, 2018**	Jun 30, 2017	% Change
Interest expense	**543**	421	29	501	**1,045**	802	30
Financing charges	**20**	54	(63)	21	**41**	103	(60)
Standby fees	**29**	16	81	17	**46**	54	(15)
Interest and financing charges	**592**	491	21	539	**1,132**	959	18
Interest and financing charges per boe	**0.93**	0.83	12	0.92	**0.92**	0.85	8

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 do not, and contracts entered into in the future may not qualify as effective hedges for accounting purposes. Gear endeavors to protect a minimum of 50 per cent of forecasted production, net of royalties, and has been authorized by its board of directors to hedge up to 65 per cent of forecasted production, net of royalties, for the current and following calendar year.

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 funds from operations and assigned loan value on its Credit Facilities. Gear's 2018 and 2019 risk management programs are comprised primarily of collars as they allow the Company to establish a floor on its price but still allow for upside participation in crude oil prices should they continue to improve. Gear incurred realized losses on risk management contracts of $3.6 million and $6.0 million during the three and six months ended June 30, 2018. For the same periods in 2017, Gear incurred realized losses of $0.5 million and $1.1 million, respectively. Gear's remaining production was sold at unhedged prices and as such fully realized the appreciation in WTI that occurred throughout the quarter.

For the remainder of 2018 Gear has 2,800 barrels per day of oil hedged with an average WTI floor price of C$59.49 per barrel and an average WTI ceiling price of C$71.23 per barrel (assuming a foreign exchange rate of 0.8) and 3,337 mcf per day of gas production hedged with an average AECO floor price of C$2.66 per mcf and an average AECO ceiling price of C$2.77 per mcf. Gear has commenced its 2019 risk management program and currently has 1,800 barrels per day hedged with an average WTI floor price of C$64.00 and an average WTI ceiling of C$90.83 (assuming a foreign exchange rate of 0.8). Management plans to execute the remainder of the 2019 risk management program throughout 2018. Table 12 summarizes Gear's current hedged volumes:

Table 12

Financial WTI Crude Oil Contracts

Term		Contract	Currency	Volume bbl/d	Sold Call $/bbl	Bought Put $/bbl	Sold Put $/bbl
Jul 1, 2018	Dec 31, 2018	Collar	USD	300	52.50	47.50	-
Jul 1, 2018	Dec 31, 2018	Collar	USD	600	57.00	50.00	-
Jul 1, 2018	Aug 31, 2018	Collar	USD	500	52.25	46.00	-
Jul 1, 2018	Aug 31, 2018	Collar	USD	1,000	56.00	46.00	-
Sep 1, 2018	Dec 31, 2018	Collar	USD	1,500	56.00	46.00	-
Jul 1, 2018	Dec 31, 2018	Collar	CAD	400	82.00	62.50	-
Jan 1, 2019	Dec 31, 2019	Three-way Collar	USD/CAD	600	U$66.00	C$62.00	C$52.00
Jan 1, 2019	Dec 31, 2019	Three-way Collar	USD/CAD	600	U$72.00	C$65.00	C$55.00
Jan 1, 2019	Dec 31, 2019	Three-way Collar	CAD	600	100.00	65.00	55.00

Financial AECO Gas Contracts

Term		Contract	Currency	Volume GJ/d	Sold Swap $/GJ	Sold Call $/GJ	Bought Put $/GJ
Jul 1, 2018	Dec 31, 2018	Swap	CAD	1,700	2.65	-	-
Jul 1, 2018	Dec 31, 2018	Collar	CAD	1,700	-	2.60	2.40

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

DD&A during the second quarter of 2018 was $16.16 per boe compared to $15.78 per boe in the same period in 2017, representing an increase of 2 per cent. Similarly, on a year-to-date basis, the DD&A rate increased 2 per cent. These increases in the DD&A rate are due to increases in Gear's finding and development costs.

Table 13

DD&A Rate	Three Months Ended				Six Months Ended		
($ thousands except per boe)	**Jun 30, 2018**	Jun 30, 2017	% Change	Mar 31, 2018	**Jun 30, 2018**	Jun 30, 2017	% Change
DD&A	**10,330**	9,349	10	9,523	**19,853**	17,784	12
Total DD&A rate per boe	**16.16**	15.78	2	16.22	**16.19**	15.82	2

Taxes

For the three and six months ended June 30, 2018, a deferred tax recovery was not recorded. Gear has evaluated the ultimate utilization of existing tax pools, which supports the $26.5 million deferred income tax asset recognized as at June 30, 2018. 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, 2018 Gear's estimated tax pools were $434.9 million ($434.4 million at December 31, 2017). 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 2018 and 2017.

Capital Expenditures, Acquisitions and Dispositions

Capital expenditures including acquisition and disposition activity for the three months ended June 30, 2018 totaled $6.4 million as compared to $6.3 million in the same period of 2017. After only drilling two wells in the first quarter, Gear commenced its summer drilling program in the last week of May. The rig moved into Paradise Hill to spud the first well of a 10 well program. Throughout the quarter 4 gross (4 net) of those wells were drilled all of which will have first sales in the third quarter. The remaining six wells in Paradise Hill have since been successfully rig released and will be brought on production throughout the third quarter. Results to date from these wells are in line with expectations. Capital investment in the second quarter also included investments in infrastructure at Paradise Hill and Wildmere to reduce future operating costs.

Gear currently has two drilling rigs working to complete its heavy and light oil $50 million capital program.

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, 2018**	Jun 30, 2017	% Change	Mar 31, 2018	**Jun 30, 2018**	Jun 30, 2017	% Change
Geological and geophysical	**217**	7	3,000	143	**360**	1,079	(67)
Drilling and completions	**3,452**	3,857	(11)	3,623	**7,075**	18,419	(62)
Production equipment and facilities	**2,652**	2,042	30	2,853	**5,505**	5,113	8
Undeveloped land purchased at crown land sales	**64**	255	(75)	2,624	**2,688**	331	712
Other	**-**	-	-	-	**-**	3	(100)
Total capital expenditures	**6,385**	6,161	4	9,243	**15,628**	24,945	(37)
Property acquisitions and dispositions, net (1)	**10**	127	(92)	390	**400**	59	578
Total capital expenditures and net acquisitions	**6,395**	6,288	2	9,633	**16,028**	25,004	(36)

(1) Includes post-closing adjustments.

Decommissioning Liability

At June 30, 2018, Gear has recorded a decommissioning liability of $80.7 million ($80.5 million at December 31, 2017) 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 used to calculate the undiscounted total future liability. The future liability has been discounted at the risk-free rate of 2.15 per cent (2.15 per cent at December 31, 2017). Abandonment cost estimates are derived from third party government sources and, as a result, can fluctuate from time to time. The slight increase in liability is the result of new wells added from Gear's 2018 drilling program, offset by liabilities settled.

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 Gear's Board of Directors. Ongoing abandonment expenditures for all of Gear's assets are funded out of funds from operations. As at June 30, 2018 Gear's Licensee Liability Rating was 2.04 times in Alberta and 5.33 times in Saskatchewan.

Capitalization, Financial Resources and Liquidity

A breakdown of Gear's capital structure is outlined in Table 15, as at June 30, 2018 and December 31, 2017:

Table 15

Debt		
($ thousands except ratio amounts)	**Jun 30, 2018**	Dec 31, 2017
Net debt (1)	**38,960**	43,269
Net debt to annualized funds from operations	**0.7**	0.7
Common shares outstanding	**195,213**	194,968

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

Net debt decreased from $45.3 million at March 31, 2018 to $39 million at June 30, 2018 as funds from operations exceeded capital and acquisition activity in the quarter. On an annualized basis Gear intends for capital spending to approximate funds from operations.

Credit Facilities

During the second quarter of 2018, Gear completed its semi-annual borrowing base review which resulted in a 36 per cent increase to the borrowing base of the Credit Facilities from $55 million to $75 million. At June 30, 2018 Gear had a total of $75 million in facilities consisting of a $67.5 million revolving term credit facility with a syndicate of three banks (the "Syndicate") and a $7.5 million operating facility (collectively, the "Credit Facilities). The terms of the amended Credit Facilities resulted in changes in borrowing costs such that total stamping fees range, depending on Gear's Debt to EBITDA ratio, between 50 bps to 300 bps on Canadian bank prime borrowings and between 150 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 34 bps to 90 bps. The maturity date of the amended Credit Facilities is May 29, 2020. All other terms and conditions of the Credit Facilities remained unchanged from December 31, 2017. As at June 30, 2018 Gear had $33.7 million drawn, leaving additional borrowing capacity of $41.3 million.

Convertible Debentures

On November 30, 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 (the "Convertible Debentures") for total gross proceeds of $26 million.

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. 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 and prior to December 31, 2019 by Gear if the 20 day volume weighted average trading price of Gear's common shares at such time is at least 125 per cent of the conversion price ($1.09 per share) 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. Gear intends to redeem the Convertible Debentures in early 2019, provided that the Company's share price is more than $1.09 per share for the applicable period pursuant to the terms of the Convertible Debentures.

As at June 30, 2018 and the date of this MD&A $13.6 million of Convertible Debentures were outstanding compared to $13.7 million at December 31, 2017. Subsequent to June 30, 2018, $33 thousand of convertible debentures were converted. As such an aggregate of up to 15,591,954 additional Gear common shares may be issued on conversion of the Convertible Debentures that remain outstanding at the date hereof.

At the maturity date or redemption date as applicable, of the Convertible Debentures, Gear will have the option to satisfy its obligation to repay the principal amount by the issuance of Gear common shares. 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 under this scenario is not determinable at the present time.

For additional information regarding the Convertible Debentures see Note 6 "Convertible Debentures" in the notes to the financial statements and the information under "Description of Capital Structure" in Gear's most recent annual information form, which is available on SEDAR at www.sedar.com

Gear typically uses two markets to raise capital: equity and bank debt, with the expectation that future capital programs will be financed with funds from operations and existing credit capacity. Gear's current capital program is expected to be financed primarily through funds from operations. Gear's 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

As at June 30, 2018 and the date of this MD&A, Gear had 195.2 million common shares outstanding. At December 2017, Gear had 195.0 million common shares outstanding.

As at June 30, 2018 and the date hereof, there are 250 thousand warrants outstanding to acquire 581,250 common shares of Gear at a price of $1.03 per share that will expire on July 8, 2019. These amounts are unchanged from December 31, 2017.

Environmental Initiatives Impacting Gear

Gear operates in jurisdictions that have regulated or have proposed to regulate greenhouse gas ("GHG") emissions and other air pollutants. While some regulations are in effect, others are at various stages of review, discussion and implementation. There is uncertainty around how any future federal legislation will harmonize with provincial regulation, as well as the timing and effects of regulations. Climate change regulation at both the federal and provincial level has the potential to significantly affect the regulatory environment of the crude oil and natural gas industry in Canada. Such regulations impose certain costs and risks on the industry. In general, there is some uncertainty with regard to the impacts of federal or provincial climate change and environmental laws and regulations, as it is currently not possible to predict the extent of future requirements. Any new laws and regulations, or additional requirements to existing laws and regulations, could have a material impact on the Company's operations and funds from operations.

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 funds from operations 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, 2018, Gear had the following contractual commitments:

- lease agreements for its head office and its two field offices,
- one drilling rig commitment.

Lease agreements for Gear's head and field offices are effective until 2020. The total commitment for these lease agreements is $0.7 million. The drilling rig commitment is effective through to December 31, 2020 with a total commitment of $4.4 million. For further information see Note 13 “Commitments and Contingencies” in the notes to the financial statements.

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 interim condensed financial statements for the three and six months ended June 30, 2018. These 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, 2018.

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 funds from operations, funds 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 indicators and benchmarks are key performance measures 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.

Funds from Operations

In reporting for prior periods, funds from operations was referred to as cash flow from operations. Gear has changed the reporting of the term cash flow from operations to funds from operations to be more consistent with reporting by other issuers and to satisfy guidance on the reporting of such terms from Canadian securities regulatory authorities. Funds 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 funds from operations and considers it a key measure as it demonstrates its ability to generate the funds from operations necessary to fund its capital program and repay debt. Funds from operations may not be comparable with the calculation of similar measures for other companies.

Table 16 below reconciles cash flow from operating activities to funds from operations:

Table 16

	Three months ended			Six months ended	
($ thousands)	**Jun 30, 2018**	Jun 30, 2017	Mar 31, 2018	**Jun 30, 2018**	Jun 30, 2017
Cash flow from operating activities	**8,596**	5,362	14,787	**23,383**	17,607
Expenditures on site restoration and reclamation	**373**	676	889	**1,262**	798
Change in non-cash working capital	**4,705**	4,210	(7,598)	**(2,892)**	572
Funds from operations	**13,674**	10,248	8,078	**21,753**	18,977

Net Debt

Net debt is a non-GAAP measure defined as debt less current working capital items, excluding risk management contracts and the current portion of decommissioning liabilities. 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 funds from operations and capital investment. Net debt may not be comparable with the calculation of similar measures for other companies.

Table 17

Capital Structure and Liquidity ($ thousands)	**Jun 30, 2018**	Dec 31, 2017
Debt	**33,675**	41,345
Convertible Debentures (at face value) (1)	**13,598**	13,698
Working capital surplus (2)	**(8,313)**	(11,774)
Net debt	**38,960**	43,269

(1) Excludes unamortized portion of issuance costs.
(2) Excludes risk management contracts and current portion of decommissioning liabilities.

Gear had a working capital surplus at June 30, 2018. When in a deficit position, the Company is able to meet obligations as they come due by drawing on the Credit Facilities. Gear actively manages its liquidity through strategies such as continuously monitoring forecasted and actual cash flows from operating, financing and investing activities, available credit under existing banking arrangements and opportunities to issue additional equity. Management believes that future cash flows generated from these sources will be adequate to settle Gear's financial liabilities.

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

Table 18

	Three months ended			Six months ended	
(thousands, except per share amounts)	**Jun 30, 2018**	Jun 30, 2017	Mar 31, 2018	**Jun 30, 2018**	Jun 30, 2017
Weighted average shares	**195,045**	192,922	194,968	**195,007**	192,881
Average share price	**1.09**	0.81	0.86	**1.01**	0.91
Average net debt (1)	**42,145**	45,077	44,300	**41,115**	40,188
Share equivalent on average net debt	**38,665**	55,650	51,512	**40,708**	44,163
Debt adjusted shares	**233,710**	248,572	246,480	**235,715**	237,044

(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 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 other costs.

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 future recoverable value of property, plant and equipment and any associated impairment charges or recoveries;
- 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 recoverability of insurance claims;
- 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, 2017.

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, 2018, 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, 2018 that materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Significant Accounting Policies

Adopted Accounting Policy Changes

IFRS 15 *Revenue from Contracts with Customers*

On January 1, 2018 Gear retrospectively adopted IFRS 15 *Revenue from Contracts with Customers*, which replaces International Accounting Standard ("IAS") 18 *Revenue*, IAS 11 *Construction Contracts*, and related interpretations. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive when control is transferred to the purchaser. The adoption of IFRS 15 did not result in any adjustments to Gear's financial statements. Gear has expanded the disclosures in the notes to its financial statements as prescribed by IFRS 15, including disclosing the Company's disaggregated revenue streams by product type. See Note 11.

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. Gear's commodity sales contracts represent a series of distinct transactions. Revenue is measured at the consideration specified in the contracts and represents amounts receivable for goods or services provided in the normal course of business. Substantially all revenue is based on floating prices. Gear considers its performance obligations to be satisfied and control to be transferred when all the following conditions are satisfied:

- Gear has transferred title and physical possession of the goods to the buyer;
- Gear has transferred the significant risks and rewards of ownership of the goods to the buyer; and
- Gear has the present right to payment.

Revenue is collected from Gear's customers on the 25th day of the month following delivery. Gear does not have any contracts where the period between the transfer of the contracted goods and payment by the customer exceeds one year. As such, Gear does not adjust its revenue transactions for the time value of money. The contracts to sell the Company's crude oil, natural gas and natural gas liquids have varying terms not longer than one year. As a result, Gear has immediately expensed costs of obtaining contracts as these costs would have been amortized within a period of one year.

IFRS 9 *Financial Instruments*

On January 1, 2018 Gear retrospectively adopted IFRS 9 *Financial Instruments* without restatement. IFRS 9 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities, IFRS 9 retains most of the requirements of IAS 39; however, where the fair value option is applied to financial liabilities, any change in fair value resulting from an entity's own credit risk is recorded in OCI rather than the statement of income. The adoption of IFRS 9 did not have an impact on the measurement and carrying values of the Company's financial assets or liabilities.

In addition, IFRS 9 introduces a new expected credit loss model for calculating impairment of financial assets, replacing the incurred loss impairment model required by IAS 39. Gear has determined that the new impairment model does not result in changes to the valuation of its financial assets on adoption of IFRS 9. IFRS 9 also contains a new model to be applied for hedge accounting. The Company does not currently apply hedge accounting to its risk management contracts and has not applied hedge accounting to any of its existing risk management contracts on adoption of IFRS 9.

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 as at January 1, 2018 for each class of the Company's financial assets and liabilities.

	Measurement Category (1)	
Financial Instrument	**IAS 39**	**IFRS 9**
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Financial liabilities measured at amortized cost	Amortized cost
Debt	Financial liabilities measured at amortized cost	Amortized cost
Convertible debentures	Financial liabilities measured at amortized cost	Amortized cost
Risk management contracts	FVTPL	FVTPL

(1) There were no adjustments to the carrying amounts of financial instruments as a result of the change in classification from IAS 39 to IFRS 9

Future Accounting Policy Changes

IFRS 16 *Leases*

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. The Company has completed the contract identification stage of its IFRS 16 project and is currently evaluating the impact of the standard on Gear's financial statements.

Forward-looking Information and Statements

This 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 report contains forward-looking information and statements pertaining to the following: expectations of how Gear may enhance returns of acquired assets; Gear's expectations of commodity prices and differentials and trends affecting such commodity prices and differentials; Gear's intent to ensure that funds are invested wisely to generate maximum positive returns on its capital while balancing risk and maintaining a strong balance sheet; 2018 Guidance estimates including expected average 2018 production, expected commodity weightings, royalty rate expectations, operating cost expectations, interest expense expectations and expected capital and abandonment expenditures; the expected closing of the Steppe acquisition and the timing thereof; the expected increase to Gear's Credit Facilities; the expected impact that the Steppe acquisition will have on Gear's 2018 results including expectations as to fourth quarter 2018 production, percentage light oil weighting, royalty rates and operation costs associated with the Steppe assets; the expectation that egress may continue to be a concern for the remainder of the year; Gear's intent to continue to add market access options where possible and monitor the physical market to adjust accordingly; the expectation that production volumes are expected to remain relatively unchanged in the third quarter, but are expected to incline in the fourth quarter with volumes from new drills; the intent to execute the remainder of the 2019 risk management program throughout 2018; current expectations with respect to Gear's 2018 capital expenditure program including expected drilling, completion and on production timing for wells drilled and to be drilled in 2018; projections of future abandonment and reclamation costs; Gear's intent that on an annualized basis for capital spending to approximate funds from operations; Gear's intent to redeem the Convertible Debentures in 2019; the expectation that future capital programs will be financed with funds from operations and existing credit capacity; the expectation Gear's current capital program is to be financed primarily through funds from operations; Gear's expectation that any major acquisitions would be financed by a combination of equity and debt in a cost-effective manner; Gear's intent to continue to be very active looking at acquisitions that meet its investment criteria; and the expectation that future funds from operations generated from certain sources will be adequate to settle Gear's financial liabilities.

The forward-looking information and statements contained in this report reflect several material factors and expectations and assumptions of Gear including, without limitation: the timing of receipt of regulatory, third party, court and Steppe shareholder approvals for the Steppe acquisition; that the increased credit facilities will be entered into in the amounts and terms anticipated which shall be satisfactory to Gear or at all; 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 funds 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 budgeting 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 MD&A 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: completion of the Steppe acquisition could be delayed if parties are unable to obtain the necessary regulatory, stock exchange, shareholder and court approvals on the timeline planned; the Steppe acquisition will not be completed if all of these approvals are not obtained or some other condition of closing is not satisfied; the increase to Gear's credit facilities may be subject to a number of conditions, including the closing of the Steppe acquisition; if an increase to Gear's credit facilities is not provided by Gear's lenders it may prevent the closing of the Steppe acquisition; 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 report are made as of the date of this 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.

QUARTERLY HISTORICAL REVIEW

	2018		2017				2016	
(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	33,674	24,900	30,047	24,260	25,929	22,315	22,654	17,990
Funds from operations (1)	13,674	8,078	14,613	9,960	10,248	8,729	9,407	6,864
Per weighted average basic share	0.07	0.04	0.07	0.05	0.05	0.05	0.05	0.04
Per weighted average diluted share	0.07	0.04	0.07	0.05	0.05	0.04	0.05	0.04
Cash flow from operating activities	8,596	14,787	9,964	9,197	5,362	12,245	6,888	9,793
Per weighted average basic share	0.04	0.08	0.05	0.05	0.03	0.06	0.04	0.06
Per weighted average diluted share	0.04	0.08	0.05	0.05	0.03	0.06	0.04	0.06
Net (loss) income	(1,869)	(4,294)	6,947	(2,705)	3,001	2,986	(12,191)	(2,470)
Per weighted average basic share	(0.01)	(0.02)	0.04	(0.01)	0.02	0.02	(0.07)	(0.01)
Per weighted average diluted share	(0.01)	(0.02)	0.03	(0.01)	0.01	0.01	(0.07)	(0.01)
Capital expenditures	6,385	9,243	12,307	10,513	6,161	18,784	6,067	7,034
Net acquisitions (2)	10	390	14	1,635	127	(68)	(74)	58,141
Net debt (1)	38,960	45,330	43,269	44,568	43,409	46,745	36,967	41,791
Weighted average shares outstanding, basic (thousands)	195,045	194,968	194,968	193,158	192,922	192,840	191,134	168,926
Weighted average shares outstanding, diluted (thousands)	195,045	194,968	211,310	193,158	208,971	209,652	191,134	168,926
Shares outstanding, end of period (thousands)	195,213	194,968	194,968	194,968	192,935	192,915	192,568	190,472
OPERATING								
Production								
Heavy oil (bbl/d)	4,774	4,231	4,760	4,054	3,887	3,739	3,997	3,854
Light and medium oil (bbl/d)	1,232	1,197	1,161	1,290	1,412	1,085	989	716
Natural gas liquids (bbl/d)	219	223	242	279	322	217	308	145
Natural gas (mcf/d)	4,806	5,229	5,566	5,415	5,334	5,197	5,456	4,232
Total (boe/d)	7,025	6,522	7,090	6,525	6,510	5,907	6,203	5,420
Average prices								
Heavy oil ($/bbl)	55.04	42.97	49.18	44.00	44.72	43.13	44.21	37.74
Light and medium oil ($/bbl)	75.67	64.53	64.71	53.12	59.64	60.91	57.98	51.60
Natural gas liquids ($/bbl)	40.51	39.74	27.79	27.28	28.11	23.08	24.16	20.04
Natural gas ($/mcf)	1.08	1.66	1.90	1.52	2.91	3.00	3.07	2.43
Netback ($/boe)								
Commodity and other sales	52.67	42.42	46.06	40.41	43.77	41.98	39.70	36.08
Royalties	(5.06)	(4.95)	(4.15)	(4.50)	(4.96)	(3.97)	(3.76)	(3.97)
Operating costs	(17.16)	(15.83)	(16.03)	(16.57)	(17.78)	(16.28)	(16.25)	(16.33)
Operating netback (1)	30.45	21.64	25.88	19.34	21.03	21.73	19.69	15.78
Realized risk management (losses) gains	(5.55)	(4.15)	(0.73)	0.11	(0.77)	(1.24)	0.24	3.03
General and administrative	(2.55)	(2.83)	(1.92)	(2.06)	(2.13)	(3.00)	(2.59)	(2.13)
Interest	(0.93)	(0.92)	(0.83)	(0.81)	(0.83)	(0.88)	(0.85)	(0.94)
Other	(0.02)	0.02	-	-	-	(0.19)	-	(1.97)
Corporate netback (1)	21.40	13.76	22.40	16.58	17.30	16.42	16.49	13.77

(1) Funds 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 of well productivity and timing 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 on WTI less the WCS and Edmonton Par differentials 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 and on the results of its existing producing wells. Operating costs are heavily impacted by weather as well as the productivity of each well. Operating costs are typically higher in the winter months due to increased maintenance and energy costs. Transportation costs are included in operating costs, which fluctuate with the amount of volumes sold.

On July 27, 2016 Gear closed the Striker Acquisition which provided Gear with an additional 2,000 boe/d of 60 per cent light and medium oil production. The Striker Acquisition resulted in increased sales, funds from operations and production in the third quarter of 2016 and thereafter.

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