FINANCIAL AND OPERATIONAL HIGHLIGHTS

(Cdn$ thousands, except per boe amounts)	Three months ended **Jun 30, 2015**	Jun 30, 2014	Mar 31, 2015	Six months ended **Jun 30, 2015**	Jun 30, 2014
FINANCIAL					
Cash flow from operations [1]	**14,900**	20,661	12,210	**27,110**	32,862
Per weighted average diluted share	**0.21**	0.29	0.17	**0.38**	0.52
Cash flow from operating activities	**14,432**	20,294	12,439	**26,871**	31,072
Per weighted average diluted share	**0.20**	0.28	0.18	**0.38**	0.49
Net (loss) income	**(2,301)**	6,420	(4,357)	**(6,658)**	8,007
Per weighted average diluted share	**(0.03)**	0.09	(0.06)	**(0.09)**	0.13
Capital expenditures	**4,286**	12,328	171	**4,457**	36,300
Net acquisitions [2]	**(553)**	79,086	(132)	**(685)**	79,434
Net debt outstanding [1]	**71,678**	87,635	83,313	**71,678**	87,635
Shares outstanding, weighted average, basic	**70,817**	70,293	70,817	**70,817**	62,536
Shares outstanding, weighted average, diluted	**70,817**	71,768	70,817	**70,817**	63,696
OPERATING					
Production					
Oil and liquids (bbl/d)	**5,492**	6,004	6,466	**5,976**	4,995
Natural gas (mcf/d)	**838**	998	944	**890**	1,046
Total (boe/d)	**5,632**	6,170	6,624	**6,125**	5,169
Average prices					
Oil and liquids ($/bbl)	**50.72**	85.88	35.93	**43.37**	83.35
Natural gas ($/mcf)	**2.31**	4.52	2.15	**2.23**	4.87
Oil equivalent ($/boe)	**49.81**	84.30	35.39	**42.06**	81.53
Netback ($/boe)					
Commodity and other sales	**49.81**	84.49	35.39	**42.06**	81.65
Royalties	**5.96**	16.35	6.28	**6.13**	15.02
Operating costs	**18.66**	21.37	17.91	**18.26**	21.12
Operating netback (before hedging) [1]	**25.19**	46.77	11.20	**17.67**	45.51
Realized risk management gains (losses)	**9.37**	(4.16)	12.91	**11.28**	(4.37)
Operating netback (after hedging) [1]	**34.56**	42.61	24.11	**28.95**	41.14
General and administrative	**3.87**	4.27	2.76	**3.28**	4.46
Interest	**1.42**	1.45	1.38	**1.40**	1.52
Foreign exchange (gain) loss	**0.17**	0.09	(0.52)	**(0.20)**	0.04
Corporate netback [1]	**29.10**	36.80	20.49	**24.47**	35.12
TRADING STATISTICS					
($ based on intra-day trading)					
High	**2.60**	6.41	2.62	**2.62**	6.41
Low	**1.78**	4.22	1.38	**1.38**	3.12
Close	**1.88**	6.27	1.87	**1.88**	6.27
Average daily volume (thousands)	**147**	346	245	**196**	379

(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 5, 2015 and should be read in conjunction with the unaudited Financial Statements as at and for the three and six months ended June 30, 2015 and the audited Financial Statements as at and for the year ended December 31, 2014. Both statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The MD&A contains non-generally accepted accounting principles ("GAAP") measures and forward-looking statements and readers are cautioned that the MD&A should be read in conjunction with Gear's disclosure under "Non-GAAP Measures" and "Forward-Looking 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 32 employees with 22 staff in the Calgary office and 10 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

Since the fourth quarter of 2014, Gear has seen a material decrease in its realized commodity prices, spurred by a significant drop in the West Texas Intermediate (WTI) crude oil benchmark. The decrease is due to a current supply-demand imbalance, with OPEC participants flooding the market with crude oil. As a response to the challenging economic environment, Gear stopped all drilling activities for the first five months of 2015 to allow for service costs to decrease in order to achieve sufficient rates of return on invested capital. In addition, Gear dedicated all generated cash flows towards reducing its modest debt levels, translating into a decrease in net debt of $27 million in the first half of 2015. With rates of return now exceeding internal investment hurdle rates, Gear recommenced drilling in June 2015. Gear will continue to focus on cost and efficiency regardless of the outlook on future commodity prices.

2015 GUIDANCE

Table 1 summarizes 2015 guidance estimates.

Table 1

	Revised 2015 Guidance	Previous 2015 Guidance	Q2 2015 YTD
Production – Annual (boe/d)	**5,700 – 5,900**	5,700 – 5,900	6,125
Royalty rate (%)	**12 – 15**	14 – 16	14.6
Operating costs ($/boe)	**17.00 – 19.00**	18.00 – 20.00	18.26
General and administrative expense ($/boe)	**3.30 – 3.50**	3.30 – 3.50	3.28
Interest expense ($/boe)	**1.30 – 1.50**	1.40 – 1.60	1.40
Capital expenditures ($ millions)	**25**	28	3.8

Production guidance remains unchanged from previously disclosed amounts with management now forecasting 2015 goals to be accomplished with $25 million in expenditures versus the previous guidance of $28 million. Gear recommenced its drilling program at the end of the second quarter, with Gear's capital plan to drill 22 gross (22 net) wells for the year. Production from new wells is expected to offset any further base declines and production is expected to remain relatively stable from the second quarter throughout the remainder of 2015.

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, 2015	Jun 30, 2014	% Change	Mar 31, 2015	**Jun 30, 2015**	Jun 30, 2014	% Change
Cash flow from operations per debt adjusted share (1)	**0.138**	0.257	(46)	0.100	**0.235**	0.410	(43)
Production, boepd per debt adjusted thousand shares (1)	**0.052**	0.077	(32)	0.054	**0.053**	0.064	(17)

(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*".

2015 SECOND QUARTER FINANCIAL AND OPERATIONAL RESULTS

Cash flow from operations

Cash flow from operations for the three and six months ended June 30, 2015 were $14.9 million and $27.1 million, respectively. This represents decreases in cash flow from operations of $5.8 million in both cases when compared to the same periods in 2014. The decrease in second quarter cash flow is the result of decreased commodity prices, lower production volumes, offset by increased gains on risk management contracts and decreased royalty, operating, general and administrative and interest expenses.

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

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

Table 3

	Three months ended June 30		Six months ended June 30	
	$ thousands	$/boe	$ thousands	$/boe
Q2 2014 Cash flow from operations (1)	20,661	36.80	32,862	35.12
Volume variance	(4,139)	-	14,119	-
Price variance	(17,771)	(34.68)	(43,889)	(39.60)
Cash gains on risk management contracts	7,140	13.53	16,590	15.65
Royalties	6,122	10.39	7,250	8.88
Expenses:				
Operating	2,435	2.71	(481)	2.86
General and administrative	410	0.39	544	1.19
Interest	82	0.02	(135)	0.12
Foreign exchange	(40)	(0.09)	250	0.23
Q2 2015 Cash flow from operations (1)	14,900	29.07	27,110	24.47

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

Net income

For the three and six months ended June 30, 2015, Gear generated net losses of $2.3 million and $6.7 million, respectively, this compares to net income of $6.4 million and $8.0 million for the same periods in 2014. The changes in net income are due to several factors discussed below.

Production

Production volumes averaged 5,632 barrels per day in the second quarter of 2015, compared to 6,170 barrels per day in the same period in 2014 and 6,624 barrels per day in the first quarter of 2015. In January Gear reacted quickly to the depressed commodity price outlook by temporarily shutting in uneconomic production and putting its original 2015 drilling program on hold. These two actions coupled with natural declines on Gear's producing assets are the main factors contributing to decreased production volumes.

On a year to date basis production volumes increased from 5,169 barrels per day in 2014 to 6,125 barrels per day in 2015, as a result of production additions acquired through the heavy oil asset acquisition done in the second quarter of 2014 contributing volumes for the full period, offset by natural declines.

Table 4

Production	**Jun 30, 2015**	Jun 30, 2014	% Change	Mar 31, 2015	**Jun 30, 2015**	Jun 30, 2014	% Change
	Three months ended				Six months ended		
Oil and NGL (bbl/d)	**5,492**	6,004	(9)	6,466	**5,976**	4,995	20
Natural gas (mcf/d)	**838**	998	(16)	944	**890**	1,046	(15)
Total production (boe/d) (1)	**5,632**	6,170	(9)	6,624	**6,125**	5,169	18
% Oil and NGL production	**98**	97	1	98	**98**	97	1
% Natural gas production	**2**	3	(33)	2	**2**	3	(33)

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

At the end of the second quarter Gear commenced its 2015 drilling program. Production for the remainder of 2015 is expected to remain relatively unchanged from second quarter with current field production estimated to be approximately 5,650 boe/d.

Revenue

Sales of crude oil, natural gas and natural gas liquids for the second quarter of 2015 totaled $25.5 million, a 46 per cent decrease over the second quarter 2014 sales of $47.3 million. This decrease is the result of lower realized commodity prices and lower production volumes.

Year to date sales of crude oil, natural gas and natural gas liquids decreased 39 per cent in 2015 compared to 2014. This decrease is the result of lower realized commodity prices, offset by increased production volumes. A breakdown of sales by product is outlined in Table 5:

Table 5

Sales by product ($ thousands)	**Jun 30, 2015**	Jun 30, 2014	% Change	Mar 31, 2015	**Jun 30, 2015**	Jun 30, 2014	% Change
	Three months ended				Six months ended		
Oil and natural gas liquids	**25,352**	46,921	(46)	20,913	**46,265**	75,362	(39)
Natural gas	**176**	410	(57)	183	**359**	923	(61)
Total Sales	**25,528**	47,331	(46)	21,096	**46,624**	76,285	(39)
Other Revenue	**-**	110	(100)	-	**-**	110	(100)
Total revenue	**25,528**	47,441	(46)	21,096	**46,624**	76,395	(39)

Commodity Prices

Table 6

Average Benchmark Prices	**Jun 30, 2015**	Jun 30, 2014	% Change	Mar 31, 2015	**Jun 30, 2015**	Jun 30, 2014	% Change
	Three months ended				Six months ended		
WTI oil (US$/bbl) (1)	**57.90**	102.97	(44)	48.65	**53.28**	100.82	(47)
WCS differential (US$/bbl) (2)	**(11.59)**	(20.36)	(43)	(14.99)	**(13.29)**	(21.74)	(39)
Cdn$ / US$ exchange rate	**1.23**	1.09	13	1.24	**1.24**	1.10	13
WCS (Cdn$/bbl)	**56.93**	90.09	(37)	41.76	**49.38**	86.74	(43)
AECO natural gas ($/mcf) (3)	**2.67**	4.68	(43)	2.95	**2.81**	4.72	(40)
Gear Realized Prices							
WCS (Cdn$/bbl)	**56.93**	90.09	(37)	41.76	**49.38**	86.74	(43)
Gear differential (4)	**(6.21)**	(4.21)	48	(5.83)	**(6.01)**	(3.39)	77
Oil and NGL ($/bbl)	**50.72**	85.88	(41)	35.93	**43.37**	83.35	(48)
Natural gas ($/mcf)	**2.31**	4.52	(49)	2.15	**2.23**	4.87	(54)
Total commodity price ($/boe)	**49.81**	84.30	(41)	35.39	**42.06**	81.53	(48)
Other revenue ($/boe)	**-**	0.19	(100)	-	**-**	0.12	(100)
Total revenue ($/boe)	**49.81**	84.49	(41)	35.39	**42.06**	81.65	(48)

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

Commodity prices remained weak throughout the second quarter of 2015. US denominated WTI prices for the second quarter decreased by 44 per cent over the same period in 2014 and the WCS differential narrowed from US$20.36 per barrel to US$11.59 per barrel. These two opposing movements combined with the weakening of the Canadian dollar resulted in Gear's realized commodity price decreasing to $49.81 per boe. Similarly, on a year-to-date basis, US denominated WTI prices decreased by 47 per cent, the WCS differential narrowed from $21.74 per barrel in 2014 to $13.29 per barrel in 2015 and the Canadian dollar weakened resulting in Gear's realized commodity price decreasing to $42.06 per boe.

Considerable risks continue to exist on heavy oil pricing including supply of US shale oil, supply policy decisions from OPEC, and general 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 2015 WTI is forecasted to be approximately Cdn$62 per barrel and the WCS differential is forecasted to be approximately Cdn$18 per barrel

Royalties

In the second quarter of 2015, royalties as a percentage of commodity sales were 12.0 per cent, a decrease of 38 per cent from the same period in 2014 and a decrease of 33 per cent from the first quarter of 2015. On a year to date basis Gear's royalty rate decreased 21 per cent in 2015. Gear's 2014 drilling program focused on wells drilled on crown lands where incentive rates apply on most new horizontally drilled production ranging from 2.5 per cent to 5 percent. Royalties paid on non-incentive based crown lands are based on a sliding scale with sensitivity to both price and total volume produced. As such, due to the lower pricing environment throughout 2015, Gear's royalty rate on produced volumes decreased.

Table 7

Royalty expense	Three months ended				Six months ended		
($ thousands except % and per boe)	**Jun 30, 2015**	Jun 30, 2014	% Change	Mar 31, 2015	**Jun 30, 2015**	Jun 30, 2014	% Change
Royalty expense	**3,054**	9,177	(67)	3,745	**6,799**	14,049	(52)
Royalty expense as a % of Sales	**12.0**	19.3	(38)	17.8	**14.6**	18.4	(21)
Royalty expense per boe	**5.96**	16.35	(64)	6.28	**6.13**	15.02	(59)

Royalty rates for the remainder of the year are expected to range between 12 and 15 per cent.

Operating and Transportation costs

For the three and six months ended June 30, 2015 operating costs were $18.66 and $18.26 per boe, respectively. This represents decreases of 13 and 14 per cent when compared with the same periods in 2014. Gear's operating cost profile increased in 2014 as a result of the heavy oil assets that Gear acquired in the second quarter which carried a higher cost profile than Gear's previously owned assets. Gear staff worked diligently throughout 2014 to decrease the costs on these properties through a variety of capital infrastructure investments, field process improvements, and volume additions. Total corporate operating costs are now in line with Gear's legacy assets. In addition, during the first quarter of 2015 Gear shut-in several high cost wells that were deemed uneconomic in the current commodity price environment. During the second quarter, prices recovered slightly and as such some of these wells were re-activated; the remaining shut-ins continue to be monitored.

Gear staff is continually evaluating its cost structure to identify opportunities for cost savings. In the second quarter, similar to investing in infrastructure to reduce operating costs, Gear purchased service equipment to service some of its existing wells. This project will be monitored closely to determine if further investment is justified.

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, 2015**	Jun 30, 2014	% Change	Mar 31, 2015	**Jun 30, 2015**	Jun 30, 2014	% Change
Operating expense	**8,552**	10,541	(19)	9,658	**18,210**	17,214	6
Transportation expense	**1,013**	1,460	(31)	1,017	**2,030**	2,545	(20)
Operating and transportation expense	**9,565**	12,001	(20)	10,675	**20,240**	19,759	2
Operating expense per boe	**16.69**	18.77	(11)	16.20	**16.43**	18.41	(11)
Transportation expense per boe	**1.97**	2.60	(24)	1.71	**1.83**	2.71	(32)
Operating and transportation expense per boe	**18.66**	21.37	(13)	17.91	**18.26**	21.12	(14)

Operating Netbacks

Gear's operating netback was $25.19 per boe in the second quarter of 2015 compared to $46.77 per boe in the same period of 2014. On a year to date basis Gear's operating netback was $17.67 per boe in 2015 compared with $45.51 in 2014. The quarterly and year to date decreases are the result of decreased commodity prices, offset by decreased royalty and operating costs.

The components of operating netbacks are summarized in Table 9:

Table 9

Netbacks ($ per boe)	**Q2 2015 Total ($/boe)**	Q2 2014 Total ($/boe)	% Change	Q1 2015 Total ($/boe)	**YTD Q2 2015 Total ($/boe)**	YTD Q2 2014 Total ($/boe)	% Change
Weighted average sales price	**49.81**	84.30	(41)	35.39	**42.06**	81.53	(48)
Other	**-**	0.19	(100)	-	**-**	0.12	(100)
Total sales	**49.81**	84.49	(41)	35.39	**42.06**	81.65	(48)
Royalties	**(5.96)**	(16.35)	(64)	(6.28)	**(6.13)**	(15.02)	(59)
Operating costs	**(18.66)**	(21.37)	(13)	(17.91)	**(18.26)**	(21.12)	(14)
Netback	**25.19**	46.77	(46)	11.20	**17.67**	45.51	(61)

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

G&A totaled $2.0 million and $3.6 million for the three and six months ended June 30, 2015 respectively, a decrease of $0.4 million and $0.5 million when compared to the same periods in 2014. On a per boe basis, G&A decreased by 9 per cent and 26 per cent for the three and six months ended June 30, 2015.

Included in G&A in the second quarter are $0.2 million of non-routine severance costs. G&A before this non-routine cost was $3.43 per boe and $3.08 per boe for the three and six months ended June 30, 2015. Guidance for the full year 2015 remains unchanged at $3.30 per boe to $3.50 per boe.

SBC is related to bonus awards through the granting of actual common shares and stock options. There were 1,723 thousand options granted during the first six months of 2015 at an average price of $1.92. In addition, 663 thousand options expired at an average price of $2.50 and 258 thousand options were forfeited all with an average exercise price of $3.87. As at June 30, 2015, a total of 5.6 million options were outstanding or eight per cent of the 71 million total common shares outstanding. Table 10 is a breakdown of G&A and SBC expense:

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

Table 10

G&A and SBC expense		Three months ended				Six months ended	
($ thousands except per boe)	**Jun 30, 2015**	Jun 30, 2014	% Change	Mar 31, 2015	**Jun 30, 2015**	Jun 30, 2014	% Change
G&A expenses	**1,984**	2,395	(17)	1,648	**3,632**	4,177	(13)
SBC expense	**556**	304	83	571	**1,127**	498	126
G&A expenses per boe	**3.87**	4.27	(9)	2.76	**3.28**	4.46	(26)
SBC expense per boe	**1.09**	0.54	102	0.96	**1.02**	0.53	92

Interest and financing charges

Interest and financing charges totaled $0.7 million in the second quarter of 2015, a decrease of 10 per cent over the second quarter of 2014. Average debt levels increased to $95.6 million in the second quarter of 2015 compared to $75.6 million in the same period in 2014, however, the interest rate charged on Gear’s demand facility decreased year over year. Gear’s interest rate on its demand facility is dependent on the second proceeding quarter’s debt to cash flow ratio. For instance, Gear’s second quarter 2015 interest rate is dependent on the fourth quarter 2014 debt to cash flow ratio. The debt to cash flow ratio decreased from 2.0 times in the fourth quarter of 2013 to 1.2 times in the fourth quarter of 2014. Gear’s current annualized borrowing costs, inclusive of financing charges on its credit facility, approximated 3.1 per cent for the second quarter of 2015 compared to 4.4 per cent in the second quarter of 2014.

Third quarter 2015 stamping fees are based on Gear’s previously reported first quarter net debt to annualized cash flow from operations ratio of 1.7 times. As a result, interest and financing charges are expected to increase for the third quarter of 2015.

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, 2015**	Jun 30, 2014	% Change	Mar 31, 2015	**Jun 30, 2015**	Jun 30, 2014	% Change
Interest expense	**678**	763	(11)	762	**1,439**	1,296	11
Financing charges	**33**	28	18	50	**83**	93	(11)
Standby and letter of credit fees	**18**	21	(14)	14	**33**	32	3
Interest and financing charges	**729**	812	(10)	826	**1,555**	1,421	9
Interest and financing charges per boe	**1.42**	1.45	(2)	1.38	**1.40**	1.52	(8)

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

Risk Management Contracts
Gear uses or plans to use a variety of derivative instruments to reduce its exposure to fluctuations in commodity prices, foreign exchange rates and interest rates. All present and future transactions are considered to be effective economic hedges; however, Gear's current contracts and future contracts thereafter may not qualify as effective hedges for accounting purposes. The board of directors has authorized a hedging limit of up to 65 per cent of its production, net of royalties, for the current and following calendar year. For the first half of 2015, Gear had 3,000 barrels per day hedged at a floor WTI price of Cdn$90 per barrel, generating cash hedging gains of $12.5 million.

Table 12 summarizes Gear's hedged volumes for the remainder of 2015 through the first half of 2016.

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, 2015	Dec 31, 2015	Collar	CAD	2,200	-	78.00	65.00	-
Jan 1, 2016	Jun 30, 2016	Collar	CAD	250	-	87.25	65.00	-
Jan 1, 2016	Jun 30, 2016	Collar	CAD	250	-	82.50	65.00	-
Jan 1, 2016	Jun 30, 2016	Collar	USD	230	-	67.65	57.00	-
Jan 1, 2016	Jun 30, 2016	Collar	USD	270	-	67.50	57.00	-

Gear has a mandate to protect its capital program funding for the current and upcoming year by reducing fluctuations in both its cash flow from operations and assigned loan value on its credit facility. Internally, Gear strives to maintain a debt to cash flow of less than two times and optimally in the range of 1 to 1.5 times. In the current low commodity price environment Gear's hedging strategy is to enter into collars which allows Gear to attain a floor price necessary 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.

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

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

Depletion, Depreciation and Amortization Expense ("DD&A")
On a quarterly basis Gear's finding and development costs remained relatively unchanged year over year resulting in DD&A of $21.77 per boe and $21.03 per boe in 2015 and 2014, respectively.

Table 13

DD&A Rate	Three Months Ended				Six Months Ended		
($ thousands except per boe)	**Jun 30, 2015**	Jun 30, 2014	% Change	Mar 31, 2015	**Jun 30, 2015**	Jun 30, 2014	% Change
DD&A	**11,155**	11,813	(6)	9,503	**20,658**	19,607	5
DD&A rate per boe	**21.77**	21.03	4	15.94	**18.63**	20.95	(11)

Taxes
During the second quarter of 2015, a deferred tax recovery of $2.7 million was recorded compared to an expense of $2.9 million in 2014. The 2015 recovery is primarily influenced by temporary differences relating to the book basis of Gear's property, plant and equipment relative to its tax basis as well as an increase in the future tax rate of 2 per cent. As at June 30, 2015 Gear's estimated tax pools were $297.5 million ($325.9 million at December 31, 2014). These income tax pools are deductible at various rates and annual deductions associated with the initial tax pools will decline over time. No cash income taxes were paid in 2015 and 2014.

Capital Expenditures, Acquisitions and Dispositions
In early January, in response to the steep decline in oil prices, Gear decided to put its original 2015 drilling program on hold and to limit spending to only unavoidable capital. In mid-June Gear determined that the reductions in drilling costs and the forward price outlook on oil were at appropriate levels to support the commencement of its 2015 drilling program. The new program focusses on drilling low risk, high rate of return projects. Capital expenditures, including acquisitions and dispositions, totaled $3.7 million in the second quarter of 2015, during which Gear drilled 1 gross (1 net) well and re-completed 15 wells. The well drilled was a single leg McLaren horizontal in Paradise Hill, production from this well averaged 90 barrels per day for the first 28 days of production.

At the end of the quarter Gear spudded its first four leg un-lined horizontal well drilled into the Wildmere Cummings play; the well took 13 days to drill and was rig released in early July. Early results from this well are promising with pre-optimization rates of over 100 barrels per day averaged over the first 14 days of production and the last 7 days averaging over 150 bbl per day. Significant capital efficiency was achieved in drilling this well; the total cost to drill, complete and equip was $1.1 million. This compares to a 2014 cost of $1.1 million for a single leg lined horizontal. Savings is twofold on the quad well, firstly, by having only one surface location, and secondly by not lining each of the four horizontal legs with expensive slotted steel liners. If this well proves successful, it should unlock future drilling opportunities for Gear that are economic even in a low commodity price environment.

Acquisition activity in the quarter relates to the settlement of the final statement of adjustment for the acquisition of heavy oil properties completed in the second quarter of 2014.

As a result of realized and forecasted capital savings, Gear's 2015 capital program has now been reduced by 11 per cent to $25 million.

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, 2015**	Jun 30, 2014	% Change	Mar 31, 2015	**Jun 30, 2015**	Jun 30, 2014	% Change
Geological and geophysical	**27**	117	(77)	47	**74**	289	(74)
Drilling and completions	**2,049**	6,741	(70)	(1,763)	**532**	23,375	(98)
Production equipment and facilities	**1,424**	3,541	(60)	1,594	**2,775**	10,604	(74)
Undeveloped land purchased at crown land sales	**306**	1,840	(83)	285	**591**	1,911	(69)
Other	**480**	89	439	8	**485**	121	301
Total capital expenditures	**4,286**	12,328	(65)	171	**4,457**	36,300	(88)
Acquisition through business combination (1)	**(553)**	78,927	(101)	-	**(458)**	78,927	(101)
Property acquisitions and dispositions, net (1)	**-**	159	(100)	(132)	**(227)**	507	(145)
Total capital expenditures and net acquisitions	**3,733**	91,414	(96)	39	**3,772**	115,734	(97)

(1) Includes post-closing adjustments.

Decommissioning Liability

At June 30, 2015, Gear has recorded a decommissioning liability of $72.5 million ($74.1 million at December 31, 2014) for the future abandonment and reclamation of Gear's properties. The estimated decommissioning liability includes assumptions in respect of actual costs to abandon wells or reclaim the property, the time frame in which such costs will be incurred as well as annual inflation factors in order to calculate the undiscounted total future liability. The future liability has been discounted at the risk free rate of 2.29 per cent (2.22 per cent at December 31, 2014). Abandonment cost estimates are derived from third party government sources and, as a result, can fluctuate from time to time. The decrease in liability is due to the increase 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.

Capitalization, Financial Resources and Liquidity

A breakdown of Gear's capital structure is outlined in Table 15, as at June 30, 2015 and December 31, 2014:

Table 15

Debt ($ thousands except ratio amounts)	**Jun 30, 2015**	Dec 31, 2014
Net debt (1)	**71,678**	98,404
Net debt to annualized cash flow from operations	**1.2**	1.2

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

In the second quarter Gear underwent a regular scheduled review of its syndicated demand credit facilities (the "Facilities") which resulted in a decrease of its borrowing limit from $130 million to $90 million. The reduction is primarily a result of reduced commodity pricing and had been anticipated at the beginning of 2015. With minimal capital spending in the first half of the year Gear was able to apply almost 100 per cent of cash flow towards decreasing net debt by 27 per cent from $98.4 million at December 31, 2014 to $71.7 million at June 30, 2015. Low debt balances coupled with Gear's net debt to cash flow of 1.2 times in the second quarter demonstrates financial flexibility and liquidity going into the second half of the year. Gear continues to believe that a proactive disciplined approach to operations and diligent management of its capital structure provides flexibility to react appropriately to market conditions.

The next scheduled review of the Facilities is to be complete by November 1, 2015. The amount of credit extended to Gear is dependent primarily on its reserves and a forward price determined by Gear's lenders and is expected to provide sufficient financial flexibility to execute on a $25 million capital program. The terms of the renewed Facilities are unchanged from the previous arrangement. The Facilities bear interest at Canadian bank prime or, at Gear's option, Canadian bankers' acceptances, plus applicable margin and stamping fee. The total stamping fees range, depending on Gear's debt to cash flow from operations ratio, between 50 bps to 250 bps on Canadian bank prime borrowings and between 175 bps and 375 bps on Canadian dollar bankers' acceptances. The undrawn portion of the Facilities is subject to a standby fee in the range of 20 to 45 bps. In addition, the Facilities are secured by a fixed and floating charge on the assets of Gear and are subject to semi-annual reviews. As at June 30, 2015, Gear was in compliance with all externally imposed capital requirements.

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 2015 capital program is expected to be financed primarily through cash flow from operations. Gear's ability to increase its borrowing capacity is based on its reserves value as determined by its external reserve evaluator.

If Gear undertakes any major acquisitions, management would expect to finance the transactions with a combination of 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, 2015, 70.8 million Gear common shares were outstanding; this amount remains unchanged as at the date of this MD&A and from December 31, 2014.

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

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

Gear enters into commitments for capital expenditures in advance of the expenditures being made. At a given point in time, it is estimated that Gear has committed to capital expenditures equal to approximately one quarter of its capital budget by means of giving the necessary authorizations to incur the expenditures in a future period.

As at June 30, 2015, Gear had four contractual commitments:

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

The lease agreement for Gear's head office commenced November 1, 2013 and expires on July 30, 2016 with an annual commitment of $0.2 million and a total remaining commitment of $0.3 million. The lease agreement for Gear's field office is effective until December 31, 2015 with a total commitment of $0.1 million. The first drilling rig commitment is effective until December 15, 2016 with a total commitment of $5.3 million; the second commitment is effective until September 15, 2016 with a total commitment of $3.4 million.

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

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

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

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

Non-GAAP Measures
Management uses certain key performance indicators and industry benchmarks such as cash flow from operations, cash flow from operations per debt adjusted share, production per day per thousand debt adjusted shares, operating netbacks, corporate netbacks and net debt to analyze financial and operating performance. Management believes that these key performance indicators and benchmarks are key measures of profitability for Gear and provide investors with information that is commonly used by other oil and gas companies. These key performance indicators and benchmarks as presented do not have any standardized meaning prescribed by Canadian GAAP and therefore may not be comparable with the calculation of similar measures for other entities.

Cash Flow from Operations
Cash flow from operations is a non-GAAP measure defined as cash flow from operating activities before changes in non-cash operating working capital and decommissioning liabilities settled. Gear evaluates its financial performance primarily on cash flow from operations and considers it a key measure as it demonstrates its ability to generate the cash flow necessary to fund its capital program and repay debt. Cash flow from operations is unlikely to be comparable with the calculation of similar measures for other companies.

Table 16 below reconciles cash flow from operating activities to cash flow from operations.

Table 16

	Three months ended			Six months ended	
($ thousands)	**Jun 30, 2015**	Jun 30, 2014	Mar 31, 2015	**Jun 30, 2015**	Jun 30, 2014
Cash flow from operating activities	**14,432**	20,294	12,439	**26,871**	31,072
Expenditures on site restoration and reclamation	**140**	730	298	**438**	798
Change in non-cash working capital	**328**	(363)	(527)	**(199)**	992
Cash flow from operations	**14,900**	20,661	12,210	**27,110**	32,862

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, 2015**	Dec 31, 2014
Debt	**81,918**	98,900
Working capital surplus (1)	**(10,240)**	(496)
Net debt obligations	**71,678**	98,404

(1) Excludes risk management contracts.

At June 30, 2015 and December 31, 2014, Gear had a working capital surplus. When in a deficit position, the Company is able to meet obligations as they come due by drawing on the 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, 2015**	Jun 30, 2014	Mar 31, 2015	**Jun 30, 2015**	Jun 30, 2014
Weighted average shares	**70,817**	70,293	70,817	**70,817**	62,536
Average share price	**2.10**	5.24	1.78	**1.90**	4.38
Average net debt (1)	**77,495**	53,023	90,858	**85,040**	77,391
Share equivalent on average net debt	**36,902**	10,119	51,044	**44,758**	17,669
Debt adjusted shares	**107,719**	80,412	121,861	**115,575**	80,205

(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; and
- Estimated employee stock based compensation costs.

Gear has hired individuals and consultants who have the skills required to make such estimates and ensures that individuals or departments with the most knowledge of the activity are responsible for the estimates. Further, past estimates are reviewed and compared to actual results, and actual results are compared to budgets in order to make more informed decisions on future estimates. For further information on the determination of certain estimates inherent in the financial statements refer to Note 4 "Management Judgments and Estimation Uncertainty" in the audited financial statements for the year ended December 31, 2014.

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

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

There were no changes in Gear’s ICFR during the three months ended June 30, 2015 that materially affected, or are reasonably likely to materially affect, the Company’s ICFR.

Future Accounting Policy Changes
In May 2014, the IASB issued IFRS 15 “Revenue from Contracts with Customers”, which replaces 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 its 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 by Gear on January 1, 2018 and the Company is currently evaluating the impact of the standard on its 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, estimates of normal course obligations, and a number of other matters, including the amount of future decommissioning costs; future liquidity and financial capacity; future results from operations and operating metrics; future costs, expenses and royalty rates; future interest costs; and future development, exploration, acquisition and development activities (including drilling plans) and related capital expenditures.

The forward-looking information and statements contained in this 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; 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

	2015		2014				2013	
(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	25,528	21,096	39,558	48,273	47,331	28,954	25,758	29,976
Cash flow from operations [1]	14,900	12,210	20,602	22,580	20,661	12,202	8,309	12,080
Per basic	0.21	0.17	0.29	0.32	0.29	0.22	0.15	0.22
Per diluted	0.21	0.17	0.29	0.31	0.29	0.22	0.15	0.22
Cash flow from operating activities	14,432	12,439	13,425	21,428	20,294	10,780	7,765	12,991
Per basic and diluted	0.20	0.18	0.19	0.30	0.28	0.20	0.14	0.24
Net income (loss)	(2,301)	(4,357)	(29,999)	8,914	6,420	1,588	(539)	2,449
Per basic	(0.03)	(0.06)	(0.42)	0.13	0.09	0.03	(0.01)	0.05
Per diluted	(0.03)	(0.06)	(0.42)	0.12	0.09	0.03	(0.01)	0.05
Capital expenditures	4,286	171	20,969	27,314	12,328	23,972	17,440	17,342
Net acquisitions [2]	(553)	(132)	(1,027)	1,451	79,086	348	(29)	(200)
Net debt outstanding [1]	71,678	83,313	98,404	94,334	87,635	18,412	67,148	57,615
Weighted average shares outstanding, basic (thousands)	70,817	70,817	70,817	70,798	70,293	54,694	53,956	53,956
Weighted average shares outstanding, diluted (thousands)	70,817	70,817	71,485	72,314	71,768	55,799	54,392	53,956
Shares outstanding, end of period (thousands)	70,817	70,817	70,817	70,817	70,734	69,960	53,956	53,956
OPERATING								
Production								
Oil and liquids (bbl/d)	5,492	6,466	6,836	6,529	6,004	3,975	4,369	3,652
Natural gas (mcf/d)	838	944	991	1,101	998	1,095	1,641	1,723
Total (boe/d)	5,632	6,624	7,001	6,712	6,170	4,158	4,642	3,940
Average prices								
Oil and liquids ($/bbl)	50.72	35.93	62.39	79.72	85.88	79.50	62.91	88.01
Natural gas ($/mcf)	2.31	2.15	3.57	3.89	4.52	5.20	3.12	2.53
Oil equivalent ($/boe)	49.81	35.39	61.42	78.17	84.30	77.38	60.31	82.70
Netback ($/boe)								
Commodity and other sales	49.81	35.39	61.48	78.40	84.49	77.38	60.37	82.77
Royalties	5.96	6.28	11.02	14.97	16.35	13.02	15.15	18.59
Operating costs	18.66	17.91	19.94	21.78	21.37	20.73	16.72	17.21
Operating netback (before hedging) [1]	25.19	11.20	30.52	41.65	46.77	43.63	28.50	46.97
Realized risk management gains (losses)	9.37	12.91	3.98	(1.04)	(4.16)	(4.68)	(3.53)	(8.20)
Operating netback (after hedging) [1]	34.56	24.11	34.50	40.61	42.61	38.95	24.97	38.77
General and administrative	3.87	2.76	1.86	3.20	4.27	4.76	4.31	3.68
Interest	1.42	1.38	1.31	1.16	1.45	1.63	1.24	1.77
Foreign exchange (gain) loss	0.17	(0.52)	(0.63)	(0.32)	0.09	-	-	-
Corporate netback [1]	29.10	20.49	31.96	36.57	36.80	32.56	19.42	33.32

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

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

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

On April 30, 2014 Gear closed an acquisition of heavy oil assets focused near the company's core producing areas of West Central Alberta and East Central Saskatchewan. The acquired assets included approximately 2,100 boepd of high working interest, operated heavy oil production. The acquisition of these assets resulted in increased sales, cash flow from operations and production in the second quarter of 2014 and thereafter.

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