FINANCIAL AND OPERATIONAL HIGHLIGHTS

GEAR ENERGY

(Cdn$ thousands, except per boe amounts)	Three months ended **Jun 30, 2019**	Jun 30, 2018	Mar 31, 2019	Six months ended **Jun 30, 2019**	Jun 30, 2018
FINANCIAL					
Funds from operations (1)	**17,104**	13,674	15,032	**32,136**	21,753
Per boe	**26.25**	21.40	24.29	**25.29**	17.74
Per weighted average basic share	**0.08**	0.07	0.07	**0.15**	0.11
Cash flows from operating activities	**18,881**	8,596	5,981	**24,862**	23,383
Net income (loss)	**5,684**	(1,869)	(6,812)	**(1,128)**	(6,163)
Per weighted average basic share	**0.03**	(0.01)	(0.03)	**(0.01)**	(0.03)
Capital expenditures	**3,334**	6,385	9,252	**12,586**	15,628
Decommissioning liabilities settled	**474**	373	399	**873**	1,262
Net (dispositions) acquisitions (2)	**(162)**	10	(1,038)	**(1,200)**	400
Net debt (1) (3)	**72,127**	38,960	85,740	**72,127**	38,960
Weighted average shares, basic (thousands)	**219,093**	195,045	219,016	**219,089**	195,007
Shares outstanding, end of period (thousands)	**219,093**	195,213	219,044	**219,093**	195,213
OPERATING					
Production					
Heavy oil (bbl/d)	**4,104**	4,774	4,148	**4,126**	4,504
Light and medium oil (bbl/d)	**2,166**	1,232	1,863	**2,015**	1,215
Natural gas liquids (bbl/d)	**228**	219	235	**232**	221
Natural gas (mcf/d)	**3,977**	4,806	3,787	**3,882**	5,016
Total (boe/d)	**7,161**	7,025	6,877	**7,020**	6,775
Average prices					
Heavy oil ($/bbl)	**60.45**	55.04	52.89	**56.67**	49.40
Light and medium oil ($/bbl)	**71.60**	75.67	63.64	**67.94**	70.21
Natural gas liquids ($/bbl)	**13.11**	40.51	26.40	**19.82**	40.12
Natural gas ($/mcf)	**0.92**	1.08	2.40	**1.64**	1.38
Selected financial results ($/boe)					
Commodity and other sales	**57.23**	52.67	51.44	**54.41**	47.76
Royalties	**(6.87)**	(5.06)	(4.33)	**(5.63)**	(5.01)
Operating costs	**(18.08)**	(17.16)	(18.73)	**(18.39)**	(16.52)
Operating netback (1)	**32.28**	30.45	28.38	**30.39**	26.23
Realized risk management losses	**(1.65)**	(5.55)	(0.16)	**(0.93)**	(4.88)
General and administrative	**(2.47)**	(2.55)	(2.04)	**(2.26)**	(2.69)
Interest	**(1.90)**	(0.93)	(1.88)	**(1.89)**	(0.92)
Transaction costs and other	**(0.01)**	(0.02)	(0.01)	**(0.02)**	-
TRADING STATISTICS					
($ based on intra-day trading)					
High	**0.88**	1.37	0.73	**0.88**	1.37
Low	**0.53**	0.68	0.54	**0.53**	0.66
Close	**0.57**	1.35	0.61	**0.57**	1.35
Average daily volume (thousands)	**412**	820	283	**348**	642

(1) Funds from operations, net debt and operating 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 (dispositions) acquisitions exclude non-cash items for decommissioning liability and deferred taxes and is net of post-closing adjustments.

(3) Net debt includes the risk management liability acquired through the Steppe Resources Inc. corporate acquisition. June 30, 2019 – $1.6 million, June 30, 2018 – nil, December 31, 2018 – $4.5 million.

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 7, 2019 and should be read in conjunction with the unaudited Interim Condensed Consolidated Financial Statements as at and for the three and six months ended June 30, 2019 and the audited Consolidated Financial Statements as at and for the year ended December 31, 2018. 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, West Central Saskatchewan and Southeast Saskatchewan. Presently, Gear has 35 employees with 24 staff in the Calgary office and 11 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

2019 GUIDANCE

Table 1 summarizes Gear's current 2019 guidance, previous first half 2019 guidance and first half 2019 actual results.

Table 1

	2019 Full Year Guidance (1)	**H1 2019 Previous Guidance** (2)	H1 2019 YTD Actuals
Average production (boe/d)	**6,800 – 7,100**	**7,300 – 7,500**	7,020
Heavy oil weighting (%)	**56**	**59**	59
Light/medium oil and NGLs weighting (%)	**34**	**31**	32
Royalty rate (%)	**11**	**10 – 12**	10
Operating and transportation costs ($/boe)	**18.00**	**16.00 – 17.00**	18.39
General and administrative expense ($/boe)	**2.00**	**2.10**	2.26
Interest expense ($/boe)	**1.50**	**1.70**	1.89
Capital and abandonment expenditures ($ millions)	**42.5**	**10.0**	13.5

(1) 2019 Full Year Guidance was originally provided in Gear's press release dated May 8, 2019 entitled "Gear Energy Ltd. Announces First Quarter 2019 Operating Results and 2019 Budget" and in Gear's MD&A for the first quarter of 2019.
(2) H1 2019 Previous Guidance was originally provided in Gear's press release dated January 14, 2019 entitled "Gear Energy Ltd. Provides First Half 2019 Capital Guidance".

METRICS

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

Table 2

	Three months ended				Six months ended		
	Jun 30, 2019	Jun 30, 2018	% Change	Mar 31, 2019	**Jun 30, 2019**	Jun 30, 2018	% Change
Funds from operations per debt adjusted share (1)	**0.051**	0.059	(14)	0.041	**0.093**	0.092	1
Cash flows from operating activities per debt adjusted share (1)	**0.056**	0.037	51	0.016	**0.072**	0.099	(27)
Production, boepd per debt adjusted thousand shares (1)	**0.021**	0.030	(30)	0.019	0.020	0.029	(31)

(1) Funds from operations per debt adjusted share, cash flows from operating activities 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*".

RECENT DEVELOPMENTS
Subsequent to the end of the second quarter of 2019, on July 9, 2019 Gear announced the appointment of Scott Robinson to the Board of Directors of Gear and the resignation of John O'Connell as director. Concurrently with the release of this MD&A Kevin Olson has resigned as a director of the Company and Greg Bay and Wilson Wang have been appointed to the Board of Directors.

In addition, Gear will pursue the implementation of a normal course issuer bid (the "NCIB") through the facilities of the Toronto Stock Exchange ("TSX"). Pursuant to the NCIB and subject to regulatory approval, Gear would be able to purchase for cancellation up to 5% of its issued and outstanding common shares for a one year period at prevailing market prices at the time of purchase. Management of Gear believes that its common shares, at times, have been trading in a price range which does not adequately reflect their value in relation to Gear's current operations, growth prospects and financial position.

In order to affect the NCIB Gear must reduce its stated capital pursuant to the provisions of the Business Corporations Act (Alberta). As such the Board of Directors of Gear has determined to hold a special meeting of shareholders on September 20, 2019 for shareholders to consider and, if determined advisable, approve a reduction in the stated capital of Gear's common shares. The record date for the special meeting will be August 19, 2019. Assuming shareholder approval for the reduction of stated capital is received and subject to approval of the NCIB by the Toronto Stock Exchange, Gear intends to commence the NCIB as soon as practicable following the special meeting.

2019 SECOND QUARTER FINANCIAL AND OPERATIONAL RESULTS

Funds from Operations and Cash Flows from Operating Activities
Funds from operations increased from $13.7 million or $21.40 per boe in the second quarter of 2018 to $17.1 million or $26.25 per boe in the second quarter of 2019. The increase in funds from operations for the second quarter of 2019 is the result of increased revenues due to record high production volumes, increased realized commodity prices, decreased losses on risk management contracts, and decreased general and administrative, transaction and other expenses, offset by increased royalty, operating and interest costs.

Funds from operations increased from $21.8 million and $17.74 per boe in the six months ended June 30, 2018 to $32.1 million and $25.29 per boe in the six months ended June 30, 2019. The increase in funds from operations for the six months ended June 30, 2019 is the result of increased revenues due to higher production volumes and realized commodity prices, decreased losses on risk management contracts and decreased general and administrative costs, offset by increased royalty, operating, interest and transaction and other costs.

The following table details the change in funds from operations for 2019 relative to 2018:

Table 3

	Three months ended Jun 30		Six months ended Jun 30	
	$ thousands	$/boe	$ thousands	$/boe
Q2 2018 Funds from operations (1)	13,674	21.40	21,753	17.74
Volume variance	650	-	2,112	-
Price variance	2,973	4.56	8,448	6.65
Cash loss on risk management contracts	2,475	3.90	4,810	3.95
Royalties	(1,237)	(1.81)	(1,011)	(0.62)
Expenses:				
Operating	(808)	(0.92)	(3,108)	(1.87)
General and administrative	18	0.08	417	0.43
Interest	(646)	(0.97)	(1,267)	(0.97)
Transaction costs and other	5	0.01	(18)	(0.02)
Q2 2019 Funds from operations (1)	17,104	26.25	32,136	25.29

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

Cash flows from operating activities increased from $8.6 million or $13.45 per boe for the second quarter of 2018 to $18.9 million or $28.97 per boe for the second quarter of 2019. The increase in cash flows from operating activities is the result of increased revenues due to record high production volumes, increased realized commodity prices, decreased losses on risk management contracts, decreased general and administrative, transaction and other expenses and an increase in non-cash working capital, offset by increased royalty, operating and interest costs as well as increased decommissioning liabilities settled.

For the six months ended June 30, 2019, cash flows from operating activities increased from $23.4 million or $19.07 per boe for the six months ended June 30, 2018 to $24.9 million or $19.57 per boe. This year-over-year increase is the result of increased revenues due to higher production volumes and realized commodity prices, decreased losses on risk management contracts, decreased general and administrative costs and decreased decommissioning liabilities settled, offset by a decrease in non-cash working capital and increase in royalty, operating, interest and transaction and other costs.

Net income

For the three and six months ended June 30, 2019, Gear generated net income of $5.7 million and a net loss of $1.1 million, respectively, compared to net losses of $1.9 million and $6.2 million for the same periods in 2018. The changes in net income are due to several factors discussed below.

Production

In the second quarter of 2019, Gear achieved record high production volumes of 7,161 boe per day, this compares to 6,877 boe per day in the first quarter of 2019 and 7,025 boe per day in the second quarter of 2018. For the six months ended June 30, 2019, production volumes averaged 7,020 boe per day compared to 6,775 boe per day in the same period in 2018. Increased production in the second quarter is the result of volume additions of 460 bbl per day from two wells drilled in Tableland in the first quarter, inclusion of base volumes in the Tableland area which was acquired in the acquisition of Steppe Resources Inc. (the "Steppe Acquisition") in the third quarter of 2018, production from Gear's 2018 Cardium drill in Ferrier of 200 boe per day and sales from inventory, offset by natural declines on Gear's base production.

Throughout the fourth quarter of 2018 Gear responded to the significant decline in commodity prices by building oil inventory and shutting in production with the intent of selling these volumes when prices recovered. Gear's realized oil prices increased considerably in the first half of 2019 and, as such, Gear reactivated and optimized oil wells and began to sell inventoried oil volumes. Approximately 35,000 barrels of heavy oil inventory that was built in December 2018 was sold at an average price of $58 per barrel during the first half of 2019. Gear estimates that deferring the sale of these volumes into 2019 generated an additional $2.0 million in revenue for the Company. Oil inventory is now back to normal operational levels.

Table 4

	Three months ended				Six months ended		
Production	**Jun 30, 2019**	Jun 30, 2018	% Change	Mar 31, 2019	**Jun 30, 2019**	Jun 30, 2018	% Change
Liquids (bbl/d)							
Heavy oil (bbl/d)	4,104	4,774	(14)	4,148	**4,126**	4,504	(8)
Light and Medium oil (bbl/d)	2,166	1,232	76	1,863	**2,015**	1,215	66
Natural gas liquids (mcf/d)	228	219	4	235	**232**	221	5
Total liquids (bbl/d)	6,498	6,225	4	6,246	**6,373**	5,940	7
Natural gas (mcf/d)	3,977	4,806	(17)	3,787	**3,882**	5,016	(23)
Total production (boe/d) (1)	7,161	7,025	2	6,877	**7,020**	6,775	4
% Liquids production	91	89	2	91	**91**	88	3
% Natural gas production	9	11	(18)	9	**9**	12	(25)

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

Throughout the first half of 2019 Gear experienced production levels restricted by pipeline apportionments, limited crude-by-rail activity and third-party downtime. These limitations have not existed in the third quarter to date, however, the egress environment is still uncertain and these pressures could present themselves again. Third quarter production is expected to decline slightly from the second quarter as a result of lower sales from inventory and shut-in production to execute Gear's planned drilling program. Full year guidance remains unchanged at 6,800 – 7,100 boe per day.

Revenue

For the second quarter of 2019, sales of crude oil, natural gas and natural gas liquids totaled $37.3 million, an 11 per cent increase over the second quarter 2018 sales of $33.7 million. For the six months ended, sales of crude oil, natural gas and natural gas liquids increased 18 per cent from $58.6 million in 2018 to $69.1 million in 2019. These increases are 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	Three months ended				Six months ended		
($ thousands)	**Jun 30, 2019**	Jun 30, 2018	% Change	Mar 31, 2019	**Jun 30, 2019**	Jun 30, 2018	% Change
Oil and natural gas liquids	**36,965**	33,200	11	31,020	**67,985**	57,317	19
Natural gas	**332**	474	(30)	817	**1,149**	1,257	(9)
Total revenue	**37,297**	33,674	11	31,837	**69,134**	58,574	18

Commodity Prices
Table 6

Average Benchmark Prices	Three months ended **Jun 30, 2019**	Jun 30, 2018	% Change	Mar 31, 2019	Six months ended **Jun 30, 2019**	Jun 30, 2018	% Change
WTI oil (US$/bbl) (1)	**59.82**	67.88	(12)	54.90	**57.36**	65.37	(12)
WCS heavy oil (Cdn$/bbl) (2)	**65.73**	62.75	5	56.64	**61.17**	55.71	10
Canadian Light Sweet (3) (Cdn$/bbl)	**73.82**	80.47	(8)	66.52	**70.19**	76.31	(8)
LSB (Cdn$/bbl) (4)	**74.29**	79.81	(7)	67.64	**70.95**	75.72	(6)
AECO natural gas ($/mcf) (5)	**1.01**	1.20	(16)	2.60	**1.80**	1.58	14
Cdn$ / US$ exchange rate	**1.34**	1.29	4	1.33	**1.33**	1.28	4
Gear Realized Prices							
Heavy oil ($/bbl)	**60.45**	55.04	10	52.89	**56.67**	49.40	15
Light and medium oil ($/bbl)	**71.60**	75.67	(5)	63.64	**67.94**	70.21	(3)
Natural gas liquids ($/bbl)	**13.11**	40.51	(68)	26.40	**19.82**	40.12	(51)
Natural gas ($/mcf)	**0.92**	1.08	(15)	2.40	**1.64**	1.38	19
Weighted average, before risk management contracts ($/boe)	**57.23**	52.67	9	51.44	**54.41**	47.76	14
Realized risk management loss ($/boe)	**(1.65)**	(5.55)	(70)	(0.16)	**(0.93)**	(4.88)	(81)
Weighted average, after risk management contracts ($/boe)	**55.58**	47.12	18	51.28	**53.48**	42.88	25

(1) WTI represents posting price of West Texas Intermediate oil.
(2) WCS represents the average market price for the benchmark Western Canadian Select for Gear's heavy oil.
(3) Represents the Canadian Light Sweet oil index for Gear's Alberta light oil.
(4) Represents the Light Sour Blend oil index for Gear's Southeast Saskatchewan light oil.
(5) Represents the AECO 5a monthly index.

For the second quarter of 2019, US denominated WTI prices decreased by 12 per cent over the same period in 2018, the WCS differential narrowed from US$19.27 per barrel to US$10.67 per barrel and the Canadian Light Sweet differential narrowed from US$5.45 per barrel to US$4.62 per barrel. Sales associated with the assets acquired through the Steppe Acquisition in the third quarter of 2018 are sold on the LSB oil index, which had a differential of US$4.27 per barrel in the second quarter of 2019. The LSB differential remained relatively unchanged from the first quarter of 2019. These pricing movements along with the weakening of the Canadian dollar resulted in an increase in Gear's realized pricing from $52.67 per boe to $57.23 per boe.

On a year-to-date basis WTI decreased from US$65.37 per barrel to US$57.36 per barrel over the same period in 2018, the WCS differential narrowed from US$21.77 per barrel to US$11.48 per barrel and the Canadian Light Sweet differential narrowed from US$5.67 per barrel to US$4.74 per barrel. The LSB oil index had a differential of US$4.14 per barrel for the six months ended June 30, 2019. These pricing movements along with the weakening of the Canadian dollar resulted in an increase in Gear's realized pricing from $47.76 per boe to $54.41 per boe.

Royalties
In the second quarter of 2019, royalties as a percentage of commodity sales were 12.0 per cent compared to 9.6 per cent for the same period in 2018. The increase in royalties as a percentage of commodity sales was the result of higher heavy oil prices as well as the end of incentive rates for wells drilled in previous years on crown lands, partially offset by properties acquired through the Steppe Acquisition in the third quarter of 2018 which carry a lower royalty burden than Gear's legacy properties. For the six months ended June 30, royalties as a percentage of commodity sales decreased slightly from 10.5 per cent in 2018 to 10.3 per cent in 2019.

Table 7

Royalty expense ($ thousands except % and per boe)	Three months ended **Jun 30, 2019**	Jun 30, 2018	% Change	Mar 31, 2019	Six months ended **Jun 30, 2019**	Jun 30, 2018	% Change
Royalty expense	**4,475**	3,238	38	2,680	**7,155**	6,144	16
Royalty expense as a % of Sales	**12.0**	9.6	25	8.4	**10.3**	10.5	(2)
Royalty expense per boe	**6.87**	5.06	36	4.33	**5.63**	5.01	12

Operating and Transportation Expenses
Operating costs plus transportation for the three and six months ended June 30, 2019 were $18.08 per boe and $18.39 per boe, respectively, compared to $17.16 per boe and $16.52 per boe for the same periods in 2018. The increase is due to the inclusion of operating costs associated with properties acquired in the Steppe Acquisition in the third quarter of 2018. Despite a very wet spring, operating costs plus transportation decreased from $18.73 per boe in the first quarter of 2019 to $18.08 per boe in the second quarter of 2019.

Table 8 below summarizes the operating and transportation expenses:

Table 8

Operating and Transportation expenses ($ thousands except per boe)	**Jun 30, 2019**	Three months ended Jun 30, 2018	% Change	Mar 31, 2019	**Jun 30, 2019**	Six months ended Jun 30, 2018	% Change
Operating expense	**10,316**	9,684	7	10,165	**20,481**	17,833	15
Transportation expense	**1,465**	1,289	14	1,426	**2,891**	2,431	19
Operating and transportation expense	**11,781**	10,973	7	11,591	**23,372**	20,264	15
Operating expense per boe	**15.83**	15.14	5	16.43	**16.12**	14.54	11
Transportation expense per boe	**2.25**	2.02	11	2.30	**2.27**	1.98	15
Operating and transportation expense per boe	**18.08**	17.16	5	18.73	**18.39**	16.52	11

Operating Netbacks

Gear's operating netback was $32.28 per boe in the second quarter of 2019 and $30.39 per boe in the first half of 2019, an increase of 6 per cent and 16 per cent from the same periods in 2018, respectively. The increase in operating netbacks was primarily the result of increased commodity prices, partially offset by higher royalties and operating costs.

The components of operating netbacks are summarized in Table 9:

Table 9

Operating Netback ($ per boe)	**Jun 30, 2019**	Three months ended Jun 30, 2018	% Change	Mar 31, 2019	**Jun 30, 2019**	Six months ended Jun 30, 2018	% Change
Total sales	**57.23**	52.67	9	51.44	**54.41**	47.76	14
Royalties	**(6.87)**	(5.06)	36	(4.33)	**(5.63)**	(5.01)	12
Operating costs	**(18.08)**	(17.16)	5	(18.73)	**(18.39)**	(16.52)	11
Operating Netback	**32.28**	30.45	6	28.38	**30.39**	26.23	16

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

For the three and six months ended June 30, 2019 G&A expenses totaled $1.6 million and $2.9 million, respectively, compared to $1.6 million and $3.3 million for the same periods in 2018. The decrease in G&A costs is primarily due to a decrease in personnel costs. G&A on a per boe basis was $2.47 per boe and $2.26 per boe for the three and six months ended June 30, 2019, representing decreases of 3 per cent and 16 per cent over the same periods in 2018, respectively. G&A increased $0.3 million or $0.43 per boe from the first quarter to the second quarter of 2019 due to higher consulting and professional fees.

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

Table 10

G&A and SBC expense ($ thousands except per boe)	**Jun 30, 2019**	Three months ended Jun 30, 2018	% Change	Mar 31, 2019	**Jun 30, 2019**	Six months ended Jun 30, 2018	% Change
G&A, before recoveries and capitalized G&A	**2,123**	2,090	2	1,691	**3,814**	4,026	(5)
Overhead recoveries	**(125)**	(159)	(21)	(101)	**(226)**	(314)	(28)
Capitalized G&A	**(387)**	(302)	28	(325)	**(712)**	(419)	70
G&A	**1,611**	1,629	(1)	1,265	**2,876**	3,293	(13)
SBC expense	**212**	251	(16)	218	**430**	543	(21)
G&A per boe	**2.47**	2.55	(3)	2.04	**2.26**	2.69	(16)
SBC expense per boe	**0.33**	0.39	(15)	0.35	**0.34**	0.44	(23)

SBC is related to the granting of stock options. There were 0.5 million options granted during the six months ended June 30, 2019 at an average price of $0.61, 0.5 million options exercised at an average price of $0.72, 0.5 million options expired at an average price of $4.11 and 0.3 million options forfeited at an average exercise price of $0.97. As at June 30, 2019 and the date of this MD&A, a total of 13.2 million options with a weighted average exercise price of $1.22 per share were outstanding, representing approximately 6.0 per cent of the 219.1 million total common shares outstanding. Each option entitles the holder to acquire one Gear common share. As at December 31, 2018 a total of 14.1 million options were outstanding. For further information on Gear's stock options, see the notes to the Interim Condensed Consolidated Financial Statements.

Interest and financing charges

Interest and financing charges totaled $1.2 million and $2.4 million for the three and six months ended June 30, 2019, a 109 per cent and 112 per cent increase over the same periods in 2018, respectively. In conjunction with the Steppe

Acquisition in the third quarter of 2018, Gear assumed $36.3 million of bank debt, resulting in increased average debt levels year-over-year. Gear's current annualized borrowing costs, inclusive of financing charges and standby fees on its Credit Facilities (as defined below) approximated 5.3 per cent for the second quarter of 2019 compared to 4.3 per cent for the same period of 2018. 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 ("Senior Debt to EBITDA Ratio") on a rolling six month period. The increase in borrowing costs is due to increased interest rates from the Bank of Canada as well as higher margin and standby fee rates due to an increase in Gear's Senior Debt to EBITDA Ratio.

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, 2019**	Jun 30, 2018	% Change	Mar 31, 2019	**Jun 30, 2019**	Jun 30, 2018	% Change
Interest expense	**1,162**	493	136	1,096	**2,258**	995	127
Financing charges	**24**	70	(66)	19	**43**	91	(53)
Standby fees	**52**	29	79	46	**98**	46	113
Interest and financing charges	**1,238**	592	109	1,161	**2,399**	1,132	112
Interest and financing charges per boe	**1.90**	0.93	104	1.88	**1.89**	0.92	105

Risk Management Contracts

Gear uses or plans to use a variety of derivative instruments to reduce its exposure to fluctuations in commodity prices, foreign exchange rates and interest rates. Gear has not designated its risk management contracts as effective hedges, and thus has not applied hedge accounting. Gear endeavors to protect the pricing on 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 borrowing base on its Credit Facilities. Gear's 2019 and 2020 risk management programs are comprised of collars and swap contracts. Upon the completion of the Steppe Acquisition, Gear acquired several WTI CAD swap contracts. The risk management liability of these contracts was $6.2 million at the acquisition date and $1.6 million at June 30, 2019. Changes in fair value of these acquired risk management contracts from the acquisition date fair value are realized in Gear's Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) as well as future funds from operations. Gear incurred a realized loss on risk management contracts of $1.1 million and $1.2 million for the three and six months ended June 30, 2019 compared to losses of $3.6 million and $6.0 million in the same periods in 2018. Gear's remaining production was sold at unhedged prices and as such fully realized the appreciation in prices that occurred throughout the quarter.

Gear has fully executed its 2019 risk management program and has commenced its 2020 program. For 2019, Gear has 2,500 barrels of oil per day hedged in collars with an average WTI floor price of C$64.28 per barrel and an average WTI ceiling of C$96.28 per barrel. Gear also has 434 barrels of oil per day hedged in swap contracts from the Steppe Acquisition with an average price of $66.35 per barrel. For 2020, Gear has 700 barrels of oil per day hedged with an average WTI floor price of C$65.00 per barrel and an average WTI ceiling of C$94.00 per barrel. In addition, in late 2018, Gear entered into a WCS differential fixed price swap of US$19.00 per barrel for the period February 2019 to June 2019. For the first half of 2019, Gear realized a loss of $2.0 million on this contract.

Table 12 summarizes Gear's current risk management contracts:

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, 2019	Dec 31, 2019	Three-way Collar	USD/CAD	600	-	U$66.00	C$62.00	C$52.00
Jul 1, 2019	Dec 31, 2019	Three-way Collar	USD/CAD	600	-	U$72.00	C$65.00	C$55.00
Jul 1, 2019	Dec 31, 2019	Three-way Collar	CAD	1,200	-	100.00	65.00	55.00
Jul 1, 2019	Dec 31, 2019	Collar	CAD	100	-	103.00	65.00	-
Jan 1, 2020	Dec 31, 2020	Collar	CAD	700	-	94.00	65.00	-
Jul 1, 2019	Jul 31, 2019	Swap(1)	CAD	600	63.23	-	-	-
Aug 1, 2019	Dec 31, 2019	Swap(1)	CAD	400	67.30	-	-	-

(1) Acquired through the Steppe Acquisition.

Financial Foreign Exchange Contract					
Term		Contract	Currency	Amount	Forward Rate
				$ thousands	CAD/USD
Jul 1, 2019	Jul 25, 2019	Swap	USD	U$37,970	1.31925

For further details on Gear's risk management contracts, see the notes to the Interim Condensed Consolidated Financial Statements.

Depletion, Depreciation and Amortization Expense ("DD&A")
DD&A during the second quarter of 2019 was $19.95 per boe compared to $16.16 per boe in the same period in 2018, representing an increase of 23 per cent. Similarly, for the six months ended June 30, 2019, the DD&A rate increased 21 per cent over the same period in 2018. These increases in the DD&A rate are due to increases in Gear's finding and development costs.

Table 13 is a breakdown of DD&A expenses:

Table 13

DD&A Rate	Three Months Ended				Six Months Ended		
($ thousands except per boe)	**Jun 30, 2019**	Jun 30, 2018	% Change	Mar 31, 2019	**Jun 30, 2019**	Jun 30, 2018	% Change
DD&A	**12,999**	10,330	26	11,978	**24,977**	19,853	26
Total DD&A rate per boe	**19.95**	16.16	23	19.35	**19.66**	16.19	21

Taxes
For the three and six months ended June 30, 2019, 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, 2019. 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. No cash income taxes were paid in 2019 and 2018.

Capital Expenditures, Acquisitions and Dispositions
Capital expenditures including acquisitions and dispositions for the three and six months ended June 30, 2019 were $3.2 million and $11.4 million, respectively, compared to $6.4 million and $16.0 million in the same periods of 2018. During the second quarter of 2019 Gear successfully drilled one gross (one net) two-mile long horizontal Torquay well in Tableland to follow up on the two successful wells drilled in the first quarter of 2019. This well was fractured, stimulated and brought on production at the end of July and is currently flowing back completion fluid. Gear also directed capital spending in the quarter to expand its GGS fuel pipeline in Paradise Hill to help reduce GHG emissions.

Subsequent to quarter end Gear commenced its second half 2019 drilling program. As at the date of this MD&A two gross (two net) multi-lateral unlined heavy oil wells in Wildmere and one gross (one net) light oil well in Wilson Creek have been drilled with initial production rates expected in the third quarter.

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, 2019**	Jun 30, 2018	% Change	Mar 31, 2019	**Jun 30, 2019**	Jun 30, 2018	% Change
Drilling and completions	**2,112**	3,735	(43)	6,290	**8,402**	7,358	14
Production equipment and facilities	**1,184**	2,369	(50)	2,277	**3,461**	5,222	(34)
Geological and geophysical	**17**	217	(92)	614	**631**	360	75
Undeveloped land purchased at crown land sales	**14**	64	(78)	57	**71**	2,688	(97)
Other	**7**	-	100	14	**21**	-	100
Total capital expenditures	**3,334**	6,385	(48)	9,252	**12,586**	15,628	(19)
Property acquisitions and dispositions, net (1)	**(162)**	10	-	(1,038)	**(1,200)**	400	-
Total capital expenditures and net acquisitions	**3,172**	6,395	(50)	8,214	**11,386**	16,028	(29)

(1) Includes post-closing adjustments.

During the second quarter of 2019 Gear initiated marketing of a potential disposition package of non-core Alberta heavy oil properties. Gear is currently reviewing non-binding transaction proposals.

Decommissioning Liability
Gear has recorded a decommissioning liability of $94.3 million at June 30, 2019 ($88.7 million at December 31, 2018) 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 1.68 per cent (2.18 per cent at December 31, 2018). Abandonment cost estimates are derived from third party government sources and, as a result, can fluctuate from time to time. The increase in liability is mainly the result of the decrease in the discount factor.

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 with $0.5 million of decommissioning liabilities settled in the second quarter of 2019 (2018 - $0.4 million). As at June 30, 2019 Gear's Licensee Liability Rating was 1.72 times in Alberta, 4.85 times in Saskatchewan and 2.21 times, corporately.

Capitalization, Financial Resources and Liquidity
A breakdown of Gear's capital structure is outlined in Table 15, as at June 30, 2019 and December 31, 2018:

Table 15

Debt ($ thousands except ratio amounts)	**Jun 30, 2019**	Dec 31, 2018
Net debt (1)	**72,127**	91,908
Net debt to quarterly annualized funds from operations (1)	**1.1**	11.1
Common shares outstanding	**219,093**	219,015

(1) Net debt and net debt to quarterly annualized funds from operations are non-GAAP measures and are reconciled to the nearest GAAP measure below under the heading "Non-GAAP Measures".

Net debt decreased $19.8 million or 22 per cent from $91.9 million at December 31, 2018 to $72.1 million at June 30, 2019 as funds from operations exceeded spending on capital and abandonments. Throughout the second quarter net debt was reduced by $13.6 million or 16 per cent. Gear had estimated an $18.0 million reduction in net debt in the second quarter in its first quarter MD&A; the actual reduction was less than estimated due to lower realized commodity prices and the acceleration of the first drill of the second half drilling program into June. For the remainder of the year Gear intends capital spending to approximate funds from operations based on the current forward pricing strip and, as such, Gear's net debt is expected to remain relatively unchanged.

Credit Facilities
At June 30, 2019 Gear had a $70.0 million revolving term credit facility with a syndicate of three banks (the "Syndicate") and a $20.0 million operating facility (collectively, the "Credit Facilities") totaling $90.0 million. During the second quarter, the terms of the Credit Facilities were amended to reduce the total borrowing base from $115.0 million to $90.0 million and to include additional compliance, consent and reporting requirements relating to Gear's provincial liability management rating and decommissioning obligation. The 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 US dollar denominated LIBOR loans and 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 Credit Facilities is May 28, 2021 and the next borrowing base review is scheduled to occur on or before November 30, 2019. As at June 30, 2019 Gear had $66.3 million drawn on the Credit Facilities (December 31, 2018 – $78.5 million) and outstanding letter of credits of $0.8 million (December 31, 2018 – $0.2 million), leaving additional borrowing capacity of $22.9 million.

The Credit Facilities carry a single financial covenant to maintain an adjusted working capital ratio of not less than 1.0:1. Adjusted working capital ratio is defined as current assets less risk management contracts plus the undrawn portion of the Credit Facilities, divided by current liabilities less risk management contracts. As at June 30, 2019 Gear was in compliance with this financial covenant with an adjusted working capital ratio of 2.9.

Convertible Debentures
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. 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 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.

As at June 30, 2019 and the date of this MD&A $13.3 million of Convertible Debentures were outstanding. An aggregate of up to 15.3 million additional Gear common shares may be issued on conversion of the Convertible Debentures that remain outstanding at the date hereof. As at December 31, 2018 $13.3 million Convertible Debentures were outstanding.

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 per cent 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 Interim Condensed Consolidated Financial Statements.

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, 2019 and the date of this MD&A, Gear had 219.1 million common shares outstanding. At December 2018, Gear had 219.0 million common shares outstanding.

As at June 30, 2019 and the date of this MD&A, a total of 13.2 million options were outstanding with a weighted average exercise price of $1.22 per share and each option entitled the holder to acquire one Gear common share.

As at June 30, 2019 and December 31, 2018, there were 0.3 million warrants outstanding to acquire 0.6 million common shares of Gear at a price of $1.03 per share. All warrants expired on July 8, 2019.

Environmental Initiatives Impacting Gear

Gear operates in jurisdictions that have regulated or have proposed to regulate greenhouse gas 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 climate change and other environmental regulations impose certain costs and risks on the industry, and there remains some uncertainty regarding the impacts of federal or provincial climate change and environmental laws and regulations, as Gear is unable to predict additional legislation or amendments that governments may enact in the future. Under current legislation, Gear does not anticipate any medium or long-term impacts on emissions thresholds based on Gear's current facilities and our current emissions levels are not subject to any climate change regulations. However, any new laws and regulations, or additional requirement to existing laws and regulations, could have a material impact on the Company's operations and cash flows. Gear will continue to monitor developments in this area.

The provincial regulation of environmental liabilities and associated decommissioning liabilities in the oil and gas industry may face substantial changes in the near future. In 2016, the Alberta Court of Queen's Bench issued its decision in *Redwater Energy Corporation ("Redwater")*, finding receivers and trustees of insolvent entities have the right to renounce assets within insolvency proceedings. The Alberta Court of Appeal affirmed this decision. In response, several provincial regulators, most notably the AER, implemented a number of interim rule changes to the regulatory scheme pertaining to the decommissioning, licensing and liability management programs. On January 31, 2019, however, the Supreme Court of Canada released its Redwater decision, overturning the decision of the Alberta Court of Queen's bench and the Alberta Court of Appeal to hold that receivers and trustees can no longer avoid the AER's legislative authority to impose abandonment orders against licensees or to require a licensee to pay a security deposit before approving a transfer when such a licensee is subject to formal insolvency proceedings. As a result, any financial resources of a bankrupt licensee will first be used to satisfy outstanding abandonment obligations in respect of its unproductive assets. Remaining amounts, if any, will then satisfy the claims of secured creditors.

There remains a great deal of uncertainty as to what regulatory measures will be developed by the provinces or in concert with the federal government. In addition, as indicated above, the Redwater decision has had, and is expected to continue to have, a negative impact on the amounts of credit that lenders will be willing to lend to oil and gas companies.

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, 2019, Gear had the following contractual commitments:

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

Lease agreements for Gear's head and field offices are effective until December 31, 2020. The total commitment for these lease agreements is $0.3 million. The drilling rig commitment expires December 31, 2020 with a total commitment of $2.7 million. For further information see Note 13 "Commitments and Contingencies" in the notes to the Interim Condensed Consolidated 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.

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, net debt, net debt to quarterly annualized funds from operations, debt adjusted shares, funds from operations per debt adjusted share, cash flows from operating activities per debt adjusted share, production per day per debt adjusted thousand shares and operating netback 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

Funds from operations is a non-GAAP measure defined as cash flows 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 decommissioning liabilities and repay debt. Funds from operations may not be comparable with the calculation of similar measures for other companies.

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

Table 16

	Three months ended			Six months ended	
($ thousands)	**Jun 30, 2019**	Jun 30, 2018	Mar 31, 2019	**Jun 30, 2019**	Jun 30, 2018
Cash flows from operating activities	**18,881**	8,596	5,981	**24,862**	23,383
Decommissioning liabilities settled	**474**	373	399	**873**	1,262
Change in non-cash working capital	**(2,251)**	4,705	8,652	**6,401**	(2,892)
Funds from operations	**17,104**	13,674	15,032	**32,136**	21,753

Net Debt

Net debt is a non-GAAP measure defined as debt less current working capital items, excluding certain 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. Changes in net debt are primarily a result of funds from operations, capital and abandonment expenditures and equity issuances. Net debt may not be comparable with the calculation of similar measures for other companies.

Table 17

Capital Structure and Liquidity ($ thousands)	**Jun 30, 2019**	Dec 31, 2018
Debt	**66,265**	78,461
Convertible Debentures (at face value) (1)	**13,290**	13,315
Working capital surplus (2)	**(8,983)**	(4,340)
Risk management contracts (3)	**1,555**	4,472
Net debt	**72,127**	91,908

(1) Excludes unamortized portion of issuance costs.
(2) Excludes risk management contracts and current portion of decommissioning liabilities.
(3) Risk management contracts assumed in the Steppe Acquisition.

Gear had a working capital surplus at June 30, 2019. 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.

Net Debt to Quarterly Annualized Funds from Operations

Net debt to quarterly annualized funds from operations is a non-GAAP measure and is defined as net debt divided by the annualized funds from operations for the most recently completed quarter. Gear uses net debt to quarterly annualized funds from operations to analyze financial and operating performance. Management considers this a key measure as it demonstrates the Company's ability to pay off its debt and take on new debt, if necessary, using the most recent quarter's results. This measure may not be comparable with the calculation of similar measures for other companies.

Debt Adjusted Shares

Debt adjusted shares are calculated as the weighted average shares plus the share equivalent on Gear's average net debt over the period, assuming that net debt were to be extinguished with a share issuance based on the weighted average share price in the period; however, it should be noted that Gear's bank debt is not convertible into shares and, although Gear's Convertible Debentures are convertible into shares, the calculation of debt adjusted shares is not based on the conversion of the Convertible Debentures in accordance with the terms of such Convertible Debentures. The calculation of debt adjusted shares assumes that Gear issues shares for cash proceeds and such proceeds are used to repay the amounts outstanding under both the Company's bank debt and the Convertible Debentures. Currently the Convertible Debentures cannot be redeemed by Gear but are still assumed to be extinguished in the per debt adjusted share calculations. Management considers debt adjusted shares a useful measure as it enables oil and gas companies to be put on an equal, enterprise value-based footing when calculating per share numbers. Debt adjusted shares may not be comparable with the calculation of similar measures for other companies.

Table 18 below reconciles the debt adjusted shares:

Table 18

	Three months ended			Six months ended	
(thousands, except per share amounts)	**Jun 30, 2019**	Jun 30, 2018	Mar 31, 2019	**Jun 30, 2019**	Jun 30, 2018
Weighted average basic shares	**219,093**	195,045	219,016	**219,089**	195,007
Average share price (1)	**0.68**	1.09	0.61	**0.65**	1.01
Average net debt (2)	**78,934**	42,145	88,824	**82,018**	41,115
Share equivalent on average net debt (3)	**116,079**	38,665	145,613	**126,182**	40,708
Debt adjusted shares	**335,172**	233,710	364,629	**345,271**	235,715

(1) Average share price obtained by total trade value divided by total trade volume for Gear shares for the three and six months ended.
(2) Average net debt obtained by a simple average between opening and ending net debt for the three and six months ended.
(3) Share equivalent on average net debt obtained by average net debt divided by average share price for the three and six months ended.

Funds from operations per debt adjusted share

Management considers funds from operations per debt adjusted share a useful measure as it enables oil and gas companies to be put on an equal, enterprise value-based footing when calculating per share numbers to demonstrate its ability to generate the funds from operations necessary to fund its capital program and decommissioning liabilities settled and repay debt. Funds from operations per debt adjusted share may not be comparable with the calculation of similar measures for other companies.

Cash flows from operating activities per debt adjusted share

Management considers cash flows from operating activities per debt adjusted share a useful measure as it enables oil and gas companies to be put on an equal, enterprise value-based footing when calculating per share numbers to demonstrate its ability to generate the cash flows from operating activities necessary to fund its capital program and repay debt. Cash flows from operating activities per debt adjusted share may not be comparable with the calculation of similar measures for other companies.

Production, boepd per debt adjusted thousand shares
Management considers production, boepd per debt adjusted thousand shares a useful measure as it enables oil and gas companies to be put on an equal, enterprise value-based footing when calculating per share numbers to demonstrate its ability to produce oil and gas. Production, boepd per debt adjusted thousand shares may not be comparable with the calculation of similar measures for other companies.

Operating Netback
Operating netbacks are calculated based on the amount of revenues received on a per unit of production basis after royalties and operating costs. Management considers operating netback to be a key measure of operating performance and profitability on a per unit basis of production. Operating netback may not be comparable with the calculation of similar measures for other companies.

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 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 5 "Management Judgments and Estimation Uncertainty" in the audited consolidated financial statements for the year ended December 31, 2018.

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, 2019, 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, 2019 that materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Newly Adopted Accounting Policy
IFRS 16 *Leases*

As of January 1, 2019, The Company adopted IFRS 16 which replaces sections IAS 17 "*Leases*", IFRIC 4 "*Determining whether an arrangement contains a lease*", SIC-15 *"Operating leases - incentives*" and SIC-27 "*Evaluating the substance of transactions involving the legal form of a lease*". IFRS 16 introduces a single lease accounting model for lessees which requires the recognition of a right of use asset and a lease liability on the Consolidated Balance Sheets for contracts that are, or contain, a lease. The Company adopted IFRS 16 using the modified retrospective approach. Under this method of adoption, the right of use assets recognized were measured at amounts equal to the present value of the lease obligations. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effective of IFRS 16 as an adjustment to opening retained earnings and applies the standard prospectively. Gear elected to not apply lease accounting to certain leases for which the lease term ends within 12 months or is low value as of the date of adoption.

The Company did a complete evaluation of the contracts it has entered, and it was determined there is no material impact as a result of adopting IFRS 16 and as such no adjustment or additional disclosures have been made. The Company has included an accounting policy for leases as follows:

Leases
Leases or contractual obligations are capitalized as right of use assets with a corresponding right of use lease obligation using the present value of future lease payments in the Consolidated Balance Sheets. The discount rate used to determine the right of use asset is disclosed in the lease contract or the company's incremental borrowing rate, if none is provided. Certain lease payments will continue to be expensed in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). These leases are contractual obligations that contain any of the following: are equal to or less than twelve months; are for oil and gas extraction; are variable payments; the Company does not control the asset; or no asset is identified in the lease.

Forward-looking Information Lookback
Upon announcement of the Steppe Acquisition in a press release (the "Steppe Press Release") dated July 23, 2018 entitled "Gear Energy Ltd. Announces Acquisition of Steppe Resources Inc.", Gear provided certain guidance for Gear's intended drilling program on the assets to be acquired in the Steppe Acquisition. The following table compares 2019 actual results to date relating to assets acquired in the Steppe Acquisition as compared to the previous guidance in the Steppe Press Release:

Table 19

	2019 Forecast	Q2 2019 YTD Actuals
Annual production (boe/d)	**1,400 - 1,500**	914
Light oil weighting (%)	**99**	100
Royalty rate (%)	**8**	7
Operating and transportation costs ($/boe)	**13.00**	23.50
Net operating income ($ millions)	**27**	7.2
Capital expenditures ($ millions)	**18**	8.6
Planned wells	**6**	3

The variance in year to date production, operating and transportation costs and net operating income to the 2019 forecast is mainly due to changes in the timing of the Tableland drills due to decreased commodity prices. These drills were all originally forecasted to be drilled in the first quarter of 2019. To date, Gear has drilled three wells in the area with one of those wells drilled right at the end of the second quarter. The 2019 plan includes two more wells to be drilled in Tableland in the fourth quarter. All other amounts forecasted are in line with actual year to date results.

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 implement an NCIB; Gear's intent to hold a special meeting of shareholders to reduce the stated capital of its common shares; 2019 Guidance estimates including expected average 2019 production, expected commodity weightings, royalty rate expectations, operating cost expectations, interest expense expectations and expected capital and abandonment expenditures; the expectation that third quarter production volumes are expected to decline slightly relative to second quarter production; current expectations with respect to Gear's 2019 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 expectation that Gear's net debt will remain relatively unchanged throughout 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 expectations with respect to the effect that various environmental regulations may have on its operations; 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: 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: 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

	2019		2018				2017	
(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	37,297	31,837	17,408	33,334	33,674	24,900	30,047	24,260
Funds from operations (1)	17,104	15,032	2,089	11,578	13,674	8,078	14,613	9,960
Per weighted average basic share	0.08	0.07	0.01	0.06	0.07	0.04	0.07	0.05
Per weighted average diluted share	0.07	0.07	0.01	0.05	0.07	0.04	0.07	0.05
Cash flows from operating activities	18,881	5,981	1,538	16,831	8,596	14,787	9,964	9,197
Per weighted average basic share	0.09	0.03	0.01	0.08	0.04	0.08	0.05	0.05
Per weighted average diluted share	0.08	0.03	0.01	0.08	0.04	0.08	0.05	0.05
Net income (loss)	5,684	(6,812)	10,553	706	(1,869)	(4,294)	6,947	(2,705)
Per weighted average basic share	0.03	(0.03)	0.05	-	(0.01)	(0.02)	0.04	(0.01)
Per weighted average diluted share	0.02	(0.03)	0.05	-	(0.01)	(0.02)	0.03	(0.01)
Capital expenditures	3,334	9,252	9,482	18,749	6,385	9,243	12,307	10,513
Decommissioning liabilities settled	474	399	1,401	318	373	889	1,260	519
Net (dispositions) acquisitions (2)	(162)	(1,038)	302	65,470	10	390	14	1,635
Net debt (1) (3)	72,127	85,740	91,908	83,733	38,960	45,330	43,269	44,568
Weighted average shares outstanding, basic (thousands)	219,093	219,016	219,013	198,826	195,045	194,968	194,968	193,158
Weighted average shares outstanding, diluted (thousands)	234,780	219,016	234,794	217,426	195,045	194,968	211,310	193,158
Shares outstanding, end of period (thousands)	219,093	219,044	219,015	218,776	195,213	194,968	194,968	194,968
OPERATING								
Production								
Heavy oil (bbl/d)	4,104	4,148	4,064	4,484	4,774	4,231	4,760	4,054
Light and medium oil (bbl/d)	2,166	1,863	1,834	1,228	1,232	1,197	1,161	1,290
Natural gas liquids (bbl/d)	228	235	267	268	219	223	242	279
Natural gas (mcf/d)	3,977	3,787	4,091	4,609	4,806	5,229	5,566	5,415
Total (boe/d)	7,161	6,877	6,847	6,748	7,025	6,522	7,090	6,525
Average prices								
Heavy oil ($/bbl)	60.45	52.89	22.45	56.79	55.04	42.97	49.18	44.00
Light and medium oil ($/bbl)	71.60	63.64	46.68	76.57	75.67	64.53	64.71	53.12
Natural gas liquids ($/bbl)	13.11	26.40	23.95	35.02	40.51	39.74	27.79	27.28
Natural gas ($/mcf)	0.92	2.40	1.45	0.93	1.08	1.66	1.90	1.52
Selected financial results ($/boe)								
Commodity and other sales	57.23	51.44	27.64	53.70	52.67	42.42	46.06	40.41
Royalties	(6.87)	(4.33)	(3.44)	(7.33)	(5.06)	(4.95)	(4.15)	(4.50)
Operating costs	(18.08)	(18.73)	(17.13)	(17.69)	(17.16)	(15.83)	(16.03)	(16.57)
Operating netback (1)	32.28	28.38	7.07	28.68	30.45	21.64	25.88	19.34
Realized risk management (loss) gain	(1.65)	(0.16)	(0.90)	(6.55)	(5.55)	(4.15)	(0.73)	0.11
General and administrative	(2.47)	(2.04)	(1.18)	(1.81)	(2.55)	(2.83)	(1.92)	(2.06)
Interest	(1.90)	(1.88)	(1.50)	(1.05)	(0.93)	(0.92)	(0.83)	(0.81)
Transaction costs and other	(0.01)	(0.01)	(0.17)	(0.62)	(0.02)	0.02	-	-

(1) Funds from operations, net debt and operating netback are non-GAAP measures and additional information with respect to these measures can be found under the heading "*Non-GAAP Measures*".
(2) Net (dispositions) acquisitions exclude non-cash items for decommissioning liability and deferred taxes and is net of post-closing adjustments.
(3) Net debt includes the risk management liability acquired through the Steppe Acquisition.

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, Canadian Light Sweet and LSB oil 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 September 18, 2018, Gear closed the Steppe Acquisition which provided Gear with increased sales, funds from operations and production in the third quarter of 2018 and thereafter.

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