FINANCIAL AND OPERATIONAL HIGHLIGHTS

(Cdn$ thousands, except per boe amounts)	Three months ended Sep 30, 2016	Sep 30, 2015	Jun 30, 2016	Nine months ended Sep 30, 2016	Sep 30, 2015
FINANCIAL					
Cash flow from operations (1)	**6,864**	7,416	8,333	**19,181**	34,526
Per weighted average diluted share	**0.04**	0.10	0.10	**0.17**	0.49
Net (loss) income	**(2,470)**	(63,360)	(7,312)	**(11,496)**	(70,018)
Per weighted average diluted share	**(0.01)**	(0.89)	(0.08)	**(0.10)**	(0.99)
Capital expenditures	**7,034**	6,433	1,165	**8,300**	10,890
Net acquisitions (2)	**58,141**	-	26	**57,687**	(685)
Net debt outstanding (1)	**41,791**	71,753	34,200	**41,791**	71,753
Weighted average shares, basic and diluted	**168,926**	70,817	86,117	**113,711**	70,817
Shares outstanding, end of period	**190,472**	70,817	114,234	**190,472**	70,817
OPERATING					
Production					
Heavy oil (bbl/d)	**3,854**	5,295	4,358	**4,133**	5,747
Light and medium oil (bbl/d)	**716**	-	-	**240**	-
Natural gas liquids (bbl/d)	**145**	-	-	**49**	-
Natural gas (mcf/d)	**4,232**	810	1,070	**2,261**	863
Total (boe/d)	**5,420**	5,430	4,536	**4,799**	5,891
Average prices					
Heavy oil ($/bbl)	**37.74**	39.58	39.00	**32.56**	42.09
Light and medium oil ($/bbl)	**51.60**	-	-	**51.60**	-
Natural gas liquids ($/bbl)	**20.04**	-	-	**20.04**	-
Natural gas ($/mcf)	**2.43**	2.60	1.20	**2.04**	2.35
Oil equivalent ($/boe)	**36.08**	38.98	37.75	**31.75**	41.10
Netback ($/boe)					
Commodity and other sales	**36.08**	38.98	37.75	**31.75**	41.10
Royalties	**3.97**	4.88	2.96	**2.94**	5.74
Operating costs	**16.33**	17.53	13.44	**15.12**	18.03
Operating netback (before hedging) (1)	**15.78**	16.57	21.34	**13.69**	17.33
Realized risk management gains (losses)	**3.03**	1.80	4.91	**6.59**	8.33
Operating netback (after hedging) (1)	**18.81**	18.37	26.25	**20.28**	25.66
General and administrative	**2.13**	2.66	3.28	**2.97**	3.08
Transaction costs	**1.97**	-	1.22	**1.13**	-
Interest	**0.94**	1.34	1.56	**1.31**	1.38
Foreign exchange (gain) loss	**-**	(0.47)	-	**-**	(0.28)
Drilling commitments	**-**	-	-	**0.37**	-
Corporate netback (1)	**13.77**	14.84	20.19	**14.50**	21.48
TRADING STATISTICS					
($ based on intra-day trading)					
High	**0.78**	1.86	0.82	**0.82**	2.62
Low	**0.54**	0.67	0.46	**0.25**	0.67
Close	**0.75**	0.68	0.61	**0.75**	0.68
Average daily volume (thousands)	**492**	137	272	**301**	177

(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 November 9, 2016 and should be read in conjunction with the unaudited Financial Statements as at and for the three and nine months ended September 30, 2016 and the audited Financial Statements as at and for the year ended December 31, 2015. Both statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The MD&A contains non-generally accepted accounting principles ("GAAP") measures and forward-looking statements and readers are cautioned that the MD&A should be read in conjunction with Gear's disclosure under "Non-GAAP Measures" and "Forward-looking Information and 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 Central Alberta and West Central Saskatchewan. Presently, Gear has 31 employees with 23 staff in the Calgary office and 8 employees located in Gear's operating areas in Central Alberta and West central 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

Volatility in the energy industry continues to be the main theme in terms of commodity prices. In February 2016, WTI averaged US$30 while in October, WTI averaged US$50. Significant gyrations in weekly North American oil inventory reports have contributed to the oil price volatility as well as on-going rumours about potential OPEC policy decisions. Further details on OPEC's stance on production limits are expected later in November 2016. For the foreseeable future, Gear plans on matching its capital investment plans with cash flow while maintaining a strong balance sheet. Prudent risk management in the form of hedging continues to be key, with Gear having floor price protection in place for 50 per cent of its after-royalty production for the remainder of 2016 as well as full year 2017. In addition, Gear continues to focus on reducing its cost structure both on operating and capital costs and executing on value creation through the drilling of economically positive rate of return wells. Gear intends to continue targeting potential accretive acquisition opportunities through this volatile commodity price market.

GUIDANCE

Table 1 summarizes 2016 guidance estimates. Guidance figures include the results from the Striker Exploration Corp. acquisition from July 27, 2016 onwards.

	Revised 2016 Guidance	Previous 2016 Guidance	Q3 2016 YTD
Production – Annual (boe/d)	**5,250**	**5,250**	**4,799**
Per cent heavy oil (%)	**80**	**N/A**	**86**
Per cent light/medium oil & NGLs (%)	**10**	**N/A**	**6**
Royalty rate (%)	**11**	**11**	**9.3**
Operating costs ($/boe)	**14.00 – 16.00**	**14.00 – 16.00**	**15.12**
General and administrative expense ($/boe)	**2.80**	**2.80**	**2.97**
Interest expense ($/boe)	**1.25**	**1.25**	**1.31**
Capital expenditures ($ millions)	**15.9**	**12.5**	**8.3**
Year-end Shares outstanding (millions)	**190.5**	**190.5**	**190.5**

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

Capital expenditures for 2016 are prior to expected net dispositions for 2016 of approximately $1 million and abandonment expenditures of approximately $2 million. The capital expenditures for 2016 have been expanded primarily as a result of incremental land and seismic purchases.

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				Nine months ended		
	Sep 30, 2016	Sep 30, 2015	% Change	Jun 30, 2016	**Sep 30, 2016**	Sep 30, 2015	% Change
Cash flow from operations per debt adjusted share (1)	**0.030**	0.055	(45)	0.052	**0.096**	0.285	(66)
Production, boepd per debt adjusted thousand shares (1)	**0.024**	0.040	(40)	0.028	**0.024**	0.049	(51)

(1) Cash flow from operations per debt adjusted share and production boepd per debt adjusted thousand shares are non-GAAP measures and additional information with respect to these measures can be found under the heading "*Non-GAAP Measures*".

2016 THIRD QUARTER FINANCIAL AND OPERATIONAL RESULTS

Cash flow from operations

Cash flow from operations for the three and nine months ended September 30, 2016 were $6.9 million and $19.2 million, respectively. This represents decreases in cash flow from operations of $0.6 million and $15.3 million when compared to the same periods in 2015. The decrease in third quarter cash flow is the result of decreased commodity prices, lower production volumes, lower realized gains on foreign exchange and the incurrence of transaction costs related to the Striker Acquisition offset by increased cash 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, lower production volumes, lower gains on risk management contracts and foreign exchange, a one-time renegotiation fee on previously existing drilling contracts and the incurrence of transaction costs related to the Striker Acquisition offset by decreased royalty, operating, general and administrative, and interest expenses.

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

Table 3

	Three months ended September 30		Nine months ended September 30	
	$ thousands	$/boe	$ thousands	$/boe
Q3 2015 Cash flow from operations (1)	7,416	14.84	34,526	21.47
Volume variance	(36)	-	(12,057)	-
Price variance	(1,448)	(2.90)	(12,297)	(9.35)
Cash gains on risk management contracts	610	1.22	(4,735)	(1.74)
Royalties	457	0.91	5,376	2.81
Expenses:				
Operating	618	1.21	9,118	2.91
General and administrative	266	0.53	1,176	0.21
Interest	201	0.40	499	0.07
Foreign exchange	(236)	(0.47)	(460)	(0.29)
Drilling commitments	-	-	(480)	(0.37)
Transaction costs	(984)	(1.97)	(1,485)	(1.13)
Q3 2016 Cash flow from operations (1)	6,864	13.77	19,181	14.59

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

Net loss

For the three and nine months ended September 30, 2016, Gear generated net losses of $2.5 million and $11.5 million, respectively, this compares to net loss of $63.4 million and $70.0 million for the same periods in 2015. The changes in net loss are due to several factors discussed below.

Production

Production volumes averaged 5,420 barrels per day and 4,799 barrels per day for the three and nine months ended September 30, 2016, compared to 5,430 barrels per day and 5,891 barrels per day in the same periods in 2015. These production decreases are the direct result of minimal capital investment in 2015 and 2016, offset by the inclusion of volumes from the properties acquired in the Striker Acquisition. The acquired assets produced approximately 2,000 boe/d from July 27, 2016 to September 30, 2016, thus contributing approximately 1,400 boe/d to Gear's reported third quarter production. Gear's 2015 and 2016 year to date capital programs were executed with a 100 per cent success rate; however, the level of capital investment was not sufficient enough to offset Gear's natural production base declines.

Approximately 250 bbl/d of uneconomic production remains shut-in, which will be re-activated should pricing return to levels under which these wells would be cash flow positive

Table 4

Production	Three months ended				Nine months ended		
	Sep 30, 2016	Sep 30, 2015	% Change	Jun 30, 2016	**Sep 30, 2016**	Sep 30, 2015	% Change
Liquids (bbl/d)							
Heavy oil	**3,854**	5,295	(27)	4,358	**4,133**	5,747	(28)
Light and medium oil	**716**	-	-	-	**240**	-	-
Natural gas liquids	**145**	-	-	-	**49**	-	-
Total liquids (bbl/d)	**4,715**	5,295	(11)	4,358	**4,422**	5,747	(23)
Natural gas (mcf/d)	**4,232**	810	422	1,070	**2,261**	863	162
Total production (boe/d) (1)	**5,420**	5,430	-	4,536	**4,799**	5,891	(19)
% Liquids production	**87**	98	(11)	96	**92**	98	(6)
% Natural gas production	**13**	2	550	4	**8**	2	300

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

Gear expects sales production to increase for the fourth quarter due to the acquired Striker assets and the wells drilled in the third quarter being on production for the full quarter as well as the incremental production resulting from executing the remainder of the Company's 2016 capital plan.

Revenue

Sales of crude oil, natural gas and natural gas liquids for the third quarter of 2016 totaled $18.0 million, an 8 per cent decrease over the third quarter 2015 sales of $19.5 million. Year to date sales of crude oil, natural gas and natural gas liquids decreased 37 per cent in 2016 compared to the same period in 2015. This decrease is the result of lower realized commodity prices and lower production volumes.

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

Table 5

Sales by product ($ thousands)	Three months ended				Nine months ended		
	Sep 30, 2016	Sep 30, 2015	% Change	Jun 30, 2016	**Sep 30, 2016**	Sep 30, 2015	% Change
Oil and natural gas liquids	**17,045**	19,282	(12)	15,465	**40,480**	65,547	(38)
Natural gas	**945**	194	387	116	**1,264**	553	129
Total revenue	**17,990**	19,476	(8)	15,581	**41,744**	66,100	(37)

Commodity Prices
Table 6

Average Benchmark Prices	Three months ended				Nine months ended		
	Sep 30, 2016	Sep 30, 2015	% Change	Jun 30, 2016	**Sep 30, 2016**	Sep 30, 2015	% Change
WTI oil (US$/bbl) (1)	**44.91**	46.40	(3)	45.59	**41.32**	50.98	(19)
WCS heavy oil (US$/bbl) (2)	**31.41**	33.13	(5)	32.29	**27.64**	37.70	(27)
WCS heavy oil (Cdn$/bbl)	**41.00**	43.37	(5)	41.61	**36.52**	47.45	(23)
Cdn$ / US$ exchange rate	**1.30**	1.31	(1)	1.28	**1.32**	1.26	5
Edmonton par oil ($/bbl)	**55.64**	56.22	(1)	57.67	**51.36**	58.63	(12)
AECO natural gas ($/mcf) (3)	**2.14**	2.80	(24)	1.25	**1.88**	2.80	(33)
Gear Realized Prices							
Heavy oil (Cdn$/bbl)	**37.74**	39.58	(5)	39.00	**32.56**	42.09	(23)
Light and medium oil ($/bbl)	**51.60**	-	-	-	**51.60**	-	-
Natural gas liquids ($/bbl)	**20.04**	-	-	-	**20.04**	-	-
Natural gas ($/mcf)	**2.43**	2.60	(7)	1.20	**2.04**	2.35	(13)
Weighted average ($/boe) (4)	**36.08**	38.98	(7)	37.75	**31.75**	41.10	(23)

(1) WTI represents posting price of West Texas Intermediate oil.
(2) WCS refers to the average posting price for the benchmark WCS heavy oil.
(3) Represents the AECO 7a monthly index
(4) Includes prior period adjustments

Throughout the third quarter, commodity prices stabilized in comparison to the second quarter. Continued concerns about worldwide over-supply of crude oil has resulted in the forward outlook on commodity prices for the last quarter of the year remaining weak. At the time of writing, 2017 WTI is forecasted to be approximately US$48 per barrel and the WCS differential is forecasted to be approximately US$15 per barrel.

US denominated WTI prices for the third quarter decreased by 3 per cent over the same period in 2015 and the WCS differential widened from US$13.27 per barrel to US$13.50 per barrel. These two movements resulted in Gear's realized heavy oil price decreasing by 5 per cent to $37.74 per boe compared to the prior year. During the quarter Gear acquired 2,000 boe/d of light and medium oil and natural gas production. The addition of these assets, combined with the weakening of the WCS benchmark resulted in Gear's overall realized price decreasing from $38.98 in 2015 to $36.08 in 2016. The light oil barrels acquired receive a price premium compared to Gear's heavy oil production, this however is offset by the increased weighting to natural gas production in the quarter to 13 percent in 2016 compared to 2 percent in the same period in 2015.

On a year-to-date basis, US denominated WCS pricing and the Canadian dollar weakened by 27 per cent and 5 per cent, respectively, resulting in an overall decrease in Gear's heavy oil realized commodity price of 23 per cent in 2016 to $32.56 per boe. Gear's overall realized commodity price decreased to $31.75 per boe in 2016 from $41.10 per boe in 2015 as a result of decreased realized pricing on heavy oil volumes as well as the increased gas weighting as a result of the Striker acquisition.

Royalties

In the third quarter of 2016, royalties as a percentage of commodity sales were 11.0 per cent, a decrease of 12 per cent from the same period in 2015. On a year to date basis Gear's royalty rate decreased 34 per cent compared with the same period in 2015. Gear's most recent drilling programs focused on wells drilled on crown lands where incentive rates apply on new horizontally drilled production ranging from 2.5 per cent to 5 per cent. Royalties paid on non-incentive based crown lands are based on a sliding scale with sensitivity to both price and total volume produced. As such, due to the lower pricing environment throughout 2016, Gear's royalty rate on produced volume decreased. The properties acquired through the Striker Acquisition carry a higher royalty burden than Gear's historical properties which slightly increased the average corporate royalty rate.

Table 7

Royalty expense	Three months ended				Nine months ended		
($ thousands except % and per boe)	**Sep 30, 2016**	Sep 30, 2015	% Change	Jun 30, 2016	**Sep 30, 2016**	Sep 30, 2015	% Change
Royalty expense	**1,981**	2,438	(19)	1,224	**3,861**	9,237	(58)
Royalty expense as a % of Sales	**11.0**	12.5	(12)	7.9	**9.2**	14.0	(34)
Royalty expense per boe	**3.97**	4.88	(19)	2.96	**2.94**	5.74	(49)

Royalties as a percentage of commodity sales are expected to increase slightly in the fourth quarter due production from the Striker Acquisition being included for the entire period.

Operating and Transportation costs

For the three and nine months ended September 30, 2016 operating costs were $16.33 and $15.12 per boe, respectively. This represents decreases of 7 and 16 per cent, respectively, when compared with the same periods in 2015. Throughout the prior year and the first nine months of 2016 Gear's field staff worked to identify cost saving opportunities across the organization. The reduction in operating costs can be attributed to supplier cost reductions, increased operating efficiencies, decreased labor and fuel costs, and the reduction of costs sourced from high cost wells that were shut-in.

From the second quarter of 2016 to the third quarter of 2016, operating costs have increased $2.89 per boe primarily as a result of the one-time adjustment of approximately 400 barrels per day relating to prior periods in the second quarter which lowered the operating expense per boe. In addition, in the third quarter Gear incurred one time charges on the assets acquired in the Striker Acquisition that had not recently been serviced. Operating costs are expected to decrease in the fourth quarter as these expenditures were not part of ongoing regular maintenance.

Table 8 below summarizes the operating and transportation expense:

Table 8

Operating and Transportation expense	Three months ended				Nine months ended		
($ thousands except per boe)	**Sep 30, 2016**	Sep 30, 2015	% Change	Jun 30, 2016	**Sep 30, 2016**	Sep 30, 2015	% Change
Operating expense	**7,321**	7,793	(6)	4,796	**17,468**	26,003	(33)
Transportation expense	**819**	966	(15)	753	**2,413**	2,996	(19)
Operating and transportation expense	**8,140**	8,759	(7)	5,549	**19,881**	28,999	(31)
Operating expense per boe	**14.68**	15.60	(6)	11.62	**13.28**	16.17	(18)
Transportation expense per boe	**1.65**	1.93	(15)	1.82	**1.84**	1.86	(1)
Operating and transportation expense per boe	**16.33**	17.53	(7)	13.44	**15.12**	18.03	(16)

Operating Netbacks
Gear's operating netback was $15.78 per boe in the third quarter of 2016 compared to $16.57 per boe in the same period of 2015. On a year to date basis Gear's operating netback was $13.69 per boe in 2016 compared with $17.33 in 2015. The quarterly and year to date decreases are the result of decreased commodity prices, offset by decreased royalty and operating costs.

The components of operating netbacks are summarized in Table 9:

Table 9

Netbacks ($ per boe)	**Q3 2016 Total ($/boe)**	Q3 2015 Total ($/boe)	% Change	Q2 2016 Total ($/boe)	**YTD Q3 2016Total ($/boe)**	YTD Q3 2015 Total ($/boe)	% Change
Total sales	**36.08**	38.98	(7)	37.75	**31.75**	41.10	(23)
Royalties	**(3.97)**	(4.88)	(19)	(2.96)	**(2.94)**	(5.74)	(49)
Operating costs	**(16.33)**	(17.53)	(7)	(13.44)	**(15.12)**	(18.03)	(16)
Netback	**15.78**	16.57	(5)	21.34	**13.69**	17.33	(21)

General and Administrative ("G&A") Expenses, Transaction Costs and Share-based compensation ("SBC")
Net G&A totaled $1.1 million and $2.13 per boe in the third quarter, a decrease of $0.3 million and $0.53 per boe when compared to the same period in 2015. This decrease is attributable to increased capitalized G&A offset by increased professional fees and employee compensation costs as a result of the Striker Acquisition. Gear capitalizes G&A costs directly attributable to exploration and development activities.

On a year-to-date basis net G&A costs decreased 21 per cent. This decrease is attributable to decreased employee compensation costs as a result of decreased staffing levels, increased capitalized G&A, offset by increased professional fees as a result of the Striker Acquisition.

G&A guidance for the full year 2016 is $2.80 per boe.

Year-to-date $1.5 million of transaction costs have been incurred relating to the Striker Acquisition. Transaction costs include amounts relating to advisory, legal, and accounting fees, severance and other acquisition related costs.

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

Table 10

G&A, Transaction costs and SBC expense	Three months ended				Nine months ended		
($ thousands except per boe)	**Sep 30, 2016**	Sep 30, 2015	% Change	Jun 30, 2016	**Sep 30, 2016**	Sep 30, 2015	% Change
General and administrative	**1,496**	1,423	5	1,372	**4,452**	5,248	(15)
Overhead recoveries	**(128)**	(96)	33	(16)	**(244)**	(289)	(16)
Capitalized G&A	**(306)**	-	-	-	**(306)**	-	-
Net general and administrative	**1,062**	1,327	(20)	1,356	**3,902**	4,959	(21)
Transaction costs	**984**	-	100	503	**1,485**	-	100
SBC expense	**391**	549	(18)	348	**913**	1,676	(46)
Net general and administrative per boe	**2.13**	2.66	(20)	3.28	**2.97**	3.08	(4)
Transaction costs per boe	**1.97**	-	100	1.22	**1.13**	-	100
SBC expense per boe	**0.78**	1.10	(29)	0.84	**0.69**	1.04	(33)

Gear's stock option plan provides for the grant of options to purchase common shares of Gear to directors, officers, employees and consultants of Gear. In the third quarter of 2016, the Board of Directors of Gear determined that future grants of options under the option plan would vest as to one third on each of the first, second and third anniversary dates of the date of grant and expire 30 business days after such vesting dates. The terms of options outstanding prior to the determination by the Gear Board of Directors of the new terms remained unchanged and had the same vesting terms as the new terms but had a five year expiry. During the quarter 6.3 million options were granted under the news terms with an exercise price of $0.71 and these options remain outstanding at September 30, 2016.

SBC is related to bonus awards through the granting of actual common shares and stock options. There were 7,105 thousand options granted during the first nine months of 2016 at an average price of $0.67 under both the previously existing plan and the new plan. In addition, 1,239 thousand options were forfeited all with an average exercise price of $3.02. As at September 30, 2016, a total of 12.2 million options were outstanding or six per cent of the 190.5 million total common shares outstanding.

Interest and financing charges
Interest and financing charges totaled $0.5 million and $1.7 million for the three and nine months ended September 30, 2016, a decrease of 30 percent and 22 per cent from the same periods in 2015. This decrease is primarily attributable to a 42 per cent decrease in average debt levels in 2016 compared to 2015. On June 29, 2016 Gear closed a bought deal financing with a syndicate of underwriters resulting in net proceeds to the Company of $18.8 million. The proceeds were used to reduce indebtedness and as such average debt levels have declined significantly.

Gear's interest rate on its demand facility is dependent on its borrowings on its facility in comparison to its earnings before interest, taxes, depletion, depreciation, amortization, and accretion. Gear's current annualized borrowing costs, inclusive of financing charges on its credit facility approximated 4.0 per cent for the third quarter of 2016. Interest and financing charges are expected to remain relatively unchanged in the fourth quarter.

Table 11 is a breakdown of interest expense:

Table 11

Interest and financing charges	Three months ended				Nine months ended		
($ thousands except per boe)	**Sep 30, 2016**	Sep 30, 2015	% Change	Jun 30, 2016	**Sep 30, 2016**	Sep 30, 2015	% Change
Interest expense	**383**	604	(37)	625	**1,601**	2,042	(22)
Financing charges	**31**	35	(11)	8	**61**	118	(48)
Standby and letter of credit fees	**53**	29	83	8	**63**	63	-
Interest and financing charges	**467**	668	(30)	641	**1,725**	2,223	(22)
Interest and financing charges per boe	**0.94**	1.34	(30)	1.56	**1.31**	1.38	(5)

The entire debt balance has been classified as current as Gear's borrowings are under a revolving term credit facility with a maturity date of May 31, 2017.

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. Gear endeavors to protect a minimum of 50 per cent of forecasted production, net of royalties and has been authorized by its board of directors to hedge up to 65 per cent of forecast production, net of royalties, for the current and following calendar year.

Gear's hedging strategy continues to be dynamic to the current economic environment. Gear has a mandate to protect its balance sheet and its capital program for the current and upcoming year by reducing fluctuations in both its cash flow from operations and assigned loan value on its credit facility. As such, Gear has been incorporating both fixed price swaps and collars into its hedging program for 2016 and 2017. Fixed price swaps give Gear price certainty and entering into collars allows Gear to establish a floor on its price but still allows for upside participation in crude oil prices should they recover.

Throughout the first nine months of the year Gear's hedging program continues to play a significant role in the Company's ability to reduce its debt and to protect the balance sheet through the generation of $8.7 million in realized cash gains. Gear evaluates hedging opportunities on a regular basis and acknowledges the importance its hedging program plays in the determination of its borrowing base.

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

Table 12

Financial WTI Crude Oil Contracts

Term		**Contract**	**Currency**	**Volume bbl/d**	**Sold Swap $/bbl**	**Sold Call $/bbl**	**Bought Put $/bbl**	**Sold Put $/bbl**
Oct 1, 2016	Dec 31, 2016	Edm SW vs Blend WTI Diff	CAD	500	5.00	-	-	-
Oct 1, 2016	Dec 31, 2016	Swap	CAD	2,200	66.66	-	-	-
Jan 1, 2017	Jun 30, 2017	Swap	CAD	900	61.39	-	-	-
Jul 1, 2017	Dec 31, 2017	Swap	CAD	400	61.78	-	-	-
Jan 1, 2017	Dec 31, 2017	Collar	CAD	200	-	71.00	60.00	-
Jan 1, 2017	Dec 31, 2017	Collar	CAD	200	-	72.50	60.00	-
Jan 1, 2017	Dec 31, 2017	Collar	CAD	300	-	67.25	60.00	-
Jul 1, 2017	Dec 31, 2017	Collar	CAD	500	-	70.20	60.00	-
Jan 1, 2017	Dec 31, 2017	Collar	CAD	400	-	75.00	60.00	-
Jan 1, 2017	Dec 31, 2017	Collar	CAD	200	-	79.01	60.00	-
Jan 1, 2017	Dec 31, 2017	Collar	CAD	200	-	77.00	62.00	-

Financial AECO Gas Contracts								
Term		Contract	Currency	Volume GJ/d	Sold Swap $/GJ	Sold Call $/GJ	Bought Put $/GJ	Sold Put $/GJ
Oct 1, 2016	Dec 31, 2016	Collar	CAD	750	-	2.80	2.00	-
Jan 1, 2017	Dec 31, 2017	Collar	CAD	750	-	3.30	2.00	-
Jan 1, 2017	Dec 31, 2017	Collar	CAD	1,000	-	3.31	2.70	-
Jan 1, 2017	Dec 31, 2017	Swap	CAD	1.900	3.00	-	-	-

Financial NYMEX Gas Contracts								
Term		Contract	Currency	Volume mmbtu /d	Sold Swap $/ mmbtu	Sold Call $/ mmbtu	Bought Put $/ mmbtu	Sold Put $/ mmbtu
Oct 1, 2016	Dec 31, 2016	Swap	CAD	2,900	4.00	-	-	-

Depletion, Depreciation and Amortization Expense (“DD&A”) and Impairment Charges
DD&A during the third quarter of 2016 was $15.72 per boe compared to $22.37 per boe in the same period in 2015. On a year-to-date basis Gear’s DD&A rate decreased 31 per cent. These decreases in the DD&A rate are due to reductions in Gear’s finding and development costs year over year as well as from selling volumes from inventory that did not have any carrying value ascribed to them as a result of inventory impairments taken in 2015. Gear records its inventory at the lower of cost and net realizable value.

At September 30, 2015, an impairment charge of $85.8 million ($61.8 million after-tax) was recognized on Gear’s heavy oil assets as a result of lower forward commodity pricing and an increase in the discount rate from 10 per cent to 15 per cent. At September 30, 2016 management concluded that no indicators of impairment existed.

Table 13

DD&A Rate	Three Months Ended				Nine months Ended		
($ thousands except per boe)	**Sep 30, 2015**	Sep 30, 2015	% Change	Jun 30, 2016	**Sep 30, 2015**	Sep 30, 2015	% Change
DD&A	**7,839**	11,177	(30)	5,744	**17,865**	31,835	(44)
Total DD&A rate per boe	**15.72**	22.37	(30)	13.92	**13.59**	19.80	(31)
Impairment charges	**-**	85,820	-	-	**-**	85,820	-

Taxes
A deferred tax recovery was not recorded in the quarter due to the uncertainty of the recoverability of additional deferred income tax assets in the current low commodity price environment. The deferred income tax asset is primarily influenced by temporary differences relating to the book basis of Gear’s property, plant and equipment relative to its tax basis. As at September 30, 2016 Gear’s estimated tax pools were $391.1 million ($302.1 million at December 31, 2015). These income tax pools are deductible at various rates and annual deductions associated with the initial tax pools will decline over time. The significant increase in tax pools in the year relates to the addition of $96.0 million in pools acquired as part of the Striker Acquisition. No cash income taxes were paid in 2016 or 2015.

Capital Expenditures, Acquisitions and Dispositions
Capital expenditures, including acquisitions and dispositions, totaled $65.2 million in the third quarter of 2016 as compared to $6.4 million in the third quarter of 2015. During the quarter Gear closed the previously mentioned Striker Acquisition which provided Gear with a new core area in the emerging Belly River light oil resource play. The Company has dedicated $3.1 million to the initial development of the acquired properties in the fourth quarter.

Throughout 2016 Gear has drilled 11 gross (11 net) wells with a 100 per cent success rate. Three unlined quad lateral wells were drilled in Wildmere Cummings; these wells came on production in late August at initial 30 day rates averaging over 160 barrels per day and are currently producing above our expectations at average rates of over 135 barrels per day. Eight single lateral horizontal McLaren wells were drilled in Paradise Hill; these wells came on production at the end of the quarter and production results are in line with expectations. Cumulatively the new wells drilled contributed 242 barrels per day to third quarter production volumes.

The remainder of the 2016 drilling program consists of two full section horizontal Basal Belly River light oil wells in Wilson Creek, and one exploratory horizontal Mannville heavy oil well to be drilled into a potential new core area.

Gear continues to evaluate small non-core property acquisitions and dispositions in order to optimize its asset base. Net proceeds from these transactions totaled $0.7 million in the first nine months of 2016.

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

Table 14

Capital expenditures	Three Months Ended				Nine months Ended		
($ thousands)	**Sep 30, 2016**	Sep 30, 2015	% Change	Jun 30, 2016	**Sep 30, 2016**	Sep 30, 2015	% Change
Geological and geophysical	**254**	2	-	(2)	**237**	77	208
Drilling and completions	**5,734**	4,899	17	593	**6,418**	4,792	34
Production equipment and facilities	**772**	1,102	(30)	517	**1,370**	4,512	(70)
Undeveloped land purchased at crown land sales	**33**	312	(89)	47	**66**	903	(93)
Other	**241**	118	104	10	**209**	606	(66)
Total capital expenditures	**7,034**	6,433	9	1,165	**8,300**	10,890	(24)
Acquisition through business combination (1)	**58,372**	-	-	-	**58,372**	-	-
Property acquisitions and dispositions, net (1)	**(231)**	-	100	26	**(685)**	(685)	70
Total capital expenditures and net acquisitions	**65,175**	6,433	908	1,191	**65,987**	10,205	539

(1) Includes post-closing adjustments.

Decommissioning Liability

At September 30, 2016, Gear has recorded a decommissioning liability of $91.0 million ($55.0 million at December 31, 2015) for the future abandonment and reclamation of Gear's properties. The estimated decommissioning liability includes assumptions in respect of actual costs to abandon wells or reclaim the property, the time frame in which such costs will be incurred as well as annual inflation factors in order to calculate the undiscounted total future liability. The future liability has been discounted at the risk free rate of 1.57 per cent (2.04 per cent at December 31, 2015). Abandonment cost estimates are derived from third party government sources and, as a result, can fluctuate from time to time. The increase in liability is due to the addition of 310 net wells and facilities associated with the Striker Acquisition as well as a reduction in the risk free rate.

Environmental stewardship is a core value at Gear and abandonment and reclamation investments continue to be made in a prudent and responsible manner with oversight by Gear's Board of Directors. Ongoing abandonment expenditures for all of Gear's assets are funded out of cash flow from operations. As at September 30, 2016 Gear's licensee liability rating in Alberta was 2.4 times and 3.4 times in Saskatchewan.

Capitalization, Financial Resources and Liquidity

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

Table 15

Debt ($ thousands except ratio amounts)	**Sep 30, 2016**	Dec 31, 2015
Net debt (1)	**41,791**	65,972
Net debt to quarterly annualized cash flow from operations	**1.5**	3.5
Net debt to year-to-date annual cash flow from operations	**1.6**	1.7
Common shares outstanding	**190,472**	85,484

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

Gear's focus throughout 2016 has been on strengthening its balance sheet in order to provide the Company with the ability to operate effectively in periods of reduced commodity prices and to provide financial flexibility in order to grow the business. As a result of minimizing capital spending Gear was able to apply a significant portion of its cash flow against outstanding debt balances in the first nine months of the year. In addition, Gear closed a bought deal financing on June 29, 2016 for net proceeds of $18.8 million. These factors have resulted in debt balances being reduced by 40 per cent in the year and a strong balance sheet.

On July 27, 2016, Gear issued an additional 76.2 million shares and assumed $8.4 million in bank debt on close of the Striker Acquisition.

Credit Facilities

In conjunction with the close of the Striker Acquisition, Gear entered into a new $50 million facility consisting of a $42.5 million revolving term credit facility with a syndicate of three banks (the "Syndicate") and a $7.5 million operating facility (collectively, the "Credit Facilities"), both with a maturity date of May 31, 2017. The total stamping fees range, depending on Gear's borrowings on its Credit Facilities to EBITDA ratio, between 100 bps to 300 bps on Canadian bank prime borrowings and between 200 bps and 400 bps on Canadian dollar bankers' acceptances. The undrawn portion of the Credit Facilities is subject to a standby fee in the range of 50 bps to 100 bps. The Credit Facilities carry a single covenant to maintain an adjusted working capital ratio of not less than 1.0:1. Adjusted working capital ratio is defined as current assets less unrealized hedging gains, plus the undrawn portion of the credit facilities divided by accounts payable and accrued liabilities. As at September 30, 2016 Gear had $33.5 million drawn, leaving additional borrowing capacity of $16.5

million. The first semi-annual borrowing base review of the facilities will occur on or about November 30, 2016. As at the date of this MD&A indications from the Syndicate are that there will be no change to the borrowing base and it is the Syndicate's intention to increase the term of the facility to two years.

Convertible Debentures

On November 30, 2015 Gear completed a bought deal financing and private placement to issue 14.7 million common shares at $0.75 per share and $14.8 million of convertible unsecured subordinated debentures (the "Convertible Debentures") for total gross proceeds of $26 million.

The Convertible Debentures issued on November 30, 2015 have a maturity date of November 30, 2020 and carry a coupon of 4 per cent per annum, payable semi-annually in arrears on May 31 and November 30 until maturity. These Convertible Debentures carry an equity conversion feature which was subject to shareholder approval. Gear received shareholder approval for conversion of the Convertible Debentures at its annual and special meeting of shareholders on May 11, 2016. The Convertible Debentures are convertible at the option of the holder at any time prior to the maturity date at a conversion price of $0.87 per common share such that for every $1,000 principal amount of Convertible Debentures a holder will receive approximately 1,149.43 common shares. Holders converting their Convertible Debentures will be entitled to receive accrued and unpaid interest thereon for the period from the date of the latest interest payment date to, but excluding, the date of conversion. The Convertible Debentures are redeemable on or after December 31, 2018 and prior to December 31, 2019 by Gear if the current market price of Gear's common shares at such time is at least 125 per cent of the conversion price at a redemption price equal to the principal amount plus accrued and unpaid interest up to the date of redemption. On or after December 31, 2019, the Convertible Debentures may be redeemed by Gear at a redemption price equal to the principal amount plus accrued and unpaid interest up to the date of redemption. For additional information regarding the Convertible Debentures see Note 7 "Convertible Debentures" in the notes to the financial statements for the three months ended September 30, 2016.

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

On September 30, 2016 and as at the date of this MD&A Gear had 190.5 million common shares outstanding, an increase of 105.0 million shares from the December 31, 2015 balance of 85.5 million shares. On June 29, 2016 Gear closed a bought deal financing whereby 28.8 million common shares were issued at a price of $0.70 per share for total gross proceeds of $20.125 million. Gear issued an additional 76.2 million shares associated with the Striker Acquisition.

As at December 31, 2015, a total of 6.4 million options were outstanding with a weighted average exercise price of $2.83 per share and each option entitled the holder to acquire one Gear common share. As at September 30, 2016 and the date of this MD&A, a total of 12.2 million options were outstanding with a weighted average exercise price of $1.56 per share and each option entitled the holder to acquire one Gear common share.

Pursuant to the Striker Acquisition, Gear assumed Striker's obligations for 650 thousand fully vested warrants that were outstanding to acquire common shares of Striker and as a result as at September 30, 2016 and as at the date hereof there are now warrants to acquire 1,511,250 common shares of Gear at a price of $1.03 per share that will expire on July 8, 2019.

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

Environmental Initiatives Impacting Gear

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

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

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

As at September 30, 2016, Gear had three contractual commitments:
- lease agreements for its head office and its field office,
- one drilling rig commitment

The lease agreement for Gear's head office commenced July 1, 2016 and expires on January 30, 2020 and the lease agreement for Gear's field office is effective until December 31, 2016. The total commitment for both lease agreements is $0.6 million. The drilling rig commitment is effective January 1, 2017 through December 31, 2020 with a total commitment of $7.7 million. For further information see Note 13 "Commitments and Contingencies" in the notes to the financial statements for the three and nine months ended September 30, 2016.

In conjunction with the Striker Acquisition Gear acquired a lease agreement for Striker's head office with a total commitment, as at the acquisition date, of $0.3 million. The acquired lease expires on September 30, 2017. The entire commitment was recorded in the purchase price allocation in the financial statements as it is unlikely to be utilized by Gear or sublet to another tenant.

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 September 30, 2016.

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

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

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

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

Table 16

	Three months ended			Nine months ended	
($ thousands)	**Sep 30, 2016**	Sep 30, 2015	Jun 30, 2016	**Sep 30, 2016**	Sep 30, 2015
Cash flow from operating activities	**9,793**	9,873	5,066	**18,415**	36,744
Decommissioning liabilities settled	**677**	295	814	**1,642**	733
Change in non-cash working capital	**(3,606)**	(2,752)	2,453	**(876)**	(2,951)
Cash flow from operations	**6,864**	7,416	8,333	**19,181**	34,526

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)	**Sep 30, 2016**	Dec 31, 2015
Debt	**33,534**	55,725
Convertible debentures (at face value) [1]	**14,800**	14,800
Working capital surplus [2]	**(6,543)**	(4,553)
Net debt obligations	**41,791**	65,972

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

At September 30, 2016 and December 31, 2015, Gear had a working capital surplus. When in a deficit position, the Company is able to meet obligations as they come due by drawing on the Credit Facilities. Gear actively manages its liquidity through strategies such as continuously monitoring forecasted and actual cash flows from operating, financing and investing activities, available credit under existing banking arrangements and opportunities to issue additional equity. Management believes that future cash flows generated from these sources will be adequate to settle Gear's financial liabilities; however, there is no certainty that such debt and equity financing will be available.

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

Table 18

	Three months ended			Nine months ended	
(thousands, except per share amounts)	**Sep 30, 2016**	Sep 30, 2015	Jun 30, 2016	**Sep 30, 2016**	Sep 30, 2015
Weighted average shares, diluted	**168,926**	70,817	86,117	**113,711**	70,817
Average share price	**0.67**	1.10	0.63	**0.62**	1.69
Average net debt [1]	**37,996**	71,716	46,875	**53,881**	85,078
Share equivalent on average net debt	**56,710**	65,196	74,404	**86,905**	50,342
Debt adjusted shares	**225,636**	136,013	160,521	**200,616**	121,159

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

Operating and Corporate Netbacks
Operating netbacks are presented both before and after taking into account the effects of hedging and are calculated based on the amount of revenues received on a per unit of production basis after royalties and operating costs. Corporate netbacks are presented after taking into account the effects of hedging and are calculated based on the amount of revenues received on a per unit of production basis after royalties, operating costs, general and administrative expenses, interest and foreign exchange gain or loss.

Critical Accounting Estimates
Gear's financial and operating results incorporate certain estimates including:

- Estimated revenues, royalties and operating expenses on production as at a specific reporting date but for which actual revenues and costs have not yet been determined;
- Estimated capital expenditures on projects that are in progress;
- Estimated DD&A charges that are based on estimates of oil and gas reserves that Gear expects to recover in the future;
- Estimated fair values of derivative contracts that are subject to fluctuation depending upon the underlying commodity prices;
- Estimated decommissioning liabilities that are dependent upon estimates of future costs and timing of expenditures;
- Estimated future recoverable value of property, plant and equipment and any associated impairment charges or recoveries;
- Estimated future utilization of tax pools; and
- Estimated employee stock based compensation costs.

Gear has hired individuals and consultants who have the skills required to make such estimates and ensures that individuals or departments with the most knowledge of the activity are responsible for the estimates. Further, past estimates are reviewed and compared to actual results, and actual results are compared to budgets in order to make more informed decisions on future estimates. For further information on the determination of certain estimates inherent in the financial statements refer to Note 4 "Management Judgments and Estimation Uncertainty" in the audited financial statements for the year ended December 31, 2015.

Disclosure Controls and Procedures

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

Internal Controls over Financial Reporting

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

There were no changes in Gear's ICFR during the three months ended September 30, 2016 that materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Future Accounting Policy Changes

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*, which replaces International Accounting Standard ("IAS") 18 *Revenue*, IAS 11 *Construction Contracts*, and related interpretations. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 15 will be applied by Gear on January 1, 2018 and the Company is currently evaluating the impact of the standard on Gear's financial statements.

In July 2014, the IASB completed the final elements of IFRS 9 *Financial Instruments*. The standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 9 will be applied on a retrospective basis by Gear on January 1, 2018 and the Company is currently evaluating the impact of the standard on Gear's financial statements.

In January 2016, the IASB issued IFRS 16 *Leases*, which replaces IAS 17 *Leases*. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 *Revenue from Contracts with Customers*. IFRS 16 will be applied by Gear on January 1, 2019 and the Company is currently evaluating the impact of the standard on Gear's financial statements.

Forward-looking Information and Statements

This third 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 third quarter report contains forward-looking information and statements pertaining to the following: Guidance estimates, expected production, pricing, differentials, royalty rate expectations, expected G&A per boe, planned number of gross and net wells drilled, future operating cost trends, expected net debt to cash flow, financing sources for future capital drilling and for operations, expected ability to raise funds as needed, estimates of normal course obligations, and a number of other matters, including the amount of future decommissioning costs and the expected funding sources for such decommissioning costs; future liquidity and financial capacity; future results from operations and operating metrics; future costs, expenses and royalty rates; future interest costs; expectation that there will be no change to the borrowing base of the Credit Facilities resulting from the next borrowing base review; and future development, exploration, acquisition and development activities (including drilling plans) and related capital expenditures.

The forward-looking information and statements contained in this third 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 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 third quarter report are not guarantees of future performance and should not be unduly relied upon. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements including, without limitation: changes in commodity prices; changes in the demand for or supply of Gear's products; unanticipated operating results or production declines; changes in tax or environmental laws, royalty rates or other regulatory matters; changes in development plans of Gear or by third party operators of Gear's properties, increased debt levels or debt service requirements; any action taken by Gear's lenders to reduce the borrowing capacity under the credit facilities; inaccurate estimation of Gear's oil and gas reserve and resource volumes; limited, unfavorable or a lack of access to capital markets; increased costs; a lack of adequate insurance coverage; the impact of competitors; and certain other risks detailed from time to time in Gear's public documents including risk factors set out in Gear's most recent annual information form, which is available on SEDAR at www.sedar.com.

The forward-looking information and statements contained in this third quarter report are made as of the date of this third quarter report, and Gear does not assume any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable laws.

Barrels of Oil Equivalent

Disclosure provided herein in respect of BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of six Mcf to one Bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Additionally, given that the value ratio based on the current price of crude oil, as compared to natural gas, is significantly different from the energy equivalency of 6:1; utilizing a conversion ratio of 6:1 may be misleading as an indication of value.

Initial Production Rates

Any references in this document to initial production rates are useful in confirming the presence of hydrocarbons, however, such rates are not determinative of the rates at which such wells will continue production and decline thereafter. Additionally, such rates may also include recovered "load oil" fluids used in well completion stimulation. While encouraging, readers are cautioned not to place reliance on such rates in calculating the aggregate production for the Gear.

QUARTERLY HISTORICAL REVIEW

	2016			2015				2014
(Cdn$ thousands, except per share, share, and per boe amounts)	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
FINANCIAL								
Sales of crude oil, natural gas and NGLs	17,990	15,581	8,173	14,274	19,476	25,528	21,096	39,558
Cash flow from operations [(1)]	6,864	8,333	3,985	4,682	7,416	14,900	12,210	20,602
Per weighted average diluted share	0.04	0.10	0.05	0.06	0.10	0.21	0.17	0.29
Cash flow from operating activities	9,793	5,066	3,556	3,801	9,873	14,432	12,439	13,425
Per weighted average diluted share	0.06	0.06	0.04	0.05	0.14	0.20	0.18	0.19
Net income (loss)	(2,470)	(7,312)	(1,716)	(26,501)	(63,360)	(2,301)	(4,357)	(29,999)
Per weighted average diluted share	(0.01)	(0.08)	(0.02)	(0.35)	(0.89)	(0.03)	(0.06)	(0.42)
Capital expenditures	7,034	1,165	101	3,993	6,433	4,286	171	20,969
Net acquisitions [(2)]	58,141	26	(480)	-	-	(553)	(132)	(1,027)
Net debt outstanding [(1)]	41,791	34,200	59,550	65,972	71,753	71,678	83,313	98,404
Weighted average shares outstanding, basic and diluted (thousands)	168,926	86,117	85,484	75,918	70,817	70,817	70,817	70,817
Shares outstanding, end of period (thousands)	190,472	114,234	85,484	85,484	70,817	70,817	70,817	70,817
OPERATING								
Production								
Liquids (bbl/d)								
Heavy oil	3,854	4,358	4,192	4,819	5,295	5,492	6,466	6,836
Light oil	716	-	-	-	-	-	-	-
Natural gas liquids	145	-	-	-	-	-	-	-
Total liquids (bbl/d)	4,715	-	-	-	-	-	-	-
Natural gas (mcf/d)	4,232	1,070	1,459	1,176	810	838	944	991
Total (boe/d)	5,420	4,536	4,435	5,015	5,430	5,632	6,624	7,001
Average prices								
Heavy oil ($/bbl)	37.74	39.00	20.90	31.68	39.58	50.72	35.93	62.39
Light oil ($/bbl)	51.60	-	-	-	-	-	-	-
Natural gas liquids ($/bbl)	20.04	-	-	-	-	-	-	-
Natural gas ($/mcf)	2.43	1.20	1.52	2.10	2.60	2.31	2.15	3.57
Oil equivalent ($/boe)	36.08	37.75	20.25	30.93	38.98	49.81	35.39	61.42
Netback ($/boe)								
Commodity and other sales	36.08	37.75	20.25	30.93	38.98	49.81	35.39	61.48
Royalties	3.97	2.96	1.63	4.72	4.88	5.96	6.28	11.02
Operating costs	16.33	13.44	15.34	16.63	17.53	18.66	17.91	19.94
Operating netback (before hedging) [(1)]	15.78	21.34	3.28	9.58	16.57	25.19	11.20	30.52
Realized risk management gains (losses)	3.03	4.91	12.71	3.86	1.80	9.37	12.91	3.98
Operating netback (after hedging) [(1)]	18.81	26.25	15.99	13.44	18.37	34.56	24.11	34.50
General and administrative	2.13	3.28	3.67	2.00	2.66	3.87	2.76	1.86
Transaction costs	1.97	1.22	-	-	-	-	-	-
Interest	0.94	1.56	1.53	1.28	1.34	1.42	1.38	1.31
Foreign exchange (gain) loss	-	-	-	0.06	(0.47)	0.17	(0.52)	(0.63)
Drilling commitments	-	-	1.19	-	-	-	-	-
Corporate netback [(1)]	13.77	20.19	9.60	10.10	14.84	29.10	20.49	31.96

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

CORPORATE INFORMATION

DIRECTORS

Don Gray
Chairman
Calgary, Alberta

Raymond Cej
Independent Businessman
Calgary, Alberta

Harry English
Independent Businessman
Calgary, Alberta

Ingram Gillmore
President & CEO, Gear Energy Ltd.
Calgary, Alberta

John O'Connell
Chairman & CEO, Davis-Rea Ltd.
Toronto, Ontario

Kevin Olson
President, Kyklopes Capital Management Ltd.
Calgary, Alberta

Neil Roszell
President & CEO, Raging River Exploration Inc.
Calgary, Alberta

Peter Verburg
President, EIQ Capital Corp.
Calgary, Alberta

OFFICERS

Ingram Gillmore
President & CEO

Yvan Chretien
Vice-President, Land

Bryan Dozzi
Vice-President, Engineering

David Hwang
Vice-President Finance & CFO

Jason Kaluski
Vice-President, Operations

Dustin Ressler
Vice-President, Exploration

Ted Brown
Corporate Secretary

Head Office

Gear Energy Ltd.
2600, 240 – 4th Avenue SW
Calgary, Alberta T2P 4H4

Auditors

Deloitte LLP
700, 850 2nd Street SW
Calgary, Alberta T2P 0R8

Bankers

Alberta Treasury Branches
Suite 600, 444 – 7th Avenue SW
Calgary, Alberta T2P 0X8

Business Development Bank of Canada
444, 7th Avenue SW
Calgary, AB T2P 0X8

National Bank of Canada
1800, 311 – 6th Avenue SW
Calgary, Alberta T2P 3H2

Engineering Consultants

GLJ Petroleum Consultants Ltd.
4100, 400 – 3rd Avenue SW.
Calgary, Alberta T2P 4H2

Legal Counsel

Burnet Duckworth & Palmer LLP
2400, 525 – 8th Avenue SW
Calgary, Alberta T2P 1G1

Transfer Agent

Computershare
600, 530 – 8th Avenue SW
Calgary, Alberta T2P 3S8

FOR FURTHER INFORMATION PLEASE CONTACT:

Ingram Gillmore
President & CEO
403-538-8463
Email: igillmore@gearenergy.com
Website: www.gearenergy.com

David Hwang
Vice President Finance & CFO
403-538-8437
Email: dhwang@gearenergy.com