FINANCIAL AND OPERATIONAL HIGHLIGHTS

GEAR ENERGY

	Three months ended			Twelve months ended	
(Cdn$ thousands, except per share, share and per boe amounts)	**Dec 31, 2017**	Dec 31, 2016	Sep 30, 2017	**Dec 31, 2017**	Dec 31, 2016
FINANCIAL					
Cash flow from operations (1)	**14,613**	9,407	9,960	**43,550**	28,591
Per weighted average basic share	**0.07**	0.05	0.05	**0.23**	0.21
Per weighted average diluted share	**0.07**	0.05	0.05	**0.21**	0.21
Cash flow from operating activities	**9,964**	6,888	9,197	**36,768**	25,306
Net income (loss)	**6,947**	(12,191)	(2,705)	**10,229**	(23,686)
Per weighted average basic share	**0.04**	(0.07)	(0.01)	**0.05**	(0.18)
Per weighted average diluted share	**0.03**	(0.07)	(0.01)	**0.05**	(0.18)
Capital expenditures	**12,307**	6,067	10,513	**47,765**	14,368
Net acquisitions (2)	**14**	(74)	1,635	**1,709**	57,612
Net debt outstanding (1)	**43,269**	36,967	44,568	**43,269**	36,967
Weighted average shares, basic (thousands)	**194,968**	191,134	193,158	**193,477**	133,172
Weighted average shares, diluted (thousands)	**211,310**	191,134	193,158	**210,029**	133,172
Shares outstanding, end of period (thousands)	**194,968**	192,568	194,968	**194,968**	192,568
OPERATING					
Production					
Heavy Oil (bbl/d)	**4,760**	3,997	4,054	**4,112**	4,099
Light and Medium Oil (bbl/d)	**1,161**	989	1,290	**1,237**	428
Natural gas liquids (bbl/d)	**242**	308	279	**265**	114
Natural gas (mcf/d)	**5,566**	5,456	5,415	**5,379**	3,064
Total (boe/d)	**7,090**	6,203	6,525	**6,511**	5,152
Average prices					
Heavy oil ($/bbl)	**49.18**	41.21	44.00	**45.49**	34.74
Light and Medium oil ($/bbl)	**64.71**	57.98	53.12	**59.40**	55.30
Natural gas liquids ($/bbl)	**27.79**	24.16	27.28	**26.80**	22.89
Natural gas ($/mcf)	**1.90**	3.07	1.52	**2.32**	2.50
Netback ($/boe)					
Commodity and other sales	**46.06**	39.70	40.41	**43.15**	34.15
Royalties	**(4.15)**	(3.76)	(4.50)	**(4.40)**	(3.19)
Operating costs	**(16.03)**	(16.25)	(16.57)	**(16.66)**	(15.46)
Operating netback (1)	**25.88**	19.69	19.34	**22.09**	15.50
Realized risk management (losses) gains	**(0.73)**	0.24	0.11	**(0.64)**	4.67
General and administrative	**(1.92)**	(2.59)	(2.06)	**(2.25)**	(2.85)
Interest	**(0.83)**	(0.85)	(0.81)	**(0.84)**	(1.17)
Other	**-**	-	-	**(0.04)**	(1.04)
Corporate netback (1)	**22.40**	16.49	16.58	**18.32**	15.11
TRADING STATISTICS					
($ based on intra-day trading)					
High	**1.00**	1.18	0.86	**1.26**	1.18
Low	**0.70**	0.68	0.65	**0.60**	0.25
Close	**0.85**	1.18	0.82	**0.85**	1.18
Average daily volume (thousands)	**468**	647	326	**400**	389

(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 February 21, 2018 and should be read in conjunction with the financial information as at and for the three and twelve months ended December 31, 2017 and the audited Financial Statements as at and for the year ended December 31, 2017. The financial 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 dollars unless otherwise noted.

ABOUT GEAR ENERGY LTD.

Gear is a Canadian exploration and production company with heavy and light oil production in Central Alberta and West Central Saskatchewan. Presently, Gear has 35 employees with 25 staff in the Calgary office and 10 employees located in Gear's operating areas in Alberta and Saskatchewan. Gear also has a number of contract operators in the field. The Company trades on the Toronto Stock Exchange under the symbol GXE.

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

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

Gear enhances returns of acquired assets by:

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

ECONOMIC ENVIRONMENT

There has been a significant decrease in North American crude inventory in 2017, with crude oil inventory (excluding the Strategic Petroleum Reserve) dropping from 483.1 million barrels on January 6, 2017 to 419.5 million barrels on January 5, 2018 according to the US Energy Information Administration. WTI reflected the change in crude inventory stocks by peaking at approximately US$65 at the end of January 2018. Unfortunately, Canadian crude prices have not experienced the same rise in pricing due to egress challenges to export crude. Existing pipelines are full and crude–by-rail has struggled as a result of both congestion on the rail network and seasonal winter conditions. This has translated into a widening of the WCS heavy oil differential as well as the Canadian Light Sweet differential. In response to the ongoing volatility, Gear has, and will continue to target an effective balance between economic production growth and maintenance of a strong balance sheet.

2018 GUIDANCE

Table 1 summarizes 2018 guidance and 2017 guidance compared to 2017 results.

Table 1

	2018 Guidance	2017 Guidance	Actual 2017
Production (boe/d)	**7,500**	6,600	6,511
Per cent heavy oil (%)	**68**	63	63
Per cent light/medium oil & NGLs (%)	**20**	23	23
Royalty rate (%)	**10**	10	10
Operating costs ($/boe)	**15.50**	16.50	16.66
General and administrative expense ($/boe)	**2.15**	2.20	2.25
Interest expense ($/boe)	**0.65**	0.80	0.84
Development capital expenditures ($ millions)	**58**	45	47.8

Significant increases in the WCS differential in the first two months of 2018 have prompted management to defer the majority of the first quarter heavy oil capital program until after break-up. Historically the WCS differential has trended between 20 and 30 per cent of WTI. The current 2018 forward price strip has the WCS differential at a 40 per cent discount to WTI. This weakened heavy oil pricing is primarily a result of pipeline shortages, increased oil sands production and current delays in crude-by-rail. Gear will closely monitor pricing throughout the year and adjust capital if required to ensure a balance between growth, debt and estimated returns on capital. If heavy oil pricing does not recover in the latter half of the year Gear's diversified asset portfolio allows for the shift of capital from heavy to light oil opportunities.

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				Twelve months ended		
	Dec 31, 2017	Dec 31, 2016	% Change	Sep 30, 2017	**Dec 31, 2017**	Dec 31, 2016	% Change
Cash flow from operations per debt adjusted share (1)	**0.059**	0.039	51	0.040	**0.181**	0.138	31
Production, boepd per debt adjusted thousand shares (1)	**0.028**	0.026	8	0.026	**0.027**	0.025	8

(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*".

KEY PROPERTIES

Wildmere

Wildmere is an area where Gear is currently targeting the Cummings and General Petroleum (GP) heavy oil formations through the drilling of multi-lateral unlined horizontal wells. The Cummings pool sits southeast and northwest of Gear's original Wildmere Lloyd pool while the GP pool sits directly west. In 2012, Gear acquired numerous sections through crown land sales, bringing the Cummings land base to approximately ten sections. In the past, this area was vertically drilled with limited success. Gear has applied multi-lateral unlined horizontal drilling to unlock economic oil from the Cummings and the GP zones. In 2017, Gear successfully drilled 11 new multi-lateral unlined wells with nine of the wells coming on production at an average IP30 of approximately 130 barrels per day. The remaining two wells were brought on production in January 2018 with encouraging initial rates. For 2018, Gear expects to drill 16 multi-lateral Cummings and GP wells with 10 located in Wildmere and the remaining six in three other areas outside of Wildmere. The average Wildmere multi-lateral well is expected to cost $850 thousand per well.

Paradise Hill

Paradise Hill is a heavy oil pool northeast of Lloydminster that produces from the McLaren zone. In 2017, Gear drilled 15 successful wells into this organically exploited pool, which was first drilled horizontally in late 2014. Currently, Gear plans on drilling 13 more wells through 2018 at an all-in capital cost of approximately $750 thousand per well. The area consists of 8 sections of prospective land with two overlapping sandstones which are each approximately three meters thick. All wells have been productive, with average initial production rates exceeding Gear's current economic risked type curve at average IP365 oil rates of 68 bbl/d per well.

Wilson Creek

The Wilson Creek property was the main light oil property acquired in the acquisition of Striker Exploration Corp. (the "Striker Acquisition") in 2016 and is located in Central Alberta. The primary target zone is the regional Basal Belly River formation. In 2017, Gear drilled three Basal Belly River light oil wells in the area. There are now five full section Gear wells currently producing at an average of three times the rates from the original two shorter wells drilled prior to Gear's ownership. Gear has just spudded its sixth well into this play with a planned horizontal length of one and a half sections looking to further improve the encouraging results to date.

Hoosier

Gear has established a potential new core area in southern Saskatchewan with a large land foothold. Historical horizontal drilling in the area has been successful in producing heavy oil from the Success formation with additional potential in the Bakken. Since the beginning of 2017, there have been 12 new Success wells licensed or drilled by various producers in the surrounding area with IP30 oil rates ranging between 49 and 134 barrels per day. Gear's first well into the Success was a short-length fracturally stimulated horizontal with an IP30 of 71 barrels per day. The second follow-up was an unlined quad-lateral that is still being optimized. For 2018, Gear plans on drilling three Success wells and an exploratory Bakken well.

2017 FOURTH QUARTER AND FULL YEAR FINANCIAL AND OPERATIONAL RESULTS

Cash flow from operations

Cash flow from operations for the three months ended December 31, 2017 was $14.6 million, a $5.2 million increase over the same period in 2016. The increase in fourth quarter cash flow is the result of increased commodity prices, increased production volumes and decreased general and administrative expenses, offset by decreased realized gains on risk management contracts and higher royalty, operating, and interest expenses.

On an annual basis, cash flow from operations increased $15.0 million in 2017 compared with the same period in 2016. This year-over-year increase in cash flow is the result of increased commodity prices, increased production volumes and decreased interest, transaction and other expenses, offset by decreased realized gains on risk management contracts and higher royalty, operating and general and administrative expenses.

The following table details the change in cash flow from operations for 2017 relative to 2016:

Table 3

	Three months ended Dec 31		Twelve months ended Dec 31	
	$ thousands	$/boe	$ thousands	$/boe
2016 Cash flow from operations (1)	9,407	16.48	28,591	15.16
Volume variance	3,242	-	16,772	-
Price variance	4,151	6.36	21,379	9.00
Cash gains on risk management contracts	(615)	(0.97)	(10,325)	(5.31)
Royalties	(560)	(0.39)	(4,448)	(1.21)
Expenses:				
Operating	(1,182)	0.22	(10,430)	(1.20)
General and administrative	226	0.68	(74)	0.55
Interest	(55)	0.02	224	0.33
Transaction costs	-	-	1,485	0.79
Other	(1)	-	376	0.21
2017 Cash flow from operations (1)	14,613	22.40	43,550	18.32

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

Net income

For the three and twelve months ended December 31, 2017, Gear generated net income of $6.9 million and $10.2 million, respectively. This compares to net losses of $12.2 million and $23.7 million for the same periods in 2016. The changes in net income are due to several factors discussed below.

Production

Production volumes averaged 7,090 boe per day in the fourth quarter of 2017 compared to 6,203 boe per day in the same period of 2016, an increase of 14 per cent. This increase in production volumes is primarily due to strong results from an active 2017 drilling program, offset by natural declines on Gear's base production. In mid-November unplanned pipeline outages, pipeline apportionments, rail congestion, frigid cold weather, and strong oil sands production resulted in challenging sales conditions for Gear. The Company traditionally mitigates this kind of intermittent take away risk by selling a portion of its heavy oil via rail; unfortunately, rail underperformed in the fourth quarter. As a result, Gear built approximately 300 bbl/d of heavy oil inventory through the fourth quarter, exiting the year with a total of 189 thousand barrels of oil in inventory. Looking forward to the first quarter of 2018 field production remains stable but takeaway options are likely to remain challenged for the next few months.

Gear's full year 2017 sales production averaged 6,511 boe per day, an increase of 26 per cent when compared to 2016. This production increase is the result of an active 2017 drilling program, in addition to a full year inclusion of volumes from the properties acquired in the Striker Acquisition, offset by natural declines on Gear's base production. Estimated field production for the full year 2017, which includes oil currently in inventory awaiting sales, was approximately 6,648 boe per day.

Table 4

	Three months ended				Twelve months ended		
Production	**Dec 31, 2017**	Dec 31, 2016	% Change	Sep 30, 2017	**Dec 31, 2017**	Dec 31, 2016	% Change
Liquids (bbl/d)							
Heavy oil (bbl/d)	**4,760**	3,997	19	4,054	**4,112**	4,099	-
Light and medium oil (bbl/d)	**1,161**	989	17	1,290	**1,237**	428	189
Natural gas liquids (bbl/d)	**242**	308	(21)	279	**265**	114	132
Total liquids (bbl/d)	**6,163**	5,294	16	5,623	**5,614**	4,642	21
Natural gas (mcf/d)	**5,566**	5,456	2	5,415	**5,379**	3,064	76
Total production (boe/d) (1)	**7,090**	6,203	14	6,525	**6,511**	5,152	26
% Liquids production	**87**	85	2	86	**86**	90	(4)
% Natural gas production	**13**	15	(13)	14	**14**	10	40

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

Revenue

Sales of crude oil, natural gas and natural gas liquids for the three and twelve months ended December 31, 2017 increased 33 per cent and 59 per cent, respectively, when compared with the same periods in 2016. These increases are the result of higher realized commodity prices and higher production volumes.

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

Table 5

Sales by product ($ thousands)	Three months ended **Dec 31, 2017**	Dec 31, 2016	% Change	Sep 30, 2017	Twelve months ended **Dec 31, 2017**	Dec 31, 2016	% Change
Oil and natural gas liquids	**29,073**	21,113	38	23,502	**98,001**	61,595	59
Natural gas	**974**	1,541	(37)	758	**4,550**	2,805	62
Total revenue	**30,047**	22,654	33	24,260	**102,551**	64,400	59

Commodity Prices
Table 6

Average Benchmark Prices	Three months ended **Dec 31, 2017**	Dec 31, 2016	% Change	Sep 30, 2017	Twelve months ended **Dec 31, 2017**	Dec 31, 2016	% Change
WTI oil (US$/bbl) (1)	**55.40**	49.29	12	48.21	**50.95**	43.31	18
WCS heavy oil (US$/bbl) (2)	**43.14**	34.97	23	38.27	**38.98**	29.47	32
WCS heavy oil (Cdn$/bbl)	**54.84**	46.64	18	47.92	**50.54**	39.03	29
Cdn$ / US$ exchange rate	**1.27**	1.33	(5)	1.25	**1.30**	1.33	(2)
Edmonton Par oil (Cdn$/bbl)	**68.86**	61.05	13	56.74	**62.84**	58.78	7
AECO natural gas ($/mcf) (3)	**1.95**	2.79	(30)	2.02	**2.41**	2.03	19
Gear Realized Prices							
Heavy oil ($/bbl)	**49.18**	41.21	19	44.00	**45.49**	34.74	31
Light and medium oil ($/bbl)	**64.71**	57.98	12	53.12	**59.40**	55.30	7
Natural gas liquids ($/bbl)	**27.79**	24.16	15	27.28	**26.80**	22.89	17
Natural gas ($/mcf)	**1.90**	3.07	(38)	1.52	**2.32**	2.50	(7)
Weighted average, before hedging ($/boe)	**46.06**	39.70	16	40.41	**43.15**	34.15	26
Realized risk management (losses) gains ($/boe)	**(0.73)**	0.24	(404)	0.11	**(0.64)**	4.67	(114)
Weighted average, after hedging ($/boe)	**45.33**	39.94	13	40.52	**42.51**	38.82	10

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

For the three months ended December 31, 2017 Gear's weighted average realized commodity price before hedging was $46.06 per boe, a 16 per cent increase over the same period in 2016. Revenue in the fourth quarter was supported by an improving WTI and narrowing of the WCS differential; WTI increased 12 per cent and the WCS differential narrowed by 14 per cent. This, however, was partially negated by the strengthening of the Canadian dollar. Gear's oil and natural gas liquids revenues are determined by reference to US benchmark prices and, as such, an increase in the Canadian dollar relative to the US dollar results in a decrease in the revenues received by Gear.

On an annual basis, US denominated WTI and the WCS differential strengthened by 18 per cent and 13 per cent, respectively, and the Canadian dollar strengthened. These factors resulted in an overall increase in Gear's realized commodity price before hedging of 26 per cent in 2017 to $43.15 per boe.

At the time of writing the 2018 forecast for WTI remains strong averaging US$61; unfortunately the WCS and Edmonton par differentials have widened to US$25 and US$6, respectively, per boe. As such Gear is currently expecting a potential decrease in Gear's weighted average realized pricing into 2018.

Royalties
Royalties as a percentage of revenue decreased from 9.5 per cent ($3.76 per boe) in the fourth quarter of 2016 to 9.0 per cent ($4.15 per boe) in the fourth quarter of 2017. Gear's 2016 and 2017 drilling programs focused on wells drilled on crown lands where incentive rates ranging from 2.5 per cent to 5 per cent apply on new horizontally drilled production. In 2017 Gear's production profile was more heavily weighted toward wells with incentive rates resulting in the decreased royalty rate. For the year ended December 31, 2017 royalties represented 10.2 per cent of revenue ($4.40 per boe) as compared to 9.3 per cent ($3.19 per boe) in 2016. Royalties have increased primarily because of higher commodity prices and the addition of the properties acquired through the Striker Acquisition which carry a slightly higher royalty burden than Gear's historical properties.

Table 7

Royalty expense		Three months ended				Twelve months ended	
	Dec 31,	Dec 31,	%	Sep 30,	**Dec 31,**	Dec 31,	%
($ thousands except % and per boe)	**2017**	2016	Change	2017	**2017**	2016	Change
Royalty expense	**2,705**	2,144	26	2,699	**10,454**	6,006	74
Royalty expense as a % of Sales	**9.0**	9.5	(5)	11.2	**10.2**	9.3	10
Royalty expense per boe	**4.15**	3.76	10	4.50	**4.40**	3.19	38

Operating and Transportation Costs

Operating costs plus transportation for the three months ended December 31, 2017 came in at $16.03 per boe, a decrease of 1 per cent when compared with the same period in 2016. Operating costs in the fourth quarter continued to decline over the prior quarter due to decreased water handling charges in Central Alberta as the utilization of new infrastructure was increased. For the full year operating costs plus transportation increased 8 per cent on a per boe basis in 2017 relative to 2016 primarily as a result of higher gas processing fees due to Gear's increased gas weighting from the properties acquired in the Striker Acquisition in July of 2016.

Table 8 below summarizes the operating and transportation expense:

Table 8

Operating and Transportation		Three months ended				Twelve months ended	
expense	**Dec 31,**	Dec 31,	%	Sep 30,	**Dec 31,**	Dec 31,	%
($ thousands except per boe)	**2017**	2016	Change	2017	**2017**	2016	Change
Operating expense	**8,957**	8,250	9	8,754	**34,901**	25,718	36
Transportation expense	**1,499**	1,025	46	1,192	**4,685**	3,438	36
Operating and transportation expense	**10,456**	9,275	13	9,946	**39,586**	29,156	36
Operating expense per boe	**13.73**	14.45	(5)	14.58	**14.69**	13.64	8
Transportation expense per boe	**2.30**	1.80	28	1.99	**1.97**	1.82	8
Operating and transportation expense per boe	**16.03**	16.25	(1)	16.57	**16.66**	15.46	8

Operating Netback

Gear's operating netback prior to hedging was $25.88 per boe in the fourth quarter of 2017 compared to $19.69 per boe in the same period of 2016, an increase of $6.19 per boe. This increase is the result of increased commodity prices and decreased operating costs, offset by slightly higher royalties. For the full year Gear's operating netback was $22.09 per boe in 2017 compared with $15.50 per boe in 2016. This year over year increase is the result of increased commodity prices offset by increased royalty and operating costs.

The components of operating netbacks are summarized in Table 9:

Table 9

	Q4	Q4		Q3	**Annual**	Annual	
Netbacks	**2017**	2016	%	2017	**2017**	2016	%
($ per boe)	**($/boe)**	($/boe)	Change	($/boe)	**($/boe)**	($/boe)	Change
Total sales	**46.06**	39.70	16	40.41	**43.15**	34.15	26
Royalties	**(4.15)**	(3.76)	10	(4.50)	**(4.40)**	(3.19)	38
Operating and transportation costs	**(16.03)**	(16.25)	(1)	(16.57)	**(16.66)**	(15.46)	8
Netback	**25.88**	19.69	31	19.34	**22.09**	15.50	43

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

G&A expenses totaled $1.3 million for the three months ended December 31, 2017, a decrease of $0.2 million over the same period in 2016. For the full year G&A expenses remained relatively unchanged in 2017 from the prior year at $5.3 million. G&A on a per boe basis decreased 26 per cent and 21 per cent for the three and twelve months ended December 31, 2017, respectively when compared with the same periods in 2016. These decreases are the result of volume additions from both Gear's 2017 capital program and the Striker Acquisition with minimal increases in staffing.

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

Table 10

G&A, Transaction costs and SBC expense ($ thousands except per boe)	Three months ended **Dec 31, 2017**	Dec 31, 2016	% Change	Sep 30, 2017	Twelve months ended **Dec 31, 2017**	Dec 31, 2016	% Change
General and administrative	**1,616**	1,693	(5)	1,634	**6,811**	6,141	11
Overhead recoveries	**(154)**	(114)	35	(179)	**(666)**	(358)	86
Capitalized G&A	**(209)**	(100)	109	(221)	**(798)**	(405)	97
Net G&A	**1,253**	1,479	(15)	1,234	**5,347**	5,378	(1)
SBC expense	**420**	497	(15)	422	**1,759**	1,409	25
Net general and administrative per boe	**1.92**	2.59	(26)	2.06	**2.25**	2.85	(21)
SBC expense per boe	**0.65**	0.87	(25)	0.70	**0.74**	0.75	4

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

SBC is related to bonus awards through the granting of stock options. There were 3,780 thousand options granted during 2017 at an average price of $0.73. In addition, 2,053 thousand options were exercised at an average exercise price of $0.71, 257 thousand options expired at an average exercise price of $2.50 and 495 thousand options were forfeited with an average exercise price of $1.14. As at December 31, 2017, a total of 13.5 million options were outstanding representing approximately 6.9 per cent of the 195.0 million total common shares outstanding. For further information on Gear's stock option, see the notes to the financial statements.

Interest and financing charges

Interest and financing charges totaled $0.5 million for the three months ended December 31, 2017, an increase of 12 per cent over the same period in 2016. On an annual basis interest and financing charges decreased 10 per cent due to a 9 per cent decrease in average debt levels compared to the prior year. 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, as well as cash flow in excess of 2016 capital spending, were used to reduce indebtedness and as such average debt levels have declined significantly.

Gear's interest rate on its Credit Facilities (as defined below) is dependent on a ratio of its borrowings on its facilities in comparison to its earnings before interest, taxes, depletion, depreciation, amortization, and accretion. Gear's annualized borrowing costs, inclusive of financing charges and standby fees on its Credit Facilities, approximated 3.8 per cent in 2017.

Table 11 is a breakdown of interest expense:

Table 11

Interest and financing charges ($ thousands except per boe)	Three months ended **Dec 31, 2017**	Dec 31, 2016	% Change	Sep 30, 2017	Twelve months ended **Dec 31, 2017**	Dec 31, 2016	% Change
Interest expense	**493**	287	72	451	**1,746**	1,888	(8)
Financing charges	**22**	138	(84)	25	**149**	199	(25)
Standby and letter of credit fees	**25**	59	(58)	11	**91**	122	(25)
Interest and financing charges	**540**	484	12	487	**1,986**	2,209	(10)
Interest and financing charges per boe	**0.83**	0.85	(2)	0.81	**0.84**	1.17	(28)

Other Expenses

Other expenses include 2017 insurance costs, a 2016 drilling commitment renegotiation fee and transaction costs.

In the first quarter of 2017 Gear incurred a loss of $2.3 million related to costs incurred during the drilling of a well in Saskatchewan. Insurance proceeds have been estimated by management to be equal to the costs incurred and have been accrued as at December 31, 2017, net of the $0.1 million policy deductible.

During the first quarter of 2016 Gear negotiated certain drilling commitments which extended the service period on previously existing contracts and as a result incurred a renegotiation fee of $0.5 million. On July 27, 2016 Gear completed the Striker Acquisition; $1.5 million in transaction costs were incurred as part of this transaction.

Risk Management Contracts

Gear uses or plans to use a variety of derivative instruments to reduce its exposure to fluctuations in commodity prices, foreign exchange rates and interest rates. All present and future transactions are considered to be effective economic hedges; however, Gear's current contracts do not, and contracts entered into in the future may not qualify as effective hedges for accounting purposes. Gear endeavors to protect a minimum of 50 per cent of forecasted production, net of royalties, and has been authorized by its board of directors to hedge up to 65 per cent of forecasted production, net of royalties, for the current and following calendar year.

Gear'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 Facilities. As such, Gear has been incorporating both fixed price swaps and collars into its hedging program for 2018 and 2019. 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. Gear generated $1.5 million in realized cash losses in 2017; this compares to a realized cash gain of $8.8 million in 2016. 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 as at December 31, 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
Jan 1, 2018	Apr 30, 2018	Collar	USD	500	-	51.00	46.00	-
Jan 1, 2018	Apr 30, 2018	Collar	USD	1,000	-	52.25	46.00	-
Jan 1, 2018	Dec 31, 2018	Collar	USD	300	-	52.50	47.50	-
Jan 1, 2018	Dec 31, 2018	Collar	USD	600	-	57.00	50.00	-
May 1, 2018	Aug 31, 2018	Collar	USD	500	-	52.25	46.00	-
May 1, 2018	Aug 31, 2018	Collar	USD	1,000	-	56.00	46.00	-
Sep 1, 2018	Dec 31, 2018	Collar	USD	1,500	-	56.00	46.00	-

Financial AECO Gas Contracts

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

Subsequent to December 31, 2017, Gear entered into the following risk management contracts:

Financial WTI Crude Oil Contracts

Term		Contract	Currency	Volume bbl/d	Sold Swap $/bbl	Sold Call $/bbl	Bought Put $/bbl	Sold Put $/bbl
Apr 1, 2018	Dec 31, 2018	Collar	CAD	400	-	82.00	62.50	-
Jan 1, 2019	Dec 31, 2019	Three-way Collar	CAD/USD	400	-	U$66.00	C$62.00	C$52.00

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

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

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

DD&A during the fourth quarter of 2017 was $16.02 per boe compared to $15.87 per boe in the same period in 2016. On an annual basis Gear's DD&A rate increased 12 per cent. These increases in the DD&A rate are due to increases in Gear's finding and development costs year over year.

Table 13 is a breakdown of DD&A expenses:

Table 13

DD&A Rate	Three Months Ended				Twelve Months Ended		
($ thousands except per boe)	**Dec 31, 2017**	Dec 31, 2016	% Change	Sep 30, 2017	**Dec 31, 2017**	Dec 31, 2016	% Change
DD&A	**10,450**	9,052	15	9,662	**37,896**	26,917	41
DD&A rate per boe	**16.02**	15.87	1	16.10	**15.94**	14.28	12

Taxes

For the three and twelve months ended December 31, 2017 Gear recorded deferred tax recovery of $9.0 million and $6.1 million, respectively. This compares to deferred tax expense of $6.0 million in three and twelve months ended December 31, 2016. The 2017 amounts are primarily influenced by a re-recognition of tax pools not previously recognized but now recognized as these tax pools are expected to be utilized to shelter future taxable income streams. In the fourth quarter of 2017, Gear re-evaluated estimates associated with the ultimate utilization of its existing tax pools and recorded a $9.0 million increase to the deferred tax asset. As at December 31, 2017 Gear's estimated tax pools were $434.4 million ($428.2 million at December 31, 2016). These income tax pools are deductible at various rates and annual deductions associated with the initial tax pools will decline over time. No cash income taxes were paid in 2017 or 2016.

Capital Expenditures, Acquisitions and Dispositions

Capital expenditures, including acquisitions and dispositions totaled $12.3 million for the three months ended December 31, 2017 as compared to $6.1 million in the same period of 2016. During the fourth quarter Gear drilled 7 gross (7 net) wells: three in Wildmere, two in Killam, one in Paradise Hill and one in Hoosier. Preliminary production results from these wells are in line with management's expectations.

For the full year in 2017, capital expenditures, including acquisition and disposition activity, was $49.5 million. Gear's 2017 capital program of 34 wells included 29 heavy oil wells: 15 in Paradise Hill, 11 in Wildmere and three in Hoosier; two medium oil wells in Killam and three light oil wells in Wilson Creek. In addition to the 2017 drilling program, capital was spent on optimization projects and infrastructure to reduce water handling costs predominantly on the light oil assets acquired in the 2016 Striker Acquisition. Gear also spent $1.3 million on seismic to de-risk locations in three of its core areas, $0.9 million on crown land sales and $1.7 million on net acquisition activity to primarily acquire lands in Wildmere.

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

Table 14

Capital expenditures	Three Months Ended				Twelve Months Ended		
($ thousands)	**Dec 31, 2017**	Dec 31, 2016	% Change	Sep 30, 2017	**Dec 31, 2017**	Dec 31, 2016	% Change
Geological and geophysical	**147**	507	(71)	112	**1,338**	745	80
Drilling and completions	**7,737**	3,084	151	7,609	**33,765**	9,502	255
Production equipment and facilities	**3,227**	1,890	71	2,545	**9,648**	3,260	196
Undeveloped land purchased at crown land sales	**435**	470	(7)	177	**943**	536	76
Other	**761**	116	556	70	**2,071**	325	537
Total capital expenditures	**12,307**	6,067	103	10,513	**47,765**	14,368	232
Property acquisitions and dispositions, net (1)	**14**	(74)	(119)	1,635	**1,709**	57,612	(97)
Total capital expenditures and net acquisitions	**12,321**	5,993	106	12,148	**49,474**	71,980	(31)

(1) Includes post-closing adjustments.

Decommissioning Liability

At December 31, 2017, Gear has recorded a decommissioning liability of $80.5 million ($78.8 million at December 31, 2016) for the future abandonment and reclamation of Gear's properties. The estimated decommissioning liability includes assumptions in respect of actual costs to abandon wells or reclaim the property, the time frame in which such costs will be incurred as well as annual inflation factors in order to calculate the undiscounted total future liability. The future liability has been discounted at the risk free rate of 2.15 per cent (2.24 per cent at December 31, 2016). 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 a decrease in the discount factor and increased wells counts due to capital activity in the year.

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 with $2.6 million of decommissioning liabilities settled in 2017 (2016 - $1.9 million). As at December 31, 2017 Gear's Licensee Liability Rating in Alberta was 2.1 times and 4.5 times in Saskatchewan.

Capitalization, Financial Resources and Liquidity
A breakdown of Gear's capital structure is outlined in Table 15:

Table 15

Debt ($ thousands except ratio amounts)	**Dec 31, 2017**	Dec 31, 2016
Net debt (1)	**43,269**	36,967
Net debt to fourth quarter annualized cash flow from operations	**0.7**	1.0
Net debt to annual cash flow from operations	**1.0**	1.3
Common shares outstanding	**194,968**	192,568

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

Gear exited 2017 with $43.3 million in net debt and net debt to cash flow from operations ratio of 1.0 times. Gear's strong balance sheet positions the Company to operate effectively in periods of reduced commodity prices and provides financial flexibility to grow the business. Gear's strategy is to fund capital expenditures primarily from cash flow from operations, and to fund material acquisition activity from a combination of cash flow from operations, debt and equity. On an annualized basis Gear targets a net debt to cash flow ratio to approximate one times.

Credit Facilities
In May 2017, Gear increased its borrowing base on its Credit Facilities from $50 million to $55 million. The $55 million facilities consist of a $47.5 million revolving extendible term credit facility with a syndicate of three banks (the "Syndicate") and a $7.5 million operating facility (collectively, the "Credit Facilities). The revolving maturity date on the Credit Facilities is May 30, 2018. The lenders review the Credit Facilities each year and determine if they will extend the revolving period for another year. In the event that the Credit Facilities are not extended, indebtedness under the Credit Facilities will become repayable at May 30, 2019 (or a year after the end of the revolving period). 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 carried 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 December 31, 2017 Gear was in compliance with this financial covenant with a working capital ratio of 3.2.

As at December 31, 2017 Gear had $41.3 million drawn on its Credit Facilities, leaving additional borrowing capacity of $13.7 million.

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

The Convertible Debentures issued on November 30, 2015 have a maturity date of November 30, 2020 and carry a coupon of 4 per cent per annum, payable semi-annually in arrears on May 31 and November 30 until maturity. These Convertible Debentures carry an equity conversion feature which was subject to shareholder approval. Gear received shareholder approval for conversion of the Convertible Debentures at its annual and special meeting of shareholders on May 11, 2016. The Convertible Debentures are convertible at the option of the holder at any time prior to the maturity date at a conversion price of $0.87 per common share such that for every $1,000 principal amount of Convertible Debentures a holder will receive approximately 1,149.43 common shares. Holders converting their Convertible Debentures will be entitled to receive accrued and unpaid interest thereon for the period from the date of the latest interest payment date to, but excluding, the date of conversion. The Convertible Debentures are redeemable on or after December 31, 2018 and prior to December 31, 2019 by Gear if the 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.

In 2017 $0.3 million of Convertible Debentures were converted resulting in the issuance of approximately 0.3 million Gear common shares, leaving $13.7 million of Convertible Debentures outstanding at December 31, 2017. For additional information regarding the Convertible Debentures see Note 9 "Convertible Debentures" in the notes to the financial statements for the year ended December 31, 2017.

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 current 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 December 31, 2017 and as at the date of this MD&A Gear had 195.0 million common shares outstanding, an increase of 2.4 million shares from the December 31, 2016 balance of 192.6 million shares. Throughout 2017 0.3 million common shares were issued on the conversion of $0.3 million of Convertible Debentures and 2.1 million common shares were issued from the exercise of stock options.

As at December 31, 2017, a total of 13.5 million options were outstanding with a weighted average exercise price of $1.43 per share and each option entitled the holder to acquire one Gear common share. Subsequent to December 31, 2017 0.1 million options were exercised and 1.2 million options expired, leaving a balance of 12.2 million options outstanding as at the date of this MD&A.

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. In the second quarter of 2017, 400 thousand of the outstanding warrants were cancelled. Each warrant entitles the holder to acquire 2.325 common shares of Gear at a price of $1.03 per share. As a result, as at December 31, 2017 and as at the date hereof, there are now warrants to acquire 581,250 common shares of Gear at a price of $1.03 per share that will expire on July 8, 2019.

As at December 31, 2017 and the date of this MD&A, $13.7 million of Convertible Debentures were outstanding; a decrease of $0.3 million from December 31, 2016. 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; accordingly the Convertible Debentures (at the option of the holder) are convertible into Gear common shares based on a conversion price of $0.87 per common share. As such an aggregate of up to 15,744,827 additional Gear common shares may be issued on conversion of the Convertible Debentures that remain outstanding at the date hereof. 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

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

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 December 31, 2017, Gear had the following contractual commitments:

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

Lease agreements for Gear's head and field offices are effective until December 31, 2020. The total commitment for these lease agreements is $0.9 million. The drilling rig commitment is effective January 1, 2018 through December 31, 2020 with a total commitment of $5.3 million. For further information see Note 18 "Commitments and Contingencies" in the notes to the audited financial statements for the year ended December 31, 2017.

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

Off Balance Sheet Arrangements

Gear has certain lease agreements that were entered into in the normal course of operations, all of which are discussed in the Contractual Obligations and Commitments section above and disclosed in the notes to the audited Financial Statements. These leases have been treated as operating leases whereby the lease payments are included in operating expenses or G&A expenses depending on the nature of the lease. No asset or liability value has been assigned to these leases on the balance sheet as of December 31, 2017.

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			Twelve months ended	
($ thousands)	**Dec 31, 2017**	Dec 31, 2016	Sep 30, 2017	**Dec 31, 2017**	Dec 31, 2016
Cash flow from operating activities	**9,964**	6,888	9,197	**36,768**	25,306
Expenditures on site restoration and reclamation	**1,260**	210	519	**2,577**	1,853
Change in non-cash working capital	**3,389**	2,309	244	**4,205**	1,432
Cash flow from operations	**14,613**	9,407	9,960	**43,550**	28,591

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)	**Dec 31, 2017**	Dec 31, 2016
Debt	**41,345**	31,163
Convertible Debentures (at face value) (1)	**13,698**	14,000
Working capital surplus (2)	**(11,774)**	(8,196)
Net debt obligations	**43,269**	36,967

(1) Excludes unamortized portion of issuance costs.
(2) Excludes risk management contracts and flow-through share liability.

At December 31, 2017 and December 31, 2016, 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.

Debt adjusted shares

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

Table 18

(thousands, except per share amounts)	Three months ended **Dec 31, 2017**	Dec 31, 2016	Sep 30, 2017	Twelve months ended **Dec 31, 2017**	Dec 31, 2016
Weighted average shares	**194,968**	191,134	193,158	**193,477**	133,172
Average share price	**0.81**	0.83	0.75	**0.85**	0.69
Average net debt (1)	**43,919**	39,379	43,989	**40,118**	51,470
Share equivalent on average net debt	**54,220**	47,443	58,652	**47,197**	74,593
Debt adjusted shares	**249,188**	238,577	251,810	**240,674**	207,765

(1) Average net debt obtained by a simple average between opening and ending net debt for the three and twelve 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, transaction and other costs.

Critical Accounting Estimates

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

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

Gear has hired individuals and consultants who have the skills required to make such estimates and ensures that individuals or departments with the most knowledge of the activity are responsible for the estimates. Further, past estimates are reviewed and compared to actual results, and actual results are compared to budgets in order to make more informed decisions on future estimates. For further information on the determination of certain estimates inherent in the financial statements refer to Note 4 "Management Judgments and Estimation Uncertainty" in the audited financial statements for the year ended December 31, 2017.

Risk Factors

The Gear management team is focused on long-term strategic planning and has identified the key risks, uncertainties and opportunities associated with Gear's business that can impact the financial results. They include, but are not limited to the items listed below. In addition to the risks identified below please see the risks outlined in Gear's most recent annual information form which is available on SEDAR at www.sedar.com.

Prices, Markets and Marketing

Gear's operational results and financial condition, and therefore the amount of capital expenditures, are dependent on the prices received for oil and natural gas production. Prices for oil and natural gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty and a variety of additional factors beyond the control of the Company. A material decline in prices could result in a reduction of net production revenue. The economics of producing from some wells may change because of lower prices, which could result in reduced production of oil or natural gas and a reduction in the volumes of Gear's reserves. Management might also elect not to produce from certain wells at lower prices.

Gear's ability to market its oil and natural gas may depend upon its ability to acquire space on pipelines or rail cars that deliver oil and natural gas to commercial markets. Deliverability uncertainties related to the distance that Gear's reserves are to pipelines, processing and storage facilities, operational problems affecting pipelines and facilities as well as government regulation relating to prices, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business may also affect the Company.

These factors could result in a material decrease in Gear's expected net production revenue and a reduction in its oil and natural gas acquisition, development and exploration activities. Any substantial and extended decline in the price of oil and natural gas would have an adverse effect on the Company's carrying value of its assets and its borrowing capacity, revenues, profitability and cash flows from operations.

Refinancing
Gear currently has $55 million Credit Facilities with a revolving maturity date of May 30, 2018. The lenders review the Credit Facilities each year and determine if they will extend the revolving for another year. In the event that the Credit Facilities are not extended, indebtedness under the Credit Facilities will become repayable at May 30, 2019 (or a year after the end of the revolving period). There is also a risk that the Credit Facilities will not be renewed for the same amount or on the same terms or that the lenders reduce the borrowing base as a result of a regularly scheduled borrowing base review. Any of these events could affect Gear's ability to fund ongoing operations. The next scheduled review is on or about May 31, 2018.

Operational Matters
Drilling hazards, environmental damage and various field operating conditions could greatly increase the cost of operations and adversely affect the production from successful wells. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, it is not possible to eliminate production delays and declines from normal field operating conditions, which can negatively affect revenue and cash flow levels to varying degrees. Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including, but not limited to, fire, explosion, blowouts, cratering, sour gas releases, and spills or other environmental hazards. These typical risks and hazards could result in substantial damage to oil and natural gas wells, production facilities, other property, the environment and personal injury. As is standard industry practice, Gear is not fully insured against all risks, nor are all risks insurable. Although Gear maintains liability insurance in an amount that it considers consistent with industry practice, liabilities associated with certain risks could exceed policy limits or not be covered. In either event, the Company could incur significant costs.

Reserve Estimates
The reserves and recovery information contained in Gear's independent reserves evaluation is only an estimate. The actual production and ultimate reserves from the properties may be greater or less than the estimates prepared by the independent reserves evaluator. The reserves report was prepared using certain commodity price assumptions. If lower prices for crude oil, natural gas, condensate and natural gas liquids ("NGLs") are realized by Gear and substituted for the price assumptions utilized in those reserves reports, the present value of estimated future net cash flows as well as the amount of the reserves would be reduced and the reduction could be significant.

Acquisitions
The price paid for acquisitions is based on engineering and economic estimates of the potential reserves made by independent engineers modified to reflect the technical views of management. These assessments include a number of material assumptions regarding such factors as recoverability and marketability of oil, natural gas, and NGLs, future prices of oil, natural gas and NGLs, and operating costs, future capital expenditures and royalties and other government levies that will be imposed over the producing life of the reserves. Many of these factors are subject to change and are beyond the control of management. In particular, changes in the prices of and markets for oil, natural gas and NGLs from those anticipated at the time of making such assessments will affect the value of Gear's shares. In addition, all such estimates involve a measure of geological and engineering uncertainty that could result in lower production and reserves. Actual reserves could vary materially from these estimates.

Royalty Regimes
There can be no assurance that the federal government and the provincial governments of the western provinces will not adopt new royalty regimes or modify the existing royalty regimes which may have an impact on the economics of the Company's projects. An increase in royalties would reduce Gear's earnings and could make future capital investments, or operations, less economic.

Variations in Foreign Exchange Rates and Interest Rates
World oil and natural gas prices are quoted in United States dollars. The Canadian/United States dollar exchange rate, which fluctuates over time, consequently affects the price received by Canadian producers of oil and natural gas. Material increases in the value of the Canadian dollar negatively affects production revenues. Future Canadian/United States exchange rates could accordingly affect the future value of reserves as determined by independent evaluators.

An increase in interest rates could result in a significant increase in the amount Gear pays to service debt, resulting in a reduced amount available to fund its exploration and development activities.

Third Party Credit Risk
Gear assumes customer credit risk associated with oil and gas sales, financial hedging and joint venture participants. In the event that Gear's counterparties default on payments to Gear, cash flows will be impacted. A diversified customer base is maintained and exposure to individual entities is reviewed on a regular basis.

Environmental
All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides

for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Although Gear believes that it is in material compliance with current applicable environmental regulations, no assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise have a material adverse effect on Gear's business, financial condition, results of operations and prospects.

Project Risks

Gear manages a variety of small and large projects. Project delays may delay expected revenues from operations. Significant project cost over-runs could make a project uneconomic. Gear's ability to execute projects and market oil and natural gas depends upon numerous factors beyond the Company's control, including:

- commodity prices and heavy oil differentials;
- the availability of processing capacity;
- the availability and proximity of pipeline capacity;
- the availability of storage capacity;
- the availability of, and the ability to acquire, water supplies needed for drilling and hydraulic fracturing, or Gear's ability to dispose of water used or removed from strata at a reasonable cost and within applicable environmental regulations;
- the supply of and demand for oil and natural gas;
- the availability of alternative fuel sources;
- the effects of inclement weather;
- the availability of drilling and related equipment;
- unexpected cost increases;
- accidental events;
- currency fluctuations;
- changes in regulations;
- the availability and productivity of skilled labour; and
- the regulation of the oil and natural gas industry by various levels of government and governmental agencies.

Because of these factors, Gear could be unable to execute projects on time, on budget, or at all, and may be unable to market the oil and natural gas that the Company produces.

Disclosure Controls and Procedures

Disclosure controls and procedures ("DC&P"), as defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, are designed to provide reasonable assurance that information required to be disclosed in the Company's annual filings, interim filings or other reports filed, or submitted by the Company under securities legislation is recorded, processed, summarized and reported within the time periods specified under securities legislation and include controls and procedures designed to ensure that information required to be so disclosed is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Chief Executive Officer and the Chief Financial Officer of Gear evaluated the effectiveness of the design and operation of the Company's DC&P. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that Gear's DC&P were effective as at December 31, 2017.

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 the financial year ended December 31, 2017, 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").

Under the supervision of the Chief Executive Officer and the Chief Financial Officer, Gear conducted an evaluation of the effectiveness of the Company's ICFR as at December 31, 2017 based on the COSO Framework. Based on this evaluation, the officers concluded that as of December 31, 2017, Gear maintained effective ICFR. It should be noted that while Gear's officers believe that the Company's controls provide a reasonable level of assurance with regard to their effectiveness, they do not expect that the DC&P and ICFR will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, but not absolute, assurance that the objectives of the control system are met.

There were no changes in Gear's ICFR during the year ended December 31, 2017 that materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Future Accounting Policy Changes

IFRS 15 *Revenue from Contracts with Customers*

In April 2016, the IASB issued its final amendments to IFRS 15 *Revenue from Contracts with Customers*, which replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and related interpretations. IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. The standard is required to be adopted either retrospectively or using a modified retrospective approach for annual periods beginning on or after January 1, 2018, with earlier adoption permitted.

Gear will retrospectively adopt IFRS 15 on January 1, 2018. The Company has completed reviewing its various revenue streams and underlying contracts with customers. It has been concluded that the adoption of IFRS 15 will not have a material impact on Gear's net income and financial position. Gear will expand the disclosures in the notes to its financial statements as prescribed by IFRS 15, including disclosing the Company's disaggregated revenue streams by product type.

IFRS 9 *Financial Instruments*

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 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities, IFRS 9 retains most of the requirements of IAS 39; however, where the fair value option is applied to financial liabilities, any change in fair value resulting from an entity's own credit risk is recorded in OCI rather than the statement of income. Gear has determined that the adoption of IFRS 9 will not have a material impact on the measurement and carrying values of the Company's financial assets or liabilities.

In addition, IFRS 9 introduces a new expected credit loss model for calculating impairment of financial assets, replacing the incurred loss impairment model required by IAS 39. Gear has determined that the new impairment model will not result in material changes to the valuation of its financial assets on adoption of IFRS 9. IFRS 9 also contains a new model to be applied for hedge accounting. The Company does not currently apply hedge accounting to its risk management contracts and does not currently intend to apply hedge accounting to any of its existing risk management contracts on adoption of IFRS 9. The standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 9, as well as consequential amendments to IFRS 7, *Financial Instruments: Disclosures*, will be applied on a retrospective basis by Gear on January 1, 2018.

IFRS 16 *Leases*

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

Forward-looking Information and Statements

This MD&A 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 MD&A contains forward-looking information and statements pertaining to the following: 2018 Guidance estimates including expected production, pricing, differentials, royalty rate expectations, operating cost expectations, interest rate expectations, expected G&A per boe; expectations with respect to commodity prices and differentials; Gear's intent to focus on delivering per share growth by pursuing assets with certain characteristics; details of Gear's acquisition strategy and focus; Gear's intent to target an effective balance between economic production growth and maintenance of a strong balance sheet; Gear's intent to closely monitor pricing throughout 2018 and to adjust capital if required to ensure a balance between growth, debt and estimated returns on capital; the expectation that Gear's diversified asset portfolio allows for the shift of capital from heavy to light oil opportunities; Gear's drilling and other capital plans for each principal properties, including the targets and timing of such plans, and the expected costs associated with such capital plans including drilling and completion costs; the expectation that takeaway options are likely to remain challenged for the next few months; the expectation that future capital programs will be financed with cash flow from operations and existing credit capacity; the expectation that Gear's current capital program is to be financed primarily through cash flow from operations; the expectation that 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; the expectation that Gear will continue to be very active looking at acquisitions that meet its investment criteria; and the belief that future cash flows generated from certain sources will be adequate to settle Gear's financial liabilities.

The forward-looking information and statements contained in this MD&A 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 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 fourth quarter report are made as of the date of this fourth 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 (or IP) 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. Readers are cautioned not to place reliance on such rates in calculating the aggregate production for Gear. References to IP30 in this document refer to initial production rates for the first 30 days of production. Reference to IP365 in this document refer to initial production rates for the first 365 days of production.

Certain information in this MD&A may constitute "analogous information" as defined in National Instrument 51-101 - *Standards of Disclosure for Oil and Gas Activities* with respect to the certain initial production results from other producers in the Hoosier area. Management of Gear believes the information may be relevant to help determine the expected results that Gear may achieve within Gear's lands and such information has been presented to help demonstrate the basis for Gear's business plans and strategies with respect to its Hoosier assets. There is no certainty that the results of the analogous information or inferred thereby will be achieved by Gear and such information should not be construed as an estimate of future production levels, reserves or the actual characteristics and quality of Gear's Hoosier assets

QUARTERLY HISTORICAL REVIEW

	2017				2016			
(Cdn$ thousands, except per share, share, and per boe amounts)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
FINANCIAL								
Sales of crude oil, natural gas and NGLs	30,047	24,260	25,929	22,315	22,654	17,990	15,581	8,173
Cash flow from operations (1)	14,613	9,960	10,248	8,729	9,407	6,864	8,333	3,985
Per weighted average basic share	0.07	0.05	0.05	0.05	0.05	0.04	0.10	0.05
Per weighted average diluted share	0.07	0.05	0.05	0.04	0.05	0.04	0.10	0.05
Cash flow from operating activities	9,964	9,197	5,362	12,245	6,888	9,793	5,066	3,556
Per weighted average basic share	0.05	0.05	0.03	0.06	0.04	0.06	0.06	0.04
Per weighted average diluted share	0.05	0.05	0.03	0.06	0.04	0.06	0.06	0.04
Net income (loss)	6,947	(2,705)	3,001	2,986	(12,191)	(2,470)	(7,312)	(1,716)
Per weighted average basic share	0.04	(0.01)	0.02	0.02	(0.07)	(0.01)	(0.08)	(0.02)
Per weighted average diluted share	0.03	(0.01)	0.01	0.01	(0.07)	(0.01)	(0.08)	(0.02)
Capital expenditures	12,307	10,513	6,161	18,784	6,067	7,034	1,165	101
Net acquisitions (2)	14	1,635	127	(68)	(74)	58,141	26	(480)
Net debt outstanding (1)	43,269	44,568	43,409	46,745	36,967	41,791	34,200	59,550
Weighted average shares outstanding, basic (thousands)	194,968	193,158	192,922	192,840	191,134	168,926	86,117	85,484
Weighted average shares outstanding, diluted (thousands)	211,310	193,158	208,971	209,652	191,134	168,926	86,117	85,484
Shares outstanding, end of period (thousands)	194,968	194,968	192,935	192,915	192,568	190,472	114,234	85,484
OPERATING								
Production								
Liquids								
Heavy oil (bbl/d)	4,760	4,054	3,887	3,739	3,997	3,854	4,358	4,192
Light oil (bbl/d)	1,161	1,290	1,412	1,085	989	716	-	-
Natural gas liquids (bbl/d)	242	279	322	217	308	145	-	-
Natural gas (mcf/d)	5,566	5,415	5,334	5,197	5,456	4,232	1,070	1,459
Total (boe/d)	7,090	6,525	6,510	5,907	6,203	5,420	4,536	4,435
Average prices								
Heavy Oil ($/bbl)	49.18	44.00	44.72	43.13	44.21	37.74	39.00	20.90
Light Oil ($/bbl)	64.71	53.12	59.64	60.91	57.98	51.60	-	-
Natural gas liquids ($/bbl)	27.79	27.28	28.11	23.08	24.16	20.04	-	-
Natural gas ($/mcf)	1.90	1.52	2.91	3.00	3.07	2.43	1.20	1.52
Netback ($/boe)								
Commodity and other sales	46.06	40.41	43.77	41.98	39.70	36.08	37.75	20.25
Royalties	(4.15)	(4.50)	(4.96)	(3.97)	(3.76)	(3.97)	(2.96)	(1.63)
Operating costs	(16.03)	(16.57)	(17.78)	(16.28)	(16.25)	(16.33)	(13.44)	(15.34)
Operating netback (1)	25.88	19.34	21.03	21.73	19.69	15.78	21.34	3.28
Realized risk management gains (losses)	(0.73)	0.11	(0.77)	(1.24)	0.24	3.03	4.91	12.71
General and administrative	(1.92)	(2.06)	(2.13)	(3.00)	(2.59)	(2.13)	(3.28)	(3.67)
Interest	(0.83)	(0.81)	(0.83)	(0.88)	(0.85)	(0.94)	(1.56)	(1.53)
Other	-	-	-	(0.19)	-	(1.97)	(1.22)	(1.19)
Corporate netback (1)	22.40	16.58	17.30	16.42	16.49	13.77	20.19	9.60

(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 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 off of WTI less the WCS differential for heavy oil and the differential to Edmonton par for light oil 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 2017 and thereafter.

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