

# FINANCIAL AND OPERATIONAL HIGHLIGHTS



(Cdn\$ thousands, except per boe amounts)	March 31, 2018	Three months ended	
		March 31, 2017	Dec 31, 2017
<b>FINANCIAL</b>			
Funds from operations <sup>(1)</sup>	8,078	8,729	14,613
Per weighted average basic share	0.04	0.05	0.07
Per weighted average diluted share	0.04	0.04	0.07
Cash flow from operating activities	14,787	12,245	9,964
Net (loss) income	(4,294)	2,986	6,947
Per weighted average basic share	(0.02)	0.02	0.04
Per weighted average diluted share	(0.02)	0.01	0.03
Capital expenditures	9,243	18,784	12,307
Net acquisitions <sup>(2)</sup>	390	(68)	14
Net debt outstanding <sup>(1)</sup>	45,330	46,745	43,269
Weighted average shares, basic (thousands)	194,968	192,840	194,968
Weighted average shares, diluted (thousands)	194,968	209,652	211,310
Shares outstanding, end of period (thousands)	194,968	192,915	194,968
<b>OPERATING</b>			
Production			
Heavy oil (bbl/d)	4,231	3,739	4,760
Light and medium oil (bbl/d)	1,197	1,085	1,161
Natural gas liquids (bbl/d)	223	217	242
Natural gas (mcf/d)	5,229	5,197	5,566
Total (boe/d)	6,522	5,907	7,090
Average prices			
Heavy oil (\$/bbl)	42.97	43.13	49.18
Light and medium oil (\$/bbl)	64.53	60.91	64.71
Natural gas liquids (\$/bbl)	39.74	23.08	27.79
Natural gas (\$/mcf)	1.66	3.00	1.90
Netback (\$/boe)			
Commodity and other sales	42.42	41.98	46.06
Royalties	(4.95)	(3.97)	(4.15)
Operating costs	(15.83)	(16.28)	(16.03)
Operating netback <sup>(1)</sup>	21.64	21.73	25.88
Realized risk management (losses) gains	(4.15)	(1.24)	(0.73)
General and administrative	(2.83)	(3.00)	(1.92)
Interest	(0.92)	(0.88)	(0.83)
Other	0.02	(0.19)	-
Corporate netback <sup>(1)</sup>	13.76	16.42	22.40
<b>TRADING STATISTICS</b>			
(\$ based on intra-day trading)			
High	1.01	1.26	1.00
Low	0.66	0.76	0.70
Close	0.70	0.90	0.85
Average daily volume (thousands)	458	553	468

(1) Funds from operations, net debt, operating netback and corporate netback are non-GAAP measures and are reconciled to the nearest GAAP measures under the heading "Non-GAAP Measures" in Gear's MD&A.

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis ("MD&A") is Gear Energy Ltd. ("Gear" or the "Company") management's analysis of its financial performance. It is dated May 9, 2018 and should be read in conjunction with the unaudited Interim Condensed Financial Statements as at and for the three months ended March 31, 2018 and the audited Financial Statements as at and for the year ended December 31, 2017. Both statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The MD&A contains non-generally accepted accounting principles ("GAAP") measures and forward-looking statements and readers are cautioned that the MD&A should be read in conjunction with Gear's disclosure under "Non-GAAP Measures" and "Forward-Looking Statements" included at the end of this MD&A. All figures are in Canadian dollar thousands unless otherwise noted.

### ABOUT GEAR ENERGY LTD.

Gear is a Canadian exploration and production company with heavy and light oil production in Central Alberta and West Central Saskatchewan. Presently, Gear has 35 employees with 23 staff in the Calgary office and 12 employees located in Gear's operating areas in Alberta and Saskatchewan. Gear also has a number of contract operators in the field. The Company trades on the Toronto Stock Exchange under the symbol GXE.

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

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

Gear enhances returns of acquired assets by:

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

### ECONOMIC ENVIRONMENT

On April 30, 2018, West Texas Intermediate ("WTI") closed at US\$68.57 per barrel. Just one year prior on April 28, 2017, WTI closed at US\$49.33 per barrel. There has been a dramatic reduction of global crude oil inventories, with the International Energy Agency estimating a drawdown of over 300 million barrels in the OECD. According to the US Department of Energy, the US experienced a decrease of almost 50 million barrels of crude oil inventory in 2017 and that trend has continued into 2018. In Canada, egress challenges continue to make the headlines with controversy surrounding the expansion of the Trans Mountain Pipeline at the forefront. Despite these challenges, Gear continues to pilot creative ways to find outlets for all of its produced products that maximizes netback value. In addition, with a light, medium and heavy oil portfolio of assets and drilling inventory, Gear has the optionality of diversifying the allocation of capital investment with the current 2018 budget contemplating approximately 40 per cent of forecasted capital focused on the drilling of light and medium oil wells. Furthermore, Gear has the potential to increase capital investment later in 2018 as it gains greater confidence in both the recent strengthening of forecasted future received prices and a stabilized increase in egress.

### 2018 GUIDANCE

Table 1 summarizes 2018 guidance estimates and first quarter 2018 actual results.

**Table 1**

	2018 Guidance	Q1 2018 YTD Actuals
Production – Annual (boe/d)	7,350	6,522
Per cent heavy oil (%)	61	65
Per cent light/medium oil and NGLs (%)	25	22
Royalty rate (%)	11	11.7
Operating costs (\$/boe)	15.85	15.83
General and administrative expense (\$/boe)	2.25	2.83
Interest expense (\$/boe)	0.80	0.92
Capital and abandonment expenditures (\$ millions)	50	10

## METRICS

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

**Table 2**

	Mar 31, 2018	Three months ended		Dec 31, 2017
		Mar 31, 2017	% Change	
Funds from operations per debt adjusted share <sup>(1)</sup>	<b>0.033</b>	0.037	(11)	0.059
Production, boepd per debt adjusted thousand shares <sup>(1)</sup>	<b>0.026</b>	0.025	4	0.028

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

## 2018 FIRST QUARTER FINANCIAL AND OPERATIONAL RESULTS

### Funds from Operations

Funds from operations for the three months was \$8.1 million, \$13.76 per boe, compared to \$8.7 million, \$16.42 per boe from the first quarter of 2017. This \$0.6 million decrease in funds from operations is the result of increased losses on risk management contracts, royalty, operating, general and administrative and interest costs, offset by increased production volumes, and higher realized commodity prices.

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

**Table 3**

	Three months ended Mar 31,	
	\$ thousands	\$/boe
<b>Q1 2017 Funds from operations <sup>(1)</sup></b>	8,729	16.42
Volume variance	2,326	-
Price variance	259	0.44
Cash gains/losses on risk management contracts	(1,780)	(2.91)
Royalties	(798)	(0.98)
Expenses:		
Operating	(640)	0.45
General and administrative	(63)	0.16
Interest	(71)	(0.04)
Other	116	0.22
<b>Q1 2018 Funds from operations <sup>(1)</sup></b>	8,078	13.76

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

### Net income

For the three months ended March 31, 2018, Gear generated a net loss of \$4.3 million compared to net income of \$3.0 million in the same period in 2017. The changes in net income are due to several factors discussed below.

### Production

Sales production volumes averaged 6,522 boepd in the first quarter of 2018, compared to 5,907 boepd in the same period in 2017. This 10 per cent increase is due to strong well results from an active 2017 drilling program, offset by temporary heavy oil egress challenges and natural declines on Gear's base production.

The ability to ship oil to market deteriorated in the first quarter of 2018. Heavy oil pipeline capacity out of Canada decreased in the fourth quarter due to a leak on the Keystone pipeline, the resulting inventory builds from the associated shutdown and the reduced operating capacity upon resumption of service. This created a backlog of inventory that historically would have been managed using crude-by-rail. However, rail was unable to alleviate pipeline takeaway issues due to increased demand for rail cars for grain deliveries and limited capacity. As a result, Gear significantly increased inventory levels throughout the quarter, exiting with over 40 thousand saleable barrels in inventory. Egress issues have been somewhat alleviated early in the second quarter and Gear has begun to draw down inventory levels to normalized operating levels. Despite the take-away issues that Gear experienced throughout the first quarter full year 2018 production guidance remains unchanged at 7,350 boe per day.

**Table 4**

<b>Production</b>	<b>Mar 31, 2018</b>	<b>Three months ended</b>		
		<b>Mar 31, 2017</b>	<b>% Change</b>	<b>Dec 31, 2017</b>
Liquids (bbl/d)				
Heavy oil (bbl/d)	<b>4,231</b>	3,739	13	4,760
Light and medium oil (bbl/d)	<b>1,197</b>	1,085	10	1,161
Natural gas liquids (bbl/d)	<b>223</b>	217	3	242
Total liquids (bbl/d)	<b>5,651</b>	5,041	12	6,163
Natural gas (mcf/d)	<b>5,229</b>	5,197	1	5,566
Total production (boe/d) <sup>(1)</sup>	<b>6,522</b>	5,907	10	7,090
% Liquids production	<b>87</b>	85	2	87
% Natural gas production	<b>13</b>	15	(13)	13

(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 first quarter of 2018 totaled \$24.9 million, a 12 per cent increase over the first quarter 2017 sales of \$22.3 million. This increase is the result of higher production volumes and higher realized commodity prices. A breakdown of sales by product is outlined in Table 5:

**Table 5**

<b>Sales by product</b> (\$ thousands)	<b>Mar 31, 2018</b>	<b>Three months ended</b>		
		<b>Mar 31, 2017</b>	<b>% Change</b>	<b>Dec 31, 2017</b>
Oil and natural gas liquids	<b>24,117</b>	20,910	15	29,073
Natural gas	<b>783</b>	1,405	(44)	974
Total revenue	<b>24,900</b>	22,315	12	30,047

### Commodity Prices

**Table 6**

<b>Average Benchmark Prices</b>	<b>Mar 31, 2018</b>	<b>Three months ended</b>		
		<b>Mar 31, 2017</b>	<b>% Change</b>	<b>Dec 31, 2017</b>
WTI oil (US\$/bbl) <sup>(1)</sup>	<b>62.87</b>	51.92	21	55.40
WCS heavy oil (US\$/bbl) <sup>(2)</sup>	<b>38.60</b>	37.34	3	43.14
WCS heavy oil (Cdn\$/bbl)	<b>48.81</b>	49.39	(1)	54.84
Cdn\$ / US\$ exchange rate	<b>1.26</b>	1.32	(5)	1.27
Edmonton Par (\$/bbl)	<b>72.14</b>	64.76	11	68.86
AECO natural gas (\$/mcf) <sup>(3)</sup>	<b>1.77</b>	2.90	(39)	1.95

### Gear Realized Prices

Heavy oil (\$/bbl)	<b>42.97</b>	43.13	-	49.18
Light and medium oil (\$/bbl)	<b>64.53</b>	60.91	6	64.71
Natural gas liquids (\$/bbl)	<b>39.74</b>	23.08	72	27.79
Natural gas (\$/mcf)	<b>1.66</b>	3.00	(45)	1.90
Weighted average, before hedging (\$/boe)	<b>42.42</b>	41.98	1	46.06
Realized risk management losses (\$/boe)	<b>(4.15)</b>	(1.24)	235	(0.73)
Weighted average, after hedging (\$/boe)	<b>38.27</b>	40.74	(6)	45.33

(1) WTI represents posting price of West Texas Intermediate oil.

(2) WCS represents the differential between the average market price for the benchmark Western Canadian Select heavy oil and WTI.

(3) Represents the AECO 7a monthly index

US denominated WTI prices for the first quarter increased by 21 per cent over the same period in 2017, the WCS differential widened from US\$14.58 per barrel to US\$24.27 per barrel and the Canadian dollar strengthened. These movements resulted in Gear's realized heavy oil price remaining relatively unchanged at \$42.97 per barrel.

WTI saw a significant increase in the first quarter when compared with both the same period in 2017 and the fourth quarter. Unfortunately, this did not translate in the same degree to Gear's overall realized price due to the significant widening of both the WCS and Edmonton Par differentials. On a positive note, the outlook for the remainder of the year is improved. For the second half of 2018, WTI is forecasted at the time of writing to average above US\$69 and estimated pricing on heavy oil strengthens considerably with the WCS differential forecasted to average 31 per cent of WTI, a considerable improvement over the 40 per cent discount experienced in the first quarter of 2018. For the second half of 2018, current forward pricing on light oil differentials is forecasted to be approximately 11 per cent of WTI.

## Royalties

In the first quarter of 2018, royalties as a percentage of commodity sales were 11.7 per cent, an increase of 24 per cent from the same period in 2017. Royalties paid on non-incentive based crown lands are based on a sliding scale with sensitivity to both price and total volume produced. Pricing on Gear's light oil properties increased period over period resulting in a higher royalty rate. In addition, Gear's 2017 capital program included wells drilled on freehold lands, which carry a higher royalty rate than historical wells that were drilled on incentive based crown lands.

**Table 7**

Royalty expense (\$ thousands except per boe and %)	Mar 31, 2018	Three months ended		
		Mar 31, 2017	% Change	Dec 31, 2017
Royalty expense	2,906	2,108	38	2,705
Royalty expense as a % of Sales	11.7	9.4	24	9.0
Royalty expense per boe	4.95	3.97	25	4.15

## Operating and Transportation Expenses

Operating costs plus transportation for the first quarter of 2018 came in at \$15.83 per boe, a decrease of 3 per cent when compared with the same period in 2017. In response to the heavy oil take-away issues experienced throughout the first quarter Gear deferred non-essential expenditures which resulted in the slight decrease in operating costs over the period. Guidance remains unchanged at \$15.85 per boe.

Table 8 below summarizes the operating and transportation expenses:

**Table 8**

Operating and Transportation expenses (\$ thousands except per boe)	Mar 31, 2018	Three months ended		
		Mar 31, 2017	% Change	Dec 31, 2017
Operating expense	8,152	7,713	6	8,957
Transportation expense	1,141	940	21	1,499
Operating and transportation expense	9,293	8,653	7	10,456
Operating expense per boe	13.89	14.51	(4)	13.73
Transportation expense per boe	1.94	1.77	10	2.30
Operating and transportation expense per boe	15.83	16.28	(3)	16.03

## Operating Netbacks

Gear's operating netback was \$21.64 per boe in the first quarter of 2018, relatively unchanged from the first quarter of 2017. The components of operating netbacks are summarized in Table 9:

**Table 9**

Netbacks (\$ per boe)	Q1 2018 Total (\$/boe)	Q1 2017 Total (\$/boe)	% Change	Q4 2017 Total (\$/boe)
Total sales	42.42	41.98	1	46.06
Royalties	(4.95)	(3.97)	25	(4.15)
Operating costs	(15.83)	(16.28)	(3)	(16.03)
Netback	21.64	21.73	-	25.88

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

G&A expenses totaled \$1.7 million for the three months ended March 31, 2018, a marginal increase of \$0.1 million over the same period in 2017. G&A on a per boe basis decreased 6 per cent. G&A guidance for the full year 2018 is \$2.25 per boe.

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

**Table 10**

G&A and SBC expense (\$ thousands except per boe)	Mar 31, 2018	Three months ended		
		Mar 31, 2017	% Change	Dec 31, 2017
General and administrative	1,936	1,892	2	1,616
Overhead recoveries	(155)	(120)	29	(154)
Capitalized G&A	(117)	(171)	(32)	(209)
Net general and administrative expenses	1,664	1,601	4	1,253
SBC expense	291	479	(39)	420
Net general and administrative expenses per boe	2.83	3.00	(6)	1.92
SBC expense per boe	0.50	0.90	(44)	0.65

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 1,431 thousand options granted during the first quarter of 2018 at an average price of \$0.73. In addition, 113 thousand options were exercised for cash at an average exercise price of \$0.72 and 1,290 thousand options expired at an average exercise price of \$2.50. As at March 31, 2018 and the date of this MD&A, a total of 13.5 million options with a weighted average exercise price of \$1.26 per share were outstanding, representing approximately 6.9 per cent of the 195.0 million total common shares outstanding. Each option entitles the holder to acquire one Gear common share. As at December 31, 2017 a total of \$13.5 million options were outstanding with a weighted average exercise price of \$1.43 per common share. For further information on Gear's stock options, see the notes to the financial statements.

### Interest and financing charges

Interest and financing charges totaled \$0.5 million in the first quarter of 2018, an increase of 15 per cent over the first quarter of 2017. This increase is primarily attributable to an 18 per cent increase in average debt levels to \$55.4 million in the first quarter of 2018 compared to \$46.8 million in the same period in 2017. Gear's interest rate on its Credit Facilities (as defined below) is dependent on its borrowings on its facilities in comparison to its earnings before interest, taxes, depletion, depreciation, amortization, and accretion. Gear's current annualized borrowing costs, inclusive of financing charges and standby fees on its Credit Facilities approximated 4.0 per cent for the first quarter of 2018.

Table 11 is a breakdown of interest expense:

**Table 11**

Interest and financing charges (\$ thousands except per boe)	Three months ended			
	Mar 31, 2018	Mar 31, 2017	% Change	Dec 31, 2017
Interest expense	501	381	31	493
Financing charges	21	49	(57)	22
Standby fees	17	38	(55)	25
Interest and financing charges	539	468	15	540
Interest and financing charges per boe	0.92	0.88	5	0.83

### Risk Management Contracts

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

Gear has a mandate to protect its balance sheet and its capital program for the current and upcoming year by reducing fluctuations in both its funds from operations and assigned loan value on its Credit Facilities. Gear's 2018 and 2019 risk management programs are comprised primarily of collars as they allow the Company to establish a floor on its price but still allow for upside participation in crude oil prices should they continue to improve. Gear incurred realized losses on risk management contracts of \$2.4 million in the quarter compared to a \$0.7 million loss in the first quarter of 2017. Gear's remaining production was sold at unhedged prices and as such fully realized the appreciation in WTI that occurred throughout the quarter.

For the remainder of 2018 Gear has 2,800 barrels per day of oil hedged with an average WTI floor price of C\$59.49 per barrel and an average WTI ceiling price of C\$70.83 per barrel (assuming a foreign exchange rate of 0.8) and 3,222 mcf per day of gas production hedged with an average AECO floor price of C\$2.66 per mcf and an average AECO ceiling price of C\$2.77 per mcf. Gear has commenced its 2019 risk management program and plans to execute the remainder of the program throughout 2018. Table 12 summarizes Gear's current hedged volumes.

Table 12

Financial WTI Crude Oil Contracts								
Term	Contract	Currency	Volume	Sold Swap	Sold Call	Bought Put	Sold Put	
			bb/d	\$/bbl	\$/bbl	\$/bbl	\$/bbl	\$/bbl
Apr 1, 2018	Dec 31, 2018	Collar	300	-	52.50	47.50	-	-
Apr 1, 2018	Dec 31, 2018	Collar	600	-	57.00	50.00	-	-
Apr 1, 2018	Apr 30, 2018	Collar	500	-	51.00	46.00	-	-
Apr 1, 2018	Apr 30, 2018	Collar	1,000	-	52.25	46.00	-	-
May 1, 2018	Aug 31, 2018	Collar	500	-	52.25	46.00	-	-
May 1, 2018	Aug 31, 2018	Collar	1,000	-	56.00	46.00	-	-
Sep 1, 2018	Dec 31, 2018	Collar	1,500	-	56.00	46.00	-	-
Apr 1, 2018	Dec 31, 2018	Collar	400	-	82.00	62.50	-	-
Jan 1, 2019	Dec 31, 2019	Three-way Collar	CAD/USD	600	-	U\$66.00	C\$62.00	C\$52.00
Jan 1, 2019	Dec 31, 2019	Three-way Collar	CAD/USD	600	-	U\$72.00	C\$65.00	C\$55.00

#### Financial AECO Gas Contracts

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

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

DD&A during the first quarter of 2018 was \$16.22 per boe compared to \$15.87 per boe in the same period in 2017 and \$16.02 per boe in the fourth quarter of 2017. These increases in the DD&A rate are due to increases in Gear's finding and development costs.

Table 13

DD&A Rate (\$ thousands except per boe)	Three Months Ended			
	Mar 31, 2018	Mar 31, 2017	% Change	Dec 31, 2017
DD&A	9,523	8,435	13	10,450
DD&A rate per boe	16.22	15.87	2	16.02

#### Taxes

In the first quarter of 2018 a deferred tax recovery was not recorded. Gear has evaluated the ultimate utilization of existing tax pools, which supports the \$26.5 million deferred income tax asset recognized as at March 31, 2018. The deferred income tax asset is primarily influenced by temporary differences relating to the book basis of Gear's property, plant and equipment relative to its tax basis. As at March 31, 2018 Gear's estimated tax pools were \$436.5 million (\$434.4 million at December 31, 2017). These income tax pools are deductible at various rates and annual deductions associated with the initial tax pools will decline over time. No cash income taxes were paid in 2018 and 2017.

#### Capital Expenditures, Acquisitions and Dispositions

Capital expenditures including acquisition and disposition activity totaled \$9.6 million for the three months ended March 31, 2018 as compared to \$18.7 million in the same period of 2017. In the first quarter Gear spent \$3.8 million to successfully drill two gross (1.9 net) wells. The first well was a quad-lateral unlined horizontal Cummings well into a new area outside Gear's existing Wildmere asset. This well has averaged approximately 140 barrels of oil per day over the last 30 days of production. The second well was Gear's first ever extended reach Basal Belly River light oil well in the Wilson Creek area. This 1.5 mile long well looks very encouraging with peak IP30 rates to date of approximately 250 boe per day (230 net). Gear was also active at land sales in the quarter spending \$2.6 million to acquire a land position in a new medium oil area as well as adding to its existing land inventory in Wildmere. Gear has also directed capital spending in the quarter to the implementation of enhanced oil recovery water flood projects in two of its core areas.

On an ongoing basis Gear looks to consolidate its light oil land position in Central Alberta. In the quarter \$0.4 million was spent to increase ownership in properties held in Wilson Creek.

Full year capital guidance remains unchanged at \$50 million and includes nine light and medium oil wells and 16 heavy oil wells. Gear is currently planning a funds from operations based budget and will continue to evaluate the impact of changing commodity prices on project economics and total annual investment levels. Recent oil price strength, if maintained through the second and third quarters of 2018, could support a healthy increase to the annual drilling program in the second half of the year.

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

**Table 14**

Capital expenditures (\$ thousands)	Mar 31, 2018	Three months ended		
		Mar 31, 2017	% Change	Dec 31, 2017
Geological and geophysical	143	1,072	(87)	147
Drilling and completions	3,623	14,562	(75)	7,737
Production equipment and facilities	2,853	3,071	(7)	3,227
Undeveloped land purchased at crown land sales	2,624	76	-	435
Other	-	3	(100)	761
Total capital expenditures	9,243	18,784	(51)	12,307
Property acquisitions and dispositions, net <sup>(1)</sup>	390	(68)	(674)	14
Total capital expenditures and net acquisitions	9,633	18,716	(49)	12,321

(1) Includes post-closing adjustments.

#### Decommissioning Liability

At March 31, 2018, Gear has recorded a decommissioning liability of \$79.7 million (\$80.5 million at December 31, 2017) for the future abandonment and reclamation of Gear's properties. The estimated decommissioning liability includes assumptions in respect of actual costs to abandon wells or reclaim the property, the time frame in which such costs will be incurred as well as annual inflation factors used to calculate the undiscounted total future liability. The future liability has been discounted at the risk free rate of 2.22 per cent (2.15 per cent at December 31, 2017). Abandonment cost estimates are derived from third party government sources and, as a result, can fluctuate from time to time. The decrease in liability is the result of a small increase in the discount factor.

Environmental stewardship is a core value at Gear and abandonment and reclamation investments continue to be made in a prudent and responsible manner with oversight by Gear's Board of Directors. Ongoing abandonment expenditures for all of Gear's assets are funded out of funds from operations. As at March 31, 2018 Gear's Licensee Liability Rating was 2.07 times in Alberta and 5.10 times in Saskatchewan.

#### Capitalization, Financial Resources and Liquidity

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

**Table 15**

Debt (\$ thousands except ratio amounts)	Mar 31, 2018	Dec 31, 2017
Net debt <sup>(1)</sup>	45,330	43,269
Net debt to annualized funds from operations	1.4	0.7
Net debt to annual funds from operations	N/A	1.0
Common shares outstanding	194,968	194,968

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

Net debt increased from \$43.3 million at December 31, 2017 to \$45.3 million at March 31, 2018 as capital and acquisition activity in the quarter exceeded funds from operations. On an annualized basis Gear intends for capital spending to approximate funds from operations.

#### Credit Facilities

At March 31, 2018 Gear had a total of \$55 million in facilities consisting of a \$47.5 million revolving term credit facility with a syndicate of three banks (the "Syndicate") and a \$7.5 million operating facility (collectively, the "Credit Facilities"). As at March 31, 2018 Gear had \$36.2 million drawn, leaving additional borrowing capacity of \$18.8 million.

Subsequent to March 31, Gear completed its semi-annual borrowing base review which resulted in a 36 per cent increase to the borrowing base of the Credit Facilities from \$55 million to \$75 million. The terms of the amended Credit Facilities resulted in changes in borrowing costs such that total stamping fees range, depending on Gear's Debt to EBITDA ratio, between 50 bps to 300 bps on Canadian bank prime borrowings and between 150 bps and 400 bps on Canadian dollar bankers' acceptances. The undrawn portion of the Credit Facilities is subject to a standby fee in the range of 34 bps to 90 bps. The maturity date of the amended Credit Facilities is May 29, 2020. All other terms and conditions of the Credit Facilities remained unchanged from December 31, 2017.

#### 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.

As at March 31, 2018 and the date of this MD&A \$13.7 million of Convertible Debentures were outstanding, this balance remains unchanged from December 31, 2017. 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.

For additional information regarding the Convertible Debentures see Note 6 "Convertible Debentures" in the notes to the financial statements.

Gear typically uses two markets to raise capital: equity and bank debt, with the expectation that future capital programs will be financed with funds from operations and existing credit capacity. Gear's current capital program is expected to be financed primarily through funds from operations. Gear's borrowing capacity is based on its reserves value as determined by its external reserve evaluator.

If Gear undertakes any major acquisitions, management would expect to finance the transactions with a combination of equity and debt in a cost-effective manner. Gear will continue to be very active looking at acquisitions that meet its investment criteria.

#### **Shareholders' Equity**

As at March 31, 2018 and the date of this MD&A Gear had 195.0 million common shares outstanding. This balance is unchanged from December 31, 2017.

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

#### **Environmental Initiatives Impacting Gear**

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

#### **Contractual Obligations and Commitments**

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

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

As at March 31, 2018, Gear had the following contractual commitments:

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

Lease agreements for Gear's head and field offices are effective until December 31, 2020. The total commitment for these lease agreements is \$0.8 million. The drilling rig commitment is effective January 1, 2018 through December 31, 2020 with a total commitment of \$4.9 million. For further information see Note 14 "Commitments and Contingencies" in the notes to the financial statements.

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

#### Off Balance Sheet Arrangements

Gear has certain lease agreements that were entered into in the normal course of operations, all of which are discussed in the Contractual Obligations and Commitments section above and disclosed in the notes to the interim condensed financial statements for the quarter ended March 31, 2018. These leases have been treated as operating leases whereby the lease payments are included in operating expenses or G&A expenses depending on the nature of the lease. No asset or liability value has been assigned to these leases on the balance sheet as of March 31, 2018.

#### Related Party Transactions

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

#### Non-GAAP Measures

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

#### Funds from Operations

In reporting for prior periods, funds from operations was referred to as cash flow from operations. Gear has changed the reporting of the term cash flow from operations to funds from operations to be more consistent with reporting by other issuers and to satisfy guidance on the reporting of such terms from Canadian securities regulatory authorities. Funds from operations is a non-GAAP measure defined as cash flow from operating activities before changes in non-cash operating working capital and decommissioning liabilities settled. Gear evaluates its financial performance primarily on funds from operations and considers it a key measure as it demonstrates its ability to generate the funds from operations necessary to fund its capital program and repay debt. Funds from operations is unlikely to be comparable with the calculation of similar measures for other companies.

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

**Table 16**

(\$ thousands)	Mar 31, 2018	Three months ended	
		Mar 31, 2017	Dec 31, 2017
Cash flow from operating activities	14,787	12,245	9,964
Expenditures on site restoration and reclamation	889	122	1,260
Change in non-cash working capital	(7,598)	(3,638)	3,389
Funds from operations	8,078	8,729	14,613

#### Net Debt

Net debt is a non-GAAP measure defined as debt less current working capital items, excluding risk management contracts and the current portion of decommissioning liabilities. Gear uses net debt as a key indicator of its leverage and strength of its balance sheet. Net debt is directly tied to Gear's funds from operations and capital investment. Net debt is unlikely to be comparable with the calculation of similar measures for other companies.

**Table 17**

Capital Structure and Liquidity		
(\$ thousands)	Mar 31, 2018	Dec 31, 2017
Debt	36,227	41,345
Convertible Debentures (at face value) <sup>(1)</sup>	13,698	13,698
Working capital surplus <sup>(2)</sup>	(4,595)	(11,774)
Net debt obligations	45,330	43,269

(1) Excludes unamortized portion of issuance costs.

(2) Excludes risk management contracts and current portion of decommissioning liabilities.

At March 31, 2018, 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)	Mar 31, 2018	Three months ended Mar 31, 2017	Dec 31, 2017
Weighted average shares	194,968	192,840	194,968
Average share price	0.86	0.96	0.81
Average net debt <sup>(1)</sup>	44,300	41,857	43,919
Share equivalent on average net debt	51,512	43,601	54,220
<b>Debt adjusted shares</b>	<b>246,480</b>	<b>236,441</b>	<b>249,188</b>

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

#### *Operating and Corporate Netbacks*

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

#### **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 March 31, 2018, designed ICFR, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The control framework Gear's officers used to design the Company's ICFR is the Internal Control - Integrated Framework ("COSO Framework") published by The Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

There were no changes in Gear's ICFR during the three months ended March 31, 2018 that materially affected, or are reasonably likely to materially affect, the Company's ICFR.

## Significant Accounting Policies

### Adopted Accounting Policy Changes

#### IFRS 15 Revenue from Contracts with Customers

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

Revenue associated with the sale of crude oil, natural gas, and natural gas liquids ("NGLs") owned by Gear is recognized when title is transferred from Gear to its customers. Gear's commodity sales contracts represent a series of distinct transactions. Revenue is measured at the consideration specified in the contracts and represents amounts receivable for goods or services provided in the normal course of business. Substantially all revenue is based on floating prices. Gear considers its performance obligations to be satisfied and control to be transferred when all the following conditions are satisfied:

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

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

#### IFRS 9 Financial Instruments

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

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

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

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

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

## Future Accounting Policy Changes

### IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 *Leases*, which replaces IAS 17 *Leases*. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 *Revenue from Contracts with Customers*. IFRS 16 will be applied by Gear on January 1, 2019. The Company 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 report contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends", "strategy" and similar expressions are intended to identify forward-looking information or statements. In particular, but without limiting the foregoing, this report contains forward-looking information and statements pertaining to the following: expectations of how Gear may enhance returns of acquired assets; Gear's expectations of commodity prices and differentials and trends affecting such commodity prices and differentials; the expectation of focusing approximately 40 per cent of 2018 forecasted capital to the drilling of light and medium oil wells; the expectation that Gear has the potential to increase capital investment later in 2018 if received prices strengthened and egress challenges are reduced; 2018 Guidance estimates including expected average 2018 production, expected commodity weightings, second half 2018 forecasted index pricing for WTI, WCS, and Canadian light oil, royalty rate expectations, operating cost expectations, interest expense expectations and expected capital and abandonment expenditures; the intent to execute the remainder of the 2019 risk management program throughout 2018; the intent to consolidate Gear's light oil land position in Central Alberta; expected details of the 2018 capital budget; the expectation that the 2018 budget will be funded from funds from operations; the expectation that recent oil price strength, if maintained through the second and third quarters of 2018, could support an increase to the annual drilling program in the second half of 2018; projections of future abandonment and reclamation costs; and the expectation that future funds from operations generated from certain sources will be adequate to settle Gear's financial liabilities.

The forward-looking information and statements contained in this report reflect several material factors and expectations and assumptions of Gear including, without limitation: that Gear will continue to conduct its operations in a manner consistent with past operations; the general continuance of current industry conditions; the continuance of existing (and in certain circumstances, the implementation of proposed) tax, royalty and regulatory regimes; the accuracy of the estimates of Gear's reserves and resource volumes; certain commodity price and other cost assumptions; and the continued availability of adequate debt and equity financing and funds from operations to fund its planned expenditures. Gear believes the material factors, expectations and assumptions reflected in the forward-looking information and statements are reasonable but no assurance can be given that these factors, expectations and assumptions will prove to be correct.

To the extent that any forward-looking information contained herein may be considered future oriented financial information or a financial outlook, such information has been included to provide readers with an understanding of management's assumptions used for budgeting and developing future plans and readers are cautioned that the information may not be appropriate for other purposes. The forward-looking information and statements included in this MD&A are not guarantees of future performance and should not be unduly relied upon. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements including, without limitation: changes in commodity prices; changes in the demand for or supply of Gear's products; unanticipated operating results or production declines; changes in tax or environmental laws, royalty rates or other regulatory matters; changes in development plans of Gear or by third party operators of Gear's properties, increased debt levels or debt service requirements; any action taken by Gear's lenders to reduce the borrowing capacity under the Credit Facilities; inaccurate estimation of Gear's oil and gas reserve and resource volumes; limited, unfavorable or a lack of access to capital markets; increased costs; a lack of adequate insurance coverage; the impact of competitors; and certain other risks detailed from time to time in Gear's public documents including risk factors set out in Gear's most recent annual information form, which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

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

### Barrels of Oil Equivalent

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

**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.

## QUARTERLY HISTORICAL REVIEW

(Cdn\$ thousands, except per share, share, and per boe amounts)	2018		2017			2016		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
<b>FINANCIAL</b>								
Sales of crude oil, natural gas and NGLs	24,900	30,047	24,260	25,929	22,315	22,654	17,990	15,581
Funds from operations <sup>(1)</sup>	8,078	14,613	9,960	10,248	8,729	9,407	6,864	8,333
Per weighted average basic share	0.04	0.07	0.05	0.05	0.05	0.05	0.04	0.10
Per weighted average diluted share	0.04	0.07	0.05	0.05	0.04	0.05	0.04	0.10
Cash flow from operating activities	14,787	9,964	9,197	5,362	12,245	6,888	9,793	5,066
Per weighted average basic share	0.08	0.05	0.05	0.03	0.06	0.04	0.06	0.06
Per weighted average diluted share	0.08	0.05	0.05	0.03	0.06	0.04	0.06	0.06
Net (loss) income	(4,294)	6,947	(2,705)	3,001	2,986	(12,191)	(2,470)	(7,312)
Per weighted average basic share	(0.02)	0.04	(0.01)	0.02	0.02	(0.07)	(0.01)	(0.08)
Per weighted average diluted share	(0.02)	0.03	(0.01)	0.01	0.01	(0.07)	(0.01)	(0.08)
Capital expenditures	9,243	12,307	10,513	6,161	18,784	6,067	7,034	1,165
Net acquisitions <sup>(2)</sup>	390	14	1,635	127	(68)	(74)	58,141	26
Net debt outstanding <sup>(1)</sup>	45,330	43,269	44,568	43,409	46,745	36,967	41,791	34,200
Weighted average shares outstanding, basic (thousands)	194,968	194,968	193,158	192,922	192,840	191,134	168,926	86,117
Weighted average shares outstanding, diluted (thousands)	194,968	211,310	193,158	208,971	209,652	191,134	168,926	86,117
Shares outstanding, end of period (thousands)	194,968	194,968	194,968	192,935	192,915	192,568	190,472	114,234
<b>OPERATING</b>								
Production								
Liquids								
Heavy oil (bbl/d)	4,231	4,760	4,054	3,887	3,739	3,997	3,854	4,358
Light and medium oil	1,197	1,161	1,290	1,412	1,085	989	716	-
Natural gas liquids	223	242	279	322	217	308	145	-
Natural gas (mcf/d)	5,229	5,566	5,415	5,334	5,197	5,456	4,232	1,070
Total (boe/d)	6,522	7,090	6,525	6,510	5,907	6,203	5,420	4,536
Average prices								
Heavy oil (\$/bbl)	42.97	49.18	44.00	44.72	43.13	44.21	37.74	39.00
Light and medium oil (\$/bbl)	64.53	64.71	53.12	59.64	60.91	57.98	51.60	-
Natural gas liquids (\$/bbl)	39.74	27.79	27.28	28.11	23.08	24.16	20.04	-
Natural gas (\$/mcf)	1.66	1.90	1.52	2.91	3.00	3.07	2.43	1.20
Netback (\$/boe)								
Commodity and other sales	42.42	46.06	40.41	43.77	41.98	39.70	36.08	37.75
Royalties	(4.95)	(4.15)	(4.50)	(4.96)	(3.97)	(3.76)	(3.97)	(2.96)
Operating costs	(15.83)	(16.03)	(16.57)	(17.78)	(16.28)	(16.25)	(16.33)	(13.44)
Operating netback <sup>(1)</sup>	21.64	25.88	19.34	21.03	21.73	19.69	15.78	21.34
Realized risk management (losses) gains	(4.15)	(0.73)	0.11	(0.77)	(1.24)	0.24	3.03	4.91
General and administrative	(2.83)	(1.92)	(2.06)	(2.13)	(3.00)	(2.59)	(2.13)	(3.28)
Interest	(0.92)	(0.83)	(0.81)	(0.83)	(0.88)	(0.85)	(0.94)	(1.56)
Other	0.02	-	-	-	(0.19)	-	(1.97)	(1.22)
Corporate netback <sup>(1)</sup>	13.76	22.40	16.58	17.30	16.42	16.49	13.77	20.19

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

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

Quarter over quarter fluctuations in revenue is the result of both the amount of oil volumes sent to sale as well as Gear's received price. Volume fluctuations are the result of well productivity and timing of deliveries to the sales point. The amount of volumes delivered to sale can be influenced by a variety of factors some of which include weather, truck and rail car availability, as well as pipeline apportionments. Gear's received price is based on WTI less the WCS 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 and on the results of its existing producing wells. Operating costs are heavily impacted by weather as well as the productivity of each well. Operating costs are typically higher in the winter months due to increased maintenance and energy costs. Transportation costs are included in operating costs, which fluctuate with the amount of volumes sold.

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

## CORPORATE INFORMATION

### DIRECTORS

Don Gray  
Chairman  
Phoenix, Arizona

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

### 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

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### Auditors

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Calgary, Alberta T2P 0R8

### Bankers

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Suite 600, 444 – 7<sup>th</sup> Avenue SW  
Calgary, Alberta T2P 0X8

Business Development Bank of Canada  
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Calgary, AB T2P 0X8

National Bank of Canada  
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### Engineering Consultants

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