FINANCIAL AND OPERATIONAL HIGHLIGHTS

GEAR ENERGY

	Three months ended		
(Cdn$ thousands, except per boe amounts)	**March 31, 2017**	March 31, 2016	Dec 31, 2016
FINANCIAL			
Cash flow from operations (1)	**8,729**	3,985	9,407
Per weighted average basic share	**0.05**	0.05	0.05
Per weighted average diluted share	**0.04**	0.05	0.05
Cash flow from operating activities	**12,245**	3,556	6,888
Per weighted average basic share	**0.06**	0.04	0.04
Per weighted average diluted share	**0.06**	0.04	0.04
Net income (loss)	**2,986**	(1,716)	(12,191)
Per weighted average basic share	**0.02**	(0.02)	(0.07)
Per weighted average diluted share	**0.01**	(0.02)	(0.07)
Capital expenditures	**18,784**	101	6,067
Net acquisitions (2)	**(68)**	(480)	(74)
Net debt outstanding (1)	**46,745**	59,550	36,967
Share outstanding, weighted average, basic (thousands)	**192,840**	85,484	191,134
Share outstanding, weighted average, diluted (thousands)	**209,652**	85,484	191,134
Shares outstanding, end of period	**192,915**	85,484	192,568
OPERATING			
Production			
Heavy Oil (bbl/d)	**3,739**	4,192	3,997
Light and Medium Oil (bbl/d)	**1,085**	-	989
Natural gas liquids (bbl/d)	**217**	-	308
Natural gas (mcf/d)	**5,197**	1,459	5,456
Total (boe/d)	**5,907**	4,435	6,203
Average prices			
Heavy oil ($/bbl)	**43.13**	20.90	41.21
Light oil ($/bbl)	**60.91**	-	57.98
Natural gas liquids ($/bbl)	**23.08**	-	24.16
Natural gas ($/mcf)	**3.00**	1.52	3.07
Netback ($/boe)			
Commodity and other sales	**41.98**	20.25	39.70
Royalties	**(3.97)**	(1.63)	(3.76)
Operating costs	**(16.28)**	(15.34)	(16.25)
Operating netback (1)	**21.73**	3.28	19.69
Realized risk management gains (losses)	**(1.24)**	12.71	0.24
General and administrative	**(3.00)**	(3.67)	(2.59)
Interest	**(0.88)**	(1.53)	(0.85)
Other	**(0.19)**	(1.19)	-
Corporate netback (1)	**16.42**	9.60	16.49
TRADING STATISTICS			
($ based on intra-day trading)			
High	**1.26**	0.61	1.18
Low	**0.76**	0.25	0.68
Close	**0.90**	0.54	1.18
Average daily volume (thousands)	**553**	139	647

(1) Cash flow 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 10, 2017 and should be read in conjunction with the unaudited Interim Condensed Financial Statements as at and for the three months ended March 31, 2017 and the audited Financial Statements as at and for the year ended December 31, 2016. 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 33 employees with 23 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

2017 commenced with a high degree of optimism on commodity prices, as weekly crude oil inventory drawdown announcements implied an initial re-balancing of market supply and demand. That optimism has somewhat tapered as the market contemplates the impact of increased US drilling activity and the potential effect that will have on oil inventory levels. Despite this pause on optimism, Gear remains positive on oil prices as it believes that global inventory levels will continue to decrease. Global capital investment on the exploration and production of oil has been in a deficit position in the last couple of years and as a result, management of Gear expects that current oil reservoirs will deplete, demand will exceed supply and commodity prices will have to incline to incentivize the discovery of new oil fields. Gear is fortunate to have 480 management recognized drilling locations which are forecast to generate positive rates of return at current commodity price levels. Using a 2017 capital drilling budget of 37 wells, this translates into a 13 year drilling inventory. With a strong balance sheet and a continuous focus on value creation through the drill bit, at current commodity price levels, Gear is expected to return to growth in 2017.

2017 GUIDANCE

Table 1 summarizes 2017 guidance estimates and first quarter 2017 actual results.

Table 1

	2017 Guidance	Q1 2017
Production – Annual (boe/d)	**6,400**	5,907
Per cent heavy oil (%)	**62**	63
Per cent light/medium oil and NGLs (%)	**24**	22
Royalty rate (%)	**10**	9.4
Operating costs ($/boe)	**15.50**	16.28
General and administrative expense ($/boe)	**2.15**	3.00
Interest expense ($/boe)	**0.70**	0.88
Capital and abandonment expenditures ($ millions)	**45**	18.8

Production is expected to incline starting in the second quarter as a result of an active first quarter drilling program. This is expected to yield lower operating costs, general and administrative expenses, and interest expenses on a per boe basis. Current 2017 Guidance is being maintained and Gear will continue to monitor capital activities in light of any changes to the commodity price environment.

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			
	Mar 31, 2017	Mar 31, 2016	% Change	Dec 31, 2016
Cash flow from operations per debt adjusted share (1)	**0.037**	0.016	131	0.039
Production, boepd per debt adjusted thousand shares (1)	**0.025**	0.018	39	0.026

(1) Cash flow 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*".

2017 FIRST QUARTER FINANCIAL AND OPERATIONAL RESULTS

Cash flow from operations

Cash flow from operations for the three months was $8.7 million, compared to $4.0 million from the first quarter of 2016. This $4.7 million increase in cash flow is the result of increased commodity prices and production volumes and decreased interest and other expenses, offset by decreased gains on risk management contracts and increased royalty, operating and general and administrative costs.

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

Table 3

	Three months ended Mar 31,	
	$ thousands	$/boe
Q1 2016 Cash flow from operations (1)	3,985	9.87
Volume variance	2,592	-
Price variance	11,551	21.73
Cash gains/losses on risk management contracts	(5,788)	(13.95)
Royalties	(1,452)	(2.34)
Expenses:		
Operating	(2,461)	(0.93)
General and administrative	(222)	0.40
Interest	148	0.65
Other	376	0.99
Q1 2017 Cash flow from operations (1)	8,729	16.42

(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 months ended March 31, 2017, Gear generated net income of $3.0 million compared to a loss of $1.7 million in the same period in 2016. The changes in net income are due to several factors discussed below.

Production

Sales production volumes averaged 5,907 boepd in the first quarter of 2017, compared to 4,435 boepd in the same period in 2016. This 33 per cent increase is due to the inclusion of volumes acquired in the acquisition of Striker Exploration Corp. (the "Striker Acquisition"), which closed in the third quarter of 2016, coupled with strong well results from Gear's 2016 and first quarter 2017 capital programs, offset by natural declines on Gear's base production.

Sales production volumes decreased 5 per cent in the first quarter of 2017 compared with the fourth quarter of 2016. This decrease is due to temporary shut-in volumes on adjacent wells in order to accommodate drilling, early onset of breakup in certain fields, as well as temporary pipeline constraints experienced at some of Gear's purchasers early in the quarter. Field production for the first quarter was estimated to be approximately 6,100 boepd, with much of the production held in inventory at March 31, 2017.

Table 4

Production	Three months ended Mar 31, 2017	Mar 31, 2016	% Change	Dec 31, 2016
Liquids (bbl/d)				
Heavy Oil (bbl/d)	**3,739**	4,192	(11)	3,997
Light Oil (bbl/d)	**1,085**	-	-	989
Natural gas liquids (bbl/d)	**217**	-	-	308
Total liquids (bbl/d)	**5,041**	4,192	20	5,294
Natural gas (mcf/d)	**5,197**	1,459	256	5,456
Total production (boe/d) (1)	**5,907**	4,435	33	6,203
% Liquids production	**85**	94	(9)	85
% Natural gas production	**15**	6	150	15

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

Gear expects sales production to grow through the second quarter of 2017 as a result of wells drilled in the first quarter being on production for the full quarter, and the end of break up conditions in the field. Year to date Gear has drilled 10 gross (9.8 net) wells, of which only two had sales volume in the first quarter and seven more producing or expecting to be producing in the second quarter. First quarter production was also supported by production from the two Wilson Creek light oil wells drilled in late 2016. Current field production is estimated to be 6,350 boe per day, with an additional estimate of 300 boe per day behind pipe to be brought on production as field conditions improve.

Revenue

Sales of crude oil, natural gas and natural gas liquids for the first quarter of 2017 totaled $22.3 million, a 173 per cent increase over the first quarter 2016 sales of $8.2 million. This increase is 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 Mar 31, 2017	Mar 31, 2016	% Change	Dec 31, 2016
Oil and natural gas liquids	**20,910**	7,971	162	21,113
Natural gas	**1,405**	202	596	1,541
Total revenue	**22,315**	8,173	173	22,654

Commodity Prices
Table 6

Average Benchmark Prices	Three months ended Mar 31, 2017	Mar 31, 2016	% Change	Dec 31, 2016
WTI oil (US$/bbl) (1)	**51.92**	33.45	55	49.29
WCS heavy oil (US$/bbl) (2)	**37.34**	19.21	94	34.97
WCS heavy oil (Cdn$/bbl)	**49.39**	26.39	87	46.64
Cdn$ / US$ exchange rate	**1.32**	1.37	(4)	1.33
Edmonton Par ($/bbl)	**64.76**	40.90	58	61.05
AECO natural gas ($/mcf) (3)	**2.90**	2.11	37	2.79
Gear Realized Prices				
Heavy oil ($/bbl)	**43.13**	20.90	106	41.21
Light oil ($/bbl)	**60.91**	-	-	57.98
Natural gas liquids ($/bbl)	**23.08**	-	-	24.16
Natural gas ($/mcf)	**3.00**	1.52	97	3.07
Weighted Average ($/boe)	**41.98**	20.25	107	39.70

(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

Throughout the first quarter, commodity prices continued to stabilize, however, concerns about worldwide over-supply of crude oil still exist and have resulted in the forward outlook on commodity prices remaining weak for the remainder of 2017. At the time of writing, 2017 WTI is forecasted to be approximately US$50 per barrel and the WCS differential is forecasted to be approximately US$13 per barrel.

US denominated WTI prices for the first quarter increased by 55 per cent over the same period in 2016 and the WCS differential widened slightly from US$14.24 per barrel to US$14.58 per barrel. These two movements resulted in Gear's realized heavy oil price increasing 106 per cent to $43.13 per boe. During the third quarter of 2016 Gear acquired approximately 2,000 boe/d of light and medium oil and natural gas production pursuant to the Striker Acquistion. The addition of these assets, combined with Gear's historical heavy oil production resulted in Gear's overall realized price increasing from $20.25 per boe in 2016 to $41.98 per boe in the first quarter of 2017. The light oil barrels acquired receive a price premium compared to Gear's heavy oil production; this however is offset by the increased weighting to natural gas production to 15 percent in 2017 compared to 6 percent in the same period in 2016.

Royalties

In the first quarter of 2017, royalties as a percentage of commodity sales were 9.4 per cent, an increase of 18 per cent from the same period in 2016. Royalties paid on non-incentive based crown lands are based on a sliding scale with sensitivity to both price and total volume produced. As such, due to the higher pricing environment in the first quarter of 2017, Gear's royalty rate on produced volumes increased. In addition, the properties acquired through the Striker Acquisition carry a higher royalty burden than Gear's historical properties which slightly increased the average corporate royalty rate.

Table 7

Royalty expense	Three months ended			
($ thousands except per boe and %)	**Mar 31, 2017**	Mar 31, 2016	% Change	Dec 31, 2016
Royalty expense	**2,108**	656	221	2,144
Royalty expense as a % of Sales	**9.4**	8.0	18	9.5
Royalty expense per boe	**3.97**	1.63	144	3.76

Operating and Transportation Expenses

Operating costs plus transportation for the first quarter of 2017 came in at $16.28 per boe, relatively unchanged from the fourth quarter of 2016. Year-over-year operating costs have increased 6 per cent due to higher propane costs and water disposal costs in the quarter. Gear is currently investing in two infrastructure projects that are expected to be operational towards the end of the second quarter which will lower water disposal costs in the impacted areas. In addition, the properties acquired in the Striker Acquisition in the third quarter of 2016 carry a slightly higher cost profile in comparison to Gear's heavy oil assets.

Table 8 below summarizes the operating and transportation expenses:

Table 8

Operating and Transportation expenses	Three months ended			
($ thousands except per boe)	**Mar 31, 2017**	Mar 31, 2016	% Change	Dec 31, 2016
Operating expense	**7,713**	5,351	44	8,250
Transportation expense	**940**	841	12	1,025
Operating and transportation expense	**8,653**	6,192	40	9,275
Operating expense per boe	**14.51**	13.26	9	14.45
Transportation expense per boe	**1.77**	2.08	(15)	1.80
Operating and transportation expense per boe	**16.28**	15.34	6	16.25

With continued production growth through 2017, operating costs are expected to trend downwards for the remainder of 2017. Guidance remains unchanged at $15.50 per boe.

Operating Netbacks

Gear's operating netback was $21.73 per boe in the first quarter of 2017 compared to $3.28 per boe in the same period of 2016. The 563 per cent increase is primarily due to increased commodity prices and higher oil value with the significant addition of light oil to the oil quality mix, offset by increases in royalty and operating costs.

The components of operating netbacks are summarized in Table 9:

Table 9

Netbacks ($ per boe)	**Q1 2017 Total ($/boe)**	Q1 2016 Total ($/boe)	% Change	Q4 2016 Total ($/boe)
Total sales	**41.98**	20.25	107	39.70
Royalties	**(3.97)**	(1.63)	144	(3.76)
Operating costs	**(16.28)**	(15.34)	6	(16.25)
Netback	**21.73**	3.28	563	19.69

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

G&A totaled $1.6 million for the three months ended March 31, 2017, a modest increase of $0.1 million when compared to the same period in 2016. Gear closed the Striker Acquisition in July of 2016 adding approximately 2,000 boe/d of production. Gear added these volumes with minimal increases in staff, resulting in a decrease in G&A on a per boe basis of 18 per cent in the first quarter of 2017 when compared to the same period in 2016.

G&A guidance for the full year 2017 is $2.15 per boe.

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

Table 10

G&A and SBC expense		Three months ended		
($ thousands except per boe)	**Mar 31, 2017**	Mar 31, 2016	% Change	Dec 31, 2016
General and administrative	**1,892**	1,581	20	1,693
Overhead recoveries	**(120)**	(100)	20	(114)
Capitalized G&A	**(171)**	-	-	(100)
Net general and administrative expenses	**1,601**	1,481	8	1,479
SBC expense	**479**	174	175	497
Net general and administrative expenses per boe	**3.00**	3.67	(18)	2.59
SBC expense per boe	**0.90**	0.43	110	0.87

SBC is related to the granting of stock options to purchase common shares of the Company under the Company's share option plan. There were 165 thousand options granted during the first quarter of 2017 at an average price of $0.99. In addition, 135 thousand options expired with an average exercise price of $2.50. As at March 31, 2017, a total of 12.6 million options were outstanding or 6.5 per cent of the 192.9 million total common shares outstanding.

Interest and financing charges

Interest and financing charges totaled $0.5 million in the first quarter of 2017, a decrease of 24 per cent over the first quarter of 2016. This decrease is primarily attributable to a 33 per cent decrease in average debt levels to $46.8 million in the first quarter of 2017 compared to $69.8 million in the same period in 2016. 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. These 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 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 2017. Interest and financing charges are expected to remain relatively unchanged in the second quarter.

Table 11 is a breakdown of interest expense:

Table 11

Interest and financing charges		Three months ended		
($ thousands except per boe)	**Mar 31, 2017**	Mar 31, 2016	% Change	Dec 31, 2016
Interest expense	**381**	590	(35)	420
Financing charges	**49**	23	113	49
Standby fees	**38**	3	-	15
Interest and financing charges	**468**	616	(24)	484
Interest and financing charges per boe	**0.88**	1.53	(42)	0.85

Other Expenses

Other expenses include insurance costs and a drilling commitment renegotiation fee. In the first quarter of 2017 Gear incurred a loss of $2.0 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 March 31, 2017, net of the $0.1 million policy deductible. See the Capital Expenditures, Acquisitions and Dispositions section of this MD&A for further information.

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 or $1.19 per boe.

Other expenses		Three months ended		
($ thousands except per boe)	**Mar 31, 2017**	Mar 31, 2016	% Change	Dec 31, 2016
Insurance costs	**100**	-	100	-
Drilling commitments	**-**	480	(100)	-
Other expenses	**100**	480	-	-
Other expenses per boe	**0.19**	1.19	(84)	-

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 2017 and 2018. 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 $0.7 million in realized cash losses in the first quarter of 2017; this compares to a realized cash gain of $8.8 million in the same period of 2016. Gear has hedged approximately 50 per cent of its after-royalty production for 2017 and has commenced its 2018 risk management program. Gear evaluates hedging opportunities on a regular basis and acknowledges the importance its hedging program plays in the determination of its borrowing base.

Table 12 summarizes Gear's hedged volumes for the remainder of 2017 through to the end of 2018.

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
Apr 1, 2017	Jun 30, 2017	Swap	CAD	900	61.39	-	-	-
Jul 1, 2017	Dec 31, 2017	Swap	CAD	400	61.78	-	-	-
Apr 1, 2017	Dec 31, 2017	Collar	CAD	200	-	71.00	60.00	-
Apr 1, 2017	Dec 31, 2017	Collar	CAD	200	-	72.50	60.00	-
Apr 1, 2017	Dec 31, 2017	Collar	CAD	300	-	67.25	60.00	-
Apr 1, 2017	Dec 31, 2017	Collar	CAD	400	-	75.00	60.00	-
Apr 1, 2017	Dec 31, 2017	Collar	CAD	200	-	79.01	60.00	-
Apr 1, 2017	Dec 31, 2017	Collar	CAD	200	-	77.00	62.00	-
Jul 1, 2017	Dec 31, 2017	Collar	CAD	500	-	70.20	60.00	-
Jul 1, 2018	Dec 31, 2018	Collar	USD	300	-	52.50	47.50	-
Jan 1, 2018	Dec 31, 2018	Collar	USD	600	-	50.00	57.00	-

Financial WCS Differential Crude Oil Contracts

Term		Contract	Currency	Volume bbl/d	Sold Swap $/bbl	Sold Call $/bbl	Bought Put $/bbl	Sold Put $/bbl
Apr 1, 2017	Dec 31, 2017	Swap	CAD	400	(21.40)	-	-	-

Financial AECO Gas Contracts

Term		Contract	Currency	Volume GJ/d	Sold Swap $/GJ	Sold Call $/GJ	Bought Put $/GJ	Sold Put $/GJ
Apr 1, 2017	Dec 31, 2017	Collar	CAD	750	-	3.30	2.00	-
Apr 1, 2017	Dec 31, 2017	Collar	CAD	1,000	-	3.31	2.70	-
Apr 1, 2017	Dec 31, 2017	Swap	CAD	1,900	3.00	-	-	-
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	-

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

DD&A during the first quarter of 2017 was $15.87 per boe compared to $10.61 per boe in the same period in 2016 and $15.87 per boe in the fourth quarter of 2016. In the first quarter of 2016 Gear sold volumes from inventory that did not have any carrying value ascribed to them as a result of inventory impairments taken in 2015, resulting in a lowered DD&A rate in that quarter. Gear records its inventory at the lower of cost and net realizable value.

Table 13

DD&A Rate	Three Months Ended			
($ thousands except per boe)	**Mar 31, 2017**	Mar 31, 2016	% Change	Dec 31, 2016
DD&A	**8,435**	4,283	97	9,052
DD&A rate per boe	**15.87**	10.61	50	15.87

Taxes

For the three months ended March 31, 2017 Gear recorded a deferred tax expense of $1.7 million. In the first quarter of 2016 a deferred tax recovery was not recorded due to the uncertainty of the recoverability of additional deferred income tax assets due to the low commodity price environment at the time. Gear has evaluated the ultimate utilization of existing tax pools, which supports the $18.8 million deferred income tax asset recognized as at March 31, 2017. 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, 2017 Gear's estimated tax pools were $384.7 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 and 2016.

Capital Expenditures, Acquisitions and Dispositions

Capital expenditures totaled $18.8 million for the three months ended March 31, 2017 as compared to $0.1 million in the same period of 2016. The majority of the activity in the quarter relates to drilling and completions, with Gear drilling a total of 10 gross, 9.8 net wells, with a 90 per cent success rate. The drilling program included three wells in Wildmere Cummings, two in Hoosier, two in Paradise Hill and three in Wilson Creek. Initial results from all of the successful drills are encouraging and Gear is on track to meet or exceed its 2017 production guidance of 6,400 boe per day.

The two original wells in Wilson Creek from 2016 continue to produce strongly at an average of approximately 240 boe per day per well over the last two months of production. Of the three new 2017 Wilson Creek wells, the two that are on production are averaging initial, un-optimized rates of 225 boe per day per well, and the third well will be brought on production later in May once the surface lease dries out. Two of the new Wildmere Cummings wells are producing above expectations at an average rate of 185 bbl per day for the initial 30 days, and the third well will be brought on production later in the quarter after the installation of a pipeline. The two Paradise Hill wells are producing right on type curve, and one of the new Hoosier wells has just come on production at encouraging initial rates. Prior to reaching the target reservoir at the second well in Hoosier, Gear experienced an underground blowout. The well was safely and effectively contained but ultimately had to be abandoned. All associated abandonment expenditures were fully insured and this incident does not sterilize any future potential inventory in the area.

Included in the $18.8 million of capital spending in the first quarter was $2.1 million in completion costs for the two Wilson Creek wells drilled the prior year. These completion costs were originally budgeted for the fourth quarter of 2016.

Throughout the quarter Gear experienced upward pressure on service costs and availability, specifically with respect to the fracture completion of the wells in the Wilson Creek and Hoosier areas. The encouraging initial results in these areas are expected to help to offset the cost pressures and ensure that economic returns are still being achieved. Current 2017 capital guidance remains unchanged at $45 million, however, Gear is fundamentally a rate of return driven company and as such will continually be evaluating projects to ensure internal hurdle rates are met and will adjust the remainder of the 2017 drilling program accordingly.

In the quarter Gear invested $1.0 million on seismic in order to de-risk locations in three of its core areas.

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

Table 14

Capital expenditures	Three Months Ended			
($ thousands)	**Mar 31, 2017**	Mar 31, 2016	% Change	Dec 31, 2016
Geological and geophysical	**1,072**	(15)	-	507
Drilling and completions	**14,562**	91	-	3,084
Production equipment and facilities	**3,071**	39	-	1,890
Undeveloped land purchased at crown land sales	**76**	(14)	(643)	470
Other	**3**	-	100	116
Total capital expenditures	**18,784**	101	-	6,067
Acquisitions through business combination (1)	**7**	-	100	108
Property acquisitions and dispositions, net (1)	**(75)**	(480)	(84)	(182)
Total capital expenditures and net acquisitions	**18,716**	(379)	-	5,993

(1) Includes post-closing adjustments.

In the first quarter of 2017 Gear divested of a small non-producing property with no associated property, plant, and equipment carrying value resulting in a $0.1 million gain on sale.

Decommissioning Liability

At March 31, 2017, Gear has recorded a decommissioning liability of $81.1 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 used to calculate the undiscounted total future liability. The future liability has been discounted at the risk free rate of 2.14 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 the result of increased well counts due to capital activity in the first quarter as well as a small decrease in the discount factor.

Environmental stewardship is a core value at Gear and abandonment and reclamation investments continue to be made in a prudent and responsible manner with oversight by Gear's Board of Directors. Ongoing abandonment expenditures for all of Gear's assets are funded out of cash flow from operations. As at March 31, 2017 Gear's Licensee Liability Rating in Alberta was 2.07 times and 3.37 times in Saskatchewan.

Capitalization, Financial Resources and Liquidity

A breakdown of Gear's capital structure is outlined in Table 15, as at March 31, 2017 and December 31, 2016:

Table 15

Debt ($ thousands except ratio amounts)	**Mar 31, 2017**	Dec 31, 2016
Net debt (1)	**46,745**	36,967
Net debt to annualized cash flow from operations	**1.3**	1.0
Net debt to annual cash flow from operations	**1.3**	1.3
Common shares outstanding	**192,915**	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*".

In the first quarter of 2017 Gear commenced its capital program drilling 10 gross (9.8 net wells) spending $18.8 million of its $45 million capital budget. The capital spend in the quarter exceeded cash flow from operations resulting in an increase of net debt from $37.0 million at December 31, 2016 to $46.7 million at March 31, 2017. On an annualized basis Gear intends for capital spending to be within cash flow.

Credit Facilities

Gear has a $50 million facility consisting of a $42.5 million revolving term credit facility with a syndicate of three banks (the "Syndicate") and a $7.5 million operating facility (collectively, the "Credit Facilities). The maturity date on the Credit Facilities is May 31, 2018. The total stamping fees range, depending on Gear's borrowings on its Credit Facilities to EBITDA ratio, between 100 bps to 300 bps on Canadian bank prime borrowings and between 200 bps and 400 bps on Canadian dollar bankers' acceptances. The undrawn portion of the Credit Facilities is subject to a standby fee in the range of 50 bps to 100 bps. The Credit Facilities carry a single covenant to maintain an adjusted working capital ratio of not less than 1.0:1. Adjusted working capital ratio is defined as current assets less unrealized hedging gains, plus the undrawn portion of the Credit Facilities divided by accounts payable and accrued liabilities. As at March 31, 2017 Gear had $31.0 million drawn, leaving additional borrowing capacity of $19.0 million.

Subsequent to quarter-end, Gear had its semi-annual borrowing base review. Preliminary indications are that Gear will increase its $50 million Credit Facilities to $55 million and expects this to be finalized sometime in May 2017. The borrowing base is still subject to final credit approval from Gear's syndicated lenders and may possibly change.

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 the first quarter of 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 March 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, 2016.

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

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

Shareholders' Equity
As at March 31, 2017 and the date of this MD&A Gear had 192.9 million common shares outstanding, an increase of 0.3 million shares from the December 31, 2016 balance of 192.6 million shares. In January 2017 $0.3 million of Convertible Debentures were converted into approximately 0.3 million Gear common shares.

As at December 31, 2016, a total of 12.5 million options were outstanding with a weighted average exercise price of $1.54 per share and each option entitled the holder to acquire one Gear common share. As at March 31, 2017 and the date of this MD&A, a total of 12.6 million options were outstanding with a weighted average exercise price of $1.52 per share and each option entitled the holder to acquire one Gear common share.

Pursuant to the Striker Acquisition, Gear assumed Striker's obligations for 650 thousand fully vested warrants that were outstanding to acquire common shares of Striker and as a result as at March 31, 2017 and as at the date hereof there are now warrants to acquire 1,511,250 common shares of Gear at a price of $1.03 per share that will expire on July 8, 2019.

As at March 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) will be convertible into Gear common shares based on a conversion price of $0.87 per common share. As such an aggregate of up to 15,820,077 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
In the fourth quarter of 2015, the provincial government of Alberta released its Climate Leadership Plan which will impact all consumers and businesses that contribute to carbon emissions in Alberta. This plan includes imposing carbon pricing that is applied across all sectors, starting at $20 per tonne on January 1, 2017 and moving to $30 per tonne on January 1, 2018, the phase-out of coal-fired power generation by 2030, a cap on oil sands emissions production of 100 megatonnes, and a 45 per cent reduction in methane emissions by the crude oil and natural gas sector by 2025. The provincial government of Alberta included the proposed carbon pricing measures in the release of its 2016 budget in the second quarter of 2016. Gear expects the Climate Leadership Plan to increase the cost of operating its properties located in Alberta.

In the third quarter of 2016, the Government of Canada announced its proposed plan for all Canadian jurisdictions to impose a price on carbon pollution, beginning at a minimum of $10 per tonne in 2018 and rising by $10 per tonne each year to $50 per tonne in 2022. Provinces and territories have the option to put a direct price on carbon pollution or adopt a cap-and-trade system that meets or exceeds the federal benchmark. If provinces and territories fail to implement a price or cap-and-trade plan by 2018, the Government of Canada will implement a price in that jurisdiction.

Gear will continue to monitor developments in the federal minimum carbon tax plan and will evaluate the expected impact of this plan on its results of 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 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 March 31, 2017, Gear had the following contractual commitments:

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

The lease agreement for Gear's head office commenced July 1, 2016 and expires on January 30, 2020 and the lease agreements for Gear's field offices are effective until December 31, 2017. The total commitment for these three lease agreements is $0.7 million. The drilling rig commitment is effective January 1, 2017 through December 31, 2020 with a total commitment of $7.0 million. For further information see Note 13 “Commitments and Contingencies” in the notes to the interim condensed financial statements for the quarter ended March 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 interim condensed financial statements for the quarter ended March 31, 2017. 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, 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 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.

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		
($ thousands)	**Mar 31, 2017**	Mar 31, 2016	Dec 31, 2016
Cash flow from operating activities	**12,245**	3,556	6,888
Expenditures on site restoration and reclamation	**122**	151	210
Change in non-cash working capital	**(3,638)**	278	2,309
Cash flow from operations	**8,729**	3,985	9,407

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)	**Mar 31, 2017**	Dec 31, 2016
Debt	**30,976**	31,163
Convertible Debentures (at face value) (1)	**13,698**	14,000
Working capital deficit (surplus) (2)	**2,071**	(8,196)
Net debt obligations	**46,745**	36,967

(1) Excludes unamortized portion of issuance costs.
(2) Excludes risk management contracts.

At March 31, 2017, Gear had a working capital deficit. 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

	Three months ended		
(thousands, except per share amounts)	**Mar 31, 2017**	Mar 31, 2016	Dec 31, 2016
Weighted average shares	**192,840**	85,484	191,134
Average share price	**0.96**	0.40	0.83
Average net debt (1)	**41,857**	62,760	39,379
Share equivalent on average net debt	**43,601**	156,900	47,443
Debt adjusted shares	**236,441**	242,384	238,577

(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 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, 2016.

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, 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").

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

Adopted and Future Accounting Policy Changes

As of January 1, 2017 Gear was required to adopt amendments to IAS 7 *Statement of Cash Flows.* The amendments relate to disclosure requirements regarding changes in liabilities arising from financing activities. As of January 1, 2017 the new standard has been adopted and it did not have a material impact on the disclosures in the financial statements.

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

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

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

Forward-looking Information and Statements

This 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 trends affecting such commodity prices; expectations of future drilling locations and expectations that such drilling locations may generate positive rates of return at current commodity price levels; drilling inventory; expectation to return to growth in 2017; 2017 Guidance estimates; expected average 2017 production; expected commodity weightings; royalty rate expectations; operating cost expectations; interest expense expectations; expected capital and abandonment expenditures; expectation that production will incline starting in the second quarter as a result of an active first quarter drilling program; expectation of timing and amount of behind pipe production to be brought on production; expectation of timing for completion of two potential infrastructure projects and expected impact on certain costs as result of completing such projects; expectation that certain encouraging initial results may help to offset the cost pressures and ensure that economic returns are still being achieved; intent to continue to evaluate projects to ensure internal hurdle rates are met and expectations of adjusting the remainder of the 2017 drilling program accordingly; projections of future abandonment and reclamation costs; intent that on an annualized basis in 2017 Gear's capital spending will be within cash flow; expectations as to increases to the borrowing base under the Credit Facilities and expectation 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 report reflect several material factors and expectations and assumptions of Gear including, without limitation: that Gear will continue to conduct its operations in a manner consistent with past operations; the general continuance of current industry conditions; the continuance of existing (and in certain circumstances, the implementation of proposed) tax, royalty and regulatory regimes; the accuracy of the estimates of Gear's reserves and resource volumes; certain commodity price and other cost assumptions; and the continued availability of adequate debt and equity financing and cash flow from operations to fund its planned expenditures. Gear believes the material factors, expectations and assumptions reflected in the forward-looking information and statements are reasonable but no assurance can be given that these factors, expectations and assumptions will prove to be correct.

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

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

Barrels of Oil Equivalent

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

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.

Drilling Locations

This first quarter report discloses booked and unbooked drilling locations. Booked locations are derived from the most recent independent reserves evaluations of the Corporation's properties as prepared by GLJ Petroleum Consultants Ltd. ("GLJ") as of December 31, 2016 and account for drilling locations that have associated proved and/or probable reserves, as applicable. Unbooked locations are internal estimates based on Gear's prospective acreage and an assumption as to the number of wells that can be drilled per section based on industry practice and internal review. Of the 480 drilling locations of the Company identified herein, 74 are proved locations, 153 are probable locations and the remainder are unbooked locations. Unbooked locations have been identified by management as an estimation of our multi-year drilling activities based on evaluation of applicable geologic, seismic, engineering, production, pricing assumptions and reserves information. There is no certainty that Gear will drill all booked or unbooked drilling locations and if drilled there is no certainty that such locations will result in additional oil and gas reserves, resources or production. The drilling locations on which Gear actually drill wells will ultimately depend upon the availability of capital, regulatory approvals, seasonal restrictions, oil and natural gas prices, costs, actual drilling results, additional reservoir information that is obtained and other factors. While the majority of Gear's unbooked locations are extensions or infills of the drilling patterns already recognized by the independent evaluator, other unbooked drilling locations are farther away from existing wells where management has less information about the characteristics of the reservoir and therefore there is more uncertainty whether wells will be drilled in such locations and if drilled there is more uncertainty that such wells will result in additional oil and gas reserves, resources or production.

QUARTERLY HISTORICAL REVIEW

	2017	2016				2015		
(Cdn$ thousands, except per share, share, and per boe amounts)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
FINANCIAL								
Sales of crude oil, natural gas and NGLs	22,315	22,654	17,990	15,581	8,173	14,274	19,476	25,528
Cash flow from operations (1)	8,729	9,407	6,864	8,333	3,985	4,682	7,416	14,900
Per weighted average basic share	0.05	0.05	0.04	0.10	0.05	0.06	0.10	0.21
Per weighted average diluted share	0.04	0.05	0.04	0.10	0.05	0.06	0.10	0.21
Cash flow from operating activities	12,245	6,888	9,793	5,066	3,556	3,801	9,873	14,432
Per weighted average basic share	0.06	0.04	0.06	0.06	0.04	0.05	0.14	0.20
Per weighted average diluted share	0.06	0.04	0.06	0.06	0.04	0.05	0.14	0.20
Net income (loss)	2,986	(12,191)	(2,470)	(7,312)	(1,716)	(26,501)	(63,360)	(2,301)
Per weighted average basic share	0.02	(0.07)	(0.01)	(0.08)	(0.02)	(0.35)	(0.89)	(0.03)
Per weighted average diluted share	0.01	(0.07)	(0.01)	(0.08)	(0.02)	(0.35)	(0.89)	(0.03)
Capital expenditures	18,784	6,067	7,034	1,165	101	3,993	6,433	4,286
Net acquisitions (2)	(68)	(74)	58,141	26	(480)	-	-	(553)
Net debt outstanding (1)	46,745	36,967	41,791	34,200	59,550	65,972	71,753	71,678
Weighted average shares outstanding, basic (thousands)	192,840	191,134	168,926	86,117	85,484	75,918	70,817	70,817
Weighted average shares outstanding, diluted (thousands)	209,652	191,134	168,926	86,117	85,484	75,918	70,817	70,817
Shares outstanding, end of period (thousands)	192,915	192,568	190,472	114,234	85,484	85,484	70,817	70,817
OPERATING								
Production								
Liquids								
Heavy oil (bbl/d)	3,739	3,997	3,854	4,358	4,192	4,819	5,295	5,492
Light oil	1,085	989	716	-	-	-	-	-
Natural gas liquids	217	308	145	-	-	-	-	-
Natural gas (mcf/d)	5,197	5,456	4,232	1,070	1,459	1,176	810	838
Total (boe/d)	5,907	6,203	5,420	4,536	4,435	5,015	5,430	5,632
Average prices								
Heavy Oil ($/bbl)	43.13	44.21	37.74	39.00	20.90	31.68	39.58	50.72
Light Oil ($/bbl)	60.91	57.98	51.60	-	-	-	-	-
Natural gas liquids ($/bbl)	23.08	24.16	20.04	-	-	-	-	-
Natural gas ($/mcf)	3.00	3.07	2.43	1.20	1.52	2.10	2.60	2.31
Netback ($/boe)								
Commodity and other sales	41.98	39.70	36.08	37.75	20.25	30.93	38.98	49.81
Royalties	(3.97)	(3.76)	(3.97)	(2.96)	(1.63)	(4.72)	(4.88)	(5.96)
Operating costs	(16.28)	(16.25)	(16.33)	(13.44)	(15.34)	(16.63)	(17.53)	(18.66)
Operating netback (1)	21.73	19.69	15.78	21.34	3.28	9.58	16.57	25.19
Realized risk management gains (losses)	(1.24)	0.24	3.03	4.91	12.71	3.86	1.80	9.37
General and administrative	(3.00)	(2.59)	(2.13)	(3.28)	(3.67)	(2.00)	(2.66)	(3.87)
Transactions costs	-	-	(1.97)	(1.22)	-	-	-	-
Interest	(0.88)	(0.85)	(0.94)	(1.56)	(1.53)	(1.28)	(1.34)	(1.42)
Other	(0.19)	-	-	-	(1.19)	(0.06)	(0.47)	(0.17)
Corporate netback (1)	16.42	16.49	13.77	20.19	9.60	10.10	14.84	29.10

(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 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, cash flow from operations and production in the third quarter of 2016 and thereafter.

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