GEAR ENERGY LTD.
INTERIM CONDENSED BALANCE SHEETS (unaudited)
As at

(Cdn$ thousands)		**September 30, 2016**		December 31, 2015
ASSETS				
Current assets				
Accounts receivable	**$**	**9,138**	$	5,872
Prepaid expenses		**4,151**		2,101
Inventory (Note 3)		**5,778**		3,440
Risk management contracts (Note 9)		**-**		9,173
		19,067		20,586
Deferred income tax asset		**26,600**		26,243
Property, plant and equipment (Notes 4 and 5)		**258,012**		178,905
Total assets	**$**	**303,679**	$	225,734
LIABILITIES				
Current liabilities				
Accounts payable, accrued liabilities and interest payable	**$**	**12,523**	$	6,860
Risk management contracts (Note 9)		**1,720**		-
Conversion approval option (Note 7)		**-**		1,800
Debt (Note 6)		**33,534**		55,725
		47,777		64,385
Convertible debentures (Note 7)		**12,564**		12,230
Decommissioning liability (Note 8)		**90,955**		54,959
Total liabilities		**151,296**		131,574
SHAREHOLDERS' EQUITY				
Share capital (Notes 4 and 10)		**307,206**		241,535
Warrants (Notes 4 and 10)		**335**		-
Equity component of convertible debentures (Note 7)		**2,800**		-
Contributed surplus		**13,290**		12,377
Deficit		**(171,248)**		(159,752)
Total shareholders' equity		**152,383**		94,160
Total liabilities and shareholders' equity	**$**	**303,679**	$	225,734

See accompanying notes to the unaudited interim Condensed Financial Statements

GEAR ENERGY LTD.
INTERIM CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)
For the nine months ended September 30
(Cdn$ thousands)

	Share Capital	Warrants	Equity Component of Convertible Debentures	Contributed Surplus	Deficit	Total Equity
Balance, beginning of period	**$ 231,067**	**$ -**	**$ -**	**$ 10,183**	**$ (63,233)**	**$ 178,017**
Share-based compensation	-	-	-	1,676	-	1,676
Net loss for the period	-	-	-	-	(70,018)	(70,018)
Balance at September 30, 2015	**$ 231,067**	**$ -**	**$ -**	**$ 11,859**	**$ (133,251)**	**$ 109,675**
Balance, beginning of period	241,535	-	-	12,377	(159,752)	94,160
Issued on offering of common shares (Note 10)	20,125	-	-	-	-	20,125
Issued as consideration on corporate acquisition (Note 4)	46,506	335	-	-	-	46,841
Share issue costs, net of deferred tax of $357	(960)	-	-	-	-	(960)
Approval of conversion feature (Note 7)	-	-	2,800	-	-	2,800
Share-based compensation	-	-	-	913	-	913
Net loss for the period	-	-	-	-	(11,496)	(11,496)
Balance at September 30, 2016	**$ 307,206**	**335**	**$ 2,800**	**$ 13,290**	**$ (171,248)**	**$ 152,383**

See accompanying notes to the unaudited interim Condensed Financial Statements

GEAR ENERGY LTD.
INTERIM CONDENSED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS (unaudited)

	Three months ended September 30		Nine months ended September 30	
(Cdn$ thousands, except per share amounts)	**2016**	2015	**2016**	2015
REVENUE				
Sales of crude oil, natural gas and natural gas liquids	**$ 17,990**	$ 19,476	**$ 41,744**	$ 66,100
Royalties	**(1,981)**	(2,438)	**(3,861)**	(9,237)
	16,009	17,038	**37,883**	56,863
(Loss) gain on risk management contracts (Note 9)	**(59)**	4,852	**(2,230)**	2,901
	15,950	21,890	**35,653**	59,764
EXPENSES				
Operating	**8,140**	8,759	**19,881**	28,999
General and administrative	**1,062**	1,327	**3,902**	4,959
Transaction costs (Note 4)	**984**	-	**1,485**	-
Share-based compensation (Note 10)	**391**	549	**913**	1,676
Interest and financing charges	**467**	668	**1,725**	2,223
Depletion, depreciation and amortization (Notes 3 and 5)	**7,839**	11,177	**17,865**	31,835
Accretion (Note 7 and 8)	**437**	415	**1,198**	1,183
Impairment	**-**	85,820	**-**	85,820
Drilling commitments (Note 13)	**-**	-	**480**	-
Loss on conversion approval option (Note 7)	**-**	-	**1,000**	-
Gain on foreign exchange	**-**	(234)	**-**	(457)
Gain on asset dispositions (Note 5)	**(900)**	-	**(1,300)**	-
	18,420	108,481	**47,149**	156,238
Deferred tax recovery	**-**	(23,231)	**-**	(26,456)
Net loss and comprehensive loss	**$ (2,470)**	$ (63,360)	**$ (11,496)**	$ (70,018)
Net loss per share, basic and diluted (Note 10)	**$ (0.01)**	$ (0.89)	**$ (0.10)**	$ (0.99)

See accompanying notes to the unaudited interim Condensed Financial Statements

GEAR ENERGY LTD.
INTERIM CONDENSED STATEMENTS OF CASH FLOWS (unaudited)

(Cdn$ thousands)	Three months ended September 30 **2016**	2015	Nine months ended September 30 **2016**	2015
CASH FLOW FROM OPERATING ACTIVITIES				
Net loss	**$ (2,470)**	$ (63,360)	**$ (11,496)**	$ (70,018)
Add items not involving cash:				
Depletion, depreciation and amortization	**7,839**	11,177	**17,865**	31,835
Accretion	**437**	415	**1,198**	1,183
Impairment	**-**	85,820	**-**	85,820
Unrealized loss (gain) on risk management contracts	**1,567**	(3,954)	**10,892**	10,497
Share-based compensation	**391**	549	**913**	1,676
Bad debt expense	**-**	-	**109**	(11)
Deferred tax recovery	**-**	(23,231)	**-**	(26,456)
Gain on asset disposition	**(900)**	-	**(1,300)**	-
Loss on conversion approval option	**-**	-	**1,000**	-
Decommissioning liabilities settled	**(677)**	(295)	**(1,642)**	(733)
Change in non-cash working capital (Note 12)	**3,606**	2,752	**876**	2,951
	9,793	9,873	**18,415**	36,744
CASH FLOW USED IN FINANCING ACTIVITIES				
Borrowings (repayments) of debt under demand credit facilities	**5,146**	(2,363)	**(22,191)**	(19,345)
Repayment of debt assumed on corporate acquisition	**(8,393)**	-	**(8,393)**	-
Convertible debenture issue costs	**-**	-	**5**	-
Issuance of share capital, net of share issue costs	**5**	-	**18,808**	-
	(3,242)	(2,363)	**(11,771)**	(19,345)
CASH FLOW USED IN INVESTING ACTIVITIES				
Property, plant and equipment expenditures	**(7,034)**	(6,433)	**(8,300)**	(10,890)
Acquisition of petroleum and natural gas properties	**(75)**	-	**(117)**	458
Disposition of petroleum and natural gas properties	**306**	-	**802**	227
Change in non-cash working capital (Note 12)	**252**	(1,077)	**971**	(7,194)
	(6,551)	(7,510)	**(6,644)**	(17,399)
INCREASE IN CASH AND CASH EQUIVALENTS	**-**	-	**-**	-
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**-**	-	**-**	-
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$ -**	$ -	**$ -**	$ -
The following are included in cash flow from operating activities:				
Interest paid in cash	**$ 319**	$ 668	**$ 1,577**	$ 2,223

See accompanying notes to the unaudited interim Condensed Financial Statements

1. BASIS OF PRESENTATION

The principal undertakings of Gear Energy Ltd. (the "Company" or "Gear") are to carry on the business of acquiring, developing and holding interests in petroleum and natural gas properties and assets.

Gear's principal place of business is located at 2600, 240 – 4th Avenue SW, Calgary, Alberta T2P 4H4.

These unaudited interim condensed financial statements (the "financial statements") have been prepared in accordance with International Accounting Standards ("IAS") 34 *Interim Financial Reporting* using accounting policies aligned with International Financial Reporting Standards ("IFRS"). The financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the Audited Financial Statements for the year ended December 31, 2015, which have been prepared in accordance with IFRS.

The financial statements were authorized for issue by the Board of Directors on November 9, 2016.

2. SIGNIFICANT ACCOUNTING POLICIES

Business Combinations

Business combinations are accounted for using the acquisition method under IFRS 3 *Business Combinations*. Management's determination of whether a transaction constitutes a business combination or an asset acquisition is determined based on the criteria in IFRS 3. The identifiable assets acquired and liabilities assumed in a business combination are measured at their fair values at the acquisition date. The asset retirement obligation ("ARO") associated with the acquired property is subsequently re-measured at the end of the reporting period using a risk-free discount rate, with any changes recognized in ARO and property, plant and equipment ("PP&E") on the balance sheet. The cost of an acquisition is measured as the fair value of the assets transferred, equity instruments issued, and liabilities incurred or assumed at the acquisition date. The excess of the acquisition cost over the fair value of the net assets acquired is recognized as goodwill. If the cost of the acquisition is less than the fair value of the net assets acquired, a gain on business combination is recognized immediately in the condensed interim consolidated statements of income (the "statements of income"). A deferred tax asset or liability arising from the acquired net assets is also recognized in a business combination. Any resulting goodwill or a gain resulting from a bargain purchase is not considered to be taxable income. Transaction costs associated with a business combination are expensed as incurred.

Future Accounting Policy Changes

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

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

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

Customers. IFRS 16 will be applied by Gear on January 1, 2019 and the Company is currently evaluating the impact of the standard on Gear's financial statements.

3. INVENTORY

At September 30, 2016 Gear recorded oil inventory valued at its production cost of $5.8 million (December 31, 2015 at its market price of $3.4 million). The cost components of the inventory balance are as follows:

($ thousands)	**Period ended September 30, 2016**	Year ended December 31, 2015
Capital	**2,696**	-
Operating	**3,082**	3,440
Balance, end of period	**5,778**	3,440

4. CORPORATE ACQUISTITION

On July 27, 2016 Gear completed an acquisition, by way of plan of arrangement, of all issued and outstanding common shares of Striker Exploration Corp. ("Striker"), a public oil and gas company with properties in Central Alberta. The acquired assets provide Gear with a more diversified asset base by adding light and medium oil and natural gas production.

Determination of the fair value of property, plant and equipment acquired in a business combination requires management to make assumptions and estimates about future events. The fair value of crude oil and natural gas properties is estimated with reference to the discounted cash flows expected to be derived from the crude oil and natural gas production. These assumptions and estimates generally require judgement and include estimates of reserves acquired, liabilities assumed, forecasted benchmark commodity prices, and discount rates. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to the net assets acquired.

Consideration has been allocated as follows:

Net Assets Acquired	**Amount** ($ thousands)
Accounts receivable	2,375
Prepaid expenses	1,346
Inventory	421
Property, plant and equipment	58,372
Accounts payable	(2,610)
Debt	(8,393)
Decommissioning liability	(4,670)
Total net assets acquired	46,841

Consideration	**Amount** ($ thousands)
Common shares (76.2 million shares at $0.61 per share)	46,506
Warrants (Note 10)	335
Total purchase price	46,841

As part of the acquisition Gear acquired tax pools that would have resulted in a deferred tax asset which has not been recognized due to the uncertainty of future recoverability. These financial statements incorporate the results of operations of the acquired properties from July 27, 2016. The assets generated sales of crude oil, natural gas and natural gas liquids of $4.1 million and a net loss of $0.1 million from July 27, 2016 to September 30, 2016. If the transaction had taken place on January 1, 2016, it is estimated that the assets acquired would have contributed incremental sales of crude oil, natural gas and natural gas liquids of $14.9 million and a net loss of $4.5 million.

In conjunction with the acquisition Gear incurred $1.5 million of transaction costs including amounts relating to advisory, legal, and accounting fees, severance, and other related acquisition costs. These amounts are included in the Interim Condensed Statements of Loss and Comprehensive Loss.

5. PROPERTY, PLANT AND EQUIPMENT

The following table reconciles Gear's property, plant and equipment:

Cost ($ thousands)	**Development and Production Assets**	**Administrative Assets**	**Total**
Balance, December 31, 2014	555,951	418	556,369
Additions	14,099	784	14,883
Acquisitions	(458)	-	(458)
Disposals	(227)	-	(227)
Change in decommissioning costs	(19,240)	-	(19,240)
Balance, December 31, 2015	550,125	1,202	551,327
Additions	8,300	-	8,300
Acquisitions	58,689	-	58,689
Disposals	(96)	-	(96)
Change in decommissioning costs	32,493	-	32,493
Balance, September 30, 2016	649,511	1,202	650,713

Depletion, depreciation and amortization ($ thousands)			
Balance, December 31, 2014	235,747	279	236,026
Depletion, depreciation and amortization	43,536	160	43,696
Impairment	92,700	-	92,700
Balance, December 31, 2015	371,983	439	372,422
Depletion, depreciation and amortization	20,113	166	20,279
Balance, September 30, 2016	392,096	605	392,701

Carrying amounts ($ thousands)	**Development and Production Assets**	**Administrative Assets**	**Total**
As at December 31, 2015	178,142	763	178,905
As at September 30, 2016	257,415	597	258,012

Throughout 2016 Gear divested of small non-core properties that had nominal property, plant and equipment carrying value but had associated decommissioning liabilities, resulting in a $0.9 million and $1.3 million gain on sale for the three and nine months ended September 30, 2016, respectively.

No impairment indicators were identified on the property, plant and equipment as at September 30, 2016.

6. DEBT

In conjunction with the close of the Striker acquisition, Gear entered into a new $42.5 million revolving term credit facility with a syndicate of three banks and a $7.5 million operating facility (the "Credit Facilities"), both with a maturity date of May 31, 2017. The total stamping fees range, depending on Gear's Debt 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. At September 30, 2016 Gear was in compliance with this covenant. The first semi-annual borrowing base review of the facilities will occur on or about November 30, 2016. At September 30, 2016 Gear had $33.5 million drawn (December 31, 2015 – $55.7 million).

7. CONVERTIBLE DEBENTURES

On November 30, 2015, the Company completed the issuance of unsecured subordinated debentures (the "Convertible Debentures") for gross proceeds of $14.8 million. The Convertible Debentures 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, commencing May 31, 2016. 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 may be redeemable on or after December 31, 2018 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. 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. Gear has 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 common shares with the number of such common shares based on 95% of the weighted average trading price of the common shares prior to the date of maturity or redemption.

A derivative financial instrument was identified associated with the shareholder vote - an option existed for Gear's shareholders to approve the conversion feature of the Convertible Debentures. The instrument was valued using a Monte Carlo valuation model to calculate various scenarios on how shareholders would vote based on the future probability of the intrinsic difference between the share price and the conversion price. As at the date of issuance the fair value of this conversion approval option was determined to be a $1.8 million liability, based on an 80 per cent probability that shareholders would vote to approve the conversion option of the Convertible Debentures, and was recorded on the Balance Sheet. Changes in fair value of the instrument were negligible at December 31, 2015 and March 31, 2016 and as such no gain or loss was recorded in the Statement of Loss and Comprehensive Loss in those periods. The host liability component of the Convertible Debentures was measured as the residual value from deducting the fair value of the derivative liability from the transaction price. Issuance costs have been added to the carrying amount of the Convertible Debentures. The balance of the Convertible Debenture liability is being accreted to the principal amount at maturity through the effective interest rate method.

The conversion approval option was exercised on May 11, 2016, coincident with the shareholder vote. The fair value of the instrument on May 11, 2016 was determined to be $2.8 million using a 100% probability that shareholders would vote to approve the conversion feature. This amount was recorded on the Balance Sheet with the corresponding change recorded in the Statement of Loss and Comprehensive Loss. Subsequent to the shareholder vote the value ascribed to the conversion approval option was reclassified to Shareholders' Equity.

The following tables provide a continuity of balances of the Convertible Debentures and the conversion approval option from December 31, 2015 to September 30, 2016:

($ thousands)	**Convertible Debentures**	**Conversion approval option**	**Equity component**
Balance, December 31, 2015	12,230	1,800	-
Accretion using effective interest rate at 8%	329	-	-
Adjustment of issuance costs	5	-	-
Change in fair value of conversion approval option	-	1,000	-
Approval of conversion feature	-	(2,800)	2,800
Balance, September 30, 2016	**12,564**	**-**	**2,800**

8. DECOMMISSIONING LIABILITY

($ thousands)	**Nine months ended September 30, 2016**	Year ended December 31, 2015
Balance, beginning of period	**54,959**	74,114
Changes in estimates	**5,655**	(19,653)
Additions	**544**	413
Dispositions	**(374)**	-
Liabilities acquired through acquisitions	**4,670**	-
Revaluation of acquired decommissioning liabilities [1]	**26,274**	-
Decommissioning liabilities settled	**(1,642)**	(1,383)
Accretion	**869**	1,468
Balance, end of period	**90,955**	54,959

[1] These amounts relate to the revaluation of acquired decommissioning liabilities immediately following the acquisition using a risk-free discount rate. At the date of acquisition decommissioning liabilities are fair valued.

The undiscounted and unescalated amount of the expected cash flows required to settle the decommissioning liability is estimated to be $83.0 million as at September 30, 2016 (December 31, 2015 - $55.3 million). The liability for the expected cash flows, as reflected in the financial statements, has been inflated at two per cent and discounted using a risk free rate of 1.57 per cent (December 31, 2015 – 2.04 per cent). Abandonments are expected to occur between 2016 and 2048 and related costs will be funded mainly from Gear's cash provided by operating activities.

9. RISK MANAGEMENT CONTRACTS

Following is a summary of all risk management contracts in place as at September 30, 2016:

Financial WTI Crude Oil Contracts

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

Financial AECO Gas Contracts

Term		Contract	Currency	Volume GJ/d	Sold Swap $/GJ	Sold Call $/GJ	Bought Put $/GJ	Sold Put $/GJ
Oct 1, 2016	Dec 31, 2016	Collar	CAD	750	-	2.80	2.00	-
Jan 1, 2017	Dec 31, 2017	Collar	CAD	750	-	3.30	2.00	-

Financial NYMEX Gas Contracts

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

As at September 30, 2016, the fair value associated with Gear's risk management contracts was a liability of $1.7 million (December 31, 2015 – asset of $9.2 million).

Subsequent to September 30, 2016 the following hedges were entered into:

Financial WTI Crude Oil Contracts								
Term		Contract	Currency	Volume	Sold Swap	Sold Call	Bought Put	Sold Put
				bbl/d	$/bbl	$/bbl	$/bbl	$/bbl
Jan 1, 2017	Dec 31, 2017	Collar	CAD	400	-	75.00	60.00	-
Jan 1, 2017	Dec 31, 2017	Collar	CAD	200	-	79.01	60.00	-
Jan 1, 2017	Dec 31, 2017	Collar	CAD	200	-	77.00	62.00	-

Financial AECO Gas Contracts								
Term		Contract	Currency	Volume	Sold Swap	Sold Call	Bought Put	Sold Put
				GJ/d	$/GJ	$/GJ	$/GJ	$/GJ
Jan 1, 2017	Dec 31, 2017	Collar	CAD	1,000	-	3.31	2.70	-
Jan 1, 2017	Dec 31, 2017	Swap	CAD	1,900	3.00	-	-	-

The following table reconciles the loss on risk management contracts:

	Three months ended September 30,		Nine months ended September 30,	
($ thousands)	**2016**	2015	**2016**	2015
Realized cash gain on risk management contracts	**1,508**	898	**8,662**	13,398
Unrealized (loss) gain on risk management contracts	**(1,567)**	3,954	**(10,892)**	(10,497)
Total (loss) gain on risk management contracts	**(59)**	4,852	**(2,230)**	2,901

10. SHAREHOLDERS' EQUITY

a) Share capital

Common Shares

(thousands of shares, $ thousands)	**Nine months ended September 30, 2016**			Year ended December 31, 2015		
	Shares		**Amount**	Shares		Amount
Balance, beginning of period	**85,484**	**$**	**241,535**	70,817	$	231,067
Issued on offering of common shares	**28,750**		**20,125**	14,667		11,000
Issued on acquisition of Striker	**76,238**		**46,506**	-		-
Share issue costs, net of deferred tax $357 (2015 - $197)	**-**		**(960)**	-		(532)
Balance, end of period	**190,472**	**$**	**307,206**	85,484	$	241,535

b) Warrants

Consideration for the purchase of Striker includes the continuation of 650 thousand fully vested Striker warrants held by certain directors of Striker who were appointed to the board of directors of Gear at the effective time of the arrangement. Each warrant gives the holder option to purchase 2.325 Gear shares at an exercise price of $1.03 per share. These warrants expire on July 8, 2019.

c) Stock Option Plan

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

The following table summarizes Gear's stock option plans and activity during the periods ended September 30, 2016 and December 31, 2015.

	Nine months ended September 30, 2016			Year ended December 31, 2015		
(thousands)	**Number of stock options**		**Weighted average exercise price**	Number of stock options		Weighted average exercise price
Outstanding, beginning of period	**6,380**	**$**	**2.83**	4,794	$	3.54
Granted	**7,105**		**0.67**	2,608		1.53
Expired	**-**		**-**	(663)		2.50
Forfeited	**(1,239)**		**3.02**	(359)		3.49
Outstanding, end of period	**12,246**		**1.56**	6,380		2.83
Exercisable, end of period	**3,068**	**$**	**3.15**	1,900	$	3.33

During the first nine months of 2016, Gear recorded an expense of $0.9 million to share-based compensation expense related to its stock option plan (September 30, 2015 - $1.7 million).

The Black-Scholes option-pricing model was used to determine the fair value of stock options granted using the following assumptions:

	Period ended September 30, 2016
Risk free interest rate (%)	**0.53**
Dividend yield (%)	**-**
Average expected life (years)	**2.4**
Average expected volatility (%)	**85.0**
Forfeiture rate (%)	**10.0**

d) Weighted average common shares

	Three months ended September 30,		Nine months ended September 30,	
(thousands)	**2016**	2015	**2016**	2015
Basic and diluted	**168,926**	70,817	**113,711**	70,817

For the three and nine months period ended September 30, 2016 the dilutive impact of stock options, warrants and Convertible Debentures were excluded from the fully diluted weighted average number of common shares as they were anti-dilutive.

11. FINANCIAL INSTRUMENTS

Classification and Measurement

Gear's financial instruments on the balance sheet are carried at amortized cost with the exception of risk management contracts which are carried at fair value. As at September 30, 2016 and December 31, 2015, no significant differences existed between the carrying value of financial instruments and their estimated fair values

All of Gear's risk management contracts are transacted in active markets. Gear classifies the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Gear's risk management contracts have been assessed on the fair value hierarchy described above. Gear's cash is classified as Level 1, risk management contracts as Level 2, and the conversion approval option as Level 3. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

Credit Risk

The majority of the credit exposure on accounts receivable at September 30, 2016 pertains to accrued revenue for September 2016 production volumes. Gear transacts with a number of oil and natural gas marketing companies. Marketing companies typically remit amounts to Gear by the 25th day of the month following production. A significant portion of Gear's accounts receivable is carried by three marketing companies. At September 30, 2016, 27 per cent, 20 per cent, and 16 per cent of total outstanding accounts receivable pertains to these companies.

As at September 30, 2016, 92 per cent of Gear's accounts receivable was current (2015 – 94 per cent) and 7 per cent was greater than 90 days (2015 – 6 per cent).

12. SUPPLEMENTAL DISCLOSURES CASH FLOW INFORMATION

Cash Flow Statement Presentation

The following table provides a detailed breakdown of the changes in non-cash working capital within cash flow from operating, financing and investing activities:

	Three months ended September 30,		**Nine months ended September 30,**	
($ thousands)	**2016**	2015	**2016**	2015
Accounts receivable	**2,144**	6,088	**(1,000)**	9,731
Prepaid expenses	**(700)**	(474)	**(704)**	(1,388)
Inventory	**104**	(118)	**497**	2,320
Accounts payable and accrued liabilities	**2,310**	(3,821)	**3,054**	(14,906)
Total	**3,858**	1,675	**1,847**	(4,243)
Operating Activities	**3,606**	2,752	**876**	2,951
Investing Activities	**252**	(1,077)	**971**	(7,194)
Total	**3,858**	1,675	**1,847**	(4,243)

13. COMMITMENTS AND CONTINGENCIES

Following is a summary of Gear's contractual obligations and commitments as at September 30, 2016:

	Payments due by period					
($ thousands)	2016	2017	2018	2019	2020	Total
Office leases	9	143	214	214	18	598
Drilling commitment	-	1,931	1,939	1,939	1,939	7,748
Total contractual obligations	9	2,074	2,153	2,153	1,957	8,346

In the first quarter of 2016 Gear negotiated certain drilling commitments to extend the service period of previously existing contracts and incurred a renegotiation fee of $0.5 million, which has been included in the Statement of Loss and Comprehensive Loss.

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.

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.