

FINANCIAL AND OPERATIONAL HIGHLIGHTS



| (Cdn\$ thousands, except per boe amounts) | Three months ended | | | Nine months ended | |
|---|--------------------|-----------------|-----------------|-------------------|-----------------|
| | Sep 30, 2017 | Sep 30, 2016 | Jun 30, 2017 | Sep 30, 2017 | Sep 30, 2016 |
| FINANCIAL | | | | | |
| Cash flow from operations ⁽¹⁾ | 9,960 | 6,864 | 10,248 | 28,937 | 19,181 |
| Per weighted average basic share | 0.05 | 0.04 | 0.05 | 0.15 | 0.17 |
| Per weighted average diluted share | 0.05 | 0.04 | 0.05 | 0.14 | 0.17 |
| Cash flow from operating activities | 9,197 | 9,793 | 5,362 | 26,804 | 18,415 |
| Net (loss) income | (2,705) | (2,470) | 3,001 | 3,282 | (11,496) |
| Per weighted average basic share | (0.01) | (0.01) | 0.02 | 0.02 | (0.10) |
| Per weighted average diluted share | (0.01) | (0.01) | 0.01 | 0.02 | (0.10) |
| Capital expenditures | 10,513 | 7,034 | 6,161 | 35,458 | 8,300 |
| Net acquisitions ⁽²⁾ | 1,635 | 58,141 | 127 | 1,695 | 57,687 |
| Net debt outstanding ⁽¹⁾ | 44,568 | 41,791 | 43,409 | 44,568 | 41,791 |
| Weighted average shares, basic (thousands) | 193,158 | 168,926 | 192,922 | 192,975 | 113,711 |
| Weighted average, diluted (thousands) | 193,158 | 168,926 | 208,971 | 209,430 | 113,711 |
| Shares outstanding, end of period (thousands) | 194,968 | 190,472 | 192,935 | 194,968 | 190,472 |
| OPERATING | | | | | |
| Production | | | | | |
| Heavy oil (bbl/d) | 4,054 | 3,854 | 3,887 | 3,894 | 4,133 |
| Light and Medium oil (bbl/d) | 1,290 | 716 | 1,412 | 1,263 | 240 |
| Natural gas liquids (bbl/d) | 279 | 145 | 322 | 273 | 49 |
| Natural gas (mcf/d) | 5,415 | 4,232 | 5,334 | 5,316 | 2,261 |
| Total (boe/d) | 6,525 | 5,420 | 6,510 | 6,316 | 4,799 |
| Average prices | | | | | |
| Heavy oil (\$/bbl) | 44.00 | 37.74 | 44.72 | 43.96 | 32.56 |
| Light and Medium oil (\$/bbl) | 53.12 | 51.60 | 59.64 | 57.76 | 51.60 |
| Natural gas liquids (\$/bbl) | 27.28 | 20.04 | 28.11 | 26.51 | 20.04 |
| Natural gas (\$/mcf) | 1.52 | 2.43 | 2.91 | 2.46 | 2.04 |
| Netback (\$/boe) | | | | | |
| Commodity and other sales | 40.41 | 36.08 | 43.77 | 42.05 | 31.75 |
| Royalties | (4.50) | (3.97) | (4.96) | (4.49) | (2.94) |
| Operating costs | (16.57) | (16.33) | (17.78) | (16.89) | (15.12) |
| Operating netback ⁽¹⁾ | 19.34 | 15.78 | 21.03 | 20.67 | 13.69 |
| Realized risk management gains (losses) | 0.11 | 3.03 | (0.77) | (0.61) | 6.59 |
| General and administrative | (2.06) | (2.13) | (2.13) | (2.37) | (2.97) |
| Interest | (0.81) | (0.94) | (0.83) | (0.84) | (1.31) |
| Transaction costs | - | (1.97) | - | - | (1.13) |
| Other | - | - | - | (0.07) | (0.37) |
| Corporate netback ⁽¹⁾ | 16.58 | 13.77 | 17.30 | 16.78 | 14.50 |
| TRADING STATISTICS | | | | | |
| (\$ based on intra-day trading) | | | | | |
| High | 0.86 | 0.78 | 0.94 | 1.26 | 0.82 |
| Low | 0.65 | 0.54 | 0.60 | 0.60 | 0.25 |
| Close | 0.82 | 0.75 | 0.74 | 0.82 | 0.75 |
| Average daily volume (thousands) | 326 | 492 | 253 | 377 | 301 |

(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 November 8, 2017 and should be read in conjunction with the unaudited Interim Condensed Financial Statements as at and for the three and nine months ended September 30, 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

From the week ended June 30, 2017 to the week ended October 27, 2017, total US petroleum inventory (a myriad of crude oil, gasoline, distillates, and other refined products) has dropped by nearly 73 million barrels according to the US Energy Information Administration. In that same time frame, WTI has increased from US\$46 per barrel on June 30, 2017 to US\$55 per barrel on November 1, 2017. Gear is encouraged by the increase in WTI but does not plan to deviate from its current plan of investing within available cash flow to generate growth and maximum returns on capital. If the oil prices continue to improve and we potentially move into a new cycle of strong free cash flow, Gear will consider a variety of strategic options including: accelerating growth of cash flow and proved developed producing reserves on a per debt adjusted basis, de-risking additional inventory opportunities both organically and through acquisitions, material debt reduction, and other transactions. The Gear team look forward to the opportunity to balance all of this potential in our continued effort to maximize shareholder value.

2017 GUIDANCE

Gear updates annual expectations on a regular basis. Table 1 summarizes 2017 guidance estimates and first nine months of 2017 actual results. There are no changes to 2017 guidance since the second quarter.

Table 1

| | 2017 Guidance | Q3 2017 YTD Actuals |
|--|---------------|---------------------|
| Production (boe/d) | 6,600 | 6,316 |
| Per cent heavy oil (%) | 63 | 62 |
| Per cent light/medium oil & NGLs (%) | 23 | 24 |
| Royalty rate (%) | 10 | 10.7 |
| Operating costs (\$/boe) | 16.50 | 16.89 |
| General and administrative expense (\$/boe) | 2.20 | 2.37 |
| Interest expense (\$/boe) | 0.80 | 0.84 |
| Capital and abandonment expenditures (\$ millions) | 45 | 36.8 |

Gear plans on drilling 33 gross wells (33 net) with total capital expenditures for 2017 forecasted at approximately \$45 million.

Production for the first nine months of the year averaged just over 6,300 boe per day and with continued strong results from the ongoing drilling program, production in the last three months of the year is forecasted to be 7,300 to 7,400 boe per day, yielding an annual average of 6,600 boe per day with a strong 2017 exit. Current expectations are that Gear will deliver approximately 18 per cent production growth from the fourth quarter of 2016 to the fourth quarter of 2017 while investing close to or within annual cash flow at current prices.

METRICS

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

Table 2

| | Three months ended | | | Nine months ended | | | |
|---|--------------------|-----------------|-------------|-------------------|-----------------|-----------------|-------------|
| | Sep 30, 2017 | Sep 30, 2016 | % Change | Jun 30, 2017 | Sep 30, 2017 | Sep 30, 2016 | % Change |
| Cash flow from operations per debt adjusted share ⁽¹⁾ | 0.040 | 0.030 | 33 | 0.041 | 0.121 | 0.096 | 26 |
| Production, boepd per debt adjusted thousand shares ⁽¹⁾ | 0.026 | 0.024 | 8 | 0.026 | 0.026 | 0.024 | 8 |

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

2017 THIRD QUARTER FINANCIAL AND OPERATIONAL RESULTS

Cash flow from operations

Cash flow from operations for the three and nine months ended September 30, 2017 were \$10.0 million and \$28.9 million, respectively. This represents increases in cash flow from operations of \$3.1 million and \$9.8 million when compared to the same periods in 2016. The increase in third quarter cash flow is the result of higher production volumes, increased commodity prices and decreased transaction costs, offset by lower gains on risk management contracts and increased royalty, operating, general and administrative and interest expenses.

On a year to date basis, increased cash flow is the result of higher production volumes, increased commodity prices and decreased interest, transaction costs and other expenses, offset by lower gains on risk management contracts and increased royalty, operating and general and administrative expenses.

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

Table 3

| | Three months ended | | Nine months ended | |
|---|--------------------|--------|-------------------|--------|
| | September 30 | | September 30 | |
| | \$ thousands | \$/boe | \$ thousands | \$/boe |
| Q3 2016 Cash flow from operations ⁽¹⁾ | 6,864 | 13.77 | 19,181 | 14.59 |
| Volume variance | 3,670 | - | 12,998 | - |
| Price variance | 2,599 | 4.32 | 17,761 | 10.30 |
| Cash gains on risk management contracts | (1,442) | (2.91) | (9,710) | (7.20) |
| Royalties | (718) | (0.52) | (3,887) | (1.56) |
| Expenses: | | | | |
| Operating | (1,806) | (0.24) | (9,249) | (1.77) |
| General and administrative | (171) | 0.07 | (301) | 0.51 |
| Interest | (20) | 0.12 | 279 | 0.47 |
| Transaction costs | 984 | 1.97 | 1,485 | 1.13 |
| Other | - | - | 380 | 0.31 |
| Q3 2017 Cash flow from operations ⁽¹⁾ | 9,960 | 16.58 | 28,937 | 16.78 |

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

Net income

For the three and nine months ended September 30, 2017, Gear generated a net loss of \$2.7 million and net income of \$3.3 million, respectively. This compares to net losses of \$2.5 million and \$11.5 million for the same periods in 2016. The changes in net income are due to several factors discussed below.

Production

Production volumes averaged 6,525 boe per day and 6,316 boe per day for the three and nine months ended September 30, 2017, representing increases of 20 per cent and 32 per cent, respectively, over the same periods in 2016. These increases in production are 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 2017 capital programs, offset by natural declines on Gear's base production.

Gear's third quarter drilling program focused exclusively on heavy oil wells with three wells drilled in Wildmere and 10 in Paradise Hill. These wells did not have material oil sales until late in the third quarter and, as such, heavy oil volumes are expected to increase significantly in the fourth quarter. Light and medium oil volumes have decreased quarter over quarter as production from the Wilson Creek wells drilled earlier in the year stabilized. October production increased to greater than 7,200 boe per day and the fourth quarter is expected to average between 7,300 to 7,400 boe per day.

Table 4

| Production | Three months ended | | | Nine months ended | | | |
|---|--------------------|--------------|----------|-------------------|--------------|--------------|----------|
| | Sep 30, 2017 | Sep 30, 2016 | % Change | Jun 30, 2017 | Sep 30, 2017 | Sep 30, 2016 | % Change |
| Liquids (bbl/d) | | | | | | | |
| Heavy oil (bbl/d) | 4,054 | 3,854 | 5 | 3,887 | 3,894 | 4,133 | (6) |
| Light and Medium oil (bbl/d) | 1,290 | 716 | 80 | 1,412 | 1,263 | 240 | 426 |
| Natural gas liquids (mcf/d) | 279 | 145 | 92 | 322 | 273 | 49 | 457 |
| Total liquids (bbl/d) | 5,623 | 4,715 | 19 | 5,621 | 5,430 | 4,422 | 23 |
| Natural gas (mcf/d) | 5,415 | 4,232 | 28 | 5,334 | 5,316 | 2,261 | 135 |
| Total production (boe/d) ⁽¹⁾ | 6,525 | 5,420 | 20 | 6,510 | 6,316 | 4,799 | 32 |
| % Liquids production | 86 | 87 | (1) | 86 | 86 | 92 | (7) |
| % Natural gas production | 14 | 13 | 8 | 14 | 14 | 8 | 75 |

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

Revenue

Sales of crude oil, natural gas and natural gas liquids for the third quarter of 2017 totaled \$24.3 million, a 35 per cent increase over the third quarter 2016 sales of \$18.0 million. Year to date sales of crude oil, natural gas and natural gas liquids increased 74 per cent in 2017 compared to the same period in 2016. 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 | | | Nine months ended | | | |
|------------------------------------|--------------------|-----------------|-------------|-------------------|-----------------|-----------------|-------------|
| | Sep 30, 2017 | Sep 30, 2016 | % Change | Jun 30, 2017 | Sep 30, 2017 | Sep 30, 2016 | % Change |
| Oil and natural gas liquids | 23,502 | 17,045 | 38 | 24,517 | 68,929 | 40,480 | 70 |
| Natural gas | 758 | 945 | (20) | 1,412 | 3,575 | 1,264 | 183 |
| Total revenue | 24,260 | 17,990 | 35 | 25,929 | 72,504 | 41,744 | 74 |

Commodity Prices

Table 6

| Average Benchmark Prices | Three months ended | | | Nine months ended | | | |
|--|--------------------|-----------------|-------------|-------------------|-----------------|-----------------|-------------|
| | Sep 30, 2017 | Sep 30, 2016 | % Change | Jun 30, 2017 | Sep 30, 2017 | Sep 30, 2016 | % Change |
| WTI oil (US\$/bbl) ⁽¹⁾ | 48.21 | 44.91 | 7 | 48.29 | 49.47 | 41.32 | 20 |
| WCS heavy oil (US\$/bbl) ⁽²⁾ | 38.27 | 31.41 | 22 | 37.16 | 37.59 | 27.64 | 36 |
| WCS heavy oil (Cdn\$/bbl) | 47.92 | 41.00 | 17 | 49.97 | 49.07 | 36.52 | 34 |
| Cdn\$ / US\$ exchange rate | 1.25 | 1.30 | (4) | 1.34 | 1.30 | 1.32 | (2) |
| Edmonton Par (Cdn\$/bbl) | 56.74 | 55.64 | 2 | 61.92 | 60.88 | 51.36 | 19 |
| AECO natural gas (\$/mcf) ⁽³⁾ | 2.02 | 2.14 | (6) | 2.78 | 2.56 | 1.88 | 36 |

Gear Realized Prices ⁽⁴⁾

| | | | | | | | |
|--|-------|-------|------|--------|--------|-------|-------|
| Heavy oil (\$/bbl) | 44.00 | 37.74 | 17 | 44.72 | 43.96 | 32.56 | 35 |
| Light oil (\$/bbl) | 53.12 | 51.60 | 3 | 59.64 | 57.76 | 51.60 | 12 |
| Natural gas liquids (\$/bbl) | 27.28 | 20.04 | 36 | 28.11 | 26.51 | 20.04 | 32 |
| Natural gas (\$/mcf) | 1.52 | 2.43 | (37) | 2.91 | 2.46 | 2.04 | 21 |
| Weighted average, before hedging (\$/boe) | 40.41 | 36.08 | 12 | 43.77 | 42.05 | 31.75 | 32 |
| Realized risk management gains (losses) (\$ per boe) | 0.11 | 3.03 | (96) | (0.77) | (0.61) | 6.59 | (109) |
| Weighted average, after hedging (\$/boe) | 40.52 | 39.11 | 4 | 43.00 | 41.44 | 38.34 | 8 |

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

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

(3) Represents the AECO 7a monthly index

(4) Includes prior period adjustments

Revenue in the third quarter continued to be supported by an improving WCS differential which averaged US\$9.94 per boe. This improvement, however, was partially negated by the strengthening of the Canadian dollar. Gear's oil and natural gas liquids revenues are determined by reference to US benchmark prices and, as such, an increase in the Canadian dollar relative to the US dollar results in a decrease in the revenues received by Gear. Looking forward to the fourth quarter Gear is expecting, based on forward pricing information available at the time of writing, increased realized pricing on its heavy and light oil sales due to increased US WTI pricing and a weakening of the Canadian dollar. The WCS differential is expected to widen as a result of new heavy oil supply coming from Canada but no takeaway problems are currently anticipated for Gear's heavy oil production.

US denominated WTI prices for the third quarter of 2017 increased by seven per cent over the same period in 2016 and the WCS differential narrowed by 26 per cent from US\$13.50 per barrel to US\$9.94 per barrel. The Canadian dollar for the third quarter of 2017 strengthened, overall resulting in a 12 per cent increase in Gear's average realized commodity price over the prior year. On a year-to-date basis, US denominated WTI and the WCS differential strengthened by 20 per cent and 13 per cent, respectively and the Canadian dollar strengthened. These factors resulted in an overall increase in Gear's realized commodity price of 32 per cent in 2017 to \$42.05 per boe.

Royalties

In the third quarter of 2017, royalties as a percentage of commodity sales were 11.2 per cent, which is relatively unchanged from the same period in 2016. On a year to date basis Gear's royalty rate increased 16 per cent compared with 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 throughout 2017, Gear's royalty rate on produced volumes has increased. In addition, the properties acquired through the Striker Acquisition carry a slightly higher royalty burden than Gear's historical properties which increased the average corporate royalty rate.

Table 7

| Royalty expense (\$ thousands except % and per boe) | Three months ended | | | Nine months ended | | | |
|--|--------------------|-----------------|-------------|-------------------|-----------------|-----------------|-------------|
| | Sep 30, 2017 | Sep 30, 2016 | % Change | Jun 30, 2017 | Sep 30, 2017 | Sep 30, 2016 | % Change |
| Royalty expense | 2,699 | 1,981 | 36 | 2,942 | 7,749 | 3,861 | 101 |
| Royalty expense as a % of Sales | 11.2 | 11.0 | 2 | 11.4 | 10.7 | 9.2 | 16 |
| Royalty expense per boe | 4.50 | 3.97 | 13 | 4.96 | 4.49 | 2.94 | 53 |

Operating and Transportation costs

Operating costs plus transportation for the three and nine months ended September 30, 2017 came in at \$16.57 per boe and \$16.89 per boe, respectively, representing increases of 1 per cent and 12 per cent over the same periods in 2016. The year-to-date increase is the result of higher gas processing fees due to Gear's increased gas weighting from the properties acquired in the Striker Acquisition.

Third quarter operating costs per boe decreased 7 per cent over the prior quarter. This decrease is partly attributable to reduced water handling charges in Central Alberta as new infrastructure put in place in the first half of the year became operational. Operating costs per boe are expected to continue to trend downwards throughout the last quarter of the year as a result of continued production growth and decreased overall costs. Full year guidance for operating and transportation costs remains unchanged at \$16.50 per boe.

Table 8 below summarizes the operating and transportation expense:

Table 8

| Operating and Transportation expense (\$ thousands except per boe) | Three months ended | | | Nine months ended | | | |
|--|--------------------|-----------------|-------------|-------------------|-----------------|-----------------|-------------|
| | Sep 30, 2017 | Sep 30, 2016 | % Change | Jun 30, 2017 | Sep 30, 2017 | Sep 30, 2016 | % Change |
| Operating expense | 8,754 | 7,321 | 20 | 9,478 | 25,944 | 17,468 | 49 |
| Transportation expense | 1,192 | 819 | 46 | 1,053 | 3,186 | 2,413 | 32 |
| Operating and transportation expense | 9,946 | 8,140 | 22 | 10,531 | 29,130 | 19,881 | 47 |
| Operating expense per boe | 14.58 | 14.68 | (1) | 16.00 | 15.04 | 13.28 | 13 |
| Transportation expense per boe | 1.99 | 1.65 | 21 | 1.78 | 1.85 | 1.84 | 1 |
| Operating and transportation expense per boe | 16.57 | 16.33 | 1 | 17.78 | 16.89 | 15.12 | 12 |

Operating Netbacks

Gear's operating netback was \$19.34 per boe in the third quarter of 2017 compared to \$15.78 per boe in the same period of 2016. On a year to date basis Gear's operating netback was \$20.67 per boe in 2017 compared with \$13.69 in 2016. The quarterly and year to date changes are the result of increased commodity prices, offset by increased royalty and operating costs.

The components of operating netbacks are summarized in Table 9:

Table 9

| Netbacks (\$ per boe) | Q3 2017 | Q3 2016 | % Change | Q2 2017 | YTD Q3 | YTD Q3 | % Change |
|---------------------------------------|-------------------|-------------------|-------------|-------------------|------------------------|------------------------|-------------|
| | Total (\$/boe) | Total (\$/boe) | | Total (\$/boe) | 2017 Total (\$/boe) | 2016 Total (\$/boe) | |
| Total sales | 40.41 | 36.08 | 12 | 43.77 | 42.05 | 31.75 | 32 |
| Royalties | (4.50) | (3.97) | 13 | (4.96) | (4.49) | (2.94) | 53 |
| Operating and transportation costs | (16.57) | (16.33) | 1 | (17.78) | (16.89) | (15.12) | 12 |
| Netback | 19.34 | 15.78 | 23 | 21.03 | 20.67 | 13.69 | 51 |

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

G&A expenses totaled \$1.2 million and \$4.1 million for the three and nine months ended September 30, 2017, respectively, an increase of \$0.2 million over the same periods 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 5 per cent and 21 percent for the three and nine months ended September 30 2017, respectively, when compared with the same periods in 2016.

SBC is related to the granting of stock options and the issuance of common shares on the exercise of such options. There were 3.7 million options granted during the first nine months of 2017 at an average price of \$0.71 and 2.1 million options were exercised at an average exercise price of \$0.71. In addition, 0.2 million options expired with an average exercise price of \$2.50 and 0.5 million options were forfeited with an average exercise price of \$1.14. As at September 30, 2017 a total of 13.5 million options were outstanding or seven per cent of the 195 million total common shares outstanding.

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

Table 10

| G&A, Transaction costs and SBC expense (\$ thousands except per boe) | Three months ended | | | Nine months ended | | | |
|--|--------------------|--------------|----------|-------------------|--------------|--------------|----------|
| | Sep 30, 2017 | Sep 30, 2016 | % Change | Jun 30, 2017 | Sep 30, 2017 | Sep 30, 2016 | % Change |
| General and administrative | 1,634 | 1,496 | 9 | 1,669 | 5,195 | 4,452 | 17 |
| Overhead recoveries | (179) | (128) | 40 | (213) | (512) | (244) | 110 |
| Capitalized G&A | (221) | (306) | (28) | (197) | (589) | (306) | 92 |
| Net G&A | 1,234 | 1,062 | 16 | 1,259 | 4,094 | 3,902 | 5 |
| Transaction costs | - | 984 | (100) | - | - | 1,485 | (100) |
| SBC expense | 422 | 391 | 8 | 438 | 1,339 | 913 | 47 |
| Net general and administrative per boe | 2.06 | 2.13 | (3) | 2.13 | 2.37 | 2.97 | (20) |
| Transaction costs per boe | - | 1.97 | (100) | - | - | 1.13 | (100) |
| SBC expense per boe | 0.70 | 0.78 | (10) | 0.74 | 0.78 | 0.69 | 13 |

Interest and financing charges

Interest and financing charges totaled \$0.5 million for the third quarter of 2017, relatively unchanged from the same period in 2016. On a year-to-date basis interest and financing charges decreased \$0.3 million when compared to 2016. The reduced costs are primarily attributable to a 15 per cent decrease in average debt levels in 2017 compared to 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 declined significantly.

Gear's interest rate on its Credit Facilities (as defined below) is dependent on a ratio of its borrowings on its facilities in comparison to its earnings before interest, taxes, depletion, depreciation, amortization, and accretion. Gear's current annualized borrowing costs, inclusive of financing charges and standby fees on its Credit Facilities approximated 3.75 per cent in the first nine months of 2017. For the third quarter, Gear's borrowing costs were 3.6 per cent.

Table 11 is a breakdown of interest expense:

Table 11

| Interest and financing charges (\$ thousands except per boe) | Three months ended | | | Nine months ended | | | |
|--|--------------------|--------------|----------|-------------------|--------------|--------------|----------|
| | Sep 30, 2017 | Sep 30, 2016 | % Change | Jun 30, 2017 | Sep 30, 2017 | Sep 30, 2016 | % Change |
| Interest expense | 451 | 383 | 18 | 421 | 1,253 | 1,601 | (22) |
| Financing charges | 25 | 31 | (19) | 54 | 128 | 61 | 110 |
| Standby and letter of credit fees | 11 | 53 | (79) | 16 | 65 | 63 | 52 |
| Interest and financing charges | 487 | 467 | 4 | 491 | 1,446 | 1,725 | (16) |
| Interest and financing charges per boe | 0.81 | 0.94 | (14) | 0.83 | 0.84 | 1.31 | (36) |

Other Expenses

Other expenses include insurance costs in 2017 and a drilling commitment renegotiation fee in 2016. In the first quarter of 2017 Gear incurred a loss of \$2.3 million related to costs incurred during the drilling of a well in Saskatchewan. Insurance proceeds have been estimated by management to be equal to the costs incurred and have been accrued as at September 30, 2017, net of the \$0.1 million policy deductible.

During the first quarter of 2016 Gear negotiated certain drilling commitments which extended the service period on previously existing contracts and as a result incurred a renegotiation fee of \$0.5 million.

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 \$1.0 million in realized cash losses in the first nine months of 2017; this compares to a realized cash gain of \$8.7 million in the same period of 2016. Gear has hedged approximately 50 per cent of its after-royalty

annualized production for 2017 and has hedged 2,400 barrels per day of oil and 3,400 GJ per day of natural gas for 2018. 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 as at the date of this MD&A:

Table 12

Financial WTI Crude Oil Contracts

| Term | Contract | Currency | Volume | Sold | Sold | Bought | Sold |
|-------------|--------------|----------|--------|--------|--------|--------|--------|
| | | | | Swap | Call | Put | Put |
| | | | | \$/bbl | \$/bbl | \$/bbl | \$/bbl |
| Oct 1, 2017 | Dec 31, 2017 | Swap | 400 | 61.78 | - | - | - |
| Oct 1, 2017 | Dec 31, 2017 | Collar | 200 | - | 71.00 | 60.00 | - |
| Oct 1, 2017 | Dec 31, 2017 | Collar | 200 | - | 72.50 | 60.00 | - |
| Oct 1, 2017 | Dec 31, 2017 | Collar | 300 | - | 67.25 | 60.00 | - |
| Oct 1, 2017 | Dec 31, 2017 | Collar | 500 | - | 70.20 | 60.00 | - |
| Oct 1, 2017 | Dec 31, 2017 | Collar | 400 | - | 75.00 | 60.00 | - |
| Oct 1, 2017 | Dec 31, 2017 | Collar | 200 | - | 79.01 | 60.00 | - |
| Oct 1, 2017 | Dec 31, 2017 | Collar | 200 | - | 77.00 | 62.00 | - |
| Jan 1, 2018 | Dec 31, 2018 | Collar | 300 | - | 52.50 | 47.50 | - |
| Jan 1, 2018 | Dec 31, 2018 | Collar | 600 | - | 57.00 | 50.00 | - |
| Jan 1, 2018 | Apr 30, 2018 | Collar | 500 | - | 51.00 | 46.00 | - |
| Jan 1, 2018 | Apr 30, 2018 | Collar | 1,000 | - | 52.25 | 46.00 | - |
| May 1, 2018 | Aug 31, 2018 | Collar | 500 | - | 52.25 | 46.00 | - |
| May 1, 2018 | Aug 31, 2018 | Collar | 500 | - | 56.00 | 46.00 | - |
| Sep 1, 2018 | Dec 31, 2018 | Collar | 1,500 | - | 56.00 | 46.00 | - |

Financial WCS Differential Crude Oil Contracts

| Term | Contract | Currency | Volume | Sold | Sold | Bought | Sold |
|-------------|--------------|----------|--------|---------|--------|--------|--------|
| | | | | Swap | Call | Put | Put |
| | | | | \$/bbl | \$/bbl | \$/bbl | \$/bbl |
| Oct 1, 2017 | Dec 31, 2017 | Swap | 400 | (21.40) | - | - | - |

Financial AECO Gas Contracts

| Term | Contract | Currency | Volume | Sold | Sold | Bought | Sold |
|-------------|--------------|----------|--------|-------|-------|--------|-------|
| | | | | Swap | Call | Put | Put |
| | | | | \$/GJ | \$/GJ | \$/GJ | \$/GJ |
| Oct 1, 2017 | Dec 31, 2017 | Collar | 750 | - | 3.30 | 2.00 | - |
| Oct 1, 2017 | Dec 31, 2017 | Collar | 1,000 | - | 3.31 | 2.70 | - |
| Oct 1, 2017 | Dec 31, 2017 | Swap | 1,900 | 3.00 | - | - | - |
| Jan 1, 2018 | Dec 31, 2018 | Collar | 1,700 | - | 2.60 | 2.40 | - |
| Jan 1, 2018 | Dec 31, 2018 | Swap | 1,700 | 2.65 | - | - | - |

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

DD&A during the third quarter of 2017 was \$16.10 per boe compared to \$15.72 per boe in the same period in 2016. On a year-to-date basis Gear's DD&A rate increased 17 per cent. These increases in the DD&A rate are due to increases in Gear's finding and development costs year over year as well as from selling inventoried volumes in the first quarter of 2016 that did not have any carrying value ascribed to them as a result of inventory impairments taken in 2015. Gear records its inventory at the lower of cost and net realizable value.

Table 13

| DD&A Rate | Three months ended | | | Nine months ended | | | |
|-------------------------------|--------------------|--------------|----------|-------------------|--------------|--------------|----------|
| | Sep 30, 2017 | Sep 30, 2016 | % Change | Jun 30, 2017 | Sep 30, 2017 | Sep 30, 2016 | % Change |
| (\$ thousands except per boe) | | | | | | | |
| DD&A | 9,662 | 7,839 | 23 | 9,349 | 27,446 | 17,865 | 54 |
| Total DD&A rate per boe | 16.10 | 15.72 | 2 | 15.78 | 15.92 | 13.59 | 17 |

Taxes

For the three months ended September 30, 2017 a deferred tax recovery was not recorded due to the uncertainty of the recoverability of additional deferred income tax assets. Gear has evaluated the ultimate utilization of existing tax pools, which supports the \$17.5 million deferred tax asset recognized as at September 30, 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 September 30, 2017 Gear's estimated regular tax pools were \$348.7 million and estimated successored tax pools were \$87.0 million (\$375.6 regular and \$52.6 million successored 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 \$10.5 million for the three months ended September 30, 2017 as compared to \$7.0 million in the same period of 2016. During the third quarter Gear drilled 13 gross (13 net) wells, 10 in Paradise Hill and three in Wildmere.

Gear's 2017 Paradise Hill drill program was near completion at the end of September with 14 of the planned 15 wells drilled. Well results to date are in line with expectation and are expected to drive strong production increases in the fourth quarter. The initial Paradise Hill lands were acquired in an asset acquisition in 2014; since then Gear has grown production in the area from nil to over 1,700 bbl per day in October 2017 and it is the highest cash flowing property in Gear's current portfolio. On average the cost to drill, complete and equip a well in Paradise Hill is approximately \$650,000 in 2017.

During the third quarter Gear spent \$1.6 million on net acquisition and disposition activity primarily to acquire lands in Wildmere. Future drilling locations on the acquired lands are considered top tier in Gear's inventory and are planned to be drilled in early 2018.

Year to date, Gear has spent \$35.5 million to drill 27 gross (27 net) wells. The remainder of the 2017 drilling program consists of six additional wells - four heavy oil wells and two medium oil wells. Full year capital guidance remains unchanged at \$45 million.

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

Table 14

| Capital expenditures (\$ thousands) | Three months ended | | | Nine months ended | | | |
|--|--------------------|-----------------|-------------|-------------------|-----------------|-----------------|-------------|
| | Sep 30, 2017 | Sep 30, 2016 | % Change | Jun 30, 2017 | Sep 30, 2017 | Sep 30, 2016 | % Change |
| Geological and geophysical | 112 | 254 | (56) | 7 | 1,191 | 237 | 403 |
| Drilling and completions | 7,609 | 5,734 | 33 | 3,857 | 26,027 | 6,418 | 306 |
| Production equipment and facilities | 2,545 | 772 | 230 | 2,042 | 7,659 | 1,370 | 459 |
| Undeveloped land purchased at crown land sales | 177 | 33 | 436 | 255 | 508 | 66 | 670 |
| Other | 70 | 241 | (71) | - | 73 | 209 | (65) |
| Total capital expenditures | 10,513 | 7,034 | 49 | 6,161 | 35,458 | 8,300 | 327 |
| Property acquisitions and dispositions, net ⁽¹⁾ | 1,635 | 58,141 | (97) | 127 | 1,695 | 57,687 | (97) |
| Total capital expenditures and net acquisitions | 12,148 | 65,175 | (81) | 6,288 | 37,153 | 65,987 | (44) |

(1) Includes post-closing adjustments.

Decommissioning Liability

At September 30, 2017, Gear has recorded a decommissioning liability of \$76.3 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 2.42 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 decrease in liability is the result of an increase in the discount factor offset by increased well counts due to capital activity in the first nine months of the year.

Environmental stewardship is a core value at Gear and abandonment and reclamation investments continue to be made in a prudent and responsible manner with oversight by Gear's Board of Directors. Ongoing abandonment expenditures for all of Gear's assets are funded out of cash flow from operations. As at September 30, 2017 Gear's Licensee Liability Rating in Alberta was 2.04 times and 3.82 times in Saskatchewan.

Capitalization, Financial Resources and Liquidity

A breakdown of Gear's capital structure is outlined in Table 15, as at September 30, 2017 and December 31, 2016:

Table 15

| Debt (\$ thousands except ratio amounts) | Sep 30, 2017 | Dec 31, 2016 |
|---|----------------|----------------|
| Net debt ⁽¹⁾ | 44,568 | 36,967 |
| Net debt to quarterly annualized cash flow from operations | 1.1 | 1.0 |
| Net debt to year-to-date annualized cash flow from operations | 1.2 | 1.3 |
| Common shares outstanding | 194,968 | 192,568 |

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

In the first nine months of 2017 Gear has drilled 27 gross (27 net wells) spending \$35.5 million of its \$42 million capital budget. In addition to budgeted capital expenditures Gear has also spent \$1.7 million on net acquisition and disposition activity, \$1.3 million on abandonment expenditures and has received \$1.4 million in proceeds from the exercise of stock options in the year. These net cash outflows exceed cash flow from operations resulting in an increase of net debt from \$37.0 million at December 31, 2016 to \$44.6 million at September 30, 2017. On an annualized basis Gear intends its net debt to cash flow ratio to approximate one times.

Credit Facilities

In May 2017, Gear increased its borrowing base on its Credit Facilities from \$50 million to \$55 million. The \$55 million facilities consists of a \$47.5 million revolving term credit facility with a syndicate of three banks (the "Syndicate") and a \$7.5 million operating facility (collectively, the "Credit Facilities"). The maturity date on the Credit Facilities is May 30, 2019. The total stamping fees range, depending on Gear's borrowings on its Credit Facilities to EBITDA ratio, between 100 bps to 300 bps on Canadian bank prime borrowings and between 200 bps and 400 bps on Canadian dollar bankers' acceptances. The undrawn portion of the Credit Facilities is subject to a standby fee in the range of 50 bps to 100 bps. The Credit Facilities carried a single covenant to maintain an adjusted working capital ratio of not less than 1.0:1. Adjusted working capital ratio is defined as current assets less unrealized hedging gains, plus the undrawn portion of the Credit Facilities divided by accounts payable and accrued liabilities. The semi-annual borrowing base review is currently underway and is scheduled to be complete on or about November 30, 2017. As at the date of this MD&A indications from the Syndicate are that an increase to the borrowing base can be supported; however, Gear intends not to pursue an increase at this time. As at September 30, 2017 Gear had \$39.4 million drawn, leaving additional borrowing capacity of \$15.6 million.

Convertible Debentures

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

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

In the first nine months 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 September 30, 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 current capital program is expected to be financed primarily through cash flow from operations. Gear's borrowing capacity is based on its reserves value as determined by its external reserve evaluator.

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

Shareholders' Equity

As at September 30, 2017 and the date of this MD&A Gear had 195.0 million common shares outstanding, an increase of 2.4 million shares from the December 31, 2016 balance of 192.6 million shares. In January 2017 \$0.3 million of Convertible Debentures were converted into approximately 0.3 million Gear common shares. Year to date 2.1 million shares were issued on the exercise of employee stock options.

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 September 30, 2017 and as at the date of this MD&A a total of 13.5 million options are outstanding with a weighted average exercise price of \$1.44 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. In the second quarter of 2017 400 thousand of the outstanding warrants were cancelled. Each warrant entitles the holder to acquire 2.325 common shares of Gear at a price of \$1.03 per share. As a result, as at September 30, 2017 and as at the date hereof, there are now warrants to acquire 581,250 common shares of Gear at a price of \$1.03 per share that will expire on July 8, 2019.

As at September 30, 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 15,744,827 additional Gear common shares may be issued on conversion of the Convertible Debentures that remain outstanding at the date hereof. Gear will also have the option to satisfy its obligation to repay the principal amount of the Convertible Debentures due at maturity or redemption of the Convertible Debentures by the issuance of Gear common shares and the number of such common shares will be based on 95% of the weighted average trading price of the common shares prior to the date fixed for maturity or redemption. As the number of common shares to be issued on redemption or maturity is based on a price to be determined at a later date, the maximum number of Gear common shares that may be issued upon such redemption or maturity is not determinable at the present time.

Environmental Initiatives Impacting Gear

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

Contractual Obligations and Commitments

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

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

As at September 30, 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 lease agreements is \$0.6 million. The drilling rig commitment is effective January 1, 2017 through December 31, 2020 with a total commitment of \$6.0 million. For further information see Note 13 "Commitments and Contingencies" in the notes to the interim condensed financial statements for the quarter ended September 30, 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 September 30, 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 September 30, 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

| (\$ thousands) | Three months ended | | | Nine months ended | |
|--|--------------------|--------------|--------------|-------------------|--------------|
| | Sep 30, 2017 | Sep 30, 2016 | Jun 30, 2017 | Sep 30, 2017 | Sep 30, 2016 |
| Cash flow from operating activities | 9,197 | 9,793 | 5,362 | 26,804 | 18,415 |
| Expenditures on site restoration and reclamation | 519 | 677 | 676 | 1,317 | 1,642 |
| Change in non-cash working capital | 244 | (3,606) | 4,210 | 816 | (876) |
| Cash flow from operations | 9,960 | 6,864 | 10,248 | 28,937 | 19,181 |

Net Debt

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

Table 17

Capital Structure and Liquidity

| (\$ thousands) | Sep 30, 2017 | Dec 31, 2016 |
|---|--------------|--------------|
| Debt | 39,408 | 31,163 |
| Convertible Debentures (at face value) ⁽¹⁾ | 13,698 | 14,000 |
| Working capital surplus ⁽²⁾ | (8,538) | (8,196) |
| Net debt obligations | 44,568 | 36,967 |

(1) Excludes unamortized portion of issuance costs.

(2) Excludes risk management contracts.

At September 30, 2017, Gear had a working capital surplus. When in a deficit position, the Company is able to meet obligations as they come due by drawing on the Credit Facilities. Gear actively manages its liquidity through strategies such as continuously monitoring forecasted and actual cash flows from operating, financing and investing activities, available credit under existing banking arrangements and opportunities to issue additional equity. Management believes that future cash flows generated from these sources will be adequate to settle Gear's financial liabilities.

Debt adjusted shares

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

Table 18

| (thousands, except per share amounts) | Three months ended | | | Nine months ended | |
|---------------------------------------|--------------------|--------------|--------------|-------------------|--------------|
| | Sep 30, 2017 | Sep 30, 2016 | Jun 30, 2017 | Sep 30, 2017 | Sep 30, 2016 |
| Weighted average shares | 193,158 | 168,926 | 192,922 | 192,975 | 113,711 |
| Average share price | 0.75 | 0.67 | 0.81 | 0.89 | 0.62 |
| Average net debt ⁽¹⁾ | 43,989 | 37,996 | 45,077 | 40,768 | 53,881 |
| Share equivalent on average net debt | 58,652 | 56,710 | 55,650 | 45,807 | 86,905 |
| Debt adjusted shares | 251,810 | 225,636 | 248,572 | 238,782 | 200,616 |

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

Operating and Corporate Netbacks

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

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

Gear's Chief Executive Officer and the Chief Financial Officer are responsible for establishing and maintaining internal control over financial reporting ("ICFR") for Gear. They have, as at September 30, 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 September 30, 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 April 2016, the IASB issued its final amendments to IFRS 15 *Revenue from Contracts with Customers*, which replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and related interpretations. IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. The standard is required to be adopted either retrospectively or using a modified retrospective approach for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 15 will be applied by Gear on January 1, 2018. The Company has created a project plan and is currently in the process of reviewing its various revenue streams and underlying contracts with customers to determine the impact, if any, that the adoption of IFRS 15 will have on its financial statements, as well as the impact that adoption of the standard will have on disclosure.

In July 2014, the IASB completed the final elements of IFRS 9 *Financial Instruments*. The standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities, IFRS 9 retains most of the requirements of IAS 39; however, where the fair value option is applied to financial liabilities, any change in fair value resulting from an entity's own credit risk is recorded in OCI rather than the statement of income, unless this creates an accounting mismatch. The Company does not anticipate any material changes in the carrying values of the Company's financial instruments as a result of the adoption of IFRS 9. In addition, IFRS 9 introduces a new expected credit loss model for calculating impairment of financial assets, replacing the incurred loss impairment model required by IAS 39. Gear does not anticipate that the new impairment model will result in material changes to the valuation of its financial assets on adoption of IFRS 9. IFRS 9 also contains a new model to be used for hedge accounting. The Company does not currently apply hedge accounting to its risk management contracts and does not currently intend to apply hedge accounting to any of its existing risk management contracts on adoption of IFRS 9. The standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 9 will be applied on a retrospective basis by Gear on January 1, 2018.

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: Gear's plan of investing within available cash flow to generate growth and maximum returns on capital; Gear's expectation that if oil prices improve that Gear will consider a variety of strategic options; 2017 guidance with respect to production (including commodity weightings), royalty rates, operating costs, G&A expense, interest expense and capital and abandonment expenditures; total 2017 wells to be drilled and total capital expenditures; expectations of 2017 fourth quarter production and year-over-year production growth while investing close to or within annual cash flow at current prices; expectation that heavy oil volumes will increase in the fourth quarter of 2017; expectation that realized pricing on its heavy and light oil sales will increase in the fourth quarter of 2017 due to increased US WTI pricing and a weakening of the Canadian dollar; expectation that the WCS differential will widen in the fourth quarter of 2017 as a result of new heavy oil supply coming from Canada; expectation that no takeaway problems are currently anticipated for Gear's heavy oil production in the fourth quarter of 2017; expectation that Gear's 2017 Paradise Hill drill program will drive strong production increases in the fourth quarter of 2017; expectation that future drilling locations on lands acquired in the third quarter of 2017 are considered top tier in Gear's inventory and are planned to be drilled in early 2018; expectations of the wells to be drilled in the remainder of 2017; expectations of the full year 2017 capital budget; Gear's intent that on an annualized basis its net debt to cash flow ratio to approximate one times; expectations that there will be no change to the borrowing base of the Credit Facilities resulting from the November 2017 borrowing base review; expectation that ongoing abandonment expenditures for all of Gear's assets will be funded out of cash flow from operations; expectation that future capital programs will be financed with cash flow from operations and existing credit capacity; expectation that any major acquisitions would be financed with a combination of equity and debt in a cost effective manner; intent to continue to be very active looking at acquisitions that meet Gear's investment criteria; expectation that any ongoing litigation will not have a material impact on Gear's financial position or results of operations; and belief that future cash flows 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.

QUARTERLY HISTORICAL REVIEW

| (Cdn\$ thousands, except per share, share, and per boe amounts) | 2017 | | | 2016 | | | 2015 | |
|--|---------|---------|---------|----------|---------|---------|---------|----------|
| | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 |
| FINANCIAL | | | | | | | | |
| Sales of crude oil, natural gas and NGLs | 24,260 | 25,929 | 22,315 | 22,654 | 17,990 | 15,581 | 8,173 | 14,274 |
| Cash flow from operations ⁽¹⁾ | 9,960 | 10,248 | 8,729 | 9,407 | 6,864 | 8,333 | 3,985 | 4,682 |
| Per weighted average basic share | 0.05 | 0.05 | 0.05 | 0.05 | 0.04 | 0.10 | 0.05 | 0.06 |
| Per weighted average diluted share | 0.05 | 0.05 | 0.04 | 0.05 | 0.04 | 0.10 | 0.05 | 0.06 |
| Cash flow from operating activities | 9,197 | 5,362 | 12,245 | 6,888 | 9,793 | 5,066 | 3,556 | 3,801 |
| Per weighted average basic share | 0.05 | 0.03 | 0.06 | 0.04 | 0.06 | 0.06 | 0.04 | 0.05 |
| Per weighted average diluted share | 0.05 | 0.03 | 0.06 | 0.04 | 0.06 | 0.06 | 0.04 | 0.05 |
| Net (loss) income | (2,705) | 3,001 | 2,986 | (12,191) | (2,470) | (7,312) | (1,716) | (26,501) |
| Per weighted average basic share | (0.01) | 0.02 | 0.02 | (0.07) | (0.01) | (0.08) | (0.02) | (0.35) |
| Per weighted average diluted share | (0.01) | 0.01 | 0.01 | (0.07) | (0.01) | (0.08) | (0.02) | (0.35) |
| Capital expenditures | 10,513 | 6,161 | 18,784 | 6,067 | 7,034 | 1,165 | 101 | 3,993 |
| Net acquisitions ⁽²⁾ | 1,635 | 127 | (68) | (74) | 58,141 | 26 | (480) | - |
| Net debt outstanding ⁽¹⁾ | 44,568 | 43,409 | 46,745 | 36,967 | 41,791 | 34,200 | 59,550 | 65,972 |
| Weighted average shares outstanding, basic (thousands) | 193,158 | 192,922 | 192,840 | 191,134 | 168,926 | 86,117 | 85,484 | 75,918 |
| Weighted average shares outstanding, diluted (thousands) | 193,158 | 208,971 | 209,652 | 191,134 | 168,926 | 86,117 | 85,484 | 75,918 |
| Shares outstanding, end of period (thousands) | 194,968 | 192,935 | 192,915 | 192,568 | 190,472 | 114,234 | 85,484 | 85,484 |
| OPERATING | | | | | | | | |
| Production | | | | | | | | |
| Liquids | | | | | | | | |
| Heavy oil (bbl/d) | 4,054 | 3,887 | 3,739 | 3,997 | 3,854 | 4,358 | 4,192 | 4,819 |
| Light oil (bbl/d) | 1,290 | 1,412 | 1,085 | 989 | 716 | - | - | - |
| Natural gas liquids (bbl/d) | 279 | 322 | 217 | 308 | 145 | - | - | - |
| Natural gas (mcf/d) | 5,415 | 5,334 | 5,197 | 5,456 | 4,232 | 1,070 | 1,459 | 1,176 |
| Total (boe/d) | 6,525 | 6,510 | 5,907 | 6,203 | 5,420 | 4,536 | 4,435 | 5,015 |
| Average prices | | | | | | | | |
| Heavy Oil (\$/bbl) | 44.00 | 44.72 | 43.13 | 44.21 | 37.74 | 39.00 | 20.90 | 31.68 |
| Light Oil (\$/bbl) | 53.12 | 59.64 | 60.91 | 57.98 | 51.60 | - | - | - |
| Natural gas liquids (\$/bbl) | 27.28 | 28.11 | 23.08 | 24.16 | 20.04 | - | - | - |
| Natural gas (\$/mcf) | 1.52 | 2.91 | 3.00 | 3.07 | 2.43 | 1.20 | 1.52 | 2.10 |
| Netback (\$/boe) | | | | | | | | |
| Commodity and other sales | 40.41 | 43.77 | 41.98 | 39.70 | 36.08 | 37.75 | 20.25 | 30.93 |
| Royalties | (4.50) | (4.96) | (3.97) | (3.76) | (3.97) | (2.96) | (1.63) | (4.72) |
| Operating costs | (16.57) | (17.78) | (16.28) | (16.25) | (16.33) | (13.44) | (15.34) | (16.63) |
| Operating netback ⁽¹⁾ | 19.34 | 21.03 | 21.73 | 19.69 | 15.78 | 21.34 | 3.28 | 9.58 |
| Realized risk management gains (losses) | 0.11 | (0.77) | (1.24) | 0.24 | 3.03 | 4.91 | 12.71 | 3.86 |
| General and administrative | (2.06) | (2.13) | (3.00) | (2.59) | (2.13) | (3.28) | (3.67) | (2.00) |
| Interest | (0.81) | (0.83) | (0.88) | (0.85) | (0.94) | (1.56) | (1.53) | (1.28) |
| Transactions costs | - | - | - | - | (1.97) | (1.22) | - | - |
| Other | - | - | (0.19) | - | - | - | (1.19) | (0.06) |
| Corporate netback ⁽¹⁾ | 16.58 | 17.30 | 16.42 | 16.49 | 13.77 | 20.19 | 9.60 | 10.10 |

(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.

CORPORATE INFORMATION

DIRECTORS

Don Gray
Chairman
Phoenix, Arizona

Raymond Cej
Independent Businessman
Calgary, Alberta

Harry English
Independent Businessman
Calgary, Alberta

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

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

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

OFFICERS

Ingram Gillmore
President & CEO

Yvan Chretien
Vice-President, Land

Bryan Dozzi
Vice-President, Engineering

David Hwang
Vice-President Finance & CFO

Jason Kaluski
Vice-President, Operations

Dustin Ressler
Vice-President, Exploration

Ted Brown
Corporate Secretary

Head Office

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

Auditors

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

Bankers

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

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

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

Engineering Consultants

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

Legal Counsel

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

Transfer Agent

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

Contact Information:

Ingram Gillmore David Hwang
President & CEO Vice President Finance & CFO
403-538-8463 403-538-8437

Email: igillmore@gearenergy.com

Email: dhwang@gearenergy.com

Website: www.gearenergy.com