FINANCIAL AND OPERATIONAL HIGHLIGHTS

(Cdn$ thousands, except per share, share and per boe amounts)	Three months ended **Dec 31, 2016**	Dec 31, 2015	Sep 30, 2016	Twelve months ended **Dec 31, 2016**	Dec 31, 2015
FINANCIAL					
Cash flow from operations [(1)]	**9,407**	4,682	6,864	**28,591**	39,208
Per weighted average diluted share	**0.05**	0.06	0.04	**0.21**	0.54
Cash flow from operating activities	**6,888**	3,801	9,793	**25,306**	40,545
Per weighted average diluted share	**0.04**	0.05	0.06	**0.19**	0.56
Net loss	**(12,191)**	(26,501)	(2,470)	**(23,686)**	(96,519)
Per weighted average diluted share	**(0.07)**	(0.35)	(0.01)	**(0.18)**	(1.34)
Capital expenditures	**6,067**	3,993	7,034	**14,368**	14,883
Net acquisitions [(2)]	**(74)**	-	58,141	**57,612**	(686)
Net debt outstanding [(1)]	**36,967**	65,972	41,791	**36,967**	65,972
Weighted average shares, basic and diluted (thousands)	**191,134**	75,918	168,926	**133,172**	72,103
Shares outstanding, end of period (thousands)	**192,568**	85,484	190,472	**192,568**	85,484
OPERATING					
Production					
Heavy Oil (bbl/d)	**3,997**	4,819	3,854	**4,099**	5,513
Light and Medium Oil (bbl/d)	**989**	-	716	**428**	-
Natural gas liquids (bbl/d)	**308**	-	145	**114**	-
Natural gas (mcf/d)	**5,456**	1,176	4,232	**3,064**	942
Total (boe/d)	**6,203**	5,015	5,420	**5,152**	5,670
Average prices					
Heavy oil ($/bbl)	**41.21**	31.68	37.74	**34.74**	39.47
Light oil ($/bbl)	**57.98**	-	51.60	**55.30**	-
Natural gas liquids ($/bbl)	**24.16**	-	20.04	**22.89**	-
Natural gas ($/mcf)	**3.07**	2.10	2.43	**2.50**	1.61
Netback ($/boe)					
Commodity and other sales	**39.70**	30.93	36.08	**34.15**	38.84
Royalties	**(3.76)**	(4.72)	(3.97)	**(3.19)**	(5.52)
Operating costs	**(16.25)**	(16.63)	(16.33)	**(15.46)**	(17.72)
Operating netback [(1)]	**19.69**	9.58	15.78	**15.50**	15.60
Realized risk management gains	**0.24**	3.86	3.03	**4.67**	7.34
General and administrative	**(2.59)**	(2.00)	(2.13)	**(2.85)**	(2.84)
Transaction costs	**-**	-	(1.97)	**(0.79)**	-
Interest	**(0.85)**	(1.28)	(0.94)	**(1.17)**	(1.36)
Other	**-**	(0.06)	-	**(0.25)**	0.20
Corporate netback [(1)]	**16.49**	10.10	13.77	**15.11**	18.94
TRADING STATISTICS					
($ based on intra-day trading)					
High	**1.18**	1.10	0.78	**1.18**	2.62
Low	**0.68**	0.40	0.54	**0.25**	0.40
Close	**1.18**	0.53	0.75	**1.18**	0.53
Average daily volume (thousands)	**647**	157	492	**389**	172

(1) Cash flow from operations, net debt, operating netback and corporate netback are non-GAAP measures and additional information with respect to these measures can be found under the heading "*Non-GAAP Measures*" in Gear's MD&A.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis ("MD&A") is Gear Energy Ltd. ("Gear" or the "Company") management's analysis of its financial performance. It is dated February 15, 2017 and should be read in conjunction with the financial information as at and for the three and twelve months ended December 31, 2016 and the audited Financial Statements as at and for the year ended December 31, 2016. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

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

ABOUT GEAR ENERGY LTD.

Gear is a Canadian exploration and production company with heavy and light oil production in Central Alberta and West Central Saskatchewan. Presently, Gear has 30 employees with 22 staff in the Calgary office and 8 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

In late 2016, the Canadian oil industry received two pieces of good news: firstly, OPEC agreed to implement production cuts of approximately 1.2 million barrels of oil per day starting in 2017 and secondly, the Canadian federal government approved the Trans Mountain pipeline expansion project and the Enbridge Line 3 replacement project. Together, these two infrastructure projects, if built, will add almost a million barrels per day of much needed takeaway capacity for Western Canadian crude oil. The market has reacted positively to the OPEC production cuts, with WTI currently trading at approximately US$53 per barrel. However, the increase in price has led to an influx of capital and an increase in rig counts in North America thus creating a damper on the upside of future oil prices.

Gear continues to be optimistic about the future. Along with an increase in WTI pricing, heavy oil differentials have also narrowed as a result of OPEC reducing production from its heavier grades of oil and reduced heavy oil production from Mexico and Venezuela. Despite inflationary pressures on the cost of services, Gear expects the cost to run its business to only escalate slightly. The focus continues to be on providing low risk growth, maintaining a low cost structure, preserving a healthy balance sheet, and expanding the inventory of low risk oil drilling opportunities.

2017 GUIDANCE

Table 1 summarizes 2017 guidance and 2016 guidance compared to 2016 results. 2016 guidance figures and actuals include results from the acquisition of Striker Exploration Corp. ("Striker") from July 27, 2016 onwards.

Table 1

	2017 Guidance	2016 Guidance	Actual 2016
Production (boe/d)	**6,400**	5,250	5,152
Per cent heavy oil (%)	**62**	80	80
Per cent light/medium oil & NGLs (%)	**24**	10	11
Royalty rate (%)	**10**	11	9.3
Operating costs ($/boe)	**15.50**	14.00 – 16.00	15.46
General and administrative expense ($/boe)	**2.15**	2.80	2.85
Interest expense ($/boe)	**0.70**	1.25	1.17
Capital and abandonment expenditures ($ millions)	**45**	15.9	14.4

On July 27, 2016, Gear completed the Striker Acquisition, by way of plan of arrangement, of all issued and outstanding common shares of Striker, a public oil and gas company with properties predominantly in Central Alberta. The combination of Gear and Striker provided an additional 2,000 boe/d of 60 per cent light and medium oil production, approximately 90 net sections of undeveloped land, a new core focus area in the emerging Belly River light oil resource play and a materially strengthened balance sheet. The combination created a diversified, low-cost, low decline, oil weighted growth company.

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

Table 2

	Three months ended				Twelve months ended		
	Dec 31, 2016	Dec 31, 2015	% Change	Sep 30, 2016	**Dec 31, 2016**	Dec 31, 2015	% Change
Cash flow from operations per debt adjusted share (1)	**0.039**	0.026	51	0.030	**0.138**	0.305	(55)
Production, boepd per debt adjusted thousand shares (1)	**0.026**	0.028	(7)	0.024	**0.025**	0.044	(45)

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

KEY PROPERTIES
Paradise Hill
Paradise Hill is a heavy oil pool northeast of Lloydminster that produces from the McLaren zone. In 2016, Gear drilled eight successful wells into this organically exploited pool, which was first drilled horizontally in late 2014. Currently, Gear plans on drilling 17 more wells through 2017 at an all-in capital cost of approximately $600 thousand per well. The area consists of 6.5 sections of prospective land with two overlapping sandstones which are each approximately three meters thick. All 13 wells have been productive, with initial production rates exceeding Gear's current economic risked type curve at average IP365 oil rates of 60 bbl/d per well.

Wildmere Cummings
Wildmere Cummings is a heavy oil pool southeast and northwest of Gear's original Wildmere Lloyd pool and currently accounts for ten percent of total company production. In 2012, Gear acquired numerous sections through crown land sales, bringing the Cummings land base to approximately ten sections. In the past, this area was vertically drilled with limited success. Gear has applied horizontal drilling to unlock economic oil from the Cummings zone. In 2016, Gear successfully drilled three new quad lateral unlined wells with an average IP30 of approximately 160 barrels per day at an average all-in capital cost of approximately $1.0 million. For 2017, Gear expects to drill four quad lateral wells and one triple lateral well at a cost of approximately $900 thousand per well.

Wilson Creek
The Wilson Creek property was the main property acquired in the Striker Acquisition and is located in Central Alberta. The primary target zone is the regional Basal Belly River formation, which is a light oil pool that requires hydraulic fracturing. In 2016, Gear drilled two Basal Belly River light oil wells into the new core area of Wilson Creek; 9-19-42-4W5 which was completed in late 2016 and 16-33-42-4W5 which was completed in early 2017. The results to date on both wells have been encouraging.

102/9-19-42-4W5
To date the well has been on pump for a total of 51 days with the last two weeks at an average oil rate of approximately 170 barrels per day (215 boe per day). The well continues to be optimized as it currently has high bottom hole pressure with significant fluid above the pump.

100/16-33-42-4W5
After a successful fracture stimulation the well was tested for 11 days, recovering 75 per cent of load water and ending the test flowing back at 4m3/hour of fluid at a 50 per cent oil cut, or approximately 300 barrels per day. The well has now been shut in for a pressure test and will be put on pump next week.

Based on this early success, Gear has continued the drilling program in Wilson Creek, with the successful drilling of two more Basal Belly River wells in Wilson Creek at 16-18-42-4W5 and 8-19-42-4W5. The rig is currently on location at the 15-32-42-4W5 well. Gear plans to drill two more Basal Belly River wells after break-up for a total of five through 2017.

Hoosier
Gear has established a potential new core area in southern Saskatchewan with a 16 section foothold. Historical horizontal drilling in the area has been successful in producing heavy oil from the Success formation with additional potential in the Bakken. For 2017, Gear plans on drilling three Success wells in order to understand and prove up the play.

2016 FOURTH QUARTER AND FULL YEAR FINANCIAL AND OPERATIONAL RESULTS

Cash flow from operations
Cash flow from operations for the three months ended December 31, 2016 was $9.4 million, a $4.7 million increase over the same period in 2015. The increase in fourth quarter cash flow is the result of increased commodity prices, higher

production volumes and decreased royalty, interest and foreign exchange expenses offset by decreased gains on risk management contracts and higher operating and general and administrative expenses

On a year to date basis cash flow from operations decreased $10.6 million in 2016 compared with the same period in 2015. This year-over-year decrease in cash flow is the result of decreased commodity prices, lower production volumes, lower gains on risk management contracts and foreign exchange, a one-time renegotiation fee on previously existing drilling contracts and the incurrence of transaction costs related to the Striker Acquisition offset by decreased royalty, operating, general and administrative, and interest expense.

The following table details the change in cash flow from operations for 2016 relative to 2015:

Table 3

	Three months ended Dec 31		Twelve months ended Dec 31	
	$ thousands	$/boe	$ thousands	$/boe
2015 Cash flow from operations (1)	4,682	10.15	39,208	18.94
Volume variance	3,380	-	(7,143)	-
Price variance	5,001	8.76	(8,829)	(4.68)
Cash gains on risk management contracts	(1,645)	(3.62)	(6,379)	(2.67)
Royalties	34	0.96	5,410	2.33
Expenses:				
Operating	(1,603)	0.38	7,515	2.26
General and administrative	(577)	(0.64)	601	0.04
Interest	107	0.43	606	0.19
Foreign exchange	28	0.06	(433)	(0.21)
Drilling commitments	-	-	(480)	(0.25)
Transaction costs	-	-	(1,485)	(0.79)
2016 Cash flow from operations (1)	9,407	16.48	28,591	15.16

(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 loss

For the three and twelve months ended December 31, 2016, Gear generated net losses of $12.1 million and $23.7 million, respectively. This compares to net losses of $26.5 million and $96.5 million for the same periods in 2015. The changes in net loss are due to several factors discussed below.

Production

Production volumes averaged 6,203 barrels per day in the fourth quarter of 2016 compared to 5,015 barrels per day in the same period of 2015, an increase of 24 per cent. This increase in production volumes is primarily due to the inclusion of volumes acquired in the Striker Acquisition, offset by natural declines on Gear's base production. The volumes acquired in the Striker Acquisition contributed approximately 2,000 boe/d to Gear's reported fourth quarter production.

Gear's full year 2016 production averaged 5,152 barrels per day, a decrease of 9 per cent when compared to 2015. This production decrease is the direct result of minimal capital investment in 2015 and 2016, offset by the inclusion of volumes from the properties acquired in the Striker Acquisition. The acquired assets produced approximately 2,000 boe/d from July 27, 2016 to December 31, 2016, thus contributing approximately 900 boe/d for Gear's reported 2016 annual production. Gear's 2015 and 2016 capital programs were executed with a 100 per cent success rate; however, the level of capital investment was not sufficient enough to offset Gear's natural production declines

In order to minimize the impact of pipeline apportionment restrictions in January 2017, Gear sold some oil volumes from inventory in December 2016. As a result, first quarter 2017 production volumes are expected to trend down slightly prior to the resumption of growth from the 2017 capital program.

Table 4

	Three months ended				Twelve months ended		
Production	**Dec 31, 2016**	Dec 31, 2015	% Change	Sep 30, 2016	**Dec 31, 2016**	Dec 31, 2015	% Change
Liquids (bbl/d)							
Heavy oil (bbl/d)	**3,997**	4,819	(17)	3,854	**4,099**	5,513	(26)
Light and medium oil (bbl/d)	**989**	-	-	716	**428**	-	-
Natural gas liquids (bbld/d)	**308**	-	-	145	**114**	-	-
Total liquids (bbl/d)	**5,294**	4,819	10	4,715	**4,642**	5,513	(16)
Natural gas (mcf/d)	**5,456**	1,176	364	4,232	**3,064**	942	225
Total production (boe/d) (1)	**6,203**	5,015	24	5,420	**5,152**	5,670	(9)
% Liquids production	**85**	96	(11)	87	**90**	97	(7)
% Natural gas production	**15**	4	275	13	**10**	3	258

(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 fourth quarter of 2016 totaled $22.7 million, a 59 per cent increase over the fourth quarter 2015 sales of $14.3 million. This increase is the result of higher realized commodity prices and higher production volumes. Year to date sales of crude oil, natural gas and natural gas liquids decreased 20 per cent in 2016 compared to 2015 as a result lower realized commodity prices and lower production volumes, partially offset by a $2.1 million one-time adjustment relating to prior period amounts owed to Gear from a joint venture partner.

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

Table 5

Sales by product	Three months ended				Twelve months ended		
($ thousands)	**Dec 31, 2016**	Dec 31, 2015	% Change	Sep 30, 2016	**Dec 31, 2016**	Dec 31, 2015	% Change
Oil and natural gas liquids	**21,113**	14,046	50	17,045	**61,595**	79,594	(23)
Natural gas	**1,541**	228	576	945	**2,805**	780	260
Total revenue	**22,654**	14,274	59	17,990	**64,400**	80,374	(20)

Commodity Prices
Table 6

	Three months ended				Twelve months ended		
Average Benchmark Prices	**Dec 31, 2016**	Dec 31, 2015	% Change	Sep 30, 2016	**Dec 31, 2016**	Dec 31, 2015	% Change
WTI oil (US$/bbl) (1)	**49.29**	42.16	17	44.91	**43.31**	48.78	(11)
WCS heavy oil (US$/bbl) (2)	**34.97**	27.67	26	31.41	**29.47**	35.19	(16)
WCS heavy oil (Cdn$/bbl)	**46.64**	36.94	26	41.00	**39.03**	44.94	(13)
Cdn$ / US$ exchange rate	**1.33**	1.33	-	1.30	**1.33**	1.28	4
Edmonton par oil ($/bbl)	**61.05**	52.93	15	55.64	**58.78**	57.20	3
AECO natural gas ($/mcf) (3)	**2.79**	2.65	5	2.14	**2.03**	2.77	(27)
Gear Realized Prices							
Heavy oil ($/bbl)	**41.21**	31.68	30	37.74	**34.74**	39.47	(12)
Light and medium oil ($/bbl)	**57.98**	NA	-	51.60	**55.30**	NA	-
Natural gas liquids ($/bbl)	**24.16**	-	-	20.04	**22.89**	-	-
Natural gas ($/mcf)	**3.07**	2.10	46	2.43	**2.50**	1.61	55
Weighted average ($/boe)	**39.70**	30.93	28	36.08	**34.15**	38.84	(12)

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

Throughout the fourth quarter, commodity prices continued to stabilize, however, concerns about worldwide over-supply of crude oil still exist and have resulted in the forward outlook on commodity prices remaining weak into 2017. At the time of writing, 2017 WTI is forecasted to be approximately US$54 per barrel and the WCS differential is forecasted to be approximately US$15 per barrel.

US denominated WTI prices for the fourth quarter increased by 17 per cent over the same period in 2015 and the WCS differential narrowed slightly from US$14.49 per barrel to US$14.32 per barrel. These two movements resulted in Gear's realized heavy oil price increasing 30 per cent to $41.21 per boe. During the third quarter of 2016 Gear acquired 2,000 boe/d of light and medium oil and natural gas production. The addition of these assets, combined with Gear's historical heavy oil production resulted in Gear's overall realized price increasing from $30.93 in 2015 to $39.70 in the fourth quarter of 2016. The light oil barrels acquired receive a price premium compared to Gear's heavy oil production; this however is offset by the increased weighting to natural gas production in the quarter to 15 percent in 2016 compared to 4 percent in the same period in 2015.

On a year-to-date basis, US denominated WCS pricing and the Canadian dollar weakened by 16 per cent and 4 per cent, respectively, resulting in an overall decrease in Gear's heavy oil realized commodity price of 12 per cent in 2016 to $34.74 per boe. Gear's overall realized commodity price decreased to $34.15 per boe in 2016 from $38.84 per boe in 2015 as a result of decreased realized pricing on heavy oil volumes as well as the increased gas weighting as a result of the Striker Acquisition.

Royalties
In the fourth quarter of 2016, royalties as a percentage of commodity sales were 9.5 per cent, a decrease of 38 per cent from the same period in 2015. On a year to date basis Gear's 2016 royalties as a percentage of commodity sales decreased 35 per cent to 9.3 percent. Gear's 2015 and 2016 drilling programs focused on wells drilled on crown lands where incentive rates apply on new horizontally drilled production ranging from 2.5 per cent to 5 percent. 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 lower pricing environment throughout 2016, Gear's royalty rate on produced volumes decreased. The properties acquired through the Striker Acquisition carry a higher royalty burden than Gear's historical properties which slightly increased the average corporate royalty rate.

Table 7

Royalty expense	Three months ended				Twelve months ended		
($ thousands except % and per boe)	**Dec 31, 2016**	Dec 31, 2015	% Change	Sep 30, 2016	**Dec 31, 2016**	Dec 31, 2015	% Change
Royalty expense	**2,144**	2,178	(2)	1,981	**6,006**	11,415	(47)
Royalty expense as a % of Sales	**9.5**	15.3	(38)	11.0	**9.3**	14.2	(35)
Royalty expense per boe	**3.76**	4.72	(20)	3.97	**3.19**	5.52	(42)

Operating and Transportation Costs

For the three and twelve months ended December 31, 2016 operating costs including transportation were $16.25 and $15.46 per boe, respectively. This represents decreases of 2 and 13 per cent when compared with the same periods in 2015. Throughout 2015 and 2016 Gear's field staff worked to identify cost saving opportunities across the organization. The reduction in operating costs can be attributed to supplier cost reductions, increased operating efficiencies, decreased labor costs, and the reduction of costs sourced from high cost wells that were shut-in.

Energy costs in the fourth quarter were higher due to both increased propane costs as well as increased consumption at the well head due to the cold weather. Gear continues to make capital infrastructure investments in order to minimize its exposure to energy costs by installing gas gathering systems. A gas gathering system was installed in Paradise Hill in the fourth quarter of 2016 will be operational in the first quarter of 2017. Throughout the fourth quarter Gear also worked to implement cost control measures on the properties acquired as part of the Striker Acquisition. The capital investment in this area was minimal but should help decrease trucking and production costs throughout 2017.

Operating costs are expected to remain relatively unchanged in the first quarter of 2017. Full year 2017 guidance is $15.50 per boe.

Table 8 below summarizes the operating and transportation expense:

Table 8

Operating and Transportation expense	Three months ended				Twelve months ended		
($ thousands except per boe)	**Dec 31, 2016**	Dec 31, 2015	% Change	Sep 30, 2016	**Dec 31, 2016**	Dec 31, 2015	% Change
Operating expense	**8,250**	6,693	23	7,321	**25,718**	32,696	(21)
Transportation expense	**1,025**	979	5	819	**3,438**	3,975	(14)
Operating and transportation expense	**9,275**	7,672	21	8,140	**29,156**	36,671	(20)
Operating expense per boe	**14.45**	14.51	-	14.68	**13.64**	15.80	(14)
Transportation expense per boe	**1.80**	2.12	(15)	1.65	**1.82**	1.92	(5)
Operating and transportation expense per boe	**16.25**	16.63	(2)	16.33	**15.46**	17.72	(13)

Operating Netback

Gear's operating netback prior to hedging was $19.69 per boe in the fourth quarter of 2016 compared to $9.58 per boe in the same period of 2015, an increase of $10.11 per boe. This increase is the result of increased commodity prices as well as decreased royalty and operating costs. On a year to date basis Gear's operating netback was $15.50 per boe in 2016 compared with $15.60 in 2015. This year over year decrease is the result of decreased commodity prices offset by decreased royalty and operating costs.

The components of operating netbacks are summarized in Table 9:

Table 9

Netbacks ($ per boe)	**Q4 2016 Total ($/boe)**	Q4 2015 Total ($/boe)	% Change	Q3 2016 Total ($/boe)	**YTD Q4 2016 Total ($/boe)**	YTD Q4 2015 Total ($/boe)	% Change
Weighted average sales price	**39.70**	30.93	28	36.08	**34.15**	38.84	(12)
Royalties	**(3.76)**	(4.72)	(20)	(3.97)	**(3.19)**	(5.52)	(42)
Operating costs	**(16.25)**	(16.63)	(2)	(16.33)	**(15.46)**	(17.72)	(13)
Netback	**19.69**	9.58	106	15.78	**15.50**	15.60	(1)

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

Net G&A totaled $1.5 million and $2.59 per boe in the fourth quarter, an increase of $0.6 million and $0.59 per boe when compared to the same period in 2015. This increase is attributable to the recognition of directors fees for services rendered in 2016, offset by increased capitalized G&A. Gear capitalizes G&A costs directly attributable to exploration and development activities.

On a year-to-date basis net G&A costs decreased 9 per cent as compared to 2015. This decrease is attributable to decreased employee compensation costs as a result of decreased staffing and salary levels, increased capitalized G&A, offset by increased professional fees incurred a result of the Striker Acquisition and directors fees.

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

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

Table 10

G&A and SBC expense	Three months ended				Twelve months ended		
($ thousands except per boe)	**Dec 31, 2016**	Dec 31, 2015	% Change	Sep 30, 2016	**Dec 31, 2016**	Dec 31, 2015	% Change
General and administrative	**1,693**	1,285	32	1,496	**6,141**	6,534	(6)
Overhead recoveries	**(114)**	(362)	(69)	(128)	**(358)**	(652)	(45)
Capitalized G&A	**(100)**	-	-	(306)	**(405)**	-	-
Net general and administrative expenses	**1,479**	923	60	1,062	**5,378**	5,882	(9)
SBC expense	**497**	518	(4)	391	**1,409**	2,194	(36)
Net general and administrative expenses per boe	**2.59**	2.00	30	2.13	**2.85**	2.84	-
SBC expense per boe	**0.87**	1.12	(22)	0.78	**0.75**	1.06	(30)

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 2016 6.6 million options were granted under the new terms with an exercise price of $0.71 and these options remain outstanding at December 31, 2016.

SBC is related to bonus awards through the granting of actual common shares and stock options. There were 7,405 thousand options granted during 2016 at an average price of $0.67 under both the previously existing plan and the new plan. In addition, 1,239 thousand options were forfeited with an average exercise price of $3.02. As at December 31, 2016, a total of 12.5 million options were outstanding or 6.5 per cent of the 192.6 million total common shares outstanding.

Transaction Costs and Other Expenses

Table 11 summarizes transaction costs and other expenses:

Table 11

Transaction costs and Other expenses	Three months ended				Twelve months ended		
($ thousands except per boe)	**Dec 31, 2016**	Dec 31, 2015	% Change	Sep 30, 2016	**Dec 31, 2016**	Dec 31, 2015	% Change
Transaction costs	**-**	-	-	984	**1,485**	-	100
Other costs	**1**	28	(96)	-	**484**	(429)	-
Transaction costs per boe	**-**	-	-	1.97	**0.79**	-	-
Other expenses per boe	**-**	0.06	(22)	(100)	**0.25**	(0.20)	-

During 2016 $1.5 million of transaction costs were incurred relating to the Striker Acquisition. Transaction costs include amounts relating to advisory, legal and accounting fees, severance and other acquisition related costs.

Other expenses include amounts relating to foreign exchange and drilling commitments. During the first quarter of 2016 Gear renegotiated certain drilling commitments which extended the service period on previously existing drilling contracts and as a result incurred a renegotiation fee of $0.5 million.

Interest and financing charges

Interest and financing charges totaled $0.5 million and $2.2 million for the three and twelve months ended December 31, 2016, a decrease of 18 percent and 22 per cent from the same periods in 2015. This decrease is primarily attributable to a 34 per cent decrease in average debt levels in 2016 compared to 2015. On June 29, 2016 Gear closed a bought deal financing with a syndicate of underwriters resulting in net proceeds to the Company of $18.8 million. The proceeds were used to reduce indebtedness and as such average debt levels have declined significantly.

Gear’s interest rate on its credit facilities is dependent on its borrowings on its facilities in comparison to its earnings before interest, taxes, depletion, depreciation, amortization, and accretion. Gear’s current annualized borrowing costs,

inclusive of financing charges on its credit facility approximated 4.0 per cent for the fourth quarter of 2016. Interest and financing charges are expected to decrease in the first quarter of 2017.

Table 12 is a breakdown of interest expense:

Table 12

Interest and financing charges	Three months ended				Twelve months ended		
($ thousands except per boe)	**Dec 31, 2016**	Dec 31, 2015	% Change	Sep 30, 2016	**Dec 31, 2016**	Dec 31, 2015	% Change
Interest expense	**287**	538	(47)	383	**1,888**	2,583	(27)
Financing charges	**138**	47	194	31	**199**	164	21
Standby and letter of credit fees	**59**	7	743	53	**122**	68	79
Interest and financing charges	**484**	592	(18)	467	**2,209**	2,815	(22)
Interest and financing charges per boe	**0.85**	1.28	(34)	0.94	**1.17**	1.36	(14)

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 2016 and 2017. 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.

For 2016, Gear's hedging program played a significant role in the Company's ability to reduce its debt and to protect the balance sheet through the generation of $8.8 million in realized cash gains. This compares to $15.2 million in gains realized in 2015. For 2017, Gear has hedged approximately 50 per cent of its after-royalty production and has commenced its 2018 risk management program. Gear evaluates hedging opportunities on a regular basis and acknowledges the importance its hedging program plays in the determination of its borrowing base.

Table 13 summarizes Gear's hedged volumes as at December 31, 2016:

Table 13

Financial WTI Crude Oil Contracts

Term		**Contract**	**Currency**	**Volume bbl/d**	**Sold Swap $/bbl**	**Sold Call $/bbl**	**Bought Put $/bbl**	**Sold Put $/bbl**
Jan 1, 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	-
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	-
Jul 1, 2017	Dec 31, 2017	Collar	CAD	500	-	70.20	60.00	-

Financial WCS Differential Crude Oil Contracts

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

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	750	-	3.30	2.00	-
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	-	-	-

Subsequent to December 31, 2016, Gear entered into the following risk management contract:

Financial AECO Gas Contracts								
Term		Contract	Currency	Volume	Sold Swap	Sold Call	Bought Put	Sold Put
				GJ/d	$/GJ	$/GJ	$/GJ	$/GJ
Jan 1, 2018	Dec 31, 2018	Swap	CAD	1,700	2.65	-	-	-

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

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

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

DD&A during the fourth quarter of 2016 was $15.87 per boe compared to $18.56 per boe in the same period in 2015. On a year-to-date basis Gear's 2016 DD&A rate decreased 27 per cent to $14.28 per boe. These decreases in the DD&A rate are due to reductions in Gear's finding and development costs year over year as well as from selling volumes from inventory that did not have any carrying value ascribed to them as a result of inventory impairments taken in 2015.

For the twelve months ended December 31, 2015, an impairment charge of $92.7 million ($67.7 million after-tax) was recognized associated with Gear's cash generating unit containing its heavy oil properties located in Eastern Alberta and Saskatchewan. This impairment was the result of lower forward commodity pricing and an increase to the discount rate from 12 per cent to 15 per cent. At December 31, 2016 management concluded that no indicators of impairment existed. See Note 4 "Management Judgements and Estimation Uncertainty" to Gear's financial statements for the year ended December 31, 2016 for more information.

Gear records its inventory at the lower of cost and net realizable value. For the twelve months ended December 31, 2015 impairment charges of $4.0 million were recorded as the historical cost of the inventory exceeded its net realizable value. The historical cost of inventory includes royalties, certain operating cost components, and a capital component equivalent to the depletion charge.

As future commodity prices remain volatile, impairment charges or recoveries could be recorded in future periods.

Table 14 is a breakdown of DD&A expenses:

Table 14

DD&A Rate	Three Months Ended				Twelve Months Ended		
($ thousands except per boe)	**Dec 31, 2016**	Dec 31, 2015	% Change	Sep 30, 2016	**Dec 31, 2016**	Dec 31, 2015	% Change
DD&A	**9,052**	8,564	6	7,839	**26,917**	40,399	(34)
DD&A rate per boe	**15.87**	18.56	(15)	15.72	**14.28**	19.52	(27)
Impairment charges	**-**	10,840	(100)	-	**-**	96,660	(100)

Taxes

For the three and twelve months ended December 31, 2016 Gear recorded deferred tax expense of $6.0 million. This compares to deferred tax expense of $16.9 million and a recovery of $9.5 million in three and twelve months ended December 31, 2015. The 2016 amounts are primarily influenced by temporary differences relating to the book basis of Gear's property, plant and equipment relative to its tax basis. In the fourth quarter of 2016, Gear re-evaluated estimates associated with the ultimate utilization of its existing tax pools and recorded a $6.0 million reduction to the deferred tax asset. As at December 31, 2016 Gear's estimated tax pools were $428.2 million ($302.1 million at December 31, 2015). 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 2016 and 2015.

Capital Expenditures, Acquisitions and Dispositions

For the three and twelve months ended December 31, 2016 capital expenditures, including acquisitions and dispositions, totaled $6.0 million and $72.0 million, respectively. This compares to $4.0 million and $14.2 million for the same periods in 2015. On July 27, 2016 Gear closed the previously mentioned Striker Acquisition which provided Gear with a new core area in the emerging Belly River light oil resource play. Gear commenced development activities on the acquired lands in

the fourth quarter drilling two wells into the Basal Belly River formation in Wilson Creek, one of which was completed in 2016, the second of which was completed in late January 2017. As previously highlighted, Gear is encouraged by the initial results of the two new drills and has kicked off the 2017 follow-up program targeting five more Basal Belly River oil locations.

Throughout 2016 Gear drilled 11 gross (11 net) heavy oil wells with a 100 per cent success rate, these included three unlined quad lateral wells in Wildmere Cummings and eight single lateral horizontal McLaren wells in Paradise Hill. Production results from these wells are in line with expectations. Gear invested $3.3 million in production equipment and facilities in the year, this includes equipment for the 2016 new drills as well as amounts directed towards optimizing Gear's base production. In addition Gear spent $0.7 million to acquire seismic, primarily on lands acquired in the Striker Acquisition.

Gear continues to evaluate small non-core property acquisitions and dispositions in order to optimize its asset base. Net proceeds from these transactions totaled $0.9 million in 2016.

A breakdown of capital expenditures and net acquisitions is shown in Table 15:

Table 15

Capital expenditures	Three Months Ended				Twelve Months Ended		
($ thousands)	**Dec 31, 2016**	Dec 31, 2015	% Change	Sep 30, 2016	**Dec 31, 2016**	Dec 31, 2015	% Change
Geological and geophysical	**507**	48	956	254	**745**	124	500
Drilling and completions	**3,084**	2,109	46	5,734	**9,502**	6,900	38
Production equipment and facilities	**1,890**	1,217	55	772	**3,260**	5,729	(43)
Undeveloped land purchased at crown land sales	**470**	413	14	33	**536**	1,316	(59)
Other	**116**	206	(44)	241	**325**	814	(60)
Total capital expenditures	**6,067**	3,993	52	7,034	**14,368**	14,883	(3)
Acquisition through business combination[(1)]	**108**	-	100	58,372	**58,480**	(553)	-
Property acquisitions and dispositions, net [(1)]	**(182)**	-	(100)	(231)	**(868)**	(132)	-
Total capital expenditures and net acquisitions	**5,993**	3,993	50	65,175	**71,980**	14,198	(407)

(1) Includes post-closing adjustments.

Gear's 2016 capital budget included one horizontal well to be drilled into the potential new core area in Hoosier, Saskatchewan. Inclement weather late in the fourth quarter resulted in restricted lease access which delayed Gear's ability to shoot seismic in the area; as a result drilling in this area has been delayed to the first quarter of 2017.

Throughout 2017 Gear plans to spend $45 million. Approximately $33 million will be dedicated to drilling 31 gross (31 net) heavy oil wells primarily in Paradise Hill McLaren, Wildmere Cummings and Wildmere GP, One gross (one net) medium oil well in Killam, and six gross (5.2 net) oil wells in Wilson Creek Basal Belly River and Brazeau Belly River for a total of 38 gross (37net) wells. An additional $9.0 million will be focused on the implementation of pilot water floods in Wilson Creek and Killam, as well as a variety of small infrastructure projects, recompletions, land, seismic and corporate capital. The remaining capital will be invested primarily towards abandonment and reclamation activities.

Decommissioning Liability

At December 31, 2016, Gear has recorded a decommissioning liability of $78.8 million ($55.0 million at December 31, 2015) for the future abandonment and reclamation of Gear's properties. The estimated decommissioning liability includes assumptions in respect of actual costs to abandon wells or reclaim the property, the time frame in which such costs will be incurred as well as annual inflation factors in order to calculate the undiscounted total future liability. The future liability has been discounted at the risk free rate of 2.24 per cent (2.04 per cent at December 31, 2015). Abandonment cost estimates are derived from third party government sources and, as a result, can fluctuate from time to time. The increase in liability is due to the addition of 310 net wells and facilities associated with the Striker Acquisition.

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 December 31, 2016 Gear's Licensee Liability Rating in Alberta was 2.2 times and 3.3 times in Saskatchewan.

Capitalization, Financial Resources and Liquidity

A breakdown of Gear's capital structure is outlined in Table 16:

Table 16

Debt ($ thousands except ratio amounts)	**Dec 31, 2016**	Dec 31, 2015
Net debt (1)	**36,967**	65,972
Net debt to fourth quarter annualized cash flow from operations	**1.0**	3.6
Net debt to annual cash flow from operations	**1.3**	1.7
Common shares outstanding	**192,568**	85,484

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

Gear's focus throughout 2016 was on strengthening its balance sheet in order to provide the Company with the ability to operate effectively in periods of reduced commodity prices and to provide financial flexibility in order to grow the business. As a result of minimizing capital spending Gear was able to apply a significant portion of its cash flow against outstanding debt balances. In addition, Gear closed a bought deal financing on June 29, 2016 for net proceeds of $18.8 million. These factors have resulted in debt balances being reduced by 44 per cent through the year.

On July 27, 2016, Gear issued an additional 76.2 million shares and assumed $8.4 million in bank debt on close of the Striker Acquisition. In addition on November 24, 2016 Gear closed a flow through share offering and as a result issued 1.2 million shares.

Credit Facilities

In conjunction with the close of the Striker Acquisition, Gear entered into a new $50 million facility consisting of a $42.5 million revolving term credit facility with a syndicate of three banks (the "Syndicate") and a $7.5 million operating facility (collectively, the "Credit Facilities). In the fourth quarter, as part of the regular semi-annual borrowing base review, the maturity date on the facility was extended from May 31, 2017 to May 31, 2018 or one year after the end of the revolving period. The total stamping fees range, depending on Gear's borrowings on its Credit Facilities to EBITDA ratio, between 100 bps to 300 bps on Canadian bank prime borrowings and between 200 bps and 400 bps on Canadian dollar bankers' acceptances. The undrawn portion of the Credit Facilities is subject to a standby fee in the range of 50 bps to 100 bps. The Credit Facilities carry a single covenant to maintain an adjusted working capital ratio of not less than 1.0:1. Adjusted working capital ratio is defined as current assets less unrealized hedging gains, plus the undrawn portion of the credit facilities divided by accounts payable and accrued liabilities. As at December 31, 2016 Gear had $31.2 million drawn, leaving additional borrowing capacity of $18.8 million. The next semi-annual borrowing base review of the facilities will occur on or about May 31, 2017.

Convertible Debentures

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

The Convertible Debentures issued on November 30, 2015 have a maturity date of November 30, 2020 and carry a coupon of 4 per cent per annum, payable semi-annually in arrears on May 31 and November 30 until maturity. These Convertible Debentures carry an equity conversion feature which was subject to shareholder approval. Gear received shareholder approval for conversion of the Convertible Debentures at its annual and special meeting of shareholders on May 11, 2016. The Convertible Debentures are convertible at the option of the holder at any time prior to the maturity date at a conversion price of $0.87 per common share such that for every $1,000 principal amount of Convertible Debentures a holder will receive approximately 1,149.43 common shares. Holders converting their Convertible Debentures will be entitled to receive accrued and unpaid interest thereon for the period from the date of the latest interest payment date to, but excluding, the date of conversion. The Convertible Debentures are redeemable on or after December 31, 2018 and prior to December 31, 2019 by Gear if the current market price of Gear's common shares at such time is at least 125 per cent of the conversion price at a redemption price equal to the principal amount plus accrued and unpaid interest up to the date of redemption. On or after December 31, 2019, the Convertible Debentures may be redeemed by Gear at a redemption price equal to the principal amount plus accrued and unpaid interest up to the date of redemption. In December 2016 $0.8 million of convertible debentures were converted resulting in the issuance of 0.9 million Gear common shares, leaving $14.0 million of convertible debentures outstanding at December 31, 2016. For additional information regarding the Convertible Debentures see Note 9 "Convertible Debentures" in the notes to the financial statements for the year ended December 31, 2016.

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

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

Shareholders' Equity
On December 31, 2016 Gear had 192.6 million common shares outstanding, an increase of 107.1 million shares from the December 31, 2015 balance of 85.5 million shares. On June 29, 2016, Gear closed a bought deal financing whereby approximately 28.8 million common shares were issued at a price of $0.70 per share for total gross proceeds of $20.125 million. Gear issued an additional 76.2 million shares associated with the Striker Acquisition. On November 24, 2016 Gear closed a flow-through share offering whereby 1.2 million common shares were issued at a price of $0.85 per share for total proceeds of $1.0 million. In December 2016 0.9 million common shares were issued on the conversion of $0.8 million of Convertible Debentures. Subsequent to December 31, 2016 an additional $0.3 million of convertible debentures were converted into 0.3 million Gear common shares, resulting in 192.9 million Gear common shares outstanding as at the date of this MD&A.

As at December 31, 2015, a total of 6.4 million options were outstanding with a weighted average exercise price of $2.83 per share and each option entitled the holder to acquire one Gear common share. As at December 31, 2016 and the date of this MD&A, 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.

Pursuant to the Striker Acquisition, Gear assumed Striker's obligations for 650 thousand fully vested warrants that were outstanding to acquire common shares of Striker and as a result as at December 31, 2016 and as at the date hereof there are now warrants to acquire 1,511,250 common shares of Gear at a price of $1.03 per share that will expire on July 8, 2019.

As at December 31, 2016, $14.0 million of Convertible Debentures were outstanding; a decrease of $0.8 million from December 31, 2015. Subsequent to December 31, 2016 $0.3 million of convertible debentures were converted into 0.3 million Gear common shares, resulting in $13.7 million in Convertible Debentures remaining outstanding as at the date of this MD&A. 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 15,744,828 additional Gear common shares may be issued on conversion of the Convertible Debentures that remain outstanding at the date hereof. Gear will also have the option to satisfy its obligation to repay the principal amount of the Convertible Debentures due at maturity or redemption of the Convertible Debentures by the issuance of Gear common shares and the number of such common shares will be based on 95% of the weighted average trading price of the common shares prior to the date fixed for maturity or redemption. As the number of common shares to be issued on redemption or maturity is based on a price to be determined at a later date, the maximum number of Gear common shares that may be issued upon such redemption or maturity is not determinable at the present time.

Environmental Initiatives Impacting Gear
In the fourth quarter of 2015, the provincial government of Alberta released its Climate Leadership Plan which will impact all consumers and businesses that contribute to carbon emissions in Alberta. This plan includes imposing carbon pricing that is applied across all sectors, starting at $20 per tonne on January 1, 2017 and moving to $30 per tonne on January 1, 2018, the phase-out of coal-fired power generation by 2030, a cap on oil sands emissions production of 100 megatonnes, and a 45 per cent reduction in methane emissions by the crude oil and natural gas sector by 2025. The provincial government of Alberta included the proposed carbon pricing measures in the release of its 2016 budget in the second quarter of 2016. Gear expects the Climate Leadership Plan to increase the cost of operating its properties located in Alberta.

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

Gear will continue to monitor developments in the federal minimum carbon tax plan and will evaluate the expected impact of this plan on its results of operations.

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

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

As at December 31, 2016, Gear had the following contractual commitments:
- lease agreements for its head office and its two field offices,

- flow-through share commitment,
- one drilling rig commitment.

The lease agreement for Gear's head office commenced July 1, 2016 and expires on January 30, 2020 and the lease agreements for Gear's field offices are effective until December 31, 2017. The total commitment for these three lease agreements is $0.6 million. The flow-through share commitment requires Gear to spend $1.0 of qualifying Canadian Exploration Expenses ("CEE") before December 31, 2017 (the CEE was renounced to the purchaser of the flow-through shares in 2016). The drilling rig commitment is effective January 1, 2017 through December 31, 2020 with a total commitment of $7.7 million. For further information see Note 17 "Commitments and Contingencies" in the notes to the audited financial statements for the year ended December 31, 2016.

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

Off Balance Sheet Arrangements
Gear has certain lease agreements that were entered into in the normal course of operations, all of which are discussed in the Contractual Obligations and Commitments section above and disclosed in the notes to the audited Financial Statements. These leases have been treated as operating leases whereby the lease payments are included in operating expenses or G&A expenses depending on the nature of the lease. No asset or liability value has been assigned to these leases on the balance sheet as of December 31, 2016.

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

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

Cash Flow from Operations
Cash flow from operations is a non-GAAP measure defined as cash flow from operating activities before changes in non-cash operating working capital and decommissioning liabilities settled. Gear evaluates its financial performance primarily on cash flow from operations and considers it a key measure as it demonstrates its ability to generate the cash flow necessary to fund its capital program and repay debt. Cash flow from operations is unlikely to be comparable with the calculation of similar measures for other companies.

Table 17 below reconciles cash flow from operating activities to cash flow from operations.
Table 17

	Three months ended			Twelve months ended	
($ thousands)	**Dec 31, 2016**	Dec 31, 2015	Sep 30, 2016	**Dec 31, 2016**	Dec 31, 2015
Cash flow from operating activities	**6,888**	3,801	9,793	**25,306**	40,545
Decommissioning liabilities settled	**210**	650	677	**1,853**	1,383
Change in non-cash working capital	**2,309**	231	(3,606)	**1,432**	(2,720)
Cash flow from operations	**9,407**	4,682	6,864	**28,591**	39,208

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 18

Capital Structure and Liquidity ($ thousands)	**Dec 31, 2016**	Dec 31, 2015
Debt	**31,163**	55,725
Convertible debentures (at face value) (1)	**14,000**	14,800
Working capital surplus (2)	**(8,196)**	(4,553)
Net debt obligations	**36,967**	65,972

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

At December 31, 2016 and December 31, 2015, 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 19

	Three months ended			Twelve months ended	
(thousands, except per share amounts)	**Dec 31, 2016**	Dec 31, 2015	Sep 30, 2016	**Dec 31, 2016**	Dec 31, 2015
Weighted average shares	**191,134**	75,918	168,926	**133,172**	72,103
Average share price	**0.83**	0.67	0.67	**0.69**	1.46
Average net debt (1)	**39,379**	68,862	37,996	**51,470**	82,187
Share equivalent on average net debt	**47,443**	102,731	56,710	**74,593**	56,387
Debt adjusted shares	**238,577**	178,649	225,636	**207,765**	128,490

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

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

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

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

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

Prices, Markets and Marketing
Gear's operational results and financial condition, and therefore the amount of capital expenditures, are dependent on the prices received for oil and natural gas production. Prices for oil and natural gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty and a variety of additional factors beyond the control of the Company. A material decline in prices could result in a reduction of net

production revenue. The economics of producing from some wells may change because of lower prices, which could result in reduced production of oil or natural gas and a reduction in the volumes of Gear's reserves. Management might also elect not to produce from certain wells at lower prices.

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

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

Refinancing

Gear currently has $50 million Credit Facilities with a maturity date of May 31, 2018. The lenders review the Credit Facilities each year and determine if they will extend for another year. In the event that the Credit Facilities are not extended, indebtedness under the Credit Facilities will become repayable at May 31, 2018. There is also a risk that the Credit Facilities will not be renewed for the same amount or on the same terms or that the lenders reduce the borrowing base as a result of a regularly scheduled borrowing base review. Any of these events could affect Gear's ability to fund ongoing operations. The next scheduled review is on or about May 31, 2017.

Operational Matters

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

Reserve Estimates

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

Acquisitions

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

Royalty Regimes

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

Variations in Foreign Exchange Rates and Interest Rates

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

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

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

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

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

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

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

Disclosure Controls and Procedures
Disclosure controls and procedures ("DC&P"), as defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, are designed to provide reasonable assurance that information required to be disclosed in the Company's annual filings, interim filings or other reports filed, or submitted by the Company under securities legislation is recorded, processed, summarized and reported within the time periods specified under securities legislation and include controls and procedures designed to ensure that information required to be so disclosed is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Chief Executive Officer and the Chief Financial Officer of Gear evaluated the effectiveness of the design and operation of the Company's DC&P. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that Gear's DC&P were effective as at December 31, 2016.

Internal Controls over Financial Reporting
Gear's Chief Executive Officer and the Chief Financial Officer are responsible for establishing and maintaining internal control over financial reporting ("ICFR") for Gear. They have, as at the financial year ended December 31, 2016, designed ICFR, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The control framework Gear's officers used to design the Company's ICFR is the Internal Control - Integrated Framework ("COSO Framework") published by The Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Under the supervision of the Chief Executive Officer and the Chief Financial Officer, Gear conducted an evaluation of the effectiveness of the Company's ICFR as at December 31, 2016 based on the COSO Framework. Based on this

evaluation, the officers concluded that as of December 31, 2016, Gear maintained effective ICFR. It should be noted that while Gear's officers believe that the Company's controls provide a reasonable level of assurance with regard to their effectiveness, they do not expect that the DC&P and ICFR will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, but not absolute, assurance that the objectives of the control system are met.

There were no changes in Gear's ICFR during the year ended December 31, 2016 that materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Future Accounting Policy Changes

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 is currently evaluating the impact of the standard on its financial statements and disclosures.

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. 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. IFRS 9 also contains a new model to be used for 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. The Company is currently evaluating the impact of the standard on its financial statements and disclosures.

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*. The standard is required to be adopted either retrospectively or using a modified retrospective approach. 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 fourth quarter 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 fourth quarter report contains forward-looking information and statements pertaining to the following: 2017 Guidance estimates; expected production, pricing, differentials, royalty rate expectations, operating cost expectations, interest rate expectations, expected G&A per boe, expected costs for drilling wells in certain areas, planned number of gross and net wells drilled, future operating cost trends, expected net debt to cash flow, financing sources for future capital drilling and for operations, expected ability to raise funds as needed, estimates of normal course obligations, the amount of future decommissioning costs and the expected funding sources for such decommissioning costs; future liquidity and financial capacity; future results from operations and operating metrics; future costs and expenses and royalty rates; interest costs; and future development, exploration and acquisition activities (including drilling and potential waterflood plans) and related capital expenditures.

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

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

Initial Production Rates
Any references in this document to initial production (or IP) rates are useful in confirming the presence of hydrocarbons, however, such rates are not determinative of the rates at which such wells will continue production and decline thereafter. Additionally, such rates may also include recovered "load oil" fluids used in well completion stimulation. Readers are cautioned not to place reliance on such rates in calculating the aggregate production for Gear.

QUARTERLY HISTORICAL REVIEW

(Cdn$ thousands, except per share, share, and per boe amounts)	2016 Q4	2016 Q3	2016 Q2	2016 Q1	2015 Q4	2015 Q3	2015 Q2	2015 Q1
FINANCIAL								
Sales of crude oil, natural gas and NGLs	22,654	17,990	15,581	8,173	14,274	19,476	25,528	21,096
Cash flow from operations (1)	9,407	6,864	8,333	3,985	4,682	7,416	14,900	12,210
Per weighted average diluted share	0.05	0.04	0.10	0.05	0.06	0.10	0.21	0.17
Cash flow from operating activities	6,888	9,793	5,066	3,556	3,801	9,873	14,432	12,439
Per weighted average diluted share	0.04	0.06	0.06	0.04	0.05	0.14	0.20	0.18
Net income (loss)	(12,191)	(2,470)	(7,312)	(1,716)	(26,501)	(63,360)	(2,301)	(4,357)
Per weighted average diluted share	(0.07)	(0.01)	(0.08)	(0.02)	(0.35)	(0.89)	(0.03)	(0.06)
Capital expenditures	6,067	7,034	1,165	101	3,993	6,433	4,286	171
Net acquisitions (2)	(74)	58,141	26	(480)	-	-	(553)	(132)
Net debt outstanding (1)	36,967	41,791	34,200	59,550	65,972	71,753	71,678	83,313
Weighted average shares outstanding, basic and diluted (thousands)	191,134	168,926	86,117	85,484	75,918	70,817	70,817	70,817
Shares outstanding, end of period (thousands)	192,568	190,472	114,234	85,484	85,484	70,817	70,817	70,817
OPERATING								
Production								
Liquids (bbl/d)								
Heavy oil	3,997	3,854	4,358	4,192	4,819	5,295	5,492	6,466
Light oil	989	716	-	-	-	-	-	-
Natural gas liquids	308	145	-	-	-	-	-	-
Natural gas (mcf/d)	5,456	4,232	1,070	1,459	1,176	810	838	944
Total (boe/d)	6,203	5,420	4,536	4,435	5,015	5,430	5,632	6,624
Average prices								
Heavy oil ($/bbl)	44.21	37.74	39.00	20.90	31.68	39.58	50.72	35.93
Light oil ($/bbl)	57.98	51.60	-	-	-	-	-	-
Natural gas liquids ($/bbl)	24.16	20.04	-	-	-	-	-	-
Natural gas ($/mcf)	3.07	2.43	1.20	1.52	2.10	2.60	2.31	2.15
Netback ($/boe)								
Commodity and other sales	39.70	36.08	37.75	20.25	30.93	38.98	49.81	35.39
Royalties	3.76	3.97	2.96	1.63	4.72	4.88	5.96	6.28
Operating costs	16.25	16.33	13.44	15.34	16.63	17.53	18.66	17.91
Operating netback (1)	19.69	15.78	21.34	3.28	9.58	16.57	25.19	11.20
Realized risk management gains	0.24	3.03	4.91	12.71	3.86	1.80	9.37	12.91
General and administrative	2.59	2.13	3.28	3.67	2.00	2.66	3.87	2.76
Transaction costs	-	1.97	1.22	-	-	-	-	-
Interest	0.85	0.94	1.56	1.53	1.28	1.34	1.42	1.38
Other	-	-	-	1.19	0.06	(0.47)	0.17	(0.52)
Corporate netback (1)	16.49	13.77	20.19	9.60	10.10	14.84	29.10	20.49

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

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

Quarter over quarter fluctuations in revenue is the result of both the amount of oil volumes sent to sale as well as Gear's received price. Volume fluctuations are the result of well productivity and timing of deliveries to the sales point. The amount of volumes delivered to sale can be influenced by a variety of factors some of which include weather, truck and rail car availability, as well as pipeline apportionments. Gear's received price is based off of WTI less the WCS differential and is further decremented for the quality differential on its specific grade of oil. Net income is further impacted by royalty and operating expenses. Royalty expenses are directly linked to the price received by Gear and, on crown lands, the productivity of each producing well. Gear's royalty profile changes based on Gear's drilling program as well as well results on its existing producing wells. Operating costs are heavily impacted by weather as well as the productivity of each well. Operating costs are typically higher in the winter months due to increased maintenance and energy costs. Transportation costs are included in operating costs, which fluctuate with the amount of volumes sold.

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

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