MANAGEMENT'S REPORT

To the Shareholders of Gear Energy Ltd.

Management's Responsibility on Financial Statements

Management is responsible for the preparation of Gear Energy Ltd.'s annual financial statements. The financial statements have been prepared in accordance with the accounting policies detailed in the notes thereto. In management's opinion, the financial statements are in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and include certain estimates that reflect Management's best judgments.

Management is responsible for the integrity of the financial statements. Management has developed and maintains an adequate system of internal control over financial reporting which provides reasonable assurance that all transactions are recorded, that the financial statements realistically report the Company's operating and financial results, and that the Company's assets are safeguarded from loss or unauthorized use. Management believes that this system of internal controls has operated effectively for the year ended December 31, 2017. The Company has effective disclosure controls and procedures to ensure timely and accurate disclosure of material information relating to the Company which complies with the requirements of Canadian securities legislation.

The Board of Directors has approved the information contained in the financial statements. Its financial statement related responsibilities are fulfilled mainly through the Audit Committee which is composed entirely of independent directors, and includes at least one director with financial expertise. The Audit Committee meets regularly with management and the external auditors to discuss reporting issues and ensures each party is properly discharging its responsibilities. The Audit Committee also considers the independence of the external auditors and reviews their fees.

The financial statements have been audited by Deloitte LLP, Chartered Professional Accountants in accordance with Canadian generally accepted auditing standards, on behalf of the shareholders.

(signed)
Ingram Gillmore
President and Chief Executive Officer

(signed)
David Hwang
Vice-President and Chief Financial Officer

February 21, 2018
Calgary, Alberta

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Gear Energy Ltd.:

We have audited the accompanying financial statements of Gear Energy Ltd., which comprise the balance sheets as at December 31, 2017 and 2016, and the statements of income (loss) and comprehensive income (loss), statements of changes in shareholders' equity and the statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Gear Energy Ltd. as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

(signed) "Deloitte LLP"
Chartered Professional Accountants
February 21, 2018
Calgary, Alberta

GEAR ENERGY LTD.
BALANCE SHEETS
As at December 31

(Cdn$ thousands)		**2017**		2016
ASSETS				
Current assets				
Accounts receivable	**$**	**13,240**	$	9,526
Prepaid expenses		**2,862**		2,774
Inventory (Note 5)		**7,297**		5,723
		23,399		18,023
Deferred income tax asset (Note 13)		**26,531**		20,589
Property, plant and equipment (Notes 4 and 7)		**256,961**		242,837
Total assets	**$**	**306,891**	$	281,449
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**11,625**	$	9,827
Risk management contracts (Note 11)		**5,295**		7,305
Flow-through share liability		**-**		135
		16,920		17,267
Debt (Note 8)		**41,345**		31,163
Convertible debentures (Note 9)		**12,155**		11,973
Decommissioning liability (Note 10)		**80,541**		78,814
Total liabilities		**150,961**		139,217
SHAREHOLDERS' EQUITY				
Share capital (Note 12)		**311,240**		308,900
Warrants (Notes 6 and 12)		**129**		335
Equity component of convertible debentures (Note 9)		**2,592**		2,649
Contributed surplus		**15,178**		13,786
Deficit		**(173,209)**		(183,438)
Total shareholders' equity		**155,930**		142,232
Total liabilities and shareholders' equity	**$**	**306,891**	$	281,449

See accompanying notes to the Financial Statements

Approved by the Board of Directors

(signed)
Don Gray
Chairman of the Board of Directors and Director

(signed)
Harry English
Chair of the Audit Committee and Director

GEAR ENERGY LTD.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended December 31
(Cdn$ thousands)

	Share Capital	Warrants	Equity Component of Convertible Debentures	Contributed Surplus	Deficit	Total Equity
Balance at December 31, 2015	**$ 241,535**	**$ -**	**$ -**	**$ 12,377**	**$ (159,752)**	**$ 94,160**
Issued on offering of common shares	20,125	-	-	-	-	20,125
Issued as consideration on corporate acquisition (Note 6)	46,506	335	-	-	-	46,841
Issued on flow-through share offering	859	-	-	-	-	859
Share issue costs, net of deferred tax of $357	(979)	-	-	-	-	(979)
Approval of conversion feature	-	-	2,800	-	-	2,800
Issued on conversion of convertible debentures	854	-	(151)	-	-	703
Share-based compensation	-	-	-	1,409	-	1,409
Net loss for the year	-	-	-	-	(23,686)	(23,686)
Balance at December 31, 2016	**$ 308,900**	**$ 335**	**$ 2,649**	**$ 13,786**	**$ (183,438)**	**$ 142,232**
Exercise of stock options	2,022	-	-	(573)	-	1,449
Cancellation of warrants	-	(206)	-	206	-	-
Share issue costs, net of deferred tax of $2	(5)	-	-	-	-	(5)
Issued on conversion of convertible debentures	323	-	(57)	-	-	266
Share-based compensation	-	-	-	1,759	-	1,759
Net income for the year	-	-	-	-	10,229	10,229
Balance at December 31, 2017	**$ 311,240**	**$ 129**	**$ 2,592**	**$ 15,178**	**$ (173,209)**	**$ 155,930**

See accompanying notes to the Financial Statements

GEAR ENERGY LTD.
STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)
For the years ended December 31

(Cdn$ thousands, except per share amounts)		**2017**		2016
REVENUE				
Sales of crude oil, natural gas and natural gas liquids	**$**	**102,551**	$	64,400
Royalties		**(10,454)**		(6,006)
		92,097		58,394
Realized cash(loss) gain on risk management contracts		**(1,524)**		8,801
Unrealized gain (loss) on risk management contracts		**2,010**		(16,478)
		92,583		50,717
EXPENSES				
Operating		**39,586**		29,156
General and administrative		**5,347**		5,378
Interest and financing charges		**1,986**		2,209
Depletion, depreciation and amortization (Note 7)		**37,896**		26,917
Accretion (Notes 9 and 10)		**2,199**		1,660
Share-based compensation (Note 12)		**1,759**		1,409
Transaction costs (Note 6)		**-**		1,485
Gain on asset disposition		**(445)**		(1,300)
Loss on conversion approval option (Note 9)		**-**		1,000
Other (Note 16)		**101**		484
		88,429		68,398
Deferred tax recovery (expense) (Note 13)		**6,075**		(6,005)
Net income (loss) and comprehensive income (loss)	**$**	**10,229**	$	(23,686)
Net income (loss) per share, basic and diluted (Note 12)	**$**	**0.05**	$	(0.18)

See accompanying notes to the Financial Statements

GEAR ENERGY LTD.
STATEMENTS OF CASH FLOWS
For the years ended December 31

(Cdn$ thousands)		**2017**		2016
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income (loss)	**$**	**10,229**	$	(23,686)
Add items not involving cash:				
Unrealized (gain) loss on risk management contracts		**(2,010)**		16,478
Bad debt (recovery) expense		**(3)**		108
Depletion, depreciation and amortization		**37,896**		26,917
Accretion		**2,199**		1,660
Share-based compensation		**1,759**		1,409
Gain on asset disposition		**(445)**		(1,300)
Loss on conversion approval option		**-**		1,000
Deferred tax (recovery) expense		**(6,075)**		6,005
Decommissioning liabilities settled		**(2,577)**		(1,853)
Change in non-cash working capital (Note 17)		**(4,205)**		(1,432)
		36,768		25,306
CASH FLOW FROM FINANCING ACTIVITIES				
Borrowings (repayments) of debt under credit facility		**10,182**		(24,562)
Repayment of debt assumed on corporate acquisition		**-**		(8,393)
Convertible debenture issue costs		**-**		5
Issuance of share capital, net of share issue costs		**1,442**		19,789
		11,624		(13,161)
CASH FLOW USED IN INVESTING ACTIVITIES				
Property, plant and equipment expenditures		**(47,765)**		(14,368)
Acquisition of petroleum and natural gas properties		**(2,261)**		(220)
Disposition of petroleum and natural gas properties		**511**		1,087
Change in non-cash working capital (Note 17)		**1,123**		1,356
		(48,392)		(12,145)
INCREASE IN CASH AND CASH EQUIVALENTS		**-**		-
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		**-**		-
CASH AND CASH EQUIVALENTS, END OF YEAR	**$**	**-**	$	-
The following are included in cash flow from operating activities:				
Interest paid in cash	**$**	**1,919**	$	2,201

See accompanying notes to the Financial Statements

1. STRUCTURE OF THE BUSINESS

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

Gear was incorporated in Canada and its principal place of business is located at 2600, 240 – 4th Avenue SW, Calgary, Alberta T2P 4H4.

2. BASIS OF PREPARATION

These financial statements (the "financial statements") have been prepared under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and were prepared using accounting policies consistent with IFRS.

A summary of Gear's significant accounting policies under IFRS is presented in Note 3. The financial statements have been prepared on the historical cost basis with the exception of risk management contracts which are measured at fair value.

The financial statements were authorized for issue by the Board of Directors on February 21, 2018.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Revenue recognition
Revenue associated with the sale of crude oil, natural gas, and natural gas liquids ("NGLs") owned by Gear is recognized when title is transferred from Gear to its customers. Revenue is measured at the fair value of the consideration received or receivable. Revenue from the sale of crude oil, natural gas, and NGLs (prior to deduction of transportation costs) is recognized when all of the following conditions have been satisfied:

- Gear has transferred the significant risks and rewards of ownership of the goods to the buyer;
- Gear retains no continuing managerial involvement to the degree usually associated with ownership or effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to Gear; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

(b) Joint arrangements
Gear does not have any joint venture arrangements. However, Gear conducts a portion of its activities through jointly controlled operations. These financial statements reflect only the Company's proportionate interest in such activities. Joint control exists for contractual arrangements governing Gear's assets whereby Gear has less than 100 per cent working interest, all of the partners have control of the arrangement collectively, and spending on the project requires unanimous consent of all parties that collectively control the arrangement and share the associated risks.

(c) Share-based compensation
The Company accounts for its share-based compensation plan using the fair value method estimated using the Black-Scholes model. Under this method, a compensation expense is charged over the vesting period for stock options granted using the graded vesting method with a corresponding increase to contributed surplus. Upon exercise of the stock options, consideration paid, together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. Forfeitures of stock options are estimated on the grant date and are adjusted to reflect the actual number of options that vest.

(d) Crude oil inventory
Crude oil inventory consists of amounts produced and in storage tanks and is recorded at the lower of cost, determined on a weighted-average basis, and net realizable value. Cost components include royalties, operating costs (other than transportation), and an estimated capital component based on depletion rates. Net realizable value is the estimated selling price in the normal course of business.

(e) Property, plant and equipment ("PP&E")
Items of PP&E, which include oil and gas Developed and Producing ("D&P") assets and administrative assets, are measured at cost less accumulated depletion, depreciation and accumulated impairment losses.

Gains and losses on disposals of properties are determined by comparing the proceeds to the carrying value of the property net of associated decommissioning liabilities and are recognized in the Statements of Income (Loss) and Comprehensive Income (Loss).

(f) Depletion and Depreciation
D&P assets are componentized into groups of assets with similar useful lives for the purposes of performing depletion calculations. Depletion expense is calculated on the unit-of-production basis based on:

(i) total estimated proved and probable reserves calculated in accordance with National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities;
(ii) total capitalized costs plus estimated future development costs of proved and probable reserves, including future estimated decommissioning costs; and
(iii) relative volumes of petroleum and natural gas reserves and production, before royalties, converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil.

Administrative assets are depreciated using the declining balance method over the useful lives of the assets.

(g) Impairment

D&P Assets
D&P assets are aggregated into cash-generating units ("CGUs") for the purposes of impairment testing and depletion calculations. CGUs are groups of assets that generate independent cash inflows and are generally defined based on geographic areas, with consideration given to how the assets are managed.

D&P assets are reviewed for impairment at a CGU level when indicators of impairment exist. When indicators of impairment exist, the carrying value of each CGU is compared to its recoverable amount which is defined as the higher of its fair value less cost to sell or its value in use.

When the carrying value exceeds the recoverable amount an impairment loss exists and is recognized in the Statements of Income (Loss) and Comprehensive Income (Loss).

Reversals of impairments are recognized when events or circumstances that triggered the original impairment have changed. Impairments can only be reversed in future periods up to the carrying amount that would have been determined, net of depletion and depreciation, had no impairment losses been previously recognized.

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

(i) Financial Instruments
(i) Non-derivative financial instruments
All financial instruments are initially recognized at fair value on the balance sheet.

Accounts receivable are classified as loans and receivables and accounts payable and accrued liabilities and debt are classified as other liabilities. These classifications are initially measured at fair value. Subsequent revaluations are recorded at amortized cost using the effective interest method.

The carrying value approximates fair value due to the short term nature of these instruments.

(ii) Risk Management Contracts

Gear enters into risk management contracts in order to manage its exposure to market risks from fluctuations in commodity prices, foreign exchange rates and interest rates in the normal course of operations. Gear has not designated its risk management contracts as effective hedges, and thus has not applied hedge accounting, even though it considers most of these contracts to be economic hedges. As a result, all risk management contracts are classified as fair value through profit or loss and are recorded at fair value on the balance sheet with changes in fair value recorded in the Statements of Income (Loss) and Comprehensive Income (Loss). The fair values of these derivative instruments are generally based on an estimate of the amounts that would be paid or received to settle these instruments at the balance sheet date.

(j) Decommissioning Liabilities

Gear's oil and gas operating activities give rise to dismantling, decommissioning and site remediation activities. Gear recognizes a liability for the estimated present value of the future decommissioning liabilities at each balance sheet date using a risk free discount rate. The associated decommissioning cost is capitalized and amortized over the same period as the underlying asset. Changes in the estimated liability resulting from revisions to estimated timing, amount of cash flows, or changes in the discount rate are recognized as a change in the decommissioning liability and related capitalized decommissioning cost.

Amortization of capitalized decommissioning costs is included in depreciation, depletion and amortization in net income (loss). Increases in decommissioning liabilities resulting from the passage of time are recorded as accretion. Actual expenditures incurred are charged against the decommissioning liability.

(k) Flow-through Shares

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through shares are renounced to investors in accordance with tax legislation. Share capital is stated at the market value of shares without the flow-through feature at the time of issue, with a liability recognized representing the difference between cash received and market value. The premium paid for flow through shares in excess of that market value of the shares is drawn down and deferred tax is recognized at the time the qualifying exploration and development expenditures are renounced and incurred.

(l) Deferred income taxes

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting dates.

Deferred tax is recognized in the Statements of Income (Loss) and Comprehensive Income (Loss) except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Deferred tax assets are only recognized for temporary differences, unused tax losses and unused tax credits if it is probable that future tax amounts will arise to utilize those amounts.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

(m) Per Share Amounts

Basic per share amounts are computed by dividing net income or loss by the weighted average number of common shares outstanding during the period. Diluted per share amounts reflect the potential dilution that would occur if dilutive instruments were exercised and common shares issued.

(n) Future Accounting Policies Changes

IFRS 15 *Revenue from Contracts with Customers*

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.

Gear will retrospectively adopt IFRS 15 on January 1, 2018. The Company has completed reviewing its various revenue streams and underlying contracts with customers. It has been concluded that the adoption of IFRS 15 will not have a material impact on Gear's net income and financial position. Gear will expand the disclosures in the notes to its financial statements as prescribed by IFRS 15, including disclosing the Company's disaggregated revenue streams by product type.

IFRS 9 *Financial Instruments*

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. Gear has determined that the adoption of IFRS 9 will not have a material impact on the measurement and carrying values of the Company's financial assets or liabilities.

In addition, IFRS 9 introduces a new expected credit loss model for calculating impairment of financial assets, replacing the incurred loss impairment model required by IAS 39. Gear has determined that the new impairment model will not 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 applied 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, as well as consequential amendments to IFRS 7, *Financial Instruments: Disclosures*, will be applied on a retrospective basis by Gear on January 1, 2018.

IFRS 16 *Leases*

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

4. MANAGEMENT JUDGMENTS AND ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingencies at the date of the financial statements, and revenues and expenses during the reporting year. Actual results could differ from those estimated. The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities are discussed below.

Recoverability of asset carrying values
The recoverability of D&P asset carrying values is assessed at the CGU level. Determination of what constitutes a CGU is subject to management judgments. The asset composition of a CGU can directly impact the recoverability of the assets included therein. In assessing the recoverability of oil and gas properties, each CGU's carrying value is compared to its recoverable amount, defined as the greater of its fair value less cost to sell and value in use. Management has determined that Gear's asset base represents two CGU's. The first CGU is comprised of Gear's heavy oil properties and is located in Eastern Alberta and Saskatchewan and the second of predominantly light oil properties and is located in Western Alberta. The properties contained in each CGU are in close proximity to each other, with similar cost structures and marketing arrangements.

For the years ended December 31, 2017 and 2016, no impairment indicators were identified related to Gear's Eastern or Western Alberta CGU's. As a result of this assessment, impairment tests were not performed

Accrual estimates
Revenue, royalty, operating expense and capital amounts are estimated at each reporting date, before actual results are known. These estimates rely on management judgment and could vary from actual results.

Depletion of oil and gas assets
Depletion of oil and gas assets is determined based on total proved and probable reserve values as well as future development costs as estimated by Gear's external reserve evaluator. Assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forward price

estimates, production costs, required capital expenditures or recovery rates may change the economic status of reserves and may ultimately result in reserves being revised.

Business combinations
Determination of the fair value of acquired assets and liabilities in a business combination requires management to make assumptions and estimates about future events. The fair value of crude oil and natural gas interests is estimated with reference to the discounted cash flows expected to be derived from crude oil and natural gas production. These assumptions and estimates generally require judgment and include estimates of reserves acquired, liabilities assumed, forecast commodity prices, expected production volumes, future development and operating costs, income taxes, and discount rates. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to the net assets acquired, goodwill or gain on business combination.

Decommissioning liability
The provision for abandonment and reclamation is based on current legal and constructive requirements, technology, price levels and expected plans for remediation. Actual costs and cash outflows can differ from estimates because of changes in laws and regulations, public expectations, market conditions, discovery and analysis of site conditions and changes in technology.

Derivative Instruments
The estimated fair value of derivative instruments resulting in financial assets and liabilities is reliant upon forward commodity prices. Any change in the forward commodity price curves could result in a change to the estimated valuation of the instruments.

Employee Compensation Costs
Compensation expense recorded for Gear's stock option plan is based on a Black-Scholes pricing model. The inputs to this model such as average expected volatility and estimated forfeiture rates rely on management judgment.

Income Taxes
Tax regulations and legislation are subject to change and differing interpretations requiring management judgement. Deferred tax assets are recognized when it is considered probable that deductible temporary differences will be recovered in future periods, which requires management judgement. Deferred tax liabilities are recognized when it is considered probable that temporary differences will be payable to tax authorities in future periods, which requires management judgement. Income tax filings are subject to audits and re-assessments and changes in facts, circumstances and interpretations of the standards may result in a material increase or decrease in Gear's income tax assets and liabilities.

5. INVENTORY

At December 31, 2017 Gear recorded oil inventory valued at its production cost of $7.3 million (December 31, 2016 at its production cost of $5.7 million). The cost components of the inventory balance are as follows:

($ thousands)	**Year ended December 31, 2017**	Year ended December 31, 2016
Capital	**3,025**	2,531
Operating	**4,272**	3,192
Balance, end of year	**7,297**	5,723

6. CORPORATE ACQUISTITION

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

Net Assets Acquired	**Amount** ($ thousands)
Accounts receivable	2,375
Prepaid expenses	1,346
Inventory	421
Property, plant and equipment	58,614
Accounts payable	(2,852)
Debt	(8,393)
Decommissioning liability	(4,670)
Total net assets acquired	46,841

Consideration	Amount ($ thousands)
Common shares (76.2 million shares at $0.61 per share)	46,506
Warrants (Note 12)	335
Total purchase price	46,841

As part of the acquisition Gear acquired tax pools that would have resulted in a deferred tax asset which was not recognized due to the uncertainty of future recoverability. These financial statements incorporate the results of operations of the acquired properties from July 27, 2016. The assets generated sales of crude oil, natural gas and natural gas liquids of $11.4 million and net income of $1.2 million from July 27, 2016 to December 31, 2016. If the transaction had taken place on January 1, 2016, it is estimated that the assets acquired would have contributed incremental sales of crude oil, natural gas and natural gas liquids of $22.2 million and a net loss of $3.2 million.

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

7. PROPERTY, PLANT AND EQUIPMENT

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

Cost ($ thousands)	D&P Assets	Administrative Assets	Total
Balance, December 31, 2015	550,125	1,202	551,327
Additions	14,368	(1)	14,367
Acquisitions	58,897	-	58,897
Disposals	(381)	-	(381)
Change in decommissioning costs	20,214	-	20,214
Balance, December 31, 2016	643,223	1,201	644,424
Additions	47,693	72	47,765
Acquisitions	2,281	-	2,281
Disposals	(85)	-	(85)
Change in decommissioning costs	2,553	-	2,553
Balance, December 31, 2017	695,665	1,273	696,938
Depletion, depreciation and amortization			
Balance, December 31, 2015	371,983	439	372,422
Depletion, depreciation, amortization	28,954	211	29,165
Balance, December 31, 2016	400,937	650	401,587
Depletion, depreciation and amortization	38,235	155	38,390
Balance, December 31, 2017	439,172	805	439,977

Carrying amounts ($ thousands)	D&P Assets	Administrative Assets	Total
As at December 31, 2016	242,286	551	242,837
As at December 31, 2017	256,493	468	256,961

8. DEBT

As at December 31, 2017, Gear had a $47.5 million revolving term credit facility with a syndicate of three banks and a $7.5 million operating facility (the "Credit Facilities"). The maturity date on the Credit Facilities is May 30, 2019. The total stamping fees range, depending on Gear's Debt to EBITDA ratio, between 100 bps to 300 bps on Canadian bank prime borrowings and between 200 bps and 400 bps on Canadian dollar bankers' acceptances. The undrawn portion of the Credit Facilities is subject to a standby fee in the range of 50 bps to 100 bps. The Credit Facilities carry a single covenant to maintain an adjusted working capital ratio of not less than 1.0:1. Adjusted working capital ratio is defined as current assets less unrealized hedging gains, plus the undrawn portion of the credit facilities divided by accounts payable and accrued liabilities. At December 31, 2017 Gear was in compliance with this covenant. The next semi-annual borrowing base review of the facilities will occur on or about May 31, 2018.

At December 31, 2017 Gear had $41.3 million drawn (December 31, 2016 – $31.2 million).

9. CONVERTIBLE DEBENTURES

On November 30, 2015, the Company completed the issuance of unsecured subordinated debentures (the "Convertible Debentures") for gross proceeds of $14.8 million. The Convertible Debentures have a maturity date of November 30, 2020 and carry a coupon of 4 per cent per annum payable semi-annually in arrears on May 31 and November 30 until maturity. The Convertible Debentures are convertible at the option of the holder at any time prior to the maturity date at a conversion price of $0.87 per common share such that for every $1,000 principal amount of Convertible Debentures a holder will receive approximately 1,149.43 common shares. Holders converting their Convertible Debentures will be entitled to receive accrued and unpaid interest thereon for the period from the date of the latest interest payment date to, but excluding, the date of conversion.

The Convertible Debentures may be redeemable on or after December 31, 2018 by Gear if the current market price of Gear's common shares at such time is at least 125 per cent of the conversion price. On or after December 31, 2019, the Convertible Debentures may be redeemed by Gear at a redemption price equal to the principal amount plus accrued and unpaid interest up to the date of redemption. Gear has the option to satisfy its obligation to repay the principal amount of the Convertible Debentures due at maturity or redemption of the Convertible Debentures by the issuance of common shares with the number of such common shares based on 95% of the weighted average trading price of the common shares prior to the date of maturity or redemption.

The following tables provide a continuity of balances of the Convertible Debentures, the conversion approval option and the equity component from December 31, 2015 to December 31, 2017:

($ thousands)	**Convertible Debentures**	**Conversion approval option**	**Equity component**
Balance, December 31, 2015	12,230	1,800	-
Accretion using effective interest rate at 8%	441	-	-
Adjustment of issuance costs	5	-	-
Change in fair value of conversion approval option	-	1,000	-
Approval of conversion feature	-	(2,800)	2,800
Conversions	(703)	-	(151)
Balance, December 31, 2016	11,973	-	2,649
Accretion using effective interest rate at 8%	448	-	-
Conversions	(266)	-	(57)
Balance, December 31, 2017	**12,155**	**-**	**2,592**

10. DECOMMISSIONING LIABILITY

($thousands)	**Year ended December 31, 2017**	Year ended December 31, 2016
Balance, beginning of year	**78,814**	54,959
Changes in estimates	**1,016**	(6,855)
Additions	**1,733**	865
Dispositions	**(196)**	(465)
Liabilities acquired through acquisitions	**-**	4,670
Revaluation of acquired decommissioning liabilities (1)	**-**	26,274
Decommissioning liabilities settled	**(2,577)**	(1,853)
Accretion	**1,751**	1,219
Balance, end of year	**80,541**	78,814

(1) These amounts relate to the revaluation of acquired decommissioning liabilities at the end of the year using a risk-free discount rate. At the date of acquisition decommissioning liabilities are fair valued.

The undiscounted and unescalated amount of the expected cash flows required to settle the decommissioning liability is estimated to be $83.0 million as at December 31, 2017 (December 31, 2016 - $82.8 million). The liability for the expected cash flows, as reflected in the financial statements, has been inflated at two per cent and discounted using a risk-free rate of 2.15 per cent (December 31, 2016 – 2.24 per cent). Abandonments are expected to occur between 2018 and 2050 and related costs will be funded mainly from Gear's cash provided by operating activities.

11. 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. Gear considers all present and future transactions 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.

Following is a summary of all risk management contracts in place as at December 31, 2017:

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, 2018	Apr 30, 2018	Collar	USD	500	-	51.00	46.00	-
Jan 1, 2018	Apr 30, 2018	Collar	USD	1,000	-	52.25	46.00	-
Jan 1, 2018	Dec 31, 2018	Collar	USD	300	-	52.50	47.50	-
Jan 1, 2018	Dec 31, 2018	Collar	USD	600	-	57.00	50.00	-
May 1, 2018	Aug 31, 2018	Collar	USD	500	-	52.25	46.00	-
May 1, 2018	Aug 31, 2018	Collar	USD	1,000	-	56.00	46.00	-
Sep 1, 2018	Dec 31, 2018	Collar	USD	1,500	-	56.00	46.00	-

Financial AECO Gas Contracts								
Term		Contract	Currency	Volume GJ/d	Sold Swap $/GJ	Sold Call $/GJ	Bought Put $/GJ	Sold Put $/GJ
Jan 1, 2018	Dec 31, 2018	Swap	CAD	1,700	2.65	-	-	-
Jan 1, 2018	Dec 31, 2018	Collar	CAD	1,700	-	2.60	2.40	-

As at December 31, 2017, the fair value associated with Gear's risk management contracts was a liability of $5.3 million ($7.3 million liability at December 31, 2016).

Subsequent to December 31, 2017, Gear entered into the following risk management contracts:

Financial WTI Crude Oil Contracts								
Term		Contract	Currency	Volume bbl/d	Sold Swap $/bbl	Sold Call $/bbl	Bought Put $/bbl	Sold Put $/bbl
Apr 1, 2018	Dec 31, 2018	Collar	CAD	400	-	82.00	62.50	-
Jan 1, 2019	Dec 31, 2019	Three-way Collar	CAD/USD	400	-	U$66.00	C$62.00	C$52.00

12. SHAREHOLDERS' EQUITY

Gear is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares, issuable in series. Holders of common shares are entitled to dividends if declared by the Board, one vote per share, and upon liquidation, dissolution or winding up of the Company, the remaining property and assets of Gear. There are no outstanding preferred shares as at December 31, 2017 or 2016.

a) Share Capital

(thousands of shares and $ thousands)	**Year ended December 31, 2017**			Year ended December 31, 2016		
	Shares		**Amount**	Shares		Amount
Balance, beginning of year	**192,568**	**$**	**308,900**	85,484	$	241,535
Issued on offering of common shares	**-**		**-**	28,750		20,125
Exercise of stock options	**2,053**		**2,022**	-		-
Issued on acquisition of Striker	**-**		**-**	76,238		46,506
Issued on offering of flow through shares	**-**		**-**	1,176		859
Issued on conversion of debentures	**347**		**323**	920		854
Share issue costs, net of deferred tax benefit of $2 (2016 - $357)	**-**		**(5)**	-		(979)
Balance, end of year	**194,968**	**$**	**311,240**	192,568	$	308,900

b) Warrants

Consideration for the purchase of Striker which closed on July 27, 2016 included the continuation of 650 thousand fully vested Striker warrants held by certain directors of Striker who were appointed to the board of directors of Gear at the effective time of the arrangement. Each warrant gives the holder an option to purchase 2.325 Gear shares at an exercise price of $1.03 per share. These warrants expire on July 8, 2019. In May 2017, 400 thousand of the outstanding warrants were cancelled, leaving 250 thousand warrants outstanding at December 31, 2017.

c) Stock Options

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.

The following table summarizes Gear's stock option plan activity during the years ended December 31, 2017 and 2016 for grants made under the plan with a five year expiry.

(thousands)	**Year ended December 31, 2017** Number of stock options		Weighted average exercise price	Year ended December 31, 2016 Number of stock options		Weighted average exercise price
Outstanding, beginning of year	**5,996**	**$**	**2.44**	6,380	$	2.83
Granted	**-**		**-**	855		0.35
Exercised	**(37)**		**0.49**	-		-
Expired	**(257)**		**2.50**	-		-
Forfeited	**(122)**		**2.06**	(1,239)		3.02
Outstanding, end of year	**5,580**		**2.46**	5,996		2.44
Exercisable, end of year	**4,324**	**$**	**2.87**	3,299	$	3.00

As at December 31, 2017 Gear had 5.6 million stock options outstanding granted under the plan with a five year expiry at the time of grant at exercise prices ranging from $0.35 to $6.05 per share as summarized below:

Exercise Price	**Number of stock options (thousands)**	**Weighted average remaining contractual life (years)**
$0.35 – $2.00	2,938	2.7
$2.01 – $4.00	1,447	0.1
$4.01 – $6.05	1,195	1.5
	5,580	1.8

The following table summarizes Gear's stock option plan activity during the years ended December 31, 2017 and 2016 for grants made under the plan with a 30 day expiry following their vesting date.

(thousands)	**Year ended December 31, 2017** Number of stock options		Weighted average exercise price	Year ended December 31, 2016 Number of stock options		Weighted average exercise price
Outstanding, beginning of year	**6,550**	**$**	**0.71**	-	$	-
Granted	**3,780**		**0.73**	6,550		0.71
Exercised	**(2,016)**		**0.71**	-		-
Forfeited	**(373)**		**0.83**	-		-
Outstanding, end of year	**7,941**		**0.71**	6,550		0.71
Exercisable, end of year	**100**	**$**	**0.73**	-	$	-

During 2017, Gear has recorded an expense of $1.8 million (2016 - $1.4 million) to share-based compensation expense recognizing the stock option activity for the period based on the fair value of options issued amortized using a graded vesting calculation.

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

	Year ended December 31, **2017**	2016
Risk free interest rate (%)	**1.39**	0.53
Average expected life (years)	**2.0**	2.4
Average expected volatility (%)	**67.6**	82.0
Forfeiture rate (%)	**10.0**	10.0

d) Weighted average common shares

(thousands)	**Year ended December 31, 2017**	Year ended December 31, 2016
Basic	**193,477**	133,172
Diluted	**210,029**	133,172

The dilutive impact of Convertible Debentures and stock options are excluded from the diluted weighted average number of common shares when the impact is anti-dilutive.

e) Flow-Through Shares

On November 24, 2016, Gear issued 1,176,500 flow-through common shares at $0.85 per flow-through share for gross proceeds of $1.0 million via private placement. A flow-through share premium of $0.1 million was recognized. For each flow-through share, Gear renounced to the purchaser Canadian Exploration Expense equal to the purchase price of such shares in 2016. As at December 31, 2017, Gear had fully spent the committed amount.

13. INCOME TAXES

The tax provision differs from the amount computed by applying the combined Canadian federal and provincial statutory income tax rates to income (loss) before deferred income tax expense as follows:

($ thousands)	**Year ended December 31, 2017**	Year ended December 31, 2016
Income (loss) before income taxes	**4,154**	(17,681)
Canadian statutory rate (1)	**27.0%**	27.0%
Expected income tax expense (recovery) at statutory rates	**1,121**	(4,774)
Effect on income tax of:		
Change in estimated pool balances	**218**	(963)
Shared-based compensation	**475**	381
Flow-through shares	**123**	5
Loss on conversion approval option	**-**	270
Tax assets (recognized) not recognized (2)	**(7,961)**	11,008
Other	**(51)**	78
Deferred tax (recovery) expense	**(6,075)**	6,005

(1) The statutory rate consists of the combined statutory tax rate for Gear.
(2) Tax assets recognized is based on current tax pools less future taxable income based on reserve value estimates and deduction estimates such as general and administrative and interest and financing charges.

($ thousands)	**December 31, 2017**	December 31, 2016
Deferred tax assets		
Decommissioning liability	**21,746**	21,280
Non-capital losses carry forward	**27,505**	24,808
Financing fees	**679**	989
Risk management contracts	**1,429**	1,972
Deferred tax liabilities		
Capital assets in excess of recognized tax value	**(24,828)**	(28,460)
Deferred tax asset	**26,531**	20,589

($ thousands)	**Year ended December 31, 2017**	Year ended December 31, 2016
Deferred tax asset, beginning of the year	**20,589**	26,243
Deferred tax recovery (expense)	**6,075**	(6,005)
Deferred tax asset recognized in share issue costs	**2**	357
Deferred tax liability recognized in flow-through shares	**(135)**	(6)
Deferred tax asset, end of the year	**26,531**	20,589

All of Gear's assets have an approximate tax basis of $434.4 million ($428.2 million in 2016) available for future use as deductions from taxable income. Included in this tax basis are estimated non-capital loss carry forwards that expire in the years 2027 through 2036.

The following is a summary of estimated tax pools:

($ thousands)	**December 31, 2017**	December 31, 2016
Canadian oil and gas property expenses	**139,983**	151,001
Canadian development expenses	**113,343**	95,411
Canadian exploration expenses	**27,979**	27,640
Undepreciated capital cost	**48,740**	58,632
Non-capital losses	**101,872**	91,883
Other	**2,514**	3,665
Estimated tax pools, federal and provincial	**434,431**	428,232

14. FINANCIAL INSTRUMENTS

Classification and Measurement
Gear's financial instruments on the balance sheet are carried at amortized cost with the exception of risk management contracts, which are carried at fair value. As at December 31, 2017 and 2016, no significant differences existed between the carrying value of financial instruments and their estimated fair values

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

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

Gear's cash is classified as Level 1 and risk management contracts are classified as Level 2. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

Market Risk Management
Gear is exposed to a number of different financial risks arising from normal course business exposures, as well as the Company's use of financial instruments. These risk factors include market risks relating to commodity prices, foreign currency risk and interest rate risk, as well as liquidity risk and credit risk. There have been no changes in the Company's objectives, policies or risks surrounding financial instruments.

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of the business. The market price movements that could adversely affect the value of the Company's financial assets, liabilities and expected future cash flows include commodity price risk (crude oil and natural gas), and foreign currency exchange risk.

(a) *Commodity price and foreign currency exchange risk*
Gear is subject to commodity price risk on the delivery of crude oil, and to a lesser extent, natural gas. These prices have a significant impact on its financial condition and can be subject to volatility as a result of a number of different external factors. North American crude oil and natural gas prices are based upon US dollar denominated commodity prices. As a result, the price received by Canadian producers is affected by the Canadian/US dollar exchange rate. Gear manages the risks associated with changes in commodity prices and foreign currency exchange by entering into a variety of risk management contracts (see Note 11).

The following table illustrates the effects of movement in commodity prices on net income (loss) due to changes in the fair value of risk management contracts in place at December 31, 2017. The sensitivity is based on a 10 per cent increase and 10 per cent decrease in forward price curves for both WTI and AECO on December 31, 2017. The commodity price assumptions are based on Management's assessment of reasonably possible changes in oil and natural gas prices that could occur in the future.

Sensitivity of Commodity Price Risk Management Contracts as at December 31, 2017 ($ thousands)				
	Increase in Commodity Price		**Decrease in Commodity Price**	
	WTI	**AECO**	**WTI**	**AECO**
Net income (decrease) increase	(4,658)	(228)	5,090	230

The sensitivities are hypothetical and based on management's assessment of reasonably possible changes in commodity prices after the balance sheet date. The results of the sensitivity should not be considered to be predictive of future performance. Changes in the fair value of risk management contracts cannot generally be extrapolated because the relationship of change in certain variables to a change in fair value may not be linear.

(b) *Interest rate risk*

Gear has variable interest rates on its Credit Facilities, therefore, changes in interest rates could result in an increase or decrease in the amount Gear pays to service its debt. Gear had no risk management contracts that would be affected by interest rates in place at December 31, 2017.

If interest rates were to increase or decrease by one per cent, it is estimated that Gear's net income would change by approximately $302 thousand for the year ended December 31, 2017 assuming that the debt outstanding under Gear's Credit Facilities at December 31, 2017 was outstanding for all of 2017.

(c) *Liquidity risk*

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company believes that it has access to sufficient capital through internally generated cash flows and external sources (bank credit markets and equity financing, if required) to meet current spending forecasts. However, access to these external sources may change at any time and are subject to numerous factors. All the accounts payable and accrued liabilities are due in less than one year and amounts outstanding on the Credit Facilities are due on May 30, 2019. The convertible debentures have a scheduled bullet repayment date of November 30, 2020.

(d) *Credit risk*

Gear is or may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of petroleum and natural gas and other parties. In the event such entities fail to meet their contractual obligations to Gear, such failures could have a material adverse effect. The Company manages the risk by reviewing the credit risk of these entities and by entering agreements only with parties that meet certain credit tests. The maximum credit risk that the Company is exposed to is the carrying value of accounts receivable.

The majority of the credit exposure on accounts receivable at December 31, 2017 pertains to accrued revenue for December 2017 production volumes. Gear transacts with a number of oil and natural gas marketing companies. Marketing companies typically remit amounts to Gear by the 25th day of the month following production. A significant portion of Gear's accounts receivable is carried by three marketing companies with sound financial positioning. At December 31, 2017, 31 per cent, 25 per cent, and 16 per cent of total outstanding accounts receivable pertains to these companies. In addition, Gear has accrued a $1.7 million insurance receivable which accounts for 13 per cent of total outstanding accounts receivable at December 31, 2017. Gear did not have any other customers from which it had outstanding accounts receivable greater than 10 per cent of the total outstanding balance at December 31, 2017.

When determining whether amounts that are past due are collectable, management assesses the credit worthiness and past payment history of the counterparty, as well as the nature of the past due amount. Gear considers all amounts greater than 90 days to be past due. At December 31, 2017 management determined $3 thousand of accounts receivable previously recorded as a bad debt expense to be collectable, and as such recorded a recovery in the Statements of Income (Loss) and Comprehensive Income (Loss) for these amounts ($108 thousand expense in 2016).

As at December 31, 2017, 98 per cent of Gear's trade accounts receivable was current (2016 – 92 per cent) and 2 per cent was greater than 90 days (2016 – 8 per cent) with all amounts deemed to be collectible.

15. CAPITAL MANAGEMENT

Gear's capital management objective is to maintain a structure that will allow it to:

- Fund its development and exploration program;
- Provide financial flexibility to execute on strategic opportunities;
- Weather periods of low commodity prices in light of changes in economic conditions.

Gear considers its capital structure to include shareholders' equity and net debt, which includes debt, convertible debentures, and working capital. As at December 31, these amounts are as follows:

($ thousands)	**December 31, 2017**	December 31, 2016
Debt	**41,345**	31,163
Convertible debentures (at face value)	**13,698**	14,000
Accounts payable and accrued liabilities	**11,625**	9,827
Accounts receivable, prepaid expenses, and inventory	**(23,399)**	(18,023)
Net debt obligations [(1)]	**43,269**	36,967
Shareholders' equity	**155,930**	142,232
Total capital	**199,199**	179,199

(1) Net debt obligations exclude current unrealized amounts pertaining to risk management contracts and unamortized portion of debenture issuance costs

Gear's objective is to limit net debt at two times cash flow from operating activities excluding settlement of decommissioning liabilities and changes in non-cash working capital. At certain times, this ratio may be exceeded as a result of strategic acquisitions or low commodity prices. Gear manages its capital structure and adjusts it in response to changes in economic conditions and the risk characteristics of its underlying assets. This is achieved by issuing new shares or adjusting its net debt position through the management of capital expenditures. For 2017, Gear's net debt to cash flow from operating activities excluding settlement of decommissioning liabilities and changes in non-cash working capital is 1.0 (2016 - 1.3).

In addition to internal capital management, Gear's Credit Facilities contain a financial covenant to maintain an adjusted working capital ratio of not less than 1.0:1 as outlined in Note 8. As at December 31, 2017, Gear was in compliance with this financial covenant with a working capital ratio of 3.2.

There has been no change in Gear's capital management objectives during the year ended December 31, 2017.

16. OTHER

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 December 31, 2017, net of the $0.1 million policy deductible.

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

17. SUPPLEMENTAL DISCLOSURES CASH FLOW INFORMATION

Cash Flow Statement Presentation
The following table provides a detailed breakdown of the changes in non-cash working capital:

($ thousands)	**Year ended December 31, 2017**	Year ended December 31, 2016
Accounts receivable	**(3,711)**	(1,387)
Prepaid expenses	**(88)**	673
Inventory	**(1,080)**	389
Accounts payable and accrued liabilities	**1,797**	249
Total	**(3,082)**	(76)
Operating Activities	**(4,205)**	(1,432)
Investing Activities	**1,123**	1,356
Total	**(3,082)**	(76)

18. COMMITMENTS AND CONTINGENCIES

The following is a summary of Gear's contractual obligations and commitments as at December 31, 2017:

	Payments due by period			
($ thousands)	2018	2019	2020	Total
Office leases	373	364	146	883
Drilling commitment	1,453	1,939	1,939	5,331
Total contractual obligations	1,826	2,303	2,085	6,214

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

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

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

19. RELATED PARTY TRANSACTIONS

Key Management Personnel Compensation

Gear has determined that the key management personnel of the Company consists of its officers and directors. In addition to the salaries paid to officers, Gear also provides compensation through participation in Gear's stock option plan. The compensation included in general and administrative expenses relating to key management personnel for the year was $1.9 million (2016 - $1.4 million).