

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

(Cdn\$ thousands)	September 30, 2018	December 31, 2017
ASSETS		
Current assets		
Cash	\$ 693	\$ -
Accounts receivable	14,313	13,240
Prepaid expenses and deposits	5,119	2,862
Inventory (Note 3)	6,842	7,297
	26,967	23,399
Deferred income tax asset	26,531	26,531
Property, plant and equipment (Notes 4 and 5)	329,536	256,961
Total assets	\$ 383,034	\$ 306,891
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 25,012	\$ 11,625
Current portion of decommissioning liability (Note 8)	1,467	-
Current portion of risk management contracts (Note 9)	14,784	5,295
	41,263	16,920
Debt (Note 6)	66,159	41,345
Convertible debentures (Note 7)	12,175	12,155
Risk management contracts (Note 9)	3,366	-
Decommissioning liability (Note 8)	82,971	80,541
Total liabilities	205,934	150,961
SHAREHOLDERS' EQUITY		
Share capital (Note 10)	337,592	311,240
Warrants (Note 10)	129	129
Equity component of convertible debentures (Note 7)	2,519	2,592
Contributed surplus	15,528	15,178
Deficit	(178,668)	(173,209)
Total shareholders' equity	177,100	155,930
Total liabilities and shareholders' equity	\$ 383,034	\$ 306,891

See accompanying notes to the unaudited Condensed Consolidated Financial Statements

GEAR ENERGY LTD.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)

For the nine months ended September 30

	Share Capital	Warrants	Equity Component of Convertible Debentures	Contributed Surplus	Deficit	Total Equity
(Cdn\$ thousands)						
Balance, beginning of period	\$ 308,900	\$ 335	\$ 2,649	\$ 13,786	\$ (183,438)	\$ 142,232
Exercise of stock options	2,022	-	-	(573)	-	1,449
Cancellation of warrants (Note 10)	-	(206)	-	206	-	-
Share issue costs, net of deferred tax of \$2 (Note 10)	(5)	-	-	-	-	(5)
Issued on conversion of convertible debentures (Note 7)	323	-	(57)	-	-	266
Share-based compensation	-	-	-	1,339	-	1,339
Net income for the period	-	-	-	-	3,282	3,282
Balance at September 30, 2017	\$ 311,240	\$ 129	\$ 2,592	\$ 14,758	\$ (180,156)	\$ 148,563
Balance, beginning of period	311,240	129	2,592	15,178	(173,209)	155,930
Issued on conversion of convertible debentures (Note 7)	409	-	(73)	-	-	336
Exercise of stock options	1,207	-	-	(496)	-	711
Issued as consideration on corporate acquisition (Note 4)	24,743	-	-	-	-	24,743
Share issue costs (Note 10)	(7)	-	-	-	-	(7)
Share-based compensation	-	-	-	846	-	846
Net loss for the period	-	-	-	-	(5,459)	(5,459)
Balance at September 30, 2018	\$ 337,592	\$ 129	\$ 2,519	\$ 15,528	\$ (178,668)	\$ 177,100

See accompanying notes to the unaudited Condensed Consolidated Financial Statements

GEAR ENERGY LTD.**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)**

(unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
(Cdn\$ thousands, except per share amounts)	2018	2017	2018	2017
REVENUE				
Sales of crude oil, natural gas and natural gas liquids (Note 12)	\$ 33,334	\$ 24,260	\$ 91,908	\$ 72,504
Royalties	(4,550)	(2,699)	(10,694)	(7,749)
	28,784	21,561	81,214	64,755
Realized (loss) gain on risk management contracts	(4,064)	66	(10,052)	(1,048)
Unrealized (loss) gain on risk management contracts	(233)	(2,422)	(6,642)	7,271
	24,487	19,205	64,520	70,978
EXPENSES				
Operating	10,979	9,946	31,243	29,130
General and administrative	1,125	1,234	4,418	4,094
Transaction costs (Note 4)	395	-	395	-
Share-based compensation (Note 10)	303	422	846	1,339
Interest and financing charges	652	487	1,784	1,446
Depletion, depreciation and amortization (Notes 3 and 5)	10,330	9,662	30,183	27,446
Accretion (Notes 7 and 8)	562	529	1,673	1,621
Gain on asset disposition	(556)	(370)	(556)	(445)
Other	(9)	-	(7)	100
	23,781	21,910	69,979	64,731
Deferred tax expense	-	-	-	(2,965)
Net income (loss) and comprehensive income (loss)	\$ 706	\$ (2,705)	\$ (5,459)	\$ 3,282
Net income (loss) per share, basic and diluted (Note 10)	\$ -	\$ (0.01)	\$ (0.03)	\$ 0.02

See accompanying notes to the unaudited Condensed Consolidated Financial Statements

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

(Cdn\$ thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
CASH FLOW FROM OPERATING ACTIVITIES				
Net income (loss)	\$ 706	\$ (2,705)	\$ (5,459)	\$ 3,282
Add items not involving cash:				
Unrealized loss (gain) on risk management contracts	233	2,422	6,642	(7,271)
Share-based compensation	303	422	846	1,339
Depletion, depreciation and amortization	10,330	9,662	30,183	27,446
Accretion	562	529	1,673	1,621
Gain on asset disposition	(556)	(370)	(556)	(445)
Deferred tax expense	-	-	-	2,965
Decommissioning liabilities settled	(318)	(519)	(1,580)	(1,317)
Change in non-cash working capital (Note 13)	5,571	(244)	8,465	(816)
	16,831	9,197	40,214	26,804
CASH FLOW FROM (USED IN) FINANCING ACTIVITIES				
Borrowings under credit facilities	32,484	2,091	24,814	8,245
Repayment of debt assumed on corporate acquisition	(36,251)	-	(36,251)	-
Issuance of share capital, net of share issue costs	624	1,434	704	1,442
	(3,143)	3,525	(10,733)	9,687
CASH FLOW FROM (USED IN) INVESTING ACTIVITIES				
Property, plant and equipment expenditures	(18,749)	(10,513)	(34,377)	(35,458)
Cash received on corporate acquisition	693	-	693	-
Acquisition of petroleum and natural gas properties	(50)	(2,072)	(450)	(2,215)
Disposition of petroleum and natural gas properties	556	439	556	522
Change in non-cash working capital (Note 13)	4,555	(576)	4,790	660
	(12,995)	(12,722)	(28,788)	(36,491)
INCREASE IN CASH	693	-	693	-
CASH, BEGINNING OF PERIOD	-	-	-	-
CASH, END OF PERIOD	\$ 693	\$ -	\$ 693	\$ -
The following are included in cash flow from operating activities:				
Interest paid in cash	\$ 500	\$ 332	\$ 1,604	\$ 1,268

See accompanying notes to the unaudited Condensed Consolidated Financial Statements

GEAR ENERGY LTD.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

September 30, 2018 and 2017

(all tabular amounts in Cdn\$ thousands, except as noted)

1. BASIS OF PRESENTATION

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

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

These unaudited interim condensed consolidated financial statements (the “financial statements”) have been prepared in accordance with International Accounting Standards (“IAS”) 34 *Interim Financial Reporting* using accounting policies aligned with International Financial Reporting Standards (“IFRS”). The financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the Audited Financial Statements for the year ended December 31, 2017, which have been prepared in accordance with IFRS.

The financial statements were authorized for issue by the Board of Directors on November 7, 2018.

2. SIGNIFICANT ACCOUNTING POLICIES

Adopted Accounting Policy Changes

IFRS 15 Revenue from Contracts with Customers

On January 1, 2018 Gear retrospectively adopted IFRS 15 *Revenue from Contracts with Customers*, which replaces International Accounting Standard (“IAS”) 18 *Revenue*, IAS 11 *Construction Contracts*, and related interpretations. 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. The adoption of IFRS 15 did not result in any adjustments to Gear’s financial statements. Gear has expanded 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. See Note 12.

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. Gear’s commodity sales contracts represent a series of distinct transactions. Revenue is measured at the consideration specified in the contracts and represents amounts receivable for goods or services provided in the normal course of business. Substantially all revenue is based on floating prices. Gear considers its performance obligations to be satisfied and control to be transferred when all the following conditions are satisfied:

- Gear has transferred title and physical possession of the goods to the buyer;
- Gear has transferred the significant risks and rewards of ownership of the goods to the buyer; and
- Gear has the present right to payment.

Revenue is collected from Gear’s customers on the 25th day of the month following delivery. Gear does not have any contracts where the period between the transfer of the contracted goods and payment by the customer exceeds one year. As such, Gear does not adjust its revenue transactions for the time value of money. The contracts to sell the Company’s crude oil, natural gas and natural gas liquids have varying terms not longer than one year. As a result, Gear has immediately expensed costs of obtaining contracts as these costs would have been amortized within a period of one year.

IFRS 9 Financial Instruments

On January 1, 2018 Gear retrospectively adopted IFRS 9 *Financial Instruments* without restatement. 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 Other Comprehensive Income

rather than the statement of income. The adoption of IFRS 9 did not have an 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 does not result in 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 has not applied hedge accounting to any of its existing risk management contracts on adoption of IFRS 9.

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 as at January 1, 2018 for each class of the Company's financial assets and liabilities.

Financial Instrument	Measurement Category ⁽¹⁾	
	IAS 39	IFRS 9
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Financial liabilities measured at amortized cost	Amortized cost
Debt	Financial liabilities measured at amortized cost	Amortized cost
Convertible debentures	Financial liabilities measured at amortized cost	Amortized cost
Risk management contracts	Fair value through profit or loss	Fair value through profit or loss

(1) There were no adjustments to the carrying amounts of financial instruments as a result of the change in classification from IAS 39 to IFRS 9

Future Accounting Policy Changes

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 has completed the contract identification stage of its IFRS 16 project and is currently evaluating the impact of the standard on Gear's financial statements.

3. INVENTORY

At September 30, 2018 and December 31, 2017 Gear recorded oil inventory valued at its production cost of \$6.8 million and \$7.3 million, respectively. Gear records changes in both the capital and operating components to the statement of income (loss). The cost components of the inventory balance are as follows:

(\$ thousands)	September 30, 2018	December 31, 2017
Capital	2,816	3,025
Operating	4,026	4,272
Balance, end of period	6,842	7,297

4. CORPORATE ACQUISITION

On September 18, 2018 Gear completed the acquisition, by way of plan of arrangement, of all issued and outstanding common shares of Steppe Resources Inc. ('Steppe'), a private oil and gas company with properties in southeast Saskatchewan. The acquired assets provide Gear with increased light oil production and growth opportunities.

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

The preliminary purchase price is as follows:

Net Assets Acquired	Amount
	(\$ thousands)
Cash	693
Accounts receivable	4,485
Prepaid expenses and deposits	1,339
Inventory	244
Property, plant and equipment	65,976
Accounts payable and accrued liabilities ⁽¹⁾	(2,872)
Risk management contracts	(6,213)
Debt	(36,251)
Decommissioning liability	(2,658)
Total net assets acquired	24,743

Consideration	Amount
	(\$ thousands)
Common shares (21.9 million shares at \$1.13 per share)	24,743
Total purchase price	24,743

⁽¹⁾ Includes \$1.2 million of settled losses on risk management contracts payable at the acquisition date.

As part of the acquisition Gear acquired tax pools for which no deferred tax asset has been recognized due to the uncertainty of future recoverability. These financial statements incorporate the results of operations of the acquired properties from September 19, 2018 onward. The assets generated sales of crude oil, natural gas and natural gas liquids of \$1.0 million and a net income of \$0.4 million from September 19, 2018 to September 30, 2018. If the transaction had taken place on January 1, 2018, it is estimated that the assets acquired would have contributed incremental sales of crude oil, natural gas and natural gas liquids of \$25.0 million and net income of \$9.3 million, excluding losses on risk management contracts.

In conjunction with the acquisition Gear incurred \$0.4 million of transaction costs including amounts relating to legal, accounting fees, and other related acquisition costs. These amounts are included in the Interim Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

5. PROPERTY, PLANT AND EQUIPMENT

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

Cost	Development and	Administrative	Total
(\$ thousands)	Production Assets	Assets	
Balance, December 31, 2016	643,223	1,201	644,424
Additions	47,693	72	47,765
Acquisitions	2,281	-	2,281
Dispositions	(85)	-	(85)
Change in decommissioning costs	2,553	-	2,553
Balance, December 31, 2017	695,665	1,273	696,938
Additions	34,345	32	34,377
Acquisitions	66,426	-	66,426
Change in decommissioning costs	1,502	-	1,502
Balance, September 30, 2018	797,938	1,305	799,243

Depletion, depreciation and amortization			
(\$ thousands)			
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
Depletion, depreciation and amortization	29,504	226	29,730
Balance, September 30, 2018	468,676	1,031	469,707

Carrying amounts (\$ thousands)	Development and Production Assets	Administrative Assets	Total
As at December 31, 2017	256,493	468	256,961
As at September 30, 2018	329,262	274	329,536

No impairment indicators were identified on property, plant and equipment as at September 30, 2018 and December 31, 2017.

6. DEBT

During the third quarter of 2018, in conjunction with the Steppe acquisition, Gear had its borrowing base reviewed which resulted in a \$40.0 million increase in its credit facilities. As at September 30, 2018 Gear had a \$95.0 million revolving term credit facility with a syndicate of three banks and a \$20.0 million operating facility (the "Credit Facilities"). The maturity date on the Credit Facilities is May 29, 2020. The total stamping fees range, depending on Gear's Debt to EBITDA ratio, between 50 bps to 300 bps on Canadian bank prime borrowings and between 150 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 34 bps to 90 bps. The Credit Facilities carry a single covenant to maintain an adjusted working capital ratio of not less than 1.0:1. Adjusted working capital ratio is defined as current assets less unrealized hedging gains, plus the undrawn portion of the credit facilities divided by accounts payable and accrued liabilities. At September 30, 2018, Gear was in compliance with this covenant. As at September 30, 2018 Gear had \$66.2 million drawn on the Credit Facilities (December 31, 2017 – \$41.3 million) and an outstanding letter of credit of \$0.2 million (December 31, 2017 – nil).

7. CONVERTIBLE DEBENTURES

On November 30, 2015, the Company completed the issuance of unsecured subordinated debentures (the "Convertible Debentures") for gross proceeds of \$14.8 million. The Convertible Debentures have a maturity date of November 30, 2020 and carry a coupon of 4 per cent per annum payable semi-annually in arrears on May 31 and November 30 until maturity. The Convertible Debentures are convertible at the option of the holder at any time prior to the maturity date or redemption 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 table provides a continuity of balances of the Convertible Debentures and the equity component from December 31, 2016 to September 30, 2018:

(\$ thousands)	Convertible Debentures	Equity component
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
Accretion using effective interest rate at 8%	356	-
Conversions	(336)	(73)
Balance, September 30, 2018	12,175	2,519

8. DECOMMISSIONING LIABILITY

(\$thousands)	Nine months ended September 30, 2018	Year ended December 31, 2017
Balance, beginning of period	80,541	78,814
Changes in estimates	(4,756)	1,016
Additions	1,279	1,733
Acquisitions (dispositions)	240	(196)
Liabilities acquired on acquisition of Steppe (Note 4)	2,658	-
Revaluation of acquired decommissioning liabilities ⁽¹⁾	4,739	-
Decommissioning liabilities settled	(1,580)	(2,577)
Accretion	1,317	1,751
Balance, end of period	84,438	80,541
Expected to be incurred within one year	1,467	-
Expected to be incurred beyond one year	82,971	80,541

⁽¹⁾ These amounts relate to the revaluation of acquired decommissioning liabilities at September 30, 2018 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 \$91.6 million as at September 30, 2018 (December 31, 2017 - \$83.0 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 2.41 per cent (December 31, 2017 – 2.15 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.

9. RISK MANAGEMENT CONTRACTS

Following is a summary of all risk management contracts in place as at September 30, 2018:

Financial WTI Crude Oil Contracts								
Term		Contract	Currency	Volume	Sold Swap	Sold Call	Bought Put	Sold Put
				bbl/d	\$/bbl	\$/bbl	\$/bbl	\$/bbl
Oct 1, 2018	Dec 31, 2018	Collar	USD	300	-	52.50	47.50	-
Oct 1, 2018	Dec 31, 2018	Collar	USD	600	-	57.00	50.00	-
Oct 1, 2018	Dec 31, 2018	Collar	USD	1,500	-	56.00	46.00	-
Oct 1, 2018	Dec 31, 2018	Collar	CAD	400	-	82.00	62.50	-
Jan 1, 2019	Dec 31, 2019	Three-way Collar	USD/CAD	600	-	US\$66.00	C\$62.00	C\$52.00
Jan 1, 2019	Dec 31, 2019	Three-way Collar	USD/CAD	600	-	US\$72.00	C\$65.00	C\$55.00
Jan 1, 2019	Dec 31, 2019	Three-way Collar	CAD	1,200	-	100.00	65.00	55.00
Jan 1, 2019	Dec 31, 2019	Collar	CAD	100	-	103.00	65.00	-
Jan 1, 2020	Dec 31, 2020	Collar	CAD	700	-	94.00	65.00	-
Oct 1, 2018	Oct 31, 2018	Swap ⁽¹⁾	CAD	500	61.20	-	-	-
Nov 1, 2018	Feb 28, 2019	Swap ⁽¹⁾	CAD	450	61.20	-	-	-
Mar 1, 2019	Jul 31, 2019	Swap ⁽¹⁾	CAD	400	61.20	-	-	-
Oct 1, 2018	Dec 31, 2018	Swap ⁽¹⁾	CAD	300	71.20	-	-	-
Jan 1, 2019	Jun 30, 2019	Swap ⁽¹⁾	CAD	250	68.90	-	-	-
Jul 1, 2019	Jul 31, 2019	Swap ⁽¹⁾	CAD	200	67.30	-	-	-
Aug 1, 2019	Dec 31, 2019	Swap ⁽¹⁾	CAD	400	67.30	-	-	-

⁽¹⁾ Acquired through the acquisition of Steppe; see Note 4.

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

As at September 30, 2018, the fair value associated with Gear's risk management contracts was a liability of \$18.2 million (December 31, 2017 – liability of \$5.3 million).

The following table summarizes the change in the risk management contracts liability during the periods ended September 30, 2018 and December 31, 2017:

(\$thousands)	Nine months ended		Year ended	
	September 30, 2018		December 31, 2017	
Balance, beginning of period		5,295		7,305
Unrealized loss (gain) on risk management contracts		6,642		(2,010)
Assumption of unrealized risk management liability on acquisition of Steppe (Note 4)		6,213		-
Balance, end of period		18,150		5,295

10. SHAREHOLDERS' EQUITY

a) Share capital

(thousands of shares and \$ thousands)	Nine months ended		Year ended	
	September 30, 2018		December 31, 2017	
	Shares	Amount	Shares	Amount
Balance, beginning of period	194,968	\$ 311,240	192,568	\$ 308,900
Issued on acquisition of Steppe (Note 4)	21,896	24,743	-	-
Exercise of stock options	1,472	1,207	2,053	2,022
Issued on conversion of debentures	440	409	347	323
Share issue costs	-	(7)	-	(5)
Balance, end of period	218,776	\$ 337,592	194,968	\$ 311,240

For the nine months period ended September 30, 2018, 1.7 million stock options were exercised for 0.5 million common shares on a cash-less basis and 1.0 million stock options were exercised for 1.0 million common shares for proceeds of \$0.7 million.

b) Warrants

Consideration for the purchase of Striker Exploration Corp. ("Striker") which closed on July 27, 2016 included the continuation of 0.7 million fully vested Striker warrants held, controlled or directed 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, 0.4 million of the outstanding warrants were cancelled, leaving 0.3 million warrants outstanding at September 30, 2018.

c) Stock option plan

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

The following table summarizes Gear's stock option plan activity during the periods ended September 30, 2018 and December 31, 2017 for grants made under the plan with a five year expiry.

(thousands)	Nine months ended September 30, 2018		Year ended December 31, 2017	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, beginning of period	5,580	\$ 2.46	5,996	\$ 2.44
Exercised	(117)	0.45	(37)	0.49
Expired	(1,350)	2.50	(257)	2.50
Forfeited	(31)	2.22	(122)	2.06
Outstanding, end of period	4,082	2.51	5,580	2.46
Exercisable, end of period	3,580	\$ 2.78	4,324	\$ 2.87

The following table summarizes Gear's stock option plan activity during the periods ended September 30, 2018 and December 31, 2017 for grants made under the plan with a 30 day expiry following their vesting date.

(thousands)	Nine months ended September 30, 2018		Year ended December 31, 2017	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, beginning of period	7,941	\$ 0.71	6,550	\$ 0.71
Granted	5,013	1.04	3,780	0.73
Exercised	(2,612)	0.71	(2,016)	0.71
Forfeited	(139)	0.72	(373)	0.83
Outstanding, end of period	10,203	0.87	7,941	0.71
Exercisable, end of period	575	\$ 0.70	100	\$ 0.73

During 2018, Gear has recorded an expense of \$0.8 million (2017 - \$1.3 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:

	Period ended September 30, 2018
Risk free interest rate (%)	2.01
Dividend yield (%)	-
Average expected life (years)	2.08
Average expected volatility (%)	21
Forfeiture rate (%)	10.0

d) Weighted average common shares

(thousands)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Basic	198,826	193,158	196,294	192,975
Dilutive impact of Convertible Debentures	15,465	-	-	15,770
Dilutive impact of stock options	3,135	-	-	685
Diluted	217,426	193,158	196,294	209,430

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.

11. FINANCIAL INSTRUMENTS

Classification and Measurement

Gear's financial instruments on the balance sheet are carried at amortized cost with the exception of risk management contracts which are carried at fair value. As at September 30, 2018 and December 31, 2017, no significant differences existed between the carrying value of financial instruments and their estimated fair values.

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

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

Gear's risk management contracts have been assessed on the fair value hierarchy described above. Gear's cash is classified as Level 1 and risk management contracts 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

Credit risk

The majority of the credit exposure on accounts receivable at September 30, 2018 pertains to accrued revenue for September 2018 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 four marketing companies. At September 30, 2018, 18 per cent, 17 per cent, 14 per cent and 11 per cent of total outstanding accounts receivable pertains to these companies. 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 September 30, 2018.

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. As at September 30, 2018, 98 per cent of Gear's trade accounts receivable was current (December 31, 2017 – 98 per cent) and 2 per cent was greater than 90 days (December 31, 2017 – 2 per cent).

12. SALES OF CRUDE OIL, NATURAL GAS AND NATURAL GAS LIQUIDS

Gear sells its production pursuant to variable-price contracts. The transaction price for these contracts is based on commodity prices adjusted for quality and other factors. The contracts to sell the Company's crude oil, natural gas and natural gas liquids have varying terms not longer than one year. The following table provides a summary of Gear's revenue streams:

(\$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Heavy oil	23,429	16,503	63,708	47,037
Light and medium oil	8,649	6,303	24,083	19,914
Natural gas liquids	862	696	2,466	1,978
Natural gas	394	758	1,651	3,575
Total sales of crude oil, natural gas and natural gas liquids	33,334	24,260	91,908	72,504

13. SUPPLEMENTAL DISCLOSURES CASH FLOW INFORMATION

Cash Flow Statement Presentation

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

(\$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Accounts receivable	3,387	(119)	3,412	(2,047)
Prepaid expenses	(93)	(756)	(918)	(619)
Inventory	133	(58)	246	(845)
Accounts payable and accrued liabilities	6,699	113	10,515	3,355
Total	10,126	(820)	13,255	(156)
Operating Activities	5,571	(244)	8,465	(816)
Investing Activities	4,555	(576)	4,790	660
Total	10,126	(820)	13,255	(156)

14. COMMITMENTS AND CONTINGENCIES

Following is a summary of Gear's contractual obligations and commitments as at September 30, 2018:

(\$ thousands)	Payments due by period			
	2018	2019	2020	Total
Office leases	93	364	146	603
Drilling commitment	-	1,176	1,939	3,115
Total contractual obligations	93	1,540	2,085	3,718

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.