FINANCIAL AND OPERATIONAL HIGHLIGHTS

(Cdn$ thousands, except per boe amounts)	Three months ended **Sep 30, 2018**	Sep 30, 2017	Jun 30, 2018	Nine months ended **Sep 30, 2018**	Sep 30, 2017
FINANCIAL					
Funds from operations (1)	**11,578**	9,960	13,674	**33,329**	28,937
Per weighted average basic share	**0.06**	0.05	0.07	**0.17**	0.15
Per weighted average diluted share	**0.05**	0.05	0.07	**0.17**	0.14
Cash flow from operating activities	**16,831**	9,197	8,596	**40,214**	26,804
Net income (loss)	**706**	(2,705)	(1,869)	**(5,459)**	3,282
Per weighted average basic and diluted share	**-**	(0.01)	(0.01)	**(0.03)**	0.02
Capital expenditures	**18,749**	10,513	6,385	**34,377**	35,458
Net acquisitions (2)	**65,470**	1,635	10	**65,870**	1,695
Net debt (1)(3)	**83,733**	44,568	38,960	**83,733**	44,568
Weighted average shares, basic (thousands)	**198,826**	193,158	195,045	**196,294**	192,975
Weighted average shares, diluted (thousands)	**217,426**	193,158	195,045	**196,294**	209,430
Shares outstanding, end of period (thousands)	**218,776**	194,968	195,213	**218,776**	194,968
OPERATING					
Production					
Heavy oil (bbl/d)	**4,484**	4,054	4,774	**4,497**	3,894
Light and medium oil (bbl/d)	**1,228**	1,290	1,232	**1,219**	1,263
Natural gas liquids (bbl/d)	**268**	279	219	**237**	273
Natural gas (mcf/d)	**4,609**	5,415	4,806	**4,879**	5,316
Total (boe/d)	**6,748**	6,525	7,025	**6,766**	6,316
Average prices					
Heavy oil ($/bbl)	**56.79**	44.00	55.04	**51.89**	43.96
Light and medium oil ($/bbl)	**76.57**	53.12	75.67	**72.37**	57.76
Natural gas liquids ($/bbl)	**35.02**	27.28	40.51	**38.18**	26.51
Natural gas ($/mcf)	**0.93**	1.52	1.08	**1.24**	2.46
Netback ($/boe)					
Commodity and other sales	**53.70**	40.41	52.67	**49.76**	42.05
Royalties	**(7.33)**	(4.50)	(5.06)	**(5.79)**	(4.49)
Operating costs	**(17.69)**	(16.57)	(17.16)	**(16.91)**	(16.89)
Operating netback (1)	**28.68**	19.34	30.45	**27.06**	20.67
Realized risk management (losses) gains	**(6.55)**	0.11	(5.55)	**(5.44)**	(0.61)
General and administrative	**(1.81)**	(2.06)	(2.55)	**(2.39)**	(2.37)
Interest	**(1.05)**	(0.81)	(0.93)	**(0.97)**	(0.84)
Transaction costs	**(0.64)**	-	-	**(0.21)**	-
Other	**0.02**	-	(0.02)	**-**	(0.07)
Corporate netback (1)	**18.65**	16.58	21.40	**18.05**	16.78
TRADING STATISTICS					
($ based on intra-day trading)					
High	**1.47**	0.86	1.37	**1.47**	1.26
Low	**1.00**	0.65	0.68	**0.66**	0.60
Close	**1.17**	0.82	1.35	**1.17**	0.82
Average daily volume (thousands)	**522**	326	820	**603**	377

(1) Funds from operations, net debt, operating netback and corporate netback are non-GAAP measures and are reconciled to the nearest GAAP measures under the heading "*Non-GAAP Measures*" in Gear's MD&A.

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

(3) Net debt includes the risk management liability acquired through the Steppe Resources Inc. corporate acquisition of $6.2 million (2017 – NIL).

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis ("MD&A") is Gear Energy Ltd. ("Gear" or the "Company") management's analysis of its financial performance. It is dated November 7, 2018 and should be read in conjunction with the unaudited Interim Condensed Consolidated Financial Statements as at and for the three and nine months ended September 30, 2018 and the audited Financial Statements as at and for the year ended December 31, 2017. Both statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

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

ABOUT GEAR ENERGY LTD.

Gear is a Canadian exploration and production company with heavy and light oil production in Central Alberta, West Central Saskatchewan and Southeast Saskatchewan. Presently, Gear has 41 employees with 28 staff in the Calgary office and 13 employees located in Gear's operating areas in Alberta and Saskatchewan. Gear also has a number of contract operators in the field. The Company trades on the Toronto Stock Exchange under the symbol GXE.

Gear is return-driven with a focus on delivering per share growth by pursuing assets with the following characteristics:

- Geographically focused
- Definable resource base with low risk production
- Repeatable projects that are statistically economic
- Multiple producing horizons
- Easy surface access and existing infrastructure
- High operatorship

Gear enhances returns of acquired assets by:

- Drilling and developing on acquired lands
- Focusing on operational and cost efficiencies
- Continually improving operations through innovation and imitation
- Adopting and refining advanced drilling and completing techniques
- Pursuing strategic acquisitions with significant potential synergies

ECONOMIC ENVIRONMENT

Third quarter liquids pricing on average was relatively consistent with the strong prices seen in the previous quarter, with WTI light oil price averaging US$69.50 per barrel, Edmonton Par light oil differentials averaging US$6.83 per barrel and WCS heavy oil differentials averaging US$22.25 per barrel. However, near the end of the quarter, and into the fourth quarter light and heavy Canadian oil differentials have materially widened as a result of egress challenges for both products. The Edmonton Par differential has expanded to US$17.40, $26.70, and $35.87 per barrel in October, November and December, respectively. In addition, the WCS differential is trading at US$29.61, $45.66 and $42.84 per barrel in the same three months. These discounts on Canadian oil are trading in record territory and are the result of a lack of pipeline capacity, increased Canadian oil production and associated storage, extensive seasonal refinery maintenance in the US and the slow ramp up of crude-by-rail transportation. The combination of improvement in crude-by-rail and the completion of refinery maintenance are forecast to improve egress challenges, with 2019 Edmonton Par and WCS differentials forecasted to average US$16.00 per barrel and US$28.57 per barrel. With the successful acquisition of Steppe Resources Inc. (the "Steppe Acquisition"), a private oil and gas company with properties in southeast Saskatchewan, Gear has diversified its product mix to now include oil sold in southeast Saskatchewan at Cromer LSB pricing. Fortunately, that index price has been less impacted and is currently trading at a premium to Edmonton Par of approximately US$12 per barrel. As a result of the weakened pricing environment, Gear intends to defer the majority of the fourth quarter capital spending plans and temporarily slow or store oil production until prices improve.

2018 GUIDANCE

The Gear team has worked hard through 2018 to unlock significant new reserves that were anticipated to boost fourth quarter production to approximately 9,500 boe per day. However, in light of the current weak pricing environment, that production growth will now be deferred into 2019. In order to maximize the value received for its production and to ensure positive returns on capital invested, an estimated 20 to 30 per cent of forecasted fourth quarter production will be deferred until pricing improves. This will be accomplished by reducing the $50 million development capital guidance by 12 to 14 per cent and delaying approximately five drilling locations until 2019. In addition, approximately 40,000 barrels of heavy oil will be produced and then stored in surface tanks to be sold at a later date, similar to the successful actions taken in the first quarter of the 2018. The remaining heavy and light oil volume reductions will be accomplished by slowing down and shutting in wells as required. To take advantage of the relatively stable pricing in southeast Saskatchewan, volumes from the Steppe Acquisition will not be affected by these actions. In aggregate the annual production guidance for 2018 will be reduced by 10 to 12 per cent with some associated minor adjustments in per unit costs. These efforts are focused primarily on maximizing realized revenue, however, they will also assist Gear in maintaining a strong balance sheet. A continued rapid and consolidated effort by Canadian producers reducing domestic storage levels would go a long way in alleviating the current record pricing discounts and accelerating the forecasted recovery of prices prior to any actual improvements in rail or pipe egress.

Table 1 summarizes 2018 revised guidance estimates. Guidance figures include the first nine months of 2018 actual results.

Table 1

	New 2018 Guidance	**Previous 2018 Guidance**	Sep 30, 2018 YTD Actuals
Production – Annual (boe/d)	**6,650 - 6,750**	7,500	6,766
Per cent heavy oil (%)	**65**	64	66
Per cent light/medium oil and NGLs (%)	**25**	25	18
Royalty rate (%)	**12**	11	11.6
Operating costs ($/boe)	**17.25**	15.85	16.91
General and administrative expense ($/boe)	**2.45**	2.25	2.39
Interest expense ($/boe)	**1.20**	0.80	0.97
Capital and abandonment expenditures ($ millions)	**42 - 44**	50	36

On September 18, 2018, Gear closed the Steppe Acquisition for a purchase price of approximately $66.0 million consisting of a combination of 21.9 million Gear shares and the assumption of approximately $38.6 million of net debt. Steppe's assets consist primarily of a material land position and high netback light oil production of approximately 1,000 boe per day in Southeast Saskatchewan. In conjunction with the close of the acquisition, Gear increased the borrowing base of its Credit Facilities (as defined below) from $75.0 million to $115.0 million with the next borrowing base review scheduled for the spring of 2019.

METRICS

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

Table 2

	Three months ended				Nine months ended		
	Sep 30, 2018	Sep 30, 2017	% Change	Jun 30, 2018	**Sep 30, 2018**	Sep 30, 2017	% Change
Funds from operations per debt adjusted share (1)	**0.047**	0.040	18	0.059	**0.131**	0.121	8
Production, boepd per debt adjusted thousand shares (1)	**0.027**	0.026	4	0.030	**0.027**	0.026	4

(1) Funds from operations per debt adjusted share and production boepd per debt adjusted thousand shares are non-GAAP measures and are reconciled to the nearest GAAP measure below under the heading "*Non-GAAP Measures*".

2018 THIRD QUARTER FINANCIAL AND OPERATIONAL RESULTS

Funds from Operations

Funds from operations for the third quarter was $11.6 million or $18.65 per boe, compared to $10.0 million or $16.58 per boe from the third quarter of 2017. On a year-to-date basis, funds from operations increased from $28.9 million and $16.78 per boe to $33.3 million and $18.05 per boe. The increase in funds from operations for the three and nine months ended September 30, 2018 are the result of increased revenues due to higher production volumes and realized commodity prices, offset by increased losses on risk management contracts, royalties, operating costs and transaction costs related to the Steppe Acquisition.

The following table details the change in funds from operations for 2018 relative to 2017:

Table 3

	Three months ended September 30		Nine months ended September 30	
	$ thousands	$/boe	$ thousands	$/boe
Q3 2017 Funds from operations (1)	9,960	16.58	28,937	16.78
Volume variance	827	-	5,161	-
Price variance	8,247	13.29	14,243	7.71
Cash gains on risk management contracts	(4,130)	(6.66)	(9,004)	(4.83)
Royalties	(1,851)	(2.83)	(2,945)	(1.30)
Expenses:				
Operating	(1,033)	(1.12)	(2,113)	(0.02)
General and administrative	109	0.25	(324)	(0.02)
Interest	(165)	(0.24)	(338)	(0.13)
Transaction costs	(395)	(0.64)	(395)	(0.21)
Other	9	0.02	107	0.07
Q3 2018 Funds from operations (1)	11,578	18.65	33,329	18.05

(1) Funds from operations is a non-GAAP measure and is reconciled to the nearest GAAP measure below under the heading "*Non-GAAP*

Measures".

Net income

For the three months ended September 30, 2018 Gear generated net income of $0.7 million; in the same period in 2017, Gear generated a net loss of $2.7 million. On a year-to-date basis Gear generated a net loss of $5.5 million compared to net income of $3.3 million in the first nine months of 2017. The changes in net income are due to several factors discussed below.

Production

Production volumes averaged 6,748 boe per day for the quarter, representing an increase of three per cent over the third quarter of 2017. For the nine months ended September 30, 2018, production volumes increased seven per cent to 6,766 boe per day from 6,316 boe per day for the same period in 2017. These increases in production are due to strong well results from Gear's 2017 and 2018 capital programs, offset by natural declines on Gear's base production and shut-in volumes for drilling. The acquired Steppe assets produced approximately 1,000 boe per day from September 19, 2018 to September 30, 2018, thus contributing approximately 130 boe per day to Gear's reported third quarter production.

Production of 6,748 boe per day for the third quarter represented a decrease of approximately four percent from the second quarter as a result of natural declines and shut-ins while drilling and completing, partially offset by the addition of new production later in the quarter and the close of the Steppe Acquisition.

Gear's 2018 capital program was heavily weighted to the third quarter with 17 (16 net) wells of the 23 well program being drilled in this time period. The total productive capacity of the 16 net wells drilled in the third quarter is estimated to be over 1,400 boe per day which would be sold in the fourth quarter if not for the current pricing and egress challenges. Gear strives to maximize the value of each barrel sold and as such will slow down wells or shut them in to defer production sales until pricing improves. Throughout the end of 2017 and the first quarter of 2018 Gear built significant inventory when pricing became unfavorable on its heavy oil barrels and then sold those barrels in the second quarter at improved pricing.

Table 4

	Three months ended				Nine months ended		
Production	**Sep 30, 2018**	Sep 30, 2017	% Change	Jun 30, 2018	**Sep 30, 2018**	Sep 30, 2017	% Change
Liquids (bbl/d)							
Heavy oil (bbl/d)	**4,484**	4,054	11	4,774	**4,497**	3,894	15
Light and Medium oil (bbl/d)	**1,228**	1,290	(5)	1,232	**1,219**	1,263	(3)
Natural gas liquids (bbl/d)	**268**	279	(4)	219	**237**	273	(13)
Total liquids (bbl/d)	**5,980**	5,623	6	6,225	**5,953**	5,430	10
Natural gas (mcf/d)	**4,609**	5,415	(15)	4,806	**4,879**	5,316	(8)
Total production (boe/d) (1)	**6,748**	6,525	3	7,025	**6,766**	6,316	7
% Liquids production	**89**	86	3	89	**88**	86	2
% Natural gas production	**11**	14	(21)	11	**12**	14	(14)

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

Revenue

Sales of crude oil, natural gas and natural gas liquids for the third quarter of 2018 totaled $33.3 million, a 37 per cent increase over the third quarter 2017 sales of $24.3 million. For the nine months ended September 30, 2018, sales of crude oil, natural gas and natural gas liquids increased 27 per cent to $91.9 million from $72.5 million for the same period in 2017. This increase is the result of higher production volumes and higher realized commodity prices in 2018 compared to 2017.

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

Table 5

Sales by product	Three months ended				Nine months ended		
($ thousands)	**Sep 30, 2018**	Sep 30, 2017	% Change	Jun 30, 2018	**Sep 30, 2018**	Sep 30, 2017	% Change
Oil and natural gas liquids	**32,940**	23,502	40	33,200	**90,257**	68,929	31
Natural gas	**394**	758	(48)	474	**1,651**	3,575	(54)
Total revenue	**33,334**	24,260	37	33,674	**91,908**	72,504	27

Commodity Prices
Table 6

	Three months ended				Nine months ended		
Average Benchmark Prices	**Sep 30, 2018**	Sep 30, 2017	% Change	Jun 30, 2018	**Sep 30, 2018**	Sep 30, 2017	% Change
WTI oil (US$/bbl) (1)	**69.50**	48.21	44	67.88	**66.75**	49.47	35
WCS heavy oil (Cdn$/bbl) (2)	**61.75**	47.92	29	62.75	**57.69**	49.07	18
Edmonton Par (Cdn$/bbl)	**81.97**	56.74	44	80.47	**78.22**	60.88	28
LSB (Cdn$/bbl) (3)	**82.85**	56.14	48	79.77	**78.23**	59.50	31
AECO natural gas ($/mcf) (4)	**1.31**	2.02	(35)	0.99	**1.33**	2.56	(48)
Cdn$ / US$ exchange rate	**1.31**	1.25	5	1.29	**1.29**	1.30	(1)
Gear Realized Prices							
Heavy oil ($/bbl)	**56.79**	44.00	29	55.04	**51.89**	43.96	18
Light and medium oil ($/bbl)	**76.57**	53.12	44	75.67	**72.37**	57.76	25
Natural gas liquids ($/bbl)	**35.02**	27.28	28	40.51	**38.18**	26.51	44
Natural gas ($/mcf)	**0.93**	1.52	(39)	1.08	**1.24**	2.46	(50)
Weighted average, before hedging ($/boe)	**53.70**	40.41	33	52.67	**49.76**	42.05	18
Realized risk management losses ($/boe)	**(6.55)**	0.11	-	(5.55)	**(5.44)**	(0.61)	792
Weighted average, after hedging ($/boe)	**47.15**	40.52	16	47.12	**44.32**	41.44	7

(1) WTI represents posting price of West Texas Intermediate oil.
(2) WCS represents the average market price for the benchmark Western Canadian Select heavy oil.
(3) Represents the Light Sour Blend oil index.
(4) Represents the AECO 7a monthly index.

For the third quarter of 2018, US denominated WTI prices increased by 44 per cent over the same period in 2017, the WCS differential widened from US$9.94 per barrel to US$22.25 per barrel and the Edmonton Par differential widened from US$2.82 per barrel to US$6.93 per barrel. Sales associated with the assets acquired through the Steppe Acquisition are sold on the LSB oil index, which had a differential of US$6.26 per barrel in the third quarter of 2018. These pricing movements along with the weakening of the Canadian dollar resulted in an increase in Gear's realized pricing from $40.41 per boe to $53.70 per boe.

For the nine months ended September 30, 2018, WTI increased by 35 per cent over the same period in 2017, the WCS differential widened from US$11.88 per barrel to US$21.93 per barrel and the Edmonton Par differential widened from US$2.64 per barrel to US$6.11 per barrel. The LSB oil index for the nine months ended September 30, 2018 had a differential of US$6.11 per barrel. These pricing movements offset by the strengthening of the Canadian dollar resulted in an increase in Gear's realized pricing from $42.05 per boe to $49.76 per boe. In the fourth quarter of 2018, WTI is forecasted to average US$65 per barrel and the WCS, Edmonton Par and LSB differentials are expected to approximate 61 per cent, 40 per cent and 23 per cent of WTI, respectively.

Royalties
Royalties as a percentage of commodity sales were 13.6 per cent in the third quarter of 2018, an increase of 21 per cent from the same period in 2017 and 41 per cent from the previous quarter. On a year-to-date basis, royalties as a percentage of commodity sales increased 8 per cent to 11.6 per cent from the same period in 2017. The increased royalty as a percentage of commodity sales is due to the end of the incentive rates for wells drilled in previous years. Gear's drilling programs focus on wells drilled on crown lands where incentive rates apply on new horizontally drilled production ranging from 2.5 per cent to 5 per cent. With new wells drilled in the third quarter, it is expected that an increased production weighting from new incentive-based lands will decrease the royalty rate in the fourth quarter of 2018. In addition, the properties acquired through the Steppe Acquisition carry a lower royalty burden, which is also expected to lower the royalty rate in the fourth quarter.

Table 7

Royalty expense	Three months ended				Nine months ended		
($ thousands except % and per boe)	**Sep 30, 2018**	Sep 30, 2017	% Change	Jun 30, 2018	**Sep 30, 2018**	Sep 30, 2017	% Change
Royalty expense	**4,550**	2,699	69	3,238	**10,694**	7,749	38
Royalty expense as a % of Sales	**13.6**	11.2	21	9.6	**11.6**	10.7	8
Royalty expense per boe	**7.33**	4.50	63	5.06	**5.79**	4.49	29

Operating and Transportation Expenses
Operating costs plus transportation for the three months ended September 30, 2018 was $17.69 per boe, an increase of seven per cent when compared to the same period in 2017. Operating costs plus transportation increased $0.53 per boe from the second quarter of 2018 to the third quarter of 2018 primarily due to weather delays and volumes being shut in while drilling and completing offset wells. On a year-to-date basis, operating costs plus transportation remained relatively unchanged at $16.91 per boe compared to $16.89 per boe for the same period in 2017. As a result of the planned fourth quarter production deferrals, the forecasted drop in year-end operating costs will be delayed until 2019. As a result the 2018 guidance has been increased slightly to $17.25 per boe.

Table 8 below summarizes the operating and transportation expenses:

Table 8

Operating and Transportation expense ($ thousands except per boe)	**Sep 30, 2018**	Three months ended Sep 30, 2017	% Change	Jun 30, 2018	**Sep 30, 2018**	Nine months ended Sep 30, 2017	% Change
Operating expense	**9,761**	8,754	12	9,684	**27,594**	25,944	6
Transportation expense	**1,218**	1,192	2	1,289	**3,649**	3,186	15
Operating and transportation expense	**10,979**	9,946	10	10,973	**31,243**	29,130	7
Operating expense per boe	**15.73**	14.58	8	15.14	**14.93**	15.04	(1)
Transportation expense per boe	**1.96**	1.99	(2)	2.02	**1.98**	1.85	7
Operating and transportation expense per boe	**17.69**	16.57	7	17.16	**16.91**	16.89	-

Operating Netbacks
For the three and nine months ended September 30, 2018 Gear's operating netback was $28.68 per boe and $27.06 per boe, this represents an increase of 48 per cent and 31 per cent over the same periods in 2017, respectively. The increase is the result of higher commodity prices, partially offset by an increase in royalties and operating costs.

The components of operating netbacks are summarized in Table 9:

Table 9

Netbacks ($ per boe)	**Sep 30, 2018**	Three months ended Sep 30, 2017	% Change	Jun 30, 2018	**Sep 30, 2018**	Nine months ended Sep 30, 2017	% Change
Total sales	**53.70**	40.41	33	52.67	**49.76**	42.05	18
Royalties	**(7.33)**	(4.50)	63	(5.06)	**(5.79)**	(4.49)	29
Operating costs	**(17.69)**	(16.57)	7	(17.16)	**(16.91)**	(16.89)	-
Netback	**28.68**	19.34	48	30.45	**27.06**	20.67	31

General and Administrative ("G&A") Expenses, Transaction Costs and Share-Based Compensation ("SBC")
For the third quarter, G&A expenses totaled $1.1 million compared to $1.2 million in the third quarter of 2017 and $1.6 million in the previous quarter. The decrease in G&A expenses of nine per cent was mainly due to an increase in capitalized G&A in the quarter, partially offset by increased staffing from 2017. For the nine months ended September 30, 2018, G&A expenses totaled $4.4 million compared to $4.1 million for the same period in 2017. The increase in G&A costs is primarily the result of increased staffing from 2017, partially offset by the increase in capitalized G&A in 2018. G&A on a per boe basis was $1.81 per boe for the quarter, representing a decrease of 12 per cent from the third quarter of 2017. On a year-to-date basis, G&A per boe remained relatively unchanged from the same period in 2017.

Transaction costs incurred relating to the Steppe Acquisition were $0.4 million for the quarter. Transaction costs include amounts relating to legal, accounting fees, and other acquisition related costs.

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

Table 10

G&A and SBC expense	Three months ended				Nine months ended		
($ thousands except per boe)	**Sep 30, 2018**	Sep 30, 2017	% Change	Jun 30, 2018	**Sep 30, 2018**	Sep 30, 2017	% Change
General and administrative	**2,100**	1,634	29	2,090	**6,126**	5,195	18
Overhead recoveries	**(158)**	(179)	(12)	(159)	**(473)**	(512)	(8)
Capitalized G&A	**(817)**	(221)	270	(302)	**(1,235)**	(589)	110
Net general and administrative expenses	**1,125**	1,234	(9)	1,629	**4,418**	4,094	8
Transaction costs	**395**	-	100	-	**395**	-	100
SBC expense	**303**	422	(28)	251	**846**	1,339	(37)
Net general and administrative per boe	**1.81**	2.06	(12)	2.55	**2.39**	2.37	1
Transaction costs per boe	**0.64**	-	100	-	**0.21**	-	100
SBC expense per boe	**0.49**	0.70	(30)	0.39	**0.46**	0.78	(41)

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.

SBC is related to the granting of stock options. During the nine months ended September 30, 2018, 5.0 million options were granted at an average price of $1.04, 2.7 million options were exercised at an average price of $0.70, 1.4 million options expired at an average price of $2.50 and 0.2 million options were forfeited at an average exercise price of $0.99. As at September 30, 2018, a total of 14.3 million options with a weighted average exercise price of $1.34 per share were outstanding, representing approximately 6.5 per cent of the 218.8 million total common shares outstanding. At the date of this MD&A, a total of 13.7 million options with a weighted average exercise price of $1.36 per share were outstanding. Each option entitles the holder to acquire one Gear common share. As at December 31, 2017 a total of 13.5 million options were outstanding with a weighted average exercise price of $1.43 per share. For further information on Gear's stock options, see the notes to the financial statements.

Interest and financing charges

Interest and financing charges totaled $0.7 million and $1.8 million for the three and nine months ended September 30, 2018, respectively, a 34 per cent and 23 per cent increase over the same periods in 2017. Gear's current annualized borrowing costs, inclusive of financing charges and standby fees on its Credit Facilities for the three and nine months ended September 30, 2018 was 4.92 per cent and 4.38 per cent, compared to 3.55 per cent and 3.75 per cent in the same periods in 2017. This increase in borrowing costs is due to increased interest rates from the Bank of Canada as well as higher one-time bank fees. During the quarter, in conjunction with the Steppe Acquisition, Gear incurred fees to increase the borrowing base of its Credit Facilities from $75.0 million to $115.0 million. Gear's interest rate on its Credit Facilities is dependent on its facilities borrowings, inclusive of working capital, in comparison to its earnings before interest, taxes, depletion, depreciation, amortization, and accretion.

Table 11 is a breakdown of interest expense:

Table 11

Interest and financing charges	Three months ended				Nine months ended		
($ thousands except per boe)	**Sep 30, 2018**	Sep 30, 2017	% Change	Jun 30, 2018	**Sep 30, 2018**	Sep 30, 2017	% Change
Interest expense	**499**	451	11	493	**1,494**	1,253	19
Financing charges	**109**	25	336	70	**200**	128	56
Standby fees	**44**	11	300	29	**90**	65	38
Interest and financing charges	**652**	487	34	592	**1,784**	1,446	23
Interest and financing charges per boe	**1.05**	0.81	30	0.93	**0.97**	0.84	15

Risk Management Contracts

Gear uses or plans to use a variety of derivative instruments to reduce its exposure to fluctuations in commodity prices, foreign exchange rates and interest rates. All present and future transactions are considered to be effective economic hedges; however, Gear's current contracts do not, and contracts entered into in the future may not qualify as effective hedges for accounting purposes. Gear endeavors to protect approximately 50 per cent of forecasted production, net of royalties, and has been authorized by its board of directors to hedge up to 65 per cent of forecasted production, net of royalties, for the current and following calendar year.

Gear has a mandate to protect its balance sheet and its capital program for the current and upcoming year by reducing fluctuations in both its funds from operations and assigned loan value on its Credit Facilities. Gear's 2018 and 2019 risk management programs are comprised primarily of collars as they allow the Company to establish a floor on its price but still allow for upside participation in crude oil prices should they continue to improve. Upon the completion of the Steppe Acquisition, Gear acquired several WTI CAD swap contracts. The risk management liability of these contracts at the acquisition date was $6.2 million based on an average forward WTI CAD price of $90.28 for the fourth quarter of 2018 and $88.17 for 2019. Subsequent changes in fair value of these acquired risk management contracts from the acquisition date fair value will be realized in Gear's statement of income (loss) as well as future funds from operations. Gear incurred realized losses on risk management contracts of $4.1 million and $10.1 million during the three and nine months ended September 30, 2018. For the same periods in 2017, Gear realized a gain of $0.1 million and a loss of $1.0 million, respectively. Gear's remaining production was sold at unhedged prices and as such fully realized the appreciation in prices that occurred throughout the quarter.

For the remainder of 2018 Gear has 3,567 barrels per day of oil hedged with an average WTI floor price of C$60.70 per barrel and an average WTI ceiling price of C$70.14 per barrel and 3,222 mcf per day of gas production hedged with an average AECO floor price of C$2.66 per mcf and an average AECO ceiling price of C$2.77 per mcf. Gear has nearly fully executed its 2019 risk management program and has commenced its 2020 program. For 2019 Gear has 3,049 barrels of oil per day hedged with an average WTI floor price of C$64.41 and an average WTI ceiling of C$88.38 and 700 barrels of oil per day hedged with an average WTI floor price of C$65.00 and an average WTI ceiling of C$94.00 for 2020. Table 12 summarizes Gear's current hedged volumes:

Table 12

Financial WTI Crude Oil Contracts

Term		**Contract**	**Currency**	**Volume bbl/d**	**Sold Swap $/bbl**	**Sold Call $/bbl**	**Bought Put $/bbl**	**Sold Put $/bbl**
Oct 1, 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	-	U$66.00	C$62.00	C$52.00
Jan 1, 2019	Dec 31, 2019	Three-way Collar	USD/CAD	600	-	U$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 Steppe Acquisition

Financial AECO Gas Contracts

Term		**Contract**	**Currency**	**Volume GJ/d**	**Sold Swap $/GJ**	**Sold Call $/GJ**	**Bought Put $/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

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

DD&A during the three and nine months ended September 30, 2018 was $16.64 per boe and $16.34 per boe, respectively, a three per cent increase compared to $16.10 per boe and $15.92 per boe for the same periods in 2017. These increases in the DD&A rate are due to increases in Gear's finding and development costs.

Table 13

DD&A Rate	Three Months Ended				Nine Months Ended		
($ thousands except per boe)	**Sep 30, 2018**	Sep 30, 2017	% Change	Jun 30, 2018	**Sep 30, 2018**	Sep 30, 2017	% Change
DD&A	**10,330**	9,662	7	10,330	**30,183**	27,446	10
Total DD&A rate per boe	**16.64**	16.10	3	16.16	**16.34**	15.92	3

Taxes

For the three and nine months ended September 30, 2018, a deferred tax recovery was not recorded. Gear has evaluated the ultimate utilization of existing tax pools, which supports the $26.5 million deferred income tax asset recognized as at September 30, 2018. The deferred income tax asset is primarily influenced by temporary differences relating to the book basis of Gear's property, plant and equipment relative to its tax basis. As at September 30, 2018 Gear's estimated tax pools were $694.4 million ($434.4 million at December 31, 2017). These income tax pools are deductible at various rates and annual deductions associated with the initial tax pools will decline over time. The significant increase in tax pools in the year relates to the addition of $239.8 million in pools acquired as part of the Steppe Acquisition. No cash income taxes were paid in 2018 and 2017.

Capital Expenditures, Acquisitions and Dispositions

Capital expenditures, including acquisitions and dispositions for the third quarter of 2018 totaled $84.2 million as compared to $12.1 million in the same period of 2017. During the quarter Gear closed the previously mentioned Steppe Acquisition which provided Gear with future growth opportunities in southeast Saskatchewan. Gear completed an active oil drilling program with two to three rigs running through the third quarter of 2018, drilled 17 (16 net) wells to the end of September, bringing the year to date total to 23 wells with a 96 per cent success rate. During the third quarter, 10 of the new wells were brought on production contributing over 600 barrels per day to the September exit. The remaining seven (six net) wells in Wilson Creek, Ferrier and Wildmere will be brought on production at reduced rates into the fourth quarter. The total productive capacity of the 16 net wells drilled in the third quarter is estimated to be over 1,400 boe per day which would be sold in the fourth quarter if not for the current pricing and egress challenges. Highlights of the successful program include one six leg multi-lateral well into a new formation and two multi-lateral re-entries in Wildmere, one step-out quad-lateral Cummings well in Maidstone, two new multi-stage fractured wells in Hoosier, six McLaren wells in Paradise Hill, three (two net) Basal Belly River wells in Wilson Creek, and one bioturbated Cardium well in Ferrier. In addition to drilling, $0.5 million was invested during the quarter to initiate or expand water flood projects in Wilson Creek and Killam. Subsequent to quarter end, an additional two multi-lateral wells were drilled into the GP in Wildmere.

Gear also disposed of non-core undeveloped land in the Chigwell area for total proceeds of $0.5 million during the third quarter of 2018.

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

Table 14

Capital expenditures	Three months ended				Nine months ended		
($ thousands)	**Sep 30, 2018**	Sep 30, 2017	% Change	Jun 30, 2018	**Sep 30, 2018**	Sep 30, 2017	% Change
Drilling and completions	**15,505**	7,609	104	3,735	**22,863**	26,027	(12)
Production equipment and facilities	**3,172**	2,545	25	2,369	**8,394**	7,659	10
Geological and geophysical	**11**	112	(90)	217	**371**	1,191	(69)
Undeveloped land purchased at crown land sales	**29**	177	(84)	64	**2,717**	508	435
Other	**32**	70	(54)	-	**32**	73	(56)
Total capital expenditures	**18,749**	10,513	78	6,385	**34,377**	35,458	(3)
Property acquisitions and dispositions, net (1)	**65,470**	1,635	3904	10	**65,870**	1,695	3786
Total capital expenditures and net acquisitions	**84,219**	12,148	593	6,395	**100,247**	37,153	170

(1) Includes post-closing adjustments.

Decommissioning Liability

Gear recorded a decommissioning liability of $84.4 million at September 30, 2018 ($80.5 million at December 31, 2017) for the future abandonment and reclamation of Gear's properties. The estimated decommissioning liability includes assumptions in respect of actual costs to abandon wells or reclaim the property, the time frame in which such costs will be incurred as well as annual inflation factors used to calculate the undiscounted total future liability. The future liability has been discounted at the risk-free rate of 2.41 per cent (2.15 per cent at December 31, 2017). Abandonment cost estimates are derived from third party government sources and, as a result, can fluctuate from time to time. The increase in liability is the result of additions made during the period, primarily due to the Steppe Acquisition, offset by changes in assumptions and liabilities settled during the period.

Environmental stewardship is a core value at Gear and abandonment and reclamation investments continue to be made in a prudent and responsible manner with oversight by Gear's Board of Directors. Ongoing abandonment expenditures for all of Gear's assets are funded out of funds from operations. As at September 30, 2018 Gear's Licensee Liability Rating was 2.5 times.

Capitalization, Financial Resources and Liquidity

A breakdown of Gear's capital structure is outlined in Table 15, as at September 30, 2018 and December 31, 2017:

Table 15

Debt ($ thousands except ratio amounts)	**Sep 30, 2018**	Dec 31, 2017
Net debt (1)	**83,733**	43,269
Net debt to quarterly annualized funds from operations	**1.8**	0.7
Net debt to trailing 12-month funds from operations	**1.7**	1.0
Common shares outstanding	**218,776**	194,968

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

Net debt increased from $43.3 million at December 31, 2017 to $83.7 million at September 30, 2018. This is due to the assumption of $38.6 million of net debt in conjunction with the Steppe Acquisition as well as capital and abandonment expenditures exceeding funds from operations. On an annualized basis Gear intends for development capital spending to approximate funds from operations.

As consideration in the Steppe Acquisition, Gear issued 21.9 million shares on September 18, 2018.

Credit Facilities

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. At September 30, 2018 Gear had a total of $115.0 million in credit facilities consisting of a $95.0 million revolving term credit facility with a syndicate of three banks (the "Syndicate") and a $20.0 million operating facility (collectively, the "Credit Facilities). 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 maturity date of the amended Credit Facilities is May 29, 2020 and the next borrowing base review is scheduled to occur in the spring of 2019. All other terms and conditions of the Credit Facilities remained unchanged from December 31, 2017. 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), leaving additional borrowing capacity of $48.6 million.

Convertible Debentures

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

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

The Convertible Debentures are redeemable on or after December 31, 2018 and prior to December 31, 2019 by Gear if the 20-day volume weighted average trading price of Gear's common shares at such time is at least 125 per cent of the conversion price ($1.09 per share) at a redemption price equal to the principal amount plus accrued and unpaid interest up to the date of redemption. On or after December 31, 2019, the Convertible Debentures may be redeemed by Gear at a redemption price equal to the principal amount plus accrued and unpaid interest up to the date of redemption.

As at September 30, 2018 and the date of this MD&A $13.3 million of Convertible Debentures were outstanding compared to $13.7 million at December 31, 2017. An aggregate of up to 15.3 million additional Gear common shares may be issued on conversion of the Convertible Debentures that remain outstanding at the date hereof.

At the maturity date or redemption date, as applicable, of the Convertible Debentures, Gear will have the option to satisfy its obligation to repay the principal amount by the issuance of Gear common shares. The number of such common shares will be based on 95% of the weighted average trading price of the common shares prior to the date fixed for maturity or redemption. As the number of common shares to be issued on redemption or maturity is based on a price to be determined at a later date, the maximum number of Gear common shares that may be issued under this scenario is not determinable at the present time.

For additional information regarding the Convertible Debentures see Note 7 "Convertible Debentures" in the notes to the financial statements and the information under "Description of Capital Structure" in Gear's most recent annual information form, which is available on SEDAR at www.sedar.com

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

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

Shareholders' Equity
As at September 30, 2018 and the date of this MD&A, Gear had 218.8 million and 219.0 million common shares outstanding, respectively, compared to 195.0 million common shares outstanding at December 31, 2017. During the year, Gear issued 21.9 million shares associated with the Steppe Acquisition, 1.5 million shares pursuant to option exercises and 0.4 million shares on the conversion of Convertible Debentures. Subsequent to September 30, 2018, an additional 0.2 million shares were issued pursuant to option exercises.

As at September 30, 2018 and the date hereof, there are 0.3 million warrants outstanding to acquire 0.6 million common shares of Gear at a price of $1.03 per share that will expire on July 8, 2019. These amounts are unchanged from December 31, 2017.

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

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

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

As at September 30, 2018, Gear had the following contractual commitments:

- lease agreements for its head office and its two field offices,
- one drilling rig commitment.

Lease agreements for Gear's head and field offices are effective until 2020. The total commitment for these lease agreements is $0.6 million. The drilling rig commitment is effective through to December 31, 2020 with a total commitment of $3.1 million. For further information see Note 14 "Commitments and Contingencies" to the Interim Condensed Consolidated Financial Statements.

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

Off Balance Sheet Arrangements
Gear has certain lease agreements that were entered into in the normal course of operations, all of which are discussed in the Contractual Obligations and Commitments section above and disclosed in the notes to the interim condensed consolidated financial statements for the three and nine months ended September 30, 2018. These leases have been treated as operating leases whereby the lease payments are included in operating expenses or G&A expenses depending on the nature of the lease. No asset or liability value has been assigned to these leases on the balance sheet as of September 30, 2018. In addition, Gear also has a single letter of credit which has not been reflected the interim condensed consolidated balance sheet, but has been disclosed accordingly in the notes to the financial statements.

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

Non-GAAP Measures

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

Funds from Operations

In reporting for prior periods, funds from operations was referred to as cash flow from operations. Gear has changed the reporting of the term cash flow from operations to funds from operations to be more consistent with reporting by other issuers and to satisfy guidance on the reporting of such terms from Canadian securities regulatory authorities. Funds from operations is a non-GAAP measure defined as cash flow from operating activities before changes in non-cash operating working capital and decommissioning liabilities settled. Gear evaluates its financial performance primarily on funds from operations and considers it a key measure as it demonstrates its ability to generate the funds from operations necessary to fund its capital program and repay debt. Funds from operations may not be comparable with the calculation of similar measures for other companies.

Table 16 below reconciles cash flow from operating activities to funds from operations:

Table 16

	Three months ended			Nine months ended	
($ thousands)	**Sep 30, 2018**	Sep 30, 2017	Jun 30, 2018	**Sep 30, 2018**	Sep 30, 2017
Cash flow from operating activities	**16,831**	9,197	8,596	**40,214**	26,804
Expenditures on site restoration and reclamation	**318**	519	373	**1,580**	1,317
Change in non-cash working capital	**(5,571)**	244	4,705	**(8,465)**	816
Funds from operations	**11,578**	9,960	13,674	**33,329**	28,937

Net Debt

Net debt is a non-GAAP measure defined as debt less current working capital items, excluding risk management contracts and the current portion of decommissioning liabilities. Gear uses net debt as a key indicator of its leverage and strength of its balance sheet. Net debt is directly tied to Gear's funds from operations and capital investment. Net debt may not be comparable with the calculation of similar measures for other companies.

Table 17

Capital Structure and Liquidity ($ thousands)	**Sep 30, 2018**	Dec 31, 2017
Debt	**66,159**	41,345
Convertible Debentures (at face value) (1)	**13,316**	13,698
Working capital surplus (2)	**(1,955)**	(11,774)
Risk management contracts (3)	**6,213**	-
Net debt	**83,733**	43,269

(1) Excludes unamortized portion of issuance costs.
(2) Excludes risk management contracts and current portion of decommissioning liabilities.
(3) Risk management contracts assumed in the Steppe Acquisition.

Gear had a working capital surplus at September 30, 2018. When in a deficit position, the Company is able to meet obligations as they come due by drawing on the Credit Facilities. Gear actively manages its liquidity through strategies such as continuously monitoring forecasted and actual cash flows from operating, financing and investing activities, available credit under existing banking arrangements and opportunities to issue additional equity. Management believes that future cash flows generated from these sources will be adequate to settle Gear's financial liabilities.

Debt adjusted shares

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

Table 18

(thousands, except per share amounts)	Three months ended **Sep 30, 2018**	Sep 30, 2017	Jun 30, 2018	Nine months ended **Sep 30, 2018**	Sep 30, 2017
Weighted average shares	**198,826**	193,158	195,045	**196,294**	192,975
Average share price	**1.27**	0.75	1.09	**1.08**	0.89
Average net debt (1)	**61,347**	43,989	42,145	**63,501**	40,768
Share equivalent on average net debt	**48,304**	58,652	38,665	**58,797**	45,807
Debt adjusted shares	**247,130**	251,810	233,710	**255,091**	238,782

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

Operating and Corporate Netbacks

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

Critical Accounting Estimates

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

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

Gear has hired individuals and consultants who have the skills required to make such estimates and ensures that individuals or departments with the most knowledge of the activity are responsible for the estimates. Further, past estimates are reviewed and compared to actual results, and actual results are compared to budgets in order to make more informed decisions on future estimates. For further information on the determination of certain estimates inherent in the financial statements refer to Note 4 "Management Judgments and Estimation Uncertainty" in the audited financial statements for the year ended December 31, 2017.

Disclosure Controls and Procedures

Gear's Chief Executive Officer and Chief Financial Officer are responsible for the establishment of disclosure controls and procedures ("DC&P"). DC&P, as defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, are designed to provide reasonable assurance that information required to be disclosed in the Company's annual filings, interim filings or other reports filed, or submitted by the Company under securities legislation is recorded, processed, summarized and reported within the time periods specified under securities legislation and include controls and procedures designed to ensure that information required to be so disclosed is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Internal Controls over Financial Reporting

Gear's Chief Executive Officer and the Chief Financial Officer are responsible for establishing and maintaining internal control over financial reporting ("ICFR") for Gear. They have, as at September 30, 2018, designed ICFR, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The control framework Gear's officers used to design the Company's ICFR is the Internal Control - Integrated Framework ("COSO Framework") published by The Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

There were no changes in Gear's ICFR during the three months ended September 30, 2018 that materially affected, or are reasonably likely to materially affect, the Company's ICFR.

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 to the Interim Condensed Consolidated Financial Statements.

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 OCI 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.

	Measurement Category (1)	
Financial Instrument	**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.

Forward-looking Information and Statements

This report contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends", "strategy" and similar expressions are intended to identify forward-looking information or statements. In particular, but without limiting the foregoing, this report contains forward-looking information and statements pertaining to the following: expectations of how Gear may enhance returns of acquired assets; Gear's expectations of commodity prices and differentials and trends affecting such commodity prices and differentials; Gear's intent to maximize value and maintain a strong balance sheet; 2018 updated guidance estimates including expected average 2018 production, expected commodity weightings, royalty rate expectations, operating cost expectations, interest expense expectations and expected capital and abandonment expenditures; expectations as to light and heavy oil production to be slowed down, shut-in and/or stored; expectations with respect to availability of transportation and egress of light and heavy oil production; the expected timing for bringing certain wells on production; Gear's intent to slow down wells or shut them in to defer sale to a time when pricing improves; the expectation that Gear will have a lower royalty rate in the fourth quarter; Gear's intent as to what level of forecasted production is hedged; Gear's expectations as to future abandonment and reclamation obligations and costs associated therewith; Gear's intent that on an annualized basis for capital spending to approximate funds from operations; Gear's intent to redeem the Convertible Debentures in 2019; the expectation that future capital programs will be financed with funds from operations and existing credit capacity; the expectation Gear's current capital program is to be financed primarily through funds from operations; Gear's expectation that any major acquisitions would be financed by a combination of equity and debt in a cost-effective manner; Gear's intent to continue to be very active looking at acquisitions that meet its investment criteria; expectations of costs associated with Gear's contractual obligations; Gear's expectation that any pending litigation will not have a material impact on Gear's financial position or results of operations; and the expectation that future funds from operations generated from certain sources will be adequate to settle Gear's financial liabilities.

The forward-looking information and statements contained in this report reflect several material factors and expectations and assumptions of Gear including, without limitation: that Gear will continue to conduct its operations in a manner consistent with past operations; the general continuance of current industry conditions; the continuance of existing (and in certain circumstances, the implementation of proposed) tax, royalty and regulatory regimes; the accuracy of the estimates of Gear's reserves and resource volumes; certain commodity price and other cost assumptions; and the continued availability of adequate debt and equity financing and funds from operations to fund its planned expenditures. Gear believes the material factors, expectations and assumptions reflected in the forward-looking information and statements are reasonable but no assurance can be given that these factors, expectations and assumptions will prove to be correct.

To the extent that any forward-looking information contained herein may be considered future oriented financial information or a financial outlook, such information has been included to provide readers with an understanding of management's assumptions used for budgeting and developing future plans and readers are cautioned that the information may not be appropriate for other purposes. The forward-looking information and statements included in this MD&A are not guarantees of future performance and should not be unduly relied upon. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements including, without limitation: changes in commodity prices; changes in the demand for or supply of Gear's products; unanticipated operating results or production declines; changes in tax or environmental laws, royalty rates or other regulatory matters; changes in development plans of Gear or by third party operators of Gear's properties, increased debt levels or debt service requirements; any action taken by Gear's lenders to reduce the borrowing capacity under the Credit Facilities; inaccurate estimation of Gear's oil and gas reserve and resource volumes; limited, unfavorable or a lack of access to capital markets; increased costs; a lack of adequate insurance coverage; the impact of competitors; and certain other risks detailed from time to time in Gear's public documents including risk factors set out in Gear's most recent annual information form, which is available on SEDAR at www.sedar.com.

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

Barrels of Oil Equivalent

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

QUARTERLY HISTORICAL REVIEW

	2018			2017				2016
(Cdn$ thousands, except per share, share, and per boe amounts)	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
FINANCIAL								
Sales of crude oil, natural gas and NGLs	33,334	33,674	24,900	30,047	24,260	25,929	22,315	22,654
Funds from operations (1)	11,578	13,674	8,078	14,613	9,960	10,248	8,729	9,407
Per weighted average basic share	0.06	0.07	0.04	0.07	0.05	0.05	0.05	0.05
Per weighted average diluted share	0.05	0.07	0.04	0.07	0.05	0.05	0.04	0.05
Cash flow from operating activities	16,831	8,596	14,787	9,964	9,197	5,362	12,245	6,888
Per weighted average basic share	0.08	0.04	0.08	0.05	0.05	0.03	0.06	0.04
Per weighted average diluted share	0.08	0.04	0.08	0.05	0.05	0.03	0.06	0.04
Net income (loss)	706	(1,869)	(4,294)	6,947	(2,705)	3,001	2,986	(12,191)
Per weighted average basic share	-	(0.01)	(0.02)	0.04	(0.01)	0.02	0.02	(0.07)
Per weighted average diluted share	-	(0.01)	(0.02)	0.03	(0.01)	0.01	0.01	(0.07)
Capital expenditures	18,749	6,385	9,243	12,307	10,513	6,161	18,784	6,067
Net acquisitions (2)	65,470	10	390	14	1,635	127	(68)	(74)
Net debt (1)	83,733	38,960	45,330	43,269	44,568	43,409	46,745	36,967
Weighted average shares outstanding, basic (thousands)	198,826	195,045	194,968	194,968	193,158	192,922	192,840	191,134
Weighted average shares outstanding, diluted (thousands)	217,426	195,045	194,968	211,310	193,158	208,971	209,652	191,134
Shares outstanding, end of period (thousands)	218,776	195,213	194,968	194,968	194,968	192,935	192,915	192,568
OPERATING								
Production								
Heavy oil (bbl/d)	4,484	4,774	4,231	4,760	4,054	3,887	3,739	3,997
Light and medium oil (bbl/d)	1,228	1,232	1,197	1,161	1,290	1,412	1,085	989
Natural gas liquids (bbl/d)	268	219	223	242	279	322	217	308
Natural gas (mcf/d)	4,609	4,806	5,229	5,566	5,415	5,334	5,197	5,456
Total (boe/d)	6,748	7,025	6,522	7,090	6,525	6,510	5,907	6,203
Average prices								
Heavy oil ($/bbl)	56.79	55.04	42.97	49.18	44.00	44.72	43.13	44.21
Light and medium oil ($/bbl)	76.57	75.67	64.53	64.71	53.12	59.64	60.91	57.98
Natural gas liquids ($/bbl)	35.02	40.51	39.74	27.79	27.28	28.11	23.08	24.16
Natural gas ($/mcf)	0.93	1.08	1.66	1.90	1.52	2.91	3.00	3.07
Netback ($/boe)								
Commodity and other sales	53.70	52.67	42.42	46.06	40.41	43.77	41.98	39.70
Royalties	(7.33)	(5.06)	(4.95)	(4.15)	(4.50)	(4.96)	(3.97)	(3.76)
Operating costs	(17.69)	(17.16)	(15.83)	(16.03)	(16.57)	(17.78)	(16.28)	(16.25)
Operating netback (1)	28.68	30.45	21.64	25.88	19.34	21.03	21.73	19.69
Realized risk management (losses) gains	(6.55)	(5.55)	(4.15)	(0.73)	0.11	(0.77)	(1.24)	0.24
General and administrative	(1.81)	(2.55)	(2.83)	(1.92)	(2.06)	(2.13)	(3.00)	(2.59)
Interest	(1.05)	(0.93)	(0.92)	(0.83)	(0.81)	(0.83)	(0.88)	(0.85)
Transaction costs	(0.64)	-	-	-	-	-	-	-
Other	0.02	(0.02)	0.02	-	-	-	(0.19)	-
Corporate netback (1)	18.65	21.40	13.76	22.40	16.58	17.30	16.42	16.49

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

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

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

On September 18, 2018, Gear closed the Steppe Acquisition which provided Gear with an additional 1,000 boe per day of light oil production. The Steppe Acquisition resulted in increased sales, funds from operations and production in the third quarter of 2018.

CORPORATE INFORMATION

DIRECTORS

Don Gray
Chairman
Phoenix, Arizona

Raymond Cej
Independent Businessman
Calgary, Alberta

Harry English
Independent Businessman
Calgary, Alberta

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

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

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

Bindu Wyma
Independent Businesswoman
Calgary, Alberta

OFFICERS

Ingram Gillmore
President & CEO

Yvan Chretien
Vice-President, Land

Bryan Dozzi
Vice-President, Engineering

David Hwang
Vice-President Finance & CFO

Jason Kaluski
Vice-President, Operations

Dustin Ressler
Vice-President, Exploration

Ted Brown
Corporate Secretary

Head Office

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

Auditors

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

Bankers

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

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

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

Engineering Consultants

Sproule Associates Limited
Suite 900, 140 4th Avenue SW
Calgary, Alberta T2P 3N3

Legal Counsel

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

Transfer Agent

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

Contact Information:

Ingram Gillmore
President & CEO
403-538-8463

David Hwang
Vice-President Finance & CFO
403-538-8437

Email: info@gearenergy.com
Website: www.gearenergy.com