

FINANCIAL AND OPERATIONAL HIGHLIGHTS



(Cdn\$ thousands, except per share, share and per boe amounts)	Three months ended			Twelve months ended	
	Dec 31, 2018	Dec 31, 2017	Sep 30, 2018	Dec 31, 2018	Dec 31, 2017
FINANCIAL					
Funds from operations ⁽¹⁾	2,089	14,613	11,578	35,418	43,550
Per weighted average basic share	0.01	0.07	0.06	0.18	0.23
Cash flows from operating activities	1,538	9,964	16,831	41,752	36,768
Net income	10,553	6,947	706	5,094	10,229
Per weighted average basic share	0.05	0.04	-	0.03	0.05
Capital expenditures	9,482	12,307	18,749	43,859	47,765
Decommissioning liabilities settled	1,401	1,260	318	2,981	2,577
Net acquisitions ⁽²⁾	302	14	65,470	66,172	1,709
Net debt ⁽¹⁾⁽³⁾	91,908	43,269	83,733	91,908	43,269
Weighted average basic shares (thousands)	219,013	194,968	198,826	202,020	193,477
Shares outstanding, end of period (thousands)	219,015	194,968	218,776	219,015	194,968
OPERATING					
Production					
Heavy oil (bbl/d)	4,064	4,760	4,484	4,388	4,112
Light and medium oil (bbl/d)	1,834	1,161	1,228	1,374	1,237
Natural gas liquids (bbl/d)	267	242	268	244	265
Natural gas (mcf/d)	4,091	5,566	4,609	4,680	5,379
Total (boe/d)	6,847	7,090	6,748	6,786	6,511
Average prices					
Heavy oil (\$/bbl)	22.45	49.18	56.79	45.01	45.49
Light and medium oil (\$/bbl)	46.68	64.71	76.57	63.73	59.40
Natural gas liquids (\$/bbl)	23.95	27.79	35.02	34.26	26.80
Natural gas (\$/mcf)	1.45	1.90	0.93	1.29	2.32
Netback (\$/boe)					
Commodity and other sales	27.64	46.06	53.70	44.13	43.15
Royalties	(3.44)	(4.15)	(7.33)	(5.19)	(4.40)
Operating costs	(17.13)	(16.03)	(17.69)	(16.97)	(16.66)
Operating netback ⁽¹⁾	7.07	25.88	28.68	21.97	22.09
Realized risk management losses	(0.90)	(0.73)	(6.55)	(4.29)	(0.64)
General and administrative	(1.18)	(1.92)	(1.81)	(2.08)	(2.25)
Interest	(1.50)	(0.83)	(1.05)	(1.10)	(0.84)
Transaction costs	(0.19)	-	(0.64)	(0.21)	-
Other	0.02	-	0.02	(0.01)	(0.04)
Corporate netback ⁽¹⁾	3.32	22.40	18.65	14.28	18.32
TRADING STATISTICS					
(\$ based on intra-day trading)					
High	1.23	1.00	1.47	1.47	1.26
Low	0.44	0.70	1.00	0.44	0.60
Close	0.57	0.85	1.17	0.57	0.85
Average daily volume (thousands)	558	468	522	592	400

(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 \$4.5 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 February 27, 2019 and should be read in conjunction with the financial information as at and for the three and twelve months ended December 31, 2018 and the audited Consolidated Financial Statements as at and for the year ended December 31, 2018. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

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

ABOUT GEAR ENERGY LTD.

Gear is a Canadian exploration and production company with heavy and light oil production in Central Alberta, West Central Saskatchewan and Southeast Saskatchewan. Presently, Gear has 39 employees with 27 staff in the Calgary office and 12 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

During the fourth quarter, the Canadian energy sector was faced with numerous challenges. Pipelines were running at full capacity and with supply exceeding egress out of Western Canada, differentials expanded rapidly. The two primary Canadian crude index prices, Western Canada Select heavy ("WCS") and Mixed Sweet Blend or Edmonton Par light ("MSW") were approximately Cdn\$62 per barrel and Cdn\$82 per barrel, respectively during the third quarter of 2018. For December 2018, these two indexes had fallen dramatically to Cdn\$8 per barrel and Cdn\$19 per barrel, respectively. Index differentials are primarily set the month prior, so in early October, Gear realized it was going to experience some challenging pricing headwinds. We quickly reacted by postponing our drilling activities, holding off on producing from our newly drilled wells, slowing down existing wells, and building oil inventory. We focused our production efforts on meeting physical crude delivery commitments on wells which could not be shut-in due to reservoir requirements. The impact of well shut-ins, slow-downs and inventory builds was a reduction in fourth quarter sales of approximately 1,400 boe per day. The changes in our capital program resulted in the deferment of an additional 1,200 boe per day.

In early December 2018, the Alberta government announced a mandatory curtailment of 325,000 barrels per day in order to balance the market and reduce the wide differentials. The price impact was immediate with WCS and MSW forecasted to approximate Cdn\$55 per barrel and \$66 per barrel, for the first half of 2019, or approximately a seven and three fold increase, respectively. However, pipeline egress restrictions still exist and Gear is continuing its plans of bringing 1,200 boe per day of shut-in production back online slowly over the first half of 2019 into a much stronger price environment.

To avoid potential egress challenges and to maximize price levels and stability, Gear has focused its capital drilling activity for the first half of 2019 in the SE Saskatchewan area of Tableland. To date, Gear has drilled both of the two planned wells in Tableland with first oil production forecasted in the second quarter of 2019. Plans are underway to move drilling capital back into both heavy oil and Alberta light oil for the second half of 2019 to coincide with added pipeline capacity and crude by rail that is expected in late 2019.

2019 GUIDANCE

Gear's first half 2019 capital budget guidance is \$10.0 million, targeting a strategic balance between production stability, maximizing revenue, and continued improvement of the balance sheet. 70 per cent of the capital is dedicated to drilling two two-mile horizontal light oil Torquay wells in Tableland, SE Saskatchewan, 20 per cent is to be invested in undeveloped land, seismic, and other corporate costs, 6 per cent directed towards continued expansion and optimization of waterflood activities initiated in 2018 in Wilson Creek, Killam and Chigwell, Alberta, and 4 per cent to be invested in abandonment and reclamation activities. Production for the first half of 2019 is forecast to remain relatively stable, averaging approximately 7,300 - 7,500 boe per day. These levels will be supported by a combination of base production, late 2018 production additions, new capital production in 2019, resumption of production from wells shut-in through the end of 2018 due to pricing, and the sales of oil inventoried in late 2018. Realized production levels will be dynamic throughout the first half of the year as Gear attempts to work within the ongoing pipeline apportionments. With the recent

dramatic improvement in Canadian oil pricing relative to November and December of 2018, Gear anticipates that the planned first half \$10 million capital budget will require only 30 to 40 per cent of the estimated funds from operations over the same period. This is forecast to provide a material reduction in the outstanding net debt over the first half of the year, providing additional security and substantial optionality with regards to planning for investment and growth through the second half of 2019. With current forward strip pricing, Gear is expecting to exit the first half of 2019 with a net debt to funds from operations ratio between 1 to 1.5 times.

Table 1 summarizes 2019 first half guidance and 2018 guidance compared to 2018 actual results:

Table 1

	2019 First Half Guidance	2018 Guidance	2018 Actuals
Average production (boe/d)	7,300 – 7,500	6,650 - 6,750	6,786
Heavy oil weighting (%)	59	65	65
Light/medium oil and NGLs weighting (%)	31	25	24
Royalty rate (%)	10 – 12	12	11.8
Operating and transportation costs (\$/boe)	16.00 – 17.00	17.25	16.97
General and administrative expense (\$/boe)	2.10	2.45	2.08
Interest expense (\$/boe)	1.70	1.20	1.10
Capital and abandonment expenditures (\$ millions)	10	42 - 44	47

On September 18, 2018, Gear closed the acquisition (“Steppe Acquisition”) of Steppe Resources Inc. (“Steppe”) for a purchase price of approximately \$66.3 million consisting of a combination of 21.9 million Gear shares and the assumption of approximately \$38.9 million of net debt. Steppe’s assets consist primarily of a material land position and high netback light oil production 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			Twelve months ended			
	Dec 31, 2018	Dec 31, 2017	% Change	Sep 30, 2018	Dec 31, 2018	Dec 31, 2017	% Change
Funds from operations							
per debt adjusted share ⁽¹⁾	0.006	0.059	(90)	0.047	0.131	0.181	(28)
Production, boepd							
per debt adjusted thousand shares ⁽¹⁾	0.020	0.028	(29)	0.027	0.025	0.027	(7)

(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 measures under the heading “Non-GAAP Measures”.

2018 FOURTH QUARTER AND FULL YEAR FINANCIAL AND OPERATIONAL RESULTS

Funds from operations

Funds from operations for the three months ended December 31, 2018 was \$2.1 million and \$3.32 per boe compared to \$14.6 million and \$22.40 per boe for the same period in 2017. The decrease in fourth quarter funds from operations is mainly the result of decreased commodity prices, lower production volumes, increased losses on risk management contracts, operating expenses, interest and transaction costs, partially offset by decreased royalties and general and administrative costs.

On an annual basis, funds from operations in 2018 was \$35.4 million and \$14.28 per boe compared to \$43.6 million and \$18.32 per boe in 2017. This year-over-year decrease is mainly the result of increased losses on risk management contracts, royalties, operating expenses, interest and transaction costs related to the Steppe Acquisition, partially offset by increased commodity prices, production volumes and a decrease in general and administrative costs.

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

Table 3

	Three months ended Dec 31		Twelve months ended Dec 31	
	\$ thousands	\$/boe	\$ thousands	\$/boe
2017 Funds from operations ⁽¹⁾	14,613	22.40	43,550	18.32
Volume variance	(1,030)	-	4,331	-
Price variance	(11,609)	(18.43)	2,433	0.98
Cash losses on risk management contracts	(90)	(0.17)	(9,095)	(3.65)
Royalties	541	0.71	(2,404)	(0.79)
Expenses:				
Operating	(333)	(1.10)	(2,446)	(0.31)
General and administrative	510	0.75	183	0.16
Interest	(405)	(0.67)	(742)	(0.27)
Transaction costs	(119)	(0.19)	(514)	(0.21)
Other	11	0.02	122	0.05
2018 Funds from operations ⁽¹⁾	2,089	3.32	35,418	14.28

(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

Gear generated net income of \$10.6 million and \$5.1 million for the three and twelve months ended December 31, 2018, respectively. This compares to net income of \$6.9 million and \$10.2 million for the same periods in 2017. The changes in net income are due to several factors discussed below.

Production

Production volumes averaged 6,847 boe per day in the fourth quarter of 2018 compared to 7,090 boe per day in the same period of 2017. Total corporate liquids weighting increased in the fourth quarter of 2018 to 90 per cent compared to 87 per cent during the same period in 2017. Gear reacted quickly to the material decrease in pricing in the fourth quarter by shutting in production and producing barrels to inventory to be sold when a higher price can be realized. Throughout the fourth quarter Gear built inventory and shut in approximately 1,400 barrels per day of production in both its heavy oil and Alberta west light oil properties. Gear hopes to draw down inventory through the first half of 2019. Shut in wells have also started to be re-activated through the first quarter of 2019. Timing to reach full productive capacity is difficult to predict at this time with continued pipeline egress restrictions and crude by rail subject to seasonal reliability.

Full year 2018 sales production averaged 6,786 boe per day, an increase of 4 per cent when compared to 2017. The overall increase in production is due the close of the Steppe Acquisition and Gear's 2017 and 2018 capital programs, offset by natural declines and inventoried and shut-in volumes in the fourth quarter of 2018 as discussed above.

Table 4

Production	Three months ended				Twelve months ended		
	Dec 31, 2018	Dec 31, 2017	% Change	Sep 30, 2018	Dec 31, 2018	Dec 31, 2017	% Change
Liquids (bbl/d)							
Heavy oil (bbl/d)	4,064	4,760	(15)	4,484	4,388	4,112	7
Light and medium oil (bbl/d)	1,834	1,161	58	1,228	1,374	1,237	11
Natural gas liquids (bbl/d)	267	242	10	268	244	265	(8)
Total liquids (bbl/d)	6,165	6,163	-	5,980	6,006	5,614	7
Natural gas (mcf/d)	4,091	5,566	(27)	4,609	4,680	5,379	(13)
Total production (boe/d) ⁽¹⁾	6,847	7,090	(3)	6,748	6,786	6,511	4
% Liquids production	90	87	3	89	89	86	3
% Natural gas production	10	13	(23)	11	11	14	(21)

(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 three months ended December 31, 2018 was \$17.4 million compared to \$30.0 million for the same period in 2017. This decrease was a result of lower realized commodity prices and a decrease in production.

For the twelve months ended December 31, 2018, sales of crude oil, natural gas and natural gas liquids was \$109.3 million, an increase of 7 per cent compared to \$102.6 million for 2017. This increase is the result of higher production volumes and realized commodity prices.

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

Table 5

Sales by product (\$ thousands)	Three months ended			Twelve months ended			
	Dec 31, 2018	Dec 31, 2017	% Change	Sep 30, 2018	Dec 31, 2018	Dec 31, 2017	% Change
Oil and natural gas liquids	16,861	29,073	(42)	32,940	107,118	98,001	9
Natural gas	547	974	(44)	394	2,198	4,550	(52)
Total revenue	17,408	30,047	(42)	33,334	109,316	102,551	7

Commodity Prices

Table 6

Average Benchmark Prices	Three months ended			Twelve months ended			
	Dec 31, 2018	Dec 31, 2017	% Change	Sep 30, 2018	Dec 31, 2018	Dec 31, 2017	% Change
WTI oil (US\$/bbl) ⁽¹⁾	58.81	55.40	6	69.50	64.77	50.95	27
WCS heavy oil (Cdn\$/bbl) ⁽²⁾	25.61	54.84	(53)	61.75	49.83	50.54	(1)
Edmonton Par oil (Cdn\$/bbl)	42.95	68.86	(38)	81.97	69.33	62.84	10
LSB (Cdn\$/bbl) ⁽³⁾	58.18	68.63	(15)	82.85	74.89	61.77	21
AECO natural gas (\$/mcf) ⁽⁴⁾	1.71	1.95	(12)	1.31	1.45	2.41	(40)
Cdn\$ / US\$ exchange rate	1.32	1.27	4	1.31	1.30	1.30	-

Gear Realized Prices

Heavy oil (\$/bbl)	22.45	49.18	(54)	56.79	45.01	45.49	(1)
Light and medium oil (\$/bbl)	46.68	64.71	(28)	76.57	63.73	59.40	7
Natural gas liquids (\$/bbl)	23.95	27.79	(14)	35.02	34.26	26.80	28
Natural gas (\$/mcf)	1.45	1.90	(24)	0.93	1.29	2.32	(44)
Weighted average, before risk management contracts (\$/boe)	27.64	46.06	(40)	53.70	44.13	43.15	2
Realized risk management losses (\$/boe)	(0.90)	(0.73)	23	(6.55)	(4.29)	(0.64)	570
Weighted average, after risk management contracts (\$/boe)	26.74	45.33	(41)	47.15	39.84	42.51	(6)

(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.

During the fourth quarter of 2018, US denominated WTI prices increased by 6 per cent over the same period in 2017, the WCS differential widened from US\$12.22 per barrel to US\$39.41 per barrel and the Edmonton Par differential widened from US\$1.18 per barrel to US\$26.27 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\$14.73 per barrel in the fourth quarter of 2018. These pricing movements along with the weakening of the Canadian dollar resulted in a decrease in Gear's realized pricing from \$46.06 per boe to \$27.64 per boe.

On an annual basis, US denominated WTI increased by 27 per cent in 2018 compared to 2017, the WCS differential widened from US\$12.07 per barrel to US\$26.44 per barrel and the Edmonton Par differential widened from US\$2.61 per barrel to US\$11.44 per barrel. The LSB differential for 2018 was \$7.16 per barrel. These pricing movements resulted in an increase in Gear's realized pricing from \$43.15 per boe to \$44.13 per boe.

Royalties

Royalties as a percentage of commodity sales in the fourth quarter of 2018 represented 12.4 per cent compared to 9.0 per cent in the fourth quarter of 2017. For the year ended December 31, 2018 royalties represented 11.8 per cent of revenue as compared to 10.2 per cent in 2017. The increase in royalties 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 5.0 per cent. Properties acquired through the Steppe Acquisition carry a lower royalty burden, which is reflected by the decrease in royalty rate from the third quarter to the fourth quarter of 2018.

Table 7

Royalty expense (\$ thousands except % and per boe)	Three months ended			Twelve months ended			
	Dec 31, 2018	Dec 31, 2017	% Change	Sep 30, 2018	Dec 31, 2018	Dec 31, 2017	% Change
Royalty expense	2,164	2,705	(20)	4,550	12,858	10,454	23
Royalty expense as a % of Sales	12.4	9.0	38	13.6	11.8	10.2	16
Royalty expense per boe	3.44	4.15	(17)	7.33	5.19	4.40	18

Operating and Transportation Costs

Operating costs plus transportation for the three months ended December 31, 2018 were \$17.13 per boe, an increase of 7 per cent compared to \$16.03 per boe for the same period in 2017. For the full 2018 year, operating costs plus transportation increased 2 per cent from \$16.66 per boe in 2017 to \$16.97 per boe. These increases are mainly due to the inclusion of initial operating costs associated with properties acquired from Steppe and the reduced volumes in the fourth quarter, which were partially offset by cost cutting measures taken on by the Company in response to the pricing environment.

Table 8 below summarizes the operating and transportation expense:

Table 8

Operating and Transportation expense (\$ thousands except per boe)	Three months ended			Twelve months ended			
	Dec 31, 2018	Dec 31, 2017	% Change	Sep 30, 2018	Dec 31, 2018	Dec 31, 2017	% Change
Operating expense	9,422	8,957	5	9,761	37,016	34,901	6
Transportation expense	1,368	1,499	(9)	1,218	5,017	4,685	7
Operating and transportation expense	10,790	10,456	3	10,979	42,033	39,586	6
Operating expense per boe	14.96	13.73	9	15.73	14.94	14.69	2
Transportation expense per boe	2.17	2.30	(6)	1.96	2.03	1.97	3
Operating and transportation expense per boe	17.13	16.03	7	17.69	16.97	16.66	2

Operating Netback

Gear's operating netback prior to risk management contracts in the fourth quarter of 2018 was \$7.07 per boe compared to \$25.88 per boe in the fourth quarter of 2017. This decrease is the result of decreased commodity prices and a slight increase in operating costs, partially offset by a decrease in royalties. For the full year, Gear's operating netback remained relatively unchanged at \$21.97 per boe compared to \$22.09 per boe in 2017.

The components of operating netbacks are summarized in Table 9:

Table 9

Netbacks (\$ per boe)	Three months ended			Twelve months ended			
	Dec 31, 2018	Dec 31, 2017	% Change	Sep 30, 2018	Dec 31, 2018	Dec 31, 2017	% Change
Total sales	27.64	46.06	(40)	53.70	44.13	43.15	2
Royalties	(3.44)	(4.15)	(17)	(7.33)	(5.19)	(4.40)	18
Operating costs	(17.13)	(16.03)	7	(17.69)	(16.97)	(16.66)	2
Netback	7.07	25.88	(73)	28.68	21.97	22.09	(1)

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

For the three months ended December 31, 2018, G&A expenses totaled \$0.7 million, representing a decrease of 41 per cent from \$1.3 million for the same period in 2017. For the full year G&A expenses decreased 3 per cent from \$5.3 million in 2017 to \$5.2 million in 2018. These decreases are primarily due to an adjustment to personnel costs during the fourth quarter of 2018. G&A on a per boe basis decreased 39 per cent in the fourth quarter of 2018 compared to the same period in 2017. For the twelve months ended December 31, 2018, G&A on a per boe basis decreased 8 per cent.

Transaction costs incurred relating to the Steppe Acquisition were \$0.1 million and \$0.5 million for the three and twelve months ending December 31, 2018, respectively. 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, Transaction costs and SBC expense (\$ thousands except per boe)	Three months ended			Twelve months ended			
	Dec 31, 2018	Dec 31, 2017	% Change	Sep 30, 2018	Dec 31, 2018	Dec 31, 2017	% Change
General and administrative	1,242	1,616	(23)	2,100	7,368	6,811	8
Overhead recoveries	(164)	(154)	6	(158)	(637)	(666)	(4)
Capitalized G&A	(333)	(209)	59	(817)	(1,568)	(798)	96
Net G&A	745	1,253	(41)	1,125	5,163	5,347	(3)
Transaction costs	119	-	100	395	514	-	100
SBC expense	230	420	(45)	303	1,076	1,759	(39)
Net G&A per boe	1.18	1.92	(39)	1.81	2.08	2.25	(8)
Transaction costs per boe	0.19	-	100	0.64	0.21	-	100
SBC expense per boe	0.37	0.65	(43)	0.49	0.43	0.74	(42)

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. There were 5.5 million options granted during 2018 at an average price of \$1.00. In addition, 3.3 million options were exercised at an average exercise price of \$0.70, 1.4 million options expired at an average exercise price of \$2.53 and 0.2 million options were forfeited with an average exercise price of \$0.99. As at December 31, 2018, a total of 14.1 million options were outstanding representing approximately 6.4 per cent of the 219.0 million total common shares outstanding. For further information on Gear's stock options, see the notes to the audited consolidated financial statements.

Interest and financing charges

Interest and financing charges totaled \$0.9 million for the fourth quarter, a 75 per cent increase from \$0.5 million for the same period in 2017. On an annual basis interest and financing charges increased 37 per cent from \$2.0 million in 2017 to \$2.7 million in 2018. In conjunction with the Steppe Acquisition Gear assumed \$36.3 million of bank debt resulting in increased average debt levels year-over-year. Gear's annualized borrowing costs, inclusive of financing charges and standby fees on its Credit Facilities, approximated 4.5 per cent in 2018 compared to 3.8 per cent in 2017. The increase in borrowing costs is due to increased interest rates from the Bank of Canada and the inclusion of 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 (\$ thousands except per boe)	Three months ended			Twelve months ended			
	Dec 31, 2018	Dec 31, 2017	% Change	Sep 30, 2018	Dec 31, 2018	Dec 31, 2017	% Change
Interest expense	877	493	78	499	2,371	1,746	36
Financing charges	18	22	(18)	109	218	149	46
Standby fees	49	25	96	44	139	91	53
Interest and financing charges	944	540	75	652	2,728	1,986	37
Interest and financing charges per boe	1.50	0.83	81	1.05	1.10	0.84	31

Risk Management Contracts

Gear uses or plans to use a variety of derivative instruments to reduce its exposure to fluctuations in commodity prices, foreign exchange rates and interest rates. Gear has not designated its risk management contracts as effective hedges, and thus has not applied hedge accounting. Gear endeavors to protect a minimum of 50 per cent of forecasted production, net of royalties, and has been authorized by its board of directors to hedge up to 65 per cent of forecasted production, net of royalties, for the current and following calendar year.

Gear 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 borrowing base on its Credit Facilities. Gear's 2018 and 2019 risk management programs were 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 was \$6.2 million at the acquisition date and \$4.5 million at December 31, 2018. Changes in fair value of these acquired risk management contracts from the acquisition date fair value are realized in Gear's Consolidated Statement of Income and Comprehensive Income as well as future funds from operations. Gear incurred realized losses on risk management contracts of \$10.6 million in 2018 compared to \$1.5 million in realized losses in 2017. Gear's remaining production was sold at unhedged prices and as such fully realized the appreciation in prices that occurred throughout the year.

Gear has 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\$90.65. For five months commencing February 1, 2019, Gear also has 1,500 barrels of oil per day hedged with a WCS to WTI differential of US\$19.00. For 2020, Gear has 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.

Table 12 summarizes Gear's hedged volumes as at December 31, 2018:

Table 12

Financial WTI Crude Oil Contracts

Term	Contract	Currency	Volume	Sold Swap	Sold Call	Bought Put	Sold Put	
								bbl/d
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	-
Jan 1, 2019	Feb 28, 2019	Swap ⁽¹⁾	CAD	450	61.20	-	-	-
Mar 1, 2019	Jul 31, 2019	Swap ⁽¹⁾	CAD	400	61.20	-	-	-
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 Steppe Acquisition.

Financial WCS Crude Oil Contracts

Term	Contract	Currency	Volume	Sold Swap	Sold Call	Bought Put	Sold Put	
								bbl/d
Feb 1, 2019	Jun 30, 2019	Swap	USD	1,500	(19.00)	-	-	-

For further details on Gear's risk management contracts, see the notes to the audited consolidated financial statements.

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

DD&A during the fourth quarter of 2018 was \$18.98 per boe compared to \$16.02 per boe in the same period in 2017. On an annual basis Gear's DD&A rate increased 7 per cent from \$15.94 per boe in 2017 to \$17.01 per boe in 2018. These increases in the DD&A rate are due to increases in Gear's finding and development costs year over year.

Table 13 is a breakdown of DD&A expenses:

Table 13

DD&A Rate	Three Months Ended				Twelve Months Ended		
	Dec 31, 2018	Dec 31, 2017	% Change	Sep 30, 2018	Dec 31, 2018	Dec 31, 2017	% Change
(\$ thousands except per boe)							
DD&A	11,959	10,450	14	10,330	42,142	37,896	11
DD&A rate per boe	18.98	16.02	18	16.64	17.01	15.94	7

Taxes

For the three and twelve months ended December 31, 2018, a deferred tax expense 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 December 31, 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 December 31, 2018 Gear's estimated tax pools were \$633.0 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 \$233.5 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 totaled \$9.8 million for the three months ended December 31, 2018 as compared to \$12.3 million in the same period of 2017. During the fourth quarter Gear drilled 2 gross (2 net) wells in Wildmere. Preliminary production results from these wells are in line with management's expectations.

For the full year in 2018, capital expenditures, including acquisition and disposition activity, was \$110.0 million compared to \$49.5 million in 2017. During the year, Gear closed the previously mentioned Steppe Acquisition which provided Gear with future growth opportunities in Southeast Saskatchewan. Gear's 2018 capital program of 26 gross (23.9 net) wells included 19 heavy oil wells (19 net): 10 in Paradise Hill, five in Wildmere, two in Hoosier, one in Maidstone and one in Lindbergh; and seven light oil wells (4.9 net): five in Wilson Creek and two in Ferrier. Gear was active at land sales in the year spending \$2.7 million to acquire a land position in a new medium oil area as well as adding to its existing land inventory in Wildmere. Gear also directed capital spending in the quarter to the implementation of enhanced oil recovery water flood projects in two of its core areas.

During the year, Gear also disposed of non-core undeveloped land in the Chigwell area for total proceeds of \$0.6 million.

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

Table 14

Capital expenditures (\$ thousands)	Three Months Ended				Twelve Months Ended		
	Dec 31, 2018	Dec 31, 2017	% Change	Sep 30, 2018	Dec 31, 2018	Dec 31, 2017	% Change
Drilling and completions	5,656	7,737	(27)	15,505	28,519	33,765	(16)
Production equipment and facilities	3,735	3,227	16	3,172	12,129	9,648	26
Geological and geophysical	17	147	(88)	11	388	1,338	(71)
Undeveloped land purchased at crown land sales	17	435	(96)	29	2,734	943	190
Other	57	761	(93)	32	89	2,071	(96)
Total capital expenditures	9,482	12,307	(23)	18,749	43,859	47,765	(8)
Property acquisitions and dispositions, net ⁽¹⁾	302	14	2,057	65,470	66,172	1,709	3,772
Total capital expenditures and net acquisitions	9,784	12,321	(21)	84,219	110,031	49,474	122

(1) Includes post-closing adjustments.

Decommissioning Liability

At December 31, 2018, Gear has recorded a decommissioning liability of \$88.7 million (\$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 in order to calculate the undiscounted total future liability. The future liability has been discounted at the risk free rate of 2.18 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 primarily the result of additions due to the Steppe Acquisition.

Environmental stewardship is a core value at Gear and abandonment and reclamation investments continue to be made in a prudent and responsible manner with oversight by Gear's Board of Directors. Ongoing abandonment expenditures for all of Gear's assets are funded out of funds from operations with \$3.0 million of decommissioning liabilities settled in 2018 (2017 - \$2.6 million). As at December 31, 2018 Gear's Licensee Liability Rating in Alberta was 1.89 times and 5.72 times in Saskatchewan.

Capitalization, Financial Resources and Liquidity

A breakdown of Gear's capital structure is outlined in Table 15:

Table 15

Debt (\$ thousands except ratio amounts)	Dec 31, 2018	Dec 31, 2017
Net debt ⁽¹⁾	91,908	43,269
Net debt to quarterly annualized funds from operations	11.1	0.7
Net debt to trailing 12-month funds from operations	2.6	1.0
Common shares outstanding	219,015	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".

Gear exited 2018 with \$91.9 million in net debt, an increase of \$48.6 million from \$43.3 million at December 31, 2017. The increase was mainly due to the assumption of \$38.9 million of net debt in conjunction with the Steppe Acquisition as well as capital and abandonment expenditures exceeding funds from operations.

As consideration in the Steppe Acquisition, in addition to the assumption of debt, Gear issued 21.9 million common 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 December 31, 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. As at December 31, 2018 Gear had \$78.5 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 \$36.3 million.

The Credit Facilities carried a single covenant to maintain an adjusted working capital ratio of not less than 1.0:1. Adjusted working capital ratio is defined as current assets less risk management contracts, plus the undrawn portion of the Credit Facilities divided by current liabilities less risk management contracts. As at December 31, 2018 Gear was in compliance with this financial covenant with an adjusted working capital ratio of 3.7.

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 December 31, 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. In 2018, \$0.4 million of Convertible Debentures were converted resulting in the issuance of approximately 0.4 million Gear common shares. 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 10 "Convertible Debentures" in the notes to the audited consolidated 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

On December 31, 2018 and as at the date of this MD&A Gear had 219.0 million common shares outstanding, an increase of 24.0 million shares from the December 31, 2017 balance of 195.0 million shares. Throughout 2018, Gear issued 21.9

million shares associated with the Steppe Acquisition, 1.7 million shares pursuant to option exercises and 0.4 million shares on the conversion of Convertible Debentures.

As at December 31, 2018, a total of 14.1 million options were outstanding with a weighted average exercise price of \$1.33 per share and each option entitled the holder to acquire one Gear common share. Subsequent to December 31, 2018, 0.1 million options expired, leaving a balance of 14.0 million options outstanding as at the date of this MD&A.

As at December 31, 2018 and as at 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. In addition, the Supreme Court’s decision in *Orphan Well Association v Grant Thornton Limited* may impact the way provincial regulators seek to regulate their liability management and end-of-life decommissioning regimes. Such climate change and other environment regulations impose certain costs and risks on the industry, and there remains some uncertainty regarding the impacts of federal or provincial climate change and environmental laws and regulations, as Gear is unable to predict additional legislation or amendments that governments may enact in the future. Any new laws and regulations, or additional requirement to existing laws and regulations, could have a material impact on the Companies operations and cash flows.

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 consolidated financial statements.

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

As at December 31, 2018, Gear had the following contractual commitments:

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

Lease agreements for Gear’s head and field offices are effective until December 31, 2020. The total commitment for these lease agreements is \$0.5 million. The drilling rig commitment expires December 31, 2020 with a total commitment of \$2.9 million. For further information see Note 19 “Commitments and Contingencies” in the notes to the audited consolidated financial statements for the year ended December 31, 2018.

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

Off Balance Sheet Arrangements

Gear has certain lease agreements that were entered into in the normal course of operations, of which significant agreements are discussed in the Contractual Obligations and Commitments section above and disclosed in the notes to the audited consolidated financial statements. These leases have been treated as operating leases whereby the lease payments are included in operating expenses or G&A expenses depending on the nature of the lease. No asset or liability value has been assigned to these leases on the balance sheet as of December 31, 2018.

Related Party Transactions

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

Non-GAAP Measures

Management uses certain key performance indicators and industry benchmarks such as 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 flows from operations. Gear has changed the reporting of the term cash flows 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 flows 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 flows from operating activities to funds from operations:

Table 16

(\$ thousands)	Three months ended			Twelve months ended	
	Dec 31, 2018	Dec 31, 2017	Sep 30, 2018	Dec 31, 2018	Dec 31, 2017
Cash flows from operating activities	1,538	9,964	16,831	41,752	36,768
Expenditures on site restoration and reclamation	1,401	1,260	318	2,981	2,577
Change in non-cash working capital	(850)	3,389	(5,571)	(9,315)	4,205
Funds from operations	2,089	14,613	11,578	35,418	43,550

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)	Dec 31, 2018	Dec 31, 2017
Debt	78,461	41,345
Convertible Debentures (at face value) ⁽¹⁾	13,315	13,698
Working capital surplus ⁽²⁾	(4,340)	(11,774)
Risk management contracts ⁽³⁾	4,472	-
Net debt	91,908	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.

At December 31, 2018 and December 31, 2017, Gear had a working capital surplus. When in a deficit position, the Company is able to meet obligations as they come due by drawing on the Credit Facilities. Gear actively manages its liquidity through strategies such as continuously monitoring forecasted and actual cash flows from operating, financing and investing activities, available credit under existing banking arrangements and opportunities to issue additional equity. Management believes that future cash flows generated from these sources will be adequate to settle Gear's financial liabilities.

Debt adjusted shares

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

Table 18

(thousands, except per share amounts)	Three months ended			Twelve months ended	
	Dec 31, 2018	Dec 31, 2017	Sep 30, 2018	Dec 31, 2018	Dec 31, 2017
Weighted average shares	219,013	194,968	198,826	202,020	193,477
Average share price	0.73	0.81	1.27	1.00	0.85
Average net debt ⁽¹⁾	87,821	43,919	61,347	67,589	40,118
Share equivalent on average net debt	120,303	54,220	48,304	67,589	47,197
Debt adjusted shares	339,316	249,188	247,130	269,609	240,674

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

Operating and Corporate Netbacks

Operating netbacks are 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 risk management

contracts and are calculated based on the amount of revenues received on a per unit of production basis after royalties, operating costs, general and administrative expenses, interest, transaction and other costs.

Critical Accounting Estimates

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

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

Gear has hired individuals and consultants who have the skills required to make such estimates and ensures that individuals or departments with the most knowledge of the activity are responsible for the estimates. Further, past estimates are reviewed and compared to actual results, and actual results are compared to budgets in order to make more informed decisions on future estimates. For further information on the determination of certain estimates inherent in the financial statements refer to Note 5 "Management Judgments and Estimation Uncertainty" in the audited consolidated financial statements for the year ended December 31, 2018.

Risk Factors

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

Prices, Markets and Marketing

Gear's operational results and financial condition, and therefore the amount of capital expenditures, are dependent on the prices received for oil, natural gas and natural gas liquids ("NGLs") production. Prices for oil, natural gas and NGLs are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil, natural gas and NGLs, market uncertainty and a variety of additional factors beyond the control of the Company. A material decline in prices could result in a reduction of net production revenue. The economics of producing from some wells may change because of lower prices, which could result in reduced production of oil, natural gas or NGLs and a reduction in the volumes of Gear's reserves. Management might also elect not to produce from certain wells at lower prices.

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

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

Refinancing

Gear currently has \$115.0 million Credit Facilities with a revolving maturity date of May 29, 2019. The lenders review the Credit Facilities each year and determine if they will extend the revolving for another year. In the event that the Credit Facilities are not extended, indebtedness under the Credit Facilities will become repayable at May 29, 2020 (or a year after the end of the revolving period). There is also a risk that the Credit Facilities will not be renewed for the same amount or on the same terms or that the lenders reduce the borrowing base as a result of a regularly scheduled borrowing base review. Any of these events could affect Gear's ability to fund ongoing operations. The next scheduled review is on or about May 31, 2019.

Operational Matters

Drilling hazards, environmental damage and various field operating conditions could greatly increase the cost of operations and adversely affect the production from successful wells. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, it is not possible to eliminate production delays and declines from normal field operating conditions, which can negatively affect revenue and cash flow levels to

varying degrees. Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including, but not limited to, fire, explosion, blowouts, cratering, sour gas releases, and spills or other environmental hazards. These typical risks and hazards could result in substantial damage to oil and natural gas wells, production facilities, other property, the environment and personal injury. As is standard industry practice, Gear is not fully insured against all risks, nor are all risks insurable. Although Gear maintains liability insurance in an amount that it considers consistent with industry practice, liabilities associated with certain risks could exceed policy limits or not be covered. In either event, the Company could incur significant costs.

Reserve Estimates

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

Acquisitions

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

Royalty Regimes

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

Variations in Foreign Exchange Rates and Interest Rates

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

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

Third Party Credit Risk

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

Environmental

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

The provincial regulation of environmental liabilities and associated decommissioning liabilities in the oil and gas industry may face substantial changes in the near future. In 2016, the Alberta Court of Queen's Bench issued its decision in *Redwater Energy Corporation (Re)*, finding receivers and trustees of insolvent entities have the right to renounce assets within insolvency proceedings. The Alberta Court of Appeal affirmed this decision. In response, several provincial regulators, most notably the AER, implemented a number of interim rule changes to the regulatory scheme pertaining to the decommissioning, licensing and liability management programs. On January 31, 2019, however, the Supreme Court of Canada released its decision in the *Orphan Well Association v Grant Thornton Limited*, overturning the decision of the Alberta Court of Queen's bench and the Alberta Court of Appeal to hold that receivers and trustees can no longer avoid the AER's legislative authority to impose abandonment orders against licensees or to require a licensee to pay a security

deposit before approving a transfer when such a licensee is subject to formal insolvency proceedings. As a result, any financial resources of a bankrupt licensee will first be used to satisfy outstanding abandonment obligations in respect of its unproductive assets. Remaining amounts, if any, will then satisfy the claims of secured creditors in accordance with the *Bankruptcy and Insolvency Act*.

There remains a great deal of uncertainty as to what regulatory measures will be developed by the provinces or in concert with the federal government to address the *Orphan Well Association v Grant Thornton Limited* decision.

Project Risks

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

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

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

Disclosure Controls and Procedures

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. The Chief Executive Officer and the Chief Financial Officer of Gear evaluated the effectiveness of the design and operation of the Company's DC&P. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that Gear's DC&P were effective as at December 31, 2018.

Internal Controls over Financial Reporting

Gear's Chief Executive Officer and the Chief Financial Officer are responsible for establishing and maintaining internal control over financial reporting ("ICFR") for Gear. They have, as at the financial year ended December 31, 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").

Under the supervision of the Chief Executive Officer and the Chief Financial Officer, Gear conducted an evaluation of the effectiveness of the Company's ICFR as at December 31, 2018 based on the COSO Framework. Based on this evaluation, the officers concluded that as of December 31, 2018, Gear maintained effective ICFR. It should be noted that while Gear's officers believe that the Company's controls provide a reasonable level of assurance with regard to their effectiveness, they do not expect that the DC&P and ICFR will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, but not absolute, assurance that the objectives of the control system are met.

There were no changes in Gear's ICFR during the year ended December 31, 2018 that materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Newly Adopted Accounting Policies

IFRS 15 *Revenue from Contracts with Customers*

On January 1, 2018 Gear adopted IFRS 15 *Revenue from Contracts with Customers* using the retrospective approach, 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 consolidated financial statements. Gear has expanded the disclosures in the notes to its audited consolidated financial statements as prescribed by IFRS 15, including disclosing the Company's disaggregated revenue streams by product type. See Note 17 to the audited consolidated financial statements.

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, fair value through profit or loss ("FVTPL") or fair value through other comprehensive income 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 through profit or loss option is designated, 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	FVTPL	FVTPL

⁽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*. IFRS 16 removes the distinction between operating and finance leases and requires the recognition of a right-of-use asset ("ROU") asset and lease liability on the balance sheet for most leases where the Company is lessee.

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 is required to be adopted either retrospectively or using a modified retrospective approach. The modified retrospective approach does not require restatement of prior periods; instead the cumulative effect of applying this standard is recognized as an adjustment to opening retained earnings and the standard is applied prospectively. IFRS 16 will be applied by Gear on January 1, 2019 using the modified retrospective approach. The Company has completed reviewing its lease contracts and has concluded that the adoption of IFRS 16 will not have a material impact on Gear's net income and financial position, but Gear will expand the disclosures in the notes to its financial statements as prescribed by IFRS 16.

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 deliver per share growth; 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; expected details of how Gear's first half of 2019 capital budget will be allocated; Gear's expectation of the amount of first half of 2019 funds from operations will be required to fund the first half

of 2019 capital program; 2019 first half guidance estimates including expected production, expected commodity weightings, royalty rate expectations, operating cost expectations, interest expense expectations and expected capital and abandonment expenditures; expectations as to resuming production from certain shut-in wells; Gear's intent to draw down inventory in the first half of 2019; 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 as to what level of forecasted production is hedged; Gear's expectations as to future abandonment and reclamation obligations and costs associated therewith; the expectation that future capital programs will be financed with funds from operations and existing credit capacity; 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.

Initial Production Rates

Any references in this document to initial production (or IP) rates are useful in confirming the presence of hydrocarbons, however, such rates are not determinative of the rates at which such wells will continue production and decline thereafter. Additionally, such rates may also include recovered "load oil" fluids used in well completion stimulation. Readers are cautioned not to place reliance on such rates in calculating the aggregate production for Gear. References to IP30 in this document refer to initial production rates for the first 30 days of production. Reference to IP365 in this document refer to initial production rates for the first 365 days of production.

QUARTERLY HISTORICAL REVIEW

(Cdn\$ thousands, except per share, share, and per boe amounts)	2018				2017			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
FINANCIAL								
Sales of crude oil, natural gas and NGLs	17,408	33,334	33,674	24,900	30,047	24,260	25,929	22,315
Funds from operations ⁽¹⁾	2,089	11,578	13,674	8,078	14,613	9,960	10,248	8,729
Per weighted average basic share	0.01	0.06	0.07	0.04	0.07	0.05	0.05	0.05
Per weighted average diluted share	0.01	0.05	0.07	0.04	0.07	0.05	0.05	0.04
Cash flows from operating activities	1,538	16,831	8,596	14,787	9,964	9,197	5,362	12,245
Per weighted average basic share	0.01	0.08	0.04	0.08	0.05	0.05	0.03	0.06
Per weighted average diluted share	0.01	0.08	0.04	0.08	0.05	0.05	0.03	0.06
Net income (loss)	10,553	706	(1,869)	(4,294)	6,947	(2,705)	3,001	2,986
Per weighted average basic share	0.05	-	(0.01)	(0.02)	0.04	(0.01)	0.02	0.02
Per weighted average diluted share	0.05	-	(0.01)	(0.02)	0.03	(0.01)	0.01	0.01
Capital expenditures	9,482	18,749	6,385	9,243	12,307	10,513	6,161	18,784
Decommissioning liabilities settled	1,401	318	373	889	1,260	519	676	122
Net acquisitions ⁽²⁾	302	65,470	10	390	14	1,635	127	(68)
Net debt ^{(1) (3)}	91,908	83,733	38,960	45,330	43,269	44,568	43,409	46,745
Weighted average shares outstanding, basic (thousands)	219,013	198,826	195,045	194,968	194,968	193,158	192,922	192,840
Weighted average shares outstanding, diluted (thousands)	234,794	217,426	195,045	194,968	211,310	193,158	208,971	209,652
Shares outstanding, end of period (thousands)	219,015	218,776	195,213	194,968	194,968	194,968	192,935	192,915
OPERATING								
Production								
Heavy oil (bbl/d)	4,064	4,484	4,774	4,231	4,760	4,054	3,887	3,739
Light and medium oil (bbl/d)	1,834	1,228	1,232	1,197	1,161	1,290	1,412	1,085
Natural gas liquids (bbl/d)	267	268	219	223	242	279	322	217
Natural gas (mcf/d)	4,091	4,609	4,806	5,229	5,566	5,415	5,334	5,197
Total (boe/d)	6,847	6,748	7,025	6,522	7,090	6,525	6,510	5,907
Average prices								
Heavy oil (\$/bbl)	22.45	56.79	55.04	42.97	49.18	44.00	44.72	43.13
Light and medium oil (\$/bbl)	46.68	76.57	75.67	64.53	64.71	53.12	59.64	60.91
Natural gas liquids (\$/bbl)	23.95	35.02	40.51	39.74	27.79	27.28	28.11	23.08
Natural gas (\$/mcf)	1.45	0.93	1.08	1.66	1.90	1.52	2.91	3.00
Netback (\$/boe)								
Commodity and other sales	27.64	53.70	52.67	42.42	46.06	40.41	43.77	41.98
Royalties	(3.44)	(7.33)	(5.06)	(4.95)	(4.15)	(4.50)	(4.96)	(3.97)
Operating costs	(17.13)	(17.69)	(17.16)	(15.83)	(16.03)	(16.57)	(17.78)	(16.28)
Operating netback ⁽¹⁾	7.07	28.68	30.45	21.64	25.88	19.34	21.03	21.73
Realized risk management (losses) gains	(0.90)	(6.55)	(5.55)	(4.15)	(0.73)	0.11	(0.77)	(1.24)
General and administrative	(1.18)	(1.81)	(2.55)	(2.83)	(1.92)	(2.06)	(2.13)	(3.00)
Interest	(1.50)	(1.05)	(0.93)	(0.92)	(0.83)	(0.81)	(0.83)	(0.88)
Transaction costs	(0.19)	(0.64)	-	-	-	-	-	-
Other	0.02	0.02	(0.02)	0.02	-	-	-	(0.19)
Corporate netback ⁽¹⁾	3.32	18.65	21.40	13.76	22.40	16.58	17.30	16.42

(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.

(3) Net debt includes the risk management liability acquired through the Steppe Acquisition.

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 increased sales, funds from operations and production in the third quarter of 2018 and thereafter.

SELECTED ANNUAL INFORMATION

(Cdn\$ thousands, except per share, share, and per boe amounts)	2018	2017	2016
FINANCIAL			
Sales of crude oil, natural gas and NGLs	109,316	102,551	64,400
Funds from operations ⁽¹⁾	35,418	43,550	28,591
Per weighted average basic share	0.18	0.23	0.21
Per weighted average diluted share	0.16	0.21	0.21
Cash flows from operating activities	41,752	36,768	25,306
Per weighted average basic share	0.21	0.19	0.19
Per weighted average diluted share	0.19	0.18	0.19
Net income (loss)	5,094	10,229	(23,686)
Per weighted average basic share	0.03	0.05	(0.18)
Per weighted average diluted share	0.03	0.05	(0.18)
Capital expenditures	43,859	47,765	14,368
Decommissioning liabilities settled	2,981	2,577	1,853
Net acquisitions ⁽²⁾	66,172	1,709	57,612
Net debt ^{(1) (3)}	91,908	43,269	36,967
Weighted average shares outstanding, basic (thousands)	202,020	193,477	133,172
Weighted average shares outstanding, diluted (thousands)	219,452	210,029	133,172
Shares outstanding, end of period (thousands)	219,015	194,968	192,568
OPERATING			
Production			
Heavy oil (bbl/d)	4,388	4,112	4,099
Light and medium oil (bbl/d)	1,374	1,237	428
Natural gas liquids (bbl/d)	244	265	114
Natural gas (mcf/d)	4,680	5,379	3,064
Total (boe/d)	6,786	6,511	5,152
Average prices			
Heavy oil (\$/bbl)	45.01	45.49	34.74
Light and medium oil (\$/bbl)	63.73	59.40	55.30
Natural gas liquids (\$/bbl)	34.26	26.80	22.89
Natural gas (\$/mcf)	1.29	2.32	2.50
Netback (\$/boe)			
Commodity and other sales	44.13	43.15	34.15
Royalties	(5.19)	(4.40)	(3.19)
Operating costs	(16.97)	(16.66)	(15.46)
Operating netback ⁽¹⁾	21.97	22.09	15.50
Realized risk management (losses) gains	(4.29)	(0.64)	4.67
General and administrative	(2.08)	(2.25)	(2.85)
Interest	(1.10)	(0.84)	(1.17)
Transaction costs	(0.21)	-	(0.79)
Other	(0.01)	(0.04)	(0.25)
Corporate netback ⁽¹⁾	14.28	18.32	15.11

(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.

(3) Net debt includes the risk management liability acquired through the Steppe Acquisition.

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