FINANCIAL AND OPERATIONAL HIGHLIGHTS

GEAR ENERGY

(Cdn$ thousands, except per share, share and per boe amounts)	Three months ended Mar 31, 2020	Mar 31, 2019	Dec 31, 2019
FINANCIAL			
Funds from operations (1)	**6,258**	15,032	13,738
Per boe	**10.20**	24.29	21.68
Per weighted average basic share	**0.03**	0.07	0.06
Cash flows from operating activities	**9,788**	5,981	11,401
Net loss	**(110,215)**	(6,812)	(8,045)
Per weighted average basic share	**(0.51)**	(0.03)	(0.04)
Capital expenditures	**11,099**	9,252	12,603
Decommissioning liabilities settled	**671**	399	889
Net acquisitions (dispositions) (2)	**3**	(1,038)	109
Net debt (1) (3)	**80,261**	85,740	69,752
Weighted average shares, basic (thousands)	**216,715**	219,016	218,365
Shares outstanding, end of period (thousands)	**216,468**	219,044	217,610
OPERATING			
Production			
Heavy oil (bbl/d)	**3,989**	4,148	4,034
Light and medium oil (bbl/d)	**1,775**	1,863	1,763
Natural gas liquids (bbl/d)	**217**	235	269
Natural gas (mcf/d)	**4,582**	3,787	4,935
Total (boe/d)	**6,744**	6,877	6,888
Average prices			
Heavy oil ($/bbl)	**27.58**	52.89	49.17
Light and medium oil ($/bbl)	**50.44**	63.64	64.82
Natural gas liquids ($/bbl)	**10.54**	26.40	22.79
Natural gas ($/mcf)	**1.93**	2.40	2.36
Netback ($/boe)			
Commodity and other sales	**31.24**	51.44	47.97
Royalties	**(3.66)**	(4.33)	(5.52)
Operating costs	**(18.01)**	(18.73)	(17.93)
Operating netback (1)	**9.57**	28.38	24.52
Realized risk management gain (loss)	**4.57**	(0.16)	0.58
General and administrative	**(2.77)**	(2.04)	(2.13)
Interest	**(1.33)**	(1.88)	(1.30)
Transaction costs	**-**	(0.01)	-
Realized gain on foreign exchange	**0.16**	-	0.01
TRADING STATISTICS			
($ based on intra-day trading)			
High	**0.50**	0.73	0.48
Low	**0.08**	0.54	0.26
Close	**0.10**	0.61	0.46
Average daily volume (thousands)	**874**	283	529

(1) Funds from operations, net debt and operating 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 (dispositions) 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. March 31, 2020 – nil, March 31, 2019 – $2.9 million, December 31, 2019 – 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 May 6, 2020 and should be read in conjunction with the unaudited Interim Condensed Consolidated Financial Statements as at and for the three months ended March 31, 2020 and the audited Consolidated Financial Statements as at and for the year ended December 31, 2019. 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 33 employees with 22 staff in the Calgary office and 11 employees located in Gear's operating areas in Alberta and Saskatchewan. Gear also has a number of contract operators in the field. The Company trades on the Toronto Stock Exchange under the symbol GXE.

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

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

Gear enhances returns of acquired assets by:

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

ECONOMIC ENVIRONMENT

In January 2020, the West Texas Intermediate ("WTI") benchmark index peaked at US$65 per barrel. Not long after, the COVID-19 pandemic began which adversely impacted the global economy as a result of governments mandating the shut-down of several facets of society. This, in turn, led to significantly reduced world oil consumption. In addition, an oil price war erupted between Russia and Saudi Arabia who both began to flood the market with additional oil supply. As a result, oil prices plummeted by over US$100 with WTI hitting a historical low of *negative* US$37 per barrel. With this weakness and uncertainty in the price of oil, starting in April Gear chose to shut-in the majority of its production and immediately pursue reductions to the variable costs of the business in an effort to maximize funds from operations. Protection of the corporate balance sheet remains the top priority.

All capital investments were halted in early March 2020. In addition, Gear has implemented a 20 per cent reduction in the salaries of all permanent employees and in the directors' fees for its non-management directors, as well as an immediate and aggressive production storage and shut-in program. With approximately two-thirds of field operating costs being classified as variable, the current low commodity prices do not financially support production. By limiting field operations, Gear intends to eliminate the variable costs and maximize the resulting funds from operations. Production is expected to be restarted with minimal cost once certain price thresholds are met. Gear has regulated production levels before in times of low commodity price environments with negligible impact to its oil reservoirs.

Through the second quarter, the majority of Gear's production is forecast to be shut-in and stored subject to various physical and financial restrictions. April sales production is estimated to be approximately 3,600 boe per day and May production is estimated to be approximately 800 boe per day. With the exception of a few wells, all wells excluding Paradise Hill are currently shut-in.

2020 GUIDANCE

Based on the volatility of forward pricing as at the date of this MD&A, Gear cannot provide guidance on its 2020 funds from operations. All previous guidance issued by Gear regarding 2020 operations or financial results, including the guidance given in Gear's MD&A for the year ended December 31, 2019 dated February 19, 2020 and the press releases dated December 18, 2019, February 19, 2020 and March 11, 2020, are no longer applicable and investors are cautioned to no longer rely on any such previous guidance. Gear will consider developing guidance for the remainder of 2020 at a later date which will be highly contingent on oil prices and other macro factors over the next few months.

METRICS

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

Table 2

	Three months ended			
	Mar 31, 2020	Mar 31, 2019	% Change	Dec 31, 2019
Funds from operations per debt adjusted share (1)	**0.006**	0.041	(85)	0.037
Cash flows from operating activities per debt adjusted share (1)	**0.010**	0.016	(38)	0.031
Production, boepd per debt adjusted thousand shares (1)	**0.007**	0.019	(63)	0.018

(1) Funds from operations per debt adjusted share, cash flows from operating activities 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*".

2020 FIRST QUARTER FINANCIAL AND OPERATIONAL RESULTS

Funds from Operations

Funds from operations for the three months ended March 31, 2020 was $6.3 million and $10.20 per boe compared to $15.0 million and $24.29 per boe for the first quarter of 2019. The decrease in funds from operations is the result of lower realized commodity prices, decreased production volumes and increased general and administrative costs, offset by increased gain on risk management contracts, decreased royalty, operating, interest and transaction costs and increased realized gain on foreign exchange.

The following table details the change in funds from operations for first quarter 2020 relative to 2019:

Table 3

	Three months ended Mar 31	
	$ thousands	$/boe
Q1 2019 Funds from Operations (1)	15,032	24.29
Volume variance	(269)	-
Price variance	(12,397)	(20.20)
Realized gain/ loss on risk management contracts	2,908	4.73
Royalties	434	0.67
Expenses:		
Operating	540	0.72
General and administrative	(433)	(0.73)
Interest	342	0.55
Transaction costs	7	0.01
Realized gain on foreign exchange	94	0.16
Q1 2020 Funds from Operations (1)	6,258	10.20

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

Cash flows from operating activities increased from $6.0 million and $9.66 per boe in the first quarter of 2019 to $9.8 million and $15.95 per boe in the first quarter of 2020. The increase in cash flows from operating activities is the result of increased gain on risk management contracts, decreased royalty, operating, interest and transaction costs, increased realized gain on foreign exchange and increased change in non-cash working capital, offset by decreased production volumes, lower realized commodity prices, increased general and administrative costs and increased decommissioning liabilities settled.

Net loss

Gear generated a net loss of $110.2 million for the three months ended March 31, 2020, compared to a net loss of $6.8 million for the same period in 2019. The changes in net loss are due to several factors discussed below.

Production

In the first quarter of 2020, sales production volumes averaged 6,744 boe per day compared to 6,877 boe per day in the same period in 2019. In the first quarter of 2020 Gear drilled 9 net wells, of which seven were brought on production in the period. The additional volumes from the new wells were offset by natural declines on base production. Gear exited the first quarter with normal inventory levels.

Table 4

Production	**Mar 31, 2020**	Mar 31, 2019	% Change	Dec 31, 2019
	Three months ended			
Liquids (bbl/d)				
Heavy oil (bbl/d)	**3,989**	4,148	(4)	4,034
Light and medium oil (bbl/d)	**1,775**	1,863	(5)	1,763
Natural gas liquids (bbl/d)	**217**	235	(8)	269
Total liquids (bbl/d)	**5,981**	6,246	(4)	6,066
Natural gas (mcf/d)	**4,582**	3,787	21	4,935
Total production (boe/d) (1)	**6,744**	6,877	(2)	6,888
% Liquids production	**89**	91	(2)	88
% Natural gas production	**11**	9	22	12

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

Through the second quarter of 2020, production is forecast to be shut-in and stored subject to various physical and financial restrictions. April sales production is estimated to be approximately 3,600 boe per day and May production is estimated to be approximately 800 boe per day. Production is expected to remain at this curtailed level until such time as Gear determines that operating and economic conditions warrant bringing shut-in production back online. The Gear team intends to remain flexible and opportunistic, keeping a close eye on the commodity market and being prepared to resume full production volume levels and expand capital investment if pricing improves materially.

Revenue

Sales of crude oil, natural gas and natural gas liquids for the first quarter of 2020 totaled $19.2 million compared to $31.8 million for the first quarter of 2019 and $30.4 million for the fourth quarter of 2019. These decreases are the result of lower realized commodity prices and lower production volumes.

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

Table 5

Sales by product		Three months ended		
($ thousands)	**Mar 31, 2020**	Mar 31, 2019	% Change	Dec 31, 2019
Heavy oil	**10,010**	19,793	(49)	18,247
Light and medium oil	**8,147**	10,669	(24)	10,513
Natural gas liquids	**208**	558	(63)	564
Natural gas	**806**	817	(1)	1,072
Total revenue	**19,171**	31,837	(40)	30,396

Commodity Prices

For the first quarter of 2020, US denominated WTI prices decreased by 16 per cent over the same period in 2019, the WCS differential widened from US$12.29 per barrel to US$20.53 per barrel, the Canadian Light Sweet differential widened from US$4.85 per barrel to US$7.58 per barrel and the LSB differential widened from US$4.01 per barrel to US$7.76 per barrel. These pricing movements along with the weakening of the Canadian dollar resulted in a decrease in Gear’s realized pricing from $51.44 per boe to $31.24 per boe.

US denominated WTI prices decreased from US$56.96 per barrel to US$46.17 per barrel from the fourth quarter of 2019 to the first quarter of 2020, the WCS differential widened from US$15.83 per barrel to US$20.53 per barrel, the Canadian Light Sweet differential widened from US$5.37 per barrel to US$7.58 per barrel and the LSB differential widened from US$5.38 per barrel to US$7.76 per barrel. These pricing movements along with the weakening of the Canadian dollar resulted in a decrease in Gear’s realized pricing from $47.97 per boe to $31.24 per boe.

Table 6

Average Benchmark Prices	Three months ended **Mar 31, 2020**	Mar 31, 2019	% Change	Dec 31, 2019
WTI oil (US$/bbl) (1)	**46.17**	54.90	(16)	56.96
WCS heavy oil (Cdn$/bbl) (2)	**34.45**	56.64	(39)	54.29
Canadian Light Sweet (3) (Cdn$/bbl)	**51.83**	66.52	(22)	68.10
LSB (Cdn$/bbl) (4)	**51.59**	67.64	(24)	68.08
AECO natural gas ($/mcf) (5)	**2.03**	2.60	(22)	2.48
Cdn$ / US$ exchange rate	**1.34**	1.33	1	1.32
Gear Realized Prices				
Heavy oil ($/bbl)	**27.58**	52.89	(48)	49.17
Light and medium oil ($/bbl)	**50.44**	63.64	(21)	64.82
Natural gas liquids ($/bbl)	**10.54**	26.40	(60)	22.79
Natural gas ($/mcf)	**1.93**	2.40	(20)	2.36
Weighted average, before risk management contracts ($/boe)	**31.24**	51.44	(39)	47.97
Realized risk management gain (loss) ($/boe)	**4.57**	(0.16)	-	0.58
Weighted average, after risk management contracts ($/boe)	**35.81**	51.28	(30)	48.55

(1) WTI represents the posting price of West Texas Intermediate oil.
(2) WCS represents the average market price for the benchmark Western Canadian Select for Gear's heavy oil.
(3) Represents the Canadian Light Sweet oil index for Gear's Alberta light oil.
(4) LSB represents the Light Sour Blend oil index for Gear's Southeast Saskatchewan light oil.
(5) Represents the AECO 5a monthly index.

Commodity prices have remained volatile throughout the first quarter and to date in the second quarter of 2020 as oil prices continue to be depressed as a result of demand destruction due to the impacts of COVID-19 on the global economy.

Royalties

In the first quarter of 2020, royalties as a percentage of commodity sales were 11.7 per cent compared to 8.4 per cent in the same period in 2019. In the first quarter of 2019 Gear sold oil from inventory which was produced in a lower pricing environment and carried a lower associated royalty burden, this did not occur in 2020.

Table 7

Royalty expense ($ thousands except per boe and %)	Three months ended **Mar 31, 2020**	Mar 31, 2019	% Change	Dec 31, 2019
Royalty expense	**2,246**	2,680	(16)	3,497
Royalty expense as a percentage of sales	**11.7**	8.4	39	11.5
Royalty expense per boe	**3.66**	4.33	(15)	5.52

Operating and Transportation Expenses

Operating costs plus transportation for the first quarter of 2020 were $18.01 per boe, a decrease of 4 per cent compared to $18.73 per boe for the same period in 2019. The decrease is mainly due to the decrease in well servicing costs in the first quarter of 2020. Operating costs plus transportation for the fourth quarter of 2019 were $17.93 per boe.

Table 8 below summarizes the operating and transportation expenses:

Table 8

Operating and Transportation expenses ($ thousands except per boe)	Three months ended **Mar 31, 2020**	Mar 31, 2019	% Change	Dec 31, 2019
Operating expense	**9,777**	10,165	(4)	9,992
Transportation expense	**1,274**	1,426	(11)	1,371
Operating and transportation expense	**11,051**	11,591	(5)	11,363
Operating expense per boe	**15.93**	16.43	(3)	15.77
Transportation expense per boe	**2.08**	2.30	(10)	2.16
Operating and transportation expense per boe	**18.01**	18.73	(4)	17.93

Management estimates that approximately two thirds of the Company's operating costs are variable, as such a significant reduction in operating costs on an absolute basis is expected in the second quarter as a result of production being shut-in throughout the quarter.

Operating Netbacks

Gear's operating netback prior to risk management contracts was $9.57 per boe in the first quarter of 2020 compared to $28.38 per boe in the first quarter of 2019. The decrease in operating netback was due to a decrease in commodity prices, partially offset by decreases in per boe royalties and operating costs. Operating netback in the fourth quarter of 2019 was $24.52. The decrease from the fourth quarter was due to a decrease in commodity prices and an increase in per boe operating costs, partially offset by a decrease in per boe royalties.

The components of operating netbacks are summarized in Table 9:

Table 9

Netbacks		Three months ended		
($ per boe)	**Mar 31, 2020**	Mar 31, 2019	% Change	Dec 31, 2019
Total sales	**31.24**	51.44	(39)	47.97
Royalties	**(3.66)**	(4.33)	(15)	(5.52)
Operating costs	**(18.01)**	(18.73)	(4)	(17.93)
Netback	**9.57**	28.38	(66)	24.52

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

G&A expenses for the three months ended March 31, 2020 totaled $1.7 million, an increase of 34 per cent compared to $1.3 million for the same period in 2019. The increase is mainly due to annual incentive compensation payments made in February. G&A on a per boe basis increased 36 per cent in the first quarter of 2020 compared to the same period in 2019. G&A on an absolute basis is expected to decrease in the second quarter due to a 20 per cent decrease in employee and director compensation costs.

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

Table 10

G&A and SBC expense		Three months ended		
($ thousands except per boe)	**Mar 31, 2020**	Mar 31, 2019	% Change	Dec 31, 2019
G&A, before recoveries and capitalized G&A	**2,454**	1,691	45	1,705
Overhead recoveries	**(121)**	(101)	20	(63)
Capitalized G&A	**(635)**	(325)	95	(292)
G&A	**1,698**	1,265	34	1,350
SBC expense	**134**	218	(39)	145
G&A per boe	**2.77**	2.04	36	2.13
SBC expense per boe	**0.22**	0.35	(37)	0.23

SBC is related to the granting of stock options. During the first quarter of 2020, 0.3 million options were granted with an average exercise price of $0.29 and 0.8 million options expired with an average exercise price of $1.37. As at March 31, 2020 a total of 14.8 million options were outstanding, representing approximately 6.8 per cent of the 216.5 million total common shares outstanding. Each option entitles the holder to acquire one Gear common share. As at December 31, 2019 a total of 15.3 million options were outstanding. For further information on Gear's stock options, see the notes to the Interim Condensed Consolidated Financial Statements.

Interest and financing charges

In the first quarter of 2020, interest and financing charges totaled $0.8 million compared to $1.2 million for the first quarter of 2019. Gear's current annualized borrowing costs, inclusive of financing charges and standby fees on its Credit Facilities (as defined below) approximated 4.0 per cent for the first quarter of 2020 compared to 4.7 per cent for the same period of 2019. 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 ("Senior Debt to EBITDA Ratio') on a rolling six month period. The decrease in borrowing costs is due to decreased interest rates from the Bank of Canada as well as decreased margin and standby fee rates due to a decrease in Gear's Senior Debt to EBITDA Ratio.

Table 11 is a breakdown of interest expense:

Table 11

Interest and financing charges		Three months ended		
($ thousands except per boe)	**Mar 31, 2020**	Mar 31, 2019	% Change	Dec 31, 2019
Interest expense	**757**	1,096	(31)	760
Financing charges	**34**	19	79	34
Standby fees	**28**	46	(39)	27
Interest and financing charges	**819**	1,161	(29)	821
Interest and financing charges per boe	**1.33**	1.88	(29)	1.30

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 the pricing on 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. In the first quarter Gear realized a $2.8 million gain on risk management contracts. For the remainder of 2020, Gear has 3,200 barrels of oil per day hedged with an average WTI floor price of C$66.40 and an average WTI ceiling of C$81.08. The fair value of these contracts at March 31, 2020 was $15.0 million.

Table 12 summarizes Gear's current hedged volumes:

Table 12

Financial WTI Crude Oil Contracts								
Term		**Contract**	**Currency**	**Volume**	**Sold Swap**	**Sold Call**	**Bought Put**	**Sold Put**
				bbl/d	**$/bbl**	**$/bbl**	**$/bbl**	**$/bbl**
Apr 1, 2020	Dec 31, 2020	Collar	CAD	700	-	94.00	65.00	-
Apr 1, 2020	Jun 30, 2020	Swap	CAD	1,800	72.50	-	-	-
Apr 1, 2020	Jun 30, 2020	Collar	CAD	700	-	84.00	65.00	-
Jul 1, 2020	Dec 31, 2020	Three- way collar	CAD	400	-	75.40	65.00	55.00
Jul 1, 2020	Dec 31, 2020	Three- way collar	CAD	850	-	75.75	65.00	55.00
Jul 1, 2020	Dec 31, 2020	Three- way collar	CAD	1,250	-	81.00	65.00	55.00

Financial Foreign Exchange Contract					
Term		**Contract**	**Currency**	**Amount**	**Forward Rate**
				$ thousands	**CAD/USD**
Apr 1, 2020	Apr 24, 2020	Swap	USD	U$22,800	1.44982

For further details on Gear's risk management contracts, see the notes to the Interim Condensed Consolidated Financial Statements.

Depletion, Depreciation and Amortization Expense ("DD&A") and Impairment
DD&A during the first quarter of 2020 was $20.12 per boe compared to $19.35 per boe in the same period in 2019 and $19.87 per boe in the fourth quarter of 2019.

For the first quarter of 2020, Gear recorded an impairment of $93.9 million (2019 – nil) on its three CGUs. An impairment of $27.4 million was recognized on Gear's heavy oil properties located in Eastern Alberta and Saskatchewan, which had a recoverable amount of $80.3 million using an after-tax discount rate of 13 per cent; an impairment of $20.7 million was recognized on Gear's light oil properties located in Western Alberta, which had a recoverable amount of $33.8 million using an after-tax discount rate of 13 per cent; and an impairment of $45.8 million was recognized on Gear's light oil properties located in Southeast Saskatchewan, which had a recoverable amount of $22.3 million using an after-tax discount rate of 11 per cent. For additional information see Note 4 "Property, Plant and Equipment" in the notes to the Interim Condensed Consolidated Financial Statements.

Gear records its inventory at the lower of cost and net realizable value. At March 31, 2020 Gear recorded oil inventory valued at its net realizable value of $1.5 million (December 31, 2019 at its production cost of $6.5 million). At March 31, 2020, Gear recognized an impairment on its inventory balance in the amount of $4.3 million (2019 – nil) as a result of a reduction in the net realizable value. For additional information see Note 3 "Inventory" in the notes to the Interim Condensed Consolidated Financial Statements.

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

Table 13 is a breakdown of DD&A expenses and impairment:

Table 13

DD&A Rate and Impairment	Three Months Ended			
($ thousands except per boe)	**Mar 31, 2020**	Mar 31, 2019	% Change	Dec 31, 2019
DD&A	**12,345**	11,978	3	12,591
DD&A rate per boe	**20.12**	19.35	4	19.87
Impairment	**98,206**	-	100	-

Taxes

Deferred tax assets on the Condensed Consolidated Balance Sheet are recognized based on current tax pools less future taxable income based on estimates of the value of oil and gas reserves less estimates of tax deductions such as general and administrative and interest and financing charges. At March 31, 2020 $23.3 million in deferred tax assets were derecognized as estimated future taxable income no longer supported the recoverability of the deferred tax asset. At March 31, 2020 Gear's estimated tax pools were $621.1 million ($611.1 million at December 31, 2019). No cash income taxes were paid in 2020 and 2019.

Capital Expenditures, Acquisitions and Dispositions

Capital expenditures including acquisitions and dispositions totaled $11.1 million for the first quarter of 2020 compared to $8.2 million in the same period of 2019. During the first quarter of 2020 Gear successfully drilled nine gross (9 net) wells; seven heavy oil wells including four single lateral wells in Paradise Hill, two multi-lateral wells in Lindbergh and one single leg lined well in Frenchman's Butte in the Lloydminster area of Alberta; and two medium oil wells including one multi-stage fractured medium oil well in Killam and one multi-lateral well in Provost in east central Alberta. In response to the impacts of COVID-19 on the global economy, Gear reacted quickly and shut down its drilling rig in early March to reduce costs and as such, two of the four wells drilled in Paradise Hill were not completed or equipped.

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

Table 14

Capital expenditures	Three months ended			
($ thousands)	**Mar 31, 2020**	Mar 31, 2019	% Change	Dec 31, 2019
Drilling and completions	**8,582**	6,290	36	9,357
Production equipment and facilities	**2,366**	2,277	4	3,108
Geological and geophysical	**11**	614	(98)	63
Undeveloped land purchased at crown land sales	**121**	57	112	26
Other	**19**	14	36	49
Total capital expenditures	**11,099**	9,252	20	12,603
Property acquisitions and dispositions, net(1)	**3**	(1,038)	-	109
Total capital expenditures and net acquisitions	**11,102**	8,214	35	12,712

(1) Includes post-closing adjustments

Decommissioning Liability

At March 31, 2020, Gear recorded a decommissioning liability of $85.2 million ($85.7 million at December 31, 2019) 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 liability has been inflated at 1.32 per cent (1.76 per cent at December 31, 2019) and discounted using a risk free rate of 1.32 per cent (1.76 per cent at December 31, 2019). Some of the abandonment cost estimates are derived from third party government sources and can fluctuate from time to time. The decrease in liability is mainly the result of abandonment expenditures made during the quarter.

Decommissioning liabilities settled in the first quarter of 2020 were $0.7 million (2019 – $0.4 million). During the first quarter of 2020 Gear abandoned 23 wells or 2.6 times the number of wells that were drilled during the quarter. The originally planned 2020 abandonment program was dominated by an area-based closure in the Wildmere area and originally included the abandonment and reclamation of approximately 64 wells. Due to the weakness and uncertainty in future oil prices, any non-discretionary capital spending, including the remaining abandonment and reclamations, will be placed on hold until prices recover. As at March 31, 2020 Gear's Licensee Liability Rating in Alberta was 1.6 times and 5.0 times in Saskatchewan with a total corporate Licensee Liability Rating of 2.1.

On April 17, 2020 the federal government announced that as part of its COVID-19 Economic Response Plan that it will provide $1.7 billion to clean up orphan and inactive wells in Alberta, Saskatchewan and British Columbia. Application for this funding was made available to oilfield service companies on May 1, 2020 and Gear is currently in discussions with these companies regarding the use of this funding to abandon Gear's inactive wells.

Capitalization, Financial Resources and Liquidity

A breakdown of Gear's capital structure is outlined in Table 15, as at March 31, 2020 and December 31, 2019:

Table 15

Debt ($ thousands except ratio amounts)	**Mar 31, 2020**	Dec 31, 2019
Net debt (1)	**80,261**	69,752
Net debt to quarterly annualized funds from operations (1)	**3.2**	1.3
Common shares outstanding	**216,468**	217,610

(1) Net debt and net debt to quarterly annualized funds from operations are non-GAAP measures and are reconciled to the nearest GAAP measure below under the heading "Non-GAAP Measures".

Net debt increased 15 per cent from $69.8 million at December 31, 2019 to $80.3 million at March 31, 2020. This increase is the result of an additional $2.4 million draw on Gear's Credit Facilities and a reduction in working capital surplus of $8.1 million. The working capital surplus reduction was primarily driven by a $4.3 million reduction in the value of inventory as a result of its revaluation to net realizable value. See note 3 in the Interim Condensed Consolidated Financial Statements for more information.

Credit Facilities

At March 31, 2020 Gear had a $70.0 million revolving term credit facility with a syndicate of three banks (the "Syndicate") and a $20.0 million operating facility (collectively, the "Credit Facilities") totaling $90.0 million. The terms of the Credit Facilities include compliance, consent and reporting requirements relating to Gear's provincial liability management rating and decommissioning obligation. The total stamping fees range, depending on Gear's Senior Debt to EBITDA Ratio, between 50 bps to 300 bps on Canadian bank prime borrowings and between 150 bps and 400 bps on US dollar denominated LIBOR loans and 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 Credit Facilities is May 28, 2021. As at March 31, 2020 Gear had $66.6 million drawn on the Credit Facilities (December 31, 2019 – $64.3 million) and outstanding letters of credit of $1.6 million (December 31, 2019 – $0.8 million), leaving additional borrowing capacity of $21.8 million.

The Credit Facilities carry non-financial covenants and a single financial 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 March 31, 2020 Gear was in compliance with its non-financial and financial covenants. As at March 31, 2020 Gear had an adjusted working capital ratio of 1.3.

The next semi- annual borrowing base review of the facilities is expected to be complete on or about May 31, 2020, if the reduction to Gear's borrowing limit is significant, alternative external sources of funding will be necessary. The Company believes that it has access to sufficient capital through internally generated cash flows and external sources (credit markets and equity financing, if required) to meet current liquidity requirements. However, there is no certainty that such debt or equity financings will be available. Access to these external sources may change at any time and is subject to certain factors beyond the control of the Company.

On April 17, 2020 the Government of Canada, through Export Development Canada ("EDC") and Business Development Bank of Canada ("BDC"), announced that it will make available financial liquidity support to Canada's oil and gas sector in order to help companies ensure a degree of continuity of operations during this period of uncertainty. Details on access to this capital have not yet been finalized but the early framework suggests that it will be in the form of either:

1. a partial guarantee of non-conforming credit facilities up to 75 per cent of the credit facilities to a maximum of $100 million; or
2. a bridge loan in the range between $15 million to $60 million.

Eligible companies must have been financially viable prior to COVID-19. The programs also include other stipulations and restrictions. Gear is continuing to explore whether it will be eligible for the programs through active discussions with its lenders; however, the amount of funding, timing of its availability, and full details on actual qualifications to access the programs are not yet known.

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. 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 at a redemption price equal to the principal amount plus accrued and unpaid interest up to the date of redemption.

As at March 31, 2020 and the date of this MD&A $13.2 million of Convertible Debentures were outstanding. An aggregate of up to 15.2 million additional Gear common shares may be issued on conversion of the Convertible Debentures that remain outstanding at the date hereof. As at December 31, 2019 $13.2 million Convertible Debentures were outstanding.

At the maturity date or redemption date, as applicable, of the Convertible Debentures, Gear will have the option to repay the principal amount by the issuance of Gear common shares. The number of such common shares will be based on 95 per cent 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 6 "Convertible Debentures" in the notes to the Interim Condensed Consolidated Financial Statements.

Shareholders' Equity
On September 23, 2019, Gear announced the approval of its normal course issuer bid ("NCIB") by the Toronto Stock Exchange ("TSX"). The NCIB allows the Company to purchase for cancellation up to approximately 11.0 million common shares over a period of twelve months commencing on September 25, 2019. Under the terms of the Credit Facilities, Gear can initially purchase shares with an aggregate value of $1.5 million without the consent of Gear's lenders.

Purchases are made on the open market through the TSX or alternative Canadian trading platforms at the prevailing market price of such common shares at the time of purchase. For the period ended March 31, 2020, 1.1 million common shares with an aggregate value of $0.5 million were repurchased.

As at March 31, 2020 and as at the date hereof, Gear had 216.5 million common shares outstanding. At December 31, 2019 Gear had 217.6 million common shares outstanding. During the first quarter of 2020, 1.1 million common shares were repurchased for cancellation.

As at March 31, 2020, a total of 14.8 million options were outstanding with a weighted average exercise price of $0.69 per share and each option entitled the holder to acquire one Gear common share. Subsequent to March 31, 2020, 0.6 million options expired, leaving a balance of 14.3 million options outstanding as at the date of this MD&A.

Environmental, Social, and Governance Initiatives Impacting Gear
Environmental
Gear operates in jurisdictions that have regulated or have proposed to regulate greenhouse gas 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 climate change and other environmental 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 Company's operations and cash flows. Gear will continue to monitor developments in this area.

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. Gear continues to conserve natural gas from the majority of its new oil wells in 2019. In Southeast Saskatchewan in Tableland, Gear is currently exploring options to reduce flaring emissions. In the last several years, Gear has installed various gas gathering systems in order to conserve gas and reduce methane emissions. Gear has now started focusing on additional plans to reduce fugitive methane emissions. Finally, Gear has submitted its initial emissions reduction five-year plan which has been government approved to which Gear will begin implementation in 2020.

Social
Safety for Gear's workforce including contractors is paramount. Gear hosts monthly safety meetings for its field staff to review all safety protocols. For 2020, Gear had zero recordable injuries and two near miss events. A near miss event is an incident that did not, but had the potential to, result in an injury. As a result of COVID-19, Gear has mandated its employees to work from home where possible in order to maintain appropriate social distancing.

Gear does not have an annual target for donations and believes that its main objective is to generate value creation for its shareholders so that they can, in turn if they so choose, provide a return to society. Nevertheless, many of Gear's employees regularly contribute both personal resources and time to enhancing communities at home and abroad through various corporate and employee initiatives.

Governance
Gear prides itself on high governance standards. These standards include:

Alignment between management and director compensation to shareholders	Gear conducts an extensive annual compensation benchmarking analysis. Its management team has one of the lowest base salary structures amongst its peers and its incentive compensation structure is based both on a Proved Developed Reserves value creation formula as well as relative share price returns
Full, clear, and truthful disclosure	Gear strives to report its quarterly information on a timely basis in a format that is full and clear. In addition, Gear publishes a monthly President's letter that attempts to deal with current matters that are pertinent to Gear and its business
Board independence	All of Gear's board members, with the exception of Ingram Gillmore, Chief Executive Officer, are independent board members. On an annual basis, an evaluation is completed for all directors

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 Condensed Consolidated Financial Statements.

As at March 31, 2020, 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 July 31, 2025. The total commitment for these lease agreements is $1.7 million. The drilling rig commitment expires December 31, 2020 with a total remaining commitment of $0.2 million. For further information see Note 14 "Commitments and Contingencies" in the notes 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 litigation will not have a material impact on Gear's financial position or results of operations.

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, net debt, net debt to quarterly annualized funds from operations, debt adjusted shares, funds from operations per debt adjusted share, cash flows from operating activities per debt adjusted share, production per day per debt adjusted thousand shares and operating netback 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
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 decommissioning liabilities, repay debt and/or repurchase common shares under the Company's NCIB. 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

		Three months ended	
($ thousands)	**Mar 31, 2020**	Mar 31, 2019	Dec 31, 2019
Cash flows from operating activities	**9,788**	5,981	11,401
Decommissioning liabilities settled	**671**	399	889
Change in non-cash working capital	**(4,201)**	8,652	1,448
Funds from operations	**6,258**	15,032	13,738

Net Debt
Net debt is a non-GAAP measure defined as debt less current working capital items (excluding Convertible Debentures, certain risk management contracts and decommissioning liabilities). Gear uses net debt as a key indicator of its leverage and strength of its balance sheet. Changes in net debt are primarily a result of funds from operations, capital and abandonment expenditures, equity issuances and equity repurchases pursuant to the NCIB. Net debt may not be comparable with the calculation of similar measures for other companies.

Table 17

Capital Structure and Liquidity ($ thousands)	**Mar 31, 2020**	Dec 31, 2019
Debt	**66,625**	64,254
Convertible Debentures (at face value) (1)	**13,204**	13,204
Working capital deficit (surplus) (2)	**432**	(7,706)
Net debt	**80,261**	69,752

(1) Excludes unamortized portion of issuance costs.
(2) Excludes Convertible Debentures, certain risk management contracts and decommissioning liabilities.

At March 31, 2020, Gear had a working capital deficit. 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; however, there is no certainty that future cash flows will be sufficient to settle Gear's financial liabilities especially to the extent that Gear's lenders take any actions to reduce the available credit under the Credit Facilities.

Net Debt to Quarterly Annualized Funds from Operations
Net debt to quarterly annualized funds from operations is a non-GAAP measure and is defined as net debt divided by the annualized funds from operations for the most recently completed quarter. Gear uses net debt to quarterly annualized funds from operations to analyze financial and operating performance. Management considers this a key measure as it demonstrates the Company's ability to pay off its debt and take on new debt, if necessary, using the most recent quarter's results. This measure may not be comparable with the calculation of similar measures for other companies.

Debt Adjusted Shares
Debt adjusted shares are calculated as the weighted average shares plus the share equivalent on Gear's average net debt over the period, assuming that net debt were to be extinguished with a share issuance based on a certain share price; however, it should be noted that Gear's bank debt is not convertible into shares and, although Gear's Convertible Debentures are convertible into shares, the calculation of debt adjusted shares is not based on the conversion of the Convertible Debentures in accordance with the terms of such Convertible Debentures. The calculation of debt adjusted shares assumes that Gear issues shares for cash proceeds and such proceeds are used to repay the amounts outstanding under both the Company's bank debt and the Convertible Debentures. The Convertible Debentures are assumed to be extinguished in the per debt adjusted share calculations. In previous periods, Gear has used the weighted average share price during the period. Gear has now changed the price calculation to a ten-day volume weighted average price ending at the end of the period as this share price better captures the actual price that could be theoretically used in the event that shares are hypothetically issued to extinguish outstanding debt. Management considers debt adjusted shares a useful measure as it enables oil and gas companies to be put on an equal, enterprise value-based footing when calculating per share numbers. Debt adjusted shares may not be comparable with the calculation of similar measures for other companies.

Table 18 below reconciles the debt adjusted shares:

Table 18

		Three months ended	
(thousands, except per share amounts)	**Mar 31, 2020**	Mar 31, 2019	Dec 31, 2019
Weighted average basic shares	**216,715**	219,016	218,365
Average share price (1)	**0.10**	0.60	0.45
Average net debt (2)	**75,007**	88,824	69,795
Share equivalent on average net debt (3)	**750,070**	148,040	155,100
Debt adjusted shares	**966,785**	367,056	373,465

(1) Average share price obtained by a ten-day volume weighted average price ending at the end of the period.
(2) Average net debt obtained by a simple average between opening and ending net debt for the three months ended.
(3) Share equivalent on average net debt obtained by average net debt divided by average share price.

Funds from operations per debt adjusted share
Management considers funds from operations per debt adjusted share a useful measure as it enables oil and gas companies to be put on an equal, enterprise value-based footing when calculating per share numbers to demonstrate its ability to generate the funds from operations necessary to fund its capital program and settle decommissioning liabilities, repay debt

and/or repurchase common shares under the Company's NCIB. Funds from operations per debt adjusted share may not be comparable with the calculation of similar measures for other companies.

Cash flows from operating activities per debt adjusted share
Management considers cash flows from operating activities per debt adjusted share a useful measure as it enables oil and gas companies to be put on an equal, enterprise value-based footing when calculating per share numbers to demonstrate its ability to generate the cash flows from operating activities necessary to fund its capital program and repay debt. Cash flows from operating activities per debt adjusted share may not be comparable with the calculation of similar measures for other companies.

Production, boepd per debt adjusted thousand shares
Management considers production, boepd per debt adjusted thousand shares a useful measure as it enables oil and gas companies to be put on an equal, enterprise value-based footing when calculating per share numbers to demonstrate its ability to produce oil and gas. Production, boepd per debt adjusted thousand shares may not be comparable with the calculation of similar measures for other companies.

Operating Netback
Operating netbacks are calculated based on the amount of revenues received on a per unit of production basis after royalties and operating costs. Management considers operating netback to be a key measure of operating performance and profitability on a per unit basis of production. Operating netback may not be comparable with the calculation of similar measures for other companies.

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 and foreign exchange rates;
- Estimated decommissioning liabilities that are dependent upon estimates of future costs and timing of expenditures;
- 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 5 "Management Judgments and Estimation Uncertainty" in the audited Consolidated Financial Statements for the year ended December 31, 2019.

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 March 31, 2020, 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 March 31, 2020 that materially affected, or are reasonably likely to materially affect, the Company's ICFR.

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: April and May 2020 sales production; the timeframe in which production may be restarted; the expectation that Gear will develop guidance at a later date; the significant reduction in absolute operating costs for the second quarter; the reduction in G&A on an absolute basis for the second quarter; Gear's expected abandonment and reclamation liabilities; Gear's access to the federal government's COVID-19 Economic Response Plan to clean up orphan and inactive wells; expected changes to Gear's Credit Facilities during the next semi-annual borrowing base review; Gear's access to sufficient capital to meet current liquidity requirements; Gear's expectations with respect to the effect that various environmental regulations may have on its 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: the continued impact of the COVID-19 pandemic; 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 or demand repayment 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

	2020	2019				2018		
(Cdn$ thousands, except per share, share, and per boe amounts)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
FINANCIAL								
Sales of crude oil, natural gas and NGLs	19,171	30,396	32,459	37,297	31,837	17,408	33,334	33,674
Funds from operations (1)	6,258	13,738	15,968	17,104	15,032	2,089	11,578	13,674
Per weighted average basic share	0.03	0.06	0.07	0.08	0.07	0.01	0.06	0.07
Per weighted average diluted share	0.03	0.06	0.07	0.07	0.07	0.01	0.05	0.07
Cash flows from operating activities	9,788	11,401	13,613	18,881	5,981	1,538	16,831	8,596
Per weighted average basic share	0.05	0.05	0.06	0.09	0.03	0.01	0.08	0.04
Per weighted average diluted share	0.05	0.05	0.06	0.08	0.03	0.01	0.08	0.04
Net (loss) income	(110,215)	(8,045)	3,493	5,684	(6,812)	10,553	706	(1,869)
Per weighted average basic share	(0.51)	(0.04)	0.02	0.03	(0.03)	0.05	-	(0.01)
Per weighted average diluted share	(0.51)	(0.04)	0.02	0.02	(0.03)	0.05	-	(0.01)
Capital expenditures	11,099	12,603	11,800	3,334	9,252	9,482	18,749	6,385
Decommissioning liabilities settled	671	889	1,170	474	399	1,401	318	373
Net acquisitions (dispositions) (2)	3	109	115	(162)	(1,038)	302	65,470	10
Net debt (1) (3)	80,261	69,752	69,837	72,127	85,740	91,908	83,733	38,960
Weighted average shares outstanding, basic (thousands)	216,715	218,365	219,084	219,093	219,016	219,013	198,826	195,045
Weighted average shares outstanding, diluted (thousands)	216,715	218,365	234,646	234,780	219,016	234,794	217,426	195,045
Shares outstanding, end of period (thousands)	216,468	217,610	218,873	219,093	219,044	219,015	218,776	195,213
OPERATING								
Production								
Heavy oil (bbl/d)	3,989	4,034	3,929	4,104	4,148	4,064	4,484	4,774
Light and medium oil (bbl/d)	1,775	1,763	2,059	2,166	1,863	1,834	1,228	1,232
Natural gas liquids (bbl/d)	217	269	218	228	235	267	268	219
Natural gas (mcf/d)	4,582	4,935	4,295	3,977	3,787	4,091	4,609	4,806
Total (boe/d)	6,744	6,888	6,922	7,161	6,877	6,847	6,748	7,025
Average prices								
Heavy oil ($/bbl)	27.58	49.17	52.93	60.45	52.89	22.45	56.79	55.04
Light and medium oil ($/bbl)	50.44	64.82	65.88	71.60	63.64	46.68	76.57	75.67
Natural gas liquids ($/bbl)	10.54	22.79	26.70	13.11	26.40	23.95	35.02	40.51
Natural gas ($/mcf)	1.93	2.36	0.79	0.92	2.40	1.45	0.93	1.08
Selected financial results ($/boe)								
Commodity and other sales	31.24	47.97	50.97	57.23	51.44	27.64	53.70	52.67
Royalties	(3.66)	(5.52)	(6.06)	(6.87)	(4.33)	(3.44)	(7.33)	(5.06)
Operating costs	(18.01)	(17.93)	(17.20)	(18.08)	(18.73)	(17.13)	(17.69)	(17.16)
Operating netback (1)	9.57	24.52	27.71	32.28	28.38	7.07	28.68	30.45
Realized risk management gain (loss)	4.57	0.58	0.80	(1.65)	(0.16)	(0.90)	(6.55)	(5.55)
General and administrative	(2.77)	(2.13)	(2.03)	(2.47)	(2.04)	(1.18)	(1.81)	(2.55)
Interest	(1.33)	(1.30)	(1.52)	(1.90)	(1.88)	(1.50)	(1.05)	(0.93)
Transaction costs	-	-	-	-	(0.01)	(0.19)	(0.64)	-
Realized gain (loss) on foreign exchange	0.16	0.01	0.11	(0.01)	-	0.02	0.02	(0.02)

(1) Funds from operations, net debt and operating 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 (dispositions) 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 are 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, Canadian Light Sweet 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.

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