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

(Cdn$ thousands)		**June 30, 2020**		December 31, 2019
ASSETS				
Current assets				
Accounts receivable	**$**	**6,582**	$	11,343
Prepaid expenses		**3,005**		3,196
Inventory (Note 3)		**5,290**		6,515
Risk management contracts (Note 8)		**4,696**		-
		19,573		21,054
Deferred income tax asset		**-**		23,281
Property, plant and equipment (Note 4)		**216,944**		317,035
Total assets	**$**	**236,517**	$	361,370
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**5,548**	$	13,348
Debt (Note 5)		**66,321**		-
Convertible debentures (Note 6)		**12,954**		12,705
Decommissioning liability (Note 7)		**952**		2,840
Risk management contracts (Note 8)		**-**		3,094
		85,775		31,987
Debt (Note 5)		**-**		64,254
Decommissioning liability (Note 7)		**84,207**		82,874
Total liabilities		**169,982**		179,115
SHAREHOLDERS' EQUITY				
Share capital (Note 9)		**333,711**		335,455
Equity component of convertible debentures (Note 6)		**2,494**		2,498
Contributed surplus		**19,641**		18,097
Deficit		**(289,311)**		(173,795)
Total shareholders' equity		**66,535**		182,255
Total liabilities and shareholders' equity	**$**	**236,517**	$	361,370

See accompanying notes to the unaudited Interim Condensed Consolidated Financial Statements

GEAR ENERGY LTD.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)
For the six months ended June 30
(Cdn$ thousands)

		Share Capital		Warrants		Equity Component of Convertible Debentures		Contributed Surplus		Deficit		Total Equity
Balance, beginning of period	$	337,740	$	129	$	2,519	$	15,654	$	(168,115)	$	187,927
Issued on conversion of convertible debentures		27		-		(5)		-		-		22
Exercise of stock options		51		-		-		(51)		-		-
Share-based compensation (Note 9)		-		-		-		430		-		430
Net loss for the period		-		-		-		-		(1,128)		(1,128)
Balance at June 30, 2019	**$**	**337,818**	**$**	**129**	**$**	**2,514**	**$**	**16,033**	**$**	**(169,243)**	**$**	**187,251**
Balance, beginning of period	$	335,455	$	-	$	2,498	$	18,097	$	(173,795)	$	182,255
Common shares repurchased (Note 9)		(1,764)		-		-		1,274		-		(490)
Issued on conversion of convertible debentures		20		-		(4)		-		-		16
Share-based compensation (Note 9)		-		-		-		270		-		270
Net loss for the period		-		-		-		-		(115,516)		(115,516)
Balance at June 30, 2020	**$**	**333,711**	**$**	**-**	**$**	**2,494**	**$**	**19,641**	**$**	**(289,311)**	**$**	**66,535**

See accompanying notes to the unaudited Interim Condensed Consolidated Financial Statements

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

(Cdn$ thousands, except per share amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	**2020**	2019
REVENUE				
Sales of crude oil, natural gas and natural gas liquids (Note 12)	**$ 5,188**	$ 37,297	**$ 24,359**	$ 69,134
Royalties	**(345)**	(4,475)	**(2,591)**	(7,155)
	4,843	32,822	**21,768**	61,979
Realized gain (loss) on risk management contracts	**8,967**	(1,075)	**11,774**	(1,176)
Unrealized (loss) gain on risk management contracts	**(10,256)**	1,927	**7,790**	(7,892)
	3,554	33,674	**41,332**	52,911
EXPENSES				
Operating	**4,109**	11,781	**15,160**	23,372
General and administrative	**962**	1,611	**2,698**	2,876
Interest and financing charges	**679**	1,238	**1,497**	2,399
Depletion, depreciation and amortization (Notes 3 and 4)	**1,843**	12,999	**14,190**	24,977
Impairment (Note 3 and 4)	**-**	-	**98,206**	-
Accretion (Notes 6 and 7)	**414**	562	**923**	1,167
Share-based compensation (Note 9)	**135**	212	**270**	430
Loss (gain) on foreign exchange	**712**	(413)	**623**	(413)
Gain on asset disposition	**-**	-	**-**	(776)
Transaction costs	**-**	-	**-**	7
	8,854	27,990	**133,567**	54,039
Deferred income tax expense	**-**	-	**23,281**	-
Net (loss) income and comprehensive (loss) income	**$ (5,300)**	$ 5,684	**$ (115,516)**	$ (1,128)
Net (loss) income per share, basic (Note 9)	**$ (0.02)**	$ 0.03	**$ (0.53)**	$ (0.01)
Net (loss) income per share, diluted (Note 9)	**S (0.02)**	0.02	**S (0.53)**	(0.01)

See accompanying notes to the unaudited Interim Condensed Consolidated Financial Statements

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

(Cdn$ thousands)	Three Months Ended June 30 **2020**	Three Months Ended June 30 2019	Six Months Ended June 30 **2020**	Six Months Ended June 30 2019
CASH FLOWS FROM OPERATING ACTIVITIES				
Net (loss) income	**$ (5,300)**	$ 5,684	$ **(115,516)**	(1,128)
Add items not involving cash:				
Unrealized loss (gain) on risk management contracts	**10,256**	(1,927)	**(7,790)**	7,892
Depletion, depreciation and amortization	**1,843**	12,999	**14,190**	24,977
Impairment	**-**	-	**98,206**	-
Accretion	**414**	562	**923**	1,167
Share-based compensation	**135**	212	**270**	430
Gain on asset disposition	**-**	-	**-**	(776)
Unrealized loss (gain) on foreign exchange	**720**	(426)	**725**	(426)
Bad debt expense	**-**	-	**39**	-
Deferred tax expense	**-**	-	**23,281**	-
Decommissioning liabilities settled	**(22)**	(474)	**(692)**	(873)
Change in non-cash working capital (Note 13)	**(4,499)**	2,251	**(299)**	(6,401)
	3,547	18,881	**13,337**	24,862
CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES				
(Repayments) borrowings of debt under credit facilities	**(1,024)**	(13,160)	**1,342**	(11,770)
Common shares repurchased	**-**	-	**(490)**	-
	(1,024)	(13,160)	**852**	(11,770)
CASH FLOWS (USED IN) FROM INVESTING ACTIVITIES				
Property, plant and equipment expenditures	**(239)**	(3,334)	**(11,340)**	(12,586)
Acquisition of petroleum and natural gas properties	**-**	137	**(3)**	109
Disposition of petroleum and natural gas properties	**-**	25	**-**	1,091
Change in non-cash working capital (Note 13)	**(2,284)**	(2,549)	**(2,846)**	(1,706)
	(2,523)	(5,721)	**(14,189)**	(13,092)
INCREASE IN CASH AND CASH EQUIVALENTS	**-**	-	**-**	-
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**-**	-	**-**	-
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$ -**	$ -	**$ -**	$ -
The following are included in cash flow from operating activities:				
Interest paid in cash	**$ 777**	$ 1,467	**$ 1,428**	$ 2,451

See accompanying notes to the unaudited Interim Condensed Consolidated Financial Statements

1. BASIS OF PRESENTATION

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

Gear's principal place of business is located at 800, 205 – 5th Avenue SW, Calgary, Alberta T2P 2V7.

These unaudited interim condensed consolidated financial statements (the "financial statements") have been prepared in accordance with International Accounting Standards ("IAS") 34 *Interim Financial Reporting* using accounting policies aligned with International Financial Reporting Standards ("IFRS"). The financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the Audited Consolidated Financial Statements for the year ended December 31, 2019, which have been prepared in accordance with IFRS.

The financial statements were authorized for issue by the Board of Directors on August 5, 2020.

2. RECENT DEVELOPMENTS

In March 2020, the World Health Organization declared a global pandemic following the emergence and rapid spread of a novel strain of the coronavirus ("COVID-19"). The outbreak and subsequent measures intended to limit the pandemic contributed to significant declines and volatility in financial markets. The pandemic adversely impacted global commercial activity, including significantly reducing worldwide demand for crude oil. Crude oil prices have also been severely impacted by increased global supply due to disagreements over production restrictions between the Organization of Petroleum Exporting Countries ("OPEC") and non-OPEC members, primarily Saudi Arabia and Russia. As a result of declining commodity prices and financial markets, the Company's share price and market capitalization significantly declined from December 31, 2019.

The full extent of the impact of COVID-19 on the Company's operations and future financial performance is currently unknown. It will depend on future developments that are uncertain and unpredictable, including the duration and spread of COVID-19, its continued impact on capital and financial markets on a macro-scale and any new information that may emerge concerning the severity of the virus. These uncertainties may persist beyond when it is determined how to contain the virus or treat its impact. The outbreak presents uncertainty and risk with respect to the Company, its performance, and estimates and assumptions used by management in the preparation of its financial results.

A full list of the key sources of management judgements and estimation uncertainty can be found in the Company's Annual Consolidated Financial Statements for the year ended December 31, 2019. The outbreak and current market conditions have increased the complexity of estimates and assumptions used to prepare the Interim Condensed Consolidated Financial Statements, particularly related to recoverable amounts and liquidity risk. Determining the recoverable amount of a cash-generating unit ("CGU") and a deferred tax asset requires the use of estimates and assumptions, which are subject to change as new information becomes available. The severe drop in commodity prices, due to reasons noted above, have increased the risk of measurement uncertainty in determining the recoverable amounts, especially estimating economic crude oil and natural gas reserves and estimating forward commodity prices. In addition, the risk that the Company could encounter difficulty in meeting obligations associated with its financial liabilities has increased. Financial liabilities consist of accounts payable and accrued liabilities and amounts owing under the Credit Facilities, see Note 5 and Note 11 for further information.

3. INVENTORY

At June 30, 2020 and December 31, 2019 Gear recorded oil inventory valued at its production cost of $5.3 million and $6.5 million, respectively. Gear records changes in both the capital and operating components of inventory to the Consolidated Statements of (Loss) Income and Comprehensive (Loss) Income.

During the three and six months ended June 30, 2020, Gear recorded impairments on its inventory in the amount of $nil and $4.3 million (2019 - $nil and $nil) to reduce the carrying amount to the lower of cost and net realizable value.

4. PROPERTY, PLANT AND EQUIPMENT

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

Cost ($ thousands)	**Development and Production Assets**	**Administrative Assets**	**Total**
Balance, December 31, 2018	812,801	1,362	814,163
Additions	36,915	74	36,989
Acquisitions	133	-	133
Disposals	(333)	-	(333)
Change in decommissioning costs	(1,720)	-	(1,720)
Balance, December 31, 2019	847,796	1,436	849,232
Additions	11,353	(13)	11,340
Acquisitions	203	-	203
Disposals	(200)	-	(200)
Change in decommissioning costs	(520)	-	(520)
Balance, June 30, 2020	858,632	1,423	860,055
Depletion, depreciation and amortization			
Balance, December 31, 2018	481,470	1,071	482,541
Depletion, depreciation and amortization	49,536	120	49,656
Balance, December 31, 2019	531,006	1,191	532,197
Depletion, depreciation and amortization	17,010	46	17,056
Impairment	93,858	-	93,858
Balance, June 30, 2020	641,874	1,237	643,111

Carrying amounts ($ thousands)	**Development and Production Assets**	**Administrative Assets**	**Total**
As at December 31, 2019	316,790	245	317,035
As at June 30, 2020	216,758	186	216,944

As at June 30, 2020 no indicators of additional impairment or impairment reversal from March 31, 2020 were identified on the property, plant and equipment.

As a result of a severe decline in worldwide oil prices, an impairment test was carried out at March 31, 2020 on each of Gear's CGUs. The estimated recoverable amounts incorporated the net present value of the after-tax cash flows from proved plus probable oil and gas reserves of each CGU based on reserves estimated by Gear's independent reserves evaluator at December 31, 2019, updated using forward commodity price estimates at April 1, 2020 and revised timing of future development capital and adjusted for the net present value of the after-tax decommissioning costs on properties without proved plus probable oil and gas reserves, as well as the fair value of undeveloped land based on management's estimates at March 31, 2020. The estimated recoverable amounts were based on fair value less cost to sell calculations using after-tax discount rates based on an estimated industry weighted average cost of capital ranging from 11 to 13 per cent, depending on the resource composition of the assets in the CGU and an inflation of two per cent.

The following table details the forward commodity pricing used to estimate the recoverable amount of Gear's CGU's at March 31, 2020:

Year	Western Canadian Select Crude Oil (Cdn $/bbl)	Canadian Light Sweet Crude Oil (Cdn $/bbl)	Light Sour Blend Crude Oil (Cdn $/bbl)	AECO Gas (Cdn $/MMBtu)	CAD$/US$ Exchange Rates
2020	19.21	29.22	27.59	1.74	0.71
2021	34.65	46.85	44.81	2.20	0.73
2022	46.34	59.27	56.78	2.38	0.75
2023	51.25	65.02	61.20	2.45	0.75
2024	54.28	68.43	65.56	2.53	0.75
2025	55.72	69.81	66.89	2.60	0.75
2026	56.96	71.24	68.30	2.66	0.75
2027	58.22	72.70	69.73	2.72	0.75
2028	59.51	74.19	71.18	2.79	0.75
2029	60.82	75.71	72.67	2.85	0.75
2030	62.04	77.22	74.13	2.92	0.75
Remainder	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	0.75

At March 31, 2020, Gear recorded an impairment of $93.9 million on its three CGUs, which was recognized in impairment in the Interim Condensed Consolidated Statements of (Loss) Income and Comprehensive (Loss) Income. 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.

The following table demonstrates the sensitivity of the impairment amount from reasonably possible changes in key assumptions inherent in the estimate:

($ thousands)	Increase in Discount Rate of 1 per cent	Decrease in Discount Rate of 1 per cent	Decrease in Cash Flow Estimates of 10 per cent	Increase in Cash Flow Estimates of 10 per cent
Impairment increase (decrease)	4,875	(5,322)	12,570	(12,570)

The fair value less cost to sell values used to determine the recoverable amounts of Gear's CGUs at March 31, 2020 were classified as Level 3 fair value measurements as certain key assumptions are based on Management's best estimates.

5. DEBT

At June 30, 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. Borrowings under the Credit Facilities cannot exceed $75.0 million until the completion of the next borrowing base review on July 10, 2020. The total stamping fees on the Credit Facilities 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 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. At June 30, 2020 Gear had $66.3 million drawn on the Credit Facilities (December 31, 2019 – $64.3 million) and outstanding letters of credit of $1.5 million (December 31, 2019 – $0.8 million).

At June 30, 2020, the Credit Facilities carried a single financial covenant to maintain an adjusted working capital ratio of not less than 1.0:1. At June 30, 2020 Gear was in compliance with this covenant.

On July 10, 2020 the borrowing base review was completed and as a result the Credit Facilities were amended to consist of a $42.5 million revolving term credit facility, a $25 million non-revolving term credit facility and a $7.5 million operating facility, (collectively, the "Amended Credit Facilities"), totaling $75 million. The terms of the Amended Credit Facilities require repayments of $5.0 million on each of September 30, 2020, December 31, 2020 and March 31, 2021. The total stamping fees on the operating facility and revolving facility range, depending on Gear's Debt to EBITDA ratio, between

200 bps to 400 bps on Canadian bank prime borrowings and between 300 bps and 500 bps on US dollar denominated LIBOR loans and Canadian dollar bankers' acceptances. The undrawn portion of the operating facility and revolving facility is subject to a standby fee in the range of 75 bps to 125 bps. The total stamping fees on the non-revolving facility range, depending on Gear's Debt to EBITDA ratio, between 500 bps to 700 bps on Canadian bank prime borrowings and between 600 bps and 800 bps on US dollar denominated LIBOR loans and Canadian dollar bankers' acceptances. In addition, the adjusted working capital covenant was removed, and there are no new financial covenants. The maturity date on the Amended Credit Facilities is May 28, 2021. The next borrowing base review is expected to be complete on or about August 31, 2020.

6. CONVERTIBLE DEBENTURES

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

Gear has the option to satisfy its obligation to repay the principal amount of the Convertible Debentures due at maturity or redeem the Convertible Debentures by the issuance of common shares with the number of such common shares based on 95 per cent of the weighted average trading price of the common shares prior to the date of maturity or redemption. Any cash repayment of the principal amount of the Convertible Debentures will require consent of the lenders under the terms of the Amended Credit Facilities.

The following table provides a continuity of balances of the Convertible Debentures and the equity component from December 31, 2018 to June 30, 2020:

($ thousands)	**Convertible Debentures**	**Equity component**
Balance, December 31, 2018	12,297	2,519
Accretion using effective interest rate at 8%	506	-
Conversions	(98)	(21)
Balance, December 31, 2019	12,705	2,498
Accretion using effective interest rate at 8%	266	-
Conversions	(17)	(4)
Balance, June 30, 2020	**12,954**	**2,494**

7. DECOMMISSIONING LIABILITY

($ thousands)	**Six months ended June 30, 2020**	Year ended December 31, 2019
Balance, beginning of period	**85,714**	88,682
Changes in estimates	**(789)**	(2,274)
Additions	**393**	851
Dispositions	**(124)**	(297)
Decommissioning liabilities settled	**(692)**	(2,932)
Accretion	**657**	1,684
Balance, end of period	**85,159**	85,714
Expected to be incurred within one year	**952**	2,840
Expected to be incurred beyond one year	**84,207**	82,874

The undiscounted and unescalated amount of the expected cash flows required to settle the decommissioning liability is estimated to be $85.2 million as at June 30, 2020 (December 31, 2019 – $85.7 million). The liability for the expected cash flows, as reflected in the financial statements, has been inflated at 0.99 per cent (December 31, 2019 – 1.76 per cent) and discounted using a risk free rate of 0.99 per cent (December 31, 2019 – 1.76 per cent). Abandonments are expected to occur between 2021 and 2046 and related costs will be funded mainly from cash provided by Gear's operating activities.

8. RISK MANAGEMENT CONTRACTS

The following is a summary of all risk management contracts in place as at June 30, 2020:

Financial WTI Crude Oil Contracts								
Term		Contract	Currency	Volume	Sold Swap	Sold Call	Bought Put	Sold Put
				bbl/d	$/bbl	$/bbl	$/bbl	$/bbl
Jul 1, 2020	Dec 31, 2020	Collar	CAD	700	-	94.00	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

As at June 30, 2020, the fair value associated with Gear's risk management contracts was a combined net asset of $4.7 million ($3.1 million liability at December 31, 2019).

The following table summarizes the change in the net risk management contracts asset (liability) during the periods ended June 30, 2020 and December 31, 2019:

($ thousands)	**Six months ended June 30, 2020**	Year ended December 31, 2019
Balance, beginning of period	**(3,094)**	4,874
Unrealized gain (loss) on risk management contracts	**7,790**	(12,440)
Unrealized risk management liability assumed on corporate acquisition	**-**	4,472
Balance, end of period	**4,696**	(3,094)

9. SHAREHOLDERS' EQUITY

a) Share capital

	Six months ended June 30, 2020			Year ended December 31, 2019		
(thousands of shares and $ thousands)	**Shares**		**Amount**	Shares		Amount
Balance, beginning of period	**217,610**	**$**	**335,455**	219,015	$	337,740
Common shares repurchased	**(1,142)**		**(1,764)**	(1,582)		(2,455)
Exercise of stock options	**-**		**-**	49		51
Issued on conversion of debentures	**22**		**20**	128		119
Balance, end of period	**216,490**	**$**	**333,711**	217,610	$	335,455

b) Normal Course Issuer Bid

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 Gear's Amended Credit Facilities, no further shares can be purchased 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 June 30, 2020, 1.1 million common shares with an aggregate value of $0.5 million were repurchased.

c) Stock option plan

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

The following table summarizes Gear's stock option plan activity during the periods ended June 30, 2020 and December 31, 2019 for grants made under the plan with a five year expiry.

(thousands)	**Six months ended June 30, 2020** Number of stock options		Weighted average exercise price	Year ended December 31, 2019 Number of stock options		Weighted average exercise price
Outstanding, beginning of period	**2,724**	**$**	**1.27**	4,002	$	2.50
Exercised	**-**		**-**	(18)		0.42
Expired	**(1,382)**		**1.92**	(1,206)		5.36
Forfeited	**-**		**-**	(54)		1.23
Outstanding, end of period	**1,342**		**0.59**	2,724		1.27
Exercisable, end of period	**1,342**	**$**	**0.59**	2,724	$	1.27

The following table summarizes Gear's stock option plan activity during the periods ended June 30, 2020 and December 31, 2019 for grants made under the plan with a 30 day expiry following their vesting date.

(thousands)	**Six months ended June 30, 2020** Number of stock options		Weighted average exercise price	Year ended December 31, 2019 Number of stock options		Weighted average exercise price
Outstanding, beginning of period	**12,536**	**$**	**0.61**	10,086	$	0.87
Granted	**1,740**		**0.29**	7,998		0.44
Exercised	**-**		**-**	(518)		0.73
Expired	**(876)**		**0.70**	(3,852)		0.84
Forfeited	**-**		**-**	(1,178)		0.83
Outstanding, end of period	**13,400**		**0.56**	12,536		0.61
Exercisable, end of period	**403**	**$**	**0.95**	134	$	0.76

In the first half of 2020, Gear has recorded an expense of $0.3 million (2019 – $0.4 million) to share-based compensation expense recognizing the stock option activity for the period based on the fair value of options issued, amortized using a graded vesting calculation.

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

	Period ended June 30, 2020
Risk free interest rate (%)	**0.45**
Average expected life (years)	**2.1**
Average expected volatility (%)	**29.2**
Forfeiture rate (%)	**10.0**

d) Weighted average common shares

(thousands)	Three months ended June 30, **2020**	2019	Six months ended June 30, **2020**	2019
Basic	**216,486**	219,093	**216,600**	219,089
Dilutive impact of Convertible Debentures	**-**	15,276	**-**	-
Dilutive impact of stock options	**-**	411	**-**	-
Diluted	**216,486**	234,780	**216,600**	219,089

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

10. INCOME TAXES

Deferred tax assets on the Interim 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. In 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.

11. FINANCIAL INSTRUMENTS

Classification and Measurement

Gear's financial instruments on the Interim Condensed Consolidated Balance Sheet are carried at amortized cost with the exception of risk management contracts which are carried at fair value through profit and loss. As at June 30, 2020 and December 31, 2019, no significant differences existed between the carrying value of financial instruments and their estimated fair values.

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

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

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

Market Risk Management

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. All the accounts payable and accrued liabilities are due in less than one year. The Convertible Debentures have a scheduled bullet repayment date of November 30, 2020. Gear has the option to repay the principal amount of the Convertible Debentures due at maturity or to redeem the Convertible Debentures by the issuance of common shares.

Gear's Credit Facilities are periodically reviewed by its lenders through scheduled borrowing base reviews at which time the facilities can be adjusted. In the event that the borrowing base is reduced below the amount drawn, Gear would have 30 days to eliminate the borrowing base shortfall by repaying the amount drawn in excess of the adjusted borrowing base. If this occurs, alternative external sources of funding will be necessary. After examining the economic factors that are causing the liquidity risk facing the Company, the judgment applied to these factors, and the various initiatives that the Company has and will undertake to strengthen its financial position, the Company believes it will have sufficient liquidity to support its operations and meet its financial obligations for at least twelve months. The next borrowing base review is scheduled for August 31, 2020. There can be no assurance that future borrowing base reviews will not result in a material reduction in the borrowing base, and that the necessary funds will be available to meet its obligations as they become due. In addition, there can be no assurances that Gear will extend its Amended Credit Facilities beyond the May 28, 2021 maturity date.

Credit risk

The majority of the credit exposure on accounts receivable at June 30, 2020 pertains to accrued revenue for June 2020 production volumes, and realized gains on risk management contracts. Marketing companies and risk management counterparties typically remit amounts to Gear by the 25th day of the month following production. A significant portion of Gear's accounts receivable is carried by one marketing company and one risk management counterparty. At June 30, 2020, 34 per cent and 16 per cent of total outstanding accounts receivable pertains to these accounts, all of which were collected on July 27th. Gear did not have any other customers from which it had outstanding accounts receivable greater than 10 per cent of the total outstanding balance at June 30, 2020.

When determining whether amounts that are past due are collectable, management assesses the credit worthiness and past payment history of the counterparty, as well as the nature of the past due amount. Gear considers all amounts greater than 90 days to be past due. As at June 30, 2020, $0.2 million of accounts receivable are past due with all amounts collectible.

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

Gear sells its production pursuant to variable-price contracts. The transaction price for these contracts is based on commodity prices adjusted for quality and other factors. The contracts to sell the Company's crude oil, natural gas and natural gas liquids have varying terms not longer than one year. The following table provides a summary of Gear's revenue streams for the three and six months ended June 30:

	Three months ended June 30,		Six months ended June 30,	
($ thousands)	**2020**	2019	**2020**	2019
Heavy oil	**2,583**	22,579	**12,593**	42,372
Light and medium oil	**1,916**	14,113	**10,063**	24,782
Natural gas liquids	**242**	273	**450**	831
Natural gas	**447**	332	**1,253**	1,149
Total sales of crude oil, natural gas and natural gas liquids	**5,188**	37,297	**24,359**	69,134

13. SUPPLEMENTAL DISCLOSURES CASH FLOW INFORMATION

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

	Three months ended June 30,		Six months ended June 30,	
($ thousands)	**2020**	2019	**2020**	2019
Accounts receivable	**483**	3,010	**4,722**	(6,065)
Prepaid expenses	**38**	76	**191**	(457)
Inventory	**(848)**	110	**(258)**	(347)
Accounts payable and accrued liabilities	**(6,456)**	(3,494)	**(7,800)**	(1,238)
Total	**(6,783)**	(298)	**(3,145)**	(8,107)
Operating Activities	**(4,499)**	2,251	**(299)**	(6,401)
Investing Activities	**(2,284)**	(2,549)	**(2,846)**	(1,706)
Total	**(6,783)**	(298)	**(3,145)**	(8,107)

14. COMMITMENTS AND CONTINGENCIES

Following is a summary of Gear's contractual obligations and commitments as at June 30, 2020:

	Payments due by period						
($ thousands)	2020	2021	2022	2023	2024	2025	Total
Office leases (1)	71	223	257	415	428	250	1,644
Service Agreement	91	182	182	46	-	-	501
Drilling commitment	197	-	-	-	-	-	197
Total contractual obligations	359	405	439	461	428	250	2,342

(1) Includes base rent and estimated operating costs.

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.