FINANCIAL AND OPERATIONAL HIGHLIGHTS

GEAR ENERGY

(Cdn$ thousands, except per share, share and per boe amounts)	Three months ended **Jun 30, 2020**	Jun 30, 2019	Mar 31, 2020	Six months ended **Jun 30, 2020**	Jun 30, 2019
FINANCIAL					
Funds from operations [1]	**8,068**	17,104	6,258	**14,328**	32,136
Per boe	**32.26**	26.25	10.20	**16.59**	25.29
Per weighted average basic share	**0.04**	0.08	0.03	**0.07**	0.15
Cash flows from operating activities	**3,547**	18,881	9,788	**13,337**	24,862
Net (loss) income	**(5,300)**	5,684	(110,215)	**(115,516)**	(1,128)
Per weighted average basic share	**(0.02)**	0.03	(0.51)	**(0.53)**	(0.01)
Capital expenditures	**239**	3,334	11,099	**11,340**	12,586
Decommissioning liabilities settled	**22**	474	671	**692**	873
Net (dispositions) acquisitions [2]	**-**	(162)	3	**3**	(1,200)
Net debt [1][3]	**70,177**	72,127	80,261	**70,177**	72,127
Weighted average shares, basic (thousands)	**216,486**	219,093	216,715	**216,600**	219,089
Shares outstanding, end of period (thousands)	**216,490**	219,093	216,468	**216,490**	219,093
OPERATING					
Production					
Heavy oil (bbl/d)	**1,388**	4,104	3,989	**2,688**	4,126
Light and medium oil (bbl/d)	**845**	2,166	1,775	**1,310**	2,015
Natural gas liquids (bbl/d)	**103**	228	217	**160**	232
Natural gas (mcf/d)	**2,474**	3,977	4,582	**3,528**	3,882
Total (boe/d)	**2,749**	7,161	6,744	**4,746**	7,020
Average prices					
Heavy oil ($/bbl)	**20.46**	60.45	27.58	**25.74**	56.67
Light and medium oil ($/bbl)	**24.91**	71.60	50.44	**42.20**	67.94
Natural gas liquids ($/bbl)	**25.73**	13.11	10.54	**15.45**	19.82
Natural gas ($/mcf)	**1.98**	0.92	1.93	**1.95**	1.64
Netback ($/boe)					
Commodity and other sales	**20.74**	57.23	31.24	**28.20**	54.41
Royalties	**(1.38)**	(6.87)	(3.66)	**(3.00)**	(5.63)
Operating costs	**(16.43)**	(18.08)	(18.01)	**(17.55)**	(18.39)
Operating netback [1]	**2.93**	32.28	9.57	**7.65**	30.39
Realized risk management gain (loss)	**35.85**	(1.65)	4.57	**13.63**	(0.93)
General and administrative	**(3.84)**	(2.47)	(2.77)	**(3.08)**	(2.26)
Interest	**(2.71)**	(1.90)	(1.33)	**(1.73)**	(1.89)
Transaction costs	**-**	(0.01)	-	**-**	(0.02)
Realized gain (loss) on foreign exchange	**0.03**	-	0.16	**0.12**	-
TRADING STATISTICS					
($ based on intra-day trading)					
High	**0.28**	0.88	0.50	**0.50**	0.88
Low	**0.09**	0.53	0.08	**0.08**	0.53
Close	**0.21**	0.57	0.10	**0.21**	0.57
Average daily volume (thousands)	**571**	412	874	**723**	348

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

(3) Net debt includes the risk management liability acquired through the Steppe Resources Inc. corporate acquisition. June 30, 2020 – nil, June 30, 2019 – $1.6 million, March 31, 2020 – 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 August 5, 2020 and should be read in conjunction with the unaudited Interim Condensed Consolidated Financial Statements as at and for the three and six months ended June 30, 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 34 employees with 23 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

The dominant headline for 2020 to date has been the COVID-19 pandemic which has 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. As a result, oil prices initially plummeted with WTI hitting a historical low of *negative* US$37 per barrel in April 2020. Since then, WTI has recovered and currently sits at US$42 per barrel. During the second quarter, 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. In June, Gear initiated a gradual production re-start across the majority of its asset base as minimum economic pricing thresholds started to be met. The Company expects the majority of its wells to be producing by the third quarter. To date, no issues have been encountered with the start-up of production. In addition, capital expenditures are expected to be minimal for the remainder of 2020. Protection and continued improvement of the corporate balance sheet remains the top priority.

In conjunction with all of the volatility in commodity prices and the corresponding operational impacts, Gear has been working very closely with its lenders on its syndicated credit facilities. In July, Gear completed its annual borrowing base redetermination with amended terms that provides Gear with ample liquidity under the new credit structure for the remainder of 2020. Lenders continue to be constructive with Gear and acknowledge that persistent uncertainty around commodity prices have warranted a more frequent examination of the borrowing base. As such, the next borrowing base redetermination has been scheduled for August 31, 2020. In addition to continuing constructive discussions with Gear's lenders, Gear has engaged a financial advisor to consider a number of possible strategic alternative transactions to improve liquidity, provide additional flexibility and enhance shareholder value.

2020 GUIDANCE

	Revised 2020 Full Year Guidance	H1 2020 YTD Actuals
Annual Production (boe/d)	**5,200 – 5,300**	4,746
Heavy oil weighting (%)	**57**	57
Light/Medium Oil and NGLs weighting (%)	**31**	31
Royalty rate (%)	**11**	11
Operating and transportation costs ($/boe)	**17.00 - 18.00**	17.55
General and administrative expense ($/boe)	**2.40 (1)**	3.08
Interest expense ($/boe)	**2.05**	1.73
Capital and abandonment expenditures ($ millions)	**14 (2)**	12

(1) General and administrative expenses have been revised from $2.65 per boe to $2.40 per boe as a result of Canadian Emergency Wage Subsidy.
(2) Capital and abandonment expenditures were initially $13 million and have now been revised to $14 million as a result of additional planned decommissioning activities.

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				Six months ended		
	Jun 30, 2020	Jun 30, 2019	% Change	Mar 31, 2020	**Jun 30, 2020**	Jun 30, 2019	% Change
Funds from operations per debt adjusted share (1)	**0.014**	0.048	(71)	0.006	**0.027**	0.089	(70)
Cash flows from operating activities per debt adjusted share (1)	**0.006**	0.053	(89)	0.010	**0.025**	0.069	(64)
Production, boepd per debt adjusted thousand shares (1)	**0.005**	0.020	(75)	0.007	**0.009**	0.019	(53)

(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 measure below under the heading "*Non-GAAP Measures*".

2020 SECOND QUARTER FINANCIAL AND OPERATIONAL RESULTS

Funds from Operations and Cash Flows from Operating Activities

Funds from operations decreased from $17.1 million or $26.25 per boe in the second quarter of 2019 to $8.1 million or $32.26 per boe in the second quarter of 2020. On a year to date basis funds from operations decreased from $32.1 million and $25.29 per boe in 2019 to $14.3 million and $16.59 per boe in 2020. The decreases in funds from operations are the result of decreased revenues due to lower production volumes and lower realized commodity prices, offset by increased gains on risk management contracts and decreased royalty, operating, general and administrative, interest and realized foreign exchange costs.

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

Table 3

	Three months ended Jun 30		Six months ended Jun 30	
	$ thousands	$/boe	$ thousands	$/boe
Q2 2019 Funds from operations (1)	17,104	26.25	32,136	25.29
Volume variance	(22,981)	-	(22,132)	-
Price variance	(9,128)	(36.49)	(22,643)	(26.21)
Cash gain on risk management contracts	10,041	37.50	12,950	14.56
Royalties	4,130	5.49	4,564	2.63
Expenses:				
Operating	7,671	1.65	8,212	0.84
General and administrative	652	(1.37)	218	(0.81)
Interest	558	(0.82)	901	0.15
Transaction costs	-	-	7	0.01
Realized foreign exchange	21	0.05	115	0.13
Q2 2020 Funds from operations (1)	8,068	32.26	14,328	16.59

(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 decreased from $18.9 million or $28.97 per boe in the second quarter of 2019 to $3.5 million or $14.18 per boe in the second quarter of 2020. The decrease in cash flows from operating activities is the result of decreased revenues due to lower production volumes and lower realized commodity prices, offset by increased gains on risk management contracts and decreased royalty, operating, general and administrative, interest, realized foreign exchange costs as well as decreased decommissioning liabilities settled and decreased non-cash working capital.

For the six months ended June 30, 2020 cash flows from operating activities decreased from $24.9 million and $19.57 per boe in the second quarter of 2019 to $13.3 million and $15.44 per boe for the second quarter of 2020. The decrease in cash flows from operating activities is the result of decreased revenues due to lower production volumes and lower realized commodity prices, offset by increased gains on risk management contracts and decreased royalty, operating, general and administrative, interest, realized foreign exchange costs and decreased decommissioning liabilities settled as well as increased non-cash working capital.

Net loss
For the three and six months ended June 30, 2020, Gear generated net losses of $5.3 million and $115.5 million, respectively, compared to a net income of $5.7 million in the second quarter of 2019 and a net loss of $1.1 million for the six months ended June 30, 2019. The changes in net income are due to several factors discussed below.

Production
In response to the low commodity price environment forecasted for the second quarter Gear began shutting in and storing production in early April. As a result, production or the three months ended June 30, 2020 averaged 2,749 boe/d, a planned decrease from second quarter 2019 production of 7,161 boe/d. For the six months ended June 30, 2020, production volumes averaged 4,746 boe/d compared to 7,020 boe/d in the same period in 2019.

Pricing strengthened towards the end of the second quarter and, as such, Gear initiated a gradual increase in production in the month of June with the majority of volumes expected to be online starting in August. The Gear team intends to remain flexible and opportunistic, keeping a close eye on the commodity market and being prepared to manage production to maximize the value on each barrel sold.

Table 4

	Three months ended				Six months ended		
Production	**Jun 30, 2020**	Jun 30, 2019	% Change	Mar 31, 2020	**Jun 30, 2020**	Jun 30, 2019	% Change
Liquids (bbl/d)							
Heavy oil (bbl/d)	**1,388**	4,104	(66)	3,989	**2,688**	4,126	(35)
Light and Medium oil (bbl/d)	**845**	2,166	(61)	1,775	**1,310**	2,015	(35)
Natural gas liquids (mcf/d)	**103**	228	(55)	217	**160**	232	(31)
Total liquids (bbl/d)	**2,336**	6,498	(64)	5,981	**4,158**	6,373	(35)
Natural gas (mcf/d)	**2,474**	3,977	(38)	4,582	**3,528**	3,882	(9)
Total production (boe/d) (1)	**2,749**	7,161	(62)	6,744	**4,746**	7,020	(32)
% Liquids production	**85**	91	(7)	89	**88**	91	(3)
% Natural gas production	**15**	9	67	11	**12**	9	33

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

Revenue
For the second quarter of 2020, sales of crude oil, natural gas and natural gas liquids totaled $5.2 million, an 86 per cent decrease over the second quarter 2019 sales of $37.3 million. For the six months ended June 30, 2020, sales of crude oil, natural gas and natural gas liquids decreased 65 per cent from $69.1 million in 2019 to $24.4 million in 2020. These decreases are the result of lower production volumes and lower realized commodity prices.

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

Sales by product	Three months ended				Six months ended		
($ thousands)	**Jun 30, 2020**	Jun 30, 2019	% Change	Mar 31, 2020	**Jun 30, 2020**	Jun 30, 2019	% Change
Heavy oil	**2,583**	22,579	(89)	10,010	**12,593**	42,372	(70)
Light and medium oil	**1,916**	14,113	(86)	8,147	**10,063**	24,782	(59)
Natural gas liquids	**242**	273	(11)	208	**450**	831	(46)
Natural gas	**447**	332	35	806	**1,253**	1,149	9
Total revenue	**5,188**	37,297	(86)	19,171	**24,359**	69,134	(65)

Commodity Prices
Table 6

Average Benchmark Prices	Three months ended Jun 30, 2020	Jun 30, 2019	% Change	Mar 31, 2020	Six months ended Jun 30, 2020	Jun 30, 2019	% Change
WTI oil (US$/bbl) (1)	**27.85**	59.82	(53)	46.17	**37.01**	57.36	(35)
WCS heavy oil (Cdn$/bbl) (2)	**22.69**	65.73	(65)	34.45	**28.66**	61.17	(53)
Canadian Light Sweet (3) (Cdn$/bbl)	**30.07**	73.82	(59)	51.83	**41.12**	70.19	(41)
LSB (Cdn$/bbl) (4)	**29.93**	74.29	(60)	51.59	**40.93**	70.95	(42)
AECO natural gas ($/mcf) (5)	**1.99**	1.01	97	2.03	**2.03**	1.80	13
Cdn$ / US$ exchange rate	**1.39**	1.34	4	1.34	**1.36**	1.33	2
Gear Realized Prices							
Heavy oil ($/bbl)	**20.46**	60.45	(66)	27.58	**25.74**	56.67	(55)
Light and medium oil ($/bbl)	**24.91**	71.60	(65)	50.44	**42.20**	67.94	(38)
Natural gas liquids ($/bbl)	**25.73**	13.11	96	10.54	**15.45**	19.82	(22)
Natural gas ($/mcf)	**1.98**	0.92	115	1.93	**1.95**	1.64	19
Weighted average, before risk management contracts ($/boe)	**20.74**	57.23	(64)	31.24	**28.20**	54.41	(48)
Realized risk management loss ($/boe)	**35.85**	(1.65)	-	4.57	**13.63**	(0.93)	-
Weighted average, after risk management contracts ($/boe)	**56.59**	55.58	2	35.81	**41.83**	53.48	(22)

(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.

For the second quarter of 2020, US denominated WTI prices decreased by 53 per cent over the same period in 2019, the WCS differential widened from US$10.67 per barrel to US$11.47 per barrel, the Canadian Light Sweet differential widened from US$4.62 per barrel to US$6.14 per barrel and the LSB differential widened from US$4.27 per barrel to US$6.24 per barrel. These pricing movements along with the weakening of the Canadian dollar resulted in a decrease in Gear's realized pricing from $57.23 per boe to $20.74 per boe.

On a year-to-date basis WTI decreased from US$57.36 per barrel to US$37.01 per barrel over the same period in 2019, the WCS differential widened from US$11.48 per barrel to US$16.00 per barrel, the Canadian Light Sweet differential widened from US$4.74 per barrel to US$6.86 per barrel and the LSB differential widened from US$4.14 per barrel to US$7.00 per barrel. These pricing movements along with the weakening of the Canadian dollar resulted in a decrease in Gear's realized pricing from $54.41 per boe to $28.20 per boe.

Royalties
In the second quarter of 2020, royalties as a percentage of commodity sales were 6.6 per cent compared to 12.0 per cent for the same period in 2019. The decrease in royalties as a percentage of commodity sales was the result of lower realized commodity pricing. For the six months ended June 30, royalties as a percentage of commodity sales increased slightly from 10.3 per cent in 2019 to 10.6 per cent in 2020.

Table 7

Royalty expense ($ thousands except % and per boe)	Three months ended Jun 30, 2020	Jun 30, 2019	% Change	Mar 31, 2020	Six months ended Jun 30, 2020	Jun 30, 2019	% Change
Royalty expense	**345**	4,475	(92)	2,246	**2,591**	7,155	(64)
Royalty expense as a % of Sales	**6.6**	12.0	(45)	11.7	**10.6**	10.3	3
Royalty expense per boe	**1.38**	6.87	(80)	3.66	**3.00**	5.63	(47)

Operating and Transportation Expenses
Operating costs plus transportation for the three and six months ended June 30, 2020 were $16.43 per boe and $17.55 per boe, respectively, compared to $18.08 per boe and $18.39 per boe for the same periods in 2019. These decreases are the result of the temporary shut-in of higher cost production in the quarter as well as barrels sold from inventory that had minimal value ascribed to them due to inventory impairments taken in the first quarter of 2020.

Table 8 below summarizes the operating and transportation expenses:

Table 8

Operating and Transportation expenses ($ thousands except per boe)	**Jun 30, 2020**	Jun 30, 2019	% Change	Mar 31, 2020	**Jun 30, 2020**	Jun 30, 2019	% Change
	Three months ended				Six months ended		
Operating expense	**3,627**	10,316	(65)	9,777	**13,404**	20,481	(35)
Transportation expense	**482**	1,465	(67)	1,274	**1,756**	2,891	(39)
Operating and transportation expense	**4,109**	11,781	(65)	11,051	**15,160**	23,372	(35)
Operating expense per boe	**14.51**	15.83	(8)	15.93	**15.52**	16.12	(4)
Transportation expense per boe	**1.92**	2.25	(15)	2.08	**2.03**	2.27	(11)
Operating and transportation expense per boe	**16.43**	18.08	(9)	18.01	**17.55**	18.39	(5)

Operating Netbacks

Gear's operating netback prior to risk management contracts was $2.93 per boe in the second quarter of 2020 and $7.65 per boe in the first half of 2020, a decrease of 91 per cent and 75 per cent from the same periods in 2019, respectively. The decrease in operating netbacks was primarily the result of decreased commodity prices, partially offset by lower royalties and operating costs.

The components of operating netbacks are summarized in Table 9:

Table 9

Operating Netback ($ per boe)	**Jun 30, 2020**	Jun 30, 2019	% Change	Mar 31, 2020	**Jun 30, 2020**	Jun 30, 2019	% Change
	Three months ended				Six months ended		
Total sales	**20.74**	57.23	(64)	31.24	**28.20**	54.41	(48)
Royalties	**(1.38)**	(6.87)	(80)	(3.66)	**(3.00)**	(5.63)	(47)
Operating costs	**(16.43)**	(18.08)	(9)	(18.01)	**(17.55)**	(18.39)	(5)
Operating Netback	**2.93**	32.28	(91)	9.57	**7.65**	30.39	(75)

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

For the three and six months ended June 30, 2020 G&A expenses totaled $1.0 million and $2.7 million, respectively, compared to $1.6 million and $2.9 million for the same periods in 2019. These decreases in G&A costs are primarily due to decreased personnel costs. In the second quarter Gear implemented compensation reductions of 20 per cent for all employees and directors and received $0.4 million under the Canada Emergency Wage Subsidy program. G&A on a per boe basis was $3.84 per boe and $3.08 per boe for the three and six months ended June 30, 2020, representing increases of 55 per cent and 36 per cent over the same periods in 2019, respectively.

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

Table 10

G&A and SBC expense ($ thousands except per boe)	**Jun 30, 2020**	Jun 30, 2019	% Change	Mar 31, 2020	**Jun 30, 2020**	Jun 30, 2019	% Change
	Three months ended				Six months ended		
G&A, before recoveries and capitalized G&A	**1,016**	2,123	(52)	2,454	**3,508**	3,814	(8)
Overhead recoveries	**(54)**	(125)	(57)	(121)	**(175)**	(226)	(23)
Capitalized G&A	**-**	(387)	(100)	(635)	**(635)**	(712)	(11)
G&A	**962**	1,611	(40)	1,698	**2,698**	2,876	(6)
SBC expense	**135**	212	(36)	134	**270**	430	(37)
G&A per boe	**3.84**	2.47	55	2.77	**3.08**	2.26	36
SBC expense per boe	**0.54**	0.33	64	0.22	**0.31**	0.34	(9)

SBC is related to the granting of stock options. There were 1.7 million options granted during the six months ended June 30, 2020 at an average price of $0.29 and 2.3 million options expired at an average price of $1.45. As at June 30, 2020 a total of 14.7 million options with a weighted average exercise price of $0.56 per share were outstanding, representing approximately 7.0 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

Interest and financing charges totaled $0.7 million and $1.5 million for the three and six months ended June 30, 2020, a 45 per cent and 38 per cent decrease over the same periods in 2019, respectively. Gear's annualized borrowing costs, inclusive of financing charges and standby fees on its Credit Facilities (as defined below) approximated 3.3 per cent and 3.6 per cent for the three and six months ended June 30, 2020, respectively. This compares to 5.3 per cent and 5.0 per cent for the same periods 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				Six months ended		
($ thousands except per boe)	**Jun 30, 2020**	Jun 30, 2019	% Change	Mar 31, 2020	**Jun 30, 2020**	Jun 30, 2019	% Change
Interest expense	**617**	1,162	(47)	757	**1,374**	2,258	(39)
Financing charges	**29**	24	21	34	**62**	43	44
Standby fees	**33**	52	(37)	28	**61**	98	(38)
Interest and financing charges	**679**	1,238	(45)	819	**1,497**	2,399	(38)
Interest and financing charges per boe	**2.71**	1.90	43	1.33	**1.73**	1.89	(8)

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. Gear realized gains on risk management contracts of $9.0 million and $11.8 million for the three and six months ended June 30, 2020 compared to losses of $1.1 million and $1.2 million in the same periods in 2019. For the remainder of 2020, Gear has 3,200 barrels of oil per day hedged with an average WTI floor price of C$65.00 and an average WTI ceiling of C$81.75. The fair value of these contracts at June 30, 2020 was $4.7 million. Gear has not yet commenced its 2021 hedging program but is continually evaluating future transactions.

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**
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

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 second quarter of 2020 was $7.37 per boe compared to $19.95 per boe in the same period in 2019, representing a decrease of 63 per cent. Similarly, for the six months ended June 30, 2020, the DD&A rate decreased 16 per cent over the same period in 2019. The reduction in the DD&A rate is the result of selling volumes from inventory that did not have any carrying value ascribed to them as a result of inventory impairments taken in the first quarter of 2020.

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 and recognized an impairment on its inventory balance as a result in the amount of $4.3 million (2019 – nil). No additional impairments on inventory were recorded for the second quarter of 2020. For additional information see Note 3 "Inventory" in the notes to the Interim Condensed Consolidated Financial Statements.

At March 31, 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. No additional impairments or impairment recoveries were identified on Gear's three CGUs for the second quarter of 2020. For additional information see Note 4 “Property, Plant and Equipment” in the notes to the Interim Condensed Consolidated Financial Statements.

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

Table 13

DD&A Rate	Three Months Ended				Six Months Ended		
($ thousands except per boe)	**Jun 30, 2020**	Jun 30, 2019	% Change	Mar 31, 2020	**Jun 30, 2020**	Jun 30, 2019	% Change
DD&A	**1,843**	12,999	(86)	12,345	**14,190**	24,977	(43)
Total DD&A rate per boe	**7.37**	19.95	(63)	20.12	**16.43**	19.66	(16)
Impairment	**-**	-	-	98,206	**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. 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. At June 30, 2020 Gear’s estimated tax pools were relatively unchanged from the $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 for the three and six months ended June 30, 2020 were $0.2 million and $11.3 million, respectively, compared to $3.2 million and $11.4 million in the same periods in 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 will not be completed or equipped until the third quarter.

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

Table 14

Capital expenditures	Three months ended				Six months ended		
($ thousands)	**Jun 30, 2020**	Jun 30, 2019	% Change	Mar 31, 2020	**Jun 30, 2020**	Jun 30, 2019	% Change
Drilling and completions	**342**	2,112	(84)	8,582	**8,924**	8,402	6
Production equipment and facilities	**(120)**	1,184	(110)	2,366	**2,246**	3,461	(35)
Geological and geophysical	**26**	17	53	11	**39**	631	(94)
Undeveloped land purchased at crown land sales	**23**	14	64	121	**144**	71	103
Other	**(32)**	7	(557)	19	**(13)**	21	(162)
Total capital expenditures	**239**	3,334	(93)	11,099	**11,340**	12,586	(10)
Property acquisitions and dispositions, net (1)	**-**	(162)	(100)	3	**3**	(1,200)	(100)
Total capital expenditures and net acquisitions	**239**	3,172	(92)	11,102	**11,343**	11,386	-

(1) Includes post-closing adjustments

Decommissioning Liability

At June 30, 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 0.99 per cent (1.76 per cent at December 31, 2019) and discounted using a risk free rate of 0.99 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 year. Decommissioning liabilities settled in the six months ended June 30, 2020 were $0.7 million. During 2020 Gear abandoned 23 wells or 2.6 times the number of wells that were drilled during the year.

On April 17, 2020, the federal government announced that as part of its COVID-19 Economic Response Plan that it would provide $1.7 billion to clean up orphan and inactive wells in Alberta, Saskatchewan and British Columbia. Gear has been approved for a total of $2.2 million of this funding; $0.1 million in British Columbia, $0.6 million in Saskatchewan and $1.5 million in Alberta. A portion of the funding in Alberta comes as a 50% cost reimbursement for Gear’s area-based closure (“ABC”) in the Wildmere area.

Capitalization, Financial Resources and Liquidity
A breakdown of Gear's capital structure is outlined in Table 15:

Table 15

Debt ($ thousands except ratio amounts)	**June 30, 2020**	Dec 31, 2019
Net debt (1)	**70,177**	69,752
Net debt to quarterly annualized funds from operations (1)	**2.2**	1.3
Common shares outstanding	**216,490**	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".

Despite a significant drop in commodity prices and an aggressive shut-in of production throughout the second quarter, Gear was able to achieve a 13 per cent reduction in net debt over the first quarter of 2020 and only a modest 1 per cent increase from December 31, 2019. This was achieved as a result of a strong 2020 risk management program and prudent operating practices.

Credit Facilities
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. 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), leaving additional borrowing capacity of $7.2 million.

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 Amended Credit Facilities have fixed repayment terms outlined in Table 16:

Table 16:

Date	**Repayment Amount ($MM)**	**Borrowing Base ($MM)**
July 10, 2020	-	$75.0
September 30, 2020	5.0	$70.0
December 31, 2020	5.0	$65.0
March 31, 2021	5.0	$60.0

Under the Amended Credit Facilities 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. The maturity date on the Amended Credit Facilities is May 28, 2021. In addition, the Amended Credit Facilities carry non-financial covenants and do not carry any financial covenants.

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. 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. The next borrowing base review is scheduled for August 31, 2020.

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. Details on these programs continue to evolve and Gear continues to evaluate the applicability to Gear.

Convertible Debentures

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 with a single coupon payment remaining on November 30, 2020. 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.

As at June 30, 2020 and the date of this MD&A $13.2 million of Convertible Debentures were outstanding. Using the $0.87 conversion price, an aggregate of up to 15.2 million additional Gear common shares may be issued on conversion of the Convertible Debentures.

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. 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.

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. 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. In the first quarter of 2020, 1.1 million common shares with an aggregate value of $0.5 million were repurchased, nil in the second quarter. No further shares can be purchased without the consent of Gear’s lenders.

As at June 30, 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 six months ended June 30, 2020, 1.1 million common shares were repurchased for cancellation.

As at June 30, 2020, a total of 14.7 million options were outstanding with a weighted average exercise price of $0.56 per share and each option entitled the holder to acquire one Gear common share. Subsequent to June 30, 2020, 0.5 million options expired, leaving a balance of 14.2 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 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. Gear has submitted its initial emissions reduction five-year plan which has been government approved. Due to the material shut in of production throughout the year Gear anticipates meeting its 2020 emissions targets.

Social
Safety for Gear's workforce including contractors is paramount. Gear hosts monthly safety meetings for its field staff to review all safety protocols. To date in 2020, Gear has 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 50 per cent of the time 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 Interim Condensed Consolidated Financial Statements.

In addition to the Amended Credit Facilities, as at June 30, 2020, Gear had the following contractual commitments:
- lease agreements for its head office and its two field offices;
- one service commitment; 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 $1.6 million. The service commitment relates to a software agreement the expires in 2023 with a total commitment of $0.5 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 17 below reconciles cash flows from operating activities to funds from operations:

Table 17

	Three months ended			Six months ended	
($ thousands)	**Jun 30, 2020**	Jun 30, 2019	Mar 31, 2020	**Jun 30, 2020**	Jun 30, 2019
Cash flows from operating activities	**3,547**	18,881	9,788	**13,337**	24,862
Decommissioning liabilities settled	**22**	474	671	**692**	873
Change in non-cash working capital	**4,499**	(2,251)	(4,201)	**299**	6,401
Funds from operations	**8,068**	17,104	6,258	**14,328**	32,136

Net Debt

Net debt is a non-GAAP measure defined as debt plus convertible debentures less current working capital items (excluding debt, convertible debentures, 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 18

Capital Structure and Liquidity ($ thousands)	**June 30, 2020**	Dec 31, 2019
Debt	**66,321**	64,254
Convertible Debentures (at face value) (1)	**13,185**	13,204
Working capital (surplus) (2)	**(9,329)**	(7,706)
Net debt	**70,177**	69,752

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

At June 30, 2020, Gear had a working capital surplus. When in a deficit position, the Company is able to meet obligations as they come due by drawing on the Credit Facilities. Gear actively manages its liquidity through strategies such as continuously monitoring forecasted and actual cash flows from operating, financing and investing activities, available credit under existing banking arrangements and opportunities to issue additional equity. 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. 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.

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 19 below reconciles the debt adjusted shares:

Table 19

(thousands, except per share amounts)	Three months ended **Jun 30, 2020**	Jun 30, 2019	Mar 31, 2020	Six months ended **Jun 30, 2020**	Jun 30, 2019
Weighted average basic shares	**216,486**	219,093	216,715	**216,600**	219,089
Average share price (1)	**0.22**	0.58	0.10	**0.22**	0.58
Average net debt (2)	**75,219**	78,934	75,007	**69,965**	82,018
Share equivalent on average net debt (3)	**341,905**	136,093	750,070	**318,023**	141,410
Debt adjusted shares	**558,391**	355,186	966,785	**534,623**	360,499

(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 and six 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 June 30, 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 June 30, 2020 that materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Forward-looking Information and Statements

This press release 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 press release contains forward-looking information and statements pertaining to the following: expectation the majority of Gear's wells to be producing by the third quarter; expectations of minimal capital spending for the remainder of 2020; the intent to continue to focus on protection and improvement of the balance sheet; the expectation that following the annual borrowing base redetermination of Gear's credit facilities that Gear will ample liquidity under the new credit structure for the remainder of 2020;full year 2020 guidance including expected annual average production (including commodity weightings), expected 2020 fourth quarter production, expected royalty rate, expected operating and transportation costs, expected general and administrative costs, expected interest expense and expected capital and abandonment expenditures; Gear's expected abandonment and reclamation liabilities; plans for an Area Based Closure in 2020; the intent of management to manage production to maximize the value on each barrel sold; Gear's expectation that it will have sufficient liquidity to support its operations and meet its financial obligations over the short-term; Gear's expectations with respect to the effect that various environmental regulations may have on its operations; the expectation of Gear's financial commitments under contractual commitments; and Gear's expectation that current litigation will not have a material impact on Gear's financial position or results of operations.

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; any ability for Gear to repay any of its indebtedness when due;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)	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
FINANCIAL								
Sales of crude oil, natural gas and NGLs	5,188	19,171	30,396	32,459	37,297	31,837	17,408	33,334
Funds from operations (1)	8,068	6,258	13,738	15,968	17,104	15,032	2,089	11,578
Per weighted average basic share	0.04	0.03	0.06	0.07	0.08	0.07	0.01	0.06
Per weighted average diluted share	0.04	0.03	0.06	0.07	0.07	0.07	0.01	0.05
Cash flows from operating activities	3,547	9,788	11,401	13,613	18,881	5,981	1,538	16,831
Per weighted average basic share	0.02	0.05	0.05	0.06	0.09	0.03	0.01	0.08
Per weighted average diluted share	0.02	0.05	0.05	0.06	0.08	0.03	0.01	0.08
Net (loss) income	(5,300)	(110,215)	(8,045)	3,493	5,684	(6,812)	10,553	706
Per weighted average basic share	(0.02)	(0.51)	(0.04)	0.02	0.03	(0.03)	0.05	-
Per weighted average diluted share	(0.02)	(0.51)	(0.04)	0.02	0.02	(0.03)	0.05	-
Capital expenditures	239	11,099	12,603	11,800	3,334	9,252	9,482	18,749
Decommissioning liabilities settled	22	671	889	1,170	474	399	1,401	318
Net acquisitions (dispositions) (2)	-	3	109	115	(162)	(1,038)	302	65,470
Net debt (1) (3)	70,177	80,261	69,752	69,837	72,127	85,740	91,908	83,733
Weighted average shares outstanding, basic (thousands)	216,486	216,715	218,365	219,084	219,093	219,016	219,013	198,826
Weighted average shares outstanding, diluted (thousands)	216,486	216,715	218,365	234,646	234,780	219,016	234,794	217,426
Shares outstanding, end of period (thousands)	216,490	216,468	217,610	218,873	219,093	219,044	219,015	218,776
OPERATING								
Production								
Heavy oil (bbl/d)	1,388	3,989	4,034	3,929	4,104	4,148	4,064	4,484
Light and medium oil (bbl/d)	845	1,775	1,763	2,059	2,166	1,863	1,834	1,228
Natural gas liquids (bbl/d)	103	217	269	218	228	235	267	268
Natural gas (mcf/d)	2,474	4,582	4,935	4,295	3,977	3,787	4,091	4,609
Total (boe/d)	2,749	6,744	6,888	6,922	7,161	6,877	6,847	6,748
Average prices								
Heavy oil ($/bbl)	20.46	27.58	49.17	52.93	60.45	52.89	22.45	56.79
Light and medium oil ($/bbl)	24.91	50.44	64.82	65.88	71.60	63.64	46.68	76.57
Natural gas liquids ($/bbl)	25.73	10.54	22.79	26.70	13.11	26.40	23.95	35.02
Natural gas ($/mcf)	1.98	1.93	2.36	0.79	0.92	2.40	1.45	0.93
Selected financial results ($/boe)								
Commodity and other sales	20.74	31.24	47.97	50.97	57.23	51.44	27.64	53.70
Royalties	(1.38)	(3.66)	(5.52)	(6.06)	(6.87)	(4.33)	(3.44)	(7.33)
Operating costs	(16.43)	(18.01)	(17.93)	(17.20)	(18.08)	(18.73)	(17.13)	(17.69)
Operating netback (1)	2.93	9.57	24.52	27.71	32.28	28.38	7.07	28.68
Realized risk management gain (loss)	35.85	4.57	0.58	0.80	(1.65)	(0.16)	(0.90)	(6.55)
General and administrative	(3.84)	(2.77)	(2.13)	(2.03)	(2.47)	(2.04)	(1.18)	(1.81)
Interest	(2.71)	(1.33)	(1.30)	(1.52)	(1.90)	(1.88)	(1.50)	(1.05)
Transaction costs	-	-	-	-	-	(0.01)	(0.19)	(0.64)
Realized gain (loss) on foreign exchange	0.03	0.16	0.01	0.11	(0.01)	-	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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