

FINANCIAL AND OPERATIONAL HIGHLIGHTS



(Cdn\$ thousands, except per share, share and per boe amounts)	Three months ended			Twelve months ended	
	Dec 31, 2020	Dec 31, 2019	Sep 30, 2020	Dec 31, 2020	Dec 31, 2019
FINANCIAL					
Funds from operations ⁽¹⁾	8,253	13,738	10,848	33,429	61,842
Per boe	15.41	21.68	20.09	17.24	24.34
Per weighted average basic share	0.04	0.06	0.05	0.15	0.28
Cash flows from operating activities	8,016	11,401	8,864	30,217	49,876
Per boe	14.97	17.99	16.42	15.58	19.63
Net (loss) income	39,349	(8,045)	(1,157)	(77,324)	(5,680)
Per weighted average basic share	0.18	(0.04)	(0.01)	(0.36)	(0.03)
Capital expenditures	386	12,603	715	12,441	36,989
Decommissioning liabilities settled ⁽²⁾	726	889	87	1,505	2,932
Net acquisitions (dispositions) ⁽³⁾	-	109	-	3	(976)
Net debt ⁽¹⁾	52,864	69,752	60,544	52,864	69,752
Weighted average shares, basic (thousands)	216,490	218,365	216,490	216,545	218,887
Shares outstanding, end of period (thousands)	216,490	217,610	216,490	216,490	217,610
OPERATING					
Production					
Heavy oil (bbl/d)	3,236	4,034	3,321	2,985	4,053
Light and medium oil (bbl/d)	1,657	1,763	1,746	1,507	1,963
Natural gas liquids (bbl/d)	182	269	174	169	238
Natural gas (mcf/d)	4,477	4,935	3,761	3,825	4,252
Total (boe/d)	5,821	6,888	5,868	5,298	6,962
Average prices					
Heavy oil (\$/bbl)	36.16	49.17	40.27	32.64	53.87
Light and medium oil (\$/bbl)	48.10	64.82	47.61	45.41	66.69
Natural gas liquids (\$/bbl)	26.02	22.79	20.30	19.56	22.26
Natural gas (\$/mcf)	2.69	2.36	2.25	2.24	1.63
Netback (\$/boe)					
Petroleum and natural gas sales	36.68	47.97	39.00	33.55	51.94
Royalties	(4.38)	(5.52)	(3.48)	(3.51)	(5.71)
Transportation costs	(1.96)	(2.16)	(2.71)	(2.20)	(2.20)
Operating costs	(14.83)	(15.77)	(13.60)	(14.80)	(15.78)
Operating netback ⁽¹⁾	15.51	24.52	19.21	13.04	28.25
Realized risk management gain (loss)	4.67	0.58	5.35	8.85	(0.12)
General and administrative	(2.41)	(2.13)	(2.28)	(2.67)	(2.17)
Interest	(2.25)	(1.30)	(2.19)	(2.00)	(1.65)
Realized (loss) gain on foreign exchange	(0.11)	0.01	-	0.02	0.03
TRADING STATISTICS					
(\$ based on intra-day trading)					
High	0.31	0.48	0.25	0.50	0.88
Low	0.15	0.26	0.14	0.08	0.26
Close	0.29	0.46	0.16	0.29	0.46
Average daily volume (thousands)	320	529	275	510	418

(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) Decommissioning liabilities settled includes expenditures made by both Gear and the Federal Site Rehabilitation Program.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis ("MD&A") is Gear Energy Ltd. ("Gear" or the "Company") management's analysis of its financial performance. It is dated February 17, 2021 and should be read in conjunction with the audited Financial Statements as at and for the year ended December 31, 2020 and 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 Information and 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 27 employees with 17 staff in the Calgary office and 10 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
- Multiple producing horizons
- Definable resource base with low risk production
- Easy surface access and existing infrastructure
- Repeatable projects that are statistically economic
- High operatorship

Gear enhances returns of acquired assets by:

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

ECONOMIC ENVIRONMENT

The dominant headline for 2020 was the COVID-19 pandemic which adversely impacted the global economy as a result of governments mandating the shut-down of multiple facets of society. This led to significantly reduced world oil consumption. As a result, oil prices plummeted with WTI hitting a historical low of *negative* US\$37 per barrel in April 2020. Since then, WTI has recovered quite dramatically with current WTI prices in the US\$60 range. During the fourth quarter, Gear maintained production, and continued to maximize revenue through the sale of oil from production and from inventory. Gear also continued to focus on abandonment and reclamation activities. Through support by Government programs, Gear abandoned a total of 23 wells in the fourth quarter, bringing the 2020 total abandonments to 46.

In conjunction with the volatility in commodity prices and the corresponding operational impacts, Gear worked very closely with its lenders under its syndicated Credit Facilities. In December, Gear completed its annual borrowing base redetermination with amended terms for the Credit Facilities (as defined below) that provide Gear with ample liquidity and financial stability. The maturity date of the Credit Facilities has been extended to May 27, 2022. Lenders continue to be constructive and supportive with the next borrowing base redetermination scheduled for May 31, 2021. In addition, Gear was successful in amending and extending the \$13.2MM of outstanding Convertible Debentures to November of 2023. The Gear team will continue to proactively evaluate strategic opportunities to enhance shareholder value.

2020 GUIDANCE

Table 1

	2021 Guidance	2020 Guidance	2020 Actuals
Annual Production (boe/d)	5,400 – 5,500	5,200 – 5,300	5,298
Heavy oil weighting (%)	55	57	56
Light/Medium Oil and NGLs weighting (%)	33	31	32
Royalty rate (%)	11	11	10
Operating and transportation costs (\$/boe)	18.00	17.00 – 18.00	17.00
General and administrative expense (\$/boe)	2.15	2.40	2.67
Interest expense (\$/boe)	1.50	2.05	2.00
Capital and abandonment expenditures (\$ millions)	20	14	12

Despite all the volatility experienced through the year, the majority of Gear's actual 2020 results met or exceeded guidance, with the exception of general and administrative expenses due to costs incurred on non-recurring corporate restructuring costs and costs associated with the Convertible Debenture extension.

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			Sep 30, 2020	Twelve months ended		
	Dec 31, 2020	Dec 31, 2019	% Change		Dec 31, 2020	Dec 31, 2019	% Change
Funds from operations per debt adjusted share ⁽¹⁾	0.020	0.037	(46)	0.017	0.077	0.155	(50)
Cash flows from operating activities per debt adjusted share ⁽¹⁾	0.019	0.031	(39)	0.014	0.069	0.125	(44)
Production, boepd per debt adjusted thousand shares ⁽¹⁾	0.014	0.018	(22)	0.009	0.012	0.017	(29)

(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 FOURTH QUARTER FINANCIAL AND OPERATIONAL RESULTS

Funds from Operations and Cash Flows from Operating Activities

Funds from operations decreased from \$13.7 million or \$21.68 per boe in the fourth quarter of 2019 to \$8.3 million or \$15.41 per boe in the fourth quarter of 2020. On an annual basis, funds from operations decreased from \$61.8 million and \$24.34 per boe in 2019 to \$33.4 million and \$17.24 per boe in 2020. The decreases in funds from operations are the result of decreased revenues due to lower production volumes, lower realized commodity prices and increased interest costs, offset by increased gains on risk management contracts and decreased royalty and operating costs.

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

Table 3

	Three months ended Dec 31		Twelve months ended Dec 31	
	\$ thousands	\$/boe	\$ thousands	\$/boe
Q4 2019 Funds from operations ⁽¹⁾	13,738	21.68	61,842	24.34
Volume variance	(4,709)	-	(31,267)	-
Price variance	(6,043)	(11.29)	(35,666)	(18.40)
Cash gain on risk management contracts	2,134	4.09	17,463	8.97
Royalties	1,153	1.14	7,701	2.20
Expenses:				
Operating and transportation	2,372	1.14	12,732	0.98
General and administrative	58	(0.28)	336	(0.50)
Interest	(383)	(0.95)	305	(0.35)
Transaction costs	-	-	7	-
Realized foreign exchange	(67)	(0.12)	(24)	-
Q4 2020 Funds from operations ⁽¹⁾	8,253	15.41	33,429	17.24

(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 \$11.4 million or \$17.99 per boe in the fourth quarter of 2019 to \$8.0 million or \$14.97 per boe in the fourth 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, increased general and administrative and interest costs, offset by increased gains on risk management contracts and decreased royalty, operating, and decreased decommissioning liabilities settled.

For the year ended December 31, 2020 cash flows from operating activities decreased from \$49.9 million and \$19.63 per boe in 2019 to \$30.2 million and \$15.58 per boe. The decrease in cash flows from operating activities is the result of decreased revenues due to lower production volume, lower realized commodity prices offset by increased gains on risk management contracts and decreased royalty, operating, general and administrative, interest, and decommissioning liabilities settled.

Net income and loss

For the three and twelve months ended December 31, 2020, Gear generated a net income of \$39.3 million and a net loss of \$77.3 million, compared to a net loss of \$8.0 million and \$5.7 million for same period in 2019. The changes in net income are due to several factors discussed below, however the majority is due to impairment for the full year 2020 recorded in the first quarter and an impairment reversal recorded in the fourth quarter of 2020.

Production

In response to the low commodity prices experienced earlier in the year, Gear ceased all drilling activity in March 2020 for the remainder of the year. As a result, production for the fourth quarter averaged 5,821 boe/d, a planned decrease from fourth quarter 2019 production of 6,888 boe/d due to natural declines and no new production due to the cessation of drilling. In the fourth quarter, oil inventory levels remained unchanged. For the twelve months ended December 31, 2020, production volumes averaged 5,298 boe/d compared to 6,962 boe/d in the same period in 2019 due to the curtailment of capital investment and due to the temporary shut-in of production in the second quarter of 2020. In June 2020, Gear restarted its shut-in production in phases and reached full productive capacity in August. A small number of wells remain shut-in due to economic thresholds not being currently achieved.

Table 4

Production	Three months ended			Twelve months ended			
	Dec 31, 2020	Dec 31, 2019	% Change	Sep 30, 2020	Dec 31, 2020	Dec 31, 2019	% Change
Liquids (bbl/d)							
Heavy oil (bbl/d)	3,236	4,034	(20)	3,321	2,985	4,053	(26)
Light and Medium oil (bbl/d)	1,657	1,763	(6)	1,746	1,507	1,963	(23)
Natural gas liquids (bbl/d)	182	269	(32)	174	169	238	(29)
Total liquids (bbl/d)	5,075	6,066	(16)	5,241	4,661	6,254	(25)
Natural gas (mcf/d)	4,477	4,935	(9)	3,761	3,825	4,252	(10)
Total production (boe/d) ⁽¹⁾	5,821	6,888	(15)	5,868	5,298	6,962	(24)
% Liquids production	87	88	(1)	89	88	90	(2)
% Natural gas production	13	12	7	11	12	10	20

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

Petroleum and natural gas sales ("Sales")

For the fourth quarter of 2020, sales of crude oil, natural gas and natural gas liquids totaled \$19.6 million, a 35 per cent decrease over the fourth quarter 2019 sales of \$30.4 million. For the twelve months ended December 31, 2020, sales of crude oil, natural gas and natural gas liquids decreased 51 per cent from \$132.0 million in 2019 to \$65.1 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 (\$ thousands)	Three months ended			Twelve months ended			
	Dec 31, 2020	Dec 31, 2019	% Change	Sep 30, 2020	Dec 31, 2020	Dec 31, 2019	% Change
Heavy oil	10,766	18,247	(41)	12,304	35,663	79,751	(55)
Light and medium oil	7,334	10,513	(30)	7,646	25,043	47,774	(48)
Natural gas liquids	435	564	(23)	324	1,209	1,930	(37)
Natural gas	1,109	1,072	3	780	3,142	2,534	24
Total petroleum and natural gas sales	19,644	30,396	(35)	21,054	65,057	131,989	(51)

Commodity Prices

Table 6

	Three months ended				Twelve months ended		
	Dec 31, 2020	Dec 31, 2019	% Change	Sep 30, 2020	Dec 31, 2020	Dec 31, 2019	% Change
Average Benchmark Prices							
WTI oil (US\$/bbl) ⁽¹⁾	42.66	56.96	(25)	40.93	39.40	57.03	(31)
WCS heavy oil (Cdn\$/bbl) ⁽²⁾	43.40	54.29	(20)	42.40	35.91	58.74	(39)
Canadian Light Sweet ⁽³⁾ (Cdn\$/bbl)	50.21	68.10	(26)	49.82	45.65	69.20	(34)
LSB (Cdn\$/bbl) ⁽⁴⁾	50.70	68.08	(26)	50.02	45.73	69.66	(34)
AECO natural gas (\$/mcf) ⁽⁵⁾	2.66	2.48	7	1.98	2.01	1.75	15
Cdn\$ / US\$ exchange rate	1.30	1.32	(2)	1.33	1.34	1.33	1

Gear Realized Prices

Heavy oil (\$/bbl)	36.16	49.17	(26)	40.27	32.64	53.87	(39)
Light and medium oil (\$/bbl)	48.10	64.82	(26)	47.61	45.41	66.69	(32)
Natural gas liquids (\$/bbl)	26.02	22.79	14	20.30	19.56	22.26	(12)
Natural gas (\$/mcf)	2.69	2.36	14	2.25	2.24	1.63	37
Weighted average, before risk management contracts (\$/boe)	36.68	47.97	(24)	39.00	33.55	51.94	(35)
Realized risk management gain (loss) (\$/boe)	4.67	0.58	705	5.35	8.85	(0.12)	7,475
Weighted average, after risk management contracts (\$/boe)	41.35	48.55	(15)	44.35	42.40	51.82	(18)

(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 fourth quarter of 2020, US denominated WTI prices decreased by 25 per cent over the same period in 2019, the WCS differential tightened from US\$15.83 per barrel to US\$9.31 per barrel, the Canadian Light Sweet differential narrowed from US\$5.37 per barrel to US\$4.07 per barrel and the LSB differential narrowed from US\$5.38 per barrel to US\$3.70 per barrel. Although the differential pricing movements were positive, they were unable to offset the change in WTI prices which resulted in a decrease in Gear's realized pricing from \$47.97 per boe to \$36.68 per boe.

On an annual basis WTI decreased from US\$57.03 per barrel to US\$39.40 per barrel over the same period in 2019, the WCS differential remained flat from US\$12.76 per barrel to US\$12.60 per barrel, the Canadian Light Sweet differential widened from US\$4.88 per barrel to US\$5.33 per barrel and the LSB differential widened from US\$4.53 per barrel to US\$5.27 per barrel. These pricing movements resulted in a decrease in Gear's realized pricing from \$51.94 per boe to \$33.55 per boe.

Royalties

In the fourth quarter of 2020, royalties as a percentage of commodity sales remained unchanged at 11.9 per cent compared to 11.5 per cent for the same period in 2019. For the twelve months ended December 31, royalties as a percentage of commodity sales decreased from 11.0 per cent in 2019 to 10.5 per cent in 2020.

Table 7

Royalty expense (\$ thousands except % and per boe)	Three months ended				Twelve months ended		
	Dec 31, 2020	Dec 31, 2019	% Change	Sep 30, 2020	Dec 31, 2020	Dec 31, 2019	% Change
Royalty expense	2,344	3,497	(33)	1,877	6,812	14,513	(53)
Royalty expense as a % of Sales	11.9	11.5	4	8.9	10.5	11.0	(5)
Royalty expense per boe	4.38	5.52	(21)	3.48	3.51	5.71	(38)

Operating and Transportation Expenses

Operating costs plus transportation for the three and twelve months ended December 31, 2020 were \$16.79 per boe and \$17.00 per boe, compared to \$17.93 per boe and \$17.98 per boe for the same periods in 2019. These decreases are the result of ongoing prudent operating practices, an improvement in run-time of Gear's wells allowing Gear to save on workover costs, and other cost saving measures. Gear expects that as production returns to pre pandemic levels, further operating cost savings will be achieved. During the third quarter of 2020, Gear modified its sales delivery points from rail to pipeline to maximize net realized oil prices that more than offset higher transportation. During the fourth quarter, Gear restarted deliveries to a crude by rail sales point resulting in lower transportation expense per boe from the third quarter to the fourth quarter. Gear sold 43 per cent of its heavy oil by rail in the fourth quarter.

Table 8 below summarizes the operating and transportation expenses:

Table 8

Operating and Transportation expenses (\$ thousands except per boe)	Three months ended			Twelve months ended			
	Dec 31, 2020	Dec 31, 2019	% Change	Sep 30, 2020	Dec 31, 2020	Dec 31, 2019	% Change
Operating expense	7,944	9,992	(20)	7,344	28,692	40,090	(28)
Transportation expense	1,047	1,371	(24)	1,464	4,267	5,601	(24)
Operating and transportation expense	8,991	11,363	(21)	8,808	32,959	45,691	(28)
Operating expense per boe	14.83	15.77	(6)	13.60	14.80	15.78	(6)
Transportation expense per boe	1.96	2.16	(9)	2.71	2.20	2.20	-
Operating and transportation expense per boe	16.79	17.93	(6)	16.31	17.00	17.98	(5)

Operating Netbacks

Gear's operating netback prior to risk management contracts was \$15.51 per boe in the fourth quarter of 2020 and \$13.04 per boe for the twelve months ended December 31, 2020, a decrease of 37 per cent and 54 per cent from the same periods in 2019. The decrease in operating netbacks was primarily the result of decreased commodity prices, partially offset by lower royalties, operating and transportation costs.

The components of operating netbacks are summarized in Table 9:

Table 9

Operating Netback (\$ per boe)	Three months ended			Twelve months ended			
	Dec 31, 2020	Dec 31, 2019	% Change	Sep 30, 2020	Dec 31, 2020	Dec 31, 2019	% Change
Total sales	36.68	47.97	(24)	39.00	33.55	51.94	(35)
Royalties	(4.38)	(5.52)	(21)	(3.48)	(3.51)	(5.71)	(39)
Operating costs	(14.83)	(15.77)	(6)	(13.60)	(14.80)	(15.78)	(6)
Transportation costs	(1.96)	(2.16)	(9)	(2.71)	(2.20)	(2.20)	-
Operating netback	15.51	24.52	(37)	19.21	13.04	28.25	(54)

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

For the three and twelve months ended December 31, 2020 G&A expenses totaled \$1.3 million and \$5.2 million, compared to \$1.4 million and \$5.5 million for the same periods in 2019. In the first quarter of 2020, Gear made an annual incentive compensation payment for 2019 results. Starting in the second quarter, Gear implemented compensation reductions of 20 per cent for all officers, employees and directors that remained in effect for the duration of the year. In addition, Gear received \$0.8 million in 2020 and \$0.2 million in the fourth quarter under the Canada Emergency Wage Subsidy program ("wage subsidy program"). This was offset by one-time expenditures associated with corporate restructuring, and professional fees related to the amendment and extension of the Convertible Debenture. During the twelve months ended December 31, 2020, Gear also incurred \$137 thousand as result of the engagement of an external financial advisor. Finally, as a result of lower drilling activities, capitalized G&A was reduced in in the fourth quarter and full year 2020 compared to the same periods in 2019. G&A on a per boe basis was \$2.41 per boe and \$2.67 per boe for the three and twelve months ended December 31, 2020, representing increases of 13 per cent and 23 per cent over the same periods in 2019.

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

Table 10

G&A and SBC expense (\$ thousands except per boe)	Three months ended			Twelve months ended			
	Dec 31, 2020	Dec 31, 2019	% Change	Sep 30, 2020	Dec 31, 2020	Dec 31, 2019	% Change
G&A, before recoveries and capitalized G&A	1,367	1,705	(20)	1,292	6,128	7,363	(17)
Overhead recoveries	(75)	(63)	19	(62)	(312)	(434)	(28)
Capitalized G&A	-	(292)	(100)	-	(635)	(1,412)	(55)
G&A	1,292	1,350	(4)	1,230	5,181	5,517	(6)
SBC expense	78	145	(46)	124	472	652	(28)
G&A per boe	2.41	2.13	13	2.28	2.67	2.17	23
SBC expense per boe	0.15	0.23	21	0.23	0.24	0.26	(5)

SBC is related to the granting of stock options. There were 5.9 million options granted during the twelve months ended December 31, 2020 at an average price of \$0.20 and 7.4 million options expired at an average price of \$1.00. As at December 31, 2020 a total of 13.3 million options with a weighted average exercise price of \$0.42 per share were outstanding, representing approximately 6.1 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 Audited Consolidated Financial Statements.

Interest and financing charges

Interest and financing charges totaled \$1.2 million and \$3.9 million for the three and twelve months ending December 31, 2020, a 47 per cent increase and 7 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 approximated 6.9 per cent and 5.0 per cent for the three and twelve months ended December 31, 2020. This compares to 4.0 per cent and 4.7 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 increase in borrowing costs is due to increased rates as set out in the amended terms for the Credit Facilities, as well as higher margin and standby fee rates due to an increase in Gear's Senior Debt to EBITDA Ratio.

Table 11 is a breakdown of interest expense:

Table 11

Interest and financing charges (\$ thousands except per boe)	Three months ended				Twelve months ended		
	Dec 31, 2020	Dec 31, 2019	% Change	Sep 30, 2020	Dec 31, 2020	Dec 30, 2019	% Change
Interest expense	922	760	21	1,118	3,374	3,917	(14)
Financing charges	241	34	609	17	361	111	225
Standby fees	41	27	52	45	146	158	(8)
Interest and financing charges	1,204	821	47	1,180	3,881	4,186	(7)
Interest and financing charges per boe	2.25	1.30	73	2.19	2.00	1.65	21

Risk Management Contracts

Gear has a mandate to protect its balance sheet and 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. To do this, 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 and up to 65 per cent of forecasted production, net of royalties, and has been authorized by its board of directors to hedge up to certain levels as specified by the credit agreement. To date, Gear has almost fully completed all 2021 hedging requirements.

Gear realized gains on risk management contracts of \$2.5 million and \$17.2 million for the three and twelve months ended December 31, 2020 compared to a gain of \$0.4 million and a loss of \$0.3 million in the same periods in 2019. The fair value of 2021 contracts at December 31, 2020 was a liability of \$19 thousand. Subsequent to year end, Gear entered into several additional risk management contracts. Management continues to monitor the market and may enter into further contracts.

Table 12 summarizes Gear's financial risk management contracts as at December 31, 2020:

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	\$/bbl
Jan 1, 2021 - Mar 31, 2021	Enhanced Swap	USD	800	46.50	-	-	-	35.00
Jan 1, 2021 - Mar 31, 2021	Three-way collar	USD	1,300	-	50.00	42.00	-	35.00

Financial AECO Natural Gas Contracts

Term	Contract	Currency	Volume	Fixed Price
			GJ/d	\$/GJ
Jan 1, 2021 - Dec 31, 2021	Swap	CAD	2,400	2.75

Subsequent to year end, Gear entered into the following financial risk management contracts:

Financial WTI Crude Oil Contracts								
Term		Contract	Currency	Volume	Sold Swap	Sold Call	Bought Put	Sold Put
				bbbl/d	\$/bbl	\$/bbl	\$/bbl	\$/bbl
Apr 1, 2021	Jun 30, 2021	Three-way collar	CAD	1,100	-	70.50	55.00	45.00
Apr 1, 2021	Jun 30, 2021	Three-way collar	CAD	800	-	71.00	55.00	45.00
Apr 1, 2021	Jun 30, 2021	Three-way collar	CAD	300	-	83.00	55.00	45.00
Jul 1, 2021	Dec 31, 2021	Three-way collar	CAD	800	-	74.00	55.00	45.00
Jul 1, 2021	Dec 31, 2021	Enhanced swap	CAD	1,200	65.85	-	-	50.00
Jul 1, 2021	Dec 31, 2021	Three-way collar	CAD	400	-	83.00	55.00	45.00

Impairment and Depletion, Depreciation and Amortization Expense (“DD&A”)

For the year ended December 31, 2020, Gear had a net impairment of \$51.2 million on its three cash-generating units (“CGUs”), which was recognized in impairment in the Consolidated Statements of Loss and Comprehensive Loss. At March 31, 2020, Gear recorded an impairment of \$93.9 million on those same CGUs. At December 31, 2020, an additional impairment test was performed resulting in a \$42.7 million impairment reversal, net of depletion. 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, 2020. As at March 31, 2020, and December 31, 2020, the estimated recoverable amounts were based on fair value less cost of disposal calculations using discount rates based on an estimated industry weighted average cost of capital ranging from 12 to 14 per cent, depending on the product composition of the assets in the CGU. For additional information see Note 6 “Property, Plant and Equipment and Impairment” in the notes to the Audited Consolidated Financial Statements.

Table 13 is a breakdown of impairment per CGU as at March 31, 2020 and December 31, 2020:

Table 13
March 31, 2020

(\$ thousands)	CGU #1 – Heavy and medium	CGU #2 – Light Alberta	CGU #3 – Light Saskatchewan	Total
Impairment	(27,433)	(20,612)	(45,813)	(93,858)
Recoverable amount (\$ millions) ⁽¹⁾	80.3	33.8	22.3	136.4

(1) The recoverable amount is net of future asset retirement obligation expenditures.

December 31, 2020

(\$ thousands)	CGU #1 – Heavy and medium	CGU #2 – Light Alberta	CGU #3 – Light Saskatchewan	Total
Impairment reversal	22,668	10,395	9,570	42,663
Net impairment	(4,765)	(10,217)	(36,243)	(51,225)
Recoverable amount (\$ millions) ⁽¹⁾	90.6	40.1	29.1	159.8

(1) The recoverable amount is net of future asset retirement obligation expenditures.

DD&A during the fourth quarter of 2020 was 16.52 per boe compared to \$19.87 per boe in the same period in 2019, representing a decrease of 17 per cent. Similarly, for the twelve months ended December 31, 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 the previously mentioned impairments which reduced Gear’s depletable base.

Gear records its inventory at the lower of cost and net realizable value. At March 31, 2020 Gear recorded oil inventory 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 in 2020. For additional information see Note 5 “Inventory” in the notes to the Audited Consolidated Financial Statements.

Table 14 is a breakdown of DD&A expenses and impairment:

Table 14

DD&A Rate	Three months ended			Twelve months ended			
	Dec 31, 2020	Dec 31, 2019	% Change	Sep 30, 2020	Dec 31, 2020	Dec 31, 2019	% Change
(\$ thousands except per boe)							
DD&A	8,845	12,591	(30)	9,413	32,448	50,339	(36)
Total DD&A rate per boe	16.52	19.87	(17)	17.44	16.74	19.81	(16)
Impairment / (Reversal)	(42,633)	-	100	-	55,573	-	100

Taxes

Deferred tax assets on the Consolidated Balance Sheet are recognized to the extent that the realization of the related tax benefit through future taxable profits is probable based on current tax pools less future taxable income. In the first quarter of 2020, given current market conditions, and volatility surrounding future cash-flows the deferred tax asset was derecognized. As at December 31, 2020, a deferred tax asset in the amount of \$74.3 million (2019 - \$25.4 million) has not been recognized as Management does not find it probable that the benefit will be realized. No cash income taxes were paid in 2020 and 2019. For the year ended December 31, 2020, Gear recognized a deferred income tax expense of \$23.3 million compared to \$3.3 million for the same period in 2019.

A break down of estimated tax pools is shown in Table 15:

Table 15

(\$ thousands)	December 31, 2020	December 31, 2019
Canadian oil and gas property expenses	143,543	157,998
Canadian development expenses	231,610	242,989
Canadian exploration expenses	28,096	27,457
Undepreciated capital cost	55,072	56,227
Non-capital losses	236,294	226,845
Other	4	1,265
Estimated total tax pools, federal and provincial	694,619	712,781
Less:		
Stranded Canadian oil and gas property expenses	(56,810)	(56,810)
Stranded Canadian development expenses	(44,870)	(44,870)
Estimated realizable tax pools, federal and provincial	592,939	611,101

Capital Expenditures, Acquisitions and Dispositions

Capital expenditures including acquisitions and dispositions for the three and twelve months ended December 31, 2020 were \$0.4 million and \$12.4 million, compared to \$12.7 million and \$36.0 million in the same periods in 2019. During the first quarter of 2020, Gear drilled nine gross (nine net) wells; seven heavy oil wells including four single lateral wells in Paradise Hill, two multi-lateral wells in Lindbergh and one single leg lined well in Frenchman's Butte in the Lloydminster area of Alberta; and two medium oil wells including one multi-stage fractured medium oil well in Killam and one multi-lateral well in Provost in east central Alberta. In response to the impacts of COVID-19 on the global economy, Gear reacted quickly and shut down its drilling rig in early March to reduce costs and as such, two of the four wells drilled in Paradise Hill were not completed or equipped until the third quarter. No additional wells were drilled in 2020. During the fourth quarter, Gear incurred limited capital expenditures, and instead focused on abandonment activity. Subsequent to year-end, Gear resumed drilling activity, and has drilled 6 gross (6 net) wells to the date of this MD&A.

A breakdown of capital expenditures and net acquisitions is shown in Table 16:

Table 16

Capital expenditures (\$ thousands)	Three months ended				Twelve months ended			
	Dec 31, 2020	Dec 31, 2019	% Change	Sep 30, 2020	Dec 31, 2020	Dec 31, 2019	% Change	
Drilling and completions	179	9,357	(98)	105	9,168	27,231	(66)	
Production equipment and facilities	193	3,108	(94)	590	3,029	8,874	(66)	
Geological and geophysical	-	63	(100)	3	40	698	(94)	
Undeveloped land purchased at crown land sales	14	26	(46)	15	173	112	54	
Other	-	49	(100)	2	31	74	(58)	
Total capital expenditures	386	12,603	(97)	715	12,441	36,989	(66)	
Property acquisitions and dispositions, net ⁽¹⁾	-	109	(100)	-	3	(976)	(99)	
Total capital expenditures and net acquisitions	386	12,712	(97)	715	12,444	36,013	(65)	

⁽¹⁾ Includes post-closing adjustments

Decommissioning Liability

At December 31, 2020, Gear recorded a decommissioning liability of \$87.5 million (\$85.7 million at December 31, 2019) for the future abandonment and reclamation of Gear's properties. The estimated decommissioning liability includes assumptions in respect of actual costs to abandon wells or reclaim the property, the time frame in which such costs will be incurred as well as annual inflation factors used to calculate the undiscounted total future liability. The liability has been inflated at 1.85 per cent (1.76 per cent at December 31, 2019) and discounted using a risk free rate of 1.85 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 increase in liability is mainly the result minor adjustments in the estimates of the liability offset by abandonment expenditures made during the year. Decommissioning liabilities settled by Gear in the twelve months ended December 31, 2020 were \$0.9 million.

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 under a Site Rehabilitation Program (“SRP”). In 2020, Gear was 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. In 2021 to date, Gear has been approved for an additional \$2.6 million bringing the total cumulative funding to date to \$4.8 million and hopes to qualify for additional amounts under future phases of the SRP. A portion of the funding in Alberta comes as a 50 per cent cost reimbursement for Gear’s area-based closure (“ABC”) in the Wildmere area. The program kicked off in December 2020, assisting Gear in abandoning 23 gross wells during the fourth quarter, bringing the 2020 total wells abandoned to 46, or more than 5 times as many as were drilled during the year.

A breakdown of Gear’s spending per Provincial jurisdiction is outlined in Table 17:

Table 17

SRP (\$ thousands)	Alberta	Saskatchewan	British Columbia	Total
2020 Funding	1,548	552	99	2,199
Spent to December 31, 2020	(308)	(180)	(97)	(585)
Remaining	1,240	372	2	1,614

Capitalization, Financial Resources and Liquidity

A breakdown of Gear’s capital structure is outlined in Table 18:

Table 18

Debt (\$ thousands except ratio amounts)	Dec 31, 2020	Dec 31, 2019
Net debt ⁽¹⁾	52,864	69,752
Net debt to funds from operations ⁽¹⁾	1.6	1.1
Net debt to quarterly annualized funds from operations ⁽¹⁾	1.6	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 the volatility in commodity prices, Gear was able to achieve a 13 per cent reduction in fourth quarter net debt over the third quarter of 2020 and a 24 per cent reduction from December 31, 2019. This was achieved as a result of funds from operations exceeding capital expenditures during the year with excess funds from operations used to repay debt.

Credit Facilities

In December 2020, Gear completed its semi-annual redetermination and welcomed Export Development Canada (“EDC”) to its lending syndicate. Gear’s Credit Facilities maturity date was extended to May 27, 2022. At December 31, 2020 Gear had a \$42.5 million (2019 – \$70.0 million) revolving term credit facility, a \$15 million (2019 – nil) non-revolving term credit facility and a \$7.5 (2019 – \$20.0 million) million operating facility, (collectively, the “Credit Facilities”), totaling \$65 million (2019 – \$90.0 million). Gear is required to make a repayment of \$5.0 million on March 31, 2021 against the non-revolving term credit facility, at which time Gear’s total borrowing base will be reduced to \$60 million. At December 31, 2020 Gear had \$50.7 million drawn on the Credit Facilities (December 31, 2019 – \$64.3 million) and outstanding letters of credit of \$0.9 million (December 31, 2019 – \$0.8 million). The Credit Facilities do not carry any financial covenants.

The total stamping fees on the operating facility and revolving facility range, depend on Gear’s Debt to EBITDA ratio, and range 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.

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 Gear’s obligations as they become due. In addition, there can be no assurances that Gear’s credit facilities will be extended beyond the May 27, 2022 maturity date. The next borrowing base review is scheduled for May 31, 2021.

Convertible Debentures

The subordinated unsecured convertible debentures issued on November 30, 2015 (the “Convertible Debentures”) had a maturity date of November 30, 2020 and carried a coupon of 4 per cent per annum payable semi-annually in arrears on May 31 and November 30 until maturity. Effective November 30, 2020, after receiving the necessary approvals from the holders of the Convertible Debentures, Gear entered into an amended and restated debenture indenture that amended certain terms of the Convertible Debentures. On December 16, 2020, as required by the rules of the Toronto Stock Exchange (the “TSX”), the shareholders of Gear approved certain of the amendments to the outstanding Convertible Debentures. Under the amended terms of the Convertible Debentures, the maturity date was extended from November 30, 2020 to November 30, 2023, the coupon rate increased from 4 per cent to 7 per cent and the conversion price changed from \$0.87 to \$0.32. The conversion feature allows holders to convert the Convertible Debentures at any time prior to the maturity date at the option of the holder at \$0.32 per common share and receive 3,125 common shares for every \$1,000 principal amount of Convertible Debentures. 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.

In addition, from December 1, 2020 to November 30, 2021, Gear has the option to pay interest in-kind on the Convertible Debentures by issuing additional Convertible Debentures. The Convertible Debentures are also redeemable by Gear at any time by fully repaying the principal amount and all accrued interest owing on the Debentures on the date selected for redemption or, at the option of Gear, by issuing common shares in respect of the principal amount owing at an issue price equal to 95 per cent of the volume weighted average trading price of the common shares on the TSX for the 20 trading days ending 5 trading days prior to the redemption date.

As at December 31, 2020 and the date of this MD&A \$13.2 million and \$12.7 million, respectively, of Convertible Debentures were outstanding. Using the \$0.32 conversion price, an aggregate of up to 41.2 million and 39.7 million, respectively, of additional Gear common shares may be issued on conversion of the Convertible Debentures.

Shareholders' Equity

As at December 31, 2020, the Normal Course Issuer Bid (“NCIB”) of the Company through the TSX has expired. The NCIB allowed 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 were 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. During 2020, 1.1 million common shares with an aggregate value of \$0.5 million were repurchased, with all of the purchases occurring in the first quarter of 2020.

As at December 31, 2020, Gear had 216.5 million common shares outstanding. Presently, Gear has 218.0 million shares outstanding. At December 31, 2019 Gear had 217.6 million common shares outstanding.

As at December 31, 2020 and as at the date hereof, a total of 13.3 million options were outstanding with a weighted average exercise price of \$0.42 per share and each option entitled the holder to acquire one Gear common share.

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 requirements 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 in the midst of implementing a reduced flaring emissions and conserving gas program that should be operational in 2021. 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 approved by the Saskatchewan government. In addition, Gear has been recently implementing and expanding water flooding projects in multiple core areas, From an environmental perspective this allows Gear to efficiently access incremental resources without expanding surface footprints.

Social

Safety for Gear’s workforce including contractors is paramount. Gear hosts monthly safety meetings for its field staff to review all safety protocols. During 2020, Gear had zero lost time injuries, 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. Gear is compliant with government guidelines pertaining to COVID-19 and has mandated its employees to work from home where possible in order to maintain appropriate social distancing.

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

Governance

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

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

In 2021, Gear hopes to release its inaugural Environmental, Social, and Governance report.

Contractual Obligations and Commitments

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

In addition to the Credit Facilities, as at December 31, 2020, Gear had the following contractual commitments:

- lease agreements for its head office and its two field offices; and
- one service 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 that expires in 2023 with a total commitment of \$0.4 million. For further information see Note 17 "Commitments and Contingencies" in the notes to the Audited 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. For further information see Note 18 "Related Party Transactions" in the notes to the Audited Consolidated Financial Statements.

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 and repay debt. Funds from operations may not be comparable with the calculation of similar measures for other companies.

Table 19 below reconciles cash flows from operating activities to funds from operations:

Table 19

(\$ thousands)	Three months ended			Twelve months ended	
	Dec 31, 2020	Dec 31, 2019	Sep 30, 2020	Dec 31, 2020	Dec 31, 2019
Cash flows from operating activities	8,016	11,401	8,864	30,217	49,876
Decommissioning liabilities settled ⁽¹⁾	141	889	87	920	2,932
Change in non-cash working capital	96	1,448	1,897	2,292	9,034
Funds from operations	8,253	13,738	10,848	33,429	61,842

(1) Decommissioning liabilities settled includes only expenditures made by Gear.

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 and equity issuances. Net debt may not be comparable with the calculation of similar measures for other companies.

Table 20

Capital Structure and Liquidity		
(\$ thousands)	Dec 31, 2020	Dec 31, 2019
Debt	50,749	64,254
Convertible Debentures (at face value) ⁽¹⁾	13,185	13,204
Working capital (surplus) ⁽²⁾	(11,070)	(7,706)
Net debt	52,864	69,752

(1) Excludes unamortized portion of issuance costs.

(2) Excludes risk management contracts, debt, convertible debentures and decommissioning liabilities.

At December 31, 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 21 below reconciles the debt adjusted shares:

Table 21

(thousands, except per share amounts)	Three months ended			Twelve months ended	
	Dec 31, 2020	Dec 31, 2019	Sep 30, 2020	Dec 31, 2020	Dec 31, 2019
Weighted average basic shares	216,490	218,365	216,490	216,545	218,887

Average share price ⁽¹⁾	0.28	0.45	0.16	0.28	0.45
Average net debt ⁽²⁾	56,704	69,795	65,361	61,308	80,830
Share equivalent on average net debt ⁽³⁾	202,514	155,100	408,503	218,957	179,622
Debt adjusted shares	419,004	373,465	624,993	435,502	398,509

(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 twelve 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 and repay debt. 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 including those associated with the highly uncertain timing and impact of global energy markets transition from carbon-based sources to alternative energy;
- Estimated impacts of COVID-19 on Gear's operations and future financial performance;
- 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 4 "Management Judgments and Estimation Uncertainty" in the audited Financial Statements for the year ended December 31, 2020.

Risk Factors

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

Prices, Markets and Marketing

Gear's operational results and financial condition, and therefore the amount of capital expenditures, are dependent on the prices received for oil, natural gas and natural gas liquids ("NGLs") production. Prices for oil, natural gas and NGLs are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil, natural gas and NGLs, market uncertainty and a variety of additional factors beyond the control of the Company. A material decline in prices could result in a reduction of net production revenue. The economics of producing from some wells may change because of lower prices, which could result in reduced production of oil, natural gas or NGLs and a reduction in the volumes of Gear's reserves. Management might also elect not to produce from certain wells at lower prices as it has done in 2020.

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

These factors could result in a material decrease in Gear's expected net production revenue and a reduction in its oil and natural gas acquisition, development and exploration activities. Any substantial and extended decline in the price of oil and natural gas would have an adverse effect on the Company's carrying value of its assets and its borrowing capacity, revenues, profitability and funds from operations. To offset these risks, Gear has entered into various risk management contracts for 2021 for approximately half of its 2021 forecasted production.

Refinancing

Gear currently has \$65 million Credit Facilities with a revolving maturity date of May 27, 2022. The lenders review the Credit Facilities at a minimum twice a year (also known as a redetermination) to review primarily the amount available under the Credit Facilities (also known as the borrowing base) and to also decide if they will extend the revolving facilities for another year. In the event that the Credit Facilities are not extended, indebtedness under the Credit Facilities will become repayable at May 27, 2022 (or a year after the end of the revolving period). More immediate, however, is the risk that lenders redetermine a borrowing base below the amount that Gear has already drawn on its Credit Facilities (a "borrowing base shortfall"). Such a borrowing base shortfall must be eliminated within 30 days. If Gear is unable to eliminate the borrowing base shortfall, the lenders may demand immediate repayment of all amounts borrowed under the Credit Facilities. Any of these events could affect Gear's ability to fund ongoing operations. The next scheduled review is on or about May 31, 2021.

Operational Matters

Drilling hazards, environmental damage and various field operating conditions could greatly increase the cost of operations and adversely affect the production from successful wells. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, it is not possible to eliminate production delays and declines from normal field operating conditions, which can negatively affect revenue and cash flow levels to varying degrees. Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including, but not limited to, fire, explosion, blowouts, cratering, sour gas releases, and spills or other environmental hazards. These typical risks and hazards could result in substantial damage to oil and natural gas wells, production facilities, other property, the environment and personal injury. As is standard industry practice, Gear is not fully insured against all risks, nor are all risks insurable. Although Gear maintains liability insurance in an amount that it considers consistent with industry practice, liabilities associated with certain risks could exceed policy limits or not be covered. In either event, the Company could incur significant costs.

Reserve Estimates

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

Acquisitions

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

Royalty Regimes

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

Variations in Foreign Exchange Rates and Interest Rates

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

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

Third Party Credit Risk

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

Environmental

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

The provincial regulation of environmental liabilities and associated decommissioning liabilities in the oil and gas industry may face substantial changes in the near future. In 2016, the Alberta Court of Queen's Bench issued its decision in *Redwater Energy Corporation (Re)*, finding receivers and trustees of insolvent entities have the right to renounce assets within insolvency proceedings. The Alberta Court of Appeal affirmed this decision. In response, several provincial regulators, most notably the AER, implemented a number of interim rule changes to the regulatory scheme pertaining to the decommissioning, licensing and liability management programs. On January 31, 2019, however, the Supreme Court of Canada released its decision in the *Orphan Well Association v Grant Thornton Limited*, overturning the decision of the Alberta Court of Queen's bench and the Alberta Court of Appeal to hold that receivers and trustees can no longer avoid the AER's legislative authority to impose abandonment orders against licensees or to require a licensee to pay a security deposit before approving a transfer when such a licensee is subject to formal insolvency proceedings. As a result, any financial resources of a bankrupt licensee will first be used to satisfy outstanding abandonment obligations in respect of its unproductive assets. Remaining amounts, if any, will then satisfy the claims of secured creditors in accordance with the *Bankruptcy and Insolvency Act*.

There remains a great deal of uncertainty as to what regulatory measures will be developed by the provinces or in concert with the federal government to address the *Orphan Well Association v Grant Thornton Limited* decision. In addition, the decision has had an impact and is expected to continue to have an impact on how much credit lenders are willing to provide to oil and gas companies. This could impact Gear's ability to obtain financing on acceptable terms and the willingness of Gear's lenders to continue to provide credit to the Company.

Project Risks

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

- commodity prices and oil differentials;
- the availability of processing capacity;
- the availability and proximity of pipeline capacity;
- the availability of storage capacity;
- the availability of, and the ability to acquire, water supplies needed for drilling and hydraulic fracturing, or Gear's ability to dispose of water used or removed from strata at a reasonable cost and within applicable environmental regulations;
- the supply of and demand for oil and natural gas;
- the availability of alternative fuel sources;
- the effects of inclement weather;
- the availability of drilling and related equipment;
- unexpected cost increases;
- accidental events;

- currency fluctuations;
- changes in regulations;
- the availability and productivity of skilled labour; and
- the regulation of the oil and natural gas industry by various levels of government and governmental agencies.

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

Disclosure Controls and Procedures

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

The Chief Executive Officer and the Chief Financial Officer of Gear evaluated the effectiveness of the design and operation of the Company's DC&P. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that Gear's DC&P were effective as at December 31, 2020.

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 December 31, 2020, designed ICFR, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The control framework Gear's officers used to design the Company's ICFR is the Internal Control - Integrated Framework ("COSO Framework") published by The Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Under the supervision of the Chief Executive Officer and the Chief Financial Officer, Gear conducted an evaluation of the effectiveness of the Company's ICFR as at December 31, 2020 based on the COSO Framework. Based on this evaluation, the officers concluded that as of December 31, 2020, Gear maintained effective ICFR. It should be noted that while Gear's officers believe that the Company's controls provide a reasonable level of assurance with regard to their effectiveness, they do not expect that the DC&P and ICFR will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, but not absolute, assurance that the objectives of the control system are met.

There were no changes in Gear's ICFR during the three months ended December 31, 2020 that materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Forward-looking Information and Statements

This MD&A 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 MD&A contains forward-looking information and statements pertaining to the following: Gear's strategy for delivering per share growth and enhanced returns; Gear's expectation that it will have sufficient liquidity to support its operations and meet its financial obligations over the next 12 months; 2021 guidance including expected annual average production (including commodity weightings), 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; Gear's plans and expectations with respect to reducing methane and other emissions; Gear's intent to provide an inaugural environmental, social and governance report in 2021; 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

(Cdn\$ thousands, except per share, share, and per boe amounts)	2020				2019			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
FINANCIAL								
Petroleum and natural gas sales	19,644	21,054	5,188	19,171	30,396	32,459	37,297	31,837
Funds from operations ⁽¹⁾	8,253	10,848	8,068	6,258	13,738	15,968	17,104	15,032
Per weighted average basic share	0.04	0.05	0.04	0.03	0.06	0.07	0.08	0.07
Per weighted average diluted share	0.04	0.05	0.04	0.03	0.06	0.07	0.07	0.07
Cash flows from operating activities	8,016	8,864	3,547	9,788	11,401	13,613	18,881	5,981
Per weighted average basic share	0.04	0.04	0.02	0.05	0.05	0.06	0.09	0.03
Per weighted average diluted share	0.03	0.04	0.02	0.05	0.05	0.06	0.08	0.03
Net (loss) income	39,349	(1,157)	(5,300)	(110,215)	(8,045)	3,493	5,684	(6,812)
Per weighted average basic share	0.18	(0.01)	(0.02)	(0.51)	(0.04)	0.02	0.03	(0.03)
Per weighted average diluted share	0.15	(0.01)	(0.02)	(0.51)	(0.04)	0.02	0.02	(0.03)
Capital expenditures	386	715	239	11,099	12,603	11,800	3,334	9,252
Decommissioning liabilities settled ⁽²⁾	726	87	22	671	889	1,170	474	399
Net acquisitions (dispositions) ⁽³⁾	-	-	-	3	109	115	(162)	(1,038)
Net debt ^{(1) (4)}	52,864	60,544	70,177	80,261	69,752	69,837	72,127	85,740
Weighted average shares outstanding, basic (thousands)	216,490	216,490	216,486	216,715	218,365	219,084	219,093	219,016
Weighted average shares outstanding, diluted (thousands)	257,996	216,490	216,486	216,715	218,365	234,646	234,780	219,016
Shares outstanding, end of period (thousands)	216,490	216,490	216,490	216,468	217,610	218,873	219,093	219,044
OPERATING								
Production								
Heavy oil (bbl/d)	3,236	3,321	1,388	3,989	4,034	3,929	4,104	4,148
Light and medium oil (bbl/d)	1,657	1,746	845	1,775	1,763	2,059	2,166	1,863
Natural gas liquids (bbl/d)	182	174	103	217	269	218	228	235
Natural gas (mcf/d)	4,477	3,761	2,474	4,582	4,935	4,295	3,977	3,787
Total (boe/d)	5,821	5,868	2,749	6,744	6,888	6,922	7,161	6,877
Average prices								
Heavy oil (\$/bbl)	36.16	40.27	20.46	27.58	49.17	52.93	60.45	52.89
Light and medium oil (\$/bbl)	48.10	47.61	24.91	50.44	64.82	65.88	71.60	63.64
Natural gas liquids (\$/bbl)	26.02	20.30	25.73	10.54	22.79	26.70	13.11	26.40
Natural gas (\$/mcf)	2.69	2.25	1.98	1.93	2.36	0.79	0.92	2.40
Selected financial results (\$/boe)								
Petroleum and natural gas sales	36.68	39.00	20.74	31.24	47.97	50.97	57.23	51.44
Royalties	(4.38)	(3.48)	(1.38)	(3.66)	(5.52)	(6.06)	(6.87)	(4.33)
Transportation costs	(1.96)	(2.71)	(1.92)	(2.08)	(2.16)	(2.10)	(2.25)	(2.30)
Operating costs	(14.83)	(13.60)	(14.51)	(15.93)	(15.77)	(15.10)	(15.83)	(16.43)
Operating netback ⁽¹⁾	15.51	19.21	2.93	9.57	24.52	27.71	32.28	28.38
Realized risk management gain (loss)	4.67	5.35	35.85	4.57	0.58	0.80	(1.65)	(0.16)
General and administrative	(2.41)	(2.28)	(3.84)	(2.77)	(2.13)	(2.03)	(2.47)	(2.04)
Interest	(2.25)	(2.19)	(2.71)	(1.33)	(1.30)	(1.52)	(1.90)	(1.88)
Other costs	-	-	-	-	-	-	-	(0.01)
Realized gain (loss) on foreign exchange	(0.11)	-	0.03	0.16	0.01	0.11	(0.01)	-

(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) Decommissioning liabilities settled includes expenditures made by both Gear and the Federal Site Rehabilitation Program.

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

(4) 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. In particular, Gear implemented partial production shut-in for the periods April 2020 to July 2020. 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.

SELECTED ANNUAL INFORMATION

(Cdn\$ thousands, except per share, share, and per boe amounts)	2020	2019	2018
FINANCIAL			
Petroleum and natural gas sales	65,057	131,989	109,316
Funds from operations ⁽¹⁾	33,429	61,842	35,418
Per weighted average basic share	0.15	0.28	0.18
Per weighted average diluted share	0.15	0.28	0.16
Cash flows from operating activities	30,217	49,876	41,752
Per weighted average basic share	0.14	0.23	0.21
Per weighted average diluted share	0.14	0.23	0.19
Net (loss) income	(77,324)	(5,680)	5,094
Per weighted average basic share	(0.36)	(0.03)	0.03
Per weighted average diluted share	(0.36)	(0.03)	0.03
Capital expenditures	12,441	36,989	43,859
Decommissioning liabilities settled ⁽²⁾	1,505	2,932	2,981
Net (dispositions) acquisitions ⁽³⁾	3	(976)	66,172
Net debt ^{(1) (4)}	52,864	69,752	91,908
Weighted average shares outstanding, basic (thousands)	216,545	218,887	202,020
Weighted average shares outstanding, diluted (thousands)	216,545	218,887	219,452
Shares outstanding, end of year (thousands)	216,490	217,610	219,015
OPERATING			
Production			
Heavy oil (bbl/d)	2,985	4,053	4,388
Light and medium oil (bbl/d)	1,507	1,963	1,374
Natural gas liquids (bbl/d)	169	238	244
Natural gas (mcf/d)	3,825	4,252	4,680
Total (boe/d)	5,298	6,962	6,786
Average prices			
Heavy oil (\$/bbl)	32.64	53.87	45.01
Light and medium oil (\$/bbl)	45.41	66.69	63.73
Natural gas liquids (\$/bbl)	19.56	22.26	34.26
Natural gas (\$/mcf)	2.24	1.63	1.29
Selected financial results (\$/boe)			
Petroleum and natural gas sales	33.55	51.94	44.13
Royalties	(3.51)	(5.71)	(5.19)
Transportation costs	(2.20)	(2.20)	(2.03)
Operating costs	(14.80)	(15.78)	(14.94)
Operating netback ⁽¹⁾	13.04	28.25	21.97
Realized risk management gain (loss)	8.85	(0.12)	(4.29)
General and administrative	(2.67)	(2.17)	(2.08)
Interest	(2.00)	(1.65)	(1.10)
Transaction costs	-	-	(0.21)
Realized gain (loss) on foreign exchange	0.02	0.03	(0.01)
⁽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⁾ Decommissioning liabilities settled includes expenditures made by both Gear and the Federal Site Rehabilitation Program.			
⁽³⁾ Net (dispositions) acquisitions exclude non-cash items for decommissioning liability and deferred taxes and is net of post-closing adjustments.			
⁽⁴⁾ Net debt includes the risk management liability acquired through the Steppe Acquisition.			

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