FINANCIAL AND OPERATIONAL HIGHLIGHTS

GEAR ENERGY

(Cdn$ thousands, except per share, share and per boe amounts)	Three months ended **Sep 30, 2021**	Sep 30, 2020	Jun 30, 2021	Nine months ended **Sep 30, 2021**	Sep 30, 2020
FINANCIAL					
Funds from operations (1)	**15,955**	10,848	12,222	**36,430**	25,176
Per boe	**29.60**	20.09	24.69	**24.06**	17.94
Per weighted average basic share	**0.06**	0.05	0.05	**0.15**	0.12
Cash flows from operating activities	**9,601**	8,864	14,967	**34,460**	22,201
Per boe	**17.81**	16.42	30.24	**22.76**	15.82
Net income (loss)	**6,608**	(1,157)	(730)	**2,381**	(116,673)
Per weighted average basic share	**0.03**	(0.01)	-	**0.01**	(0.54)
Capital expenditures	**10,256**	715	5,809	**23,948**	12,055
Decommissioning liabilities settled (2)	**944**	87	694	**3,075**	779
Net acquisitions (dispositions) (3)	**-**	-	-	**-**	3
Net debt (1)	**27,860**	60,544	33,418	**27,860**	60,544
Weighted average shares, basic (thousands)	**258,274**	216,490	247,415	**245,061**	216,563
Shares outstanding, end of period (thousands)	**259,107**	216,490	258,103	**259,107**	216,490
OPERATING					
Production					
Heavy oil (bbl/d)	**3,325**	3,321	3,207	**3,187**	2,900
Light and medium oil (bbl/d)	**1,656**	1,746	1,469	**1,546**	1,456
Natural gas liquids (bbl/d)	**176**	174	148	**149**	165
Natural gas (mcf/d)	**4,215**	3,761	3,694	**3,985**	3,606
Total (boe/d)	**5,859**	5,868	5,440	**5,546**	5,122
Average prices					
Heavy oil ($/bbl)	**67.86**	40.27	62.14	**60.85**	31.32
Light and medium oil ($/bbl)	**80.49**	47.61	74.72	**73.07**	44.38
Natural gas liquids ($/bbl)	**47.48**	20.30	34.40	**41.82**	17.17
Natural gas ($/mcf)	**3.62**	2.25	3.15	**3.28**	2.06
Netback ($/boe)					
Petroleum and natural gas sales	**65.29**	39.00	59.90	**58.82**	32.36
Royalties	**(7.50)**	(3.48)	(6.64)	**(6.35)**	(3.18)
Operating costs	**(17.44)**	(13.60)	(16.66)	**(17.21)**	(14.78)
Transportation costs	**(2.04)**	(2.71)	(2.06)	**(2.04)**	(2.29)
Operating netback (1)	**38.31**	19.21	34.54	**33.22**	12.11
Realized risk management (loss) gain	**(5.13)**	5.35	(5.55)	**(5.08)**	10.45
General and administrative	**(2.70)**	(2,28)	(2.66)	**(2.58)**	(2.80)
Interest	**(1.01)**	(2.19)	(1.39)	**(1.44)**	(1.91)
Realized (loss) gain on foreign exchange	**0.13**	-	(0.24)	**(0.06)**	0.07
TRADING STATISTICS					
($ based on intra-day trading)					
High	**0.89**	0.25	1.01	**1.01**	0.50
Low	**0.53**	0.14	0.46	**0.25**	0.08
Close	**0.83**	0.16	0.85	**0.83**	0.16
Average daily volume (thousands)	**2,145**	275	3,019	**2,169**	573

(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 government's Site Rehabilitation Program.

(3) Net acquisitions (dispositions) exclude non-cash items for decommissioning liability and deferred taxes and are 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 November 3, 2021 and should be read in conjunction with the unaudited Interim Condensed Consolidated Financial Statements as at and for the nine months ended September 30, 2021 and the audited Consolidated Financial Statements as at and for the year ended December 31, 2020. 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 29 employees with 18 staff in the Calgary office and 11 employees located in Gear's operating areas in Alberta and Saskatchewan. Gear also has a number of contractors in the Calgary office, and contract operators in the field. The Company trades on the Toronto Stock Exchange under the symbol GXE and on the OTCQX under the symbol GENGF.

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 on 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

With the world economy now starting to re-open from COVID-19, oil demand appears to be exceeding supply. As a result, West Texas Intermediate ("WTI") prices are continuing to show strength as the year progresses. Prices have reached a seven year high after a continued drop in U.S. supplies and the recent worldwide energy crisis. Prices are currently hovering near US$85 per barrel, a substantial increase from realized prices a year prior. The outlook for the remainder of 2021 continues to look strong with Gear's fourth quarter forecasted to have continual debt repayments, production growth, and a material increase in funds from operations. Using current forward strip prices, net debt is forecasted to be approximately $13 million by the end of 2021. In addition to the balance sheet strengthening, Gear is forecasting fourth quarter 2021 production to be approximately 6,250 boe per day or a seven per cent growth from the third quarter 2021 production as a result of successful drilling and waterflood activity.

During the second quarter of 2020, Gear had voluntarily shut-in the majority of the Company's production due to the material drop in pricing. In the third quarter of 2020, with a recovery in pricing, Gear reactivated production. As a result, certain operating results for the nine months ended vary year over year. For the purpose of this MD&A, many of the comparative variances can be explained by the reduced production in the comparable period in the prior year.

2021 GUIDANCE

Gear's Board of Directors has approved a revision to 2021 guidance including slight increases to capital and production estimates with no material net change to 2021 exit net debt estimates.

Table 1

	2021 Revised Guidance	**2021 Guidance**	Q3 2021 YTD Actuals
Annual production (boe/d)	**5,700 – 5,800**	**5,500 – 5,600**	5,546
Heavy oil weighting (%)	**56**	**56**	57
Light/Medium oil and NGLs weighting (%)	**32**	**32**	31
Royalty rate (%)	**11**	**10**	11
Operating and transportation costs ($/boe)	**19.00**	**18.00**	19.25
General and administrative expense ($/boe)	**2.50**	**2.40**	2.58
Interest expense ($/boe)	**1.25**	**1.30**	1.44
Capital and abandonment expenditures ($ millions)	**31**	**27**	27

The 2021 revised capital program includes one additional gross well (0.33 net) to be drilled adjacent to the Wilson Creek light oil well drilled in the first quarter of 2021 which reached payout after six months of production and continues to produce over 250 boe per day (gross) at 85 percent liquids (83 boe per day net). In addition, Gear increased recompletion expenditures targeting low-risk oil and gas production as well as accelerating a portion of its abandonment and reclamation program from Q1 2022 to Q4 2021. In aggregate, these changes result in an increase to Gear's capital and abandonment expenditure guidance from $27 million to $31 million. However, the associated incremental production from these investments coupled with strong pricing will more than offset the increased capital with no material change to exit net debt of approximately $13 million for 2021. In addition to reactivating some higher cost production, Gear is also observing some inflationary pressures in the field, which have resulted in a $1 per boe increase in 2021 operating and transportation cost guidance. Coincident with these changes, Gear is increasing its 2021 annual production guidance by 200 boe per day to a range of 5,700 to 5,800 boe per day and increasing fourth quarter of 2021 production expectations by 350 boe per day to 6,250 boe per day.

2022 BUDGET GUIDANCE

The Board of Directors has approved a 2022 capital budget of $40 million dollars designed to target the following four key strategic outcomes:

1. Three to four per cent annual growth in production through low-risk investment into core area drilling and waterflood opportunities;
2. Achievement of zero net debt in the first half of the year;
3. Continued commitment to improving Gear's environmental footprint through abandonment and reclamation activities; and
4. The ability to return free funds from operations to shareholders through a combination of share buybacks and/or dividends

The strategic decision has been made to achieve a zero net debt balance prior to considering a return of capital to shareholders for two key reasons:

First and most immediate is an externally mandated restriction imposed by one of Gear's syndicated lenders. During 2020 when Gear encountered a withdrawal of support by one of its lenders, Gear was required to solicit external support from other lending institutions. At the time, Gear was successful in including Export Development Bank of Canada ("EDC") into the lending syndicate. However, EDC's support was contingent on the inclusion of several restrictions including an inability to return capital to shareholders regardless of the position of the balance sheet. EDC has affirmed that this restriction will remain in place. Gear is now pleased to announce that the fall borrowing base redetermination for its Credit Facilities (as defined below) has substantially been completed and that the previous unsupportive lender will no longer be a participant. With the forecast to be at or near zero net debt commensurate with the timing of the Spring 2022 borrowing base redetermination, Gear anticipates moving to a lending structure with no restrictions.

The second key reason is to reduce or eliminate risks associated with the growing trend of lenders looking to reduce their associated emissions by phasing out lending to Greenhouse Gas intensive sectors. On April 21, 2021, 43 banks from around the world announced a commitment to participate in the "Net-Zero Banking Alliance" which commits to the financial transition to a low-carbon economy and a focus by the year 2030 (or sooner) to reduce lending to the most Greenhouse Gas intensive sectors. The implications are that this program is designed primarily to target oil and gas producers, seemingly ignoring the material achievements made to date and future emission reduction commitments. The group has now been expanded to 69 banks and includes participation by all six of Canada's large banks. By moving to a zero net debt position, Gear will be in the enviable position of maximum flexibility in running its business in a continued ethical and responsible manner.

Using current forecasted commodity prices, Gear anticipates net debt being zero in the second quarter of 2022. Once zero net debt has been achieved, Gear anticipates directing some or all of the substantial forecasted free funds from operations towards a potential return of capital to shareholders in the form of share buybacks and/or dividends. Gear will also continue to evaluate consolidation investment opportunities as they arise. On a regular basis, Gear will assess whether it believes the share price is undervalued on an intrinsic basis, using various factors including reserve values per share and enterprise value to debt adjusted funds from operations multiples. If Gear believes its share price is appropriately valued, Gear will preferentially return capital to its shareholders in the form of dividends on a trailing quarterly basis.

The details of the 2022 capital budget are as follows:

- $29 million (72.5%) focused on drilling 19 gross (19 net) wells including 10 Provost and Killam, Alberta medium oil wells, eight Lloydminster area heavy oil wells, and one Southeast Saskatchewan Tableland light oil well

- $3 million (7.5%) invested in water flood expansions and optimizations including initiation of water injection into the new Provost medium oil asset, expansion of the successful Killam medium oil water flood and further expansions of the light oil water floods in Wilson Creek

- $3 million (7.5%) invested in field capital projects, recompletions, land, seismic and other corporate costs

- $5 million (12.5%) directed to continued reduction in liabilities associated with abandonment and reclamations to be combined with a minimum of an additional $2 million of federal government funding under the Site Rehabilitation Program (the "SRP")

The budget is forecast to deliver the following results:

	2022 Guidance
Annual production (boe/d)	5,900 – 6,000
Heavy oil weighting (%)	49
Light/Medium oil and NGLs weighting (%)	38
Royalty rate (%)	11
Operating and transportation costs ($/boe)	19.50
General and administrative expense ($/boe)	3.35
Interest expense ($/boe)	0.35
Capital expenditures ($ millions)	35
Abandonment expenditures ($ millions)	5

Using various WTI price forecasts for 2022 and assuming a WCS differential of US$14 per barrel, MSW and LSB differentials of US$4 per barrel, AECO gas price of C$4 per GJ, and a foreign exchange of US$0.80 per C$, Gear is forecasting 2022 funds from operations ("FFO") as follows:

WTI US$	65	75	85	95
FFO ($ millions)	61	81	99	117
Capital and abandonment expenditures ($ millions)	(40)	(40)	(40)	(40)
FFO less capital and abandonment expenditures ($ millions)	21	41	59	77

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				Nine months ended		
	Sep 30, 2021	Sep 30, 2020	% Change	Jun 30, 2021	**Sep 30, 2021**	Sep 30, 2020	% Change
Funds from operations per debt adjusted share (1)	**0.054**	0.017	218	0.039	**0.123**	0.040	208
Cash flows from operating activities per debt adjusted share (1)	**0.032**	0.014	129	0.048	**0.116**	0.036	222
Production, boepd per debt adjusted thousand shares (1)	**0.020**	0.009	122	0.017	**0.019**	0.008	138

(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*".

2021 THIRD QUARTER FINANCIAL AND OPERATIONAL RESULTS

Funds from Operations and Cash Flows from Operating Activities

Funds from operations increased from $10.8 million or $20.09 per boe in the third quarter of 2020 to $16.0 million or $29.60 per boe in the third quarter of 2021. On a year to date basis funds from operations increased from $25.2 million and $17.94 per boe in 2020 to $36.4 million and $24.06 per boe in 2021. The increases in funds from operations are the result of increased revenues due to higher realized commodity prices, increased sales volumes and decreased interest costs offset by increased operating, transportation and general and administrative costs, increased royalties, risk management losses and realized foreign exchange losses. Quarter over quarter, funds from operations increased from $12.2 million or $24.69 per boe to $16.0 million or $29.60 per boe mainly as a result of increased realized commodity pricing.

The following table details the change in funds from operations for 2021 relative to 2020:

Table 3

	Three months ended Sep 30		Nine months ended Sep 30	
	$ thousands	$/boe	$ thousands	$/boe
Q3 2020 Funds from operations (1)	10,848	20.09	25,176	17.94
Volume variance	(30)	-	3,578	-
Price variance	14,168	26.29	40,075	26.47
Risk management contracts	(5,653)	(10.48)	(22,362)	(15.53)
Royalties	(2,164)	(4.02)	(5,146)	(3.17)
Expenses:				
Operating and transportation	(1,690)	(3.16)	(5,170)	(2.17)
General and administrative	(227)	(0.42)	(21)	0.19
Interest	632	1.17	500	0.47
Realized foreign exchange	71	0.13	(200)	(0.14)
Q3 2021 Funds from operations (1)	15,955	29.60	36,430	24.06

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

Cash flows from operating activities increased from $8.9 million or $16.42 per boe in the third quarter of 2020 to $9.6 million or $17.81 per boe in the third quarter of 2021. On a year to date basis, cash flows from operating activities increased from $22.2 million or $15.82 per boe to $34.5 million or $22.76 per boe. The increases in cash flows from operating activities are the result of increased revenues due to higher realized commodity prices, increased sales volumes and lower interest costs offset by increased operating, transportation and general and administrative costs, increased royalties, risk management losses and realized foreign exchange losses. In 2021, most of the abandonment activities performed were funded under the federal government's Site Rehabilitation Program and do not affect cash flows from operating activities.

Net income

For the three and nine months ended September 30, 2021, Gear generated net income of $6.6 million and $2.4 million compared to a net loss of $1.2 million and $116.7 million for same periods in 2020. The changes in net income are due to stronger commodity prices, increased sales due to reactivated wells previously shut-in, and an impairment recorded in the first quarter of 2020 as well as several factors discussed below.

Production

For the three and nine months ended September 30, 2021, sales production volumes averaged 5,859 and 5,546 boe per day compared to 5,868 and 5,122 boe per day in the same periods in 2020. During the second quarter of 2020, Gear had shut-in the majority of production as a result of low commodity prices, and then restarted that shut-in production during the third quarter of 2020. In the third quarter of 2021 Gear drilled 6.0 net wells, of which 2 were brought on production in the period. Year to date, Gear has drilled 18.3 net wells, of which almost all are on production. During the third quarter, all the new wells contributed an aggregate of approximately 960 boe per day and continue to be optimized. These additional volumes from the new wells were offset by natural declines on base production and third-party operational issues in Killam. In the first quarter 2021, the Alberta Energy Regulator suspended the operations of SanLing Energy, which operated a gas gathering facility for Gear's Killam oil field. As a result, Gear had been forced to curtail production by approximately 200 boe per day from April to July. In the third quarter, Gear constructed an alternative gas conservation solution and sales volumes have recovered to previous levels. In September, Gear tied approximately 100 boe per day of flared gas into a newly constructed gas gathering system constructed by a third-party. As a result, natural gas, and natural gas liquids are expected to increase in the future. Gear's revenue associated with this incremental production will be offset by a transportation fee up until 2030, or when the total commitment is extinguished.

Fourth quarter production is expected to incline to approximately 6,250 boe per day as a result of production from Gear's wells drilled in the third quarter that began pumping subsequent to the quarter end. Gear had a minor inventory draw of 31 boe per day over the second quarter of 2021 and has approximately 138 thousand barrels of oil in inventory as at September 30, 2021.

Table 4

Production	Three months ended Sep 30, 2021	Sep 30, 2020	% Change	Jun 30, 2021	Nine months ended Sep 30, 2021	Sep 30, 2020	% Change
Liquids (bbl/d)							
Heavy oil (bbl/d)	**3,325**	3,321	-	3,207	**3,187**	2,900	10
Light and Medium oil (bbl/d)	**1,656**	1,746	(5)	1,469	**1,546**	1,456	6
Natural gas liquids (mcf/d)	**176**	174	1	148	**149**	165	(10)
Total liquids (bbl/d)	**5,157**	5,241	(2)	4,824	**4,882**	4,521	8
Natural gas (mcf/d)	**4,215**	3,761	12	3,694	**3,985**	3,606	11
Total production (boe/d) (1)	**5,859**	5,868	-	5,440	**5,546**	5,122	8
% Liquids production	**88**	89	4	89	**88**	88	-
% Natural gas production	**12**	11	(20)	11	**12**	12	-

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

Petroleum and natural gas sales ("Sales")

For the quarter and nine months ended September 30, 2021, sales of crude oil, natural gas and natural gas liquids totaled $35.2 million and $89.1 million, a 67 and 96 per cent increase over $21.1 million and $45.4 million for the same periods in 2020. These increases are the result of higher realized commodity prices. Quarter over quarter, sales increased to $35.2 million from $29.7 million in the second quarter of 2021 mainly as a result of higher realized pricing.

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

Table 5

Sales by product ($ thousands)	Three months ended Sep 30, 2021	Sep 30, 2020	% Change	Jun 30, 2021	Nine months ended Sep 30, 2021	Sep 30, 2020	% Change
Heavy oil	**20,759**	12,304	69	18,138	**52,948**	24,897	113
Light and medium oil	**12,259**	7,646	60	9,990	**30,850**	17,709	74
Natural gas liquids	**767**	324	137	464	**1,696**	774	119
Natural gas	**1,404**	780	80	1,059	**3,572**	2,033	76
Total petroleum and natural gas sales	**35,189**	21,054	67	29,651	**89,066**	45,413	96

Commodity Prices

Table 6

Average Benchmark Prices	Three months ended Sep 30, 2021	Sep 30, 2020	% Change	Jun 30, 2021	Nine months ended Sep 30, 2021	Sep 30, 2020	% Change
WTI oil (US$/bbl) (1)	**70.56**	40.93	72	66.07	**64.82**	38.32	69
WCS heavy oil (Cdn$/bbl) (2)	**71.81**	42.40	69	67.02	**65.45**	33.31	96
Canadian Light Sweet (3) (Cdn$/bbl)	**83.78**	49.82	68	77.30	**75.92**	44.07	72
LSB (Cdn$/bbl) (4)	**83.60**	50.02	67	77.00	**75.85**	44.01	72
AECO natural gas ($/mcf) (5)	**3.62**	1.98	83	2.94	**3.29**	2.01	64
Cdn$ / US$ exchange rate	**1.26**	1.33	(5)	1.23	**1.25**	1.36	(8)
Gear Realized Prices							
Heavy oil ($/bbl)	**67.86**	40.27	69	62.14	**60.85**	31.32	94
Light and medium oil ($/bbl)	**80.49**	47.61	69	74.72	**73.07**	44.38	65
Natural gas liquids ($/bbl)	**47.48**	20.30	134	34.40	**41.82**	17.17	144
Natural gas ($/mcf)	**3.62**	2.25	61	3.15	**3.28**	2.06	59
Weighted average, before risk management contracts ($/boe)	**65.29**	39.00	67	59.90	**58.82**	32.36	82
Realized risk management (loss) gain ($/boe)	**(5.13)**	5.35	(196)	(5.55)	**(5.08)**	10.45	(149)
Weighted average, after risk management contracts ($/boe)	**60.16**	44.35	36	54.35	**53.74**	42.81	26

(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 third quarter of 2021, US$ denominated WTI prices increased by 72 per cent over the same period in 2020, offset by widening differentials for WCS, Canadian Light Sweet, and LSB. As a result, Gear's realized pricing increased from $39.00 per boe to $65.29 per boe. Quarter over quarter, Gear's realized pricing increased from $59.90 per boe to $65.29 per boe in 2021.

On a year-to-date basis WTI increased from US$38.32 per barrel to US$64.82 per barrel over the same period in 2020 with narrowing differentials for WCS, Canadian Light Sweet, and LSB. These pricing movements resulted in an increase in Gear's realized pricing from $32.36 per boe to $58.82 per boe.

Royalties

For the quarter and nine months ended September 30, 2021, royalties as a percentage of commodity sales were 11.5 and 10.8 percent compared to 8.9 and 9.8 per cent for the same periods in 2020. Over the last couple of years, due to lower commodity prices, Gear's royalty rates have gradually declined as Gear continually replaced production with new wells which have an initial lower royalty rate encumbrance than legacy production. Quarter over quarter, Gear's royalty rate increased from 11.1 per cent to 11.5 per cent as a result of increased realized pricing. As commodity prices increase, Gear's royalty rate will also increase as pre-existing wells will hit higher royalty tiers faster.

Table 7

Royalty expense	Three months ended				Nine months ended		
($ thousands except % and per boe)	**Sep 30, 2021**	Sep 30, 2020	% Change	Jun 30, 2021	**Sep 30, 2021**	Sep 30, 2020	% Change
Royalty expense	**4,041**	1,877	115	3,285	**9,614**	4,468	115
Royalty expense as a % of Sales	**11.5**	8.9	29	11.1	**10.8**	9.8	10
Royalty expense per boe	**7.50**	3.48	115	6.64	**6.35**	3.18	100

Operating and Transportation Expenses

Operating costs plus transportation for the quarter and nine months ended September 30, 2021 was $19.48 and $19.25 per boe compared to $16.31 and $17.07 per boe for the same periods in 2020. This increase is a result of Gear re-activating previously shut-in high operating expense wells to take advantage of positive netbacks, proceeding with previously delayed maintenance and workover projects and some inflationary pressures. Quarter over quarter, operating costs plus transportation increased from $18.72 per boe in the second quarter 2021 to $19.48 per boe mainly as a result of the items identified above. As mentioned above, in September, Gear tied approximately 100 boe per day of production into a newly constructed gas gathering system. Gear's revenue associated with this incremental production will be offset by a transportation fee up until 2030, or when the total commitment is extinguished. Gear incurred $125 thousand of transportation fees associated with this new system for 20 days of production in September.

Table 8 below summarizes the operating and transportation expenses:

Table 8

Operating and Transportation expenses	Three months ended				Nine months ended		
($ thousands except per boe)	**Sep 30, 2021**	Sep 30, 2020	% Change	Jun 30, 2021	**Sep 30, 2021**	Sep 30, 2020	% Change
Operating expense	**9,400**	7,344	28	8,248	**26,053**	20,748	26
Transportation expense	**1,098**	1,464	(25)	1,021	**3,085**	3,220	(4)
Operating and transportation expense	**10,498**	8,808	19	9,269	**29,138**	23,968	22
Operating expense per boe	**17.44**	13.60	28	16.66	**17.21**	14.78	16
Transportation expense per boe	**2.04**	2.71	(25)	2.06	**2.04**	2.29	(11)
Operating and transportation expense per boe	**19.48**	16.31	19	18.72	**19.25**	17.07	13

Operating Netbacks

For the quarter and nine months ended September 30, 2021, Gear's operating netback prior to risk management contracts was $38.31 and $33.22 per boe compared to $19.21 and $12.11 per boe for the same periods in 2020. The increase is primarily the result of increased commodity pricing. Quarter over quarter, Gear's operating netback increased from $34.54 per boe in the second quarter of 2021 to $38.31 per boe mainly as a result of increased realized commodity pricing, offset by increased royalty costs and operating expenses.

The components of operating netbacks are summarized in Table 9:

Table 9

Operating Netback	Three months ended				Nine months ended		
($ per boe)	**Sep 30, 2021**	Sep 30, 2020	% Change	Jun 30, 2021	**Sep 30, 2021**	Sep 30, 2020	% Change
Total sales	**65.29**	39.00	67	59.90	**58.82**	32.36	82
Royalties	**(7.50)**	(3.48)	116	(6.64)	**(6.35)**	(3.18)	100
Operating costs	**(17.44)**	(13.60)	28	(16.66)	**(17.21)**	(14.78)	16
Transportation costs	**(2.04)**	(2.71)	(25)	(2.06)	**(2.04)**	(2.29)	(11)
Operating Netback	**38.31**	19.21	99	34.54	**33.22**	12.11	174

General and Administrative ("G&A") Expenses and Share-based compensation ("SBC")
For the quarter and nine months ended September 30, 2021, G&A expenses totaled $1.5 million and $3.9 million, compared to $1.2 million and $3.9 million for the same periods in 2020. During the first quarter of 2021, Gear ended a 20 per cent compensation reduction program that had been applied to all officers, employees and directors since April 1, 2020. During the third quarter of 2021, Gear approved minor compensation changes for all employees. For the nine months ended September 30, 2021, Gear received $0.1 million under the Canada Emergency Wage Subsidy program compared to $0.4 million for the same period in 2020. Gear no longer qualifies for this program due to increased revenue. Finally, as a result of increased drilling activities, for the quarter and nine months ended September 30, 2021, Gear capitalized $0.3 million and $0.9 million of G&A compared to $nil and $0.6 million for the same periods in 2020. For the three and nine months ended September 30, 2021, G&A on a per boe basis was $2.70 and $2.58 per boe, representing an increase of 19 and decrease of 8 per cent over the same periods in 2020.

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

Table 10

G&A and SBC expense	Three months ended				Nine months ended		
($ thousands except per boe)	**Sep 30, 2021**	Sep 30, 2020	% Change	Jun 30, 2021	**Sep 30, 2021**	Sep 30, 2020	% Change
G&A, before recoveries and capitalized G&A	**1,839**	1,292	42	1,683	**5,015**	4,800	4
Overhead recoveries	**(69)**	(62)	11	(66)	**(208)**	(237)	(12)
Capitalized G&A	**(314)**	-	(100)	(301)	**(897)**	(635)	41
G&A	**1,456**	1,230	18	1,316	**3,910**	3,928	-
SBC expense	**137**	124	10	121	**331**	394	(16)
G&A per boe	**2.70**	2.28	19	2.66	**2.58**	2.80	(8)
SBC expense per boe	**0.25**	0.23	11	0.24	**0.22**	0.28	(22)

SBC is related to the granting of stock options. There were 6.3 million options granted during the nine months ended September 30, 2021 at an average exercise price of $0.55. In addition, 1.2 million options expired or were forfeited at an average exercise price of $0.63 and 2.9 million options were exercised at an average exercise price of $0.39. During the first quarter of 2021, Gear cash settled the remaining options from the five-year expiry option plan for $29 thousand. As at September 30, 2021 a total of 14.8 million options with a weighted average exercise price of $0.45 per share were outstanding, representing approximately six per cent of the 259.1 million total common shares outstanding. Each option entitles the holder to acquire one Gear common share. For further information on Gear's stock options, see the notes to the unaudited Interim Condensed Consolidated Financial Statements. At the date of this MD&A, Gear had a total of 13.9 million options outstanding at a weighted average exercise price of $0.41 per share.

Interest and financing charges
For the quarter and nine months ended September 30, 2021, interest and financing charges totaled $0.5 million and $2.2 million compared to $1.2 million and $2.7 million in the same periods of 2020, respectively, representing a nineteen per cent decrease for the nine month period. Gear's annualized borrowing costs, inclusive of financing charges and standby fees on its Credit Facilities approximated 5.1 and 5.7 per cent compared to 6.1 and 4.4 per cent for the same periods of 2020. 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 primarily to lower indebtedness as well as lower margin and standby fee rates due to a decrease in Gear's Senior Debt to EBITDA Ratio. In addition, Gear's subordinated unsecured convertible debentures (the "Convertible Debentures") had a coupon rate of 7.0 per cent compared to 4.0 for the same period in 2020. During the second quarter of 2021, all remaining outstanding Convertible Debentures were converted into common shares of Gear. Looking forward, Gear anticipates a meaningful reduction in interest and financing charges as its debt balance is reduced. Gear will realize an estimated $0.9 million of annual interest cost savings from the conversion of the Convertible Debentures.

Table 11 is a breakdown of interest expense:

Table 11

Interest and financing charges	Three months ended				Nine months ended		
($ thousands except per boe)	**Sep 30, 2021**	Sep 30, 2020	% Change	Jun 30, 2021	**Sep 30, 2021**	Sep 30, 2020	% Change
Interest expense	**483**	1,118	(57)	590	**1,878**	2,492	(25)
Financing charges	**34**	17	100	65	**197**	79	149
Standby fees	**30**	45	(33)	34	**102**	106	(4)
Interest and financing charges	**547**	1,180	(54)	689	**2,177**	2,677	(19)
Interest and financing charges per boe	**1.01**	2.19	(54)	1.39	**1.44**	1.91	(25)

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 its credit agreement. To date, Gear has hedged approximately 50 per cent of its 2021 and 9 months of its 2022 forecasted production and continues to monitor markets for the remainder of its 2022 hedging program.

For the quarter and nine months ended September 30, 2021, Gear realized losses on risk management contracts of $2.8 million and $7.7 million compared to realized gains of $2.9 million and $14.7 million for the same periods in 2020. The fair value of all outstanding contracts at September 30, 2021 was a liability of $6.5 million.

Table 12 summarizes Gear's financial risk management contracts as at September 30, 2021:

Table 12

Financial WTI Crude Oil Contracts

Term		**Contract**	**Currency**	**Volume bbl/d**	**Sold Swap $/bbl**	**Sold Call $/bbl**	**Bought Put $/bbl**	**Sold Put $/bbl**
Oct 1, 2021	Dec 31, 2021	Three-way collar	CAD	800	-	74.00	55.00	45.00
Oct 1, 2021	Dec 31, 2021	Three-way collar	CAD	800	-	71.00	55.00	45.00
Oct 1, 2021	Dec 31, 2021	Three-way collar	CAD	400	-	83.00	55.00	45.00
Jan 1, 2022	Mar 31, 2022	Three-way collar	CAD	2,400	-	86.00	62.50	50.00
Apr 1, 2022	Jun 30, 2022	Put spread (1)	CAD	2,400	-	-	62.50	50.00

(1) The put spread also has a deferred premium of $2.32 per barrel.

Financial AECO Natural Gas Contracts

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

Subsequent to period end, Gear entered into the following financial risk management contract:

Financial WTI Crude Oil Contracts

Term		**Contract**	**Currency**	**Volume bbl/d**	**Sold Swap $/bbl**	**Sold Call $/bbl**	**Bought Put $/bbl**	**Sold Put $/bbl**
Jul 1, 2022	Sep 30, 2022	Three-way collar	CAD	2,400	-	116.50	62.50	50.00

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

DD&A during the quarter and nine months ended September 30, 2021, was $16.64 and $16.96 per boe compared to $17.44 and $16.82 per boe in the same periods in 2020. The decrease in the DD&A rate is the result of the previously disclosed impairment reversals which increased Gear's depletable base, increased production and increased government spending on abandonments. Depletion is recorded net of government spending. For the three and nine months ended September 30, 2021, the government provided Gear $0.9 million and $2.5 million towards extinguishing decommissioning liabilities, as compared to $nil and $nil in the same periods in 2020.

For the nine months ended September 30, 2020, Gear had an impairment of $98.2 million on both its three cash-generating units ("CGUs") and inventory, both of which were recognized as an impairment in the Consolidated Statements of Loss and Comprehensive Loss. No impairments have been recorded in 2021. For additional information see Note 3 "Property, Plant and Equipment and Impairment" in the notes to the Interim Condensed Consolidated Financial

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

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

Table 13

DD&A Rate	Three Months Ended				Nine Months Ended		
($ thousands except per boe)	**Sep 30, 2021**	Sep 30, 2020	% Change	Jun 30, 2021	**Sep 30, 2021**	Sep 30, 2020	% Change
DD&A	**8,967**	9,413	(5)	8,560	**25,678**	23,603	9
Total DD&A rate per boe	**16.64**	17.44	(5)	17.29	**16.96**	16.82	1
Impairment	**-**	-	-	-	**-**	98,206	(100)

Taxes

Deferred income tax assets are recognized for tax loss and tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. A deferred tax asset in the amount of $74.3 million (2020 - $74.3 million) has not been recognized as Gear does not find it probable that the benefit will be realized. Included in this tax basis are estimated non-capital loss carry forwards that expire in the years 2027 through 2041. At September 30, 2021, Gear's estimated tax pools were relatively unchanged from the $592.9 million as at December 31, 2020. No cash income taxes were paid in 2021 and 2020.

Capital Expenditures, Acquisitions and Dispositions

Capital expenditures including acquisitions and dispositions for the quarter and nine months ended September 30, 2021 were $10.3 million and $23.9 million compared to $0.7 million and $12.1 million in the same periods in 2020. During the third quarter of 2021 Gear successfully drilled four medium oil wells in Provost, Alberta, and two heavy oil wells in Wildmere, Alberta. Year to date, Gear has successfully drilled 19 gross (18.3 net) wells including ten heavy oil single lateral wells in Paradise Hill, one gross (0.3 net) multi-stage fractured light oil well in Wilson Creek, one multi-stage fractured light oil well in Tableland, four multi-leg medium oil wells in Provost and three multi-leg heavy oil wells in Wildmere. In aggregate all the wells drilled to date were on budget for costs and have met or exceeded production expectations. The four Provost wells were brought on production near the beginning of the fourth quarter.

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

Table 14

Capital expenditures	Three months ended				Nine months ended		
($ thousands)	**Sep 30, 2021**	Sep 30, 2020	% Change	Jun 30, 2021	**Sep 30, 2021**	Sep 30, 2020	% Change
Drilling and completions	**7,082**	105	6,645	3,633	**17,037**	9,031	89
Production equipment and facilities	**3,062**	590	419	2,056	**6,604**	2,836	133
Geological and geophysical	**20**	3	567	16	**66**	40	65
Undeveloped land purchased at crown land sales	**56**	15	273	101	**199**	159	25
Other	**36**	2	1,700	3	**42**	(11)	(482)
Total capital expenditures	**10,256**	715	1,334	5,809	**23,948**	12,055	99
Property acquisitions and dispositions, net (1)	**-**	-	-	-	**-**	3	(100)
Total capital expenditures and net acquisitions	**10,256**	715	1,334	5,809	**23,948**	12,058	99

(1) Includes post-closing adjustments

Decommissioning Liability

At September 30, 2021, Gear recorded a decommissioning liability of $80.0 million ($87.5 million at December 31, 2020) 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 1.98 per cent (1.85 per cent at December 31, 2020) and discounted using a risk free rate of 1.98 per cent (1.85 per cent at December 31, 2020). 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 ongoing investments in remediation and an adjustment to the future cost estimates in the Heavy Oil CGU based on actual abandonment costs incurred in the last several years by both Gear and third-party government bodies. Decommissioning liabilities settled by Gear for the nine months ended September 30, 2021 were $0.6 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 the 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. Gear carried over $1.6 million of funding from 2020 as the spending had yet to occur. In 2021 to date, Gear has been approved for an additional $3.0 million bringing the total cumulative funding to date to $5.2 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 in the Wildmere area. During the nine months ended September 30, 2021, as a result of combined efforts of both Gear and the SRP, the combined $3.1 million of decommissioning expenditures allowed Gear to cut and cap 37 gross wells in Alberta and downhole abandon 49 gross wells in Alberta, and cut and cap 41 gross wells in Saskatchewan and downhole abandon 36 gross wells in Saskatchewan.

A breakdown of Gear's spending per Provincial jurisdiction is outlined in Table 15:

Table 15

SRP ($ thousands)	**Alberta**	**Saskatchewan**	**British Columbia**	Total
2020 funding carry over	1,240	372	2	1,614
2021 funding	1,795	1,230	-	3,025
2021 spending	(1,804)	(652)	-	(2,456)
Remaining	**1,231**	**950**	**2**	**2,183**

Capitalization, Financial Resources and Liquidity
A breakdown of Gear's capital structure is outlined in Table 16:

Table 16

Debt ($ thousands except ratio amounts)	**Sep 30, 2021**	Dec 31, 2020
Net debt (1)	**27,860**	52,864
Net debt to trailing twelve-month funds from operations (1)	**0.6**	1.6
Net debt to quarterly annualized funds from operations (1)	**0.4**	1.6
Common shares outstanding	**259,107**	216,490

(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".

Gear was able to achieve a 47 per cent reduction in third quarter net debt over 2020 year-end. This was achieved primarily through the retirement of $13.2 million of Convertible Debentures resulting in the issuance of 41.2 million common shares and funds from operations that greatly exceeded capital expenditures during 2021.

Credit Facilities
In September, Gear completed its annual borrowing base redetermination and amended its credit facilities (the "Credit Facilities") as follows:

Facility	**Borrowing base**		**Maturity Date**
($ millions)	**Sep 30, 2021**	**Dec 31, 2020**	
Non-revolving (1)	-	15.0	Repaid
Non-revolving	6.9	-	May 27, 2022
Revolving	33.7	42.5	May 27, 2023
Operating	7.5	7.5	May 27, 2023
Total	48.1	65.0	

(1) The $6.9 million non-revolving portion is anticipated be repaid in November, with the borrowing base expected to be adjusted to $42 million.

At September 30, 2021 Gear had $37.8 million drawn on the Credit Facilities (December 31, 2020 – $50.7 million) and outstanding letters of credit of $0.9 million (December 31, 2020 – $0.9 million). $6.9 million (December 31, 2020 – $5.0 million) has been classified as short-term debt for amounts borrowed under the non-revolving term credit facilities as these are required to be repaid in the next twelve months. The Credit Facilities do not carry any financial covenants. Gear has an outstanding letter of credit with a counterparty separate from the Credit Facilities for $1.1 million (December 31, 2020 – $nil).

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.

Gear's Credit Facilities are periodically reviewed by its lenders through scheduled borrowing base reviews at which time the borrowing base of such 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 could cause liquidity risk, 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, 2023 maturity date. In November 2021, Gear substantially completed its semi-annual borrowing base review with an expected reduction in its borrowing base from $48.1 million to $42 million. The next borrowing base review is expected to be completed on or about May 31, 2022.

Convertible Debentures
On December 31, 2020, Gear had $13.2 million in outstanding Convertible Debentures. On March 16, 2021, Gear announced that its Convertible Debentures would be redeemed on April 26, 2021, at the option of the Company. During the nine months ended September 30, 2021, $13.2 million of the Convertible Debentures were converted into 41.2 million common shares. All 2021 debenture conversions were converted at $0.32 per common share such that for every $1,000 principal amount of Convertible Debentures, a holder received 3,125 common shares along with the accrued and unpaid interest for the period from December 1, 2020 to the date of conversion.

Shareholders' Equity
As at September 30, 2021, Gear had 259.1 million common shares outstanding. The increase since December 31, 2020, is due to conversions of the Convertible Debentures described above and stock option exercises. At December 31, 2020, Gear had 216.5 million common shares outstanding. At the date of this MD&A, Gear had 259.1 million shares outstanding.

As at September 30, 2021 a total of 14.8 million options were outstanding with a weighted average exercise price of $0.45 per share and each option entitled the holder to acquire one Gear common share.

Environmental, Social, and Governance ("ESG") 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 legislations will harmonize with provincial regulations, as well as the timing and effects of such legislations and 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 has a track record of investing in the environment that started with the installation of a large-scale fuel system to capture vented natural gas in Wildmere back in 2010. Since then, Gear has continued to expand those fuel systems across many of the assets to both conserve and reduce vented natural gas on our major properties. Additionally, Gear has and continues to expand participation in programs designed to reduce methane emissions through a number of initiatives including replacing high bleed pneumatic controllers with low and zero bleed controllers, installing vapor recovery units to capture tank vent gas, installing instrument air instead of utilizing natural gas and utilizing electricity where possible. Most recently in Southeast Saskatchewan, Gear has completed a project with a third party to implement a significant flaring and emissions reduction system. Gear has submitted its initial emissions reduction five-year plan which has been approved by the Saskatchewan government. In almost all areas, Gear has been accessing reservoirs using multi-well pad and multi-leg drilling designs, materially reducing the surface footprint required to access resources. Similarly, Gear has been implementing, optimizing, and expanding water flooding projects in multiple core areas. These water floods allow Gear to efficiently access incremental resources that would be left behind under primary recovery without expanding surface footprints. Significant effort continues to be focused on reducing liabilities. Over the last three years, Gear has abandoned an average of 55 wells per year and the forecast for 2021 is to increase that amount to approximately 120 wells. At the end of 2021 Gear is forecasting to have abandoned almost five times as many wells as have been drilled over the same period.

Social
Health and safety have always been prioritized to ensure the well-being of all stakeholders while successfully growing the tangible value of Gear's assets. Safety for Gear's workforce including contractors is paramount. Gear hosts monthly safety meetings for its field staff to review all safety protocols. Over the last two years including to the end of the second quarter of 2021, Gear has had zero lost time injuries and zero recordable injuries.

Gear continues to adhere to government guidelines pertaining to COVID-19 and has mandated its employees to work from home unless a physical presence is required for operational effectiveness.

Gear provides material investment in and assistance to the communities where we operate. Gear also believes that its main objective is to generate value creation for its shareholders so that they can, if they so choose, provide a return to society as well. Additionally, Gear supports its employees as they regularly contribute both personal resources and time to enhancing communities through various corporate and employee initiatives.

Governance
Gear's outstanding teams operate in an environment of honesty, integrity and accountability. Related corporate policies and guidelines are included in the Code of Business Conduct & Ethics, the Whistleblower Policy, the Governance and Compensation Committee Mandate and the Mandate of the Board of Directors. All these documents are posted on the Gear website https://gearenergy.com/governance/. These documents, among others, outline Gear's commitment to multiple matters including compliance with all regulatory and environmental laws, valuing diversity and a commitment to providing equal opportunity in all aspects of employment, and oversight of all facets of the company's environmental, health and safety protocols.

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

Shareholder Alignment to management and director compensation	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. On an annual basis, an evaluation is completed for all directors

During the third quarter of 2021, Gear released 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 September 30, 2021, Gear had the following contractual commitments:

- lease agreements for its head office and its two field offices;
- one service commitment; and
- one transportation commitment

Lease agreements for Gear's head and field offices are effective until July 31, 2025. The remaining commitment for these lease agreements is $1.6 million. The service commitment relates to a software agreement that expires in 2023 with a remaining commitment of $0.3 million. The transportation commitment relates to an agreement with a mid-stream company. Gear will pay an escalated transportation fee until 2030. The total remaining transportation commitment is $4.6 million. For further information see Note 12 "Commitments and Contingencies" in the notes to the unaudited 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 and results of operations.

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 17 below reconciles cash flows from operating activities to funds from operations:

Table 17

($ thousands)	Three months ended **Sep 30, 2021**	Sep 30, 2020	Jun 30, 2021	Nine months ended **Sep 30, 2021**	Sep 30, 2020
Cash flows from operating activities	**9,601**	8,864	14,967	**34,460**	22,201
Decommissioning liabilities settled (1)	**40**	87	183	**619**	779
Change in non-cash working capital	**6,314**	1,897	(2,928)	**1,351**	2,196
Funds from operations	**15,955**	10,848	12,222	**36,430**	25,176

(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 18

Capital Structure and Liquidity ($ thousands)	**Sep 30, 2021**	Dec 31, 2020
Debt	**37,806**	50,749
Convertible Debentures (at face value) (1)	**-**	13,185
Working capital (surplus) (2)	**(9,946)**	(11,070)
Net debt	**27,860**	52,864

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

At September 30, 2021, 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 could cause liquidity risk, 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 were 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 **Sep 30, 2021**	Sep 30, 2020	Jun 30, 2021	Nine months ended **Sep 30, 2021**	Sep 30, 2020
Weighted average basic shares	**258,274**	216,490	247,415	**245,061**	216,563
Average share price (1)	**0.79**	0.16	0.86	**0.79**	0.16
Average net debt (2)	**30,639**	65,361	38,174	**40,362**	65,148
Share equivalent on average net debt (3)	**38,783**	408,503	44,388	**51,090**	407,175
Debt adjusted shares	**297,057**	624,993	291,803	**296,151**	623,738

(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 year to date 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.

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 Control 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 September 30, 2021, 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 September 30, 2021 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; expectations with respect to commodity pricing and supply and demand factors affecting commodity pricing; the fourth quarter of 2021 predicted to have continual debt repayments, production growth, and material free funds from operations; the forecast of net debt of $13 million by the end of 2021; fourth quarter 2021 production to be 6,250 boe per day; 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; the expected capital projects associated with the revised 2021 capital program; the expectation that associated incremental production from the increased capital program coupled with strong pricing will more than offset the increased capital with no material change to exit net debt estimates; the expected details of the 2022 capital budget including the expectation that the capital budget will deliver three to four per cent annual growth, zero net debt in the first half of 2022, continued improvement in Gear's environmental footprint and return free funds from operations to shareholders through a combination of share buybacks and dividends; Gear's expectations as to future changes to the terms of its Credit Facilities; the expected factors that will lead Gear to pursue share buybacks and/or dividends; the expected capital expenditures associated with the 2022 capital budget; the expected abandonments and reclamations expenditures in 2022 and the expected funding of some of such expenditures through the SRP; 2022 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; the forecasting of various FFO and FFO less capital and abandonment expenditures at various WTI prices for 2022; the expected reductions in Gear's bank debt; the expected annual interest savings resulting from the conversion of the Convertible Debentures and the reduction of interest through debt reductions; the expectation percentage of Gear's forecast 2021 and 2022 production that is hedged and expectations as to future hedges for the remainder of its 2022 hedging program; Gear's expectation that it will have sufficient liquidity to support its operations and meet its financial obligations over the next 12 months; Gear's plans and expectations with respect to reducing methane and other emissions; 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. In addition, any future share buybacks, payments of dividends or any other distributions to shareholders will depend on the Board of Directors of Gear determining that such actions are in the best interests of the Company. Gear's Board of Directors may determine that any available cash should be allocated for other purposes such as acquisitions or additional capital expenditures instead of making distributions to shareholders. In addition, forward-looking information and statements are subject to certain other risks detailed from time to time in Gear's public documents including risk factors set out in Gear's most recent annual information form, which is available on SEDAR at www.sedar.com.

The forward-looking information and statements contained in this report are made as of the date of this report, and Gear does not assume any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable laws.

Barrels of Oil Equivalent

Disclosure provided herein in respect of BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of six Mcf to one Bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Additionally, given that the value ratio based on the current price of crude oil, as compared to natural gas, is significantly different from the energy equivalency of 6:1; utilizing a conversion ratio of 6:1 may be misleading as an indication of value.

Initial Production Rates

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

Oil and Gas Metrics

This MD&A contains certain oil and gas metrics, including "payout", which do not have standardized meanings or standard methods of calculation and therefore such measures may not be comparable to similar measures used by other companies. Such metrics have been included herein to provide readers with additional measures to evaluate the Company's performance; however, such measures are not reliable indicators of the future performance of the Company and future performance may not compare to the performance in previous periods. Payout is the estimated period to fully recover all capital spent for drilling, completion and tie-in of a well. The payout periods associated with the wells have been provided herein to give an indication of management's assumptions used for budgeting, planning and forecasting purposes.

QUARTERLY HISTORICAL REVIEW

	2021			2020				2019
(Cdn$ thousands, except per share, share, and per boe amounts)	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
FINANCIAL								
Petroleum and natural gas sales	35,189	29,651	24,226	19,644	21,054	5,188	19,171	30,396
Funds from operations (1)	15,955	12,222	8,253	8,253	10,848	8,068	6,258	13,738
Per weighted average basic share	0.06	0.05	0.04	0.04	0.05	0.04	0.03	0.06
Per weighted average diluted share	0.06	0.05	0.04	0.04	0.05	0.04	0.03	0.06
Cash flows from operating activities	9,601	14,967	9,892	8,016	8,864	3,547	9,788	11,401
Per weighted average basic share	0.04	0.06	0.04	0.04	0.04	0.02	0.05	0.05
Per weighted average diluted share	0.04	0.06	0.04	0.03	0.04	0.02	0.05	0.05
Net (loss) income	6,608	(730)	(3,497)	39,349	(1,157)	(5,300)	(110,215)	(8,045)
Per weighted average basic share	0.03	-	(0.02)	0.18	(0.01)	(0.02)	(0.51)	(0.04)
Per weighted average diluted share	0.03	-	(0.02)	0.15	(0.01)	(0.02)	(0.51)	(0.04)
Capital expenditures	10,256	5,809	7,883	386	715	239	11,099	12,603
Decommissioning liabilities settled (2)	944	694	1,437	726	87	22	671	889
Net acquisitions (dispositions) (3)	-	-	-	-	-	-	3	109
Net debt (1) (4) (5)	27,860	33,418	42,929	52,864	60,544	70,177	80,261	69,752
Weighted average shares outstanding, basic (thousands)	258,274	247,415	221,090	216,490	216,490	216,486	216,715	218,365
Weighted average shares outstanding, diluted (thousands)	263,719	247,415	221,090	257,996	216,490	216,486	216,715	218,365
Shares outstanding, end of period (thousands)	259,107	258,103	247,415	216,490	216,490	216,490	216,468	217,610
OPERATING								
Production								
Heavy oil (bbl/d)	3,325	3,207	3,026	3,236	3,321	1,388	3,989	4,034
Light and medium oil (bbl/d)	1,656	1,469	1,513	1,657	1,746	845	1,775	1,763
Natural gas liquids (bbl/d)	176	148	121	182	174	103	217	269
Natural gas (mcf/d)	4,215	3,694	4,043	4,477	3,761	2,474	4,582	4,935
Total (boe/d)	5,859	5,440	5,335	5,821	5,868	2,749	6,744	6,888
Average prices								
Heavy oil ($/bbl)	67.86	62.14	51.58	36.16	40.27	20.46	27.58	49.17
Light and medium oil ($/bbl)	80.49	74.72	63.16	48.10	47.61	24.91	50.44	64.82
Natural gas liquids ($/bbl)	47.48	34.40	42.61	26.02	20.30	25.73	10.54	22.79
Natural gas ($/mcf)	3.62	3.15	3.05	2.69	2.25	1.98	1.93	2.36
Selected financial results ($/boe)								
Petroleum and natural gas sales	65.29	59.90	50.46	36.68	39.00	20.74	31.24	47.97
Royalties	(7.50)	(6.64)	(4.77)	(4.38)	(3.48)	(1.38)	(3.66)	(5.52)
Operating costs	(17.44)	(16.66)	(17.51)	(14.83)	(13.60)	(14.51)	(15.93)	(15.77)
Transportation costs	(2.04)	(2.06)	(2.01)	(1.96)	(2.71)	(1.92)	(2.08)	(2.16)
Operating netback (1)	38.31	34.54	26.17	15.51	19.21	2.93	9.57	24.52
Realized risk management (loss) gain	(5.13)	(5.55)	(4.55)	4.67	5.35	35.85	4.57	0.58
General and administrative	(2.70)	(2.66)	(2.37)	(2.41)	(2.28)	(3.84)	(2.77)	(2.13)
Interest	(1.01)	(1.39)	(1.96)	(2.25)	(2.19)	(2.71)	(1.33)	(1.30)
Other costs	-	-	-	-	-	-	-	-
Realized gain (loss) on foreign exchange	0.13	(0.24)	(0.10)	(0.11)	-	0.03	0.16	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 are net of post-closing adjustments.
(4) Net debt includes the risk management liability acquired through the Steppe Acquisition.
(5) Net debt as of March 31, 2021 includes $3.3 million of Convertible Debentures. On April 23,2021, the remaining $3.3 million of Convertible Debentures were converted into common shares.

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, in 2020, 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.

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