MANAGEMENT'S REPORT

To the Shareholders of Gear Energy Ltd.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of Gear Energy Ltd.'s annual financial statements. The financial statements have been prepared in accordance with the accounting policies detailed in the notes thereto. In Management's opinion, the financial statements are in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and include certain estimates that reflect Management's best judgments.

Management is responsible for the integrity of the financial statements. Management has developed and maintains an adequate system of internal control over financial reporting which provides reasonable assurance that all transactions are recorded, that the financial statements realistically report the Company's operating and financial results, and that the Company's assets are safeguarded from loss or unauthorized use. Management believes that this system of internal controls has operated effectively for the year ended December 31, 2021. The Company has effective disclosure controls and procedures to ensure timely and accurate disclosure of material information relating to the Company which complies with the requirements of Canadian securities legislation.

The Board of Directors has approved the information contained in the financial statements. Its financial statement related responsibilities are fulfilled mainly through the Audit Committee, which is composed entirely of independent directors with financial expertise. The Audit Committee meets regularly with Management and the external auditors to discuss reporting issues and ensures each party is properly discharging its responsibilities. The Audit Committee also considers the independence of the external auditors and reviews their fees.

The financial statements have been audited by Deloitte LLP, Chartered Professional Accountants, in accordance with Canadian generally accepted auditing standards, on behalf of the shareholders.

(signed)
Ingram Gillmore
President and Chief Executive Officer

(signed)
David Hwang
Vice-President and Chief Financial Officer

February 16, 2022
Calgary, Alberta

Deloitte LLP
700, 850 2 Street SW
Calgary, AB T2P 0R8
Canada

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Independent Auditor's Report

To the Shareholders of Gear Energy Ltd.:

Opinion

We have audited the consolidated financial statements of Gear Energy Ltd. (the "Company"), which comprise the consolidated balance sheets as at December 31, 2021 and 2020, and the consolidated statements of income (loss) and comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements for the year ended December 31, 2021. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Property, Plant and Equipment – Development and Production ("D&P") assets — Refer to Notes 3, 4 and 6 to the financial statements

Key Audit Matter Description

The Company's property, plant and equipment includes D&P assets. D&P assets are measured by depleting the assets on a unit-of-production basis ("depletion") and are evaluated for impairment or impairment reversal using the future net cash flows of the underlying proved and probable crude oil and natural gas reserves. The Company engages an independent external reserve evaluator to estimate crude oil and natural gas reserves using estimates, assumptions and engineering data. The development of the Company's reserves and the related future net cash flows used to evaluate the depletion and impairment reversal recorded during the year, requires management to make significant estimates and assumptions related to future crude oil and natural gas prices, discount rates, reserves, and future operating costs.

Given the significant judgments made by management related to future crude oil and natural gas prices, discount rates, reserves, and future operating costs, these estimates and assumptions are subject to a high degree of estimation uncertainty. Auditing these estimates and assumptions required auditor judgment in applying audit procedures and in evaluating the results of those procedures. This resulted in an increased extent of audit effort including the involvement of fair value specialists.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures related to future crude oil and natural gas prices, discount rates, reserves, and future operating costs used to measure D&P assets included the following, among others:

- With the assistance of fair value specialists,
  - Evaluated future crude oil and natural gas prices by independently developing a reasonable range of forecasts based on reputable third-party forecasts and market data and comparing those to the future crude oil and natural gas prices selected by management.
  - Evaluated the reasonableness of the discount rates by developing a range of independent estimates and comparing those to the discount rates selected by management.

- Evaluated the Company's independent external reserve evaluator by:
  - Examining reports and assessing their scope of work and findings.
  - Assessing the competence, capability and objectivity by evaluating their relevant professional qualifications and experience.

- Evaluated the reasonableness of reserves by testing the source financial information underlying the reserves and comparing the reserve volumes to historical production volumes.

- Evaluated the reasonableness of future operating costs by testing the source financial information underlying the estimate, comparing future operating costs to historical results, and evaluating whether they are consistent with evidence obtained in other areas of the audit.

- Performed a retrospective review to evaluate management's ability to accurately forecast and to assess for indications of estimation bias over time.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mandeep Singh.

/s/ Deloitte LLP

Chartered Professional Accountants
Calgary, Alberta
February 16, 2022

GEAR ENERGY LTD.
CONSOLIDATED BALANCE SHEETS
As at December 31

(Cdn$ thousands)		**December 31, 2021**		December 31, 2020
ASSETS				
Current assets				
Accounts receivable	**$**	**12,383**	$	8,539
Prepaid expenses		**3,212**		3,176
Inventory (Note 5)		**6,631**		5,621
		22,226		17,336
Deferred income tax asset (Note 12)		**32,888**		-
Property, plant and equipment (Note 6)		**263,649**		244,940
Total assets	**$**	**318,763**	$	262,276
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**11,701**	$	6,266
Debt (Note 7)		**-**		5,000
Decommissioning liability (Note 9)		**7,343**		2,714
Risk management contracts (Note 10)		**2,595**		19
		21,639		13,999
Debt (Note 7)		**26,355**		45,749
Convertible debentures (Note 8)		**-**		12,843
Decommissioning liability (Note 9)		**71,721**		84,756
Total liabilities		**119,715**		157,347
SHAREHOLDERS' EQUITY				
Share capital (Note 11)		**350,332**		333,711
Convertible debentures (Note 8)		**-**		2,494
Contributed surplus		**19,337**		19,843
Deficit		**(170,621)**		(251,119)
Total shareholders' equity		**199,048**		104,929
Total liabilities and shareholders' equity	**$**	**318,763**	$	262,276

See accompanying notes to the Consolidated Financial Statements

Approved by the Board of Directors

(signed)
Don Gray
Chairman of the Board of Directors and Director

(signed)
Harry English
Chair of the Audit Committee and Director

GEAR ENERGY LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended December 31
(Cdn$ thousands)

	Share Capital	Convertible Debentures	Contributed Surplus	Deficit	Total Equity
Balance at December 31, 2019	$ 335,455	$ 2,498	$ 18,097	$ (173,795)	$ 182,255
Common shares repurchased (Note 11)	(1,764)	-	1,274	-	(490)
Conversion of convertible debentures	20	(4)	-	-	16
Share-based compensation (Note 11)	-	-	472	-	472
Net loss for the year	-	-	-	(77,324)	(77,324)
Balance at December 31, 2020	**$ 333,711**	**$ 2,494**	**$ 19,843**	**$ (251,119)**	**$ 104,929**
Conversion of convertible debentures	15,679	(2,494)	-	-	13,185
Stock option exercise (Note 11)	942	-	(1,004)	-	(62)
Share-based compensation (Note 11)	-	-	498	-	498
Net income for the year	-	-	-	80,498	80,498
Balance at December 31, 2021	**$ 350,332**	**$ -**	**$ 19,337**	**$ (170,621)**	**$ 199,048**

See accompanying notes to the Consolidated Financial Statements

GEAR ENERGY LTD.
CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)
For the years ended December 31

(Cdn$ thousands, except per share amounts)		**2021**		2020
REVENUE				
Petroleum and natural gas sales (Note 15)	**$**	**129,027**	$	65,057
Royalties		**(14,133)**		(6,812)
		114,894		58,245
Realized (loss) gain on risk management contracts		**(12,271)**		17,163
Unrealized (loss) gain on risk management contracts		**(2,576)**		3,075
		100,047		78,483
EXPENSES				
Operating		**35,498**		28,692
Transportation		**4,755**		4,267
General and administrative		**5,332**		5,181
Interest and financing charges		**2,572**		3,881
Depletion, depreciation and amortization (Note 5 and 6)		**35,423**		32,448
Impairment (reversal) (Notes 5 and 6)		**(33,675)**		55,573
Accretion (Notes 8 and 9)		**1,865**		1,641
Share-based compensation (Note 11)		**498**		472
Loss on foreign exchange		**98**		683
Convertible debenture modification (Note 8)		**-**		(351)
Other costs		**71**		39
		52,437		132,526
Deferred income tax recovery (expense) (Note 12)		**32,888**		(23,281)
Net income (loss) and comprehensive income (loss)	**$**	**80,498**	$	(77,324)
Net income (loss) per share, basic (Note 11)	**$**	**0.32**	$	(0.36)
Net income (loss) per share, diluted (Note 11)	**$**	**0.31**	$	(0.36)

See accompanying notes to the Consolidated Financial Statements

GEAR ENERGY LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31

(Cdn$ thousands)		**2021**		2020
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income (loss)	**$**	**80,498**	$	(77,324)
Add items not involving cash:				
Unrealized loss (gain) on risk management contracts		**2,576**		(3,075)
Depletion, depreciation and amortization		**35,423**		32,448
Impairment (reversal)		**(33,675)**		55,573
Accretion		**1,865**		1,641
Share-based compensation		**498**		472
Convertible debenture modification		**-**		(351)
Unrealized loss on foreign exchange		**-**		725
Other costs		**71**		39
Deferred income tax (recovery) expense		**(32,888)**		23,281
Decommissioning liabilities settled (Note 9)		**(1,619)**		(920)
Change in non-cash working capital (Note 16)		**(868)**		(2,292)
		51,881		30,217
CASH FLOWS USED IN FINANCING ACTIVITIES				
Repayments of debt under credit facilities		**(24,394)**		(14,230)
Settlement of stock options		**(29)**		-
Exercise of stock options		**(33)**		-
Common shares repurchased		**-**		(490)
		(24,456)		(14,720)
CASH FLOWS USED IN INVESTING ACTIVITIES				
Property, plant and equipment expenditures		**(28,884)**		(12,441)
Net acquisition of petroleum and natural gas properties		**-**		(3)
Change in non-cash working capital (Note 16)		**1,459**		(3,053)
		(27,425)		(15,497)
INCREASE IN CASH AND CASH EQUIVALENTS		**-**		-
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		**-**		-
CASH AND CASH EQUIVALENTS, END OF YEAR	**$**	**-**	$	-
The following are included in cash flows from operating activities:				
Interest paid in cash	**$**	**2,572**	$	3,878

See accompanying notes to the Consolidated Financial Statements

1. STRUCTURE OF THE BUSINESS

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

Gear was incorporated in Canada and its principal place of business is located at 800, 205 – 5th Avenue SW, Calgary, Alberta T2P 2V7.

2. BASIS OF PREPARATION

These consolidated financial statements (the "financial statements") have been prepared under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and were prepared using accounting policies consistent with IFRS.

A summary of Gear's significant accounting policies under IFRS is presented in Note 3. The financial statements have been prepared on the historical cost basis with the exception of risk management contracts which are measured at fair value.

The financial statements were authorized for issue by the Board of Directors on February 16, 2022.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Revenue recognition
Revenue associated with the sale of crude oil, natural gas, and natural gas liquids ("NGLs") owned by Gear is recognized when title is transferred from Gear to its customers. Gear's commodity sales contracts represent a series of distinct transactions. Revenue is measured at the consideration specified in the contracts and represents amounts receivable for goods or services provided in the normal course of business. Substantially all revenue is based on floating prices. Gear considers its performance obligations to be satisfied and control to be transferred when all the following conditions are satisfied:

- Gear has transferred title and physical possession of the goods to the buyer;
- Gear has transferred the significant risks and rewards of ownership of the goods to the buyer; and
- Gear has the present right to payment.

Revenue is collected from Gear's customers on the 25th day of the month following delivery. Gear does not have any contracts where the period between the transfer of the contracted goods and payment by the customer exceeds one year. As such, Gear does not adjust its revenue transactions for the time value of money. The contracts to sell the Company's crude oil, natural gas and natural gas liquids have varying terms not longer than one year. As a result, Gear has immediately expensed costs of obtaining contracts as these costs would have been amortized within a period of one year.

(b) Joint arrangements
Gear does not have any joint venture arrangements. However, Gear conducts a portion of its activities through jointly controlled operations. These financial statements reflect only the Company's proportionate interest in such activities. Joint control exists for contractual arrangements governing Gear's assets whereby Gear has less than 100 per cent working interest, all of the partners have control of the arrangement collectively, and spending on the project requires unanimous consent of all parties that collectively control the arrangement and share the associated risks.

(c) Share-based compensation
The Company accounts for its share-based compensation plan using the fair value method estimated using the Black-Scholes model. Under this method, a compensation expense is charged over the vesting period for stock options granted using the graded vesting method with a corresponding increase to contributed surplus. Upon exercise of the stock options, consideration received, together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. Forfeitures of stock options are estimated on the grant date and are adjusted to reflect the actual number of options that vest.

(d) Crude oil inventory
Crude oil inventory consists of amounts produced and in storage tanks and is recorded at the lower of cost, determined on a weighted-average basis, and net realizable value. Cost components include royalties, operating costs (other than transportation), and an estimated capital component based on depletion rates. Net realizable value is the estimated selling price in the normal course of business.

(e) Property, plant and equipment (“PP&E”)
Items of PP&E, which include oil and gas Development and Production (“D&P”) assets and Administrative assets, are measured at cost less accumulated depletion, depreciation, amortization, and accumulated impairment losses.

Gains and losses on disposals of properties are determined by comparing the proceeds to the carrying value of the property net of associated decommissioning liabilities and are recognized in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

(f) Leases
Leases are capitalized as right of use assets with a corresponding lease liability. Lease liabilities are initially measured at the present value of future lease payments in the Consolidated Balance Sheets. The discount rate used to measure the lease liability is the rate implicit in the lease or the company’s incremental borrowing rate, if the rate implicit in the lease cannot be readily determined. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect the lease payments made. Right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Certain lease payments will continue to be expensed in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). These leases are contractual obligations that contain any of the following: are to explore for or use oil and gas; are variable payments; the Company does not control the asset; or no asset is identified in the lease.

(g) Depletion, depreciation and amortization
D&P assets are componentized into groups of assets with similar useful lives for the purposes of performing depletion calculations. Depletion expense is calculated on the unit-of-production basis based on:
  (i) total estimated proved and probable reserves calculated in accordance with National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities;
  (ii) total capitalized costs plus estimated future development costs of proved and probable reserves, including future estimated decommissioning costs; and
  (iii) relative volumes of petroleum and natural gas reserves and production, before royalties, converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil.

Administrative assets are depreciated using the declining balance method over the useful lives of the assets.

(h) Impairment
D&P assets are aggregated into cash-generating units (“CGUs”) for the purposes of impairment testing and depletion calculations. CGUs are groups of assets that generate independent cash inflows and are generally defined based on geographic areas, with consideration given to how the assets are managed.

D&P assets are reviewed for impairment at a CGU level quarterly or when indicators of impairment exist. When indicators of impairment exist, the carrying value of each CGU is compared to its recoverable amount which is defined as the higher of its fair value less cost of disposal (“FVLCD”) or its value in use (“VIU”). VIU is estimated as the present value of the future cash flows expected to arise from the continuing use of a CGU or an asset. FVLCD is the amount that would be realized from the disposition of an asset or CGU in an arm’s length transaction between knowledgeable and willing parties. FVLCD is based on the discounted after-tax cash flows of reserves using forward prices and costs, consistent with Company’s independent qualified reserves evaluators and may consider an evaluation of comparable asset transactions.

When the carrying value exceeds the recoverable amount an impairment loss exists and is recognized in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

Impairment losses recognized in prior periods are assessed at each reporting date for any indicators that the impairment losses may no longer exist or may have decreased. In the event that an impairment loss reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount up to the carrying amount that would have been determined, net of depletion and depreciation, had no impairment losses been previously recognized.

(i) Business combinations

Business combinations are accounted for using the acquisition method under IFRS 3 *Business Combinations*. Management's determination of whether a transaction constitutes a business combination or an asset acquisition is based on the criteria in IFRS 3. The identifiable assets acquired and liabilities assumed in a business combination are measured at their fair values at the acquisition date. The decommissioning liability associated with the acquired property is subsequently re-measured at the end of the reporting period using a risk-free discount rate, with any changes recognized in decommissioning liability and PP&E on the Consolidated Balance Sheet. The cost of an acquisition is measured as the fair value of the assets transferred, equity instruments issued, and liabilities incurred or assumed at the acquisition date. The excess of the acquisition cost over the fair value of the net assets acquired is recognized as goodwill. If the cost of the acquisition is less than the fair value of the net assets acquired, a gain on business combination is recognized immediately in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). A deferred tax asset or liability arising from the acquired net assets is also recognized in a business combination. Any resulting goodwill or a gain resulting from a bargain purchase is not considered to be taxable. Transaction costs associated with a business combination are expensed as incurred.

(j) Financial instruments

(i) Amortized cost

Accounts receivable, accounts payable and accrued liabilities, dividends payable, debt and convertible debentures are measured at amortized cost. These classifications are initially measured at fair value and subsequent revaluations are recorded at amortized cost using the effective interest method.

(ii) Fair value through profit or loss (“FVTPL”)

Gear enters into risk management contracts in order to manage its exposure to market risks from fluctuations in commodity prices, foreign exchange rates and interest rates in the normal course of operations. Gear has not designated its risk management contracts as effective hedges, and thus has not applied hedge accounting. All risk management contracts are initially measured at fair value through profit or loss and are subsequently measured at fair value with changes in fair value recorded in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). The fair values of these derivative instruments are based on an estimate of the amounts that would be paid or received to settle these instruments at the balance sheet date.

(k) Decommissioning liabilities

Gear’s oil and gas operating activities give rise to dismantling, decommissioning and site remediation activities. Gear recognizes a liability for the estimated present value of the future decommissioning liabilities at each balance sheet date using a risk free discount rate. The associated decommissioning cost is capitalized and amortized over the same period as the underlying asset. Changes in the estimated liability resulting from revisions to estimated timing, amount of cash flows, or changes in the discount rate are recognized as a change in the decommissioning liability and related capitalized decommissioning cost.

Amortization of capitalized decommissioning costs is included in depreciation, depletion and amortization in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). Increases in decommissioning liabilities resulting from the passage of time are recorded as accretion. Actual expenditures incurred are charged against the decommissioning liability.

(l) Deferred income taxes

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting dates.

Deferred tax is recognized in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Deferred tax assets are only recognized for temporary differences, unused tax losses and unused tax credits if it is probable that future tax amounts will arise to utilize those amounts.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

(m) Normal course issuer bid (“NCIB”)

When the Company repurchases its own common shares under an NCIB, share capital is reduced by the average carrying value of the shares repurchased. When the carrying value exceeds the purchase price the excess is credited to contributed surplus or conversely the excess of the purchase price over the carrying value is recognized as a deduction from retained earnings.

(n) Per share amounts
Basic per share amounts are computed by dividing net income or loss by the weighted average number of common shares outstanding during the period. Diluted per share amounts reflect the potential dilution that would occur if dilutive instruments were exercised and common shares issued.

(o) Government grants / government assistance
Government grants are recognized when there is reasonable assurance that the Gear will comply with the conditions attached to them and the grants will be received. If a grant is received before it is certain whether compliance with all conditions will be achieved, the grant is recognized as a deferred liability until such conditions are fulfilled. When the conditions of a grant relate to income or expense, it is recognized in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) in the period in which the expenditures are incurred or income is earned. When the conditions of a grant relate to an underlying asset, it is recognized as a reduction to the carrying amount of the related asset and amortized into income on a systematic basis over the expected useful life of the underlying asset through depletion and depreciation.

4. MANAGEMENT JUDGMENTS AND ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingencies at the date of the financial statements, and revenues and expenses during the reporting year. Actual results could differ from those estimated. The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities are discussed below.

The COVID-19 pandemic and subsequent measures intended to limit the pandemic contributed to significant declines and volatility in financial markets. The pandemic has adversely impacted global commercial activity, including reducing worldwide demand for crude oil.

Although markets and the Company’s operations have continued to recover, the future financial performance may still be impacted. Forecasting the timing of a sustained recovery is challenging due to future uncertainties such as the continued effectiveness of vaccines and the possible emergence of further COVID-19 variants. The crude oil market has responded positively to increased demand, but the potential for volatility in demand and supply remains. This presents uncertainty and risk with respect to the Company, its performance, and estimates and assumptions used by Management in the preparation of its financial results. Current market conditions have increased the complexity of estimates and assumptions used to prepare the financial statements, particularly related to recoverable amounts.

In addition, climate change and the evolving worldwide demand for alternative sources of energy that are not sourced from fossil fuels could result in a change in assumptions used in determining the recoverable amount and could affect the carrying value of the related assets. As these issues become more of a regulatory focus by governments, future financial performance may be impacted. This also presents uncertainty and risk with respect to the Company, its performance and estimates and assumptions. The timing in which global energy markets transition from carbon-based sources to alternative energy or when new regulatory practices may be implemented is highly uncertain.

Changes to assumptions could result in a material adjustment to the carrying amount of assets and liabilities within the next financial year.

Recoverability of asset carrying values
The recoverability of D&P asset carrying values is assessed at the CGU level. Determination of what constitutes a CGU is subject to management judgments. The asset composition of a CGU can directly impact the recoverability of the assets included therein. In assessing the recoverability of oil and gas properties, each CGU’s carrying value is compared to its recoverable amount, defined as the greater of its fair value less cost of disposal and value in use. Management has determined that Gear’s asset base represents three CGUs. The first CGU is comprised predominantly of Gear’s heavy and medium oil properties located in Eastern Alberta and Central Saskatchewan, the second is light oil properties located in Western Alberta and the third is comprised of light oil properties located in Southeast Saskatchewan. The properties contained in each CGU are in close proximity to each other, with similar cost structures and marketing arrangements. Gear applies information on estimates of future commodity prices, expected production volumes, quantity of reserves and resources, future development costs, future operating costs, discount rates and income taxes when determining an acceptable range of recoverable amounts.

Key estimates used in determining cash flows from the Company’s reserves include:

- Reserves - Assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs, required capital expenditures or recovery rates may change the economic status of reserves and may ultimately result in reserves being restated.
- Crude oil and natural gas prices - Forward price estimates are used in the discounted cash flow model. These prices are adjusted for quality differentials, heat content and distance to market. Commodity prices

can fluctuate for a variety of reasons including supply and demand fundamentals, inventory levels, exchange rates, weather, economic and geopolitical factors.

- Discount rate - The discount rate used to calculate the net present value of cash flows is based on estimates of an industry peer group weighted average cost of capital as appropriate for each CGU being tested. Changes in the general economic environment could result in significant changes to this estimate.

Accrual estimates
Revenue, royalty, operating expense and capital amounts are estimated at each reporting date, before actual results are known. These estimates rely on management judgment and could vary from actual results.

Depletion of oil and gas assets
Depletion of oil and gas assets is determined based on estimated total proved and probable reserves as well as estimated future development costs. Assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs, required capital expenditures or recovery rates may change the economic status of reserves and may ultimately result in reserves being revised.

Business combinations
Determination of the fair value of acquired assets and liabilities in a business combination requires management to make assumptions and estimates about future events. The fair value of crude oil and natural gas interests is estimated with reference to the discounted cash flows expected to be derived from crude oil and natural gas production. These assumptions and estimates generally require judgment and include estimates of reserves acquired, liabilities assumed, forecast commodity prices, expected production volumes, future development and operating costs, income taxes, and discount rates. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to the net assets acquired, goodwill or gain on business combination.

Decommissioning liability
The provision for abandonment and reclamation is based on current legal and constructive requirements, technology, price levels and expected plans for remediation. Actual costs and cash outflows can differ from estimates because of changes in laws and regulations, public expectations, market conditions, discovery and analysis of site conditions and changes in technology.

Derivative instruments
The estimated fair value of derivative instruments resulting in financial assets and liabilities is reliant upon forward prices. Any change in the forward price curves could result in a change to the estimated valuation of the instruments.

Employee compensation costs
Compensation expense recorded for Gear's stock option plan is based on a Black-Scholes pricing model. The inputs to this model such as average expected volatility and estimated forfeiture rates rely on management judgment.

Income taxes
Tax regulations and legislation are subject to change and differing interpretations requiring management judgement. Deferred tax assets are recognized when it is considered probable that deductible temporary differences will be recovered in future periods, which requires management judgement. Deferred tax liabilities are recognized when it is considered probable that the tax on temporary differences will be payable to tax authorities in future periods, which requires management judgement. Income tax filings are subject to audits and re-assessments and changes in facts, circumstances and interpretations of the regulations and legislation may result in a material increase or decrease in Gear's income tax assets and liabilities.

5. INVENTORY

As at December 31, 2021, Gear recorded oil inventory valued at its production cost of $6.6 million (December 31, 2020 - $5.6 million). Gear records changes in both the capital and operating components of inventory to the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

During 2021, Gear did not record an impairment on its inventory to reduce the carrying amount to the lower of cost and net realizable value (2020 - $4.3 million). As at December 31, 2021, there were no indicators of impairment for inventory.

6. PROPERTY, PLANT AND EQUIPMENT AND IMPAIRMENT

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

Cost ($ thousands)	**Development and Production Assets**	**Administrative Assets**	**Total**
Balance, December 31, 2019	847,796	1,436	849,232
Additions	12,452	(11)	12,441
Acquisitions	203	-	203
Disposals	(200)	-	(200)
Change in decommissioning costs	2,126	-	2,126
Balance, December 31, 2020	862,377	1,425	863,802
Additions	28,822	62	28,884
Change in decommissioning costs	(5,288)	-	(5,288)
Balance, December 31, 2021	885,911	1,487	887,398
Depletion, depreciation and amortization			
Balance, December 31, 2019	531,006	1,191	532,197
Depletion, depreciation and amortization	35,361	79	35,440
Impairment	51,225	-	51,225
Balance, December 31, 2020	617,592	1,270	618,862
Depletion, depreciation and amortization	38,502	60	38,562
Impairment (reversal)	(33,675)	-	(33,675)
Balance, December 31, 2021	622,419	1,330	623,749

Carrying amounts ($ thousands)	**Development and Production Assets**	**Administrative Assets**	**Total**
As at December 31, 2020	244,785	155	244,940
As at December 31, 2021	263,492	157	263,649

As at December 31, 2021, indicators of an impairment reversal were identified as a result of the increase in commodity prices and Gear's market capitalization since the last impairment test performed as at December 31, 2020. An impairment test was carried out at December 31, 2021 on each of Gear's CGUs. The estimated recoverable amounts incorporated the net present value of the after-tax cash flows from proved plus probable oil and gas reserves of each CGU based on reserves estimated by Gear's independent reserves evaluator at December 31, 2021. In 2020, as a result of the COVID-19 pandemic, Gear had identified indicators of impairment at March 31, 2020 and subsequently as a result of increased commodity prices and Gear's market cap identified indicators of reversal at December 31, 2020. As at December 31, 2021, 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.

The following table details the forward commodity pricing used to estimate the recoverable amount of Gear's CGU's at December 31, 2021:

Year	**Western Canadian Select Crude Oil (Cdn $/bbl)**	**Canadian Light Sweet Crude Oil (Cdn $/bbl)**	**Light Sour Blend Crude Oil (Cdn $/bbl)**	**AECO Gas (Cdn $/MMBtu)**	**CAD$/US$ Exchange Rates**
2022	74.42	86.82	87.30	3.56	0.80
2023	69.17	80.73	82.30	3.21	0.80
2024	66.54	78.01	79.69	3.05	0.80
2025	67.87	79.57	81.29	3.11	0.80
2026	69.23	81.16	82.92	3.17	0.80
2027	70.61	82.78	84.58	3.23	0.80
2028	72.02	84.44	86.27	3.30	0.80
2029	73.46	86.13	87.99	3.36	0.80
2030	74.69	87.85	89.75	3.43	0.80
2031	76.19	89.61	91.55	3.50	0.80
2032	77.71	91.40	93.38	3.57	0.80
Remainder	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	0.80

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

Year	Western Canadian Select Crude Oil (Cdn $/bbl)	Canadian Light Sweet Crude Oil (Cdn $/bbl)	Light Sour Blend Crude Oil (Cdn $/bbl)	AECO Gas (Cdn $/MMBtu)	CAD$/US$ Exchange Rates
2021	44.63	55.76	53.77	2.78	0.77
2022	48.18	59.89	57.31	2.70	0.77
2023	52.10	63.48	60.68	2.61	0.76
2024	54.10	65.76	62.90	2.65	0.76
2025	55.19	67.13	64.22	2.70	0.76
2026	56.29	68.53	65.57	2.76	0.76
2027	57.42	69.95	66.94	2.81	0.76
2028	58.57	71.40	68.35	2.87	0.76
2029	59.74	72.88	69.78	2.92	0.76
2030	60.93	74.34	71.19	2.98	0.76
2031	62.15	75.83	72.61	3.04	0.76
Remainder	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	0.76

As a result of the impairment test performed at December 31, 2021, the recoverable amounts of the three CGUs exceeded their carrying values, and a $33.7 million impairment reversal, net of depletion, was recorded in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). At March 31, 2020, Gear recorded an impairment loss of $93.9 million on its three CGUs. At December 31, 2020, Gear recorded an impairment reversal, net of depletion, of $42.7 million on those same CGUs. As a result of tests performed in 2020, Gear reported an impairment loss of $51.2 million as at December 31, 2020.

The following table provides detailed balances of the CGUs as at December 31, 2021, December 31, 2020 and March 31, 2020.

December 31, 2021

($ thousands)	CGU #1 – Heavy and Medium	CGU #2 – Light Alberta	CGU #3 – Light Saskatchewan	Total
Impairment reversal	2,567	8,658	22,450	33,675
Recoverable amount ($ millions) (1)	175.7	66.6	51.0	293.3

(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	42,633
Recoverable amount ($ millions) (1)	90.6	40.1	29.1	159.8

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

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.

All else being equal, a 1 per cent increase in the assumed discount rate or a 10 per cent decrease in future estimated cash flows would not result in an impairment for CGU #1 – Heavy and Medium and CGU #2 – Light Alberta for the year ended December 31, 2021.

The following table demonstrates the sensitivity of the 2021 impairment reversal amount from reasonably possible changes in key assumptions for CGU #3 – Light Saskatchewan inherent in the estimate:

	Change in Discount Rate of 1 per cent		Change in Cash Flow Estimates of 10 per cent	
($ thousands)	Increase	Decrease	Increase	Decrease
CGU #3 – Light Saskatchewan	(3,675)	4,065	5,507	(5,493)

The fair value less cost to sell values used to determine the recoverable amounts of Gear's CGUs at December 31, 2021 were classified as Level 3 fair value measurements as certain key assumptions are based on Management's best estimates.

7. DEBT

At December 31, 2021, Gear had the following credit facilities (collectively, the "Credit Facilities"):

Facility	**Classification**	**Borrowing base**		**Maturity Date**
($ thousands)		**December 31, 2021**	**December 31, 2020**	
Non-revolving term facility	Repaid	-	15,000	Repaid
Revolving term facility	Long term	34,500	42,500	May 27, 2023
Operating facility	Long term	7,500	7,500	May 27, 2023
Total		42,000	65,000	

At December 31, 2021 Gear had $26.4 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). The Credit Facilities do not carry any financial covenants.

The total stamping fees on the Credit Facilities, 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 Credit Facilities is subject to a standby fee in the range of 75 bps to 125 bps. The total stamping fees on the non-revolving facility range, depending on Gear's Debt to EBITDA ratio, between 500 bps to 700 bps on Canadian bank prime borrowings and between 600 bps and 800 bps on US dollar denominated LIBOR loans and Canadian dollar bankers' acceptances.

The next borrowing base review is expected to be completed on or about May 31, 2022.

8. CONVERTIBLE DEBENTURES

As at December 31, 2021, no subordinated unsecured convertible debentures (the "Convertible Debentures") were outstanding. During the year ended December 31, 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. These Convertible Debentures carried a coupon of 7 per cent per annum payable semi-annually in arrears and had a maturity date of November 30, 2023.

The following table provides a continuity of balances of the Convertible Debentures and the equity component from December 31, 2019 to December 31, 2021:

($ thousands)	**Convertible Debentures**	**Equity component**
Balance, December 31, 2019	12,705	2,498
Accretion using effective interest rate at 8%	506	-
Conversions	(17)	(4)
Modification	(351)	-
Balance, December 31, 2020	12,843	2,494
Accretion using effective interest rate at 18%	342	-
Conversions	(13,185)	(2,494)
Balance, December 31, 2021	**-**	**-**

9. DECOMMISSIONING LIABILITY

($ thousands)	**Year ended December 31, 2021**	Year ended December 31, 2020
Balance, beginning of year	**87,470**	85,714
Changes in estimates	**(6,061)**	1,857
Additions	**773**	393
Dispositions	**-**	(124)
Liabilities settled – Gear	**(1,619)**	(920)
Liabilities settled – Government assistance	**(3,022)**	(585)
Accretion	**1,523**	1,135
Balance, end of year	**79,064**	87,470
Expected to be incurred within one year	**7,343**	2,714
Expected to be incurred beyond one year	**71,721**	84,756

The undiscounted and unescalated amount of the expected cash flows required to settle the decommissioning liability is estimated to be $79.1 million as at December 31, 2021 (December 31, 2020 – $87.5 million). The liability for the expected cash flows, as reflected in the financial statements, has been inflated at 1.76 per cent (December 31, 2020 – 1.85 per cent) and discounted using a risk-free rate of 1.76 per cent (December 31, 2020 – 1.85 per cent). Abandonments are expected to occur between 2022 and 2050 and related costs will be funded mainly from cash provided by Gear's operating activities. On April 17, 2020, the federal government announced that as part of its COVID-19 Economic Response Plan it would provide the oil and gas industry $1.7 billion to clean up orphan and inactive wells in Alberta, Saskatchewan and British Columbia under a Site Rehabilitation Program ("SRP"). For the year ended December 31, 2021, the program provided Gear $3.0 million (2020 –$0.6 million) towards extinguishing decommissioning liabilities.

10. RISK MANAGEMENT CONTRACTS

Gear uses or plans to use a variety of derivative instruments to reduce its exposure to fluctuations in commodity prices, foreign exchange rates, and interest rates. Gear has not designated its risk management contracts as effective hedges, and thus has not applied hedge accounting.

The following is a summary of all risk management contracts in place as at December 31, 2021:

Financial WTI Crude Oil Contracts

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

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

As at December 31, 2021, the fair value associated with Gear's risk management contracts was a liability of $2.6 million ($19 thousand liability at December 31, 2020).

The following table summarizes the change in the net risk management contracts liability during the years ended December 31, 2021 and December 31, 2020:

($ thousands)	**Year ended December 31, 2021**	Year ended December 31, 2020
Balance, beginning of year	**(19)**	(3,094)
Unrealized (loss) gain on risk management contracts	**(2,576)**	3,075
Balance, end of year	**(2,595)**	(19)

11. SHAREHOLDERS' EQUITY

Gear is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares, issuable in series. Holders of common shares are entitled to dividends if declared by the Board, one vote per share, and upon liquidation, dissolution or winding up of the Company, the remaining property and assets of Gear. There are no outstanding preferred shares as at December 31, 2021 or 2020.

a) Share Capital

	Year ended December 31, 2021			Year ended December 31, 2020		
(thousands of shares and $ thousands)	**Shares**		**Amount**	Shares		Amount
Balance, beginning of year	**216,490**	**$**	**333,711**	217,610	$	335,455
Common shares repurchased	**-**		**-**	(1,142)		(1,764)
Exercise of stock options	**2,476**		**942**	-		-
Issued on conversion of debentures	**41,203**		**15,679**	22		20
Balance, end of year	**260,169**	**$**	**350,332**	216,490	$	333,711

For the year ended December 31, 2021, 4.4 million stock options (December 31, 2020 – nil) were exercised for 2.5 million common shares (December 31, 2020 – nil). Of the total stock options exercised, 1.9 million stock options were exercised on a cash-less basis.

b) Normal Course Issuer Bid

During the year ended December 31, 2020, the normal course issuer bid ("NCIB") approved by the Toronto Stock Exchange ("TSX") expired. 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.

c) Stock Options

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

The following table summarizes Gear's stock option plan activity during the years ended December 31, 2021 and 2020 for grants made under the plan with a five-year expiry. During the year ended December 31, 2021, Gear cash settled the remaining options under the plan for $29 thousand. No options are outstanding as of December 31, 2021 under the five-year expiry plan.

	Year ended December 31, 2021			Year ended December 31, 2020		
(thousands)	**Number of stock options**		**Weighted average exercise price**	Number of stock options		Weighted average exercise price
Outstanding, beginning of year	**688**	**$**	**0.35**	2,724	$	1.27
Expired	**-**		**-**	(2,013)		1.90
Forfeited	**(9)**		**0.35**	(23)		0.45
Settled	**(679)**		**0.35**	-		-
Outstanding, end of year	**-**		**-**	688		0.35
Exercisable, end of year	**-**	**$**	**-**	688	$	0.35

The following table summarizes Gear's stock option plan activity during the years ended December 31, 2021 and 2020 for grants made under the plan with a thirty-day expiry following their vesting date.

(thousands)	**Year ended December 31, 2021** Number of stock options		Weighted average exercise price	Year ended December 31, 2020 Number of stock options		Weighted average exercise price
Outstanding, beginning of year	**12,584**	**$**	**0.40**	12,536	$	0.61
Granted	**10,614**		**0.73**	5,853		0.20
Exercised	**(4,372)**		**0.34**	-		-
Expired	**(1,567)**		**0.98**	(5,415)		0.67
Forfeited	**(504)**		**0.41**	(390)		0.54
Outstanding, end of year	**16,755**		**0.57**	12,584		0.40
Exercisable, end of year	**-**	**$**	**-**	187	$	0.68

During 2021, Gear has recorded an expense of $0.5 million (2020 – $0.5 million) to share-based compensation expense recognizing the stock option activity for the period based on the fair value of options issued, amortized using a graded vesting calculation.

The following table summarizes a range of exercise prices, and the weighted average remaining contractual life for the thirty-day expiry stock option plans as at December 31, 2021.

Exercise Price	**Number of stock options (thousands)**	**Weighted average remaining contractual life (years)**
$0.18 – $0.69	12,438	1.3
$0.70 – $1.00	4,317	2.0

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

	Year ended December 31, 2021	Year ended December 31, 2020
Risk free interest rate (%)	**0.58**	0.32
Average expected life (years)	**2.1**	2.1
Average expected volatility (%)	**32.2**	32.3
Forfeiture rate (%)	**10.0**	10.0

d) Per Share Results

(thousands, except per $ share amounts)	**Year ended December 31, 2021**	Year ended December 31, 2020
Basic	**248,665**	216,545
Diluted	**263,009**	216,545
Net income (loss) per share – basic	**0.32**	(0.36)
Net income (loss) per share – diluted	**0.31**	(0.36)

For the year ended December 31, 2021, 12.0 million common shares (December 31, 2020 – 13.3 million) on exercise of stock options, and 31.6 million common shares (December 31, 2020 – 41.2 million) on conversion of the Convertible Debentures were excluded from the diluted weighted average shares calculation as they were anti-dilutive.

12. INCOME TAXES

The tax provision differs from the amount computed by applying the combined Canadian federal and provincial statutory income tax rates to income before deferred income tax expense as follows:

($ thousands)	**Year ended December 31, 2021**	Year ended December 31, 2020
Income (loss) before income taxes	**47,610**	(54,043)
Canadian statutory rate (1)	**23.9%**	23.8%
Computed income tax expense at statutory rates	**11,379**	(12,862)
Effect on income tax of:		
Non-deductible items	**119**	112
Change in tax rates, adjustments, and true-up of pools	**(3,197)**	(12,178)
Change in tax assets (recognized) de-recognized	**(41,222)**	48,916
Other	**33**	(707)
Deferred income tax (recovery) expense	**(32,888)**	23,281

(1) The statutory rate consists of the combined statutory tax rate for Gear.

($ thousands)	December 31, 2020	Recognized change through profit and loss	**December 31, 2021**
Deferred tax assets (liabilities):			
Property, plant and equipment			
Non-capital losses carry forward	26,470	34,024	**60,494**
Intangible and tangible pools	27,105	8,923	**36,028**
Decommissioning liability	20,818	(1,922)	**18,896**
Risk management contracts – liability (asset)	4	616	**620**
Financing fees	1	(1)	**-**
Convertible debenture	(81)	81	**-**
	74,317	41,721	**116,038**
Deferred tax asset not recognized	(74,317)	(8,833)	**(83,150)**
Net deferred tax asset	-	32,888	**32,888**

($ thousands)	**Year ended December 31, 2021**	Year ended December 31, 2020
Deferred tax asset, beginning of the year	**-**	23,281
Deferred income tax recovery (expense)	**32,888**	(23,281)
Deferred tax asset, end of the year	**32,888**	-

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. As at December 31, 2021, a deferred tax asset in the amount of $32.9 million was recognized, and $83.2 million remains unrecognized, as Management did not find it probable that the benefit will be realized. As at December 31, 2020, Management did not recognize a deferred tax asset of $74.3 million. Included in this tax basis are estimated non-capital loss carry forwards that expire in the years 2027 through 2041.

13. FINANCIAL INSTRUMENTS

Classification and Measurement

Gear’s financial instruments on the Consolidated Balance Sheet are carried at amortized cost with the exception of risk management contracts, which are carried at fair value. As at December 31, 2021 and 2020, no significant differences existed between the carrying value of financial instruments and their estimated fair values.

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

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, forward exchange rates, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

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

Market Risk Management
Gear is exposed to a number of different financial risks arising from normal course business exposures, as well as the Company's use of financial instruments. These risk factors include market risks relating to commodity prices, foreign currency risk and interest rate risk, as well as liquidity risk and credit risk. There have been no changes in the Company's objectives, policies or risks surrounding financial instruments.

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of the business. The market price movements that could adversely affect the value of the Company's financial assets, liabilities and expected future cash flows include commodity price risk (crude oil, natural gas and NGLs), and foreign currency exchange risk.

(a) *Commodity price and foreign currency exchange risk*
Gear is subject to commodity price risk on the delivery of crude oil, and to a lesser extent, natural gas and NGLs. These prices have a significant impact on its financial condition and can be subject to volatility as a result of a number of different external factors. North American crude oil, natural gas and NGL prices are based upon US dollar denominated commodity prices. As a result, the price received by Canadian producers is affected by the Canadian/US dollar exchange rate. Gear manages the risks associated with changes in commodity prices and foreign currency exchange by entering into a variety of risk management contracts (see Note 10).

The following table illustrates the effects of movement in commodity prices on net income due to changes in the fair value of risk management contracts in place at December 31, 2021. The sensitivity is based on a 10 per cent increase and 10 per cent decrease in forward price curves for WTI at December 31, 2021. The commodity price assumptions are based on management's assessment of reasonably possible changes in oil prices that could occur in the future.

Sensitivity of Commodity Price Risk Management Contracts as at December 31, 2021
($ thousands)

	10 per cent Increase in Commodity Price WTI	10 per cent Decrease in Commodity Price WTI
Net income (decrease) increase	(1,546)	1,546

The sensitivities are hypothetical and based on management's assessment of reasonably possible changes in commodity prices after the balance sheet date. The results of the sensitivity should not be considered to be predictive of future performance. Changes in the fair value of risk management contracts cannot generally be extrapolated because the relationship of change in certain variables to a change in fair value may not be linear.

(b) *Interest rate risk*
Gear has variable interest rates on its Credit Facilities, therefore, changes in interest rates could result in an increase or decrease in the amount Gear pays to service its debt. Gear had no risk management contracts that would be affected by interest rates in place at December 31, 2021.

If the average interest rate were to increase or decrease by one per cent, it is estimated that Gear's net income would change by approximately $0.3 million for the year ended December 31, 2021 assuming that the debt outstanding under Gear's Credit Facilities at December 31, 2021 was outstanding for all of 2021.

(c) *Liquidity risk*
Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company believes that it has access to sufficient capital through internally generated cash flows and external sources (bank credit markets and equity financing, if required) to meet current spending forecasts.

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 completed its semi-annual borrowing base review and reduced its borrowing base from $48.1 million to $42.0 million. The next borrowing base review is expected to be completed on or about May 31, 2022.

All the accounts payable and accrued liabilities are due in less than one year. As at December 31, 2021 no debt was classified as current.

(d) *Credit risk*

Gear is or may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of petroleum and natural gas and other parties. In the event such entities fail to meet their contractual obligations to Gear, such failures could have a material adverse effect. The Company manages the risk by reviewing the credit risk of these entities and by entering agreements only with parties that meet certain credit tests. The maximum credit risk that the Company is exposed to is the carrying value of accounts receivable and risk management contracts.

The majority of the credit exposure on accounts receivable at December 31, 2021 pertains to accrued revenue for December 2021 production volumes. Gear transacts with a number of oil and natural gas marketing companies. Marketing companies typically remit amounts to Gear by the 25th day of the month following production. A significant portion of Gear's accounts receivable is carried by three marketing companies. At December 31, 2021, 58 per cent of the total outstanding accounts receivable pertains to these companies. Gear did not have any other customers from which it had outstanding accounts receivable greater than 10 per cent of the total outstanding balance at December 31, 2021.

When determining whether amounts that are past due are collectable, management assesses the credit worthiness and past payment history of the counterparty, as well as the nature of the past due amount. Gear considers all amounts greater than 90 days to be past due. At December 31, 2021 $0.5 million of accounts receivable are past due with all amounts collectable.

14. CAPITAL MANAGEMENT

Gear's capital management objective is to maintain a structure that will allow it to:

- Fund its development and exploration program;
- Provide financial flexibility to execute on strategic opportunities; and
- Weather periods of low commodity prices in light of changes in economic conditions.

Gear considers its capital structure to include shareholders' equity and net debt, which includes debt, convertible debentures, and working capital. As at December 31, these amounts are as follows:

($ thousands)	**December 31, 2021**	December 31, 2020
Debt	**26,355**	50,749
Convertible debentures (at face value)	**-**	13,185
Working capital surplus (1)	**(10,525)**	(11,070)
Net debt	**15,830**	52,864
Shareholders' equity	**199,048**	104,929
Total capital	**214,878**	157,793

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

During the year ended December 31, 2021, Gear changed its capital management objective to targeting net debt to zero. Previously, the objective was limiting net debt to two times cash flows from operating activities excluding decommissioning liabilities settled and changes in non-cash working capital. At certain times, Gear may incur debt as a result of a strategic acquisition or low commodity prices. Gear manages its capital structure and adjusts it in response to changes in economic conditions, the risk characteristics of its underlying assets, and the appetite for risk associated with access to capital. This is achieved by issuing new shares or adjusting its net debt position through the management of capital expenditures. For 2021, Gear's net debt to cash flows from operating activities excluding decommissioning liabilities settled and change in non-cash working capital is 0.3 (2020 – 1.6).

15. PETROLEUM AND NATURAL GAS SALES

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

($ thousands)	**Year ended December 31, 2021**	Year ended December 31, 2020
Heavy oil	**75,075**	35,663
Light and medium oil	**45,369**	25,043
Natural gas liquids	**2,959**	1,209
Natural gas	**5,624**	3,142
Total petroleum and natural gas sales	**129,027**	65,057

16. SUPPLEMENTAL DISCLOSURES CASH FLOW INFORMATION

Cash Flow Statement Presentation

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

($ thousands)	**Year ended December 31, 2021**	Year ended December 31, 2020
Accounts receivable	**(3,915)**	2,765
Prepaid expenses	**(36)**	20
Inventory	**(893)**	(1,048)
Accounts payable and accrued liabilities	**5,435**	(7,082)
Total	**591**	(5,345)
Operating Activities	**(868)**	(2,292)
Investing Activities	**1,459**	(3,053)
Total	**591**	(5,345)

17. COMMITMENTS AND CONTINGENCIES

The following is a summary of Gear's contractual obligations and commitments as at December 31, 2021:

	Payments due by period						
($ thousands)	**2022**	**2023**	**2024**	**2025**	**2026**	**Thereafter**	**Total**
Office leases (1)	366	488	433	232	-	-	1,519
Service agreement	182	48	-	-	-	-	230
Transportation agreement	-	415	477	477	477	2,266	4,112
Total contractual obligations	**548**	**951**	**910**	**709**	**477**	**2,266**	**5,861**

(1) Includes base rent and estimated operating costs.

During 2021, Gear entered into a transportation agreement that extends to 2030. The total remaining commitment is estimated to be $4.1 million.

Gear enters into commitments for capital and decommissioning expenditures in advance of the expenditures being made. At a given point in time, it is estimated that Gear has committed to capital expenditures equal to approximately one quarter of its capital budget by means of giving the necessary authorizations to incur the expenditures in a future period.

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.

18. RELATED PARTY TRANSACTIONS

Key Management Personnel Compensation

Gear has determined that the key management personnel of the Company consists of its officers and directors. In addition to the salaries paid to officers and fees paid to directors, Gear also provides compensation through participation in Gear's stock option plan. The compensation included in general and administrative expenses relating to key management personnel for the year was $1.5 million (2020 – $1.6 million).