FINANCIAL AND OPERATIONAL HIGHLIGHTS

GEAR ENERGY

(Cdn$ thousands, except per share, share and per boe amounts)	Three months ended Dec 31, 2021	Dec 31, 2020	Sep 30, 2021	Year ended Dec 31, 2021	Dec 31, 2020
FINANCIAL					
Funds from operations (1)	**17,938**	8,253	15,955	**54,368**	33,429
Per boe	**32.18**	15.41	29.60	**26.24**	17.24
Per weighted average basic share	**0.07**	0.04	0.06	**0.22**	0.15
Cash flows from operating activities	**17,421**	8,016	9,601	**51,881**	30,217
Per boe	**31.25**	14.97	17.81	**25.04**	15.58
Per weighted average basic share	**0.07**	0.04	0.04	**0.21**	0.14
Net income (loss)	**78,117**	39,349	6,608	**80,498**	(77,324)
Per weighted average basic share	**0.30**	0.18	0.03	**0.32**	(0.36)
Capital expenditures	**4,936**	386	10,256	**28,884**	12,441
Decommissioning liabilities settled (2)	**1,566**	726	944	**4,641**	1,505
Net acquisitions (3)	**-**	-	-	**-**	3
Net debt (1)	**15,830**	52,864	27,860	**15,830**	52,864
Weighted average shares, basic (thousands)	**259,360**	216,490	258,274	**248,665**	216,545
Shares outstanding, end of period (thousands)	**260,169**	216,490	259,107	**260,169**	216,490
OPERATING					
Production					
Heavy oil (bbl/d)	**3,282**	3,236	3,325	**3,211**	2,985
Light and medium oil (bbl/d)	**1,773**	1,657	1,656	**1,604**	1,507
Natural gas liquids (bbl/d)	**231**	182	176	**169**	169
Natural gas (mcf/d)	**4,637**	4,477	4,215	**4,149**	3,825
Total (boe/d)	**6,059**	5,821	5,859	**5,676**	5,298
Average prices					
Heavy oil ($/bbl)	**73.27**	36.16	67.86	**64.05**	32.64
Light and medium oil ($/bbl)	**88.99**	48.10	80.49	**77.51**	45.41
Natural gas liquids ($/bbl)	**59.50**	26.02	47.48	**47.90**	19.56
Natural gas ($/mcf)	**4.81**	2.69	3.62	**3.71**	2.24
Netback ($/boe)					
Petroleum and natural gas sales	**71.69**	36.68	65.29	**62.28**	33.55
Royalties	**(8.11)**	(4.38)	(7.50)	**(6.82)**	(3.51)
Operating costs	**(16.94)**	(14.83)	(17.44)	**(17.13)**	(14.80)
Transportation costs	**(3.00)**	(1.96)	(2.04)	**(2.30)**	(2.20)
Operating netback (1)	**43.64**	15.51	38.31	**36.03**	13.04
Realized risk management (loss) gain	**(8.20)**	4.67	(5.13)	**(5.92)**	8.85
General and administrative	**(2.55)**	(2.41)	(2.70)	**(2.57)**	(2.67)
Interest	**(0.71)**	(2.25)	(1.01)	**(1.24)**	(2.00)
Realized (loss) gain on foreign exchange	**-**	(0.11)	0.13	**(0.05)**	0.02
TRADING STATISTICS					
($ based on intra-day trading)					
High	**1.09**	0.31	0.89	**1.09**	0.50
Low	**0.76**	0.15	0.53	**0.25**	0.08
Close	**0.92**	0.29	0.83	**0.92**	0.29
Average daily volume (thousands)	**2,887**	320	2,145	**2,349**	510

(1) Funds from operations, net debt and operating netback do not have any standardized meanings under Canadian generally accepted accounting principles ("GAAP") and therefore may not be comparable to similar measures presented by other entities. For additional information related to these measures, including a reconciliation to the nearest GAAP measures, where applicable, see "Non-GAAP and Other Financial Measures" in Gear's management's discussion and analysis.

(2) Decommissioning liabilities settled includes expenditures made by both Gear and the federal government's Site Rehabilitation Program.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis ("MD&A") is Gear Energy Ltd. ("Gear" or the "Company") management's analysis of its financial performance. It is dated February 16, 2022 and should be read in conjunction with the audited Financial Statements as at and for the year ended December 31, 2021 and 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 certain measures that do not have standardized meanings under Canadian generally accepted accounting principles ("GAAP") and forward-looking statements and readers are cautioned that the MD&A should be read in conjunction with Gear's disclosure under "Non-GAAP and Other Financial 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 19 staff in the Calgary office and 10 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 of acquired assets by:

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

ECONOMIC ENVIRONMENT

2022 has started with a bang, with West Texas Intermediate ("WTI") climbing above US$90 per barrel for the first time since 2014 and after averaging US$67.91 per barrel in 2021. After several consecutive years of under-investment, there are fresh concerns that the world is in short supply of oil to meet global demands. Gear is fortunate enough to have entered into risk management contracts for 2022 that allow it to participate in the majority of this sudden increase in WTI. Gear is still on track to reduce its net debt to zero in the second quarter of 2022 and formulate plans to return capital to its shareholders while still evaluating opportunities to expand shareholder value within the business.

2021 AND 2022 GUIDANCE

Table 1

	2022 Revised Guidance	2022 Original Guidance	**2021 Guidance**	2021 Actuals
Annual Production (boe/d)	**5,900 – 6,000**	5,900 – 6,000	**5,700 – 5,800**	5,676
Heavy oil weighting (%)	**49**	49	**56**	57
Light/Medium oil and NGLs weighting (%)	**38**	38	**32**	31
Royalty rate (%)	**13**	11	**11**	11
Operating and transportation costs ($/boe)	**19.50**	19.50	**19.00**	19.43
General and administrative expense ($/boe)	**3.35**	3.35	**2.50**	2.57
Interest expense ($/boe)	**0.25**	0.35	**1.25**	1.24
Capital and abandonment expenditures ($ millions)	**40**	40	**31**	31

The majority of Gear's actual 2021 results met guidance, with the exception of operating and transportation costs. Although Gear spent more than guidance on operating and transportation costs, Gear re-activated previously shut-in high operating expense wells to take advantage of positive netbacks, and tied flared gas into a newly constructed gas gathering system to reduce emissions. With regards to annual production, the positive results of these re-activations were partially offset by extreme cold weather challenges late in the fourth quarter.

As a result of higher forecasted commodity prices, 2022 Guidance has been revised with respect to the royalty rate from 11 per cent to 13 per cent and the interest expense from $0.35 per boe to $0.25 per boe.

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				Year ended		
	Dec 31, 2021	Dec 31, 2020	% Change	Sep 30, 2021	**Dec 31, 2021**	Dec 31, 2020	% Change
Funds from operations per debt adjusted share (1)	**0.063**	0.020	215	0.054	**0.189**	0.077	145
Cash flows from operating activities per debt adjusted share (1)	**0.061**	0.019	221	0.032	**0.181**	0.069	162
Production, boepd per debt adjusted thousand shares (1)	**0.021**	0.014	50	0.020	**0.020**	0.012	67

(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 and other financial measures and are reconciled to the nearest GAAP measure, where applicable, under the heading "Non-GAAP and Other Financial Measures". Such measures do not have any standardized meanings under GAAP and therefore may not be comparable to similar measures presented by other entities.

2021 FOURTH QUARTER FINANCIAL AND OPERATIONAL RESULTS

Funds from Operations and Cash Flows from Operating Activities
Funds from operations increased from $8.3 million or $15.41 per boe in the fourth quarter of 2020 to $17.9 million or $32.18 per boe in the fourth quarter of 2021. The increase is the result of increased revenues due to higher production volumes and higher realized prices, decreased interest costs and realized foreign exchange, offset by a loss in risk management contracts, increased royalty, operating and general and administrative costs. On an annual basis, funds from operations increased from $33.4 million and $17.24 per boe in 2020 to $54.4 million and $26.24 per boe in 2021. The increase on an annual basis is the result of increased revenues due to higher production volumes and higher realized prices and decreased interest costs, offset by a loss in risk management contracts, increased royalty, operating and general and administrative costs and realized foreign exchange.

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

Table 3

	Three months ended Dec 31		Year ended Dec 31	
	$ thousands	$/boe	$ thousands	$/boe
2020 Funds from operations (1)	8,253	15.41	33,429	17.24
Volume variance	804	-	4,445	-
Price variance	19,513	35.01	59,525	28.73
Risk management contracts	(7,072)	(12.87)	(29,434)	(14.77)
Royalties	(2,175)	(3.73)	(7,321)	(3.31)
Expenses:				
Operating and transportation	(2,124)	(3.15)	(7,294)	(2.43)
General and administrative	(130)	(0.14)	(151)	0.10
Interest	809	1.54	1,309	0.76
Realized foreign exchange	60	0.11	(140)	(0.08)
2021 Funds from operations (1)	17,938	32.18	54,368	26.24

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

Cash flows from operating activities increased from $8.0 million or $14.97 per boe in the fourth quarter of 2020 to $17.4 million or $31.25 per boe in the fourth quarter of 2021. The increase is the result of increased revenues due to higher production volumes and higher realized prices, decreased interest costs and realized foreign exchange, offset by a loss in risk management contracts, increased royalty, operating and general and administrative costs and increased decommissioning liabilities settled.

For the year ended December 31, 2021 cash flows from operating activities increased from $30.2 million and $15.58 per boe in 2020 to $51.9 million and $25.04 per boe. The increase on an annual basis is the result of increased revenues due to higher production volumes and higher realized prices and decreased interest costs, offset by a loss in risk management contracts, increased royalty, operating and general and administrative costs, increased decommissioning liabilities settled and realized foreign exchange.

Net income and loss
Gear generated a net income of $78.1 million and $80.5 million for the quarter and year ended December 31, 2021 compared to a net income of $39.3 million and a net loss of $77.3 million for same periods in 2020, respectively. The changes in net income are due to several factors discussed below, however the majority is due to a larger impairment reversal recorded in the fourth quarter of 2021 compared to the fourth quarter of 2020, and the recognition of a deferred tax

asset. Year over year, Gear recorded an impairment reversal for the year ended December 31, 2021 compared to an impairment loss for the same period in 2020, and recognized a deferred tax asset in 2021.

Production

Sales production volumes averaged 6,059 boe per day for the fourth quarter of 2021 compared to 5,821 boe per day for the fourth quarter in 2020. In the third quarter 2021 release, Gear had stated that it expected fourth quarter 2021 production to average 6,250 boe per day and for October and November 2021, Gear's production averaged 6,220 boe per day. Unfortunately, in December 2021, Gear experienced extremely cold weather where temperatures were below minus 50 degrees Celsius. As a result, production temporarily decreased with December 2021 production averaging only 5,725 boe per day as several wells were temporarily shut-in. With temperatures normalizing through January, the vast majority of these wells have now been restarted.

For the year ended December 31, 2021, production volumes averaged 5,676 boe per day compared to 5,298 boe per day for the same period 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 in the third quarter of 2020. For 2021 Gear drilled 18.7 net wells, of which 18.3 were brought on production during the year. A non-operated well that was drilled in the fourth quarter was not brought on production until 2022. These new wells contributed 1,503 boe per day during the fourth quarter and 773 boe per day for the full year 2021. In the third quarter of 2021, Gear constructed a gas conservation solution for previously flared gas in Tableland, Saskatchewan. As a result, Gear was able to conserve natural gas and natural gas liquids which contributed 159 boe per day in the fourth quarter of 2021 and 47 boe per day for the full year 2021. 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 had an inventory build of approximately 4,500 barrels in the fourth quarter of 2021 over the third quarter of 2021, and has approximately 142 thousand barrels of oil in inventory as at December 31, 2021.

Table 4

	Three months ended				Year ended		
Production	**Dec 31, 2021**	Dec 31, 2020	% Change	Sep 30, 2021	**Dec 31, 2021**	Dec 31, 2020	% Change
Liquids (bbl/d)							
Heavy oil (bbl/d)	**3,282**	3,236	1	3,325	**3,211**	2,985	8
Light and Medium oil (bbl/d)	**1,773**	1,657	7	1,656	**1,604**	1,507	6
Natural gas liquids (bbl/d)	**231**	182	27	176	**169**	169	-
Total liquids (bbl/d)	**5,286**	5,075	4	5,157	**4,984**	4,661	7
Natural gas (mcf/d)	**4,637**	4,477	4	4,215	**4,149**	3,825	8
Total production (boe/d) (1)	**6,059**	5,821	4	5,859	**5,676**	5,298	7
% Liquids production	**87**	87	-	88	**88**	88	-
% Natural gas production	**13**	13	-	12	**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 year ended December 31, 2021, sales of crude oil, natural gas and natural gas liquids totaled $40.0 million and $129.0 million, a 103 and 98 per cent increase over $19.6 million and $65.1 million for the same periods in 2020, respectively. These increases are the result of higher production volumes and higher realized commodity prices. Quarter over quarter, sales increased to $40.0 million from $35.2 million mainly as a result of higher realized pricing.

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

Table 5

Sales by product	Three months ended				Year ended		
($ thousands)	**Dec 31, 2021**	Dec 31, 2020	% Change	Sep 30, 2021	**Dec 31, 2021**	Dec 31, 2020	% Change
Heavy oil	**22,127**	10,766	106	20,759	**75,075**	35,663	111
Light and medium oil	**14,519**	7,334	98	12,259	**45,369**	25,043	81
Natural gas liquids	**1,263**	435	190	767	**2,959**	1,209	145
Natural gas	**2,052**	1,109	85	1,404	**5,624**	3,142	79
Total petroleum and natural gas sales	**39,961**	19,644	103	35,189	**129,027**	65,057	98

Commodity Prices

Table 6

	Three months ended				Year ended		
Average Benchmark Prices	**Dec 31, 2021**	Dec 31, 2020	% Change	Sep 30, 2021	**Dec 31, 2021**	Dec 31, 2020	% Change
WTI oil (US$/bbl) (1)	**77.19**	42.66	81	70.56	**67.91**	39.40	72
WCS heavy oil (Cdn$/bbl) (2)	**78.81**	43.40	82	71.81	**68.77**	35.91	92
Canadian Light Sweet (3) (Cdn$/bbl)	**93.34**	50.21	86	83.78	**80.25**	45.65	76
LSB (Cdn$/bbl) (4)	**92.93**	50.70	83	83.60	**80.10**	45.73	75
AECO natural gas ($/mcf) (5)	**4.62**	2.66	74	3.62	**3.62**	2.01	80
Cdn$ / US$ exchange rate	**1.26**	1.30	(3)	1.26	**1.25**	1.34	(7)
Gear Realized Prices							
Heavy oil ($/bbl)	**73.27**	36.16	103	67.86	**64.05**	32.64	96
Light and medium oil ($/bbl)	**88.99**	48.10	85	80.49	**77.51**	45.41	71
Natural gas liquids ($/bbl)	**59.50**	26.02	129	47.48	**47.90**	19.56	145
Natural gas ($/mcf)	**4.81**	2.69	79	3.62	**3.71**	2.24	66
Weighted average, before risk management contracts ($/boe)	**71.69**	36.68	95	65.29	**62.28**	33.55	86
Realized risk management gain (loss) ($/boe)	**(8.20)**	4.67	-	(5.13)	**(5.92)**	8.85	-
Weighted average, after risk management contracts ($/boe)	**63.49**	41.35	54	60.16	**56.36**	42.40	33

(1) WTI represents the posting price of West Texas Intermediate oil.
(2) WCS represents the average market price for the benchmark Western Canadian Select for Gear’s heavy oil.
(3) Represents the Canadian Light Sweet oil index for Gear’s Alberta light oil.
(4) LSB represents the Light Sour Blend oil index for Gear’s Southeast Saskatchewan light oil.
(5) Represents the AECO 5a monthly index.

For the fourth quarter of 2021, US denominated WTI prices increased by 81 per cent over the same period in 2020, the WCS differential widened from US$9.31 per barrel to US$14.63 per barrel, the Canadian Light Sweet differential narrowed from US$4.07 per barrel to US$3.10 per barrel and the LSB differential narrowed from US$3.70 per barrel to US$3.42 per barrel. These pricing movements resulted in an increase in Gear’s realized pricing from $36.68 per boe to $71.69 per boe.

On an annual basis WTI increased by 72 per cent from US$39.40 per barrel in 2020 to US$67.91 per barrel in 2021, the WCS differential widened from US$12.60 per barrel to US$13.04 per barrel, the Canadian Light Sweet differential narrowed from US$5.33 per barrel to US$3.88 per barrel and the LSB differential narrowed from US$5.27 per barrel to US$4.00 per barrel. These pricing movements resulted in an increase in Gear’s realized pricing from $33.55 per boe to $62.28 per boe.

Royalties

For the quarter and year ended December 31, 2021, royalties as a percentage of commodity sales were 11.3 and 11.0 percent, respectively, compared to 11.9 and 10.5 percent 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 remained constant. 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				Year ended		
($ thousands except % and per boe)	**Dec 31, 2021**	Dec 31, 2020	% Change	Sep 30, 2021	**Dec 31, 2021**	Dec 31, 2020	% Change
Royalty expense	**4,519**	2,344	93	4,041	**14,133**	6,812	107
Royalty expense as a % of Sales	**11.3**	11.9	(5)	11.5	**11.0**	10.5	5
Royalty expense per boe	**8.11**	4.38	85	7.50	**6.82**	3.51	94

Operating and Transportation Expenses

Operating costs for the quarter and year ended December 31, 2021, were $16.94 and $17.13 per boe, respectively, compared to $14.83 and $14.80 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. In addition, Gear had deferred field maintenance and workover projects in 2020 and completed these in 2021. Finally, Gear has observed inflationary pressures in 2021 relative to 2020.

Transportation expense has also increased for the quarter and year ended December 31, 2021. In 2021, Gear tied production into a newly constructed gas gathering system and 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. During the fourth quarter, the gas gathering system produced 160 boe per day of natural gas and natural liquids, and Gear incurred $0.5 million of transportation fees associated with this system.

Quarter over quarter, operating costs plus transportation increased from $19.48 per boe to $19.94 per boe mainly as a result of the transportation commitment, which increased transportation from $2.04 per boe to $3.00 per boe.

Table 8 below summarizes the operating and transportation expenses:

Table 8

Operating and Transportation expenses ($ thousands except per boe)	**Dec 31, 2021**	Three months ended Dec 31, 2020	% Change	Sep 30, 2021	**Dec 31, 2021**	Year ended Dec 31, 2020	% Change
Operating expense	**9,445**	7,944	19	9,400	**35,498**	28,692	24
Transportation expense	**1,670**	1,047	60	1,098	**4,755**	4,267	11
Operating and transportation expense	**11,115**	8,991	24	10,498	**40,253**	32,959	22
Operating expense per boe	**16.94**	14.83	14	17.44	**17.13**	14.80	16
Transportation expense per boe	**3.00**	1.96	53	2.04	**2.30**	2.20	5
Operating and transportation expense per boe	**19.94**	16.79	19	19.48	**19.43**	17.00	14

Operating Netbacks

For the quarter and year ended December 31, 2021, Gear's operating netback prior to risk management contracts was $43.64 and $36.03 per boe compared to $15.51 and $13.04 per boe for the same periods in 2020. This represents an increase of 181 per cent and 176 per cent from the same periods in 2020. The increase in operating netbacks was primarily the result of increased commodity prices. Quarter over quarter, Gear's operating netback increased from $38.31 per boe to $43.64 per boe mainly as a result of increased realized commodity prices and lower operating expense partially offset by higher royalties and transportation costs.

The components of operating netbacks are summarized in Table 9:

Table 9

Operating Netback(1) ($ per boe)	**Dec 31, 2021**	Three months ended Dec 31, 2020	% Change	Sep 30, 2021	**Dec 31, 2021**	Year ended Dec 31, 2020	% Change
Total sales	**71.69**	36.68	95	65.29	**62.28**	33.55	86
Royalties	**(8.11)**	(4.38)	85	(7.50)	**(6.82)**	(3.51)	94
Operating costs	**(16.94)**	(14.83)	14	(17.44)	**(17.13)**	(14.80)	16
Transportation costs	**(3.00)**	(1.96)	53	(2.04)	**(2.30)**	(2.20)	5
Operating netback(1)	**43.64**	15.51	181	38.31	**36.03**	13.04	176

(1) Operating netback is a non-GAAP ratio and is described under the heading "Non-GAAP and Other Financial Measures" below. Operating netback does not have a standardized meaning under GAAP and therefore may not be comparable to similar measures presented by other entities.

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

G&A expenses for the quarter and year ended December 31, 2021 totaled $1.4 million and $5.3 million, compared to $1.3 million and $5.2 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. For 2021, Gear received $0.1 million under the Canada Emergency Wage Subsidy program compared to $0.8 million in 2020. Gear no longer qualifies for this program due to increased revenue. Finally, as a result of increased drilling activities, for the fourth quarter and year ended December 31, 2021, Gear capitalized $0.3 million and $1.2 million of G&A compared to nil and $0.6 million for the same periods in 2020. For the quarter and year ended December 31, 2021, G&A on a per boe basis was $2.55 and $2.57 per boe, representing an increase of 6 and decrease of 4 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				Year ended		
	Dec 31,	Dec 31,	%	Sep 30,	**Dec 31,**	Dec 31,	%
($ thousands except per boe)	**2021**	2020	Change	2021	**2021**	2020	Change
G&A, before recoveries and capitalized G&A	**1,810**	1,367	32	1,839	**6,825**	6,128	11
Overhead recoveries	**(75)**	(75)	-	(69)	**(283)**	(312)	(9)
Capitalized G&A	**(313)**	-	(100)	(314)	**(1,210)**	(635)	91
G&A	**1,422**	1,292	10	1,456	**5,332**	5,181	3
SBC expense	**167**	78	114	137	**498**	472	6
G&A per boe	**2.55**	2.41	6	2.70	**2.57**	2.67	(4)
SBC expense per boe	**0.30**	0.15	100	0.25	**0.24**	0.24	-

SBC is related to the granting of stock options. During the year ended December 31, 2021, there were 10.6 million options granted at an average price of $0.73. In addition, 2.8 million options expired, were forfeited or settled at an average exercise price of $0.72 and 4.4 million options were exercised at an average exercise price of $0.34. During the first quarter of 2021, Gear cash settled the remaining options that had a five-year expiry period for $29 thousand. As at December 31, 2021 a total of 16.8 million options with a weighted average exercise price of $0.57 per share were outstanding, representing approximately 6.4 per cent of the 260.2 million total common shares outstanding. Each option entitles the holder to acquire one Gear common share. As at December 31, 2020 a total of 13.3 million options were outstanding. For further information on Gear's stock options, see the notes to the Audited Consolidated Financial Statements. At the date of this MD&A, Gear had a total of 16.4 million options outstanding at a weighted average exercise price of $0.57 per share.

Interest and financing charges

Interest and financing charges totaled $0.4 million and $2.6 million for the quarter and year ended December 31, 2021, a 67 per cent decrease and 34 per cent decrease over the same periods in 2020, respectively. Gear's annualized borrowing costs, inclusive of financing charges and standby fees on its Credit Facilities approximated 4.5 per cent and 5.5 per cent for the quarter and year ended December 31, 2021. This compares to 6.9 per cent and 5.0 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 per cent 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. In 2021, Gear realized $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				Year ended		
	Dec 31,	Dec 31,	%	Sep 30,	**Dec 31,**	Dec 30,	%
($ thousands except per boe)	**2021**	2020	Change	2021	**2021**	2020	Change
Interest expense	**334**	922	(64)	483	**2,212**	3,374	(34)
Financing charges	**33**	241	(86)	34	**230**	361	(36)
Standby fees	**28**	41	(32)	30	**130**	146	(11)
Interest and financing charges	**395**	1,204	(67)	547	**2,572**	3,881	(34)
Interest and financing charges per boe	**0.71**	2.25	(68)	1.01	**1.24**	2.00	(38)

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 25 per cent and up to 65 per cent of forecasted production, net of royalties, and has been authorized by its Board of Directors to hedge up to certain levels as specified by the credit agreement. To date, Gear has fully completed all 2022 hedging requirements and continues to monitor markets for future periods. As Gear transitions to a zero-debt capital structure, management continues to evaluate its risk and the management thereof and will continue to monitor the commodities market for further future risk management contracts.

Gear realized losses on risk management contracts of $4.6 million and $12.3 million, respectively, for the quarter and year ended December 31, 2021 compared to gains of $2.5 million and $17.2 million for the same periods in 2020. The fair value of all outstanding contracts at December 31, 2021 was a liability of $2.6 million.

Table 12 summarizes Gear's financial risk management contracts as at December 31, 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**
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.

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

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, 2022	Dec 31, 2022	Three-way collar	CAD	1,200	-	120.00	65.00	50.00

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

DD&A during the fourth quarter of 2021 was 17.48 per boe, a six per cent increase compared to $16.52 per boe for the same period in 2020. For the year ended December 31, 2021, the DD&A rate increased two per cent over the same period in 2020. These increases in the DD&A rate are mainly the result of the impact of the impairment reversal at December 31, 2020. Depletion is recorded net of government spending. For the quarter and year ended December 31, 2021, the government provided Gear $0.6 million and $3.0 million towards extinguishing decommissioning liabilities, as compared to $0.6 million for both the quarter and year ended December 31, 2020.

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 cash-generating units ("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. 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.

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. For additional information see Note 6 "Property, Plant and Equipment and Impairment" in the notes to the Audited Consolidated Financial Statements. As future commodity prices remain volatile, impairment charges or recoveries could be recorded in future periods.

As at December 31, 2021, Gear recorded oil inventory valued at its production cost. At March 31, 2020 Gear recorded oil inventory at its net realizable value and recognized an impairment on its inventory balance as a result in the amount of $4.3 million. No additional impairments on inventory were recorded in 2020 and 2021. For additional information see Note 5 "Inventory" in the notes to the Audited Consolidated Financial Statements.

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

Table 13

DD&A Rate	Three months ended				Year ended		
($ thousands except per boe)	**Dec 31, 2021**	Dec 31, 2020	% Change	Sep 30, 2021	**Dec 31, 2021**	Dec 31, 2020	% Change
DD&A	**9,745**	8,845	10	8,967	**35,423**	32,448	9
Total DD&A rate per boe	**17.48**	16.52	6	16.64	**17.10**	16.74	2
Impairment / (Reversal)	**(33,675)**	(42,633)	(21)	-	**(33,675)**	55,573	-

Taxes
Deferred income tax assets on the Consolidated Balance Sheet are recognized to the extent that the realization of the related tax benefit through future taxable profits is probable based on current tax pools and estimated future taxable income. 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. For the year ended December 31, 2021, Gear recognized a deferred income tax recovery of $32.9 million compared to a deferred income tax expense of $23.3 million for the same period in 2020. No cash income taxes were paid in 2021 and 2020.

A breakdown of estimated tax pools is shown in Table 14:

Table 14

($ thousands)	**December 31, 2021**	December 31, 2020
Canadian oil and gas property expenses	129,689	142,698
Canadian development expenses	196,397	234,384
Canadian exploration expenses	28,186	28,096
Undepreciated capital cost	60,117	73,210
Non-capital losses	253,111	212,891
Other	1	24
Estimated realizable tax pools, federal and provincial	667,501	691,303

Capital Expenditures, Acquisitions and Dispositions
Capital expenditures including acquisitions and dispositions for the quarter and year ended December 31, 2021 were $4.9 million and $28.9 million, compared to $0.4 million and $12.4 million in the same periods in 2020.

During the fourth quarter of 2021, Gear drilled one gross (0.3 net) light oil well in Wilson Creek, Alberta. The well was not brought on production until 2022. Through 2021, Gear successfully drilled 20 gross (18.7 net) wells including ten heavy oil single lateral wells in Paradise Hill, two gross (0.6 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 in 2021 were on budget for costs.

During 2021, Gear continued to focus strategic investments on waterflood opportunities. In the heavy oil asset base, Gear successfully started injecting water into Wildmere, Alberta in September, and into Maidstone, Saskatchewan in December. For Gear’s light oil asset base in Alberta, Gear continued to expand its waterfloods in Wilson Creek and Chigwell. Finally, for Gear’s medium oil asset base in Alberta, Gear continued to expand waterflooding in Killam and plans to commence waterflooding in 2022 for Provost.

A breakdown of capital expenditures and net acquisitions is shown in Table 15:

Table 15

Capital expenditures	Three months ended				Year ended		
($ thousands)	**Dec 31, 2021**	Dec 31, 2020	% Change	Sep 30, 2021	**Dec 31, 2021**	Dec 31, 2020	% Change
Drilling and completions	**2,279**	179	1,173	7,082	**19,316**	9,168	111
Production equipment and facilities	**2,496**	193	1,193	3,062	**9,100**	3,029	200
Geological and geophysical	**25**	-	100	20	**91**	40	128
Undeveloped land purchased at crown land sales	**90**	14	543	56	**289**	173	67
Other	**46**	-	100	36	**88**	31	184
Total capital expenditures	**4,936**	386	1,179	10,256	**28,884**	12,441	132
Property acquisitions and dispositions, net (1)	**-**	-	-	-	**-**	3	(100)
Total capital expenditures and net acquisitions	**4,946**	386	1,181	10,256	**28,884**	12,444	132

(1) Includes post-closing adjustments

Decommissioning Liability
At December 31, 2021, Gear recorded a decommissioning liability of $79.1 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 1.76 per cent (1.85 per cent at December 31, 2020) and discounted using a risk free rate of 1.76 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 during the year ended December 31, 2021 were $1.6 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 a Site Rehabilitation Program ("SRP"). In 2020, Gear was approved for a total of $2.2 million of this funding; $0.1 million in British Columbia, $0.6 million in Saskatchewan and $1.5 million in Alberta. Gear carried over $1.6 million of funding from 2020 as the spending had yet to occur. In 2021, Gear was approved for an additional $3.0 million bringing the total cumulative funding to date to $5.2 million. Gear continues to apply 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 year ended December 31, 2021, as a result of combined efforts of both Gear and the SRP, the combined $4.6 million of decommissioning expenditures allowed Gear to cut and cap 59 gross wells in Alberta and downhole abandon 87 gross wells in Alberta, and cut and cap 46 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 16:

Table 16

SRP ($ thousands)	**Alberta**	**Saskatchewan**	**British Columbia**	**Total**
2020 funding carry over	1,240	372	2	1,614
2021 funding	2,251	1,500	-	3,751
2021 spending	(2,080)	(942)	-	(3,022)
Remaining	**1,411**	**930**	**2**	**2,343**

Capitalization, Financial Resources and Liquidity
A breakdown of Gear's capital structure is outlined in Table 17:

Table 17

Debt ($ thousands except ratio amounts)	**Dec 31, 2021**	Dec 31, 2020
Net debt [1]	**15,830**	52,864
Net debt to funds from operations [1]	**0.3**	1.6
Net debt to quarterly annualized funds from operations [1]	**0.2**	1.6
Common shares outstanding	**260,169**	216,490

(1) Net debt, net debt to funds from operations and net debt to quarterly annualized funds from operations are non-GAAP and other financial measures and are reconciled to the nearest GAAP measure, where applicable, under the heading "Non-GAAP and Other Financial Measures". Such measures do not have any standardized meanings under GAAP and therefore may not be comparable to similar measures presented by other entities.

Gear was able to achieve a 43 per cent reduction in fourth quarter net debt over the third quarter of 2021 and a 70 per cent reduction from December 31, 2020. This was achieved primarily through bank debt repayments as funds from operations exceeded capital expenditures during 2021 and the retirement of $13.2 million of Convertible Debentures resulting in the issuance of 41.2 million common shares.

Credit Facilities
In September 2021, Gear completed its annual borrowing base redetermination and amended its credit facilities (the "Credit Facilities").

Table 18 shows a breakdown of Gear's Credit Facilities:

Table 18

Facility	**Borrowing base**		**Maturity Date**
($ millions)	**Dec 31, 2021**	**Dec 31, 2020**	
Non-revolving	-	15.0	Repaid
Revolving	34.5	42.5	May 27, 2023
Operating	7.5	7.5	May 27, 2023
Total	42.0	65.0	

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). At December 31, 2021, $nil (December 31, 2020 – $5.0 million) has been classified as short-term debt for amounts borrowed under the non-revolving term credit facilities required to be repaid in the next twelve months. The Credit Facilities do not carry any financial covenants.

The total stamping fees on the operating facility and revolving facility range, depend on Gear's Senior Debt to EBITDA ratio, and range between 200 bps to 400 bps on Canadian bank prime borrowings and between 300 bps and 500 bps on US dollar denominated LIBOR loans and Canadian dollar bankers' acceptances. The undrawn portion of the operating facility and revolving facility is subject to a standby fee in the range of 75 bps to 125 bps. The total stamping fees on the non-revolving facility range, depending on Gear's Senior 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 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.

Convertible Debentures
As at December 31, 2021, no subordinated unsecured convertible debentures (the "Convertible Debentures") were outstanding (2020 - $13.2 million). 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 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.

Shareholders' Equity
As at December 31, 2021, Gear had 260.2 million common shares outstanding. The increase since December 31, 2020, is due to conversions of Convertible Debentures and stock option exercises. At December 31, 2020 Gear had 216.5 million common shares outstanding. At the date of this MD&A, Gear has 260.2 million shares outstanding.

As at December 31, 2021 a total of 16.8 million options were outstanding with a weighted average exercise price of $0.57 per share and each option entitled the holder to acquire one Gear common share. At the date of this MD&A, Gear had a total of 16.4 million options outstanding at a weighted average exercise price of $0.57 per 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. Between 2018 and 2020, Gear has abandoned an average of 55 wells per year. In 2021, Gear cut and capped 105 gross wells and downhole abandoned 123 gross wells in Alberta and Saskatchewan as compared to the forecast of 120 gross wells. At the end of 2021, Gear abandoned almost six times as many wells as had been drilled over the same period as compared to the forecast of five times as many wells.

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, 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 Corporate Governance, Compensation and Sustainability 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, sustainability, 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 lower 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 2021, Gear released its inaugural Environmental, Social, and Governance report. In addition in 2021, Gear's Board of Directors charged the Corporate Governance and Compensation Committee with additional responsibilities related to sustainability and ESG matters and changed the name of the committee to the Corporate Governance, Compensation and Sustainability Committee.

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

In addition to the Credit Facilities, as at December 31, 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 $1.5 million. The service commitment relates to a software agreement that expires in 2023 with a remaining commitment of $0.2 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 $4.1 million. For further information see Note 17 "Commitments and Contingencies" in the notes to the Audited Consolidated Financial Statements.

Gear is involved in litigation and claims arising in the normal course of operations. Management is of the opinion that pending litigation will not have a material impact on Gear's financial position or results of operations.

Related Party Transactions
Other than the payment of compensation to key management personnel, the Corporation has not entered into any related party transactions. For further information see Note 18 "Related Party Transactions" in the notes to the Audited Consolidated Financial Statements.

Non-GAAP and Other Financial Measures

Gear uses certain non-GAAP and other financial measures to analyze financial and operating performance. These specified financial measures include non-GAAP financial measures, non-GAAP ratios, total of segments measures, capital management measures and supplementary financial measures, and are not defined by IFRS and are therefore referred to as non-GAAP and other financial measures. Management believes that the non-GAAP and other financial measures used by the Company 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. These non-GAAP and other financial measures should not be considered an alternative to or more meaningful than their most directly comparable financial measure presented in the financial statements, as an indication of the Company's performance. Descriptions of the non-GAAP and other financial measures used by the Company as well as reconciliations to the most directly comparable GAAP measure for the year ended December 31, 2021 and December 31, 2020, where applicable, are provided below.

Funds from Operations

Funds from operations is a non-GAAP financial 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 for management and investors as it demonstrates the Company's ability to generate the funds from operations necessary to fund its capital program and decommissioning liabilities and repay debt.

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

Table 19

	Three months ended			Year ended	
($ thousands)	**Dec 31, 2021**	Dec 31, 2020	Sep 30, 2021	**Dec 31, 2021**	Dec 30, 2020
Cash flows from operating activities	**17,421**	8,016	9,601	**51,881**	30,217
Decommissioning liabilities settled (1)	**1,000**	141	40	**1,619**	920
Change in non-cash working capital	**(483)**	96	6,314	**868**	2,292
Funds from operations	**17,938**	8,253	15,955	**54,368**	33,429

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

Funds from Operations per BOE

Funds from operations per boe is a non-GAAP ratio calculated as funds from operations, as defined and reconciled to cash flows from operating activities above, divided by sales production for the period. Gear considers this a useful non-GAAP ratio for management and investors as it evaluates financial performance on a per boe level, which enables better comparison to other oil and gas companies in demonstrating 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 weighted average basic share

Funds from operations per weighted average basic share is a non-GAAP ratio calculated as funds from operations, as defined and reconciled to cash flows from operating activities above, divided by the weighted average basic share amount. Gear considers this non-GAAP ratio a useful measure for management and investors as it demonstrates its ability to generate the funds from operations, on a per weighted average basic share basis, necessary to fund its capital program and settle decommissioning liabilities and repay debt.

Funds from operations per weighted average diluted share

Funds from operations per weighted average diluted share is a non-GAAP ratio calculated as funds from operations, as defined and reconciled to cash flows from operating activities above, divided by the weighted average diluted share amount. Gear considers this non-GAAP ratio a useful measure for management and investors as it demonstrates its ability to generate the funds from operations, on a per weighted average diluted share basis, necessary to fund its capital program and settle decommissioning liabilities and repay debt.

Net Debt

Net debt is a capital management measure defined as debt plus Convertible Debentures less current working capital items (excluding debt, Convertible Debentures, risk management contracts and decommissioning liabilities). Gear believes net debt provides management and investors with a measure that is 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.

Table 20 below reconciles debt to net debt:

Table 20

Capital Structure and Liquidity ($ thousands)	**Dec 31, 2021**	Dec 31, 2020
Debt	**26,355**	50,749
Convertible Debentures (at face value) (1)	**-**	13,185
Working capital (surplus) (2)	**(10,525)**	(11,070)
Net debt	**15,830**	52,864

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

At December 31, 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 Funds from Operations
Net debt to funds from operations is a non-GAAP ratio and is defined as net debt, as defined and reconciled to debt above, divided by the funds from operations, as defined and reconciled to cash flows from operating activities above, for the year. Gear uses net debt to funds from operations to analyze financial and operating performance. Gear considers this a key measure for management and investors as it demonstrates the Company's ability to pay off its debt and take on new debt, if necessary, using the most recent annual results.

Net Debt to Quarterly Annualized Funds from Operations
Net debt to quarterly annualized funds from operations is a non-GAAP ratio and is defined as net debt, as defined and reconciled to debt above, divided by the annualized funds from operations, as defined and reconciled to cash flows from operating activities above, for the most recently completed quarter. Gear uses net debt to quarterly annualized funds from operations to analyze financial and operating performance. Gear considers this a key measure for management and investors 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.

Debt Adjusted Shares
Debt adjusted shares is a non-GAAP financial measure calculated as the weighted average shares plus the share equivalent on Gear's average net debt, as defined and reconciled to debt above, 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 was 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. Gear has used the ten-day volume weighted average share 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. Gear considers debt adjusted shares a useful measure for management and investors as it enables oil and gas companies to be put on an equal, enterprise value-based footing when calculating per share numbers.

Table 21 below reconciles weighted average basic shares to debt adjusted shares:

Table 21

	Three months ended			Year ended	
(thousands, except per share amounts)	**Dec 31, 2021**	Dec 31, 2020	Sep 30, 2021	**Dec 31, 2021**	Dec 31, 2020
Weighted average basic shares	**259,360**	216,490	258,274	**248,665**	216,545
Average share price (1)	**0.89**	0.28	0.79	**0.89**	0.28
Average net debt (2)	**21,845**	56,704	30,639	**34,347**	61,308
Share equivalent on average net debt (3)	**24,545**	202,514	38,783	**38,592**	218,957
Debt adjusted shares	**283,905**	419,004	297,057	**287,257**	435,502

(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 quarters and years 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
Funds from operations per debt adjusted share is a non-GAAP ratio calculated as funds from operations, as defined and reconciled to cash flows from operating activities above, divided by debt adjusted shares, as defined and reconciled to weighted average basic shares above. Gear considers the non-GAAP ratio funds from operations per debt adjusted share a useful measure for management and investors 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.

Cash flows from operating activities per debt adjusted share
Cash flows from operating activities per debt adjusted share is a non-GAAP ratio calculated as cash flows from operating activities, as determined in accordance with IFRS, divided by debt adjusted shares, as defined and reconciled to weighted average basic shares above. Gear considers the non-GAAP ratio cash flows from operating activities per debt adjusted share a useful measure for management and investors 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.

Production, boepd per debt adjusted thousand shares
Production, boepd per debt adjusted thousand shares is a non-GAAP ratio calculated as production, boepd, divided by debt adjusted thousand shares, as defined and reconciled to weighted average basic shares above. Gear considers production, boepd per debt adjusted thousand shares a useful non-GAAP ratio for management and investors as it enables oil and gas companies to be put on an equal, enterprise value-based footing when calculating per share numbers to demonstrate the Company’s ability to produce oil and gas.

Operating Netback
Operating netbacks are non-GAAP ratios 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. Management believes that netback provides investors with information that is commonly used by other oil and gas companies. The measurement on a per boe basis assists management and investors with evaluating operating performance on a comparable basis.

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, 2021.

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

Prices, Markets and Marketing
Gear’s operational results and financial condition, and therefore the amount of capital expenditures, are dependent on the prices received for oil, natural gas and natural gas liquids (“NGLs”) production. Prices for oil, natural gas and NGLs are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil, natural gas and NGLs, market uncertainty and a variety of additional factors beyond the control of the Company. A material decline in prices

could result in a reduction of net production revenue. The economics of producing from some wells may change because of lower prices, which could result in reduced production of oil, natural gas or NGLs and a reduction in the volumes of Gear's reserves. Management might also elect not to produce from certain wells at lower prices as it did in 2020.

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

These factors could result in a material decrease in Gear's expected net production revenue and a reduction in its oil and natural gas acquisition, development and exploration activities. Any substantial and extended decline in the price of oil and natural gas would have an adverse effect on the Company's carrying value of its assets and its borrowing capacity, revenues, profitability and funds from operations. To offset these risks, Gear has entered into various risk management contracts for 2022 which allows for downside protection on WTI yet still allows for participation in WTI price appreciation with the use of wide collars and bought put contracts.

Refinancing
Gear currently has $42 million in Credit Facilities with a revolving maturity date of May 27, 2023. The lenders review the Credit Facilities at a minimum twice a year (also known as a redetermination) to review primarily the amount available under the Credit Facilities (also known as the borrowing base) and to also decide if they will extend the revolving facilities for another year. In the event that the Credit Facilities are not extended, indebtedness under the Credit Facilities will become repayable at May 27, 2023 (or a year after the end of the revolving period). More immediate, however, is the risk that lenders redetermine a borrowing base below the amount that Gear has already drawn on its Credit Facilities (a "borrowing base shortfall"). Such a borrowing base shortfall must be eliminated within 30 days. If Gear is unable to eliminate the borrowing base shortfall, the lenders may demand immediate repayment of all amounts borrowed under the Credit Facilities. Any of these events could affect Gear's ability to fund ongoing operations. The next scheduled review is on or about May 31, 2022.

Inflation and Cost Management
Gear's operating costs could escalate and become uncompetitive due to supply chain disruptions, inflationary cost pressures, equipment limitations, escalating supply costs, commodity prices, and additional government intervention through stimulus spending or additional regulations. Gear's inability to manage costs may impact project returns and future development decisions, which could have a material adverse effect on its financial performance and cash flows.

The cost or availability of oil and gas field equipment may adversely affect the Corporation's ability to undertake exploration, development and construction projects. The oil and gas industry is cyclical in nature and is prone to shortages of supply of equipment and services including drilling rigs, geological and geophysical services, engineering and construction services, major equipment items for infrastructure projects and construction materials generally. These materials and services may not be available when required at reasonable prices. A failure to secure the services and equipment necessary to the Corporation's operations for the expected price, on the expected timeline, or at all, may have an adverse effect on the Corporation's financial performance and cash flows.

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

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

Acquisitions
The price paid for acquisitions is based on engineering and economic estimates of the potential reserves made by independent engineers modified to reflect the technical views of management. These assessments include a number of material assumptions regarding such factors as recoverability and marketability of oil, natural gas, and NGLs, future prices

of oil, natural gas and NGLs, and operating costs, future capital expenditures and royalties and other government levies that will be imposed over the producing life of the reserves. Many of these factors are subject to change and are beyond the control of management. In particular, changes in the prices of and markets for oil, natural gas and NGLs from those anticipated at the time of making such assessments will affect the value of Gear's shares. In addition, all such estimates involve a measure of geological and engineering uncertainty that could result in lower production and reserves. Actual reserves could vary materially from these estimates.

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

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

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

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

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

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

- commodity prices and oil differentials;
- the availability of processing capacity;
- the availability and proximity of pipeline capacity;
- the availability of storage capacity;
- the availability of, and the ability to acquire, water supplies needed for drilling and hydraulic fracturing, or Gear's ability to dispose of water used or removed from strata at a reasonable cost and within applicable environmental regulations;
- the supply of and demand for oil and natural gas;
- the availability of alternative fuel sources;
- the effects of inclement weather;
- the availability of drilling and related equipment;
- unexpected cost increases;
- accidental events;
- currency fluctuations;
- changes in regulations;
- the availability and productivity of skilled labour; and
- the regulation of the oil and natural gas industry by various levels of government and governmental agencies.

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

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

The Chief Executive Officer and the Chief Financial Officer of Gear evaluated the effectiveness of the design and operation of the Company's DC&P. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that Gear's DC&P were effective as at December 31, 2021.

Internal Controls over Financial Reporting
Gear's Chief Executive Officer and the Chief Financial Officer are responsible for establishing and maintaining internal control over financial reporting ("ICFR") for Gear. They have, as at December 31, 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").

Under the supervision of the Chief Executive Officer and the Chief Financial Officer, Gear conducted an evaluation of the effectiveness of the Company's ICFR as at December 31, 2021 based on the COSO Framework. Based on this evaluation, the officers concluded that as of December 31, 2021, Gear maintained effective ICFR. It should be noted that while Gear's officers believe that the Company's controls provide a reasonable level of assurance with regard to their effectiveness, they do not expect that the DC&P and ICFR will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, but not absolute, assurance that the objectives of the control system are met.

There were no changes in Gear's ICFR during the three months ended December 31, 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; the expectation that Gear will reduce its net debt to zero in the second quarter of 2022 and formulate plans to return capital to its shareholders while still evaluating opportunities to expand shareholder value; 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; future royalty rate increases with commodity price increases due to pre-existing wells hitting higher royalty tiers faster; the anticipation of a meaningful reduction in interest and financing charges as debt is reduced; the monitoring of the commodities market for further future risk management contracts; the possibility of future impairment charges or recoveries due to volatile future commodity prices; Gear's estimate on future taxable profits based on current tax pools less future taxable income; Gear's plans to commence waterflooding in 2022 for Provost; the expected borrowing base review to be completed on or about May 31, 2022; the belief that the Company will have sufficient liquidity to support its operations and meet its financial obligations for at least twelve 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; and certain other risks detailed from time to time in Gear's public documents including risk factors set out in Gear's most recent annual information form, which is available on SEDAR at www.sedar.com.

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

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

QUARTERLY HISTORICAL REVIEW

	2021				2020			
(Cdn$ thousands, except per share, share, and per boe amounts)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
FINANCIAL								
Petroleum and natural gas sales	39,961	35,189	29,651	24,226	19,644	21,054	5,188	19,171
Funds from operations [(1)]	17,938	15,955	12,222	8,253	8,253	10,848	8,068	6,258
Per weighted average basic share	0.07	0.06	0.05	0.04	0.04	0.05	0.04	0.03
Per weighted average diluted share	0.07	0.06	0.05	0.04	0.04	0.05	0.04	0.03
Cash flows from operating activities	17,421	9,601	14,967	9,892	8,016	8,864	3,547	9,788
Per weighted average basic share	0.07	0.04	0.06	0.04	0.04	0.04	0.02	0.05
Per weighted average diluted share	0.07	0.04	0.06	0.04	0.03	0.04	0.02	0.05
Net income (loss)	78,117	6,608	(730)	(3,497)	39,349	(1,157)	(5,300)	(110,215)
Per weighted average basic share	0.30	0.03	-	(0.02)	0.18	(0.01)	(0.02)	(0.51)
Per weighted average diluted share	0.30	0.03	-	(0.02)	0.15	(0.01)	(0.02)	(0.51)
Capital expenditures	4,936	10,256	5,809	7,883	386	715	239	11,099
Decommissioning liabilities settled [(2)]	1,566	944	694	1,437	726	87	22	671
Net acquisitions [(3)]	-	-	-	-	-	-	-	3
Net debt [(1)]	15,830	27,860	33,418	42,929	52,864	60,544	70,177	80,261
Weighted average shares outstanding, basic (thousands)	259,360	258,274	247,415	221,090	216,490	216,490	216,486	216,715
Weighted average shares outstanding, diluted (thousands)	265,460	263,719	247,415	221,090	257,996	216,490	216,486	216,715
Shares outstanding, end of period (thousands)	260,169	259,107	258,103	247,415	216,490	216,490	216,490	216,468
OPERATING								
Production								
Heavy oil (bbl/d)	3,282	3,325	3,207	3,026	3,236	3,321	1,388	3,989
Light and medium oil (bbl/d)	1,773	1,656	1,469	1,513	1,657	1,746	845	1,775
Natural gas liquids (bbl/d)	231	176	148	121	182	174	103	217
Natural gas (mcf/d)	4,637	4,215	3,694	4,043	4,477	3,761	2,474	4,582
Total (boe/d)	6,059	5,859	5,440	5,335	5,821	5,868	2,749	6,744
Average prices								
Heavy oil ($/bbl)	73.27	67.86	62.14	51.58	36.16	40.27	20.46	27.58
Light and medium oil ($/bbl)	88.99	80.49	74.72	63.16	48.10	47.61	24.91	50.44
Natural gas liquids ($/bbl)	59.50	47.48	34.40	42.61	26.02	20.30	25.73	10.54
Natural gas ($/mcf)	4.81	3.62	3.15	3.05	2.69	2.25	1.98	1.93
Selected financial results ($/boe)								
Petroleum and natural gas sales	71.69	65.29	59.90	50.46	36.68	39.00	20.74	31.24
Royalties	(8.11)	(7.50)	(6.64)	(4.77)	(4.38)	(3.48)	(1.38)	(3.66)
Operating costs	(16.94)	(17.44)	(16.66)	(17.51)	(14.83)	(13.60)	(14.51)	(15.93)
Transportation costs	(3.00)	(2.04)	(2.06)	(2.01)	(1.96)	(2.71)	(1.92)	(2.08)
Operating netback [(1)]	43.64	38.31	34.54	26.17	15.51	19.21	2.93	9.57
Realized risk management (loss) gain	(8.20)	(5.13)	(5.55)	(4.55)	4.67	5.35	35.85	4.57
General and administrative	(2.55)	(2.70)	(2.66)	(2.37)	(2.41)	(2.28)	(3.84)	(2.77)
Interest	(0.71)	(1.01)	(1.39)	(1.96)	(2.25)	(2.19)	(2.71)	(1.33)
Realized gain (loss) on foreign exchange	-	0.13	(0.24)	(0.10)	(0.11)	-	0.03	0.16

(1) Funds from operations, net debt and operating netback are non-GAAP and other financial measures and additional information with respect to these measures can be found under the heading “Non-GAAP and Other Financial Measures”.
(2) Decommissioning liabilities settled includes expenditures made by both Gear and the Federal Site Rehabilitation Program.
(3) Net acquisitions exclude non-cash items for decommissioning liability and deferred taxes and is net of post-closing adjustments.

Quarter over quarter fluctuations in revenue are the result of both the amount of oil volumes sent to sale as well as Gear’s received price. In particular, Gear implemented partial production shut-in for the periods April 2020 to July 2020. Volume fluctuations are the result of well productivity and timing of deliveries to the sales point. The amount of volumes delivered to sale can be influenced by a variety of factors some of which include weather, truck and rail car availability, as well as pipeline apportionments. Gear’s received price is based on WTI less the WCS, Canadian Light Sweet and LSB oil differentials and is further decremented for the quality differential on its specific grade of oil. Net income is further impacted by royalty and operating expenses. Royalty expenses are directly linked to the price received by Gear and, on crown lands, the productivity of each producing well. Gear’s royalty profile changes based on Gear’s drilling program and on the results of its existing producing wells. Operating costs are heavily impacted by weather as well as the productivity of each well. Operating costs are typically higher in the winter months due to increased maintenance and energy costs.

SELECTED ANNUAL INFORMATION

(Cdn$ thousands, except per share, share, and per boe amounts)	**2021**	**2020**	**2019**
FINANCIAL			
Petroleum and natural gas sales	129,027	65,057	131,989
Funds from operations (1)	54,368	33,429	61,842
Per weighted average basic share	0.22	0.15	0.28
Per weighted average diluted share	0.22	0.15	0.28
Cash flows from operating activities	51,881	30,217	49,876
Per weighted average basic share	0.21	0.14	0.23
Per weighted average diluted share	0.21	0.14	0.23
Net income (loss)	80,498	(77,324)	(5,680)
Per weighted average basic share	0.32	(0.36)	(0.03)
Per weighted average diluted share	0.32	(0.36)	(0.03)
Capital expenditures	28,884	12,441	36,989
Decommissioning liabilities settled (2)	4,641	1,505	2,932
Net acquisitions (dispositions) (3)	-	3	(976)
Net debt (1) (4)	15,830	52,864	69,752
Weighted average shares outstanding, basic (thousands)	248,665	216,545	218,887
Weighted average shares outstanding, diluted (thousands)	263,009	216,545	218,887
Shares outstanding, end of year (thousands)	260,169	216,490	217,610
OPERATING			
Production			
Heavy oil (bbl/d)	3,211	2,985	4,053
Light and medium oil (bbl/d)	1,604	1,507	1,963
Natural gas liquids (bbl/d)	169	169	238
Natural gas (mcf/d)	4,149	3,825	4,252
Total (boe/d)	5,676	5,298	6,962
Average prices			
Heavy oil ($/bbl)	64.05	32.64	53.87
Light and medium oil ($/bbl)	77.51	45.41	66.69
Natural gas liquids ($/bbl)	47.90	19.56	22.26
Natural gas ($/mcf)	3.71	2.24	1.63
Selected financial results ($/boe)			
Petroleum and natural gas sales	62.28	33.55	51.94
Royalties	(6.82)	(3.51)	(5.71)
Operating costs	(17.13)	(14.80)	(15.78)
Transportation costs	(2.30)	(2.20)	(2.20)
Operating netback (1)	36.03	13.04	28.25
Realized risk management (loss) gain	(5.92)	8.85	(0.12)
General and administrative	(2.57)	(2.67)	(2.17)
Interest	(1.24)	(2.00)	(1.65)
Realized (loss) gain on foreign exchange	(0.05)	0.02	0.03

(1) Funds from operations, net debt and operating netback are non-GAAP and other financial measures and additional information with respect to these measures can be found under the heading “Non-GAAP and Other Financial Measures”.
(2) Decommissioning liabilities settled includes expenditures made by both Gear and the Federal Site Rehabilitation Program.
(3) Net acquisitions (dispositions) exclude non-cash items for decommissioning liability and deferred taxes and is net of post-closing adjustments.
(4) Net debt includes the risk management liability acquired through the Steppe Acquisition.

CORPORATE INFORMATION

DIRECTORS

Don Gray
Chairman
Phoenix, Arizona

Harry English
Independent Businessman
Calgary, Alberta

Ingram Gillmore
President & CEO, Gear Energy Ltd.
Calgary, Alberta

Scott Robinson
Independent Businessman
Calgary, Alberta

Bindu Wyma
Independent Businesswoman
Calgary, Alberta

Greg Bay
Managing Partner, Cypress Capital Management
Vancouver, British Columbia

Wilson Wang
Managing Partner, Twin Peaks Capital LLC
Honolulu, Hawaii

OFFICERS

Ingram Gillmore
President & CEO

Yvan Chretien
Vice-President, Land

Bryan Dozzi
Vice-President, Engineering

David Hwang
Vice-President Finance & CFO

Jason Kaluski
Vice-President, Operations

Dustin Ressler
Vice-President, Exploration

Ted Brown
Corporate Secretary

Head Office

Gear Energy Ltd.
800, 205 – 5th Avenue SW Bow Valley Square II
Calgary, Alberta T2P 2V7

Auditors

Deloitte LLP
700, 850 2nd Street SW
Calgary, Alberta T2P 0R8

Bankers

ATB Financial
600, 585 – 8th Avenue SW
Calgary, Alberta T2P 1G1

Business Development Bank of Canada
Suite 110, 444 – 7th Avenue SW
Calgary, Alberta T2P 0X8

Export Development Canada
150 Slater Street,
Ottawa, Ontario K1A 1K3

Engineering Consultants

Sproule Associates Limited
Suite 900, 140 4th Avenue SW
Calgary, Alberta T2P 3N3

Legal Counsel

Burnet Duckworth & Palmer LLP
2400, 525 – 8th Avenue SW
Calgary, Alberta T2P 1G1

Transfer Agent

Odyssey Trust Company
1230 – 300 5th Avenue SW
Calgary, Alberta T2P 3C4

Contact Information:

Ingram Gillmore
President & CEO
403-538-8463

David Hwang
Vice-President Finance & CFO
403-538-8437

Email: info@gearenergy.com
Website: www.gearenergy.com