FINANCIAL AND OPERATIONAL HIGHLIGHTS

GEAR ENERGY

	Three months ended		
(Cdn$ thousands, except per share, share and per boe amounts)	**Mar 31, 2022**	Mar 31, 2021	Dec 31, 2021
FINANCIAL			
Funds from operations [(1)]	**18,782**	8,253	17,938
Per boe	**36.61**	17.19	32.18
Per weighted average basic share	**0.07**	0.04	0.07
Cash flows from operating activities	**15,340**	9,892	17,421
Per boe	**29.90**	20.60	31.25
Per weighted average basic share	**0.06**	0.04	0.07
Net income (loss)	**6,227**	(3,497)	78,117
Per weighted average basic share	**0.02**	(0.02)	0.30
Capital expenditures	**8,687**	7,883	4,936
Decommissioning liabilities settled [(2)]	**912**	1,437	1,566
Free funds from (used in) operations [(1)]	**9,183**	(26)	12,002
Net debt [(1)]	**6,706**	42,929	15,830
Weighted average shares, basic (thousands)	**260,331**	221,090	259,360
Shares outstanding, end of period (thousands)	**260,759**	247,415	260,169
OPERATING			
Production			
Heavy oil (bbl/d)	**3,043**	3,026	3,282
Light and medium oil (bbl/d)	**1,580**	1,513	1,773
Natural gas liquids (bbl/d)	**269**	121	231
Natural gas (mcf/d)	**4,855**	4,043	4,637
Total (boe/d)	**5,701**	5,335	6,059
Average prices			
Heavy oil ($/bbl)	**95.91**	51.58	73.27
Light and medium oil ($/bbl)	**110.32**	63.16	88.99
Natural gas liquids ($/bbl)	**63.88**	42.61	59.50
Natural gas ($/mcf)	**4.64**	3.05	4.81
Netback ($/boe)			
Petroleum and natural gas sales	**88.73**	50.46	71.69
Royalties	**(9.38)**	(4.77)	(8.11)
Operating costs	**(19.80)**	(17.51)	(16.94)
Transportation costs	**(3.43)**	(2.01)	(3.00)
Operating netback [(1)]	**56.12**	26.17	43.64
Realized risk management loss	**(14.11)**	(4.55)	(8.20)
General and administrative	**(4.83)**	(2.37)	(2.55)
Interest and other	**(0.57)**	(2.06)	(0.71)
TRADING STATISTICS			
($ based on intra-day trading)			
High	**1.94**	0.64	1.09
Low	**0.90**	0.25	0.76
Close	**1.60**	0.50	0.92
Average daily volume (thousands)	**4,859**	1,307	2,887

(1) Funds from operations, free 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.

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 May 4, 2022 and should be read in conjunction with the unaudited Interim Condensed Financial Statements as at and for the three months ended March 31, 2022 and the audited Consolidated Financial Statements as at and for the year ended December 31, 2021. Both statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The MD&A contains non-generally accepted accounting principles ("GAAP") measures and forward-looking statements and readers are cautioned that the MD&A should be read in conjunction with Gear's disclosure under "Non-GAAP Measures" and "Forward-Looking Information and Statements" included at the end of this MD&A. All figures are in Canadian dollar thousands unless otherwise noted.

ABOUT GEAR ENERGY LTD.

Gear is a Canadian exploration and production company with heavy and light oil production in Central Alberta, West Central Saskatchewan and Southeast Saskatchewan. Presently, Gear has 30 employees with 20 staff in the Calgary office and 10 employees located in Gear's operating areas in Alberta and Saskatchewan. Gear also has a number of contract operators in the field. The Company trades on the Toronto Stock Exchange under the symbol GXE 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

Several headlines have dominated the oil commodity sector news for 2022, including the outbreak of war between Russia (a major global oil supplier) and Ukraine, fresh lockdowns in China due to COVID-19, and the coordinated release of oil from various countries' strategic petroleum reserves. As a result, West Texas Intermediate ("WTI") prices have been volatile, climbing to a high of US$130 per barrel and falling to US$95 per barrel. Despite the barrage of unexpected events, Gear achieved its zero net debt target in April 2022 and will commence plans to return capital to its shareholders in May 2022 as well as continuing to evaluate opportunities to expand shareholder value within the business.

Primarily due to the reasons mentioned above, WTI oil prices increased considerably during the quarter, Additionally, price differentials for Canadian oil continue to be very tight. In combination, these factors assisted Gear in delivering record high operating netbacks. It is uncertain how long the geopolitical tensions will impact future oil prices. However, even if the war were to end today, concerns remain with the current oil market being in a supply deficit situation that likely can only be ended by a recession or a material destruction of demand. The timing and likelihood of any of these events is impossible to predict.

2022 GUIDANCE

Table 1

	2022 Revised Guidance	2022 Previous Guidance	Q1 2022 YTD Actuals
Annual production (boe/d)	**5,900 – 6,000**	5,900 – 6,000	5,701
Heavy oil weighting (%)	**51**	49	53
Light oil, medium oil and NGLs weighting (%)	**36**	38	32
Royalty rate (%)	**12**	13	11
Operating and transportation costs ($/boe)	**23.50**	19.50	23.23
General and administrative expense ($/boe)	**3.15**	3.35	4.83
Interest expense ($/boe)	**0.40**	0.25	0.60
Capital and abandonment expenditures ($ millions)	**55**	40	10

With the rise in commodity prices, Gear has increased its 2022 capital and abandonment expenditure guidance to $55 million. Gear is now planning on drilling 24 wells (previously 19 wells) and will be dedicating capital to expanding its waterflood projects in Wilson creek and implementing a new waterflood pilot in Tableland. The added wells and expanded waterflood projects will be executed primarily in the fourth quarter of 2022; as a result, annual production guidance remains unchanged. The impact of these capital investments are expected to begin to be realized in the first quarter of 2023 with the incremental benefit of keeping Gear's primary drill rig fully utilized right through to the end of the year. A portion of the incremental capital is required to manage recent inflationary cost pressures, Gear estimates that its original capital program has experienced a cost escalation of approximately 10 per cent as a result of labor and material shortages in the field. Royalty rate guidance has been decreased from 13 per cent to 12 per cent as a result of a strategic build in inventory between December and February, which was then sold in March to take advantage of escalated prices. Operating and transportation cost guidance has also been increased from $19.50 per boe to $23.50 per boe due to a combination of increased gas revenue associated with the third party Tableland gas contract, carbon taxes, fuel surcharges, greenhouse gas ("GHG") emissions reduction costs, and similar inflationary cost pressures. General and administrative expense guidance has been revised slightly downwards from $3.35 per boe to $3.15 per boe as a result of increased capitalization resulting from Gear's expanded capital program. Finally, interest expense has also been increased due to higher interest rates, and timing of return of capital to shareholders. Return of capital to shareholders will be funded through normal cash management practices.

In parallel with the updated guidance, Gear will also be implementing a quarterly variable cash dividend program with an initial dividend of $0.01 per common share. The quarterly variable cash dividend will be approximately 30 per cent of the preceding quarterly free funds from operations. The Board of Directors of Gear has declared that the initial dividend of $0.01 per share will be paid on May 30, 2022 to shareholders of record as of the close of business on May 16, 2022. The dividend is designated as an "eligible dividend" for income tax purposes. The remaining 70 per cent of free funds from operations will be dedicated to a mixture of share buybacks, capital investments, cash funded acquisitions, and special dividends.

The Toronto Stock Exchange ("TSX") has approved Gear's normal course issuer bid ("NCIB") to purchase, for cancellation, up to 24,029,161 common shares of Gear, representing approximately 10% of the issued and outstanding common shares as at May 4, 2022 less the shares held by directors and officers of Gear. The total number of common shares that Gear is permitted to purchase is subject to a daily purchase limit of 551,917 shares, representing 25% of the average daily trading volume of 2,207,667 shares on the TSX calculated for the six-month period ended April 30, 2022; however, Gear may make one block purchase per calendar week which exceeds the daily repurchase restrictions. The NCIB is expected to commence on May 9, 2022 and will terminate on the earlier of: (i) the date on which Gear has acquired all common shares sought pursuant to the NCIB; or (ii) May 8, 2023 unless terminated earlier at the option of Gear, upon prior notice being given to the TSX. The common shares will be purchased on behalf of Gear by a registered broker through the facilities of the TSX and through other alternative Canadian trading platforms at the prevailing market price at the time of such transaction. The actual number of common shares purchased under the NCIB, the timing of purchases, and the price at which the common shares will be purchased, will depend on future market conditions.

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			
	Mar 31, 2022	Mar 31, 2021	% Change	Dec 31, 2021
Funds from operations per debt adjusted share (1)	**0.070**	0.026	169	0.063
Cash flows from operating activities per debt adjusted share (1)	**0.057**	0.031	84	0.061
Production, boepd per debt adjusted thousand shares (1)	**0.021**	0.017	24	0.021

(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.

2022 FIRST QUARTER FINANCIAL AND OPERATIONAL RESULTS

Funds from Operations and Cash Flows from Operating Activities

Funds from operations increased from $8.3 million or $17.19 per boe in the first quarter of 2021 to $18.8 million or $36.61 per boe in the first quarter of 2022. The increases in funds from operations are the result of increased revenues due to higher realized commodity prices and increased sales volumes, decreased interest and other, offset by increased royalties, operating, transportation and general and administrative costs and increased losses on risk management contracts.

The following table details the change in funds from operations for 2022 relative to 2021:

Table 3

	Three months ended Mar 31	
	$ thousands	$/boe
Q1 2021 Funds from operations (1)	8,253	17.19
Volume variance	1,662	-
Price variance	19,636	38.27
Risk management contracts	(5,053)	(9.56)
Royalties	(2,527)	(4.61)
Expenses:		
Operating and transportation	(2,550)	(3.71)
General and administrative	(1,339)	(2.46)
Interest and other	700	1.49
Q1 2022 Funds from operations (1)	18,782	36.61

(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 $9.9 million or $20.60 per boe in the first quarter of 2021 to $15.3 million or $29.90 per boe in the first quarter of 2022. The increase in cash flows from operating activities are the result of increased revenues due to higher realized commodity prices and increased sales volumes, decreased interest and other, offset by increased royalties, operating, transportation and general and administrative costs, increased losses on risk management contracts and increased decommissioning liabilities settled by Gear. In the first quarter of 2021, most of the abandonment expenditures performed were funded under the federal government's Site Rehabilitation Program and do not affect cash flows from operating activities. There were no abandonment expenditures funded under this program for the first quarter of 2022. Funding is expected to resume later in the year.

Net income and loss

Gear generated net income of $6.2 million for the three months ended March 31, 2022, compared to a net loss of $3.5 million for same period in 2021. The change in net income is due to several factors discussed below. Net income for the fourth quarter of 2021 was $78.1 million. The decrease in net income from the fourth quarter of 2021 was mainly due to an impairment reversal and the recognition of a deferred tax asset recorded in the fourth quarter of 2021.

Production

Sales production volumes in the first quarter of 2022 averaged 5,701 boe per day, a seven per cent increase compared to 5,335 boe per day in the same period in 2021. In the first quarter of 2022 Gear drilled 6 net wells which will be brought on production in the second quarter. In 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 134 boe per day in the first quarter of 2022 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.

Sales production volumes in the fourth quarter of 2021 averaged 6,059 boe per day. The decrease in sales production volumes since the fourth quarter of 2021 was partially due to wells temporarily shut-in as a result of extremely cold weather as well as adjacent wells being shut-in to accommodate the first quarter 2022 drilling program in Provost.

Gear had a build in oil inventory between December 2021 and February 2022 primarily due to weather related transportation challenges and decisions by Management to defer sales due to higher pricing forecasted for later in the first quarter. As a result, the sale of these volumes were deferred to March 2022. March realized oil prices increased considerably due to the war between Russia and Ukraine. Approximately 10,000 barrels of heavy oil inventory that was built from December 2021 to February 2022 was sold at an average price of $113.85 per barrel in March 2022. Gear estimates that deferring the sale of these volumes into March 2022 generated an additional $0.4 million in revenue for the Company. Oil inventory is now back to normal operational levels.

Gear had an inventory draw of approximately 6,700 barrels in the first quarter of 2022 over the fourth quarter of 2021, and has approximately 135 thousand barrels of oil in inventory as at March 31, 2022.

Table 4

Production	Three months ended			
	Mar 31, 2022	Mar 31, 2021	% Change	Dec 31, 2021
Liquids (bbl/d)				
Heavy oil (bbl/d)	**3,043**	3,026	1	3,282
Light and medium oil (bbl/d)	**1,580**	1,513	4	1,773
Natural gas liquids (bbl/d)	**269**	121	122	231
Total liquids (bbl/d)	**4,892**	4,660	5	5,286
Natural gas (mcf/d)	**4,855**	4,043	20	4,637
Total production (boe/d) (1)	**5,701**	5,335	7	6,059
% Liquids production	**86**	87	(1)	87
% Natural gas production	**14**	13	8	13

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

Petroleum and natural gas sales ("Sales")

Sales of crude oil, natural gas and natural gas liquids for the first quarter of 2022 totaled $45.5 million, an 88 per cent increase over the first quarter 2021 sales of $24.2 million and a 14 per cent increase over the fourth quarter 2021 sales of $40.0 million. These increases are mainly the result of higher realized commodity prices.

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

Table 5

Sales by product	Three months ended			
($ thousands)	**Mar 31, 2022**	Mar 31, 2021	% Change	Dec 31, 2021
Heavy oil	**26,265**	14,051	87	22,127
Light and medium oil	**15,684**	8,601	82	14,519
Natural gas liquids	**1,548**	465	233	1,263
Natural gas	**2,027**	1,109	83	2,052
Total petroleum and natural gas sales	**45,524**	24,226	88	39,961

Commodity Prices

Table 6

	Three months ended			
Average Benchmark Prices	**Mar 31, 2022**	Mar 31, 2021	% Change	Dec 31, 2021
WTI oil (US$/bbl) (1)	**94.29**	57.84	63	77.19
WCS heavy oil (Cdn$/bbl) (2)	**101.00**	57.45	76	78.81
Canadian Light Sweet (3) (Cdn$/bbl)	**115.66**	66.61	74	93.34
LSB (Cdn$/bbl) (4)	**114.40**	66.89	71	92.93
AECO natural gas ($/mcf) (5)	**4.73**	3.16	50	4.62
Cdn$ / US$ exchange rate	**1.27**	1.27	-	1.26
Gear Realized Prices				
Heavy oil ($/bbl)	**95.91**	51.58	86	73.27
Light and medium oil ($/bbl)	**110.32**	63.16	75	88.99
Natural gas liquids ($/bbl)	**63.88**	42.61	50	59.50
Natural gas ($/mcf)	**4.64**	3.05	52	4.81
Realized price before risk management contracts ($/boe)	**88.73**	50.46	76	71.69
Realized risk management loss ($/boe)	**(14.11)**	(4.55)	210	(8.20)
Realized price after risk management contracts ($/boe)	**74.62**	45.91	63	63.49

(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 first quarter of 2022, US denominated WTI prices increased by 63 per cent over the same period in 2021, the WCS differential widened from US$12.47 per barrel to US$14.53 per barrel, the Canadian Light Sweet differential narrowed from US$5.24 per barrel to US$2.96 per barrel and the LSB differential narrowed from US$5.02 per barrel to US$3.95 per barrel. As a result of the differentials and stronger WTI prices, Gear's realized pricing increased from $50.46 per boe to $88.73 per boe.

When comparing to the fourth quarter of 2021, US denominated WTI prices increased by 22 per cent, the WCS differential narrowed from US$14.63 per barrel to US$14.53 per barrel, the Canadian Light Sweet differential narrowed from US$3.10 per barrel to US$2.96 per barrel and the LSB differential widened from US$3.42 per barrel to US$3.95 per barrel. As a result of the differentials and stronger WTI prices, Gear's realized pricing increased from $71.69 per boe to $88.73 per boe.

Royalties
For the first quarter of 2022, royalties as a percentage of commodity sales were 10.6 per cent compared to 9.4 per cent for the same period in 2021. Over the last year, royalties as a percentage of commodity sales have increased due to the increase in commodity prices. As commodity prices continue to increase, Gear's royalty rate will also increase as pre-existing wells hit higher royalty tiers faster. Royalties as a percentage of commodity sales for the first quarter of 2022 decreased from 11.3 per cent for the fourth quarter of 2021. The decrease was due to the sale of oil inventory during the first quarter of 2022 which at the time was produced at a lower price than when it was sold and as a result carried a lower associated royalty burden as a percentage of revenue.

Table 7

Royalty expense	Three months ended			
($ thousands except % and per boe)	**Mar 31, 2022**	Mar 31, 2021	% Change	Dec 31, 2021
Royalty expense	**4,815**	2,288	110	4,519
Royalty expense as a % of Sales	**10.6**	9.4	13	11.3
Royalty expense per boe	**9.38**	4.77	97	8.11

Operating and Transportation Expenses
Operating costs for the first quarter of 2022 was $19.80 per boe compared to $17.51 per boe for the same period in 2021 and $16.94 per boe for the previous quarter. These increases are a result of Gear re-activating previously shut-in high operating expense wells to take advantage of positive netbacks. In addition, Gear incurred higher energy costs due to extreme cold weather conditions and has also observed inflationary pressures in 2022 relative to 2021.

Transportation expense for the first quarter of 2022 was $3.43 per boe, an increase compared to $2.01 per boe for the first quarter of 2021 and $3.00 per boe for the previous quarter. The increase is mainly a result of inflationary pressures in the form of fuel surcharges from clean oil trucking companies and production associated with the gas gathering system constructed in 2021 in southeast Saskatchewan. 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 first quarter of 2022, the gas gathering system produced 134 boe per day of natural gas and natural liquids, and Gear incurred $0.5 million of transportation fees associated with this system, consistent with the previous quarter. The outstanding transportation commitment was further reduced by an additional $0.6 million during the quarter as a result of favorable cost revisions. Project costs have come in lower than expected and the commitment is decreasing faster than expected due to increased production and pricing. The total remaining transportation commitment is $3.1 million.

Table 8 below summarizes the operating and transportation expenses:

Table 8

Operating and Transportation expenses	Three months ended			
($ thousands except per boe)	**Mar 31, 2022**	Mar 31, 2021	% Change	Dec 31, 2021
Operating expense	**10,159**	8,405	21	9,445
Transportation expense	**1,762**	966	82	1,670
Operating and transportation expense	**11,921**	9,371	27	11,115
Operating expense per boe	**19.80**	17.51	13	16.94
Transportation expense per boe	**3.43**	2.01	71	3.00
Operating and transportation expense per boe	**23.23**	19.52	19	19.94

Operating Netbacks

Gear's operating netback prior to risk management contracts were $56.12 per boe for the first quarter of 2022, an increase of 114 per cent from $26.17 per boe for the same period in 2021 and 29 per cent from $43.64 per boe for the previous period. The increase in operating netbacks was primarily the result of increased commodity prices, partially offset by higher royalties, operating and transportation costs. The increased commodity price allowed Gear to achieve its highest netback since inception.

The components of operating netbacks are summarized in Table 9:

Table 9

Operating Netback	Three months ended			
($ per boe)	**Mar 31, 2022**	Mar 31, 2021	% Change	Dec 31, 2021
Total sales	**88.73**	50.46	76	71.69
Royalties	**(9.38)**	(4.77)	97	(8.11)
Operating costs	**(19.80)**	(17.51)	13	(16.94)
Transportation costs	**(3.43)**	(2.01)	71	(3.00)
Operating netback	**56.12**	26.17	114	43.64

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

G&A expenses for the first quarter of 2022 totaled $2.5 million, compared to $1.1 million for the same period in 2021 and $1.4 million for the previous quarter. The majority of the increase relates to 2021 performance bonuses declared and paid in the first quarter of 2022 compared to a temporary compensation reduction that was in effect during the first quarter 2021 but not the first quarter 2022. No bonuses were paid in the first quarter of 2021. As a result of the performance bonus declared and increased drilling activities during the first quarter, Gear capitalized $0.8 million of G&A compared to $0.3 million for the same period in 2021 and the previous quarter. G&A on a per boe basis was $4.83 per boe compared to $2.37 per boe for the same period in 2021 and $2.55 per boe for the previous quarter.

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

Table 10

G&A and SBC expense	Three months ended			
($ thousands except per boe)	**Mar 31, 2022**	Mar 31, 2021	% Change	Dec 31, 2021
G&A, before recoveries and capitalized G&A	**3,391**	1,493	127	1,810
Overhead recoveries	**(79)**	(73)	8	(75)
Capitalized G&A	**(835)**	(282)	196	(313)
G&A	**2,477**	1,138	118	1,422
SBC expense	**204**	73	179	167
G&A per boe	**4.83**	2.37	104	2.55
SBC expense per boe	**0.40**	0.15	167	0.30

SBC is related to the granting of stock options. There were 0.7 million options granted during the first quarter of 2022 at an average exercise price of $1.50. In addition, 0.4 million options were forfeited at an average exercise price of $0.58 and 0.8 million options were exercised at an average exercise price of $0.39. As at March 31, 2022 a total of 16.4 million options with a weighted average exercise price of $0.62 per share were outstanding, representing approximately 6.3 per cent of the 260.8 million total common shares outstanding. Each option entitles the holder to acquire one Gear common share. As at December 31, 2021 a total of 16.8 million options were outstanding. For further information on Gear's stock options, see the notes to the unaudited Interim Condensed Consolidated Financial Statements. At the date of this MD&A, Gear had a total of 16.1 million options outstanding at a weighted average exercise price of $0.62 per share.

Interest and financing charges

In the first quarter of 2022, interest and financing charges totaled $0.3 million, a 67 per cent decrease compared to $0.9 million in the same period of 2021 and a 22 per cent decrease compared to the previous quarter. Gear's annualized borrowing costs, inclusive of financing charges and standby fees on its Credit Facilities (as defined below) approximated 5.0 per cent compared to 6.1 per cent for the same period of 2021. 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 in the first quarter of 2021. 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 further reduced.

Table 11 is a breakdown of interest expense:

Table 11

Interest and financing charges	Three months ended			
($ thousands except per boe)	**Mar 31, 2022**	Mar 31, 2021	% Change	Dec 31, 2021
Interest expense	**235**	805	(71)	334
Financing charges	**34**	98	(65)	33
Standby fees	**38**	38	-	28
Interest and financing charges	**307**	941	(67)	395
Interest and financing charges per boe	**0.60**	1.96	(69)	0.71

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. 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.

For the first quarter of 2022, Gear realized losses on risk management contracts of $7.2 million compared to $2.2 million for the same period in 2021 and $4.6 million for the previous quarter. The fair value of the risk management contracts at March 31, 2022 was a liability of $4.8 million.

Table 12 summarizes Gear's financial risk management contracts as at March 31, 2022:

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

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

As shown in Table 12, no sold call exists for the second quarter of 2022. This will allow Gear to participate in 100 per cent of any oil price upside. For the fourth quarter of 2022, Gear has decreased its hedged volumes in half from previous quarters as a result of Gear's lenders relaxing hedging requirements and internal strategic decisions relating to zero net debt targets which decrease downside price risk impacts to balance sheet liquidity.

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

DD&A during the first quarter of 2022 was $18.84 per boe, an increase of 11 per cent compared to $16.98 per boe for the same period in 2021 and an increase of eight per cent compared to $17.48 per boe for the previous quarter. These increases in the DD&A rate are mainly the result of the impact of the impairment reversal at December 31, 2021 which increased Gear's depletable base. Depletion is recorded net of government spending. There were no abandonment expenditures funded by the government during the first quarter of 2022. Funding is expected to resume later in the year. The government provided Gear $1.0 million towards extinguishing decommissioning liabilities for the first quarter of 2021 and $0.6 million for the fourth quarter of 2021.

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. 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, 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). For additional information see Note 3 "Property, Plant and Equipment and Impairment" in the notes to the Interim Condensed Consolidated Financial

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

As at March 31, 2022 and December 31, 2021, Gear recorded oil inventory valued at its production cost. No impairments on inventory were recorded in 2021 or the first quarter of 2022.

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

Table 13

DD&A Rate	Three months ended			
($ thousands except per boe)	**Mar 31, 2022**	Mar 31, 2021	% Change	Dec 31, 2021
DD&A	**9,668**	8,151	19	9,745
Total DD&A rate per boe	**18.84**	16.98	11	17.48
Impairment / (Reversal)	**-**	-	-	(33,675)

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 March 31, 2022 and 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. Included in this tax basis are estimated non-capital loss carry forwards that expire in the years 2027 through 2042. No cash income taxes were paid in 2022 and 2021.

At March 31, 2022, Gear's estimated tax pools were relatively unchanged from the $667.5 million as at December 31, 2021.

Capital Expenditures

Capital expenditures for first quarter of 2022 were $8.7 million compared to $7.9 million in the same period in 2021 and $4.9 million in the previous quarter. During the first quarter of 2022, Gear drilled 6 gross (6 net) multi-leg medium oil wells in Provost. These wells were drilled, completed, and equipped at an average cost of $1.1 million per well. In the original 2022 budget, these wells had been estimated to be drilled, completed, and equipped at an average cost of $1.0 million per well. The increase is a combination of both inflationary cost pressures as well as some of the wells being drilled longer than planned in order to optimize the reservoir exposure per well.

A breakdown of capital expenditures is shown in Table 14:

Table 14

Capital expenditures	Three months ended			
($ thousands)	**Mar 31, 2022**	Mar 31, 2021	% Change	Dec 31, 2021
Drilling and completions	**6,628**	6,321	5	2,279
Production equipment and facilities	**1,882**	1,487	27	2,496
Geological and geophysical	**24**	30	(20)	25
Undeveloped land purchased at crown land sales	**113**	42	169	90
Other	**40**	3	1,233	46
Total capital expenditures	**8,687**	7,883	10	4,936

Decommissioning Liability

At March 31, 2022, Gear recorded a decommissioning liability of $79.1 million ($79.1 million at December 31, 2021) 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 2.37 per cent (1.76 per cent at December 31, 2021) and discounted using a risk free rate of 2.37 per cent (1.76 per cent at December 31, 2021). Some of the abandonment cost estimates are derived from third party government sources and can fluctuate from time to time. The slight increase in liability is a result of an adjustment to the cost estimates in the Heavy Oil CGU based on actual costs incurred and new wells drilled by Gear during the quarter, offset by abandonment activity to date performed by Gear. Decommissioning liabilities settled by Gear in the first quarter of 2022 were $0.9 million.

In 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 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 first quarter of 2022, Gear spent $0.9 million in decommissioning expenditures to cut and cap 27 gross wells and downhole abandon 24 gross wells in Alberta. There were no abandonment expenditures funded under the SRP for the first quarter of 2022. Funding is expected to resume later in the year. As at March 31, 2022, there is $2.3 million remaining in government funding to be spent on decommissioning expenditures; $1.4 million in Alberta, $0.9 million in Saskatchewan and 2 thousand in British Columbia.

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

Table 15

Debt ($ thousands except ratio amounts)	**Mar 31, 2022**	Dec 31, 2021
Net debt (1)	**6,706**	15,830
Net debt to trailing twelve-month funds from operations (1)	**0.1**	0.3
Net debt to quarterly annualized funds from operations (1)	**0.1**	0.2
Common shares outstanding	**260,759**	260,169

(1) Net debt, net debt to trailing twelve-month 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 58 per cent reduction in first quarter net debt over the fourth quarter of 2021. This was achieved primarily through bank debt repayments as funds from operations continued to exceed capital expenditures during the first quarter of 2022.

Credit Facilities
Gear presently has credit facilities consisting of a $34.5 million revolving credit facility and a $7.5 million operating facility (the "Credit Facilities"). Table 16 shows a breakdown of Gear's Credit Facilities:

Table 16

Facility	**Borrowing base**		**Maturity Date**
($ millions)	**Mar 31, 2022**	Dec 31, 2021	
Revolving	34.5	34.5	May 27, 2023
Operating	7.5	7.5	May 27, 2023
Total	42.0	42.0	

At March 31, 2022 Gear had $20.0 million drawn on the Credit Facilities (December 31, 2021 – $26.4 million) and outstanding letters of credit of $0.9 million (December 31, 2021 – $0.9 million). At March 31, 2022 and December 31, 2021 no amounts have been classified as short-term debt. The Credit Facilities do not carry any financial covenants. In April 2022, the borrowing base review was completed with no changes to the borrowing base and the maturity date for the Credit Facilities was extended to May 25, 2024 with minimal restrictions. Gear has an outstanding letter of credit with a counterparty separate from the Credit Facilities for $1.1 million (December 31, 2021 - $nil).

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. The next borrowing base review is expected to be completed on or about November 30, 2022.

Convertible Debentures
As at March 31, 2022 and December 31, 2021, no Convertible Debentures were outstanding. During the year ended December 31, 2021, $13.2 million of the Convertible Debentures were converted into 41.2 million common shares.

Shareholders' Equity
As at March 31, 2022, Gear had 260.8 million common shares outstanding. The increase since December 31, 2021, is due to stock option exercises during the first quarter of 2022. At December 31, 2021, Gear had 260.2 million common shares outstanding. At the date of this MD&A, Gear had 261.0 million shares outstanding.

As at March 31, 2022, a total of 16.4 million options were outstanding with a weighted average exercise price of $0.62 per share with each option entitling the holder to acquire one Gear common share. At the date of this MD&A, Gear had 16.1

million options outstanding at a weighted average exercise price of $0.62 per share. Subsequent to March 31, 2022, 0.3 million options were exercised.

Environmental, Social, and Governance ("ESG") Initiatives Impacting Gear

Environmental

Gear operates in jurisdictions that have regulated or have proposed to regulate GHG 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. In 2021, Gear cut and capped 105 gross wells and downhole abandoned 123 gross wells in Alberta and Saskatchewan. For 2022, Gear is forecasting to abandon six times as many wells as drilled over the same period. During the first quarter of 2022, Gear cut and capped 27 gross wells and downhole abandoned 24 gross wells in Alberta.

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.

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, Whistleblower Policy, Diversity and Renewal Policy, Corporate Governance, Compensation and Sustainability Committee Mandate and 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 March 31, 2022, 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 $1.4 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 $3.1 million. During the first quarter, the outstanding commitment was reduced by an additional $0.6 million as a result of cost revisions. For further information see Note 12 "Commitments and Contingencies" in the notes to the unaudited Interim Condensed Consolidated Financial Statements.

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

Non-GAAP Measures
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 quarter ended March 31, 2022 and year ended December 31, 2021, 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 17 below reconciles cash flows from operating activities to funds from operations:

Table 17

	Three months ended		
($ thousands)	**Mar 31, 2022**	Mar 31, 2021	Dec 31, 2021
Cash flows from operating activities	**15,340**	9,892	17,421
Decommissioning liabilities settled (1)	**912**	396	1,000
Change in non-cash operating working capital	**2,530**	(2,035)	(483)
Funds from operations	**18,782**	8,253	17,938

(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.

Free Funds from Operations
Free funds from operations is a non-GAAP financial measure defined as cash flows from operating activities, adjusted for the net change in non-cash operating working capital, less capital expenditures and net acquisitions funded by funds from operations. Gear evaluates its financial performance on free funds from operations and considers it a key measure for management and investors as it demonstrates the Company’s ability to generate the cash flow necessary to fund its capital program and decommissioning liabilities and repay debt.

Table 18 below reconciles cash flows from operating activities to free funds from operations:

Table 18

	Three months ended		
($ thousands)	**Mar 31, 2022**	Mar 31, 2021	Dec 31, 2021
Cash flows from operating activities	**15,340**	9,892	17,421
Change in non-cash operating working capital	**2,530**	(2,035)	(483)
Capital expenditures	**(8,687)**	(7,883)	(4,936)
Free funds from (used in) operations	**9,183**	(26)	12,002

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 19 below reconciles debt to net debt:

Table 19

Capital Structure and Liquidity		
($ thousands)	**Mar 31, 2022**	Dec 31, 2021
Debt	**20,029**	26,355
Working capital (surplus) (1)	**(13,323)**	(10,525)
Net debt	**6,706**	15,830

(1) Excludes risk management contracts, debt, Convertible Debentures and decommissioning liabilities.

At March 31, 2022, 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 Trailing Twelve-Month Funds from Operations
Net debt to trailing twelve-month 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 most recent trailing twelve-month period. 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 trailing twelve-month 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 20 below reconciles weighted average basic shares to debt adjusted shares:

Table 20

		Three months ended	
(thousands, except per share amounts)	**Mar 31, 2022**	Mar 31, 2021	Dec 31, 2021
Weighted average basic shares	**260,331**	221,090	259,360
Average share price (1)	**1.61**	0.51	0.89
Average net debt (2)	**11,268**	47,897	21,845
Share equivalent on average net debt (3)	**6,999**	93,916	24,545
Debt adjusted shares	**267,330**	315,006	283,905

(1) Average share price obtained by a ten-day volume weighted average price ending at the end of the period.
(2) Average net debt obtained by a simple average between opening and ending net debt for the three months ended.
(3) Share equivalent on average net debt obtained by average net debt divided by average share price.

Funds from operations per debt adjusted share
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.

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

Internal Control over Financial Reporting
Gear's Chief Executive Officer and the Chief Financial Officer are responsible for establishing and maintaining internal control over financial reporting ("ICFR") for Gear. They have, as at March 31, 2022, designed ICFR, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The control framework Gear's officers used to design the Company's ICFR is the Internal Control - Integrated Framework ("COSO Framework") published by The Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

There were no changes in Gear's ICFR during the three months ended March 31, 2022 that materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Forward-looking Information and Statements

This MD&A contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends", "strategy" and similar expressions are intended to identify forward-looking information or statements. In particular, but without limiting the foregoing, this MD&A contains forward-looking information and statements pertaining to the following: Gear's strategy for delivering per share growth and enhanced returns; expectations with respect to commodity pricing and supply and demand factors affecting commodity pricing; Gear's intent to commence plans to return capital to its shareholders in May 2022 as well as continuing to evaluate opportunities to expand shareholder value within the business; Gear's revised 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; expected details of Gear's revised 2022 capital expenditure program and the timing thereof; the expectation that the impacts from the increased 2022 capital investments will begin to be realized in the first quarter of 2023; Gear's intent to implement a quarterly variable cash dividend program with an initial dividend of $0.01 per common share; Gear's expected dividend policy; the expectation of that a portion of free funds from operations will be dedicated to a mixture of share buybacks, capital investments and cash funded acquisitions; Gear's expectation that there will be a meaningful reduction in interest and financing charges as Gear's debt balance is further reduced; Gear's intent to continue to evaluate its risk and the management thereof and will continue to monitor the commodities market for further future risk management contracts: the amounts remaining in government funding to be spent on decommissioning expenditures; the Company believes it will have sufficient liquidity to support its operations and meet its financial obligations for at least twelve months; Gear's forecast of having abandoned six times as many wells as have been drilled over the same period in 2022; certain remaining commitments under leases and other contracts; and management's opinion that pending litigation will not have a material impact on Gear's financial position and 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 impact of the Russian – Ukraine war on the global economy and commodity prices; the impacts of inflation and supply chain issues; 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 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 amount of future cash dividends paid by Gear, if any, will be subject to the discretion of the Board of Directors of Gear and may vary depending on a variety of factors and conditions existing from time to time, including, among other things, funds from operations, fluctuations in commodity prices, production levels, capital expenditure requirements, debt service requirements and debt levels, operating costs, royalty burdens, foreign exchange rates and the satisfaction of the liquidity and solvency tests imposed by applicable corporate law for the declaration and payment of dividends. Depending on these and various other factors, many of which will be beyond the control of the Company, the dividend policy of the Company from time to time and, as a result, future cash dividends may not be paid or if paid could at a later date be reduced or suspended entirely.

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

	2022	2021				2020		
(Cdn$ thousands, except per share, share, and per boe amounts)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
FINANCIAL								
Petroleum and natural gas sales	45,524	39,961	35,189	29,651	24,226	19,644	21,054	5,188
Funds from operations (1)	18,782	17,938	15,955	12,222	8,253	8,253	10,848	8,068
Per weighted average basic share	0.07	0.07	0.06	0.05	0.04	0.04	0.05	0.04
Per weighted average diluted share	0.07	0.07	0.06	0.05	0.04	0.04	0.05	0.04
Cash flows from operating activities	15,340	17,421	9,601	14,967	9,892	8,016	8,864	3,547
Per weighted average basic share	0.06	0.07	0.04	0.06	0.04	0.04	0.04	0.02
Per weighted average diluted share	0.06	0.07	0.04	0.06	0.04	0.03	0.04	0.02
Net income (loss)	6,227	78,117	6,608	(730)	(3,497)	39,349	(1,157)	(5,300)
Per weighted average basic share	0.02	0.30	0.03	-	(0.02)	0.18	(0.01)	(0.02)
Per weighted average diluted share	0.02	0.30	0.03	-	(0.02)	0.15	(0.01)	(0.02)
Capital expenditures	8,687	4,936	10,256	5,809	7,883	386	715	239
Decommissioning liabilities settled (2)	912	1,566	944	694	1,437	726	87	22
Free funds from (used in) operations (1)	9,183	12,002	5,659	6,230	(26)	7,726	10,046	7,807
Net debt (1)	6,706	15,830	27,860	33,418	42,929	52,864	60,544	70,177
Weighted average shares outstanding, basic (thousands)	260,331	259,360	258,274	247,415	221,090	216,490	216,490	216,486
Weighted average shares outstanding, diluted (thousands)	269,016	265,460	263,719	247,415	221,090	257,996	216,490	216,486
Shares outstanding, end of period (thousands)	260,759	260,169	259,107	258,103	247,415	216,490	216,490	216,490
OPERATING								
Production								
Heavy oil (bbl/d)	3,043	3,282	3,325	3,207	3,026	3,236	3,321	1,388
Light and medium oil (bbl/d)	1,580	1,773	1,656	1,469	1,513	1,657	1,746	845
Natural gas liquids (bbl/d)	269	231	176	148	121	182	174	103
Natural gas (mcf/d)	4,855	4,637	4,215	3,694	4,043	4,477	3,761	2,474
Total (boe/d)	5,701	6,059	5,859	5,440	5,335	5,821	5,868	2,749
Average prices								
Heavy oil ($/bbl)	95.91	73.27	67.86	62.14	51.58	36.16	40.27	20.46
Light and medium oil ($/bbl)	110.32	88.99	80.49	74.72	63.16	48.10	47.61	24.91
Natural gas liquids ($/bbl)	63.88	59.50	47.48	34.40	42.61	26.02	20.30	25.73
Natural gas ($/mcf)	4.64	4.81	3.62	3.15	3.05	2.69	2.25	1.98
Selected financial results ($/boe)								
Petroleum and natural gas sales	88.73	71.69	65.29	59.90	50.46	36.68	39.00	20.74
Royalties	(9.38)	(8.11)	(7.50)	(6.64)	(4.77)	(4.38)	(3.48)	(1.38)
Operating costs	(19.80)	(16.94)	(17.44)	(16.66)	(17.51)	(14.83)	(13.60)	(14.51)
Transportation costs	(3.43)	(3.00)	(2.04)	(2.06)	(2.01)	(1.96)	(2.71)	(1.92)
Operating netback (1)	56.12	43.64	38.31	34.54	26.17	15.51	19.21	2.93
Realized risk management (loss) gain	(14.11)	(8.20)	(5.13)	(5.55)	(4.55)	4.67	5.35	35.85
General and administrative	(4.83)	(2.55)	(2.70)	(2.66)	(2.37)	(2.41)	(2.28)	(3.84)
Interest and other	(0.57)	(0.71)	(0.88)	(1.64)	(2.06)	(2.36)	(2.19)	(2.68)

(1) Funds from operations, free 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.

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

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