FINANCIAL AND OPERATIONAL HIGHLIGHTS

(Cdn$ thousands, except per share, share and per boe amounts)	Three months ended Jun 30, 2022	Jun 30, 2021	Mar 31, 2022	Six months ended Jun 30, 2022	Jun 30, 2021
FINANCIAL					
Funds from operations (1)	**33,770**	12,222	18,782	**52,552**	20,475
Per boe	**64.24**	24.69	36.61	**50.59**	21.00
Per weighted average basic share	**0.13**	0.05	0.07	**0.20**	0.09
Cash flows from operating activities	**29,668**	14,967	15,340	**45,008**	24,859
Per boe	**56.43**	30.24	29.90	**43.33**	25.49
Per weighted average basic share	**0.11**	0.06	0.06	**0.17**	0.11
Net income (loss)	**23,309**	(730)	6,227	**29,536**	(4,227)
Per weighted average basic share	**0.09**	0.00	0.02	**0.11**	(0.02)
Capital expenditures	**8,091**	5,809	8,687	**16,778**	13,692
Decommissioning liabilities settled (2)	**1,350**	694	912	**2,262**	2,131
Free funds from operations (1)	**24,579**	6,230	9,183	**33,762**	6,204
Net surplus (debt) (1)	**9,775**	(33,418)	(6,706)	**9,775**	(33,418)
Dividends declared	**2,610**	-	-	**2,610**	-
Dividends declared per share	**0.01**	-	-	**0.01**	-
Weighted average shares, basic (thousands)	**260,561**	247,415	260,331	**260,447**	234,325
Shares outstanding, end of period (thousands)	**258,173**	258,103	260,759	**258,173**	258,103
OPERATING					
Production					
Heavy oil (bbl/d)	**2,686**	3,207	3,043	**2,863**	3,117
Light and medium oil (bbl/d)	**1,980**	1,469	1,580	**1,781**	1,491
Natural gas liquids (bbl/d)	**243**	148	269	**256**	135
Natural gas (mcf/d)	**5,205**	3,694	4,855	**5,031**	3,868
Total (boe/d)	**5,777**	5,440	5,701	**5,739**	5,388
Average prices					
Heavy oil ($/bbl)	**116.74**	62.14	95.91	**105.73**	57.05
Light and medium oil ($/bbl)	**133.18**	74.72	110.32	**123.10**	68.89
Natural gas liquids ($/bbl)	**72.59**	34.40	63.88	**68.03**	38.08
Natural gas ($/mcf)	**7.38**	3.15	4.64	**6.06**	3.10
Netback ($/boe)					
Petroleum and natural gas sales	**109.63**	59.90	88.73	**99.31**	55.25
Royalties	**(15.56)**	(6.64)	(9.38)	**(12.51)**	(5.71)
Operating costs	**(21.86)**	(16.66)	(19.80)	**(20.84)**	(17.08)
Transportation costs	**(3.56)**	(2.06)	(3.43)	**(3.50)**	(2.04)
Operating netback (1)	**68.65**	34.54	56.12	**62.46**	30.42
Realized risk management loss	**(0.96)**	(5.55)	(14.11)	**(7.46)**	(5.06)
General and administrative	**(2.94)**	(2.66)	(4.83)	**(3.87)**	(2.52)
Interest and other	**(0.51)**	(1.64)	(0.57)	**(0.54)**	(1.84)
TRADING STATISTICS					
($ based on intra-day trading)					
High	**1.73**	1.01	1.94	**1.94**	1.01
Low	**1.15**	0.46	0.90	**0.90**	0.25
Close	**1.24**	0.85	1.60	**1.24**	0.85
Average daily volume (thousands)	**5,269**	3,019	4,859	**5,066**	2,181

(1) Funds from operations, free funds from operations, net surplus (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 July 27, 2022 and should be read in conjunction with the unaudited Interim Condensed Consolidated Financial Statements as at and for the six months ended June 30, 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 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

Commodity prices and energy sentiment for the first half of 2022 has been volatile. During the first six months, West Texas Intermediate ("WTI") oil prices have traded in a range of US$74 per barrel to US$131 per barrel. Early on in 2022, supply concerns were at the forefront of industry observers. Those concerns remain but have been joined with demand concerns resulting from indications that the global economy may be headed into a recession as a result of central banks increasing interest rates. Regardless, Gear completed its second quarter results with record funds from operations, record operating netbacks, and the replacement of net debt with a net surplus. In light of the strength of the business both currently and into the foreseeable future, Gear is pleased to announce the revision of the previously announced variable quarterly dividend program to the implementation of a new monthly dividend of $0.01 per common share. To account for no dividend being distributed for the month of July, the initial dividend for the month of August will be $0.02 per common share and thereafter will revert to $0.01 per common share for the following months. This dividend will be paid on August 31, 2022 to shareholders on record as of close of business on August 15, 2022. With the initiation of the new monthly $0.01 per share dividend, Gear still anticipates maintaining a strong balance sheet with the current forecast (using forward market pricing as of July 26, 2022) showing a continual net surplus in the future. In the first four months of 2022, Gear dedicated all of its free funds from operation to debt repayments. Under the current forecast from May 2022 to December 2022, Gear anticipates approximately 75 per cent of free funds from operations (approximately 25 per cent of funds from operations) will be returned to shareholders as dividends with the remaining free funds from operations dedicated to potential future capital expansions, cash funded acquisitions, share buybacks and/or future dividend increases. Gear will continue to monitor the future commodities markets and the strength of the business to ensure that the distribution of future dividends remains aligned with all other strategic goals.

2022 GUIDANCE

Table 1

	2022 Revised Guidance	2022 Previous Guidance	Q2 2022 YTD Actuals
2022 annual production (boe/d)	**5,700 – 5,900**	5,900 – 6,000	5,739
Q1 2023 production (boe/d)	**6,400**	n/a	n/a
Heavy oil weighting (%)	**50**	51	50
Light oil, medium oil and NGLs weighting (%)	**36**	36	35
Royalty rate (%)	**13**	12	13
Operating and transportation costs ($/boe)	**23.50**	23.50	24.34
General and administrative expense ($/boe)	**3.15**	3.15	3.87
Interest and other expense ($/boe)	**0.40**	0.40	0.54
Capital and abandonment expenditures ($ millions)	**64**	55	19

As a result of continued strong commodity prices and expanded strategic investment opportunities, Gear intends to increase the planned 2022 capital and abandonment expenditure investment from $55 million to $64 million with the majority of the increase relating to two additional light oil wells to be drilled in Tableland, Saskatchewan. These two wells are currently planned to be drilled and completed at the end of 2022 and are expected to be on production in the first quarter of 2023.

Production to date for 2022 has been marginally hindered by difficult weather as well as intermittent challenges accessing equipment and manpower. Gear anticipates the majority of these issues to be less relevant through the second half of the year with strong capital activity levels anticipated right through to year-end. Annual production guidance for 2022 is being stepped back slightly at this point. However, for the first quarter of 2023, production is expected to be approximately 6,400 boe per day reflecting the impacts of the strong capital investments currently planned.

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				Six months ended		
	Jun 30, 2022	Jun 30, 2021	% Change	Mar 31, 2022	**Jun 30, 2022**	Jun 30, 2021	% Change
Funds from operations per debt adjusted share (1)	**0.130**	0.042	210	0.070	**0.200**	0.072	178
Cash flows from operating activities per debt adjusted share (1)	**0.114**	0.051	124	0.057	**0.171**	0.087	97
Production, boepd per debt adjusted thousand shares (1)	**0.022**	0.019	16	0.021	**0.022**	0.019	16

(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 SECOND QUARTER FINANCIAL AND OPERATIONAL RESULTS

Funds from Operations and Cash Flows from Operating Activities

Funds from operations increased from $12.2 million or $24.69 per boe in the second quarter of 2021 to $33.8 million or $64.24 per boe in the second quarter of 2022. Gear achieved its highest funds from operations since inception during the quarter. The increase in funds from operations is the result of increased revenues due to higher realized commodity prices and increased sales volumes, decreased loss on risk management contracts and decreased interest and other costs, offset by increased royalties, operating, transportation and general and administrative costs.

On a year-to-date basis, funds from operations increased from $20.5 million or $21.00 per boe in 2021 to $52.6 million or $50.59 per boe in 2022. The increase in funds from operations is the result of increased revenues due to higher realized commodity prices and increased sales volumes and decreased interest and other costs, offset by increased loss on risk management contracts, royalties, operating, transportation and general and administrative costs.

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

Table 3

	Three months ended Jun 30		Six months ended Jun 30	
	$ thousands	$/boe	$ thousands	$/boe
Q2 2021 Funds from operations (1)	12,222	24.69	20,475	21.00
Volume variance	1,834	-	3,513	-
Price variance	26,150	49.73	45,769	44.06
Risk management contracts	2,243	4.59	(2,810)	(2.40)
Royalties	(4,897)	(8.92)	(7,424)	(6.80)
Expenses:				
Operating and transportation	(4,090)	(6.70)	(6,640)	(5.22)
General and administrative	(227)	(0.28)	(1,566)	(1.35)
Interest and other	535	1.13	1,235	1.30
Q2 2022 Funds from operations (1)	33,770	64.24	52,552	50.59

(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". Such measure does not have a standardized meaning under GAAP and therefore may not be comparable to similar measures presented by other entities.

Cash flows from operating activities increased from $15.0 million or $30.24 per boe in the second quarter of 2021 to $29.7 million or $56.43 per boe in the second quarter of 2022. The increase in cash flows from operating activities is the result of increased revenues due to higher realized commodity prices and increased sales volumes, decreased loss on risk management contracts and decreased interest and other costs, offset by increased royalties, operating, transportation and general and administrative costs and increased decommissioning liabilities settled by Gear. In the second quarter of 2021, most of the abandonment activities performed were funded under the federal government's Site Rehabilitation Program and therefore did not affect cash flows from operating activities. In the second quarter of 2022, only a small portion of the abandonment activities performed were funded by the government.

On a year-to-date basis, cash flows from operating activities increased from $24.9 million or $25.49 per boe to $45.0 million or $43.33 per boe. The increase in cash flows from operating activities is the result of increased revenues due to higher realized commodity prices and increased sales volumes and decreased interest and other costs, offset by increased loss on risk management contracts, royalties, operating, transportation and general and administrative costs and increased decommissioning liabilities settled by Gear. For the six months ended June 30, 2021, most of the abandonment activities performed were funded under the federal government's Site Rehabilitation Program and therefore such spending did not affect cash flows from operating activities. In the first half of 2022, only a small portion of the abandonment activities performed were funded by the government.

Net Income and Loss
Gear generated net income of $23.3 million and $29.5 million for the three and six months ended June 30, 2022, compared to net losses of $0.7 million and $4.2 million for same periods in 2021. The change in net income is due to several factors discussed below. Net income increased from $6.2 million for the first quarter of 2022 to $23.3 million for the second quarter due to the increase in realized pricing during the second quarter and a reduction in realized and unrealized losses on risk management contracts.

Production
For the three and six months ended June 30, 2022, sales production volumes averaged 5,777 and 5,739 boe per day compared to 5,440 and 5,388 boe per day in the same periods in 2021. In the second quarter of 2022 Gear drilled three net wells, of which one was a water source well for the waterflood in Killam, one was brought on production subsequently in the third quarter and one that has just recently been fracked. Year to date, Gear has drilled nine net wells, of which six Provost wells drilled in the previous quarter are on production. The six Provost wells drilled in the previous quarter contributed an average of 460 boe per day during the second quarter. Production continues to incline for these wells with the last 30 days of production averaging approximately 520 boe per day. 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 135 boe per day in the first half of 2022 with no volume contribution for the first half of 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 first quarter of 2022 averaged 5,701 boe per day. Production increased slightly to 5,777 boe per day for the second quarter as a result of new and improving production from the first quarter drilling program. Rainy spring conditions during the quarter resulted in delays in second quarter drills and delays in restarting adjacent wells that were shut-in to assist drilling due to difficulties accessing the field.

Gear had an inventory build of approximately 5,600 barrels in the second quarter of 2022 over the previous quarter, and has approximately 141 thousand barrels of oil in inventory as at June 30, 2022.

Table 4

	Three months ended				Six months ended		
Production	**Jun 30, 2022**	Jun 30, 2021	% Change	Mar 31, 2022	**Jun 30, 2022**	Jun 30, 2021	% Change
Liquids (bbl/d)							
Heavy oil (bbl/d)	**2,686**	3,207	(16)	3,043	**2,863**	3,117	(8)
Light and medium oil (bbl/d)	**1,980**	1,469	35	1,580	**1,781**	1,491	19
Natural gas liquids (bbl/d)	**243**	148	64	269	**256**	135	90
Total liquids (bbl/d)	**4,909**	4,824	2	4,892	**4,900**	4,743	3
Natural gas (mcf/d)	**5,205**	3,694	41	4,855	**5,031**	3,868	30
Total production (boe/d) (1)	**5,777**	5,440	6	5,701	**5,739**	5,388	7
% Liquids production	**85**	89	(4)	86	**85**	88	(3)
% Natural gas production	**15**	11	36	14	**15**	12	25

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

Petroleum and Natural Gas Sales
For the three and six months ended June 30, 2022, sales of crude oil, natural gas and natural gas liquids totaled $57.6 million and $103.2 million, a 94 and 91 per cent increase over $29.7 million and $53.9 million for the same periods in 2021, respectively. Quarter over quarter, sales increased to $57.6 million from $45.5 million in the first quarter of 2022. These increases are 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			Six months ended		
($ thousands)	**Jun 30, 2022**	Jun 30, 2021	% Change	Mar 31, 2022	**Jun 30, 2022**	Jun 30, 2021	% Change
Heavy oil	**28,534**	18,138	57	26,265	**54,799**	32,189	70
Light and medium oil	**23,999**	9,990	140	15,684	**39,683**	18,591	113
Natural gas liquids	**1,606**	464	246	1,548	**3,154**	929	240
Natural gas	**3,496**	1,059	230	2,027	**5,523**	2,168	155
Total petroleum and natural gas sales	**57,635**	29,651	94	45,524	**103,159**	53,877	91

Commodity Prices

Table 6

		Three months ended			Six months ended		
Average benchmark prices	**Jun 30, 2022**	Jun 30, 2021	% Change	Mar 31, 2022	**Jun 30, 2022**	Jun 30, 2021	% Change
WTI oil (US$/bbl) (1)	**108.41**	66.07	64	94.29	**101.35**	61.96	64
WCS heavy oil (Cdn$/bbl) (2)	**122.04**	67.02	82	101.00	**111.48**	62.31	79
Canadian Light Sweet (3) (Cdn$/bbl)	**137.74**	77.30	78	115.66	**126.65**	72.03	76
LSB (Cdn$/bbl) (4)	**136.47**	77.00	77	114.40	**125.39**	72.02	74
AECO natural gas ($/mcf) (5)	**7.19**	2.94	145	4.73	**5.96**	3.07	94
Cdn$ / US$ exchange rate	**1.28**	1.23	4	1.27	**1.27**	1.25	2
Gear realized prices							
Heavy oil ($/bbl)	**116.74**	62.14	88	95.91	**105.73**	57.05	85
Light and medium oil ($/bbl)	**133.18**	74.72	78	110.32	**123.10**	68.89	79
Natural gas liquids ($/bbl)	**72.59**	34.40	111	63.88	**68.03**	38.08	79
Natural gas ($/mcf)	**7.38**	3.15	134	4.64	**6.06**	3.10	95
Realized price before risk management contracts ($/boe)	**109.63**	59.90	83	88.73	**99.31**	55.25	80
Realized risk management loss ($/boe)	**(0.96)**	(5.55)	(83)	(14.11)	**(7.46)**	(5.06)	47
Realized price after risk management contracts ($/boe)	**108.67**	54.35	100	74.62	**91.85**	50.19	83

(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 second quarter of 2022, US$ denominated WTI prices increased by 64 per cent from US$66.07 per barrel to US$108.41 per barrel over the same period in 2021, with the WCS differential widening and the Canadian Light Sweet and LSB differentials narrowing. As a result of favorable differentials and stronger WTI prices, Gear's realized pricing increased from $59.90 per boe to $109.63 per boe.

On a year-to-date basis WTI increased from US$61.96 per barrel to US$101.35 per barrel over the same period in 2021, with the WCS differential widening and the Canadian Light Sweet and LSB differentials narrowing. These pricing movements resulted in an increase in Gear's realized pricing from $55.25 per boe to $99.31 per boe.

When comparing to the previous quarter, Gear's realized pricing increased from $88.73 per boe to $109.63 per boe as a result of narrowing differentials and stronger WTI prices.

Royalties

For the three and six months ended June 30, 2022, royalties as a percentage of petroleum and natural gas sales were 14.2 and 12.6 per cent compared to 11.1 and 10.3 per cent for the same periods in 2021. Over the last year, royalties as a percentage of commodity sales have increased due to the increase in commodity prices. A certain number of Gear's wells are subject to escalating royalty rates in higher price environments. In addition, as revenues incline, a greater portion of pre-existing wells reach higher royalty tiers quicker.

Royalties as a percentage of commodity sales for the second quarter of 2022 increased from 10.6 per cent for the first quarter of 2022 to 14.2 per cent due to the increase in commodity prices.

Table 7

Royalty expense	Three months ended				Six months ended		
($ thousands except % and per boe)	**Jun 30, 2022**	Jun 30, 2021	% Change	Mar 31, 2022	**Jun 30, 2022**	Jun 30, 2021	% Change
Royalty expense	**8,182**	3,285	149	4,815	**12,997**	5,573	133
Royalty expense as a % of sales	**14.2**	11.1	28	10.6	**12.6**	10.3	22
Royalty expense per boe	**15.56**	6.64	134	9.38	**12.51**	5.71	119

Operating and Transportation Expenses

Operating costs for the three and six months ended June 30, 2022 was $21.86 and $20.84 per boe compared to $16.66 and $17.08 per boe for the same periods in 2021 and $19.80 per boe for the previous quarter. These increases are a result of Gear re-activating previously shut-in higher operating expense wells to take advantage of positive netbacks. In addition, Gear incurred higher well servicing costs and carbon taxes and has also observed general inflationary pressures in 2022 relative to 2021.

Transportation expense for the three and six months ended June 30, 2022 was $3.56 and $3.50 per boe compared to $2.06 and $2.04 per boe for the same periods in 2021 and $3.43 per boe for the previous quarter. The increase is mainly a result of production associated with the gas gathering system constructed in 2021 in southeast Saskatchewan. In 2021, Gear tied production into a newly constructed third-party 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 quarter and six months ended June 30, 2022, the gas gathering system produced 132 and 135 boe per day of natural gas and natural liquids, offset by $0.9 million or $1.63 per boe and $1.3 million or $1.22 per boe, respectively, of transportation fees associated with this system. During the previous period, the gas gathering system produced 138 boe per day of natural gas and natural liquids, offset by $0.4 million or $0.80 per boe of transportation fees associated with this system. For further information see below, under the heading "Contractual Obligations and Commitments".

Excluding the impact of the gas gathering system, transportation expense for the three and six months ended June 30, 2022 was $1.93 per boe and $2.28 per boe compared to $2.06 per boe and $2.04 per boe for the same periods in 2021 and $2.63 per boe for the previous quarter. Overall, there has been an increase in transportation expenses mainly due to inflationary pressures in the form of fuel surcharges from trucking companies; however, the decrease in the second quarter of 2022 is due to increased production in Provost which carry a lower transportation cost as the field is more proximal to its delivery point.

Table 8 below summarizes the operating and transportation expenses:

Table 8

Operating and transportation expenses	Three months ended				Six months ended		
($ thousands except per boe)	**Jun 30, 2022**	Jun 30, 2021	% Change	Mar 31, 2022	**Jun 30, 2022**	Jun 30, 2021	% Change
Operating expense	**11,490**	8,248	39	10,159	**21,649**	16,653	30
Transportation expense	**1,869**	1,021	83	1,762	**3,631**	1,987	83
Operating and transportation expense	**13,359**	9,269	44	11,921	**25,280**	18,640	36
Operating expense per boe	**21.86**	16.66	31	19.80	**20.84**	17.08	22
Transportation expense per boe	**3.56**	2.06	73	3.43	**3.50**	2.04	72
Operating and transportation expense per boe	**25.42**	18.72	36	23.23	**24.34**	19.12	27

Table 9 below is a breakdown of transportation expenses:

Table 9

Transportation expenses	Three months ended				Six months ended		
($ thousands except per boe)	**Jun 30, 2022**	Jun 30, 2021	% Change	Mar 31, 2022	**Jun 30, 2022**	Jun 30, 2021	% Change
Transportation - commitment	**858**	-	100	410	**1,268**	-	100
Transportation	**1,011**	1,021	(1)	1,352	**2,363**	1,987	19
Transportation expense	**1,869**	1,021	83	1,762	**3,631**	1,987	83
Transportation per boe - commitment	**1.63**	-	100	0.80	**1.22**	-	100
Transportation per boe	**1.93**	2.06	(6)	2.63	**2.28**	2.04	12
Transportation expense per boe	**3.56**	2.06	73	3.43	**3.50**	2.04	72

Operating Netbacks

Gear's operating netback prior to risk management contracts for the three and six months ended June 30, 2022 was $68.65 and $62.46 per boe compared to $34.54 and $30.42 per boe for the same periods in 2021 and $56.12 per boe for the previous period. The increase is 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 10:

Table 10

Operating netback	Three months ended				Six months ended		
($ per boe)	**Jun 30, 2022**	Jun 30, 2021	% Change	Mar 31, 2022	**Jun 30, 2022**	Jun 30, 2021	% Change
Sales	**109.63**	59.90	83	88.73	**99.31**	55.25	80
Royalties	**(15.56)**	(6.64)	134	(9.38)	**(12.51)**	(5.71)	119
Operating costs	**(21.86)**	(16.66)	31	(19.80)	**(20.84)**	(17.08)	22
Transportation costs	**(3.56)**	(2.06)	73	(3.43)	**(3.50)**	(2.04)	72
Operating Netback	**68.65**	34.54	99	56.12	**62.46**	30.42	105

General and Administrative ("G&A") Expenses and Share-Based Compensation ("SBC")

For the three and six months ended June 30, 2022, G&A expenses totaled $1.5 million and $4.0 million, compared to $1.3 million and $2.5 million for the same periods in 2021. The increase in G&A expenses in the second quarter of 2022 compared to the same period in 2021 was mainly due to an increase in professional fees. Year-to-date, the majority of the increase relates to 2021 performance bonuses declared and paid in the first quarter of 2022. No bonuses were paid in the first half of 2021. For the six months ended June 30, 2021, Gear received $0.1 million under the Canada Emergency Wage Subsidy program. Gear no longer qualifies for this program due to increased revenue. As a result of the performance bonus declared and increased drilling activities, for the three and six months ended June 30, 2022, Gear capitalized $0.3 million and $1.1 million of G&A compared to $0.3 million and $0.6 million for the same periods in 2021. For the three and six months ended June 30, 2022, G&A on a per boe basis was $2.94 and $3.87 per boe compared to $2.66 and $2.52 per boe for the same periods in 2021.

The decrease in G&A expenses in the second quarter of 2022 compared to the previous quarter was due to the 2021 performance bonuses declared and paid in the previous quarter. Gear capitalized $0.8 million in G&A for the previous quarter compared to $0.3 million in the second quarter of 2022. G&A on a per boe basis was $2.94 per boe during the second quarter of 2022 compared to $4.83 per boe for the previous quarter.

Table 11 is a breakdown of G&A and SBC expense:

Table 11

G&A and SBC expense	Three months ended				Six months ended		
($ thousands except per boe)	**Jun 30, 2022**	Jun 30, 2021	% Change	Mar 31, 2022	**Jun 30, 2022**	Jun 30, 2021	% Change
G&A, before recoveries and capitalized G&A	**1,934**	1,683	15	3,391	**5,325**	3,176	68
Overhead recoveries	**(82)**	(66)	24	(79)	**(161)**	(139)	16
Capitalized G&A	**(309)**	(301)	3	(835)	**(1,144)**	(583)	96
G&A	**1,543**	1,316	17	2,477	**4,020**	2,454	64
SBC expense	**207**	121	71	204	**411**	194	112
G&A per boe	**2.94**	2.66	11	4.83	**3.87**	2.52	54
SBC expense per boe	**0.39**	0.24	63	0.40	**0.40**	0.20	100

SBC is related to the granting of stock options. There were 3.6 million options granted during the six months ended June 30, 2022 at an average exercise price of $1.44. In addition, 0.8 million options were forfeited at an average exercise price of $0.71 and 2.4 million options were exercised at an average exercise price of $0.47. As at June 30, 2022 a total of 17.1 million options with a weighted average exercise price of $0.76 per share were outstanding, representing approximately 6.6 per cent of the 258.2 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 17.1 million options outstanding at a weighted average exercise price of $0.76 per share.

Interest and Financing Charges

For the three and six months ended June 30, 2022, interest and financing charges totaled $0.3 million and $0.6 million compared to $0.7 million and $1.6 million in the same periods of 2021 and $0.3 million in the previous quarter. Gear's annualized borrowing costs, inclusive of financing charges and standby fees on its Credit Facilities (as defined below) approximated 8.6 and 6.4 per cent compared to 5.6 and 5.9 per cent for the same periods 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. Despite lower margin and standby fee rates due to a decrease in Gear's Senior Debt to EBITDA Ratio, the increase in borrowing costs is due to higher standby fees as a result of lower indebtedness and increases in bank rate during the period. 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 12 is a breakdown of interest expense:

Table 12

Interest and financing charges	Three months ended				Six months ended		
($ thousands except per boe)	**Jun 30, 2022**	Jun 30, 2021	% Change	Mar 31, 2022	**Jun 30, 2022**	Jun 30, 2021	% Change
Interest expense	**210**	590	(64)	235	**445**	1,395	(68)
Financing charges	**47**	65	(28)	34	**81**	163	(50)
Standby fees	**53**	34	56	38	**91**	72	26
Interest and financing charges	**310**	689	(55)	307	**617**	1,630	(62)
Interest and financing charges per boe	**0.59**	1.39	(58)	0.60	**0.59**	1.67	(65)

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. Historically, Gear endeavored to protect the pricing on a minimum of 50 per cent and up to 65 per cent of forecasted production, net of royalties, and had been authorized by its board of directors to hedge up to certain levels as specified by its credit agreement. Gear has fully completed all 2022 hedging requirements and continues to monitor markets for future periods. During the quarter Gear achieved a zero net 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. Such an evaluation may result in a reduction of risk management activity in the future.

For the three and six months ended June 30, 2022, Gear realized losses on risk management contracts of $0.5 million and $7.7 million compared to realized losses of $2.7 million and $4.9 million for the same periods in 2021 and $7.2 million in the previous quarter. The fair value of all outstanding contracts at June 30, 2022 was a liability of $5.4 million.

For the second quarter of 2022, Gear did not have a sold call, which allowed the Company to participate in 100 per cent of the 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.

Table 13 summarizes Gear's financial risk management contracts as at June 30, 2022:

Table 13

Financial WTI crude oil contracts

Term		Contract	Currency	Volume bbl/d	Sold Swap $/bbl	Sold Call $/bbl	Bought Put $/bbl	Sold Put $/bbl
Jul 1, 2022	Sep 30, 2022	Three-way collar	CAD	2,400	-	116.50	62.50	50.00
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 quarter and six months ended June 30, 2022, was $17.20 and $18.01 per boe compared to $17.29 and $17.14 per boe in the same periods in 2021. The increase in the DD&A rate for the six months ended is 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. For the three and six months ended June 30, 2022, the government provided Gear $0.3 million towards extinguishing decommissioning liabilities, as compared to $0.5 million and $1.6 million for the same period in 2021. Quarter over quarter, DD&A decreased from $18.84 per boe in the previous quarter to $17.20 per boe as a result of increased Government spending.

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 June 30, 2022 and December 31, 2021, Gear recorded oil inventory valued at its production cost. No impairments on inventory were recorded in 2021 or in the first half of 2022.

Table 14 is a breakdown of DD&A expenses:

Table 14

DD&A rate	Three Months Ended				Six Months Ended		
($ thousands except per boe)	**Jun 30, 2022**	Jun 30, 2021	% Change	Mar 31, 2022	**Jun 30, 2022**	Jun 30, 2021	% Change
DD&A	**9,042**	8,560	6	9,668	**18,710**	16,711	12
Total DD&A rate per boe	**17.20**	17.29	(1)	18.84	**18.01**	17.14	5

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 June 30, 2022 and December 31, 2021, a deferred tax asset in the amount of $32.9 million was recognized, with a significant portion remaining 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 June 30, 2022, Gear’s estimated tax pools were $623.8 million compared to $667.5 million as at December 31, 2021.

A breakdown of estimated tax pools is shown in Table 15:

Table 15

($ thousands)	**June 30, 2022**	December 31, 2021
Canadian oil and gas property expenses	**122,610**	128,576
Canadian development expenses	**168,065**	186,650
Canadian exploration expenses	**28,280**	28,186
Undepreciated capital cost	**56,455**	61,791
Non-capital losses	**249,409**	262,301
Other	**14**	20
Estimated realizable tax pools, federal and provincial	**623,833**	667,524

Capital Expenditures

Capital expenditures for the three and six months ended June 30, 2022 were $8.1 million and $16.8 million compared to $5.8 million and $13.7 million for the same periods in 2021 and $8.7 million in the previous quarter. During the second quarter of 2022 Gear drilled one water source well for expanded waterflooding in Killam, Alberta, one light oil well in Tableland, Saskatchewan and one multi-lateral unlined heavy oil well in Wildmere, Alberta. Prior to quarter-end, Gear also started to drill one additional multi-lateral unlined heavy oil well in Swimming, Alberta, which was rig-released in July. Year to date, Gear drilled nine gross (9 net) wells including 6 gross (6 net) multi-leg medium oil wells in Provost in addition to the wells drilled in the second quarter. The Provost wells were drilled, completed, and equipped at an average cost of $1.1 million per well, which exceeded the original 2022 budget to drill of 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.

During the second quarter, heavy rain caused delays in Gear’s drilling program. Of the three wells drilled in the quarter, both the Killam and Wildmere wells were brought in service / on production in July, and the Tableland well was completed in July and is expected to be on production in August.

A breakdown of capital expenditures is shown in Table 16:

Table 16

Capital expenditures	Three months ended				Six months ended		
($ thousands)	**Jun 30, 2022**	Jun 30, 2021	% Change	Mar 31, 2022	**Jun 30, 2022**	Jun 30, 2021	% Change
Drilling and completions	**5,968**	3,633	64	6,628	**12,596**	9,955	27
Production equipment and facilities	**1,564**	2,056	(24)	1,882	**3,446**	3,542	(3)
Geological and geophysical	**69**	16	331	24	**94**	46	104
Undeveloped land purchased at crown land sales	**405**	101	301	113	**518**	143	262
Other	**85**	3	2,733	40	**124**	6	1,967
Total capital expenditures	**8,091**	5,809	39	8,687	**16,778**	13,692	23

Decommissioning Liability

At June 30, 2022, Gear recorded a decommissioning liability of $74.4 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 2.00 per cent (1.76 per cent at December 31, 2021) and discounted using a risk free rate of 3.14 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 decrease in liability is mainly the result of the increase in the discount factor and abandonment activity performed by both Gear and third-party government bodies during the period, partially offset by an increase in cost estimates and new wells drilled by Gear. Decommissioning liabilities settled by Gear during the six months ended June 30, 2022 were $2.0 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. 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 second quarter of 2022, as a result of combined efforts of both Gear and the SRP, the combined $1.4 million of decommissioning expenditures allowed Gear to cut and cap 19 gross wells and downhole abandon 67 gross wells in Alberta and cut and cap two gross wells and downhole abandon one gross well in Saskatchewan.

During the six months ended June 30, 2022, as a result of combined efforts of both Gear and the SRP, the combined $2.3 million of decommissioning expenditures allowed Gear to cut and cap 46 gross wells and downhole abandon 91 gross wells in Alberta, and cut and cap two gross wells and downhole abandon one gross well in Saskatchewan.

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

Table 17

SRP ($ thousands)	**Alberta**	**Saskatchewan**	**British Columbia**	**Total**
2021 funding carry over	1,411	930	2	2,343
2022 spending	(250)	-	-	(250)
Remaining	**1,161**	**930**	**2**	**2,093**

Capitalization, Financial Resources and Liquidity

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

Table 18

Debt ($ thousands except ratio amounts)	**Jun 30, 2022**	Dec 31, 2021
Net surplus (debt) (1)	**9,775**	(15,830)
Net debt to trailing twelve-month funds from operations (1)	**n/a**	0.3
Net debt to quarterly annualized funds from operations (1)	**n/a**	0.2
Common shares outstanding	**258,173**	260,169

(1) Net surplus (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 achieved zero net debt during the quarter and is now in a net surplus position. When the Company is in a net surplus position, the Company's net debt to trailing twelve-month funds from operations and net debt to annualized funds from operations is not applicable as the Company is not required to pay off or take on new debt. Net surplus was achieved primarily through bank debt repayments as funds from operations continued to exceed capital expenditures and spending on equity repurchases pursuant to its Normal Course Issuer Bid ("NCIB") during the first half of 2022.

Credit Facilities
In April 2022, Gear completed its borrowing base review and amended its 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 19 shows a breakdown of Gear's Credit Facilities:

Table 19

Facility	**Borrowing base**		**Maturity date**
($ millions)	**Jun 30, 2022**	**Dec 31, 2021**	
Revolving	34.5	34.5	May 25, 2024
Operating	7.5	7.5	May 25, 2024
Total	42.0	42.0	

At June 30, 2022 Gear had $4.6 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 June 30, 2022 and December 31, 2021 no amounts have been classified as short-term debt. The Credit Facilities do not carry any financial covenants. Gear has an outstanding letter of credit with a counterparty separate from the Credit Facilities for $1.1 million (December 31, 2021 – $nil).

The total stamping fees on the operating facility and revolving facility 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 complete on or about November 30, 2022.

Convertible Debentures
As at June 30, 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
On May 4, 2022, Gear announced the approval of its NCIB by the Toronto Stock Exchange ("TSX"). The NCIB allows the Company to purchase for cancellation up to approximately 24.0 million of its outstanding common shares commencing on May 9, 2022, continuing until May 8, 2023, when the bid expires, or such earlier date on which Gear has either acquired the maximum number of common shares allowable under the NCIB or otherwise decides not to make any further repurchases under the NCIB. Purchases are made on the open market through the TSX or alternative Canadian trading platforms at the prevailing market price of such common shares at the time of purchase. When the Company repurchases its own common shares, share capital is reduced by the average carrying value of the shares repurchased. When the carrying value exceeds the purchase price the excess is credited to contributed surplus or conversely the excess of the purchase price over the carrying value is recognized as a deduction from retained earnings. For the three and six months ending June 30, 2022, 3.6 million common shares were repurchased at an average cost of $1.45 per share.

As at June 30, 2022 and the date of this MD&A, Gear had 258.2 million common shares outstanding. The decrease since December 31, 2021, is due to share repurchases, partially offset by stock option exercises. During the six months ended June 30, 2022, 3.6 million common shares were repurchased for cancellation. At December 31, 2021, Gear had 260.2 million common shares outstanding.

As at June 30, 2022 and the date of this MD&A, a total of 17.1 million options were outstanding with a weighted average exercise price of $0.76 per share and each option entitled the holder to acquire one Gear common share.

Dividends
On May 4, 2022, the Board of Directors approved and declared a variable quarterly dividend of $0.01 per common share, designated as an eligible dividend, payable in cash on May 30, 2022 to shareholders of record on May 16, 2022. On May 30, 2022, $2.6 million in dividends was paid.

Subsequent to period end, on July 27, 2022, the Board of Directors approved and declared a dividend of $0.02 per common share, designated as an eligible dividend, payable in cash to shareholders of record on August 15, 2022. The dividend payment date is August 31, 2022.

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 quarter, Gear cut and capped 19 gross wells and downhole abandoned 67 gross wells in Alberta and cut and capped two gross wells and downhole abandoned one gross well in Saskatchewan. During the six months ended June 30, 2022, Gear cut and capped 46 gross wells and downhole abandoned 91 gross wells in Alberta, and cut and capped two gross wells and downhole abandoned one gross well in Saskatchewan.

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.

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 June 30, 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 $1.3 million. The service commitment relates to a software agreement that expires in 2023 with a remaining commitment of $0.1 million. The transportation commitment relates to an agreement with a mid-stream company. Gear will pay an escalated transportation fee until 2030, or when the total transportation commitment is extinguished. The total remaining transportation commitment is $2.4 million. During the first quarter of 2022, the outstanding transportation commitment was reduced by an additional $0.6 million as a result of 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 transportation commitment has an annual base commitment of $0.4 million until 2030, or until the total transportation commitment is extinguished as fees paid in excess of the annual base amounts are applied to the outstanding contract balance. 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 three and six months ended June 30, 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, settle decommissioning liabilities, repay debt, finance dividends and/or repurchase common shares under the Company's NCIB.

Table 20 below reconciles cash flows from operating activities to funds from operations:

Table 20

	Three months ended			Six months ended	
($ thousands)	**Jun 30, 2022**	Jun 30, 2021	Mar 31, 2022	**Jun 30, 2022**	Jun 30, 2021
Cash flows from operating activities	**29,668**	14,967	15,340	**45,008**	24,859
Decommissioning liabilities settled (1)	**1,100**	183	912	**2,012**	579
Change in non-cash operating working capital	**3,002**	(2,928)	2,530	**5,532**	(4,963)
Funds from operations	**33,770**	12,222	18,782	**52,552**	20,475

(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, settle decommissioning liabilities, repay debt, finance dividends and/or repurchase common shares under the Company's NCIB.

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, settle decommissioning liabilities, repay debt, finance dividends and/or repurchase common shares under the Company's NCIB.

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, settle decommissioning liabilities, repay debt, finance dividends and/or repurchase common shares under the Company's NCIB.

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, settle decommissioning liabilities, repay debt, finance dividends and/or repurchase common shares under the Company's NCIB.

Table 21 below reconciles cash flows from operating activities to free funds from operations:

Table 21

	Three months ended			Six months ended	
($ thousands)	**Jun 30, 2022**	Jun 30, 2021	Mar 31, 2022	**Jun 30, 2022**	Jun 30, 2021
Cash flows from operating activities	**29,668**	14,967	15,340	**45,008**	24,859
Change in non-cash operating working capital	**3,002**	(2,928)	2,530	**5,532**	(4,963)
Capital expenditures	**(8,091)**	(5,809)	(8,687)	**(16,778)**	(13,692)
Free funds from operations	**24,579**	6,230	9,183	**33,762**	6,204

Net surplus (debt)

Net surplus (debt) is a capital management measure defined as debt less current working capital items (excluding debt, risk management contracts and decommissioning liabilities). Gear believes net surplus (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 surplus (debt) are primarily a result of funds from operations, capital and abandonment expenditures, equity issuances, dividends paid and equity repurchases pursuant to the NCIB.

Table 22 below reconciled debt to net surplus (debt):

Table 22

Capital structure and liquidity ($ thousands)	**Jun 30, 2022**	Dec 31, 2021
Debt	**(4,577)**	(26,355)
Working capital surplus (1)	**14,352**	10,525
Net surplus (debt)	**9,775**	(15,830)

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

At June 30, 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. When the Company is in a net surplus position, the Company's net debt to trailing twelve-month funds from operations is nil as the Company is not required to pay off or take on new debt.

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. When the Company is in a net surplus position, the Company's net debt to annualized funds from operations is not considered to be applicable as the Company is not required to pay off or take on new debt.

Debt adjusted shares
Debt adjusted shares is a non-GAAP financial measure calculated as the weighted average shares minus the share equivalent when Gear has an average net surplus position, or plus the share equivalent when Gear has an average net debt position, as defined and reconciled to debt above, over the period. This assumes that net surplus is used to repurchase shares or net debt is extinguished with an 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, or Gear has the ability to repurchase shares when in a net surplus position. 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 or the price that the Company repurchases shares at. 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 23 below reconciles weighted average basic shares to debt adjusted shares:

Table 23

	Three months ended			Six months ended	
(thousands, except per share amounts)	**Jun 30, 2022**	Jun 30, 2021	Mar 31, 2022	**Jun 30, 2022**	Jun 30, 2021
Weighted average basic shares	**260,561**	247,415	260,331	**260,447**	234,325
Average share price (1)	**1.27**	0.86	1.61	**1.27**	0.86
Average net surplus (debt) (2)	**1,535**	(38,174)	(11,268)	**(3,028)**	(43,141)
Share equivalent on average net surplus (debt) (3)	**(1,209)**	44,388	6,999	**2,384**	50,164
Debt adjusted shares	**259,352**	291,803	267,330	**262,831**	284,489

(1) Average share price obtained by a ten-day volume weighted average price ending at the end of the period.
(2) Average net surplus (debt) obtained by a simple average between opening and ending net surplus (debt) for the three and six months ended.
(3) Share equivalent on average net surplus (debt) obtained by average net surplus (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, settle decommissioning liabilities, repay debt, finance dividends and/or repurchase common shares under the Company's NCIB.

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, repay debt, finance dividends and/or repurchase common shares under the Company's NCIB.

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 June 30, 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 June 30, 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 continue to deliver on the forecast of a combination of growth and returning capital to shareholders; 2022 guidance including expected annual average production (including commodity weightings), expected royalty rate, expected operating and transportation costs, expected general and administrative costs, expected interest expense and expected capital and abandonment expenditures; the intent to drill two additional wells in Tableland, Saskatchewan at the end of 2022 with production from such wells expected in the first quarter of 2023; Gear's anticipation that the majority of issues experienced in early 2022 will be less relevant through the second half of the year with strong capital activity levels anticipated right through to year-end; expected production in the first quarter of 2023; Gear's expectations as to Gear's future hedging strategy; Gear's expectation that it will have sufficient liquidity to support its operations and meet its financial obligations over the next 12 months; Gear's expected abandonment and reclamation obligations; the number of wells Gear expects to abandon and reclaim in 2022; 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: changes in commodity prices; changes in the demand for or supply of Gear’s products; increasing costs and access to equipment and personnel resulting from the impacts of inflation and supply chain shortages; 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, the continued impact of the COVID-19 pandemic; any ability for Gear to repay any of its indebtedness when due; increased debt levels or debt service requirements; inaccurate estimation of Gear’s oil and gas reserve and resource volumes; limited, unfavorable or a lack of access to capital markets; 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

	2022		2021				2020	
(Cdn$ thousands, except per share, share, and per boe amounts)	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
FINANCIAL								
Petroleum and natural gas sales	57,635	45,524	39,961	35,189	29,651	24,226	19,644	21,054
Funds from operations (1)	33,770	18,782	17,938	15,955	12,222	8,253	8,253	10,848
Per weighted average basic share	0.13	0.07	0.07	0.06	0.05	0.04	0.04	0.05
Per weighted average diluted share	0.13	0.07	0.07	0.06	0.05	0.04	0.04	0.05
Cash flows from operating activities	29,668	15,340	17,421	9,601	14,967	9,892	8,016	8,864
Per weighted average basic share	0.11	0.06	0.07	0.04	0.06	0.04	0.04	0.04
Per weighted average diluted share	0.11	0.06	0.07	0.04	0.06	0.04	0.03	0.04
Net income (loss)	23,309	6,227	78,117	6,608	(730)	(3,497)	39,349	(1,157)
Per weighted average basic share	0.09	0.02	0.30	0.03	0.00	(0.02)	0.18	(0.01)
Per weighted average diluted share	0.09	0.02	0.30	0.03	0.00	(0.02)	0.15	(0.01)
Capital expenditures	8,091	8,687	4,936	10,256	5,809	7,883	386	715
Decommissioning liabilities settled (2)	1,350	912	1,566	944	694	1,437	726	87
Free funds from (used in) operations (1)	24,579	9,183	12,002	5,659	6,230	(26)	7,726	10,046
Net surplus (debt) (1)	9,775	(6,706)	(15,830)	(27,860)	(33,418)	(42,929)	(52,864)	(60,544)
Dividends declared	2,610	-	-	-	-	-	-	-
Dividends declared per share	0.01	-	-	-	-	-	-	-
Weighted average shares outstanding, basic (thousands)	260,561	260,331	259,360	258,274	247,415	221,090	216,490	216,490
Weighted average shares outstanding, diluted (thousands)	268,353	269,016	265,460	263,719	247,415	221,090	257,996	216,490
Shares outstanding, end of period (thousands)	258,173	260,759	260,169	259,107	258,103	247,415	216,490	216,490
OPERATING								
Production								
Heavy oil (bbl/d)	2,686	3,043	3,282	3,325	3,207	3,026	3,236	3,321
Light and medium oil (bbl/d)	1,980	1,580	1,773	1,656	1,469	1,513	1,657	1,746
Natural gas liquids (bbl/d)	243	269	231	176	148	121	182	174
Natural gas (mcf/d)	5,205	4,855	4,637	4,215	3,694	4,043	4,477	3,761
Total (boe/d)	5,777	5,701	6,059	5,859	5,440	5,335	5,821	5,868
Average prices								
Heavy oil ($/bbl)	116.74	95.91	73.27	67.86	62.14	51.58	36.16	40.27
Light and medium oil ($/bbl)	133.18	110.32	88.99	80.49	74.72	63.16	48.10	47.61
Natural gas liquids ($/bbl)	72.59	63.88	59.50	47.48	34.40	42.61	26.02	20.30
Natural gas ($/mcf)	7.38	4.64	4.81	3.62	3.15	3.05	2.69	2.25
Selected financial results ($/boe)								
Petroleum and natural gas sales	109.63	88.73	71.69	65.29	59.90	50.46	36.68	39.00
Royalties	(15.56)	(9.38)	(8.11)	(7.50)	(6.64)	(4.77)	(4.38)	(3.48)
Operating costs	(21.86)	(19.80)	(16.94)	(17.44)	(16.66)	(17.51)	(14.83)	(13.60)
Transportation costs	(3.56)	(3.43)	(3.00)	(2.04)	(2.06)	(2.01)	(1.96)	(2.71)
Operating netback (1)	68.65	56.12	43.64	38.31	34.54	26.17	15.51	19.21
Realized risk management (loss) gain	(0.96)	(14.11)	(8.20)	(5.13)	(5.55)	(4.55)	4.67	5.35
General and administrative	(2.94)	(4.83)	(2.55)	(2.70)	(2.66)	(2.37)	(2.41)	(2.28)
Interest and other	(0.51)	(0.57)	(0.71)	(0.88)	(1.64)	(2.06)	(2.36)	(2.19)

(1) Funds from operations, free funds from operations, net surplus (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.

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

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