FINANCIAL AND OPERATIONAL HIGHLIGHTS

(Cdn$ thousands, except per share, share and per boe amounts)	Three months ended **Jun 30, 2023**	 Jun 30, 2022	 Mar 31, 2023	Six months ended **Jun 30, 2023**	 Jun 30, 2022
FINANCIAL					
Funds from operations (1)	**17,108**	33,770	13,012	**30,120**	52,552
Per boe	**32.74**	64.24	24.29	**28.47**	50.59
Per weighted average basic share	**0.07**	0.13	0.05	**0.12**	0.20
Cash flows from operating activities	**13,311**	29,668	14,933	**28,244**	45,008
Per boe	**25.47**	56.43	27.88	**26.69**	43.33
Per weighted average basic share	**0.05**	0.11	0.06	**0.11**	0.17
Net income	**5,550**	23,309	1,990	**7,540**	29,536
Per weighted average basic share	**0.02**	0.09	0.01	**0.03**	0.11
Capital expenditures	**7,370**	8,091	17,992	**25,362**	16,778
Decommissioning liabilities settled- Gear	**912**	1,100	441	**1,353**	2,012
Decommissioning liabilities settled- Government (2)	**-**	250	37	**37**	250
Net (debt) surplus (1)	**(14,322)**	9,775	(15,276)	**(14,322)**	9,775
Dividends declared and paid	**7,849**	2,610	7,826	**15,675**	2,610
Dividends declared and paid per share	**0.03**	0.01	0.03	**0.06**	0.01
Weighted average shares, basic (thousands)	**261,629**	260,561	260,693	**261,249**	260,447
Shares outstanding, end of period (thousands)	**262,115**	258,173	261,212	**262,115**	258,173
OPERATING					
Production					
Heavy oil (bbl/d)	**2,698**	2,686	2,734	**2,716**	2,863
Light and medium oil (bbl/d)	**1,955**	1,980	2,045	**2,000**	1,781
Natural gas liquids (bbl/d)	**279**	243	292	**285**	256
Natural gas (mcf/d)	**4,860**	5,205	5,287	**5,072**	5,031
Total (boe/d)	**5,742**	5,777	5,952	**5,846**	5,739
Average prices					
Heavy oil ($/bbl)	**73.92**	116.74	56.80	**65.35**	105.73
Light and medium oil ($/bbl)	**89.63**	133.18	91.68	**90.67**	123.10
Natural gas liquids ($/bbl)	**40.74**	72.59	50.69	**45.80**	68.03
Natural gas ($/mcf)	**2.22**	7.38	3.13	**2.69**	6.06
Netback ($/boe)					
Petroleum and natural gas sales	**69.10**	109.63	62.86	**65.94**	99.31
Royalties	**(8.20)**	(15.56)	(7.64)	**(7.91)**	(12.51)
Operating costs	**(21.54)**	(21.86)	(22.45)	**(22.00)**	(20.84)
Transportation costs	**(3.75)**	(3.56)	(4.25)	**(4.01)**	(3.50)
Operating netback (1)	**35.61**	68.65	28.52	**32.02**	62.46
Realized risk management gain (loss)	**1.37**	(0.96)	0.87	**1.12**	(7.46)
General and administrative	**(3.12)**	(2.94)	(4.36)	**(3.75)**	(3.87)
Interest and other	**(1.12)**	(0.51)	(0.74)	**(0.92)**	(0.54)

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

(2) Decommissioning liabilities settled by the federal government's Site Rehabilitation Program, which ended during the first half of 2023.

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 26, 2023 and should be read in conjunction with the unaudited Interim Condensed Consolidated Financial Statements as at and for the six months ended June 30, 2023 and the audited Consolidated Financial Statements as at and for the year ended December 31, 2022. 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 32 employees with 22 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

REVISED 2023 GUIDANCE

Table 1

	2023 Revised Guidance	2023 Previous Guidance	Q2 2023 YTD Actuals
Annual production (boe/d)	**5,700 – 5,900**	5,800 – 6,000	5,846
Heavy oil weighting (%)	**49**	48	46
Light oil, medium oil and NGLs weighting (%)	**37**	38	39
Royalty rate (%)	**13**	13	12
Operating and transportation costs ($/boe)	**25.00**	25.00	26.01
General and administrative expense ($/boe)	**3.50**	3.50	3.75
Interest and other ($/boe)	**1.00**	0.80	0.92
Capital and abandonment expenditures ($ millions)(1)	**50**	58	27

(1) Capital and abandonment expenditures includes decommissioning liability expenditures made by Gear and excludes any expenditures made by the federal government's Site Rehabilitation Program.

Gear has strategically reduced its planned 2023 capital expenditures by an additional $8 million to $50 million. The new budget is designed to target an improved balance between high return drilling, inventory expansion, a refined list of waterflood opportunities and other non-discretionary expenses. Additionally, this budget better aligns Gear's anticipated funds from operations and returns to shareholders to the current environment while still maintaining a strong balance sheet.

The modified budget includes 14 gross (13.6 net) wells across all three core areas including; one medium oil well in Provost, Alberta (successfully drilled in the first quarter), two heavy oil wells in Hoosier, Saskatchewan (successfully drilled in the first quarter), five single lateral lined horizontal heavy oil wells in the general Lloydminster area, four multi-lateral heavy oil wells in the general Lloydminster area (one successfully drilled in the first quarter), one (0.6 net) light oil well in Wilson Creek, Alberta and one light oil well in Tableland, Saskatchewan. Although capital has been reduced by 14 per cent, annual production guidance has only been reduced by approximately two per cent, from 5,800 – 6,000 boe per day to 5,700 – 5,900 boe per day due to the reconfiguration and timing of wells. In addition to the budget reduction, investments have also been balanced better through the second half of the year with approximately two thirds of the remaining capital targeting the lower costs typically experienced in the third quarter and the final one third to be invested during the fourth quarter.

REVISED DIVIDEND

Gear remains committed to returning profits to its shareholders in the form of a dividend. In the second quarter of 2023, Gear distributed $7.8 million of dividends or $0.03 per share. Since inception, Gear has distributed a cumulative $33.8 million of dividends to its shareholders, or $0.13 per share. Over the same time period, Gear has observed inflationary cost pressures within its business and a general downward trend in realized commodity prices. In order to maintain its strong balance sheet while providing stable to growing production and reserves for the long-term, Gear will be required to reduce the monthly dividend effective August 2023 to $0.005 per share. Markets will be monitored closely and in the event that commodity prices or costs significantly change, the amount of the monthly dividend may be revisited at the discretion of the Board of Directors.

The August 2023 monthly dividend of $0.005 per common share is to be paid on August 31, 2023, to shareholders of record on August 15, 2023. The dividend is designated as an eligible dividend for Canadian income tax purposes.

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, 2023	Jun 30, 2022	% Change	Mar 31, 2023	**Jun 30, 2023**	Jun 30, 2022	% Change
Funds from operations per debt adjusted share (1)	**0.062**	0.130	(52)	0.048	**0.112**	0.200	(44)
Cash flows from operating activities per debt adjusted share (1)	**0.048**	0.114	(58)	0.055	**0.105**	0.171	(39)
Production, boepd per debt adjusted thousand shares (1)	**0.021**	0.022	(5)	0.022	**0.022**	0.022	-

(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.

2023 SECOND QUARTER FINANCIAL AND OPERATIONAL RESULTS

Funds from Operations and Cash Flows from Operating Activities

Funds from operations decreased from $33.8 million or $64.24 per boe in the second quarter of 2022 to $17.1 million or $32.74 per boe in the second quarter of 2023. The decrease in funds from operations is the result of decreased revenues due to lower realized commodity prices and increased interest and other costs, partially offset by a gain on risk management contracts and decreased royalties, operating and transportation costs.

On a year-to-date basis, funds from operations decreased from $52.6 million or $50.59 per boe in 2022 to $30.1 million or $28.47 per boe in 2023. The decrease in funds from operations is the result of decreased revenues due to lower realized commodity prices and increased operating, transportation, interest and other costs, partially offset by increased sales volumes, a gain on risk management contracts and decreased royalties.

The following table details the change in funds from operations for 2023 relative to 2022:

Table 3

	Three months ended Jun 30		Six months ended Jun 30	
	$ thousands	$/boe	$ thousands	$/boe
Q2 2022 Funds from operations (1)	33,770	64.24	52,552	50.59
Volume variance	(346)	-	1,931	-
Price variance	(21,183)	(40.53)	(35,309)	(33.37)
Risk management contracts	1,220	2.33	8,925	8.58
Royalties	3,897	7.36	4,621	4.60
Expenses:				
Operating and transportation	147	0.13	(2,240)	(1.67)
General and administrative	(88)	(0.18)	54	0.12
Interest and other	(309)	(0.61)	(414)	(0.38)
Q2 2023 Funds from operations (1)	17,108	32.74	30,120	28.47

(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 decreased from $29.7 million or $56.43 per boe in the second quarter of 2022 to $13.3 million or $25.47 per boe in the second quarter of 2023. The decrease in cash flows from operating activities is the result of decreased revenues due to lower realized commodity prices and increased interest and other costs, partially offset by a gain on risk management contracts, decreased royalties, operating and transportation costs and decreased decommissioning liabilities settled by Gear.

On a year-to-date basis, cash flows from operating activities decreased from $45.0 million or $43.33 per boe to $28.2 million or $26.69 per boe. The decrease in cash flows from operating activities is the result of decreased revenues due to lower realized commodity prices and increased operating, transportation, interest and other costs, partially offset by increased sales volumes, a gain on risk management contracts, decreased royalties and decreased decommissioning liabilities settled by Gear.

Net Income

Gear generated net income of $5.6 million and $7.5 million for the three and six months ended June 30, 2023, compared to net income of $23.3 million and $29.5 million for same periods in 2022. The change in net income is due to several factors discussed below. Net income increased from $2.0 million for the first quarter of 2023 to $5.6 million for the second quarter due to the increase in realized pricing during the second quarter.

Production

Sales production volumes for the three and six months ended June 30, 2023 averaged 5,742 and 5,846 boe per day compared to 5,777 and 5,739 boe per day for the same periods in 2022. In the second quarter of 2023 Gear drilled one multi-lateral heavy oil well in Wildmere, Alberta, with the well being rig released early July 2023. Sales production volumes changes during the three and six months periods were mainly due to the production from new wells drilled, partially offset by natural well declines on Gear's base production. Year to date, Gear has drilled 4 gross (4 net) wells. Gear continues to experience some minor constraints with third party gas take-away in Killam, Alberta which has restricted the amount of oil production in that area.

Sales production volumes in the first quarter of 2023 averaged 5,952 boe per day. Production decreased slightly to 5,742 boe per day for the second quarter due to a temporary third-party gas plant turnaround in Central Alberta which has now been completed.

Gear had an inventory build of approximately 1,100 barrels in the second quarter of 2023 over the previous quarter, and has approximately 139 thousand barrels of oil in inventory as at June 30, 2023.

Table 4

	Three months ended				Six months ended		
Production	**Jun 30, 2023**	Jun 30, 2022	% Change	Mar 31, 2023	**Jun 30, 2023**	Jun 30, 2022	% Change
Liquids (bbl/d)							
Heavy oil (bbl/d)	**2,698**	2,686	-	2,734	**2,716**	2,863	(5)
Light and medium oil (bbl/d)	**1,955**	1,980	(1)	2,045	**2,000**	1,781	12
Natural gas liquids (bbl/d)	**279**	243	15	292	**285**	256	11
Total liquids (bbl/d)	**4,932**	4,909	-	5,071	**5,001**	4,900	2
Natural gas (mcf/d)	**4,860**	5,205	(7)	5,287	**5,072**	5,031	1
Total production (boe/d) (1)	**5,742**	5,777	(1)	5,952	**5,846**	5,739	2
% Liquids production	**86**	85	1	85	**86**	85	1
% Natural gas production	**14**	15	(7)	15	**14**	15	(7)

(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, 2023, sales of crude oil, natural gas and natural gas liquids totaled $36.1 million and $69.8 million compared to $57.6 million and $103.2 million for the same periods in 2022, respectively. These decreases are mainly the result of lower realized commodity prices. Quarter over quarter, sales increased to $36.1 million from $33.7 million in the first quarter of 2023. This increase is the result of higher realized commodity prices, partially offset by lower production volumes.

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, 2023**	Jun 30, 2022	% Change	Mar 31, 2023	**Jun 30, 2023**	Jun 30, 2022	% Change
Heavy oil	**18,148**	28,534	(36)	13,977	**32,125**	54,799	(41)
Light and medium oil	**15,942**	23,999	(34)	16,879	**32,821**	39,683	(17)
Natural gas liquids	**1,035**	1,606	(36)	1,331	**2,366**	3,154	(25)
Natural gas	**981**	3,496	(72)	1,488	**2,469**	5,523	(55)
Total petroleum and natural gas sales	**36,106**	57,635	(37)	33,675	**69,781**	103,159	(32)

Commodity Prices

Table 6

Average benchmark prices	Three months ended				Six months ended		
	Jun 30, 2023	Jun 30, 2022	% Change	Mar 31, 2023	**Jun 30, 2023**	Jun 30, 2022	% Change
WTI oil (US$/bbl) (1)	**73.78**	108.41	(32)	76.13	**74.95**	101.35	(26)
WCS heavy oil (Cdn$/bbl) (2)	**78.85**	122.04	(35)	69.43	**74.16**	111.48	(33)
Canadian Light Sweet (3) (Cdn$/bbl)	**95.11**	137.74	(31)	99.03	**97.07**	126.65	(23)
LSB (Cdn$/bbl) (4)	**93.84**	136.47	(31)	94.03	**93.93**	125.39	(25)
AECO natural gas ($/mcf) (5)	**2.45**	7.19	(66)	3.21	**2.83**	5.96	(53)
Cdn$ / US$ exchange rate	**1.34**	1.28	5	1.35	**1.35**	1.27	6
Gear realized prices							
Heavy oil ($/bbl)	**73.92**	116.74	(37)	56.80	**65.35**	105.73	(38)
Light and medium oil ($/bbl)	**89.63**	133.18	(33)	91.68	**90.67**	123.10	(26)
Natural gas liquids ($/bbl)	**40.74**	72.59	(44)	50.69	**45.80**	68.03	(33)
Natural gas ($/mcf)	**2.22**	7.38	(70)	3.13	**2.69**	6.06	(56)
Realized price before risk management contracts ($/boe)	**69.10**	109.63	(37)	62.86	**65.94**	99.31	(34)
Realized risk management gain (loss) ($/boe)	**1.37**	(0.96)	(243)	0.87	**1.12**	(7.46)	(115)
Realized price after risk management contracts ($/boe)	**70.47**	108.67	(35)	63.73	**67.06**	91.85	(27)

(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 2023, US$ denominated WTI prices decreased by 32 per cent from US$108.41 per barrel to US$73.78 per barrel over the same period in 2022, with the WCS, Canadian Light Sweet and LSB differentials widening as well. As a result of these pricing movements, Gear's realized pricing decreased from $109.63 per boe to $69.10 per boe. On a year-to-date basis WTI decreased from US$101.35 per barrel to US$74.95 per barrel over the same period in 2022, with the WCS, Canadian Light Sweet and LSB differentials widening. These pricing movements resulted in a decrease in Gear's realized pricing from $99.31 per boe to $65.94 per boe. In addition, realized heavy oil pricing for the first quarter of 2023 was hindered by an above average price of diluent which was further magnified by a greater portion of heavy oil sold via pipeline than via rail. Heavy oil sold via rail does not require diluent. The cost of diluent normalized during the second quarter of 2023.

When comparing to the previous quarter, US denominated WTI prices decreased from US$76.13 per barrel to US$73.78 per barrel, with the WCS and LSB differentials narrowing and the Canadian Light Sweet differential widening. These pricing movements resulted in an increase in Gear's realized pricing from $62.86 per boe to $69.10 per boe. Although WTI pricing fell in the second quarter of 2023, WCS heavy oil differentials improved significantly, narrowing from US$24.76 per barrel to US$15.06 per barrel. Finally, heavy oil pricing was further positively impacted due to lower diluent blending costs, all of which resulted in a 30 per cent higher realized heavy oil price for Gear.

Royalties

For the three and six months ended June 30, 2023, royalties as a percentage of petroleum and natural gas sales were 11.9 and 12.0 per cent compared to 14.2 and 12.6 per cent for the same periods in 2022. These decreases are the result of the decrease in commodity prices which have led to lower crown royalty rates that change depending on price levels.

Royalties as a percentage of commodity sales for the second quarter of 2023 slightly decreased from 12.1 per cent for the first quarter of 2023 to 11.9 per cent.

Table 7

Royalty expense	Three months ended				Six months ended		
($ thousands except % and per boe)	**Jun 30, 2023**	Jun 30, 2022	% Change	Mar 31, 2023	**Jun 30, 2023**	Jun 30, 2022	% Change
Royalty expense	**4,285**	8,182	(48)	4,091	**8,376**	12,997	(36)
Royalty expense as a % of sales	**11.9**	14.2	(16)	12.1	**12.0**	12.6	(5)
Royalty expense per boe	**8.20**	15.56	(47)	7.64	**7.91**	12.51	(37)

Operating and Transportation Expenses

Operating cost for second quarter of 2023 was $21.54 per boe, fairly consistent with $21.86 per boe for the same period in 2022.

Operating cost for the first half of 2023 was $22.00 per boe compared to $20.84 per boe for the same period in 2022. The increase is mainly the result of general inflationary pressures on the business, as well as higher maintenance costs incurred during the first half of 2023.

Operating cost for the second quarter of 2023 was $21.54 per boe compared to $22.45 per boe for the previous quarter. This decrease was mainly the result of decreased labour costs, energy, carbon taxes and property taxes.

Transportation expense for the three and six months ended June 30, 2023 was $3.75 and $4.01 per boe compared to $3.56 and $3.50 per boe for the same periods in 2022 and $4.25 per boe for the previous quarter.

In 2021, Gear tied production into a newly constructed third-party gas gathering system and Gear's revenue associated with this incremental production in southeast Saskatchewan was offset by a transportation fee until the total commitment was extinguished in the second quarter of 2023. During the three and six months ended June 30, 2023, the gas gathering system produced 199 and 205 boe per day of natural gas and natural liquids, offset by $0.3 million or $0.63 per boe and $0.8 million or $0.76 per boe, respectively, of transportation fees associated with this system. During the three 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 211 boe per day of natural gas and natural liquids, offset by $0.5 million or $0.87 per boe, of transportation fees associated with this system. Going forward, Gear will receive the revenue and should see a decrease in its transportation expense starting in the third quarter of 2023.

Excluding the impact of the gas gathering system, transportation expense for the three and six months ended June 30, 2023 was $3.12 per boe and $3.25 per boe compared to $1.93 per boe and $2.28 per boe for the same periods in 2022. These increases from 2022 are mainly due to inflationary pressures in the form of fuel surcharges from trucking companies as well as a change in sales point for Gear's Saskatchewan heavy oil. Beginning in the first quarter of 2023, Gear was unable to transport its Saskatchewan heavy oil by rail and was forced to change sales points, resulting in an increase in transportation expense. During the second quarter of 2023, Gear was able to slightly reduce transportation costs due to a favorable change in sales point for its Alberta heavy oil.

Excluding the impact of the gas gathering system, transportation expense for the second quarter of 2023 was $3.12 per boe compared to $3.38 per boe for the previous quarter. The decrease is due to a change in sales point for Gear's Alberta heavy oil.

Table 8 below summarizes the operating and transportation expenses:

Table 8

Operating and transportation expenses ($ thousands except per boe)	**Jun 30, 2023**	Three months ended Jun 30, 2022	% Change	Mar 31, 2023	**Jun 30, 2023**	Six months ended Jun 30, 2022	% Change
Operating expense	**11,252**	11,490	(2)	12,029	**23,281**	21,649	8
Transportation expense	**1,960**	1,869	5	2,279	**4,239**	3,631	17
Operating and transportation expense	**13,212**	13,359	(1)	14,308	**27,520**	25,280	9
Operating expense per boe	**21.54**	21.86	(2)	22.45	**22.00**	20.84	6
Transportation expense per boe	**3.75**	3.56	5	4.25	**4.01**	3.50	15
Operating and transportation expense per boe	**25.29**	25.42	(1)	26.70	**26.01**	24.34	7

Table 9 below is a breakdown of transportation expenses:

Table 9

Transportation expenses ($ thousands except per boe)	**Jun 30, 2023**	Three months ended Jun 30, 2022	% Change	Mar 31, 2023	**Jun 30, 2023**	Six months ended Jun 30, 2022	% Change
Transportation - commitment	**331**	858	(61)	469	**801**	1,268	(37)
Transportation	**1,629**	1,011	61	1,810	**3,438**	2,363	45
Transportation expense	**1,960**	1,869	5	2,279	**4,239**	3,631	17
Transportation per boe - commitment	**0.63**	1.63	(61)	0.87	**0.76**	1.22	(38)
Transportation per boe	**3.12**	1.93	62	3.38	**3.25**	2.28	43
Transportation expense per boe	**3.75**	3.56	5	4.25	**4.01**	3.50	15

Operating Netbacks

Gear's operating netback prior to risk management contracts for the second quarter of 2023 was $35.61 per boe compared to $68.65 per boe for the same period in 2022. The decrease was primarily the result of decreased realized prices and higher transportation costs, partially offset by lower royalties and operating costs.

Gear's operating netback prior to risk management contracts for the six months ended June 30, 2023 was $32.02 per boe compared to $62.46 per boe for the same period in 2022. The decrease was primarily the result of decreased realized prices and higher operating and transportation costs, partially offset by lower royalties.

Gear's operating netback prior to risk management contracts for the second quarter of 2023 was $35.61 per boe compared to $28.52 per boe for the previous period. The increase is primarily the result of increased realized prices and lower operating and transportation costs, partially offset by higher royalties.

The components of operating netbacks are summarized in Table 10:

Table 10

Operating netback	Three months ended				Six months ended		
($ per boe)	**Jun 30, 2023**	Jun 30, 2022	% Change	Mar 31, 2023	**Jun 30, 2023**	Jun 30, 2022	% Change
Sales	**69.10**	109.63	(37)	62.86	**65.94**	99.31	(34)
Royalties	**(8.20)**	(15.56)	(47)	(7.64)	**(7.91)**	(12.51)	(37)
Operating costs	**(21.54)**	(21.86)	(1)	(22.45)	**(22.00)**	(20.84)	6
Transportation costs	**(3.75)**	(3.56)	5	(4.25)	**(4.01)**	(3.50)	15
Operating netback (1)	**35.61**	68.65	(48)	28.52	**32.02**	62.46	(49)

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

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

For the three and six months ended June 30, 2023, G&A expenses totaled $1.6 million and $4.0 million, compared to $1.5 million and $4.0 million for the same periods in 2022. The majority of the increase in the second quarter of 2023 compared to the same period in 2022 was due to an increase in labour costs. For the three and six months ended June 30, 2023, Gear capitalized $0.4 million and $1.1 million of G&A compared to $0.3 million and $1.1 million for the same periods in 2022. For the three and six months ended June 30, 2023, G&A on a per boe basis was $3.12 and $3.75 per boe compared to $2.94 and $3.87 per boe for the same periods in 2022.

The decrease in G&A expenses in the second quarter of 2023 compared to the previous quarter was due to the 2022 performance bonuses declared and paid in the previous quarter. Gear capitalized $0.4 million in G&A in the second quarter of 2023 compared to $0.7 million in the previous quarter. G&A on a per boe basis was $3.12 per boe during the second quarter of 2023 compared to $4.36 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, 2023**	Jun 30, 2022	% Change	Mar 31, 2023	**Jun 30, 2023**	Jun 30, 2022	% Change
G&A, before recoveries and capitalized G&A	**2,079**	1,934	7	3,125	**5,204**	5,325	(2)
Overhead recoveries	**(70)**	(82)	(15)	(67)	**(137)**	(161)	(15)
Capitalized G&A	**(378)**	(309)	22	(723)	**(1,101)**	(1,144)	(4)
G&A	**1,631**	1,543	6	2,335	**3,966**	4,020	(1)
SBC expense	**361**	207	74	325	**686**	411	67
G&A per boe	**3.12**	2.94	6	4.36	**3.75**	3.87	(3)
SBC expense per boe	**0.69**	0.39	77	0.61	**0.65**	0.40	63

SBC is related to the granting of stock options. There were 5.0 million options granted during the six months ended June 30, 2023 at an average exercise price of $1.01. In addition, 0.4 million options were forfeited at an average exercise price of $1.04, 2.9 million options were exercised at an average exercise price of $0.54 and 1.1 million options expired at an average exercise price of $1.44. As at June 30, 2023 and the date of this MD&A, a total of 17.5 million options with a weighted average exercise price of $1.04 per share were outstanding, representing approximately 6.7 per cent of the 262.1 million total common shares outstanding. Each option entitles the holder to acquire one Gear common share. As at December 31, 2022 a total of 16.9 million options were outstanding. For further information on Gear's stock options, see the notes to the unaudited Interim Condensed Consolidated Financial Statements.

Interest and Other

For the three and six months ended June 30, 2023, interest and other totaled $0.6 million and $1.0 million compared to $0.3 million and $0.6 million in the same periods of 2022 and $0.4 million in the previous quarter. Gear's interest rate on its Credit Facilities (as defined herein) 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 increase in interest and financing charges is due to an increase in interest rates as well as an increase in Gear's debt balance during the three and six months periods ended June 30, 2023.

Table 12 is a breakdown of interest and other:

Table 12

Interest and other	Three months ended				Six months ended		
($ thousands except per boe)	**Jun 30, 2023**	Jun 30, 2022	% Change	Mar 31, 2023	**Jun 30, 2023**	Jun 30, 2022	% Change
Interest expense	**484**	210	130	299	**782**	445	76
Financing charges	**49**	47	4	37	**86**	81	6
Standby fees	**51**	53	(4)	55	**107**	91	18
Realized loss (gain) on foreign exchange	**-**	(35)	(100)	3	**3**	(53)	-
Interest and other	**584**	275	112	394	**978**	564	73
Interest and other per boe	**1.12**	0.51	120	0.74	**0.92**	0.54	70

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 has completed all 2023 bank mandated hedging requirements as specified by its credit agreement. 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 three and six months ended June 30, 2023, Gear realized gains on risk management contracts of $0.7 million and $1.2 million compared to realized losses of $0.5 million and $7.7 million for the same periods in 2022 and realized gains of $0.5 million in the previous quarter. The fair value of all outstanding contracts at June 30, 2023 was an asset of $1.4 million.

Table 13 summarizes Gear's financial risk management contracts as at June 30, 2023:

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, 2023	Dec 31, 2023	Three-way collar	CAD	750	-	113.50	80.00	65.00

Financial AECO natural gas contracts

Term		**Contract**	**Currency**	**Volume GJ/d**	**Sold Swap $/GJ**
Jul 1, 2023	Dec 31, 2023	Swap	CAD	3,600	4.50

Impairment and Depletion, Depreciation and Amortization Expense ("DD&A")
DD&A during the three and six months ended June 30, 2023 was $20.18 and $19.95 per boe compared to $17.20 and $18.01 per boe in the same periods in 2022. These increases in the DD&A rate are mainly the result of the impact of the impairment reversal at December 31, 2022 which increased Gear's depletable base. Depletion is recorded net of government spending. For the three and six months ended June 30, 2023, $nil and $37 thousand in abandonment expenditures, respectively, were funded by the government, as compared to $0.3 million for the same periods in 2022 and $37 thousand for the previous quarter. Decommissioning expenditures funded by the government ended during the first quarter of 2023. Quarter over quarter, DD&A was $19.72 per boe in the previous quarter compared to $20.18 per boe in the second quarter of 2023.

As at June 30, 2023, no indicators of impairment were identified. As at December 31, 2022, indicators of an impairment reversal were identified on Gear's Cash-Generating Unit ("CGU") #3 as a result of the increase in commodity prices. An impairment test was carried out at December 31, 2022 on CGU #3. The estimated recoverable amounts incorporated the net present value of the after-tax cash flows from proved plus probable crude oil and natural gas reserves of CGU #3 based on reserves estimated by Gear's independent reserves evaluator at December 31, 2022. As at December 31, 2022, the estimated recoverable amount for CGU #3 was based on a fair value less cost of disposal calculation using a discount rate based on an estimated industry weighted average cost of capital of 12 per cent. As a result of the impairment test performed at December 31, 2022, the recoverable amount of CGU #3 exceeded its carrying value, and a $10.0 million impairment reversal, net of depletion, was recorded in the Consolidated Statements of Income and Comprehensive Income. For additional information see Note 4 "Property, Plant and Equipment and Impairment" in the notes to the Interim Condensed Consolidated Financial Statements. As future commodity prices remain volatile, impairment charges could be recorded in future periods.

As at June 30, 2023 and December 31, 2022, Gear recorded oil inventory valued at its production cost. No impairments on inventory were recorded in 2022 or in the first half of 2023.

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, 2023**	Jun 30, 2022	% Change	Mar 31, 2023	**Jun 30, 2023**	Jun 30, 2022	% Change
DD&A	**10,542**	9,042	17	10,563	**21,105**	18,710	13
Total DD&A rate per boe	**20.18**	17.20	17	19.72	**19.95**	18.01	11

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, 2023 and December 31, 2022, a deferred tax asset in the amount of $41.1 million was recognized, and $58.3 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 2023 and 2022.

At June 30, 2023, Gear's estimated tax pools were $627.0 million compared to $630.6 million as at December 31, 2022. The change in individual tax pool balances is due to Gear re-filing some previous years' tax returns to maximize the value of deductible resource pools.

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

Table 15

($ thousands)	**June 30, 2023**	December 31, 2022
Canadian oil and gas property expenses	**124,881**	116,504
Canadian development expenses	**131,102**	163,314
Canadian exploration expenses	**28,394**	28,419
Undepreciated capital cost	**53,367**	52,096
Non-capital losses	**289,215**	270,262
Other	**38**	14
Estimated realizable tax pools, federal and provincial	**626,997**	630,609

Capital Expenditures

Capital expenditures for the three and six months ended June 30, 2023 were $7.4 million and $25.4 million compared to $8.1 million and $16.8 million for the same periods in 2022 and $18.0 million in the previous quarter. In the second quarter of 2023 Gear drilled one multi-lateral heavy oil well in Wildmere, Alberta. The well was rig released in early July and has just recently been put on production. Capital expenditures were reduced during the second quarter of 2023 due to spring breakup. During the first half of 2023, Gear invested $2.1 million in undeveloped land primarily in the Lloydminster heavy oil fairway with a total of 10 sections of land acquired with future prospectivity into high oil-in-place reservoirs over numerous stacked horizons.

Year to date, Gear drilled four gross (four net) oil wells, with one unlined multi-lateral medium oil well in Provost, Alberta, two multi-stage fractured heavy oil wells in Hoosier, Saskatchewan, and one unlined multi-lateral heavy oil well in Wildmere, Alberta.

During the second quarter of 2023, Gear submitted an application to the Alberta Energy Regulator to transfer certain non-core Alberta heavy oil assets.

A breakdown of capital expenditures is shown in Table 16:

Table 16

Capital expenditures	Three months ended				Six months ended		
($ thousands)	**Jun 30, 2023**	Jun 30, 2022	% Change	Mar 31, 2023	**Jun 30, 2023**	Jun 30, 2022	% Change
Drilling and completions	**3,804**	5,968	(36)	11,858	**15,660**	12,596	24
Production equipment and facilities	**1,645**	1,564	5	5,669	**7,314**	3,446	112
Geological and geophysical	**111**	69	61	129	**241**	94	156
Undeveloped land	**1,759**	405	334	298	**2,057**	518	297
Other	**51**	85	(40)	38	**90**	124	(27)
Total capital expenditures	**7,370**	8,091	(9)	17,992	**25,362**	16,778	51

Decommissioning Liability
At June 30, 2023, Gear recorded a decommissioning liability of $71.9 million ($71.4 million at December 31, 2022) 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 (2.00 per cent at December 31, 2022) and discounted using a risk free rate of 3.09 per cent (3.28 per cent at December 31, 2022). Some of the abandonment cost estimates are derived from third party government sources and can fluctuate from time to time. The increase in liability is mainly the result of the decrease in the discount factor and new wells drilled by Gear, partially offset by changes in cost estimates and abandonment activity performed by both Gear and government bodies during the first half of 2023. Decommissioning liabilities settled by Gear during the six months ended June 30, 2023 were $1.4 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"). Gear was approved for a total cumulative funding of $5.2 million. A portion of the funding in Alberta came as a 50 per cent cost reimbursement for Gear's area-based closure in the Wildmere area. Gear's SRP spending per Provincial jurisdiction ended during the first quarter of 2023, with $37 thousand spent in Saskatchewan.

During the second quarter of 2023, Gear spent $0.9 million of decommissioning expenditures to cut and cap 21 gross (21 net) wells and downhole abandon 18 gross (18 net) wells in Alberta and cut and cap 12 gross (12 net) wells and downhole abandon 1 gross (1 net) well in Saskatchewan.

During the six months ended June 30, 2023, 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 21 gross (21 net) wells and downhole abandon 27 gross (27 net) wells in Alberta and cut and cap 13 gross (12.5 net) wells and downhole abandon 2 gross (1.5 net) wells in Saskatchewan.

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

Table 17

Debt ($ thousands except ratio amounts)	**Jun 30, 2023**	Dec 31, 2022
Net debt (1)	**(14,322)**	(2,220)
Net debt to trailing twelve-month funds from operations (1)	**0.2**	0.0
Net debt to quarterly annualized funds from operations (1)	**0.2**	0.0
Common shares outstanding	**262,115**	260,693

(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 continues to maintain a low net debt to trailing twelve-month funds from operations as at June 30, 2023. Net debt increased from $2.2 million at December 31, 2022 to $14.3 million at June 30, 2023. This increase is the result of an additional $14.4 million draw on Gear's Credit Facilities. Gear's net debt decreased from $15.3 million at March 31, 2023 to $14.3 million at June 30, 2023 as a result of improved commodity prices as well as significantly less capital investment due to spring break up.

Credit Facilities
In May 2023, Gear completed its borrowing base review and amended its Credit Facilities. Gear presently has credit facilities consisting of a $40.0 million revolving credit facility and a $10.0 million operating facility (the "Credit Facilities").

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

Table 18

Facility	**Borrowing base**		**Maturity date**
($ millions)	**Jun 30, 2023**	**Dec 31, 2022**	
Revolving	40.0	34.5	May 25, 2025
Operating	10.0	7.5	May 25, 2025
Total	50.0	42.0	

At June 30, 2023 Gear had $21.5 million drawn on the Credit Facilities (December 31, 2022 – $7.1 million) and outstanding letters of credit of $0.8 million (December 31, 2022 – $0.9 million). At June 30, 2023 and December 31, 2022, Gear's debt was classified as long term. 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 $0.8 million (December 31, 2022 – $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 SOFR 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.

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. The next borrowing base review is expected to be completed on or about November 30, 2023.

Shareholders' Equity

On May 4, 2022, Gear announced the approval of its Normal Course Issuer Bid ("NCIB") by the Toronto Stock Exchange ("TSX"). The NCIB allowed the Company to purchase for cancellation up to approximately 24.0 million of its outstanding common shares commencing on May 9, 2022. On May 8, 2023, the NCIB expired. Purchases were made on the open market through the TSX or alternative Canadian trading platforms at the prevailing market price of such common shares at the time of purchase. When the Company repurchased its own common shares, share capital was reduced by the average carrying value of the shares repurchased. When the carrying value exceeded the purchase price, the excess was credited to contributed surplus or conversely the excess of the purchase price over the carrying value was recognized as a deduction from retained earnings. The Company did not repurchase common shares during the first half of 2023. For the year ended December 31, 2022, 3.6 million common shares were repurchased at an average cost of $1.45 per share.

As at June 30, 2023 and the date of this MD&A, Gear had 262.1 million common shares outstanding. The increase since December 31, 2022, is due to stock option exercises during the first half of 2023. At December 31, 2022, Gear had 260.7 million common shares outstanding.

Table 19 shows Gear's trading statistics:

Table 19

Trading statistics	Three months ended			Six months ended	
($ based on intra-day trading)	**Jun 30, 2023**	Jun 30, 2022	Mar 31, 2023	**Jun 30, 2023**	Jun 30, 2022
High	**1.15**	1.73	1.17	**1.17**	1.94
Low	**0.92**	1.15	0.90	**0.90**	0.90
Close	**0.96**	1.24	1.03	**0.96**	1.24
Average daily volume (thousands)	**1.753**	5,269	3,124	**2,438**	5,066

As at June 30, 2023 and the date of this MD&A, a total of 17.5 million options were outstanding with a weighted average exercise price of $1.04 per share and each option entitled the holder to acquire one Gear common share.

Dividends

Table 20 shows a breakdown of Gear's dividends for the first half of 2023 and the year ended December 31, 2022:

Table 20

Declaration date	**Record date**	**Payment date**	**Dividends per common share**	**Dividends** ($ thousands)
May 4, 2022	May 16, 2022	May 30, 2022	$ 0.01	$ 2,610
July 27, 2022	August 15, 2022	August 31, 2022	0.02	5,164
September 1, 2022	September 15, 2022	September 30, 2022	0.01	2,587
October 3, 2022	October 17, 2022	October 31, 2022	0.01	2,597
November 1, 2022	November 15, 2022	November 30, 2022	0.01	2,597
December 1, 2022	December 15, 2022	December 30, 2022	0.01	2,601
Total for the year ended December 31, 2022				$ 18,156

Declaration date	**Record date**	**Payment date**	**Dividends per common share**	**Dividends** ($ thousands)
January 3, 2023	January 16, 2023	January 31, 2023	$ 0.01	$ 2,607
February 1, 2023	February 15, 2023	February 28, 2023	0.01	2,607
March 1, 2023	March 15, 2023	March 31, 2023	0.01	2,612
April 3, 2023	April 14, 2023	April 28, 2023	0.01	2,616
May 1, 2023	May 15, 2023	May 31, 2023	0.01	2,616
June 1, 2023	June 15, 2023	June 30, 2023	0.01	2,617
Total for the six months ended June 30, 2023				$ 15,675

During the three and six months periods ended June 30, 2023, Gear approved and declared $7.8 million and $15.7 million in dividends, respectively, compared to $2.6 million for the same periods in 2022. For the year ended December 31, 2022, Gear approved and declared $18.2 million in dividends.

Subsequent to period end, on July 4, 2023, the Board of Directors of Gear (the "Board") approved and declared a monthly dividend of $0.01 per common share, designated as an eligible dividend, payable in cash to shareholders of record on July 14, 2023. The dividend payment date is scheduled for July 31, 2023.

Subsequent to period end, on July 26, 2023, the Board of Directors approved and declared the August 2023 monthly dividend of $0.005 per common share, designated as an eligible dividend, payable in cash to shareholders of record on August 15, 2023. The dividend payment date is scheduled for August 31, 2023.

Environmental, Social, and Governance Initiatives Impacting Gear

Environmental

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 that time, 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 expanded 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 completed a project with a third party to implement a significant flaring and emissions reduction system.

In almost all areas, Gear has been accessing reservoirs using multi-well pad and multi-leg horizontal 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 the abandonment and reclamation of inactive wells. The forecast for 2023 is to abandon over 120 wells. Through the course of 2022, Gear abandoned over six times as many wells as drilled over the same period. During the quarter, Gear cut and capped 21 gross (21 net) wells and downhole abandoned 18 gross (18 net) wells in Alberta and cut and capped 12 gross (12 net) wells and downhole abandoned 1 gross (1 net) well in Saskatchewan. During the six months ended June 30, 2023, Gear cut and capped 21 gross (21 net) wells and downhole abandoned 27 gross (27 net) wells in Alberta and cut and capped 13 gross (12.5 net) wells and downhole abandoned 2 gross (1.5 net) wells 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, engage in significant training, utilize standardized procedures and perform regular competency assessments. Over the last three years, Gear has had zero lost time injuries and zero recordable injuries.

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

Governance

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

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

Shareholder alignment to management and director compensation	Gear conducts an extensive annual compensation benchmarking analysis. Its management team has one of the lower base salary structures amongst its peers and its incentive compensation structure is based on multiple performance factors including a proved developed reserves value creation formula as well as relative share price returns.
Full, clear, and truthful disclosure	Gear reports 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, all directors participate in an annual evaluation process.

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 June 30, 2023, Gear had the following contractual commitments:
- lease agreements for its head office and its two field offices; and
- one service commitment

Lease agreements for Gear's head and field offices are effective until July 31, 2025. The remaining commitment for these lease agreements is $1.0 million. The service commitment relates to a software agreement that expires in 2026 with a remaining commitment of $0.4 million. For further information see Note 11 "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 or results of operations.

Non-GAAP and Other Financial Measures
Gear uses certain non-GAAP and other financial measures to analyze financial and operating performance. These specified financial measures include non-GAAP financial measures, non-GAAP ratios, total of segments measures, capital management measures and supplementary financial measures, and are not defined by IFRS and are therefore referred to as non-GAAP and other financial measures. Management believes that the non-GAAP and other financial measures used by the Company are key performance measures for Gear and provide investors with information that is commonly used by other oil and gas companies. These key performance indicators and benchmarks as presented do not have any standardized meaning prescribed by Canadian GAAP and therefore may not be comparable with the calculation of similar measures for other entities. These non-GAAP and other financial measures should not be considered an alternative to or more meaningful than their most directly comparable financial measure presented in the financial statements, as an indication of the Company's performance. Descriptions of the non-GAAP and other financial measures used by the Company as well as reconciliations to the most directly comparable GAAP measure for the three and six months ended June 30, 2023 and year ended December 31, 2022, 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 and finance dividends.

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

Table 21

	Three months ended			Six months ended	
($ thousands)	**Jun 30, 2023**	Jun 30, 2022	Mar 31, 2023	**Jun 30, 2023**	Jun 30, 2022
Cash flows from operating activities	**13,311**	29,668	14,933	**28,244**	45,008
Decommissioning liabilities settled (1)	**912**	1,100	441	**1,353**	2,012
Change in non-cash operating working capital	**2,885**	3,002	(2,362)	**523**	5,532
Funds from operations	**17,108**	33,770	13,012	**30,120**	52,552

(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 and finance dividends.

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 and finance dividends.

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 and finance dividends.

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

Table 22 below reconciles debt to net debt:

Table 22

Capital structure and liquidity ($ thousands)	**Jun 30, 2023**	Dec 31, 2022
Debt	**(21,490)**	(7,123)
Working capital surplus (1)	**7,168**	4,903
Net debt	**(14,322)**	(2,220)

(1) Excludes risk management contracts and decommissioning liabilities.

At June 30, 2023, 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 funds from operations is not applicable.

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 applicable.

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. 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 the Company's bank debt, or Gear has the ability to repurchase shares when in a net surplus position. 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, 2023**	Jun 30, 2022	Mar 31, 2023	**Jun 30, 2023**	Jun 30, 2022
Weighted average basic shares	**261,629**	260,561	260,693	**261,249**	260,447
Average share price (1)	**0.95**	1.27	0.97	**0.95**	1.27
Average net (debt) surplus (2)	**(14,799)**	1,535	(8,748)	**(8,271)**	(3,028)
Share equivalent on average net (debt) surplus (3)	**15,578**	(1,209)	9,019	**8,706**	2,384
Debt adjusted shares	**277,207**	259,352	269,712	**269,955**	262,831

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

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 and finance dividends.

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 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, 2022.

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, 2023, 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, 2023 that materially affected, or are reasonably likely to materially affect, the Company’s ICFR.

Changes in Accounting Policies
In February 2021 the IASB issued amendments to IAS 1 Presentation of Financial Statements to require entities to disclose their material accounting policy information rather than their significant accounting policies. To support this amendment the IASB also amended IFRS Practice Statement 2 Making Materiality Judgements. The amendments were adopted on January 1, 2023 and did not have a significant impact on the Company's interim condensed consolidated financial statements.

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; Gear's 2023 revised guidance and anticipated benefits thereof including planned capital expenditures, 2023 production (including commodity weightings), expected royalty rate, expected operating and transportation costs, expected general and administrative costs, expected interest and other expense, and expected capital and abandonment expenditures; an optimized budget that includes 14 gross (13.6 net) wells across all three core areas; an approximation of two thirds of the remaining capital to be invested in the third quarter and the final one third to be invested during the fourth quarter; a reduction of the monthly dividend amount to $0.005 per share; an anticipated decrease in Gear's transportation expense starting in the third quarter of 2023; Gear's expectations as to Gear's future hedging strategy; Gear’s estimated tax pools; Gear's estimate of its decommissioning liabilities; Gear's plans and expectations with respect to reducing methane and other emissions; the number of wells Gear expects to abandon and reclaim in 2023; the expectation of Gear's financial commitments under contractual commitments; Gear's expectation that current litigation will not have a material impact on Gear's financial position or results of operations; and the Company's belief that it will have sufficient liquidity to support its operations and meet its financial obligations for at least twelve months.

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; inability to obtain debt or equity financing as necessary to fund operations, capital expenditures and any potential acquisitions; 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 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

	2023		2022				2021	
(Cdn$ thousands, except per share, share, and per boe amounts)	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**
FINANCIAL								
Petroleum and natural gas sales	36,106	33,675	39,278	44,840	57,635	45,524	39,961	35,189
Funds from operations [(1)]	17,108	13,012	18,676	22,544	33,770	18,782	17,938	15,955
Per weighted average basic share	0.07	0.05	0.07	0.09	0.13	0.07	0.07	0.06
Per weighted average diluted share	0.06	0.05	0.07	0.09	0.13	0.07	0.07	0.06
Cash flows from operating activities	13,311	14,933	18,565	26,196	29,668	15,340	17,421	9,601
Per weighted average basic share	0.05	0.06	0.07	0.10	0.11	0.06	0.07	0.04
Per weighted average diluted share	0.05	0.06	0.07	0.10	0.11	0.06	0.07	0.04
Net income	5,550	1,990	27,695	17,750	23,309	6,227	78,117	6,608
Per weighted average basic share	0.02	0.01	0.11	0.07	0.09	0.02	0.30	0.03
Per weighted average diluted share	0.02	0.01	0.10	0.07	0.09	0.02	0.29	0.03
Capital expenditures	7,370	17,992	18,899	14,872	8,091	8,687	4,936	10,256
Decommissioning liabilities settled - Gear	912	441	1,417	2,859	1,100	912	1,000	40
Decommissioning liabilities settled - Government [(2)]	-	37	532	433	250	-	566	904
Net (debt) surplus [(1)]	(14,322)	(15,276)	(2,220)	6,959	9,775	(6,706)	(15,830)	(27,860)
Dividends declared and paid	7,849	7,826	7,795	7,751	2,610	-	-	-
Dividends declared and paid per share	0.03	0.03	0.03	0.03	0.01	-	-	-
Weighted average shares outstanding, basic (thousands)	261,629	260,693	259,908	258,385	260,561	260,331	259,360	258,274
Weighted average shares outstanding, diluted (thousands)	263,385	263,381	263,774	263,585	268,353	269,016	265,460	263,719
Shares outstanding, end of period (thousands)	262,115	261,212	260,693	259,367	258,173	260,759	260,169	259,107
OPERATING								
Production								
Heavy oil (bbl/d)	2,698	2,734	2,772	2,546	2,686	3,043	3,282	3,325
Light and medium oil (bbl/d)	1,955	2,045	1,835	1,971	1,980	1,580	1,773	1,656
Natural gas liquids (bbl/d)	279	292	299	320	243	269	231	176
Natural gas (mcf/d)	4,860	5,287	5,091	5,339	5,205	4,855	4,637	4,215
Total (boe/d)	5,742	5,952	5,755	5,727	5,777	5,701	6,059	5,859
Average prices								
Heavy oil ($/bbl)	73.92	56.80	69.72	89.32	116.74	95.91	73.27	67.86
Light and medium oil ($/bbl)	89.63	91.68	103.62	109.95	133.18	110.32	88.99	80.49
Natural gas liquids ($/bbl)	40.74	50.69	58.48	60.62	72.59	63.88	59.50	47.48
Natural gas ($/mcf)	2.22	3.13	5.11	4.47	7.38	4.64	4.81	3.62
Selected financial results ($/boe)								
Petroleum and natural gas sales	69.10	62.86	74.19	85.10	109.63	88.73	71.69	65.29
Royalties	(8.20)	(7.64)	(10.40)	(12.14)	(15.56)	(9.38)	(8.11)	(7.50)
Operating costs	(21.54)	(22.45)	(21.55)	(21.16)	(21.86)	(19.80)	(16.94)	(17.44)
Transportation costs	(3.75)	(4.25)	(4.03)	(3.67)	(3.56)	(3.43)	(3.00)	(2.04)
Operating netback [(1)]	35.61	28.52	38.21	48.13	68.65	56.12	43.64	38.31
Realized risk management gain (loss)	1.37	0.87	-	(1.94)	(0.96)	(14.11)	(8.20)	(5.13)
General and administrative	(3.12)	(4.36)	(2.62)	(3.20)	(2.94)	(4.83)	(2.55)	(2.70)
Interest and other	(1.12)	(0.74)	(0.32)	(0.20)	(0.51)	(0.57)	(0.71)	(0.88)

(1) Funds from operations, net (debt) surplus 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". Such measures do not have any standardized meanings under GAAP and therefore may not be comparable to similar measures presented by other entities.
(2) Decommissioning liabilities settled by 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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