Annual Report

For the years ended December 31, 2018 and 2017

This Management's Discussion and Analysis ("MD&A") of Return Energy Inc. ("Return" or the "Company") should be read in conjunction with the audited Consolidated Financial Statements for the year ended December 31, 2018 (the "Financial Statements"). This MD&A has been prepared as of April 23, 2019.

Basis of Presentation

The Financial Statements and comparative information have been prepared in accordance with International Financial Reporting Standards. (IFRS)

Non-IFRS Measures

This MD&A includes references to financial measures commonly used in the oil and gas industry that do not have standardized meanings prescribed by IFRS including operating netback. Operating netback has been defined by the Company as "petroleum and natural gas sales less royalties and operating costs".

Other Measurements

All figures in this MD&A have been reported in Canadian dollars unless otherwise stated.

Where amounts are expressed on a barrel of oil equivalent ("boe") basis, one thousand cubic feet (mcf) has been converted at a ratio of six thousand cubic feet to one barrel of oil. Boe's may be misleading, particularly if used in isolation. A boe conversion ratio of six thousand cubic feet to one barrel of oil is based on an energy equivalent conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

THE COMPANY

Return is engaged in the exploration for and development and production of petroleum and natural gas properties in the Western Canadian Sedimentary Basin. The Company is focused on the Peace River Arch area in northwest Alberta. Return's shares are publicly traded on the TSX Venture Exchange under the symbol "RTN". The Company was incorporated under the Alberta Business Corporations Act on March 20, 2006 and is domiciled in Calgary, Canada.

Operations Update

The Company is focusing its efforts on the development of its Upper Charlie Lake light oil play at Rycroft, Alberta. The Company has identified thirty-four (34) potential horizontal well locations on its acreage. This same zone is the target of a large-scale horizontal drilling campaign that has been advanced by a senior producer (and several junior producers) over the last four to five years. To date, over 175 Charlie Lake horizontal wells have been drilled by other operators immediately west and north of the Company's Rycroft acreage, with initial production rates (averaged over the first ninety days) as high as 860 barrels of oil per day (1,115 boe per day) as evidenced by a third-party horizontal well located at 15-36-78-7W6M.

Combined production test rates from Return's two 100% owned Charlie Lake vertical wells drilled in the first quarter totaled 170 boe/d. Production from these wells will be brought on as part of an overall infrastructure development which includes pipelining and water handling.

In addition to the thirty-four (34) horizontal locations identified in the Upper Charlie Lake play, thirteen (13) potential vertical well locations have been identified for the underlying Braeburn member of the Charlie Lake formation.

The Board of Directors of the Company believes that the current trading price of its common shares does not adequately reflect the underlying value of the Company and its assets, in particular its Upper Charlie Lake light oil development project at Rycroft, Alberta. The Board has appointed an independent committee (the "Special Committee") to undertake a broad review of potential alternatives to enhance shareholder value. Such strategic alternatives may include, but are not limited to, a sale or merger of the Company or other form of business combination; a sale or joint venture involving all or a portion of the assets; a recapitalization of the Company or other form of strategic investment; or the purchase of assets.

In addition the Company continues execute on its strategy to divest itself of non-core properties. During the year ended December 31, 2018 the Company sold non-core undeveloped land which included two suspended wellbores for cash proceeds of $352,059. Subsequent to the year ended December 31, 2018, the Company divested additional non-core properties and undeveloped land for cash proceeds of $265,000.

SELECTED FINANCIAL INFORMATION

As at and for the year ended December 31	2018	2017	2016
Total net revenue	$ 2,033,828	$ 2,066,411	$ 537,211
Loss from continuing operations	$ (3,156,096)	$ (2,248,970)	$ (650,593)
Gain (loss) from discontinued operations	-	-	259,269
Loss	$ (3,156,096)	$ (2,248,970)	$ (391,324)
Loss per share - basic and diluted			
Loss per share from continuing operations	$ (0.03)	$ (0.06)	$ (0.05)
Gain (loss) per share from discontinued operations	-	-	0.02
Loss per share	$ (0.03)	$ (0.06)	$ (0.03)
Total assets	$ 12,274,560	$ 15,207,107	$ 9,843,097
Long term liabilities	$ 8,743,099	$ 8,216,270	$ 8,236,420

RESULTS OF OPERATIONS

Petroleum and Natural Gas Production

	Three months ended December 31,		Year ended December 31,	
	2018	2017	2018	2017
Production volumes				
Crude oil (bbls)	2,729	3,331	12,387	14,017
Natural gas liquids (bbls)	1,039	1,941	5,967	5,995
Natural gas (mcf)	103,851	131,777	432,516	505,707
Oil equivalent (boe @ 6:1)	21,077	27,235	90,440	104,297
Average production per day				
Crude oil (bbls)	30	36	34	38
Natural gas liquids (bbls)	11	21	16	17
Natural gas (mcf/d)	1,129	1,432	1,185	1,385
BOE/d	229	296	248	286

For the three months ended December 31, 2018, petroleum and natural gas production averaged 229 boe/d, a decrease of 29% over the comparative quarter. The decrease is primarily a result of certain wells being shut in due to low prices and maintenance issues during the period. During the year ended December 31, 2018 petroleum and natural gas production averaged 248 boe/d a decrease of 13% over the comparative year. The decrease is a result of certain wells being shut in due the low prices and natural production declines.

Oil and Natural Gas Revenue

	Three months ended December 31,		Year ended December 31,	
	2018	2017	2018	2017
REVENUE				
Crude oil	$ 109,108	$ 215,677	$ 814,399	$ 801,186
Natural gas liquids	65,373	75,518	402,576	274,207
Natural gas	141,815	197,987	589,806	1,019,588
Total petroleum and natural gas sales	$ 316,296	$ 489,182	$ 1,806,781	$ 2,094,981
Average Sales Price				
Crude oil ($/bbls)	$ 39.98	$ 64.75	$ 65.75	$ 57.16
Natural gas liquids ($/bbl)	62.92	38.91	67.47	45.74
Natural gas ($/mcf)	1.37	1.50	1.36	2.02
Oil equivalent ($/boe)	$ 15.01	$ 17.96	$ 19.98	$ 20.09

During the three months ended December 31, 2018 revenue decreased 35% over the three months ended December 31, 2017. This decrease is primarily the result of lower production and lower prices. Revenue for the year ended December 31, 2018 was lower than the comparative year by 13% primarily due to lower production.

Royalties

	Three months ended December 31,		Year ended December 31,	
	2018	2017	2018	2017
Royalties				
Crude oil	$ 2,726	$ 646	$ 27,983	$ 15,285
Natural gas liquids	17,909	34,727	105,842	90,364
Natural gas	(24,248)	12,988	(227,148)	67,357
Total royalties	$ (3,613)	$ 48,361	$ (93,323)	$ 173,006
Average Royalty Rate (% of sales)				
Crude oil	2.50%	0.30%	3.44%	1.91%
Natural gas liquids	27.40%	45.99%	26.29%	32.95%
Natural gas	(17.10%)	6.56%	(38.51%)	6.61%
Total	(1.14%)	9.89%	(5.17%)	8.26%

Royalties are lower for the three months ended December 31, 2018 than the comparative quarter primarily due to a higher gas cost allowance credit received. During the year ended December 31, 2018 royalties are lower than comparative year due to a gas cost allowance credit received in the second quarter of 2018, as a result of higher actual costs compared to 2017 estimates.

Operating Costs

	Three months ended December 31,		Year ended December 31,	
	2018	2017	2018	2017
Operating costs	$ 499,044	$ 672,870	$ 2,032,679	$ 2,486,779
$ per boe	$ 23.68	$ 24.71	$ 22.48	$ 23.84

Operating costs averaged $23.68 per boe for the three months ended December 31, 2018 compared to $24.71 per boe for the three months ended December 31, 2017, a decrease of 4%. Operating costs for the year ended December 31, 2018 decreased on a per boe basis 6% compared to the prior year.

Operating Netback

	Three months ended December 31,		Year ended December 31,	
	2018	2017	2018	2017
Netback ($/boe)				
Revenue	$ 15.01	$ 17.96	$ 19.98	$ 20.09
Royalties	0.17	(1.78)	1.03	(1.66)
Operating	(23.68)	(24.71)	(22.48)	(23.84)
Operating Netback	$ (8.50)	$ (8.52)	$ (1.47)	$ (5.42)

During the three months ended December 31, 2018 the Company had an operating netback loss of $(8.50) per boe compared to an operating netback loss of $(8.52) during the three months ended December 31, 2017. During the year ended December 31, 2018 the Company had an operating netback loss of $(1.47) compared to an operating netback loss of $(5.42) for the year ended December 31, 2017. The decrease in the operating netback loss is primarily due to a gas cost allowance credit received in 2018 as well as lower operating costs partially offset by lower prices.

Processing and other revenue

	Three months ended December 31,		Year ended December 31,	
	2018	2017	2018	2017
Processing and other	$ 25,242	$ 10,963	$ 133,724	$ 144,436

Processing and other revenue is primarily made up of gas processing and transportation fees from third party gas. This revenue is dependent on how much third party gas is processed at our Rycroft plant and varies from quarter to quarter.

General and administrative

	Three months ended December 31,		Year ended December 31,	
	2018	2017	2018	2017
General and administrative	$ 316,281	$ 291,951	$ 1,348,781	$ 1,006,629

General and administrative costs for three months ended December 31, 2018 increased 8% over the three months ended December 31, 2017. During the year ended December 31, 2018 general and administrative fees increase 33% compared to the prior year. The increase in general and administrative costs during the year ended December 31, 2018 over the year ended December 31, 2017 is primarily due to higher salaries and benefits.

Depletion, depreciation and impairment

	Three months ended December 31,		Year ended December 31,	
	2018	2017	2018	2017
Depletion and depreciation	$ 908,315	$ 384,349	$ 1,680,777	$ 1,048,206
$ per boe	$ 43.10	$ 14.11	$ 18.58	$ 10.05

Depletion, depreciation and impairment was higher for the three months ended December 31, 2018 compared to the comparative quarter as the Company recorded a $595,000 impairment on some of its non-core properties in the fourth quarter 2018 due the low gas price environment. The increase in depletion, depreciation and impairment for the year ended December 31, 2018 over the comparative periods is primarily a result of the above mentioned impairment.

Share-based compensation

Share-based compensation costs for the three months ended December 31, 2018 amounted to $80,967 (three months ended December 31, 2017 – $33,476). Share-based compensation costs for the year ended December 31, 2018 amounted to $329,742 (year ended December 31, 2017 – $162,393). The increase in share-based compensation costs during the three months and year ended December 31, 2018 over the comparative periods is attributable to a stock option grant in January 2018.

Share-based compensation costs attributable to share options granted were measured at their fair value at the grant date and amortized over the vesting period with a corresponding increase to contributed surplus. The fair value of stock options granted was calculated using the Black-Scholes option pricing method.

Gain on sale of exploration and evaluation assets

During the year ended December 31, 2018, the Company disposed of non-core undeveloped land for cash proceeds of $352,059. The land was originally acquired as part of the acquisitions in 2016. The land was recorded with a book value of $nil creating a $352,059 gain. During the year ended December 31, 2017, the Company disposed of non-core undeveloped land for cash proceeds of $50,000. The land was originally acquired as part of the acquisitions in 2016. The land was recorded with a book value of $nil creating a $50,000 gain.

Gain on sale of property, plant and equipment

During the year ended December 31, 2017, the Company disposed of non-core oil assets in the Pembina area for cash proceeds of $118,973. The Company had a book value of $287,131 and decommissioning liabilities of $262,448 which resulted in a gain on sale of $94,290. This was partially offset by a $3,208 loss on the sale of Company vehicles.

Gain on acquisition

On April 20, 2017, the Company acquired production of approximately 60 BOE/day (80% natural gas), and the remaining 50% interest in the Company's operated Rycroft gathering system and gas plant for $715,000 in cash. All of the acquired production is processed through the Rycroft gas plant. A gain of $292,000, net of deferred income tax recovery, on acquisition was recorded as the estimated fair value of the net assets acquired exceeded the acquisition price.

Capital expenditures

	Three months ended December 31,		Year ended December 31,	
	2018	2017	2018	2017
Capital expenditures				
Exploration and evaluation	$ -	$ -	$ 218,727	$ 133,939
Property plant and equipment	31,825	15,091	2,808,682	189,847
Total expenditures	$ 31,825	$ 15,091	$ 3,027,409	$ 323,786

Exploration and evaluation expenditures were incurred to acquire additional undeveloped acreage in the Rycroft area.

During the year ended December 31, 2018, the Company spent $2.8 million on property, plant and equipment. The Company expenditures included drilling and completing its two 100% owned development wells and performing a plant turnaround in Rycroft.

Share capital

During the year, the Company granted 5,000,000 stock options with an exercise price of $0.10 per share to officers, directors, employees and consultants. Also during the year, 23,686,459 warrants expired unexercised.

A total of 110,551,648 common shares, 66,666,666 warrants, and 7,100,000 stock options of the Company are outstanding as of the date hereof.

In addition to the above, the Company has two million non-interest bearing, non-voting Series I Convertible Preferred Shares (the "Preferred Shares") outstanding. The holder may, at any time and at its option, convert all or part of the Preferred Shares into units ("Units") of Return. Each Unit is comprised of one (1) common share of Return and one-half (1/2) of a common share purchase warrant. The number of Units issuable upon the conversion of the Preferred Shares is equal to the number of Preferred Shares to be converted multiplied by $1.00 and divided by the average of the trading price of the common shares on the TSX Venture Exchange (the "TSXV") during the immediately prior twenty (20) consecutive day period prior to conversion (the "Market Price"). Each whole common share purchase warrant entitles the holder to purchase one (1) common share until October 21, 2021 upon payment of the Common Share purchase warrant exercise price which is equal to the Market Price. The Company may at its sole discretion redeem the Preferred Shares at any time upon cash payment of one dollar per Preferred Share. No conversions of Preferred Shares may occur within 30 days of a prior conversion, and no conversion of Preferred Shares may occur when, after such conversion the Vendor would own (including shares owned prior to the conversion) 10% or more of the outstanding Common Shares after conversion.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2018, the Company had working capital of $0.8 million. The Company has not committed to any future capital expenditures other than $0.1 million in decommissioning liabilities.

The Company's operating cash requirements are continuously monitored and adjusted as variables change. These variables include but are not limited to, oil and natural gas production, commodity prices, and expenditures on capital projects. Management has planned 2019 operations based on their best estimates of projected business activity and estimated future cash flows.

The Company will need to carry out some form of sale of assets, financing, merger, farmout or other transaction to ensure the Company has the capital resources necessary to carry out its planned activities. This creates material uncertainty which casts significant doubt upon the Company's ability to continue as a going concern.

If the going concern basis of accounting is no longer appropriate, adjustments may be necessary to the carrying amounts and classification of the Company's assets and liabilities. The consolidated financial statements do not include any adjustments that might result if the Company is unable to continue as a going concern, and such adjustments could be material.

SUMMARY OF QUARTERLY INFORMATION

The following table summarizes quarterly financial information for the previous quarters:

	Quarter ended							
	Dec 31 2018	Sept 30 2018	June 30 2018	Mar 31 2018	Dec 31 2017	Sep 30 2017	June 30 2017	Mar 31 2017
Average Daily Production								
Oil and NGLs (bbls/d)	41	56	49	54	57	55	49	58
Natural gas (mcf/d)	1,129	1,208	1,198	1,206	1,432	1,527	1,383	1,213
Combined (boe/d)	229	257	249	256	296	310	280	260
Total revenue, net of royalties	$ 345,151	$ 559,073	$ 617,550	$ 512,054	$ 451,784	$ 429,053	$ 606,012	$ 579,562
Net loss	$ (1,496,741)	$ (237,375)	$ (623,582)	$ (798,398)	$ (995,041)	$ (942,399)	$ 87,864	$ (399,394)
Per share - basic and diluted								
Net income (loss)	$ (0.01)	$ -	$ (0.01)	$ (0.01)	$ (0.02)	$ (0.02)	$ -	$ (0.01)

Production increased in the second and third quarters in 2017 as the Company acquired additional producing properties in the Rycroft area. The decline in production from the fourth quarter 2017 through to the fourth quarter 2018 is primarily due to the following: the Company shut in certain wells as they are uneconomic in the current price environment; sale of some non-core assets; and natural production declines. The Company recorded net income of $87,864 during the three months ended June 30, 2017, primarily from a gain from the purchase of oil and natural gas assets and facilities in Rycroft. During the quarters ended September 30, 2017 through to December 31, 2018 the Company generated losses primarily due to the sustained low natural gas price. In the quarter ended December 31, 2018, the Company recorded a $595,000 impairment on certain of its non-core properties.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from these estimates. Significant estimates and judgments made by Management in the preparation of these Financial Statements are summarized below:

Estimates

Amounts recorded for depletion and depreciation and amounts recorded for impairment are based on estimates of natural gas and liquids reserves. By their nature, the estimates of reserves, including the estimates of future prices, costs, discount rates and the related future cash flows, are subject to measurement uncertainty.

Amounts recorded for decommissioning liabilities and the related accretion expense requires the use of estimates with respect to the amount and timing of asset retirements, site remediation, legal requirements and related cash flows. Other provisions are recognized in the period when it becomes probable that there will be a future cash outflow.

Compensation costs accrued for long-term stock-based compensation plans are subject to the estimation of the fair value of the award at the date of grant using pricing models such as the Black-Scholes model which is based on significant assumptions such as volatility, dividend yield, expected term and forfeitures.

Business combinations are accounted for using the acquisition method of accounting. The determination of fair value often requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of property, plant and equipment acquired generally require the most judgment and include estimates of reserves acquired, forecast benchmark commodity prices and discount rates. Assumptions are also required to determine the fair value of decommissioning obligations associated with the properties. Changes in any of the assumptions or estimates used in determining the fair value of the acquired assets and liabilities could impact the amounts assigned to the assets and liabilities in the acquisition equation. Future net income (loss) can be affected as a result of changes in future depletion, depreciation or asset impairment.

Judgments

The Financial Statements have been prepared on a going concern basis, which assumes the realization of assets and discharge of liabilities in the normal course of business within the foreseeable future. Management uses judgment to assess the Company's ability to continue as a going concern and the existence of conditions that cast doubt upon the going concern assumption.

Oil and natural gas assets are aggregated into cash-generating units based on their ability to generate largely independent cash flows and are used for impairment testing. The determination of the Company's cash-generating units is subject to Management's judgment.

The decision to transfer assets from exploration and evaluation to property, plant and equipment is based on the estimated recoverable reserves used in the determination of an area's technical feasibility and commercial viability. As such there is judgment in determining the timing of these transfers.

Tax provisions are based on enacted or substantively enacted laws, changes in those laws could affect amounts recognized in profit or loss both in the period of change and in future periods. Deferred tax assets are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain.

Using different assumptions in making any of these determinations would result in different values than those recorded, and the differences could be material.

ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED

IFRS 16 Leases ("IFRS 16")

Under IFRS 16 a single recognition and measurement model will apply for all lessees which will require recognition of assets and liabilities for most leases. For lessees applying IFRS 16, the dual classification model of leases as either operating leases or finance leases no longer exists, effectively treating all leases as finance leases. Certain short-term leases (less than 12 months) and leases of low-value assets are exempt from the balance sheet recognition requirements and may continue to be treated as operating leases.

The standard will come into effect for annual periods beginning on or after January 1, 2019. IFRS 16 is required to be adopted either retrospectively or using a modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively.

IFRS 16 was adopted by the Company on January 1, 2019. The Company anticipates that the adoption of IFRS 16 will not have a material impact on the Company's financial statements.

BUSINESS RISKS AND UNCERTAINTIES

The Company, like all oil and gas corporations, operates in environments subject to inherent risks. Many such uncertainties are beyond the ability of the Company to control – particularly those associated with exploring for, and developing, economic quantities of hydrocarbons; volatile commodity prices; foreign exchange rates; issues related to global supply and demand; governmental regulations; and environmental matters.

Forward looking statements

Certain statements contained in this MD&A may constitute forward-looking statements. These statements relate to future events or the Company's future performance. All statements, other than statements of historical fact, may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "propose", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These 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 statements. The Company believes that the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon by investors as actual results may vary. These statements speak only as of the date of this MD&A and are expressly qualified, in their entirety, by this cautionary statement.

With respect to forward-looking statements listed above and contained in the MD&A, the Company has made assumptions regarding, among other things: the legislative and regulatory environment; commodity prices; estimated recoverable reserves; and costs related to development of oil and gas properties will remain consistent with historical experience.

The Company's actual results could differ materially from those anticipated in these forward looking-statements as a result of the risk factors set forth below and elsewhere in this MD&A; changes in oil and natural gas prices; geological, technical, drilling and processing problems; liabilities and risks, including environmental liabilities and risks, inherent in oil and natural gas operations; reservoir performance; labour, equipment and material costs; access to capital markets; interest; and economic conditions.

Additional information related to the Company can be found on SEDAR at www.sedar.com.

RETURN ENERGY INC.

Annual Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

Independent Auditor's Report

To the Shareholders of Return Energy Inc.

Opinion

We have audited the consolidated financial statements of Return Energy Inc. and its subsidiary (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and December 31, 2017, and the consolidated statements of net loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 2(b) in the consolidated financial statements, which indicates the Company reported a net loss of $3.2 million and cash flow used in operations of $2.1 million during the year ended December 31, 2018. These factors result in a material uncertainty which cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

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

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

MNP LLP

Calgary, Alberta
April 23, 2019

Chartered Professional Accountants

RETURN ENERGY INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)

ASSETS	As at December 31, 2018	As at December 31, 2017
CURRENT		
Cash	$ 974,813	$ 5,785,294
Accounts receivable	254,620	333,537
Prepaid expenses and deposits	73,023	71,867
	1,302,456	6,190,698
EXPLORATION AND EVALUATION (note 5)	352,666	133,939
PROPERTY, PLANT AND EQUIPMENT (note 6)	10,619,438	8,882,470
TOTAL ASSETS	$ 12,274,560	$ 15,207,107
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT		
Accounts payable and accrued liabilities	$ 387,518	$ 568,540
Decommissioning liabilities (note 7)	100,000	552,000
	487,518	1,120,540
DECOMMISSIONING LIABILITIES (note 7)	6,743,099	6,216,270
CONVERTIBLE PREFERRED SHARES (note 8)	2,000,000	2,000,000
	8,743,099	8,216,270
TOTAL LIABILITIES	9,230,617	9,336,810
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (note 10b)	30,968,189	30,968,189
WARRANTS (note 10c)	2,200,000	3,158,417
CONTRIBUTED SURPLUS	6,368,968	5,080,809
ACCUMULATED OTHER COMPREHENSIVE INCOME (note 11)	-	349,715
DEFICIT	(36,493,214)	(33,686,833)
TOTAL SHAREHOLDERS' EQUITY	3,043,943	5,870,297
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 12,274,560	$ 15,207,107

Going concern (note 2b)
Commitments (note 17)
Subsequent events (note 19)

The accompanying notes are an integral part of these consolidated financial statements.

(signed) "Kenneth Tompson"
Kenneth Tompson, Director

(signed) "Robb Thompson"
Robb Thompson, Director

RETURN ENERGY INC.
CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS
FOR THE YEAR ENDED DECEMBER 31
(Expressed in Canadian dollars)

	2018	2017
REVENUE		
Oil and gas sales, net of royalties (note 12)	$ 1,900,104	$ 1,921,975
Processing and other	133,724	144,436
	2,033,828	2,066,411
EXPENSES		
Operating costs	2,032,679	2,486,779
General and administrative	1,348,781	1,006,629
Bad debts	-	27,000
Share-based compensation (10f)	329,742	162,393
Depletion, depreciation and impairment (note 6)	1,680,777	1,048,206
Accretion of decommissioning liabilities (note 7)	150,004	130,485
Gain on sale of exploration and evaluation assets (note 5)	(352,059)	(50,000)
Gain on sale of property, plant and equipment (note 6)	-	(91,082)
Gain on acquisition (note 13)	-	(292,000)
Foreign exchange gain	-	(5,029)
	5,189,924	4,423,381
NET LOSS BEFORE TAX	(3,156,096)	(2,356,970)
DEFERRED INCOME TAX RECOVERY	-	108,000
NET LOSS	(3,156,096)	(2,248,970)
Other comprehensive loss to be reclassified to income in subsequent periods		
Foreign currency translation adjustment	-	(630)
COMPREHENSIVE LOSS	$ (3,156,096)	$ (2,249,600)
LOSS PER SHARE (note 10g)		
Basic and diluted		
Loss per share	$ (0.03)	$ (0.06)

The accompanying notes are an integral part of these consolidated financial statements.

RETURN ENERGY INC.
CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE YEAR ENDED DECEMBER 31
(Expressed in Canadian dollars)

	2018	2017
OPERATING ACTIVITIES		
Loss	$ (3,156,096)	$ (2,356,970)
Add (subtract) items not requiring cash		
Depletion, depreciation and impairment (note 6)	1,680,777	1,048,206
Gain on acquisition (note 13)	-	(292,000)
Gain on sale of exploration and evaluations assets (note 5)	(352,059)	(50,000)
Gain on sale of property, plant and equipment (note 6)	-	(91,082)
Accretion of decommissioning liabilities (note 7)	150,004	130,485
Share-based compensation (note 10f)	329,742	162,393
Unrealized foreign exchange gain	-	(630)
Settlement of decommissioning liabilities (note 7)	(684,238)	(103,539)
Change in non-cash working capital items (note 14)	(103,261)	574,829
Cash flow used in operations	(2,135,131)	(978,308)
INVESTING ACTIVITIES		
Exploration and evaluation expenditures (note 5)	(218,727)	(133,939)
Property, plant and equipment expenditures (note 6)	(2,808,682)	(189,847)
Property acquisitions	-	(834,236)
Property disposition	-	150,973
Exploration and evaluations asset disposition (note 5)	352,059	50,000
Change in non-cash working capital items (note 14)	-	80,562
Cash flow used in investing activities	(2,675,350)	(876,487)
FINANCING ACTIVITIES		
Proceeds from equity financing, net (note 10d)	-	1,918,858
Proceeds from equity financing, net (note 10e)	-	5,118,383
Cash flow from financing activities	-	7,037,241
(DECREASE) INCREASE IN CASH	(4,810,481)	5,182,446
CASH, BEGINNING OF YEAR	5,785,294	602,848
CASH, END OF YEAR	$ 974,813	$ 5,785,294

The accompanying notes are an integral part of these consolidated financial statements.

RETURN ENERGY INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in Canadian dollars, except for number of shares)

	Number of shares	Share Capital	Warrants	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total
Balance December 31, 2016	25,008,894	$ 26,908,948	$ 180,417	$ 4,918,416	$ 350,345	$ (31,437,863)	$ 920,263
Equity financing (note 10d)	17,415,399	1,140,858	778,000	-	-	-	1,918,858
Equity financing (note 10e)	68,127,355	2,918,383	2,200,000	-	-	-	5,118,383
Share-based compensation	-	-	-	162,393	-	-	162,393
Comprehensive loss for the year	-	-	-	-	(630)	(2,248,970)	(2,249,600)
Balance December 31, 2017	110,551,648	30,968,189	3,158,417	5,080,809	349,715	(33,686,833)	5,870,297
Share-based compensation (note 10f)	-	-	-	329,742	-	-	329,742
Expiration of warrants (note 10c)	-	-	(958,417)	958,417	-	-	-
Reclassification of foreign currency translation adjustment (note 11)	-	-	-	-	(349,715)	349,715	-
Comprehensive loss for the year	-	-	-	-	-	(3,156,096)	(3,156,096)
Balance December 31, 2018	110,551,648	$ 30,968,189	$ 2,200,000	$ 6,368,968	$ -	$ (36,493,214)	$ 3,043,943

The accompanying notes are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

Return Energy Inc. and its subsidiary ("Return", the "Company" or the "Group") are engaged in the exploration for and development and production of petroleum and natural gas properties in Alberta. Return's shares are publicly traded on the TSX Venture Exchange under the symbol "RTN". The Company was incorporated under the Alberta Business Corporations Act on March 20, 2006 and is domiciled in Calgary, Canada. The Company's head office is located at Suite 1220, 407 – 2nd Street S.W., Calgary, Alberta T2P 2Y3 The registered office of the Company is located at 1000, 250 - 2nd Street S.W., Calgary, Alberta T2P 0C1. On March 21, 2018 the Company dissolved DualEx International Inc. As a result, Return Energy Inc. has one remaining 100% owned subsidiary, Winslow Resources Inc.

2. BASIS OF PREPARATION

a) Statement of compliance

These consolidated financial statements, which include results of consolidated operations and the consolidated statements of financial position as at and for the year ended December 31, 2018, including the 2017 comparative year (the "Financial Statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and in effect on January 1, 2018. The Board of Directors approved the Financial Statements on April 23, 2019.

b) Going concern

The Financial Statements have been prepared on the basis that the Company will continue to operate as a going concern, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. For the year ended December 31, 2018, the Company reported a net loss of $3.2 million and negative cash flow used in operations of $2.1 million. The above factors result in a material uncertainty which casts significant doubt upon the Company's ability to continue as a going concern. If the going concern basis of accounting is no longer appropriate, adjustments may be necessary to the carrying amounts and classification of the Company's assets and liabilities. The Financial Statements do not include any adjustments that might result if the Company is unable to continue as a going concern, and such adjustments could be material. The Company's ability to continue as a going concern is dependent on the ability to carry out some form of sale of assets, financing, merger, farmout or other transaction.

c) Historical cost

The Financial Statements have been prepared using the historical cost basis.

d) Functional and presentation currency

The Financial Statements are presented in Canadian dollars, which is the functional currency of Return Energy Inc. and Winslow Resources Inc. The functional currency of DualEx International Inc. is US dollars.

2. BASIS OF PREPARATION (continued)

e) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from these estimates. Significant estimates and judgments made by management in the preparation of these Financial Statements are summarized below:

Estimates

Amounts recorded for depreciation, depletion and impairment are based on estimates of natural gas and liquids reserves. By their nature, the estimates of reserves are subject to measurement uncertainty.

Amounts recorded for oil and gas properties impairment calculations are based on estimates of natural gas and liquid reserve values. Reserve values are based on the estimate of reserve volumes, future prices, discount rates, and future cash flows which are all subject to measurement uncertainty.

Amounts recorded for decommissioning liabilities and the related accretion expense require the use of estimates with respect to the amount and timing of asset retirements, site remediation, legal requirements and related cash flows.

Compensation costs accrued for long-term share-based compensation plans are subject to the estimation of the fair value of the award at the date of grant using pricing models such as the Black-Scholes model which is based on significant assumptions such as volatility, dividend yield, expected term and forfeitures.

Business combinations are accounted for using the acquisition method of accounting. The determination of fair value often requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of property, plant and equipment acquired generally require the most judgment and include estimates of reserves acquired, forecast benchmark commodity prices and discount rates. Assumptions are also required to determine the fair value of decommissioning obligations associated with the properties. Changes in any of the assumptions or estimates used in determining the fair value of the acquired assets and liabilities could impact the amounts assigned to the assets and liabilities in the acquisition equation. Future net income (loss) can be affected as a result of changes in future depletion, depreciation or asset impairment.

Judgments

The Financial Statements have been prepared on a going concern basis, which assumes the realization of assets and discharge of liabilities in the normal course of business within the foreseeable future. Management uses judgment to assess the Company’s ability to continue as a going concern and the existence of conditions that cast doubt upon the going concern assumption.

The determination of the Company’s functional currency requires analyzing facts that are considered primary factors, and if the results are not conclusive, secondary factors. The analysis requires the Company to apply significant judgment since primary and secondary factors may be mixed. In determining its functional currency, the Company analyzed both the primary and secondary factors, including the currency of the Company’s revenues, operating costs and general and administrative costs in the countries in which each entity operates.

2. BASIS OF PREPARATION (continued)

Oil and natural gas assets are aggregated into cash-generating units ("CGU") based on their ability to generate largely independent cash flows and are used for impairment testing. The determination of the Company's cash-generating units is subject to management's judgment.

The decision to transfer assets from exploration and evaluation to property, plant and equipment is based on the estimated recoverable reserves used in the determination of an area's technical feasibility and commercial viability. As such there is judgment in determining the timing of these transfers.

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change and in future periods. Deferred tax assets are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain.

Using different assumptions in making any of these determinations would result in different values than those recorded, and the differences could be material.

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted are set out below.

a) Basis of consolidation

The Financial Statements incorporate the financial statements of Return Energy Inc. and entities controlled or jointly controlled by Return Energy Inc. (as detailed in Note 18). Control is achieved where Return Energy Inc. has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. Consistent accounting policies have been used to prepare the Financial Statements. Intercompany balances, income and expenses, and unrealized gains and losses are eliminated on consolidation.

b) Joint operations

The Company conducts many of its oil and gas activities through joint operations and the Financial Statements reflect only the Company's share in such activities.

c) Revenue Recognition

Revenue associated with the sale of crude oil, natural gas and natural gas liquids is measured based on the consideration specified in contracts with customers. Revenue from contracts with customers is recognized when or as the Company satisfies a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when the customer obtains control of that good or service. The transfer of control of oil, natural gas, natural gas liquids coincides with title passing to the customer and the customer taking physical possession. The Company principally satisfies its performance obligations at a point in time and the amounts of revenue recognized relating to performance. Collection of revenue associated with the sale of crude oil, natural gas and natural gas liquids occurs on or about the 25th of the month following production. Items such as royalties for crown, freehold and gross overriding (GORR) are netted against revenue. These items are netted to reflect the deduction for other parties' proportionate share of the revenue.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest revenue is recognized when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

d) Property, Plant and Equipment ("PP&E") and Exploration and Evaluation Assets ("E&E")

E&E expenditures

E&E costs are those expenditures for an area where technical feasibility and commercial viability has not yet been determined. Costs incurred prior to having obtained legal rights to explore an area are charged directly to the consolidated statement of loss as pre-license expenses. E&E costs may include costs of license acquisition, technical services and studies, seismic acquisition, exploration drilling and testing.

E&E assets related to each exploration prospect are not amortized. E&E assets are considered commercially viable and technically feasible when proved reserves have been assigned. Once commercial viability and technical feasibility have been determined to exist, costs are tested for impairment and reclassified to PP&E.

E&E assets are also assessed for impairment when facts and circumstances suggest that the carrying amount may exceed the estimated recoverable amount. If it has been determined there has been an impairment, the impairment will be charged to the consolidated statement of net loss and comprehensive loss in the period incurred.

PP&E

All costs directly associated with the development of natural gas and liquids reserves are capitalized on a CGU basis. Development costs include expenditures for CGUs where technical feasibility and commercial viability has been determined. These costs include proved property acquisitions, development drilling, completion, gathering and infrastructure, decommissioning liabilities and transfers of E&E assets.

Costs incurred subsequent to the determination of technical feasibility and commercial viability are recognized as oil and natural gas interests only when they increase the future economic benefits of the specific asset to which they relate. All other expenditures are recognized in the consolidated statement of net loss and comprehensive as incurred.

Gains and losses on disposal of an item of PP&E, including oil and natural gas assets, are determined by comparing the proceeds from disposal with the carrying amount of the PP&E and are recognized net within other items in the consolidated statement of net loss and comprehensive loss.

Depletion of developed oil and natural gas assets

Oil and natural gas assets are depleted using a unit-of-production method based on proved and probable reserves using estimated future prices and costs. Costs subject to depletion include estimated future costs to be incurred in developing these reserves.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

PP&E other than oil and natural gas assets

Property, plant and equipment other than oil and natural gas assets are stated at cost, less accumulated depreciation, and any provision for impairment. Depreciation is provided at rates estimated to write off the cost, less estimated residual value of each asset over its expected useful life as follows:

Natural gas processing plant and equipment – 15 years straight line
Office equipment – 3 years straight line

Impairment

An impairment test will be performed whenever events and circumstances indicate that the carrying value of the asset or CGU may exceed the estimated recoverable amount. The recoverable amount is the higher of the fair value less costs of disposal and the value in use. In assessing the fair value less costs of disposal for oil and natural gas assets, the estimated future net cash flows associated with the CGUs are used based on management's best estimate of reserves. If there is indication of an impairment, the costs carried on the consolidated statement of financial position in excess of the recoverable amount are charged to the consolidated statement of net loss and comprehensive loss.

Impairment losses from prior periods are assessed at each reporting date for indications that the impairment loss no longer exists or has decreased. Impairment losses must be reversed if there is a change in the estimates used to determine the recoverable amount which causes the recoverable amount to exceed the carrying amount. Reversal of impairment losses cannot exceed the carrying value of the asset prior to impairment less any depletion and depreciation expense that would have resulted had impairment not been recorded.

e) Business combinations

Business combinations are accounted for using the acquisition method under IFRS 3 Business Combinations. Management's determination of whether a transaction constitutes a business combination or an asset acquisition is determined based on the criteria in IFRS 3. The identifiable assets acquired and liabilities assumed in a business combination are measured at their fair values at the acquisition date. The decommissioning liabilities associated with the acquired property is subsequently re-measured at the end of the reporting period using a risk free discount rate, with any changes recognized in the decommissioning liabilities and PP&E on the consolidated statement of financial position. The cost of an acquisition is measured as the fair value of the assets transferred, equity instruments issued, and liabilities incurred or assumed at the acquisition date. The excess of the acquisition cost over the fair value of the identifiable net assets acquired is recognized as goodwill. If the cost of the acquisition is less than the fair value of the net identifiable assets acquired, a gain on business combination is recognized immediately in the consolidated statement of net loss and comprehensive loss. Any deferred tax asset or liability arising from the business combination is recognized at the acquisition date. Goodwill is not expected to be deductible for tax purposes. Transaction costs associated with a business combination are expensed as incurred.

f) Cash

Cash represents cash balances with banks. The Company places its cash with financial institutions with high credit ratings.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Decommissioning liabilities

Decommissioning liabilities are recognized when the Company has an obligation to dismantle and remove a facility, or abandon a well and restore the site on which it is located. The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and requirements using a risk free rate. An equivalent amount is capitalized as part of the cost of the related asset. The increase in the provision due to the passage of time is recognized as accretion whereas revisions due to changes in the estimated future cash flows and changes in the current risk free rate are capitalized with a corresponding adjustment to the decommissioning liabilities. Actual costs incurred upon settlement of the decommissioning liabilities are charged against the provision.

h) Foreign currencies

The functional currency for each entity is the currency of the primary economic environment in which it operates. Foreign currency denominated transactions are translated into the entity's functional currency. Monetary items denominated in foreign currencies are translated into the functional currency at the rates of exchange at the year end date. Any gains or losses are recorded in the consolidated statement of net loss and comprehensive loss. Non-monetary items are translated to the functional currency at the historical exchange rate.

For the purpose of the Financial Statements, the results and financial position of each entity are expressed in Canadian dollars. For the accounts of foreign operations, assets and liabilities are translated to Canadian dollars at rates prevailing at the year end date. Revenues and expenses are translated to Canadian dollars using the average rate over the period. Translation gains or losses relating to the foreign operations are included in the consolidated statement of net loss and comprehensive loss and accumulated in shareholders' equity on the consolidated statement of financial position.

i) Share-based compensation, warrants and agent options

Equity settled share-based compensation to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date if the fair value of services cannot be reliably determined. The fair value determined at the grant date of the stock options is expensed over the vesting period, based on the Company's estimate of equity instruments that will eventually vest, with a corresponding increase in contributed surplus. At the end of each reporting period, the Company revises its estimate of the number of stock options expected to vest. The impact of the revision of the original estimates, if any, is recognized in the consolidated statements of net loss and comprehensive loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to contributed surplus.

The Company may issue warrants and agent options in conjunction with financings. The fair value of the warrants and agent options issued as part of a financing is recorded in shareholders' equity. Any consideration paid to the Company on the exercise of warrants and agent options along with the fair value of warrants and agent options is credited to share capital. The fair value of the warrants and agent options is estimated using a Black-Scholes model that takes into account as of the grant date: exercise price, expected life, current price, expected volatility, and risk-free interest rates.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the consolidated statement of net loss and comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: initial recognition of tax assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

k) Flow-Through Shares

The Company may issue flow-through shares to finance a portion of its capital expenditure program. Pursuant to the terms of the flow-through share agreements, the tax deductions associated with the expenditures are renounced to the subscribers. The difference between the value ascribed to flow-through shares issued and the value that would have been received for common shares at the date of announcements of the flow-through shares is initially recognized as a liability on the consolidated statements of financial position. When the expenditures are incurred, the liability is drawn down, a deferred tax liability is recorded equal to the estimated amount of deferred tax payable by the Company as a result of the renunciation and the difference is recognized as a deferred tax expense.

l) Earnings (loss) per share

Basic earnings (loss) per common share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the year. For the diluted net earnings per common share calculation, the weighted average number of shares outstanding is adjusted for the potential number of shares which may have a dilutive effect on net earnings per share. The weighted average number of diluted shares is calculated in accordance with the treasury stock method. The treasury stock method assumes that the proceeds received from the exercise of all potentially dilutive instruments are used to repurchase common shares at the average market price.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Leases

Leases or other arrangements entered into for the use of an asset are classified as either finance or operating leases. Finance leases transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased item. Finance leases are capitalized at the commencement of the lease term at the lower of the fair value of the leased asset or the present value of the minimum lease payments. Assets subject to finance leases are amortized over the shorter of the estimated useful life of the assets and the lease term. All other leases are classified as operating leases and the payments are amortized on a straight-line basis over the lease term.

n) Recently adopted accounting standards

<u>IFRS 15 Revenue from Contracts with Customers (“IFRS 15”)</u>

Effective January 1, 2018, the Company adopted IFRS 15 on a modified retrospective basis. The standard supersedes IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Company principally generates revenue from the sale of commodities, which include crude oil and natural gas. Revenue associated with the sale of commodities is recognized when control is transferred from the Company to its customers. The Company’s commodity sale contracts represent a series of distinct transactions. The Company considers its performance obligations to be satisfied and control to be transferred when all the following conditions are satisfied:

- The Company has transferred title and physical possession of the commodity to the buyer;
- The Company has transferred significant risks and rewards of ownership of the commodity to the buyer; and,
- The Company has the present right to payment.

Revenue is measured based on the consideration specified in a contract with the customer. Payment terms for the Company’s commodity sales contracts are on the 25th of the month following delivery. The Company does not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a result, the Company does not adjust its revenue transactions for the time value of money. Revenue represents the Company’s share of commodity sales net of royalty obligations to governments and other mineral interest owners.

<u>IFRS 9 Financial Instruments ("IFRS 9")</u>

Effective January 1, 2018, the Company retrospectively adopted IFRS 9, as well as consequential amendments to IFRS 7 Financial Instruments: Disclosures. The standard supersedes earlier versions of IFRS 9 and completes the IASB’s project to replace IAS 39 Financial Instruments: Recognition and Measurement. The adoption of IFRS 9 did not result in any adjustments to the amounts recognized in the Company's Financial Statements for the year ended December 31, 2018 or December 31, 2017.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Classification and Measurement of Financial Instruments

The Company measures its financial assets and financial liabilities at fair value on initial recognition, which is typically the transaction price unless a financial instrument contains a significant financing component. Subsequent measurement is dependent on the financial instrument's classification which in the case of financial assets, is determined by the context of the Company's business model and the contractual cash flow characteristics of the financial asset. Financial assets are classified into two categories: (1) measured at amortized cost; and, (2) fair value through profit and loss ("FVTPL").

Financial liabilities are subsequently measured at amortized cost, other than financial liabilities that are measured at FVTPL or designated as FVTPL where any change in fair value resulting from an entity's own credit risk is recorded as other comprehensive income ("OCI").

Amortized Cost

The Company classifies its accounts receivable, accounts payable and accrued liabilities, and convertible preferred shares as measured at amortized cost. The contractual cash flows received from the financial assets are solely payments of principal and interest and are held within a business model whose objective is to collect the contractual cash flows.

FVTPL

The Company classifies its cash as measured at FVTPL. Financial assets and liabilities classified as FVTPL are subsequently measured at fair value with changes in fair value charged immediately to the consolidated statements of net loss and comprehensive loss.

The adoption of IFRS 9 did not change the classification of the Company's financial assets or financial liabilities. There is no difference in the measurement of these instruments under IFRS 9 due to the short-term and liquid nature of these financial assets. The following table summarizes the classification categories for the Company's financial assets and liabilities by financial statement line item under the superseded IAS 39 standard and the newly adopted IFRS 9.

IFRS 9 Financial Instruments ("IFRS 9") (continued)

	IAS 39	IFRS 9
Financial Assets		
Cash	FVTPL	FVTPL
Accounts receivable	Loans and receivables (Amortized cost)	Amortized cost
Financial Liabilities		
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Convertible preferred shares	Amortized cost	Amortized cost

Impairment of Financial Assets

IFRS 9 also introduces a new model for the measurement of impairment of financial assets based on expected credit losses which replaces the incurred losses impairment model applied under IAS 39. Under this new model, the Company's accounts receivable are considered collectible within one year or less; therefore, these financial assets are not considered to have a significant financing component and a lifetime expected credit loss ("ECL") is measured at the date of initial recognition of the accounts receivable.

(All amounts in Canadian dollars unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company's accounts receivable are subject to the expected credit loss model under IFRS 9. For accounts receivable, the Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all accounts receivable. In estimating the lifetime expected loss provision, the Company considered historical industry default rates as well as credit ratings of major customers. There were no material adjustments to the carrying value of any of the Company's financial instruments following the adoption of IFRS 9.

4. FUTURE CHANGES TO ACCOUNTING POLICIES

IFRS 16 Leases ("IFRS 16")

Under IFRS 16 a single recognition and measurement model will apply for all lessees which will require recognition of assets and liabilities for most leases. For lessees applying IFRS 16, the dual classification model of leases as either operating leases or finance leases no longer exists, effectively treating all leases as finance leases. Certain short-term leases (less than 12 months) and leases of low-value assets are exempt from the consolidated statement of financial position recognition requirements and may continue to be treated as operating leases.

The standard will come into effect for annual periods beginning on or after January 1, 2019. IFRS 16 is required to be adopted either retrospectively or using a modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively.

The Company anticipates that the adoption of IFRS 16 will not have a material impact on the Company's consolidated financial statements.

5. EXPLORATION AND EVALUATION ASSETS

	2018	2017
Balance, beginning of year	$ 133,939	$ -
Acquisition of undeveloped land	218,727	133,939
Balance, end of year	$ 352,666	$ 133,939

During the year ended December 31, 2018, the Company sold undeveloped land for cash proceeds of $352,059. The undeveloped land had a net book value of $nil and as a result a gain on sale of $352,059 was recorded.

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During the year ended December 31, 2017, the Company sold undeveloped land for $50,000. The undeveloped land had a book value of $nil, and as a result a gain on sale of $50,000 was recorded.

(All amounts in Canadian dollars unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT ("PP&E")

Cost	Oil and gas properties	Natural gas processing plant and equipment	Office equipment and other	Total PP&E
Balance December 31, 2016	$ 7,894,242	$ 350,000	$ -	$ 8,244,242
Additions	58,712	75,312	55,823	189,847
Acquisitions (note 13)	875,105	450,000	-	1,325,105
Disposition	(319,199)	-	(35,208)	(354,407)
Decommissioning liabilities (note 7)	696,915	10,774	-	707,689
Balance December 31, 2017	9,205,775	886,086	20,615	10,112,476
Additions	2,489,614	319,068	-	2,808,682
Decommissioning liabilities (note 7)	609,063	-	-	609,063
Balance December 31, 2018	$ 12,304,452	$ 1,205,154	$ 20,615	$ 13,530,221
Accumulated depletion, depreciation and impairment				
Balance December 31, 2016	$ (210,366)	$ (3,500)	$ -	$ (213,866)
Disposition	32,066	-	-	32,066
Depletion, depreciation and impairment	(991,080)	(55,408)	(1,718)	(1,048,206)
Balance December 31, 2017	(1,169,380)	(58,908)	(1,718)	(1,230,006)
Depletion, depreciation and impairment	(1,575,297)	(94,980)	(10,500)	(1,680,777)
Balance December 31, 2018	$ (2,744,677)	$ (153,888)	$ (12,218)	$ (2,910,783)
Net Book Value				
Balance December 31, 2017	$ 8,036,395	$ 827,178	$ 18,897	$ 8,882,470
Balance December 31, 2018	$ 9,559,775	$ 1,051,266	$ 8,397	$ 10,619,438

During the year ended December 31, 2017, the Company sold non-core oil assets for cash proceeds of $118,973. The non-core assets sold had a book value of $287,133 and decommissioning liabilities of $262,450 resulting in a gain on disposition of $94,290.

During the year ended December 31, 2017, the Company sold vehicles with a net book value of $35,208 for proceeds of $32,000 resulting in a loss of $3,208.

For the year ended December 31, 2018, future development costs of $13.7 million (December 31, 2017 - $4.7 million) were included in the depletion calculation.

For the year ended December 31, 2018, the Company performed an impairment test on all four of its CGUs for any potential impairment or related recovery and as a result recorded an impairment on two of its CGUs totaling $595,000 during the year (year ended December 31, 2017 – $205,000). In making these evaluations, the Company used the net present value of the pre-tax cash flows from oil and gas reserves of each CGU based on reserves estimated by the Company's independent reserve evaluator.

Key input estimates used in the determination of cash flows from oil and gas reserves include the following:

a. Reserves - Assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs or recovery rates may change the economic status of reserves and may ultimately result in reserves being restated.

(All amounts in Canadian dollars unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT (continued)

b. Crude oil and natural gas prices - Forward price estimates of the crude oil and natural gas prices are used in the cash flow model. Commodity prices used tend to be stable because short-term increases or decreases in prices are not considered indicative of long-term price levels, but nonetheless subject to change and the change could be material.

c. Discount rate - The Company uses a pre-tax discount rate of 15% that reflects risks specific to the assets for which the future cash flow estimates have not been adjusted. The discount rate was determined based on the Company's assessment of risk based on past experience. Changes in the general economic environment could result in material changes to this estimate.

The following table from external sources outlines the forecast benchmark commodity prices used in the impairment calculation as at December 31, 2018.

Key assumptions for impairment

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029 (2)
Cdn Light Sweet Crude 40 ^{o} API ($Cdn/bbl) (1)	$75.27	$77.89	$82.25	$84.79	$87.39	$89.14	$90.92	$92.74	$94.60	$96.49	$98.42
AECO C-Spot $Cdn/Mmbtu (1)	$ 1.95	$ 2.44	$ 3.00	$ 3.21	$ 3.30	$ 3.39	$ 3.49	$ 3.58	$ 3.68	$ 3.78	$ 3.88

(1) The forecast benchmark commodity prices listed above are adjusted for quality differentials, heat content, transportation and marketing costs and other factors specific to the Company's operations in performing the Company's impairment tests.
(2) Forecast benchmarks commodity prices are assumed to increase by 2.0% in each year after 2029 to end of the reserve life.

With the current key assumptions listed above, the Company performed sensitivity impairment tests for each CGU and concluded that a 5% decrease in commodity prices would result in additional impairment of $104,000. A one percent increase in the discount rate, would result in an additional $3,000 impairment being recorded, and a one percent decrease in the discount rate would result in reducing the impairment by $12,000.

(All amounts in Canadian dollars unless otherwise stated)

7. DECOMMISSIONING LIABILITIES

	Year ended December 31	
	2018	2017
Decommissioning liabilities, beginning of year	$ 6,768,270	$ 6,236,420
Liabilities incurred	139,208	-
Liabilities acquired on asset business combination (note 13)	-	60,000
Liabilities divested	(57,162)	(262,785)
Change in estimated future cash outflows	527,017	707,689
Settlement	(684,238)	(103,539)
Accretion	150,004	130,485
Decommissioning liabilities, end of year	$ 6,843,099	$ 6,768,270
Expected to be incurred within one year	$ 100,000	$ 552,000
Expected to be incurred beyond one year	6,743,099	6,216,270
	$ 6,843,099	$ 6,768,270

The Company's decommissioning liabilities result from its ownership interest in oil and natural gas assets. The decommissioning liabilities are estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities, and the estimated timing of the costs to be incurred in future years. The undiscounted amount of the estimated future cash flows required to settle the obligations as at December 31, 2018 is $9,702,866 (December 31, 2017 – 9,463,000). Payments to settle the decommissioning liabilities occur over the operating lives of the underlying assets, estimated to be from 1 – 41 years. The estimated future cash flows have been discounted at a risk-free rates between 1.9% and 2.2% (December 31, 2017 - 1.9% and 2.3%) and reflect an inflation rate of 2% (December 31, 2017 - 2%).

8. CONVERTIBLE PREFERRED SHARES

The Company has two million non-interest bearing, non-voting Series I Convertible Preferred Shares (the "Preferred Shares") outstanding. The holder may, at any time and at its option, convert all or part of the Preferred Shares into units ("Units") of Return. Each Unit is comprised of one (1) common share of Return and one-half (1/2) of a common share purchase warrant. The number of Units issuable upon the conversion of the Preferred Shares is equal to the number of Preferred Shares to be converted multiplied by $1.00 and divided by the average of the trading price of the common shares on the TSX Venture Exchange (the "TSXV") during the immediately prior twenty (20) consecutive day period prior to conversion (the "Market Price"). Each whole common share purchase warrant entitles the holder to purchase one (1) common share until October 21, 2021 upon payment of the common share purchase warrant exercise price which is equal to the Market Price. The Company may at its sole discretion redeem the Preferred Shares at any time upon cash payment of one dollar per Preferred Share. No conversion of Preferred Shares may occur within 30 days of a prior conversion, and no conversion of Preferred Shares may occur when, after such conversion the Vendor would own (including shares owned prior to the conversion) 10% or more of the outstanding common shares after conversion.

The conversion feature does not meet the definition of an embedded derivative and as such the entire investment is deemed to be a financial liability. Therefore, the Preferred Shares are recorded as a debt instrument, due to the Company's obligation to deliver a variable number of its own common shares to the holder upon conversion.

(All amounts in Canadian dollars unless otherwise stated)

9. INCOME TAXES

a) Income tax expense differs from that which would be expected from applying the combined statutory Canadian federal and provincial tax rates of 27% for 2018 (2017 – 27%), to the loss from operations before taxes as follows:

	Year ended December 31, 2018	Year ended December 31, 2017
Loss from operations	$ (3,156,096)	$ (2,356,970)
Computed Canadian expected income tax recovery	(852,146)	(636,382)
Non-deductible expenses	90,029	73,416
Tax rate differences of foreign countries	-	(1,368)
Change in unrecognized deferred tax asset	762,117	456,334
Deferred tax recovery	$ -	$ (108,000)

b) Significant components of the Company's unrecognized deductible temporary differences as at December 31 include the following:

Nature of temporary differences	December 31, 2018	December 31, 2017
Book value less than tax value of PP&E and decommissioning liabilities	$ 1,991,619	$ 541,030
Share issue costs and finance fees	131,393	190,135
Non-capital losses	13,481,650	11,834,857
	$ 15,604,662	$ 12,566,022

A deferred tax asset has not been recognized as it is not probable that the assets will be realized.

c) The Company has the following non-capital loss carryforwards in Canada for which no benefit has been recognized in the Financial Statements.

Year of Expiry	Amount
2026	$ 728,736
2027	1,549,421
2028	321,176
2029	825,889
2030	966,389
2031	1,123,270
2032	972,806
2033	1,214,998
2034	889,454
2035	489,183
2036	698,406
2037	1,618,691
2038	2,083,231
	$ 13,481,650

(All amounts in Canadian dollars unless otherwise stated)

10. SHARE CAPITAL

(a) Authorized

The Company is authorized to issue an unlimited number of common shares with no par value and an unlimited number of preferred shares with no par value. The preferred shares may be issued in series, with the directors determining the terms of the preferred shares on a series by series basis.

(b) Issued and outstanding

	Number of Shares		Amount
Common Shares			
Balance December 31, 2016	25,008,894	$	26,908,948
Equity financing (note 10d)	17,415,399		1,374,858
Modification of Warrants (note 10d)	-		(234,000)
Equity financing (note 10e)	68,127,355		2,918,383
Balance December 31, 2017 and December 31, 2018	110,551,648	$	30,968,189

(c) Warrants

	Number of Warrants		Value		Weighted Average Exercise Price
Warrants outstanding December 31, 2016	6,802,500	$	180,417	$	0.15
Issuance of Warrants on equity financing (note 10d)	16,883,959		544,000		0.15
Modification of Warrants (note 10d)	-		234,000		
Issuance of Warrants on equity financing (note 10e)	66,666,666		2,200,000		0.10
Warrants outstanding December 31, 2017	90,353,125		3,158,417	$	0.11
Expired	(23,686,459)		(958,417)		0.15
Warrants outstanding December 31, 2018	66,666,666	$	2,200,000		0.10

(d) March 2017 financing

On March 14, 2017, the Company closed a non-brokered private placement comprised of common share units (the “Units”) and Canadian exploration expense flow-through shares (“CEE FTS”) (collectively, the “Offering”). Return issued 16,700,399 Units at a price of $0.12 per Unit for gross proceeds of $2,004,048, as well as 715,000 CEE FTS at a price of $0.14 per CEE FTS for gross proceeds of $100,100 for total gross proceeds of $2,104,148. The CEE FTS were issued pursuant to the Income Tax Act (Canada) in respect of Canadian exploration expenses. The Company has met its commitment with respect to the CEE FTS in 2018 under the look-back provision. The deferred tax expense of the CEE FTS would not have a material impact on the consolidated statement of net loss and comprehensive loss.

10. SHARE CAPITAL (continued)

Each Unit issued consisted of one Return common share ("Common Share") and one whole Common Share purchase warrant ("Warrant"). Each whole Warrant is exercisable by the holder to purchase one Common Share until March 14, 2018 ("Warrant Exercise Period") at a price of $0.15 ("Warrant Exercise Price"). Each Warrant will entitle the holder thereof to purchase one Common Share at any time on or before the earlier of the date that is: (a) one year from the completion of the Offering; and, (b) 30 days after the giving of notice of early termination by Return. Such notice may be given by the Company, in its sole discretion, if the volume-weighted average price of the Common Shares on the TSX Venture Exchange exceeds the Warrant Exercise Price by at least 200% for a minimum of 10 consecutive trading days (whether or not trading of Common Shares occurs on all such days, provided that the Common Shares trade on at least five of such trading days.

On November 21, 2017 the Company extended the Warrant Exercise Period to October 20, 2018 which increased the Warrant value by $234,000 from $544,000 to $778,000. The Warrants expired unexercised and the warrant value was reclassified to contributed surplus.

Finders received $22,027 in cash and 183,560 Warrants as compensation. Total costs in connection with the financing amounted to $185,290.

(e) December 2017 financing

On December 27, the Company closed a non-brokered private placement (the "Unit Offering") of 66,666,666 units of the Company ("Units") at a price of $0.075 per Unit for aggregate gross proceeds of $5,000,000. Additionally, the Company has issued 1,460,689 common shares ("FT Shares") on a flow-through basis at a price of $0.10 per FT Share for aggregate gross proceeds of $146,069. Total costs in connection with the Unit offering amounted to $27,686. The deferred tax expense of the FT Shares would not have a material impact on the consolidated statement of net loss and comprehensive loss.

Each Unit issued under the Unit Offering consisted of one common share in the Company (a "Common Share") and one Common Share purchase warrant (a "Warrant"). Each Warrant entitles the holder thereof to purchase one Common Share at a price of $0.10 per Common Share (the "Warrant Exercise Price") at any time up to 5:00 p.m. (Calgary time) on or before the earlier of the date that is: (a) five years from the closing date of the Offering, and (b) 30 days after the giving of the Early Termination Notice (as defined herein) by the Company. If the volume-weighted average price of the Common Shares on the TSX Venture Exchange (the "TSXV") exceeds the Warrant Exercise Price by at least 200% for a minimum of 20 consecutive trading days (whether or not trading of the Common Shares occurs on such days, provided that the Common Shares trade on at least fifteen of such trading days and the total value of Common Shares traded during such periods is greater than $1,500,000), the Warrants will be subject to, at the option of the Company, an accelerated expiry date that is 30 days after the date on which the Company provides notice to holders of Warrants of such accelerated expiry date (the "Early Termination Notice").

The Warrants have been assigned a value of $2,200,000 using a Black-Scholes model with the following assumptions: expected life of one and one half years, expected volatility 100%, risk-free interest rate of 1.77%, and a zero percent dividend yield.

(All amounts in Canadian dollars unless otherwise stated)

10. SHARE CAPITAL (continued)

(f) Share-based compensation

The Company has a stock option plan under which options to purchase common shares may be granted to officers, directors, employees and consultants. The Board of Directors has approved a policy of reserving up to 10% of the outstanding common shares for issuance to eligible participants. Under the plan, all options have a maximum term of five years. All options awarded to December 31, 2017 vest 1/3 per year on the anniversary date of the grant for the next three years. Options granted in 2018 vest ½ per year on the anniversary date of the grant for the next two years.

	Number of Options	Weighted Average Exercise Price
Outstanding December 31, 2016	120,000	2.26
Granted	2,070,000	0.185
Expired	(15,000)	2.00
Forfeited	(75,000)	(0.185)
Oustanding December 31, 2017	2,100,000	$ 0.29
Granted	5,000,000	0.10
Oustanding December 31, 2018	7,100,000	0.16

The following summarizes outstanding stock options as at December 31, 2018

Date of Grant	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years	Options Exercisable
02-Sep-14	105,000	$ 2.30	0.67	105,000
05-Jan-17	1,995,000	$ 0.185	3.00	665,000
10-Jan-18	5,000,000	$ 0.100	4.00	-
	7,100,000	$ 0.16	3.67	770,000

The Company determined the value of the options granted using a Black Scholes option pricing model with the following assumptions:

	2018	2017
Risk-free rate	1.9%	1.1%
Expected life	5 years	5 years
Expected volatility	100%	100%
Expected dividend	0%	0%
Forfeiture rate	10%	10%
Fair value of option	$0.07	$0.14

(All amounts in Canadian dollars unless otherwise stated)

10. SHARE CAPITAL (continued)

Using the fair value method for share-based compensation, the Company calculated share-based compensation expense for the year ended December 31, 2018 as $329,742 (December 31, 2017 - $162,393).

(g) Loss per share

The weighted average number of shares outstanding for the year ended December 31, 2018 is 110,551,648 (December 31, 2017 – 39,969,891). No options or warrants were included in the computation of diluted loss per share as they have an anti-dilutive effect on loss per share.

11. ACCUMULATED OTHER COMPREHENSIVE INCOME

The balance of the accumulated other comprehensive income is attributable to net translation gains relating to the Company's foreign operations. During the year ended December 31, 2018, the last of the Company's foreign operating subsidiaries (DualEx) was dissolved. As a result of the dissolution the balance of the accumulated other comprehensive income has been reclassified to deficit.

12. OIL AND GAS SALES, NET OF ROYALTIES

	Year ended December 31	
	2018	2017
Oil and gas sales		
Crude oil	$ 814,399	$ 801,186
Natural gas	589,806	1,019,588
Natural gas liquids	402,576	274,207
	1,806,781	2,094,981
Less royalties		
Crown	(97,982)	155,510
Freehold and gross overriding royalties	4,659	17,496
	(93,323)	173,006
Oil and gas sales, net of royalties	$ 1,900,104	$ 1,921,975

(All amounts in Canadian dollars unless otherwise stated)

13. ACQUISITION

Asset business combination:

On April 20, 2017, the Company acquired production of approximately 60 BOE/day (80% natural gas), and the remaining 50% interest in the Company's operated Rycroft gathering system and gas plant (the "Plant and production acquisition") for $715,000 in cash. All of the acquired production is processed through the Rycroft gas plant.

The Company also completed three smaller acquisitions during the year ended December 31, 2017 acquiring approximately 20 BOE/day of production for total consideration of $150,105 (the "Other acquisitions").

The assets were acquired to further consolidate the Company's position in the Peace River Arch.

The estimated fair value of the acquisitions are as follows:

Fair Value of net assets acquired:	Plant and production acquisition	Other acquisitions	Total acquisitions
Property, plant and equipment	1,140,000	185,105	1,325,105
Decommissioning liabilities	(25,000)	(35,000)	(60,000)
Deferred tax liability	(108,000)	-	(108,000)
Net assets acquired	$ 1,007,000	$ 150,105	$ 1,157,105
Consideration:			
Cash	$ 715,000	$ 119,236	$ 834,236
Non-cash consideration	-	30,869	30,869
Total consideration	$ 715,000	$ 150,105	$ 865,105
Gain on acquisition	$ 292,000	$ -	$ 292,000

The non-cash consideration provided was the forgiveness of debt owed to the Company by the sellers.

The acquisitions contributed revenue of approximately $271,000 and loss of approximately $116,000 during the year ended December, 2017.

Had these business combinations occurred on January 1, 2017, additional pro-forma revenue of approximately $345,000 and net income of $59,000 would have been recognized.

The fair value of the decommissioning obligations was based on the estimated future cash flows to decommission the acquired property, plant and equipment at the end of its useful life. The discount rate used to determine the net present value of the decommissioning obligation was the credit adjusted rate of 10%. Subsequent to the acquisition date, the decommissioning liability was revalued at risk-free rates ranging from 1.4% to 2.5%, resulting in incremental additions of $480,000 of decommissioning obligation, included in change in estimate, and corresponding additions to property, plant and equipment.

(All amounts in Canadian dollars unless otherwise stated)

14. SUPPLEMENTAL CASH FLOW INFORMATION

	As at December 31	
	2018	2017
Change in non-cash working capital related to operating activities		
Accounts receivable	$ 78,917	$ 335,344
Prepaid expenses and deposits	(1,156)	357,359
Accounts payable and accrued liabilities	(181,022)	(117,874)
	$ (103,261)	$ 574,829
Change in non-cash working capital related to investing activities		
Accounts receivable	$ -	$ 80,562
	$ -	$ 80,562

15. CAPITAL MANAGEMENT

The Company's objective is to maintain a strong capital structure and financial flexibility so it can continue to meet its financial obligations and to finance the planned execution of its exploration and development programs. To facilitate the Company's objective, management prepares and updates its capital and operating budget on a regular basis to forecast future cash flows to determine if any additional capital will be required to meet the Company's obligations. The Company is not subject to any externally imposed covenant requirements. The Board of Directors has not established a definitive return on capital criteria for management.

The Company defines and computes its capital as follows:

	December 31, 2018	December 31, 2017
Shareholders' Equity	$ 3,043,943	$ 5,870,297

16. FINANCIAL RISK MANAGEMENT

The Company has exposure to the following risks from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk

a) Credit Risk

Credit risk is the risk of financial loss to the Company if a partner or counterparty to a product sales contract, or financial instrument, fails to meet its contractual obligations. The Company is exposed to credit risk with respect to its accounts receivables.

(All amounts in Canadian dollars unless otherwise stated)

16. FINANCIAL RISK MANAGEMENT (continued)

The Company's accounts receivable balance at December 31, 2018 is primarily with oil and gas marketers and joint venture partners. Amounts due from these parties have generally been received within 30 to 60 days. When determining whether amounts that are past due are collectible, management assesses the creditworthiness and past payment history of the counterparty, as well as the nature of the past due amount. The Company generally considers amounts greater than 90 days to be past due. As at December 31, 2018, there was $81,845 of accounts receivable over 90 days December 31, 2017 – $39,865). The Company considers $15,000 of this amount impaired. (December 31, 2017 - $27,000).

The aging analysis of accounts receivables is as follows:

Aging	December 31, 2018	December 31, 2017
Under 30 days	$ 122,279	$ 178,567
30 to 60 days	37,541	89,862
60 to 90 days	12,955	25,243
Over 90 days	81,845	39,865
	$ 254,620	$ 333,537

b) Liquidity Risk

Liquidity risk relates to the risk that a company will not be able to meet its financial obligations as they become due. As at December 31, 2018, the Company had working capital of $0.8 million (December 31, 2017 - $5.1 million). The Company prepares and regularly updates its capital and operating budget to forecast future cash flows to ensure, as far as possible, the Company has the appropriate liquidity in place to meet its obligations.

c) Market Risk

Market risk for the Company is the risk that changes in commodity prices will affect the Company's financial performance or the value of its financial instruments.

Commodity Price Risk

Commodity price risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in commodity prices. The Company is subject to the risk of changes in commodity prices. The Company had no commodity price-based derivative financial instruments as at December 31, 2018 and December 31, 2017.

d) Fair Value of Financial Instruments

Carrying value and fair value of financial assets and liabilities are summarized as the Company's financial instruments recognized in the consolidated statement of financial position and consist of cash, accounts receivable, deposits, accounts payable and accrued liabilities, and Preferred Shares. The carrying value of cash, accounts receivable, and accounts payable and accrued liabilities approximate their respective fair values due to their short-term to maturity. The carrying value of the Preferred Shares approximate their fair value as they are convertible at face value.

(All amounts in Canadian dollars unless otherwise stated)

17. COMMITMENTS

The Company entered into a lease agreement whereby the Company will lease office space until September 30, 2019. The Company has committed to future payments under this lease of $48,500 in 2019.

18. RELATED PARTY DISCLOSURES

a) Significant subsidiaries

Details of the Company's subsidiaries as at December 31, 2018 were as follows:

Name of Company	Principal activity	Country of incorporation	% of share capital held
Winslow Resources Inc.	Oil and Gas Exploration	Canada	100

b) Key management personnel compensation

Key management personnel include the Company's senior management and all of the Company's directors. Short-term benefits are comprised of consulting fees, directors' fees, and other benefits. Return recorded the following amounts in its Financial Statements relating to key management personnel compensation in 2018 and 2017:

	Year ended December 31	
	2018	2017
Short-term benefits	720,241	466,880
Share-based compensation	317,249	148,175
Total executive compensation	$ 1,037,490	$ 615,055

c) Related party transaction

During the year ended December 31, 2017, the Company purchased two sections of undeveloped land from a corporation controlled by an officer of the Company for $60,000. The cost of the undeveloped land is comparable to what would have been paid to unrelated parties.

19. SUBSEQUENT EVENTS

Subsequent to year end, the Company divested non-core properties and undeveloped land for cash proceeds of $265,000

Subsequent to year end, the Company has initiated a formal process to review potential strategic alternatives available in an effort to enhance shareholder value.

CORPORATE INFORMATION

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Garry T. Hides, P. Land
Executive Vice President

Jason Schoenfeld, P. Eng
VP Engineering and Chief Operating Officer

Lorne A. Morozoff, CA
VP Finance and Chief Financial Officer

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