RETURN ENERGY INC.

Consolidated Annual Financial Statements
As at and for the years ended
December 31, 2019 and 2018

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, 2019 and December 31, 2018, and the consolidated statements of net loss and comprehensive loss, changes in shareholders' 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, 2019 and December 31, 2018, 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.

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 Brad Frampton.

Calgary, Alberta

MNP LLP

April 6, 2020

Chartered Professional Accountants

RETURN ENERGY INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31, 2019 AND DECEMBER 31, 2018

(Canadian dollars $)	[Notes]	**December 31, 2019**	December 31, 2018
ASSETS			
Current assets			
Cash and cash equivalents		**24,652,586**	974,813
Accounts receivable	[5]	**229,381**	254,620
Prepaid expenses and deposits		**47,816**	73,023
Total current assets		**24,929,783**	1,302,456
Exploration and evaluation assets	[7]	**348,544**	352,666
Property, plant and equipment	[8]	**8,966,695**	10,619,438
Total assets		**34,245,022**	12,274,560
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	[5]	**939,758**	387,518
Decommissioning liabilities	[9]	**452,219**	100,000
Total current liabilities		**1,391,977**	487,518
Convertible preferred shares	[10]	**-**	2,000,000
Decommissioning liabilities	[9]	**7,212,875**	6,743,099
Total liabilities		**8,604,852**	9,230,617
SHAREHOLDERS' EQUITY			
Share capital	[11]	**45,748,043**	30,968,189
Warrants	[11]	**9,965,150**	2,200,000
Contributed surplus		**8,418,021**	6,368,968
Deficit		**(38,491,044)**	(36,493,214)
Total shareholders' equity		**25,640,170**	3,043,943
Total liabilities and shareholders' equity		**34,245,022**	12,274,560
Commitments and contingencies	[17]		
Subsequent events	[19]		

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

Approved on behalf of the Board of Directors:

[signed] "Richard McHardy"
Richard McHardy, Director

[signed] "Donald Archibald"
Donald Archibald, Director

RETURN ENERGY INC.
CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND DECEMBER 31, 2018

(Canadian dollars $)	[Notes]	**2019**	2018
Revenue			
Oil and gas sales, net of royalties	[13]	**1,513,012**	1,900,104
Processing and other		**136,133**	133,724
		1,649,145	2,033,828
Expenses			
Operating		**2,015,803**	2,032,679
General and administrative	[14]	**1,405,225**	1,348,781
Share based compensation	[11]	**(150,947)**	329,742
Accretion of decommissioning liabilities	[9]	**112,785**	150,004
Depletion, depreciation and impairment	[8]	**2,292,381**	1,680,777
		5,675,247	5,541,983
Other income			
Gain on sale of assets	[6]	**28,272**	352,059
Gain on extinguishment of preferred shares	[10]	**2,000,000**	-
Loss before income taxes		**(1,997,830)**	(3,156,096)
Income taxes	[12]	**-**	-
Net loss and comprehensive loss		**(1,997,830)**	(3,156,096)
Net loss per share			
Basic and diluted	[11]	**(0.01)**	(0.03)

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

RETURN ENERGY INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2019 AND DECEMBER 31, 2018

(Canadian dollars $)	[Note]	Share capital	Warrants	Contributed surplus	AOCI [(1)]	Deficit	Total
Balance at December 31, 2018		30,968,189	2,200,000	6,368,968	-	(36,493,214)	3,043,943
Net loss and comprehensive loss		-	-	-	-	(1,997,830)	(1,997,830)
Common shares issued, net of costs:	[11]						
Recapitalization Transaction		25,000,000	-	-	-	-	25,000,000
Allocation to warrants		(9,965,150)	9,965,150	-	-	-	-
Issue costs		(254,996)	-	-	-	-	(254,996)
Warrants surrendered and cancelled	[11]	-	(2,200,000)	2,200,000	-	-	-
Share based compensation	[11]	-	-	(150,947)	-	-	(150,947)
Balance at December 31, 2019		**45,748,043**	**9,965,150**	**8,418,021**	**-**	**(38,491,044)**	**25,640,170**
Balance at December 31, 2017		30,968,189	3,158,417	5,080,809	349,715	(33,686,833)	5,870,297
Net loss and comprehensive loss		-	-	-	-	(3,156,096)	(3,156,096)
Reclassification of foreign currency translation adjustment	[11]	-	-	-	(349,715)	349,715	-
Warrants expired	[11]	-	(958,417)	958,417	-	-	-
Share based compensation	[11]	-	-	329,742	-	-	329,742
Balance at December 31, 2018		30,968,189	2,200,000	6,368,968	-	(36,493,214)	3,043,943

(1) Accumulated other comprehensive income ("AOCI")

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

RETURN ENERGY INC.
CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE YEARS ENDED DECEMBER 31, 2019 AND DECEMBER 31, 2018

(Canadian dollars $)	[Notes]	**2019**	2018
Operating activities			
Net loss		**(1,997,830)**	(3,156,096)
Items not affecting cash:			
Share based compensation		**(150,947)**	329,742
Accretion of decommissioning liabilities		**112,785**	150,004
Depletion, depreciation and impairment		**2,292,381**	1,680,777
Gain on sale of assets		**(28,272)**	(352,059)
Gain on extinguishment of preferred shares		**(2,000,000)**	-
Settlement of decommissioning liabilities	[9]	**(128,905)**	(684,238)
Change in non-cash operating working capital	[15]	**602,686**	(103,261)
Cash used in operating activities		**(1,298,102)**	(2,135,131)
Financing activities			
Issue of common shares, net of costs	[11]	**24,745,004**	-
Cash provided by financing activities		**24,745,004**	-
Investing activities			
Exploration and evaluation assets		**-**	(218,727)
Property, plant and equipment		**(33,922)**	(2,808,682)
Property dispositions	[6]	**264,793**	352,059
Cash provided by (used in) investing activities		**230,871**	(2,675,350)
Net change in cash and cash equivalents		**23,677,773**	(4,810,481)
Cash and cash equivalents, beginning of year		**974,813**	5,785,294
Cash and cash equivalents, end of year		**24,652,586**	974,813

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

1. GENERAL INFORMATION

Return Energy Inc. (“Return” or the “Company”), through its wholly-owned subsidiary Winslow Resources Inc. (“Winslow”), is engaged in the exploration for, and development and production of petroleum and natural gas properties in the Western Canadian Sedimentary Basin, with a focus on the Peace River Arch area in northwest Alberta. The Company was incorporated under the *Business Corporations Act* (Alberta) as “Dualex Energy International Inc.” on March 20, 2006 and changed its name to “Return Energy Inc.” on December 20, 2016. DualEx International Inc. (“DualEx International”), a wholly-owned subsidiary of Return which was incorporated pursuant to the laws of Bahamas, was dissolved on March 21, 2018.

On December 19, 2019, the Company completed the Recapitalization Transaction (defined herein), pursuant to which Return closed the non-brokered Private Placement for gross proceeds of $25.0 million and appointed the New Management Team and New Board. Details of the foregoing are provided in note 11 of these financial statements.

Return’s common shares are listed on the TSX Venture Exchange under the trading symbol “RTN”. The Company’s head office is located at 202, 1201 – 5th Street S.W., Calgary, Alberta T2R 0Y6. The registered office is located at 4300 Bankers Hall West, 888 – 3rd Street S.W., Calgary, Alberta T2P 5C5.

2. BASIS OF PREPARATION

a) Statement of compliance

These consolidated financial statements are presented under International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). The policies applied in these financial statements are based on IFRS in effect as of January 1, 2019. The Company’s Board of Directors approved the financial statements on April 6, 2020.

b) Basis of measurement

Unless otherwise indicated, all references to dollar amounts in these financial statements and related notes are Canadian dollars (CA$), which is the functional and presentation currency of the Company and its subsidiary.

The financial statements have been prepared on a historical cost basis, except for certain financial instruments which are recorded at fair value. The methods used to measure fair values are described in note 5 of these financial statements.

c) Use of estimates and judgments

The timely preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ materially from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are reviewed and for any future years affected. Significant judgments, estimates and assumptions made by management in these financial statements are discussed below.

Deferred income taxes

Tax interpretations, regulations and legislation in the jurisdictions in which the Company operates are subject to change. Consequently, deferred income taxes are subject to measurement uncertainty. On June 28, 2019, the Alberta government enacted legislation which reduces the Alberta corporate income tax rate from 12%, incrementally down to 8% starting January 1, 2022. Assumptions for the expected amount and timing of when temporary differences will reverse impacts the measurement of deferred tax assets and liabilities. Additional information regarding the Company's provision for deferred income taxes is provided note 12.

Deferred income tax assets are assessed by management at the end of each reporting period to determine the likelihood that they will be realized from future taxable earnings. As of the prior year ended December 31, 2018, the Company had not recognized a deferred tax asset of $4.1 million because Return's ability to continue as a going concern was uncertain and it was not probable that the tax pools could be utilized in the future. Although the Company's financial position and growth prospects have improved significantly following the Recapitalization Transaction on December 19, 2019 (note 11), Return has a history of losses and the outlook for commodity prices continues to be weak. Accordingly, the Company has not recognized a deferred income tax asset of $4.2 million as at December 31, 2019.

Depletion, depreciation and reserves

The Company calculates depletion based on total proved plus probable reserves as determined in accordance with the Canadian Oil and Gas Evaluation Handbook ("COGEH"). The process of determining reserves is complex. Significant judgments are based on available geological, geophysical, engineering, and economic data. These judgments are based on estimates and assumptions that may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and costs change. The reserve estimates are based on production forecasts, prices and economic conditions. As circumstances change and additional data becomes available, reserve estimates also change. Estimates made are reviewed and revised, either upward or downward, as warranted by the new information. Revisions are often required due to changes in well performance, prices, economic conditions and governmental restrictions.

Although every reasonable effort is made to ensure that reserve estimates are accurate, reserve estimation can be impacted by subjective decisions, new geological or production information and a changing environment. In addition, revisions to reserve estimates can arise from changes in forecast oil and gas prices and reservoir performance. Such revisions can be either positive or negative.

Changes in reserve estimates impact the financial results of the Company as reserves and estimated future development costs are used to calculate depletion. Reserves are used in measuring the fair value less costs of disposal ("FVLCD") of property, plant and equipment ("PP&E") for impairment calculations. Reserves also impact the Company's assessment of the commercial viability and technical feasibility of an exploration project and the decision to transfer exploration and evaluation assets to PP&E.

Exploration and evaluation assets ("E&E")

Judgment is required to determine the level at which E&E is assessed for impairment. For Return, the carrying value of E&E assets is assessed for overall impairment at the operating segment level and on a specific identification basis prior to transferring E&E assets to PP&E.

Determination of Cash Generating Units ("CGUs")

The determination of CGUs requires judgment in defining a group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks and materiality. As at December 31, 2019, the Company has three CGUs for its assets located in the province of Alberta, compared to four CGUs as at December 31, 2018. The decision to combine two CGUs comprised of minor properties was primarily because the reserves of the assets in those CGUs were evaluated by the Company's independent reserve engineer as one property as at December 31, 2019. The fields share similar characteristics and are geographically located in close proximity in northwest Alberta.

Impairment of non-financial assets

Significant judgment is required to assess the Company's non-financial assets, namely E&E and PP&E, for impairment or potential reversals of previously recorded impairment. Management must first determine whether indicators of impairment exist that suggest the carrying value may not be recoverable through the asset's continued use or sale. In addition, judgment is required to assess whether a previously recognized impairment for an asset no longer exists or has decreased.

An indication of potential impairment was identified as a result of a decrease in forecast oil and natural gas prices as at December 31, 2019 compared to forecast prices as at December 31, 2018. An impairment test was performed as at December 31, 2019 and the results of the calculation are provided in note 8. The Company concluded there is no indication of impairment for its E&E assets at the operating segment level.

Significant judgment and estimates are required to calculate the recoverable amount of PP&E in an impairment test. Management calculated the recoverable amount of each CGU based on its FVLCD, using a pre-tax discounted cash flow analysis derived from proved plus probable reserves. Reserve estimates and expected future cash flows from production of reserves are subject to measurement uncertainty as discussed above and are subject to variability due to changes in forecasted commodity prices. In addition, the present value of forecast future cash flows is highly sensitive to the discount rate. Judgment is required to determine an appropriate discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Refer to note 8 for a discussion of the specific estimates and assumptions applied in the calculation of the recoverable amount.

Decommissioning liabilities

The Company estimates the decommissioning obligations for oil and gas wells and their associated production facilities and infrastructure. In most instances, dismantling of assets and remediation occurs many years into the future. The value of the ultimate decommissioning obligation can fluctuate in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques, experience at other production sites, and changes to the risk-free discount rate. The expected timing and amount of expenditure can also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. Judgments include the most appropriate discount rate to use, which management has determined to be a risk-free rate. Key assumptions are disclosed in note 9 of these financial statements.

Return estimates abandonment and reclamation costs based on a combination of publicly available industry benchmarks and internal site specific information. For producing wells and facilities, the expected timing of settlement is estimated based on the proved plus probable period to abandonment for each field, as per the independent reserve report. For non-producing wells, the expected timing of settlement is estimated to be 10 years, unless the timing to abandon and reclaim a specific well site or facility is known based on budgeted expenditures.

Valuation of warrants

The fair value of warrants is estimated using the Black-Scholes option pricing model. The model requires that management make assumptions for the following: the expected life or period in which the warrants will be held prior to exercise; the anticipated volatility of the share price over the expected life; the risk-free interest rate for the life of the warrant; and the number of warrants that will ultimately vest. The fair value allocated to warrants is highly sensitive to these assumptions. Refer to note 11 of these financial statements for details of the specific assumptions applied during the year ended December 31, 2019 as well as a sensitivity on the output.

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted by the Company are set out below.

a) Basis of consolidation

The consolidated financial statements include the accounts of Return and its subsidiaries. Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. As at December 31, 2019, Return has one wholly-owned subsidiary, Winslow. The financial statements of subsidiaries are prepared for the same reporting period as Return, using uniform accounting policies. Subsidiaries are consolidated from the date of acquisition of control and continue to be consolidated until the date there is a loss of control. All intercompany balances, transactions, revenue and expenses are eliminated on consolidation.

b) Joint operations

A portion of the Company's exploration, development and production activities is conducted jointly with others through unincorporated joint ventures. These financial statements reflect only the Company's proportionate interest of these jointly controlled assets and the proportionate share of the relevant revenue and related costs.

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, and 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. 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. 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.

Interest income is recognized as it accrues, using the effective interest method.

d) Foreign currencies

Transactions in foreign currencies are initially recorded at the exchange rate in effect at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars using the closing exchange rate at the consolidated statement of financial position date. The resulting exchange rate differences are included in the consolidated statement of net loss and comprehensive loss.

e) Exploration and Evaluation Assets (“E&E”) and Property, Plant and Equipment (“PP&E”)

Pre-license costs

Costs incurred prior to acquiring the legal rights to explore an area are charged directly to profit or loss as exploration expense in the period incurred. The Company did not incur pre-license costs in the current or prior period.

Exploration and evaluation expenditures

E&E costs are those expenditures for an area where technical feasibility and commercial viability has not yet been determined. 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.

Property, plant and equipment

All costs directly associated with the development of petroleum and natural gas 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 loss 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 income (loss)” 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.

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 – 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 FVLCD and the value in use. In assessing the FVLCD 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.

f) 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.

g) 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 net income or loss. Any deferred tax asset or liability arising from the business combination is recognized at the acquisition date. Transaction costs associated with a business combination are expensed as incurred. Results of acquisitions are included in the consolidated financial statements from the closing date of acquisition.

h) Cash and cash equivalents

Cash and cash equivalents include cash held on deposit and/or short-term investments with original maturities of three months or less.

i) Financial instruments

Classification and measurement of financial assets and financial liabilities

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets and financial liabilities are recognized on the consolidated statements of financial position at the time the Company becomes a party to the contractual provisions.

Financial assets and liabilities are measured at fair value on initial recognition. For non-equity instruments, measurement in subsequent periods depends on the classification of the financial asset or liability as “fair value through profit or loss (FVTPL)” or “amortized cost”.

Financial assets and liabilities classified as FVTPL are subsequently carried at fair value, with changes recognized in profit or loss. The Company classifies its cash and cash equivalents and deposits as FVTPL.

Financial assets and liabilities classified as amortized cost are subsequently carried at amortized cost using the effective interest rate method. The Company classifies its accounts receivable, accounts payable and accrued liabilities and convertible preferred shares as being measured at amortized cost.

Impairment of financial assets

Impairment losses are recognized using an expected credit loss model. The Company has adopted the simplified expected credit loss model for its accounts receivable, which permits the use of the lifetime expected loss provision. To measure the expected credit losses, accounts receivable have been grouped based on shared credit risk characteristics and days past due. The Company uses judgment in making these assumptions and selecting the inputs into the expected loss calculation based on past history, existing market conditions and forward looking estimates at the end of each reporting period. Under this model, the Company’s accounts receivable are expected to be collected within one year or less and therefore these financial assets are not discounted.

Fair value measurements

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The Company maximizes the use of observable inputs when preparing calculations of fair value, where possible. The fair value hierarchy has the following levels:

- Level 1 - Values are based on unadjusted quoted prices available in active markets for identical assets or liabilities as of the reporting date.
- Level 2 - Values are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace. Prices in Level 2 are either directly or indirectly observable as of the reporting date.
- Level 3 - Values are based on prices or valuation techniques that are not based on observable market data.

Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy.

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) 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.

l) 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.

m) Net income (loss) per share

Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the year. For the diluted net income per share calculation, the weighted average number of common shares outstanding is adjusted for the potential number of common shares which may have a dilutive effect on net income 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.

n) Leases

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. At the commencement date, the lease liability is recognized at the present value of the future lease payments and discounted using the interest rate implicit in the lease or the Company's incremental borrowing rate. A corresponding right-of-use ("ROU") asset will be recognized at the amount of the lease liability, adjusted for any lease incentives received and initial direct costs incurred. Over the term of the lease, financing expense is recognized on the lease liability using the effective interest rate method and charged to net income, lease payments are applied against the lease liability and depreciation on the ROU asset is recorded by class of underlying asset.

The lease term is the non-cancellable period of a lease and includes periods covered by an optional lease extension option if reasonably certain the Company will exercise the option to extend. Conversely, periods covered by an option to terminate are included if the Company does not expect to end the lease during that time frame. Leases with a term of less than twelve months or leases for underlying low value assets are recognized as an expense in net income on a straight-line basis over the lease term.

A lease modification will be accounted for as a separate lease if it materially changes the scope of the lease. For a modification that is not a separate lease, on the effective date of the lease modification, the Company will remeasure the lease liability and corresponding ROU asset using the interest rate implicit in the lease or the Company's incremental borrowing rate. Any variance between the remeasured ROU asset and lease liability will be recognized as a gain or loss in net income to reflect the change in scope.

4. CHANGES IN ACCOUNTING POLICIES

Adoption of IFRS 16

The Company adopted IFRS 16 Leases (“IFRS 16”) effective January 1, 2019. The standard supersedes IAS 17 Leases, International Financial Reporting Interpretations Committee 4 Determining whether an arrangement contains a lease, and related interpretations. IFRS 16 requires a lessee recognize a right-of-use asset and lease liability in the statement of financial position for most leases. Prior to January 1, 2019, all of the Company’s leases were accounted for as operating leases and the payments were recognized as an expense on a straight-line basis over the lease term. Details of the new accounting policy adopted by the Company for leases is provided in note 3(n) above.

Return elected to apply IFRS 16 using the modified retrospective approach with prospective application, which did not require restatement of prior period financial information. The Company also applied the optional practical expedients permitted under the standard and did not recognize short term leases and leases of low-value assets on the consolidated statements of financial position. Lease payments for short term and low dollar value assets are instead recognized in the consolidated statements of net loss and comprehensive loss as incurred. The adoption of IFRS 16 did not impact Return’s financial statements for 2019 due to the nature of the Company’s lease agreements in place as of the January 1, 2019 transition date. Refer to note 17 for additional information.

5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As at December 31, 2019, financial instruments of the Company include cash and cash equivalents, accounts receivable, deposits, and accounts payable and accrued liabilities. The fair values of these financial instruments approximates their carrying value due to the short term to maturity. The carrying value of the convertible preferred shares outstanding as at December 31, 2018 approximated the fair value as they were convertible at face value.

The following table summarizes information relating to financial instruments and their classification:

Fair values of financial instruments	**December 31, 2019**	December 31, 2018
Fair value through profit or loss:		
Cash and cash equivalents	**24,652,586**	974,813
Deposits	**6,267**	6,267
Amortized cost:		
Accounts receivable	**229,381**	254,620
Accounts payable and accrued liabilities	**939,758**	387,518
Convertible preferred shares	**-**	2,000,000

The Company is exposed to financial risks arising from its financial assets and liabilities that include credit risk and liquidity risk, in addition to the market risks associated with commodity prices, interest rates and foreign exchange rates.

a) Credit Risk

The carrying amount of cash and cash equivalents, accounts receivable and deposits, represent the Company's maximum credit exposure. Cash and cash equivalents are held on deposit with a Canadian chartered bank. The Company's credit risk exposure arises primarily from receivables from oil and gas marketers and joint venture partners.

The composition of the Company's accounts receivable is set out in the following table:

	December 31, 2019	December 31, 2018
Oil and gas marketers	**133,124**	95,078
Joint venture partners	**85,557**	155,924
GST input tax credits	**10,700**	3,618
Accounts receivable	**229,381**	254,620

During the year ended December 31, 2019, sales to three oil and gas marketers each individually represented more than 10% of revenue. Sales to these marketers account for approximately 41%, 39%, and 14%, of total oil and gas sales revenue (before royalties), respectively. Return's oil and gas marketers are large, credit-worthy institutions that have been rated investment-grade by reputable ratings agencies.

The oil and gas industry has a pre-arranged monthly clearing day for payment of revenues from all buyers of oil and natural gas; this occurs on the 25th day following the month of sale. As a result, the Company's production revenues are current. All other accounts receivable are generally contractually due within 30 days, however the collection period is typically between 60 to 90 days. Amounts outstanding for more than 90 days are generally considered "past due" and relate primarily to receivables from the Company's joint venture partners. 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. Due to the current business environment and low commodity prices, many oil and gas companies, including some of Return's partners, are facing significant financial challenges. Management has reviewed past due accounts receivable balances as at December 31, 2019 and expects the accounts to be collectible, except for approximately $31,605 of accounts receivable which are provided for in the expected credit loss provision.

The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables, including amounts that are not past due. The Company uses a combination of specific identification, historical and forward-looking information to determine the appropriate provision for credit losses. The ageing of the Company's accounts receivable and the expected credit loss provision is summarized as follows:

	Current	30-60 days	60-90 days	Over 90 days	Total
Gross accounts receivable	172,197	13,472	-	75,317	260,986
Estimated credit loss rate	0.6%	3.7%	-	39.8%	
Expected credit loss	(1,098)	(493)	-	(30,014)	(31,605)
Balance at December 31, 2019	**171,100**	**12,979**	**-**	**45,303**	**229,381**
Balance at December 31, 2018	122,279	37,541	12,955	81,845	254,620

The table below reconciles the change in the expected credit loss provision as at December 31, 2019 and 2018:

	2019	2018
Expected credit loss, beginning of year	**14,774**	27,000
Direct write-off of amounts included in provision	**(1,243)**	(12,226)
Provisions for credit losses through profit or loss (1)	**18,074**	-
Expected credit loss, end of year	**31,605**	14,774

(1) The provision for credit losses is presented within general and administrative expenses in the Consolidated Statements of Net Loss and Comprehensive Loss.

b) Liquidity Risk

Liquidity risk is the risk that a company will not be able to meet its financial obligations as they become due. Return significantly strengthened its liquidity and financial position following completion of the Recapitalization Transaction on December 19, 2019 (note 11). The Company had net working capital of $23.5 million (including $24.7 million of cash) as of December 31, 2019, compared to working capital of $0.8 million as of December 31, 2018. The Company prepares and regularly updates its capital and operating budget to forecast future cash flows to ensure, to the extent possible, that it will have sufficient liquidity to meet its obligations.

The Company's financial liabilities include accounts payable and accrued liabilities of $0.9 million as at December 31, 2019. Of this total, approximately $0.2 million are trade payables expected to be paid in 30 to 60 days and $0.7 million are accrued liabilities expected to be settled in three to six months.

c) Market Risks

As at December 31, 2019, there are no derivative financial assets or liabilities currently outstanding, however the Company may use derivative financial instruments in the future in order to manage market risks. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing long-term returns. All such transactions are conducted in accordance with the Company's established risk management policies.

Commodity price risk

Inherent to the business of producing oil and gas, the Company's cash provided by operating activities is subject to commodity price risk. Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices are impacted by world economic events that dictate the levels of supply and demand as well as the currency exchange rate relationship between the Canadian and U.S. dollar. As at December 31, 2019, there are no commodity price risk management contracts outstanding.

Refer to note 19 *"Subsequent Events"* for information regarding a material decrease in global oil prices subsequent to December 31, 2019. In March 2020, the Company entered into risk management contracts to fix the price of 750 GJ per day of natural gas production at CA$1.54 per GJ from April 1 to October 31, 2020.

Interest rate risk

As the Company did not have interest bearing debt during 2019, its exposure to interest rate risk was not significant. The majority of the balance of cash and cash equivalents is from the proceeds of the Private Placement which closed December 19, 2019 (note 11), is held on deposit in an interest bearing savings account. Given the current environment of low interest rates, interest income in future periods is not expected to be material but will nonetheless be impacted by changes in market interest rates. As at December 31, 2019, there are no interest rate risk management contracts outstanding.

Foreign exchange risk

Return is exposed to fluctuations of the Canadian to United States dollar (US$) exchange rate given the Company's realized pricing in Canadian dollars is directly influenced by US$ denominated benchmark pricing. As at December 31, 2019, there were no foreign exchange risk management contracts outstanding.

6. PROPERTY DISPOSITIONS

The table below summarizes the aggregate proceeds received and carrying values of the net assets disposed during the years ended December 31, 2019 and 2018, as well as the resulting gain on sale in each period:

	2019	2018
Exploration and evaluation assets	**-**	-
Property, plant and equipment, net carrying value	**434,104**	57,162
Decommissioning liabilities	**(197,583)**	(57,162)
Carrying value of net assets disposed	**236,521**	-
Cash proceeds, after closing adjustments	**264,793**	352,059
Gain on sale of assets	**28,272**	352,059

On March 28, 2019, the Company sold undeveloped land for cash proceeds of $50,000. The carrying value of the non-core lands disposed was nil resulting in the recognition of a gain on sale of $50,000.

On March 29, 2019, the Company closed a disposition of certain non-core assets located at Valhalla, Alberta, for cash proceeds of $214,793 after closing adjustments. The assets and associated decommissioning liabilities disposed had a net carrying value of $236,521 resulting in a loss on sale of $21,728.

During the previous year ended December 31, 2018, the Company completed dispositions of certain interests located at Gordondale, Alberta, for total cash proceeds after closing adjustments of $352,059. A gain on sale of $352,059 was recognized as the carrying value of the net assets disposed was determined to be nil. The interests disposed consisted primarily of non-core undeveloped lands (exploration and evaluation assets) as well as some minor developed non-producing interests with associated decommissioning costs.

7. EXPLORATION AND EVALUATION ASSETS

The Company's exploration and evaluation ("E&E") assets consist primarily of undeveloped land. The following table reconciles the change in carrying value:

	2019	2018
Balance, beginning of year	**352,666**	133,939
Additions	**-**	218,727
Transfers to property, plant and equipment	**(4,122)**	-
Dispositions (1)	**-**	-
Balance, end of year	**348,544**	352,666

(1) The carrying value of E&E disposed during the current and prior year was nil (note 6).

The Company's accounting policy is to charge the cost of expired mineral leases to exploration expenses in the period, however, the carrying value of expired mineral leases in the current and prior year was nil.

8. PROPERTY, PLANT AND EQUIPMENT

The Company's property, plant and equipment ("PP&E") consist of development and production assets ("D&P") and corporate assets. D&P assets include the Company's interests in developed oil and gas properties as well as interests in infrastructure such as facilities and pipelines. As at December 31, 2019 the net carrying value of PP&E was $9.0 million (December 31, 2018 – $10.6 million).

The following tables reconcile the movements in the cost and accumulated depletion, depreciation and impairment ("DD&I") during the periods:

Property, plant and equipment, at cost	D&P	Corporate	Total PP&E
Balance at December 31, 2017	10,091,861	20,615	10,112,476
Additions	2,808,682	-	2,808,682
Decommissioning costs	609,063	-	609,063
Balance at December 31, 2018	13,509,606	20,615	13,530,221
Additions	4,964	28,958	33,922
Dispositions (note 6)	(524,083)	-	(524,083)
Transfers from E&E	4,122	-	4,122
Decommissioning costs	1,035,698	-	1,035,698
Balance at December 31, 2019	**14,030,307**	**49,573**	**14,079,880**

Accumulated DD&I	D&P	Corporate	Total PP&E
Balance at December 31, 2017	1,228,288	1,718	1,230,006
Depletion and depreciation	1,075,277	10,500	1,085,777
Impairment	595,000	-	595,000
Balance at December 31, 2018	2,898,565	12,218	2,910,783
Depletion and depreciation	1,432,093	10,810	1,442,903
Dispositions (note 6)	(89,979)	-	(89,979)
Impairment	849,478	-	849,478
Balance at December 31, 2019	**5,090,157**	**23,028**	**5,113,185**
Net carrying value, December 31, 2018	10,611,041	8,397	10,619,438
Net carrying value, December 31, 2019	**8,940,150**	**26,545**	**8,966,695**

Future capital costs required to develop total proved plus probable reserves in the amount of $31.8 million (December 31, 2018 – $13.7 million) are included in the depletion calculation for D&P assets.

An indication of potential impairment was identified as a result of the significant decrease in forecast oil and natural gas prices as at December 31, 2019 compared to forecast prices as at December 31, 2018. Return has three CGUs, namely: Rycroft-Valhalla, Gordondale, and Rainbow. Prior to impairment, the Company's Rycroft-Valhalla and Gordondale CGUs represented 91% and 9% of the total carrying value of PP&E, respectively. The carrying amount of the Rainbow CGU was fully depleted as at December 31, 2019.

Recoverable amounts were estimated for each CGU based on FVLCD methodology, calculated using the present value of the CGUs' expected future cash flows before-tax. The cash flow information was derived from a report on the Company's oil and gas reserves which was prepared by an independent qualified reserve evaluator, Sproule Associates Limited ("Sproule") as of December 31, 2019. The projected cash flows used in the FVLCD calculation reflect market assessments of key assumptions as at December 31, 2019, including long-term forecasts of commodity prices, inflation rates, and foreign exchange rates (Level 3 fair value inputs). Cash flow forecasts are also based on past experience, historical trends and Sproule's evaluation of the Company's reserves and resources to determine production profiles and volumes, operating costs, maintenance and future development capital expenditures. Future cash flow estimates are discounted using pre-tax risk-adjusted discount rates.

Based on a discount rate of 15% before-tax, the FVLCD of the Gordondale CGU is negative as at December 31, 2019. At current commodity prices, the return on investment of future development drilling expenditures is not sufficient to offset the decommissioning costs associated with existing inactive wells on the property. Accordingly, the Company concluded the carrying amount of the Gordondale CGU was fully impaired and recognized an impairment loss of $849,478. After impairment, the Rycroft-Valhalla CGU and corporate assets represent 100% of the remaining carrying value of PP&E as at December 31, 2019.

While the recoverable amounts estimated pursuant to FVLCD calculations are sensitive to the discount rate and future commodity price assumptions, holding all other assumptions constant, a 1% change in the discount rate or 5% change in the forecast combined average realized price would not increase or decrease the amount of impairment recognized at December 31, 2019. The results of the impairment calculation are unchanged because the Gordondale CGU was fully impaired and the FVLCD of Rycroft-Valhalla is more than double the carrying amount of the CGU, when future cash flow estimates are discounted at 15% before-tax. Refer to note 19 for discussion regarding the collapse of global oil prices subsequent to the reporting period.

As of the prior year ended December 31, 2018, the Company recorded impairments on the Gordondale and Rainbow CGUs of $560,000 and $35,000, respectively. The prior year FVLCD calculation was based on the present value of pre-tax cash flows from oil and gas reserves per the December 31, 2018 Sproule report and a pre-tax discount rate of 15%.

The forecast future prices used in the impairment evaluations as at December 31, 2019 and December 31, 2018, reflect the benchmark prices set-forth in the tables below, adjusted for basis differentials to determine local reference prices, transportation costs and tariffs, heat content and quality.

As at December 31, 2019	**2020**	**2021**	**2022**	**2023**	**2024[1]**
WTI Cushing Oklahoma (US$/bbl)	**61.00**	**65.00**	**67.00**	**68.34**	**69.71**
Canadian Light Sweet 40 API ($/bbl)	**73.84**	**78.51**	**78.73**	**80.30**	**81.91**
NYMEX Henry Hub (US$/MMBtu)	**2.80**	**3.00**	**3.25**	**3.32**	**3.38**
AECO-C Spot ($/MMBtu)	**2.04**	**2.27**	**2.81**	**2.89**	**2.98**
Exchange rate (CA$/US$)	**1.3158**	**1.2987**	**1.2500**	**1.2500**	**1.2500**

(1) Prices escalate at 2.0% thereafter

As at December 31, 2018	2019	2020	2021	2022	2023[1]
WTI Cushing Oklahoma (US$/bbl)	63.00	67.00	70.00	71.40	72.83
Canadian Light Sweet 40 API ($/bbl)	75.27	77.89	82.25	84.79	87.39
NYMEX Henry Hub (US$/MMBtu)	3.00	3.25	3.50	3.57	3.64
AECO-C Spot ($/MMBtu)	1.95	2.44	3.00	3.21	3.30
Exchange rate (CA$/US$)	1.2987	1.2500	1.2500	1.2500	1.2500

(1) Prices escalate at 2.0% thereafter

9. DECOMMISSIONING LIABILITIES

Decommissioning liabilities arise as a result of the Company's net ownership interests in petroleum and natural gas assets including well sites, processing facilities and infrastructure. The following table provides a reconciliation of the carrying amount of the obligation associated with the retirement of oil and gas properties:

	2019	2018
Balance, beginning of year	**6,843,099**	6,768,270
Liabilities incurred	**-**	139,208
Liabilities disposed (note 6)	**(197,583)**	(57,162)
Liabilities settled	**(128,905)**	(684,238)
Changes in estimates	**1,035,698**	527,017
Accretion	**112,785**	150,004
Balance, end of year	**7,665,094**	6,843,099
Expected to be incurred within one year	**452,219**	100,000
Expected to be incurred beyond one year	**7,212,875**	6,743,099

The underlying cost estimates are derived from a combination of published industry benchmarks as well as site specific information. As at December 31, 2019, the undiscounted amount of the estimated cash flows required to settle the obligation is $7.4 million and is expected to be incurred over the next 30 years. Based on an inflation rate of 2.0%, the undiscounted amount of the estimated future cash flows required to settle the obligation is $9.8 million at December 31, 2019 (December 31, 2018 – $9.7 million). The inflated future cost estimates are discounted based on a risk-free rate to determine the carrying amounts presented in the table above. As at December 31, 2019, the carrying amount of the decommissioning obligations is based on a risk-free rate of 1.76% (December 31, 2018 – 1.9% to 2.2%).

10. CONVERTIBLE PREFERRED SHARES

Prior to the Recapitalization Transaction (as defined in note 11), Return had two million of non-interest bearing, non-voting Series I convertible preferred shares ("Preferred Shares") outstanding. The Preferred Shares were repurchased and cancelled by the Company for nominal consideration on December 19, 2019 in connection with the Recapitalization Transaction. A gain of $2.0 million was recorded as a result of extinguishing the Preferred Shares which were classified as a financial liability.

11. SHARE CAPITAL

a) Authorized

The Company is authorized to issue an unlimited number of common shares, an unlimited number of preferred shares, and an unlimited number of special shares, each without 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

The following table summarizes the change in common shares issued and outstanding. There are no preferred shares or special shares outstanding as of December 31, 2019.

	Number of shares (000s)	Amount
Balance at December 31, 2017 and December 31, 2018	110,552	$ 30,968,189
Recapitalization Transaction:		
Common shares issued	2,500,000	25,000,000
Allocation to Recap Warrants	-	(9,965,150)
Issue costs	-	(254,996)
Balance at December 31, 2019	**2,610,552**	**$ 45,748,043**

Recapitalization Transaction

On November 21, 2019, the Company entered into a definitive reorganization and investment agreement with Fotis Kalantzis and Richard McHardy (the “Initial Investors”) which provided for the Recapitalization Transaction, including: (a) a non-brokered private placement for gross proceeds of up to $25.0 million (the “Private Placement”); and (b) the appointment of a new management team (the “New Management Team”) and new board of directors (the “New Board”) of Return. The New Management Team is led by Richard McHardy as Executive Chairman and Fotis Kalantzis as President and Chief Executive Officer, Geri Greenall as Chief Financial Officer, Thanos Natras as Vice President, Exploration, Craig Martin as Vice President, Operations, Mark Hodgson as Vice President, Corporate Development, and Brendan Paton as Manager, Engineering. The New Board is comprised of Richard McHardy, Fotis Kalantzis, Donald Archibald, Reginald Greenslade, Kevin Overstrom and Tamara MacDonald. Sanjib (Sony) Gill was appointed as Corporate Secretary.

The closing in respect of the Private Placement was completed on December 19, 2019 (the “Closing”) with the Company issuing a total of 879,650,000 common shares and 1,620,350,000 units (the “Recap Units”) of the Company at a price of $0.01 per common share and Recap Unit, respectively, for aggregate gross proceeds of $25.0 million ($24.7 million after issue costs). The Recap Units issued under the Private Placement were issued to the New Management Team, the New Board and certain additional subscribers identified by such persons. Each Recap Unit was comprised of one common share and one common share purchase warrant (each, a “Recap Warrant”). Each Recap Warrant entitles the holder to purchase one common share at a price of $0.01 (the “Exercise Price”) for a period of five years. The Recap Warrants will vest and become exercisable as to one third upon the 10-day weighted average trading price of the common shares (the “Market Price”) equaling or exceeding 100% of the Exercise Price, an additional one-third upon the Market Price equaling or exceeding 150% of the Exercise Price and a final one-third upon the Market Price equaling or exceeding 200% of the Exercise Price. Following the Closing, the appointment of the New Management Team and the New Board was completed. The common shares and Recap Units issued pursuant to the Private Placement are subject to a statutory four-month hold period following the Closing date.

As part of the Recapitalization Transaction, an aggregate of: (a) 2,000,000 Preferred Shares, being all of the issued and outstanding Preferred Shares of Return; (b) 66,666,666 common share purchase warrants of Return (the "Legacy Warrants"), being all of the issued and outstanding Legacy Warrants; and (c) 6,925,000 stock options of Return, being all of the granted and outstanding stock options, were cancelled for nominal consideration.

On March 4, 2020, the shareholders of the Company approved a consolidation of common shares on the basis of a ratio of up to one-hundred (100) pre-consolidation common shares for each post-consolidation common share (the "Share Consolidation"). The Company intends to complete the Share Consolidation in the first half of 2020. The actual ratio for the Share Consolidation will be determined by the Board of Directors, in its sole discretion, having regard to numerous factors, including market considerations and the advice of its advisors.

c) Warrants

The following tables summarizes the change in common share purchase warrants issued and outstanding:

	Number of warrants (000s)	Amount	Average exercise price
Balance at December 31, 2017	90,353	$ 3,158,417	$ 0.11
Expired	(23,686)	(958,417)	(0.15)
Balance at December 31, 2018	66,667	$ 2,200,000	$ 0.10
Recapitalization Transaction:			
Recap Warrants issued	1,620,350	9,965,150	0.01
Legacy Warrants surrendered and cancelled	(66,667)	(2,200,000)	(0.10)
Balance at December 31, 2019	**1,620,350**	**$ 9,965,150**	**$ 0.01**

The Recap Warrants issued in connection with the Private Placement were allocated a value of $9,965,150. The fair value was estimated using the Black-Scholes model with the following assumptions: expected life of five years; volatility of 75%; risk-free interest rate of 1.7%; and a dividend yield of 0%. Management estimates that 100% of warrants issued will ultimately vest and be exercised.

The fair value of the Recap Warrants is highly sensitive to estimates of the expected life and volatility. Management's estimate for the expected life assumes that the majority of Recap Warrants will be held for the maximum term prior to expiry. The expected volatility was estimated based on a peer group historical volatility over a five-year period, a term commensurate with the expected life. Holding all other assumptions constant:

- a 5% increase or decrease in the expected volatility would increase or decrease the fair value of the Recap Warrants by approximately $0.5 million; or
- if the expected life used in the Black-Scholes model was decreased by one year to a period of four years, the fair value of the Recap Warrants would decrease by approximately $0.9 million.

d) 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. The vesting period for each grant is determined at the discretion of the Board of Directors.

The following table summarizes the change in stock options outstanding:

	Number of options (000s)	Average exercise price
Balance at December 31, 2017	2,100	$ 0.29
Granted	5,000	0.10
Balance at December 31, 2018	7,100	$ 0.16
Forfeited	(6,995)	(0.12)
Expired	(105)	(2.30)
Balance at December 31, 2019	**-**	**-**

(1) The options granted on January 5, 2017 vest 1/3 per year on the anniversary date of the grant. The options granted on January 10, 2018 vest 1/2 per year on the anniversary date of the grant.

Pursuant to the reorganization and investment agreement, all outstanding stock options were required to be exercised or terminated such that no stock options would remain outstanding upon completion of the Recapitalization Transaction. A total of 6,925,000 stock options with an average exercise price of $0.12 per share were surrendered and cancelled effective December 19, 2019.

The total fair value associated with stock options granted is recognized as share based compensation expense over the service period using graded vesting. Share based compensation expense is reversed for stock options that are unvested at the time of forfeiture.

	2019	2018
Share based compensation expense, prior to forfeitures	**113,886**	329,742
Recovery of expense previously recognized on unvested stock options forfeited in period	**(264,833)**	-
Share based compensation (recovery) expense	**(150,947)**	329,742

e) Per share amounts

The table below summarizes the weighted average number (000s) of common shares outstanding used in the calculation of net loss per share for the years ended December 31, 2019 and December 31, 2018:

(000s)	**2019**	2018
Weighted average common shares outstanding, basic	**199,593**	110,552
Effect of dilutive securities	**-**	-
Weighted average common shares outstanding, diluted	**199,593**	110,552

The Company uses the treasury stock method to determine the impact of dilutive securities. Under this method, only “in-the-money” dilutive instruments impact the calculation of diluted net income per share.

In computing the diluted net loss per share for the years ended December 31, 2019 and 2018, the effect of stock options, warrants and convertible preferred shares was excluded as they were anti-dilutive.

f) Accumulated other comprehensive income

The Company’s historical balance of accumulated other comprehensive income (“AOCI”) was attributable to the net translation gain related to foreign operations. On March 21, 2018, Return’s only remaining foreign subsidiary, DualEx International, was dissolved. As a result of ceasing foreign operations, the balance of the AOCI was reclassified to the accumulated deficit in shareholders’ equity during the previous year ended December 31, 2018.

12. INCOME TAXES

As at December 31, 2019, total tax deductions available to the Company are estimated to be approximately $19.9 million (December 31, 2018 – $15.6 million). Under IFRS, deferred income tax assets may only be recognized to the extent that it is probable that future taxable profits will be available against which unused tax losses and deductible temporary differences can be utilized. Although the Company's financial position, outlook and growth prospects have improved significantly following the Recapitalization Transaction, Return has a history of losses and the oil and gas industry continues to be faced with weak commodity prices. Accordingly, the Company has not recognized a deferred income tax asset of $4.2 million as at December 31, 2019.

The movement in deferred income tax assets and liabilities, without taking into consideration the offsetting balances within the same tax jurisdiction are as follows:

Deferred income tax Asset (Liability)	Balance Dec 31, 2018	Recognized in income	Recognized in BS(1)	**Balance Dec 31, 2019**
Accelerated tax basis depreciation	(1,381,412)	217,551	-	**(1,163,861)**
Decommissioning obligations	1,847,637	(75,621)	-	**1,772,016**
Share issue costs	35,476	(28,330)	61,964	**69,110**
Non-capital losses(2) and other	3,644,034	(115,978)	-	**3,528,056**
Unrecognized deferred tax asset	4,145,735	(2,378)	61,964	**4,205,321**

(1) "BS" refers to the Consolidated Statements of Financial Position (balance sheet).

(2) As at December 31, 2019, the Company has an estimated $15.4 million of non-capital losses which expire in years 2025 to 2039, of which, $3.4 million expire in 5 to 10 years and $12.0 million expire in 10 to 20 years.

The following table reconciles income taxes calculated at the weighted average Canadian statutory rate with the actual provision for income taxes per the Consolidated Statements of Net Loss and Comprehensive Loss:

	2019	2018
Loss before income taxes	**(1,997,830)**	(3,156,096)
Canadian statutory tax rate	**26.5%**	27.0%
Expected income tax recovery	**(529,425)**	(852,146)
Increase (decrease) resulting from:		
Non-deductible expenses (non-taxable recoveries) (1)	**(38,563)**	90,029
Gain on extinguishment of preferred shares	**(530,000)**	-
Change in tax rates	**751,510**	-
True-up of tax pools	**348,856**	-
Change in unrecognized deferred tax asset	**(2,378)**	762,117
Deferred income tax	**-**	-
Current income tax	**-**	-
Income tax expense	**-**	-

(1) Primarily relates to share based compensation (note 11d).

The Canadian statutory tax rate per the rate reconciliation above represents the average combined federal and provincial corporate tax rate. The federal corporate tax rate is 15.0% and the average provincial tax rate in Alberta was 11.5% during 2019. On June 28, 2019, the Alberta government enacted legislation which reduced the Alberta corporate income tax rate from 12% to: 11% effective July 1, 2019; 10% effective January 1, 2020; 9% effective January 1, 2021; and 8% effective January 1, 2022 and thereafter. As a result of these changes in tax rates, the Company's unrecognized deferred income tax asset decreased by approximately $0.75 million.

13. OIL AND GAS SALES, NET OF ROYALTIES

	2019	2018
Oil and gas sales		
Crude oil	**581,102**	814,399
Natural gas liquids	**302,647**	402,576
Natural gas	**607,570**	589,806
	1,491,319	1,806,781
Royalties		
Crown	**(25,424)**	(97,982)
Gross overridding	**3,731**	4,659
	(21,693)	(93,323)
Oil and gas sales, net of royalties	**1,513,012**	1,900,104

14. GENERAL AND ADMINISTRATIVE EXPENSES

The significant components of the Company's general and administrative expenses ("G&A") are outlined in the following table:

	2019	2018
Salaries and benefits	**786,041**	683,508
Professional and consulting fees	**251,927**	264,926
Shareholder expenses	**61,991**	77,631
Office and business expenses	**287,192**	322,716
Provision for credit losses (note 5)	**18,074**	-
General and administrative expenses	**1,405,225**	1,348,781

Total G&A expenses reported for 2019 of $1.4 million include approximately $0.2 million of expenses directly related to the Recapitalization Transaction. Such costs include severance, legal fees, and additional insurance policy premiums. In addition, approximately $0.25 million of share issue costs incurred in connection with the Recapitalization Transaction were charged directly to equity.

15. SUPPLEMENTAL CASH FLOW INFORMATION

	2019	2018
Accounts receivable	**25,239**	78,917
Prepaid expenses and deposits	**25,207**	(1,156)
Accounts payable and accrued liabilities	**552,240**	(181,022)
Change in non-cash working capital	**602,686**	(103,261)
Relating to:		
Operating activities	**602,686**	(103,261)
Investing activities	**-**	-
Change in non-cash working capital	**602,686**	(103,261)

During the years ended December 31, 2019 and 2018, cash payments of interest and taxes were nil.

16. CAPITAL MANAGEMENT

Return's capital management objectives are to maintain a flexible capital structure in order to meet its financial obligations, execute on strategic opportunities throughout the business cycle and respond to changes in economic conditions. Return actively manages its capital structure and makes adjustments in light of economic conditions and the risk characteristics of the underlying assets.

The significant components of the Company’s capital structure are summarized below:

	December 31, 2019	December 31, 2018
Working capital:		
Cash and cash equivalents	**24,652,586**	974,813
Non-cash working capital [(1)]	**(1,114,780)**	(159,875)
Working capital	**23,537,806**	814,938
Long-term financial liabilities:		
Convertible preferred shares	**-**	2,000,000
Total shareholders’ equity	**25,640,170**	3,043,943

(1) Total current assets, excluding cash, less total current liabilities.

During 2019, the Company took steps to significantly improve its capital structure and liquidity. In addition to non-core property dispositions which provided proceeds of $0.3 million in March 2019, the Company completed the Recapitalization Transaction in December 2019. As more particularly described in note 11, Return raised cash proceeds of $24.7 million (after issue costs) from the Private Placement and extinguished the financial liability related to the convertible preferred shares which were repurchased and cancelled for nominal consideration.

The Company’s business plan is dynamic and evolving in response to the current business environment which is challenging and uncertain. Despite the challenges facing the oil and gas industry, the New Management Team believes Return is well positioned to take advantage of the opportunities created during this period of low commodity prices. The recapitalized corporate structure will allow for the exploitation of existing drilling locations, and the further expansion of Return’s opportunity suite through internally generated prospects and strategic acquisitions. The New Management Team is actively evaluating numerous acquisition opportunities.

The Company’s existing capital resources are sufficient to satisfy its financial obligations and execute on its current business plan for the next 12 months. In order to maintain or adjust its capital structure in the future, the Company may issue new common shares or other equity securities, issue debt, adjust capital expenditures and acquire or dispose of assets. Return’s ability to access new capital (if required) in the future is not guaranteed and may impact the Company’s ability to execute on its strategic growth plans.

The Company is not subject to any externally imposed capital requirements.

17. COMMITMENTS AND CONTINGENCIES

As at December 31, 2019, the Company’s total financial commitments were $6,267 related to the final month of rent under Return’s former office lease. The office lease expired on January 31, 2020 after the original term was extended from September 30, 2019 and was accounted for as a short-term lease under IFRS 16 because the remaining term was less than 12 months as of the January 1, 2019 IFRS transition date. Total payments under the office lease during the year ended December 31, 2019 of $92,326 are reported in general and administrative expenses (2018 – $94,821).

Following completion of the Recapitalization Transaction on December 19, 2019 (note 11), the New Management Team is utilizing temporary office space and does not currently have any financial commitments or contractual obligations related to its corporate office.

Litigation

In the normal course of the Company's operations, it may become involved in, named as a party to, or be the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions, related to personal injuries, property damage, property tax, land rights, the environment and contract disputes with partners or other stakeholders. The outcome of outstanding, pending or future proceedings cannot be predicted with certainty and may be determined to have an adverse affect on the Company's future operations or financial condition. As of the date of these financial statements, the Company has no material litigation or claims outstanding.

18. RELATED PARTY DISCLOSURES

a) Inter-corporate relationships

As at and throughout the year ended December 31, 2019, Return had one wholly-owned subsidiary, Winslow Resources Inc. Balances and transactions between the Company and its subsidiary have been eliminated on consolidation.

b) Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of a company. The Company defines its key management personnel as its officers and board of directors. The following table summarizes compensation paid or payable to key management personnel during the years ended December 31, 2019 and 2018.

	2019	2018
Salaries and benefits (1)	**786,041**	683,508
Directors fees	**36,785**	36,733
Share-based compensation (2)	**(146,200)**	317,249
Key management personnel compensation	**676,626**	1,037,490

(1) Includes $80,000 of severance paid to the former officers Return in connection with the Recapitalization Transaction.

(2) All stock options were forfeited on December 19, 2019 in connection with the Recapitalization Transaction. The recovery of $146,200 relates to share based compensation expense previously recognized for stock options that were unvested.

All amounts reported in the table above were paid to the former officers and directors of Return. The New Management Team and New Board appointed on December 19, 2019 upon closing of the Recapitalization Transaction (note 11) did not receive remuneration in 2019.

c) Related party transactions

During 2019, Return incurred $210,000 of legal fees to a law firm where Sanjib (Sony) Gill, corporate secretary of the Company, is a partner (2018 – nil). The full amount is payable as at December 31, 2019 and is included in the balance of accrued liabilities. The Company expects to continue using the services of this law firm from time to time.

19. SUBSEQUENT EVENTS

To date in 2020, crude oil prices have declined dramatically, largely due to the actual and anticipated impact of the novel coronavirus ("COVID-19") outbreak upon global commerce and energy demand, and the recent disagreements between major oil producing nations of Saudi Arabia and Russia with respect to production quotas. The production cuts by the Organization of Petroleum Exporting Countries ("OPEC") in late 2019 and discussions of potentially further cuts in 2020 had, until recently, kept WTI oil prices in the mid-to-low US$50s. On March 9, 2020, oil prices fell precipitously and WTI has since dropped as far as into the low US$20s.

The COVID-19 outbreak was declared a pandemic by the World Health Organization on March 11, 2020. This has resulted in significant economic uncertainty and governments worldwide are enacting emergency measures to contain the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global financial markets have experienced significant volatility and weakness as a consequence of this economic uncertainty. The duration and impact of the COVID-19 outbreak is unknown as this time, as is the effectiveness of interventions by governments and central banks. While low oil prices will undoubtedly negatively impact Return's future cash flow, the full extent of the impact on the Company's future financial results is uncertain given the length and severity of these developments cannot be reliably estimated. Notwithstanding current uncertainties, Return remains committed to responding to market fundamentals and is carefully monitoring emerging developments. Return is well capitalized and has no leverage, putting the Company in strong position to face these challenges.

In March 2020, the Company entered into risk management contracts to fix the price of 750 GJ per day of natural gas production at CA$1.54 per GJ from April 1 to October 31, 2020. The fixed contract volumes represent approximately 50% of Return's forecasted gas production over the contract term and serve to guarantee a portion of the Company's cash flow through this period of economic uncertainty and depressed oil prices.