



**Condensed Consolidated Interim
Financial Statements
(Unaudited)**

**For the three months ended
March 31, 2017**

Notice of No Auditor Review of Interim Financial Statements

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed these unaudited condensed consolidated interim financial statements as at and for the three months ended March 31, 2017.

RETURN ENERGY INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(UNAUDITED, expressed in Canadian dollars)

<u>ASSETS</u>	As at	
	March 31, 2017	December 31, 2016
CURRENT		
Cash	\$ 2,690,246	\$ 602,848
Accounts receivable	562,017	780,647
Prepaid expenses and deposits	173,856	429,226
	<u>3,426,119</u>	<u>1,812,721</u>
PROPERTY, PLANT AND EQUIPMENT (note 3)	7,943,468	8,030,376
TOTAL ASSETS	<u>\$ 11,369,587</u>	<u>\$ 9,843,097</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)</u>		
CURRENT		
Accounts payable and accrued liabilities	\$ 570,568	\$ 686,414
DECOMMISSIONING LIABILITIES (note 4)	6,305,425	6,236,420
CONVERTIBLE PREFERRED SHARES (note 5)	2,000,000	2,000,000
	<u>8,305,425</u>	<u>8,236,420</u>
TOTAL LIABILITIES	<u>8,875,993</u>	<u>8,922,834</u>
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (note 6c)	28,294,853	26,908,948
WARRANTS (note 6d)	724,417	180,417
CONTRIBUTED SURPLUS	4,961,866	4,918,416
ACCUMULATED OTHER COMPREHENSIVE INCOME	349,715	350,345
DEFICIT	(31,837,257)	(31,437,863)
TOTAL SHAREHOLDERS' EQUITY	<u>2,493,594</u>	<u>920,263</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 11,369,587</u>	<u>\$ 9,843,097</u>

See accompanying notes

RETURN ENERGY INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY (DEFICIT)
(UNAUDITED, expressed in Canadian dollars, except for number of shares outstanding)

	Number of shares	Share Capital	Warrants	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Deficit	Total
Balance December 31, 2015	11,403,894	\$ 25,737,888	\$ -	\$ 4,884,019	\$ 342,087	\$ (31,046,539)	\$ (82,545)
Stock-based compensation		-	-	10,749	-	-	10,749
Comprehensive income (loss) for the period		-	-	-	14,052	(91,471)	(77,419)
Balance March 31, 2016	11,403,894	25,737,888	-	4,894,768	356,139	(31,138,010)	(149,215)
Private company acquisitions	5,500,000	477,064	72,936	-	-	-	550,000
Equity financing	8,105,000	693,996	107,481	-	-	-	801,477
Stock-based compensation	-	-	-	23,648	-	-	23,648
Comprehensive loss for the period		-	-	-	(5,794)	(299,853)	(305,647)
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 6e)	17,415,399	1,385,905	544,000	-	-	-	1,929,905
Stock-based compensation	-	-	-	43,450	-	-	43,450
Comprehensive loss for the period		-	-	-	(630)	(399,394)	(400,024)
Balance March 31, 2017	42,424,293	\$ 28,294,853	\$ 724,417	\$ 4,961,866	\$ 349,715	\$ (31,837,257)	\$ 2,493,594

All references to common shares and per share amounts have been retroactively restated to reflect the share consolidation as outlined in note 6b.

See accompanying notes

RETURN ENERGY INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS
FOR THE THREE MONTHS ENDED MARCH 31
(UNAUDITED, expressed in Canadian dollars)

	2017	2016
REVENUE		
Petroleum and natural gas sales	\$ 573,534	\$ 5,670
Royalties	(54,355)	(534)
Other	60,383	31
	<u>579,562</u>	<u>5,167</u>
EXPENSES		
Operating costs	500,704	5,270
General and administrative	187,150	94,892
Stock-based compensation	43,450	10,749
Depletion and depreciation (note 3)	216,966	1,825
Accretion of decommissioning liabilities (note 4)	30,686	138
Gain on sale (note 3)	-	(35,000)
Foreign exchange loss	-	1,499
	<u>978,956</u>	<u>79,373</u>
LOSS FROM CONTINUING OPERATIONS	(399,394)	(74,206)
LOSS FROM DISCONTINUED OPERATIONS (note 7)	-	(17,265)
NET LOSS	<u>\$ (399,394)</u>	<u>\$ (91,471)</u>
LOSS PER SHARE		
Basic and diluted		
Loss per share from continuing operations	\$ (0.01)	\$ -
Gain (loss) per share from discontinued operations	-	-
Loss per share	<u>\$ (0.01)</u>	<u>\$ -</u>

See accompanying notes

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS
FOR THE THREE MONTHS ENDED MARCH 31
(UNAUDITED, expressed in Canadian dollars)

	2017	2016
NET LOSS	\$ (399,394)	\$ (91,471)
Other comprehensive income to be reclassified to income in subsequent periods		
Foreign currency translation adjustment	(630)	14,052
COMPREHENSIVE LOSS	<u>\$ (400,024)</u>	<u>\$ (77,419)</u>

See accompanying notes

RETURN ENERGY INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOW
FOR THE THREE MONTHS ENDED MARCH 31
(UNAUDITED, expressed in Canadian dollars)

	2017	2016
OPERATING ACTIVITIES		
Loss from continuing operations	\$ (399,394)	\$ (74,206)
Add (subtract) items not requiring cash		
Depletion and depreciation	216,966	1,825
Gain on sale (note 3)	-	(35,000)
Accretion of decommissioning liabilities	30,686	138
Stock-based compensation	43,450	10,749
Unrealized foreign exchange gain (loss)	(630)	2,828
Settlement of decommissioning liabilities	(9,323)	-
Change in non-cash working capital items	214,535	29,802
Cash flow from (used in) continuing operations	96,290	(63,864)
Cash flow used in discontinued operations	-	(17,265)
Cash flow from (used in) operations	96,290	(81,129)
INVESTING ACTIVITIES		
Property, plant and equipment additions	(82,416)	-
Proceeds from disposition	-	35,000
Change in non-cash working capital items	-	(1,725)
Cash flow from (used in) continuing investing activities	(82,416)	33,275
FINANCING ACTIVITIES		
Proceeds from equity financing, net (note 6e)	1,929,905	-
Change in non-cash working capital items	143,619	-
Cash flow from continuing financing activities	2,073,524	-
Foreign exchange gain on cash held in a foreign currency	-	(1,536)
INCREASE (DECREASE) IN CASH	2,087,398	(49,390)
CASH, BEGINNING OF PERIOD	602,848	166,218
CASH, END OF PERIOD	\$ 2,690,246	\$ 116,828

See accompanying notes

RETURN ENERGY INC.

Notes to the March 31, 2017 Condensed Consolidated Interim Financial Statements
(Unaudited, All amounts in Canadian dollars unless otherwise stated)

1. GENERAL INFORMATION

Return Energy Inc. ("Return", the "Company" or the "Group") is engaged in the exploration for and development and production of petroleum and natural gas properties in Alberta. Return's shares are widely held and 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 950, 800 – 6th Avenue S.W., Calgary, Alberta T2P 3G3. The registered office of the Company is located at 1000, 250 - 2nd Street S.W., Calgary, Alberta T2P 0C1.

2. BASIS OF PREPARATION

a) Statement of compliance

These Unaudited Condensed Consolidated Interim Financial Statements for the three months ended March 31, 2017 (the "Financial Statements") have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* following accounting policies in accordance with International Financial Reporting Standards ("IFRS"). The Financial Statements do not include all of the information required for annual financial statements and should be read in conjunction with the Audited Consolidated Financial Statements for the year ended December 31, 2016, which have been prepared in accordance with IFRS.

b) Historical cost and fair value

The Financial Statements have been prepared using the historical cost basis with the exception of financial instruments designated at fair value through profit or loss.

c) Functional and presentation currency

The Financial Statements are presented in Canadian dollars, which is the functional currency of Return and its domestic subsidiaries. The functional currency of the Company's foreign subsidiary is US dollars.

d) Significant accounting policies

The accounting policies adopted in the Financial Statements are consistent with those described in Note 3 of the Audited Consolidated Financial Statements for the year ended December 31, 2016.

RETURN ENERGY INC.

Notes to the March 31, 2017 Condensed Consolidated Interim Financial Statements (Unaudited, All amounts in Canadian dollars unless otherwise stated)

3. PROPERTY, PLANT AND EQUIPMENT

	Oil and Gas Properties	Natural gas processing plant and equipment	Total PP&E
Cost			
Balance December 31, 2016	\$ 7,894,242	\$ 350,000	\$ 8,244,242
Additions	7,104	75,312	82,416
Change in estimate of decommissioning liabilities	47,642	-	47,642
Balance March 31, 2017	<u>\$ 7,948,988</u>	<u>\$ 425,312</u>	<u>\$ 8,374,300</u>
Accumulated depletion, depreciation and impairment			
Balance December 31, 2016	\$ (210,366)	\$ (3,500)	\$ (213,866)
Depletion and depreciation	(211,133)	(5,833)	(216,966)
Balance March 31, 2017	<u>\$ (421,499)</u>	<u>\$ (9,333)</u>	<u>\$ (430,832)</u>
Net Book Value			
Balance December 31, 2016	\$ 7,683,876	\$ 346,500	\$ 8,030,376
Balance March 31, 2017	<u>\$ 7,527,489</u>	<u>\$ 415,979</u>	<u>\$ 7,943,468</u>

At March 31, 2017, future development costs of \$4.7 million were included in the depletion calculation.

During the three months ended March 31, 2016, the Company sold mineral claims for \$35,000. The Company had a book value of \$nil, and as a result recorded a gain on sale of \$35,000.

4. DECOMMISSIONING LIABILITIES

The Company's decommissioning liabilities are based on the Company's net ownership in wells and facilities and management's estimate of costs to abandon and reclaim those wells and facilities as well as an estimate of the future timing of these costs.

	Three months ended March 31, 2017
Decommissioning liabilities, December 31, 2016	\$ 6,236,420
Change in estimated future cash outflows	47,642
Disposition	-
Settlement	(9,323)
Accretion	30,686
Decommissioning liabilities, March 31, 2017	<u>\$ 6,305,425</u>
Expected to be incurred within one year	\$ -
Expected to be incurred beyond one year	6,305,425
	<u>\$ 6,305,425</u>

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 March 31, 2017 is \$9,239,000. Payments to settle the decommissioning liabilities occur over the operating lives of the underlying assets, estimated to be from 5 – 41 years. The estimated future cash flows have been discounted at a risk free rates between 1.1% and 2.3% and reflect an inflation rate of 2%.

RETURN ENERGY INC.

Notes to the March 31, 2017 Condensed Consolidated Interim Financial Statements
(Unaudited, All amounts in Canadian dollars unless otherwise stated)

5. 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.

The Preferred Shares meet the definition of a financial liability, and therefore 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.

6. 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 first preferred shares with no par value. The first preferred shares may be issued in series, with the directors determining the terms of the preferred shares on a series by series basis.

(b) Share consolidation

On December 20, 2016 the Company consolidated its outstanding shares on a 10 for 1 basis. The share consolidation was approved by shareholders at the Company's annual shareholder meeting held on December 15, 2016. The Company had 250,088,939 common shares issued and outstanding prior to the share consolidation. Post consolidation the number of issued and outstanding shares is 25,008,894. The exercise price and number of common shares issuable pursuant to all outstanding stock options and warrants have been adjusted in accordance with the consolidation ratio.

All references to common shares and per share amounts have been retroactively restated to reflect the share consolidation.

(c) Issued and outstanding

	Number of Shares	Amount
Common Shares		
Balance December 31, 2016	25,008,894	\$ 26,908,948
Equity financing	17,415,399	1,385,905
Balance March 31, 2017	<u>42,424,293</u>	<u>\$ 28,294,853</u>

RETURN ENERGY INC.

Notes to the March 31, 2017 Condensed Consolidated Interim Financial Statements
(Unaudited, All amounts in Canadian dollars unless otherwise stated)

6. SHARE CAPITAL (continued)

(d) 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 6e)	16,883,959	544,000	0.15
Warrants outstanding March 31, 2017	<u>23,686,459</u>	<u>\$ 724,417</u>	<u>\$ 0.15</u>

(e) 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.

Each Unit issued consisted of one Return common share ("Common Share") and one full Common Share purchase warrant ("Warrant"). Each whole Warrant is exercisable by the holder to purchase one Common Share for a period of 12 months from March 14, 2017 ("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).

Finders received \$22,027 in cash and 183,560 Warrants as compensation. Total costs in connection with the financing amounted to \$174,243.

The Warrants have been assigned a value of \$544,000 using a Black-Scholes model with the following assumptions: expected life one year, expected volatility 100%, risk-free interest rate of 0.86%, and a zero dividend yield.

RETURN ENERGY INC.

Notes to the March 31, 2017 Condensed Consolidated Interim Financial Statements
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6. SHARE CAPITAL (continued)

(f) Stock 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 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 date vest 1/3 per year on the anniversary date of the grant for the next three years. During the three months ended March 31, 2017 the following stock options were issued:

	Number of Options	Weighted Average Exercise Price
Outstanding December 31, 2016	120,000	\$ 2.26
Issued	2,070,000	0.185
Outstanding March 31, 2017	2,190,000	\$ 0.30

(g) Loss per share

The weighted average number of shares outstanding for the three months ended March 31, 2017 is 28,685,478 (three months ended March 31, 2016 – 11,403,834). Due to the loss in the three months ended March 31, 2017 and 2016 no options were included in the computation of diluted loss per share as they have an anti-dilutive effect on loss per share.

7. DISCONTINUED OPERATIONS

In June 2016 the Company relinquished its interest in the Bouhajla block in Tunisia and discontinued its operations in Tunisia.

Operating results related to discontinued operations have been included in net income (loss) from discontinued operations on the consolidated statements of loss. Comparative period balances have been restated. During the three months ended March 31, 2017 \$nil have been incurred in Tunisia (three months ended March 31, 2017 - \$17,265).

8. FINANCIAL INSTRUMENTS

The Company's financial instruments recognized in the consolidated statement of financial position consist of cash, accounts receivable, deposits, accounts payable and accrued liabilities, and Preferred Shares. Cash is classified as held for trading. 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 the Market Price.

Carrying value and fair value of financial assets and liabilities are summarized as follows:

	March 31, 2017	
	Carrying Value	Fair Value
Cash	\$ 2,690,246	\$ 2,690,246
Accounts receivable	562,017	562,017
Deposits	139,286	139,286
Accounts payable and accrued liabilities	(570,568)	(570,568)
Convertible preferred shares	(2,000,000)	(2,000,000)

RETURN ENERGY INC.

Notes to the March 31, 2017 Condensed Consolidated Interim Financial Statements
(Unaudited, All amounts in Canadian dollars unless otherwise stated)

9. SUBSEQUENT EVENTS

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 \$750,000 in cash, subject to closing adjustments. All of the acquired production is processed through the Rycroft gas plant. The Company acquired this to further consolidate its position in the Peace River Arch. The allocations and determinations of the purchase price are preliminary and subject to change upon final adjustments.

The fair market value of the assets acquired are as follows:

Fair Value of net assets acquired:

Accounts Receivable	\$	75,000
Property, Plant and Equipment		1,140,000
Decommissioning Liabilities		(25,000)
Net Assets Acquired	\$	<u>1,190,000</u>

Consideration:

Cash	\$	<u>750,000</u>
Gain on acquisition	\$	<u>440,000</u>

Had the business combinations occurred on January 1, 2017, additional pro-forma revenue of approximately \$138,000 and net income of \$63,000 would have been recognized over the three months ended March 31, 2017.

The fair value of the decommissioning obligation at April 20, 2017 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 risk-free rate of 10%.

The Company entered into a lease agreement whereby the Company will lease office space until June 30, 2019. The Company has committed to future payments under this lease of \$37,600 in 2017, \$75,200 in 2018 and \$37,600 in 2019.

CORPORATE INFORMATION

OFFICERS

Kenneth M. Tompson, P. Geol
President and Chief Executive Officer

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

DIRECTORS

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President and Chief Executive Officer

Garry T. Hides, P. Land
Chestermere, AB
Executive Vice President

Roy H. Hudson, LLB
Calgary, AB
Partner
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Bradley B. Porter
Okotoks, AB
Independent Businessman

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