RETURN ENERGY INC.

Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and six months ended June 30, 2017

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

ASSETS	As at June 30, 2017	As at December 31, 2016
CURRENT		
Cash	$ 1,836,166	$ 602,848
Accounts receivable	449,756	780,647
Prepaid expenses and deposits	51,537	429,226
	2,337,459	1,812,721
EXPLORATION AND EVALUATION (note 3)	99,455	-
PROPERTY, PLANT AND EQUIPMENT (note 4)	9,307,853	8,030,376
TOTAL ASSETS	$ 11,744,767	$ 9,843,097
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT		
Accounts payable and accrued liabilities	$ 458,576	$ 686,414
DECOMMISSIONING LIABILITIES (note 5)	6,672,510	6,236,420
CONVERTIBLE PREFERRED SHARES (note 6)	2,000,000	2,000,000
	8,672,510	8,236,420
TOTAL LIABILITIES	9,131,086	8,922,834
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (note 7c)	28,283,806	26,908,948
WARRANTS (note 7d)	724,417	180,417
CONTRIBUTED SURPLUS	5,005,316	4,918,416
ACCUMULATED OTHER COMPREHENSIVE INCOME	349,715	350,345
DEFICIT	(31,749,573)	(31,437,863)
TOTAL SHAREHOLDERS' EQUITY	2,613,681	920,263
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 11,744,767	$ 9,843,097

Commitments (note 11)

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)

	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		-	-	21,498	-	-	21,498
Comprehensive income (loss) for the period		-	-	-	13,486	(163,126)	(149,640)
Balance June 30, 2016	11,403,894	25,737,888	-	4,905,517	355,573	(31,209,665)	(210,687)
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	-	-	-	12,899	-	-	12,899
Comprehensive loss for the period	-	-	-	-	(5,228)	(228,198)	(233,426)
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 7e)	17,415,399	1,374,858	544,000	-	-	-	1,918,858
Stock-based compensation	-	-	-	86,900	-	-	86,900
Comprehensive loss for the period	-	-	-	-	(630)	(311,710)	(312,340)
Balance June 30, 2017	42,424,293	$ 28,283,806	$ 724,417	$ 5,005,316	$ 349,715	$ (31,749,573)	$ 2,613,681

All references to common shares and per share amounts have been retroactively restated to reflect the share consolidation as outlined in note 7b.

See accompanying notes

RETURN ENERGY INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF NET INCOME (LOSS)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30

(UNAUDITED, expressed in Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
REVENUE				
Petroleum and natural gas sales	$ 600,914	$ 2,895	$ 1,174,448	$ 8,565
Royalties	(40,018)	(184)	(94,373)	(718)
Other	45,116	32	105,499	63
	606,012	2,743	1,185,574	7,910
EXPENSES				
Operating costs	465,674	4,229	966,378	9,499
General and administrative	304,710	48,742	491,860	143,634
Stock-based compensation	43,450	10,749	86,900	21,498
Depletion and depreciation (note 4)	223,673	1,824	440,639	3,649
Accretion of decommissioning liabilities (note 5)	30,179	99	60,865	237
Gain on sale of exploration and evaluations assets (note 3)	(50,000)	-	(50,000)	-
Gain on sale of property, plant and equipment (note 4)	(94,290)	-	(94,290)	-
Gain on acquisition (note 8)	(400,000)	-	(400,000)	(35,000)
Foreign exchange loss (gain)	(5,068)	75	(5,068)	1,574
	518,328	65,718	1,497,284	145,091
NET INCOME (LOSS) FROM CONTINUING OPERATIONS	87,684	(62,975)	(311,710)	(137,181)
LOSS FROM DISCONTINUED OPERATIONS (note 9)	-	(8,680)	-	(25,945)
NET INCOME (LOSS)	$ 87,684	$ (71,655)	$ (311,710)	$ (163,126)
NET INCOME (LOSS) PER SHARE (note 7g)				
Basic and diluted				
Net income (loss) per share from continuing operations	$ -	$ (0.01)	$ (0.01)	$ (0.01)
discontinued operations	-	-	-	-
Net income (loss) per share	$ -	$ (0.01)	$ (0.01)	$ (0.01)

See accompanying notes

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30

(UNAUDITED, expressed in Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
NET INCOME (LOSS)	$ 87,684	$ (71,655)	$ (311,710)	$ (163,126)
Other comprehensive income to be reclassified to income in subsequent periods				
Foreign currency translation adjustment	-	(566)	(630)	13,486
COMPREHENSIVE INCOME (LOSS)	$ 87,684	$ (72,221)	$ (312,340)	$ (149,640)

See accompanying notes

RETURN ENERGY INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOW
FOR THE SIX MONTHS ENDED JUNE 30
(UNAUDITED, expressed in Canadian dollars)

	2017	2016
OPERATING ACTIVITIES		
Loss from continuing operations	$ (311,710)	$ (137,181)
Add (subtract) items not requiring cash		
Depletion and depreciation	440,639	3,649
Gain on acquisition (note 8)	(400,000)	-
Gain on sale of exploration and evaluations assets	(50,000)	(35,000)
Gain on sale of property, plant and equipment	(94,290)	-
Accretion of decommissioning liabilities	60,865	237
Stock-based compensation	86,900	21,498
Unrealized foreign exchange (gain) loss	(630)	15,493
Settlement of decommissioning liabilities	(9,323)	-
Change in non-cash working capital items	414,295	1,328
Cash flow from (used in) continuing operations	136,746	(129,976)
Cash flow used in discontinued operations	-	(25,945)
Cash flow from (used in) operations	136,746	(155,921)
INVESTING ACTIVITIES		
Exploration and evaluation expenditures (note 3)	(99,455)	-
Property, plant and equipment expenditures (note 4)	(103,030)	-
Property acquisitions (note 8)	(834,236)	-
Property disposition (note 4)	118,973	35,000
Exploration and evaluations asset disposition (note 3)	50,000	-
Change in non-cash working capital items	45,462	-
Cash flow from (used in) continuing investing activities	(822,286)	35,000
FINANCING ACTIVITIES		
Proceeds from equity financing, net (note 7e)	1,918,858	-
Cash flow from continuing financing activities	1,918,858	-
Foreign exchange gain on cash held in a foreign currency	-	55
INCREASE (DECREASE) IN CASH	1,233,318	(120,866)
CASH, BEGINNING OF PERIOD	602,848	166,218
CASH, END OF PERIOD	$ 1,836,166	$ 45,352

See accompanying notes

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 1220, 407 – 2nd Street S.W., Calgary, Alberta T2P 2Y3 The registered office of the Company is located at 1000, 250 - 2nd Street S.W., Calgary, Alberta T2P 0C1. On January 1, 2017 the Company amalgamated Murelle Enterprises Inc. and Bredal Energy Corp. into Winslow Resources Inc. As a result, Return Energy Inc. has two remaining 100% owned subsidiaries, Winslow Resources Inc. and DualEx International Inc.

2. BASIS OF PREPARATION

a) Statement of compliance

These Unaudited Condensed Consolidated Interim Financial Statements for the three and six months ended June 30, 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. The Board of Directors approved the Financial Statements on Aug 22, 2017.

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 subsidiary. 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.

(Unaudited, All amounts in Canadian dollars unless otherwise stated)

3. EXPLORATION AND EVALUATION ASSETS

Balance, December 31, 2016	$	-
Acquisition of undeveloped land		99,455
Balance, June 30, 2017	$	99,455

During the three months ended June 30, 2017, the Company sold undeveloped land for $50,000. The undeveloped land had a book value of $nil, and as a result a gain on sale of $50,000 was recorded.

4. PROPERTY, PLANT AND EQUIPMENT

Cost	Oil and Gas Properties	Natural gas processing plant and equipment	Computer and office equipment	Total PP&E
Balance December 31, 2016	$ 7,894,242	$ 350,000	$ -	$ 8,244,242
Additions	7,103	75,312	20,615	103,030
Acquisitions	862,221	450,000	-	1,312,221
Disposition	(319,197)	-	-	(319,197)
Change in estimate of decommissioning liabilities	579,222	10,774	-	589,996
Balance June 30, 2017	$ 9,023,591	$ 886,086	$ 20,615	$ 9,930,292
Accumulated depletion, depreciation and impairment				
Balance December 31, 2016	$ (210,366)	$ (3,500)	$ -	$ (213,866)
Disposition	32,066	-	-	32,066
Depletion and depreciation	(419,645)	(20,421)	(573)	(440,639)
Balance June 30, 2017	$ (597,945)	$ (23,921)	$ (573)	$ (622,439)
Net Book Value				
Balance December 31, 2016	$ 7,683,876	$ 346,500	$ -	$ 8,030,376
Balance June 30, 2017	$ 8,425,646	$ 862,165	$ 20,042	$ 9,307,853

During the three months ended June 30, 2017, the Company sold non-core oil assets for cash proceeds of $118,973. The Company had a book value of $287,131 and decommissioning liabilities of $262,448 and as a result recorded a gain on sale of $94,290.

At June 30, 2017, future development costs of $4.7 million were included in the depletion calculation.

(Unaudited, All amounts in Canadian dollars unless otherwise stated)

5. 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.

Decommissioning liabilities,		
December 31, 2016	$	6,236,420
Liabilities acquired (note 8)		57,000
Liabilities divested (note 4)		(262,448)
Liabilities settled		(9,323)
Accretion		60,865
Change in estimated future cash outflows (note 4)		589,996
Decommissioning liabilities,		
June 30, 2017	$	6,672,510
Expected to be incurred within one year	$	-
Expected to be incurred beyond one year		6,672,510
	$	6,672,510

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 June 30, 2017 is $9,423,000. 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 1.4% and 2.1% and reflect an inflation rate of 2%.

6. 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.

(Unaudited, All amounts in Canadian dollars unless otherwise stated)

7. 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 (note 7e)	17,415,399	1,374,858
Balance June 30, 2017	42,424,293	$ 28,283,806

(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 7e)	16,883,959	544,000	0.15
Warrants outstanding June 30, 2017	23,686,459	$ 724,417	$ 0.15

(Unaudited, All amounts in Canadian dollars unless otherwise stated)

7. SHARE CAPITAL (continued)

(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 $185,290.

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.

(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 six months ended June 30, 2017, the changes to the outstanding stock options are as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding December 31, 2016	120,000	$ 2.26
Granted	2,070,000	0.185
Expired	(15,000)	2.00
Oustanding June 30, 2017	2,175,000	$ 0.29

(Unaudited, All amounts in Canadian dollars unless otherwise stated)

7. SHARE CAPITAL (continued)

The following summarizes outstanding stock options as at June 30, 2017.

Date of Grant	Number Outstanding	Weighted Average Exercise Price		Weighted Average Remaining Contractual Life in Years	Options Exercisable
02-Sep-14	105,000	$	2.30	2.17	70,000
05-Jan-17	2,070,000	$	0.185	4.50	-
	2,175,000	$	0.29		70,000

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

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

(g) Loss per share

The weighted average number of shares outstanding for the three months and six ended June 30, 2017 is 42,424,293 and 35,592,838, respectively (three and six months ended June 30, 2016, 2016 – 11,403,894). No options or warrants were included in the computation of diluted loss per share as they have an anti-dilutive effect on loss per share.

(Unaudited, All amounts in Canadian dollars unless otherwise stated)

8. GAIN ON ACQUISITION

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

The Company also completed two smaller acquisitions during the three months ended June 30, 2017 acquiring approximately 12 BOE/day of production for total consideration of $140,221. (the "Other acquisitions").

The Company acquisitions were acquired 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 estimated fair value of the acquisitions are as follows:

Fair Value of net assets acquired:	Plant and production acquisition	Other acquisitions	Total acquisitions
Property, plant and equipment	1,140,000	172,221	1,312,221
Decommissioning liabilities	(25,000)	(32,000)	(57,000)
Net assets acquired	$ 1,115,000	$ 140,221	$ 1,255,221
Consideration:			
Cash	$ 715,000	$ 119,236	$ 834,236
Non-cash consideration	-	20,985	20,985
Total consideration	$ 715,000	$ 140,221	$ 855,221
Gain on acquisition	$ 400,000	$ -	$ 400,000

The acquisitions contributed revenue of approximately $74,000 and net income of approximately $10,000 during the six months ended June 30, 2017.

Had these business combinations occurred on January 1, 2017, additional pro-forma revenue of approximately $215,000 and net income of $32,000 would have been recognized.

The fair value of the decommissioning obligations was based on the estimated future cash flows to decommission the acquired property, plant and equipment at the end of its useful life. The discount rate used to determine the net present value of the decommissioning obligation was the credit adjusted risk-free rate of 10%. Subsequently, the decommissioning liability was revalued at risk-free rates ranging from 1.4% to 2.1%, resulting in incremental additions of $448,000 of decommissioning obligation, included in change in estimate, and corresponding additions to property, plant and equipment.

9. 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 loss from discontinued operations on the consolidated statements of net income (loss). Comparative period balances have been restated. During the three and six months ended June 30, 2017 $nil have been incurred in Tunisia (three and six months ended June 30, 2016 $8,680 and $25,945, respectively.)

10. 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.

11. COMMITMENTS

The Company entered into a lease agreement whereby the Company will lease office space until September 30, 2019. The Company has committed to future payments under this lease of $18,200 in 2017, $75,800 in 2018 and $54,600 in 2019.

The Company has a commitment to spend a minimum of $100,000 by December 31, 2018 to meet its flow through obligation. To date the Company has spent approximately $80,000 of its flow through obligation.

12. RELATED PARTY DISCLOSURE

During the three months ended June 30, 2017, the Company purchased two sections of undeveloped land from a corporation controlled by an officer of the Company for $60,000. The cost of the undeveloped land is comparable to what would have been paid to unrelated parties.

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
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Executive Vice President

Roy H. Hudson, LLB
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