Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine months ended September 30, 2019 and 2018

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 and nine months ended September 30, 2019.

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

	As at	
ASSETS	September 30, 2019	December 31, 2018
CURRENT		
Cash	$ 534,460	$ 974,813
Accounts receivable	197,463	254,620
Prepaid expenses and deposits	39,836	73,023
	771,759	1,302,456
EXPLORATION AND EVALUATION (note 3)	352,666	352,666
PROPERTY, PLANT AND EQUIPMENT (note 4)	10,101,620	10,619,438
TOTAL ASSETS	$ 11,226,045	$ 12,274,560
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT		
Accounts payable and accrued liabilities	$ 708,970	$ 387,518
Decommissioning liabilities (note 5)	35,000	100,000
	743,970	487,518
DECOMMISSIONING LIABILITIES (note 5)	7,292,465	6,743,099
CONVERTIBLE PREFERRED SHARES (note 6)	2,000,000	2,000,000
	9,292,465	8,743,099
TOTAL LIABILITIES	10,036,435	9,230,617
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (note 7b)	30,968,189	30,968,189
WARRANTS (note 7c)	2,200,000	2,200,000
CONTRIBUTED SURPLUS	6,453,493	6,368,968
DEFICIT	(38,432,072)	(36,493,214)
TOTAL SHAREHOLDERS' EQUITY	1,189,610	3,043,943
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 11,226,045	$ 12,274,560

Going Concern (note 2b)
Commitments (note 11)
Subsequent Event (note 12)

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

RETURN ENERGY INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30

(UNAUDITED, Expressed in Canadian dollars)

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
REVENUE				
Oil and gas sales, net of royalties (note 8)	$ 254,036	$ 510,829	$ 1,078,225	$ 1,580,195
Processing and other	37,412	48,244	99,576	108,482
	291,448	559,073	1,177,801	1,688,677
EXPENSES				
Operating costs	465,827	525,050	1,381,472	1,533,635
General and administrative	221,745	251,981	847,165	1,032,500
Share-based compensation (7d)	28,175	80,967	84,525	248,775
Depletion, depreciation and impairment (note 4)	239,365	250,210	768,606	772,462
Accretion of decommissioning liabilities (note 5)	27,531	42,256	84,891	114,676
Gain on sale of exploration and evaluation assets (note 3)	-	(354,016)	(50,000)	(354,016)
	982,643	796,448	3,116,659	3,348,032
NET LOSS AND COMPREHENSIVE LOSS	$ (691,195)	$ (237,375)	$ (1,938,858)	$ (1,659,355)
LOSS PER SHARE (note 7e)				
Basic and diluted				
Loss per share	$ (0.01)	$ -	$ (0.02)	$ (0.02)

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

RETURN ENERGY INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOW
FOR THE NINE MONTHS ENDED SEPTEMBER 30
(UNAUDITED, Expressed in Canadian dollars)

	2019	2018
OPERATING ACTIVITIES		
Net Loss	$ (1,938,858)	$ (1,421,980)
Add (subtract) items not requiring cash		
Depletion, depreciation and impairment (note 4)	768,606	522,252
Gain on sale of exploration and evaluations assets (note 3)	(50,000)	-
Accretion of decommissioning liabilities (note 5)	84,891	72,420
Share-based compensation (note 7d)	84,525	167,808
Settlement of decommissioning liabilities (note 5)	(61,643)	(578,104)
Change in non-cash working capital items (note 9)	411,796	(204,967)
Cash flow used in operations	(700,683)	(1,442,571)
INVESTING ACTIVITIES		
Exploration and evaluation expenditures	-	(62,022)
Property, plant and equipment expenditures (note 4)	(4,463)	(2,727,098)
Property disposition (note 4)	214,793	-
Exploration and evaluations asset disposition (note 3)	50,000	-
Change in non-cash working capital items (note 9)	-	831,319
Cash flow from (used in) investing activities	260,330	(1,957,801)
DECREASE IN CASH	(440,353)	(3,400,372)
CASH, BEGINNING OF PERIOD	974,813	5,785,294
CASH, END OF PERIOD	$ 534,460	$ 2,384,922

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

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

	Number of shares	Share Capital	Warrants	Contributed Surplus	Deficit	Total
Balance December 31, 2018	110,551,648	$ 30,968,189	$ 2,200,000	$ 6,368,968	$ (36,493,214)	$ 3,043,943
Share-based compensation	-	-	-	84,525	-	84,525
Comprehensive loss for the period	-	-	-	-	(1,938,858)	(1,938,858)
Balance September 30, 2019	110,551,648	$ 30,968,189	$ 2,200,000	$ 6,453,493	$ (38,432,072)	$ 1,189,610

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

1. GENERAL INFORMATION

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

2. BASIS OF PREPARATION

a) Statement of compliance

These Unaudited Condensed Consolidated Interim Financial Statements for the three and nine months ended September 30, 2019 (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, 2018 which have been prepared in accordance with IFRS.

b) Going concern

The Financial Statements have been prepared on the basis that the Company will continue to operate as a going concern, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. For the nine months ended September 30, 2019, the Company reported a net loss of $2.0 million and negative cash flow used in operations of $0.7 million. Should the Transaction referenced in note 12 not close, the above factors create material uncertainty which casts significant doubt upon the Company's ability to continue as a going concern. If the going concern basis of accounting is no longer appropriate, adjustments may be necessary to the carrying amounts and classification of the Company's assets and liabilities. The Financial Statements do not include any adjustments that might result if the Company is unable to continue as a going concern, and such adjustments could be material. The Company's ability to continue as a going concern is dependent on the ability to carry out some form of sale of assets, financing, merger, farmout or other transaction.

c) Historical cost

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

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

2. BASIS OF PREPARATION (continued)

d) Adopted accounting pronouncements

IFRS 16 "Leases"

As of January 1, 2019, the Company adopted IFRS 16 which introduces a single lease accounting model for lessees which requires the recognition of a right of use asset ("ROU") and a lease liability on the statement of financial position for contracts that are a lease.

The Company adopted IFRS 16 using the modified retrospective approach. Under this method of adoption, the ROUs recognized were measured at amounts equal to the present value of the lease obligations. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effective of IFRS 16 as an adjustment to opening retained earnings and applies the standard prospectively. The Company elected to not apply lease accounting to leases for which the lease term ends within 12 months of the date of initial adoption. The Company did a complete evaluation of the contracts it has entered into, and it was determined that there is no material impact as a result of adopting IFRS 16. In addition, as a result of this adoption, the Company has included an accounting policy for leases as follows:

Leases

Leases or contractual obligations are capitalized as ROUs with a corresponding right of use lease obligation using the present value of future lease payments on the statement of financial position. The discount rate used to determine the ROU is disclosed in the lease contract or the Company's incremental borrowing rate, if none is provided. Lease payments equal to or less than twelve months will continue to be expensed in the statement of net loss and comprehensive loss.

e) 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, 2018, except for leases, which are described in note 2d above.

3. EXPLORATION AND EVALUATION ASSETS

Balance, December 31, 2018 and September 30, 2019	$ 352,666

During the three months ended March 31, 2019, the Company sold undeveloped land for cash proceeds of $50,000. The undeveloped land had a net book value of $nil and as a result a gain on sale of $50,000 was recorded.

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

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

Cost	Oil and gas properties	Natural gas processing plant and equipment	Office equipment and other	Total PP&E
Balance December 31, 2018	$ 12,304,452	$ 1,205,154	$ 20,615	$ 13,530,221
Additions	4,463	-	-	4,463
Disposition	(412,376)	-	-	(412,376)
Decommissioning liabilities (note 5)	658,701	-	-	658,701
Balance September 30, 2019	$ 12,555,240	$ 1,205,154	$ 20,615	$ 13,781,009
Accumulated depletion, depreciation and impairment				
Balance December 31, 2018	$ (2,744,677)	$ (153,888)	$ (12,218)	$ (2,910,783)
Depletion, depreciation and impairment	(669,411)	(92,895)	(6,300)	(768,606)
Balance September 30, 2019	$ (3,414,088)	$ (246,783)	$ (18,518)	$ (3,679,389)
Net Book Value				
Balance December 31, 2018	$ 9,559,775	$ 1,051,266	$ 8,397	$ 10,619,438
Balance September 30, 2019	$ 9,141,152	$ 958,371	$ 2,097	$ 10,101,620

During the nine months ended September 30, 2019, the Company sold non-core oil assets for cash proceeds of $214,793. The non-core assets sold had a book value of $412,376 and decommissioning liabilities of $197,583.

For the nine months ended September 30, 2019, future development costs of $13.7 million (September 30, 2018 - $4.7 million) were included in the depletion calculation.

5. DECOMMISSIONING LIABILITIES

	Nine months ended September 30 2019
Decommissioning liabilities, December 31, 2018	$ 6,843,099
Liabilities divested	(197,583)
Change in estimated future cash outflows	658,701
Settlement	(61,643)
Accretion	84,891
Decommissioning liabilities, September 30, 2019	$ 7,327,465
Expected to be incurred within one year	$ 35,000
Expected to be incurred beyond one year	7,292,465
	$ 7,327,465

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

5. DECOMMISSIONING LIABILITIES (continued)

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 September 30, 2019 is $9.3 million. Payments to settle the decommissioning liabilities occur over the operating lives of the underlying assets, estimated to be from 1 – 40 years. The estimated future cash flows have been discounted at risk free rates of between 1.4% and 1.5% 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. No conversion of Preferred Shares may occur within 30 days of a prior conversion, and no conversion of Preferred Shares may occur when, after such conversion the Vendor would own (including shares owned prior to the conversion) 10% or more of the outstanding common shares after conversion.

The conversion feature does not meet the definition of an embedded derivative and as such the entire investment is deemed to be a financial liability. Therefore, the Preferred Shares are recorded as a debt instrument, due to the Company's obligation to deliver a variable number of its own common shares to the holder upon conversion. Pursuant to the Agreement referenced in note 12, the Preferred Shares will be cancelled upon closing of the Transaction.

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) Issued and outstanding

	Number of Shares	Amount
Common Shares		
Balance December 31, 2018 and September 30, 2019	110,551,648	$ 30,968,189

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

7. SHARE CAPITAL (continued)

(c) Warrants

	Number of Warrants	Value	Average Exercise Price
Warrants outstanding December 31, 2018 and September 30, 2019	66,666,666	$ 2,200,000	0.10

Pursuant to the Agreement referenced in note 12, the Warrants will be cancelled upon closing of the Transaction.

(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. All options awarded to December 31, 2017 vest 1/3 per year on the anniversary date of the grant for the next three years. Options awarded in 2018 vest ½ per year on the anniversary date of the grant for the next two years.

	Number of Options	Weighted Average Exercise Price
Oustanding December 31, 2018	7,100,000	0.16
Expired	(105,000)	(2.30)
Forfeited	(70,000)	(0.185)
Outstanding September 30, 2019	6,925,000	0.12

The following summarizes outstanding stock options as at September 30, 2019.

Date of Grant	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years	Options Exercisable
05-Jan-17	1,925,000	$ 0.185	2.25	1,283,333
10-Jan-18	5,000,000	$ 0.100	3.25	2,500,000
	6,925,000	$ 0.12	2.97	3,783,333

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

7. SHARE CAPITAL (continued)

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

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

Pursuant to the Agreement referenced in note 12, the stock options will be cancelled upon closing of the Transaction.

(e) Loss per share

The weighted average number of shares outstanding for the three and nine months ended September 30, 2019 and three and nine months ended September 30, 2018 is 110,551,648. 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.

8. OIL AND GAS SALES, NET OF ROYALTIES

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Oil and gas sales				
Crude oil	$ 139,612	$ 279,139	$ 457,980	$ 705,291
Natural gas	62,676	132,192	391,321	447,991
Natural gas liquids	54,054	110,317	204,255	337,203
	256,342	521,648	1,053,556	1,490,485
Less royalties				
Crown	1,484	9,545	(27,757)	(93,642)
Freehold and gross overriding royalties	822	1,274	3,088	3,932
	2,306	10,819	(24,669)	(89,710)
Oil and gas sales, net of royalties	$ 254,036	$ 510,829	$ 1,078,225	$ 1,580,195

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

9. SUPPLEMENTAL CASH FLOW INFORMATION

	As at September 30			
	2019		2018	
Change in non-cash working capital related to operating activities				
Accounts receivable	$	57,157	$	(167,027)
Prepaid expenses and deposits		33,187		(72,245)
Accounts payable and accrued liabilities		321,452		34,305
	$	411,796	$	(204,967)
Change in non-cash working capital related to investing activities				
Accounts receivable	$	-	$	831,319
	$	-	$	831,319

10. FINANCIAL INSTRUMENTS

The Company's financial instruments recognized in the condensed consolidated interim statement of financial position consist of cash, accounts receivable, deposits, accounts payable and accrued liabilities, and Preferred Shares. Cash is classified as fair value through profit and loss. 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 January 31, 2020. The Company has committed to future payments under this lease of $23,133.

12. SUBSEQUENT EVENT

On November 21, 2019 the Company announced that it has entered into a definitive reorganization and investment agreement (the "Agreement") with Fotis Kalantzis and Richard F. McHardy (the "Initial Investors") which provides for: (i) a non-brokered private placement for gross proceeds of up to $25.0 million (the "Private Placement"); and (ii) the appointment of a new management team (the "New Management Team") and new board of directors (the "New Board") of Return (collectively, the "Transaction"). Completion of the Transaction is subject to customary closing conditions, including the approval of the TSX Venture Exchange (the "TSXV"). Upon completion of the Transaction, the shareholders of Return will be asked to approve, at a special meeting called for such purpose: (i) a change of Return's name to "Spartan Delta Corp." (the "Name Change"); and (ii) a consolidation of the common shares of Return (the "Common Shares") on the basis of one post-consolidation Common Share for up to every 40 pre-consolidation Common Shares (the "Consolidation").

Pursuant to the Private Placement, the Initial Investors, together with additional subscribers identified by the Initial Investors, will subscribe for up to a maximum of 2.5 billion Common Shares and units (the "Units") of Return at a price of $0.01 per Common Share and Unit, as applicable, for maximum gross proceeds of $25.0 million. The completion of the Private Placement is expected to occur on or about December 16, 2019 (the "Closing").

12. SUBSEQUENT EVENT (continued)

Units will be issued to subscribers that are members of the New Management Team and the New Board, together with certain additional subscribers identified by such persons. Common Shares will be issued to all other subscribers.

Each Unit shall be comprised of one Common Share and one Common Share purchase warrant (each, a “Warrant”). Each Warrant will entitle the holder to purchase one Common Share at a price of $0.01 (the “Exercise Price”) for a period of five years. The 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.

The resignation of the current board of directors and management team of Return and the appointment of the New Management Team and New Board will occur contemporaneous with the Closing.

Proceeds from the Private Placement will be used to fund additional working capital and possible acquisition opportunities.

The Private Placement will not result in the creation of a new control person.

Completion of the Transaction is subject to a number of conditions and approvals including, but not limited to, the approval of the TSXV and shareholder approval. Under the policies of the TSXV, the completion of the Private Placement and appointment of the New Management Team and New Board is subject to the approval of the shareholders of Return. The required disinterested shareholder approval may be obtained by written consents of the holders of more than 50% of the issued and outstanding voting shares of Return (the “Written Consent”).

Directors, officers and significant shareholders of Return who, in aggregate, own, directly or indirectly or exercise control or direction over 50.1% of the Common Shares, have entered into support agreements or agreed to enter into support agreements pursuant to which they have agreed or will agree, among other things, to execute a Written Consent.

As part of the Transaction, an aggregate of: (i) 2,000,000 preferred shares of Return (the “Preferred Shares”), being all of the currently issued and outstanding Preferred Shares; (ii) 66,666,666 Common Share purchase warrants of Return (the “Legacy Warrants”), being all of the currently issued and outstanding Legacy Warrants; and (iii) 6,925,000 stock options of Return (the “Options”), being all of the currently granted and outstanding Options, shall be cancelled for nominal consideration.

CORPORATE INFORMATION

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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
Calgary, AB
Executive Vice President

Roy H. Hudson, LLB
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