RETURN ENERGY INC.
(formerly DualEx Energy International Inc.)

Annual Report

For the years ended
December 31, 2016 and 2015

This Management's Discussion and Analysis ("MD&A") of Return Energy Inc. ("Return" or the "Company") should be read in conjunction with the Audited Annual Consolidated Financial Statements and related notes for the years ended December 31, 2016 and 2015 ("Financial Statements"). This MD&A has been prepared as of April 25, 2017.

Basis of Presentation

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

Non-IFRS Measures

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

Other Measurements

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

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

THE COMPANY

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

Fourth quarter highlights:

This quarter was very significant to the Company as it marked the return of the Company to the Western Canadian Sedimentary Basin. The following highlights the significant events during the quarter:

- Kenneth Tompson became the new President and Chief Executive Officer and Jason Schoenfeld joined the management team as VP Engineering and Chief Operating Officer.
- Return closed its first significant acquisition in the Western Canadian Sedimentary basin. The assets acquired consist of producing oil and gas assets from Cretaceous and Triassic reservoirs predominantly in the Rycroft, Valhalla and Gordondale areas of northwest Alberta, and included associated gathering systems and a 50% owned and operated natural gas processing plant. The consideration paid consisted of $285,000 cash and the issuance of 2,000,000 convertible non-interest bearing, non-voting series I preferred shares. The independent reserve report prepared by Sproule Associates Limited ("Sproule"), dated effective December 31, 2016 (the "Reserve Report"), identifies total proved reserves of 952,000 BOE (including 531,600 BOE of proved developed producing; 182,400 BOE of proved developed non-producing; 238,000 BOE proved undeveloped) and proved plus probable reserves of 1,413,600 BOE. Before tax net present values discounted at 10% contained in the Reserve Report equal $7,269,000 for total proved reserves and $10,160,000 for proved plus probable

reserves. The assets include approximately 37,000 net acres of land, 12,000 of which are undeveloped.
- The Company purchased two private oil and gas companies for collective consideration of $550,000 paid by the issuance of common shares and warrants. The Company received approximately $830,000 in working capital ($500,000 being cash) and 18,300 BOEs of proved plus probable reserves. Before tax net present values discounted at 10% contained in the Reserve Report equals $142,000 for proved plus probable reserves.
- Return completed an equity financing for total proceeds of $810,500.
- The Company completed a 10 to 1 share consolidation.

SELECTED FINANCIAL INFORMATION

The following table summarizes selected annual financial information for the last three years:

		2016		2015		2014
Total net revenue	$	529,373	$	35,552	$	64,460
Loss from continuing operations	$	(650,593)	$	(500,966)	$	(888,454)
Gain (loss) from discontinued operations		259,269		(180,353)		(5,112,391)
Loss	$	(391,324)	$	(681,319)	$	(6,000,845)
Loss per share - basic and diluted						
Loss per share from continuing operations	$	(0.05)	$	(0.04)	$	(0.08)
Gain (loss) per share from discontinued operations		0.02		(0.02)		(0.46)
Loss per share	$	(0.03)	$	(0.06)	$	(0.54)
Total assets	$	9,843,097	$	312,314	$	1,212,167
Long term liabilities	$	8,236,420	$	45,889	$	44,490

RESULTS OF OPERATIONS

Production and Petroleum and Natural Gas Sales

The following table outlines the Company's production volumes and operating netback for the periods indicated:

	Three months ended December 31, 2016		Year ended December 31, 2016	
	2016	2015	2016	2015
Oil and natural gas liquids (bbls)	3,366	-	3,366	-
Natural Gas (mcf)	95,075	3,666	103,838	15,176
Oil equivalent (boe @ 6:1)	19,212	611	20,672	2,529
BOE/d	209	7	56	7
Total petroleum and natural gas sales	$ 517,025	$ 9,283	$ 529,373	$ 38,727
Netback ($/boe)				
Revenue	26.91	15.19	25.61	15.31
Royalties	(1.33)	(1.24)	(1.28)	(1.37)
Operating	(25.75)	(12.36)	(24.66)	(15.84)
Operating Netback	(0.17)	1.59	(0.33)	(1.90)

For the three months ended December 31, 2016, petroleum and natural gas production averaged 209 boe/d (7 boe/d – three months ended December 31, 2015) and 56 boe/d for the year ended December 31, 2016 (7 boe/d – year ended December 31, 2015). The increase is a result of the acquisitions the Company finalized in the fourth quarter 2016, significantly increasing the Company's production.
The increase in Petroleum and natural gas sales for the three months ended and year ended December 31, 2016 over the comparative quarters is a result of the fourth quarter acquisitions made in 2016.

Royalties as a percentage of revenue averaged between 5%-9% over the periods. Operating costs averaged $25.75 per boe for the three months ended December 31, 2016 and 24.66 per boe for the year ended December 31, 2016.

If Return had closed the acquisition on January 1, 2016, total petroleum and natural gas sales would have been approximately $2.3 million and the operating loss would have been approximately $0.5 million.

General and administrative

	Three months ended December 31		Year ended Dec 31	
	2016	2015	2016	2015
General and administrative	$ 263,238	$ 70,207	$ 485,070	$ 408,569

General and administrative costs for the three months and year ended December 31, 2016 increased over the comparative period primarily due to acquisition costs and consulting fees due to the increased activity in the quarter. General and administrative costs for the year ended December 31, 2016 were up 19% from the prior year primarily as a result of increased costs in the fourth quarter partially offset by reduced general and administrative costs in the prior three quarters.

Depletion and depreciation

	Three months ended December 31		Year ended Dec 31	
	2016	2015	2016	2015
Total	$ 176,156	$ 1,789	$ 181,324	$ 7,407

Depletion and depreciation increased in the fourth quarter 2016 and for the year ended December 31, 2016 due to the acquisitions in the fourth quarter 2016.

Stock based compensation

Stock-based compensation costs for the three months ended December 31, 2016 amounted to $4,300 (three months ended December 31, 2015 – $16,482). Stock-based compensation costs for the year ended December 31, 2016 amounted to $34,397 (year ended December 31, 2015 - $83,850).

The decrease in stock-based compensation costs during the three months and year ended December 31, 2016 over the comparative periods is attributable to stock options having vested in prior periods.

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

Gain on sale

During the year ended December 31, 2016 the Company sold five legacy patented mineral claims in southern British Columbia with a recorded book value of $nil for $35,000.

Discontinued Operations

In June 2016 the Company relinquished its interest in the Bouhajla block in Tunisia and discontinued its operations in Tunisia. The Company was unsuccessful in finding a partner to participate in the project and, due to the imminent expiry elected to relinquish the block.

During the year ended December 31, 2016, the Company recorded a gain from discontinued operations, primarily as a result of the reversal of previously accrued liabilities. The accrued liability provision was based on management's best estimate of drilling and completion costs on the Bouhajla block in Tunisia which was discontinued in 2016.

In June 2015 the Company sold its 70% shareholder interest in its Hungarian subsidiary, PetroHungaria kft, and discontinued its operations in Hungary.

The associated revenue, expenses and gain (loss) on disposition related to the operations in Tunisia and Hungary have been reclassified as discontinued operations on the Financial Statements. Comparative period balances have been restated.

The Company recorded a gain from discontinued operations of $293,058 for the three months ended December 31, 2016 ($44,150 loss – three months ended December 31, 2015) and gain of $259,269 for the year ended December 31, 2016 ($180,353 loss – year ended December 31, 2015).

Share capital

During the year ended December 31, 2016, the Company completed a 10 to 1 share consolidation. All references to common shares, warrants and stock options reflect the share consolidation.

During the year the Company issued a total of 13,605,000 common shares and 6,802,500 warrants pursuant to its private company acquisitions and equity financing. As part of the Company's asset acquisition the Company issued 2,000,000 non-interest bearing convertible $1 par value preferred shares. In addition 135,000 stock options expired unexercised.

Subsequent to year end the Company closed a non-brokered private placement comprised of 17,415,399 common share and 16,700,399 warrants for gross proceeds of $2,104,148. The company issued 1,204,495 finder fee warrants as part of the financing. In addition Return issued 2,070,000 stock options subsequent to year end.

A total of 42,424,293 common shares, 2,000,000 preferred shares, 23,502,899 warrants, 1,204,495 finder fee warrants and 2,190,000 stock options of the Company are outstanding as of the date hereof.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2016, the Company had working capital of $1.1 million. In March 2017 the Company closed an equity financing for gross proceeds of $2.1 million. The Company has a commitment to spend a minimum of $100,000 by December 31, 2018 to meet its flow through obligation.

The Company's operating cash requirements including amounts projected to complete the Company's existing capital commitments are continuously monitored and adjusted as variables change. These variables include but are not limited to, oil and natural gas production, commodity prices, and expenditures on capital projects. Management has planned 2017 and 2018 operations based on their best estimates of projected business activity and estimated future cash flows.

SUMMARY OF QUARTERLY INFORMATION

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

	Quarter ended							
	Dec 31 2016	Sept 30 2016	Jun 30 2016	Mar 31 2016	Dec 31 2015	Sep 30 2015	Jun 30 2015	Mar 31 2015
Total revenue, net of royalties	$ 524,863	$ 4,438	$ 2,743	$ 5,167	$ 8,558	$ 9,844	$ 8,022	$ 9,128
Loss from continuing operations	$ (424,037)	$ (89,375)	$ (62,975)	$ (74,206)	$ (85,243)	$ (109,274)	$ (117,183)	$ (189,266)
Gain (loss) from discontinued operations	293,058	(7,844)	(8,680)	(17,265)	(44,150)	(13,071)	(103,111)	(20,021)
Loss	$ (130,979)	$ (97,219)	$ (71,655)	$ (91,471)	$ (129,393)	$ (122,345)	$ (220,294)	$ (209,287)
Per share - basic and diluted								
Loss from continuing operations	$ (0.02)	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.02)
Gain (loss) from discontinued operations	0.01	-	-	-	-	-	(0.01)	-
Loss	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.02)	$ (0.02)

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Estimates

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

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

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

Judgments

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

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

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

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

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

ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED

IFRS 9 Financial Instruments introduces changes to IAS 39's guidance on the classification and measurement of financial assets. The new standard is required to be applied for annual reporting periods beginning on or after January 1, 2018. The Company does not expect the standard to have a material impact on the consolidated statement of net income or loss.

IFRS 15 Revenue from Contracts with Customers provides clarification for recognizing revenue from contracts with customers and establishes a single revenue recognition and measurement framework. The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018.

Under IFRS 16, Leases, a single recognition and measurement model will apply for all lessees which will require recognition of assets and liabilities for most leases. The new standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. The extent of the impact of the adoption of the new standard has not yet been determined.

BUSINESS RISKS AND UNCERTAINTIES

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

Forward looking statements

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

In particular, this MD&A contains forward-looking statements, pertaining to expected production, capital expenditure programs and funds flow from operations.

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

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

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

RETURN ENERGY INC.
(formerly DualEx Energy International Inc.)

Annual Consolidated Financial Statements

For the years ended
December 31, 2016 and 2015

Independent Auditors' Report

To the Shareholders of Return Energy Inc.

We have audited the accompanying consolidated financial statements of Return Energy Inc., which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, the consolidated statements of loss, comprehensive loss, changes in equity (deficit) and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these 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.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Return Energy Inc. as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

MNP LLP

April 25, 2017
Calgary, Alberta

Chartered Professional Accountants

MNP LLP

RETURN ENERGY INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS	As at	
	December 31, 2016	December 31, 2015
CURRENT		
Cash	$ 602,848	$ 166,218
Accounts receivable	780,647	91,064
Prepaid expenses and deposits	429,226	50,538
	1,812,721	307,820
PROPERTY, PLANT AND EQUIPMENT (note 6)	8,030,376	4,494
TOTAL ASSETS	$ 9,843,097	$ 312,314

LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
CURRENT		
Accounts payable and accrued liabilities	$ 686,414	$ 348,970
DECOMMISSIONING LIABILITIES (note 7)	6,236,420	45,889
CONVERTIBLE PREFERRED SHARES (note 8)	2,000,000	-
	8,236,420	45,889
TOTAL LIABILITIES	8,922,834	394,859
SHAREHOLDERS' EQUITY (DEFICIT)		
SHARE CAPITAL (note 10c)	26,908,948	25,737,888
WARRANTS (note 10d)	180,417	-
CONTRIBUTED SURPLUS	4,918,416	4,884,019
ACCUMULATED OTHER COMPREHENSIVE INCOME	350,345	342,087
DEFICIT	(31,437,863)	(31,046,539)
TOTAL SHAREHOLDERS' EQUITY (DEFICIT)	920,263	(82,545)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)	$ 9,843,097	$ 312,314

See accompanying notes

(signed) "Kenneth Tompson"
Kenneth Tompson, Director

(signed) "Robb Thompson"
Robb Thompson, Director

RETURN ENERGY INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT)

	Number of shares	Share Capital	Warrants	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Deficit	Total
Balance December 31, 2014	11,403,894	$ 25,737,888	$ 715,325	$ 4,084,844	$ 318,117	$ (30,365,220)	$ 490,954
Expiration of warrants	-	-	(715,325)	715,325	-	-	-
Stock-based compensation	-	-	-	83,850	-	-	83,850
Comprehensive income (loss) for the year	-	-	-	-	23,970	(681,319)	(657,349)
Balance December 31, 2015	11,403,894	25,737,888	-	4,884,019	342,087	(31,046,539)	(82,545)
Private company acquisitions	5,500,000	477,064	72,936	-	-	-	550,000
Equity financing (note 10e)	8,105,000	693,996	107,481	-	-	-	801,477
Stock-based compensation	-	-	-	34,397	-	-	34,397
Comprehensive income (loss) for the year	-	-	-	-	8,258	(391,324)	(383,066)
Balance December 31, 2016	25,008,894	$ 26,908,948	$ 180,417	$ 4,918,416	$ 350,345	$ (31,437,863)	$ 920,263

All references to common shares and per share amounts have been retroactively restated to reflect the share consolidation as outlined in note 10b

See accompanying notes

RETURN ENERGY INC.
CONSOLIDATED STATEMENTS OF LOSS
FOR THE YEARS ENDED DECEMBER 31

	2016	2015
REVENUE		
Petroleum and natural gas sales	$ 529,373	$ 38,727
Royalties	(26,488)	(3,462)
Interest and other	34,326	287
	537,211	35,552
EXPENSES		
Operating costs	509,718	40,060
General and administrative	485,070	408,569
Stock-based compensation (note 10f)	34,397	83,850
Depletion and depreciation (note 6)	181,324	7,407
Gain on sale (note 6)	(35,000)	-
Accretion of decommissioning liabilities (note 7)	11,166	573
Foreign exchange loss (gain)	1,129	(3,941)
	1,187,804	536,518
LOSS FROM CONTINUING OPERATIONS	(650,593)	(500,966)
GAIN (LOSS) FROM DISCONTINUED OPERATIONS (note 11a)	259,269	(180,353)
NET LOSS	$ (391,324)	$ (681,319)
LOSS PER SHARE		
Basic and diluted		
Loss per share from continuing operations	$ (0.05)	$ (0.04)
Gain (loss) per share from discontinued operations	0.02	(0.02)
Loss per share	$ (0.03)	$ (0.06)

See accompanying notes

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31

	2016	2015
NET LOSS	$ (391,324)	$ (681,319)
Other comprehensive income to be reclassified to income in subsequent periods		
Foreign currency translation adjustment	8,258	6,019
Transfer of accumulated foreign currency loss to loss from discontinued operations (note 11a)	-	17,951
COMPREHENSIVE LOSS	$ (383,066)	$ (657,349)

See accompanying notes

RETURN ENERGY INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31

	2016	2015
OPERATING ACTIVITIES		
Loss from continuing operations	$ (650,593)	$ (500,966)
Add (subtract) items not requiring cash		-
Depletion and depreciation (note 6)	181,324	7,407
Gain on sale (note 6)	(35,000)	-
Accretion of decommissioning liabilities (note 7)	11,166	573
Stock-based compensation (note 10f)	34,397	83,850
Unrealized foreign exchange loss	8,258	23,694
Settlement of decommissioning liabilities (note 7)	(22,000)	(16,970)
Change in non-cash working capital items (note 12)	192,819	(96,766)
Cash flow used in continuing operations	(279,629)	(499,178)
Cash flow used in discontinued operations (note 11c)	(33,850)	(319,028)
Cash flow used in operations	(313,479)	(818,206)
INVESTING ACTIVITIES		
Proceeds from disposition (note 6)	35,000	20,083
Proceeds from sale of assets (note 11b)	-	48,689
Consideration paid for asset business combination (note 5b)	(285,000)	-
Change in non-cash working capital items (note 12)	(301,605)	(7,762)
Cash flow from (used in) continuing investing activities	(551,605)	61,010
Cash flow used in discontinued investing activities (note 11c)	-	(6,835)
Cash flow from (used in) investing activities	(551,605)	54,175
FINANCING ACTIVITIES		
Proceeds from equity financing, net (note 10e)	801,477	-
Cash acquired from private company business combinations (note 5a)	500,237	-
Cash flow from continuing financing activities	1,301,714	-
Foreign exchange gain on cash held in a foreign currency	-	1,609
INCREASE (DECREASE) IN CASH	436,630	(762,422)
CASH, BEGINNING OF YEAR	166,218	928,640
CASH, END OF YEAR	$ 602,848	$ 166,218

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 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. During the year the Company changed its name from DualEx Energy International Inc. to Return Energy Inc.

2. BASIS OF PREPARATION

a) Statement of compliance

These consolidated financial statements, which include results of operations and statements of financial position as at and for the year ended December 31, 2016, including 2015 comparative periods (the "Financial Statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and in effect on January 1, 2016.

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) Use of estimates and judgments

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

Estimates

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

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

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

2. BASIS OF PREPARATION (continued)

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

Judgments

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted are set out below.

a) Basis of consolidation

The Financial Statements incorporate the financial statements of the Company and entities controlled or jointly controlled by the Company (as detailed in Note 15). Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. Consistent accounting policies have been used to prepare the Financial Statements. Intercompany balances, income and expenses, and unrealized gains and losses are eliminated on consolidation.

b) Joint operations

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

c) Revenue Recognition

Revenues associated with the sale of the Company's natural gas and liquids are recognized when title passes from the Company to its customers and it is probable that the economic benefits associated with the transactions will flow to the Group and their amount can be measured reliably. Royalty revenue is recognized in the same period in which the related natural gas and liquids are sold.

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

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

E&E expenditures

E&E costs are those expenditures for an area where technical feasibility and commercial viability has not yet been determined. Costs incurred prior to having obtained legal rights to explore an area are charged directly to the consolidated statement of loss as pre-license expense. 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 statements of loss in the period incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

PP&E

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

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

Impairment

An impairment test will be performed whenever events and circumstances indicate that the carrying value of the asset or CGU may exceed the estimated recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use. In assessing the value in use 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 statements of 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Business combinations

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

f) 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 are 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 or consolidated statements of loss.

g) Foreign currencies

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Stock-based compensation, warrants and agent options

Stock-based compensation to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. 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 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 (deficit). 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.

i) Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the consolidated statement of 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Earnings (loss) per share

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

k) Leases

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

l) Financial Instruments

Non-derivative Financial Instruments

All non-derivative financial instruments are initially recognized at fair value. Measurement in subsequent periods depends on whether the financial instrument has been classified as “fair value through profit or loss”, “loans and receivables”, “available-for-sale”, “held-to-maturity”, or “financial liabilities measured at amortized cost”. Financial assets and financial liabilities at “fair value through profit or loss” are either classified as “held for trading” or “designated at fair value through profit or loss” and are measured at fair value with changes in those fair values recognized in the consolidated statement of loss.

Financial assets comprise cash and accounts receivable. Cash is classified as held for trading. Accounts receivable are classified as loans and receivables and recorded at amortized cost less any impairment.

Financial liabilities are comprised of accounts payable, accrued liabilities and convertible preferred shares which are classified as other financial liabilities measured at amortized cost using the effective interest rate method.

4. FUTURE CHANGES TO ACCOUNTING POLICIES

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on its Financial Statements in future periods:

IFRS 9 Financial Instruments (“IFRS 9”)

IFRS 9 introduces changes to IAS 39’s guidance on the classification and measurement of financial assets. The new standard is required to be applied for annual reporting periods beginning on or after January 1, 2018. The Company does not expect the standard to have a material impact on the consolidated statement of loss.

IFRS 15 Revenue from Contracts with Customers (“IFRS 15”)

IFRS 15 provides clarification for recognizing revenue from contracts with customers and establishes a single revenue recognition and measurement framework. The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018 and is currently in the process of assessing the impact.

IFRS 16 Leases (“IFRS 16”)

Under IFRS 16 a single recognition and measurement model will apply for all lessees which will require recognition of assets and liabilities for most leases. The new standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. The extent of the impact of the adoption of the new standard has not yet been determined.

(All amounts in Canadian dollars unless otherwise stated)

5. BUSINESS COMBINATIONS:

The Company acquired the below mentioned private companies and assets to acquire producing oil and gas assets in the Peace River Arch area of northwest Alberta. The allocations and determinations of the purchase price allocations are preliminary and subject to change upon final adjustments.

a. Private company business combinations:

On October 21, 2016 the Company purchased 100% of the outstanding common shares of two private oil and gas companies for the collective consideration of $550,000 paid by the issuance of 5,500,000 units of Return (each a “Private Company Acquisition Unit”) at a deemed value of $0.10 per Private Company Acquisition Unit (collectively, the “Private Company Acquisitions”). Each Private Company Acquisition Unit consists of one (1) Common Share and one-half (1/2) of a Common Share purchase warrant (each such whole warrant, a “Private Company Acquisition Warrant”). Each whole Private Company Acquisition Warrant is convertible into one (1) Common Share at the exercise price of $0.15 per Common Share, for a period of two years from the closing date. The fair market value of the assets acquired are as follows:

Fair Value of net assets acquired:		
Cash	$	500,237
Deposits		338,740
Accounts Receivable		27,405
Property, Plant and Equipment		96,707
Accounts Payable		(37,223)
Decommissioning Liabilities		(375,866)
Net Assets Acquired	$	550,000
Consideration:		
Warrants	$	72,936
Common Shares		477,064
	$	550,000

The acquired private oil and gas companies contributed revenue consisting of oil and natural gas sales of approximately $38,000 and operating income which is defined as oil and natural gas sales net of royalties less operating and transportation costs of $26,000 for the period from October 21, 2016 to December 31, 2016. Had the business combinations occurred on January 1, 2016, additional pro-forma oil and natural gas sales of $134,000 and operating income of $1,000 would have been recognized over the year ended December 31, 2016.

The fair value of the decommissioning obligation at October 21, 2016 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 1.1% to 2.3%, resulting in incremental additions of $0.2 million of decommissioning obligation and corresponding additions to property, plant and equipment.

The warrants have been assigned a value of $72,936 using a Black-Scholes model with the following assumptions: expected life 1.25 years, expected volatility 100%, risk-free interest rate of 0.5%, and a zero dividend yield.

Total acquisition related costs of $16,000 were expensed in the consolidated statement of loss under general and administrative.

(All amounts in Canadian dollars unless otherwise stated)

5. BUSINESS COMBINATIONS (continued)

b. Asset business combination:

On October 21, 2016, Return acquired producing oil and gas assets in the Peace River Arch area of northwest Alberta (the "Asset Acquisition") from a private company (the "Vendor"). The consideration paid to the Vendor was $285,000 cash and the issuance of two million non-interest bearing, non-voting Series I Preferred Shares (the "Preferred Shares"). 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 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 fair market value of the assets acquired are as follows:

Fair Value of net assets acquired:

Property, Plant and Equipment	$	4,552,899
Decommissioning Liabilities		(2,267,899)
Net Assets Acquired	$	2,285,000

Consideration:		
Cash	$	285,000
Preferred Shares (note 8)		2,000,000
	$	2,285,000

The acquired assets contributed revenue consisting of oil and natural gas sales of approximately $480,000 and operating loss which is defined as oil and natural gas sales net of royalties less operating and transportation costs of $45,000 for the period from October 21, 2016 to December 31, 2016. Had the business combinations occurred on January 1, 2016, additional pro-forma oil and natural gas sales of $2.2 million and operating loss of $0.5 million would have been recognized over the year ended December 31, 2016.

The fair value of the decommissioning obligation at October 21, 2016 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 1.1% to 2.3%, resulting in incremental additions of $3.3 million of decommissioning obligation and corresponding additions to property, plant and equipment.

Total acquisition related costs of $64,000 were expensed in the consolidated statement of loss under general and administrative.

(All amounts in Canadian dollars unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT

Cost	Oil and Gas Properties	Natural gas processing plant	Total PP&E
Balance December 31, 2014	$ 36,210	$ -	$ 36,210
Change in estimate of decommissioning liabilities (note 7)	826	-	826
Balance December 31, 2015	37,036	-	37,036
Private company acquisitions (note 5a)	96,707	-	96,707
Asset acquisition (note 5b)	4,202,899	350,000	4,552,899
Change in estimate of decommissioning liabilities (note 7)	3,557,600	-	3,557,600
Balance December 31, 2016	$ 7,894,242	$ 350,000	$ 8,244,242
Accumulated depletion, depreciation and impairment			
Balance December 31, 2014	$ (25,135)	$ -	$ (25,135)
Depletion and depreciation	(7,407)	-	(7,407)
Balance December 31, 2015	(32,542)	-	(32,542)
Depletion and depreciation	(177,824)	(3,500)	(181,324)
Balance December 31, 2016	$ (210,366)	$ (3,500)	$ (213,866)
Net Book Value			
Balance December 31, 2015	$ 4,494	$ -	$ 4,494
Balance December 31, 2016	$ 7,683,876	$ 346,500	$ 8,030,376

At December 31, 2016, future development costs of $4.7 million (December 31, 2015 - $nil) were included in the depletion calculation.

During the year ended December 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.

(All amounts in Canadian dollars unless otherwise stated)

7. 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.

	Year ended December 31	
	2016	2015
Decommissioning liabilities, beginning of year	$ 45,889	$ 163,517
Liabilities acquired on private company business combinations (note 5a)	375,866	-
Liabilities acquired on asset business combination (note 5b)	2,267,899	-
Change in estimated future cash outflows	3,557,600	826
Disposition	-	(101,947)
Settlement	(22,000)	(16,970)
Accretion	11,166	573
Foreign exchange loss	-	(110)
Decommissioning liabilities, end of year	$ 6,236,420	$ 45,889
Expected to be incurred within one year	$ -	$ -
Expected to be incurred beyond one year	6,236,420	45,889
	$ 6,236,420	$ 45,889

The Company's decommissioning liabilities result from its ownership interest in oil and natural gas assets. The decommissioning liabilities are estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities, and the estimated timing of the costs to be incurred in future years. The undiscounted amount of the estimated future cash flows required to settle the obligations as at December 31, 2016 is $9,239,000 (December 31, 2015 - $51,000). 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% (December 31, 2015, 1.4%) and reflect an inflation rate of 2% (December 31, 2015 – 2%).

8. CONVERTIBLE PREFERRED SHARES

The Company has two million non-interest bearing, non-voting Series I Convertible Preferred Shares (the "Preferred Shares") outstanding. The holder may, at any time and at its option, convert all or part of the Preferred Shares into units ("Units") of Return. Each Unit is comprised of one (1) common share of Return and one-half (1/2) of a common share purchase warrant. The number of Units issuable upon the conversion of the Preferred Shares is equal to the number of Preferred Shares to be converted multiplied by $1.00 and divided by the average of the trading price of the common shares on the TSX Venture Exchange (the "TSXV") during the immediately prior twenty (20) consecutive day period prior to conversion (the "Market Price"). Each whole common share purchase warrant entitles the holder to purchase one (1) common share until October 21, 2021 upon payment of the Common Share purchase warrant exercise price which is equal to the Market Price. The Company may at its sole discretion redeem the Preferred Shares at any time upon cash payment of one dollar per Preferred Share.

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.

(All amounts in Canadian dollars unless otherwise stated)

9. INCOME TAXES

a) Income tax expense differs from that which would be expected from applying the combined statutory Canadian federal and provincial tax rates of 27% for 2016 (2016 – 26%), to the loss from operations before taxes as follows:

	2016	2015
Loss from operations	$ (650,593)	$ (500,966)
Computed Canadian expected income tax recovery	(175,660)	(130,251)
Non-deductible expenses	13,766	21,868
Tax rate differences of foreign countries	3,315	6,090
Change in unrecognized deferred tax asset	158,579	102,293
Current taxes	$ -	$ -

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

Nature of temporary differences	December 31, 2016	December 31, 2015
Book value less than tax value of		
PP&E and decommissioning liabilities	$ 785,145	$ 167,242
Share issue costs and finance fees	116,307	203,836
Non-capital losses	10,146,897	8,588,252
	$ 11,048,349	$ 8,959,330

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

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

Year of Expiry	Amount
2026	$ 728,736
2027	1,549,421
2028	321,176
2029	871,559
2030	932,699
2031	1,011,203
2032	1,193,095
2033	1,098,944
2034	1,064,611
2035	836,803
2036	538,650
	$ 10,146,897

(All amounts in Canadian dollars unless otherwise stated)

10. SHARE CAPITAL

(a) Authorized

The Company is authorized to issue an unlimited number of common shares with no par value and an unlimited number of 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 at December 31, 2014 and December 31, 2015	11,403,894	$ 25,737,888
Shares issued on private company business combinations (note 5a)	5,500,000	477,064
Shares issued on financing (note 10e)	8,105,000	693,996
Balance December 31, 2016	25,008,894	26,908,948

(d) Warrants

	Number of Warrants	Amount	Weighted Average Exercise Price
Outstanding December 31, 2014	1,602,097	$ 715,325	$ 2.30
Expiration of warrants	(1,602,097)	(715,325)	(2.30)
Outstanding December 31, 2015	-	-	-
Issuance of warrants on private company business combinations (note 5a)	2,750,000	72,936	0.15
Issuance of warrants on financing (note 10e)	4,052,500	107,481	0.15
Outstanding December 31, 2016	6,802,500	$ 180,417	$ 0.15

(All amounts in Canadian dollars unless otherwise stated)

10. SHARE CAPITAL (continued)

(e) October 2016 financing

In October 2016, the Company completed a non-brokered private placement of 8,105,000 units (each an "Offering Unit") at a price of $0.10 per Offering Unit for net proceeds of $801,477 ($810,500 gross) Each Offering Unit consists of one (1) Common Share and one-half of a (1/2) Common Share purchase warrant (each such whole warrant, an "Offering Warrant"). Each whole Offering Warrant is exercisable into one (1) Common Share at a price of $0.15 per Common Share for a period of two years from the issuance of such Offering Warrant.

The warrants have been assigned a value of $107,481 using a Black-Scholes model with the following assumptions: expected life 1.25 years, expected volatility 100%, risk-free interest rate of 0.5%, 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.

	Number of Options	Weighted Average Exercise Price
Outstanding December 31, 2014	455,000	$ 1.40
Expired	(190,000)	(1.00)
Cancelled	(10,000)	(1.20)
Outstanding December 31, 2015	255,000	1.70
Expired	(135,000)	(1.20)
Outstanding December 31, 2016	120,000	$ 2.26

The following summarizes outstanding stock options as at December 31, 2016.

Date of Grant	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years	Options Exercisable
01-May-12	15,000	$ 2.00	0.33	15,000
02-Sep-14	105,000	$ 2.30	2.67	70,000
	120,000			85,000

(g) Loss per share

The weighted average number of shares outstanding for the year ended December 31, 2016 is 14,117,400 (year ended December 31, 2015 – 11,403,834). Due to the loss in the years ended December 31, 2016 and 2015 no options were included in the computation of diluted loss per share as they have an anti-dilutive effect on loss per share.

(All amounts in Canadian dollars unless otherwise stated)

11. DISCONTINUED OPERATIONS

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

In June 2015 the Company sold its 70% shareholder interest in Hungary and discontinued its operations in Hungary. The Company received proceeds of $48,689 (35,000 Euros) and recorded a loss on disposition of $7,838.

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.

a) Gain (loss) from discontinued operations reported on the consolidated statements of loss is comprised of the following:

	Tunisia		Hungary		Total Discontinued Operations	
	Year ended December 31		Year ended December 31		Year ended December 31	
	2016	2015	2016	2015	2016	2015
REVENUE						
Petroleum and natural gas sales	$ -	$ -	$ -	$ 95,969	$ -	$ 95,969
Royalties	-	-	-	(7,683)	-	(7,683)
Interest and other	-	-	-	33	-	33
	-	-	-	88,319	-	88,319
EXPENSES						
Operating costs	-	-	-	10,736	-	10,736
General and administrative	33,405	101,805	-	49,215	33,405	151,020
Depletion and depreciation	-	-	-	3,755	-	3,755
Bad debt expense	-	44,091	-	-	-	44,091
Gain on reversal of accrued liabilities	(293,119)	-	-	-	(293,119)	-
Impairmentof exploration and evaluation asset	-	34,053	-	-	-	34,053
Accretion of decommissioning liabilities	-	-	-	209	-	209
Foreign exchange loss (gain)	445	2,674	-	(4,109)	445	(1,435)
	(259,269)	182,623	-	59,806	(259,269)	242,429
Gain (loss) from discontinued operations before taxes	259,269	(182,623)	-	28,513	259,269	(154,110)
Taxes	-	-	-	(454)	-	(454)
Gain (loss) from discontinued operations before other	259,269	(182,623)	-	28,059	259,269	(154,564)
OTHER						
Loss on disposition (note 7b)	-	-	-	(7,838)	-	(7,838)
Cumulative foreign exchange loss	-	-	-	(17,951)	-	(17,951)
Gain (loss) from discontinued operations	$ 259,269	$ (182,623)	$ -	$ 2,270	$ 259,269	$ (180,353)

During the year ended December 31, 2016, the Company recorded a gain from discontinued operations, primarily as a result of the reversal of previously accrued liabilities. The accrued liability provision was based on management's best estimate of drilling and completion costs on the Bouhajla block in Tunisia which was discontinued in 2016.

(All amounts in Canadian dollars unless otherwise stated)

11. DISCONTINUED OPERATIONS (continued)

b) Loss on disposition

	Hungary
Value of assets less liabilities at time of sale:	
Cash	$ 194,629
Accounts receivable	6,521
Property, plant and equipment, net	17,904
Accounts payable and accrued liabilities	(60,580)
Decommissioning liabilities	(101,947)
Net value of assets less liabilities disposed	56,527
Proceeds received	(48,689)
Loss on disposition	$ 7,838

c) Cash flow from discontinued operations

	Tunisia		Hungary		Total discontinued operations	
	For the years ended December 31		For the years ended December 31		For the years ended December 31	
	2016	2015	2016	2015	2016	2015
DISCONTINUED OPERATIONS						
Gain (loss) from discontinued operations	$ 259,269	$ (182,623)	$ -	$ 28,059	$ 259,269	$ (154,564)
Add items not requiring cash						
Depletion and depreciation	-	-	-	3,755	-	3,755
Bad debt expense		44,091		-	-	44,091
Impairment of exploration and evaluation assets	-	34,053	-	-	-	34,053
Accretion of decommissioning liabilities	-	-	-	209	-	209
Unrealized foreign exchange gain	-	-	-	(4,313)	-	(4,313)
Change in non-cash working capital items	(293,119)	-	-	(242,259)	(293,119)	(242,259)
Cashflow used in discontinued operations	(33,850)	(104,479)	-	(214,549)	(33,850)	(319,028)
DISCONTINUED INVESTING ACTIVITIES						
Proceeds from sale of property, plant and equipment	$ -	$ -	$ -	$ 16,873	$ -	$ 16,873
Change in non-cash working capital items	-	(23,708)	-	-	-	(23,708)
Cashflow from discontinued investing activities	$ -	$ (23,708)	$ -	$ 16,873	$ -	$ (6,835)

12. SUPPLEMENTAL CASH FLOW INFORMATION

	As at December 31	
	2016	2015
Change in non-cash working capital related to operating activities		
Accounts receivable	$ (659,879)	$ (46,955)
Prepaid expenses and deposits	(39,948)	2,918
Accounts payable and accrued liabilities	892,646	(52,729)
	$ 192,819	$ (96,766)
Change in non-cash working capital related to investing activities		
Accounts receivable	$ (2,299)	$ 2,916
Accounts payable and accrued liabilities	(299,306)	(10,678)
	$ (301,605)	$ (7,762)

(All amounts in Canadian dollars unless otherwise stated)

13. CAPITAL MANAGEMENT

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

The Company defines and computes its capital as follows:

	December 31, 2016	December 31, 2015
Shareholders' Equity (Deficit)	$ 920,263	$ (82,545)

14. FINANCIAL RISK MANAGEMENT

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

- Credit Risk
- Liquidity Risk
- Market Risk

a) Credit Risk

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

The Company's accounts receivable balance at December 31, 2016 is primarily with oil and gas marketers and joint venture partners Amounts due from these parties have generally been received within 30 to 60 days. When determining whether amounts that are past due are collectible, management assesses the creditworthiness and past payment history of the counterparty, as well as the nature of the past due amount. The Company generally considers amounts greater than 90 days to be past due. As at December 31, 2016, there was $80,000 of accounts receivable over 90 days. As at December 31, 2016 the Company does not consider any accounts receivable to be impaired.

b) Liquidity Risk

Liquidity risk relates to the risk that a company will not be able to meet its financial obligations as they become due. As at December 31, 2016, the Company had working capital of $1.1 million.

The Company prepares and regularly updates its capital and operating budget to forecast future cash flows to ensure, as far as possible, the Company has the appropriate liquidity in place to meet its obligations.

(All amounts in Canadian dollars unless otherwise stated)

14. FINANCIAL RISK MANAGEMENT (continued)

c) Market Risk

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

Commodity Price Risk

Commodity price risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in commodity prices. The Company is subject to the risk of changes in commodity prices. The Company has no commodity price-based derivative financial instruments as at December 31, 2016.

d) Fair Value of 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.

Assets and liabilities that are measured at fair value are classified into levels, reflecting the method used to make the measurements. Level 1 fair value measurements are based on quoted prices that are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis. The Company has no level 2 or level 3 financial instruments. 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 level. The following table sets out the carrying value and fair value of financial assets and liabilities as at December 31, 2016:

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

	December 31, 2016	
	Carrying Value	Fair Value
Cash	$ 602,848	$ 602,848
Accounts receivable	780,647	780,647
Deposits	343,740	343,740
Accounts payable and accrued liabilities	(686,414)	(686,414)
Convertible preferred shares	(2,000,000)	(2,000,000)

(All amounts in Canadian dollars unless otherwise stated)

15. RELATED PARTY DISCLOSURES

a) Significant subsidiaries

Details of the Company's subsidiaries as at December 31, 2016 were as follows:

Name of Company	Principal activity	Country of incorporation	% of share capital held
DualEx International Inc.	Holding Company	Bahamas	100
Winslow Resources Inc.	Oil and Gas Exploration	Canada	100
Murelle Enterprises Inc.	Oil and Gas Exploration	Canada	100
Bredal Energy Corp.	Oil and Gas Exploration	Canada	100

b) Key management personnel compensation

Key management personnel include the Company's senior management and all of the Company's directors. Short-term benefits are comprised of salaries, consulting fees, directors' fees, and other benefits. Return recorded the following amounts in its Financial Statements relating to key management personnel compensation in 2016 and 2015;

	Year ended December 31	
	2016	2015
Short-term benefits	117,900	245,911
Stock-based compensation	34,397	78,117
Total executive compensation	$ 152,297	$ 324,028

16. SUBSEQUENT EVENTS

On January 5, 2017, the Company granted 2,070,000 stock options. The options have an exercise price of $0.185 per share and expire on January 5, 2022 and vest on a one-third (1/3) basis on each of the first, second and third anniversaries of January 5, 2017.

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 aggregate gross proceeds of $2,004,048, as well as 715,000 CEE FTS at a price of $0.14 per CEE FTS for aggregate gross proceeds of $100,100 for total gross proceeds of $2,104,148.

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.

16. SUBSEQUENT EVENTS (continued)

In connection with the closing $145,540 in fees were paid and 1,154,445 warrants ("Advisor Warrants") were issued as compensation to the advisors. Each Advisor Warrant is exercisable by the holder to purchase one common share in the capital of the Company (a "Common Share") at a price of $0.15 ("Warrant Exercise Price") 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).

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The CEE FTS were issued pursuant to the Income Tax Act (Canada) in respect of Canadian exploration expenses.

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.

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 accounting for the business combination is incomplete at the time of the issuance of the Financial Statements.

CORPORATE INFORMATION

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VP Finance and Chief Financial Officer

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