Interim Report

For the three and nine months ended September 30, 2017

This Management's Discussion and Analysis ("MD&A") of Return Energy Inc. ("Return" or the "Company") should be read in conjunction with the unaudited Condensed Consolidated Interim Financial Statements for the three and nine months ended September 30, 2017 (the "Financial Statements") and the audited annual consolidated financial statements and MD&A for the year ended December 31, 2016. This MD&A has been prepared as of November 24, 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 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.

Highlights:

The following highlights the significant events during the period:

- In November 2017, the Company announced that it intends to complete a non-brokered private placement (the "Offering") of 66,666,666 units of the Company (the "Units") at a price of $0.075 per Unit for aggregate gross proceeds of $5,000,000. The proceeds of the Offering will be used by Return to further its development activities in the Rycroft, Gordondale and Valhalla areas of Alberta. Each Unit will consist of one common share in the capital of the Company and one Common Share purchase warrant (a "Warrant"). Each Warrant will entitle the holder thereof to purchase one Common Share at a price of $0.10 per Common Share for five years from the closing date of the Offering. The Company has an early termination option should certain conditions be met. As the private placement was carried out with a single subscriber, and will result in the creation of a control person, shareholder approval of the transaction is required and the Company will seek this approval at a shareholders meeting to be held on December 27, 2017.
- The Company has initiated surveying well locations in anticipation of drilling two development wells in the first quarter 2018.

RESULTS OF OPERATIONS

Petroleum and Natural Gas Production

	Three months ended				Nine months ended September 30	
	September 30 2017	June 30 2017	March 31 2017	September 30 2016	2017	2016
Production						
Oil and natural gas liquids (bbls)	5,006	4,483	5,251	-	14,740	-
Natural gas (mcf)	138,958	125,838	109,134	1,738	373,930	8,704
Oil equivalent (boe @ 6:1)	28,166	25,456	23,440	290	77,062	1,451
Average production per day						
Oil and natural gas liquids (bbls/d)	55	49	58	-	54	-
Natural gas (mcf/d)	1,527	1,383	1,213	19	1,375	32
BOE/d	310	280	260	3	283	5

For the three months ended September 30, 2017, petroleum and natural gas production averaged 310 boe/d an increase of 11% over the prior quarter. The increase over the three months ended June 30, 2017 is primarily a result of a full quarter of production from the Rycroft acquisitions the Company completed in the second quarter. The increase in production during the three and nine months ended September 30, 2017 over the comparative periods in 2016 is a result of the acquisitions of the Peace River Arch assets the Company finalized in October 2016.

Oil and Natural Gas Revenue

	Three months ended				Nine months ended September 30	
	September 30 2017	June 30 2017	March 31 2017	September 30 2016	2017	2016
REVENUE						
Oil and natural gas liquids	$ 244,149	$ 246,487	$ 293,562	$ -	$ 784,198	$ -
Natural Gas	187,202	354,427	279,972	4,674	821,601	13,239
Total petroleum and natural gas sales	$ 431,351	$ 600,914	$ 573,534	$ 4,674	$ 1,605,799	$ 13,239
Average Sales Price						
Oil and natural gas liquids ($/bbls)	$ 48.77	$ 54.98	$ 55.91	$ -	$ 53.20	$ -
Natural gas ($/mcf)	1.35	2.82	2.57	2.69	2.20	1.52
Oil equivalent ($/boe)	$ 15.31	$ 23.61	$ 24.47	$ 16.14	$ 20.84	$ 9.13

During the three months ended September 30, 2017 revenue decreased 28% over the three months ended June 30, 2017. This decrease is primarily the result of lower natural gas prices as third party pipeline maintenance issues reduced deliverability and storage capacity which in turn had a negative effect on natural gas prices in the area. These pipeline maintenance issues have eased in the fourth quarter which has resulted in an increase in the natural gas price. The decrease was partially offset by the 11% increase in production. Revenue for the three and nine months ended September 30, 2017 increased over the comparative period as a result of the Peace River Arch assets purchased in October 2016.

Royalties

	Three months ended				Nine months ended September 30	
	September 30 2017	June 30 2017	March 31 2017	September 30 2016	2017	2016
Royalties						
Oil and natural gas liquids	$ 13,322	$ 25,621	$ 31,333	$ -	$ 70,276	$ -
Natural Gas	16,950	14,397	23,022	260	54,369	978
Total petroleum and natural gas sales	$ 30,272	$ 40,018	$ 54,355	$ 260	$ 124,645	$ 978
Average Royalty Rate (% of sales)						
Oil and natural gas liquids	5.46%	10.39%	10.67%	-	8.96%	-
Natural gas	9.05%	4.06%	8.22%	5.56%	6.62%	7.39%
Oil equivalent	7.02%	6.66%	9.48%	5.56%	7.76%	7.39%

Royalties as a percentage of revenue averaged 7.02% for the three months ended September 30, 2017, up slightly from the 6.66% for the three months ended June 30, 2017. Royalties for the three and nine months ended September 30, 2017 increased over the comparative period as a result of the Peace River Arch assets purchased in October 2016.

Operating Costs

	Three months ended				Nine months ended September 30	
	September 30 2017	June 30 2017	March 31 2017	September 30 2016	2017	2016
Operating Costs	$ 847,531	$ 465,674	$ 500,704	$ 5,524	$ 1,813,909	$ 15,023
$ per boe	$ 30.09	$ 18.29	$ 21.36	$ 19.07	$ 23.54	$ 10.36

Operating costs averaged $30.09 per boe for the three months ended September 30, 2017 an increase of $11.80 per boe over the three months ended June 30, 2017. The increase was primarily a result of higher than normal workover costs, field employee severance costs and property taxes being charged in the quarter. Operating costs for the three and nine months ended September 30, 2017 increased over the comparative period as a result of the Peace River Arch assets purchased in October 2016.

Operating Netback

	Three months ended				Nine months ended September 30	
	September 30 2017	June 30 2017	March 31 2017	September 30 2016	2017	2016
Netback ($/boe)						
Revenue	$ 15.31	$ 23.61	$ 24.47	$ 16.14	20.84	9.13
Royalties	(1.07)	(1.57)	(2.32)	(0.90)	(1.62)	(0.67)
Operating	(30.09)	(18.29)	(21.36)	(19.07)	(23.54)	(10.36)
Operating Netback	$ (15.85)	$ 3.74	$ 0.79	$ (3.83)	$ (4.32)	$ (1.90)

During the three months ended September 30, 2017 the Company had an operating netback loss of $15.85 per boe compared to a netback of $3.74 in the second quarter. The lower operating netback is primarily due to the previous explained lower prices along with the increased operating costs during the quarter.

Other revenue

	Three months ended				Nine months ended September 30	
	September 30 2017	June 30 2017	March 31 2017	September 30 2016	2017	2016
Other	$ 27,974	$ 45,116	$ 60,383	$ 24	$ 133,473	$ 87

Other revenue is primarily made up of gas processing and transportation fees and land use fees. The decrease in the third quarter 2017 over the first quarter and second quarter is primarily due to decreased gas processing and transportation fees from third party gas during this period as certain wells were shut in during the quarter. The increase in other revenue for the nine months ended September 30, 2017 over the comparative period is a result of the acquisitions the Company finalized in October 2016.

General and administrative

	Three months ended				Nine months ended September 30	
	September 30 2017	June 30 2017	March 31 2017	September 30 2016	2017	2016
General and Administrative	$ 222,818	$ 304,710	$ 187,150	$ 78,198	$ 714,678	$ 221,832

General and administrative costs for three months ended September 30, 2017 decreased over the three months ended June 30, 2017, primarily due to lower consulting, legal and audit and software costs. The increase during the three and nine months ended September 30, 2017 over the comparative 2016 periods is due to the increased consulting and professional fees as well as a general increase in office costs due to the increase in activity from the acquisitions in October 2016.

Depletion and depreciation

	Three months ended				Nine months ended September 30	
	September 30 2017	June 30 2017	March 31 2017	September 30 2016	2017	2016
Depletion and depreciation	$ 223,218	$ 223,673	$ 216,966	$ 1,519	$ 663,857	$ 5,168
$ per boe	$ 7.93	$ 8.79	$ 9.26	$ 5.24	$ 8.61	$ 3.56

Depletion and depreciation was slightly lower for the three months ended September 30, 2017 compared to the previous quarter as the higher production is more than offset by the higher reserve base from the acquisitions completed in the second quarter. The increase in depletion and depreciation for the three and nine months ended September 30, 2017 over the comparative periods is a result of the acquisitions the Company finalized in October 2016.

Stock based compensation

Stock-based compensation costs for the three months ended September 30, 2017 amounted to $42,017 (three months ended September 30, 2016 – $8,599). Stock-based compensation costs for the nine months ended September 30, 2017 amounted to $128,917 (nine months ended September 30, 2016 – $30,097). The increase in stock-based compensation costs during the three and nine months ended September 30, 2017 over the comparative periods is attributable to a stock option grant in January 2017.

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 of exploration and evaluation assets

During the nine months ended September 30, 2017, the Company sold non-core undeveloped land for $50,000. The land was originally acquired as part of the acquisitions in 2016. The land was recorded with a book value of $nil creating a $50,000 gain.

Gain on sale of property, plant and equipment

During the nine months ended September 30, 2017, the Company sold non-core oil assets in the Pembina area for cash proceeds of $118,973. The Company had a book value of $287,131 and decommissioning liabilities of $262,448 which resulted in a gain on sale of $94,290.

Gain on acquisition

On April 20, 2017, the Company acquired production of approximately 60 BOE/day (80% natural gas), and the remaining 50% interest in the Company's operated Rycroft gathering system and gas plant for $715,000 in cash. All of the acquired production is processed through the Rycroft gas plant. A gain on acquisition was recorded as the estimated fair value of the net assets acquired exceeded the acquisition price by $400,000.

Discontinued Operations

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

Operating results related to discontinued operations have been included in the loss from discontinued operations on the condensed consolidated interim statements of net income (loss). Comparative period balances have been restated. During the three and nine months ended September 30, 2017 $nil have been incurred in Tunisia (three and nine months ended September 30, 2016 - $7,844 and $33,789, respectively).

Share capital

During the three months ended March 31, 2017 the Company completed an equity financing and issued a total of 17,415,399 common shares and 16,883,959 warrants for total gross proceeds of $2,104,148. Each warrant issued pursuant to the above mentioned financing, is exercisable by the holder to purchase one Common Share until October 20, 2018 at a price of $0.15. The Company may redeem the warrants upon providing the holder notice. 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.

In addition during the first quarter, the Company granted 2,070,000 stock options with an exercise price of $0.185 per share to certain officers, directors, employees and consultants.

A total of 42,424,293 common shares, 23,686,459 warrants, and 2,175,000 stock options of the Company are outstanding as of the date hereof.

In addition to the above, 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 conversions 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.

LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2017, the Company had working capital of $0.9 million. In November the Company announced that it intends to complete a non-brokered private placement (the "Offering") of 66,666,666 units of the Company (the "Units") at a price of $0.075 per Unit for aggregate gross proceeds of $5,000,000. The proceeds of the Offering will be used by Return to further its development activities in the Rycroft, Gordondale and Valhalla areas of Alberta.

Each Unit will consist of one common share in the capital of the Company (a "Common Share") and one Common Share purchase warrant (a "Warrant"). Each Warrant will entitle the holder thereof to purchase one Common Share at a price of $0.10 per Common Share (the "Warrant Exercise Price") at any time up to 5:00 p.m. (Calgary time) on or before the earlier of the date that is: (a) five years from the closing date of the Offering, and (b) 30 days after the giving of the Early Termination Notice (as defined herein) by the Company. If the volume-weighted average price of the Common Shares on the TSX Venture Exchange (the "TSXV") exceeds the Warrant Exercise Price by at least 200% for a minimum of 20 consecutive trading days (whether or not trading of the Common Shares occurs on such days, provided that the Common Shares trade on at least fifteen of such trading days and the total value of Common Shares traded during such periods is greater than $1,500,000), the Warrants will be subject to, at the option of the Company, an accelerated expiry date that is 30 days after the date on which the Company provides notice to holders of Warrants of such accelerated expiry date (the "Early Termination Notice"). As the private placement was carried out with a single subscriber, and will result in the creation of a control person, shareholder approval of the transaction is required and the Company will seek this approval at a shareholders meeting to be held on December 27, 2017.

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 the remaining of 2017 and is reviewing 2018 operations and capital spending based on their best estimates of projected business activity and estimated future cash flows.

TRANSACTIONS WITH RELATED PARTIES

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

SUMMARY OF QUARTERLY INFORMATION

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

	Quarter ended							
	Sep 30 2017	June 30 2017	Mar 31 2017	Dec 31 2016	Sept 30 2016	Jun 30 2016	Mar 31 2016	Dec 31 2015
Average Daily Production								
Oil and NGLs (bbls/d)	55	49	58	37	-	-	-	-
Natural gas (mcf/d)	1,527	1,383	1,213	1,033	19	37	40	40
Combined (boe/d)	310	280	260	209	3	6	7	7
Total revenue, net of royalties	$ 429,053	$ 606,012	$ 579,562	$ 524,863	$ 4,438	$ 2,743	$ 5,167	$ 8,558
Net income (loss) from continuing operations	$ (942,399)	$ 87,864	$ (399,394)	$ (424,037)	$ (89,375)	$ (62,975)	$ (74,206)	$ (85,243)
Gain (loss) from discontinued operations	-	-	-	293,058	(7,844)	(8,680)	(17,265)	(44,150)
Net income (loss)	$ (942,399)	$ 87,864	$ (399,394)	$ (130,979)	$ (97,219)	$ (71,655)	$ (91,471)	$ (129,393)
Per share - basic and diluted								
Net income (loss) from continuing operations	$ (0.02)	$ -	$ (0.01)	$ (0.02)	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)
Gain (loss) from discontinued operations	-	-	-	0.01	-	-	-	-
Net income (loss)	$ (0.02)	$ -	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)

On October 21, 2016 the Company acquired producing oil and gas assets primarily in the Peace River Arch area of northwest Alberta which accounts for the increase in both production and revenue compared to prior quarters. Production and revenue increased during the first quarter 2017 primarily due to having a full quarter of production compared to the fourth quarter 2016 which only included production from October 21, 2016 from the Peace River Arch assets. The increase in the loss from continuing operations in the fourth quarter 2016 and first quarter 2017 is primarily a result of increased general and administrative and depletion and depreciation due to the previous mentioned acquisition. The Company recorded net income of $87,864 primarily from a $400,000 gain from the purchase of oil and natural gas assets and facilities in Rycroft. During the three months ended September 30, 2017 the Company generated a loss from continuing operations primarily due to a combination of a drop in natural gas prices as well as an increase in operating costs. The gain from discontinued operations in the fourth quarter 2016 is a result of a reversal of previously accrued liabilities.

ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED

There are no updates to future changes in accounting standards for the three and nine months ended September 30, 2017. Further information on future changes in accounting standards can be found in the notes to the annual consolidated financial statements and annual MD&A for the year ended December 31, 2016.

BUSINESS RISKS AND UNCERTAINTIES

The Company, like all oil and gas corporations, operates in environments subject to inherent risks. These risks have not materially changed from December 31, 2016. Further information on business risks and uncertainties can be found in the annual MD&A for the year ended December 31, 2016.

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.

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 close a non-brokered private placement.

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.

Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine months ended September 30, 2017

Notice of No Auditor Review of Interim Financial Statements

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed these unaudited condensed consolidated interim financial statements as at and for the three and nine months ended September 30, 2017.

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

ASSETS	As at	
	September 30, 2017	December 31, 2016
		(audited)
CURRENT		
Cash	$ 1,166,255	$ 602,848
Accounts receivable	328,868	780,647
Prepaid expenses and deposits	47,476	429,226
	1,542,599	1,812,721
EXPLORATION AND EVALUATION (note 3)	133,939	-
PROPERTY, PLANT AND EQUIPMENT (note 4)	8,787,248	8,030,376
TOTAL ASSETS	$ 10,463,786	$ 9,843,097

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT		
Accounts payable and accrued liabilities	$ 422,098	$ 686,414
Decommissioning liabilities (note 5)	200,418	-
	622,516	686,414
DECOMMISSIONING LIABILITIES (note 5)	6,127,971	6,236,420
CONVERTIBLE PREFERRED SHARES (note 6)	2,000,000	2,000,000
	8,127,971	8,236,420
TOTAL LIABILITIES	8,750,487	8,922,834
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (note 7c)	28,283,806	26,908,948
WARRANTS (note 7d)	724,417	180,417
CONTRIBUTED SURPLUS	5,047,333	4,918,416
ACCUMULATED OTHER COMPREHENSIVE INCOME	349,715	350,345
DEFICIT	(32,691,972)	(31,437,863)
TOTAL SHAREHOLDERS' EQUITY	1,713,299	920,263
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 10,463,786	$ 9,843,097

Commitments (note 11)

Subsequent event (note 13)

The accompanying notes are an integral part of these condensed interim financial statements

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

	Number of shares	Share Capital	Warrants	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Deficit	Total
Balance December 31, 2015	11,403,894	$ 25,737,888	$ -	$ 4,884,019	$ 342,087	$ (31,046,539)	$ (82,545)
Share-based compensation		-	-	30,097	-	-	30,097
Comprehensive income (loss) for the period		-	-	-	11,794	(260,345)	(248,551)
Balance September 30, 2016	11,403,894	25,737,888	-	4,914,116	353,881	(31,306,884)	(300,999)
Private company acquisitions	5,500,000	477,064	72,936	-	-	-	550,000
Equity financing	8,105,000	693,996	107,481	-	-	-	801,477
Share-based compensation	-	-	-	4,300	-	-	4,300
Comprehensive loss for the period	-	-	-	-	(3,536)	(130,979)	(134,515)
Balance December 31, 2016	25,008,894	26,908,948	180,417	4,918,416	350,345	(31,437,863)	920,263
Equity financing (note 7e)	17,415,399	1,374,858	544,000	-	-	-	1,918,858
Share-based compensation (note 7f)	-	-	-	128,917	-	-	128,917
Comprehensive loss for the period	-	-	-	-	(630)	(1,254,109)	(1,254,739)
Balance September 30, 2017	42,424,293	$ 28,283,806	$ 724,417	$ 5,047,333	$ 349,715	$ (32,691,972)	$ 1,713,299

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

The accompanying notes are an integral part of these condensed interim financial statements

RETURN ENERGY INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF 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	
	2017	2016	2017	2016
REVENUE				
Petroleum and natural gas sales	$ 431,351	$ 4,674	$ 1,605,799	$ 13,239
Royalties	(30,272)	(260)	(124,645)	(978)
Other	27,974	24	133,473	87
	429,053	4,438	1,614,627	12,348
EXPENSES				
Operating costs	847,531	5,524	1,813,909	15,023
General and administrative	222,818	78,198	714,678	221,832
Share-based compensation (note 7f)	42,017	8,599	128,917	30,097
Depletion and depreciation (note 4)	223,218	1,519	663,857	5,168
Accretion of decommissioning liabilities (note 5)	35,868	100	96,733	337
Gain on sale of exploration and evaluations assets (note 3)	-	-	(50,000)	(35,000)
Gain on sale of property, plant and equipment (note 4)	-	-	(94,290)	-
Gain on acquisition (note 8)	-	-	(400,000)	-
Foreign exchange loss (gain)	-	(127)	(5,068)	1,447
	1,371,452	93,813	2,868,736	238,904
LOSS FROM CONTINUING OPERATIONS	(942,399)	(89,375)	(1,254,109)	(226,556)
LOSS FROM DISCONTINUED OPERATIONS (note 9)	-	(7,844)	-	(33,789)
LOSS	$ (942,399)	$ (97,219)	$ (1,254,109)	$ (260,345)
LOSS PER SHARE (note 7g)				
Basic and diluted				
Loss per share from continuing operations	$ (0.02)	$ (0.01)	$ (0.03)	$ (0.02)
Loss per share from discontinued operations	-	-	-	-
Loss per share	$ (0.02)	$ (0.01)	$ (0.03)	$ (0.02)

The accompanying notes are an integral part of these condensed interim financial statements

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF 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	
	2017	2016	2017	2016
LOSS	$ (942,399)	$ (97,219)	$ (1,254,109)	$ (260,345)
Other comprehensive loss to be reclassified to income in subsequent periods				
Foreign currency translation adjustment	-	(2,258)	(630)	11,794
COMPREHENSIVE LOSS	$ (942,399)	$ (99,477)	$ (1,254,739)	$ (248,551)

The accompanying notes are an integral part of these condensed interim financial statements

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

	2017	2016
OPERATING ACTIVITIES		
Loss from continuing operations	$ (1,254,109)	$ (226,556)
Add (subtract) items not requiring cash		
Depletion and depreciation (note 4)	663,857	5,168
Gain on acquisition (note 8)	(400,000)	-
Gain on sale of exploration and evaluations assets (note 3)	(50,000)	(35,000)
Gain on sale of property, plant and equipment (note 4)	(94,290)	-
Accretion of decommissioning liabilities (note 5)	96,733	337
Share-based compensation (note 7f)	128,917	30,097
Unrealized foreign exchange (gain) loss	(630)	12,864
Settlement of decommissioning liabilities (note 5)	(20,199)	-
Change in non-cash working capital items	467,666	100,163
Cash flow used in continuing operations	(462,055)	(112,927)
Cash flow used in discontinued operations	-	(33,789)
Cash flow used in operations	(462,055)	(146,716)
INVESTING ACTIVITIES		
Exploration and evaluation expenditures (note 3)	(133,939)	-
Property, plant and equipment expenditures (note 4)	(174,756)	-
Property acquisitions (note 8)	(834,236)	-
Property disposition (note 4)	118,973	-
Exploration and evaluations asset disposition (note 3)	50,000	35,000
Change in non-cash working capital items	80,562	(12,745)
Cash flow from (used in) continuing investing activities	(893,396)	22,255
FINANCING ACTIVITIES		
Proceeds from equity financing, net (note 7e)	1,918,858	-
Cash flow from continuing financing activities	1,918,858	-
Foreign exchange gain on cash held in a foreign currency	-	53
INCREASE (DECREASE) IN CASH	563,407	(124,408)
CASH, BEGINNING OF PERIOD	602,848	166,218
CASH, END OF PERIOD	$ 1,166,255	$ 41,810

The accompanying notes are an integral part of these condensed interim financial statements

1. GENERAL INFORMATION

Return Energy Inc. and its subsidiaries ("Return", the "Company" or the "Group") is engaged in the exploration for and development and production of petroleum and natural gas properties in Alberta. Return's shares are widely held and publicly traded on the TSX Venture Exchange under the symbol "RTN". The Company was incorporated under the Alberta Business Corporations Act on March 20, 2006 and is domiciled in Calgary, Canada. The Company's head office is located at Suite 1220, 407 – 2nd Street S.W., Calgary, Alberta T2P 2Y3 The registered office of the Company is located at 1000, 250 - 2nd Street S.W., Calgary, Alberta T2P 0C1. On January 1, 2017 the Company amalgamated Murelle Enterprises Inc. and Bredal Energy Corp. into Winslow Resources Inc. As a result, Return Energy Inc. has two remaining 100% owned subsidiaries, Winslow Resources Inc. and DualEx International Inc.

2. BASIS OF PREPARATION

a) Statement of compliance

These Unaudited Condensed Consolidated Interim Financial Statements (the "Financial Statements") for the three and nine months ended September 30, 2017 have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* following accounting policies in accordance with International Financial Reporting Standards ("IFRS"). The Financial Statements do not include all of the information required for annual financial statements and should be read in conjunction with the Audited Consolidated Financial Statements for the year ended December 31, 2016, which have been prepared in accordance with IFRS. The Board of Directors approved the Financial Statements on November 24, 2017.

b) Historical cost and fair value

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

c) Functional and presentation currency

The Financial Statements are presented in Canadian dollars, which is the functional currency of Return Energy Inc. and Winslow Resources Inc. The functional currency of DualEx International Inc. is US dollars.

d) Significant accounting policies

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

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

3. EXPLORATION AND EVALUATION ASSETS

Balance, December 31, 2016	$	-
Acquisition of undeveloped land		133,939
Balance, September 30, 2017	$	133,939

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

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

Cost	Oil and Gas Properties	Natural gas processing plant and equipment	Office equipment and other	Total PP&E
Balance December 31, 2016	$ 7,894,242	$ 350,000	$ -	$ 8,244,242
Additions	33,620	75,312	65,824	174,756
Acquisitions (note 8)	862,221	450,000	-	1,312,221
Disposition	(319,197)	-	-	(319,197)
Change in estimate of decommissioning liabilities	210,109	10,774	-	220,883
Balance September 30, 2017	$ 8,680,995	$ 886,086	$ 65,824	$ 9,632,905
Accumulated depletion, depreciation and impairment				
Balance December 31, 2016	$ (210,366)	$ (3,500)	$ -	$ (213,866)
Disposition	32,066	-	-	32,066
Depletion and depreciation	(627,702)	(35,009)	(1,146)	(663,857)
Balance September 30, 2017	$ (806,002)	$ (38,509)	$ (1,146)	$ (845,657)
Net Book Value				
Balance December 31, 2016	$ 7,683,876	$ 346,500	$ -	$ 8,030,376
Balance September 30, 2017	$ 7,874,993	$ 847,577	$ 64,678	$ 8,787,248

During the nine months ended September 30, 2017, the Company sold non-core oil assets for cash proceeds of $118,973. The non-core assets sold had a book value of $287,131 and decommissioning liabilities of $262,448 resulting in a gain on disposition of $94,290.

For the nine months ended September 30, 2017, future development costs of $4.7 million were included in the depletion calculation.

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

5. DECOMMISSIONING LIABILITIES

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

Decommissioning liabilities,		
December 31, 2016	$	6,236,420
Liabilities acquired (note 8)		57,000
Liabilities divested (note 4)		(262,448)
Liabilities settled		(20,199)
Accretion		96,733
Change in estimated future cash outflows (note 4)		220,883
Decommissioning liabilities,		
September 30, 2017	$	6,328,389
Expected to be incurred within one year	$	200,418
Expected to be incurred beyond one year		6,127,971
	$	6,328,389

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, 2017 is $9,423,000. Payments to settle the decommissioning liabilities occur over the operating lives of the underlying assets, estimated to be from 1 – 41 years. The estimated future cash flows have been discounted at a risk free rates between 1.7% and 2.5% 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 Preferred Shares meet the definition of a financial liability, and therefore are recorded as a debt instrument, due to the Company's obligation to deliver a variable number of its own common shares to the holder upon conversion.

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

7. SHARE CAPITAL

(a) Authorized

The Company is authorized to issue an unlimited number of common shares with no par value and an unlimited number of first preferred shares with no par value. The first preferred shares may be issued in series, with the directors determining the terms of the preferred shares on a series by series basis.

(b) Share consolidation

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

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

(c) Issued and outstanding

	Number of Shares	Amount
Common Shares		
Balance December 31, 2016	25,008,894	$ 26,908,948
Equity financing (note 7e)	17,415,399	1,374,858
Balance September 30, 2017	42,424,293	$ 28,283,806

(d) Warrants

	Number of Warrants	Value	Weighted Average Exercise Price
Warrants outstanding December 31, 2016	6,802,500	$ 180,417	$ 0.15
Issuance of Warrants on equity financing (note 7e)	16,883,959	544,000	0.15
Warrants outstanding September 30, 2017	23,686,459	$ 724,417	$ 0.15

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

7. SHARE CAPITAL (continued)

(e) March 2017 financing

On March 14, 2017, the Company closed a non-brokered private placement comprised of common share units (the "Units") and Canadian exploration expense flow-through shares ("CEE FTS") (collectively, the "Offering"). Return issued 16,700,399 Units at a price of $0.12 per Unit for gross proceeds of $2,004,048, as well as 715,000 CEE FTS at a price of $0.14 per CEE FTS for gross proceeds of $100,100 for total gross proceeds of $2,104,148. The CEE FTS were issued pursuant to the Income Tax Act (Canada) in respect of Canadian exploration expenses. The Company has met its commitment with respect to the CEE FTS.

Each Unit issued consisted of one Return common share ("Common Share") and one whole Common Share purchase warrant ("Warrant"). Each whole Warrant is exercisable by the holder to purchase one Common Share until October 20, 2018 ("Warrant Exercise Period") at a price of $0.15 ("Warrant Exercise Price"). Each Warrant will entitle the holder thereof to purchase one Common Share at any time on or before the earlier of the date that is: (a) one year from the completion of the Offering; and (b) 30 days after the giving of notice of early termination by Return. Such notice may be given by the Company, in its sole discretion, if the volume-weighted average price of the Common Shares on the TSX Venture Exchange exceeds the Warrant Exercise Price by at least 200% for a minimum of 10 consecutive trading days (whether or not trading of Common Shares occurs on all such days, provided that the Common Shares trade on at least five of such trading days.

Finders received $22,027 in cash and 183,560 Warrants as compensation. Total costs in connection with the financing amounted to $185,290.

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

(f) 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 date vest 1/3 per year on the anniversary date of the grant for the next three years. During the nine months ended September 30, 2017, the changes to the outstanding stock options are as follows:

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

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

7. SHARE CAPITAL (continued)

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

Date of Grant	Number Outstanding		Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years	Options Exercisable
02-Sep-14	105,000	$	2.30	1.92	70,000
05-Jan-17	2,070,000	$	0.185	4.25	-
	2,175,000	$	0.29		70,000

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

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

(g) Loss per share

The weighted average number of shares outstanding for the three and nine months ended September 30, 2017 is 42,424,293 and 37,895,013 respectively (three and nine months ended September 30, 2016 – 11,403,894). No options or warrants were included in the computation of diluted loss per share as they have an anti-dilutive effect on loss per share.

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

8. GAIN ON ACQUISITION

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

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

The Company acquisitions were acquired to further consolidate its position in the Peace River Arch.

The estimated fair value of the acquisitions are as follows:

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

The acquisitions contributed revenue of approximately $158,000 and loss of approximately $58,000 during the nine months ended September 30, 2017.

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

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

9. DISCONTINUED OPERATIONS

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

Operating results related to discontinued operations have been included in loss from discontinued operations on the consolidated statements of net income (loss). Comparative period balances have been restated. During the three and nine months ended September 30, 2017 $nil have been incurred in Tunisia (three and nine months ended September 30, 2016 $7,844 and $33,789, respectively.)

10. FINANCIAL INSTRUMENTS

The Company's financial instruments recognized in the consolidated statement of financial position consist of cash, accounts receivable, deposits, accounts payable and accrued liabilities, and Preferred Shares. Cash is classified as held for trading. The carrying value of cash, accounts receivable, and accounts payable and accrued liabilities approximate their respective fair values due to their short-term to maturity. The carrying value of the Preferred Shares approximate their fair value as they are convertible at the Market Price.

11. COMMITMENTS

The Company entered into a lease agreement whereby the Company will lease office space until September 30, 2019. The Company has committed to future payments under this lease of $18,200 in 2017, $72,800 in 2018 and $54,600 in 2019.

12. RELATED PARTY DISCLOSURE

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

13. SUBSEQUENT EVENT

In November 2017, the Company announced that it intends to complete a non-brokered private placement (the "Offering") of 66,666,666 units of the Company (the "Units") at a price of $0.075 per Unit for aggregate gross proceeds of $5,000,000. The proceeds of the Offering will be used by Return to further its development activities in the Rycroft, Gordondale and Valhalla areas of Alberta.

Each Unit will consist of one common share in the capital of the Company (a "Common Share") and one Common Share purchase warrant (a "Warrant"). Each Warrant will entitle the holder thereof to purchase one Common Share at a price of $0.10 per Common Share (the "Warrant Exercise Price") at any time up to 5:00 p.m. (Calgary time) on or before the earlier of the date that is: (a) five years from the closing date of the Offering, and (b) 30 days after the giving of the Early Termination Notice (as defined herein) by the Company. If the volume-weighted average price of the Common Shares on the TSX Venture Exchange (the "TSXV") exceeds the Warrant Exercise Price by at least 200% for a minimum of 20 consecutive trading days (whether or not trading of the Common Shares occurs on such days, provided that the Common Shares trade on at least fifteen of such trading days and the total value of Common Shares traded during such periods is greater than $1,500,000), the Warrants will be subject to, at the option of the Company, an accelerated expiry date that is 30 days after the date on which the Company provides notice to holders of Warrants of such accelerated expiry date (the "Early Termination Notice"). As the private placement was carried out with a single subscriber, and will result in the creation of a control person, shareholder approval of the transaction is required and the Company will seek this approval at a shareholders meeting to be held on December 27, 2017.

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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