RETURN ENERGY INC.

Annual Report

For the years ended December 31, 2017 and 2016

This Management's Discussion and Analysis ("MD&A") of Return Energy Inc. ("Return" or the "Company") should be read in conjunction with the audited Consolidated Financial Statements for the year ended December 31, 2017 (the "Financial Statements"). This MD&A has been prepared as of April 26, 2018.

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 from January 2017 to date:

- The Company raised over $7 million in two equity financings during the year.
- During 2017, the Company consolidated its asset base by acquiring additional operated production in Rycroft from joint interest partners.
- In April 2017, Return purchased the remaining 50% interest in the Company's operated Rycroft gathering system and gas plant which provides Return greater flexibility and control over the plant through-put and increases third party processing revenue.
- The Company acquired over four thousand acres of additional undeveloped land at Rycroft.
- In April 2018, the initial drilling and completion program at its Rycroft core property north of Grande Prairie, Alberta concluded with the successful drilling and initial testing of two wells. The first well encountered the Braeburn dolomite of the Charlie Lake formation and, after fracture stimulation, tested 125 BOE/day of light (37^0 API) sweet oil and associated natural gas. The well is currently shut-in for initial pressure build-up and equipping operations will be undertaken after spring break-up. Planning is also underway for the installation of a pipeline to connect 14-27 to the Company's wholly-owned and operated Rycroft gas plant and, once connected, the well will be capable of producing without restriction. Pipelining operations are expected to commence post spring break-up. Thirteen additional drilling locations targeting the Braeburn dolomite have been identified.

- The second vertical well in the program penetrated a 5.5 metre thick Charlie Lake dolomitic siltstone zone approximately thirty metres above the Braeburn member. After fracture stimulation, swabbing operations resulted in light (38^0 API) sweet oil rates of approximately 45 barrels of oil per day. This sets the stage for a future horizontal drilling program using multi-stage fracture stimulation techniques. Twenty two horizontal drilling locations targeting the Charlie Lake dolomitic siltstone have been identified on the Company's existing land holdings.

SELECTED FINANCIAL INFORMATION

As at and for the year ended December 31	2017	2016	2015
Total net revenue	$ 2,066,411	$ 537,211	$ 35,552
Loss from continuing operations	$ (2,248,970)	$ (650,593)	$ (500,966)
Gain (loss) from discontinued operations	-	259,269	(180,353)
Loss	$ (2,248,970)	$ (391,324)	$ (681,319)
Loss per share - basic and diluted			
Loss per share from continuing operations	$ (0.06)	$ (0.05)	$ (0.04)
Gain (loss) per share from discontinued operations	-	0.02	(0.02)
Loss per share	$ (0.06)	$ (0.03)	$ (0.06)
Total assets	$ 15,207,107	$ 9,843,097	$ 312,314
Long term liabilities	$ 8,216,270	$ 8,236,420	$ 45,889

RESULTS OF OPERATIONS

Petroleum and Natural Gas Production

	Three months ended			Year ended December 31	
	December 31 2017	September 30 2017	December 2016	2017	2016
Production					
Oil and natural gas liquids (bbls)	5,272	5,006	3,366	20,012	3,366
Natural gas (mcf)	131,777	138,958	95,075	505,707	103,838
Oil equivalent (boe @ 6:1)	27,235	28,166	19,212	104,297	20,672
Average production per day					
Oil and natural gas liquids (bbls/d)	57	55	37	55	9
Natural gas (mcf/d)	1,432	1,527	1,033	1,385	382
BOE/d	296	310	209	286	56

For the three months ended December 31, 2017, petroleum and natural gas production averaged 296 boe/d, a decrease of 5% over the prior quarter. The decrease is primarily a result of reduced deliverability and maintenance issues during the period. The increase in production during the three months and year ended December 31, 2017 over the comparative 2016 periods is primarily a result of a full period of operations in 2017. The Company acquired the Peace River Arch assets on October 21, 2016.

Oil and Natural Gas Revenue

	Three months ended			Year ended December 31	
	December 31 2017	September 30 2017	December 2016	2017	2016
REVENUE					
Oil and natural gas liquids	$ 291,195	$ 244,149	$ 194,078	$ 1,075,393	$ 194,078
Natural Gas	197,987	187,202	322,947	1,019,588	335,295
Total petroleum and natural gas sales	$ 489,182	$ 431,351	$ 517,025	$ 2,094,981	$ 529,373
Average Sales Price					
Oil and natural gas liquids ($/bbls)	$ 55.23	$ 48.77	$ 57.66	$ 53.74	$ 57.66
Natural gas ($/mcf)	1.50	1.35	3.40	2.02	3.23
Oil equivalent ($/boe)	$ 17.96	$ 15.31	$ 26.91	$ 20.09	$ 25.61

During the three months ended December 31, 2017 revenue increased 13% over the three months ended September 30, 2017. This increase is primarily the result of higher prices compared to the three month ended September 30, 2017. Revenue for the three months ended December 31, 2017 was lower than the comparative period in 2016 primarily due to lower natural gas prices, partially offset by higher production. Revenue increased during the year ended December 31, 2017 over the comparative year as a result of a full year of production from the Peace River Arch assets which were purchased in October 2016.

Royalties

	Three months ended						Year ended December 31			
	December 31 2017		September 30 2017		December 2016		2017		2016	
Royalties										
Oil and natural gas liquids	$	35,373	$	13,322	$	14,413	$	105,649	$	14,413
Natural Gas		12,988		16,950		11,097		67,357		12,075
Total petroleum and natural gas sales	$	48,361	$	30,272	$	25,510	$	173,006	$	26,488
Average Royalty Rate (% of sales)										
Oil and natural gas liquids		12.15%		5.46%		7.43%		9.82%		7.43%
Natural gas		6.56%		9.05%		3.44%		6.61%		3.60%
Oil equivalent		9.89%		7.02%		4.93%		8.26%		5.00%

Royalties as a percentage of revenue averaged 9.89% for the three months ended December 31, 2017, up from the 7.02% for the three months ended September 30, 2017. Royalties for the three months ended December 31, 2017 increased over the comparative period as a result of higher gas cost allowance being applied during the three months ended December 2016. Royalties for the year ended December 31, 2017 were higher than the previous year due to a full year of production from the Peace River Arch assets.

Operating Costs

	Three months ended						Year ended December 31			
	December 31 2017		September 30 2017		December 2016		2017		2016	
Operating Costs	$	672,870	$	847,531	$	494,695	$	2,486,779	$	509,718
$ per boe	$	24.71	$	30.09	$	25.75	$	23.84	$	24.66

Operating costs averaged $24.71 per boe for the three months ended December 31, 2017 compared to $25.75 per boe for the three months ended December 31, 2016, a decrease of 4%. Operating costs for the year ended December 31, 2017 decreased on a per boe basis 3% compared to the prior year.

Operating Netback

	Three months ended						Year ended December 31			
	December 31 2017		September 30 2017		December 2016		2017		2016	
Netback ($/boe)										
Revenue	$	17.96	$	15.31	$	26.91	$	20.09	$	25.61
Royalties		(1.78)		(1.07)		(1.33)		(1.66)		(1.28)
Operating		(24.71)		(30.09)		(25.75)		(23.84)		(24.66)
Operating Netback	$	(8.52)	$	(15.85)	$	(0.17)	$	(5.42)	$	(0.33)

During the three months ended December 31, 2017 the Company had an operating netback loss of $8.52 per boe compared to an operating netback loss of $0.17 during the three months ended December 31, 2016. The lower operating netback is primarily due to lower natural gas prices. The increased operating netback loss during the year ended December 31, 2017 is again primarily due to lower natural gas prices.

Processing and other revenue

	Three months ended December 31 2017	September 30 2017	December 2016	Year ended December 31 2017	2016
Processing and other	$ 10,963	$ 27,974	$ 34,239	$ 144,436	$ 34,326

Processing and other revenue is primarily made up of gas processing and transportation fees and land use fees. The decrease in the fourth quarter 2017 over the fourth quarter 2016 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 year ended December 31, 2017 over the comparative period is a result of a full year of operating the Company owned gas facility, which was initially acquired in October 2016.

General and administrative

	Three months ended December 31 2017	September 30 2017	December 2016	Year ended December 31 2017	2016
General and Administrative	$ 291,951	$ 222,818	$ 262,238	$ 1,006,629	$ 485,070

General and administrative costs for three months ended December 31, 2017 increased 11% over the three months ended December 31, 2016, primarily due to higher consulting fees. The increase in general and administrative costs during the year ended December 31, 2017 over the year ended December 31, 2016 are due to the increase in activity from the acquisitions in October 2016.

Depletion, depreciation and impairment

	Three months ended December 31 2017	September 30 2017	December 2016	Year ended December 31 2017	2016
Depletion, depreciation and impairment	$ 384,349	$ 223,218	$ 176,156	$ 1,048,206	$ 181,324
$ per boe	$ 14.11	$ 7.93	$ 9.17	$ 10.05	$ 8.77

Depletion, depreciation and impairment was higher for the three months ended December 31, 2017 compared to the previous quarter as the Company recorded a $205,000 impairment on one of its non-core properties in 2017 due the low gas price environment. The increase in depletion, depreciation and impairment for the year ended December 31, 2017 over the comparative periods is a result of the acquisitions the Company finalized in October 2016.

Share-based compensation

Share-based compensation costs for the three months ended December 31, 2017 amounted to $33,476 (three months ended December 31, 2016 – $4,300). Share-based compensation costs for the year ended December 31, 2017 amounted to $162,393 (year ended December 31, 2016 – $34,397). The increase in share-based compensation costs during the three months and year ended December 31, 2017 over the comparative periods is attributable to a stock option grant in January 2017.

Share-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 year ended December 31, 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.

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**.**

Gain on sale of property, plant and equipment

During the year ended December 31, 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. This was partially offset by a $3,208 loss on the sale of Company vehicles.

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 of $292,000, net of deferred income tax recovery, on acquisition was recorded as the estimated fair value of the net assets acquired exceeded the acquisition price.

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 months and year ended December 31, 2017 $nil have been incurred in Tunisia.

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. The Company recorded a gain from discontinued operations of $293,058 for the three months ended December 31, 2016 and gain of $259,269 for the year ended December 31, 2016. The gain for the year ended December 31, 2016 was lower than the fourth quarter gain as the Company had some expenditures in the first three quarters of the year.

Share capital

In March 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.

In December 2017, the Company closed a non-brokered private placement (the "Unit Offering") of 66,666,666 units of the Company ("Units") at a price of $0.075 per Unit for aggregate gross proceeds of $4,999,999.95. Additionally, the Company has issued 1,460,689 common shares ("FT Shares") on a flow-through basis at a price of $0.10 per FT Share for aggregate gross proceeds of $146,068.90.

Each Unit issued under the Unit Offering consisted of one common share in the capital of the Company (a "Common Share") and one Common Share purchase warrant (a "Warrant"). Each Warrant entitles 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").

Subsequent to year end, the Company granted 5,000,000 stock options with an exercise price of $0.10 per share to certain officers, directors, employees and consultants.

A total of 110,551,648 common shares, 90,353,125 warrants, and 7,100,000 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 December 31, 2017, the Company had working capital of $5.1 million. Subsequent to year end the Company drilled and completed two wells in the Rycroft area. Estimated costs to drill and complete these wells is $2.4 million. The Company is in the planning stages of building a pipeline from its recently drilled 14-27 well to its 100% owned natural gas plant, estimated to cost $1 million. Other than the pipeline, the Company does not have any other planned expenditures at this time.

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 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 year ended December 31, 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							
	Dec 31 2017	Sep 30 2017	June 30 2017	Mar 31 2017	Dec 31 2016	Sept 30 2016	Jun 30 2016	Mar 31 2016
Average Daily Production								
Oil and NGLs (bbls/d)	57	55	49	58	37	-	-	-
Natural gas (mcf/d)	1,432	1,527	1,383	1,213	1,033	19	37	40
Combined (boe/d)	296	310	280	260	209	3	6	7
Total revenue, net of royalties	$ 451,784	$ 429,053	$ 606,012	$ 579,562	$ 524,863	$ 4,438	$ 2,743	$ 5,167
Net income (loss) from continuing operations	$ (995,041)	$ (942,399)	$ 87,864	$ (399,394)	$ (424,037)	$ (89,375)	$ (62,975)	$ (74,206)
Gain (loss) from discontinued operations	-	-	-	-	293,058	(7,844)	(8,680)	(17,265)
Net income (loss)	$ (995,041)	$ (942,399)	$ 87,864	$ (399,394)	$ (130,979)	$ (97,219)	$ (71,655)	$ (91,471)
Per share - basic and diluted								
Net income (loss) from continuing operations	$ (0.02)	$ (0.02)	$ -	$ (0.01)	$ (0.02)	$ (0.01)	$ (0.01)	$ (0.01)
Gain (loss) from discontinued operations	-	-	-	-	0.01	-	-	-
Net income (loss)	$ (0.02)	$ (0.02)	$ -	$ (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 and December 31, 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.

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.

Business combinations are accounted for using the acquisition method of accounting. The determination of fair value often requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of property, plant and equipment acquired generally require the most judgment and include estimates of reserves acquired, forecast benchmark commodity prices and discount rates. Assumptions are also required to determine the fair value of decommissioning obligations associated with the properties. Changes in any of the assumptions or estimates used in determining the fair value of the acquired assets and liabilities could impact the amounts assigned to the assets and liabilities in the acquisition equation. Future net income (loss) can be affected as a result of changes in future depletion, depreciation or asset impairment.

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. The Company does not expect the standard to have a material impact on the consolidated statement of net income or loss.

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.

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; and costs related to development of oil and gas properties will remain consistent with historical experience.

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.

Annual Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

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, 2017 and 2016, the consolidated statements of net loss and comprehensive loss, changes in equity 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 the 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 the audit to obtain reasonable assurance about 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, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Calgary, Alberta

April 26, 2018

MNP LLP
Chartered Professional Accountants

MNP

RETURN ENERGY INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)

ASSETS	As at December 31, 2017	As at December 31, 2016
CURRENT		
Cash	$ 5,785,294	$ 602,848
Accounts receivable	333,537	780,647
Prepaid expenses and deposits	71,867	429,226
	6,190,698	1,812,721
EXPLORATION AND EVALUATION (note 5)	133,939	-
PROPERTY, PLANT AND EQUIPMENT (note 6)	8,882,470	8,030,376
TOTAL ASSETS	$ 15,207,107	$ 9,843,097
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT		
Accounts payable and accrued liabilities	$ 568,540	$ 686,414
Decommissioning liabilities (note 7)	552,000	-
	1,120,540	686,414
DECOMMISSIONING LIABILITIES (note 7)	6,216,270	6,236,420
CONVERTIBLE PREFERRED SHARES (note 8)	2,000,000	2,000,000
	8,216,270	8,236,420
TOTAL LIABILITIES	9,336,810	8,922,834
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (note 10c)	30,968,189	26,908,948
WARRANTS (note 10d)	3,158,417	180,417
CONTRIBUTED SURPLUS	5,080,809	4,918,416
ACCUMULATED OTHER COMPREHENSIVE INCOME	349,715	350,345
DEFICIT	(33,686,833)	(31,437,863)
TOTAL SHAREHOLDERS' EQUITY	5,870,297	920,263
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 15,207,107	$ 9,843,097

Commitments (note 16)
Subsequent event (note 18)

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

(signed) "Kenneth Tompson"
Kenneth Tompson, Director

(signed) "Robb Thompson"
Robb Thompson, Director

RETURN ENERGY INC.
CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS
FOR THE YEAR ENDED DECEMBER 31
(Expressed in Canadian dollars)

	2017	2016
REVENUE		
Petroleum and natural gas sales	$ 2,094,981	$ 529,373
Royalties	(173,006)	(26,488)
Processing and other	144,436	34,326
	2,066,411	537,211
EXPENSES		
Operating costs	2,486,779	509,718
General and administrative	1,006,629	485,070
Bad debts	27,000	-
Share-based compensation (note 10h)	162,393	34,397
Depletion, depreciation and impairment (note 6)	1,048,206	181,324
Accretion of decommissioning liabilities (note 7)	130,485	11,166
Gain on sale of exploration and evaluations assets (note 5)	(50,000)	(35,000)
Gain on sale of property, plant and equipment (note 6)	(91,082)	-
Gain on acquisition (note 11a)	(292,000)	-
Foreign exchange (gain) loss	(5,029)	1,129
	4,423,381	1,187,804
LOSS FROM CONTINUING OPERATIONS	(2,356,970)	(650,593)
GAIN FROM DISCONTINUED OPERATIONS (note 12)	-	259,269
NET LOSS BEFORE TAX	(2,356,970)	(391,324)
DEFERRED INCOME TAX RECOVERY	108,000	-
NET LOSS	(2,248,970)	(391,324)
Other comprehensive loss to be reclassified to income in subsequent periods		
Foreign currency translation adjustment	(630)	8,258
TOTAL COMPREHENSIVE LOSS	$ (2,249,600)	$ (383,066)
NET LOSS PER SHARE (note 10i)		
Basic and diluted		
Loss per share from continuing operations	$ (0.06)	$ (0.05)
Loss per share from discontinued operations	-	0.02
Loss per share	$ (0.06)	$ (0.03)

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

RETURN ENERGY INC.
CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE YEAR ENDED DECEMBER 31
(Expressed in Canadian dollars)

	2017	2016
OPERATING ACTIVITIES		
Loss from continuing operations	$ (2,356,970)	$ (650,593)
Add (subtract) items not requiring cash		
Depletion, depreciation and impairment (note 6)	1,048,206	181,324
Gain on acquisition (note 11a)	(292,000)	-
Gain on sale of exploration and evaluations assets (note 5)	(50,000)	(35,000)
Gain on sale of property, plant and equipment (note 6)	(91,082)	-
Accretion of decommissioning liabilities (note 7)	130,485	11,166
Share-based compensation (note 10h)	162,393	34,397
Unrealized foreign exchange (gain) loss	(630)	8,258
Settlement of decommissioning liabilities (note 7)	(103,539)	(22,000)
Change in non-cash working capital items (note 13)	574,829	192,819
Cash flow used in continuing operations	(978,308)	(279,629)
Cash flow used in discontinued operations (note 12)	-	(33,850)
Cash flow used in operations	(978,308)	(313,479)
INVESTING ACTIVITIES		
Exploration and evaluation expenditures (note 5)	(133,939)	-
Property, plant and equipment expenditures (note 6)	(189,847)	-
Consideration paid for asset business combination (note 11c)	-	(285,000)
Property acquisitions (note 11a)	(834,236)	-
Property dispositions (note 6)	150,973	-
Exploration and evaluations asset disposition (note 5)	50,000	35,000
Change in non-cash working capital items (note 13)	80,562	(301,605)
Cash flow used in continuing investing activities	(876,487)	(551,605)
FINANCING ACTIVITIES		
Proceeds from equity financing, net (note 10e)	1,918,858	801,477
Proceeds from equity financing, net (note 10f)	5,118,383	-
Cash acquired from private company business combinations (11b)	-	500,237
Cash flow from continuing financing activities	7,037,241	1,301,714
INCREASE IN CASH	5,182,446	436,630
CASH, BEGINNING OF YEAR	602,848	166,218
CASH, END OF YEAR	$ 5,785,294	$ 602,848

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

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

	Number of shares	Share Capital	Warrants	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total
Balance December 31, 2015	11,403,894	$ 25,737,888	$ -	$ 4,884,019	$ 342,087	$ (31,046,539)	$ (82,545)
Private company acquisitions (note 11b)	5,500,000	477,064	72,936	-	-	-	550,000
Equity financing (note 10c)	8,105,000	693,996	107,481	-	-	-	801,477
Share-based compensation	-	-	-	34,397	-	-	34,397
Comprehensive 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
Equity financing (note 10e)	17,415,399	1,140,858	778,000	-	-	-	1,918,858
Equity financing (note 10f)	68,127,355	2,918,383	2,200,000	-	-	-	5,118,383
Share-based compensation (note 10h)	-	-	-	162,393	-	-	162,393
Comprehensive loss for the year	-	-	-	-	(630)	(2,248,970)	(2,249,600)
Balance December 31, 2017	110,551,648	$ 30,968,189	$ 3,158,417	$ 5,080,809	$ 349,715	$ (33,686,833)	$ 5,870,297

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

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

1. GENERAL INFORMATION

Return Energy Inc. and its subsidiaries ("Return", the "Company" or the "Group") are engaged in the exploration for and development and production of petroleum and natural gas properties in Alberta. Return's shares are publicly traded on the TSX Venture Exchange under the symbol "RTN". The Company was incorporated under the Alberta Business Corporations Act on March 20, 2006 and is domiciled in Calgary, Canada. The Company's head office is located at Suite 1220, 407 – 2nd Street S.W., Calgary, Alberta T2P 2Y3 The registered office of the Company is located at 1000, 250 - 2nd Street S.W., Calgary, Alberta T2P 0C1. 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 consolidated financial statements, which include results of operations and consolidated statements of financial position as at and for the year ended December 31, 2017, including the 2016 comparative year (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, 2017. The Board of Directors approved the Financial Statements on April 26, 2018.

b) Historical cost

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

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) 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 impairment 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.

2. BASIS OF PREPARATION (continued)

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.

Compensation costs accrued for long-term share-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.

Business combinations are accounted for using the acquisition method of accounting. The determination of fair value often requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of property, plant and equipment acquired generally require the most judgment and include estimates of reserves acquired, forecast benchmark commodity prices and discount rates. Assumptions are also required to determine the fair value of decommissioning obligations associated with the properties. Changes in any of the assumptions or estimates used in determining the fair value of the acquired assets and liabilities could impact the amounts assigned to the assets and liabilities in the acquisition equation. Future net income (loss) can be affected as a result of changes in future depletion, depreciation or asset impairment.

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 in which each subsidiary operates.

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 Return Energy Inc. and entities controlled or jointly controlled by Return Energy Inc. (as detailed in Note 17). Control is achieved where Return Energy Inc. 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 statement 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 and equipment – 15 years straight line
Office equipment – 3 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 of disposal and the value in use. In assessing the fair value less costs of disposal 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 statement 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 is 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.

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 year 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 statement of loss and accumulated in shareholders’ equity on the consolidated statement of financial position.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Share-based compensation, warrants and agent options

Equity settled share-based compensation to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date if the fair value of services cannot be reliably determined. 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. 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) Flow-Through Shares

The Company may issue flow-through shares to finance a portion of its capital expenditure program. Pursuant to the terms of the flow-through share agreements, the tax deductions associated with the expenditures are renounced to the subscribers. The difference between the value ascribed to flow-through shares issued and the value that would have been received for common shares at the date of announcements of the flow-through shares is initially recognized as a liability on the statements of financial position. When the expenditures are incurred, the liability is drawn down, a deferred tax liability is recorded equal to the estimated amount of deferred tax payable by the Company as a result of the renunciation and the difference is recognized as a deferred tax expense. The premium liability as at December 31, 2017 and 2016 has been deemed immaterial.

k) 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.

l) 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.

m) 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 are comprised of cash and accounts receivable. Cash is classified as fair value through profit or loss. 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 initially measured at fair value and subsequently measured at amortized cost.

(All amounts in Canadian dollars unless otherwise stated)

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 new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has two classification categories: amortized cost and fair value. In addition the standard introduces a new expected loss impairment model for financial assets, including credit losses. The Company has conducted an initial assessment and is not expecting the standard to have a material impact on the consolidated financial statements.

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. The Company has conducted an initial assessment and is not expecting the adoption of the standard to have a material impact on the consolidated financial statements. The adoption of IFRS 15 will however require expanded disclosures including the disaggregation of revenue by product type.

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.

5. EXPLORATION AND EVALUATION ASSETS

	2017	2016
Balance, beginning of year	$ -	$ -
Acquisition of undeveloped land	133,939	-
Balance, end of year	$ 133,939	$ -

During the year ended December 31, 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.

(All amounts in Canadian dollars unless otherwise stated)

6. 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, 2015	37,036	-	-	37,036
Private company acquisitions (note 11b)	96,707	-	-	96,707
Asset acquisition (note 11c)	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
Additions	58,712	75,312	55,823	189,847
Acquisitions (note 11a)	875,105	450,000	-	1,325,105
Disposition	(319,199)	-	(35,208)	(354,407)
Change in estimate of decommissioning liabilities (note 7)	696,915	10,774	-	707,689
Balance December 31, 2017	$ 9,205,775	$ 886,086	$ 20,615	$ 10,112,476
Accumulated depletion, depreciation and impairment				
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)
Disposition	32,066	-	-	32,066
Depletion and depreciation and impairment	(991,080)	(55,408)	(1,718)	(1,048,206)
Balance December 31, 2017	$ (1,169,380)	$ (58,908)	$ (1,718)	$ (1,230,006)
Net Book Value				
Balance December 31, 2016	$ 7,683,876	$ 346,500	$ -	$ 8,030,376
Balance December 31, 2017	$ 8,036,395	$ 827,178	$ 18,897	$ 8,882,470

During the year ended December 31, 2017, the Company sold non-core oil assets for cash proceeds of $118,973. The non-core assets sold had a book value of $287,133 and decommissioning liabilities of $262,450 resulting in a gain on disposition of $94,290.

During the year ended December 31, 2017, the Company sold vehicles with a net book value of $35,208 for proceeds of $32,000 resulting in a loss of $3,208.

For the year ended December 31, 2017, future development costs of $4.7 million (December 31, 2016 - $4.7 million) were included in the depletion calculation.

For the year ended December 31, 2017, the Company performed an impairment test on all of its CGUs for any potential impairment or related recovery and as a result recorded an impairment on its properties of $205,000 during the year. In making these evaluations, the Company used the net present value of the pre-tax cash flows from oil and gas reserves of each CGU based on reserves estimated by the Company's independent reserve evaluator.

(All amounts in Canadian dollars unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT (continued)

Key input estimates used in the determination of cash flows from oil and gas reserves include the following:

a) Reserves - Assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs or recovery rates may change the economic status of reserves and may ultimately result in reserves being restated.

b) Crude oil and natural gas prices- Forward price estimates of the crude oil and natural gas prices are used in the cash flow model. Commodity prices used tend to be stable because short-term increases or decreases in prices are not considered indicative of long-term price levels, but nonetheless subject to change and the change could be material.

c) Discount rate - The Company uses a pre-tax discount rate of 15% that reflects risks specific to the assets for which the future cash flow estimates have not been adjusted. The discount rate was determined based on the Company's assessment of risk based on past experience. Changes in the general economic environment could result in material changes to this estimate.

The following table from external sources outlines the forecast benchmark commodity prices used in the impairment calculation as at December 31, 2017.

Key assumptions for impairment

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028 (2)
Cdn Light Sweet Crude 40 ^{o} API ($Cdn/bbl) (1)	65.44	74.51	78.24	82.45	84.10	85.78	87.49	89.24	91.03	92.85	94.71
AECO C-Spot $Cdn/Mmbtu (1)	2.85	3.11	3.65	3.80	3.95	4.05	4.15	4.25	4.36	4.46	4.57

(1) The forecast benchmark commodity prices listed above are adjusted for quality differentials, heat content, transportation and marketing costs and other factors specific to the Company's operations in performing the Company's impairment tests.
(2) Forecast benchmarks commodity prices are assumed to increase by 2.0% in each year after 2028 to end of the reserve life.

With the current key assumptions listed above, the Company performed sensitivity impairment tests for each CGU and concluded that a 5% decrease in commodity prices would result in an impairment of $644,000. A one percent increase in the discount rate, would result in an additional $4,000 impairment being recorded, and a one percent decrease in the discount rate would result in reducing the impairment by $28,000.

(All amounts in Canadian dollars unless otherwise stated)

7. DECOMMISSIONING LIABILITIES

	Year ended December 31	
	2017	2016
Decommissioning liabilities, beginning of year	$ 6,236,420	$ 45,889
Liabilities acquired on private company business combinations (note 11b)	-	375,866
Liabilities acquired on asset business combination (note 11a) (note 11c)	60,000	2,267,899
Change in estimated future cash outflows	707,689	3,557,600
Disposition	(262,785)	-
Settlement	(103,539)	(22,000)
Accretion	130,485	11,166
Decommissioning liabilities, end of year	$ 6,768,270	$ 6,236,420
Expected to be incurred within one year	$ 552,000	$ -
Expected to be incurred beyond one year	6,216,270	6,236,420
	$ 6,768,270	$ 6,236,420

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, 2017 is $9,463,000 (December 31, 2016 – 9,239,000). 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 1.9% and 2.3% (December 31, 2016 - 1.1% and 2.3%) and reflect an inflation rate of 2% (December 31, 2016 - 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. No conversion of Preferred Shares may occur within 30 days of a prior conversion, and no conversion of Preferred Shares may occur when, after such conversion the Vendor would own (including shares owned prior to the conversion) 10% or more of the outstanding common shares after conversion.

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

(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 2017 (2016 – 27%), to the loss from operations before taxes as follows:

	Year ended December 31, 2017	Year ended December 31, 2016
Loss from operations	$ (2,356,970)	$ (650,593)
Computed Canadian expected income tax recovery	(636,382)	(175,660)
Non-deductible expenses	73,416	13,766
Tax rate differences of foreign countries	(1,368)	3,315
Change in unrecognized deferred tax asset	456,334	158,579
Deferred tax recovery	$ (108,000)	$ -

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

Nature of temporary differences	December 31, 2017	December 31, 2016
Book value less than tax value of PP&E and decommissioning liabilities	$ 541,030	$ 785,145
Share issue costs and finance fees	190,135	116,307
Non-capital losses	11,834,857	10,146,897
	$ 12,566,022	$ 11,048,349

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	825,889
2030	966,389
2031	1,123,270
2032	972,806
2033	1,214,998
2034	889,454
2035	489,183
2036	698,406
2037	2,055,129
	$ 11,834,857

(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, 2015	11,403,894	$ 25,737,888
Shares issued on private company business combinations (note 11b)	5,500,000	477,064
Shares issued on financing (note 10g)	8,105,000	693,996
Balance December 31, 2016	25,008,894	$ 26,908,948
Equity financing (note 10e)	17,415,399	1,374,858
Modification of Warrants (note 10e)	-	(234,000)
Equity financing (note 10f)	68,127,355	2,918,383
Balance December 31, 2017	110,551,648	$ 30,968,189

(d) Warrants

	Number of Warrants	Value	Weighted Average Exercise Price
Warrants outstanding December 31, 2015	-	$ -	$ -
Issuance of warrants on private company business combinations (note 11b)	2,750,000	72,936	0.15
Issuance of warrants on financing (note 10g)	4,052,500	107,481	0.15
Warrants outstanding December 31, 2016	6,802,500	$ 180,417	$ 0.15
Issuance of Warrants on equity financing (note 10e)	16,883,959	544,000	0.15
Modification of Warrants (note 10e)	-	234,000	
Issuance of Warrants on equity financing (note 10f)	66,666,666	2,200,000	0.10
Warrants outstanding December 31, 2017	90,353,125	$ 3,158,417	$ 0.11

10. 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 in 2018 under the look-back provision.

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 March 14, 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.

On November 21, 2017 the Company extended the Warrant Exercise Period to October 20, 2018 which increased the Warrant value by $234,000 from $544,000 to $778,000.

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 $778,000 using a Black-Scholes model with the following assumptions: expected life one and one half year, expected volatility 100%, risk-free interest rate of 0.86%, and a zero percent dividend yield.

(f) December 2017 financing

On December 27, the Company closed a non-brokered private placement (the "Unit Offering") of 66,666,666 units of the Company ("Units") at a price of $0.075 per Unit for aggregate gross proceeds of $5,000,000. Additionally, the Company has issued 1,460,689 common shares ("FT Shares") on a flow-through basis at a price of $0.10 per FT Share for aggregate gross proceeds of $146,069. Total costs in connection with the Unit offering amounted to $27,686.

Each Unit issued under the Unit Offering consisted of one common share in the capital of the Company (a "Common Share") and one Common Share purchase warrant (a "Warrant"). Each Warrant entitles 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").

(All amounts in Canadian dollars unless otherwise stated)

10. SHARE CAPITAL (continued)

The Warrants have been assigned a value of $2,200,000 using a Black-Scholes model with the following assumptions: expected life of one and one half years, expected volatility 100%, risk-free interest rate of 1.77%, and a zero percent dividend yield.

(g) 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.

(h) Share-based compensation

The Company has a stock option plan under which options to purchase common shares may be granted to officers, directors, employees and consultants. The Board of Directors has approved a policy of reserving up to 10% of the outstanding common shares for issuance to eligible participants. Under the plan, all options have a maximum term of five years. All options awarded to December 31, 2017 vest 1/3 per year on the anniversary date of the grant for the next three years.

	Number of Options	Weighted Average Exercise Price
Outstanding December 31, 2015	255,000	$ 1.70
Expired	(135,000)	(1.20)
Outstanding December 31, 2016	120,000	2.26
Granted	2,070,000	0.185
Expired	(15,000)	2.00
Forfeited	(75,000)	(0.185)
Oustanding December 31, 2017	2,100,000	$ 0.29

(All amounts in Canadian dollars unless otherwise stated)

10. SHARE CAPITAL (continued)

The following summarizes outstanding stock options as at December 31, 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	1.67	105,000
05-Jan-17	1,995,000	$ 0.185	4.00	-
	2,100,000	$ 0.29	3.88	105,000

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

Using the fair value method for stock based compensation, the Company calculated stock based compensation expense for the year ended December 31, 2017 as $162,393 (year ended December 31, 2016 - $34,397).

(i) Loss per share

The weighted average number of shares outstanding for the year ended December 31, 2017 is 39,969,891 (year ended December 31, 2016 – 14,117,400). 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.

(All amounts in Canadian dollars unless otherwise stated)

11. ACQUISITIONS

a. Asset business combination:

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 three smaller acquisitions during the year ended December 31, 2017 acquiring approximately 20 BOE/day of production for total consideration of $150,105. (the "Other acquisitions").

The assets were acquired to further consolidate the Company's 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	185,105	1,325,105
Decommissioning liabilities	(25,000)	(35,000)	(60,000)
Deferred tax liability	(108,000)	-	(108,000)
Net assets acquired	$ 1,007,000	$ 150,105	$ 1,157,105
Consideration:			
Cash	$ 715,000	$ 119,236	$ 834,236
Non-cash consideration	-	30,869	30,869
Total consideration	$ 715,000	$ 150,105	$ 865,105
Gain on acquisition	$ 292,000	$ -	$ 292,000

The non-cash consideration provided was the forgiveness of debt owed to the Company by the sellers.

The acquisitions contributed revenue of approximately $271,000 and loss of approximately $116,000 during the year ended December, 2017.

Had these business combinations occurred on January 1, 2017, additional pro-forma revenue of approximately $345,000 and net income of $59,000 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 rate of 10%. Subsequent to the acquisition date, the decommissioning liability was revalued at risk-free rates ranging from 1.4% to 2.5%, resulting in incremental additions of $480,000 of decommissioning obligation, included in change in estimate, and corresponding additions to property, plant and equipment.

(All amounts in Canadian dollars unless otherwise stated)

11. ACQUISITIONS (continued)

b. 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 $200,000 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)

11. ACQUISITIONS (continued)

c. 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
Convertible 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)

12. DISCONTINUED OPERATIONS

In June 2016 the Company relinquished its interest in the Bouhajla block in Tunisia and discontinued its operations in Tunisia. The gain from discontinued operations reported on the consolidated statement of loss is comprised of the following:

	For the years ended December 31	
	2017	2016
EXPENSES		
General and administrative	$ -	$ 33,405
Gain on reversal of accrued liabilities	-	(293,119)
Foreign exchange loss	-	445
Gain from discontinued operations	$ -	$ (259,269)

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.

Cash flow from discontinued operations is as follows:

	For the years ended December 31	
	2017	2016
DISCONTINUED OPERATIONS		
Gain from discontinued operations	$ -	$ 259,269
Add items not requiring cash		
Change in non-cash working capital items	-	(293,119)
Cash flow used in discontinued operations	$ -	$ (33,850)

13. SUPPLEMENTAL CASH FLOW INFORMATION

	As at December 31	
	2017	2016
Change in non-cash working capital related to operating activities		
Accounts receivable	$ 335,344	$ (659,879)
Prepaid expenses and deposits	357,359	(39,948)
Accounts payable and accrued liabilities	(117,874)	892,646
	$ 574,829	$ 192,819
Change in non-cash working capital related to investing activities		
Accounts receivable	$ 80,562	$ (2,299)
Accounts payable and accrued liabilities	-	(299,306)
	$ 80,562	$ (301,605)

(All amounts in Canadian dollars unless otherwise stated)

14. 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, 2017	December 31, 2016
Shareholders' Equity	$ 5,870,297	$ 920,263

15. 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, 2017 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, 2017, there was $40,000 of accounts receivable over 90 days December 31, 2016 – $80,000). The Company considers $27,000 of this amount impaired. (December 31, 2016 - $nil).

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, 2017, the Company had working capital of $5.1 million. (December 31, 2016 - $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.

15. 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 had no commodity price-based derivative financial instruments as at December 31, 2017 and December 31, 2016.

d) Fair Value of Financial Instruments

Carrying value and fair value of financial assets and liabilities are summarized as the Company's financial instruments recognized in the consolidated statement of financial position and consist of cash, accounts receivable, deposits, accounts payable and accrued liabilities, and Preferred Shares. 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 face value.

16. 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 $72,800 in 2018 and $54,600 in 2019.

(All amounts in Canadian dollars unless otherwise stated)

17. RELATED PARTY DISCLOSURES

a) Significant subsidiaries

Details of the Company's subsidiaries as at December 31, 2017 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

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 consulting fees, directors' fees, and other benefits. Return recorded the following amounts in its Financial Statements relating to key management personnel compensation in 2017 and 2016:

	Year ended December 31	
	2017	2016
Short-term benefits	466,880	117,900
Share-based compensation	148,175	34,397
Total executive compensation	$ 615,055	$ 152,297

c) Related party transaction

During the year ended December 31, 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.

18. SUBSEQUENT EVENT

On January 10, 2018, the Company granted 5,000,000 stock options. The options have an exercise price of $0.10 per share and expire on January 10, 2023 and vest on a one-half (1/2) basis on each of the first and second anniversaries of January 10, 2018.

CORPORATE INFORMATION

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President and Chief Executive Officer

Garry T. Hides, P. Land
Executive Vice President

Jason Schoenfeld, P. Eng
VP Engineering and Chief Operating Officer

Lorne A. Morozoff, CA
VP Finance and Chief Financial Officer

DIRECTORS

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President and Chief Executive Officer

Garry T. Hides, P. Land
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