Interim Report

For the three months ended March 31, 2018 and 2017

This Management's Discussion and Analysis ("MD&A") of Return Energy Inc. ("Return" or the "Company") should be read in conjunction with the unaudited Condensed Consolidated Interim Financial Statements for the three months ended March 31, 2018 (the "Financial Statements") and the audited annual consolidated financial statements, including the notes related thereto and MD&A for the year ended December 31, 2017. This MD&A has been prepared as of May 24, 2018.

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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 its Rycroft core property in 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 2018 to date:

- 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. During swabbing operations the well exhibited a steady fluid level and increasing ability to flow as completion fluid was recovered. Approximately 1500 barrels of completion fluid remain to be recovered and oil rates are expected to increase as load fluid recovery from the fracture stimulation continues. Equipping operations are under way to allow for the commencement of production and plans are well advanced to pipeline 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 (against 4800 KPa of back pressure). This sets the stage for a future

horizontal drilling program using multi-stage fracture stimulation techniques that have been successfully exploited to the north and west of Return's landholdings with impressive results by third parties. Twenty two horizontal drilling locations targeting the Charlie Lake dolomitic siltstone have been identified on the Company's existing land holdings.

RESULTS OF OPERATIONS

Petroleum and Natural Gas Production

	Three months ended	
	March 31, 2018	March 31, 2017
Production volumes		
Crude Oil (bbls)	3,192	3,701
Natural gas liquids (bbls)	1,742	1,550
Natural gas (mcf)	108,548	109,134
Oil equivalent (boe @ 6:1)	23,025	23,440
Average production per day		
Crude Oil (bbls)	35	41
Natural gas liquids (bbls)	19	17
Natural gas (mcf/d)	1,206	1,213
BOE/d	256	260

For the three months ended March 31, 2018, petroleum and natural gas production averaged 256 boe/d, a slight decrease of 2% over the comparative quarter.

Oil and Natural Gas Revenue

	Three months ended			
	March 31, 2018		March 31, 2017	
REVENUE				
Crude Oil	$	213,328	$	221,851
Natural gas liquids		105,097		71,607
Natural Gas		208,785		280,076
Total petroleum and natural gas sales	$	527,210	$	573,534
Average Sales Price				
Oil and natural gas liquids ($/bbls)	$	66.83	$	59.94
Natural gas liquids ($/bbl)		60.33		46.20
Natural gas ($/mcf)		1.92		2.57
Oil equivalent ($/boe)	$	22.90	$	24.47

During the three months ended March 31, 2018 revenue decreased 8% over the three months ended March 31, 2017. This decrease is primarily the result of lower natural gas prices and lower production compared to the three months ended March 31, 2017.

Royalties

	Three months ended	
	March 31, 2018	March 31, 2017
Royalties		
Crude Oil	$ 5,588	$ 1,965
Natural gas liquids	38,599	29,368
Natural Gas	14,022	23,022
Total petroleum and natural gas sales	$ 58,209	$ 54,355
Average Royalty Rate (% of sales)		
Crude Oil	2.62%	0.89%
Natural gas liquids	36.73%	41.01%
Natural gas	6.72%	8.22%
Oil equivalent	11.04%	9.48%

Royalties as a percentage of revenue averaged 11.04% for the three months ended March 31, 2018, up from the 9.48% for the three months ended March 31, 2017. The increase in royalties is due to a higher portion of the Company's revenue being from Natural gas liquids which has a higher royalty rate.

Operating Costs

	Three months ended	
	March 31, 2018	March 31, 2017
Operating Costs	$ 486,015	$ 500,704
$ per boe	$ 21.11	$ 21.36

Operating costs averaged $21.11 per boe for the three months ended March 31, 2018 compared to $21.36 per boe for the three months ended March 31, 2017, a decrease of 1%.

Operating Netback

	Three months ended	
	March 31, 2018	March 31, 2017
Netback ($/boe)		
Revenue	$ 22.90	$ 24.47
Royalties	(2.53)	(2.32)
Operating	(21.11)	(21.36)
Operating Netback	$ (0.74)	$ 0.79

During the three months ended March 31, 2018 the Company had an operating netback loss of ($0.74) per boe compared to an operating netback of $0.79 during the three months ended March 31, 2017. The lower operating netback is primarily due to lower natural gas prices.

Processing and other revenue

	Three months ended	
	March 31, 2018	March 31, 2017
Processing and other	$ 43,053	$ 60,383

Processing and other revenue is primarily made up of gas processing and transportation fees and land use fees. The decrease in three months ended March 31, 2018 over three months ended March 31, 2017 is primarily due to decreased gas processing and transportation fees from third party gas during this period.

General and administrative

	Three months ended	
	March 31, 2018	March 31, 2017
General and Administrative	$ 420,905	$ 187,150

General and administrative costs for three months ended March 31, 2018 increased 124% over the three months ended March 31, 2017, primarily due to higher professional fees, wages and office rent.

Depletion and depreciation

	Three months ended	
	March 31, 2018	March 31, 2017
Depletion and depreciation	$ 281,541	$ 216,966
$ per boe	$ 12.23	$ 9.26

Depletion and depreciation was higher for the three months ended March 31, 2018 compared to the comparative quarter primarily due to a higher depletable base than in the comparative period.

Share-based compensation

Share-based compensation costs for the three months ended March 31, 2018 amounted to $86,841 compared to $43,450 for the three months ended March 31, 2017. The increase in share-based compensation costs is attributable to a stock option grant in January 2018.

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.

Capital Expenditures

	Three months ended			
	March 31, 2018		March 31, 2017	
Exploration and Evaluation	$	36,788	$	-
Property Plant and Equipment		1,880,045		82,416
	$	1,916,833	$	82,416

During the three months ended March 31, 2018, the Company spent $1.9 million on drilling and completing its two development wells in Rycroft.

Share capital

During the three months ended March 31, 2018, 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 March 31, 2018, the Company had working capital of $2.8 million. The Company is equipping its recently drilled 14-27 well with artificial lift and preparing to build a pipeline to tie in the solution gas produced with the light oil into its 100% owned natural gas plant. Total costs of equipping and building the pipeline is estimated to be $1.0 million. In addition the Company will be performing a turnaround on its plant which is estimated to cost $0.3 million. Also the Company anticipates to spend an additional $0.3 - $0.4 million on decommissioning liabilities during the year. Other than mentioned above 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.

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

	Quarter ended							
	Mar 31 2018	Dec 31 2017	Sep 30 2017	June 30 2017	Mar 31 2017	Dec 31 2016	Sept 30 2016	Jun 30 2016
Average Daily Production								
Oil and NGLs (bbls/d)	54	57	55	49	58	37	-	-
Natural gas (mcf/d)	1,206	1,432	1,527	1,383	1,213	1,033	19	37
Combined (boe/d)	256	296	310	280	260	209	3	6
Total revenue, net of royalties	$ 512,054	$ 451,784	$ 429,053	$ 606,012	$ 579,562	$ 524,863	$ 4,438	$ 2,743
Net income (loss) from continuing operations	$ (798,398)	$ (995,041)	$ (942,399)	$ 87,864	$ (399,394)	$ (424,037)	$ (89,375)	$ (62,975)
Gain (loss) from discontinued operations		-	-	-	-	293,058	(7,844)	(8,680)
Net income (loss)	$ (798,398)	$ (995,041)	$ (942,399)	$ 87,864	$ (399,394)	$ (130,979)	$ (97,219)	$ (71,655)
Per share - basic and diluted								
Net income (loss) from continuing operations	$ (0.01)	$ (0.02)	$ (0.02)	$ -	$ (0.01)	$ (0.02)	$ (0.01)	$ (0.01)
Gain (loss) from discontinued operations	-	-	-	-	-	0.01	-	-
Net income (loss)	$ (0.01)	$ (0.02)	$ (0.02)	$ -	$ (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, December 31, 2017 and March 31, 2018 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

There have been no changes to the Company's critical accounting policies and estimates as of the period ended in the financial statements.

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.

Condensed Consolidated Interim Financial Statements (Unaudited)

For the three months ended March 31, 2018 and 2017

Notice of No Auditor Review of Interim Financial Statements

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed these unaudited condensed consolidated interim financial statements as at and for the three months ended March 31, 2018.

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

ASSETS	As at March 31, 2018	As at December 31, 2017
CURRENT		
Cash	$ 4,687,144	$ 5,785,294
Accounts receivable	399,795	333,537
Prepaid expenses and deposits	191,080	71,867
	5,278,019	6,190,698
EXPLORATION AND EVALUATION (note 3)	170,727	133,939
PROPERTY, PLANT AND EQUIPMENT (note 4)	10,681,094	8,882,470
TOTAL ASSETS	$ 16,129,840	$ 15,207,107
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT		
Accounts payable and accrued liabilities	$ 2,151,467	$ 568,540
Decommissioning liabilities (note 5)	315,000	552,000
	2,466,467	1,120,540
DECOMMISSIONING LIABILITIES (note 5)	6,504,633	6,216,270
CONVERTIBLE PREFERRED SHARES (note 6)	2,000,000	2,000,000
	8,504,633	8,216,270
TOTAL LIABILITIES	10,971,100	9,336,810
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (note 7b)	30,968,189	30,968,189
WARRANTS (note 7c)	3,158,417	3,158,417
CONTRIBUTED SURPLUS	5,167,650	5,080,809
ACCUMULATED OTHER COMPREHENSIVE INCOME (note 8)	-	349,715
DEFICIT	(34,135,516)	(33,686,833)
TOTAL SHAREHOLDERS' EQUITY	5,158,740	5,870,297
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 16,129,840	$ 15,207,107

Commitments (note 12)

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

RETURN ENERGY INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS

FOR THE THREE MONTHS ENDED MARCH 31

(UNAUDITED, Expressed in Canadian dollars)

	2018	2017
REVENUE		
Oil and gas sales, net of royalties (note 9)	$ 469,001	$ 519,179
Processing and other	43,053	60,383
	512,054	579,562
EXPENSES		
Operating costs	486,015	500,704
General and administrative	420,905	187,150
Depletion and depreciation (note 4)	281,541	216,966
Share-based compensation	86,841	43,450
Accretion of decommissioning liabilities (note 5)	35,150	30,686
	1,310,452	978,956
NET LOSS AND COMPREHENSIVE LOSS	(798,398)	(399,394)
NET LOSS PER SHARE (note 7e)		
Basic and diluted		
Loss per share	$ (0.01)	$ (0.01)

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

RETURN ENERGY INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOW
FOR THE THREE MONTHS ENDED MARCH 31
(UNAUDITED, Expressed in Canadian dollars)

	2018	2017
OPERATING ACTIVITIES		
Net Loss	$ (798,398)	$ (399,394)
Add (subtract) items not requiring cash		
Depletion and depreciation (note 4)	281,541	216,966
Accretion of decommissioning liabilities (note 5)	35,150	30,686
Share-based compensation	86,841	43,450
Settlement of decommissioning liabilities (note 5)	(183,907)	(9,323)
Change in non-cash working capital items (note 10)	(112,026)	214,535
Cash flow (used in) from operations	(690,799)	96,920
INVESTING ACTIVITIES		
Exploration and evaluation expenditures (note 3)	(36,788)	-
Property, plant and equipment expenditures (note 4)	(1,880,045)	(82,416)
Change in non-cash working capital items (note 10)	1,509,482	-
Cash flow used in investing activities	(407,351)	(82,416)
FINANCING ACTIVITIES		
Proceeds from equity financing, net	-	1,929,905
Change in non-cash working capital items (note 10)	-	143,619
Cash flow from financing activities	-	2,073,524
(DECREASE) INCREASE IN CASH	(1,098,150)	2,088,028
CASH, BEGINNING OF PERIOD	5,785,294	602,848
CASH, END OF PERIOD	$ 4,687,144	$ 2,690,876

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

RETURN ENERGY INC.
CONDENSED CONSOLIDATED INTERIM 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, 2016	25,008,894	$ 26,908,948	$ 180,417	$ 4,918,416	$ 350,345	$ (31,437,863)	$ 920,263
Equity financing	17,415,399	1,140,858	778,000	-	-	-	1,918,858
Share-based compensation	-	-	-	43,450	-	-	43,450
Comprehensive loss for the period	-	-	-	-	(630)	(399,394)	(400,024)
Balance March 31, 2017	42,424,293	28,049,806	958,417	4,961,866	349,715	(31,837,257)	2,482,547
Equity financing	68,127,355	2,918,383	2,200,000	-	-	-	5,118,383
Share-based compensation	-	-	-	118,943	-	-	118,943
Comprehensive loss for the period	-	-	-	-	-	(1,849,576)	(1,849,576)
Balance December 31, 2017	110,551,648	30,968,189	3,158,417	5,080,809	349,715	(33,686,833)	5,870,297
Share-based compensation	-	-	-	86,841	-	-	86,841
Reclassification of foreign currency translation adjustment (note 8)					(349,715)	349,715	-
Comprehensive loss for the period	-	-	-	-	-	(798,398)	(798,398)
Balance March 31, 2018	110,551,648	$ 30,968,189	$ 3,158,417	$ 5,167,650	$ -	$ (34,135,516)	$ 5,158,740

The accompanying notes are an integral part of these condensed consolidated interim 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 March 21, 2018 the Company dissolved DualEx International Inc. into Return Energy Inc. As a result, Return Energy Inc. has one remaining 100% owned subsidiary, Winslow Resources Inc.

2. BASIS OF PREPARATION

a) Statement of compliance

These Unaudited Condensed Consolidated Interim Financial Statements for the three months ended March 31, 2018 (the "Financial Statements") have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* following accounting policies in accordance with International Financial Reporting Standards ("IFRS"). The Financial Statements do not include all of the information required for annual financial statements and should be read in conjunction with the Audited Consolidated Financial Statements for the year ended December 31, 2017 which have been prepared in accordance with IFRS.

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. was US dollars.

d) Adopted accounting pronouncements

IFRS 15

As of January 1, 2018, the Company adopted IFRS 15 "Revenue from contracts with customers". IFRS 15 replaces the sections IAS 11 "Construction contracts", IAS 18 "Revenue" and related interpretations. IFRS 15 provides a single, principled-based five-step model to be applied to all contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive when control is transferred to the purchaser. This standard also requires expanded disclosure requirements. The standard is required to be adopted either retrospectively or using a modified retrospective approach.

The Company used the modified retrospective approach to adopt the standard. Under this transitional provision, the cumulative effect of initially applying IFRS 15 is recognized on the date of initial application as an adjustment to retained earnings. No adjustment to retained earnings was required upon adoption of IFRS 15. The Company has reviewed its various revenue streams and underlying contracts with customers and, as result of this review, the adoption of IFRS 15 did not have an impact on the Company's statements of net loss and comprehensive loss and financial position. However, the Company has expanded the disclosures in the notes to its Financial Statements as prescribed by IFRS 15, including disclosing the Company's disaggregated revenue streams by product type in Note 9.

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

2. BASIS OF PREPARATION (continued)

Revenue Recognition

Revenue associated with the sale of crude oil, natural gas and natural gas liquids is measured based on the consideration specified in contracts with customers. Revenue from contracts with customers is recognized when or as the Company satisfies a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when the customer obtains control of that good or service. The transfer of control of oil, natural gas, natural gas liquids coincides with title passing to the customer and the customer taking physical possession. The Company principally satisfies its performance obligations at a point in time and the amounts of revenue recognized relating to performance. Collection of revenue associated with the sale of crude oil, natural gas and natural gas liquids occurs on or about the 25th of the month following production. Items such as royalties for crown, freehold and gross overriding (GORR) are netted against revenue. These items are netted to reflect the deduction for other parties' proportionate share of the revenue.

Financial Instruments (IFRS 9)

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, and replaces multiple rules in IAS 39. The Company's cash, previously classified as held for trading, is now classified at fair value through profit and loss. Accounts receivable and accounts payable and accrued liabilities are now classified at amortized cost, previously classified as loans & receivables and other financial liabilities, respectively. The changes in classification did not impact the measurement of the Company's financial instruments. The standard also provides a simplified approach to measuring expected credit losses using a lifetime expected loss allowance for all trade receivables. The credit loss model groups receivables based on similar credit risk characteristics and days past due in order to estimate bad debts. The adoption of IFRS 9 did not result in a material impact to the Company's condensed consolidated interim financial statements.

e) Significant accounting policies

The accounting policies adopted in the Financial Statements are consistent with those described in Note 3 of the Audited Consolidated Financial Statements for the year ended December 31, 2017, except for revenue recognition and financial instruments, which are described in note 2d above.

3. EXPLORATION AND EVALUATION ASSETS

Balance, December 31, 2017	$	133,939
Acquisition of undeveloped land		36,788
Balance, March 31, 2018	$	170,727

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

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

Cost	Oil and gas properties	Natural gas processing plant and equipment	Office equipment and other	Total PP&E
Balance December 31, 2017	$ 9,205,775	$ 886,086	$ 20,615	$ 10,112,476
Additions	1,880,045	-	-	1,880,045
Decommissioning liabilities (note 5)	200,120	-	-	200,120
Balance March 31, 2018	$ 11,285,940	$ 886,086	$ 20,615	$ 12,192,641
Accumulated depletion, depreciation and impairment				
Balance December 31, 2017	$ (1,169,380)	$ (58,908)	$ (1,718)	$ (1,230,006)
Depletion and depreciation	(262,916)	(16,525)	(2,100)	(281,541)
Balance March 31, 2018	$ (1,432,296)	$ (75,433)	$ (3,818)	$ (1,511,547)
Net Book Value				
Balance December 31, 2017	$ 8,036,395	$ 827,178	$ 18,897	$ 8,882,470
Balance March 31, 2018	$ 9,853,644	$ 810,653	$ 16,797	$ 10,681,094

For the three months ended March 31, 2018, future development costs of $4.7 million (March 31, 2017 - $4.7 million) were included in the depletion calculation.

5. DECOMMISSIONING LIABILITIES

Decommissioning liabilities, December 31, 2017	$ 6,768,270
Liabilities incurred (note 4)	139,208
Change in estimated future cash outflows (note 4)	60,912
Settlement	(183,907)
Accretion	35,150
Decommissioning liabilities, March 31, 2018	$ 6,819,633
Expected to be incurred within one year	$ 315,000
Expected to be incurred beyond one year	6,504,633
	$ 6,819,633

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 March 31, 2018 is $9,036,000. Payments to settle the decommissioning liabilities occur over the operating lives of the underlying assets, estimated to be from 1 – 40 years. The estimated future cash flows have been discounted at a risk free rates between 2.0% and 2.2% and reflect an inflation rate of 2%.

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

6. CONVERTIBLE PREFERRED SHARES

The Company has two million non-interest bearing, non-voting Series I Convertible Preferred Shares (the "Preferred Shares") outstanding. The holder may, at any time and at its option, convert all or part of the Preferred Shares into units ("Units") of Return. Each Unit is comprised of one (1) common share of Return and one-half (1/2) of a common share purchase warrant. The number of Units issuable upon the conversion of the Preferred Shares is equal to the number of Preferred Shares to be converted multiplied by $1.00 and divided by the average of the trading price of the common shares on the TSX Venture Exchange (the "TSXV") during the immediately prior twenty (20) consecutive day period prior to conversion (the "Market Price"). Each whole common share purchase warrant entitles the holder to purchase one (1) common share until October 21, 2021 upon payment of the common share purchase warrant exercise price which is equal to the Market Price. The Company may at its sole discretion redeem the Preferred Shares at any time upon cash payment of one dollar per Preferred Share. No conversion of Preferred Shares may occur within 30 days of a prior conversion, and no conversion of Preferred Shares may occur when, after such conversion the Vendor would own (including shares owned prior to the conversion) 10% or more of the outstanding common shares after conversion.

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

7. SHARE CAPITAL

(a) Authorized

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

(b) Issued and outstanding

	Number of Shares	Amount
Common Shares		
Balance December 31, 2017 and March 31, 2018	110,551,648	$ 30,968,189

(c) Warrants

	Number of Warrants	Value	Weighted Average Exercise Price
Warrants outstanding December 31, 2017 and March 31, 2018	90,353,125	$ 3,158,417	$ 0.11

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

7. SHARE CAPITAL (continued)

(d) Share-based compensation

The Company has a stock option plan under which options to purchase common shares may be granted to officers, directors, employees and consultants. The Board of Directors has approved a policy of reserving up to 10% of the outstanding common shares for issuance to eligible participants. Under the plan, all options have a maximum term of five years. All options awarded to December 31, 2017 vest 1/3 per year on the anniversary date of the grant for the next three years. Options awarded in 2018 vest ½ per year on the anniversary date of the grant for the next two years.

	Number of Options	Weighted Average Exercise Price
Oustanding December 31, 2017	2,100,000	$ 0.29
Granted	5,000,000	0.10
Oustanding March 31, 2018	7,100,000	0.16

The following summarizes outstanding stock options as at March 31, 2018.

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	1.42	105,000
05-Jan-17	1,995,000	$ 0.185	3.75	665,000
10-Jan-18	5,000,000	$ 0.100	4.75	-
	7,100,000	$ 0.16	4.42	770,000

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

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

(e) Loss per share

The weighted average number of shares outstanding for the three months ended March 31, 2018 is 110,551,648 (three months ended March 31, 2017 – 28,685,478). No options or warrants were included in the computation of diluted loss per share as they have an anti-dilutive effect on loss per share.

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

8. ACCUMULATED OTHER COMPREHENSIVE INCOME

The balance of the accumulated other comprehensive income is attributable to net translation gains relating to the Company's foreign operations. During the three months ended March 31, 2018, the last of the Company's foreign operating subsidiaries (DualEx International Inc.) was dissolved. As a result of the dissolution the balance of the accumulated other comprehensive income has been reclassified to deficit.

9. OIL AND GAS SALES, NET OF ROYALTIES

	March 31, 2018	March 31, 2017
Oil and gas sales		
Crude oil	$ 213,328	$ 221,851
Natural gas	208,785	280,076
Natural gas liquids	105,097	71,607
	527,210	573,534
Less royalties		
Crown	56,781	50,586
Freehold and gross overriding royalties	1,428	3,769
	58,209	54,355
Oil and gas sales, net of royalties	$ 469,001	$ 519,179

10. SUPPLEMENTAL CASH FLOW INFORMATION

	As at March 31	
	2018	2017
Change in non-cash working capital related to operating activities		
Accounts receivable	$ (66,258)	$ 218,630
Prepaid expenses and deposits	(119,213)	255,370
Accounts payable and accrued liabilities	73,445	(259,465)
	$ (112,026)	$ 214,535
Change in non-cash working capital related to investing activities		
Accounts payable and accrued liabilities	$ 1,509,482	$ -
	$ 1,509,482	$ -
Change in non-cash working capital related to financing activities		
Accounts payable and accrued liabilities	$ -	$ 143,619
	$ -	$ 143,619

11. FINANCIAL INSTRUMENTS

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

12. 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 $54,600 in 2018 and $54,600 in 2019.

CORPORATE INFORMATION

OFFICERS

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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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Chestermere, AB
Executive Vice President

Roy H. Hudson, LLB
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