

## Management's Report

The management of Raging River Exploration Inc. has prepared the accompanying financial statements of Raging River Exploration Inc. in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. Financial and operating information presented throughout the regulatory filings is consistent with that shown in the financial statements.

Management is responsible for the integrity and objectivity of the financial information. Where necessary, the financial statements include estimates that are based on management's informed judgments. Internal control systems are designed and maintained to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and reliable accounting records are produced for financial purposes.

KPMG LLP, an independent firm of Chartered Professional Accountants was appointed by the Company's shareholders to conduct an audit of the financial statements. Their examination included such tests and procedures as they considered necessary to provide reasonable assurance that the financial statements are presented fairly in accordance with International Financial Reporting Standards.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. It exercises its responsibilities primarily through the Audit Committee, which is composed of three independent directors. The Committee meets regularly with management and with the independent auditors to satisfy itself that management's responsibilities are properly discharged, to review the financial statements and to recommend that the financial statements be presented to the Board of Directors for approval.

The Audit Committee has reviewed the financial statements and recommended their approval to the Board of Directors. The Board has approved the financial statements for issuance to the shareholders.

(signed) "*Neil Roszell*"

Neil Roszell  
President and Chief Executive Officer

(signed) "*Jerry M. Sapieha*"

Jerry M. Sapieha, CA  
Vice President Finance and Chief Financial Officer

March 7, 2016



## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Raging River Exploration Inc.

We have audited the accompanying financial statements of Raging River Exploration Inc., which comprise the statements of financial position as at December 31, 2015 and December 31, 2014, the statements of comprehensive earnings, changes in shareholders' 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 Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the 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 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 financial statements present fairly, in all material respects, the financial position of Raging River Exploration Inc. as at December 31, 2015 and December 31, 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

**KPMG LLP**

Chartered Professional Accountants

March 7, 2016  
Calgary, Canada

## RAGING RIVER EXPLORATION INC. Statement of Financial Position

	December 31, 2015	December 31, 2014
<i>(thousands)</i>	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Accounts receivable	25,086	29,105
Commodity contract asset (note 16)	215	2,522
Prepaid expenses	2,870	642
	28,171	32,269
Exploration and evaluation assets (notes 5 & 6)	51,101	34,771
Property and equipment (notes 5 & 7)	949,762	698,292
	1,029,034	765,332
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	59,002	114,043
Current taxes payable	-	19,648
	59,002	133,691
Bank debt (note 8)	108,897	48,305
Asset retirement obligations (note 9)	64,910	42,460
Deferred income tax (note 12)	77,012	43,892
	309,821	268,348
<b>Shareholders' Equity</b>		
Share capital (note 10)	512,729	321,925
Warrants (note 10)	-	595
Contributed surplus	12,646	9,545
Retained earnings	193,838	164,919
	719,213	496,984
	1,029,034	765,332

Subsequent event (note 17)

*See accompanying notes to the financial statements*

(signed) \_\_\_\_\_  
Raymond P Mack, FCA  
Director

(signed) \_\_\_\_\_  
Neil Roszell  
Director

## RAGING RIVER EXPLORATION INC. Statement of Comprehensive Earnings

	Year ended December 31,	
	2015	2014
<i>(thousands except per share data)</i>	\$	\$
<b>REVENUE</b>		
Petroleum and natural gas	254,932	336,838
Royalties	(24,893)	(30,903)
	230,039	305,935
Realized gain on commodity contracts (note 16)	4,552	991
Unrealized gain (loss) on commodity contracts (note 16)	(2,307)	4,020
	232,284	310,946
<b>EXPENSES</b>		
Operating	50,002	46,664
Transportation	6,838	6,984
General and administrative	6,511	5,623
Financial charges	3,786	3,697
Stock-based compensation (note 11)	5,470	4,747
Depletion and depreciation (note 7)	112,902	90,628
Exploration and evaluation expense (note 6)	2,512	581
Asset retirement obligation accretion (note 9)	1,094	752
	189,115	159,676
<b>Earnings before income taxes</b>	43,169	151,270
<b>Income taxes (note 12)</b>		
Current taxes	-	22,200
Deferred income taxes	14,250	18,900
	14,250	41,100
<b>Net earnings and comprehensive earnings</b>	<b>28,919</b>	<b>110,170</b>
Net earnings per share (note 10 (d))		
Basic	0.15	0.62
Diluted	0.15	0.59

*See accompanying notes to the financial statements*

## RAGING RIVER EXPLORATION INC. Statement of Cash Flows

Cash flow related to the following activities: <i>(thousands)</i>	Year ended December 31,	
	2015	2014
	\$	\$
<b>OPERATING</b>		
Net earnings	28,919	110,170
Items not involving cash:		
Depletion and depreciation	112,902	90,628
Exploration and evaluation expense	2,512	581
Asset retirement obligation accretion	1,094	752
Stock-based compensation	5,470	4,747
Unrealized (gain) loss on commodity contracts	2,307	(4,020)
Deferred income taxes	14,250	18,900
Asset retirement expenditures	(103)	(108)
	167,351	221,650
Change in non-cash operating working capital (note 14)	(29,123)	8,170
	138,228	229,820
<b>FINANCING</b>		
Change in bank debt	60,593	(2,306)
Issue of common shares, net	88,785	1,015
	149,378	(1,291)
Cash available for investing activities	287,606	228,529
<b>INVESTING</b>		
Capital expenditures – property and equipment	(167,882)	(270,724)
Capital expenditures – exploration and evaluation	(3,165)	(7,870)
Corporate acquisitions (note 5 (a))	(32,790)	-
Property acquisitions (note 5 (b))	(39,731)	-
Change in non-cash investing working capital (note 14)	(44,038)	50,065
	287,606	(228,529)
<b>Change in cash</b>	-	-
<b>Cash, beginning of year</b>	-	-
<b>Cash, end of year</b>	-	-

*See accompanying notes to the financial statements*

## RAGING RIVER EXPLORATION INC.

### Statement of Changes in Shareholders' Equity

(thousands)	Notes	Share capital \$	Warrants \$	Contributed surplus \$	Retained earnings \$	Total equity \$
<b>January 1, 2014</b>		<b>317,472</b>	<b>3,247</b>	<b>3,935</b>	<b>54,749</b>	<b>379,403</b>
Warrants exercised	10(c)	3,482	(2,652)	-	-	830
Transfer of contributed surplus	10(c)	786	-	(786)	-	-
Issued for cash on exercise of stock options	10(c)	185	-	-	-	185
Stock based compensation		-	-	6,396	-	6,396
Net earnings for the year		-	-	-	110,170	110,170
<b>December 31, 2014</b>		<b>321,925</b>	<b>595</b>	<b>9,545</b>	<b>164,919</b>	<b>496,984</b>
Issued through bought deal financing	10(c)	88,320	-	-	-	88,320
Issued on corporate acquisition	5 (a)	95,623	-	-	-	95,623
Share issue costs, net of tax \$1,407	10(c)	(3,804)	-	-	-	(3,804)
Warrants exercised	10(c)	3,562	(595)	-	-	2,967
Transfer of contributed surplus	10(c)	4,395	-	(4,395)	-	-
Issued for cash on exercise of stock options	10(c)	2,708	-	-	-	2,708
Stock based compensation		-	-	7,496	-	7,496
Net earnings for the year		-	-	-	28,919	28,919
<b>December 31, 2015</b>		<b>512,729</b>	<b>-</b>	<b>12,646</b>	<b>193,838</b>	<b>719,213</b>

*See accompanying notes to the financial statements*

# **RAGING RIVER EXPLORATION INC.**

## **Notes to the Financial Statements**

As at and for the years ended December 31, 2015 and 2014

*(All tabular amounts in thousands of Canadian dollars, unless otherwise stated)*

### **1. NATURE OF OPERATIONS**

Raging River Exploration Inc. (“Raging River” or the “Company”) is a crude oil and natural gas exploration, development and production company based in Calgary, Alberta, Canada. The Company’s operations are focused in western Canada, primarily in southwest Saskatchewan. The Company is listed on the TSX under the symbol “RRX”.

The address of its registered office is suite 1700, 605-5th Avenue S.W., Calgary, Alberta, T2P 3H5.

### **2. BASIS OF PREPARATION**

#### *Statement of compliance*

These audited annual financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). These accounting policies have been consistently applied for all periods presented in these financial statements.

These financial statements were approved and authorized for issue by the Company’s Board of Directors on March 7, 2016.

#### *Basis of measurement*

The financial statements have been prepared on the historical cost basis except for derivative financial instruments are measured at fair value.

The methods used to measure fair values are discussed in note 3.

#### *Use of estimates and judgments*

The preparation of financial statements requires management to make estimates and use judgment regarding the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the year. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future years could require a material change in the financial statements. Accordingly, actual results may differ from the estimated amounts as future confirming events occur.

Estimates and their underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and for any future years affected.

a) Critical Judgments in Applying Accounting Policies

*Determination of cash-generating units (“CGU”) and impairment*

The determination of what constitutes a CGU used to test the recoverability of development and production asset carrying values is subject to management judgment. Judgments are made in regards to shared infrastructure, geographical proximity, petroleum type and similar exposure to market risk and materiality. The asset composition of a CGU can directly impact the recoverability of the assets included therein. The key estimates used in the determination of cash flows from oil and natural gas reserves include the following:

- i) 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 levels or results of future drilling may change the economic status of reserves and may ultimately result in reserves being restated.
- ii) Oil and natural gas prices – forward price estimates are used in the cash flow model. Commodity prices can fluctuate for a variety of reasons including supply and demand fundamentals, inventory levels, exchange rates, weather, and economic and geopolitical factors.
- iii) Discount rate – the discount rate used to calculate the net present value of cash flows is based on estimates of an approximate industry peer group weighted average cost of capital. Changes in the general economic environment could result in significant changes to this estimate.

Judgments are required to assess when impairment indicators exist and impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of reserves, production rates, future oil and natural gas prices, future costs, discount rates, market value of land and other relevant assumptions.

*Exploration and evaluation (“E&E”) assets*

The application of the Company’s accounting policy for E&E assets requires management to make certain judgments as to future events and circumstances as to whether economic quantities of reserves have been found. Judgment is also required to determine the level at which E&E is assessed for impairment; for Raging River, the recoverable amount of E&E assets is assessed at the CGU level.

*Deferred income taxes*

Judgments are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting year will be realized from future taxable earnings.

b) Key Sources of Estimation Uncertainty

*Business combinations*



In a business combination, management makes estimates of the fair value of assets acquired and liabilities assumed, which includes assessing the value of oil and natural gas properties based on the estimation of recoverable quantities of proved plus probable reserves being acquired.

#### *Valuation of property and equipment/Reserves*

The valuation of property and equipment involves the estimation of proved plus probable reserves and includes assumptions regarding future commodity prices, exchange rates, discount rates, future development costs and production and transportation costs for future cash flows as well as the interpretation of complex geological and geophysical models and data. Changes in reported reserves can affect the impairment of assets, the decommissioning obligations, the economic feasibility of exploration and evaluation assets and the amounts reported for depletion, depreciation and amortization of property, plant and equipment. These reserve estimates are evaluated by third-party professional engineers, who work with information provided by the Company to establish reserve determinations in accordance with National Instrument (NI) 51-101, "Standards of Disclosure for Oil and Gas Activities". Accordingly, the impact to the financial statements in future years could be material.

#### *Asset retirement obligations*

Amounts recorded for asset retirement obligations and the related accretion expense requires the use of estimates with respect to the amount and timing of abandonment expenditures. Other provisions are recognized in the year when it becomes probable that there will be a future cash outflow.

#### *Valuation of derivative financial instruments*

The estimated fair values of derivative financial instruments resulting in financial assets and liabilities, by their very nature are subject to measurement uncertainty.

#### *Measurement of share-based compensation*

The estimated fair values of stock options and warrants using pricing models such as the Black-Scholes model is based on significant assumptions such as volatility, forfeiture rates and the expected term.

#### *Income taxes*

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied in these financial statements.

#### a) Joint Operations

Many of the Company's oil and natural gas activities involve jointly controlled operations which are not conducted through separate vehicles. The financial statements include the Company's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

b) Exploration and Evaluation ("E&E") Assets

Exploration costs are initially capitalized as E&E assets to the extent that they do not relate to a field with proved and/or probable reserves attributed. Exploration and evaluation costs are those expenditures for an area where technical feasibility and commercial viability has not yet been determined. These costs include land and license acquisition costs, exploratory drilling, geological, geophysical and seismic studies, and other directly attributable costs. Costs incurred prior to acquiring the legal rights to explore an area are expensed.

E&E assets are not depreciated or depleted since the assets are not currently available for use. Technical feasibility and commercial viability are demonstrated when proved and probable reserves are determined to exist. Once technical feasibility and commercial viability have been shown to exist, the asset is transferred to property and equipment. If the cost of the asset is greater than the fair value of the asset, then the costs associated with the asset will be written off.

The cost of undeveloped expires during a year and any impairment of intangible exploration assets is recognized as exploration and evaluation expense.

c) Property and Equipment

Property and equipment is carried at cost, less accumulated depletion and depreciation and accumulated impairment losses. The cost of oil and natural gas assets include; transfers from exploration and evaluation assets, which generally include the costs to drill the well and the cost of the associated land upon determination of technical feasibility and commercial viability; the cost to complete and tie-in the wells; facility costs; the cost of recognizing provisions for future asset retirement obligations; geological and geophysical costs; and directly attributable overheads.

Gains and losses on disposal of an item of property and equipment, including oil and natural gas assets are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized net within "(gain) loss on sale" in earnings.

*Subsequent costs*

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are recognized as oil and natural gas assets only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in earnings as incurred. Such capitalized oil and natural gas assets generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves. The carrying amount of any replaced or sold component is derecognized. The

costs of the day-to-day servicing of property and equipment are recognized in operating expenses as incurred.

#### *Depletion and Depreciation*

The net carrying value of the development and production assets is depleted using the unit of production method based on estimated proven and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. These estimates are evaluated by independent reserve engineers at least annually.

Costs associated with office furniture, fixtures, leasehold improvements and information technology are carried at cost and depreciated on a 20 percent declining balance.

#### *Impairment*

The carrying amounts of property and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the estimated recoverable amount is calculated. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. The recoverable amount of an asset or a CGU is the greater of its value in use or fair value less costs to sell.

Fair value less cost to sell is determined as the amount that would be obtained from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. The fair value less cost to sell of oil and natural gas assets is generally determined as the net present value of the estimated future cash flows expected to arise from the continued use of the CGU, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted by an appropriate discount rate which would be applied by such a market participant to arrive at a net present value of the CGU.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proved and probable reserves.

E&E assets are assessed for impairment by CGU when they are reclassified to property and equipment, and also if facts and circumstances suggest that the carrying value exceeds the recoverable amount.

An impairment loss is recognized in depletion and depreciation expense if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses previously recognized are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates of the carrying amount only to the extent that the assets carrying amount does not exceed the carrying amount that would have been determined, net of accumulated depletion and depreciation, if no impairment loss had been recognized.

d) Asset Retirement Obligations ("ARO")

The Company records a provision to the future cost associated with the legal obligation to abandon and reclaim property and equipment. The cost of the liability related to the Company's ARO is recorded in the year in which it is incurred, with a corresponding increase in the carrying amount of the related asset. The estimated future costs are discounted to their present value using a risk-free interest rate. The capitalized amount is depleted on the unit-of-production method based on proved and probable reserves. The liability amount is increased each reporting year due to the passage of time and the amount of accretion is expensed in the year. Actual expenditures incurred are charged against the obligations to the extent incurred.

e) Income Taxes

Income tax expense is comprised of both current and deferred income taxes. Income tax expense is recognized in the Statement of Comprehensive Earnings 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 on the 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 on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on 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.

f) Stock-Based Compensation Plan

The Company accounts for its stock based compensation plan using the fair value method. Fair value is determined at the grant date using the Black-Scholes option-pricing model and is recognized over the vesting year of the options granted as stock compensation expense and contributed surplus. The contributed surplus balance is reduced as the options are exercised and the amount initially recorded is credited to share capital. Upon the exercise of the stock option, consideration together with the amount previously recognized in contributed surplus, is credited to share capital. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

g) Financial Instruments:

*Non-derivative financial instruments*

Non-derivative financial instruments comprise cash, accounts receivable, bank debt and accounts payable. Non-derivative financial instruments are recognized initially at fair value

net of any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

#### *Financial assets at fair value through earnings*

An instrument is classified at fair value through earnings if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through earnings if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management or investment strategy. Upon initial recognition, transaction costs are recognized in earnings when incurred. Financial instruments at fair value through earnings are measured at fair value, and changes therein are recognized in earnings.

#### *Other*

Other non-derivative financial instruments, such as accounts receivable, bank debt, and accounts payable, are measured at amortized cost using the effective interest method, less any impairment losses.

#### *Derivative financial instruments*

The Company has entered into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices. These instruments are not used for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges, and thus has not applied hedge accounting, even though the Company considers all commodities contracts to be economic hedges. As a result, all financial derivative contracts are classified at fair value and initially recorded on the Statement of Financial Position at fair value. Transaction costs are recognized in earnings when incurred. Gains and losses arising from changes in fair value are presented in the Statement of Comprehensive Earnings in the period in which they arise.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through earnings. Changes in the fair value of separable embedded derivatives are recognized immediately in the Statement of Comprehensive Earnings.

#### h) *Share Capital*

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

#### i) *Share Amounts*

Basic per share information is calculated on the basis of the weighted average number of common shares outstanding during the year. Diluted per share amounts are calculated using the treasury stock method. Diluted calculations reflect the weighted average incremental common shares that would be issued upon exercise of dilutive options and warrants assuming proceeds would be used to repurchase shares at average market prices for the year. The treasury method assumes that the proceeds from the exercise of all potentially

dilutive instruments are used to repurchase common shares at the average market price during the year. Anti-dilutive options and warrants are not included in the calculation.

j) Financial charges

Borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time required to complete and prepare the assets for their intended use. All other borrowing costs are recognized in financing charges using the effective interest method.

k) Revenue Recognition

Revenue from the sale of oil and natural gas is recorded when the significant risks and rewards of ownership of the product are transferred to the buyer which is usually when legal title passes to the external party. This is generally at the time product enters a third party pipeline or when the delivery truck arrives at a customer's receiving location.

l) Business Combinations

Business combinations are accounted for using the acquisition method. The identifiable net assets acquired are measured at their fair value at the date of acquisition. Any excess of the fair value of the consideration transferred over the fair value of the net assets acquired is recognized as goodwill. Any deficiency of the fair value of the consideration transferred below the fair value of the net assets acquired is recorded as a gain in the Statement of Comprehensive Earnings. Transaction costs associated with the acquisition are expensed when incurred.

#### 4. SUMMARY OF CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

##### Accounting standards issued but not yet effective

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 that applies to contracts with customers. The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. Management is currently assessing the potential impact of the adoption of IFRS 15 on the Company's financial statements.

IFRS 9 Financial Instruments, is intended to replace IAS 39 Financial Instruments: Recognition and Measurement and uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. For financial liabilities designated at fair value through profit or loss, a company can recognize the portion of the change in fair value related to the change in the company's own credit risk through other comprehensive income rather than profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39, and incorporates new hedge accounting requirements. The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. Management is currently assessing the potential impact of the adoption of IFRS 9 on the Company's financial statements.

IFRS 16 Leases, which replaces IAS 17 Leases was issued in January 2016. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with

required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 Revenue from Contracts with Customers. Management is currently assessing the potential impact of the adoption of IFRS 16 on the Company's financial statements.

## 5. BUSINESS COMBINATIONS

### a) Corporate acquisition

On December 17, 2015, the Company closed the acquisition of Anegada Energy Corp. ("Anegada"), a private oil and gas company with properties in southeast Alberta and southwest Saskatchewan, by acquiring all of the issued and outstanding shares. Total consideration for the Anegada shares was approximately \$125.8 million, comprised of 11.7 million common shares of Raging River at a closing price of \$8.15 and the assumption of \$30.2 million of debt.

The Anegada acquisition has been accounted for as a business combination using the acquisition method of accounting, whereby the assets acquired and the liabilities assumed are recorded at the estimated fair value on the acquisition date of December 17, 2015. The following table summarizes the acquisition date fair value of the consideration paid and the allocation of the purchase price:

#### Cost of acquisition:

Raging River common share consideration	95,623
Debt acquired	30,204
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Total consideration	125,827

#### Allocated at estimated fair values:

Property and equipment	133,102
Exploration and evaluation assets	12,769
Asset retirement obligations	(1,336)
Deferred income tax liability	(18,708)
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Fair value of net assets acquired	125,827

Pursuant to the closing, the debt was repaid and terminated at closing using borrowings available under Raging River's syndicated credit facility.

The Statement of Comprehensive Earnings includes the results of operations for the period following the close of the above business combination to December 31, 2015. Revenue contributed by the acquired assets since the date of the acquisition was \$1.2 million. Net operating income (revenue less royalties and operating and transportation expense) contributed by the acquired assets from the date of the acquisitions was \$0.7 million. If the acquisition had

occurred on January 1, 2015, the acquired assets would have contributed \$35.9 million of revenue (unaudited) and \$23.3 million to net operating income (unaudited).

b) Property acquisition

On February 11, 2015, the Company completed a property acquisition consisting of oil and gas assets in the southwest Saskatchewan region. The purchase price paid by Raging River was a total of \$35.5 million cash after closing adjustments. The acquisition had an effective date of January 1, 2015 and the purchase price was adjusted for the results of operations between the effective date and closing date of the transaction. The property acquisition was accounted for using the acquisition method and accounted for as follows:

Cost of acquisition:

	\$
Cash	35,512
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Total consideration	35,512

Allocated at estimated fair values:

Property and equipment	34,160
Exploration and evaluation assets	2,376
Asset retirement obligations	(1,024)
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Fair value of net assets acquired	35,512

The Statement of Comprehensive Earnings includes the results of operations for the period following the close of the above business combination to December 31, 2015. Revenue contributed by the acquired assets since the date of the acquisition was \$5.7 million. Net operating income contributed by the acquired assets from the date of the acquisitions was \$2.6 million. If the acquisition had occurred on January 1, 2015, the impact on revenue and net operating income was immaterial.

**6. EXPLORATION AND EVALUATION ASSETS**

Reconciliation of movements in E&E assets:

	December 31, 2015	December 31, 2014
	\$	\$
Balance, beginning of year	34,771	32,426
Additions	3,165	7,870
Acquired - corporate acquisitions	16,028	-
Acquired - property acquisitions	6,591	-
Transfers to property and equipment (note 7)	(6,942)	(4,944)
Lease expiries	(2,512)	(581)
<hr/>		
Balance, end of year	51,101	34,771



Lease expiries of \$2.5 million (December 31, 2014 - \$0.6 million) for the year ended December 31, 2015, have been included in exploration and evaluation expense on the Company's Statement of Comprehensive Earnings.

For the years ended December 31, 2015 and 2014, there were no indicators of impairment identified. Accordingly, an impairment test was not required.

## 7. PROPERTY AND EQUIPMENT

Reconciliation of movements in property and equipment:

	Office Assets	Oil and Natural Gas Assets	Total
	\$	\$	\$
January 1, 2014	54	576,413	576,467
Additions	113	294,478	294,591
Transfers from exploration and evaluation assets (note 6)	-	4,944	4,944
Balance as at December 31, 2014	167	875,835	876,002
Additions	28	357,402	357,430
Transfers from exploration and evaluation assets (note 6)	-	6,942	6,942
Balance at December 31, 2015	195	1,240,179	1,240,374
Accumulated depletion and depreciation:			
January 1, 2014	(12)	(87,069)	(87,081)
Depletion and depreciation for the year	(22)	(90,607)	(90,629)
Balance at December 31, 2014	(34)	(177,676)	(177,710)
Depletion and depreciation for the year	(32)	(112,870)	(112,902)
Balance at December 31, 2015	(66)	(290,546)	(290,612)
Net book value:			
Balance at December 31, 2014	133	698,159	698,292
Balance at December 31, 2015	129	949,633	949,762

The Company capitalized \$2.7 million of general and administrative costs (December 31, 2014 - \$2.2 million) and capitalized stock based compensation of \$2.0 million (December 31, 2014 - \$1.6 million) for the year ended December 31, 2015.

As at December 31, 2015, estimated future development costs of \$746.8 million (December 31, 2014 - \$791 million) associated with the development of the Company's proved and probable reserves have been included in the depletion calculation and estimated salvage values of \$21.8 million (December 31, 2014 - \$14.3 million) have been excluded from the depletion calculation.

For the year ended December 31, 2015, the decline in oil prices was identified as an impairment indicator and an impairment test was performed. The value in use calculated using the net present value of future cash flows from proved plus probable reserves in the external reserve report exceeded the carrying value of the CGU, and as such no impairment was recorded.

For the year ended December 31, 2014, the decline in oil prices was identified as an impairment indicator and an impairment test was performed and no impairment was recorded.

## 8. BANK DEBT

	December 31, 2015	December 31, 2014
	\$	\$
Credit facility	108,897	48,305

As at December 31, 2015, the Company had a credit facility of \$300 million comprised of a \$20 million non-syndicated operating facility and a \$280 million syndicated extendible revolving facility. Repayments of principal are not required provided that the borrowings under the credit facility do not exceed the authorized borrowing amount and the Company is in compliance with all covenants, representations and warranties. As at December 31, 2015, the Company is in compliance with all covenants. Covenants include reporting requirements, permitted indebtedness, permitted dispositions, permitted hedging, permitted encumbrances and other standard business operating covenants; the Company is not subject to any financial covenants. The authorized borrowing amount is subject to interim reviews by the financial institutions. The next semi-annual review of the credit facility is scheduled on or before April 2016. Amounts borrowed under the credit facility bear interest at a floating rate based on the applicable Canadian prime rate or Banker's Acceptance rate plus between 1.00% and 3.50%, depending on the type of borrowing and the Company's debt to funds flow ratio.

The borrowings under the credit facility are available on a fully revolving basis for a year of 364 days until April 29, 2016, at which time the Company can request approval by the lenders for an extension for an additional 364 days or convert the outstanding indebtedness to a one-year term loan with full repayment due at April 29, 2017.

The credit facility is secured by a general security agreement and a first floating charge debenture in the amount of \$500 million covering all the Company's assets.

## 9. ASSET RETIREMENT OBLIGATIONS

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

The Company has estimated the net present value of its total asset retirement obligations to be \$64.9 million at December 31, 2015 (December 31, 2014 - \$42.5 million) based on a total future liability of \$123.7 million (December 31, 2014 - \$82 million). Payments to settle asset retirement obligations occur over the operating lives of the underlying assets, estimated to be from 10 to 50 years, with the majority of costs to be incurred between 2020 and 2063. A risk free rate of 2.2 percent and an inflation rate of 2 percent was used to calculate the net present value of the asset retirement obligations.

	December 31, 2015	December 31, 2014
	\$	\$
Asset retirement obligation, beginning of year	42,460	19,597
Liabilities incurred	9,200	11,662
Liabilities acquired - corporate acquisitions	2,007	-
Liabilities acquired - property acquisitions	1,518	-
Liabilities settled	(103)	(108)
Revision to estimate	8,734	10,557
Accretion	1,094	752
<b>Balance end of year</b>	<b>64,910</b>	<b>42,460</b>

The Company recorded a revision to estimated asset retirement obligations of \$8.7 million (December 31, 2014 - \$10.6 million) in the year due to a combination of discounting future cost estimates at a lower rate than in prior periods which resulted in an increase of \$1.7 million (December 31, 2014 - \$6.1 million) and the revaluation of asset retirement obligations acquired. Asset retirement obligations acquired as part of an acquisition are initially measured at fair value using a credit-adjusted risk-free rate. The revaluation using a risk-free rate at the end of the period resulted in an increase of \$7.0 million.

## 10. SHARE CAPITAL

### a) Authorized

Unlimited number of common shares  
Unlimited number of preferred shares

### b) Issued

	Number of Shares	Amount
<b>Common Shares</b>		
		\$
January 1, 2014	170,913,702	317,472
Exercise of stock options (c)	900,721	971
Issued on exercise of warrants (c)	8,517,600	3,482
<b>Balance, December 31, 2014</b>	<b>180,332,023</b>	<b>321,925</b>
Issued through bought deal financing (c)	13,800,000	88,320
Issued on corporate acquisition (note 5 (a))	11,732,858	95,623
Exercise of stock options (c)	5,235,256	7,103
Issued on exercise of warrants (c)	2,320,763	3,562
Share issue costs, after deferred income tax of \$1,407	-	(3,804)
<b>Balance, December 31, 2015</b>	<b>213,420,900</b>	<b>512,729</b>

	Number of Warrants	Amount
<b>Warrants</b>		
		\$
January 1, 2014	14,261,972	3,247
Exercised (c)	(11,649,550)	(2,652)
Balance December 31, 2014	2,612,422	595
Exercised (c)	(2,612,422)	(595)
Balance, December 31, 2015	-	-

c) Shares Issued

On December 17, 2015, the Company completed the corporate acquisition of Anegada through the issuance of 11.7 million common shares valued at the closing price of \$8.15 per share. Refer to note 5 (a).

On February 4, 2015, the Company completed a bought deal financing for gross proceeds of \$88.3 million and issued 13.8 million common shares at a price of \$6.40 per common share.

During the year ended December 31, 2015, 5.6 million stock options were exercised for 4.0 common shares on a cash-less basis and 1.2 million stock options were exercised for 1.2 million common shares for proceeds of \$2.7 million.

During the year ended December 31, 2015, 1.1 million warrants were exercised for 837 thousand common shares on a cash-less basis and 1.5 million warrants were exercised for 1.5 million common shares for proceeds of \$3.0 million.

During the year ended December 31, 2014, 1.1 million stock options were exercised for 817 thousand common shares on a cash-less basis and 83 thousand stock options were exercised for 83 thousand common shares for proceeds of \$185 thousand.

During the year ended December 31, 2014, 11.2 million warrants were exercised for 8.1 million common shares on a cash-less basis and 415 thousand warrants were exercised for 415 thousand common shares for proceeds of \$830 thousand.

d) Per share amounts

Basic per share amounts are calculated using the weighted average number of shares outstanding. The reconciling items between the basic and diluted average common shares outstanding are warrants and stock options.

<i>(thousands)</i>	Year ended December 31,	
	2015	2014
Weighted average shares outstanding		
Basic	197,701	178,826
Diluted	198,601	186,602

## 11. STOCK BASED COMPENSATION

The Company accounts for its stock based compensation plan using the fair value method. Under this method compensation is expensed over the vesting year for the stock options, with a corresponding increase to contributed surplus.

The Company has implemented a stock option plan for directors, employees and service providers. Stock options granted under the stock option plan have a maximum term of 3.5 years to expiry. One third of the options granted will vest on each of the first, second and third anniversaries of the date of grant. At December 31, 2015, 9,629,836 options with a weighted average exercise price of \$8.18 were outstanding.

The following tables summarize the information about the share options:

	Year ended December 31, 2015		Year ended December 31, 2014	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding at beginning of year	13,119,738	\$5.08	10,038,592	\$2.64
Granted	4,020,500	\$8.63	4,734,000	\$9.43
Exercised	(6,825,190)	\$2.41	(1,194,852)	\$2.38
Forfeited	(685,212)	\$9.04	(458,002)	\$3.46
<b>Outstanding at end of year</b>	<b>9,629,836</b>	<b>\$8.18</b>	<b>13,119,738</b>	<b>\$5.08</b>
<b>Options exercisable at year end</b>	<b>1,876,551</b>	<b>\$8.15</b>	<b>4,196,835</b>	<b>\$2.36</b>

Exercise price	Options outstanding			Options exercisable	
	Number outstanding at December 31, 2015	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable at December 31, 2015	Weighted average exercise price
\$2.00 - \$4.00	1,371,001	0.8	\$3.47	346,925	\$3.38
\$4.01 - \$6.00	33,334	1.0	\$4.29	16,666	\$4.29
\$6.01 - \$8.00	931,003	2.1	\$6.80	248,658	\$6.66
\$8.01 - \$10.00	5,351,500	2.7	\$8.88	592,661	\$9.26
\$10.01 - \$11.06	1,942,998	1.9	\$10.28	671,641	\$10.28
<b>Total</b>	<b>9,629,836</b>	<b>2.2</b>	<b>\$8.18</b>	<b>1,876,551</b>	<b>\$8.15</b>

The fair value of each option granted was estimated on the date of issue using the Black-Scholes option-pricing model with the following assumptions.

	December 31, 2015	December 31, 2014
Risk-free interest rate (%)	0.46 – 1.08	1.18 - 1.58
Expected life (years)	3.5	3.5
Expected volatility (%)	39 - 40	30 – 42
Dividend per share	Nil	Nil
Expected forfeiture rate (%)	3	2
Weighted average fair value at grant date (\$ per option)	2.55	2.37

## 12. INCOME TAXES

The provision for income tax differs from the result which would be obtained by applying the combined Federal and Provincial statutory income tax rates to earnings before income taxes. This difference results from the following:

	December 31, 2015 \$	December 31, 2014 \$
Earnings before income taxes	43,169	151,270
Canadian statutory tax rate	26.5%	26.1%
Expected income tax	11,440	39,481
Increase resulting from:		
Stock-based compensation	1,450	1,236
Future rate changes and other	1,356	379
Non-deductible expenses	4	4
Income tax expense	14,250	41,100
Current	-	22,200
Deferred	14,250	18,900
Income tax expense	14,250	41,100

Deferred tax assets and liabilities are attributable to the following:

	December 31, 2015 \$	December 31, 2014 \$
Deferred income tax assets:		
Asset retirement obligations	17,526	11,052
Share issue costs	1,934	1,332
Non-capital losses	2,425	-
Deferred income tax liabilities:		
Commodity contract asset	(58)	(656)
Petroleum and natural gas properties	(98,839)	(55,620)
Deferred income taxes	(77,012)	(43,892)

The movement in deferred tax balances during the years ended December 31, 2015 and 2014 is as follows:

	Balance January 1, 2015	Recognized directly in equity	Recognized in business combinations	Recognized in net earnings	Balance December 31, 2015
	\$	\$	\$	\$	\$
Deferred income tax assets:					
Asset retirement obligations	11,052	-	952	5,522	17,526
Share issue costs	1,332	1,407	-	(805)	1,934
Non-capital losses	-	-	2,425	-	2,425
Deferred income tax liabilities:					
Commodity contract asset	(656)	-	-	598	(58)
Petroleum and natural gas properties	(55,620)	-	(23,654)	(19,565)	(98,839)
Deferred income taxes	(43,892)	1,407	(20,277)	(14,250)	(77,012)

	Balance January 1, 2014	Recognized directly in equity	Recognized in net earnings	Balance December 31, 2014
	\$	\$	\$	\$
Deferred income tax assets:				
Asset retirement obligations	5,107	-	5,945	11,052
Share issue costs	1,888	-	(556)	1,332
Commodity contract liability	390	-	(390)	-
Deferred income tax liabilities:				
Commodity contract asset	-	-	(656)	(656)
Petroleum and natural gas properties	(32,377)	-	(23,243)	(55,620)
Deferred income taxes	(24,992)	-	(18,900)	(43,892)

### 13. SUPPLEMENTARY DISCLOSURE

#### (a) Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The key management personnel compensation is comprised of the following:

	December 31, 2015	December 31, 2014
	\$	\$
Salaries, bonus and benefits	3,911	2,780
Stock based compensation <sup>1</sup>	4,197	3,514
Total key management remuneration	8,108	6,294
Capitalized portion of key management remuneration	(2,663)	(2,154)

5,445 4,140

(1) Represents the amortization of the stock based compensation expense associated with the Company's share based compensation plans granted to directors and key management personnel.

(b) Statement of comprehensive earnings presentation

In the Company's statement of comprehensive earnings, items are primarily disclosed by nature except for employee compensation which is included in general and administrative expense, stock based compensation expense and operating expenses. In the year December 31, 2015, employee compensation costs of \$4.6 million (December 31, 2014 - \$3.9 million) were included in general and administrative expenses, \$5.5 million in stock based compensation expense (December 31, 2014 - \$4.7 million) and \$0.2 million (December 31, 2014 - \$0.5 million) were included in operating costs.

**14. SUPPLEMENTAL CASH FLOW INFORMATION**

a) Changes in non-cash working capital:

	Year ended December 31,	
	2015	2014
	\$	\$
Accounts receivable	10,804	(741)
Prepaid expenses	(1,984)	(72)
Accounts payable	(62,333)	41,727
Current taxes payable	(19,648)	17,321
Changes in non-cash working capital	(73,161)	58,235

These changes relate to the following activities:

	Year ended December 31,	
	2015	2014
	\$	\$
Operating activities	(29,123)	8,170
Investing activities	(44,038)	50,065
	(73,161)	58,235

b) Other cash flow information

	Years ended December 31,	
	2015	2014
	\$	\$
Interest paid	2,778	2,662
Interest received	26	83
Current income tax paid	-	4,879



## **15. CAPITAL RISK MANAGEMENT**

The Company's objectives when managing capital are to i) deploy capital to provide an appropriate return on investment to its shareholders; ii) maintain financial flexibility in order to preserve the Company's ability to meet financial obligations; and iii) maintain a capital structure that provides financial flexibility to execute strategic acquisitions.

The Company's strategy is designed to maintain a flexible capital structure consistent with the objectives as stated above and to respond to changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. Raging River considers its capital structure to include share capital, bank debt and working capital. In order to maintain or adjust its capital structure, the Company may from time to time issue new shares, seek debt financing and adjust its capital spending to manage current and projected debt levels.

In order to facilitate the management of the capital expenditures and net debt, the Company prepares annual budgets which are updated quarterly depending upon varying factors including current and forecast crude oil and natural gas prices, capital expenditures and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

The Company evaluates its capital structure based on the non-GAAP measure of net debt to funds flow from operating activities and the current credit available to Raging River compared to its budgeted capital expenditures. The ratio is calculated as net debt, defined as debt and working capital excluding commodity derivative assets or liabilities, divided by funds flow from operations. At December 31, 2015, Raging River has a net debt of \$139.9 million (December 31, 2014 - \$152.2 million) excluding the fair value of the commodity contracts. Net debt to funds flow provides a measure of the Company's ability to manage its debt levels under current operating conditions.

The Company's current borrowing capacity is based on the lenders' semi-annual review of the Company's oil and natural gas reserves. The Company is also subject to various covenants including reporting requirements, permitted indebtedness, permitted dispositions, permitted hedging, permitted encumbrances and other standard business operating covenants; the Company is not subject to any financial covenants. Compliance with these covenants is monitored on a regular basis and at December 31, 2015, the Company was in compliance with its covenants.

The Company's share capital is not subject to external restrictions. Raging River has not paid or declared any dividends. There were no changes to the Company's approach to capital management during the year.

## **16. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS**

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

The Company has exposure to credit risk, liquidity risk and market risk as a result of its use of financial instruments. This note presents information about Raging River's exposure to each of

the above risks and the Company's objectives, policies and processes for measuring and managing these risks.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with risk management policies.

Commodity price risk:

Due to the volatile nature of commodity prices, the Company is potentially exposed to adverse consequences if commodity prices decline. However, if commodity prices are hedged potential upside gains may also be forfeited. The Company attempts to mitigate commodity price risk through the use of financial derivative sales contracts. The following aggregated contracts were in place as of March 7, 2016:

## **2016**

### **Q1**

Crude oil	Differential	Jan 2016 – Mar 2016	1,500 bbls/d	Cdn \$4.65/bbl	WTI/Edm
Natural gas	Fixed	Jan 2016 – Mar 2016	2,333 GJs/d	Cdn \$2.39/GJ	AECO

### **Q2**

Crude oil	Differential	Apr 2016 – Jun 2016	1,500 bbls/d	Cdn \$4.65/bbl	WTI/Edm
Natural gas	Fixed	Apr 2016 – Jun 2016	2,500 GJs/d	Cdn \$2.39/GJ	AECO

### **Q3**

Crude oil	Differential	Jul 2016 – Sep 2016	1,500 bbls/d	Cdn \$4.65/bbl	WTI/Edm
Natural gas	Fixed	Jul 2016 – Sep 2016	2,500 GJs/d	Cdn \$2.41/GJ	AECO

### **Q4**

Crude oil	Differential	Oct 2016 – Dec 2016	1,500 bbls/d	Cdn \$4.65/bbl	WTI/Edm
Natural gas	Fixed	Oct 2016 – Dec 2016	2,500 GJs/d	Cdn \$2.45/GJ	AECO

The contracts in place during the year ended December 31, 2015, resulted in a realized gain of \$4.6 million (December 31, 2014 – gain of \$1.0 million) and an unrealized loss of \$2.3 million (December 31, 2014 – unrealized gain of \$4.0 million).

Foreign currency exchange risk:

The Company is exposed to foreign currency fluctuations as crude oil and natural gas prices received are referenced in U.S. dollar denominated prices. As of December 31, 2015, the Company did not have any foreign currency exchange contracts in place. The Company manages this exposure through its commodity price risk management.

#### Credit Risk:

Substantially all of the accounts receivable are with customers, joint interest partners and oil and gas marketers and are subject to normal industry credit risks. Receivables from customers and joint interest partners are generally collected within one to three months. The Company attempts to mitigate this risk by entering into transactions with long-standing and reputable organizations and by obtaining partner approval of significant capital expenditures and payment of cash advances wherever possible. Further risk exists with joint interest partners as disagreements occasionally arise and may increase the potential for non-collection. Currently, there is no indication that amounts are non-collectable thus, an allowance has not been set up. Receivables related to oil and gas marketers are normally collected on the 25th day of the month following production. To mitigate the risk on these receivables the Company will predominately establish relationships with large marketers who have strong credit ratings and solid reputations. Historically, the Company has not experienced any issues in collecting from its oil and gas marketers. In light of the current economic conditions, the Company continues to monitor its accounts receivable and its allowance for doubtful accounts. As at December 31, 2015, the Company's receivables consisted of \$22 million (December 31, 2014 - \$22.6 million) of receivables from oil and natural gas marketers, \$1.7 million (December 31, 2014 - \$2.4 million) from joint venture partners and \$1.4 million (December 31, 2014 - \$4.1 million) from other receivables relating to GST receivables and receivables from settlement of commodity contracts. As at December 31, 2015, the Company has no material receivables outstanding greater than 90 days.

#### Fair Value of financial instruments:

Raging River classifies the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The Company's exposure under its financial instruments is limited to financial assets and liabilities, all of which are included in these financial statements. The fair values of the financial assets and liabilities included in the statement of financial position approximate their carrying amounts due to the short-term maturity of those instruments. Long-term bank debt bears interest at a floating market rate that is indicative of current rates; accordingly the fair market value approximates the carrying value.

Raging River's commodity contracts are classified as level 2 within the fair value hierarchy. The fair value of derivative financial instruments is determined by calculating the difference between the contracted price and published forward price curves as at the balance sheet date, and then multiplying this price differential by the contracted commodity volumes. The fair value of

commodity contracts as at December 31, 2015 was an asset of \$215 thousand (December 31, 2014 – asset of \$2.5 million). If the Canadian dollar equivalent WTI price changes by \$1.00 per bbl, net earnings would increase (decrease) by \$3.7 million (December 31, 2014 - \$3.9 million).

**Interest Rate Risk:**

The Company is exposed to interest rate risk to the extent that bank debt is at a floating or short term rate of interest. The Company does not have any financial or interest rate contracts in place as of December 31, 2015.

As at December 31, 2015, a 1% change in interest rate on the bank debt would increase (decrease) net earnings by \$795 thousand (December 31, 2014 – \$483 thousand).

**Liquidity Risk:**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages its liquidity through continuously monitoring cash flows from operating activities, review of actual capital expenditure program against budget, managing maturity profiles of financial assets and financial liabilities and managing its commodity price risk management program. These activities assure that the Company has sufficient funds to meet its financial obligations when due.

The following are the contractual maturities of financial liabilities as at December 31, 2015:

	<u>less than 1 year</u>	<u>greater than 1 year</u>
	\$	\$
Accounts payable	59,002	-
Bank debt	-	108,897

**17. SUBSEQUENT EVENT**

On February 17, 2016, the Company announced that it has entered into a bought deal financing to issue 11,000,000 common shares at a price of \$8.65 per common share for gross proceeds of \$95.2 million. The underwriters were granted an option to purchase up to an additional 1,500,000 common shares at a price of \$8.65 per common share to cover over-allotments, exercisable in whole or in part at any time until 30 days after the closing date. The underwriters have provided notice of their intention to exercise the over-allotment option in full at closing. The gross proceeds that will be raised are approximately \$108.1 million, which includes the gross proceeds from the exercise of the over-allotment option. The bought deal financing is expected to close on March 9, 2016.