RAGING RIVER EXPLORATION INC.
Statement of Financial Position
(unaudited)

(thousands)	June 30, 2016 $	December 31, 2015 $
ASSETS		
Current assets		
Accounts receivable	27,921	25,086
Commodity contract asset (note 14)	-	215
Prepaid expenses	3,837	2,870
	31,758	28,171
Exploration and evaluation assets (notes 4 & 5)	53,263	51,101
Property and equipment (notes 4 & 6)	991,091	949,762
	1,076,112	1,029,034
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	53,423	59,002
Commodity contract liability (note 14)	130	-
	53,553	59,002
Bank debt (note 7)	41,436	108,897
Asset retirement obligations (note 8)	75,010	64,910
Deferred income tax	79,338	77,012
	249,337	309,821
Shareholders' Equity		
Share capital (note 9)	619,731	512,729
Contributed surplus	15,740	12,646
Retained earnings	191,304	193,838
	826,775	719,213
	1,076,112	1,029,034

Subsequent event (note 15)

See accompanying notes to the interim financial statements

RAGING RIVER EXPLORATION INC.
Statement of Comprehensive Earnings (Loss)
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
(thousands except per share data)	$	$	$	$
REVENUE				
Petroleum and natural gas	67,528	73,465	117,909	128,471
Royalties	(6,606)	(7,116)	(11,515)	(12,906)
	60,922	66,349	106,394	115,565
Realized gain on commodity contracts (note 14)	154	446	358	2,349
Unrealized loss on commodity contracts (note 14)	(602)	(1,611)	(345)	(2,645)
	60,474	65,184	106,407	115,269
EXPENSES				
Operating	13,074	12,984	26,523	26,590
Transportation	2,025	1,688	4,082	3,305
General and administrative	1,748	1,577	3,638	3,217
Financial charges	676	1,011	1,903	1,765
Stock-based compensation (notes 10 & 11)	1,921	1,310	3,575	2,692
Depletion and depreciation (note 6)	32,494	27,609	65,458	54,876
Exploration and evaluation expense (note 5)	502	-	2,699	2,512
Asset retirement obligation accretion (note 8)	364	260	713	508
	52,804	46,439	108,591	95,465
Earnings (loss) before income taxes	7,670	18,745	(2,184)	19,804
Income taxes				
Current tax recovery	(500)	-	(3,400)	-
Deferred income tax expense	2,850	6,600	3,750	6,900
	2,350	6,600	350	6,900
Net earnings (loss) and comprehensive earnings (loss)	**5,320**	**12,145**	**(2,534)**	**12,904**
Net earnings (loss) per share (note 9 (d))				
Basic	$0.02	$0.06	($0.01)	$0.07
Diluted	$0.02	$0.06	($0.01)	$0.07

See accompanying notes to the interim financial statements

RAGING RIVER EXPLORATION INC.
Statement of Cash Flows
(unaudited)

Cash flow related to the following activities:	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
(thousands)	$	$	$	$
OPERATING				
Net earnings (loss)	5,320	12,145	(2,534)	12,904
Items not involving cash:				
Depletion and depreciation	32,494	27,609	65,458	54,876
Exploration and evaluation expense	502	-	2,699	2,512
Asset retirement obligation accretion	364	260	713	508
Stock-based compensation	1,921	1,310	3,575	2,692
Unrealized loss on commodity contracts	602	1,611	345	2,645
Deferred income tax expense	2,850	6,600	3,750	6,900
Asset retirement expenditures	(54)	-	(105)	(23)
	43,999	49,535	73,901	83,014
Change in non-cash operating working capital (note 12)	(8,361)	(7,325)	(9,092)	(32,241)
	35,638	42,210	64,809	50,773
FINANCING				
Change in bank debt	16,205	(11,362)	(67,461)	6,176
Issue of common shares, net	1,190	665	104,048	87,701
	17,395	(10,697)	36,587	93,877
Cash available for investing activities	53,033	31,513	101,396	144,650
INVESTING				
Capital expenditures – property and equipment	(36,371)	(32,551)	(73,359)	(80,691)
Capital expenditures – exploration and evaluation	(2,231)	(866)	(2,623)	(1,103)
Property acquisition, net (note 4)	(25,125)	-	(25,125)	(35,729)
Change in non-cash investing working capital (note 12)	10,694	1,904	(289)	(27,127)
	(53,033)	(31,513)	(101,396)	(144,650)
Change in cash	-	-	-	-
Cash, beginning of period	-	-	-	-
Cash, end of period	-	-	-	-

See accompanying notes to the interim financial statements

RAGING RIVER EXPLORATION INC.
Statement of Changes in Shareholders' Equity
(unaudited)

(thousands)	Note	Share capital $	Warrants $	Contributed surplus $	Retained earnings $	Total equity $
Balance at January 1, 2015		**321,925**	**595**	**9,545**	**164,919**	**496,984**
Issued through bought deal financing	9 (c)	88,320	-	-	-	88,320
Share issue costs, net of tax $1,239	9 (c)	(3,349)	-	-	-	(3,349)
Warrants exercised	9 (c)	3,562	(595)	-	-	2,967
Transfer of contributed surplus	9 (c)	1,377	-	(1,377)	-	-
Issued for cash on exercise of stock options	9 (c)	1,002	-	-	-	1,002
Stock based compensation		-	-	3,711	-	3,711
Net earnings for the period		-	-	-	12,904	12,904
Balance at June 30, 2015		**412,837**	**-**	**11,879**	**177,823**	**602,539**
Balance at January 1, 2016		**512,729**	**-**	**12,646**	**193,838**	**719,213**
Issued through bought deal financing	9 (c)	108,125	-	-	-	108,125
Share issue costs, net of tax $1,425	9 (c)	(3,852)	-	-	-	(3,852)
Transfer of contributed surplus	9 (c)	1,530	-	(1,530)	-	-
Issued for cash on exercise of stock options	9 (c)	1,199	-	-	-	1,199
Stock based compensation		-	-	4,624	-	4,624
Net loss for the period		-	-	-	(2,534)	(2,534)
Balance at June 30, 2016		**619,731**	**-**	**15,740**	**191,304**	**826,775**

See accompanying notes to the interim financial statements

RAGING RIVER EXPLORATION INC.
Notes to the Financial Statements

(unaudited)

For the three and six months ended June 30, 2016 and 2015

(tabular amounts in thousands of 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

The interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 – "Interim Financial Reporting" using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The interim financial statements should be read in conjunction with the Company's audited annual financial statements for the year ended December 31, 2015.

These financial statements were approved and authorized for issue by the Company's Board of Directors on August 11, 2016.

Basis of measurement

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

3. SIGNIFICANT ACCOUNTING POLICIES

The Company's accounting policies are described in Note 3 to the December 31, 2015 audited annual financial statements. Those accounting policies have been applied consistently to all periods presented in these interim financial statements.

Future accounting pronouncements

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, 2017, with early adoption permitted. The IASB has proposed to defer the adoption date to January 2018. 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.

4. BUSINESS COMBINATIONS

a) On June 30, 2016, 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 $25.1 million prior to closing adjustments. The acquisition had an effective date of June 1, 2016 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 preliminarily accounted for using the acquisition method and accounted for as follows:

Cost of acquisition:

	$
Cash	25,125
Total consideration	25,125

Net assets at estimated fair values:

Property and equipment	22,127
Exploration and evaluation assets	3,290
Asset retirement obligations	(292)
	25,125

Had the acquisition closed on January 1, 2016, the Company estimates that its pro forma revenue and net earnings for the period would not have been significantly affected.

b) 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
Total consideration	35,512

Net assets at estimated fair values:

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

Had the acquisition closed on January 1, 2015, the Company estimates that its pro forma revenue and net earnings for the period would not have been significantly affected.

5. EXPLORATION AND EVALUATION ("E&E") ASSETS

Reconciliation of movements in E&E assets:

	June 30, 2016	December 31, 2015
	$	$
Balance, beginning of year	51,101	34,771
Additions	2,623	3,165
Acquired	3,290	22,619
Transfers to property and equipment (note 6)	(1,052)	(6,942)
Lease expiries	(2,699)	(2,512)
Balance, end of period	53,263	51,101

Lease expiries of $2.7 million (year ended December 31, 2015 - $2.5 million) for the six month period ended June 30, 2016, have been included in exploration and evaluation expense on the Company's Statement of Comprehensive Earnings.

For the period ended June 30, 2016, there were no indicators of impairment identified. Accordingly, an impairment test was not required.

6. PROPERTY AND EQUIPMENT

Reconciliation of movements in property and equipment:

	Office Assets	Oil and Natural Gas Assets	Total
	$	$	$
January 1, 2015	167	875,835	876,002
Additions	28	190,140	190,168
Acquired	-	167,262	167,262
Transfers from exploration and evaluation assets (note 5)	-	6,942	6,942
Balance at December 31, 2015	195	1,240,179	1,240,374
Additions	56	83,552	83,608
Acquired	-	22,127	22,127
Transfers from exploration and evaluation assets (note 5)	-	1,052	1,052
Balance at June 30, 2016	251	1,346,910	1,347,161
Accumulated depletion and depreciation:			
January 1, 2015	(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)
Depletion and depreciation for the period	(18)	(65,440)	(65,458)
Balance at June 30, 2016	(84)	(355,986)	(356,070)
Net book value:			
Balance at December 31, 2015	129	949,633	949,762
Balance at June 30, 2016	167	990,924	991,091

The Company capitalized $1.3 million of general and administrative costs (year ended December 31, 2015 - $2.7 million) and capitalized stock based compensation of $1.0 million (year ended December 31, 2015 - $2.0 million) for the six months ended June 30, 2016.

As at June 30, 2016, estimated future development costs of $695.3 million (December 31, 2015 - $746.8 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 $24.2 million (December 31, 2015 - $21.8 million) have been excluded from the depletion calculation.

As at June 30, 2016, there were no indicators of impairment identified. Accordingly, an impairment test was not required.

7. BANK DEBT

	June 30, 2016	December 31, 2015
	$	$
Credit facility	41,436	108,897

As at June 30, 2016, 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 June 30, 2016, 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 October 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 27, 2017, 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 28, 2018.

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.

8. 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 $75.0 million at June 30, 2016 (December 31, 2015 - $64.9 million) based on a total future liability of $135.2 million (December 31, 2015 - $123.7 million). Payments to settle asset retirement obligations occur over the operating lives of the underlying assets, estimated to be from 2 to 50 years, with the majority of costs to be incurred between 2030 and 2065. A risk free rate of 2 percent and an inflation rate of 2 percent was used to calculate the net present value of the asset retirement obligations.

	June 30, 2016	December 31, 2015
	$	$
Asset retirement obligation, beginning of year	64,910	42,460
Liabilities incurred	5,867	9,200
Liabilities acquired – corporate acquisitions	-	2,007
Liabilities acquired – property acquisitions	292	1,518
Liabilities settled	(105)	(103)
Revision to estimate	3,333	8,734
Accretion	713	1,094
Balance, end of period	75,010	64,910

The Company recorded a revision to estimated asset retirement obligations of $3.3 million (December 31, 2015 - $8.7 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 $3.0 million (December 31, 2015 - $1.7 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 $0.3 million (December 31, 2015 - $7.0 million).

9. SHARE CAPITAL

a) Authorized

Unlimited number of common shares
Unlimited number of preferred shares

b) Issued

	Number of Shares	Amount
Common Shares		
		$
January 1, 2015	180,332,023	321,925
Issued through bought deal financing (c)	13,800,000	88,320
Issued on corporate acquisition (c)	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
Shared issue costs, after deferred income tax of $1,407	-	(3,804)
Balance, December 31, 2015	213,420,900	512,729
Issued through bought deal financing (c)	12,500,000	108,125
Exercise of stock options (c)	679,576	2,729
Share issue costs, after deferred income tax of $1,425	-	(3,852)
Balance, June 30, 2016	226,600,476	619,731

	Number of Warrants	Amount
Warrants		
		$
January 1, 2015	2,612,422	595
Exercised (c)	(2,612,422)	(595)
Balance December 31, 2015	-	-
Exercised	-	-
Balance, March 31, 2016	-	-

c) Shares issued

During the six months ended June 30, 2016, 674 thousand stock options were exercised for 339 thousand common shares on a cash-less basis and 341 thousand stock options were exercised for 341 thousand common shares for gross proceeds of $1.2 million.

On March 9, 2016, the Company completed a bought deal financing for gross proceeds of $108.1 million and issued 12.5 million common shares at a price of $8.65 per common share.

During the year ended December 31, 2015, 5.6 million stock options were exercised for 4.0 million 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.

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.

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 stock options, restricted share units, performance share units and deferred share units.

	Three months ended June 30,		Six months ended June 30,	
(thousands)	2016	2015	2016	2015
Weighted average shares outstanding				
Basic	226,231	197,882	221,362	194,067
Diluted	227,167	201,734	221,362	197,754

As the Company incurred a net loss for the six months ended June 30, 2016, the basic and diluted weighted average shares are the same for the period.

10. 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 period 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 June 30, 2016, 9,719,679 options with a weighted average exercise price of $8.77 were outstanding.

The following tables summarize the information about the share options:

	Six months ended June 30, 2016		Year ended December 31, 2015	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding at beginning of year	9,629,836	$8.18	13,119,738	$5.08
Granted	1,501,500	$9.75	4,020,500	$8.63
Exercised	(1,014,658)	$4.49	(6,825,190)	$2.41
Forfeited	(396,999)	$9.03	(685,212)	$9.04
Outstanding at end of period	9,719,679	$8.77	9,629,836	$8.18
Options exercisable at period end	3,629,829	$8.34	1,876,551	$8.15

	Options outstanding			Options exercisable	
Exercise price	Number outstanding at June 30, 2016	Weighted average remaining contractual life *(years)*	Weighted average exercise price	Number exercisable at June 30, 2016	Weighted average exercise price
$0.00 - $4.00	623,581	0.3	$3.53	623,581	$3.53
$4.01 - $6.00	16,668	0.5	$4.29	8,334	$4.33
$6.01 - $8.00	888,760	1.8	$6.94	232,747	$6.78
$8.01 - $10.00	5,630,836	2.2	$8.91	1,600,183	$9.06
$10.00 - $10.94	2,559,834	1.9	$10.39	1,164,984	$10.25
Total	9,719,679	2.0	$8.77	3,629,829	$8.34

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

	June 30, 2016	December 31, 2015
Risk-free interest rate (%)	0.46 – 0.60	0.46 -1.08
Expected life (years)	3.5	3.5
Expected volatility (%)	40	39 - 40
Dividend per share	nil	nil
Expected forfeiture rate (%)	4	3
Weighted average fair value at grant date ($ per option)	2.88	2.55

11. AWARD PLANS

Restricted Share Units (“RSUs”)

On May 10, 2016, the shareholders of the Company approved the implementation of the RSU plan. The RSU plan provides for the granting of RSUs to officers, employees and consultants of the Company. The RSUs granted under the plan are to be settled in cash or through the issuance of new common shares at the discretion of the board. One third of the RSUs will vest on each of the first, second and third anniversaries of the date of grant.

Performance Share Units (“PSUs”)

On May 10, 2016, the shareholders of the Company approved the implementation of the PSU plan. The PSU plan provides for the granting of PSUs to officers, employees and consultants of the Company. The PSUs granted under the plan are to be settled in cash or through the issuance of new common shares at the discretion of the board. PSUs will vest three years after the grant, unless otherwise determined by the board and are adjusted based on a payout multiplier. The payout multiplier ranges from 0 to 2 and is based on corporate performance measures determined by the board.

Deferred Share Units ("DSUs")

On April 4, 2016, the board approved the adoption of the DSU plan. DSUs are granted to non-employee directors. Each DSU vests on the date of grant, however, settlement of the DSU occurs when the individual ceases to be a director of the Company. DSUs are to be settled in cash or by payment in common shares acquired from the TSX.

This table summarizes the changes in RSUs, PSUs and DSUs outstanding:

	Number of		
	RSUs	PSUs	DSUs
Outstanding at beginning of year	-	-	-
Granted	150,150	248,450	49,712
Released	-	-	-
Forfeited	-	-	-
Outstanding at end of period	150,150	248,450	49,712

RSUs, PSUs and DSUs are measured at fair value using the closing trading price on the date of grant. The resulting stock-based compensation expense is recognized over the vesting period with the corresponding increase to contributed surplus. Upon the exercise, the associated amount in contributed surplus is recorded as an increase to share capital. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of shares that vest.

12. SUPPLEMENTAL CASH FLOW INFORMATION

a) Changes in non-cash working capital:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	$	$	$	$
Accounts receivable	(7,055)	(3,319)	(2,835)	6,835
Prepaid expenses	(249)	(684)	(967)	(3,342)
Accounts payable	9,637	(1,418)	(5,579)	(43,213)
Current taxes payable	-	-	-	(19,648)
Changes in non-cash working capital	2,333	(5,421)	(9,381)	(59,368)

These changes relate to the following activities:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	$	$	$	$
Operating activities	(8,361)	(7,325)	(9,092)	(32,241)
Investing activities	10,694	1,904	(289)	(27,127)
	2,333	(5,421)	(9,381)	(59,368)

b) Other cash flow information

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
	$	$	$	$
Interest paid	379	598	1,049	798
Interest received	3	7	5	17
Current income tax paid	-	-	-	19,648

13. 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 contract assets or liabilities, divided by funds flow from operations. At June 30, 2016, Raging River has a net debt of $63.1 million (December 31, 2015 - $139.9 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 June 30, 2016, 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.

14. 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 August 11, 2016:

2016

Q3					
Crude oil	Differential	Jul 2016 – Sept 2016	2,500 bbls/d	Cdn $4.37/bbl	WTI/Edm
Natural gas	Fixed	Jul 2016 – Sept 2016	3,640 GJs/d	Cdn $2.31/GJ	AECO
Q4					
Crude oil	Differential	Oct 2016 – Dec 2016	2,500 bbls/d	Cdn $4.89/bbl	WTI/Edm
Natural gas	Fixed	Oct 2016 – Dec 2016	2,500 GJs/d	Cdn $2.45/GJ	AECO

2017

Q1					
Crude oil	Differential	Jan 2017 – Mar 2017	1,000 bbls/d	Cdn $4.50/bbl	WTI/Edm
Natural gas	Fixed	Jan 2017 – Mar 2017	500 GJs/d	Cdn $3.00/GJ	AECO
Q2					
Crude oil	Differential	Apr 2017 – Jun 2017	1,000 bbls/d	Cdn $4.50/bbl	WTI/Edm
Q3					
Crude oil	Differential	Jul 2017 – Sept 2017	1,000 bbls/d	Cdn $4.95/bbl	WTI/Edm
Q4					
Crude oil	Differential	Oct 2017 – Dec 2017	1,000 bbls/d	Cdn $4.95/bbl	WTI/Edm

The contracts in place during the six month period ended June 30, 2016, resulted in a realized gain of $358 thousand (June 30, 2015 – gain of $2.3 million) and an unrealized loss of $345 thousand (June 30, 2015 – loss of $2.6 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 June 30, 2016, 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 June 30, 2016, the Company's receivables consisted of $23.8 million (December 31, 2015 - $22 million) of receivables from oil and natural gas marketers, $631 thousand (December 31, 2015 - $1.7 million) from joint venture partners, and $3.5 million (December 31, 2015 - $1.4 million) of other trade receivables. As at June 30, 2016, 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.

Raging River's commodity contracts are classified as level 2 within the fair value hierarchy as the contracts are transacted in active markets. 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 June 30, 2016 was a liability of $130 thousand (December 31, 2015 – asset of $215 thousand). If the Canadian dollar equivalent WTI price changes by $1.00 per bbl, net earnings would increase (decrease) by $2.2 million (December 31, 2015 – $3.7 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 June 30, 2016.

As at June 30, 2016, a 1% change in interest rate on the bank debt would increase (decrease) net earnings by $302 thousand (December 31, 2015 – $795 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 June 30, 2016:

	less than 1 year	greater than 1 year
	$	
Accounts payable	53,423	-
Commodity contract liability	130	-
Bank debt	-	41,436

15. SUBSEQUENT EVENT

On July 21, 2016, the Company closed the acquisition, by way of plan of arrangement, of all issued and outstanding of Rock Energy Inc. ("Rock"), a public oil and gas company with properties in Alberta and Saskatchewan. Total consideration for the transaction is estimated to be $111 million comprised of the issuance of 3.896 million Raging River shares at a price of $10.56 per share and the assumption of approximately $70 million (unaudited) of net debt and assumed liabilities inclusive of bank debt, estimated working capital deficiency and Rock's expected transaction costs including severance obligations. This acquisition includes 2,550 boe/d (95% oil) of production and approximately 25 net sections of land targeting Viking light oil in the Kerrobert area of southwest Saskatchewan. As at the date that these financial statements were authorized for issuance, initial accounting for the acquisition was incomplete and as such the value of the assets acquired and the liabilities assumed have not been disclosed.