

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 6, 2017



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, 2016 and December 31, 2015, 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, 2016 and December 31, 2015, 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 6, 2017
Calgary, Canada

RAGING RIVER EXPLORATION INC. Statement of Financial Position

	December 31, 2016	December 31, 2015
<i>(thousands)</i>	\$	\$
ASSETS		
Current assets		
Accounts receivable	50,783	25,086
Commodity contracts (note 16)	-	215
Prepaid expenses	3,409	2,870
	54,192	28,171
Exploration and evaluation assets (notes 5 & 6)	70,260	51,101
Property and equipment (notes 5 & 7)	1,203,280	949,762
	1,327,732	1,029,034
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	95,541	59,002
Commodity contracts (note 16)	377	-
	95,918	59,002
Bank debt (note 8)	168,194	108,897
Asset retirement obligations (note 9)	97,846	64,910
Deferred income tax (note 12)	66,654	77,012
	428,612	309,821
Shareholders' Equity		
Share capital (note 10)	663,677	512,729
Contributed surplus	18,393	12,646
Retained earnings	217,050	193,838
	899,120	719,213
	1,327,732	1,029,034

Commitments (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,	
	2016	2015
<i>(thousands, except per share data)</i>	\$	\$
REVENUE		
Petroleum and natural gas	297,020	254,932
Royalties	(28,607)	(24,893)
	268,413	230,039
Realized gain (loss) on commodity contracts (note 16)	(10)	4,552
Unrealized loss on commodity contracts (note 16)	(592)	(2,307)
	267,811	232,284
EXPENSES		
Operating	64,200	50,002
Transportation	9,250	6,838
General and administrative	7,482	6,511
Financial charges	4,530	3,786
Stock based compensation (note 11)	7,399	5,470
Gain on acquisition (note 5 (b))	(4,325)	-
Depletion and depreciation (note 7)	142,571	112,902
Exploration and evaluation (note 6)	3,152	2,512
Asset retirement obligation accretion (note 9)	1,540	1,094
	235,799	189,115
Earnings before income taxes	32,012	43,169
Income taxes (note 12)		
Current tax recovery	(5,700)	-
Deferred income taxes	14,500	14,250
	8,800	14,250
Net earnings and comprehensive earnings	23,212	28,919
Net earnings per share (note 10 (d))		
Basic	0.10	0.15
Diluted	0.10	0.15

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,	
	2016	2015
	\$	\$
OPERATING		
Net earnings and comprehensive earnings	23,212	28,919
Items not involving cash:		
Depletion and depreciation	142,571	112,902
Exploration and evaluation	3,152	2,512
Asset retirement obligation accretion	1,540	1,094
Stock-based compensation	7,372	5,470
Gain on acquisition	(4,325)	-
Unrealized loss on commodity contracts	592	2,307
Deferred income taxes	14,500	14,250
Asset retirement expenditures	(426)	(103)
	188,188	167,351
Change in non-cash operating working capital (note 14)	(14,290)	(29,123)
	173,898	138,228
FINANCING		
Change in bank debt	59,297	60,593
Issue of common shares, net	104,311	88,785
	163,608	149,378
Cash available for investing activities	337,506	287,606
INVESTING		
Capital expenditures – property and equipment	(207,437)	(167,882)
Capital expenditures – exploration and evaluation	(4,119)	(3,165)
Corporate acquisitions (note 5 (b, d))	(61,263)	(32,790)
Property acquisitions (note 5 (a, c, e))	(83,384)	(39,731)
Change in non-cash investing working capital (note 14)	18,697	(44,038)
	(337,506)	(287,606)
Change in cash	-	-
Cash, beginning of year	-	-
Cash, end of year	-	-

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 \$
Balance at January 1, 2016		512,729	-	12,646	193,838	719,213
Issued through bought deal financing	10(c)	108,125	-	-	-	108,125
Issued on corporation acquisition	5(b)	41,148	-	-	-	41,148
Share issue costs, net of tax \$1,533	10(c)	(4,145)	-	-	-	(4,145)
Transfer of contributed surplus	10(c)	3,956	-	(3,964)	-	(8)
Issued for cash on exercise of stock options	10(c)	1,864	-	-	-	1,864
Stock based compensation		-	-	9,711	-	9,711
Net earnings for the year		-	-	-	23,212	23,212
Balance at December 31, 2016		663,677	-	18,393	217,050	899,120
Balance at January 1, 2015		321,925	595	9,545	164,919	496,984
Issued on bought deal financing	10(c)	88,320	-	-	-	88,320
Issued on corporate acquisition	5 (d)	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
Balance at December 31, 2015		512,729	-	12,646	193,838	719,213

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, 2016 and 2015

(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 Toronto Stock Exchange (“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 audited financial statements were approved and authorized for issue by the Company’s Board of Directors on March 6, 2017.

Basis of measurement

The audited 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 value of stock options uses pricing models such as the Black-Scholes model which is based on significant assumptions such as volatility, forfeiture rates and the expected term. The fair value of RSUs, PSUs and DSUs is estimated based on the closing price of the common shares on the day of grant. Judgement is required to estimate the number of RSUs and PSUs that will ultimately vest.

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 are conducted under joint operating agreements, whereby two or more parties jointly control the assets. The financial statements include the Company's share of these jointly controlled assets and liabilities 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 or 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 the Statement of Comprehensive 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 Plans

Restricted share units (“RSUs”), performance share units (“PSUs”) Plan and deferred share units (“DSU’s”) are accounted for at fair value. The fair value of RSUs, PSUs and DSUs is calculated based on 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 vesting, 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.

The Company accounts for its stock options 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 net 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 net 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) Per Share Amounts

Basic per share information is calculated on the basis of the weighted average number of common shares outstanding during the year. The diluted weighted average number of shares is adjusted for the dilutive effect of stock options, RSUs and PSUs. Diluted per share amounts are calculated using the treasury stock method. The treasury method assumes that the proceeds from the exercise of stock options are used to repurchase common shares at the average market price during the year. Anti-dilutive options, RSUs and PSUs 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 on acquisition 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 standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. The standard is required to be adopted either retrospectively or using a modified retrospective approach for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 15 will be applied by Raging River on January 1, 2018. Management is in the process of reviewing its revenue streams and assessing the potential impact, if any, 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) On November 28, 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 \$58.3 million in cash prior to closing adjustments. The acquisition had an effective date of October 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:

Net assets at estimated fair values:

	\$
Property and equipment	56,933
Exploration and evaluation assets	3,915
Asset retirement obligations	(2,589)
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	58,259

Cost of acquisition:

	\$
Total cash consideration	58,259
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Had the acquisition occurred on January 1, 2016, the acquired assets would have contributed incremental revenue of \$9.5 million (unaudited) and incremental net operating income (revenue less royalties and operating and transportation expense) of \$6.0 million (unaudited).

- b) On July 21, 2016, the Company closed the acquisition of Rock Energy Inc. ("Rock"), a public oil and gas company with properties primarily in southwest Saskatchewan, by acquiring all of the issued and outstanding shares. The Rock acquisition was completed by way of statutory Plan of Arrangement under the Business Corporations Act (Alberta). Total consideration for the Rock

shares was approximately \$108.3 million, comprised of 3.9 million common shares of Raging River at a closing price of \$10.56 per share and the assumption of \$67.2 million of net debt.

The Rock 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 July 21, 2016. The amounts below are estimates, which were made by management at the time of the preparation of these financial statements based on information then available. Amendments may be made to these amounts as values subject to estimate are finalized. The corporate acquisition was preliminarily accounted for as follows:

Net assets at estimated fair values:

	\$
Property and equipment	83,818
Exploration and evaluation assets	14,160
Deferred income tax asset	23,325
Asset retirement obligations	(8,670)
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	112,633

Cost of acquisition:

	\$
Common share consideration	41,148
Debt acquired	61,263
Working capital deficit	5,897
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Total consideration	108,308
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	\$
Gain on acquisition	4,325
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Pursuant to the closing, the bank 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, 2016. Revenue contributed by the acquired assets since the date of the acquisition was \$15.4 million. Net operating income contributed by the acquired assets from the date of the acquisition was \$8.7 million. If the acquisition had occurred on January 1, 2016, the acquired assets would have contributed incremental revenue of \$15.5 million (unaudited) and incremental net operating income of \$2.6 million (unaudited).

- c) 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 in cash 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:

Net assets at estimated fair values:

	\$
Property and equipment	22,127
Exploration and evaluation assets	3,290
Asset retirement obligations	(292)
	<hr/>
	25,125

Cost of acquisition:

	\$
Total cash consideration	25,125
	<hr/>

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 impacted.

- d) 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 per share 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 property acquisition was accounted for using the acquisition method and accounted for as follows:

Net assets 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)
	<hr/>
	125,827

Cost of acquisition:

	\$
Raging River common share consideration	95,623
Debt acquired	30,204
	<hr/>
Total consideration	125,827
	<hr/>

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 transaction on December 17, 2015. For the year ended December 31, 2015, revenue contributed by the acquired assets since the date of the acquisition was \$1.2 million and net operating income was \$0.7 million.

- e) 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 in 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:

Net assets at estimated fair values:

	\$
Property and equipment	34,160
Exploration and evaluation assets	2,376
Asset retirement obligations	(1,024)
	<hr/>
	35,512
	<hr/>

Cost of acquisition:

	\$
Total cash consideration	35,512
	<hr/>

The Statement of Comprehensive Earnings includes the results of operations for the period following the close of the transaction on February 11, 2015. For the year ended December 31, 2015, revenue contributed by the acquired assets since the date of the acquisition was \$5.7 million and net operating income was \$2.6 million.

- f) Pro-forma information is not necessarily indicative of the results of operations that would have resulted had the acquisition been effected on the dates indicated, or the results that may be obtained in the future.

6. EXPLORATION AND EVALUATION ASSETS

Reconciliation of movements in E&E assets:

	December 31, 2016	December 31, 2015
	\$	\$
Balance, beginning of year	51,101	34,771
Additions	4,119	3,165
Acquired	21,365	22,619
Transfers to property and equipment (note 7)	(3,173)	(6,942)
Lease expiries	(3,152)	(2,512)
Balance, end of year	70,260	51,101

Lease expiries of \$3.2 million (December 31, 2015 - \$2.5 million) for the year ended December 31, 2016, have been included in exploration and evaluation expense on the Company's Statement of Comprehensive Earnings.

For the years ended December 31, 2016 and 2015, 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, 2015	167	875,835	876,002
Additions	28	190,140	190,168
Acquired	-	167,262	167,262
Transfers from exploration and evaluation assets (note 6)	-	6,942	6,942
Balance as at December 31, 2015	195	1,240,179	1,240,374
Additions	98	229,940	230,038
Acquired	-	162,878	162,878
Transfers from exploration and evaluation assets (note 6)	-	3,173	3,173
Balance at December 31, 2016	293	1,636,170	1,636,463
Accumulated depletion and depreciation:			
January 1, 2015	(34)	(177,676)	(177,710)
Depletion and depreciation	(32)	(112,870)	(112,902)
Balance at December 31, 2015	(66)	(290,546)	(290,612)
Depletion and depreciation	(40)	(142,531)	(142,571)
Balance at December 31, 2016	(106)	(433,077)	(433,183)
Net book value:			
Balance at December 31, 2015	129	949,633	949,762
Balance at December 31, 2016	187	1,203,093	1,203,280

The Company capitalized \$3 million of general and administrative costs (December 31, 2015 - \$2.7 million) and capitalized stock based compensation of \$2.3 million (December 31, 2015 - \$2 million) for the year ended December 31, 2016.

As at December 31, 2016, estimated future development costs of \$813 million (December 31, 2015 - \$747 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 \$49 million (December 31, 2015 - \$22 million) have been excluded from the depletion calculation.

For the year ended December 31, 2016, there were no indications of impairment identified. Accordingly, an impairment test was not required.

8. BANK DEBT

	December 31, 2016	December 31, 2015
	\$	\$
Credit facility	168,194	108,897

As at December 31, 2016, the Company had a credit facility of \$400 million comprised of a \$20 million non-syndicated operating facility and a \$380 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, 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 April 2017. 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 trailing EBITDA ratio whereby trailing EBITDA is defined as earnings before depreciation, depletion, amortization and accretion, exploration and evaluation expense, share based compensation expense, gain and losses on commodity contracts, interest expense and taxes for the mostly recently completed consecutive four quarters.

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 26, 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.

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 \$97.8 million at December 31, 2016 (December 31, 2015 - \$64.9 million) based on a total future liability of \$184.3 million (December 31, 2015 - \$124 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 2027 and 2067. A risk free rate of 2.3 percent and an inflation rate of 2 percent was used to calculate the net present value of the asset retirement obligations.

	December 31, 2016	December 31, 2015
	\$	\$
Asset retirement obligation, beginning of year	64,910	42,460
Liabilities incurred	16,895	9,200
Liabilities acquired	11,551	3,525
Liabilities settled	(426)	(103)
Revision to estimate	3,376	8,734
Accretion	1,540	1,094
Balance, end of year	97,846	64,910

The Company recorded a revision to estimated asset retirement obligations of \$3.4 million (December 31, 2015 - \$8.7 million) in the year due to a combination of discounting future cost estimates at a higher rate than in prior periods which resulted in a decrease of \$4.9 million (December 31, 2015 - \$1.7 million), an increase in cost estimates of \$0.8 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 \$7.5 million (December 31, 2015 - \$7.0 million).

10. 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 (note 5 (d))	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
Issued on corporate acquisition (note 5 (b))	3,896,579	41,148
Exercise of stock options (c)	1,324,472	5,820
Share issue costs, after deferred income tax of \$1,533	-	(4,145)
Balance, December 31, 2016	231,141,951	663,677
	Number of Warrants	Amount
Warrants		
		\$
January 1, 2015	2,612,422	595
Exercised (c)	(2,612,422)	(595)
Balance December 31, 2015	-	-
Exercised (c)	-	-
Balance, December 31, 2016	-	-

c) Shares Issued

On July 21, 2016, the Company completed the corporate acquisition of Rock through the issuance of 3.9 million common shares valued at the closing price of \$10.56 per common share. Refer to note 5 (b).

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, 2016, 1.8 million stock options were exercised for 795 thousand common shares on a cash-less basis and 529 thousand stock options were exercised for 529 thousand common shares for proceeds of \$1.9 million.

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 (d).

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 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.

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 and performance share units.

<i>(thousands)</i>	Year ended December 31,	
	2016	2015
Weighted average shares outstanding		
Basic	225,946	197,701
Diluted	226,533	198,601

11. STOCK BASED COMPENSATION

a) Stock options

The Company accounts for stock options 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, 2016, 9,370,796 options with a weighted average exercise price of \$9.27 were outstanding. The following tables summarize the information about the share options:

	Year ended December 31, 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	2,573,500	\$9.88	4,020,500	\$8.63
Exercised	(2,349,207)	\$5.49	(6,825,190)	\$2.41
Forfeited	(483,333)	\$9.12	(685,212)	\$9.04
Outstanding at end of year	9,370,796	\$9.27	9,629,836	\$8.18
Options exercisable at year end	3,203,970	\$9.18	1,876,551	\$8.15

Exercise price	Options outstanding			Options exercisable	
	Number outstanding at December 31, 2016	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable at December 31, 2016	Weighted average exercise price
\$6.00 - \$8.00	721,011	1.3	\$6.95	330,008	\$6.68
\$8.01 - \$9.00	3,925,281	1.9	\$8.69	1,249,979	\$8.72
\$9.01 - \$10.00	1,562,336	1.9	\$9.48	451,665	\$9.52
\$10.01 - \$11.00	3,134,168	1.8	\$10.40	1,172,318	\$10.26
\$11.01 - \$11.23	28,000	3.1	\$11.23	-	-
Total	9,370,796	1.8	\$9.27	3,203,970	\$9.18

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, 2016	December 31, 2015
Risk-free interest rate (%)	0.46 – 0.81	0.46 - 1.08
Expected life (years)	3.5	3.5
Expected volatility (%)	38 - 40	39 – 40
Dividend per share	Nil	Nil
Expected forfeiture rate (%)	4	3
Weighted average fair value at grant date (\$ per option)	2.90	2.55

b) Share Based Awards

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	222,550	276,050	63,651
Released	-	-	-
Forfeited	-	-	-
Outstanding at end of year	222,550	276,050	63,651

c) Stock based compensation expense reconciliation

	Year ended December 31,	
	2016	2015
Stock options	7,960	7,496
Share based awards	1,769	-
Capitalized stock based compensation	(2,330)	(2,026)
Total stock based compensation expense	7,399	5,470

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, 2016	December 31, 2015
	\$	\$
Earnings before income taxes	32,012	43,169
Canadian statutory tax rate	27.0%	26.5%
Expected income tax	8,643	11,440
Increase resulting from:		
Stock-based compensation	1,990	1,450
Rate changes and other	(671)	1,356
Non-deductible expenses	6	4
Gain on acquisition	(1,168)	-
Income tax expense	8,800	14,250
Current tax recovery	(5,700)	-
Deferred income taxes	14,500	14,250
Income tax expense	8,800	14,250

Deferred tax assets and liabilities are attributable to the following:

	December 31, 2016	December 31, 2015
	\$	\$
Deferred income tax assets:		
Commodity contracts	102	-
Asset retirement obligations	26,405	17,526
Share issue costs	3,037	1,934
Non-capital losses	15,179	2,425
Deferred income tax liabilities:		
Commodity contracts	-	(58)
Petroleum and natural gas properties	(111,377)	(98,839)
Deferred income taxes	(66,654)	(77,012)

The movement in deferred tax balances during the years ended December 31, 2016 and 2015 is as follows:

	Balance January 1, 2016	Recognized directly in equity	Recognized in business combinations	Recognized in net earnings	Balance December 31, 2016
	\$	\$	\$	\$	\$
Deferred income tax assets:					
Asset retirement obligations	17,526	-	3,119	5,760	26,405
Share issue costs	1,934	1,533	816	(1,246)	3,037
Non-capital losses	2,425	-	12,754	-	15,179
Deferred income tax liabilities:					
Commodity contract	(58)	-	-	160	102
Petroleum and natural gas properties	(98,839)	-	6,636	(19,174)	(111,377)
Deferred income taxes	(77,012)	1,533	23,325	(14,500)	(66,654)

	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)

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, 2016	December 31, 2015
	\$	\$
Salaries, bonus, benefits and director fees	3,670	3,911
Stock based compensation ⁽¹⁾	5,250	4,197
Total key management remuneration	8,920	8,108
Capitalized portion of key management remuneration	(2,781)	(2,663)
	6,139	5,445

(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, 2016, employee compensation costs of \$4.8 million (December 31, 2015 - \$4.6 million) were included in general and administrative expenses, \$7.4 million in stock based compensation expense (December 31, 2015 - \$5.5 million) and \$0.2 million (December 31, 2015 - \$0.2 million) were included in operating costs.

14. SUPPLEMENTAL CASH FLOW INFORMATION

a) Changes in non-cash working capital:

	Year ended December 31,	
	2016	2015
	\$	\$
Accounts receivable	(20,243)	10,804
Prepaid expenses	7	(1,984)
Accounts payable	24,643	(62,333)
Current taxes payable	-	(19,648)
Changes in non-cash working capital	4,407	(73,161)

These changes relate to the following activities:

	Year ended December 31,	
	2016	2015
	\$	\$
Operating activities	(14,290)	(29,123)
Investing activities	18,697	(44,038)
	4,407	(73,161)

b) Other cash flow information

	Years ended December 31,	
	2016	2015
	\$	\$
Interest paid	2,518	2,778
Interest received	17	26
Current income tax paid	-	-

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, 2016, Raging River has a net debt of \$209.5 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 December 31, 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.

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 6, 2017.

2017

Q1

Crude oil	Differential	Jan 2017 – Mar 2017	2,000 bbls/d	Cdn \$4.25/bbl	WTI/Edm
Crude oil	Differential	Jan 2017 – Mar 2017	3,333 bbls/d	US\$2.98/bbl	WTI/Edm
Natural gas	Fixed	Jan 2017 – Mar 2017	3,000 GJs/d	Cdn \$3.05/GJ	AECO

Q2

Crude oil	Differential	Apr 2017 – Jun 2017	3,000 bbls/d	Cdn \$4.12/bbl	WTI/Edm
Crude oil	Differential	Apr 2017 – Jun 2017	6,000 bbls/d	US\$2.97/bbl	WTI/Edm
Natural gas	Fixed	Apr 2017 – Jun 2017	2,500 GJs/d	Cdn \$3.06/GJ	AECO

Q3

Crude oil	Differential	Jul 2017 – Sept 2017	2,000 bbls/d	Cdn \$4.47/bbl	WTI/Edm
Crude oil	Differential	Jul 2017 – Sept 2017	6,000 bbls/d	US\$2.97/bbl	WTI/Edm
Natural gas	Fixed	Jul 2017 – Sept 2017	2,500 GJs/d	Cdn \$3.06/GJ	AECO

Q4

Crude oil	Differential	Oct 2017 – Dec 2017	2,000 bbls/d	Cdn \$4.47/bbl	WTI/Edm
Crude oil	Differential	Oct 2017 – Dec 2017	6,000 bbls/d	US\$2.97/bbl	WTI/Edm
Natural gas	Fixed	Oct 2017 – Dec 2017	2,500 GJs/d	Cdn \$3.06/GJ	AECO

The contracts in place during the year ended December 31, 2016, resulted in a realized loss of \$10 thousand (December 31, 2015 – gain of \$4.6 million) and an unrealized loss of \$592 thousand (December 31, 2015 – unrealized loss of \$2.3 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, 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 December 31, 2016, the Company's receivables consisted of \$40.1 million (December 31, 2015 - \$22 million) of receivables from oil and natural gas marketers, \$3.8 million (December 31, 2015 - \$1.7 million) from joint venture partners and \$6.9 million (December 31, 2015 - \$1.4 million) from other receivables. As at December 31, 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. 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, 2016 was a liability of \$377 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 \$4.8 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 December 31, 2016.

As at December 31, 2016, a 1% change in interest rate on the bank debt would increase (decrease) net earnings by \$1.2 million (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 December 31, 2016:

	less than 1 year	greater than 1 year
	\$	\$
Accounts payable	95,541	-
Commodity contract liability	377	-
Bank debt	-	168,194

17. COMMITMENTS

Raging River is obligated to pay various costs associated with the normal course of business.

As at December 31, 2016, the Company was committed to future minimum payments as follows:

	2017	2018	2019	2020	TOTAL
Office lease	901	1,501	-	-	2,402
Processing	4,406	4,209	1,127	669	10,411
Transportation	2,738	2,969	3,112	322	9,141
Total commitments	8,045	8,679	4,239	991	21,954