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

| *(thousands)* | June 30, 2017 $ | December 31, 2016 $ |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Accounts receivable | 37,876 | 50,783 |
| Commodity contracts (note 13) | 401 | - |
| Prepaid expenses | 7,810 | 3,409 |
| | 46,087 | 54,192 |
| Exploration and evaluation assets (note 5) | 79,937 | 70,260 |
| Property and equipment (note 6) | 1,296,827 | 1,203,280 |
| | 1,422,851 | 1,327,732 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current liabilities** | | |
| Accounts payable | 95,961 | 95,541 |
| Commodity contracts (note 13) | - | 377 |
| | 95,961 | 95,918 |
| Bank debt (note 7) | 202,842 | 168,194 |
| Asset retirement obligations (note 8) | 110,457 | 97,846 |
| Deferred income tax | 75,254 | 66,654 |
| | 484,514 | 428,612 |
| **Shareholders' Equity** | | |
| Share capital (note 9) | 664,664 | 663,677 |
| Contributed surplus | 22,685 | 18,393 |
| Retained earnings | 250,988 | 217,050 |
| | 938,337 | 899,120 |
| | 1,422,851 | 1,327,732 |

Commitments (note 14)
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, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| *(thousands except per share data)* | $ | $ | $ | $ |
| **REVENUE** | | | | |
| Petroleum and natural gas | 105,982 | 67,528 | 217,999 | 117,909 |
| Royalties | (10,119) | (6,606) | (20,804) | (11,515) |
| | 95,863 | 60,922 | 197,195 | 106,394 |
| Realized gain (loss) on commodity contracts (note 13) | (741) | 154 | (468) | 358 |
| Unrealized gain (loss) on commodity contracts (note 13) | 1,935 | (602) | 777 | (345) |
| | 97,057 | 60,474 | 197,504 | 106,407 |
| **EXPENSES** | | | | |
| Operating | 22,650 | 13,074 | 44,158 | 26,523 |
| Transportation | 2,824 | 2,025 | 5,793 | 4,082 |
| General and administrative | 2,099 | 1,748 | 4,195 | 3,638 |
| Financial charges | 2,293 | 676 | 4,321 | 1,903 |
| Stock-based compensation (note 10) | 1,856 | 1,921 | 4,148 | 3,575 |
| Depletion and depreciation (note 6) | 43,875 | 32,494 | 88,029 | 65,458 |
| Exploration and evaluation (note 5) | 66 | 502 | 3,151 | 2,699 |
| Asset retirement obligation accretion (note 8) | 599 | 364 | 1,171 | 713 |
| | 76,262 | 52,804 | 154,966 | 108,591 |
| **Earnings (loss) before income taxes** | 20,795 | 7,670 | 42,538 | (2,184) |
| **Income taxes** | | | | |
| Current tax recovery | - | (500) | - | (3,400) |
| Deferred income taxes | 2,200 | 2,850 | 8,600 | 3,750 |
| | 2,200 | 2,350 | 8,600 | 350 |
| **Net earnings (loss) and comprehensive earnings (loss)** | **18,595** | **5,320** | **33,938** | **(2,534)** |
| Net earnings (loss) per share (note 9 (d)) | | | | |
| Basic | $0.08 | $0.02 | $0.15 | ($0.01) |
| Diluted | $0.08 | $0.02 | $0.15 | ($0.01) |

*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, 2017 | Three months ended June 30, 2016 | Six months ended June 30, 2017 | Six months ended June 30, 2016 |
|---|---|---|---|---|
| *(thousands)* | $ | $ | $ | $ |
| **OPERATING** | | | | |
| Net earnings (loss) and comprehensive earnings (loss) | 18,595 | 5,320 | 33,938 | (2,534) |
| Items not involving cash: | | | | |
| Depletion and depreciation | 43,875 | 32,494 | 88,029 | 65,458 |
| Exploration and evaluation | 66 | 502 | 3,151 | 2,699 |
| Asset retirement obligation accretion | 599 | 364 | 1,171 | 713 |
| Stock-based compensation | 1,856 | 1,921 | 4,148 | 3,575 |
| Unrealized (gain) loss on commodity contracts | (1,935) | 602 | (777) | 345 |
| Deferred income tax | 2,200 | 2,850 | 8,600 | 3,750 |
| Asset retirement expenditures | (291) | (54) | (543) | (105) |
| Change in non-cash operating working capital (note 11) | (3,422) | (8,361) | 3,086 | (9,092) |
| | 61,543 | 35,638 | 140,803 | 64,809 |
| **FINANCING** | | | | |
| Change in bank debt | 24,795 | 16,205 | 34,648 | (67,461) |
| Issue of common shares, net | 32 | 1,190 | 32 | 104,048 |
| | 24,827 | 17,395 | 34,680 | 36,587 |
| Cash available for investing activities | 86,370 | 53,033 | 175,483 | 101,396 |
| **INVESTING** | | | | |
| Capital expenditures – property and equipment | (59,685) | (36,371) | (166,226) | (73,359) |
| Capital expenditures – exploration and evaluation | (8,955) | (2,231) | (15,097) | (2,623) |
| Property acquisition (note 4) | - | (25,125) | - | (25,125) |
| Change in non-cash investing working capital (note 11) | (17,730) | 10,694 | 5,840 | (289) |
| | (86,370) | (53,033) | (175,483) | (101,396) |
| **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)

| | Notes | Share capital | Contributed surplus | Retained earnings | Total equity |
|---|---|---|---|---|---|
| (thousands) | | $ | $ | $ | $ |
| **Balance at January 1, 2017** | | **663,677** | **18,393** | **217,050** | **899,120** |
| Transfer of contributed surplus | 9 (c) | 314 | (314) | - | - |
| Issued for cash on exercise of stock options | 9 (c) | 32 | - | - | 32 |
| Vesting of restricted and performance share units | 9 (c) | 641 | (641) | - | - |
| Stock based compensation | 10 (c) | - | 5,247 | - | 5,247 |
| Net earnings for the period | | - | - | 33,938 | 33,938 |
| **Balance at June 30, 2017** | | **664,664** | **22,685** | **250,988** | **938,337** |
| **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 | 10 (c) | - | 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, 2017 and 2016

*(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 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*

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, 2016.

These financial statements were approved and authorized for issue by the Company's Board of Directors on August 3, 2017.

*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, 2016 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 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. The standard introduces a single lessee accounting model for leases 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 in the process of reviewing its lease contracts to assess 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 after 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 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 |

## 5. EXPLORATION AND EVALUATION (“E&E”) ASSETS

Reconciliation of movements in E&E assets:

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| | $ | $ |
| Balance, beginning of year | 70,260 | 51,101 |
| Additions | 15,097 | 4,119 |
| Acquired | - | 21,365 |
| Transfers to property and equipment (note 6) | (2,269) | (3,173) |
| Lease expiries | (3,151) | (3,152) |
| Balance, end of period | 79,937 | 70,260 |

Lease expiries of $3.2 million (year ended December 31, 2016 - $3.2 million) for the six month period ended June 30, 2017, have been included in exploration and evaluation expense on the Company’s Statement of Comprehensive Earnings (Loss).

For the period ended June 30, 2017, 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, 2016 | 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 5) | - | 3,173 | 3,173 |
| Balance as at December 31, 2016 | 293 | 1,636,170 | 1,636,463 |
| Additions | 13 | 179,294 | 179,307 |
| Transfers from exploration and evaluation assets (note 5) | - | 2,269 | 2,269 |
| Balance at June 30, 2017 | 306 | 1,817,733 | 1,818,039 |
| Accumulated depletion and depreciation: | | | |
| January 1, 2016 | (66) | (290,546) | (290,612) |
| Depletion and depreciation for the year | (40) | (142,531) | (142,571) |
| Balance at December 31, 2016 | (106) | (433,077) | (433,183) |
| Depletion and depreciation for the period | (22) | (88,007) | (88,029) |
| Balance at June 30, 2017 | (128) | (521,084) | (521,212) |
| Net book value: | | | |
| Balance at December 31, 2016 | 187 | 1,203,093 | 1,203,280 |
| Balance at June 30, 2017 | 178 | 1,296,649 | 1,296,827 |

The Company capitalized $1.9 million of general and administrative costs (year ended December 31, 2016 – $3.0 million) and capitalized stock based compensation of $1.1 million (year ended December 31, 2016 - $2.3 million) for the six months ended June 30, 2017.

As at June 30, 2017, estimated future development costs of $729 million (December 31, 2016 - $813 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 $51 million (December 31, 2016 - $49 million) have been excluded from the depletion calculation. As at June 30, 2017, there were no indicators of impairment identified. Accordingly, an impairment test was not required.

## 7. BANK DEBT

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| | $ | $ |
| Prime loans | 142,842 | 168,194 |
| Bankers' acceptances | 60,000 | - |
| Debt | 202,842 | 168,194 |

As at June 30, 2017, the Company had credit facilities 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 June 30, 2017, 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 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 26, 2018, 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, 2019.

The credit facilities are secured by a general security agreement and a first floating charge debenture in the amount of $1 billion covering all the Company's assets.

Reference is made to note 15 herein.

## 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 $110.5 million at June 30, 2017 (December 31, 2016 - $97.8 million) based on a total future liability of $200.1 million (December 31, 2016 - $184.3 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 2.2 percent (December 31, 2016 – 2.3 percent) and an inflation rate of 2 percent (December 31, 2016 – 2 percent) was used to calculate the net present value of the asset retirement obligations.

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| | $ | $ |
| Asset retirement obligation, beginning of year | 97,846 | 64,910 |
| Liabilities incurred | 6,927 | 16,895 |
| Liabilities acquired | - | 11,551 |
| Liabilities settled | (543) | (426) |
| Revision to estimate | 5,056 | 3,376 |
| Accretion | 1,171 | 1,540 |
| Balance end of period | 110,457 | 97,846 |

The Company recorded a revision to the estimated asset retirement obligations in the period due to discounting future cost estimates at a lower rate than in prior periods which resulted in an increase of $5.1 million (December 31, 2016 - $3.4 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, 2016 | 213,420,900 | 512,729 |
| Issued through bought deal financing (c) | 12,500,000 | 108,125 |
| Issued on corporate acquisition (c) | 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 |
| Exercise of stock options (c) | 40,690 | 346 |
| Released upon vesting of restricted and performance share units (c) | 60,252 | 641 |
| Balance, June 30, 2017 | 231,242,893 | 664,664 |

c) Shares issued

During the six months ended June 30, 2017, 60.3 thousand common shares were released from treasury to settle the vesting of 60.3 thousand restricted and performance share units.

During the six months ended June 30, 2017, 145 thousand stock options were exercised for 35 thousand common shares on a cash-less basis and 5 thousand stock options were exercised for 5 thousand common shares for proceeds of $32 thousand.

On July 21, 2016, the Company completed the corporate acquisition of Rock Energy Inc. through the issuance of 3.9 million common shares valued at the closing price of $10.56 per common share.

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.

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.

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| *(thousands)* | | | | |
| Weighted average shares outstanding | | | | |
| Basic | 231,178 | 226,231 | 231,165 | 221,362 |
| Diluted | 231,335 | 227,167 | 231,402 | 221,362 |

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

(a) Stock options

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, 2017, 10,383,625 options with a weighted average exercise price of $9.23 were outstanding.

The following tables summarize the information about the share options:

| | Six months ended June 30, 2017 | | Year ended December 31, 2016 | |
|---|---|---|---|---|
| | Options | Weighted average exercise price | Options | Weighted average exercise price |
| Outstanding at beginning of year | 9,370,796 | $9.27 | 9,629,836 | $8.18 |
| Granted | 1,366,500 | $8.64 | 2,573,500 | $9.88 |
| Exercised | (150,004) | $6.52 | (2,349,207) | $5.49 |
| Forfeited | (203,667) | $8.96 | (483,333) | $9.12 |
| Outstanding at end of period | 10,383,625 | $9.23 | 9,370,796 | $9.27 |
| Options exercisable at period end | 5,260,672 | $9.34 | 3,203,970 | $9.18 |

| | Options outstanding | | | Options exercisable | |
|---|---|---|---|---|---|
| Exercise price | Number outstanding at June 30, 2017 | Weighted average remaining contractual life *(years)* | Weighted average exercise price | Number exercisable at June 30, 2017 | Weighted average exercise price |
| $6.00 - $8.00 | 555,339 | 1.1 | $7.12 | 318,673 | $7.03 |
| $8.01 - $9.00 | 4,668,116 | 1.8 | $8.60 | 2,189,157 | $8.73 |
| $9.01 - $10.00 | 2,040,002 | 1.9 | $9.45 | 776,674 | $9.51 |
| $10.01 - $11.00 | 3,092,168 | 1.3 | $10.40 | 1,976,168 | $10.31 |
| $11.01 - $11.23 | 28,000 | 2.6 | $11.23 | - | - |
| Total | 10,383,625 | 1.6 | $9.23 | 5,260,672 | $9.34 |

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, 2017 | December 31, 2016 |
|---|---|---|
| Risk-free interest rate (%) | 1.01 – 1.03 | 0.46 – 0.81 |
| Expected life (years) | 3.5 | 3.5 |
| Expected volatility (%) | 38 | 38 - 40 |
| Dividend per share | Nil | Nil |
| Expected forfeiture rate (%) | 4.8 | 4 |
| Weighted average fair value at grant date ($ per option) | 2.52 | 2.90 |

(b) Share Based Awards

Restricted Share Units ("RSUs")

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")

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 six 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")

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 | 222,550 | 276,050 | 63,651 |
| Granted | 262,030 | 316,690 | 49,115 |
| Released | (56,352) | (3,900) | - |
| Forfeited | (4,528) | - | - |
| Outstanding at end of period | 423,700 | 588,840 | 112,766 |

(c) Stock based compensation expense reconciliation

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Stock options | 1,518 | 1,880 | 3,412 | 4,077 |
| Share based awards | 825 | 547 | 1,834 | 547 |
| Capitalized stock based compensation | (487) | (506) | (1,098) | (1,049) |
| Total stock based compensation expense | 1,856 | 1,921 | 4,148 | 3,575 |

## 11. SUPPLEMENTAL CASH FLOW INFORMATION

a) Changes in non-cash working capital:

| | Three months ended June 30, 2017 | Three months ended June 30, 2016 | Six months ended June 30, 2017 | Six months ended June 30, 2016 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Accounts receivable | 10,123 | (7,055) | 12,907 | (2,835) |
| Prepaid expenses | (3,198) | (249) | (4,401) | (967) |
| Accounts payable | (28,077) | 9,637 | 420 | (5,579) |
| Changes in non-cash working capital | (21,152) | 2,333 | 8,926 | (9,381) |

These changes relate to the following activities:

| | Three months ended June 30, 2017 | Three months ended June 30, 2016 | Six months ended June 30, 2017 | Six months ended June 30, 2016 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Operating activities | (3,422) | (8,361) | 3,086 | (9,092) |
| Investing activities | (17,730) | 10,694 | 5,840 | (289) |
| | (21,152) | 2,333 | 8,926 | (9,381) |

b) Other cash flow information

| | Three months ended June 30, 2017 | Three months ended June 30, 2016 | Six months ended June 30, 2017 | Six months ended June 30, 2016 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Interest paid | 1,821 | 379 | 3,392 | 1,049 |
| Interest received | 11 | 3 | 20 | 5 |
| Current income tax paid | - | - | - | - |

## 12. 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, 2017, Raging River has a net debt of $253.1 million (December 31, 2016 - $209.5 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, 2017, 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.

## 13. 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 3, 2017:

***<u>2017</u>***

***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 six months period ended June 30, 2017, resulted in a realized loss of $468 thousand (June 30, 2016 – gain of $358 thousand) and an unrealized gain of $777 thousand (June 30, 2016 – loss of $345 thousand).

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, 2017, 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 six 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. 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, 2017, the Company's receivables consisted of $29.8 million (December 31, 2016 - $40.1 million) of receivables from oil and natural gas marketers, $2.3 million (December 31, 2016 - $3.8 million) from joint venture partners, $5.7 million (December 31, 2016 - $6.0 million) current income tax receivable and $0.1 million (December 31, 2016 - $0.9 million) of other receivables. As at June 30, 2017, the Company has no material trade or joint venture receivables outstanding greater than 90 days.

Fair Value of financial instruments:

Raging River classifies the fair value of these instruments 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 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 with the exception of the commodity contracts.

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, 2017 was an asset of $401 thousand (December 31, 2016 – liability of $377 thousand). If the Canadian dollar equivalent WTI price changes by $1.00 per bbl, net earnings for the six months ended June 30, 2017 would increase (decrease) by $3 million (December 31, 2016 – $4.8 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, 2017.

For the six months ended June 30, 2017, a 1% change in interest rate on the bank debt would increase (decrease) net earnings by $1.5 million (December 31, 2016 – $1.2 million).

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, 2017:

| | less than 1 year | greater than 1 year |
|---|---|---|
| | $ | $ |
| Accounts payable | 95,961 | - |
| Bank debt | - | 202,842 |

## 14. COMMITMENTS

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

As at June 30, 2017, the Company was committed to future minimum payments as follows:

| | 2017 | 2018 | 2019 | 2020 | TOTAL |
|---|---|---|---|---|---|
| Office lease | 468 | 970 | 647 | - | 2,085 |
| Processing | 2,198 | 4,209 | 1,127 | 669 | 8,203 |
| Transportation | 1,402 | 3,016 | 3,158 | 329 | 7,905 |
| Total commitments | 4,068 | 8,195 | 4,932 | 998 | 18,193 |

## 15. SUBSEQUENT EVENT

Effective July 31, 2017, the lenders have increased the Company's credit facilities to $500 million comprised of a $50 million non-syndicated operating facility and a $450 million syndicated extendible revolving facility, with similar terms and conditions as referenced in note 7. The next review of the borrowing base will be in October 2017.