



**ANNUAL INFORMATION FORM**

**FOR THE FINANCIAL YEAR ENDED  
DECEMBER 31, 2015**

**March 21, 2016**

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### SCHEDULES:

- A – REPORT OF MANAGEMENT AND DIRECTORS ON OIL AND GAS DISCLOSURE
- B – REPORT ON RESERVES DATA BY INDEPENDENT QUALIFIED RESERVES EVALUATOR
- C – AUDIT COMMITTEE CHARTER

## ADVISORIES

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*In this Annual Information Form (“AIF”), unless otherwise specified or if the context otherwise requires, references to “we”, “us”, “our”, “its”, “the Corporation” or “Granite” mean Granite Oil Corp. The information in this AIF is stated as at December 31, 2015 unless otherwise indicated. For additional information and details, readers are referred to the audited consolidated financial statements for the year ended December 31, 2015 and notes that follow, as well as the accompanying annual Management’s Discussion and Analysis (“MD&A”) which are available on the Canadian Securities Administrators’ SEDAR System at [www.sedar.com](http://www.sedar.com).*

### Cautionary Statement Regarding Forward-Looking Information and Statements

This AIF contains forward-looking information and statements (collectively, “**forward-looking statements**”). These forward-looking statements relate to Granite’s current expectations, estimates and projections as to future events or Granite’s future performance and are provided to allow readers a better understanding of Granite’s business and prospects and may not be suitable for other purposes. All statements, other than statements of historical fact, may be considered forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as “seek”, “anticipate”, “plan”, “continue”, “estimate”, “expect”, “may”, “will”, “project”, “predict”, “potential”, “targeting”, “intend”, “could”, “might”, “should”, “believe” and similar expressions. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in, or suggested by, such forward-looking statements. Granite believes the expectations reflected in the forward-looking statements included in this AIF are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements should not be unduly relied upon. These statements speak only as of the date of this AIF and are expressly qualified, in their entirety, by this cautionary statement. Granite assumes no obligation to revise or update these statements except as required pursuant to applicable securities laws.

In particular, this AIF contains forward-looking statements, pertaining to the following:

- the Corporation's capital expenditure and investment program and the timing and results therefrom;
- drilling inventory, drilling plans and timing of drilling, completion and tie-in of wells;
- plans for facilities construction and completion and the timing and method of funding such activities;
- productive capacity of wells, anticipated or expected production rates and anticipated cases of commencement of production;
- results of various projects of the Corporation;
- ability to lower cost structure in certain projects of the Corporation;
- productive capacity of wells, anticipated or expected production rates and anticipated dates of commencement of production;
- the impact of changes in oil and natural gas prices on cash flow;
- expectations regarding the ability to raise capital and to add to reserves;
- oil and natural gas production levels and sources of their growth;
- the estimated volumes and future net revenues related to the Corporation’s crude oil, natural gas and NGL (as defined herein) reserves;
- the performance characteristics of the Corporation's oil and natural gas properties;
- timing of the development of undeveloped reserves;
- the existence, operation and strategy of the Corporation's commodity price risk management program;
- the Corporation's business, disposition and acquisition strategy, the criteria to be considered in connection therewith, and the benefits to be derived therefrom;
- the impact of Canadian federal and provincial governmental regulation on the Corporation relative to other oil and gas issuers of similar size;
- future development and growth prospects;

- expected levels of royalties, operating costs, general administrative costs, costs of services and other costs and expenses;
- determination of future quantities of oil and natural gas reserves and the size of and future net revenues therefrom;
- ability to meet current and future obligations;
- the tax horizon and taxability of the Corporation;
- treatment under governmental regulatory regimes and tax laws;
- projections of market prices and costs;
- weighting of production between different commodities;
- supply and demand for oil and natural gas;
- the ability to obtain equipment, services and supplies in a timely manner to carry out its activities;
- the ability to market oil and natural gas successfully to current and new customers;
- the timing and costs of pipeline, terminal and storage facility construction and expansion and the ability to secure adequate product transportation;
- the ability to obtain financing on acceptable terms or at all;
- currency, exchange and interest rates;
- potential dispositions and acquisitions;
- the timely receipt of governmental approvals; and
- realization of the anticipated benefits of acquisitions and dispositions.

With respect to forward-looking statements contained in this AIF, the Corporation has made assumptions regarding, among other things:

- the success of the Corporation's operations including exploration and development activities;
- the legislative and regulatory environments of the jurisdictions where the Corporation carries on business or has operations;
- ongoing and future operating costs, general administrative costs, costs of services and other costs and expenses;
- future commodity prices;
- changes in royalty regimes and rates;
- the impact of increasing competition;
- availability of skilled labour;
- timing and amount of capital expenditures;
- future exchange rates;
- general economic conditions;
- conditions in the financial markets;
- availability of drilling and related equipment; and
- the Corporation's ability to obtain additional financing on satisfactory terms.

The Corporation's actual results could differ materially from those anticipated in the forward-looking statements as a result of the risk factors set forth below and elsewhere in this AIF:

- changes in the general economic, market and business conditions in Canada and globally;
- the occurrence of unexpected events such as war, terrorist threats and the instability resulting therefrom;
- the ability of management to execute its business plan;
- volatility of and assumptions regarding the price of oil and natural gas;
- fluctuations of interest and exchange rates;
- world market forces and political and economic conditions that impact global prices for oil and natural gas, including the ability of the Organization of Petroleum Exporting Countries ("**OPEC**") to influence oil supply levels;
- the risks of the oil and gas industry both domestically and internationally, including operational risks in exploring for, developing and producing crude oil and natural gas and the market demand for such commodities;
- governmental regulation of the oil and gas industry, including environmental regulation and royalty regimes;

- actions taken by governmental authorities, including increases in taxes and changes in government regulations and incentive programs;
- geological, technical, drilling and processing problems;
- risks and uncertainties involving geology of oil and gas deposits;
- risks inherent in marketing operations, including credit risk;
- inflationary pressures on operating costs, including labour, natural gas and other energy sources used in the Corporation's operations;
- the ability to enter into or renew leases;
- the uncertainty of reserves estimates and reserves life;
- the uncertainty of estimates and projections relating to production, costs and expenses;
- potential delays or changes in plans with respect to exploration or development projects or capital expenditures;
- availability of sufficient financial resources to fund the Corporation's capital expenditures;
- uncertainty of finding reserves, and developing and marketing those reserves;
- unanticipated operating events or extreme weather conditions which could reduce production or cause production to be shut-in or delayed;
- incorrect assessments of the value of acquisitions or dispositions as well as possible failure to realize the anticipated benefits of such acquisitions or dispositions;
- ability to locate satisfactory properties for acquisition or participation;
- ability to secure adequate and cost-effective product transportation and storage facilities, including there being insufficient storage or transportation capacity;
- hazards such as fire, explosion, blowouts, cratering, and spills, each of which could result in substantial damage to wells, production facilities, other property, the environment or personal injury;
- encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations;
- the ability to add production and reserves through development and exploration activities;
- the possibility that government policies or laws, including laws and regulations related to the environment, may change or governmental approvals may be delayed or withheld;
- uncertainty in amounts and timing of royalty payments;
- uncertainties inherent in estimating quantities of oil and natural gas reserves and cash flows to be derived therefrom;
- failure to obtain industry partner and other third party consents and approvals, as and when required;
- stock market volatility and market valuations;
- competition for, among other things, capital, acquisition of reserves, undeveloped land and skilled personnel;
- the availability of capital on acceptable terms or at all; and
- the other factors considered under "Risk Factors" in the AIF which is incorporated by reference herein, and other filings with Canadian securities authorities.

Statements relating to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves exist in quantities predicted or estimated and that the reserves described can be profitably produced in the future.

Statements of test rates are not necessarily indicative of long-term performance or of ultimate recovery. Neither pressure transient analysis nor well-test interpretations have been carried out and the data should be considered to be preliminary until such analysis or interpretation has been done.

The Corporation has included the above summary of assumptions and risks related to forward-looking statements provided in this AIF in order to provide investors with a more complete perspective on the Corporation's current and future operations and such information may not be appropriate for other purposes. **Additional information on these and other factors is available in the reports filed by the**

Corporation with Canadian securities regulators. The forward-looking statements and information contained in this AIF are made as of the date hereof.

Readers are cautioned that the preparation of financial statements in accordance with generally accepted accounting principles in Canada requires management to make certain judgments and estimates that affect the reported amounts of assets, liabilities, revenues and expenses. Estimating reserves is also critical to several accounting estimates and requires judgments and decisions based on available geological, geophysical, engineering and economic data. These estimates may change, having either a negative or positive effect on net earnings as further information becomes available and as the economic environment changes. The information contained in this AIF, including the documents incorporated by reference herein, identifies additional factors that could affect the operating results and performance of the Corporation. Readers are encouraged to carefully consider those factors.

Readers are also cautioned against placing undue reliance on forward-looking statements, which is given as of the date it is expressed in this AIF, or the MD&A disclosure incorporated by reference herein, and not to use future-oriented information or financial outlooks for anything other than their intended purpose. The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The Corporation undertakes no obligation to publicly update or revise any forward-looking statements in this AIF or the MD&A disclosure incorporated by reference herein, whether as a result of new information, future events or otherwise, except as required by law.

#### **Conversion of Natural Gas to Barrels of Oil Equivalent**

To provide a single unit of production for analytical purposes, natural gas production and reserves volumes are converted mathematically to equivalent barrels of oil ("BOE"). Granite uses the industry-accepted standard conversion of six thousand cubic feet of natural gas to one barrel of oil (6 Mcf = 1 bbl). A BOE conversion ratio of 6Mcf:1Bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. A barrel of oil equivalent (BOE) may be misleading, particularly if used in isolation. **Given the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6 Mcf:1 Bbl, utilizing a conversion ratio at 6 Mcf:1 Bbl may be misleading as an indication of value.**

#### **Presentation of Oil and Natural Gas Reserves and Production Information**

All crude oil, natural gas and NGL reserves and other information with respect to the properties in this AIF have been prepared and are presented in accordance with National Instrument 51-101 - *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101"). See "Statement of Reserves Data and Other Oil and Gas Information - Notes and Definitions" for additional information.

#### **Non-GAAP Measures**

Within this AIF, references are made to terms commonly used in the oil and natural gas industry. The term "netback" in this AIF is not a recognized measure under generally accepted accounting principles ("GAAP") in Canada. The term "netback" is used as a key performance indicator and it is used by the Corporation to evaluate the operating performance of our petroleum and natural gas assets and is determined by deducting royalties and operating expenses from petroleum and natural gas revenue. Readers are cautioned, however, that this measure should not be construed as an alternative to net earnings or cash flow from operating activities determined in accordance with GAAP in Canada as an indication of the Corporation's performance.

## Monetary References

All monetary references contained in this AIF are in Canadian dollars unless otherwise specified. All monetary references contained in the reserves data are in Canadian dollars unless otherwise specified.

## GLOSSARY OF TERMS

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In this AIF, unless otherwise indicated or the context otherwise requires, the following terms shall have the indicated meanings. Certain other terms used in this AIF but not defined herein are defined in NI 51-101 and, unless the context otherwise requires, shall have the same meanings herein as in NI 51-101. For additional definitions relating to oil and gas information, see "*Statement of Reserves Data and Other Oil and Gas Information - Notes and Definitions*". Words importing the singular include the plural and vice versa and words importing any gender include all genders. A reference to an agreement means the agreement as it may be amended, supplemented or restated from time to time.

"**ABCA**" means the *Business Corporations Act* (Alberta) R.S.A. 2000, c. B-9, as amended, including the regulations promulgated thereunder;

"**abandonment and reclamation costs**" means all costs associated with the process of restoring property that has been disturbed by oil and gas activities to a standard imposed by applicable government or regulatory authorities;

"**affiliate**" or "**associate**" when used to indicate a relationship with a person or company, has the meaning set forth in the *Securities Act* (Alberta), R.S.A. 2000, c. S-4, as amended, including the regulations promulgated thereunder;

"**Alberta Bakken Properties**" means the Corporation's oil and gas properties located in southern Alberta as more particularly described in "*Principal Producing Properties*";

"**Arrangement**" means the plan of arrangement completed under section 193 of the ABCA involving the Corporation, the Shareholders and Boulder, whereby the Corporation was reorganized into two independent, publicly traded energy companies, Boulder, who acquired the Brazeau Belly River Properties, and the Corporation, renamed from DeeThree Exploration Ltd. to Granite Oil Corp., whose sole asset would be the Alberta Bakken Properties; under the reorganization, shareholders of DeeThree received 0.5 shares of Boulder and 0.33 shares of Granite for each DeeThree common share held;

"**Board of Directors**" or "**Board**" means the board of directors of the Corporation, as constituted from time to time, including where applicable, any committee thereof;

"**Boulder**" means Boulder Energy Ltd.;

"**Brazeau Belly River Property**" or "**Brazeau Belly River Properties**" means the petroleum and natural gas properties and related assets located in the Brazeau area of west central Alberta, transferred to Boulder in connection with the Arrangement;

"**Canadian Securities Laws**" means the securities legislation and regulations of, and the instruments, policies, rules, orders, codes, notices and interpretation notes, of the securities regulation authorities (including the TSX and TSXV) of any applicable jurisdiction, or jurisdictions collectively, in Canada;

"**Circular**" means DeeThree's management proxy and information circular dated effective April 9, 2015, including all appendices and schedules attached thereto;

"**COGE Handbook**" means the Canadian Oil and Gas Evaluation Handbook as co-authored by the Society of Petroleum Evaluation Engineers (Calgary Chapter), as amended from time to time;

**“Common Shares”** means the common shares without par value in the capital of the Corporation;

**“conventional natural gas”** means natural gas that has been generated elsewhere and has migrated as a result of hydrodynamic forces and is trapped in discrete accumulations by seals that may be formed by localized structural, depositional or erosional geological features;

**“Corporation”** or **“Granite”** means Granite Oil Corp.;

**“Credit Facility”** means Granite’s committed term syndicated facility;

**“crude oil”** or **“oil”** includes heavy crude oil, light crude oil and medium crude oil;

**“DeeThree”** means DeeThree Exploration Ltd., the name under which the Corporation was operating from January 1, 2010 until May 15, 2015;

**“Effective Date”** means the effective date of this Annual Information Form, being March 21, 2016;

**“EOR Scheme”** means the natural gas injection enhanced oil recovery scheme operated by the Corporation on the Alberta Bakken Properties;

**“Flow-Through Shares”** means Common Shares issued on a “flow-through” basis as defined in the Tax Act;

**“future net revenue”** means a forecast of revenue, estimated using forecast prices and costs or constant prices and costs, arising from the anticipated development and production of resources, net of the associated royalties, operating costs, development costs and abandonment and reclamation costs;

**“GAAP”** means generally accepted accounting principles in Canada, which for Canadian reporting issuers is the International Financial Reporting Standards (“**IFRS**”), as in effect from time to time;

**“gross”** means: (i) in relation to the Corporation's interest in production or reserves, its working interest (operating or non-operating) share, if any, before deduction of royalties and without including any royalty interests of the Corporation; (ii) in relation to wells, the total number of wells in which the Corporation has an interest; and (iii) in relation to properties, the total area in which the Corporation has an interest;

**“heavy crude oil”** or **“heavy oil”** means crude oil with a relative density greater than 10 degrees API gravity and less than or equal to 22.3 degrees API gravity;

**“hydrocarbons”** means a compound consisting of hydrogen and carbon, which, when naturally occurring, may also contain other elements;

**“light crude oil”** or **“light oil”** means crude oil with a relative density greater than 31.1 degrees API gravity;

**“medium crude oil”** or **“medium oil”** means crude oil with a relative density greater than 22.3 degrees API gravity and less than or equal to 31.1 degrees API gravity;

**“natural gas”** means naturally occurring mixture of hydrocarbon gases and other gases;

**“net”** means: (i) in relation to the Corporation's interest in production or reserves, its working interest (operating or non-operating) share, if any, after deduction of royalty obligations; (ii) in relation to the Corporation's interest in wells, the number of wells obtained by aggregating the Corporation's working interest; and (iii) in relation to the Corporation's working interest in a property, the total acreage in which the Corporation has an interest multiplied by the working interest owned by the Corporation;



**"NGLs"** or **"natural gas liquids"** means those hydrocarbon components that can be recovered from natural gas as liquid including, but not limited to, ethane, propane, butanes, pentanes plus, condensates and small quantities of nonhydrocarbons;

**"NI 51-101"** means National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities* of the Canadian Securities Administrators;

**"NI 51-102"** means National Instrument 51-102 — *Continuous Disclosure Obligations* of the Canadian Securities Administrators;

**"Northern Properties"** means the minor petroleum and natural gas properties and related assets located in northern Alberta transferred to Boulder in connection with the Arrangement;

**"OTCQX"** means the top tier of the United States Over-the-Counter market;

**"petroleum"** means a naturally occurring mixture consisting predominantly of hydrocarbons in the gaseous, liquid or solid phase, and as referenced in this AIF, includes oil and NGL;

**"production"** means recovering, gathering, treating, field or plant processing (for example, processing gas to extract natural gas liquids) and field storage of oil and gas;

**"SEDAR"** means the System for Electronic Document Analysis and Retrieval;

**"reserves"** are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, from a given date forward, based on (a) analysis of drilling, geological, geophysical, and engineering data; (b) the use of established technology; and (c) specified economic conditions, which are generally accepted as being reasonable and shall be disclosed. Reserves are classified according to the degree of certainty associated with the estimates being "proved reserves", "probable reserves" and "possible reserves";

**"Sproule"** means Sproule Associates Limited;

**"Sproule Report"** means the independent engineering evaluation of the crude oil, natural gas and NGL reserves of Granite prepared by Sproule with an effective date of December 31, 2015 dated March 7, 2016;

**"Tax Act"** means *the Income Tax Act* (Canada), R.S.C. 1985, c 1 (5<sup>th</sup> Supp), and the regulations thereto, as may be amended from time to time;

**"Taxes"** means, with respect to any entity, all income taxes (including any tax on or based upon net income, gross income, income as specially defined, earnings, profits or selected items of income, earnings or profits) and all capital taxes, gross receipts taxes, environmental taxes, sales taxes, use taxes, ad valorem taxes, value added taxes, transfer taxes, franchise taxes, licence taxes, withholding taxes or other withholding obligations, payroll taxes, employment taxes, Canada or Québec Pension Plan premiums, excise, severance, social security premiums, workers' compensation premiums, employment insurance or compensation premiums, stamp taxes, occupation taxes, premium taxes, property taxes, provincial Crown royalties, windfall profits taxes, alternative or add-on minimum taxes, goods and services tax, customs duties or other taxes of any kind whatsoever, together with any interest and any penalties or additional amounts imposed by any taxing authority (domestic or foreign) on such entity or for which such entity is responsible, and any interest, penalties, additional taxes, additions to tax or other amounts imposed with respect to the foregoing;

**"TSX"** means the Toronto Stock Exchange;

**"TSXV"** means the TSX Venture Exchange Inc.;

“**working interest**” means the net interest held in an oil and natural gas property which normally bears its proportionate share of the costs of exploration, development and operations as well as any royalties or other production burdens.

## Abbreviations and Conversions

In this AIF, the following abbreviations have the meanings set forth below consistent with Appendix B of the COGE Handbook, where applicable:

<b>Crude Oils and Natural Gas Liquids</b>		<b>Natural Gas</b>	
API	American Petroleum Institute	Mcf	Thousand cubic ft
Bbl	Barrel	MMcf	Million cubic ft
Bbls	Barrels	Mcf/d	Thousand cubic ft per day
Bbls/d	Barrels per day	MMcf/d	Million cubic ft per day
BOPD	Barrels of oil per day	Gj	Gigajoules
MBbls	Thousand barrels		
MMBbls	Million barrels		
BOE	Barrels of oil equivalent		
BOE/d	Barrels of oil equivalent per day		
MBOE	Thousand of barrels of oil equivalent		
MMBOE	Million of barrels of oil equivalent		
NGLs	Natural gas liquids		
MMbtu	Million British thermal units		
WTI	West Texas Intermediate		
		<b>Other</b>	
		M	1,000

The following table sets forth certain factors for converting metric measurements into imperial equivalents.

To convert from	To	Multiply by
BOE	Mcf	6.00
Mcf	Cubic metres (“m3”)	28.17
Cubic metres	Cubic ft	35.49
Bbls	Cubic metres (“m3”)	0.16
Cubic metres (“m3”)	Bbls	6.29
Feet (“ft”)	Metres	0.31
Metres	Feet (“ft”)	3.28
Miles	Kilometres (“Km”)	1.61
Kilometres (“Km”)	Miles	0.62
Acres	Hectares (“Ha”)	0.41

## CORPORATE STRUCTURE

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### General

Granite is a junior oil producer based in Calgary, Alberta with lands and operations located in southern Alberta. DeeThree underwent a reorganization by way of Plan of Arrangement (the “**Plan**”) on May 15, 2015 which divided DeeThree into two independent pure-play companies, Granite and Boulder. The Plan was approved by a vote of shareholders of DeeThree on May 14, 2015, and the name of the Corporation was changed from “DeeThree Exploration Ltd.” to “Granite Oil Corp.” concurrent with the Arrangement on May 15, 2015.

DeeThree was incorporated pursuant to the provisions of the ABCA on November 22, 2007 as “Royal Capital Corp.” DeeThree amended its Articles to consolidate its outstanding common shares on a 12 for one basis on June 25, 2009 and changed its name by Certificate of Amendment to “DeeThree Exploration Inc.” on June 25, 2009. On January 1, 2010, the Corporation completed a vertical amalgamation with its wholly-owned subsidiary, DeeThree Ltd. The name of the Corporation was changed to “DeeThree Exploration Ltd.” pursuant to the amalgamation that occurred on January 1, 2010.

The issued and outstanding Common Shares were listed and posted for trading on the TSX as of May 21, 2015 under the symbol “GXO” and on the OTCQX under the trading symbol “GXOCF”. The Corporation is a reporting issuer in every province of Canada except for Quebec.

As of December 31, 2015 and the date hereof, Granite has no subsidiaries. The Corporation's head office is located at 432, 222 - 3rd Ave SW, Calgary, Alberta T2P 0B4, and the registered office is located at Suite 1000, 250 - 2<sup>nd</sup> Street, S.W., Calgary, Alberta, T2P 0C1.

### The Arrangement

On April 7, 2015, DeeThree entered into an arrangement agreement with Boulder, then a wholly-owned subsidiary of DeeThree, which provided for the reorganization of DeeThree pursuant to the Plan. On May 15, 2015, DeeThree completed the Arrangement involving Boulder and the shareholders of DeeThree. Pursuant to the Arrangement, the assets of DeeThree were divided amongst the Corporation and Boulder. Each holder of common shares of DeeThree received one-third (0.3333) of one new Granite Common Share and one-half (0.5) of one common share of Boulder. Boulder acquired the Brazeau Belly River Properties, Northern Properties and related miscellaneous interests pursuant to the Arrangement. The Corporation retained the Alberta Bakken pool at Ferguson in southern Alberta. The name of the Corporation from “DeeThree Exploration Ltd.” to “Granite Oil Corp.” was effected concurrently with the Arrangement.

The Acquisition was completed under conveyance agreement dated May 15, 2015 entered into between DeeThree and Boulder to give effect to a step in the Plan. In accordance with the conveyance agreement and the Plan, Boulder issued 521,865,994 special shares to DeeThree in consideration for the Brazeau Belly River Properties and the Northern Properties. Pursuant to the Plan, each holder of common shares of DeeThree received one-half (0.5) of one common share of Boulder and one-third (0.3333) of one Common Share.

In connection with the completion of the Acquisition, each of Granite and Boulder obtained new credit facilities from syndicates of lenders. The Granite Credit Facility had an authorized borrowing base of \$115 million as at May 15, 2016, consisting of a \$95 million revolving demand credit facility and a \$20 million revolving demand operating facility. The Boulder credit facility had an authorized borrowing base of \$175 million as at May 15, 2016, consisting of a \$155 million extendible revolving credit facility and a \$20 million extendible revolving operating facility. The related credit agreements contain customary representations, warranties, covenants and events of default for these types of credit facility.

The amounts of \$42.5 million and \$130 million were drawn down under the Granite Credit Facility and the Boulder credit facility, respectively, to repay the obligations of DeeThree's credit facility (the "**Prior Credit Facility**") that existed prior to the completion of the Acquisition. As a result, the obligations of DeeThree under the Prior Credit Facility were fully repaid and settled in connection with the completion of the Acquisition.

The Alberta Bakken Properties are located in southern Alberta, approximately 70 kilometers south of Lethbridge (TWP 3, Range 17, W4M). This operated property consists of an average working interest of approximately 100 percent in approximately 393,453 gross (391,633 net) undeveloped acres and 54,434 gross (52,140 net) developed acres as at December 31, 2015.

## **GENERAL DEVELOPMENT OF THE BUSINESS OF THE CORPORATION**

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### **Three Year History**

The Arrangement involving DeeThree, the shareholders of DeeThree and Boulder was completed on May 15, 2016. Upon the filing of amended and restated Articles of Arrangement, DeeThree changed its name to Granite. A detailed description on the significant developments of the business of the Corporation over the last three completed financial years is set out below.

#### ***Financial year ended December 31, 2013***

On February 19, 2013 and March 12, 2013, DeeThree completed a bought-deal short-form prospectus financing of 5,083,000 Common Shares at a price of \$6.80 per DeeThree common share completed on February 18, 2013 and March 12, 2013 for aggregate gross proceeds of \$34,564,400.

On February 25, 2013, DeeThree announced an operational update and its guidance for 2013. DeeThree's board of directors approved a capital budget of approximately \$150 million for 2013 to be focused entirely on the development and exploration of oil prospects. The capital was to be directed primarily towards the Brazeau and Lethbridge areas. DeeThree's plans included the drilling of 20 gross (20.0 net) wells on the Alberta Bakken Properties and 11 gross (10.7 net) wells on the Brazeau Belly River Properties. Average 2013 production was forecast to be in the range of 6,800 to 7,000 BOE/d and DeeThree's 2013 exit rate was forecast to be in the range of 8,500 to 9,000 BOE/d. DeeThree's average commodity price assumptions for 2013 were US \$95.00 per barrel for WTI oil, \$3.20 per GJ for AECO natural gas and a US/Canadian dollar exchange rate of CAD \$0.99. On this basis, DeeThree expected to generate approximately \$100 million of cash flow in 2013. DeeThree planned to fund its 2013 capital program through internally generated cash flow and funds available under DeeThree's credit facility.

On March 25, 2013, DeeThree provided an operational update on drilling results on the Brazeau Belly River Properties and also announced an increase in its oil and gas reserves as at December 31, 2012 as compared to December 31, 2011.

On March 27, 2013, DeeThree announced the financial and operational results for the year ended December 31, 2012 and the filing of the audited financial statements and related management discussion and analysis for DeeThree for the year ended December 31, 2012.

On April 8, 2013, DeeThree provided an operational update on drilling results on the Brazeau Belly River Properties and announced that a review of its 2013 capital program has been undertaken with the intent to further accelerate the exploitation of the Alberta Bakken Properties and the Brazeau Belly River Properties.

On April 24, 2013, DeeThree announced that the DeeThree credit facility had been increased to \$135 million from \$90 million. DeeThree also announced an increase in its 2013 capital budget to \$160 million and increases to its 2013 guidance. The increase in the 2013 capital budget was to facility infrastructure on the Alberta Bakken Properties and the Brazeau Belly River Properties to accommodate future

production increases. Average 2013 production was forecast to be in the range of 7,600 to 8,000 BOE/d and DeeThree's 2013 exit rate was forecast to be in the range of 9,600 to 10,000 BOE/d. On this basis, DeeThree expected to generate approximately \$120 million of cash flow in 2013.

On May 14, 2013, DeeThree announced an update on its 2013 drilling program and its financial and operational results for the three months ended March 31, 2013.

Kevin Andrus was appointed as a director of DeeThree on June 21, 2013.

On July 8, 2013, DeeThree provided an operational update in respect of drilling activities on the Alberta Bakken Properties and the Brazeau Belly River Properties, including 30-day initial test results of the significant horizontal wells it drilled in the spring of 2013.

On August 9, 2013, DeeThree announced its financial and operational results for the three and six months ended June 30, 2013. The Corporation also provided an operational update on the results of its 2013 drilling program on the Alberta Bakken Properties and the Brazeau Belly River Properties.

On August 14, 2013, DeeThree announced the results of a reserves and resource evaluation conducted by Sproule Associates Limited in accordance with NI 51-101 on the Brazeau Belly River Properties as of July 31, 2013.

On November 8, 2013, DeeThree announced its financial and operational results for the three and nine months ended September 30, 2013. DeeThree also provided an operational update on the results of its 2013 drilling program on the Alberta Bakken Properties and the Brazeau Belly River Properties. A \$40 million increase in DeeThree's 2013 capital budget was also announced for a total budgeted amount of \$200 million. The principal uses of the additional amount was to drill an additional four horizontal wells and to acquire lands in DeeThree's core areas. DeeThree also announced an increase in its forecasted 2013 exit production rate to the range of 10,000 to 10,500 BOE/d and an increase the DeeThree credit facility to \$165 million.

On December 6, 2013, DeeThree completed an offering (the "**December 2013 Offering**"), raising aggregate gross proceeds of \$35,150,000 via the issuance of 3,800,000 common shares. On December 17, 2013, the underwriters in the December 2013 Offering exercised the over-allotment option and DeeThree issued an additional 570,000 common shares at a price of \$9.25 per common share for gross proceeds of \$5,272,500.

On December 18, 2013, DeeThree announced its guidance for 2014 and provided an operational update. A \$230 million capital expenditure program was announced for 2014. This program was focused on the further exploration and development of the Alberta Bakken Properties and the Brazeau Belly River Properties by the drilling of approximately 46 gross wells. The 2014 capital program was anticipated to be fully funded through internally generated funds from operations and the DeeThree credit facility. 2014 production was forecast to be within the range of 11,500 to 11,700 BOE/d (81% crude oil and NGLs) with a targeted 2014 exit production rate of 13,000 – 13,500 BOE/d (82% crude oil and NGLs). DeeThree's average commodity price assumptions for 2014 were US\$95.00 per barrel for WTI oil, \$3.40 per GJ for AECO natural gas and a US/Canadian dollar exchange rate of CAD \$0.95. On this basis, approximately \$170 million of funds was forecast to be generated from operations in 2014. DeeThree planned to fund its 2014 capital program through internally generated cash flow and funds available under the DeeThree credit facility.

On December 20, 2013, DeeThree raised aggregate gross proceeds of \$5,008,425 via the private placement issuance of 465,900 Flow-Through Shares at a price of \$10.75 per Flow-Through Share.

### **Financial year ended December 31, 2014**

On January 15, 2014, DeeThree provided an operational update in respect of drilling activities on the Brazeau Belly River Properties and that it had met its targeted 2013 production rate of 10,000 to 10,500 BOE/d, reaching a maximum of 10,200 BOE/d in December 2013.

On March 10, 2014, DeeThree announced an increase in its oil and gas reserves as at December 31, 2013, as compared to December 31, 2012.

On March 24, 2014, DeeThree announced in an operational update that DeeThree was in the final stages of completing the most active quarter in DeeThree's history with the completion of 8 gross (7.83 net) wells since the year beginning January 1, 2014 (being 7 oil producers and 1 gas re-injector) resulting in DeeThree reaching an average production record, based on field estimates, of 10,500 boe/day, for the month of March (80.5% oil and liquids). In addition, DeeThree was scheduled to complete 4 (4.0 net) lower risk "infill" wells, 3 gross (3.0 net) Belly River and 1 gross (1.0 net) Alberta Bakken well shortly after the March 24, 2014, operational update, which would result in first quarter exit volumes reaching approximately 11,500 boe/day.

On May 5, 2014, DeeThree provided an update with respect to its two primary properties. DeeThree announced that it had received extended production data on the first round of down-spaced wells drilled on its Brazeau Belly River Property, each offsetting significant oil producing wells that were drilled in 2013. DeeThree also announced that it had significantly expanded its land position in the Alberta Bakken by acquiring rights to more than 70 additional sections of land. This included an agreement with a senior producer pursuant to which DeeThree could earn a 100% working interest in up to 34.5 contiguous sections (22,080 acres) of land located directly on trend and between existing production. As considerations, DeeThree committed to drill one vertical well and one horizontal well by the third quarter of 2014. Under the agreement DeeThree also has the right to acquire any lands not earned by the third quarter of 2014 in exchange for a cash payment and further drilling commitment.

In May 2014, DeeThree entered into an amended and restated syndicated credit facility with a syndicate of five Canadian chartered banks (the "**2014 Credit Facility**"), which replaced and increased the revolving operating demand loan credit facility previously in place. The 2014 Credit Facility had an increased borrowing base of \$235 million, consisting of a \$215 million extendible revolving facility and a \$20 million operating facility.

On May 15, 2014, the shareholders of DeeThree approved the adoption of a new by-law (the "**Advance Notice By-Law**") by a majority of 99.60% which, among other things, fixes a deadline by which the shareholders are required to notify DeeThree of nominations of persons for election to the board and stipulates that the same information about the proposed nominee as one would have to include in a dissident proxy circular by such deadline.

On May 15, 2014, DeeThree also provided an update with respect to its two primary properties and announced an increase in its 2014 capital budget to \$270 million. As a result of the recent land additions in the Alberta Bakken, DeeThree announced further plans to drill up to four Alberta Bakken exploration wells through to the end of 2014.

On May 27, 2014, DeeThree completed its bought-deal short form prospectus offering for gross proceeds of \$73,429,220. A total of 5,714,200 common shares were issued at the price of \$11.10 per share and 752,000 common shares issued on a flow-through basis at a price of \$13.30 per share.

On August 13, 2014, DeeThree announced the financial and operating results for the quarter ended June 30, 2014 and provided an operational update that capital spending totaled \$74.3 million with \$51.7 million on drilling & completions (68% of drilling capital was directed to wells drilled and completed in the associated period), \$10.5 million on facilities, \$4.1 million on tie-ins, and \$7.4 million on land acquisitions. In respect of its Brazeau Belly River Property, DeeThree announced that it had drilled the first successful

well into the Basal Belly River 'A' sand, making it the 7<sup>th</sup> sand to demonstrate commercial viability on the play and expanded the scope and scale of the Brazeau Belly River Property. DeeThree also continued to extend the known scope of the 'C' sand with successful horizontal wells on farm-in lands both to the north and to the south of the core area and, as a result, this portion of the Belly River oil pool increased in size to include 12 sections of land.

In October 2014, DeeThree obtained an increase in the 2014 Credit Facility to an authorized borrowing base of \$310 million, consisting of a \$280 million extendible revolving facility and a \$30 million operating facility.

On November 5, 2014, DeeThree announced its financial and operational results for the quarter ended September 30, 2014 and provided an operations update in respect of the completion of major facility and pipeline projects in the Brazeau Belly River Property that significantly increased capacity available for future growth. DeeThree also took delivery, installed and brought on-stream a built-for-purpose gas injection compressor that expanded DeeThree's natural gas injection EOR Scheme in the Alberta Bakken Properties beyond the pilot phase. In connection with DeeThree's ongoing exploration program, the Corporation confirmed it had drilled a successful seven mile step-out to its existing Alberta Bakken pool, thereby significantly expanding its drilling inventory and the pool's ultimate resource potential. Capital spending for the quarter ended September 30, 2014 totaled \$85 million in the third quarter, with \$56.5 million on drilling and completions, \$14.6 million on major facility expansions, \$4.4 million on tie-ins, \$8.9 million on minor acquisitions and land and \$0.6 million on capitalized general and administrative expenses and other assets.

#### ***Financial year ended December 31, 2015***

On January 13, 2015, DeeThree announced that the board of directors had approved the 2015 capital budget of up to \$160 million, targeting average production of approximately 13,300 boe/d which represented 18% year-over-year growth. DeeThree also announced its plans to drill 13 wells and incur capital expenditures of approximately \$68 million during the first half of the year, with the drilling program focused on the continued development of DeeThree's primary properties in the Alberta Bakken and Brazeau Belly River areas.

On March 5, 2015, DeeThree announced its 2014 year end reserves data based on the results of a reserves and resource evaluation conducted by Sproule Associates Limited in accordance with NI 51-101, as well as provided an operational update. DeeThree disclosed that as at December 31, 2014, it had increased its proved plus probable reserves by 31% to 51.8 mmboe as compared to the prior year, and had increased its proved reserves by 35% to 35.4 mmboe as compared to the prior year. It was noted that predominantly all 2014 reserve additions were added organically, with only \$23 million having been spent on acquisitions in 2014.

On March 26, 2015, DeeThree announced its financial results for the year ended December 31, 2014, and provided an operational update. With respect to the Alberta Bakken Properties, as at this date, DeeThree had obtained approval from the Alberta Energy Regulator to begin injecting into a fourth well in April 2015.

DeeThree announced the results of Alberta Bakken horizontal well 11-20-3-16 W4M on April 1, 2015. This well had been designed to specifically optimize DeeThree's ongoing gas re-injection EOR Scheme, and had provided low gas-to-oil ratio, demonstrating the efficiency and effectiveness of DeeThree's gas EOR Scheme. It was announced that well 11-20-3-16 W4M would be placed on production at a restricted rate with nearby gas reinjection increased to match voidage and manage decline.

On April 7, 2015, DeeThree announced the Arrangement involving DeeThree, the DeeThree Shareholders and Boulder. DeeThree noted that under the Arrangement DeeThree's Alberta Bakken Properties would remain with DeeThree, while the Belly River Pembina-Brazeau development and Northern Properties would be operated and held by Boulder. Highlights of the reserves, capital structure and hedging values of each of Granite and Boulder were disclosed. The Arrangement was designed to

create two independent, pure-play oil companies that would pursue different business strategies to better reflect the unique nature of the asset bases held.

On May 13, 2015, DeeThree announced its first quarter financial results for 2015 and provided an operational update. DeeThree reported record low operating costs during the quarter of \$7.37/boe, a decrease of 28% from \$10.18/boe during the same period of previous year. It was noted that five Alberta Bakken gas injectors were on-stream, with almost all Bakken solution gas being re-injected into the Alberta Bakken Properties utilizing the EOR Scheme. Drilling activity had been defined by commodity pricing through the first quarter of 2015, reducing corporate declines toward targeted rates of 30% on the Brazeau Belly River Property and 22% on the Alberta Bakken Properties while preserving financial capacity.

On May 14, 2015, DeeThree announced the results of the 2015 annual general and special meeting of the Corporation, at which the Arrangement was approved.

On May 15, 2015, the Company released a joint news release with Boulder, announcing the successful completion of the reorganization and Arrangement. Concurrently with the reorganization, the name of DeeThree was changed to Granite. In connection with the Arrangement, Granite received a new credit facility from a syndicate of lenders with a borrowing base of \$115 million, consisting of a \$95 million revolving demand credit facility and a \$20 million revolving demand operating facility (the "**Granite Credit Facility**"). An amount of \$42.5 million was borrowed under the Granite Credit Facility to repay obligations of DeeThree under its credit facility. Obligations of DeeThree under its credit facility were repaid and settled by contributions by Granite and Boulder. Trading of Granite on the TSX under the symbol "G XO" commenced on May 21, 2015 in substitution for the common shares of DeeThree, which were delisted as of this date.

Granite announced the test results of its southern Alberta Bakken horizontal well at 3-28-3-16W4 on June 1, 2015, being the first well drilled since completion of the Arrangement. At the end of a five day production test, the well continued to flow at approximately 760 bbls/d of 30 degrees API oil and 230 Mscf/d of natural gas at a flowing wellhead pressure of 65 psi.

On June 17, 2015, Granite announced an eligible dividend of \$0.03 per Common Share, to be paid on July 15, 2015 to Shareholders of record on June 30, 2015 with an ex-dividend date of June 26, 2015. On July 15, 2015, Granite announced the payment of a second eligible dividend of \$0.03 per Common Share to be paid in cash on August 17, 2015 to Shareholders of record on July 31, 2015 with an ex-dividend date of July 29, 2015.

Granite provided an operational update and announced an increase in monthly dividend payments, as well as its 2015 second quarter financial results on August 13, 2015. Granite announced that well costs were tracking 18% lower than originally budgeted, costing \$2.3 million, and as a result of the strong operational performance and lower costs, the Corporation had elected to increase its dividend by 8% to \$0.0325 per Common Share per month commencing in September 2015. Granite also announced that the Corporation received regulatory approval for a sixth injector well and was seeking approval for a seventh well. Granite noted that it was continuing to work towards the efficient recovery of oil in the Alberta Bakken play by use of a gas injection EOR Scheme, and announced that it was now re-injecting all of its produced CO<sub>2</sub>-rich Alberta Bakken solution gas, expanding gas injection EOR Scheme in its Alberta Bakken oil pool.

On August 24, 2015, Granite announced the results from its 100% working interest horizontal Alberta Bakken oil well 102/01-24-003-17W4/00. It was announced that the well produced an average of approximately 1,200 bbl/d of 31 degree API oil and 600 mscf/d of solution gas over the course of a four day production test. At the end of the test, the well was flowing at 1,150 bbl/d of 31 degree API oil and 800 mscf/d of solution gas at a flowing wellhead pressure of 420 psi, while restricted with a five-eighth inch choke. It was noted that the well was to be placed on production shortly thereafter at a restricted rate in keeping with Granite's focus on managing pool declines.



On September 15, 2015, Granite announced an eligible dividend of \$0.0325 per Common Share, to be paid in cash on October 15, 2015 to Shareholders of record on September 30, 2015 with an ex-dividend date of September 28, 2015. On October 15, 2015, Granite announced the payment of an eligible dividend of \$0.0325 per Common Share to be paid in cash on November 13, 2015 to Shareholders of record on October 30, 2015 with an ex-dividend date of October 28, 2015.

Granite announced a 65% all-in payout ratio in its first standalone quarter as well as an increase in the monthly dividend on November 4, 2015. Granite announced that it generated funds from operations of \$14.5 million during the quarter which funded capital spending of \$6.6 million, dividends of \$2.9 million and the repayment of \$3.5 million of debt, resulting in a 65% payout ratio. Capital expenditures during the quarter were limited to \$6.6 million, which included the drilling of two, 100% working interest horizontal production wells in the core of the Corporation's Alberta Bakken Properties. Granite noted that the implementation of the EOR Scheme remained ahead of schedule, with Granite receiving regulatory approvals for a seventh and eighth injector well.

In the fall of 2015, the Granite Credit Facility was reviewed, with Granite voluntarily electing to reduce its availability to \$80 million in order to reduce standby fees. The revised availability of \$80 million will continue to provide a significant cushion of availability over amounts drawn and forecasted to be drawn under the credit facility.

On November 16, 2015, Granite announced an eligible dividend of \$0.035 per Common Share, to be paid in cash on December 15, 2015 to Shareholders of record on November 30, 2015 with an ex-dividend date of November 26, 2015. On December 15, 2015, Granite announced the payment of an eligible dividend of \$0.035 per Common Share to be paid in cash on January 15, 2016 to Shareholders of record on December 31, 2015 with an ex-dividend date of December 29, 2015.

### ***Financial year ended December 31, 2016***

On January 18, 2016, Granite announced an eligible dividend of \$0.035 per Common Share, to be paid in cash on February 15, 2016 to Shareholders of record on January 31, 2016 with an ex-dividend date of January 27, 2016. On February 16, 2016, Granite announced an eligible dividend of \$0.035 per Common Share, to be paid in cash on March 15, 2016 to Shareholders of record on February 29, 2016 with an ex-dividend date of February 25, 2016.

On February 22, 2016, the Corporation announced its 2016 budget and the receipt of regulatory approval from the Alberta Energy Regulator in relation to the operation of the EOR Scheme on the Alberta Bakken Properties across 23 contiguous sections of land. Granite announced that the regulatory approval provided the Corporation with additional flexibility to expand and optimize the EOR Scheme, which is directly aligned with Granite's anticipated operational plan for 2016. The approval allows for injected volumes to exceed produced volumes for a period, until cumulative production has been met, allowing Granite an opportunity to return the pool to original pressure conditions. Granite announced that a gas pipeline and meter station had been commissioned by the Corporation in anticipation of the approval, providing the Corporation with access to third party gas through the Alberta sales distribution network. The 2016 budget put forward by the Corporation is sustainable and provides for funding from internally generated funds flow, with a focus on continued improvements on the operating cost structure of the Corporation while maintaining the current dividend rate of \$0.42 per share per year.

### **Significant Acquisitions During 2015**

Granite did not complete any significant acquisitions during its most recently completed financial year for which disclosure is required under Part 8 of NI 51-102 Continuous Disclosure Obligations.

## **THE ONGOING BUSINESS OF THE CORPORATION**

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### **General**

The business plan of the Corporation is to maximize the recoverable portion of the oil-in-place on the Alberta Bakken Properties over the long run through responsible reservoir management while achieving and sustaining low annual pool-wide production decline through utilization of the EOR Scheme. The Corporation aims to generate free cash flow at current commodity prices, focusing on steady production and affordable growth. The Corporation executes its business plan by maintaining low capital-expenditure operations while continuing to pursue possible strategic acquisitions.

### **Competitive Conditions**

There is strong competition relating to all aspects of the oil and natural gas industry. Granite actively competes for capital, skilled personnel, undeveloped land, reserve acquisitions, access to drilling rigs, service rigs and other equipment, access to processing facilities and pipeline and refining capacity, and in all other aspects of its operations with a substantial number of other organizations, many of which may have greater technical and financial resources than the Corporation. Some of those organizations not only explore for, develop, and produce oil and natural gas, but also carry-on refining operations and market petroleum and other products on a world-wide basis and, as such, have greater and more diverse resources on which to draw.

Granite's larger competitors may be able to better absorb the impact of changes to applicable laws and regulations and may be able to more easily handle longer periods of volatile oil and gas prices. Competitive conditions may be significantly affected by factors beyond Granite's control, including international political stability, overall levels of supply and demand for oil and gas, market prices for oil and natural gas and the markets for synthetic fuels and alternative energy sources.

### **Revenue Sources**

For the year ended December 31, 2015, the sale of crude oil and NGLs accounted for 94% of Granite's revenue before royalties, and the sale of natural gas accounted for 6% of the revenues.

For the year ended December 31, 2014, the sale of crude oil and NGLs accounted for 92% of revenue before royalties, and the sale of natural gas accounted for 8% of the revenues.

For the year ended December 31, 2013, the sale of crude oil and NGLs accounted for 93% of revenue before royalties, and the sale of natural gas accounted for 7% of the revenues.

### **Cyclical and Seasonal Factors**

The Corporation's operational results and financial condition are highly dependent on the market price of crude oil, natural gas liquids and natural gas. Prices for these commodities have fluctuated widely during recent years and are determined by supply and demand factors, including weather and general economic conditions, as well as conditions in other oil- and natural gas-producing regions. The prices for oil and natural gas are likely to continue to be volatile, and depressed or declining prices for these commodities could have an adverse effect on the Corporation's financial condition. The Corporation actively seeks to mitigate such price risks through its price risk management program.

The exploration and development of oil and natural gas reserves is dependent on access to areas where production is to be conducted. In Alberta, access is affected by seasonal weather conditions, including freeze-up and break-up.

## **Reorganizations and Potential Acquisitions**

Other than the Arrangement, there have been no material reorganizations of Granite during the year ended December 31, 2015, and no such transactions have been proposed for the current financial year.

Granite is constantly in the process of evaluating potential acquisitions of oil and natural gas assets which individually or together could be material. As of the date hereof, no agreement on the price or terms of any potential material acquisitions has been reached and Granite cannot predict whether any current or future opportunities will result in one or more acquisitions for Granite.

## **Environmental Policies**

The Corporation is committed to managing and operating in a safe, efficient, environmentally responsible manner and to continually improving our environmental, health, safety and social performance. To fulfill this commitment, our operating practices and procedures are consistent with the requirements established for the oil and gas industry. Key environmental considerations include spill management, waste management plans, lease and right-of-way management, natural and historic resource protection, water conservation and liability management (including site assessment and remediation). These practices and procedures apply to the Corporation's employees and consultants.

The Corporation believes that it meets all existing environmental standards and regulations and sufficient amounts are included in the Corporation's capital expenditure budget to continue to meet current environmental protection requirements.

It is expected that the Corporation will incur abandonment and reclamation costs as existing oil and gas properties are abandoned. In 2015, expenditures for normal compliance with environmental regulations as well as expenditures for above-normal compliance were not material to the Corporation.

## **Employees/Consultants**

As at December 31, 2015, the Corporation had 12 employees and 4 full-time and part-time consultants whose services were, and continue to be, used on a regular basis for day-to-day operations.

## **PRINCIPAL PRODUCING PROPERTIES**

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The Alberta Bakken Properties are the sole properties of the Corporation as at December 31, 2015 and the Effective Date of this AIF. The Brazeau Belly River Properties and the Northern Properties were divested by the Corporation to Boulder as part of the reorganization by way of Arrangement that occurred on May 15, 2015.

All of the reserves associated with the Alberta Bakken Play are located in the Province of Alberta.

The Alberta Bakken Properties are located in southern Alberta, approximately 70 kilometers south of Lethbridge (TWP 3, Range 17, W4M). This operated property consists of an average working interest of approximately 100 percent in approximately 393,453 gross (391,633 net) undeveloped acres and 54,434 gross (52,140) net developed acres as at December 31, 2015.

The Alberta Bakken Properties include 62 gross (61.4 net) oil wells, and 143 gross (138.16 net) gas wells. Of these, 52 gross (52.0 net) wells consist of horizontal wells producing from the Alberta Bakken pool. Granite also currently has 7 gross (7.0 net) gas injection wells, and, as of the second quarter of 2016, will have approximately 2,884 HP of injection compression facilities on-stream that are capable of injecting up to 15 MMcf per day of gas. Granite also owns 100% of the central oil battery and associated facilities that have a capacity of 8,000 bbls per day and 20,000 bbls of storage, as well as a natural gas plant with a capacity of 7.0 MMcf per day of gas.

The Alberta Bakken Properties have extensive shallow gas potential to support the expansion and long-term sustainment of the EOR Scheme, with a potential future horizontal well inventory of 154 drilling locations, as estimated by the Corporation.

As of the end of the financial year ended December 31, 2015, the Corporation participated in the drilling of 16 gross (16.0 net) wells, 12 gross (12.0 net) of which were drilled on the Alberta Bakken Properties, 4 gross (4.0 net) were drilled on the Brazeau Belly River Properties prior to the Arrangement. Of the 16 gross (16.0 net) wells drilled, 14 gross (14.0 net) wells were completed and 2 gross (2.0 net) consisted of Stratigraphic Test wells. Wells drilled prior to completion of the Arrangement on May 15, 2015 were drilled by DeeThree.

## **STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION**

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### **Disclosure of Reserves Data**

In accordance with NI 51-101, the reserves data associated with the Alberta Bakken Properties set forth below is based upon an evaluation by Sproule as set forth in the Sproule Report. The effective date of the information provided in the Sproule Report is December 31, 2015 and the report is dated March 7, 2016. The Sproule Report evaluated, as at December 31, 2015, the heavy crude oil, medium crude oil and light crude oil, conventional natural gas and NGL reserves associated with the properties. The tables below summarize the reserves and the net present value of future net revenue attributable to the reserves as evaluated in the Sproule Report based on the Sproule Price Forecast (as such term is defined in the Sproule Report), cost assumptions and supplied operating expenses. The tables summarize the data contained in the Sproule Report, and as a result, may contain slightly different numbers than such report due to rounding. Also due to rounding, certain columns may not add exactly.

The net present value of future net revenue attributable to the reserves is stated without provision for interest costs, but after providing for estimated royalties, production costs, capital, production taxes, development costs, other income and future capital expenditures. It should not be assumed that the undiscounted or discounted net present value of future net revenue attributable to the reserves estimated by Sproule represent the fair market value of the reserves. Other assumptions and qualifications relating to costs, prices for future production and other matters are summarized herein. The recovery estimates of the reserves provided herein are estimates only and there is no guarantee that the reserves, as estimated, will be recovered. Actual reserves may be greater than or less than the estimates provided herein.

In preparing the Sproule Report, Sproule relied on certain information provided by third parties associated with the Alberta Bakken Properties, which included working and net revenue interest data, public data, well information, geological information, reservoir studies, estimates of on-stream dates, contract information, current hydrocarbon product prices, operating cost data, financial data and future development and operating plans for the Alberta Bakken Properties. Other engineering, historical production, geological or economic data required to conduct the evaluations and upon which the Sproule Report is based was obtained from public records and from non-confidential files. The extent and character of ownership and the accuracy of all factual data supplied for the independent evaluation, from all sources, was accepted by Sproule as represented.

The Report on Reserves Data by Sproule in Form 51-101F2 and the Report of Management and Directors on Oil and Gas Disclosure in Form 51-101F3 are attached to this AIF as **Schedule A** and **Schedule B**, respectively. All evaluations and reviews of future net cash flow are stated prior to any provision for interest costs or general and administrative costs and after the deduction of estimated future capital expenditures for wells to which reserves have been assigned. It should not be assumed that the estimated future net cash flow shown below is representative of the fair market value of the properties. There can be no assurance that such price and cost assumptions will be attained and variances could be material. The recovery and reserve estimates of heavy crude oil, medium crude oil and light crude oil,

conventional natural gas and NGL reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered.

In certain of the tables set forth below, the columns may not add due to rounding.

Amendments to NI51-101 in 2015 have resulted in product type classification change for oil reserves from the Corporation's properties from "Light Oil" to "Medium and Light Crude Oil" and "Heavy Crude Oil". In the 2015 Sproule Report, Sproule recognized a "product type transfer" of all reserves now classified as "Heavy Crude Oil" that were formerly classified as "Light Oil". The product type transfer of these reserves was applicable to any oil reserves assigned where the oil is, or is expected to be at the time of production, of a specific gravity equal to or less than 22.3° API.

### Summary of Reserves Data Effective December 31, 2015

The following table outlines the heavy crude oil, medium crude oil together with light crude oil, conventional natural gas and NGLs reserves of the Corporation on a forecasted pricing basis, by product type on a gross (before royalties) and net (after royalties) basis:

Reserves Category	Heavy Crude Oil		Medium Crude Oil and Light Crude Oil		Conventional Natural Gas <sup>(1)</sup>		NGLs		BOE	
	Gross (Mbbbls)	Net (Mbbbls)	Gross (Mbbbls)	Net (Mbbbls)	Gross (MMcf)	Net (MMcf)	Gross (Mbbbls)	Net (Mbbbls)	Gross (MBOE)	Net (MBOE)
Proved										
Developed producing	175.5	159.7	4874.7	3,831.1	3,097	2,832	-	-	5,566.3	4,462.8
Developed non-producing	-	-	0	0	7,241	6,057	120.4	81.8	1,327.4	1,091.2
Undeveloped	196.1	146.0	3,866.1	3,016.4	1,263	1,127	-	-	4,272.7	3,350.3
Total proved	371.6	305.7	8,740.8	6,847.4	11,601	10,016	120.4	81.8	11,166.4	8,904.2
Probable	240.1	181.9	5,234.3	3,737.8	5,958	4,855	70.2	47.7	6,537.7	4,776.6
Total proved plus probable	611.8	487.6	13,975.2	10,585.2	17,559	14,871	190.7	129.4	17,704.0	13,680.8

**Note:**

(1) Conventional Natural gas volumes include solution gas, associated and non-associated gas.

### Net Present Values of Future Net Revenue

The net present values of future net revenue of the Corporation's reserves at December 31, 2015 at various discount rates on a before tax and after tax basis and on a forecasted pricing basis, are outlined below:

Reserves Category	Before Income Taxes <sup>(1)(2)</sup> Discounted At				
	0% (\$000's)	5% (\$000's)	10% (\$000's)	15% (\$000's)	20% (\$000's)
Proved					
Developed producing	175,123	139,114	114,482	97,147	84,510
Developed non-producing	24,719	10,085	4,607	2,416	1,468
Undeveloped	113,077	71,726	47,476	32,347	22,351
Total proved	312,919	220,925	166,565	131,909	108,329
Probable	254,429	146,399	97,454	71,525	55,938
Total proved plus probable	567,348	367,323	264,019	203,434	164,267

**Note:**

(1) Estimates of future net revenue do not represent fair market value.

(2) Future net revenue is estimated after deduction of the estimated costs of abandonment and reclamation for existing and future wells evaluated by Sproule in the 2015 Sproule Report and does not include well abandonment and reclamation costs for wells to which reserves have not been attributed or the abandonment and reclamation costs of facilities and pipelines.

Reserves Category	After Income Taxes <sup>(1)(2)(3)</sup>				
	Discounted At				
	0% (\$000's)	5% (\$000's)	10% (\$000's)	15% (\$000's)	20% (\$000's)
Proved					
Developed producing	175,123	139,114	114,482	97,147	84,510
Developed non-producing	19,902	8,314	3,924	2,140	1,353
Undeveloped	82,091	54,397	37,159	25,885	18,135
Total proved	277,115	201,826	155,565	125,172	103,997
Probable	186,328	108,086	72,819	54,275	43,174
Total proved plus probable	463,443	309,912	228,384	179,447	147,172

**Note:**

- (1) Estimates of future net revenue do not represent fair market value.
- (2) Future net revenue is estimated after deduction of the estimated costs of abandonment and reclamation for existing and future wells evaluated by Sproule in the 2015 Sproule Report and does not include well abandonment and reclamation costs for wells to which reserves have not been attributed or the abandonment and reclamation costs of facilities and pipelines
- (3) The after-tax net present value of Granite's oil and gas properties here reflects the tax burden on the properties on a stand-alone basis. It does not consider any tax planning. The financial statements and the management's discussion & analysis (MD&A) of Granite's should be consulted for information at the level of the reporting issuer.

### Total Future Net Revenue

The following table provides a breakdown of the various components of total future net revenue on an undiscounted basis for proved and proved plus probable reserves:

(000s)	Revenue		Operating Costs (M\$)	Capital Development Costs (M\$)	Abandonment and Reclamation Costs (M\$)	Future Net Revenue Before Income Taxes (M\$)	Future Income Tax Expenses (M\$)	Future Net Revenue After Income Taxes <sup>(1)(2)</sup> (M\$)
	(M\$)	(M\$)						
Proved	783,084	154,376	242,801	62,637	10,351	312,919	35,803	277,115
Total proved plus probable	1,332,067	296,451	382,665	73,429	12,174	567,348	103,905	463,443

**Note:**

- (1) Estimates of future net revenue do not represent fair market value.
- (2) Future net revenue is estimated after deduction of the estimated costs of abandonment and reclamation for existing and future wells evaluated by Sproule in the 2015 Sproule Report and does not include well abandonment and reclamation costs for wells to which reserves have not been attributed or the abandonment and reclamation costs of facilities and pipelines.

### Net Present Value of Future Net Revenue by Product Type (Forecast Prices and Costs)

Reserves Category	Production Group	Future Net Revenue Before Income Taxes <sup>(3)(4)</sup> (discounted at 10%/year)	
		(\$000s)	(\$/BOE)
Proved	Medium Crude Oil and Light Crude Oil <sup>(1)</sup>	155,106	19.82
	Heavy Crude Oil <sup>(1)</sup>	6,542	20.44
	Conventional Natural Gas <sup>(2)</sup>	4,918	6.49
	NGLs	--	--
Proved plus probable	Medium Crude Oil and Light Crude Oil <sup>(1)</sup>	246,591	20.39
	Heavy Crude Oil	10,927	21.41
	Conventional Natural gas <sup>(2)</sup>	6,501	6.04
	NGLs	--	--

**Notes:**

- (1) Including solution gas and associated by-products.
- (2) Non-associated and associated, including by-products but excluding solution gas.
- (3) Unit values of \$/BOE are based on Corporation net reserves. Estimates of future net revenue do not represent fair market value.

- (4) Future net revenue is estimated after deduction of the estimated costs of abandonment and reclamation for existing and future wells evaluated by Sproule in the 2015 Sproule Report and does not include well abandonment and reclamation costs for wells to which reserves have not been attributed or the abandonment and reclamation costs of facilities and pipelines

## Notes and Definitions

In the tables set forth above and elsewhere in this AIF, the following notes and other definitions are applicable.

The determination of heavy crude oil, medium crude oil and light crude oil, conventional natural gas and NGL reserves involves the preparation of estimates that have an inherent degree of associated uncertainty. Categories of proved, probable and possible reserves have been established to reflect the level of these uncertainties and to provide an indication of the probability of recovery.

The estimation and classification of reserves requires the application of professional judgment combined with geological and engineering knowledge to assess whether or not specific reserves classification criteria have been satisfied. Knowledge of concepts including uncertainty and risk, probability and statistics, and deterministic and probabilistic estimation methods are required to properly use and apply reserves definitions.

Reserves are estimated remaining quantities of heavy crude oil, medium crude oil and light crude oil, conventional natural gas and NGL and related substances anticipated to be recoverable from known accumulations, from a given date forward, based on:

- (a) analysis of drilling, geological, geophysical and engineering data;
- (b) the use of established technology; and
- (c) specified economic conditions, specifically the forecast prices and costs.

Reserves are classified according to the degree of certainty associated with the estimates.

- **Proved reserves** are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.
- **Probable reserves** are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

Other criteria that must also be met for the categorization of reserves are provided in the COGE Handbook.

Each of the reserve categories (proved and probable) may be divided into developed and undeveloped categories:

- (a) **Developed reserves** are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (for example, when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing.
  - (i) **Developed producing reserves** are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These

reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.

- (ii) **Developed non-producing reserves** are those reserves that either have not been on production, or have previously been on production, but are shut-in, and the date of resumption of production is unknown.
  
- (d) **Undeveloped reserves** are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable) to which they are assigned.

In multi-well pools, it may be appropriate to allocate total pool reserves between the developed and undeveloped categories or to subdivide the developed reserves for the pool between developed producing and developed non-producing. This allocation should be based on the estimator's assessment as to the reserves that will be recovered from specific wells, facilities and completion intervals in the pool and their respective development and production status.

### **Levels of Certainty for Reported Reserves**

The qualitative certainty levels referred to in the definitions above are applicable to "individual reserve entities", which refers to the lowest level at which reserves calculations are performed, and to "reported reserves", which refers to the highest level sum of individual entity estimates for which reserve estimates are prepared. Reported reserves should target the following levels of certainty under a specific set of economic conditions:

- (a) at least a 90 percent (90%) probability that the quantities actually recovered will equal or exceed the estimated proved reserves;
  
- (a) at least a 50 percent (50%) probability that the quantities actually recovered will equal or exceed the estimated proved plus probable reserves; and
  
- (b) at least a ten percent (10%) probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable plus possible reserves.

A qualitative measure of the certainty levels pertaining to estimates prepared for the various reserves categories is desirable to provide a clearer understanding of the associated risks and uncertainties. However, the majority of reserves estimates will be prepared using deterministic methods that do not provide a mathematically derived quantitative measure of probability. In principle, there should be no difference between estimates prepared using probabilistic or deterministic methods.

Additional clarification of certainty levels associated with reserves estimates and the effect of aggregation is provided in the COGE Handbook.

### **Forecast Costs and Pricing Assumptions**

The forecast cost and price assumptions assume increases in wellhead selling prices and take into account inflation with respect to future operating and capital costs. Medium crude oil and light crude oil, conventional natural gas and NGL benchmark reference pricing, inflation and exchange rates utilized by Sproule in the Sproule Report were Sproule's forecast as at December 31, 2015.



### Forecast Prices Used in Estimates

The following tables set forth the benchmark reference prices, as at December 31, 2015 used in preparing the Corporation's reserves data. These price assumptions were provided to Granite by Sproule and were Sproule's then-current forecasts at the date of the Sproule Report.

Year	Medium Crude Oil and Light Crude Oil	Heavy Crude Oil	Conventional Natural Gas	NGL			Operating Cost Inflation rates (%/Yr)	Capital Cost Inflation rates (%/Yr)	Exchange rate (\$US/\$Cdn)
	Canadian Light Sweet Crude 40° API (Cdn\$/bbl)	Western Canada Select 20.5° API (Cdn\$/bbl)	Alberta AECO-C Spot (\$/MMBtu)	Edmonton Pentanes Plus (Cdn\$/bbl)	Edmonton Butane (Cdn\$/bbl)	Edmonton Propane (Cdn\$/bbl)			
2016	55.20	45.26	2.25	59.10	39.09	9.09	0.0	0.0	0.750
2017	69.00	57.96	2.95	73.88	51.43	13.64	0.0	4.0	0.800
2018	78.43	65.88	3.42	83.98	58.46	25.84	1.5	4.0	0.830
2019	89.41	75.11	3.91	95.73	66.64	35.35	1.5	4.0	0.850
2020	91.71	77.03	4.20	98.19	68.35	42.30	1.5	1.5	0.850
2021	93.08	78.19	4.28	99.66	69.38	42.94	1.5	1.5	0.850
2022	94.48	79.36	4.35	101.16	70.42	43.58	1.5	1.5	0.850
2023	95.90	80.55	4.43	102.68	71.48	44.24	1.5	1.5	0.850
2024	97.34	81.76	4.51	104.22	72.55	44.90	1.5	1.5	0.850
2025	98.80	82.99	4.59	105.78	73.64	45.57	1.5	1.5	0.850
2026	100.28	84.23	4.67	107.37	74.74	46.26	1.5	1.5	0.850

Escalation Rate of 1.5% thereafter

In 2015, the Corporation received a weighted average price of \$2.85 per Mcf (before transportation, marketing fees and hedging) for conventional natural gas and \$50.60 per Bbl for medium crude oil, light crude oil and NGLs, which the Corporation markets as a blended product.

### Reconciliation of Changes in Reserves And Future Net Revenue

#### Reconciliation of Reserves by Principal Product Type Based on Forecast Prices and Costs

The following table sets forth a reconciliation Sproule's estimate of the changes in gross total company working interest reserve volumes as at December 31, 2015 against such gross reserves as at December 31, 2014 based on the forecast prices and costs assumptions in effect at the time of the respective evaluations.

Factors	Light and Medium Oil			Heavy Oil			Associated and Non-Associated Gas		
	Gross Proved (Mbbbl)	Gross Probable (Mbbbl)	Gross Proved Plus Probable (Mbbbl)	Gross Proved (Mbbbl)	Gross Probable (Mbbbl)	Gross Proved Plus Probable (Mbbbl)	Gross Proved (MMcf)	Gross Probable (MMcf)	Gross Proved Plus Probable (MMcf)
<b>Opening Balance December 31, 2014</b>	23,368.4	11,777.7	35,146.1	0.0	0.0	0.0	55,592.0	21,674.0	77,266.0
Product Type									
Transfer <sup>(1)</sup>	(398.4)	(262.2)	(660.6)	398.4	262.2	660.6	0.0	0.0	0.0
Extensions <sup>(2)</sup>	89.4	232.0	321.4	0.0	0.0	0.0	0.0	0.0	0.0
Infill Drilling	340.4	71.4	411.8	0.0	0.0	0.0	0.0	0.0	0.0
Improved Recovery <sup>(3)</sup>	725.0	775.0	1,500.0	0.0	0.0	0.0	0.0	0.0	0.0
Technical Revisions <sup>(4)</sup>	1,039.6	(1,138.6)	(99.0)	8.3	(20.1)	(11.8)	461.0	754.0	1,215.0
Discoveries	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dispositions <sup>(5)</sup>	(14,456.6)	(6,192.9)	(20,649.5)	0.0	0.0	0.0	(41,864.0)	(16,437.0)	(58,301.0)
Economic Factors <sup>(6)</sup>	(42.2)	(28.0)	(70.2)	(7.2)	(1.9)	(9.1)	(340.0)	(33.0)	(373.0)
Production <sup>(7)</sup>	(1,924.8)	0.0	(1,924.8)	(27.9)	0.0	(27.9)	(2,249.0)	0.0	(2,249.0)
<b>Closing Balance December 31, 2015</b>	8,740.8	5,234.4	13,975.2	371.6	240.2	611.8	11,601.0	5,958.0	17,559.0

Factors	Natural Gas Liquids			BOE		
	Gross Proved (Mbbl)	Gross Probable (Mbbl)	Gross Proved Plus Probable (Mbbl)	Gross Proved (MBOE)	Gross Probable (MBOE)	Gross Proved Plus Probable (MBOE)
<b>Opening Balance December 31, 2014</b>	2,652.4	1,023.0	3,675.4	35,286.1	16,413.0	51,699.2
Product Type						
Transfer <sup>(1)</sup>	0.0	0.0	0.0	0.0	0.0	0.0
Extensions <sup>(2)</sup>	0.0	0.0	0.0	89.4	232.0	321.4
Infill Drilling	0.0	0.0	0.0	340.4	71.4	411.8
Improved Recovery <sup>(3)</sup>	0.0	0.0	0.0	725.0	775.0	1,500.0
Technical Revisions <sup>(4)</sup>	(111.6)	(43.7)	(155.3)	1,013.2	(1,076.8)	(63.6)
Discoveries	0.0	0.0	0.0	0.0	0.0	0.0
Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0
Dispositions <sup>(5)</sup>	(2,357.2)	(909.0)	(3,266.2)	(23,791.1)	(9,841.4)	(33,632.5)
Economic Factors <sup>(6)</sup>	0.0	0.0	0.0	(106.1)	(35.4)	(141.5)
Production <sup>(7)</sup>	(63.2)	0.0	(63.2)	(2,390.6)	0.0	(2,390.6)
<b>Closing Balance December 31, 2015</b>	120.4	70.3	190.7	11,166.3	6,537.9	17,704.2

**Notes:**

- (1) The changes attributed to "Product Type Transfer" are a result of the amendments to NI51-101 in 2015 which have resulted in the reclassification of certain reserves formerly classified as "Light Oil" to "Heavy Oil".
- (2) The changes comprising "Extensions" are a result of expanded areas being attributed to proved and to proved plus probable reserves.
- (3) The changes included in "Improved Recovery" relate to reserves that have been assigned based on Sproule's evaluation of the Company's gas injection enhanced oil recovery scheme.
- (4) The changes comprising "Technical Revisions" in "Light and Medium" oil are primarily a result of a shift in category of reserves formerly categorized as probable reserves to proven reserves as well as the removal of two (2) PUDs included in the 2014 Sproule Report from the 2015 Sproule Report, reflecting a slower pace of development. Changes in the "Associated and Non-Associated Gas" are related to an adjustment of reserve volumes booked to current producing wells and future producing wells. Changes related to the "Natural Gas Liquids" are related to a downward adjustment of the Natural Gas Liquid volumes yield in 2015.
- (5) The changes comprising "Dispositions" are the result of the disposition of oil and natural gas properties and associated reserves to Boulder Energy Ltd. as part of the Arrangement on May 15, 2015.
- (6) The changes related to "Economic Factors" are the result of Sproule's price forecasts being lower than Sproule's forecasts used in the 2014 Reserves Report.
- (7) Includes production associated with assets later disposed to Boulder Energy Ltd. up to and including May 15, 2015 as part of the Arrangement.

The following table sets forth a reconciliation of the changes in gross total Company working interest reserve volumes as at December 31, 2015 against the gross working interest reserve volumes of the Company's Alberta Bakken property as at January 1, 2015 based on the forecast prices and costs assumptions. The gross working interest reserve volumes as at January 1, 2015 does not include the Brazeau Belly River Properties and the Northern Properties that were conveyed by the Corporation to Boulder as part of the reorganization by way of Arrangement that occurred on May 15, 2015.

Factors	Light and Medium Oil			Heavy Oil			Associated and Non-Associated Gas		
	Gross Proved (Mbbl)	Gross Probable (Mbbl)	Gross Proved Plus Probable (Mbbl)	Gross Proved (Mbbl)	Gross Probable (Mbbl)	Gross Proved Plus Probable (Mbbl)	Gross Proved (MMcf)	Gross Probable (MMcf)	Gross Proved Plus Probable (MMcf)
<b>Opening Balance December 31, 2014</b>	8,133.7	5,584.8	13,718.5	0.0	0.0	0.0	12,061.0	5,237.0	17,298.0
Product Type									
Transfer <sup>(1)</sup>	(398.4)	(262.2)	(660.6)	398.4	262.2	660.6	0.0	0.0	0.0
Extensions <sup>(2)</sup>	89.4	232.0	321.4	0.0	0.0	0.0	0.0	0.0	0.0
Infill Drilling	340.4	71.4	411.8	0.0	0.0	0.0	0.0	0.0	0.0

Factors	Light and Medium Oil			Heavy Oil			Associated and Non-Associated Gas		
	Gross Proved (Mbbl)	Gross Probable (Mbbl)	Gross Proved Plus Probable (Mbbl)	Gross Proved (Mbbl)	Gross Probable (Mbbl)	Gross Proved Plus Probable (Mbbl)	Gross Proved (MMcf)	Gross Probable (MMcf)	Gross Proved Plus Probable (MMcf)
Improved Recovery <sup>(3)</sup>	725.0	775.0	1,500.0	0.0	0.0	0.0	0.0	0.0	0.0
Technical Revisions <sup>(4)</sup>	1,039.6	(1,138.6)	(99.0)	8.3	(20.1)	(11.8)	461.0	754.0	1,215.0
Discoveries	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dispositions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Economic Factors <sup>(5)</sup>	(42.2)	(28.0)	(70.2)	(7.2)	(1.9)	(9.1)	(340.0)	(33.0)	(373.0)
Production <sup>(6)</sup>	(1,146.7)	0.0	(1,146.7)	(27.9)	0.0	(27.9)	(581.0)	0.0	(581.0)
<b>Closing Balance December 31, 2015</b>	<b>8,740.8</b>	<b>5,234.4</b>	<b>13,975.2</b>	<b>371.6</b>	<b>240.2</b>	<b>611.8</b>	<b>11,601.0</b>	<b>5,958.0</b>	<b>17,559.0</b>

Factors	Natural Gas Liquids			BOE		
	Gross Proved (Mbbl)	Gross Probable (Mbbl)	Gross Proved Plus Probable (Mbbl)	Gross Proved (MBOE)	Gross Probable (MBOE)	Gross Proved Plus Probable (MBOE)
<b>Opening Balance December 31, 2014</b>	240.0	114.0	354.0	10,383.9	6,571.6	16,955.5
Product Type Transfer <sup>(1)</sup>	0.0	0.0	0.0	0.0	0.0	0.0
Extensions <sup>(2)</sup>	0.0	0.0	0.0	89.4	232.0	321.4
Infill Drilling	0.0	0.0	0.0	340.4	71.4	411.8
Improved Recovery <sup>(3)</sup>	0.0	0.0	0.0	725.0	775.0	1,500.0
Technical Revisions <sup>(4)</sup>	(111.6)	(43.7)	(155.3)	1,013.2	(1,076.8)	(63.6)
Discoveries	0.0	0.0	0.0	0.0	0.0	0.0
Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0
Dispositions	0.0	0.0	0.0	0.0	0.0	0.0
Economic Factors <sup>(5)</sup>	0.0	0.0	0.0	(106.1)	(35.4)	(141.5)
Production <sup>(6)</sup>	(8.0)	0.0	(8.0)	(1,279.4)	0.0	(1,279.4)
<b>Closing Balance December 31, 2015</b>	<b>120.4</b>	<b>70.3</b>	<b>190.7</b>	<b>11,166.3</b>	<b>6,537.9</b>	<b>17,704.2</b>

**Notes:**

- (1) The changes attributed to "Product Type Transfer" are a result of the amendments to NI51-101 in 2015 which have resulted in the reclassification of certain reserves formerly classified as "Light Oil" to "Heavy Oil".
- (2) The changes comprising "Extensions" are a result of expanded areas being attributed to proved and to proved plus probable reserves.
- (3) The changes included in "Improved Recovery" relate to reserves that have been assigned based on Sproule's evaluation of the Company's gas injection enhanced oil recovery scheme.
- (4) The changes comprising "Technical Revisions" in "Light and Medium" oil are primarily a result of a shift in category of reserves formerly categorized as probable reserves to proven reserves as well as the removal of two (2) PUDs included in the 2014 Sproule Report from the 2015 Sproule Report, reflecting a slower pace of development. Changes in the "Associated and Non-Associated Gas" are related to an adjustment of reserve volumes booked to current producing wells and future producing wells. Changes related to the "Natural Gas Liquids" are related to a downward adjustment of the Natural Gas Liquid volumes yield in 2015.
- (5) The changes related to "Economic Factors" are the result of Sproule's price forecasts being lower than Sproule's forecasts used in the 2014 Reserves Report.
- (6) Excludes production associated with assets disposed to Boulder Energy Ltd. on May 15, 2015 as part of the Arrangement.

**Additional Information Relating to Reserves Data**

**Undeveloped Reserves**

Proved and probable undeveloped reserves have been estimated in accordance with procedures and standards contained in the COGE Handbook.

The timing of initial undeveloped reserves assignments as at December 31, 2015 over the prior three years in the forecast prices and costs case is indicated in the attached table from the Sproule Report.

## Gross Undeveloped Reserves First Attributed By Year

	Medium Crude Oil and Light Crude Oil (mmbbls)		Heavy Crude Oil (mmbbls)		Conventional Natural Gas <sup>(2)</sup> (MMcf)		Natural Gas Liquids (mmbbls)	
<i>Proved Undeveloped</i>								
	First Attributed	Cumulative at Year End	First Attributed	Cumulative at Year End	First Attributed	Cumulative at Year End	First Attributed	Cumulative at Year End
2013	3,471.9	8,895.0	0.0	0.0	2,953	12,309	320.1	724.3
2014	6,095.9	12,387.9	0.0	0.0	13,194	23,053	780.3	1,311.7
2015	429.8	3,866.1	0.0	196.1	0.0	1,263	0.0	0.0
<i>Probable Undeveloped</i>								
	First Attributed	Cumulative at Year End	First Attributed	Cumulative at Year End	First Attributed	Cumulative at Year End	First Attributed	Cumulative at Year End
2013	3,815.6	6,853.7	0.0	0.0	1,417	8,892	391.0	536.8
2014	3,962.2	11,480.0	0.0	0.0	7,042	11,888	390.4	658.3
2015	303.4	2,571.1	0.0	148.1	0.0	499	0.0	0.0

**Notes:**

- (1) Cumulative at year end is cumulative of previous year/period plus first attributed, less developed during the year/period.
- (2) Conventional Natural gas volumes include solution gas, associated and non-associated gas.

Proved and probable undeveloped reserves are attributed by Sproule in accordance with standards and procedures contained in the COGE Handbook. In general, once proved and/or probable undeveloped reserves are identified they are scheduled into a company's development plans. Granite plans to develop all of its proved and probable undeveloped oil reserves within the next 5 years. Approximately 47% of the future development costs for proved reserves and 43% of the future development costs for probable reserves are scheduled to be incurred within the next two years. However, if the economic climate is not conducive to developing these reserves, the Corporation may, in its discretion, defer the development into the future. There are a number of factors that could result in delays or cancelled development plans. These factors would include, but are not limited to, changing economic and technical conditions, surface access issues, the volatility of commodity prices, the availability of services and the marketability of commodities.

### Significant Factors or Uncertainties Affecting Reserves Data

The process of evaluating reserves is inherently complex. It requires significant judgment and decision-making on the basis of the available geological, geophysical, engineering and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and costs change. The reserve estimates contained herein are based on current production forecasts, prices and economic conditions. Factors and assumptions that affect these reserve estimates include, among other things: (i) historical production in the area compared with production rates from analogous producing areas; (ii) initial production rates; (iii) production decline rates; (iv) ultimate recovery of reserves; (v) success of future development activities; (vi) marketability of production; (vii) effects of government regulations; and (viii) other government levies imposed over the life of the reserves.

As circumstances change and additional data becomes available, reserve estimates change. Estimates are reviewed and revised, either upward or downward, as warranted by the new information. Revisions are often required due to changes in well performance, prices, economic conditions and governmental restrictions. Revisions to reserve estimates can arise from changes in year-end commodity prices, reservoir performance and geologic conditions or production. These revisions can be either positive or negative.

The reserves can be affected significantly by fluctuations in product pricing, capital expenditures, operating costs, royalty regimes and well performance that are beyond the Corporation's control. The Alberta Bakken Properties have no material extraordinary risks or uncertainties beyond those that are inherent in an oil and gas producing company.

### Future Development Costs

The following table provides information regarding the development costs deducted in the estimation of future net revenue attributable to the Corporation's reserves as indicated below.

Year	Total Proved Reserves using forecast prices and costs (\$000s)	Total Proved Plus Probable Reserves using forecast prices and costs (\$000s)
2016	14,150.0	14,150.0
2017	15,246.1	17,489.6
2018	22,219.5	22,219.5
2019	10,037.5	18,585.9
Remaining	984.4	984.4
Total Undiscounted	62,637.5	73,429.4

It is anticipated that Granite's source of funding for future development costs of its reserves will be derived from a combination of working capital, funds from operations, debt financing and new equity. Management does not anticipate that the costs of funding referred to above will materially affect disclosed reserves and future net revenues nor will it make the development of any properties uneconomic.

### Other Oil and Gas Information

#### Oil and Gas Properties and Wells

The Corporation's important properties, plants, facilities, and installations are described in the Principal Producing Properties subsection on pages 17 and 18 of this document.

#### Producing and Non-Producing Wells

The following table summarizes the number and status of wells in which Granite had a working interest as at December 31, 2015, on properties to which Sproule has attributed reserves.

	Oil Wells				Gas Wells			
	Producing		Non-Producing		Producing		Non-Producing	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Alberta	56	56.0	6	5.4	77	75.46	66	62.7
Total	56	56.0	6	5.4	77	75.46	66	62.7

**Note:**

(1) Non-producing well count does not include abandoned wells, cut and capped wells, injection or disposal wells.

#### Properties with No Attributed Reserves

The following table summarizes, as of December 31, 2015, Granite's undeveloped lands and the net acreage of undeveloped lands where the rights to explore, develop and exploit are expected to expire within one year.

	Acres		
	Gross	Net	Net Acres Expiring Within One Year
Alberta	393,453	391,633	23,537
Total	393,453	391,633	23,537

Granite regularly submits continuation applications to the Alberta Energy Regulator (AER) for expiring lands. The Corporation has 23,537.18 Net Acres of expiring lands in 2016 for which continuations will be submitted for consideration by the AER.

### **Significant Factors or Uncertainties Relevant to Properties with No Attributed Reserves**

The development of the Corporation's properties with no attributed reserves carry significant economic burdens and risks to the Corporation related to both technical and economic factors. In the development of these properties, the Corporation is required to incur significant capital expenditure requirements in order to prove, develop and produce oil and gas in the future. In the event that the availability of capital by internally generated cash flow, debt or equity financings are not available to fund these expenditure requirements, or if the terms of such financing are not acceptable to the Corporation to fund these requirements, the Corporation may forfeit its interests in certain properties, which could have significant effects on the Corporation's exploration and development prospects.

Significant economic factors that affect the Corporation's development of its properties with no attributed reserves are future commodity prices, and future costs associated with drilling, completing and tying in wells.

Significant uncertainties that affect the Corporation's development of its properties with no attributed reserves are the results achieved in the development of these lands, results achieved by competitors on lands in proximity to the Corporation's properties, changes to the royalty structures under which the lands are held, and changes to the regulatory structure at the time of development.

All of these risk factors and uncertainties have the potential to significantly affect the development of these lands.

### **Tax Horizon**

Granite does not expect to pay income taxes for the year ended December 31, 2015, its most recently completed financial year. Based on after tax economic forecasts for total proved and probable reserves prepared by Sproule, income taxes are not likely to be payable for at least the next three years. Future income taxes will depend on production volumes, capital expenditures, commodity prices, and future tax planning.

### **Costs Incurred**

The following table summarizes certain expenditures for the Corporation during the year ended December 31, 2015. Costs incurred in relation to the Brazeau Belly River Properties and Northern Properties were incurred by DeeThree prior to the completion of the Arrangement on May 15, 2015 and are also included in the table below. All costs were incurred in Alberta, Canada.

<b>Nature of Cost Incurred</b>	<b>Year Ended December 31, 2015 (\$000)</b>
Property Acquisition (Disposition) Costs – Unproved Properties <sup>(1)</sup>	2,710
Property Acquisition (Disposition) Costs – Proved Properties	(183)
Exploration Costs <sup>(2)</sup>	2,062
Development Costs <sup>(3)</sup>	59,159
Other	1,126
<b>Total<sup>(4)</sup></b>	<b>64,874</b>

**Notes:**

- (1) Cost of land acquired.
- (2) Geological and geophysical capital expenditures and drilling costs for exploration wells.
- (3) Development costs include development costs and equipping and tie-in and facility costs for all wells.
- (4) For details on the conveyance of the Brazeau Belly River Properties, refer to "The Arrangement" section on page 9 of this document.

## Exploration and Development Activities

The Corporation participated in the drilling of 16 gross (16.0 net) wells in 2015, 12 gross (12.0 net) of which were drilled on the Alberta Bakken Properties, 4 gross (4.0 net) were drilled on the Brazeau Belly River Properties prior to the Arrangement. Of the 16 gross (16.0 net) wells drilled, 14 gross (14.0 net) wells were completed and 2 gross (2.0 net) consisted of Stratigraphic Test wells. Wells drilled prior to completion of the Arrangement on May 15, 2015 were drilled by DeeThree, of which six (6.0 net) wells were drilled on the Alberta Bakken Properties. The following table summarizes the drilling results.

Well Category	Exploration		Development		Total	
	Gross	Net	Gross	Net	Gross	Net
Oil	-	-	14	14.0	14	14.0
Gas	-	-	-	-	-	-
Service	-	-	-	-	-	-
Stratigraphic Test	2	2.0	-	-	-	-
Dry	-	-	-	-	-	-
Total wells	2	2.0	14	14.0	14	14.0
Success rate (%)	100%	100%	100%	100%	100%	100%
Average working interest (%)	100%	100%	100%	100%	100%	100%

In 2016, the Corporation expects to drill and complete a total of approximately 4 - 6 gross (4.0 - 6.0 net) horizontal light and medium crude oil wells on the Alberta Bakken Properties.

## Production Estimates

The following table is a summary of the working interest volume (prior to royalties) of the Corporation's estimated production for 2016 which is reflected in the estimate of future net revenue in the Sproule Report based on the forecast price tables contained above.

Reserve Category	Heavy Crude Oil (bbls/d)	Medium Crude Oil and Light Crude Oil (bbls/d)	Conventional Natural Gas <sup>(1)</sup> (mcf/d)	Natural Gas Liquids (bbls/d)	Oil Equivalent (BOE/d)	%
<b>Proved</b>						
Alberta Bakken	68	3,143	1,683	0	3,492	100
<b>Total Probable</b>						
Alberta Bakken	2	539	124	0	562	100
<b>Total Proved plus Probable</b>						
	70	3,682	1,807	0	4,054	100

Note:

(1) Conventional Natural gas volumes include solution gas, associated and non-associated gas.

## Production History

The following tables summarize certain information in respect of the Corporation's production, product prices received, royalties paid, operating expenses and resulting netback for the indicated periods during the financial year ended December 31, 2015. Production from the Brazeau Belly River Properties and the Northern Properties prior to the completion of the Arrangement on May 15, 2015 is included.

	Q1 31-Mar-15	Q2 30-Jun-15	Q3 30-Sep-15	Q4 31-Dec-15
<b>Average Daily Production</b>				
Heavy Crude Oil (Bbls/d)	77	73	78	77
Medium Crude Oil and Light Crude Oil (Bbls/d)	9,111	5,530	3,280	3,257
NGL (Bbls/d)	591	102	7	2

	Q1 31-Mar-15	Q2 30-Jun-15	Q3 30-Sep-15	Q4 31-Dec-15
Conventional Natural Gas (mcf/d)	15,103	7,229	1,674	841
BOE/d	12,296	6,910	3,644	3,476
<b>Average Price Received</b>				
Heavy Crude Oil (Bbls/d) <sup>(1)</sup>	49.50	62.15	47.28	42.25
Medium Crude Oil and Light Crude Oil (Bbls/d) <sup>(1)</sup>	49.50	62.15	47.28	42.25
NGL (\$/Bbl)	23.88	55.13	12.48	59.99
Conventional Natural Gas (\$/mcf)	2.84	2.68	2.86	2.54
Combined (\$/BOE)	41.63	54.05	45.32	41.22
<b>Royalties</b>				
Combined (\$/BOE)	9.01	14.67	13.78	11.24
<b>Operating and Transportation Expenses</b>				
Operating (\$/BOE)	7.37	7.31	5.98	5.91
Transportation (\$/BOE)	3.25	2.67	0.95	1.82
<b>Netback Received</b>				
Combined (\$/BOE)	22.00	29.40	24.61	22.25

**Notes:**

(1) Heavy oil, medium crude oil and light crude oil are combined and marketed by the Corporation as a blended product. The average price received reflects the realized price of the blended product.

The following table summarizes the Corporation's average daily net production volumes during the year ended December 31, 2015. Production from the Brazeau Belly River Properties and the Northern Properties prior to the completion of the Arrangement on May 15, 2015 is included.

Properties	Heavy Crude Oil (Bbls/d)	Medium Crude Oil and Light Crude Oil (Bbls/d)	Conventional Natural Gas (Mcf/d)	NGLs (Bbls/d)	Equivalent Barrels (BOE/d)
Alberta					
Alberta Bakken	76	3,142	1,592	22	3,505
Brazeau and Northern Properties <sup>(1)</sup>	0	2,132	4,568	151	3,044
Total	76	5,274	6,160	173	6,550

**Note:**

(1) On May 15, 2015 as part of the Arrangement, Granite divested its investment in the Brazeau assets and Northern Properties and all other assets with the exception of the Alberta Bakken Properties.

**Land Holdings**

The Corporation's developed and undeveloped landholdings as at December 31, 2015 are set forth in the following table.

Properties	Undeveloped		Developed		Total	
	Gross (acres)	Net (acres)	Gross (acres)	Net (acres)	Gross (acres)	Net (acres)
<b>2015</b>						
Alberta Bakken	393,453	391,633	54,434	52,140	447,877	443,773
Total	393,453	391,633	54,434	52,140	447,877	443,773



### **Forward Contracts**

Granite is exposed to market risks resulting from fluctuations in commodity prices, foreign exchange rates and interest rates in the normal course of operations. A variety of derivative instruments are used by the Corporation to reduce exposure to fluctuations in commodity prices and foreign exchange rates. The Corporation is exposed to losses in the event of default by the counterparties to these derivative instruments and Granite manages this risk by diversifying its derivative portfolio amongst a number of financially sound counterparties. See “*Risk Factors and General Industry Conditions - Financial Risks - Hedging*”.

As at December 31, 2015, the Corporation had the following forward contracts in place.

### **Crude Oil Contracts**

<b>Period</b>	<b>Commodity</b>	<b>Type of Contract</b>	<b>Quantity</b>	<b>Pricing Point</b>	<b>Contract Price</b>
March 1/15- June 30/16	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	Cdn\$72.92/bbl
Jan.1/16- Dec. 31/16	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	Cdn\$78.00/bbl
Jan. 1/16- Dec. 31/16	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US\$62.75/bbl
Jan. 1/16- Dec. 31/16	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	Cdn\$80.00/bbl

### **Interest Rate Contract**

<b>Term</b>	<b>Amount</b>	<b>Fixed Rate</b>	<b>Index</b>
Feb. 18/14- Feb. 18/16	Cdn\$10 million	1.44%	CDOR

Subsequent to December 31, 2015, the Corporation entered into the following contracts.

### **Crude Oil Contracts**

<b>Period</b>	<b>Commodity</b>	<b>Type of Contract</b>	<b>Quantity</b>	<b>Pricing Point</b>	<b>Contract Price</b>
Feb. 1/16- June 30/16	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US\$32.00/bbl
Feb.1/16- Dec. 31/16	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US\$32.02/bbl
July 1/16- Dec. 31/16	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US\$40.00/bbl
July 1/16- June 30/17	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US\$41.00/bbl

### **BORROWINGS**

In connection with the Arrangement, Granite received a new credit facility from a syndicate of lenders with a borrowing base of \$115 million, consisting of a \$95 million revolving demand credit facility and a \$20 million revolving demand operating facility. An amount of \$42.5 million was borrowed under the Granite Credit Facility to repay obligations of DeeThree under its credit facility.

During the fall of 2015, the Granite Credit Facility was reviewed and Granite voluntarily elected to reduce its availability to \$80 million in order to reduce standby fees pursuant to a First Amending Agreement to the Granite Credit Facility. The revised availability of \$80 million would continue to provide a significant cushion of availability over amounts drawn and forecasted to be drawn under the credit facility for Granite.

As at December 31, 2015, \$37.0 million had been drawn against the Granite Credit Facility.

The Granite Credit Facility is revolving and uncommitted in nature and is not automatically available upon satisfaction of the terms and conditions as set out in the Demand Credit Agreement dated May 15, 2015 (the “**Agreement**”). The lenders under the Agreement may, at any time without notice or demand, cancel the availability of a portion of the credit facility. Subject to the terms and conditions of the Agreement, Granite may request drawdowns under the Granite Credit Facility prior to such a demand or cancellation.

Under the terms of the Agreement, Granite may be required to repay all obligations outstanding under the Granite Credit Facility forthwith upon receipt by Granite of a demand for payment. As of the Effective Date, Granite is in compliance with all covenants, representations and warranties. Such covenants include reporting requirements, permitted indebtedness, permitted hedging and other standard business operating covenants. The Agreement includes a financial covenant at the end of each fiscal quarter, being that the Working Capital Ratio (as defined in the Agreement), shall not be less than 1:1.

Security has been provided for by, among other things, a demand debenture in the principal amount of \$500,000,000 from each Loan Party (as defined in the Agreement) granting a floating charge over all present and after-acquired real and personal property of Granite, and a negative pledge and undertaking to provided fixed charges on major producing petroleum and natural gas reserves.

The Granite Credit Facility bears interest on a grid system which ranges from bank prime plus 50.0 bps (basis points) to bank prime plus 250.0 bps (basis points) depending on Granite’s consolidated net debt to cash flow ratio as defined in the Agreement, ranging from less than 1:1 to greater than 3:1.

A bankers’ acceptance stamping fee or letter of credit fee for financial letters of credit (as such terms are defined in the Agreement), may be applicable depending on the Corporation’s consolidated net debt to cash flow ratio, with the fees ranging from 175.0 bps to 375.0 bps.

The authorized borrowing amount of the Granite Credit Facility is subject to interim review and redetermination by the by the financial institutions comprising the syndicate on an annual basis or in the event of a change in our borrowing base properties (due to a disposition of assets beyond certain defined limits or a change which results in a material adverse effect, as determined by the lenders).

## **RISK FACTORS AND GENERAL INDUSTRY CONDITIONS**

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### **OVERVIEW**

The Corporation's business consists of the exploration and development of oil and gas properties in Alberta. There are a number of risks associated with Granite’s operations, some that impact the oil and gas industry as a whole and others that are unique to the Corporation’s operations. Many of these risks are beyond the control of the Corporation.

The oil and natural gas industry is subject to extensive regulation and other controls governing operations (including land tenure, exploration, development, production, refining and upgrading, transportation, and marketing) imposed by various levels of government with respect to the pricing and taxation of oil and natural gas through various agreements between the federal government and the Alberta provincial government, all of which should be carefully considered by investors in the oil and gas industry. All existing legislation is a matter of public record and the Corporation cannot predict what additional legislation or amendments may be enacted. Furthermore, the oil and natural gas industry as a whole is subject to various market forces, including supply and demand, the volatility of commodity pricing, the availability of pipeline capacity and increased environmental activism, among other things, the effects of which cannot be accurately predicted. Although the Corporation does not expect that any of these factors or conditions will affect the Corporation's operations in a manner materially different than they would affect other oil and gas companies of similar size, any of these factors could materially impact the Corporation.

*An investment in the Common Shares involves a number of risks. In addition to the other information contained in this AIF, investors should give careful consideration to the following, factors, which are qualified in their entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this AIF. If any of the following events described as risks or uncertainties actually occurs, the business, prospects, financial condition and operating results of the Corporation would likely suffer, possibly materially. In that event, the market price of the Common Shares could decline and investors could lose all or part of their investment. Additional risks and uncertainties presently unknown, or that are not believed to be material at this time, may also impair or have a material adverse effect on the Corporation's operations. In addition to the risks described elsewhere and the other information contained in this Annual Information Form, prospective investors should carefully consider each of and the cumulative effect of all of the following risk factors. References in the below Risk Factors to "we", "our" or "us" refer to the management of the Corporation.*

Outlined below are some of the principal aspects of the legislation, regulations and agreements governing the oil and gas industry and factors that could affect the industry as a whole.

## **FINANCIAL RISKS**

Financial risks include, but are not limited to, fluctuations in commodity prices; royalty regimes and tax laws; unpredictable capital markets; exploration, development and operating costs; fluctuations in foreign exchange and interest rates; and risks accompanying hedging activities. Changes to global economic conditions could impact a number of factors including, but not limited to, the Corporation's cash flows, financial condition, results of operations and growth, the viability of maintaining operations, and access to available capital.

### **Commodity Prices**

In Canada, the producers of oil are entitled to negotiate sales contracts directly with oil purchasers, with the result that the market determines the price of oil. The Corporation's financial performance is substantially dependent on the prevailing prices of crude oil and natural gas.

While worldwide supply and demand factors have a strong impact on the price of crude oil, the price of crude oil is impacted by a number of additional factors, including but not limited to: the quality of crude oil, price and availability of alternative fuel sources, distance to market, availability of transportation and ability to transport to market, the value of refined products, general economic conditions, the actions of OPEC, governmental regulation, political stability, weather conditions and contractual terms of sale. Oil exports may be made under export contracts having terms not exceeding one year in the case of light crude oil, and not exceeding two years in the case of heavy crude oil, provided that an order approving any such export has been approved by the National Energy Board of Canada (the "**NEB**"). Any oil export to be made pursuant to a contract of longer duration (to a maximum of 25 years) requires an exporter to obtain an export licence from the NEB.

Alberta's natural gas market has been deregulated since 1985. Supply and demand for natural gas is a strong factor in the determination of the price of natural gas and price is calculated at the sale point, being the wellhead, the outlet of a gas processing plant, on a gas transmission system such as the Alberta "NIT" (Nova Inventory Transfer), at a storage facility, at the inlet to a utility system or at the point of receipt by the consumer. Accordingly, the price for natural gas is dependent upon such producer's own arrangements (whether long or short term contracts and the specific point of sale). As natural gas is also traded on trading platforms such as the Natural Gas Exchange (NGX), Intercontinental Exchange or the New York Mercantile Exchange (the NYMEX) in the United States, spot and future prices can also be influenced by supply and demand fundamentals on these platforms. Granite's natural gas realizations are impacted by the factors above, in addition to a number of other considerations, including but not limited to: supply and demand for natural gas in the market, developments relating to the market for NGL, weather conditions and the price and availability of alternative sources of energy. Natural gas exported from Canada is subject to regulation by the NEB and the Government of Canada. Exporters are free to negotiate prices and other terms with purchasers, provided that the export contracts must continue to

meet certain other criteria prescribed by the NEB and the Government of Canada. Natural gas (other than propane, butane and ethane) exports for a term of less than two years or for a term of two to 20 years (in quantities of not more than 30,000 m<sup>3</sup>/day) must be made pursuant to an NEB order. Any natural gas export to be made pursuant to a contract of longer duration (to a maximum of 25 years) or for a larger quantity requires an exporter to obtain an export licence from the NEB.

During 2014 and 2015, the NEB underwent a consultation process to update the current regulations governing the issuance of export licences. The updating process is necessary to meet the criteria set out in the federal *Jobs, Growth and Long-term Prosperity Act* which received Royal Assent on June 29, 2012 (the "**Prosperity Act**"). During this transitory period, the NEB issued and followed an "Interim Memorandum of Guidance concerning Oil and Gas Export Applications and Gas Import Applications under Part VI of the National Energy Board Act". On June 23, 2015, the *National Energy Board Act* was amended for the issuance of natural gas export licences for a term not exceeding 40 years. The amendments were in force as of July 31, 2015. The NEB is currently in the process of developing guidance for the parties who may be interested in applying for a natural gas export licence for a term not exceeding 40 years, and such guidance will be posted on the NEB website when finalized.

In Canada, the price of NGL sold in intraprovincial, interprovincial and international trade is determined by negotiation between buyers and sellers. Such price depends, in part, on the quality of the NGL, prices of competing chemical feed stock, distance to market, access to downstream transportation, length of contract term, the supply/demand balance and other contractual terms. NGL exported from Canada are subject to regulation by the NEB and the Government of Canada. Exporters are free to negotiate prices and other terms with purchasers, provided that the export contracts must continue to meet certain criteria prescribed by the NEB and the Government of Canada. NGL may be exported for a term of no more than one year in respect of propane and butane, and no more than two years in respect of ethane, all exports requiring an order of the NEB.

Fluctuations in the price of commodities and associated price differentials may impact the value of the Corporation's assets, the Corporation's ability to maintain its business and to fund growth projects including, but not limited to, the continued development of its Alberta Bakken Properties. Prolonged periods of commodity price volatility may also negatively impact Granite's ability to meet guidance targets and meet all of its financial obligations as they come due. Any substantial or extended decline in these commodity prices may result in a delay or cancellation of existing or future drilling, development or construction programs, and curtailment of current production levels.

Granite conducts an annual assessment of the carrying value of its assets in accordance with IFRS. If crude oil and natural gas prices decline significantly and remain at low levels for an extended period of time, the carrying value of the Corporation's assets may be subject to impairment.

### ***Prices, Markets and Marketing***

Numerous factors beyond Granite's control affect, and will continue to affect, the marketability and price of crude oil and natural gas anticipated to be produced. Granite's ability to market its oil and natural gas may depend upon its ability to acquire space on pipelines that deliver natural gas to commercial markets or its ability to contract for the delivery and transportation of crude oil. Deliverability uncertainties related to the distance of Granite's reserves to pipelines, railway lines, processing and storage facilities, operational problems affecting pipelines, railway lines and facilities as well as government regulation relating to prices, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business may also have a material adverse effect on the Corporation.

As discussed above, the prices for crude oil and natural gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for petroleum and natural gas, market uncertainty and a variety of additional factors beyond Granite's control. Prices for crude oil and natural gas are also subject to the availability of foreign markets and Granite's ability to access such markets. A material decline in prices or a continued low crude oil and natural gas price environment could result in a

reduction of Granite's anticipated net production revenue. The economics of producing from some wells may change because of lower prices, which could result in reduced production of petroleum or natural gas and a reduction in the volumes of the reserves and product available to Granite to market. Granite may also elect not to produce from certain wells at lower prices.

All of these factors could result in a material decrease in Granite's net production revenue and a reduction in its oil and natural gas acquisition, development and exploration activities. Any substantial or extended decline in or continued low crude oil and natural gas prices would have an adverse effect on Granite's carrying value of its reserves, borrowing capacity, revenues, profitability and cash flows from operations and may have a material adverse effect on Granite's business and financial condition, results of operations and prospects.

Oil and natural gas prices are expected to remain volatile in the near future due to market uncertainties over the supply of and the demand for these commodities due to the current state of the world economies, OPEC actions, sanctions having been lifted on certain oil producing nations by other countries and widespread ongoing credit and liquidity concerns. Volatile crude oil and natural gas prices make it difficult to estimate the value of producing properties for development activities and often cause disruption in the acquisition, divestiture or leasing of petroleum and natural gas producing properties, as buyers, sellers, lessors and lessees have difficulty agreeing on the value or terms of such arrangements. Price volatility also makes it difficult to budget for and project the return on potential acquisitions, development and exploration projects.

### ***Global Financial Markets***

Recent market events and conditions, including the sharp and continued decline in crude oil and natural gas prices, have created a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions have negatively impacted credit markets and caused stock markets to experience significant volatility.

### ***Credit Facility Arrangements***

The amount authorized under Granite's Credit Facility is dependent on the borrowing base determined by its lenders. Granite is required to comply with covenants under its credit facilities which may, in certain cases, include certain financial ratio tests, which from time to time either affect the availability, or price, of additional funding and in the event that Granite does not comply with these covenants, its access to capital could be restricted or repayment could be required. Events beyond Granite's control may contribute to a failure to comply with such covenants. A failure to comply with covenants could result in a default under the Credit Facility, which could result in Granite being required to repay amounts owing thereunder. Even if Granite is able to obtain new financing in such circumstances, it may not be on commercially reasonable terms or on terms that are acceptable to the Corporation. If Granite is unable to repay amounts owing under the Credit Facility or other credit agreements, its lenders could proceed to foreclose or otherwise realize upon the collateral granted to them to secure the indebtedness. The acceleration of indebtedness under one agreement may permit acceleration of indebtedness under other agreements that contain cross default or cross-acceleration provisions. In addition, the Credit Facility and other credit agreements may impose operating and financial restrictions on the Corporation that could include restrictions on the payment of dividends, the repurchase or making of other distributions with respect to Granite's securities, incurring of additional indebtedness, the provision of guarantees, the assumption of loans, making of capital expenditures, entering into of amalgamations, mergers, take-over bids or disposition of assets, among other restrictions.

Granite's lenders use reserves, commodity prices, applicable discount rate and other factors to periodically determine the Credit Facility's borrowing base. A material decline in commodity prices could reduce the borrowing base, reducing the funds available to Granite under the Credit Facility or other

credit agreements which could result in the requirement to repay a portion, or all, of its bank indebtedness.

### ***Capital and Additional Funding Requirements***

Granite's cash flow from reserves may not be sufficient to fund its ongoing activities at all times, and from time to time Granite may require additional financing in order to carry out its acquisition, exploration and development activities. There is risk that if the economy and the banking industry experience unexpected and/or prolonged deterioration, Granite's access to additional financing may be affected. The inability of Granite to access sufficient capital for its operations could materially adversely affect Granite's financial condition.

Granite may, from time to time, have restricted access to capital and increased borrowing costs as a result of global economic volatility. Failure to obtain such financing on a timely basis could cause the Corporation to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate operations. If revenue from reserves decreases as a result of low oil and natural gas prices, or otherwise, it will affect Granite's ability to expend the necessary capital to replace reserves or to maintain production. To the extent that external sources of capital become limited, unavailable, or available on onerous terms, the ability of the Corporation to make capital investments and maintain existing assets may be impaired, and the Corporation's assets, liabilities, business, financial condition and results of operations may be affected materially and adversely as a result. In addition, the future development of petroleum properties may require additional financing and there are no assurances that such financing will be available or, if available, will be available upon acceptable terms. Failure to obtain any financing necessary for Granite's capital expenditure plans may result in a delay in development or production on its properties.

Based on funds currently available to the Corporation and funds expected to be generated from operations, Granite believes it will have sufficient funds available to fund its currently proposed capital expenditures. However, if funds generated from operations are lower than expected or capital costs for these projects exceed current estimates, or if Granite incurs major unanticipated expenses related to development or maintenance of its existing properties, it may be required to seek additional capital to maintain its capital expenditures at planned levels, or the Corporation may decide to reduce the planned levels of capital expenditures. Failure to obtain financing necessary for Granite's capital expenditure plans may result in a delay in development, exploration or production on its properties.

### ***Exposure to Counterparties***

Granite may be exposed to third party credit risk through its royalty and contractual arrangements with current or future third parties, marketers of its petroleum and natural gas production, if any, and other industry participants. In the event such entities fail to meet their royalty, contractual or financial obligations to Granite, such failures could materially adversely affect Granite's business and financial condition. Further, poor credit conditions may impact a third party's ability to fund the development and capital programs conducted, which in turn could result in a reduction of Granite's revenues.

### ***Variations in Foreign Exchange Rates***

Fluctuations in foreign exchange rates may affect the Corporation's results as global prices for crude oil and natural gas are generally set in U.S. dollars, while many of the Corporation's operating and capital costs are denominated in Canadian dollars. Future variations in Canadian and U.S. currency exchange rates may accordingly affect the future value of Granite's reserves as determined by independent evaluators. Material fluctuations in the value of the Canadian dollar may affect the Corporation's financial condition as a result of the impact of exchange rate fluctuations on revenue and royalty payments.

To the extent that Granite engages in risk management activities related to offsetting foreign exchange fluctuations and rates, there is credit risk associated with counterparties with which Granite may contract.

### ***Variations in Interest Rates***

The Corporation may be exposed to fluctuations in interest rates as a result of the use of floating rate securities or borrowings. An increase in interest rates could result in a significant increase in the amount Granite is required to pay to service its debt, which could negatively impact its financial results and the market price of the Common Shares.

### ***Hedging***

From time to time, Granite may enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline. However, to the extent that Granite engages in risk management activities to protect against commodity price declines, Granite may also be prevented from realizing the full benefits of price increases above the levels of the derivative instruments used to manage price risk. In addition, Granite's hedging arrangements may expose the Corporation to the risk of financial loss in certain circumstances, including, but not limited to the following instances:

- production falls short of the hedged volumes or the Corporation fails to fulfill its obligations related to the underlying physical transaction;
- there is a widening of price-basis differentials between delivery point for production and the delivery point assumed in the hedge arrangement;
- the counterparties to the hedging arrangement or other price risk management contracts fail to perform under those arrangements; or
- a sudden unexpected event materially impacts oil and natural gas prices.

Similarly, from time to time Granite may enter into agreements to fix the exchange rate of Canadian to U.S. dollars in order to offset the risk of revenue losses if the Canadian dollar increases in value compared to the U.S. dollar. However, if the Canadian dollar declines in value compared to the U.S. dollar, Granite will not benefit from the fluctuating exchange rate.

### ***Dilution***

Granite may make future acquisitions or enter into financings or other transactions involving the issuance of securities of Granite, which may be dilutive to existing shareholders. There are no restrictions in Granite's articles or by-laws with respect to the number of shares of any class that may be issued by the Corporation.

### ***Issuance of Debt***

Granite may finance its activities, including potential future petroleum and natural gas asset acquisitions, in whole or in part with debt, which may increase Granite's debt levels above industry standards for peers of similar size. Depending on future exploration and development plans, Granite may require additional debt financing that may not be available or, if available, may not be available on favourable terms. Neither Granite's articles nor its by-laws limit the amount of indebtedness that the Corporation may incur. The level of indebtedness from time to time could impair Granite's ability to obtain additional financing on a timely basis, or at all, to take advantage of business opportunities that may arise.

### ***Dividends***

The amount of future cash dividends paid by Granite, if any, will be subject to the discretion of the Board of Directors and may vary depending on a variety of factors and conditions existing from time to time, including fluctuations in commodity prices, production levels, capital expenditure requirements, debt service requirements, operating costs, royalty burdens, foreign exchange rates, interest rates and the satisfaction of the liquidity and solvency tests imposed by the ABCA for the declaration and payment of dividends. Depending on these and various other factors, many of which will be beyond the control of the

Corporation, the dividend policy of Granite may vary from time to time and, as a result, future cash dividends could be reduced or suspended entirely.

The market value of the Common Shares may deteriorate if cash dividends are reduced or suspended. Furthermore, the future treatment of dividends for tax purposes will be subject to the nature and composition of dividends paid by Granite and potential legislative and regulatory changes. Dividends may be reduced during periods of lower funds from operations, which result from lower commodity prices and any decision by Granite to finance capital expenditures using funds from operations.

In addition, the Credit Facility may impose operating and financial restrictions on the Corporation that could include restrictions on the payment of dividends. To the extent that external sources of capital, including the issuance of additional Common Shares, become limited or unavailable, the ability of Granite to make the necessary capital investments to maintain or expand operations and to invest in assets, as the case may be, will be impaired. To the extent that Granite is required to use funds from operations to finance capital expenditures or property acquisitions, the cash available for dividends may be reduced.

## **OPERATIONAL RISKS**

Operational risks are those risks that affect the Corporation's ability to continue operations in the ordinary course of business. Generally, Granite's operations are subject to general risks affecting the oil and natural gas industry. The Corporation's operational risks include, but are not limited to: operational and safety considerations, market access constraints and transportation issues, uncertainty of reserves and resources estimates, reservoir performance and technical challenges, competition, technology limitations, litigation or third-party claims, land claims, and leadership and employment issues.

### ***Exploration, Development and Production Risks***

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. Granite's long-term commercial success depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves as well as the market price of crude oil and natural gas. Without the continual addition of new reserves, existing reserves and the production from them will decline over time as Granite continues to produce from such reserves. A future increase in reserves will depend on multiple factors including the Corporation's ability to explore and develop existing properties, the ability to select and acquire suitable producing properties or prospects and the viability of developing and obtaining such properties. There can be no assurances that Granite will be able to continue to find satisfactory properties to acquire or participate in. Moreover, management may determine that current markets, terms of acquisition, participation or pricing conditions make potential acquisitions or participations uneconomic. There is also no assurance that Granite will discover or acquire further commercial quantities of oil and natural gas.

Future oil and natural gas exploration may involve unprofitable efforts from both dry wells and from wells that are productive but do not produce sufficient petroleum substances to return a profit after drilling, completing, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs.

Drilling hazards, environmental damage and various field operating conditions could greatly increase the cost of operations and adversely affect the production from successful wells. Field operating conditions include, but are not limited to, delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, and insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, it is not possible to eliminate production delays and declines from normal field operating conditions, which can negatively affect revenue and cash flow to varying degrees.



Oil and natural gas exploration involves a high degree of risk and there is no assurance that expenditures made on exploration will result in new discoveries of oil or natural gas in commercial quantities. Development and production operations are subject to all the risks and hazards typically associated with such operations related to oil and natural gas exploration, including, but not limited to, fire, explosion, blowouts, cratering, sour gas releases, and spills or other environmental hazards. These typical risks and hazards could result in substantial damage to oil and natural gas wells, production facilities, other property, the environment, personal injury and loss of life and may necessitate an evacuation of populated areas, all of which could result in liability to Granite. Losses resulting from the occurrence of any of these risks could have a materially adverse effect on future results of operations, liquidity and financial condition of the Corporation.

Oil and natural gas production operations are subject to all of the risks typically associated with such operations, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations. Losses resulting from the occurrence of any of these risks may have a material adverse effect on Granite's business, financial condition, results of operations and prospects.

As is standard industry practice, Granite is not fully insured against all risks, nor are all risks insurable. Although Granite maintains liability insurance in an amount that it considers consistent with industry practice, liabilities associated with certain risks could exceed policy limits or not be covered. In either event, Granite could incur significant costs.

### ***Reserves Estimates***

There are numerous uncertainties inherent in estimating quantities of crude oil, natural gas and natural gas liquids reserves and the future cash flows attributed to such reserves. The reserves and associated cash flow information set forth in this AIF are estimates only. Generally, estimates of economically recoverable crude oil, natural gas and natural gas liquids reserves and the future net cash flows from such estimates are based upon a number of variable factors and assumptions, such as:

- historical production from the properties;
- production rates;
- ultimate reserve recovery;
- timing and amount of capital expenditures;
- commodity prices;
- marketability of oil and natural gas;
- royalty rates; and
- the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary materially from actual results.

For those reasons, estimates of the economically recoverable crude oil, natural gas and natural gas liquids reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues associated with reserves prepared by different engineers, or by the same engineers at different times may vary. Granite's actual production, revenues, taxes and development and operating expenditures with respect to its reserves will vary from estimates thereof and such variations could be material.

The estimation of proved reserves that may be developed and produced in the future is often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Recovery factors and drainage areas may be estimated by experience and analogy to similar producing horizons. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history and production practices will result in variations in the estimated reserves. Such variations could be material.

In accordance with Canadian securities laws, Granite's independent qualified reserves evaluator has used forecast prices and costs in estimating the reserves and future net cash flows as summarized in this AIF. Actual future net cash flows will be affected by other factors, such as actual production levels, supply and demand for oil and natural gas, the market prices of oil and natural gas, curtailments or increases in consumption by oil and natural gas purchasers, changes in governmental regulation or taxation and the impact of inflation on costs.

Actual production and cash flow derived from Granite's crude oil, natural gas and natural gas liquids reserves will vary from the estimates contained in the reserves evaluation, and such variations could be material. The reserves evaluation is based in part on the assumed success of activities undertaken in future years. The reserves and estimated cash flows to be derived therefrom and contained in the Sproule Report will be reduced to the extent that such activities do not achieve the level of success assumed in the reserve evaluation. The Sproule Report is effective as of December 31, 2015 with a preparation date of March 7, 2016 and, except as may be specifically stated or required by Canadian securities laws, has not been updated and therefor does not reflect changes in the reserves since that date.

### ***Availability of Drilling Equipment and Access***

Oil and natural gas exploration and development activities are dependent on the availability and costs of drilling and related equipment (typically leased from third parties) in the particular areas where such activities will be conducted. Demand for equipment or access restrictions may affect the availability of equipment for the third parties' operations and may delay exploration and development activities, which, in turn, could materially adversely affect Granite's business and financial condition.

### ***Internal Controls***

Effective internal controls are necessary for Granite to provide reliable financial reports and to help prevent fraud. Although Granite will undertake a number of procedures in order to help ensure the reliability of its financial reports, including those imposed on it under Canadian securities laws, Granite cannot be certain that such measures will ensure that the Corporation will maintain adequate control over financial processes and reporting.

Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm Granite's results of operations or cause it to fail to meet its reporting obligations. If Granite or its independent auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in Granite's financial statements and harm the trading price of the Common Shares.

### ***Reliance on Key Personnel***

Granite's success depends in large measure on certain key personnel. Failure to retain critical talent or to attract and retain new talent with the necessary leadership traits, skills and competencies could have a material adverse effect on the Corporation's results of operations, pace of growth and financial condition. In addition, the competition for qualified personnel in Alberta, and in particular, in the oil and natural gas industry, is intense and there can be no assurance that Granite will be able to continue to attract and retain all personnel necessary for the Corporation's continued operations and growth. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of the Corporation.

### ***Gathering and Processing Facilities and Pipeline Systems***

Granite expects to deliver its products through gathering, processing and pipeline systems. The amount of petroleum and natural gas produced and sold is subject to the accessibility, availability, proximity and capacity of these gathering, processing and pipeline systems. The lack of availability of capacity in any of

the gathering, processing and pipeline systems, and in particular the processing facilities, including any restrictions placed on such systems or facilities, could result in an inability to realize the full economic potential of the Corporation's assets. Although pipeline expansions are ongoing, the lack of firm pipeline capacity continues to affect the oil and natural gas industry and limits the ability to produce and market petroleum and natural gas production. In addition, the pro-rationing of capacity on inter-provincial pipeline systems also continues to affect the ability to export petroleum and natural gas. Producers are increasingly turning to rail as an alternative means of transportation. In recent years, the volume of crude oil shipped by rail in North America has increased dramatically and it is projected to continue in this upward trend. Any significant change in market factors or other conditions affecting these infrastructure systems and facilities, as well as any delays in constructing new infrastructure systems and facilities could harm Granite's business and, in turn, its financial condition, results of operations and cash flows.

Any significant change in market factors or other conditions affecting these infrastructure systems and facilities, including the declining price of commodities, remedial work on certain pipeline sections, as well as any delays in the construction of new infrastructure systems and facilities could harm the ability of third parties to develop and produce and, in turn, could harm Granite's business and financial condition.

A portion of Granite's production may, from time to time, be processed through facilities over which Granite, and in certain instances, third parties, will have no control. From time to time, these facilities may discontinue or decrease operations either as a result of normal servicing requirements or as a result of unexpected events. A discontinuation or decrease of operations could materially adversely affect the ability of such third parties to process production and deliver the same for sale, which, in turn, would impact Granite's revenues and cash flow.

Deliverability uncertainties related to the distance that Granite's reserves are to pipelines, processing and storage facilities, operational problems affecting pipelines and facilities, as well as government regulation relating to commodity prices, taxes, royalties, land tenure, allowable production, the export of petroleum and natural gas, and other aspects of the oil and natural gas industry may also affect Granite and are beyond the Corporation's control.

### ***Title to Assets***

Although title reviews may be conducted prior to the purchase of oil and natural gas producing properties, or before the commencement of drilling wells, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat the Corporation's claim. Granite's actual interest in current or potential properties may, therefore, vary from the records maintained by Granite. If a title defect does exist, it is possible that Granite may lose all or a portion of the properties to which the title defect relates, which may have a material adverse effect on Granite's business, financial condition, results of operations and prospects. There may be valid challenges to title, or proposed legislative changes which affect title that, if successful or made into law, could result in a reduction of Granite's revenues.

### ***Cost of New Technologies***

The oil industry is characterized by rapid and significant technological advancements and introductions of new products and services utilizing new technologies. Other commodity companies may have greater financial, technical and personnel resources that allow them to enjoy technological advantages and may in the future allow them to implement new technologies before Granite. There can be no assurance that Granite will be able to respond to such competitive pressures and implement such technologies on a timely basis or at an acceptable cost. One or more of the technologies currently utilized by Granite or implemented in the future may become obsolete. If Granite is unable to utilize the most advanced commercially available technology, its business, financial condition and results of operations could be materially adversely affected.

## ***Litigation***

In the normal course of Granite's activities, it may become involved in, named as a party to, or be the subject of various legal proceedings, including regulatory proceedings, tax proceedings and legal actions, related to personal injury, property damage, property tax, land rights, the environment and lease and contract disputes, among others. Claims under such proceedings may be material or may be indeterminate. The outcome of outstanding, pending or future proceedings cannot be predicted with certainty, and such proceedings may be determined adversely to Granite and any indemnity from Granite or other third parties in respect of any loss as a result of such proceedings may not be sufficient, and, as a result, could materially adversely affect Granite's business and financial condition.

## ***Competition***

The oil and natural gas industry is highly competitive in all aspects. Granite will compete with numerous other entities in the search for, and the acquisition of, oil and natural gas properties and in the marketing of oil and natural gas. Granite's competitors include oil and natural gas companies that have substantially greater financial resources, staff and facilities than Granite, and who may have lower operating costs than Granite.

Global expansion of existing operations and development of new products could materially increase the supply of crude oil in the marketplace, which may decrease the market price of crude oil, constrain transportation and increase the Corporation's input costs for skilled labour and materials.

Granite's ability to increase its reserves and revenue streams in the future will depend not only on its ability to explore and develop its assets in a cost effective manner, but also on the activities of its global competitors. Competitive factors in the distribution and marketing of oil and natural gas include price, operating costs, methods, and reliability of delivery and storage.

## ***Project Risks***

There are risks associated with the execution and operation of Granite's growth and development projects. Project delays may delay expected revenues from operations, and significant project cost overruns could make a project uneconomic. Granite's ability to execute projects and market oil and natural gas will depend upon numerous factors beyond the Corporation's control, including, but not limited to:

- the availability of processing, transportation and storage capacity;
- the supply of and demand for oil and natural gas;
- fluctuations in the market price of crude oil and natural gas;
- the availability of alternative fuel sources;
- the effects of inclement weather;
- the availability of drilling and related equipment;
- unexpected cost increases;
- accidental events;
- currency fluctuations;
- changes in regulations and the ability to obtain necessary environmental and regulatory approvals;
- the availability and productivity of skilled labour; and
- the regulation of the oil and natural gas industry by various levels of government and governmental agencies.

As a result of these and other factors, Granite may be unable to execute projects on time, on budget or at all, and may not be able to effectively market the oil and natural gas that it produces.

## ***Insurance***

Granite's involvement in the exploration for and development of oil and gas properties may result in Granite becoming subject to liability for pollution, blow-outs, property damage, personal injury or other hazards. Although Granite will obtain insurance in accordance with industry standards to address such risks, such insurance will have limitations on liability that may not be sufficient to cover the full extent of possible liabilities. In addition, such risks may not, in all circumstances, be insurable or, in certain circumstances, Granite may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or for other reasons. The payment of such uninsured liabilities would reduce the funds available to Granite. The occurrence of a significant event that Granite is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on Granite's financial position, results of operations or prospects.

## ***Permits and Licences***

Granite's properties will be held in the form of licences and leases and working interests in licences and leases. If either of Granite or the holder of the licence or lease fails to meet the specific requirement of a licence or lease, the licence or lease may terminate or expire. There can be no assurance that any of the obligations required to maintain each licence or lease will be met. The termination or expiration of licences or leases or the working interests relating to a licence or lease may have a material adverse effect on Granite's continued operations and financial condition.

## **ENVIRONMENTAL AND REGULATORY RISKS**

Granite's industry and its operations are subject to regulation and intervention under federal, provincial, state and municipal legislation in Canada in matters such as, but not limited to: land tenure; permitting of production projects; royalties; taxes (including income taxes); government fees; production rates; environmental protection controls; protection of certain species or lands; provincial and federal land use designations; the reduction of greenhouse gas and other emissions; the export of crude oil, natural gas and other products; the transportation of crude-by-rail or marine transport; the awarding or acquisition of exploration and production or other interests; the imposition of specific drilling obligations; control over the development, abandonment and reclamation of fields (including restrictions on production); and/or facilities and possibly expropriation or cancellation of contract rights. Changes to government regulation could impact Granite's existing and planned projects or increase capital investment or operating expenses, adversely impacting the Corporation's financial condition, results of operations and cash flows.

## ***Land Tenure System***

The Alberta provincial government predominantly owns the rights to crude oil and natural gas located in Alberta. The Alberta provincial government grants the right to explore for and produce oil and natural gas pursuant to leases, licences, and permits for varying terms, and on conditions set forth in provincial legislation including requirements to perform specific work or make payments. Private ownership of oil and natural gas also exists in Alberta and rights to explore for and produce such oil and natural gas are granted by lease on such terms and conditions as may be negotiated.

The province of Alberta has implemented legislation providing for the reversion to the Crown of mineral rights to deep, non-productive geological formations at the conclusion of the primary term of a lease or licence.

The province of Alberta also has a policy of "shallow rights reversion" which provides for the reversion to the Crown of mineral rights to shallow, non-productive geological formations for all leases and licences. For leases and licences issued subsequent to January 1, 2009, shallow rights reversion will be applied at the conclusion of the primary term of the lease or licence.

## ***Rail Transportation***

In response to train derailments occurring in the United States and in Canada, regulators are implementing or considering new rules to address the safety risks of transporting crude oil by rail. On January, 23, 2014, the Transportation Safety Board of Canada (the "TSBC") issued a series of recommendations to address certain safety risks of rail transportation, including, among other things: (i) requiring expanded hazardous material route planning for railroads to avoid populated and other sensitive areas; (ii) to develop an audit program to ensure that rail carriers carrying petroleum products have adequate response capabilities to address worst case discharges of the entire quantity of product carried on a train; and (iii) to audit shippers and rail carriers to ensure that they are properly classifying hazardous materials in transport and that they have adequate safety and security plans in place.

Regulators are also taking action in the United States. On May 4, 2015, the United States National Transportation Safety Board issued urgent recommendations calling for improved rail tank cars to carry flammable liquids, including crude oil and ethanol. The recommendations call for an aggressive schedule of replacing or retrofitting the current rail car fleet with better thermal protection against heat from fires, through increasing the capacity of pressure relief devices and through the use of a ceramic thermal blanket. Additionally, on February 25, 2014, the U.S. Department of Transportation issued an emergency order requiring all persons, prior to offering petroleum crude oil into transportation, to ensure such product is properly tested and classed and to assure all shipments by rail of petroleum crude oil be handled as a Packing Group I or II hazardous material. Such tests are used to help determine how likely the fuel is to ignite and dictate what type of rail car can be used for shipment. The introduction of these or other regulations that result in new requirements addressing the type, design, specifications or construction of rail cars used to transport crude oil could result in severe transportation capacity constraints during the period in which new rail cars are retrofitted or constructed to meet new specifications. On March 6, 2014, the U.S. Department of Transportation issued an amended emergency order, offering more details on testing requirements of oil transported by rail and cautioned companies against circumventing these rules. The amended emergency order offers new standards on how frequently testing of crude oil has to be done. Testing must now be conducted within the reasonable, recent past to determine both the flash point and boiling point of crude oil. The amended emergency order also warns companies not to re-label crude as a more generic category of flammable liquid in an attempt to get around such testing requirements.

Granite does not currently own or operate rail transportation facilities or rail cars and does not ship a significant amount of its production via rail; however, the adoption of any regulations that impact the testing or rail transportation of crude oil could increase the Corporation's costs of doing business and limit its ability to transport and sell its crude oil at favourable prices at market centers throughout Canada and the United States, the consequences of which could have a material adverse effect on the Corporation's financial condition and cash flows.

## ***The North American Free Trade Agreement***

The North American Free Trade Agreement ("**NAFTA**") among the governments of Canada, the United States and Mexico came into force on January 1, 1994. In the context of energy resources, Canada continues to remain free to determine whether exports of energy resources to the United States or Mexico will be allowed, provided that any export restrictions do not: (i) reduce the proportion of energy resources exported relative to the total supply of goods of the party maintaining the restriction as compared to the proportion prevailing in the most recent 36 month period; (ii) impose an export price higher than the domestic price (subject to an exception with respect to certain measures which only restrict the volume of exports); and (iii) disrupt normal channels of supply.

All three signatory countries are prohibited from imposing a minimum or maximum export price requirement in any circumstance where any other form of quantitative restriction is prohibited. The signatory countries are also prohibited from imposing a minimum or maximum import price requirement except as permitted in enforcement of countervailing and anti-dumping orders and undertakings. NAFTA requires energy regulators to ensure the orderly and equitable implementation of any regulatory changes

and to ensure that the application of those changes will cause minimal disruption to contractual arrangements and avoid undue interference with pricing, marketing and distribution arrangements, all of which are important for Canadian oil and natural gas exports. NAFTA contemplates the reduction of Mexican restrictive trade practices in the energy sector and prohibits discriminatory border restrictions and export taxes.

### **Royalty Regimes**

The applicable royalty regime is a significant factor on the profitability of crude oil, natural gas liquids and natural gas production. Alberta has legislation and regulations governing royalties, production rates and other matters. Royalties from production on Crown lands are determined by governmental regulation and are generally calculated as a percentage of the value of gross production. Royalties payable on production from lands other than Crown lands are determined by negotiation between the mineral freehold owner and the lessee, although production from such lands is subject to certain provincial taxes and royalties. The royalty rates payable generally depend in part on the prescribed reference prices for the oil and natural gas, well productivity, geographical location, field discovery date, method of recovery and the type or quality of the petroleum product produced. Other royalties and royalty-like interests are, from time to time, carved out of the working interest owner's interest through non-public transactions. These are often referred to as overriding royalties, gross overriding royalties, net profits interests, or net carried interests.

Producers of oil and natural gas from Crown lands in Alberta are required to pay annual rental payments, currently at a rate of \$3.50 per hectare, and to make monthly royalty payments in respect of oil and natural gas produced. Royalties are currently paid pursuant to "The New Royalty Framework" (implemented by the *Mines and Minerals (New Royalty Framework) Amendment Act, 2008*) and the "Alberta Royalty Framework", which was implemented in 2010. Royalty rates for conventional oil are set by a single sliding rate formula, which is applied monthly and incorporates separate variables to account for production rates and market prices. The maximum royalty payable under the royalty regime is 40%. Royalty rates for natural gas under the royalty regime are similarly determined using a single sliding rate formula with the maximum royalty payable under the royalty regime set at 36%.

Oil sands projects are also subject to Alberta's royalty regime. Prior to payout of an oil sands project, the royalty is payable on gross revenues of an oil sands project. Gross revenue royalty rates range between 1-9% depending on the market price of oil, determined using the average monthly price, expressed in Canadian dollars, for WTI crude oil at Cushing, Oklahoma: rates are 1% when the market price of oil is less than or equal to \$55 per barrel and increase for every dollar of market price of oil increase to a maximum of 9% when oil is priced at \$120 or higher. After payout, the royalty payable is the greater of the gross revenue royalty based on the gross revenue royalty rate of 1-9% and the net revenue royalty based on the net revenue royalty rate. Net revenue royalty rates start at 25% and increase for every dollar of market price of oil increase above \$55 up to 40% when oil is priced at \$120 or higher. In addition, concurrent with the implementation of The New Royalty Framework, the Government of Alberta renegotiated existing contracts with certain oil sands producers that were not compatible with the new royalty regime.

On January 29, 2015, the Government of Alberta released its Royalty Review Advisory Panel Report (the "**Report**"). The Report outlines the Panel's recommendations for a modernized royalty framework for crude oil, liquids and natural gas. Existing wells will continue to be governed by the current royalty system for 10 years, and the 'modernized' framework will apply to wells drilled starting January 1, 2017. The 'modernized' framework is set to be calibrated to ensure that industry makes the same rate of return on new wells as it would if those wells drilled under current system. It is expected that the new 'modernized' framework will follow a revenue minus costs approach for non-oilsands wells, being a flat 5% royalty applied until a well's allowable costs have been covered, followed by a higher rate that will fluctuate with commodity prices. It is not anticipated that the new rules will materially impact Granite's financial condition; however, the specific nature in which the new rules will be applied has not yet been determined and may alter this view.

## **Government Initiatives**

The Government of Alberta has from time to time implemented drilling credits, incentives or transitional royalty programs to encourage oil and gas development and new drilling. For example, the Innovative Energy Technologies Program (the "IETP") has the stated objectives of increasing recovery from oil and gas deposits, finding technical solutions to the gas over bitumen issue, improving the recovery of bitumen by in-situ and mining techniques and improving the recovery of natural gas from coal seams. The IETP provides royalty adjustments to specific pilot and demonstration projects that utilize new or innovative technologies to increase recovery from existing reserves.

In addition, the Government of Alberta has implemented certain initiatives intended to accelerate technological development and facilitate the development of unconventional resources (the "**Emerging Resource and Technologies Initiative**"). Specifically:

- Coalbed methane wells will receive a maximum royalty rate of 5% for 36 producing months on up to 750 MMcf of production, retroactive to wells that began producing on or after May 1, 2010;
- Shale gas wells will receive a maximum royalty rate of 5% for 36 producing months with no limitation on production volume, retroactive to wells that began producing on or after May 1, 2010;
- Horizontal gas wells will receive a maximum royalty rate of 5% for 18 producing months on up to 500 MMcf of production, retroactive to wells that commenced drilling on or after May 1, 2010; and
- Horizontal oil wells and horizontal non-project oil sands wells will receive a maximum royalty rate of 5% with volume and production month limits set according to the depth of the well (including the horizontal distance), retroactive to wells that commenced drilling on or after May 1, 2010.

The Emerging Resource and Technologies Initiative was reviewed in 2014, and the Government of Alberta has committed to providing industry with three years notice if it decides to discontinue the program. As of the date hereof, the Government of Alberta has yet to disclose the results of its review.

## **Environmental Regulation**

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities.

The oil and natural gas industry is currently subject to regulation pursuant to a variety of provincial and federal environmental legislation, all of which is subject to governmental review and revision from time to time. Such legislation provides for, among other things, restrictions and prohibitions on the spill, release or emission of various substances produced in association with certain oil and gas industry operations, such as sulphur dioxide and nitrous oxide. In addition, such legislation sets out the requirements with respect to oilfield waste handling and storage, habitat protection and the satisfactory operation, maintenance, abandonment and reclamation of well and facility sites. Compliance with such legislation can require significant expenditures and a breach of such requirements may result in suspension or revocation of necessary licences and authorizations, civil liability and the imposition of material fines and penalties.

Pursuant to the *Prosperity Act*, the Government of Canada amended or repealed several pieces of federal environmental legislation and in addition, created a new federal environment assessment regime that came in to force on July 6, 2012. The changes to the environmental legislation under the *Prosperity*



*Act* are intended to provide for more efficient and timely environmental assessments of projects that previously had been subject to overlapping legislative jurisdiction.

The regulatory landscape in Alberta has undergone a transformation from multiple regulatory bodies to a single regulator for upstream oil and gas, oil sands and coal development activity. On June 17, 2013, the Alberta Energy Regulator (the "**AER**") assumed the functions and responsibilities of the former Energy Resources Conservation Board, including those found under the *Oil and Gas Conservation Act*. On November 30, 2013, the AER assumed the energy related functions and responsibilities of Alberta Environment and Sustainable Resource Development ("**AESRD**") in respect of the disposition and management of public lands under the *Public Lands Act*. On March 29, 2014, the AER assumed the energy related functions and responsibilities of AESRD in the areas of environment and water under the *Environmental Protection and Enhancement Act* (the "**EPEA**") and the *Water Act*, respectively. The AER accepts *Water Act* and EPEA applications and regulatory submissions associated with *Water Act* approval conditions that were previously submitted to AESRD. The AER's responsibilities exclude the functions of the Alberta Utilities Commission and the Surface Rights Board, as well as Alberta Energy's responsibility for mineral tenure. The objective behind the transformation to a single regulator is the creation of an enhanced regulatory regime that is efficient, attractive to business and investors, and effective in supporting public safety, environmental management and resource conservation while respecting the rights of landowners.

The Alberta Land Use Framework (the "**ALUF**") sets out an approach to manage public and private land use and natural resource development in Alberta in a manner that is consistent with the long-term economic, environmental and social goals of the province. It calls for the development of seven region-specific land use plans in order to manage the combined impacts of existing and future land use within a specific region and the incorporation of a cumulative effects management approach into such plans. The *Alberta Land Stewardship Act* (the "**ALSA**") provides the legislative authority for the Government of Alberta to implement the policies contained in the ALUF. Regional plans established under the ALSA are deemed to be legislative instruments equivalent to regulations and will be binding on the Government of Alberta and provincial regulators, including those governing the oil and gas industry. In the event of a conflict or inconsistency between a regional plan and another regulation, regulatory instrument or statutory consent, the regional plan will prevail. Further, the ALSA requires local governments, provincial departments, agencies and administrative bodies or tribunals to review their regulatory instruments and make any appropriate changes to ensure that they comply with an adopted regional plan. The ALSA also contemplates the amendment or extinguishment of previously issued statutory consents such as regulatory permits, licences, registrations, approvals and authorizations for the purpose of achieving or maintaining an objective or policy resulting from the implementation of a regional plan. Among the measures to support the goals of the regional plans contained in the ALSA are conservation easements, which can be granted for the protection, conservation and enhancement of land; and conservation directives, which are explicit declarations contained in a regional plan to set aside specified lands in order to protect, conserve, manage and enhance the environment.

With the implementation of the new Alberta regulatory structure under the AER, AESRD will remain responsible for development and implementation of regional plans. However, the AER will take on some responsibility for implementing regional plans in respect of energy related activities.

Compliance with environmental regulations can require significant expenditures, including costs and damages arising from releases or contaminated properties or spills. The Corporation anticipates that future capital expenditures and operating expenses could continue to increase as a result of the implementation of new environmental regulations. Failure to comply with environmental regulations may result in the imposition of fines, penalties and environmental protection orders. The costs of complying with environmental regulation may have a material adverse effect on the Corporation's financial condition, results of operations and cash flows. The implementation of new environmental regulations or the modification of existing environmental regulations affecting the crude oil and natural gas industries generally could reduce demand for crude oil and natural gas and increase costs.

Failure to comply with environmental regulations could also have an adverse impact on Granite's reputation and the price of Common Shares. There is also risk that Granite could become involved in litigation or proceedings relating to environmental regulations or climate change.

### ***Climate Change Regulation***

The Government of Canada is a signatory to the United Nations Framework Convention on Climate Change (the "**UNFCCC**") and a participant to the Conference of the Parties session held in November and December 2015. Canada, along with close to 200 other countries, is a signatory to the Paris Agreement that was a result of the 2015 Conference of the Parties session. The Paris Agreement aims to limit global temperature rise to well below 2 degrees Celsius. The Government of Canada has agreed to support this, but the specific targets for Canadian individuals and companies to abide by in order to achieve this have yet to be determined as at the Effective Date of this AIF. It is anticipated that the Government of Canada, together with the provincial governments, will work on creating a pan-Canadian framework that is consistent with the outcome reached in Paris for combatting climate change.

In June 2012, the second US Canada Clean Energy Dialogue Action Plan was released. The plan renewed efforts to enhance bilateral collaboration on the development of clean energy technologies to reduce GHG emissions. In 2010, Canada was a participant to the Copenhagen Accord (a non-binding agreement created by the UNFCCC which represents a broad political consensus and reinforces commitments to reducing greenhouse gas ("**GHG**") emissions). On January 29, 2010, Canada inscribed in the Copenhagen Accord its 2020 economy-wide target of a 17% reduction of GHG emissions from 2005 levels. This target is aligned with the United States target. In a report dated October 2013, the Government stated that this target represents a significant challenge in light of strong economic growth (Canada's economy is projected to be approximately 31% larger in 2020 compared to 2005 levels). On April 26, 2007, the Government of Canada released "Turning the Corner: An Action Plan to Reduce Greenhouse Gases and Air Pollution" (the "**Action Plan**") which set forth a plan for regulations to address both GHGs and air pollution. An update to the Action Plan, "Turning the Corner: Regulatory Framework for Industrial Greenhouse Gas Emissions" was released on March 10, 2008 (the "**Updated Action Plan**"). The Updated Action Plan outlines emissions intensity-based targets, for application to regulated sectors on a facility-specific, sector-wide basis or company-by-company basis. Although the intention was for draft regulations aimed at implementing the Updated Action Plan to become binding on January 1, 2010, the only regulations being implemented are in the transportation and electricity sectors. The federal government has indicated that it is taking a sector-by-sector regulatory approach to reducing GHG emissions and is working on regulations for other sectors. Representatives of the Government of Canada have indicated that the proposals contained in the Updated Action Plan will be modified to ensure consistency with the direction ultimately taken by the United States with respect to GHG emissions regulation.

The Government of Alberta released a Report to Minister on Climate Leadership on November 20, 2015, prepared by the Alberta Climate Leadership Panel. In responding to this Report, the Government of Alberta announced several proposed actions, including a carbon price to be implemented in two steps. It is anticipated that the Government of Alberta will implement a \$20 economy-wide emissions price per tonne in January 2017, bumping up to a \$30 ceiling in January 2018. It is also planned that the Government of Alberta will legislate an overall emissions limit of 100 megatons of carbon a year in the oil sands, plus provision for upgrading and co-generation. The specific elements of the Government of Alberta's 2015 climate reform scheme are still to be confirmed and elucidated by legislative action, and thus uncertainties exist with respect to the effects of such reform on the commodities industries.

As part of Alberta's 2008 Climate Change Strategy, the province committed to taking action on three themes: (a) conserving and using energy efficiently (reducing GHG emissions); (b) greening energy production; and (c) implementing carbon and capture storage. As part of its efforts to reduce GHG emissions, Alberta introduced legislation to address GHG emissions: the *Climate Change and Emissions Management Act* (the "**CCEMA**"), The CCEMA is based on an emissions intensity approach and aims for a 50% reduction from 1990 emissions relative to GDP by 2020. The accompanying regulations include the Specified Gas Emitters Regulation ("**SGER**"), which imposes GHG limits, and the Specified Gas

Reporting Regulation, which imposes GHG emissions reporting requirements. Alberta facilities emitting more than 100,000 tonnes of GHGs a year are subject to compliance with the CCEMA. Alberta is the first jurisdiction in North America to impose regulations requiring large facilities in various sectors to reduce their GHG emissions.

The SGER, effective July 1, 2007, applies to facilities emitting more than 100,000 tonnes of GHGs in 2003 or any subsequent year, and requires reductions in GHG emissions intensity (e.g. the quantity of GHG emissions per unit of production) from emissions intensity baselines established in accordance with the SGER. Established Facilities are required to reduce their emissions intensity by 15% of their baseline emissions intensity for 2016 and 20% starting in 2017. This was recently increased from an initial target of 12%. New Facilities are required to reduce their emissions intensity by 2% from baseline in the fourth year of commercial operation, 4% of their baseline in the fifth year, 6% of their baseline in the sixth year, 8% of their baseline in the seventh year and 10% of their baseline in the eighth year. The CCEMA does not contain any provision for continuous annual improvements in emissions intensity reductions beyond those stated above.

The CCEMA provides that regulated emitters can meet their emissions intensity targets by contributing to the Climate Change and Emissions Management Fund (the “Fund”) at a rate of \$20 per tonne of CO2 equivalent for 2016 and \$30 for 2017. This was recently amended from \$15. The Fund will be used to drive innovation and test and implement new technologies for greening energy production. Emissions credits can also be purchased from regulated emitters that have reduced their emissions below the 100,000 tonne threshold or non-regulated emitters that have generated emissions offsets through activities that result in emissions reductions in accordance with established protocols published by the Government of Alberta.

Adverse impacts to the Corporation’s business as a result of comprehensive GHG legislation or regulation, including legislation to implement the recommendations proposed by the Alberta Climate Leadership Panel and the amendments to the SGER, to be enacted and applied to the Corporation’s business in Alberta or any jurisdiction in which the Corporation operates, may include, but are not limited to: increased compliance costs; permitting delays; substantial costs to generate or purchase emission credits or allowances adding production costs; and reduced demand for crude oil. Emission allowances or offset credits may not be available for acquisition or may not be available on an economic basis. Required emission reductions may not be technically or economically feasible to implement, in whole or in part, and failure to meet such emission reduction requirements or other compliance mechanisms may have a material adverse effect on the Corporation’s business resulting in, among other things, fines, permitting delays, penalties and the suspension of operations. Consequently, no assurances can be given that the effect of future climate change regulations will not be significant to Granite.

Beyond existing legal requirements, the extent and magnitude of any adverse impacts of any additional programs or additional regulations cannot be reliably or accurately estimated at this time because specific legislative and regulatory requirements have not been finalized and uncertainty exists with respect to the additional measures being considered and the time frames for compliance.

### ***Tax Compliance***

The taxation of corporations is complex. In the ordinary course of business, Granite is subject to ongoing audits by tax authorities. While Granite believes that its tax filing positions are appropriate and supportable, it is possible that tax matters, including the calculation and determination of revenue, expenditures, deductions, credits and other tax attributes, taxable income, taxes payable and renouncements of flow through expenditures, may be reviewed and challenged by the tax authorities. If such challenge were to succeed, it could have a material adverse effect on Granite’s tax position. Further, the interpretation of and changes in tax laws, whether by legislative or judicial action or decision, and the administrative policies and assessing practices of taxation authorities, could materially adversely affect Granite’s tax position. As a consequence, Granite is unable to predict with certainty the effect of the foregoing on Granite’s effective tax rate and earnings. Granite intends to mitigate this risk through

ensuring that tax filing positions are carefully scrutinized by management and external consultants, as appropriate.

Producers of oil and natural gas from freehold lands in Alberta are required to pay freehold mineral tax. The freehold mineral tax is a tax levied by the Government of Alberta on the value of oil and natural gas production from non-Crown lands and is derived from the *Freehold Mineral Rights Tax Act* (Alberta). The freehold mineral tax is levied on an annual basis on calendar year production using a tax formula that takes into consideration, among other things, the amount of production, the hours of production, the value of each unit of production, the tax rate and the percentages that the owners hold in the title. The basic formula for the assessment of freehold mineral tax is: revenue less allocable costs equals net revenue divided by wellhead production equals the value based upon unit of production. If payors do not wish to file individual unit values, a default price is supplied by the Crown. On average, the tax levied is 4% of revenues reported from fee simple mineral title properties.

### ***Seasonality***

The level of activity in the Canadian oil and natural gas industry is influenced by seasonal weather patterns. Wet weather and spring thaw may make the ground unstable. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment, thereby potentially reducing activity levels. Also, certain oil and natural gas producing areas are located in areas that are inaccessible other than during the winter months because the ground surrounding the sites in these areas consists of swampy terrain. Seasonal factors and unexpected weather patterns may lead to declines in exploration and production activity and also to volatility in commodity prices as the demand for natural gas can rise during cold winter months and hot summer months.

### ***Geopolitical Risks***

Political events throughout the world that cause disruptions to, or changes in, the supply of oil and natural gas affect the marketability and price of crude oil and natural gas. Conflicts, or conversely peaceful developments, arising outside of Canada can have a significant impact on the price of commodities, and as such on Granite's financial condition. Any particular event could result in a material decline in commodity prices and result in a reduction of Granite's net production revenue. In addition, the Corporation's oil and natural gas properties, wells and facilities could be subject to a terrorist attack. If any of Granite's properties, wells or facilities are subject to a terrorist attack, it may have a material adverse effect on the Corporation's continued operations, financial condition, operational results and future prospects. Granite does not have insurance to protect against such risk.

## **OTHER RISK FACTORS**

### ***Forward-Looking Statements and Information May Prove Inaccurate***

Shareholders and prospective investors are cautioned not to place undue reliance on the Corporation's forward-looking statements and information. By its nature, forward-looking statements and information involve numerous assumptions, known and unknown risk and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking statements or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate. Additional information on the risks, assumptions and uncertainties related to forward-looking statements and information are found under the heading "Forward-Looking Statements and Information" in this AIF.

### ***Volatility in Market Price of Common Shares***

The market price for Common Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Corporation's control, including the following: (i) actual

or anticipated fluctuations in Granite's financial results; (ii) recommendations by securities research analysts; (iii) changes in the economic performance or market valuations of other companies that investors deem comparable to Granite; (iv) the loss or resignation of members of Management or the Board and other key personnel of Granite; (v) sales or perceived sales of additional Common Shares; (vi) significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving Granite or its competitors where Granite does not realize its anticipated benefits from such transaction; (vii) trends, concerns, technological or competitive developments, regulatory changes and other related issues in the oil and natural gas industry; and (viii) actual or anticipated fluctuations in interest rates.

Financial markets have experienced significant price and volume fluctuations in recent years that have particularly affected the market prices of equity securities of companies and that have, in many cases, been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the Common Shares may decline even if Granite's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values which may result in impairment losses. Certain institutional investors may base their investment decisions on consideration of Granite's environmental, governance and social practices and performance against such institutions' respective investment guidelines and criteria, and failure to meet such criteria may result in a limited or no investment in the Common Shares by those institutions, which could adversely affect the trading price of the Common Shares.

### ***Conflicts of Interest***

Certain directors or officers of Granite may also, or may in the future be, directors or officers of other oil and natural gas companies that may compete or be counterparties to agreements with Granite, and as such may, in certain circumstances, have a conflict of interest. Conflicts of interest, if any, will be subject to and governed by procedures prescribed by the ABCA which require a director or officer of a corporation who is a party to, or is a director or an officer of, or has a material interest in any person who is a party to, a material contract or proposed material contract with Granite disclose his or her interest and, in the case of directors, refrain from voting on any matter in respect of such contract unless otherwise permitted under the ABCA. See "*Directors and Officers - Conflicts of Interest*".

### ***Breach of Confidentiality***

While discussing potential business relationships or other transactions with third parties, Granite may disclose confidential information relating to the business, operations or affairs of the Corporation. Although confidentiality agreements are to be signed by third parties prior to the disclosure of any confidential information, a breach of such confidentiality agreement could put Granite at competitive risk and may cause significant damage to its business. The harm to Granite's business from a breach of confidentiality cannot presently be quantified, but may be material and may not be compensable in damages. There can be no assurance that, in the event of a breach of confidentiality, Granite will be able to obtain equitable remedies, such as injunctive relief from a court of competent jurisdiction in a timely manner, if at all, in order to prevent or mitigate any damage to its business that such a breach of confidentiality may cause.

### ***Alternatives to and Changing Demand for Petroleum Products***

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas, and technological advances in fuel economy and energy generation devices could reduce the demand for oil and other hydrocarbons. Granite cannot predict the impact of changing demand for oil and natural gas products, and any major changes in demand could materially adversely affect Granite's business and financial condition.

## DESCRIPTION OF CAPITAL STRUCTURE AND MARKET FOR SECURITIES

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### Common Shares

The Corporation is authorized to issue an unlimited number of Common Shares. As of December 31, 2015, an aggregate of 30,355,024 Common Shares were issued and outstanding. As at the Effective Date, there are 30,355,024 Common Shares issued and outstanding. The holders of Common Shares are entitled (i) to receive dividends, if and when declared by the Board, in such amount and in such form as the directors may determine, from time to time, (ii) equally to receive the remaining property and assets of the Corporation on an equal basis per share, and (iii) to receive notice of, and to vote at, all meetings of the shareholders of the Corporation. The Common Shares shall not be subdivided, consolidated, reclassified or otherwise changed unless contemporaneously therewith, the other class of shares is subdivided, consolidated, reclassified or otherwise changed in the same proportion or in the same manner.

### Market for Securities

The Common Shares are listed and posted for trading on the TSX under the symbol "GXO" and on the OTCQX under the symbol "GXOCF". The following table sets forth the price range (high and low prices) in Canadian dollars of Common Shares and volume traded on the TSX, for the periods indicated.

<b>2015</b>	<b>High</b>	<b>Low</b>	<b>Volume</b>
January	5.76	4.19	15,036,159
February	7.2	5.53	15,585,422
March	6.88	5.23	15,191,301
April	7.72	6.36	20,761,460
May	7.75	5.92	12,109,381
June	7.24	6.2	5,656,322
July	6.45	4.06	2,862,905
August	7.07	4.43	4,437,675
September	7.79	6.36	2,249,163
October	7.87	6.85	1,979,306
November	9.39	7.38	1,667,514
December	9.00	6.55	1,407,239
<b>2016</b>			
January	8.29	6.05	2,684,356
February	8.43	6.74	1,245,804
March <sup>(1)</sup>	7.7	6.99	841,221

Note:

(1) From March 1, 2014 to March 18, 2016.

### DIVIDENDS

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On May 15, 2015, the Board of Directors adopted a dividend policy of paying monthly dividends at a rate of \$0.03 per Common Share. On August 13, 2015, the Board of Directors approved an 8% increase to the monthly dividend to \$0.0325 per Common Share starting with the August 2015 dividend payable in September 2015. On November 4, 2015, the Board of Directors approved an additional increase of 8% to the monthly dividend to \$0.035 per Common Share starting with the November 2015 dividend payable in December 2015.

The Board of Directors carefully monitors the impact of all issues affecting the Corporation's business and the necessity of adjusting the monthly dividends and capital programs as conditions evolve.

The amount of future dividends, if any, will be in the sole discretion of the Board after considering a variety of factors and conditions existing from time to time, including current and future commodity prices,

foreign exchange rates, the Corporation's hedging program, current operations including production levels, operating costs, royalty burdens and debt service requirements, available investment opportunities and the satisfaction of the liquidity and solvency tests imposed by the ABCA for the declaration and payment of dividends.

Cash dividends are paid on the 15<sup>th</sup> day (or if such date is not a business day, on the next business day) following the end of each calendar month to Shareholders of record on the last business day of each such calendar month or such other date as determined from time to time by the Board of Directors. Unless otherwise specified, all dividends paid or to be paid by the Corporation are designated as "eligible dividends" under the *Tax Act*.

The Corporation's long term objective is to set a dividend policy at prudent levels while withholding sufficient funds to finance capital expenditures required to grow the current production base. This in turn is expected to provide a stronger base of cash flow leading to consistent and sustainable dividends into the future.

The Corporation's Credit Facility contains restrictions on the ability to pay dividends in certain circumstances. In addition, the payment of dividends by a corporation is governed by the liquidity and insolvency tests described in the ABCA. Pursuant to the ABCA, after the payment of a dividend, the Corporation must be able to pay its liabilities as they become due and the realizable value of the Corporation's assets must be greater than its liabilities and the legal stated capital of outstanding securities.

**Cash dividends are not guaranteed. Granite's historical cash dividends may not be reflective of future cash dividends, which will be subject to review by the Board of Directors taking into account our prevailing financial circumstances at the relevant time. Although the Corporation intends to make dividends of available cash to Shareholders, these cash dividends may be reduced or suspended. The actual amount distributed will depend on numerous factors and conditions existing from time to time. See "*Risk Factors and General Industry Conditions - Financial Risks - Dividends*".**

The following monthly cash dividends on the Common Shares were declared by the Board for the periods indicated below:

Date Range	Cash Dividend per Common Share (\$ per Common Share)
November 2015 to February 2016	0.035
August 2015 to October 2015	0.0325
June 2015 to July 2015	0.03
January 2015 to May 2015	0

## **DIRECTORS AND OFFICERS**

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As at the date hereof, the Board is comprised of seven individuals. The following table sets forth the names and municipalities of residence of the current directors and executive officers of the Corporation, their respective positions and offices with the Corporation and the date first appointed or elected as a director and/or officer and their principal occupation(s) within the past five years.

In accordance with the policies of the TSX, the Board has adopted a majority voting policy in director elections that will apply at any meeting of the Corporation's shareholders where an uncontested election of directors is held. Pursuant to this policy, if the number of proxy votes withheld for a particular director nominee is greater than the votes for such director, the director nominee will be required to submit his or her resignation to the Chairman of the Board promptly following the applicable shareholders' meeting. Following receipt of resignation, the Compensation Committee of the Corporation will consider whether or not to accept the offer of resignation and make a recommendation to the Board. Within 90 days following the applicable shareholders' meeting, the Board shall publicly disclose their decision whether to accept

the applicable director's resignation or not, including the reasons for rejecting the resignation, if applicable. A director who tenders his or her resignation pursuant to this policy will not be permitted to participate in any meeting of the Board or the Compensation Committee at which the resignation is considered.

### Name, Occupation and Security Holding

Name and Municipality of Residence	Position Held and Date Appointed	Principal Occupation
Brendan Carrigy <i>Nanoose Bay, British Columbia</i>	Chairman (May 15, 2015)	Mr. Carrigy was the Vice-President, Exploration of the Corporation from July, 2009 to August, 2011 and Executive Vice President from August, 2011 to March, 2012. Mr. Carrigy has been a director of the Corporation since March 23, 2009. Mr. Carrigy was Vice-President, Exploration for Cyries Energy Inc. from inception in July 2004 to July 2007. Prior thereto, Mr. Carrigy was Exploration Manager of Cequel Energy Inc. from January 2002 to July 2004.
Michael Kabanuk <i>Cochrane, Alberta</i>	President, Chief Executive Officer and a director (May 15, 2015)	Mr. Kabanuk previously served as Chairman of the Board, and was appointed as a director of the Corporation on July 22, 2008. Mr. Kabanuk was Chief Operating Officer and Vice-President, Operations at Cyries Energy Inc. from May 2004 to March 2008. Prior thereto, Mr. Kabanuk was Vice-President, Operations of Cequel Energy Inc. from July 2003 to May 2004, and prior thereto was the Operations Manager of Cequel Energy Inc. from January 24, 2002 to August 7, 2003.
Martin Cheyne <i>Calgary, Alberta</i>	Director (January 24, 2007)	Mr. Cheyne was the President and Chief Executive Officer of the Corporation from January 24, 2007 through May 15, 2015. Mr. Cheyne currently is the President and Chief Executive Officer of Boulder. Mr. Cheyne has been a director of Phoenix Oilfield Hauling, a public company listed on the TSXV, since May 2006. Mr. Cheyne was President, CEO and a director of Dual Exploration Inc. from July 2005 to December 2006. Prior thereto, Mr. Cheyne was President, CEO and a director of Devlan Exploration Inc. from November 1995 to July 2005.
Henry Hamm <sup>(1)(2)(3)(4)</sup> <i>Grande Prairie, Alberta</i>	Director (January 25, 2010)	Mr. Hamm owns and operates a number of private companies in the Grande Prairie region including Prudential Lands Corporation, a land development company formed in 1995 and Dirham Homes Inc., a home building company formed in 1976. Mr. Hamm also owns and operates Prudential Energy Services Inc., an oil and gas service company.
Dennis Nerland <sup>(1)(2)(3)</sup> <i>Calgary, Alberta</i>	Director (November 22, 2007)	Mr. Nerland has been a partner with the law firm Shea Nerland Calnan since 1990 practicing primarily in the areas of tax and trust law. Mr. Nerland is a current and past director of a number of private and public companies listed on the TSXV and the TSX and is currently a trustee of a number of private investment trusts. Mr. Nerland has a Bachelor of Laws degree from the University of Calgary, a Master of Arts degree (Economics) from Carleton University and a Bachelor of Science degree (Economics and Mathematics) from the University of Calgary. He is a member of the Law Society of Alberta. Mr. Nerland has completed the Rotman/Haskayne Directors Education Program and received the designation of ICD.D. Mr. Nerland has also completed the Rotman Financial Literacy Program.



Name and Municipality of Residence	Position Held and Date Appointed	Principal Occupation
Bradley Porter <sup>(1)(2)(3)(4)</sup> <i>Okotoks, Alberta</i>	Director (January 24, 2007)	Mr. Porter was Executive Vice President, COO and a director of Dual Exploration Inc. from July 2005 to December 2006. Prior thereto, Mr. Porter was Executive Vice President, COO and a director of Devlan Exploration Inc. from December 1995 to July 2005.
Kevin Andrus <sup>(1)(2)(3)(4)</sup> <i>Centennial, Colorado</i>	Director (June 21, 2013)	Mr. Andrus is the Portfolio Manager of Energy Investments with GMT Capital Corp., a private investment company based in Atlanta, Georgia. A graduate of the Masters of Business Administration program from Regis University, Mr. Andrus is also a Chartered Financial Analyst charter holder who has spent the past two decades with various investment management companies.
Gail Hannon <i>Calgary, Alberta</i>	Chief Financial Officer (July 2, 2009)	Ms. Hannon has been the Chief Financial Officer of the Corporation since July 2, 2009. Ms. Hannon was the Controller with Artek Exploration Ltd. From March 2006 to May 2009. Prior thereto, Ms. Hannon was the Controller with White Fire Energy Ltd. From April 2005 to February 2006 and prior thereto was Accounting Manager/Controller with Lightning Energy Inc. from June 2002 to March 2005.
Tyler Klatt <i>Calgary, Alberta</i>	Vice-President, Exploration (May 15, 2015)	Mr. Klatt has been employed with DeeThree since March 15, 2011 as a Senior Geologist. Prior thereto, Mr. Klatt worked within oil & gas consulting then development and exploration at Canadian independent oil producers Cenovus Energy and Encana Corp. from December 5, 2005 to February 28, 2011. A graduate of the Geology program at the University of Saskatchewan, Mr. Klatt is a professional Geologist and brings over 15 years' experience working in the Western Canadian Seminary Basin.
Jonathan Fleming <i>Calgary, Alberta</i>	Executive Vice President (May 15, 2015)	Prior to joining DeeThree in spring 2014, Mr. Fleming was an oil and natural gas equity analyst in Calgary for 10 years. Prior to that he worked in the planning and commercial group at Talisman Energy Inc. for five years. Mr. Fleming holds an MBA from Dalhousie University in Halifax, Nova Scotia.

**Notes:**

- (1) Member of the Audit Committee. Each member of Audit Committee is considered independent and financially literate.
- (2) Member of the Reserves Committee.
- (3) Member of the Corporate Governance and Compensation Committee.
- (4) Member of the Nominating Committee

As at the date hereof, the directors and senior officers of Granite, as a group, beneficially own or control, directly or indirectly, 2,733,061 Common Shares or 9.0% of the issued and outstanding Common Shares.

The directors listed above will hold office until the next annual meeting of the Corporation or until their successors are elected or appointed.

**Corporate Cease Trade Orders, Bankruptcies, Penalties or Sanctions**

To the knowledge of management, other than as disclosed herein, no director or executive officer as at the date hereof, is or was within 10 years before the date hereof, a director, chief executive officer or chief financial officer of any company (including Granite), that (a) was subject to an order that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief

financial officer, or (b) was subject to an order that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer. For the purposes hereof, "order" means (a) a cease trade order, (b) an order similar to a cease trade order, or (c) an order that denied the relevant company access to any exemption under securities legislation that was in effect for a period of more than 30 consecutive days.

To the knowledge of management, other than as disclosed herein, no director or executive officer of Granite, or a shareholder holding a sufficient number of securities of Granite to affect materially the control of the company (a) is, as at the date hereof, or has been within the 10 years before the date hereof, a director or executive officer of any company (including Granite) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, or (b) has, within the 10 years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

Mr. Dennis Nerland, a director of Granite, was appointed as a director of Alston Energy Inc. ("Alston") on July 17, 2012. Alston, an oil and gas exploration and production company, is a reporting issuer in Alberta, British Columbia and Saskatchewan with its Common Shares listed on the TSX Venture Exchange. On December 9, 2013, Alston obtained an order under the Companies Creditors' Arrangement Act (Canada) from the Court of Queen's Bench of Alberta, protecting Alston from its creditors, with a Monitor being appointed by the Court. On May 6, 2014, and May 8, 2014, the Common Shares of Alston were cease traded by the Alberta Securities Commission and the British Columbia Securities Commission, respectively, as a result of the failure by Alston to file audited annual financial statements and related management's discussion and analysis for the period ended December 31, 2013, together with the related certification of filings. On May 9, 2014, Alston announced that a receiver has been appointed by the Court of Queen's Bench of Alberta. All of the directors and officers of Alston, including Mr. Nerland, resigned on May 14, 2014.

### **Personal Bankruptcies**

No director, officer or shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation has within 10 years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or was subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of such person.

### **Penalties or Sanctions**

No director, executive officer or Shareholder holding a sufficient number of securities of Granite to materially affect the control of the Corporation has been subject to: (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

### **Conflicts of Interest**

There are potential conflicts of interest to which the directors and officers of Granite will be subject to in connection with the operations of Granite. In particular, certain of the directors and officers of Granite are involved in managerial or director positions with other oil and natural gas companies whose operations may, from time to time, be in direct competition with those of Granite or with entities which may, from time to time, provide financing to, or make equity investments in, competitors of Granite.

In accordance with the applicable corporate and securities legislation, directors who have a material interest or any person who is a party to a material contract or a proposed material contract with Granite are required, subject to certain exceptions, to disclose that interest and generally abstain from voting on any resolution to approve the contract. In addition, the directors are required to act honestly and in good faith with a view to the best interests of Granite. Certain of the directors and each of the executive officers of Granite have either other employment or other business or time restrictions placed on them and accordingly, these directors of Granite will only be able to devote part of their time to the affairs of Granite. To the extent that conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of the applicable corporate law.

## **Insurance Coverage and Indemnification**

Granite has acquired and maintains liability insurance for its directors and officers with coverage and terms that are customary for a company of its size in the oil and gas industry. In addition, Granite entered into indemnification agreements with its directors and officers. The indemnification agreements generally require that Granite indemnify and hold the indemnitees harmless to the greatest extent permitted by law for liabilities arising out of the indemnitees' service to Granite as directors and officers, so long as the indemnitees acted honestly and in good faith with a view to the best interests of Granite and, with respect to criminal or administrative actions or proceedings that are enforced by monetary penalty, if the indemnitee had no reasonable grounds to believe that his or her conduct was unlawful. The indemnification agreements also provide for the advancement of defence expenses to the indemnitees by Granite.

## **AUDIT COMMITTEE**

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### **Audit Committee Charter**

The full text of the Corporation's Audit Committee Charter is included as **Schedule C** to the AIF.

### **Audit Committee Composition**

Granite's audit committee consists of Mr. Nerland (Chair) and Messrs. Porter, Hamm and Andrus. All members of the audit committee are independent and financially literate as those terms are used and defined in National Instrument 52-110 Audit Committees ("**NI 52-110**"). See "*Directors and Officers*".

### **Relevant Education and Experience**

#### *Dennis Nerland*

Mr. Nerland has been a partner with the law firm Shea Nerland Calnan since 1990 practicing primarily in the areas of tax and trust law. Mr. Nerland is a current and past director of a number of private and public companies listed on the TSXV and the Toronto Stock Exchange and is currently a trustee of a number of private investment trusts. Mr. Nerland has a Bachelor of Laws degree from the University of Calgary, a Master of Arts degree (Economics) from Carleton University and a Bachelor of Science degree (Economics and Mathematics) from the University of Calgary. He is a member of the Law Society of Alberta. Mr. Nerland received the ICD.D designation in 2011 and successfully completed the Rotman Financial Literacy Program in 2012.

#### *Bradley Porter*

Mr. Porter was the Chief Operating Officer, Executive Vice-President, Operations of DeeThree Ltd., one of the predecessors of the Corporation, from January 24, 2007 to March 23, 2009 and a director of DeeThree Ltd. since January 24, 2007. Mr. Porter was Executive Vice President, COO and a Director of Dual Exploration Inc. from July 2005 to December 2006. Prior thereto, Mr. Porter was Executive Vice President, COO and a Director of Devlan Exploration Inc. from December 1995 to July 2005.

### Henry Hamm

Mr. Hamm owns and operates a number of private companies in the Grande Prairie region including Prudential Lands Corporation, a land development company formed in 1995 and Dirham Homes Inc., a home building company formed in 1976.

### Kevin Andrus

Mr. Andrus is the Portfolio Manager of Energy Investments with GMT Capital Corp., a private investment company based in Atlanta, Georgia. A graduate of the Masters of Business Administration program from Regis University, Mr. Andrus is also a Chartered Financial Analyst charter holder who has spent the past two decades with various investment management companies.

## Audit Committee Oversight

At no time since the commencement of the Corporation's financial year ended December 31, 2015, was a recommendation of the Committee to nominate or compensate an external auditor not adopted by the Board of Directors.

## Reliance on Certain Exemptions

At no time since the commencement of the Corporation's financial year ended December 31, 2015, has the Corporation relied on any exemption from NI 52-110, including Section 2.4 of NI 52-110 (De Minimis Non-Audit Services), or an exemption granted under Part 8 of NI 52-110.

## Pre-Approval Policies and Procedures

The audit committee pre-approves all non-audit services to be provided to the Company by the external auditors. Prior to the commencement of the Company's fiscal year, the audit committee pre-approves expenditures with a dollar limit for services related to consultations as to the accounting or disclosure treatment of transactions, and for expenditures with a dollar limit for services related to taxation matters. The audit committee must pre-approve any costs that exceed these limits.

## External Auditor Service Fees

The aggregate fees billed by the Corporation's external auditors in each of the three fiscal years noted below for audit and other fees are as follows:

Financial Year Ending	Audit Fees (\$) <sup>(1)</sup>	Audit Related Fees (\$) <sup>(2)</sup>	Tax Fees (\$) <sup>(3)</sup>	All Other Fees (\$) <sup>(4)</sup>
2015	100,000	60,000	59,064	316,500
2014	281,000	--	40,125	--
2013	251,500	--	10,655	--

### Notes:

- (1) "Audit Fees" include fees necessary to perform the annual audit and quarterly reviews of our financial statements. Audit Fees include fees for review of tax provisions and for accounting consultations on matters reflected in the financial statements. Audit Fees also include audit or other attest services required by legislation or regulation, such as comfort letters, consents, reviews of securities filings and statutory audits.
- (2) "Audit-Related Fees" for assurance and related services that are reasonably related to the performance of the audit or review of the Corporation's financial statements and are not reported as audit fees. The services provided in this category include due diligence assistance, accounting consultations on proposed transactions, and consultation on International Financial Reporting Standards conversion.
- (3) "Tax Fees" include fees for all tax services other than those included in "Audit Fees" and "Audit-Related Fees". This category includes fees for tax compliance, tax planning and tax advice.
- (4) "All Other Fees" includes fees associated with the Plan of Arrangement completed on May 15, 2015.

## **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

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There are no legal proceedings material to the Corporation to which the Corporation is a party or of which any of its property is the subject matter, and there are no such proceedings known to the Corporation to be contemplated.

There are no penalties or sanctions imposed against the Corporation by a court relating to securities legislation or by a securities regulatory authority during legal proceedings material to the Corporation to which the Corporation is a party or of which any of its property is the subject matter, and there are no such proceedings known to the Corporation to be contemplated during the financial year ended December 31, 2015.

## **INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

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There were no material interests, direct or indirect, of any directors or executive officers of Granite, any shareholder who beneficially owns more than 10% of the Common Shares or any known associate or affiliate of such persons in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or will materially affect the Company.

## **AUDITOR, TRANSFER AGENT AND REGISTRAR**

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The auditors of the Corporation are KPMG LLP, Chartered Accountants, 2700, 250 - 5<sup>th</sup> Ave. SW, Calgary, AB, T2P 4B9.

Computershare Trust Corporation of Canada is the transfer agent and registrar for the Common Shares at its principal office in Calgary, Alberta.

## **MATERIAL CONTRACTS**

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Except for contracts entered into in the ordinary course of business, the only material contracts entered into by the Corporation within the most recently completed financial year, or before the most recently completed financial year but which are still in effect is the Credit Facility. See "*Borrowings*".

## **INTERESTS OF EXPERTS**

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There is no person or company whose profession or business gives authority to a statement made by such person or company and who is named as having prepared or certified a statement, report or valuation described or included in a filing, or referred to in a filing, made under NI 51-102 by the Corporation during, or related to, the Corporation's most recently completed financial year other than Sproule, the Corporation's independent engineering evaluators and KPMG LLP, the Corporation's auditors.

As at the date of hereof, the principal reserve evaluators of Sproule, as a group, beneficially own, directly or indirectly, less than 1% of the outstanding Common Shares.

KPMG LLP are the auditors of the Corporation and have confirmed that they are independent with respect to the Corporation within the meaning of the relevant rules and related interpretations prescribed by the relevant bodies in Canada and any applicable legislation or regulations.

Daniel Kenney, the Corporate Secretary of the Corporation, is a lawyer at DLA Piper (Canada) LLP, which law firm provides legal services to the Corporation. As of the date hereof, the associates and partners of DLA Piper (Canada) LLP, as a group, beneficially own, directly or indirectly, less than 1% of the outstanding Common Shares.

## **ADDITIONAL INFORMATION**

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Additional information about Granite may be found on SEDAR at [www.sedar.com](http://www.sedar.com). Additional financial information is provided in Granite's audited financial statements for the period ended December 31, 2015 and the accompanying MD&A. Information about remuneration and indebtedness of directors and officers of Granite, principal holders of the Common Shares and securities authorized for issuance under security-based compensation of the Corporation, will be contained in the Information Circular - Management Proxy Statement of the Corporation to which relates to the Annual Meeting of Shareholders to be held on May 12, 2016.

For copies of the financial statements of the Company and accompanying MD&A and the information circular and proxy statement and additional copies of the AIF (in certain circumstances reasonable fees may apply), please contact:

Chief Financial Officer  
Granite Oil Corp.  
Calgary, Alberta  
Telephone: 587.349.9113  
Email: [info@graniteoil.com](mailto:info@graniteoil.com)

**SCHEDULE A  
FORM 51 -101F2  
REPORT OF RESERVES DATA BY INDEPENDENT QUALIFIED RESERVES EVALUATOR**

**Form 51-101F2**

**Report on Reserves Data  
by Independent Qualified Reserves Evaluator or Auditor**

To the Board of Directors of Granite Oil Corp. (the "Company"):

1. We have evaluated the Company's reserves data as at December 31, 2015. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2015, estimated using forecast prices and costs.
2. The reserves data are the responsibility of the Company's management. Our responsibility is to express an opinion on the reserves data based on our evaluation.
3. We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook as amended from time to time (the "COGE Handbook"), maintained by the Society of Petroleum Evaluation Engineers (Calgary Chapter).
4. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.

5. The following table shows the net present value of future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of the Company evaluated for the year ended December 31, 2015, and identifies the respective portions thereof that we have audited, evaluated and reviewed and reported on to the Company's management and Board of Directors:

Independent Qualified Reserves Evaluator or Auditor	Effective Date	Location of Reserves (Country)	Net Present Value of Future Net Revenue Before Income Taxes (10% Discount Rate)			
			Audited (M\$)	Evaluated (M\$)	Reviewed (M\$)	Total (M\$)
Sproule	December 31, 2015	Canada				
<b>Total</b>			<b>Nil</b>	<b>264,019</b>	<b>Nil</b>	<b>264,019</b>

6. In our opinion, the reserves data respectively evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook, consistently applied. We express no opinion on the reserves data that we reviewed but did not audit or evaluate.
7. We have no responsibility to update our report referred to in paragraph 5 for events and circumstances occurring after the effective date of our report, entitled "Evaluation of the P&NG Reserves of Granite Oil Corp. in the Lethbridge Area of Alberta (As of December 31, 2015)".
8. Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.



Executed as to our report referred to above:

Sproule Associates Limited  
Calgary, Alberta  
March 7, 2016

Original Signed by Vincent K. Hui, P.Eng.

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Vincent K. Hui, P.Eng.  
Petroleum Engineer and Partner

Original Signed by Ian K. Kirkland, P.Geol.

\_\_\_\_\_  
Ian K. Kirkland, P.Geol.  
Senior Petroleum Geologist and Partner

Original Signed by Alec Kovaltchouk, P.Geo.

\_\_\_\_\_  
Alec Kovaltchouk, P.Geo.  
Vice President, Geoscience and Partner

Original Signed by Cameron P. Six, P.Eng.

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Cameron P. Six, P.Eng.  
Vice President Engineering, Chief Engineer  
and Director

**SCHEDULE B**  
**REPORT OF MANAGEMENT AND DIRECTORS**  
**ON RESERVES DATA AND OTHER INFORMATION (FORM 51-101F3)**

*Terms to which a meaning is ascribed in National Instrument 51-101 have the same meaning herein.*

Management of Granite Oil Corp. (the "**Company**") are responsible for the preparation and disclosure of information with respect to the Company's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data which are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2015, estimated using forecast prices and costs.

An independent qualified reserves evaluator has evaluated and reviewed the Company's reserves data. The report of the independent qualified reserves evaluator will be filed with securities regulatory authorities concurrently with this report.

The Reserves Committee of the board of directors of the Company has:

- (a) reviewed the Company's procedures for providing information to the independent qualified reserves evaluator;
- (a) met with the independent qualified reserves evaluator to determine whether any restrictions affected the ability of the independent qualified reserves evaluator to report without reservation and, in the event of a proposal to change the independent qualified reserves evaluator, to inquire whether there had been disputes between the previous independent qualified reserves evaluator and management; and
- (b) reviewed the reserves data with management and the independent qualified reserves evaluator.

The Reserves Committee of the board of directors has reviewed the Company's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The board of directors has, on the recommendation of the Reserves Committee, approved:

- (a) the content and filing with securities regulatory authorities of Form 51-101F1 containing reserves data and other oil and gas information;
- (c) the filing of Form 51-101F2 which is the report of the independent qualified reserves evaluator on the reserves data; and
- (d) the content and filing of this report.

Because the reserves data is based on judgements regarding future events, actual results will vary and the variations may be material.

"signed"  
Michael Kabanuk, President, Chief Executive Officer and Director

"signed"  
Gail Hannon, Chief Financial Officer

"signed"  
Brad Porter, Director  
**Dated:** March 21, 2016

"signed"  
Dennis Nerland, Director

## **SCHEDULE C AUDIT COMMITTEE CHARTER**

### **ROLE AND OBJECTIVE**

The Audit Committee (the “**Committee**”) is a committee of the Board of Directors of the Corporation to which the Board has delegated its responsibility for oversight of the nature and scope of the annual audit, management's reporting on internal accounting standards and practices, financial information and accounting systems and procedures, financial reporting and statements and recommending, for Board of Director approval, the audited financial reports and other mandatory disclosure releases containing financial information. The objectives of the Committee, with respect to the Corporation and its subsidiaries, are as follows:

- To assist Directors to meet their responsibilities in respect of the preparation and disclosure of the financial reports of the Corporation and related matters.
- Provide an open avenue of communication among the Corporation's auditors, financial and senior management and the Board of Directors.
- To ensure the external auditors' independence and review and appraise their performance.
- To increase the credibility and objectivity of financial reports.
- To strengthen the role of the outside directors by facilitating in depth discussions between directors on the Committee, management and external auditors.

### **COMPOSITION**

The Committee shall be composed of at least three individuals appointed by the Board from amongst its members, all of which members will be independent (within the meaning of National Instrument 52-110 *Audit Committees*) unless the Board determines to rely on an exemption in NI 52-110. “Independent” generally means free from any business or other direct or indirect material relationship with the Corporation that could, in the view of the Board, reasonably interfere with the exercise of the member's independent judgment.

The Secretary to the Board shall act as Secretary of the Committee.

A quorum shall be a majority of the members of the Committee.

All of the members must be financially literate within the meaning of NI 52-110 unless the Board has determined to rely on an exemption in NI 52-110. Being “financially literate” means members have the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Corporation's financial statements.

### **MEETINGS**

The Committee shall meet at least four times per year and/or as deemed appropriate by the Committee Chair. As part of its job to foster open communication, the Committee will meet at least annually with management and the external auditors in separate sessions.

Agendas, with input from management, shall be circulated to Committee members and relevant management personnel along with background information on a timely basis prior to the Committee meetings.

The minutes of the Committee meetings shall accurately record the decisions reached and shall be distributed to the Committee members with copies to the Board of Directors, the Chief Financial Officer or such other officer acting in that capacity, and the external auditor.

The Chief Executive Officer and the Chief Financial Officer or their designates shall be available to attend at all meetings of the Committee upon the invitation of the Committee.

The Controller, Treasurer and/or such other staff as appropriate to provide information to the Committee shall attend meetings upon invitation by the Committee.

### **MANDATE AND RESPONSIBILITIES**

To fulfill its responsibilities and duties, the Committee shall:

1. undertake annually a review of this mandate and make recommendations to the Corporate Governance and Compensation Committee as to proposed changes;
2. satisfy itself on behalf of the Board with respect to the Corporation's internal control systems, including, where applicable, relating to derivative instruments:
  - (a) identifying, monitoring and mitigating business risks; and
  - (a) ensuring compliance with legal and regulatory requirements;
3. review the Corporation's financial reports, MD&A, any annual earnings, interim earnings and press releases before the Corporation publicly discloses this information and any reports or other financial information (including quarterly financial reports), which are submitted to any governmental body, or to the public, including any certification, report, opinion, or review rendered by the external auditors; the process should include but not be limited to:
  - (a) reviewing changes in accounting principles, or in their application, which may have a material impact on the current or future years' financial reports;
  - (b) reviewing significant accruals, reserves or other estimates such as the ceiling test calculation;
  - (c) reviewing accounting treatment of unusual or non-recurring transactions;
  - (d) ascertaining compliance with covenants under loan agreements;
  - (e) reviewing financial reporting relating to asset retirement obligations;
  - (f) reviewing disclosure requirements for commitments and contingencies;
  - (g) reviewing adjustments raised by the external auditors, whether or not included in the financial reports;
  - (h) reviewing unresolved differences between management and the external auditors;
  - (i) obtain explanations of significant variances with comparative reporting periods; and
  - (j) determine through inquiry if there are any related party transactions and ensure the nature and extent of such transactions are properly disclosed;
4. review the financial reports and related information included in prospectuses, management discussion and analysis (MD&A), information circular-proxy statements and annual information forms (AIF), prior to Board approval;

5. with respect to the appointment of external auditors by the Board:
  - (a) require the external auditors to report directly to the Committee;
  - (b) review annually the performance of the external auditors who shall be ultimately accountable to the Board of Directors and the Committee as representatives of the shareholders of the Corporation;
  - (c) obtain annually, a formal written statement of external auditors setting forth all relationships between the external auditors and the Corporation and confirming their independence from the Corporation;
  - (d) review and discuss with the external auditors any disclosed relationships or services that may impact the objectivity and independence of the external auditors;
  - (e) be directly responsible for overseeing the work of the external auditors engaged for the purpose of issuing an auditors' report or performing other audit, review or attest services for the Corporation, including the resolution of disagreements between management and the external auditor regarding financial reporting;
  - (f) review management's recommendation for the appointment of external auditors and recommend to the Board appointment of external auditors and the compensation of the external auditors;
  - (g) review the terms of engagement of the external auditors, including the appropriateness and reasonableness of the auditors' fees;
  - (h) when there is to be a change in auditors, review the issues related to the change and the information to be included in the required notice to securities regulators of such change; and
  - (i) take, or recommend that the full Board of Directors take, appropriate action to oversee the independence of the external auditors;
  - (j) at each meeting, consult with the external auditors, without the presence of management, about the quality of the Corporation's accounting principles, internal controls and the completeness and accuracy of the Corporation's financial reports;
6. review all public disclosure containing audited or unaudited financial information before release;
7. review financial reporting relating to risk exposure;
8. satisfy itself that adequate procedures are in place for the review of the Corporation's public disclosure of financial information from the Corporation's financial reports and periodically assess the adequacy of those procedures;
9. review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Corporation;
10. review annually with the external auditors their plan for their audit and, upon completion of the audit, their reports upon the financial reports of the Corporation and its subsidiaries;
11. review and pre-approve all audit and audit-related services and the fees and other compensation related thereto, and any non-audit services, provided by the Corporation's external auditors and

consider the impact on the independence of the auditors; The pre-approval requirement is waived with respect to the provision of non-audit services if:

- (a) the aggregate amount of all such non-audit services provided to the Corporation constitutes not more than five percent (5%) of the total amount of revenues paid by the Corporation to its external auditors during the fiscal year in which the non-audit services are provided;
- (b) such services were not recognized by the Corporation at the time of the engagement to be non-audit services; and
- (c) such services are promptly brought to the attention of the Committee by the Corporation and approved prior to the completion of the audit by the Committee or by one or more members of the Committee who are members of the Board of Directors to whom authority to grant such approvals has been delegated by the Committee;

provided the pre-approval of the non-audit services is presented to the Committee's first scheduled meeting following such approval, such authority may be delegated by the Committee to one or more independent members of the Committee;

12. review any other matters that the Audit Committee feels are important to its mandate or that the Board chooses to delegate to it;

13. with respect to the financial reporting process:

- (a) in consultation with the external auditors, review with management the integrity of the Corporation's financial reporting process, both internal and external;
- (b) consider the external auditors' judgments about the quality and appropriateness of the Corporation's accounting principles as applied in its financial reporting;
- (c) consider and approve, if appropriate, changes to the Corporation's auditing and accounting principles and practices as suggested by the external auditors and management;
- (d) review significant judgments made by management in the preparation of the financial reports and the view of the external auditors as to appropriateness of such judgments;
- (e) following completion of the annual audit, review separately with management and the external auditors any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information;
- (f) review any significant disagreement among management and the external auditors regarding financial reporting;
- (g) review with the external auditors and management the extent to which changes and improvements in financial or accounting practices have been implemented;
- (h) review the certification process;
- (i) establish procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters; and

- (j) establish procedures for the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.

#### **AUTHORITY**

Following each meeting, in addition to a verbal report, the Committee will report to the Board by way of providing copies of the minutes of such Committee meeting at the next Board meeting after a meeting is held (these may still be in draft form).

Supporting schedules and information reviewed by the Committee shall be available for examination by any director.

The Committee shall have the authority to investigate any financial activity of the Corporation and to communicate directly with the internal and external auditors. All employees are to cooperate as requested by the Committee.

The Committee may retain, and set and pay the compensation for, persons having special expertise and/or obtain independent professional advice to assist in fulfilling its duties and responsibilities at the expense of the Corporation.