2015 Annual Report

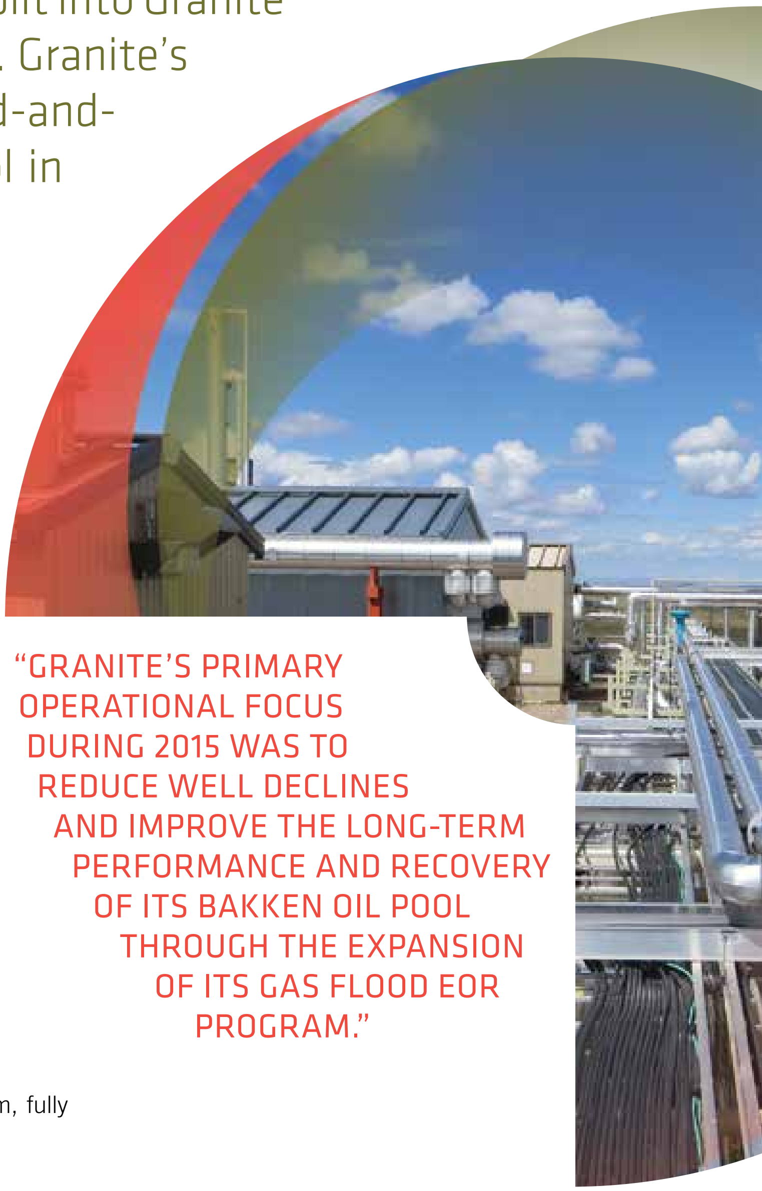
GRANITE OIL CORP.

Annual General Meeting

The Annual General Meeting of Shareholders of Granite Oil Corp. will be held on Thursday, May 12, 2016 at 2:30 p.m. MDT at Livingston Place Conference Centre, 222 - 3rd Avenue SW, Calgary, Alberta T2P 0B4.

LETTER TO SHAREHOLDERS

Granite Oil Corp. began operations as a dividend-paying company in May 2015 as part of a transaction where DeeThree Exploration Ltd. was split into Granite Oil Corp. and Boulder Energy Ltd. Granite's key asset is a 100 percent-owned-and-operated Alberta Bakken oil pool in southern Alberta.



"GRANITE'S PRIMARY OPERATIONAL FOCUS DURING 2015 WAS TO REDUCE WELL DECLINES AND IMPROVE THE LONG-TERM PERFORMANCE AND RECOVERY OF ITS BAKKEN OIL POOL THROUGH THE EXPANSION OF ITS GAS FLOOD EOR PROGRAM."

2015 HIGHLIGHTS

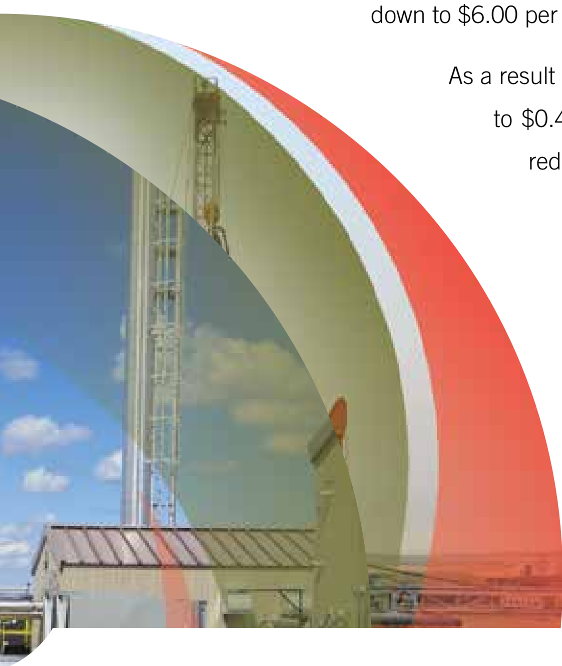
- Became a dividend-paying company in May 2015 and increased the dividend through the year by 17 percent to $0.42 per share annually.
- Demonstrated success of the gas flood enhanced oil recovery (EOR) program in its Alberta Bakken oil pool, improved well performance and reduced production declines.
- Dramatically decreased costs reducing capital costs by 29 percent and operating costs by 20 percent.
- Improved the balance sheet, exiting 2015 with less than $40 million of net debt, a 12 percent reduction from initial debt levels in May.
- Increased reserves, with finding and development costs of $6.13 per boe (Proven + Probable) including the change in future development capital.
- Positioned Granite to execute a sustainable 2016 capital program, fully funded by internally generated funds flow.

2015 REVIEW

Granite's primary operational focus during 2015 was to reduce well declines and improve the long-term performance and recovery of its Bakken oil pool through the expansion of its gas flood EOR program. The Company significantly expanded the EOR program in 2015, increasing the number of gas injector wells from three to seven, and increasing injection compression capacity and injection rates by 200% and 250% year-over-year, respectively. As a result, the Company significantly improved pressure support within the Bakken oil pool, resulting in reduced production declines and material improvements in overall pool performance.

Granite elected to drill and complete only four horizontal production wells in the second half of 2015 down from the six originally planned and decreased capital costs by 29 percent through the year to $2.0 million per well. These savings were achieved through a combination of decreased service costs and substantial drilling and completion design modifications. Through the second half of 2015, average rig time was reduced by four days (25%) per well relative to the first half of 2015, ensuring continued capital savings independent of future service costs.

Granite also made significant improvements to its operating cost structure in 2015. By year-end, operating costs were down to $6.00 per boe, a 20 percent reduction from originally planned costs of $7.50 per boe.



As a result of these substantial cost savings, Granite was able to increase its dividend by 17 percent, to $0.42 per share annually, and exited the year with net debt of $39.6 million, a 12 percent reduction relative to second quarter 2015.

The Company's strong operational results carried through to its 2015 reserves evaluation, conducted by Granite's independent reserve auditor, Sproule Associates Ltd. The total proved plus probable (2P) reserves of Granite's assets increased by 4.4% year-over-year to 17.7 MMBOE (83% oil), while proved developed producing (PDP) oil reserves increased 7.4 percent to 5.05 million bbls. Additionally, with lower capital costs per well, 2015 finding and development costs, including the change in future development capital, totalled $6.13 per BOE (Proven + Probable).

LOOKING FORWARD TO 2016

In response to lower oil prices during the fourth quarter of 2015, Granite capitalized on low equipment costs and accelerated its plans to further ramp-up gas injection in the EOR program through the purchase of approximately 2,000 HP of additional gas injection compression and related equipment. This equipment will be installed in the first quarter of 2016 and on-stream in April 2016. With this expansion, Granite will increase gas injection volumes to match or exceed production volumes, achieving a 100 percent voidage replacement ratio – an important milestone in the ongoing development of the EOR program. As well, the expanded facilities have the capacity to maintain 100% voidage replacement at higher levels of oil production from the pool. With the success of the program to-date, Granite expects this expansion to have material impacts on pool performance and long-term decline rates, and offer greater opportunities for capital-efficient drilling.

"GRANITE HAS THE ABILITY TO REACT QUICKLY TO IMPROVED COMMODITY PRICES AND INCREASE ITS CAPITAL PROGRAM ACCORDINGLY."

Granite's 2016 budget includes two sustainable budget scenarios based on a US$37.00/bbl WTI case and a US$32.50/bbl WTI case. Under the $37.00 case, Granite anticipates production of 3,250 bbl per day of oil, while funding both capital expenditures of $14.2 million (six horizontal wells) and dividends of $12.8 million with anticipated funds flow of $27.1 million. Under the US$32.50/bbl WTI case, the Company expects oil production to average 3,000 bbl per day of oil, with funds flow of $23.0 million funding both capital expenditures of $10.2 million (four horizontal wells), and the annual dividend of $12.8 million.

Under either scenario, the Company retains its balance sheet flexibility, with less than $40 million of net debt forecast at the end of 2016. Granite has the ability to react quickly to improved commodity prices and increase its capital program accordingly.

Granite is off to a very strong start in 2016. Our goal remains to be an efficient oil producer with a strong balance sheet that is sustainable for the long term. We will continue to carefully manage costs and make choices that generate long-term value from our assets while maintaining our low level of debt.

I thank the employees of Granite for their hard work and dedication, the Company's Board of Directors for their wise counsel during these challenging times, and Granite's shareholders for their continued support.

On behalf of the Board of Directors,

Mike Kabanuk

President & Chief Executive Officer
March 21, 2016

FINANCIAL AND OPERATING HIGHLIGHTS

Years Ended December 31,	**2015** [5]	2014 [5]	Change
(000s, except per share amounts)	*($)*	*($)*	*(%)*
FINANCIAL			
Oil and natural gas revenues	**108,442**	303,348	(64)
Funds from operations [1]	**72,673**	173,179	(58)
Per share – basic	**2.41**	6.04	(60)
Per share – diluted	**2.38**	5.85	(59)
Cash flow from operating activities	**61,317**	184,239	(67)
Net income	**150,216**	76,233	97
Per share – basic	**4.99**	2.66	88
Per share – diluted	**4.92**	2.58	91
Capital expenditures [2]	**64,879**	296,549	(78)
Net debt [3]	**39,612**	171,347	(77)
Bank debt	**37,012**	139,234	(73)
Shareholders' equity	**211,293**	463,509	(54)
(000s)	*(#)*	*(#)*	*(%)*
SHARE DATA			
At period-end	**30,355**	29,655	2
Weighted average – basic	**30,100**	28,693	5
Weighted average – diluted	**30,557**	29,585	3
OPERATING [4]			
Production			
Natural gas *(mcf/d)*	**6,160**	13,823	(55)
Crude oil *(bbls/d)*	**5,350**	8,353	(36)
NGLs *(bbls/d)*	**173**	668	(74)
Total *(boe/d)*	**6,550**	11,325	(42)
Average wellhead prices			
Natural gas *($/mcf)*	**2.85**	4.73	(40)
Crude oil and NGLs *($/bbl)*	**50.60**	84.84	(40)
Combined average *($/boe)*	**45.36**	73.38	(38)
Netbacks			
Operating netback *($/boe)*	**24.35**	45.16	(46)
Funds flow netback *($/boe)*	**30.47**	41.86	(27)
Reserves			
Proved *(mboe)*	**11,166**	35,354	(68)
Proved plus probable *(mboe)*	**17,704**	51,833	(66)
Total net present value – proved plus probable (10% discount, before taxes) *($000s)*	**264,019**	893,934	(70)
Undeveloped land			
Gross (acres)	**393,453**	466,554	(16)
Net (acres)	**391,633**	437,728	(11)
Gross (net) wells drilled			
Gas *(#)*	**– (–)**	1 (1.00)	-100 (-100)
Oil *(#)*	**14 (14.00)**	43 (42.93)	-67 (-67)
Dry and abandoned *(#)*	**2 (2.00)**	3 (3.00)	-33 (-33)
Total *(#)*	**16 (16.00)**	47 (46.93)	-66 (-66)
Average working interest *(%)*	**100**	100	–

[1] Funds from operations and funds from operations per share are not recognized measures under International Financial Reporting Standards (IFRS). Refer to the commentary in the Management's Discussion and Analysis under "Non-GAAP Measurements" for further discussion.

[2] Total capital expenditures, including acquisitions and excluding non-cash transactions. Refer to commentary in the Management's Discussion and Analysis under "Capital Expenditures and Acquisitions" for further information.

[3] Net debt, which is calculated as current liabilities (excluding derivative financial instruments) and bank debt less current assets (excluding derivative financial instruments), is not a recognized measure under IFRS. Please refer to the commentary under "Non-GAAP Measurements" for further discussion.

[4] For a description of the boe conversion ratio, refer to the commentary in the Management's Discussion and Analysis under "Other Measurements".

[5] Refer to the description of the Plan of Arrangement in the Management's Discussion and Analysis under "About Granite Oil Corp." Refer to "2015 Finanacial and Operating Highlights" regarding compareability of prior period information.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) of the financial condition and results of operations for Granite Oil Corp. ("Granite" or "the Company") is dated March 21, 2016 and should be read in conjunction with the Company's audited financial statements and related notes for the years ended December 31, 2015 and 2014 and our Annual Information Form for the year ended December 31, 2015. All financial information is reported in Canadian dollars, unless otherwise noted. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), in Canadian dollars, except where indicated otherwise. Accounting policies adopted by the Company are set out in the notes to the audited annual financial statements for the year ended December 31, 2015. Additional information can be obtained by contacting the Company at Granite Oil Corp., 432, 222 - 3rd Avenue S.W., Calgary, Alberta, Canada T2P OB4. Additional information regarding the Company, including the Annual Information Form, is also available on www.sedar.com and on the Company's website www.graniteoil.ca.

This MD&A contains additional measures under generally accepted accounting principles (GAAP), non-GAAP measures and forward-looking statements. Readers are cautioned that the MD&A should be read in conjunction with the Company's disclosure under "Non-GAAP Measures" and "Forward-looking Information and Statements" included at the end of this MD&A.

ABOUT GRANITE OIL CORP.

Granite is a dividend-paying, junior oil producer based in Calgary, Alberta that owns and operates a large, discovered Alberta Bakken oil pool in southern Alberta (the "Alberta Bakken Property" or "Alberta Bakken").

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

The nature of the Alberta Bakken Property has resulted in a business that emphasizes low technical and financial risks; low annual production decline; moderate capital investment aimed at maintaining overall production plus generating prudent growth appropriate to prevailing commodity prices; and generating sufficient funds flow from operations at current commodity prices to pay a sustainable dividend.

Granite's Alberta Bakken Property has been substantially de-risked. The property includes complete Company-operated infrastructure to produce and market oil and re-inject gas for enhanced oil recovery. Granite benefits from experienced, technically able, and proven leadership. The team has many of the same senior managers who discovered, delineated and developed the Alberta Bakken Property.

The Company underwent a reorganization by way of Plan of Arrangement (the "POA") on May 15, 2015 which divided the Company into two, focused and independent, publicly traded energy companies, being Granite and Boulder Energy Ltd.. The POA was approved by a vote of shareholders of DeeThree on May 14, 2015 and was completed on May 15, 2015. See "Corporate Reorganization" below.

Granite is headquartered in Calgary, Alberta and the common shares of Granite are listed for trading on the Toronto Stock Exchange under the symbol GXO and on the OTCQX under the symbol GXOCF.

CORPORATE REORGANIZATION

On April 7, 2015, the Company entered into an Arrangement Agreement with Boulder Energy Ltd., then a wholly-owned subsidiary of DeeThree, which provided for the reorganization of the Company pursuant to the POA. On May 15, 2015, the Company completed the POA involving Boulder and its shareholders. Pursuant to the Arrangement, the Company's assets were divided amongst the Company and Boulder. Each holder of common shares of the Company received one-third (0.3333) of one new Granite Common Share and one-half (0.5) of one common share of Boulder in exchange for such share. Boulder acquired the Company's petroleum and natural gas properties and related assets located in the Brazeau area of west central Alberta (the "Brazeau Belly River Properties"), its minor petroleum and natural gas properties and related assets located in northern Alberta (the "Northern Properties") and related miscellaneous interests pursuant to the POA. The Company retained the Alberta Bakken Property. The name of the Company was changed from "DeeThree Exploration Ltd." to "Granite Oil Corp." concurrently with the Arrangement.

The conveyance of the Brazeau Belly River Properties and the Northern Properties was completed under a conveyance agreement dated May 15, 2015 entered into between the Company and Boulder. In accordance with the conveyance agreement and the POA, Boulder issued 521,865,994 special shares to the Company in consideration for the Brazeau Belly River Properties and the Northern Properties. Pursuant to the POA, 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 POA, each of Granite and Boulder obtained new credit facilities from syndicates of lenders. At the time of the reorganization, the Granite credit facility had an authorized borrowing base of $115 million consisting of a $95 million revolving demand credit facility and a $20 million revolving demand operating facility and the Boulder credit facility had an authorized borrowing base of $175 million consisting of a $155 million extendible revolving credit facility and a $20 million extendible revolving operating 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 under its credit facility. As a result, obligations of DeeThree under its prior credit facility have been fully repaid and settled. See "Liquidity and Financial Resources".

In addition to the Brazeau Belly River Properties and the Northern Properties being transferred from the Company to Boulder, decommissioning obligations, derivative financial instruments and a deferred tax liability were also transferred to Boulder as part of the POA. Boulder commenced active oil and natural gas operations upon completion of the POA on May 15, 2015.

Granite and Boulder each began trading on the Toronto Stock Exchange on May 21, 2015.

2015 FOURTH QUARTER 2015 HIGHLIGHTS

Granite drilled two horizontal production wells during the fourth quarter of 2015 and averaged 3,334 bbls/d of oil production during the quarter and 3,476 boe/d of total production. Capital expenditures were $8.6 million, including $1.7 million for the expansion of its gas injection facilities, which provides long-term injection capacity for the continued expansion of the EOR scheme. Granite also drilled a vertical test well in the western portion of its Alberta Bakken oil pool at a cost of $1.6 million. This was Granite's final commitment well and continued to expand the size of Granite's Alberta Bakken oil resource.

Granite paid down $1.9 million of debt during the quarter resulting in year-end net debt of $39.6 million, a 5% reduction relative to September 30, 2015.

2015 FINANCIAL AND OPERATING HIGHLIGHTS

As the POA closed on May 15, 2015, the financial and operating results of Granite Oil Corp. for the year ended December 31, 2015 include 135 days of combined results for the historical DeeThree properties (the Alberta Bakken, Brazeau Belly River and Northern properties) and 230 days of results for the Alberta Bakken Property only. This is a significant factor in understanding the year-over-year and quarter-over-quarter changes included in this MD&A.

Granite's average annual production for the year ended December 31, 2015 was 6,550 boe/d which reflect operating results from the combined entity (DeeThree Exploration Ltd.) from January 1, 2015 – May 15, 2015 and from Granite Oil Corp. from May 16, 2015 – December 31, 2015.

For the year ended December 31, 2015, Granite realized a combined average sales price of $45.36/boe, a 38% decline over the prior year due primarily to the significant decline in world oil prices throughout 2015. With average operating costs of $6.96, transportation costs of $2.58 and average royalties of 25%, Granite achieved an operating netback of $24.35/boe, an 46% percent decrease over the prior year.

Granite invested $64.9 million in capital expenditures in 2015, which included the drilling of 16 gross (16.0 net) wells, 4.0 gross (4.0 net) wells having been drilled in the Brazeau Belly River Properties prior to the completion of the POA and the remainder drilled in the Alberta Bakken Properties.

The Company exited 2015 with net debt of $39.6 million and with a current credit facility of $80 million with its syndicate of bankers.

Funds from Operations [1]

	Three Months Ended December 31,		Year Ended December 31,	
	2015	2014	**2015**	2014
($000s)				
Net income (loss)	**(1,611)**	28,312	**150,216**	76,233
Non-cash items:				
Depletion and depreciation (D&D) expense	**5,509**	23,785	**44,804**	80,799
Deferred income tax expense	**(314)**	10,285	**3,187**	28,331
Share-based compensation [2]	**637**	785	**2,434**	3,069
Transaction costs – share-based compensation	**–**	–	**4,027**	–
Accretion	**71**	229	**471**	850
Unrealized loss (gain) on financial instruments	**6,087**	(22,572)	**15,555**	(25,494)
Loss (gain) on disposition	**197**	90	**(151,996)**	90
Exploration and evaluation (E&E) expense	**2,769**	859	**4,191**	9,318
Abandonment and reclamation costs	**4**	(17)	**(216)**	(17)
Funds from operations [1]	**13,349**	41,756	**72,673**	173,179

(1) Funds from operations and funds from operations per share are not recognized measures under International Financial Reporting Standards (IFRS). Refer to "Non-GAAP Measurements" for further discussion.

(2) The share-based compensation amount included in the calculation of funds from operations was adjusted for the non-cash portion related to certain field employees that was reclassified to operating expenses for presentation in the statement of operations and comprehensive income.

During the three months ended December 31, 2015, the Company generated funds from operations totaling $13.3 million ($0.44 per basic share and $0.43 per diluted share) compared to $41.8 million ($1.46 per basic share and $1.41 per diluted share) in the comparative period of 2014 and $14.5 million ($0.48 per basic share and $0.47 per diluted share) in the third quarter of 2015. The year-over-year decrease reflects decreased revenue primarily as a result of the disposition of assets to Boulder pursuant to the POA which closed on May 15, 2015 compounded by decreased commodity prices offset by realized gains on the Company's financial hedges. The decrease from Q3 2015 can be attributed to the continued decline in commodity prices throughout Q4 2015.

Funds from operations totaled $72.7 million ($2.41 per basic share and $2.38 per diluted share) for the year ended December 31, 2015 compared to $173.2 million ($6.04 per basic share and $5.85 per diluted share) recorded in 2014.

Net Income (Loss)

For the three months ended December 31, 2015, the Company recorded net loss of $1.6 million ($0.05 per basic and diluted share) compared to net income of $28.3 million ($0.99 per basic and $0.96 per diluted share) in the same period of 2014 and net income of $6.4 million ($0.21 per basic share and $0.22 per diluted share) in the third quarter of 2015.

Net income for the year ended December 31, 2015 was $150.2 million ($4.99 per basic share and $4.92 per diluted share) compared to $76.2 million ($2.66 per basic share and $2.58 per diluted share) in 2014.

FINANCIAL AND OPERATING RESULTS

Sales Volumes

	Three Months Ended December 31,		Year Ended December 31,	
	2015	2014	**2015**	2014
Sales				
Natural gas *(mcf/d)*	**841**	16,510	**6,160**	13,823
Crude oil *(bbls/d)*	**3,334**	9,275	**5,350**	8,353
NGLs *(bbls/d)*	**2**	815	**173**	668
Total sales *(boe/d)*	**3,476**	12,842	**6,550**	11,325
		(%)		*(%)*
Production Split				
Natural gas	**4**	22	**16**	20
Crude oil	**96**	72	**82**	74
NGLs	**-**	6	**2**	6
Total	**100**	100	**100**	100

For the fourth quarter of 2015, the Company's production averaged 3,476 boe/d compared to 12,842 boe/d in the same period of 2014 and 3,644 boe/d in the third quarter of 2015. This represents a 73 percent decrease year-over-year and a 5 percent quarter-over-quarter decrease. These decreases are primarily a result of the POA combined with natural declines and a reduced drilling program.

For the year ended December 31, 2015, Granite's production averaged 6,550 boe/d compared to 11,325 boe/d in the previous year, representing a 42 percent decrease. During 2015, production was comprised of 6,160 mcf/d of gas, 5,350 bbls/d of crude oil and 173 bbls/d of NGLs, thereby increasing the Company's crude oil and NGL production to 82 percent of total corporate production from 74 percent a year earlier.

Revenue

	Three Months Ended December 31,		Year Ended December 31,	
	2015	2014	**2015**	2014
($000s)				
Natural gas	**197**	5,833	**6,401**	23,848
Crude oil	**12,961**	61,530	**100,201**	267,527
NGLs and other	**23**	2,594	**1,840**	11,973
Total oil and natural gas revenue	**13,181**	69,957	**108,442**	303,348

During the three months ended December 31, 2015, revenue decreased by 81 percent to $13.2 million from $70.0 million in the comparative period of 2014. The year-over-year decrease was mainly the result of the POA which was effective May 15, 2015 compounded by reduced crude oil market prices. When compared to the third quarter of 2015, revenue decreased by 13 percent to $13.2 million from $15.2 million due to a combination of decreased commodity prices and slightly lower sales volumes in the fourth quarter of 2015.

During 2015, revenue totaled $108.4 million compared to $303.3 million a year earlier. Total revenue decreased by 64 percent from 2014 primarily due to the decrease in sales volumes disposed of as part of the POA as well as lower crude oil market prices in 2015.

Pricing for both the three and 12-month periods ended December 31, 2015 is further discussed below in "Commodity Prices and Foreign Exchange".

Commodity Prices and Foreign Exchange

	Three Months Ended December 31,		Year Ended December 31,	
	2015	2014	**2015**	2014
Benchmark Prices				
Crude oil				
WTI *(US$/bbl)*	**42.18**	73.15	**48.80**	93.00
Edmonton Light (MSW) *(Cdn$/boe)*	**52.86**	75.55	**57.11**	94.44
Differential – MSW/WTI *(US$/bbl)*	**(2.46)**	(6.36)	**(3.86)**	(7.17)
Hardisty Bow River *(Cdn$/boe)*	**47.28**	77.38	**54.74**	91.60
Differential – Bow River/WTI *(US$/bbl)*	**(14.25)**	(13.65)	**(13.18)**	(18.95)
Natural gas				
NYMEX *(US$/mmbtu)* [(1)]	**2.24**	4.00	**2.63**	4.41
AECO *(Cdn$/GJ)* [(2)]	**2.48**	3.41	**2.70**	4.27
Average Realized Prices				
Natural gas *($/mcf)*	**2.54**	3.84	**2.85**	4.73
Crude oil *($/bbl)*	**42.25**	72.11	**51.32**	87.74
NGLs *($/bbl)*	**59.99**	34.13	**28.44**	48.60
Combined average *($/boe)*	**41.22**	59.21	**45.36**	73.38
Foreign Exchange				
Cdn$/US$	**1.34**	1.14	**1.28**	1.10
US$/Cdn$	**0.75**	0.88	**0.78**	0.91

(1) Mmbtu is the abbreviation for millions of British thermal units. One mcf of natural gas is approximately 1.02 mmbtu.
(2) GJ is the abbreviation for gigajoule. One mcf of natural gas is approximately 1.05 GJ.

Crude Oil Pricing

The average realized price of Granite's crude oil was $42.25/bbl for the fourth quarter of 2015 compared to $72.11/bbl in the fourth quarter of 2014 and $47.28/bbl in the third quarter of 2015. Granite's realized oil price decreased by 41 percent from the prior year's fourth quarter and by 11 percent from the third quarter of 2015 largely due to a decrease in the US$ WTI benchmark oil price partially offset by a weakened Canadian dollar.

For the year ended December 31, 2015, the Company's average realized crude oil price was $51.32/bbl compared to $87.74/bbl during 2014 driven by lower average benchmark prices partially offset by a weakened Canadian dollar.

Natural Gas Pricing

Granite's average realized natural gas price was $2.54/mcf in the fourth quarter of 2015 versus $3.84/mcf in the fourth quarter of 2014 and $2.86/mcf in the third quarter of 2015. The Company's realized gas price decreased by 34 percent from the same period in 2014 and 11 percent from the third quarter of 2015.

For the year ended December 31, 2015, the Company's average realized price for natural gas decreased by 40 percent to $2.85/mcf from $4.73/mcf in 2014, driven by the decrease in the AECO gas index price.

Price Risk & Mitigation

Ongoing commodity price volatility may affect Granite's funds from operations and rates of return on capital programs. As continued volatility is expected in 2016, Granite will take steps to mitigate these risks and protect its financial position, as it was doing in 2015.

The Company's financial results are significantly influenced by fluctuations in commodity prices, including price differentials and foreign exchange rates. As a means of managing commodity price volatility and its impact on cash flows, the Company seeks to protect itself from fluctuations in prices and exchange rates by maintaining an appropriate hedging strategy. As at the date of this MD&A, Granite has eight crude oil hedges (refer to "Risk Management" below for details). Most commodity prices are based on US dollar benchmarks, which result in the Company's realized prices being influenced by the Canadian/US exchange rates. The Company does not sell or transact in foreign currency, but is affected by foreign currency exchange rate changes related to commodity prices as outlined above. As at the date of this MD&A, Granite has one foreign currency exchange risk management contract in place to mitigate these risks (see "Risk Management" below for contract details).

Royalties

	Three Months Ended December 31,		Year Ended December 31,	
	2015	2014	**2015**	2014
Oil and natural gas revenues *($000s)*	**13,181**	69,957	**108,442**	303,348
Total royalties *($000s)*	**3,594**	16,277	**27,411**	68,613
Total royalties *($/boe)*	**11.24**	13.78	**11.47**	16.60
Percent of revenue *(%)*	**27**	23	**25**	23

The Alberta Bakken property is primarily subject to freehold royalties, which work on a sliding-scale determined monthly on a well-by-well basis using a calculation based on the Alberta crown royalty regulation implemented in 2009 with a cap of 30 percent. The sliding scale provides varying rates based on productivity (a higher royalty is payable from wells with higher production rates) and commodity prices (a higher royalty is payable in times of higher natural gas and crude oil prices). This area is also subject to freehold mineral taxes (which are included as royalties for financial reporting purposes) and overriding royalties related to farm-in arrangements.

The Brazeau property was primarily subject to Crown royalties payable to the provincial government and overriding royalties on oil, natural gas and NGLs production. These types of royalties are also sensitive to production levels and commodity prices and the related royalties will continue to fluctuate with commodity prices, well production rates, production declines of existing wells along with performance and location of new wells drilled. The Northern properties were conveyed to Boulder on May 15, 2015 as part of the POA.

For the fourth quarter of 2015, royalties totaled $3.6 million or 27 percent of revenue compared to $16.3 million or 23 percent of revenue for the same quarter in 2014 and $4.6 million or 30 percent of revenue in the third quarter of 2015. The year-over-year royalty rate increase was due to the properties disposed of in the POA, which were subject to a lower royalty rate than the Alberta Bakken property that remained with Granite upon completion of the POA.

During the year ended December 31, 2015, royalties totaled $27.4 million or 25 percent of revenue compared to $68.6 million or 23 percent of revenue for 2014.

Operating and Transportation Expenses

	Three Months Ended December 31,		Year Ended December 31,	
	2015	2014	**2015**	2014
Operating expenses *($000s)*	**1,889**	8,798	**16,648**	39,032
Transportation expenses *($000s)*	**581**	3,507	**6,177**	9,016
Total operating and transportation expenses *($000s)*	**2,470**	12,305	**22,825**	48,048
Operating expenses *($/boe)*	**5.91**	7.45	**6.96**	9.44
Transportation expenses *($/boe)*	**1.82**	2.97	**2.58**	2.18
Total operating and transportation expenses *($/boe)*	**7.73**	10.42	**9.54**	11.62

Operating costs include all costs associated with the production of crude oil and natural gas. The major components of operating costs include charges for contract operating, processing fees, lease rentals, property and pipeline taxes, utilities and well maintenance charges.

Operating expenses for the fourth quarter of 2015 totaled $1.9 million or $5.91/boe compared to $8.8 million or $7.45/boe in the same period of 2014 and $2.0 million or $5.98/boe in the third quarter of 2015. The year-over year decrease was driven by the Company ceasing to have any wells on extended flow-back until being tied into a pipeline (which had contributed to higher operating costs in 2014) as well as the impact of the POA. The Alberta Bakken property is subject to lower operating costs than the Northern Properties.

Transportation expenses for the three months ended December 31, 2015 were $0.6 million or $1.82/boe compared to $3.5 million or $2.97/boe in the fourth quarter of 2014 and $0.3 million or $0.95/boe in the third quarter of 2015. This decrease from the prior year can be attributed to the fact that the Alberta Bakken property has lower transportation costs than the properties disposed of in the POA. The increase in transportation costs over Q3 2015 is the result of actual transportation costs for Q3 2015 coming in higher than what was accrued for. For the last six months of 2015, transportation expense averaged $1.37/boe.

For the year ended December 31, 2015, the Company incurred operating expenses of $16.6 million or $6.96/boe compared to $39.0 million or $9.44/boe in 2014. Transportation expenses for the year totaled $6.2 million or $2.58/boe versus $9.0 million or $2.18/boe in the previous year.

Risk Management

Granite maintains a risk management program to reduce the volatility of revenues and to increase the certainty of funds from operations. Granite considers all of its risk management contracts to be effective economic hedges of the underlying business transactions. As at December 31, 2015, the Company had the following crude oil and interest rate risk management contracts, with a short-term mark-to-market asset of $7.6 million at December 31, 2015 (September 30, 2015 – short-term asset of $13.6 million and long-term asset of $0.6 million; December 31, 2014 – short-term asset of $23.3 million):

Crude Oil Contracts

Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price
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

Term	Amount	Fixed Rate	Index
Feb. 18 /14 – Feb. 18/16	Cdn$10 million	1.44%	CDOR

Subsequent to December 31, 2015, Granite entered into the following crude oil risk management contracts:

Crude Oil Contracts

Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price
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

Gains and losses on risk management contracts are composed both of unrealized gains or losses that represent the change in the mark-to-market position of those contracts throughout the period and of realized gains and losses representing the portion of the contracts that have been settled in cash during the period. The Company has elected not to use hedge accounting for its current risk management contracts.

	Three Months Ended December 31, 2015	2014	Year Ended December 31, 2015	2014
Unrealized loss (gain) on financial instruments *($000s)*	**6,087**	(22,572)	**15,555**	(25,494)
Unrealized loss (gain) on financial instruments *($/boe)*	**19.03**	(19.11)	**6.51**	(6.17)

	Three Months Ended December 31, 2015	2014	Year Ended December 31, 2015	2014
Realized loss (gain) on financial instruments *($000s)*	**(7,653)**	(4,661)	**(26,831)**	426
Realized loss (gain) on financial instruments *($/boe)*	**(23.93)**	(3.95)	**(11.22)**	0.10

During the fourth quarter of 2015, the Company recorded an unrealized loss on financial instruments of $6.1 million and a realized gain of $7.7 million. In the same period of the prior year, the Company recorded an unrealized gain of $22.6 million and a realized gain of $4.7 million. In the previous quarter, the Company recorded an unrealized gain of $4.4 million and a realized gain of $7.5 million. The unrealized loss resulted from the mark-to-market of financial risk management contracts at the period end. These non-cash unrealized derivative gains are generated by the change over the reporting period in the mark-to-market valuation of Granite's risk management contracts. The realized gains or losses represent actual cash settlements under the respective commodity, foreign exchange and interest rate contracts in the respective periods.

For the year ended December 31, 2015, the Company recorded an unrealized loss of $15.6 million and a realized gain of $26.8 million compared to an unrealized gain of $25.5 million and a realized loss of $0.4 million, respectively, for 2014.

General and Administrative (G&A) Expenses

	Three Months Ended December 31, 2015	2014	Year Ended December 31, 2015	2014
($000s except per boe)				
Gross G&A expense	**1,022**	3,923	**6,097**	11,343
Capitalized G&A (direct)	**(154)**	(863)	**(1,067)**	(2,297)
Overhead recoveries	**(10)**	(163)	**(208)**	(735)
G&A expense (net)	**858**	2,897	**4,822**	8,311
G&A expense (net) *($/boe)*	**2.68**	2.45	**2.02**	2.01

Gross G&A expense totaled $1.0 million for the three-month period ended December 31, 2015 compared to $3.9 million in the comparable period of 2014 and $0.8 million in the third quarter of 2015. Net G&A costs were $0.9 million or $2.68/boe in the fourth quarter of 2015 compared to $2.9 million or $2.45/boe a year earlier and $0.6 million or $1.90/boe in the third quarter of 2015. When compared to the same quarter of the prior year, gross G&A costs decreased on an absolute basis due to the decrease in staffing costs (including salaries, bonuses, consulting and office rent) related to the POA. In the fourth quarter of 2015, the Company had an average of 12 full-time employees and three consultants versus 37 full-time employees and three consultants in the same period of 2014.

The Company capitalized direct G&A expenses amounting to $0.2 million and had overhead recoveries of $0.01 million in the fourth quarter of 2015 versus $0.9 million and $0.2 million, respectively, in the comparative period of 2014, and $0.2 million and $0.01 million, respectively, in the third quarter of 2015.

Net G&A expenses for the year ended December 31, 2015 totaled $4.8 million or $2.02/boe compared to $8.3 million or $2.01/boe for 2014. During the year ended December 31, 2015, the Company capitalized $1.1 million in direct costs related to its exploration and development efforts and $0.2 million of overhead recoveries compared to $2.3 million and $0.7 million, respectively, in 2014.

Share-Based Compensation

	Three Months Ended December 31,		Year Ended December 31,	
	2015	2014	**2015**	2014
($000s except per boe)				
Gross share-based compensation	**966**	1,346	**3,804**	5,036
Share-based compensation reclassified to operating costs	**–**	(43)	**(55)**	(167)
Capitalized share-based compensation	**(329)**	(561)	**(1,370)**	(1,967)
Share-based compensation expense (net)	**637**	742	**2,379**	2,902
Share-based compensation expense (net) *($boe)*	**1.99**	0.63	**1.00**	0.70

On May 15, 2015, Granite adopted a Share Incentive Plan ("SIP"), described in note 10 to the financial statements for the year ended December 31, 2015. The awards granted under the plan vest one third on each of the first, second and third anniversaries of the grant date. Share incentives are made up of both time-based ("TBA") and performance-based ("PBA") awards, each performance based award granted is subject to a performance multiplier ranging from 0 to 2, dependent on the performance of Granite at the end of the vesting period relative to corporate performance measures determined at the discretion of Granite's Board of Directors. The fair value of the awards granted under the plan is estimated at the grant date using a binomial pricing model. At December 31, 2015, the Company had 944,995 awards outstanding under this plan.

DeeThree's stock option plan was terminated pursuant to the POA. Unvested, in-the-money DeeThree options that were outstanding at the time of the completion of the POA were replaced with options to acquire shares of Granite and Boulder respectively. The vesting schedule for these replacement options remained the same as the predecessor DeeThree options with the fair value of options granted estimated at the grant date using the Black-Scholes option-pricing model. At December 31, 2015, the Company had 194,486 replacement options outstanding.

Share-based compensation expense is a non-cash expense that reflects the amortization over the vesting period of the fair value of stock options and PSUs granted to the Company's employees, consultants and directors. For those stock options granted to field employees, their portion of the share-based compensation is reclassified to operating expenses, in order to be consistent with the recognition of their salaries on the statement of operations and comprehensive income.

For the quarter ended December 31, 2015, the Company incurred net share-based compensation expense of $0.6 million or $1.99/boe versus $0.7 million or $0.63/boe in the same period of 2014 and $0.7 million or $1.94/boe in the third quarter of 2015.

During 2015, Granite incurred net share-based compensation expense of $2.4 million or $1.00/boe compared to $2.9 million or $0.70/boe in 2014.

Transaction Costs

	Three Months Ended December 31,		Year Ended December 31,	
	2015	2014	**2015**	2014
Transaction costs – G&A *($000s)*	**29**	–	**3,831**	–
Transaction costs – share-based compensation *($000s)*	**–**	–	**4,027**	–
Total transaction costs *($000s)*	**29**	–	**7,858**	–
Transaction costs – G&A *($/boe)*	**0.09**	–	**1.60**	–
Transaction costs – share-based compensation *($/boe)*	**–**	–	**1.68**	–
Total transaction costs *($/boe)*	**0.09**	–	**3.28**	–

For the fourth quarter of 2015, the Company incurred $0.03 million of transaction costs related to the POA as compared to $nil in the same period in the prior year.

For the year ended December 31, 2015, the Company incurred total transaction costs of $7.9 million (December 31, 2014 - $nil) in relation to the POA including cash transaction costs of $3.8 (December 31, 2014 - $nil) million for legal, financial advisory and accounting fees and $4.0 related to share-based compensation for the stock options that were cancelled and immediately recognized and expensed in the statement of operations and comprehensive income as "transaction costs – share-based compensation".

Depletion and Depreciation (D&D) Expense

	Three Months Ended December 31,		Year Ended December 31,	
	2015	2014	**2015**	2014
Depletion and depreciation expense *($000s)*	**5,509**	23,785	**44,804**	80,799
Depletion and depreciation expense *($/boe)*	**17.23**	20.14	**18.74**	19.55

Granite records D&D expense on its property and equipment over the individual useful lives of the assets, employing the unit-of-production method using proved plus probable reserves and associated estimated future development capital required for its oil and natural gas assets, the straight-line method for field facilities (20-year useful life) and the declining-balance method on corporate assets (20 to 30 percent). Assets in the E&E phase are not amortized.

For the three months ended December 31, 2015, the Company recorded D&D expense of $5.5 million or $17.23/boe compared to $23.8 million or $20.14/boe in the same period of 2014 and $6.4 million or $19.00/boe in the third quarter of 2015. The absolute decrease in D&D expense year-over-year is attributable to the decrease in production volumes related to the POA, while the absolute decrease from the third quarter of 2015 is due to the decrease in production volumes quarter over quarter slightly offset by lower costs related to finding and developing reserves.

During 2015, D&D expense was $44.8 million or $18.74/boe compared to $80.8 million or $19.55/boe in 2014.

(Gain) Loss on Dispositions

	Three Months Ended December 31,		Year Ended December 31,	
	2015	2014	**2015**	2014
(Gain) loss on dispositions *($000s)*	**197**	90	**(151,996)**	90
(Gain) loss on dispositions *($/boe)*	**0.62**	0.08	**(63.58)**	0.02

As part of the POA, which is further described in Note 4 to the audited financial statements for the year ended December 31, 2015, the Company recorded a loss on disposition of $0.2 million in the fourth quarter of 2015 as compared to a $0.09 million loss on disposition of a minor property to a joint venture partner during the fourth quarter of 2014. A gain on disposition of the Brazeau and Peace River Arch properties to Boulder for $152.0 million or $63.58/boe was recognized for the year ended December 31, 2015. This loss (gain) was calculated based on the difference between the fair value of the net assets disposed of and the net book value as recorded at historical cost in DeeThree's financial records. The fair value of the net assets disposed of was determined using a weighted average trading price for the first month of trading of Boulder common shares (under the symbol BXO on the TSX).

Exploration and Evaluation (E&E) Expense

	Three Months Ended December 31,		Year Ended December 31,	
	2015	2014	**2015**	2014
Exploration and evaluation expense *($000s)*	**2,769**	859	**4,191**	9,318
Exploration and evaluation expense *($/boe)*	**8.66**	0.73	**1.75**	2.25

Granite accumulates costs related to its E&E assets in one pool pending determination of an asset's technical feasibility and commercial viability. E&E costs are primarily for seismic data, undeveloped land and drilling until the well in question is complete and results have been evaluated. Costs related to wells determined to be uneconomical as well as costs of undeveloped land lease expiries are expensed as they occur.

During the fourth quarter of 2015, the Company recorded E&E expense of $2.8 million or $8.66/boe compared to $0.9 million or $0.73/boe in the fourth quarter of 2014 and $1.1 million or $3.21/boe in the third quarter of 2015. Of the total E&E expense recognized in the current quarter, $2.3 million related to an exploratory well in the Alberta Bakken area and $0.5 million related to lease expiries.

During the year ended December 31, 2015, the Company recorded E&E expense of $4.2 million or $1.75/boe compared to $9.3 million or $2.25/boe during 2014.

Accretion and Finance Expenses

	Three Months Ended December 31,		Year Ended December 31,	
	2015	2014	**2015**	2014
($000s except per boe)				
Accretion expense on decommissioning liabilities	**71**	228	**471**	850
Finance expense	**538**	1,410	**3,550**	4,921
Total accretion and finance expenses	**609**	1,638	**4,021**	5,771
Accretion expense on decommissioning liabilities *($/boe)*	**0.22**	0.19	**0.20**	0.21
Finance expense *($/boe)*	**1.68**	1.19	**1.48**	1.19
Total accretion and finance expenses *($/boe)*	**1.90**	1.38	**1.68**	1.40

Accretion expense represents the increase in the present value of the Company's decommissioning liabilities. In the fourth quarter of 2015, the Company recorded accretion expense of $0.07 million or $0.22/boe compared to $0.2 million or $0.19/boe in the same period of 2014 and $0.07 million or $0.23/boe in the third quarter of 2015.

During the three months ended December 31, 2015, the Company recorded interest and finance expenses of $0.5 million or $1.68/boe compared to $1.4 million or $1.19/boe in the same period of 2014 and $0.3 million or $0.95/boe in the previous quarter. The Company incurred interest charges and standby fees related to the Company's credit facility, which was drawn to $37.0 million at the end of the year (December 31, 2014 – $139.2 million; September 30, 2015 – $44.7 million).

For the year ended December 31, 2015, the Company recorded accretion expense of $0.5 million or $0.20/boe compared to $0.9 million or $0.21/boe in 2014. The Company also recorded finance expense of $3.6 million or $1.48/boe in 2015 compared to $4.9 million or $1.19/boe in the prior year.

Income Taxes

	Three Months Ended December 31,		Year Ended December 31,	
	2015	2014	**2015**	2014
Deferred income tax expense (recovery) *($000s)*	**(314)**	10,285	**3,187**	28,331
Deferred income tax expense (recovery) *($/boe)*	**(0.98)**	8.71	**1.33**	6.85

During the fourth quarter of 2015, the Company recorded a deferred income tax recovery of $0.3 million or $0.98/boe compared to a $10.3 million expense or $8.71/boe in the same period of 2014 and a $2.7 million expense or $7.95/boe in the third quarter of 2015. The deferred income tax recovery is a function of the net loss incurred in the fourth quarter of 2015.

For the year ended December 31, 2015, the Company recorded a deferred income tax expense of $3.2 million or $1.33/boe compared to $28.3 million or $6.85/boe in 2014. During 2015, the Company spent approximately $0.6 million in eligible exploration expenditures related to the May 2014 issuance of flow-through shares. To date the Company has incurred all of the qualifying expenditures related to the May 2014 issuance and the commitment has been fulfilled.

Granite does not have current income taxes payable and does not expect to pay current income taxes in 2015 as the Company had estimated tax pools available at December 31, 2015 of $187 million (December 31, 2014 – $499 million).

Netbacks (per unit) (1)

	Three Months Ended December 31,		Year Ended December 31,	
	2015	2014	**2015**	2014
($/boe)				
Average sales price	**41.22**	59.21	**45.36**	73.38
Royalties	**(11.24)**	(13.78)	**(11.47)**	(16.60)
Operating expenses	**(5.91)**	(7.45)	**(6.96)**	(9.44)
Transportation expenses	**(1.82)**	(2.97)	**(2.58)**	(2.18)
Operating netback (2)	**22.25**	35.01	**24.35**	45.16
G&A and other expenses (excludes non-cash items)	**(2.68)**	(2.45)	**(2.02)**	(2.01)
Transaction costs – G&A	**(0.09)**	–	**(1.60)**	–
Realized gain (loss) on financial instruments	**23.93**	3.95	**11.22**	(0.10)
Finance expense	**(1.68)**	(1.19)	**(1.48)**	(1.19)
Funds flow netback (2)	**41.73**	35.32	**30.47**	41.86
D&D expense	**(17.23)**	(20.14)	**(18.74)**	(19.55)
Loss (gain) on dispositions	**(0.62)**	(0.08)	**63.58**	(0.02)
Accretion	**(0.22)**	(0.19)	**(0.20)**	(0.21)
Share-based compensation	**(1.99)**	(0.63)	**(1.00)**	(0.70)
Transaction costs – share-based compensation	**–**	–	**(1.68)**	–
Unrealized gain (loss) on financial instruments	**(19.03)**	19.11	**(6.51)**	6.17
E&E expense	**(8.66)**	(0.73)	**(1.75)**	(2.25)
Deferred income tax expense	**0.98**	(8.71)	**(1.33)**	(6.85)
Net income (loss) netback (2)	**(5.04)**	23.95	**62.84**	18.45

(1) For a description of the boe conversion ratio, refer to "Other Measurements" below.

(2) Non-GAAP measure; refer to the commentary below. Operating netback, funds flow netback and net income (loss) netback are calculated by dividing operating income, funds flow from operations and net income by the sales volume in boe for the period then ended. For a description of the boe conversion ratio, refer to "Other Measurements" below.

The operating netback was $22.25/boe for the three months ended December 31, 2015 compared to $35.01/boe in the same period of 2014 and $24.61/boe in the third quarter of 2015. The Company experienced a lower realized average sales price in the three months ended December 31, 2015 as compared to the fourth quarter of 2014 due to a decrease in WTI prices, partially offset by lower royalties and operating expenses. As compared to the third quarter of 2015, the Company also realized a lower average price due to a decrease in WTI prices, contributing to the decrease in operating netback quarter-over-quarter.

For the year ended December 31, 2015, Granite achieved an operating netback of $24.35/boe compared to $45.16/boe in 2014, due to lower average pricing throughout the year, partially offset by lower royalties and operating expenses.

INVESTMENT AND INVESTMENT EFFICIENCIES

Capital Expenditures and Acquisitions

(excluding decommissioning liabilities and capitalized share-based compensation)

	Three Months Ended December 31,		Year Ended December 31,	
	2015	2014	**2015**	2014
($000s except number of wells)				
Drilling and completions				
Completion of prior-period drilled wells	**295**	(727)	**3,696**	2,287
Current-period drilling and completion	**5,161**	38,282	**42,870**	202,579
Future drilling and work-overs	**129**	1,069	**1,441**	2,714
	5,585	38,624	**48,007**	207,580
Equipment and facilities				
Tie-in of prior-period drilled wells	**19**	402	**1,028**	709
Tie-in of current-period drilled wells	**268**	2,857	**2,090**	17,441
Facilities, pipelines and work-overs	**2,663**	7,968	**8,557**	35,752
Other equipment	**-**	-	**868**	-
	2,950	11,227	**12,543**	53,902
Land and lease retention	**-**	2,933	**2,709**	8,931
Geological and geophysical	**28**	12	**31**	1,184
Capitalized G&A and other	**178**	886	**1,054**	2,353
	206	3,831	**3,794**	12,468
Total exploration and development	**8,741**	53,682	**64,344**	273,950
Property acquisitions and adjustments	**(109)**	11,282	**535**	22,599
Total capital expenditures	**8,632**	64,964	**64,879**	296,549
Total wells drilled *(#)*	**3 (3.00)**	8 (8.00)	**16 (16.00)**	47 (46.93)

During the fourth quarter of 2015, the Company incurred a total of $8.6 million (fourth quarter 2014 – $65.0 million) in capital expenditures, excluding non-cash decommissioning liabilities, capitalized share-based compensation and including capital expenditures incurred subsequent to the closing of the POA related to those properties disposed. During the period, $nil was spent on acquisitions (fourth quarter 2014 – $11.3 million). Drilling and completion expenditures totaled $5.6 million in the fourth quarter of 2015 (fourth quarter 2014 – $38.6 million), $3.0 million was spent on tie-ins and facilities (fourth quarter 2014 – $11.2 million), $nil on land sales (fourth quarter 2014 – $2.9 million) and $0.02 million related to seismic programs (fourth quarter 2014 – $0.01 million). The remaining $0.2 million in the fourth quarter of 2015 (fourth quarter 2014 – $0.9 million) was invested in capitalized G&A and other corporate assets.

For the year ended December 31, 2015, the Company incurred a total of $64.9 million (2014 – $296.5 million) in capital expenditures, excluding the non-cash decommissioning liabilities and capitalized share-based compensation and including capital expenditures incurred subsequent to the closing of the POA related to those properties disposed.

During the year, the Company spent $nil on acquisitions (2014 – $22.6 million). Drilling and completion expenditures totaled $48.0 million (2014 – $207.6 million), $12.5 million was spent on tie-ins and facilities (2014 – $53.9 million), $2.7 million on land sales (2014 – $8.9 million) and $0.03 million related to seismic programs (2014 – $1.2 million). The remaining $1.1 million spent during the year ended December 31, 2015 (2014 – $2.4 million) was invested in capitalized G&A and other corporate assets.

Drilling Activity

	Exploration		Development		Total	
	Gross	Net	Gross	Net	Gross	Net
	(#)	*(#)*	*(#)*	*(#)*	*(#)*	*(#)*
Three Months Ended December 31, 2015						
Crude oil	**–**	**–**	**2**	**2.00**	**2**	**2.00**
Dry and abandoned	**1**	**1.00**	**–**	**–**	**1**	**1.00**
Total wells	**1**	**1.00**	**2**	**2.00**	**3**	**3.00**
Success rate *(%)*		**–**		**100**		**67**
Average working interest *(%)*		**100**		**100**		**100**
Three Months Ended December 31, 2014						
Crude oil	–	–	8	8.00	8	8.00
Dry and abandoned	–	–	–	–	–	–
Total wells	–	–	8	8.00	8	8.00
Success rate *(%)*		–		100		100
Average working interest *(%)*		–		100		100
Year Ended December 31, 2015						
Crude oil	**–**	**–**	**14**	**14.00**	**14**	**14.00**
Dry and abandoned	**2**	**2.00**	**–**	**–**	**2**	**2.00**
Total wells	**2**	**2.00**	**14**	**14.00**	**16**	**16.00**
Success rate *(%)*		**–**		**100**		**88**
Average working interest *(%)*		**100**		**100**		**100**
Year Ended December 31, 2014						
Gas	–	–	1	1.00	1	1.00
Crude oil	2	2.00	41	40.93	43	42.93
Dry and abandoned	3	3.00	–	–	3	3.00
Total wells	5	5.00	42	41.93	47	46.93
Success rate *(%)*		40		100		94
Average working interest *(%)*		100		100		100

During the fourth quarter of 2015, Granite drilled a total of 2 gross (2.00 net) crude oil development wells with a 100 percent success rate and 1 gross (1.00 net) exploration well which was a vertical stratigraphic test well and was determined to be dry and abandoned. During the three months ended December 31, 2014, the Company drilled 8 gross (8.00 net) crude oil development wells.

During the year ended December 31, 2015, Granite drilled 16 gross (16.00 net) wells in total, including 14 gross (14.00 net) development wells targeting crude oil and 2 (2.00) exploration wells. Both the exploration wells were vertical stratigraphic test wells and were determined to be dry and abandoned. For the year ended December 31, 2014 the Company drilled 47 gross (46.93 net) wells in total, including 41 gross (40.93 net) development wells targeting crude oil, 1 gross (1.00 net) development gas well and 5 gross (5.00 net) exploration wells.

Drilling Activity by Area

	Alberta Bakken	Brazeau	Peace River Arch	Total
	(#)	*(#)*	*(#)*	*(#)*
Three Months Ended December 31, 2015				
Crude oil	**2 (2.00)**	**– (–)**	**– (–)**	**2 (2.00)**
Dry and abandoned	**1 (1.00)**	**– (–)**	**– (–)**	**1 (1.00)**
Total wells	**3 (3.00)**	**– (–)**	**– (–)**	**3 (3.00)**
Success rate *(%)*	**67**	**–**	**–**	**67**
Average working interest *(%)*	**100**	**–**	**–**	**100**
Three Months Ended December 31, 2014				
Crude oil	– (–)	8 (8.00)	– (–)	8 (8.00)
Dry and abandoned	– (–)	– (–)	– (–)	– (–)
Total wells	– (–)	8 (8.00)	– (–)	8 (8.00)
Success rate *(%)*	–	100	–	100
Average working interest *(%)*	–	100	–	100
Year Ended December 31, 2015				
Crude oil	**10 (10.00)**	**4 (4.00)**	**– (–)**	**14 (14.00)**
Dry and abandoned	**2 (2.00)**	**– (–)**	**– (–)**	**2 (2.00)**
Total wells	**12 (12.00)**	**4 (4.00)**	**– (–)**	**16 (16.00)**
Success rate *(%)*	**83**	**100**	**–**	**88**
Average working interest *(%)*	**100**	**100**	**–**	**100**
Year Ended December 31, 2014				
Gas	– (–)	1 (1.00)	– (–)	1 (1.00)
Crude oil	15 (15.00)	27 (26.93)	1 (1.00)	43 (42.93)
Dry and abandoned	3 (3.00)	– (–)	– (–)	3 (3.00)
Total wells	18 (18.00)	28 (27.93)	1 (1.00)	47 (46.93)
Success rate *(%)*	83	100	100	94
Average working interest *(%)*	100	100	100	100

During the fourth quarter of 2015, Granite drilled a total of 2 gross (2.00 net) crude oil development wells with a 100 percent success rate and 1 gross (1.00 net) exploration well which was a vertical stratigraphic test well and was determined to be dry and abandoned. During the fourth quarter of 2014, the Company drilled a total of 8 gross (8.0 net) wells, all on its Brazeau property, with a 100 percent success rate.

During the year ended December 31, 2015, Granite drilled 16 gross (16.00 net) wells in total, including 12 gross (12.00 net) wells in the Alberta Bakken area and 4 gross (4.00 net) wells on it's Brazeau property with a 88 percent success rate. During 2014, the Company drilled 47 gross (46.93 net) wells in total, including 28 gross (27.93 net) wells on its Brazeau property, 18 gross (18 net) wells on its Alberta Bakken property and 1 gross (1 net) well in the Peace River Arch area, with a 94 percent success rate.

LIQUIDITY AND FINANCIAL RESOURCES

Net Debt [1]

The following table summarizes net debt as at December 31, 2015 and 2014:

Years Ended December 31,	**2015**	2014
($000s)		
Working capital deficiency	**(2,600)**	(32,113)
Bank debt	**(37,012)**	(139,234)
Net debt [1] – end of period	**(39,612)**	(171,347)

[1] Net debt, which is calculated as current liabilities (excluding derivative financial instruments) and bank debt less current assets (excluding derivative financial instruments), is not a recognized measure under IFRS. Please refer to the commentary under "Non-GAAP Measurements" for further discussion.

Granite entered 2015 with net debt of $171.3 million. During 2015, the Company generated funds from operations of $72.7 million and invested $64.9 million in capital expenditures. In connection with the completion of the POA, Granite and Boulder each obtained new credit facilities from syndicates of lenders. The Granite credit facility has an authorized borrowing base of $80 million consisting of a $60 million revolving demand credit facility and a $20 million revolving demand operating 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 under its credit facility at the time of the reorganization. As a result, obligations of DeeThree under its prior credit facility have been fully repaid and settled. Additionally, the Company paid $6.9 million in dividends. Granite exited the fourth quarter of 2015 with net debt of $39.6 million.

At December 31, 2015, the Granite facility was drawn to approximately $37.0 million with $43.0 million of unused borrowing capacity.

Interest is charged at a rate per annum equal to the Canadian prime rate during said period plus the applicable margin, being a range of 0.5 percent to 2.5 percent, as determined by the Corporation's debt to cash flow ratio. Standby fees associated with this facility are charged based on an applicable margin, being a range of 0.2 percent to 0.45 percent per annum on the undrawn portion of the facility, again based on the Company's debt to cash flow ratio. Under this credit facility, the Corporation is required to maintain a current ratio of not less than 1:1.

The amount of the facility is subject to a borrowing base test performed on a periodic basis by the lenders, based primarily on reserves and using commodity prices estimated by the lenders as well as other factors. The borrowing base of the credit facility is subject to review at least semi-annually with the next review scheduled for April 2016. A decrease in the borrowing base could result in a reduction to the credit facility. Collateral for this facility consists of a general security agreement, providing a security interest over all present and subsequently acquired personal property and a floating charge on all present and subsequently acquired land interest of the Company.

On February 22, 2016, Granite announced its 2016 budget. During 2016, the Company intends to maintain its year-end exit net debt level in order to protect its balance sheet. In addition, the Company has flexibility to adjust its capital program quickly based on commodity prices. Granite's 2016 budget is sustainable and is funded by internally generated cash flow. The Company plans to maintain its current dividend of $0.42/share.

RELATED-PARTY TRANSACTIONS AND OFF-BALANCE-SHEET TRANSACTIONS

There were no off-balance-sheet transactions entered into during the period nor are there any outstanding as at the date of this MD&A.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Years Ended December 31,	2016	2017	2018	Total
($000s)				
Operating lease – office	214	129	-	343
Total commitments	214	129	-	343

As at December 31, 2015, the Company had contractual obligations for its office leases totaling approximately $0.3 million to July 2017. The office lease obligations are comprised of the lease payments and an estimate of occupancy costs of the Company's head office space.

SHARE CAPITAL

As at March 21, 2016, the Company had the following equity securities outstanding:

Common shares outstanding	30,375,286
Stock options outstanding	174,224
Share incentives outstanding	944,995

SELECTED QUARTERLY INFORMATION (1)(4)

Three Months Ended	**Dec. 31, 2015**	Sept. 30, 2015	June 30, 2015	March 31, 2015	Dec. 31, 2014	Sept. 30, 2014	June 30, 2014	March 31, 2014
(000s, except per share amounts and production figures)	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*
Oil and natural gas revenues	**13,181**	15,195	33,989	46,077	69,957	87,188	80,560	65,643
Funds from operations	**13,349**	14,510	17,191	27,623	41,773	52,720	43,167	35,536
Per share – basic	**0.44**	0.48	0.57	0.93	1.46	1.78	1.53	1.30
Per share – diluted	**0.43**	0.47	0.57	0.93	1.41	1.72	1.48	1.26
Cash flow from operating activities	**19,934**	1,250	22,526	17,607	54,239	62,290	44,103	23,607
Net income (loss)	**(1,610)**	6,431	143,635	1,761	28,312	21,106	18,133	8,682
Per share – basic	**(0.05)**	0.21	4.78	0.06	0.99	0.71	0.64	0.32
Per share – diluted	**(0.05)**	0.21	4.77	0.06	0.96	0.69	0.62	0.31
Total assets	**298,698**	309,596	303,489	752,643	743,202	686,496	626,620	564,393
Capital expenditures (2)	**8,632**	6,587	11,956	37,060	64,964	84,985	74,288	72,312
Net debt (3)	**39,612**	41,546	45,047	180,784	171,347	148,329	116,064	155,517
Shareholders' equity	**211,293**	214,995	210,470	466,447	463,509	433,613	410,944	321,640
Production								
Natural gas (mcf/d)	**841**	1,674	7,229	15,103	16,510	13,395	12,967	12,381
Crude oil (bbls/d)	**3,334**	3,358	5,603	9,188	9,275	9,322	8,033	6,743
NGLs (bbls/d)	**2**	7	102	591	815	739	550	565
Total (boe/d)	**3,476**	3,644	6,910	12,296	12,842	12,294	10,744	9,372

(1) The selected quarterly information was prepared in accordance with the accounting principles described in the notes to the financial statements, except for funds from operations, which is not prescribed under IFRS (see "Non-GAAP Measurements" below).

(2) Total capital expenditures, including acquisitions.

(3) Net debt, which is calculated as current liabilities (excluding derivative financial instruments) and bank debt less current assets (excluding derivative financial instruments), is not a recognized measure under IFRS. Please refer to the commentary under "Non-GAAP Measurements" for further discussion.

(4) Refer to the description of the Plan of Arrangement in the Management's Discussion and Analysis under "About Granite Oil Corp." Refer to "2015 Finanacial and Operating Highlights" regarding compareability of prior period information.

SELECTED ANNUAL INFORMATION (1)(2)

	Years Ended December 31,		
	2015	2014	2013
(000s, except per share amounts and production figures)	*($)*	*($)*	*($)*
Oil and natural gas revenues	**108,442**	303,348	177,991
Funds from operations	**72,673**	173,179	93,295
Per share – basic	**2.41**	6.04	3.68
Per share – diluted	**2.38**	5.85	3.55
Cash flow from operating activities	**61,317**	184,239	97,448
Net income	**150,216**	76,233	18,048
Per share – basic	**4.99**	2.66	0.71
Per share – diluted	**4.92**	2.58	0.69
Total assets	**298,698**	743,202	497,280
Capital expenditures	**64,879**	296,549	211,885
Net debt	**39,612**	171,347	119,787
Shareholders' equity	**211,293**	463,509	311,070
Dividends declared (per share)	**0.2275**	–	–
Production			
Natural gas *(mcf/d)*	**6,160**	13,823	9,881
Crude oil *(bbls/d)*	**5,350**	8,353	5,205
NGL *(bbls/d)*	**173**	668	332
Total *(boe/d)*	**6,550**	11,325	7,184

(1) The selected annual information was prepared in accordance with the accounting principles described in the notes to the financial statements for the years in question, except for funds from operations, which is not prescribed under IFRS (see "Non-IFRS Measurements" below).

(2) Refer to the description of the Plan of Arrangement in the Management's Discussion and Analysis under "About Granite Oil Corp." Refer to "2015 Finanacial and Operating Highlights" regarding compareability of prior period information.

OUTLOOK

In response to lower oil prices during the fourth quarter of 2015, Granite capitalized on low equipment costs and accelerated its plans to further ramp-up gas injection in the EOR program through the purchase of approximately 2,000 HP of additional gas injection compression and related equipment. This equipment will be installed in the first quarter of 2016 and on-stream in April 2016. With this expansion, Granite will increase gas injection volumes to match or exceed production volumes, achieving a 100 percent voidage replacement ratio – an important milestone in the ongoing development of the EOR program. As well, the expanded facilities have the capacity to maintain 100% voidage replacement at higher levels of oil production from the pool. With the success of the program to-date, Granite expects this expansion to have material impacts on pool performance and long-term decline rates, and offer greater opportunities for capital-efficient drilling.

Granite's 2016 budget includes two sustainable budget scenarios based on a US$37.00/bbl WTI case and a US$32.50/bbl WTI case. Under the $37.00 case, Granite anticipates production of 3,250 bbl per day of oil, while funding both capital expenditures of $14.2 million (six horizontal wells) and dividends of $12.8 million with anticipated funds flow of $27.1 million. Under the US$32.50/bbl WTI case, the Company expects oil production to average 3,000 bbl per day of oil, with funds flow of $23.0 million funding both capital expenditures of $10.2 million (four horizontal wells), and the annual dividend of $12.8 million.

Under either scenario, the Company retains its balance sheet flexibility, with less than $40 million of net debt forecast at the end of 2016. Granite has the ability to react quickly to improved commodity prices and increase its capital program accordingly.

Granite is off to a very strong start in 2016. Our goal remains to be an efficient oil producer with a strong balance sheet that is sustainable for the long term. We will continue to carefully manage costs and make choices that generate long-term value from our assets while maintaining our low level of debt.

BUSINESS RISKS AND RISK MITIGATION

The Granite management team conducts focused strategic planning and has identified the key risks, uncertainties and opportunities associated with the Company's business that can affect its financial results. They include, but are not limited to:

Reserves and Resource Estimates

Granite's exploration and production activities are concentrated in the Western Canada Sedimentary Basin, where the industry is very competitive. There are a number of risks facing participants in the oil and natural gas industry, some of which are common to all businesses, while others are specific to the sector. These include risks such as finding and developing oil and natural gas reserves economically, estimating reserves, producing the reserves in commercial quantities, finding a suitable market at attractive commodity prices, financial and liquidity risks and environmental and safety risks.

Granite's future oil and natural gas reserves and production and, therefore, its cash flows, will be highly dependent on the Company's success in exploiting its reserve base and acquiring additional reserves. The Company mitigates the risk of finding and developing economical oil and natural gas reserves by utilizing a team of highly qualified professionals with expertise and experience in these areas. Granite attempts to maximize drilling success by exploring areas that have multi-zone opportunities, including targeting deeper horizons with uphole potential, continuously assessing new acquisition opportunities to complement existing activities and balancing higher-risk exploratory drilling with lower-risk development drilling.

Beyond exploration risk, there is the potential that the Company's oil and natural gas reserves may not be economically produced at prevailing prices. Granite minimizes this risk by generating exploration prospects internally, targeting high-quality projects, operating the project and by attempting to access sales markets through Company-owned infrastructure or mid-stream operators.

Granite has retained an independent engineering consulting firm that assists the Company in evaluating oil and natural gas reserves. Reserve values are based on a number of variable factors and assumptions such as commodity prices, projected production, future production costs and governmental regulation. The reserves and recovery information contained in the independent reserves evaluation is an estimate. The actual production and ultimate reserves from the properties may be greater or less than the estimates prepared by the independent reserves evaluator.

Volatility of Oil and Natural Gas Prices

The Company's operational results and financial condition depend on the prices received for oil and natural gas production. Differentials on Canadian crude oil showed significant volatility throughout 2015 and into 2016 due to pipeline and infrastructure constraints. There are numerous projects proposed to alleviate pipeline bottlenecks into and in the United States, expand refinery capacity and expand or build new pipelines in Canada and the United States to source new markets, many of which are in the regulatory application phase. There can be no assurance that such regulatory approvals will be secured on a timely basis or at all. Any movement in oil and natural gas prices will have an effect on Granite's ability to conduct its capital expenditure program. Oil and natural gas prices are determined by economic and, in some circumstances, political factors. Supply and demand factors, including weather and general economic conditions as well as conditions in other oil and natural gas regions, influence prices.

Granite is exposed to commodity price risk whereby the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are affected by not only the relationship between the Canadian and United States dollars, but also global economic events that dictate the levels of supply and demand. The Company protects itself from fluctuations in prices by maintaining an appropriate hedging strategy and may enter into oil and natural gas risk management contracts. If the Company engages in activities to manage its commodity price exposure, it may forego the benefits it would otherwise experience if commodity prices were to increase. In addition, commodity derivatives contracts activities could expose Granite to losses. To the extent that Granite engages in risk management activities related to commodity prices, it will be subject to credit risks associated with the counterparties with which it contracts. As at the date of this MD&A, Granite has several crude oil hedges (refer to "Risk Management" above for details).

Operational Matters

The operation of oil and natural gas wells involves a number of operating and natural hazards that may result in blowouts, environmental damage and other unexpected or dangerous conditions causing damage to Granite and possible liability to third parties. Granite has established an environmental, health and safety program and has updated its operational emergency response plan and operational safety manual to address these operational issues. Granite maintains a comprehensive insurance plan, which includes liability insurance, where available, in amounts consistent with industry standards, as well as business interruption insurance for selected facilities, to the extent that such insurance is available, to mitigate risks and protect against significant losses where possible. Granite may become liable for damages arising from such events against which it cannot insure or against which it may elect not to insure because of high premiums or other reasons. Granite operates in accordance with all applicable environmental legislation and strives to maintain compliance with such regulations. Granite's mandate includes ongoing development of procedures, standards and systems to allow its staff to make the best decisions possible and ensuring those decisions are in compliance with the Company's environmental, health and safety policies.

Access to Capital

The oil and natural gas industry is a very capital-intensive industry and, in order to fully realize the Company's strategic goals and business plans, Granite will rely on equity markets as a source of new capital in addition to bank financing and internally generated cash flow to fund its ongoing capital investments. Granite's ability to raise additional capital will depend on a number of factors that are beyond the Company's control, such as general economic and market conditions. Internally generated funds will also fluctuate with changing commodity prices. Granite currently has an $80 million demand facility with two banks. The Company is required to comply with covenants under this facility and in the event it does not comply, access to capital could be restricted or repayment could be required. Granite routinely reviews the covenants based on actual and forecast results and has the ability to make changes to development plans to comply with the covenants under the credit facility. Granite anticipates it will continue to have adequate liquidity to fund its financial liabilities through its future funds from operations and available bank credit. Granite is committed to maintaining a strong balance sheet along with an adaptable capital expenditure program that can be adjusted to capitalize on, or reflect, acquisition opportunities and, if necessary, a tightening of liquidity sources. From its founding to the date of this MD&A, Granite has had no defaults or breaches on its bank debt or any of its financial liabilities.

Counterparty Risk

Granite assumes customer credit risk associated with oil and gas sales, financial hedging transactions and joint venture participants. In the event that Granite's counterparties default on payments to Granite, cash flows will be impacted. The Company may be exposed to third-party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of its commodities and other parties. Granite has established credit policies and controls designed to mitigate the risk of default or non-payment with respect to oil and natural gas sales, financial hedging transactions and joint venture participants. The Company makes every effort to sell its commodities to major companies with excellent credit ratings.

Variations in Interest Rates and Foreign Exchange Rates

Variations in interest rates could result in an increase in the amount Granite pays to service debt. World oil prices are quoted in US dollars and the price received by Canadian producers is therefore affected by the Canadian/US dollar exchange rate, which may fluctuate over time. A material increase in the value of the Canadian dollar would, other variables remaining constant, negatively impact Granite's net production revenue. Volatility in interest rates and the Canadian dollar may affect future cash flow from operations and reduce funds available for capital expenditures. Granite may initiate certain derivative contracts to attempt to mitigate these risks. To the extent Granite engages in risk management activities related to foreign exchange rates, it will be subject to credit risk associated with counterparties with which it contracts. At the date of this MD&A, Granite has one foreign currency exchange risk management contract and one interest rate swap risk management contract in place.

Changes in Income Tax Legislation

In the future, income tax laws or other laws may be changed or interpreted in a manner that adversely affects Granite or its shareholders. Tax authorities having jurisdiction over Granite or its shareholders may disagree with how Granite calculates its income for tax purposes to the detriment of Granite and its shareholders.

Environmental Concerns

The oil and natural gas industry is subject to environmental regulation pursuant to local, provincial and federal legislation. A breach of such legislation may result in the imposition of fines or issuance of clean-up orders in respect of Granite or its working interests. Such legislation may be changed to impose higher standards and potentially more costly obligations to Granite. Granite focuses on conducting transparent, safe and responsible operations in the communities in which its people live and work.

Project Risks

Granite's ability to execute projects and market oil and natural gas depends on numerous factors beyond its control, including: availability of processing capacity, availability and proximity of pipeline capacity, availability of storage capacity, supply of and demand for oil and natural gas, availability of alternative fuel sources, effects of inclement weather, availability of drilling and related equipment, unexpected cost increases, accidental events, change in regulations, and availability and productivity of skilled labour. Because of these factors, Granite could 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.

In addition, Granite is also subject to other risks and uncertainties which are described in the Company's Annual Information Form (AIF) dated March 21, 2016.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company's financial statements requires management to adopt accounting policies that involve the use of significant estimates and assumptions. They are developed based on the best available information and are believed by management to be reasonable under the circumstances. New events or additional information may result in the revision of these estimates over time. Granite's financial and operating results incorporate certain estimates, including:

- Estimated revenues, royalties and operating expenses on production as at a specific reporting date but for which actual revenues and costs have not yet been received;
- Estimated capital expenditures on projects that are in progress;
- Estimated D&D charges that are based on estimates of oil and gas reserves that Granite expects to recover in the future;
- Estimated fair values of financial instruments that are subject to fluctuation depending on underlying commodity prices, foreign exchange rates and interest rates, volatility curves and the risk of non-performance;
- Estimated value of decommissioning liabilities that depend on estimates of future costs and timing of expenditures;
- Estimated future recoverable value of PP&E and any associated impairment charges or recoveries; and
- Estimated compensation expense under Granite's share-based compensation plan.

Granite has hired individuals and consultants who have the skills required to make such estimates and ensures that individuals or departments with the most knowledge of the activity are responsible for the estimates. Further, past estimates are reviewed and compared to actual results, and actual results are compared to budget in order to make more informed decisions on future estimates. For further information on certain estimates inherent in the financial statements, refer to note 2 in the audited financial statements for the years ended December 31, 2015 and 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Internal control over financial reporting is a process designed to provide reasonable assurance that all the assets are safeguarded and transactions are appropriately authorized, and to facilitate the preparation of relevant, reliable and timely information. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Granite is required to comply with National Instrument 52-109 – “Certification of Disclosure in Issuers’ Annual and Interim Filings” and management has assessed the effectiveness of the Company’s internal control over financial reporting as defined by this instrument. The assessment was based on the framework in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management concluded that Granite’s internal control over financial reporting was effective as of December 31, 2015. No changes were made to Granite’s internal control over financial reporting during the year ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, the internal control over financial reporting.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures (“DC&P”), as defined in National Instrument 52-109 Certification of Disclosure in Issuers’ Annual and Interim Filings, are designed to provide reasonable assurance that information required to be disclosed in the Company’s annual filings, interim filings or other reports filed, or submitted by the Company under securities legislation is recorded, processed, summarized and reported within the time periods specified under securities legislation and include controls and procedures designed to ensure that information required to be so disclosed is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Chief Executive Officer and the Chief Financial Officer of Granite evaluated the effectiveness of the design and operation of the Company’s DC&P. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that Granite’s DC&P were effective as at December 31, 2015.

It should be noted that while Granite’s Chief Executive Officer (CEO) and Chief Financial Officer (CFO) believe that the Company’s internal controls and procedures provide a reasonable level of assurance and are effective, they do not expect that these controls will prevent all errors or fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that its objectives are met.

FUTURE ACCOUNTING POLICY CHANGES

In July 2014, IFRS 9 “Financial Instruments” was issued as a complete standard, including the requirements previously issued related to classification and measurement of financial assets and liabilities, and additional amendments to introduce a new expected loss impairment model for financial assets, including credit losses. Retrospective application of this standard with certain exemptions is effective for fiscal years beginning on or after January 1, 2018, with earlier application permitted. The full impact of the standard on the Company’s financial statements is currently being assessed by the Company.

In December 2014, the International Accounting Standards Board (IASB) issued narrow-focus amendments to International Accounting Standard (IAS) 1 “Presentation of Financial Statements” to clarify existing requirements related to materiality, order of notes, subtotals, accounting policies and disaggregation. Retrospective application of this standard is effective for fiscal years beginning on or after January 1, 2016, with earlier application permitted. The adoption of this amended standard is not expected to have a material impact on the Company’s disclosure.

In May 2014, the IASB issued IFRS 15 “Revenue from Contracts with Customers”. It replaces existing revenue recognition guidance and provides a single, principles based five-step model to be applied to all contracts with customers. Retrospective application of this standard is currently effective for fiscal years beginning on or after January 1, 2018, with earlier application permitted. The Company is currently assessing the impact of this standard.

In January 2016, IFRS 16 "Leases" was issued and replaces IAS 17. The standard is required to be adopted either retrospectively or by recognizing the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 is effective for fiscal years beginning on or after January 1, 2019 with earlier adoption permitted if IFRS 15 "Revenue from Contracts with Customers" has also been adopted. The Company is currently evaluating the impact of the standard.

NON-GAAP MEASUREMENTS

Funds from Operations

This MD&A contains the terms "funds from operations" and "funds from operations per share", which should not be considered an alternative to or more meaningful than cash flow from (used in) operating activities as determined in accordance with IFRS. These terms do not have any standardized meaning under IFRS. Granite's determination of funds from operations and funds from operations per share may not be comparable to that reported by other companies. Management uses funds from operations to analyze operating performance and leverage, and considers funds from operations to be a key measure as it demonstrates the Company's ability to generate cash necessary to fund future capital investments and to repay debt, if applicable. Funds from operations is calculated using cash flow from operating activities as presented in the statement of cash flows, before changes in non-cash working capital. Granite presents funds from operations per share whereby per share amounts are calculated using weighted-average shares outstanding, consistent with the calculation of earnings per share.

The following table reconciles funds from operations with cash flow from operating activities, which is the most directly comparable measure calculated in accordance with IFRS:

	Three Months Ended December 31,		Year Ended December 31,	
	2015	2014	**2015**	2014
($000s)				
Cash flow from operating activities	**19,934**	54,239	**61,317**	184,239
Changes in non-cash working capital	**(6,585)**	(12,466)	**11,356**	(11,060)
Funds from operations	**13,349**	41,773	**72,673**	173,179

The Company considers corporate netbacks to be a key measure as they demonstrate Granite's profitability relative to current commodity prices. Corporate netbacks are comprised of operating, funds flow and net income netbacks. Operating netback is calculated as the average sales price of the Company's commodities, less royalties, operating costs and transportation expenses. Funds flow netback starts with the operating netback and further deducts general and administrative costs and finance expense, and then adds finance income as well as realized gains on financial instruments. To calculate the net income netback, Granite takes the funds flow netback and deducts share-based compensation expense as well as depletion and depreciation charges, accretion expense, unrealized gains or losses on financial instruments, any impairment or exploration and evaluation expense and deferred income taxes. No IFRS measure is reasonably comparable to netbacks. See "Netbacks (Per Unit)" for the netback calculations.

Net Debt

Net debt, which represents current liabilities (excluding derivative financial instruments) and bank debt less current assets (excluding derivative financial instruments), are used to assess efficiency, liquidity and the Company's general financial strength. No IFRS measure is reasonably comparable to net debt.

OTHER MEASUREMENTS

All financial figures are in Canadian dollars. Where amounts are expressed on a barrel of oil equivalent (boe) basis, natural gas volumes have been converted to oil equivalence at 6,000 cubic feet of gas to 1 barrel of oil. This conversion ratio of 6:1 is based on an energy-equivalent conversion for the individual products, primarily applicable at the burner tip, and does not represent a value equivalency at the wellhead. Such disclosure of boe may be misleading, particularly if used in isolation. Readers should be aware that historical results are not necessarily indicative of future performance.

FORWARD-LOOKING INFORMATION AND STATEMENTS

Certain statements in this MD&A may constitute forward-looking statements. These statements relate to future events or the Company's future performance. All statements other than statements of historical fact may be 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. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon by investors. These statements speak only as of the date of this MD&A and are expressly qualified, in their entirety, by this cautionary statement.

In particular, this MD&A contains forward-looking statements pertaining to the following: projections of market prices and costs, supply and demand for natural gas and crude oil, the quantity of reserves, natural gas and crude oil production levels, capital expenditure programs, treatment under governmental regulatory and taxation regimes, and expectations regarding the Company's ability to raise capital and to continually add to reserves through acquisitions and development.

With respect to forward-looking statements in this MD&A, the Company has made assumptions regarding, among other things, the legislative and regulatory environments of the jurisdictions where the Company carries on business or has operations, the impact of increasing competition and the Company's ability to obtain additional financing on satisfactory terms.

The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors discussed in this MD&A, such as: volatility in the market prices for natural gas and crude oil; uncertainties associated with estimating reserves; geological, technical, drilling and processing problems; liabilities and risks, including environmental liabilities and risks inherent in natural gas and crude oil operations; incorrect assessments of the value of acquisitions; and competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel. In addition, test results are not necessarily indicative of long-term performance or of ultimate recovery.

This forward-looking information represents the Company's views as of the date of this MD&A and such information should not be relied upon as representing its views as of any subsequent date. Granite has attempted to identify important factors that could cause actual results, performance or achievements to vary from those current expectations or estimates expressed or implied by the forward-looking information. There may be other factors, however, that cause results, performance or achievements not to be as expected or estimated and that could cause actual results, performance or achievements to differ materially from current expectations. There can be no assurance that forward-looking information will prove to be accurate, as results and future events could differ materially from those expected or estimated in such statements. Accordingly, readers should not place undue reliance on forward-looking information. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as expressly required by applicable securities legislation.

Additional information regarding the Company and factors that could affect its operations and financial results are included in reports on file with Canadian securities regulatory authorities, including the Company's Annual Information Form, and may be accessed through the SEDAR website (www.sedar.com), or at the Company's website (www.graniteoil.ca). Furthermore, the forward-looking statements contained in this MD&A are made as of the date of this MD&A and the Company does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws. The Company's forward-looking statements are expressly qualified in their entirety by this cautionary statement.

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF GRANITE OIL CORP.

We have audited the accompanying financial statements of Granite Oil Corp., which comprise the statements of financial position as at December 31, 2015 and December 31, 2014, the statements of operations and comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Granite Oil Corp. as at December 31, 2015 and December 31, 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

March 21, 2016
Calgary, Canada

STATEMENTS OF FINANCIAL POSITION

As at	**December 31, 2015**	December 31, 2014
(000s)	*($)*	*($)*
ASSETS		
Current assets		
Accounts receivable (note 16)	**10,927**	29,524
Deposits and prepaid expenses	**753**	682
Derivative financial instruments (note 16)	**7,615**	23,270
	19,295	53,476
Non-current assets		
Exploration and evaluation assets (note 5)	**37,463**	62,784
Property and equipment (note 6)	**241,940**	626,942
Total assets	**298,698**	743,202
LIABILITIES		
Current liabilities		
Bank debt (note 7)	**37,012**	–
Accounts payable and accrued liabilities (note 16)	**13,218**	62,319
Dividend payable	**1,062**	–
	51,292	62,319
Non-current liabilities		
Bank debt (note 7)	**–**	139,234
Decommissioning liabilities (note 8)	**13,349**	34,165
Flow-through share premium liabilities (note 9)	**–**	95
Deferred tax liability (note 11)	**22,764**	43,880
Total liabilities	**87,405**	279,693
SHAREHOLDERS' EQUITY		
Share capital (note 9)	**388,949**	381,540
Contributed surplus	**14,479**	12,591
Retained earnings (deficit)	**(192,135)**	69,378
Total shareholders' equity	**211,293**	463,509
Total liabilities and shareholders' equity	**298,698**	743,202

Commitments (note 17)
Subsequent Events (note 16)

See accompanying notes to the financial statements.

On behalf of the Board of Directors,

Mike Kabanuk
President & Chief Executive Officer

Dennis Nerland
Director

STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

Years Ended December 31,	2015	2014
(000s, except per share amounts)	*($)*	*($)*
REVENUE		
Oil and natural gas revenues	**108,442**	303,348
Royalties	**(27,411)**	(68,613)
Oil and natural gas revenues, net of royalties	**81,031**	234,735
EXPENSES		
Operating and transportation	**22,825**	48,048
General and administrative	**4,822**	8,311
Transaction Costs – general and administration (note 4)	**3,831**	–
Depletion and depreciation (note 6)	**44,804**	80,799
Share-based compensation (note 10)	**2,379**	2,902
Transaction Costs – share-based compensation (note 4)	**4,027**	–
Exploration and evaluation expense (note 5)	**4,191**	9,318
Loss (gain) on disposition (note 4)	**(151,996)**	90
	(65,117)	149,468
Unrealized loss (gain) on financial instruments	**15,555**	(25,494)
Realized loss (gain) on financial instruments	**(26,831)**	426
Accretion and finance expenses (note 14)	**4,021**	5,771
	(72,372)	130,171
Income before income tax	**153,403**	104,564
TAXES		
Deferred income tax expense (note 11)	**3,187**	28,331
Net income and comprehensive income for the period	**150,216**	76,233
Net income per share (note 9)		
Basic	**4.99**	2.66
Diluted	**4.92**	2.58

See accompanying notes to the financial statements.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(000s)	Share Capital ($)	Contributed Surplus ($)	Retained Earnings (Deficit) ($)	Total Equity ($)
Balance – January 1, 2015	**381,540**	**12,591**	**69,378**	**463,509**
Share-based compensation	–	7,831	–	7,831
Exercise of options	7,409	(5,943)	–	1,466
Distribution of non-cash assets (note 4)	–	–	(404,825)	(404,825)
Dividends	–	–	(6,904)	(6,904)
Net income	–	–	150,216	150,216
Balance – December 31, 2015	**388,949**	**14,479**	**(192,135)**	**211,293**
Balance – January 1, 2014	309,323	8,602	(6,855)	311,070
Common shares issued	63,428	–	–	63,428
Flow-through shares issued	10,002	–	–	10,002
Premium on flow-through shares	(1,654)	–	–	(1,654)
Share issuance costs	(4,048)	–	–	(4,048)
Tax benefit of share issuance costs	1,010	–	–	1,010
Share-based compensation	–	5,040	–	5,040
Exercise of options	3,479	(1,051)	–	2,428
Net income	–	–	76,233	76,233
Balance – December 31, 2014	381,540	12,591	69,378	463,509

See accompanying notes to the financial statements.

STATEMENTS OF CASH FLOWS

Years Ended December 31,	**2015**	2014
(000s)	*($)*	*($)*
Cash flow from (used in):		
Operating activities		
Net income for the period	**150,216**	76,233
Adjustments for:		
Depletion and depreciation expense (note 6)	**44,804**	80,799
Deferred income tax expense (note 11)	**3,187**	28,331
Share-based compensation (note 10)	**2,434**	3,069
Transaction costs – share-based compensation (note 4)	**4,027**	–
Accretion (note 8)	**471**	850
Unrealized loss (gain) on financial instruments (note 16)	**15,555**	(25,494)
Exploration and evaluation expense (note 5)	**4,191**	9,318
Abandonment and reclamation costs (note 8)	**(216)**	(17)
Loss (gain) on disposition (note 4)	**(151,996)**	90
	72,673	173,179
Change in non-cash working capital (note 12)	**(11,356)**	11,060
	61,317	184,239
Financing activities		
Change in bank debt	**(102,222)**	50,830
Assumption of debt from Boulder transaction (note 4)	**130,000**	–
Dividends	**(6,904)**	–
Issuance of share capital	**1,466**	75,858
Share issuance costs	**–**	(4,048)
Change in non-cash working capital (note 12)	**1,062**	–
	23,402	122,640
Investing activities		
Property and equipment expenditures	**(59,192)**	(254,057)
Exploration and evaluation expenditures	**(5,687)**	(19,893)
Property acquisitions (note 4)	**–**	(22,599)
Changes in non-cash working capital (note 12)	**(20,454)**	(10,330)
	(85,333)	(306,879)
Foreign exchange gain on cash and cash equivalents held in foreign currency	**614**	–
Change in cash and cash equivalents	**–**	–
Cash and cash equivalents – beginning of period	**–**	–
Cash and cash equivalents – end of period	**–**	–

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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

01 REPORTING ENTITY

Granite Oil Corp. ("Granite" or the "Company"), formerly DeeThree Exploration Ltd., is a publicly traded company incorporated under the laws of Alberta. The Company is principally engaged in the exploration for and exploitation, development and production of oil and natural gas, and conducts many of its activities jointly with others. These financial statements reflect only the Company's interests in such activities. Granite is registered and domiciled in Canada. Its main office is at 423, 222 Third Avenue S.W., Calgary, Alberta.

02 BASIS OF PRESENTATION

(a) Statement of Compliance

These financial statements were prepared in accordance with International Financial Reporting Standards and interpretations (collectively referred to as IFRS) as issued by the International Accounting Standards Board (IASB).

The financial statements were authorized for issuance by the Board of Directors on March 21, 2016.

(b) Basis of Measurement

The financial statements of Granite were prepared on the historical cost basis, except for derivative financial instruments, which are measured at fair value. The methods used to measure fair values are discussed in note 15.

(c) Functional and Presentation Currency

The financial statements are presented in Canadian dollars, the Company's functional currency.

(d) Use of Estimates and Judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates and affect the results reported in these financial statements, and could be material. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

i) Key Sources of Estimation Uncertainty

The following are key estimates and the underlying assumptions made by management affecting the measurement of balances and transactions in these financial statements.

ACQUISITIONS

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

VALUATION OF PROPERTY AND EQUIPMENT

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

- Oil and natural gas development and production assets are depleted on a unit-of-production basis at a rate calculated by reference to proved and probable reserves determined in accordance with NI 51-101 and incorporate the estimated future cost of developing and extracting those reserves. Proved and probable reserves are estimated using independent reserve engineers' reports and represent the estimated quantities of oil, natural gas and NGLs that geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. Proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable, it being 90 percent 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 being equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves. The volume of estimated reserves is also a key determinant in assessing whether the carrying value of any of the Company's development and production assets has been impaired.
- The recoverable amounts of cash-generating units (CGUs) and individual assets have been determined based on the higher of the present value of value-in-use calculations and discounted fair values less costs to sell. These calculations require the use of estimates and assumptions, including the discount rate. It is reasonably possible that the commodity price assumptions may change, which may then impact the estimated life of the field and economically recoverable reserves, and may then require a material adjustment to the carrying value of property and equipment. The Company monitors internal and external indicators of impairment relating to its fixed assets.

PROVISIONS FOR DECOMMISSIONING COSTS

The Company estimates the decommissioning obligations for oil and natural gas wells and their associated production facilities and pipelines. In most instances, removal of assets and remediation occurs many years into the future. Amounts recorded for the decommissioning obligations and related accretion expense require assumptions regarding removal date, future environmental legislation, the extent of reclamation activities required, the engineering methodology for estimating cost, inflation estimates, future removal technologies in determining the removal cost, and the estimate of the liability-specific discount rates to determine the present value of these cash flows.

MEASUREMENT OF SHARE-BASED COMPENSATION

The Company's estimate of share-based compensation depends on estimates of historical volatility, dividend yield, expected term and forfeiture rates.

VALUATION AND UTILIZATION OF TAX LOSSES

The deferred tax liability is based on estimates as to the timing of the reversal of temporary differences, substantively enacted tax rates and the likelihood of assets being realized.

VALUATION OF DERIVATIVE FINANCIAL INSTRUMENTS

The Company's estimate of the fair value of derivative financial instruments depends on estimated forward prices and volatility in those prices.

ii) Judgements

The following are critical judgements that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

IMPAIRMENT

The Company's assets are aggregated into CGUs for the purpose of calculating impairment. CGUs are based on an assessment of the unit's ability to generate independent cash inflows. The determination of the Company's CGUs was based on management's judgement in regards to shared infrastructure, geographical proximity, petroleum type and similar exposure to market risk and materiality.

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

EXPLORATION AND EVALUATION ASSETS

The application of the Company's accounting policy for exploration and evaluation assets requires management to make certain judgments as to future events and circumstances as to whether economic quantities of reserves have been found.

03 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below were applied consistently to all periods presented in these financial statements. Certain comparative amounts were reclassified to conform with the current period's presentation.

(a) Property and Equipment

CAPITALIZATION

Items of property and equipment, which include oil and natural gas development and production assets, are measured at cost less accumulated depletion, depreciation and impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of decommissioning obligation, if any, and, for qualifying assets, borrowing costs. Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are recognized as petroleum and natural gas properties only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized petroleum and natural gas properties generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis.

DEPLETION AND DEPRECIATION

The net carrying value of development and production assets is depleted using the unit-of-production method by reference to the ratio of production in the year to the related proved plus probable reserves, taking into account estimated future development costs necessary to convert those reserves into production. Proved plus probable reserves are estimated annually by independent qualified reserves evaluators and represent the estimated quantities of crude oil, natural gas and NGLs which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. Future development costs are estimated taking into account the amount of physical development that will be required to produce the reserves. For interim financial statements, internal estimates of changes in reserves and future development costs are used for determining depletion for the period.

For depletion purposes, relative volumes of petroleum and natural gas production and reserves are converted at the energy-equivalent conversion rate of 6,000 cubic feet of natural gas to 1 barrel of crude oil.

Other property and equipment are stated in the statement of financial position at cost less accumulated depreciation. Depreciation is calculated over the estimated useful life of the asset based on the original cost less estimated residual value. The methods and useful lives of the Company's other property and equipment are as follows:

- Facilities — 20 years straight-line
- Office equipment — Five years declining balance
- Computer equipment — Three years declining balance

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

IMPAIRMENT

At each reporting date, Granite assesses its development and production assets for possible impairment if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable. Such indicators include changes in the business plans, significant downward revisions of estimated volumes, significant declines in commodity prices, increases in estimated future development expenditures, changes in regulations, evidence of physical damage and low plant utilization. If any such indicator is evident, the asset's recoverable amount is estimated.

The assessment for impairment entails comparing the carrying value of the CGU with its recoverable amount, that is, the higher of fair value less costs to sell and value in use. Each CGU is identified in accordance with International Accounting Standard (IAS) 36 – "Impairment of Assets". If necessary, impairment is charged through the statement of operations and comprehensive income if the capitalized costs of the CGU exceed the recoverable amount.

Impairment losses recognized in prior periods are assessed at each reporting date for any indication that the loss has decreased or been erased. An impairment loss is reversed if there has been an increase in the estimated recoverable amount of a previously impaired asset. An impairment loss may never be reversed beyond the asset's original carrying amount, net of depreciation or depletion.

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

CAPITALIZATION

Pre-licence costs are recognized in the statement of operations as incurred.

Oil and natural gas E&E assets are accounted for in accordance with IFRS 6 "Exploration for and Evaluation of Mineral Resources", whereby costs associated with the exploration for and evaluation of oil and natural gas reserves are accumulated on an area-by-area basis and are capitalized as either tangible or intangible E&E assets when incurred. E&E costs, including the costs of acquiring licences and of drilling and completing wells, initially are capitalized as E&E assets according to the expenditure's nature. The costs are accumulated in cost centres by well, field or exploration area pending determination of technical feasibility and commercial viability.

When a specific well, field or area is determined to be technically feasible and commercially viable, the accumulated costs are transferred to property and equipment. When a specific well, field or area is determined not to be technically feasible or commercially viable, or the Company decides not to continue with the project, the unrecoverable costs are charged to profit or loss as E&E expenses.

No depletion or depreciation is provided for E&E assets.

IMPAIRMENT

E&E assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, E&E assets are tested at an operating segment level.

(c) Business Combinations

The purchase method of accounting is used to account for corporate acquisitions and assets that meet the definition of a business combination under IFRS. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of closing. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets acquired, the difference is recognized immediately in the statement of operations and comprehensive income.

(d) Leased Assets

Operating leases are not recognized on the Company's statement of financial position. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the lease's term. Lease incentives received are recognized as an integral part of the total lease expense over the lease's term.

(e) Joint Interest Activities

Some of the Company's exploration, development and production activities are conducted jointly with other entities and, accordingly, the financial statements reflect only the Company's proportionate interest in such activities.

(f) Revenue Recognition

Oil, natural gas and NGL sales are recognized when commodities are sold and title passes to the customer. Royalty expense is recognized as it accrues, in accordance with the overriding royalty agreements.

(g) Decommissioning Liabilities

The present value of expected future abandonment and reclamation costs is recorded on the statement of financial position as both a decommissioning liability and a charge to property and equipment at the time the obligation is incurred. The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and is discounted using a risk-free interest rate. The amount included as property and equipment is depleted over the life of the reserves by the unit-of-production method. The liability accretes until the Company settles the decommissioning liability; this accretion charge is included as a finance cost on the statement of operations and comprehensive income. Actual reclamation and abandonment costs incurred are charged against the liability to the extent the liability was established.

Estimates for future abandonment and reclamation costs are based on historical costs to abandon and reclaim similar sites, taking into consideration current costs. The liability is based on the Company's net interest in the respective sites.

(h) Income Taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they are reversed, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to do so, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(i) Flow-Through Shares

The Company finances a portion of its exploration and development activities through the issuance of flow-through shares. Under flow-through share agreements, the resource expenditure deductions for income tax purposes related to exploratory development activities are renounced to subscribers in accordance with tax legislation. Flow-through shares issued are recorded in share capital at the fair value of common shares on the date of issuance. The premium received on issuing flow-through shares is initially recorded as a long-term premium liability. As qualifying expenditures are incurred, the premium is reversed and a deferred income tax liability is recorded. The net amount is then recognized as deferred income tax expense.

(j) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, term deposits held with banks and other short-term, highly liquid investments with maturities of three months or less at the time of purchase.

(k) Share-Based Compensation

The fair value of stock options granted by the Company is determined using the Black-Scholes option pricing model and each tranche in an award is considered a separate award with its own vesting period and grant date fair value. The grant date fair value of options granted to officers, directors, employees and certain consultants is recognized as compensation expense with a corresponding increase in contributed surplus over the vesting period. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

Upon the exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase in share capital. In the event that vested options expire, previously recognized compensation expense associated with such stock options is not reversed. In the event that options are forfeited, previously recognized compensation expense associated with the unvested portion of such stock options is reversed.

Share incentives include both time-based (“TBA“) and performance-based (“PBA“) share incentives. The fair value of the PBAs is determined at the grant date using the binomial option-pricing model, multiplied by the estimated performance multiplier. A performance multiplier of 1 has been assumed for PBAs outstanding at December 31, 2015. Fluctuations in share based compensation expense may occur due to changes in estimates of performance outcomes.

The fair value of the TBAs is determined at the grant date using the binomial option-pricing model. Fluctuations in share based compensation expense may occur due to changes in estimates of performance outcomes.

(l) Financial Instruments

i) Non-Derivative Financial Instruments

Non-derivative financial instruments comprised of cash and cash equivalents, accounts receivable, bank debt, and accounts payable and accrued liabilities. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised of cash on hand, term deposits held with banks and other short-term, highly liquid investments with maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management, whereby Company management has the ability and intent to net bank overdrafts against cash, are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

OTHER

Other non-derivative financial instruments, which may include accounts receivable, accounts payable and accrued liabilities, dividends payable, and bank debt, are measured at amortized cost using the effective interest rate method less any impairment losses.

ii) Derivative Financial Instruments

The Company may enter into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices. These instruments are not used for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges and, therefore, has not applied hedge accounting, even though the Company considers all commodity contracts to be economic hedges. As a result, all financial derivative contracts are classified as fair value through profit or loss and are recorded on the statement of financial position at fair value. Transaction costs are recognized in profit or loss when incurred. As at December 31, 2015, the Company has commodity and foreign exchange financial derivative contracts.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss. The Company does not have any embedded derivatives that are separately accounted for.

(m) Share Capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares and stock options are recognized as a deduction from equity, net of deferred income taxes.

(n) Per Share Amounts

Basic net income or loss per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted-average number of common shares outstanding during the period. Diluted per share amounts are determined by adjusting the profit or loss attributable to common shareholders and the weighted-average number of common shares outstanding for the effects of dilutive instruments, such as stock options and equity awards granted using the treasury stock method. Should the Company have a loss for the period, options and equity awards would be anti-dilutive and, therefore, will have no effect on the determination of loss per share.

(o) Future Accounting Policy Changes

In July 2014, IFRS 9 "Financial Instruments" was issued as a complete standard, including the requirements previously issued related to classification and measurement of financial assets and liabilities, and additional amendments to introduce a new expected loss impairment model for financial assets, including credit losses. Retrospective application of this standard with certain exemptions is effective for fiscal years beginning on or after January 1, 2018, with earlier application permitted. The full impact of the standard on the Company's financial statements is currently being assessed by the Company.

In December 2014, the IASB issued narrow-focus amendments to IAS 1 "Presentation of Financial Statements" to clarify existing requirements related to materiality, order of notes, subtotals, accounting policies and disaggregation. Retrospective application of this standard is effective for fiscal years beginning on or after January 1, 2016, with earlier application permitted. The adoption of this amended standard is not expected to have a material impact on the Company's disclosure.

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers". It replaces existing revenue recognition guidance and provides a single, principles based five-step model to be applied to all contracts with customers. Retrospective application of this standard is currently effective for fiscal years beginning on or after January 1, 2018, with earlier application permitted. The Company is currently assessing the impact of this standard.

In January 2016, IFRS 16 "Leases" was issued and replaces IAS 17. The standard is required to be adopted either retrospectively or by recognizing the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 is effective for fiscal years beginning on or after January 1, 2019 with earlier adoption permitted if IFRS 15 "Revenue from Contracts with Customers" has also been adopted. The Company is currently evaluating the impact of the standard.

04 PLAN OF ARRANGEMENT & OTHER ACQUISITIONS

On April 7, 2015, DeeThree Exploration Ltd. ("DeeThree") and Boulder Energy Ltd. ("Boulder") entered into a Plan of Arrangement (the "POA") whereby DeeThree would transfer its oil and natural gas properties located in the Brazeau Belly River and Peace River Arch areas of Northern Alberta, Canada ("Northern Assets") to Boulder and each DeeThree shareholder received one third (0.3333) of one share of New DeeThree shares and one half (0.5) of one share of Boulder. On May 14, 2015, the holders of common shares of DeeThree approved the POA. The POA was completed on May 15, 2015.

In addition to the Northern Assets being transferred from DeeThree to Boulder, debt of $130 million as well as decommissioning liabilities, derivative financial instruments and a deferred tax liability were also transferred pursuant to the POA.

	Year ended December 31, 2015
Fair market value of Boulder Assets given up:	
Fair market value of Boulder shares issued	(404,825)
Carrying value of Boulder net assets given up	252,829
Gain on disposition of assets	(151,996)
Assets and liabilities transferred to Boulder:	
Assumption of debt by Boulder	130,000
Property and equipment	(403,802)
Exploration and evaluation assets	(26,988)
Decommissioning liabilities	24,284
Derivative financial instruments	512
Deferred income taxes	24,400
Working capital	(1,235)
Carrying value of Boulder net assets given up	252,829

This transaction was considered to be a distribution of non-cash assets and was recorded at the fair market value of the Northern Assets at May 15, 2015. The weighted average trading price of Boulder shares after they commenced trading was used to determine the fair value of the net assets given up or $8.89 per common share. The carrying value was determined using the historical costs as recorded by DeeThree. The $152.0 million difference between Boulder's fair value of $404.8 million and carrying value of $252.8 million was recognized on the statement of operations and comprehensive income as a gain on disposition of Boulder.

The Company incurred $3.8 million in cash transaction costs related to the POA, including financial advisory accounting, legal and consulting fees recognized as "transaction costs – general and administrative" in the statement of operations and comprehensive income. For the options that were cancelled in relation to the POA, the remaining share based compensation of $4.0 million was immediately recognized and expensed in the statement of operations and comprehensive income as "transaction costs – share-based compensation".

During the year ended December 31, 2014, the Company completed several minor transactions to acquire interests in producing oil and natural gas assets principally located in the Brazeau area of Alberta for total consideration of $22.6 million. Had the acquisitions closed on January 1, 2014, the Company estimates that its pro forma revenue and net income for the period would not have been significantly affected.

	Year ended December 31, 2014
($000s)	
Net assets acquired	
Petroleum and natural gas assets	**17,268**
E&E assets	**6,746**
Decommissioning liabilities	**(1,415)**
	22,599
Consideration	
Total cash consideration	**22,599**

05 EXPLORATION AND EVALUATION ASSETS

Years Ended December 31,	**2015**	2014
($000s)		
Balance – January 1	**62,784**	45,611
Additions	**6,600**	23,454
Acquisitions through business combinations	**–**	6,746
Disposition to Boulder (note 4)	**(26,988)**	–
Transfers to property and equipment	**(742)**	(3,709)
E&E expenses	**(2,891)**	(8,570)
Lease expiries	**(1,300)**	(748)
Balance – December 31	**37,463**	62,784

E&E assets consist of the Company's exploration projects that are pending the determination of proved or probable reserves. Additions represent the Company's share of costs incurred on E&E assets during the year and acquisitions represent E&E assets included in business combinations during the year.

During the year ended December 31, 2015, the Company incurred $2.9 million related to the drilling of two unsuccessful vertical stratigraphic test wells in the Alberta Bakken area (year ended December 31, 2014 - $8.6 million on three vertical stratigraphic test wells in the Alberta Bakken and one well in the Peace River Arch area that was determined to be unsuccessful) and $1.3 million related to lease expiries on undeveloped land (December 31, 2014 – $0.7 million).

During the year ended December 31, 2015, approximately $0.1 million of directly attributable general and administrative expense and $0.2 million of directly attributable share-based compensation expense were capitalized as expenditures on exploration and evaluation assets (December 31, 2014 – $0.6 million and $0.5 million, respectively).

06 PROPERTY AND EQUIPMENT

($000s)	Oil and Natural Gas Properties	Office Equipment	Total
Cost or deemed cost			
Balance – January 1, 2014	545,805	418	546,223
Additions	257,943	56	257,999
Acquisitions (note 4)	17,268	–	17,268
Transfers from E&E assets	3,709	–	3,709
Balance – December 31, 2014	**824,725**	**474**	**825,199**
Additions	**62,813**	**49**	**62,862**
Dispositions to Boulder (note 4)	**(584,791)**	**–**	**(584,791)**
Transfers from E&E assets	**742**	**–**	**742**
Balance – December 31, 2015	**303,489**	**523**	**304,012**
Accumulated depletion and depreciation			
Balance – January 1, 2014	117,305	153	117,458
Depletion and depreciation for the year	80,730	69	80,799
Balance – December 31, 2014	**198,035**	**222**	**198,257**
Depletion and depreciation for the year	**44,743**	**61**	**44,804**
Dispositions to Boulder (note 4)	**(180,989)**	**–**	**(180,989)**
Balance – December 31, 2015	**61,789**	**283**	**62,072**
Net book value			
December 31, 2014	626,690	252	626,942
December 31, 2015	**241,700**	**240**	**241,940**

(a) Capitalization of General and Administrative and Share-Based Compensation Expenses

During the year ended December 31, 2015, approximately $1.0 million of directly attributable general and administrative expense and $1.2 million of directly attributable share-based compensation expense were capitalized as expenditures on property and equipment (December 31, 2014 – $1.7 million and $1.5 million, respectively).

(b) Amortization and Impairment Charges

At December 31, 2015, due to continued declines in commodity prices, the Company identified impairment indicators and performed an impairment test on its only CGU. The recoverable amount was estimated using a value in use calculation based on expected future cash flows generated from proved and probable reserves at an appropriate discount rate. The impairment test determined a recoverable amount in excess of the CGUs carrying amount and for the year ended December 31, 2015 no impairment was recorded.

The impairment test carried out at December 31, 2015 used the following commodity price estimates:

	WTI Cushing, Oklahoma 40º API Oil	Canadian Light Sweet Crude 40º API Oil	Alberta AECO-C Spot Gas	Foreign Exchange Rate
	(US$/bbl)	*(Cdn$/bbl)*	*(Cdn$/mmbtu)*	*(US$/Cdn$)*
2016	45.00	55.20	2.25	0.750
2017	60.00	69.00	2.95	0.800
2018	70.00	78.43	3.42	0.830
2019	80.00	89.41	3.91	0.850
2020	81.20	91.71	4.20	0.850
2021	82.42	93.08	4.28	0.850
2022	83.65	94.48	4.35	0.850
2023	84.91	95.90	4.43	0.850
2024	86.18	97.34	4.51	0.850
2025	87.48	98.80	4.59	0.850
2026	88.79	100.28	4.67	0.850
Annual escalation thereafter	1.5%	1.5%	1.5%	1.5%

(c) Future Development Costs and Salvage Value

At December 31, 2015, an estimated $73.4 million of future development costs associated with proved plus probable undeveloped reserves were included in the calculation of depletion and depreciation expense and an estimated $10.0 million of salvage value of production equipment was excluded (December 31, 2014 – $388.1 million and $21.7 million, respectively).

07 BANK DEBT

At December 31, 2015, the Company had a revolving demand credit facility (the "Credit Facility") with an authorized borrowing base of $80 million, including a $60 million extendible revolving facility and a $20 million operating facility (December 31, 2014 – syndicated credit facility with an authorized borrowing base of $310 million, including $280 million extendible revolving facility and a $30 million operating facility).

In connection with the completion of the POA, each of Granite and Boulder obtained new credit facilities from syndicates of lenders. 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 under its prior credit facility which was fully repaid and settled.

The Credit Facility is considered a current liability due to its term.

Interest is charged at a rate per annum equal to the Canadian prime rate during said period plus the applicable margin, being a range of 0.50 percent to 2.50 percent, as determined by the Company's debt to cash flow ratio. Standby fees associated with the facility are charged based on an applicable margin, being a range of 0.2 percent to 0.45 percent per annum on the undrawn portion of the facility, again based on the Company's debt to cash flow ratio. Under the Credit Facility, the Company is required to maintain a current ratio of not less than 1:1. The current ratio is calculated as current assets (excluding derivative financial instruments) plus any undrawn availability in the Credit Facility versus current liabilities (excluding derivative financial instruments and any amounts outstanding in the Credit Facility). At December 31, 2015, the Company was in compliance with the current ratio requirement.

At December 31, 2015, $37.0 million was drawn against this facility (December 31, 2014 – $139.2 million). The amount of the facility is subject to a borrowing base test performed on a periodic basis by the lenders, based primarily on reserves and using commodity prices estimated by the lenders as well as other factors. The borrowing base of the credit facility is subject to review at least semi-annually with the next review scheduled for April 2016. A decrease in the borrowing base could result in a reduction to the credit facility. Collateral for this facility consists of a general security agreement, providing a security interest over all present and subsequently acquired personal property and a floating charge on all present and subsequently acquired land interests of the Company.

08 DECOMMISSIONING LIABILITIES

The Company has estimated the net present value of decommissioning obligations to be $13.3 million as at December 31, 2015 (December 31, 2014 – $34.2 million) based on an undiscounted total future liability of $17.6 million (December 31, 2014 – $47.1 million). These payments are expected to be incurred over a period of two to 20 years with the majority of costs to be incurred between 2017 and 2026. At December 31, 2015, a risk-free rate of 2.25 percent (December 31, 2014 – 2.5 percent) and an inflation rate of 2 percent (December 31, 2014 – 2 percent) were used to calculate the net present value of the decommissioning liabilities. The $1.9 million in revisions are related to changes in the risk-free rate used in the calculation.

Years Ended December 31,	**2015**	2014
($000s)		
Balance – January 1	**34,165**	26,291
Liabilities incurred	**1,272**	2,722
Liabilities acquired	**–**	1,415
Liabilities disposed to Boulder (note 4)	**(24,284)**	
Revisions	**1,941**	2,904
Settlements	**(216)**	(17)
Accretion of decommissioning liabilities	**471**	850
Balance – December 31	**13,349**	34,165

09 SHARE CAPITAL

(a) Authorized

Unlimited number of common voting shares, no par value.

Unlimited number of preferred shares, no par value, issuable in series.

(b) Issued – Common Shares

Years Ended December 31,	**2015**		2014	
	Shares	Amount	Shares	Amount
	(#)	*($000s)*	*(#)*	*($000s)*
Balance – January 1	**29,655,187**	**381,540**	27,184,053	309,323
Common shares issued (ii)	**–**	**–**	1,904,543	63,428
Flow-through shares issued (iii)	**–**	**–**	250,642	10,002
Premium on flow-through shares (iii)	**–**	**–**	–	(1,654)
Exercise of options (iv)	**699,837**	**7,409**	315,949	3,479
Share issuance costs	**–**	**–**	–	(4,048)
Tax benefit of share issuance costs	**–**	**–**	–	1,010
Balance – December 31	**30,355,024**	**388,949**	29,655,187	381,540

i) Plan of Arrangement

In May 2015, in connection with the POA, the Company's outstanding common shares were exchanged whereby each previous DeeThree shareholder received one third (0.3333) of a Granite share and one-half (0.5) a share of Boulder for each DeeThree share previously held. This adjustment in shares has been retrospectively applied to all current and comparative periods within these financial statements.

ii) Common Share Issuances

In May 2014, the Company issued 1,904,543 common shares pursuant to a public offering for total gross proceeds of $63.4 million ($60.0 million net of estimated share issuance costs), including 101,390 common shares issued pursuant to the partial exercise of an over-allotment held by the underwriters.

iii) Flow-Through Share Issuances

In May 2014, the Company issued 250,642 flow-through shares for total gross proceeds of $10.0 million ($9.4 million net of estimated share issuance costs). The implied premium on the flow-through shares of $2.20 per share or $1.7 million was recorded as a liability on the statement of financial position and none remains at December 31, 2015. To date, the Company has incurred $10.0 million of the required qualifying exploration expenditures.

iv) Exercising of Options

The presentation of the number of options below does not reflect the share adjustment of 0.3333 in connection with the POA.

During the year ended December 31, 2015 the Company issued 686,506 common shares in Granite as a result of 3,631,260 DeeThree options exercised. These included 465,101 DeeThree options exercised for total cash proceeds of $1.4 million and previously recognized share-based compensation expense of $0.8 million. It also included 3,166,159 DeeThree options exercised on a cashless basis in connection with the POA, with previously recognized share-based compensation expense of $5.1 million. In addition to the DeeThree options exercised, 13,331 Granite options were exercised during the year ended December 31, 2015, for total cash proceeds of $0.06 million and previously recognized share-based compensation expense of $0.01 million.

During 2014, 947,944 DeeThree options were exercised for total cash proceeds of $2.4 million and previously recognized share-based compensation expense of $1.1 million.

(c) Per Share Amounts

Per share amounts were calculated on the weighted-average number of shares outstanding. The basic and diluted shares outstanding were as follows:

Years Ended December 31,	**2015**	2014
(000s, except per share amounts)	*($)*	*($)*
Net income for the period	**150,216**	76,233
Weighted-average number of common shares	*(#)*	*(#)*
– basic	**30,100**	28,693
– diluted	**30,557**	29,585
Net income per weighted average common share	*($)*	*($)*
– basic	**4.99**	2.66
– diluted	**4.92**	2.58

10 SHARE-BASED COMPENSATION

(a) DeeThree Options

Prior to the POA, DeeThree had an option program that entitled officers, directors, employees and certain consultants to purchase Company shares. Options were granted based on the five-day volume-weighted average common share price prior to the date of grant, vest 20 percent after six months and then 20 percent on the first, second, third and fourth anniversaries from the grant date and expire five years from the grant date. As part of the POA, all of the DeeThree options were either exercised, cancelled or exchanged for the replacement options (see Note 10(b) below). The presentation of the number of DeeThree options and their exercise prices do not reflect the share adjustment of 0.3333 in connection with the POA.

The number and weighted-average exercise prices of stock options are as follows:

	Year Ended December 31, 2015		Year Ended December 31, 2014	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
	(#)	*($)*	*(#)*	*($)*
Outstanding – January 1	**7,676,328**	**5.94**	6,524,272	4.21
Issued	**–**	**–**	2,165,000	9.77
Exercised	**(465,101)**	**3.04**	(947,944)	2.56
Forfeited	**(105,361)**	**6.09**	(65,000)	9.25
Cancelled	**(3,939,707)**	**9.05**	–	–
Exercised on a cashless basis	**(3,166,159)**	**3.50**	–	–
Outstanding – end of period	**–**	**–**	7,676,328	5.94
Exercisable – end of period	**–**	**–**	3,916,972	4.39

For the options that were cancelled in relation to the POA, the remaining share based compensation of $4.0 million was immediately recognized and expensed in the statement of operations and comprehensive income as “transaction costs – share-based compensation”.

(b) Granite Options

DeeThree’s stock option plan was terminated in connection with the POA. Unvested in-the-money DeeThree options that were outstanding at the time of the completion of the POA were replaced with options to acquire shares of Granite and Boulder respectively. Replacement options were issued based on the exercise price proportion (as explained in the Information Circular dated April 9, 2015) of the fraction A/B, where A is the volume weighted average price of the Boulder common shares on the first five trading days on the TSX and B is the aggregate of (i) the volume weighted average price of Boulder common shares for the first five trading days on the TSX and (ii) the volume weighted average price of the Granite common shares on the first five trading days on the TSX. All Granite replacement options granted under the POA maintain the same vesting and expiry dates from when the original DeeThree options were previously issued.

The number and weighted-average exercise prices of replacement stock options are as follows:

	Year Ended December 31, 2015		Year Ended December 31, 2014	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
	(#)	*($)*	*(#)*	*($)*
Outstanding – January 1	**–**	**–**	–	–
Issued	**207,817**	**3.96**	–	–
Exercised	**(13,331)**	**4.05**	–	–
Outstanding – end of period	**194,486**	**3.96**	–	–
Exercisable – end of period	**82,646**	**3.13**	–	–

Exercise Price	Weighted-Average Contractual Outstanding	Options Life	Weighted-Average Exercisable
($)	*(#)*	*(years)*	*(#)*
As at December 31, 2015			
2.00 – 4.99	**176,489**	**0.97**	**81,646**
5.00 – 6.80	**17,997**	**1.81**	**1,000**
	194,486	**1.05**	**82,646**

The fair value of the common share purchase options granted was estimated as at the date of grant using the Black-Scholes option-pricing model and the following weighted-average assumptions:

	Year Ended December 31, 2015
Risk-free interest rate *(%)*	**0.64**
Expected life *(years)*	**0.64**
Expected volatility *(%)*	**70**
Expected dividend yield *(%)*	**0**
Fair value of options granted during the year *($/option)*	**0.87**

A forfeiture rate of 2 percent for options granted during the year ended December 31, 2015 was used when recording share-based compensation expense. This estimate is periodically adjusted to the actual forfeiture rate. Gross share-based compensation for the options was $1.7 million for the year ended December 31, 2015 (year ended December 31, 2014 - $5.0 million). Of this amount, $0.06 million was reclassified to operating expense for the amount related to field employees (year ended December 31, 2014 – $0.2 million) and $0.7 million was capitalized (year ended December 31, 2014 – $1.9 million), resulting in total net share-based compensation expense related to options of $1.0 million for the year (year ended December 31, 2014 - $2.9 million).

(c) Share Incentive Plan

On May 15, 2015, Granite adopted a Share Incentive Plan ("SIP") for directors, officers, certain employees and eligible consultants. The SIP consists of performance based awards and time based awards. Both the TBAs and the PBAs vest one third on each of the first, second and third anniversaries of the grant date. The PBAs granted are subject to a performance multiplier ranging from 0 to 2. The payout multiplier is dependent on the performance of Granite at the end of the vesting period relative to corporate performance measures determined at the discretion of Granite's Board of Directors. The number of common shares issued for each PBA and TBA granted is adjusted for the payments of dividends from the date of the grant to the payment date. On the payment date, Granite has sole and absolute discretion to settle the awards in the form of either cash or common shares, or some combination thereof.

The number of PBAs is as follows:

	Year Ended December 31, 2015	Year Ended December 31, 2014
	PBAs	PBAs
	(#)	*(#)*
Outstanding – January 1	**–**	–
Issued	**829,103**	–
Outstanding – end of period	**829,103**	–

The fair value of the PBAs is determined at the grant date using the binomial option-pricing model, multiplied by the estimated performance multiplier. A performance multiplier of 1 has been assumed for PBAs outstanding at December 31, 2015. Fluctuations in share based compensation expense may occur due to changes in estimates of performance outcomes.

The following assumptions were used to value the PBAs granted during the year ended December 31, 2015:

	Year Ended December 31, 2015
Forfeiture rate *(%)*	**2**
Risk-free interest rate *(%)*	**0.68**
Expected life *(years)*	**2.00**
Expected volatility *(%)*	**65**
Expected dividend yield *(%)*	**5**
Weighted-average fair value of PBAs granted during the period *($/award)*	**6.34**

Gross share-based compensation related to PBAs was $1.8 million for the year ended December 31, 2015 (year ended December 31, 2014 - $nil). Of this amount, $0.6 million was capitalized (year ended December 31, 2014 – $nil), resulting in total net share-based compensation expense related to PBAs of $1.2 million for the year (year ended December 31, 2014 - $nil).

The number of TBAs is as follows:

	Year Ended December 31, 2015	Year Ended December 31, 2014
	TBAs	TBAs
	(#)	*(#)*
Outstanding – January 1	**–**	–
Issued	**115,892**	–
Outstanding – end of period	**115,892**	–

The fair value of the TBAs is determined at the grant date using the binomial option-pricing model. Fluctuations in share based compensation expense may occur due to changes in estimates of performance outcomes.

The following assumptions were used to fair value the TBAs granted during the year ended December 31, 2015:

	Year Ended December 31, 2015
Forfeiture rate *(%)*	**2**
Risk-free interest rate *(%)*	**0.68**
Expected life *(years)*	**2.00**
Expected volatility *(%)*	**65**
Expected dividend yield *(%)*	**5**
Weighted-average fair value of TBAs granted during the period *($/award)*	**6.34**

Gross share-based compensation related to TBAs was $0.2 million for the year ended December 31, 2015 (year ended December 31, 2014 - $nil). Of this amount, $0.1 million was capitalized (year ended December 31, 2014 – $nil), resulting in total net share-based compensation expense related to TBAs of $0.1 million for the year (year ended December 31, 2014 - $nil).

11 INCOME TAXES

The actual income tax provision differs from the expected amount calculated by applying the Canadian combined federal and provincial corporate tax rates to income before income taxes. These differences are explained as follows:

Years Ended December 31,	2015	2014
($000s except percentages)		
Income before income tax	**153,403**	104,564
Tax rate	**26%**	25%
Computed income tax expense provision	**39,885**	26,141
Increase (decrease) in income taxes resulting from:		
Share-based compensation	**1,733**	841
Gain on disposition (note 4)	**(39,519)**	–
Flow-through shares	**156**	3,608
Non-deductible expenses	**5**	9
Other	**1,022**	(10)
Subtotal	**3,282**	30,589
Flow-through share premium	**(95)**	(2,258)
Income tax expense	**3,187**	28,331

In 2015 the blended statutory tax rate was 26% (2014 - 25%). The change from 2014 was due to an increase in the Alberta provincial rate from 10% to 12% effective July 1, 2015. The change in rate resulted in an increase to the deferred income tax liability of $1,625.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The components of the

Company's net deferred income tax assets and liabilities are as follows:

Years Ended December 31,	**2015**	2014
($000s)		
Deferred income tax assets (liabilities)		
Non-capital losses carried forward	**7,455**	6,865
Share issuance costs	**1,545**	2,428
Derivative financial instruments	**(2,056)**	(5,818)
Decommissioning liabilities	**3,604**	8,542
Net book value of property and equipment in excess of tax basis	**(33,312)**	(55,897)
Deferred income tax liabilities	**(22,764)**	(43,880)

	Balance January 1, 2015	Plan of Arrangement	Recognized Directly in Equity and Other	Recognized in Profit or Loss	Balance, December 31, 2015
($000s)					
E&E, and property and equipment	**(55,897)**	**30,638**	**(96)**	**(7,956)**	**(33,312)**
Derivative financial instruments	**(5,818)**	**(128)**	**–**	**3,889**	**(2,056)**
Decommissioning liabilities	**8,542**	**(6,110)**	**–**	**1,173**	**3,604**
Share issuance costs	**2,428**	**–**	**–**	**(884)**	**1,544**
Non-capital losses carried forward	**6,865**	**–**	**–**	**591**	**7,456**
	(43,880)	**24,400**	**(96)**	**(3,187)**	**(22,764)**

	Balance January 1, 2014	Plan of Arrangement	Recognized Directly in Equity and Other	Recognized in Profit or Loss	Balance, December 31, 2014
($000s)					
E&E, and property and equipment	(30,072)	–	(2,254)	(23,571)	(55,897)
Derivative financial instruments	555	–	–	(6,373)	(5,818)
Decommissioning liabilities	6,574	–	–	1,968	8,542
Share issuance costs	3,438	–	1,010	(2,020)	2,428
Non-capital losses carried forward	5,200	–	–	1,665	6,865
	(14,305)	–	(1,244)	(28,331)	(43,880)

The Company has $27.6 million of non-capital losses that begin to expire in 2029.

12 SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital are comprised of:

Years Ended December 31,	**2015**	2014
($000s)		
Accounts receivable	**19,573**	(7,216)
Deposits and prepaid expenses	**(71)**	(86)
Accounts payable and accrued liabilities	**(50,250)**	8,032
	(30,748)	730
Related to operating activities	**(11,356)**	11,060
Related to financing activities	**1,062**	–
Related to investing activities	**(20,454)**	(10,330)
	(30,748)	730

13 SUPPLEMENTAL DISCLOSURE

In addition to paying salaries, the Company also provides non-cash benefits to executive officers and directors. Executive officers and directors also participate in the Company's stock option and share incentive program. Personnel expenses directly attributable to capital activities have been capitalized and included in property and equipment and E&E assets.

Compensation of key management personnel is comprised of the following:

Years Ended December 31,	**2015**	2014
($000s)		
Salaries and wages (including bonuses)	**1,363**	2,422
Benefits and other personnel costs	**102**	167
Share-based compensation [(1)]	**1,856**	1,761
	3,156	4,350

(1) Represents the amortization of share-based compensation associated with options and share incentives granted to executive officers and directors as recorded in the financial statements.

14 FINANCE EXPENSES

Years Ended December 31,	**2015**	2014
($000s)		
Finance expenses:		
Interest on bank debt	**3,137**	4,275
Standby and other fees related to credit facility	**410**	636
Part XII.6 tax related to flow-through shares	**3**	10
Accretion expense	**471**	850
Finance expenses recognized in net income	**4,021**	5,771

15 DETERMINATION OF FAIR VALUES

A number of the Company's accounting policies and disclosures require the determination of fair value for financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods described below. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Granite classifies the fair value of these transactions according to the following hierarchy based on the nature of the observable inputs used to value the instrument.

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

The carrying value of accounts receivable, accounts payable and accrued liabilities and dividend payable included in the statement of financial position approximate fair value due to the short-term nature of those instruments. The fair value measurement of the derivative financial instruments has a fair value classification of Level 2.

(a) Property and Equipment and E&E Assets

The fair value of property and equipment recognized in a business combination is based on market values. The market value of property and equipment is the estimated amount for which property and equipment could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of petroleum and natural gas properties (included in property and equipment) and E&E assets is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions.

The market value of other items of property and equipment is based on the quoted market prices for similar items.

(b) Cash and Cash Equivalents, Accounts Receivable, Accounts Payable and Accrued Liabilities and Dividend Payable

The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and dividend payable is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. The fair value of these balances approximated their carrying value at December 31, 2015 due to their short term to maturity.

(c) Stock Options

The fair value of stock options is measured using the Black-Scholes option-pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted-average historical volatility adjusted for changes expected due to publicly available information), weighted-average expected life of the instruments (based on historical experience and general option-holder behaviour) and the risk-free interest rate (based on Government of Canada bonds).

(d) Performance Based Awards and Time Based Awards

The fair value of awards granted under the SIP is measured using the binomial model. Measurement inputs include share price on measurement date, expected volatility (based on weighted-average historical volatility adjusted for changes expected due to publicly available information), weighted-average expected life of the instruments (based on the terms of the agreement) and the risk-free interest rate (based on Government of Canada bonds).

(e) Derivative Financial Instruments

Granite classifies the fair value of these transactions according to the following hierarchy based on the nature of the observable inputs used to value the instrument.

16 FINANCIAL RISK MANAGEMENT

The Company has exposure to credit, liquidity and market risk. The Company's risk management policies are established to identify and analyze the risks it faces, to set appropriate limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

(a) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's accounts receivable from joint venture partners and oil and natural gas marketers. This amount was $10.9 million at December 31, 2015 (December 31, 2014 – $29.5 million).

The Company's accounts receivable are with customers and joint venture partners in the oil and natural gas business and are subject to normal credit risks. Concentration of credit risk is mitigated by marketing substantially all of the Company's production to large purchasers under normal industry sale and payment terms. The industry has a pre-arranged monthly settlement day for payment of revenues from all buyers of natural gas and crude oil. This occurs on the 25th day following the month in which the production is sold. Granite mitigates associated credit risk by limiting transactions to credit-worthy counterparties. For the year ended December 31, 2015, the Company recorded $0.2 million in bad debt expense (December 31, 2014 - $0.5 million). The exposure to credit risk at the reporting date by type was:

As at December 31,	**2015**	2014
($000s)		
Oil and natural gas marketing companies	**4,561**	18,100
Joint venture partners	**2,213**	6,082
Other	**4,153**	5,342
Total trade and other receivables	**10,927**	29,524

As at December 31, 2015 and 2014, the Company's trade and other receivables are aged as follows:

As at December 31,	**2015**	2014
($000s)		
Current (less than 90 days)	**7,542**	26,788
Past due (more than 90 days)	**3,385**	2,736
Total	**10,927**	29,524

(b) Liquidity Risk

Liquidity risk is the risk of having difficulty meeting obligations associated with financial liabilities. The financial liabilities on the statement of financial position consist of accounts payable and accrued liabilities, and bank debt. Accounts payable and accrued liabilities consist of invoices payable to trade suppliers relating to office and field operating activities and the Company's capital spending program. Granite processes invoices within a normal payment period. As described in note 7, bank debt consists of the Credit Facility with an authorized borrowing base of $80 million, including a $60 million extendible revolving facility and a $20 million operating facility. The Company manages its liquidity through continuously monitoring cash flows from operating activities, review of actual capital expenditures against budget, managing maturity profiles of financial assets and financial liabilities and managing its commodity price risk management program. These activities ensure that the Company has sufficient funds to meets its financial obligations when due. The Company had no defaults or breaches on its bank debt or any of its financial liabilities as at or for the year ended December 31, 2015.

The following table details the Company's financial liabilities as at December 31, 2015:

As at December 31, 2015	Total	Within 1 Year	Over 1 Year
($000s)			
Non-derivative financial liabilities:			
Bank debt	**37,012**	**37,012**	**–**
Accounts payable and accrued liabilities	**13,218**	**13,218**	**–**
Dividend payable	**1,062**	**1,062**	**–**
Total financial liabilities	**51,292**	**51,292**	**–**

(c) Market Risk

Market risk is the risk of changes in market prices, such as commodity prices, foreign currency exchange rates and interest rates, affecting the Company's net earnings or value of its financial instruments. The objective of managing market risk is to control market risk exposure within acceptable limits, while optimizing returns. The Company will enter into such transactions in accordance with the risk management policy approved by the Board of Directors.

COMMODITY PRICE RISK

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for crude oil and natural gas are influenced not only by the relationship between the Canadian and United States dollars, as outlined below, but also by global economic events that dictate the levels of supply and demand. The Company has attempted to mitigate commodity price risk through the use of financial contracts for its crude oil production.

As at December 31, 2015, the Company had the following crude oil and interest rate risk management contracts, with a total mark-to-market asset of $7.6 million (December 31, 2014 – $23.3 million):

CRUDE OIL CONTRACTS

Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price	Fair Value (000s)
March 1/15 – June 30/16	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	Cdn$72.92/bbl	Cdn 1,000
Jan. 1/16 – Dec 31/16	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	Cdn$78.00/bbl	Cdn 1,885
Jan. 1/16 – Dec. 31/16	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US$62.75/bbl	US 1,940
Jan. 1/16 – Dec. 31/16	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	Cdn$80.00/bbl	Cdn 2,066

INTEREST RATE CONTRACT

Term	Amount	Fixed Rate	Index	Fair Value (000s)
Feb. 18 /14 – Feb. 18/16	Cdn$10 million	1.44%	CDOR	Cdn (9)

Subsequent to December 31, 2015, Granite entered into the following crude oil risk management contracts:

CRUDE OIL CONTRACTS

Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price
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

(d) Capital Management

The Company's policy is to maintain a strong but flexible capital structure so as to maintain investor, creditor and market confidence and to sustain its future development. The Company manages its capital structure and adjusts it in light of changes in economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through issuance of new shares or additional debt, or by undertaking other activities as deemed appropriate for the circumstances. The Company's capital structure consists of bank debt and shareholders' equity comprising issued share capital, contributed surplus and deficit.

The following summarizes the Company's capital structure:

As at December 31,	**2015**	2014
($000s)		
Bank debt	**37,012**	139,234
Shareholders' equity	**211,293**	463,509

In order to maintain or adjust its capital structure, Granite may issue new common shares, issue new debt, adjust exploration and development capital expenditures or acquire or dispose of assets.

To facilitate its capital management, the Company prepares annual capital expenditure budgets which are updated as necessary in light of varying factors including: current economic conditions, the risk characteristics of the Company's petroleum and natural gas assets, the Company's inventory of investment opportunities, current and forecast net debt, current and forecast commodity prices, and other factors that influence commodity prices and funds from operations, such as quality and basis differentials, royalties and operating costs. The Company will continually evaluate available sources of funds to finance its capital expenditures and may from time to time issue new equity if available on favourable terms or seek additional debt financing at levels consistent with its policy of optimizing the cost of capital.

There were no changes in the Company's approach to capital management during the year ended December 31, 2015.

17 COMMITMENTS

Years Ended December 31,	2016	2017	2018	Total
($000s)				
Operating lease – office	214	129	-	343
Total commitments	214	129	-	343

As at December 31, 2015, the Company had contractual obligations for its office leases totaling approximately $0.3 million to July 2017. The office lease obligations are comprised of the lease payments and an estimate of occupancy costs of the Company's head office space.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Brendan Carrigy
Chairman
Independent Businessman

Michael Kabanuk
President & Chief Executive Officer
Granite Oil Corp.

Martin Cheyne
Chief Executive Officer
Boulder Energy Ltd.

Henry Hamm (1)(2)(3)(4)
Independent Businessman

Dennis Nerland (1)(2)(3)
Partner
Shea Nerland Calnan LLP

Brad Porter (1)(2)(3)(4)
Independent Businessman

Kevin Andrus (1)(2)(3)(4)
Portfolio Manager of
Energy Investments
GMT Capital Corp.

(1) Audit Committee Member
(2) Reserves Committee Member
(3) Corporate Governance & Compensation Committee Member
(4) Nominating Committee Member

OFFICERS

Michael Kabanuk
President & Chief Executive Officer
Granite Oil Corp.

Gail Hannon
Chief Financial Officer

Jonathan Fleming
Executive Vice President

Tyler Klatt
Vice President, Exploration

Daniel Kenney
Corporate Secretary

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ATB Financial
Calgary, Alberta

The Bank of Nova Scotia
Calgary, Alberta

EVALUATION ENGINEERS

Sproule Associates Limited
Calgary, Alberta

LEGAL COUNSEL

DLA Piper (Canada) LLP
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada
Calgary, Alberta

STOCK TRADING

Toronto Stock Exchange
Trading Symbol: GXO

OTCQX
Trading Symbol: GXOCF

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