q2 2015 Interim Report

For the Three and Six Months Ended June 30, 2015

TSX:GXO **OTCQX**:GXOCF

GRANITE OIL CORP.

www.graniteoil.ca

FINANCIAL AND OPERATING HIGHLIGHTS

	Three Months Ended June 30,			Six Months Ended June 30,		
	2015 [5]	2014	Change	**2015**	2014	Change
(000s, except per share amounts)	*($)*	*($)*	*(%)*	*($)*	*($)*	*(%)*
Financial						
Oil and natural gas revenues	**33,989**	80,560	(58)	**80,066**	146,203	(45)
Funds from operations [1]	**17,191**	43,167	(60)	**44,814**	78,703	(43)
Per share – basic	**0.57**	1.53	(63)	**1.50**	2.82	(47)
Per share – diluted	**0.57**	1.47	(61)	**1.50**	2.73	(45)
Cash flow from operating activities	**22,526**	44,103	(49)	**40,133**	67,710	(41)
Net income	**143,635**	18,133	692	**145,396**	26,815	442
Per share – basic	**4.78**	0.63	659	**4.87**	0.96	407
Per share – diluted	**4.77**	0.63	657	**4.86**	0.93	423
Capital expenditures [2]	**11,956**	74,288	(84)	**49,016**	146,600	(67)
Net debt [3]	**45,047**	116,064	(61)	**45,047**	116,064	(61)
Shareholders' equity	**210,470**	410,944	(49)	**210,470**	410,944	(49)
(000s)	*(#)*	*(#)*	*(%)*	*(#)*	*(#)*	*(%)*
Share Data						
At period-end	**30,342**	29,607	2	**30,342**	29,607	2
Weighted average – basic	**30,044**	28,215	6	**29,850**	27,763	8
Weighted average – diluted	**30,118**	29,254	3	**29,914**	28,729	4
Operating [4]						
Production						
Natural gas *(mcf/d)*	**7,229**	12,967	(44)	**11,144**	12,675	(12)
Crude oil *(bbls/d)*	**5,603**	8,033	(30)	**7,386**	7,392	–
NGLs *(bbls/d)*	**102**	550	(81)	**345**	558	(38)
Total *(boe/d)*	**6,910**	10,744	(36)	**9,588**	10,063	(5)
Average wellhead prices						
Natural gas *($/mcf)*	**2.68**	5.02	(47)	**2.79**	5.49	(49)
Crude oil and NGLs *($/bbl)*	**62.02**	95.51	(35)	**53.18**	92.81	(43)
Combined average *($/boe)*	**54.05**	82.39	(34)	**46.13**	80.27	(43)
Netbacks						
Operating netback *($/boe)*	**29.40**	50.64	(42)	**24.68**	49.05	(50)
Funds flow netback *($/boe)*	**27.41**	44.14	(38)	**25.82**	43.18	(40)
Gross (net) wells drilled						
Gas *(#)*	**–**	–	–	**–**	1 (1.00)	–
Oil *(#)*	**4 (4.00)**	10 (10.00)	-60 (-60)	**10 (10.00)**	24 (23.97)	-58 (-58)
Dry and abandoned *(#)*	**–**	–	–	**–**	2 (2.00)	–
Total *(#)*	**4 (4.00)**	10 (10.00)	-60 (-60)	**10 (10.00)**	27 (26.97)	-63 (-63)
Average working interest *(%)*	**100**	100	–	**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 ("POA") in the Management's Discussion and Analysis under "About Granite Oil Corp".

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 August 13, 2015 and should be read in conjunction with the Company's unaudited interim financial statements and related notes for the three and six months ended June 30, 2015, as well as the Company's audited financial statements and related notes for the years ended December 31, 2014 and 2013. All financial information is reported in Canadian dollars, unless otherwise noted.

This MD&A contains additional generally accepted accounting principles (GAAP) measures, 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, recently discovered Alberta Bakken oil pool in southern Alberta.

Granite resulted from the corporate reorganization of DeeThree Exploration Ltd. ("DeeThree") that was completed on May 15, 2015 pursuant to a Plan of Arrangement ("Plan of Arrangement" or "POA"). The Plan of Arrangement resulted in the creation of two, focused and independent, publicly traded energy companies, being Granite and Boulder Energy Ltd. See "Corporate Reorganization" below.

The nature of Granite's producing asset 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 100-percent working interest Alberta Bakken pool at Ferguson has been substantially de-risked. The property includes complete Company-operated infrastructure to produce and market oil and reinject 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 grew the Alberta Bakken play at Ferguson.

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.

CORPORATE REORGANIZATION

On April 7, 2015, DeeThree and Boulder Energy Ltd. entered into an Arrangement Agreement which provided for the transfer by DeeThree of 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 pursuant to the Plan of Arrangement. The POA also provided that each DeeThree shareholder would receive one third (0.3333) of one Granite share and one half (0.5) of one share of Boulder in exchange for each common shares of DeeThree held. On May 14, 2015, the POA was approved by DeeThree shareholders. The POA was completed on May 15, 2015. The name of DeeThree was changed to "Granite Oil Corp." concurrently with the completion of the POA.

In connection with the completion of the POA, each of Granite and Boulder obtained new credit facilities from syndicates of lenders. The Granite credit facility has an authorized borrowing base of $115 million consisting of a $95 million revolving demand credit facility and a $20 million revolving demand operating facility. The Boulder credit facility has 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 Northern Assets being transferred from DeeThree 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 with the transfer of the Northern Assets upon close of the POA on May 15, 2015.

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

2015 SECOND QUARTER FINANCIAL AND OPERATING HIGHLIGHTS

As the Plan of Arrangement closed on May 15, 2015, the financial and operating results of Granite Oil Corp. for the three month period ending June 30, 2015 include 45 days of combined results for the historical DeeThree properties (Lethbridge Bakken, Brazeau Belly River and Peace River Arch) and 46 days of results for the remaining Granite property (Lethbridge Bakken). For the six month period ending June 30, 2015, the results include 135 days of historical DeeThree properties and 46 days of results for the Lethbridge 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 production of 6,910 boe/d for the second quarter of 2015 reflect operating results from the combined entity (DeeThree Exploration Ltd.) from April 1, 2015 – May 15, 2015 and from Granite Oil Corp. from May 16, 2015- June 30, 2015. In the second quarter of 2015, and prior to May 15, 2015, DeeThree spud two wells, one in Brazeau and one in Lethbridge and subsequent to May 15, 2015, Granite drilled an additional two wells in the Lethbridge area.

For the quarter ended June 30, 2015, Granite realized a combined average sales price of $54.05/boe, a 34% percent decrease over the prior year and a 29% percent increase over the first quarter of 2015. These fluctuations were due to continued volatility in market prices for both crude oil and natural gas. With average operating costs of $7.31/boe, transportation costs of $2.67/boe and average royalties of 27 percent, Granite achieved an operating netback of $29.40/boe, a 42 percent decrease over the prior year.

2015 FIRST QUARTER FINANCIAL AND OPERATING HIGHLIGHTS

DeeThree's average production of 12,296 boe/d for the first quarter of 2015 reflects operating results from existing wells in the Ferguson and Brazeau areas as well as results from DeeThree's reduced Q1 2015 capital program of 6 gross (6.0 net) wells, one of which had not yet been completed.

For the quarter ended March 31, 2015, DeeThree realized a combined average sales price of $41.63/boe, a 47 percent decrease over the prior year and a 31 percent decrease over the last quarter of 2014. This was due to decreased market prices for crude oil and natural gas prices. With average operating costs of $7.37/boe, transportation costs of $3.25/boe and average royalties of 22 percent, DeeThree achieved an operating netback of $22.00/boe, a 53 percent decrease over the prior year.

DeeThree incurred $37.1 million of capital expenditures in Q1 2015, with a capital program that focused on the drilling of 6 gross (6.0 net) wells, with 3 gross (3.0 net) in the Brazeau area and 3 gross (3.0 net) in the Ferguson area.

SUBSEQUENT EVENTS

Subsequent to June 30, 2015, Granite entered into the following crude oil risk management contracts:

Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price
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

OUTLOOK

With continued positive results from its full scale enhanced oil recovery scheme, operational improvements, a deep inventory of capital-efficient infill drilling locations and strong balance sheet, the Company is well positioned to execute its model even through challenging commodity prices.

Granite reaffirms its previously announced guidance for the second half of 2015, which includes the drilling of seven, 100 percent working interest wells and capital spending of $20 million. This is expected to result in average production for the second half of 2015 of 3,500 bbl/d of oil.

The Company is in an excellent financial position with net debt of approximately $45 million equating to less than 1.0x debt to annualized cash flow. Granite has in place a very robust crude oil hedge program. The second half of 2015 includes a 500 bbl/d collar at US $85 - $100 WTI and a 1,750 bbl/d swap at Cdn $95.67 WTI. For the first half of 2016, the Company has a 750 bbl/d swap at an average Cdn $76.97 WTI and a 250 bbl/d swap at US $62.75 WTI and for the second half of 2016, 500 bbl/d at an average of Cdn $79.00 WTI and 250 bbl/d at US $62.75 WTI.

Funds from Operations [(1)]

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	**2015**	2014
(000s)	*($)*	*($)*	*($)*	*($)*
Net income	143,635	18,133	145,396	26,815
Non-cash items:				
Depletion and depreciation (D&D) expense	11,902	18,752	32,926	35,238
Deferred income tax expense (recovery)	(6)	6,254	837	9,811
Share-based compensation [(2)]	454	794	1,147	1,331
Transaction costs – share-based compensation	4,027	–	4,027	–
Accretion	126	209	327	408
Unrealized loss (gain) on financial instruments	11,143	(1,047)	13,905	3,140
Exploration and evaluation (E&E) expense	–	72	344	1,960
Gain on disposition to Boulder	(154,034)	–	(154,034)	–
Abandonment and reclamation costs	(56)	–	(61)	–
Funds from operations [(1)]	17,191	43,167	44,814	78,703

(1) Funds from operations and funds from operations per share are not recognized measures under IFRS. Refer to the commentary in the Management's Discussion and Analysis under "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 June 30, 2015, the Company generated funds from operations totalling $17.2 million ($0.57 per basic share and diluted share) compared to $43.2 million ($1.53 per basic share and $1.47 per diluted share) in the comparative period of 2014 and $27.6 million ($0.93 per basic share and $0.90 per diluted share) in the first quarter of 2015. The year-over-year and quarter-over-quarter decreases reflect 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.

Funds from operations totalled $44.8 million ($1.50 per basic share and diluted share) for the six months ended June 30, 2015 compared to $78.7 million ($2.82 per basic share and $2.73 per diluted share)recorded in the same period of 2014.

Net Income

For the three months ended June 30, 2015, the Company recorded net income of $143.6 million ($4.78 per basic and $4.77 per diluted share) compared to net income of $18.1 million ($0.63 per basic and diluted share) in the same period of 2014 and net income of $1.8 million ($0.06 per basic and diluted share) in the first quarter of 2015. The Company's net income for the quarter was primarily due to the gain on disposition of assets to Boulder pursuant to the POA.

The net income for the six months ended June 30, 2014 was $145.4 million ($4.87 per basic share and $4.86 per diluted share) compared to net income of $26.8 million ($0.96 per basic share and $0.93 per diluted share) in the comparative period of 2014.

FINANCIAL AND OPERATING RESULTS

Sales Volumes

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	**2015**	2014
Sales				
Natural gas *(mcf/d)*	**7,229**	12,967	**11,144**	12,675
Crude oil *(bbls/d)*	**5,603**	8,033	**7,386**	7,392
NGLs *(bbls/d)*	**102**	550	**345**	558
Total sales *(boe/d)*	**6,910**	10,744	**9,588**	10,063

		(%)		*(%)*
Production Split				
Natural gas	**17**	20	**19**	21
Crude oil	**81**	75	**77**	73
NGLs	**2**	5	**4**	6
Total	**100**	100	**100**	100

For the second quarter of 2015, the Company's production averaged 6,910 boe/d compared to 10,744 boe/d in the same period of 2014 and 12,296 boe/d in the first quarter of 2015. This represents a 36 percent year-over-year decrease and a 44 percent quarter-over-quarter decrease. These decreases are primarily a result of the POA which closed on May 15, 2015 combined with natural declines and a reduced drilling program.

Second quarter volumes reflect a full quarter (91 days) of Bakken production accounting for approximately 3,460 boe/d as compared to the first quarter Bakken production of 3,406 boe/d as well as 45 days of production from the Brazeau and Peace River Arch properties which were conveyed to Boulder pursuant to the POA.

For the first six months of 2015, Granite's total production averaged 9,588 boe/d compared to 10,063 boe/d a year ago, representing a 5 percent decrease. During the 2015 six month period, production was comprised of 11,144 mcf/d of gas, 7,386 bbls/d of crude oil and 345 bbls/d of NGLs, thereby increasing the Company's crude oil and NGL production to 81 percent of total corporate production versus 79 percent in the comparable period of 2014.

Revenue

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	**2015**	2014
(000s)	*($)*	*($)*	*($)*	*($)*
Natural gas	**1,761**	5,918	**5,625**	12,606
Crude oil	**31,694**	71,905	**72,632**	127,438
NGLs and other	**534**	2,737	**1,809**	6,159
Total oil and natural gas revenue	**33,989**	80,560	**80,066**	146,203

During the three months ended June 30, 2015, revenue decreased by 58 percent to $34.0 million from $80.6 million in the comparative period of 2014. The year-over-year decrease was mainly the result of reduced crude oil market prices and the resulting decrease in the corporate average price per boe as well as the POA which was effective May 15, 2015. When compared to the first quarter of 2015, revenue decreased 26 percent from $46.1 million due to less production again, due to the POA.

For the first six months of 2015, revenue totalled $80.1 million compared to $146.2 million for the same period of 2014. During the six-month period ended June 30, 2015, total revenue decreased 45 percent compared to the same period of 2014 due to the decrease in sales volumes disposed of as part of the POA as well as lower crude oil market prices year to date.

Pricing is discussed in further detail in "Commodity Prices and Foreign Exchange" below.

Commodity Prices and Foreign Exchange

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	**2015**	2014
	($)	*($)*	*($)*	*($)*
Benchmark Prices				
Natural gas				
NYMEX *(US$/mmbtu)* (1)	**2.74**	4.56	**2.77**	4.73
AECO *(Cdn$/GJ)* (2)	**2.67**	4.44	**2.71**	4.93
Crude oil				
WTI *(US$/bbl)*	**57.94**	102.99	**53.29**	100.84
Edmonton Light (MSW) *(Cdn$/boe)*	**67.64**	105.55	**59.71**	102.67
Differential – MSW/WTI *(US$/bbl)*	**(2.86)**	(6.14)	**(4.83)**	(7.19)
Hardisty Bow River *(Cdn$/boe)*	**66.70**	100.57	**59.51**	97.23
Differential – Bow River/WTI *(US$/bbl)*	**(11.25)**	(19.84)	**(12.74)**	(21.23)
Average Realized Prices				
Natural gas *($/mcf)*	**2.68**	5.02	**2.79**	5.49
Crude oil *($/bbl)*	**62.15**	98.35	**54.33**	95.25
NGLs *($/bbl)*	**55.13**	53.92	**28.52**	60.45
Combined average *($/boe)*	**54.05**	82.39	**46.13**	80.27
Foreign Exchange				
Cdn$/US$	**1.2294**	1.0905	**1.2353**	1.0970
US$/Cdn$	**0.8134**	0.9170	**0.8095**	0.9116

(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 $62.15/bbl for the second quarter of 2015 compared to $98.35/bbl for the second quarter of 2014, and $49.50/bbl in the first quarter of 2015. Granite's realized oil price decreased by 37 percent from the prior year's second quarter due to a combination of a decrease in the US$ WTI benchmark oil price, offset by the narrowing of differentials and a weakened Canadian dollar. The realized oil price increased by 26 percent from the first quarter of 2015 due to a slight increase in the US$ WTI benchmark oil price combined with reduced differentials during the period.

For the six months ended June 30, 2015, the Company's average realized crude oil price was $54.33/bbl compared to $95.25/bbl in the same period of 2014, a 43 percent decrease driven by lower year-to-date benchmark prices, offset by the narrowing of differentials and a weakened Canadian dollar.

NATURAL GAS PRICING

Granite's average realized natural gas price was $2.68/mcf for the second quarter of 2015 versus $5.02/mcf in the second quarter of 2014 and $2.84/mcf in the first quarter of 2015. The Company's realized gas price decreased by 47 percent from the same period of 2014 and 6 percent from the first quarter of 2015, driven by a 40 percent decrease in the AECO gas index price from the same period of 2014 and 6 percent from the first quarter of 2015.

For the six months ended June 30, 2015, the Company's average realized price for natural gas decreased 49 percent to $2.79/mcf compared to $5.49/mcf in the same period in 2014, driven by a 45 percent decrease in the AECO gas index price.

ROYALTIES

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	**2015**	2014
	($)	*($)*	*($)*	*($)*
Oil and natural gas revenues *(000s)*	**33,989**	80,560	**80,066**	146,203
Total royalties *(000s)*	**9,226**	18,416	**19,197**	34,226
Total royalties *($/boe)*	**14.67**	18.83	**11.06**	18.79
Percent of revenue *(%)*	**27**	23	**24**	23

The Lethbridge 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 is 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 Brazeau and Peace River Arch properties were conveyed to Boulder on May 15, 2015 as part of the POA.

For the second quarter of 2015, royalties totalled $9.2 million or 27 percent of revenue compared to $18.4 million or 23 percent of revenue for the same quarter in 2014 and $10.0 million or 22 percent of revenue in the first 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 Lethbridge Bakken property that remained with Granite upon completion of the POA.

During the first six months of 2015, royalties totalled $19.2 million or 24 percent of revenue compared to $34.2 million or 23 percent of revenue a year ago.

OPERATING AND TRANSPORTATION EXPENSES

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	**2015**	2014
(000s except per boe)	*($)*	*($)*	*($)*	*($)*
Operating expenses	**4,599**	10,758	**12,753**	19,344
Transportation expenses	**1,678**	1,874	**5,277**	3,299
Total operating and transportation expenses	**6,277**	12,632	**18,030**	22,643
Operating expenses *($/boe)*	**7.31**	11.00	**7.35**	10.62
Transportation expenses *($/boe)*	**2.67**	1.92	**3.04**	1.81
Total operating and transportation expenses *($/boe)*	**9.98**	12.92	**10.39**	12.43

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 second quarter of 2015 totalled $4.6 million or $7.31/boe compared to $10.8 million or $11.00/boe in the same period of 2014 and $8.2 million or $7.37/boe in the first 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 the pipeline (which had contributed to higher operating costs in Q2 2014) as well as the impact of the POA. The Lethbridge Bakken property attracts lower operating costs than the Northern Properties.

Transportation expenses for the three months ended June 30, 2015 were $1.7 million or $2.67/boe compared to $1.9 million or $1.92/boe in the second quarter of 2014 and $3.6 million or $3.25/boe in the first quarter of 2015. Over the past year, the Company has increased production of crude oil and NGLs, and the transportation costs associated with those products consist primarily of pipeline tariffs, terminal charges and trucking (crude oil and NGLs incur a higher cost per boe for transportation than natural gas). When the Company experiences pipeline capacity constraints, it must use alternative means of transportation to move production volumes to market. In particular, the Company saw a large increase in the cost per barrel for clean oil trucking costs during the fourth quarter of 2014 which has continued and increased even further in early 2015.

For the six months ended June 30, 2015, the Company incurred operating expenses of $12.8 million or $7.35/boe compared to $19.3 million or $10.62/boe in the corresponding 2014 period. Transportation expenses for the first six months of 2015 totalled $5.3 million or $3.04/boe versus $3.3 million or $1.81/boe in the same period of last 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 June 30, 2015, the Company had the following crude oil, foreign exchange and interest rate risk management contracts with a total mark-to-market asset of $9.9 million, $9.8 million of which is short-term and $0.1 million of which is long-term (March 31, 2015- asset of $20.5 million and December 31, 2014 – asset of $23.3 million):

CRUDE OIL CONTRACTS

Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price
Jan.1/15 – Dec.31/15	Crude Oil	Collar	500 bbls/d	WTI-NYMEX	US$85.00/bbl (floor) US$100.80/bbl (cap)
Jan.1/15 – Dec.31/15	Crude Oil	Fixed	500 bbls/d	WTI-NYMEX	Cdn$99.00/bbl
Jan.1/15 – Dec.31/15	Crude Oil	Fixed	500 bbls/d	WTI-NYMEX	Cdn$99.39/bbl
Jan.1/15 – Dec.31/15	Crude Oil	Fixed	500 bbls/d	WTI-NYMEX	Cdn$100.00/bbl
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

FOREIGN EXCHANGE CONTRACT

Period	Currency	Type of Contract	Quantity	Pricing Point (Cdn$/US$)
Jan. 1/15 – Dec. 31/15	US$	Average Rate Range Forward	US$1,300,000	Trigger – 1.1300 Cdn$/US$ Floor – 1.100 Cdn$/US$ Ceiling – 1.1110 Cdn$/US$

INTEREST RATE CONTRACT

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

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 settled in cash during the period. The Company has elected not to use hedge accounting for its current risk management contracts.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	**2015**	2014
	($)	*($)*	*($)*	*($)*
Unrealized loss (gain) on financial instruments *(000s)*	**11,143**	(1,047)	**13,905**	3,140
Unrealized loss (gain) on financial instruments *($/boe)*	**17.72**	(1.07)	**8.01**	1.72

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	**2015**	2014
	($)	*($)*	*($)*	*($)*
Realized loss (gain) on financial instruments *(000s)*	**(4,746)**	2,815	**(11,662)**	4,413
Realized loss (gain) on financial instruments *($/boe)*	**(7.55)**	2.88	**(6.72)**	2.42

During the second quarter of 2015, the Company recorded an unrealized loss on financial instruments of $11.1 million and a realized gain of $4.7 million. The unrealized loss resulted from the mark-to-market of financial risk management contracts at the period end. These non-cash unrealized derivative losses are generated by the change over the reporting period in the mark-to-market valuation of Granite's risk management contracts. The realized gain represents actual cash settlements under the respective commodity, foreign exchange and interest rate contracts in the period.

In the same period of the prior year, the Company recorded an unrealized gain of $1.0 million and a realized loss of $2.8 million and in the previous quarter, an unrealized loss of $2.8 million.

For the six months ended June 30, 2015, the Company recorded an unrealized loss of $13.9 million and a realized gain of $11.7 million compared to an unrealized loss of $3.1 million and a realized loss of $4.4 million, respectively, in the same period of 2014.

G&A Expense

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	**2015**	2014
(000s except per boe)	*($)*	*($)*	*($)*	*($)*
Gross G&A expense	**1,678**	2,558	**4,270**	5,211
Capitalized G&A (direct)	**(282)**	(417)	**(762)**	(1,000)
Overhead recoveries	**(62)**	(199)	**(180)**	(397)
G&A expense (net)	**1,334**	1,942	**3,328**	3,814
G&A expense (net) *($/boe)*	**2.12**	1.99	**1.92**	2.09

Gross G&A expense totalled $1.7 million for the three-month period ended June 30, 2015 compared to $2.6 million in the comparable period of 2014 and $2.6 million in the first quarter of 2015 (net of transaction costs incurred in the first quarter of 2015). Net G&A costs were $1.3 million or $2.11/boe in the second quarter of 2015 compared to $1.9 million or $1.99/boe a year earlier and $1.9 million or $1.80/boe in the first quarter of 2015 (net of transaction costs incurred in the first quarter of 2015).

Net G&A expense for the first six months of 2015 totalled $3.3 million or $1.92/boe compared to $3.8 million or $2.09/boe in the same period of 2014.

The Company capitalized direct G&A expenses amounting to $0.3 million and had overhead recoveries of $0.1 million in the second quarter of 2015 versus $0.4 million and $0.2 million, respectively, in the comparative period of 2014, and $0.5 million and $0.1 million, respectively, in the first quarter of 2015.

During the six months ended June 30, 2015, the Company capitalized $0.8 million in direct costs related to its exploration and development efforts and $0.2 million of overhead recoveries compared to $1.0 million and $0.4 million, respectively, in the same period of 2014.

Share-Based Compensation

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	**2015**	2014
(000s except per boe)	*($)*	*($)*	*($)*	*($)*
Gross share-based compensation	**685**	1,289	**1,862**	2,128
Share-based compensation reclassified to operating costs	**(15)**	(5)	**(56)**	(72)
Capitalized share-based compensation	**(230)**	(495)	**(714)**	(796)
Share-based compensation expense (net)	**440**	789	**1,092**	1,260
Share-based compensation expense (net) *($/boe)*	**0.70**	0.81	**0.63**	0.69

On May 15, 2015, Granite adopted a Share Incentive Plan ("SIP"), described in note 10 to the interim financial statements for the period ended June 30, 2015. The awards granted under the plan vest one third on each of the first, second and third anniversaries of the grant date and the number of common shares issued for each PSU 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 June 30, 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 June 30, 2015, the Company had 207,817 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 June 30, 2015, the Company incurred a net expense of $0.4 million or $0.70/boe versus $0.8 million or $0.81/boe in the same period of 2014 and $0.7 million or $0.59/boe in the first quarter of 2015.

During the first six months of 2015, Granite incurred net share-based compensation expense of $1.1 million or $0.63/boe compared to $1.3 million or $0.69/boe recorded in the first six months of 2014.

Transaction Costs

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	**2015**	2014
(000s except per boe)	*($)*	*($)*	*($)*	*($)*
Transaction costs – G&A	**3,287**	–	**3,661**	–
Transaction costs – share-based compensation	**4,027**	–	**4,027**	–
Total transaction costs	**7,314**	–	**7,688**	–
Transaction costs – G&A *($/boe)*	**5.23**	–	**2.11**	–
Transaction costs – share-based compensation *($/boe)*	**6.40**	–	**2.32**	–
Total transaction costs *($/boe)*	**11.63**	–	**4.43**	–

The Company incurred cash transaction costs of $3.3 million in relation to the POA, such as legal, financial advisory and accounting fees. In addition, for the stock 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".

For the six months ended June 30, 2015, the Company incurred $3.7 million in cash transaction costs and $4.0 million related to share-based compensation.

Depletion and Depreciation (D&D)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	**2015**	2014
	($)	*($)*	*($)*	*($)*
Depletion and depreciation expense *(000s)*	**11,902**	18,752	**32,926**	35,238
Depletion and depreciation expense *($/boe)*	**18.93**	19.18	**18.97**	19.35

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, a straight-line method for field facilities (20-year useful life), a straight-line method for trucks and trailers (3 years) and a declining-balance method on corporate assets (20 to 30 percent). Assets in the E&E phase are not amortized.

For the three months ended June 30, 2015, the Company recorded D&D expense of $11.9 million or $18.93/boe compared to $18.8 million or $19.18/boe in the same period of 2014 and $21.0 million or $19.00/boe in the first quarter of 2015. The absolute decrease in D&D expense quarter over quarter is related to the decrease in production volumes related to the POA slightly offset by lower costs related to finding and developing reserves.

For the six months ended June 30, 2015, D&D expense was $32.9 million or $18.97/boe compared to $35.2 million or $19.35/boe in the same period of 2014.

Exploration and Evaluation (E&E) Expense

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	**2015**	2014
	($)	*($)*	*($)*	*($)*
Exploration and evaluation expense *(000s)*	**–**	72	**344**	1,960
Exploration and evaluation expense *($/boe)*	**–**	0.07	**0.20**	1.08

Granite accumulates costs related to E&E assets in one pool pending determination of technical feasibility and commercial viability of the asset. 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 second quarter of 2015, the Company did not record any E&E expense. This compares to $0.07 million or $0.07/boe in the same period of 2014, all of which related to lease expiries in one of the Company's areas, and $0.3 million or $0.31/boe in the first quarter of 2015, all of which related to lease expiries in two of the Company's areas.

During the six months ended June 30, 2015, the Company recorded E&E expense of $0.3 million or $0.20/boe compared to $1.96 million or $1.08/boe in the comparable period of 2014.

Gain on disposition to Boulder

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	**2015**	2014
	($)	*($)*	*($)*	*($)*
Gain on disposition to Boulder *(000s)*	**(154,034)**	–	**(154,034)**	–
Gain on disposition to Boulder *($/boe)*	**(244.93)**	–	**(88.75)**	–

As part of the POA, which is further described in Note 4 to the interim financial statements, the Company recorded a gain on disposition of the Brazeau and Peace River Arch properties to Boulder of $154.0 million or $244.93/boe. This 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).

Accretion and Finance Expenses

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	**2015**	2014
(000s except per boe)	*($)*	*($)*	*($)*	*($)*
Accretion expense on decommissioning liabilities	**126**	209	**327**	408
Finance expense	**1,378**	1,593	**2,692**	2,475
Total accretion and finance expenses	**1,504**	1,802	**3,019**	2,883
Accretion expense on decommissioning liabilities *($/boe)*	**0.20**	0.21	**0.19**	0.22
Finance expense *($/boe)*	**2.19**	1.63	**1.55**	1.36
Total accretion and finance expenses *($/boe)*	**2.39**	1.84	**1.74**	1.58

Accretion expense represents the increase in the present value of the Company's decommissioning liabilities. In the second quarter of 2015, the Company recorded accretion expense of $0.1 million or $0.20/boe compared to $0.2 million or $0.21/boe in the same period of 2014 and $0.2 million or $0.18/boe in the first quarter of 2015.

During the three months ended June 30, 2015, interest and finance expenses increased to $1.4 million or $2.19/boe from $1.6 million or $1.63/boe in the same period of 2014 and $1.3 million or $1.19/boe in the first quarter of 2015. The Company incurred interest charges and standby fees related to the $310 million credit facility for the period up to May 15, 2015 and related to the $115 million credit facility from May 15, 2015 to June 30, 2015, which was drawn to $28.2 million at the quarter end (June 30, 2014 – $86.2 million and December 31, 2014 - $139.2 million). The finance expense for the period also includes fees of $0.2 million related to the setup of the new demand credit facility (June 30, 2014 - $nil).

For the first six months of 2015, the Company recorded accretion expense of $0.3 million or $0.19/boe compared to $0.4 million or $0.22/boe in the comparable period of 2014. The Company also recorded finance expense of $2.7 million or $1.55/boe compared to $2.5 million or $1.36/boe in the same period of the prior year.

Income Taxes

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	**2015**	2014
	($)	*($)*	*($)*	*($)*
Deferred income tax expense (recovery) *(000s)*	**(6)**	6,254	**837**	9,811
Deferred income tax expense (recovery) *($/boe)*	**(0.01)**	6.40	**0.48**	5.39

During the second quarter of 2015, the Company recorded a deferred income tax recovery of $0.01 million or $0.01/boe compared to a deferred income expense of $6.3 million or $6.40/boe in same period of 2014 and a deferred income tax expense of $0.8 million or $0.76/boe in the first quarter of 2015. The second quarter recovery was primarily related to X.

During the six months ended June 30, 2015, the Company recorded a deferred income tax recovery of $836 million or $0.48/boe compared to 9.8 million or $5.39/boe in the same period of 2014. During the first six months of 2015, the Company spent approximately $nil million in eligible exploration expenditures related to the May 2014 issuance of flow-through shares.

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 June 30, 2015 of approximately $200 million (December 31, 2014 – $499 million).

Netbacks (per unit) (2)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	**2015**	2014
	($/boe)	*($/boe)*	*($/boe)*	*($/boe)*
Average sales price	**54.05**	82.39	**46.13**	80.27
Royalties	**(14.67)**	(18.83)	**(11.06)**	(18.79)
Operating	**(7.31)**	(11.00)	**(7.35)**	(10.62)
Transportation	**(2.67)**	(1.92)	**(3.04)**	(1.81)
Operating netback (1)	**29.40**	50.64	**24.68**	49.05
G&A and other expense (excludes non-cash items)	**(2.12)**	(1.99)	**(1.92)**	(2.09)
Transaction costs – G&A	**(5.23)**	(1.89)	**(2.11)**	–
Realized gain (loss) on financial instruments	**7.55**	(2.88)	**6.72**	(2.42)
Finance expense	**(2.19)**	(1.63)	**(1.55)**	(1.36)
Funds flow netback (1)	**27.41**	44.14	**25.82**	43.18
D&D expense	**(18.93)**	(19.18)	**(18.97)**	(19.35)
Accretion	**(0.20)**	(0.21)	**(0.19)**	(0.22)
Share-based compensation	**(0.70)**	(0.81)	**(0.63)**	(0.69)
Transaction costs – share-based compensation	**(6.40)**	–	**(2.32)**	–
Unrealized gain (loss) on financial instruments	**(17.72)**	1.07	**(8.01)**	(1.72)
E&E expense	**–**	(0.07)	**(0.20)**	(1.08)
Deferred income tax expense	**0.01**	(6.40)	**(0.48)**	(5.39)
Gain on disposition to Boulder	**244.93**	–	**88.75**	–
Net income netback (1)	**228.40**	18.54	**83.77**	14.73

(1) Non-GAAP measure; refer to the commentary below. Operating netback, funds flow netback and net income 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.

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

The operating netback was $29.40/boe for the three months ended June 30, 2015 compared to $50.64/boe in the same period of 2014 and $22.00/boe in the first quarter of 2015. As compared to the prior year's second quarter, the Company experienced a lower realized average price throughout the three months ended June 30, 2015 due to a decrease in WTI prices, as well as lower royalties and operating expenses than a year earlier. As compared to the first quarter of 2015, the Company realized a higher average price due to a slightly increased US$ WTI prices, contributing to the increase in operating netback quarter-over-quarter.

For the first six months of 2015, Granite achieved an operating netback of $24.68/boe compared to $49.05/boe in the same period of 2014, due to lower year-to-date pricing but 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 June 30,		Six Months Ended June 30,	
	2015	2014	**2015**	2014
(000s) (excluding decommissioning liabilities and capitalized share-based compensation)	*($)*	*($)*	*($)*	*($)*
Property acquisitions and adjustments	**–**	5,105	**–**	5,215
Drilling and completions				
Completion for prior period drills	**178**	13,882	**3,344**	2,133
Current period drilling & completion	**8,939**	35,110	**33,071**	106,054
Future drills and work overs	**247**	2,724	**1,128**	2,859
	9,364	51,716	**37,543**	111,046
Equipment and facilities				
Tie-in of prior period drills	**326**	2,691	**1,009**	671
Tie-in of current period drills	**619**	1,437	**1,628**	8,564
Facilities, pipelines and work overs	**1,326**	10,450	**4,817**	15,895
Other equipment	**17**	–	**868**	–
	2,288	14,578	**8,322**	25,130
Land and lease retention	**56**	2,335	**2,423**	3,074
Geological and geophysical	**2**	116	**3**	1,112
Capitalized G&A and other	**246**	438	**725**	1,023
Total capital expenditures	**11.956**	74,288	**49,016**	146,600
Total wells drilled *(#)*	**4 (4.00)**	10 (10.00)	**10 (10.00)**	27 (26.97)

During the second quarter of 2015, the Company incurred a total of $12.0 million (second quarter 2014 – $74.3 million) in capital expenditures, excluding non-cash decommissioning liabilities and capitalized share-based compensation. During the period, $nil million was spent to complete several minor acquisitions (second quarter 2014 – $5.1 million). Drilling and completion expenditures totalled $9.4 million in the second quarter of 2015 (second quarter 2014 – $51.7 million), $2.3 million was spent on tie-ins and facilities (second quarter 2014 – $14.6 million), $0.06 million on land sales (second quarter 2014 – $2.3 million) and $2,000 related to seismic programs (second quarter 2014 – $0.1 million). The remaining $0.2 million in the second quarter of 2015 (second quarter 2014 – $0.4 million) was invested in capitalized G&A and other corporate assets.

During the first six months of 2015, the Company incurred a total of $2.4 million (2014 – $146.6 million) in capital expenditures, excluding the non-cash decommissioning liabilities and capitalized share-based compensation. During the period, the Company spent $nil million to complete several minor acquisitions (2014 - $5.2 million). Drilling and completion expenditures totalled $37.5 million (2014 - $111.0 million), $8.3 million was spent on tie-ins and facilities (2014 - $25.1 million), $2.4 million on land sales (2014 - $3.1 million) and $0.003 million related to seismic programs (2014 - $1.1 million). The remaining $2.4 million spent in the first six months of 2015 (2014 - $1.0 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 June 30, 2015						
Crude oil	**–**	**–**	**4**	**4.00**	**4**	**4.00**
Total wells	**–**	**–**	**4**	**4.00**	**4**	**4.00**
Success rate (%)		**–**		**100**		**100**
Average working interest (%)		**–**		**100**		**100**
Three Months Ended June 30, 2014						
Crude oil	–	–	10	10.00	10	10.00
Total wells	–	–	10	10.00	10	10.00
Success rate (%)		–		100		100
Average working interest (%)		–		100		100
Six Months Ended June 30, 2015						
Crude oil	**–**	**–**	**10**	**10.00**	**10**	**10.00**
Total wells	**–**	**–**	**10**	**10.00**	**10**	**10.00**
Success rate (%)		**–**		**100**		**100**
Average working interest (%)		**–**		**100**		**100**
Six Months Ended June 30, 2014						
Gas	–	–	1	1.00	1	1.00
Crude oil	–	–	24	23.97	24	23.97
Dry and abandoned	2	2.00	–	–	2	2.00
Total wells	2	2.00	25	24.97	27	26.97
Success rate (%)		–		100		93
Average working interest (%)		100		100		100

During the second quarter of 2015, Granite drilled a total of 4 gross (4.00 net) crude oil development wells with a 100 percent success rate. During the three months ended June 30, 2014, the Company drilled 10 gross (10.00 net) crude oil development wells.

During the first six months of 2015, Granite drilled 10 gross (10.00 net) wells in total, all of which were development wells targeting crude oil. During the six months ended June 30, 2014, the Company drilled a total of 27 gross (26.97 net) wells, including 24 gross (23.97 net) development wells targeting crude oil, 1 gross (1.00 net) development wells targeting gas, and 2 gross (2.00 net) exploration wells, both of which were dry and abandoned.

Drilling Activity by Area

	Brazeau	Ferguson	Peace River Arch	Total
	(#)	*(#)*	*(#)*	*(#)*
Three Months Ended June 30, 2015				
Crude oil	**1 (1.00)**	**3 (3.00)**	**–**	**4 (4.00)**
Total wells	**1 (1.00)**	**3 (3.00)**	**–**	**4 (4.00)**
Success rate *(%)*	**100**	**100**	**–**	**100**
Average working interest *(%)*	**100**	**100**	**–**	**100**
Three Months Ended June 30, 2014				
Crude oil	2 (2.00)	7 (7.00)	1 (1.00)	10 (10.00)
Total wells	2 (2.00)	7 (7.00)	1 (1.00)	10 (10.00)
Success rate *(%)*	100	100	100	100
Average working interest *(%)*	100	100	100	100
Six Months Ended June 30, 2015				
Crude oil	**4 (4.00)**	**6 (6.00)**	**–**	**10 (10.00)**
Total wells	**4 (4.00)**	**6 (6.00)**	**–**	**10 (10.00)**
Success rate *(%)*	**100**	**100**	**100**	**100**
Average working interest *(%)*	**100**	**100**	**100**	**100**
Six Months Ended June 30, 2014				
Gas	1 (1.00)	–	–	1 (1.00)
Crude oil	12 (11.97)	11 (11.00)	1 (1.00)	24 (23.97)
Dry and abandoned	–	2 (2.00)	–	2 (2.00)
Total wells	13 (12.97)	13 (13.00)	1 (1.00)	27 (26.97)
Success rate *(%)*	100	85	100	93
Average working interest *(%)*	100	100	100	100

During the second quarter of 2015, Granite drilled a total of 4 gross (4.00 net) wells, including 3 gross (3.0 net) wells on its Ferguson property with a 100 percent success rate and 1 gross (1.0 net) Belly River well on its Brazeau property with a 100 percent success rate. During the three months ended June 30, 2014, the Company drilled 10 gross (10.00 net) wells for a 100 percent success rate, including 2 gross (2.00 net) wells on its Brazeau property, 7 gross (7.0 net) wells on its Ferguson property and 1 (1.00) well in the Peace River Arch.

During the six months ended June 30, 2015, Granite drilled a total of 10 gross (10.00 net) wells, including 4 gross (4.00 net) on the Brazeau property and 6 gross (6.00 net) wells on the Ferguson property. During the six months ended June 30, 2014, the Company drilled 27 gross (26.97 net) wells for a 100 percent success rate, including 13 gross (12.97 net) wells in Brazeau, 13 gross (13.00 net) in Ferguson and 1 gross (1.00 net) in the Peace River Arch.

LIQUIDITY AND FINANCIAL RESOURCES

Net Debt [(1)]

The following table summarizes the change in working capital during the six months ended June 30, 2015 and the year ended December 31, 2014:

	Six Months Ended June 30, 2015	Year Ended December 31, 2014
(000s)	*($)*	*($)*
Net debt [(1)] – beginning of period	**(171,347)**	(119,787)
Funds from operations	**44,875**	173,196
Capital expenditures	**(49,016)**	(273,950)
Acquisitions	**–**	(22,599)
Proceeds against DeeThree bank debt received in the POA	**130,000**	–
Issuance of capital stock for cash (net of share issuance costs)	**1,412**	71,810
Dividends	**(910)**	–
Abandonment and reclamation costs	**(61)**	(17)
Net debt [(1)] – end of period	**(45,047)**	(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 the first six months, the Company generated funds from operations of $44.8 million and invested $49.0 million in capital expenditures. In connection with the completion of the POA, each of Granite and Boulder obtained new credit facilities from syndicates of lenders. The Granite credit facility has an authorized borrowing base of $115 million consisting of a $95 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. As a result, obligations of DeeThree under its prior credit facility have been fully repaid and settled. The Company also received $1.4 million related to the exercise of common shares during the period. Additionally, the Company paid $0.9 million related to the June dividend. Granite exited the quarter with net debt of $45.0 million.

At June 30, 2015, the Granite facility was drawn to approximately $28.2 million with $86.8 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 a 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 to take place in the fall of 2015. 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.

During the second half of 2015, Granite expects to spend approximately $20 million on its capital program and has increased its monthly dividend of $0.03 share to $0.0325 share beginning in September, 2015.

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 except those related to the POA except for those related to the POA.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Years Ended December 31,	2015	2016	2017	Total
(000s)	*($)*	*($)*	*($)*	*($)*
Operating lease – office	106	53	–	159
Exploration expenditures (flow-through)	577	–	–	577
Total	683	53	–	736

As at June 30, 2015, the Company had contractual obligations for its office leases totalling approximately $0.2 million to March 2016. The head office lease obligations are comprised of the lease payments and an estimate of occupancy costs of the Company's head office space.

In connection with the Company's issuance of flow-through shares during the second quarter of 2014, Granite is required to spend $10.0 million of eligible exploration expenditures. As at June 30, 2015, $9.4 million of these expenditures have been incurred, with the remaining $0.6 million to be spent by December 31, 2015. The expenditures were renounced to shareholders in January 2015, effective December 31, 2014.

SHARE CAPITAL

As at August 13, 2015, the Company had the following equity securities outstanding:

Common shares outstanding	30,341,693
Granite stock options outstanding	207,817
Share awards outstanding	944,995

SELECTED QUARTERLY INFORMATION (1)(4)

Three Months Ended	**June 30, 2015**	March 31, 2015	Dec. 31, 2014	Sept. 30, 2014	June 30, 2014	March 31, 2014	Dec. 31, 2013	Sept. 30, 2013
(000s, except per share amounts and production figures)					*($)*	*($)*	*($)*	*($)*
Oil and natural gas revenues	**33,989**	46,077	69,957	87,188	80,560	65,643	51,865	55,754
Funds from operations	**17,191**	27,623	41,773	52,720	43,167	35,536	24,660	29,410
Per share – basic	**0.57**	0.93	1.41	1.77	1.53	1.29	0.96	1.14
Per share – diluted	**0.57**	0.90	1.38	1.71	1.47	1.26	093	1.11
Cash flow from operating activities	**22,526**	17,607	54,239	62,290	44,103	23,607	25,499	32,073
Net income	**143,635**	1,761	28,312	21,106	18,133	8,682	3,305	8,570
Per share – basic	**4.78**	0.06	0.96	0.72	0.63	0.33	0.12	0.33
Per share – diluted	**4.77**	0.06	0.93	0.69	0.63	0.30	0.12	0.33
Total assets	**303,489**	752,643	743,202	686,496	626,620	564,393	497,280	457,679
Capital expenditures (2)	**11,956**	37,060	64,964	84,985	74,288	72,312	56,072	74,969
Net debt (3)	**45,047**	180,784	171,347	148,329	116,064	155,517	119,787	131,295
Shareholders' equity	**210,470**	466,447	463,509	433,613	410,944	321,640	311,070	263,800
Production								
Natural gas *(mcf/d)*	**7,229**	15,103	16,510	13,395	12,967	12,381	10,251	8,910
Crude oil *(bbls/d)*	**5,603**	9,188	9,275	9,322	8,033	6,743	6,547	5,765
NGLs *(bbls/d)*	**102**	591	815	739	550	565	369	323
Total *(boe/d)*	**6,910**	12,296	12,842	12,294	10,744	9,372	8,625	7,573

(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 ("POA") in the Management's Discussion and Analysis under "About Granite Oil Corp.".

BUSINESS RISKS AND RISK MITIGATION

The Granite management team conducts focused strategic planning and has identified the key risks, uncertainties and opportunities associated with 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 2014 and into 2015 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 a $115 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 25, 2015.

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, 2014 and 2013.

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 (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The certification of interim filings for the interim period ended June 30, 2015 requires that Granite disclose in the interim MD&A any changes in the Company's internal control over financial reporting that occurred during the period that have materially affected, or are reasonably likely to materially affect, Granite's internal control over financial reporting. Granite confirms that no such changes were made to its internal controls over financial reporting during the six months ended June 30, 2015.

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 will not be known until the project is complete.

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, 2017, with earlier application permitted; however, the IASB has proposed to defer to January 1, 2018. The Company is currently assessing the impact of this 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 June 30,		Six Months Ended June 30,	
	2015	2014	**2015**	2014
(000s)	*($)*	*($)*	*($)*	*($)*
Cash flow from operating activities	**22,526**	44,103	**40,133**	67,710
Changes in non-cash working capital	**(5,335)**	(936)	**4,681**	10,993
Funds from operations	**17,191**	43,167	**44,814**	78,703

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 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 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 assets less current liabilities, excluding current 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 or working capital deficit.

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 at the date at 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 at 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 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.

STATEMENTS OF FINANCIAL POSITION

(Unaudited)

As at	June 30, 2015	December 31, 2014
(000s)	*($)*	*($)*
Assets		
Current assets		
Accounts receivable	**12,779**	29,524
Deposits and prepaid expenses	**1,847**	682
Derivative financial instruments *(note 12)*	**9,761**	23,270
	24,387	53,476
Non-current assets		
Derivative financial instruments *(note 12)*	**117**	–
Exploration and evaluation assets *(note 5)*	**37,823**	62,784
Property and equipment *(note 6)*	**241,162**	626,942
Total assets	**303,489**	**743,202**
Liabilities		
Current liabilities		
Bank debt *(note 7)*	**28,190**	–
Accounts payable and accrued liabilities	**30,573**	62,319
Dividend payable	**910**	–
	59,673	62,319
Non-current liabilities		
Bank debt *(note 7)*	**–**	139,234
Decommissioning liabilities *(note 8)*	**12,932**	34,165
Flow-through share premium liabilities *(note 9)*	**95**	95
Deferred tax liability	**20,319**	43,880
Total liabilities	**93,019**	**279,693**
Shareholders' equity		
Share capital *(note 9)*	**388,884**	381,540
Contributed surplus	**12,547**	12,591
Retained earnings (deficit)	**(190,961)**	69,378
Total shareholders' equity	**210,470**	**463,509**
Total liabilities and shareholders' equity	**303,489**	**743,202**

Commitments *(note 13)*

Subsequent Events *(note 12)*

See accompanying notes to the interim financial statements.

STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	**2015**	2014
(000s, except per share amounts)	*($)*	*($)*	*($)*	*($)*
Revenue				
Oil and natural gas revenues	**33,989**	80,560	**80,066**	146,203
Royalties	**(9,226)**	(18,416)	**(19,197)**	(34,226)
Oil and natural gas revenues, net of royalties	**24,763**	62,144	**60,869**	111,977
Expenses				
Operating and transportation	**6,277**	12,632	**18,030**	22,643
General and administrative	**1,334**	1,942	**3,328**	3,814
Transaction costs – general and administrative (note 4)	**3,287**	–	**3,661**	–
Depletion and depreciation (note 6)	**11,902**	18,752	**32,926**	35,238
Share-based compensation (note 10)	**440**	789	**1,092**	1,260
Transaction costs – share-based compensation (note 4)	**4,027**	–	**4,027**	–
Exploration and evaluation expense (note 5)	**–**	72	**344**	1,960
Gain on disposition of Boulder (note 4)	**(154,034)**	–	**(154,034)**	–
	(126,767)	34,187	**(90,626)**	64,915
Unrealized loss (gain) on financial instruments	**11,143**	(1,047)	**13,905**	3,140
Realized loss (gain) on financial instruments	**(4,746)**	2,815	**(11,662)**	4,413
Accretion and finance expenses	**1,504**	1,802	**3,019**	2,883
	(118,866)	37,757	**(85,364)**	75,351
Income before income tax	**143,629**	24,387	**146,233**	36,626
Taxes				
Deferred income tax expense (recovery)	**(6)**	6,254	**837**	9,811
Net income and comprehensive income for the period	**143,635**	18,133	**145,396**	26,815
Net income per share (note 9)				
Basic	**4.78**	0.63	**4.87**	0.96
Diluted	**4.77**	0.63	**4.86**	0.93

See accompanying notes to the interim financial statements.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

(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	**–**	**5,888**	**–**	**5,888**
Exercise of options	**7,344**	**(5,932)**	**–**	**1,412**
Distribution of non-cash assets (note 4)	**–**	**–**	**(404,825)**	**(404,825)**
Dividends	**–**	**–**	**(910)**	**(910)**
Net income	**–**	**–**	**145,396**	**145,396**
Balance – June 30, 2015	**388,884**	**12,547**	**(190,961)**	**210,470**
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	(3,862)	–	–	(3,862)
Tax benefit of share issuance costs	963	–	–	963
Share-based compensation	–	2,129	–	2,129
Exercise of options	2,895	(842)	–	2,053
Net income	–	–	26,815	26,815
Balance – June 30, 2014	381,095	9,889	19,960	410,944

See accompanying notes to the interim financial statements.

STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	**2015**	2014
(000s)	*($)*	*($)*	*($)*	*($)*
Cash flow from (used in):				
Operating activities				
Net income for the period	**143,635**	18,133	**145,396**	26,815
Adjustments for:				
Depletion and depreciation expense (note 6)	**11,902**	18,752	**32,926**	35,238
Deferred income tax expense (recovery)	**(6)**	6,254	**837**	9,811
Share-based compensation (note 10)	**454**	794	**1,147**	1,331
Transaction costs – share-based compensation (note 4)	**4,027**	–	**4,027**	–
Accretion (note 8)	**126**	209	**327**	408
Unrealized loss (gain) on financial instruments	**11,143**	(1,047)	**13,905**	3,140
Exploration and evaluation expense (note 5)	**–**	72	**344**	1,960
Gain on disposition of Boulder (note 4)	**(154,034)**	–	**(154,034)**	–
Abandonment and reclamation costs	**(56)**	–	**(61)**	–
	17,191	43,167	**44,814**	78,703
Change in non-cash working capital (note 11)	**5,335**	936	**(4,681)**	(10,993)
	22,526	44,103	**40,133**	67,710
Financing activities				
Change in bank debt	**(143,470)**	(22,048)	**(111,044)**	(2,250)
Assumption of debt from Boulder transaction (note 4)	**130,000**	–	**130,000**	–
Dividends	**(910)**	–	**(910)**	–
Issuance of share capital	**1,412**	74,422	**1,412**	75,482
Share issuance costs	**–**	(3,848)	**–**	(3,862)
Change in non-cash working capital (note 11)	**910**	16	**910**	16
	(12,058)	48,542	**20,368**	69,386
Investing activities				
Property and equipment expenditures	**(11,979)**	(66,232)	**(46,804)**	(135,944)
Exploration and evaluation expenditures	**23**	(2,951)	**(2,212)**	(5,441)
Property acquisitions	**–**	(5,105)	**–**	(5,215)
Changes in non-cash working capital (note 11)	**1,488**	(18,357)	**(11,485)**	9,504
	(10,468)	(92,645)	**(60,501)**	(137,096)
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 interim financial statements.

NOTES TO THE FINANCIAL STATEMENTS

As at and for the three and six month periods ended June 30, 2015

(Unaudited)

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 located at Suite 2200, 520 Third Avenue S.W., Calgary, Alberta.

02 BASIS OF PRESENTATION

(a) STATEMENT OF COMPLIANCE

These financial statements for the three and six months ended June 30, 2015 were prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as issued by the International Accounting Standards Board (IASB).

The interim financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2014.

The financial statements were authorized for issuance by the Board of Directors on August 13, 2015.

(b) USE OF ESTIMATES AND JUDGMENTS

Significant estimates and judgments made by management in the preparation of these interim financial statements remain unchanged and are outlined in Note 2 of the December 31, 2014 audited annual financial statements other than those relating to the distribution of non-cash assets.

DISTRIBUTION OF NON-CASH ASSETS

All non-cash assets and liabilities distributed to shareholders by Granite must be recognized at their fair value on the date of disposition. The Company used significant judgments related to the fair value measurement of assets and liabilities distributed pursuant to the POA, including the shares of Boulder Energy Ltd.

03 SIGNIFICANT ACCOUNTING POLICIES

(a) CURRENT ACCOUNTING POLICIES

The Company's accounting policies are described in Note 3 to the December 31, 2014 audited annual financial statements. Those accounting policies have been applied consistently to all periods presented in these interim financial statements.

(b) 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, 2017, with earlier application permitted; however, the IASB has proposed to defer to January 1, 2018. The Company is currently assessing the impact of this standard.

(c) ADDITIONAL SIGNIFICANT ACCOUNTING POLICIES

The assets and liabilities given up by Granite under the common-control transaction, including property, plant and equipment, exploration and evaluation assets, decommissioning liabilities, derivative financial instruments, bank debt and a deferred tax liability, were originally recognized on the date of acquisition at their respective fair market values.

04 PLAN OF ARRANGEMENT

On April 7, 2015, DeeThree Exploration Ltd. and Boulder Energy Ltd. entered into a POA (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.

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	154,034
Gain on disposition of assets	(250,791)

Assets and liabilities transferred to Boulder:	
Assumption of debt by Boulder	130,000
Property and equipment	(403,154)
Exploration and evaluation assets	(26,988)
Decommissioning liabilities	24,439
Derivative financial instruments	512
Deferred income taxes	24,400
Carrying value of Boulder net assets given up	(250,791)

This transaction was considered to be a distribution of non-cash assets and was recorded at the fair market value of 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 difference between Boulder's fair value of $404.8 million and carrying value of $250.8 million $154.0 million was recognized on the statement of operations and comprehensive income as a gain on disposition of Boulder.

The Company incurred $3.6 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”.

05 EXPLORATION AND EVALUATION ASSETS

	Six Months Ended June 30, 2015	Year Ended December 31, 2014
(000s)	*($)*	*($)*
Balance – beginning of period	**62,784**	45,611
Additions	**3,069**	23,454
Acquisitions	**–**	6,746
Dispositions to Boulder (note 4)	**(26,988)**	–
Transfers to property and equipment	**(698)**	(3,709)
E&E expenses	**–**	(8,570)
Lease expiries	**(344)**	(748)
Balance – end of period	**37,823**	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 period and acquisitions represent E&E assets included in business combinations during the period.

During the six month period ended June 30, 2015, the Company incurred $0.3 million related to lease expiries on undeveloped land (year ended December 31, 2014 - $0.7 million) and did not incur any costs related to the drilling of unsuccessful wells (year ended December 31, 2014 – $8.6 million on three vertical stratigraphic test wells in Ferguson and one well in the Peace River Arch area that was determined to be unsuccessful).

During the six month period ended June 30, 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 (year ended December 31, 2014 – $0.6 million and $0.5 million, respectively).

During the six month period ended June 30, 2015, $27.0 million of E&E assets was transferred to Boulder as part of the POA described in Note 4.

06 PROPERTY AND EQUIPMENT

(000s)	Oil and Natural Gas Properties ($)	Office Equipment ($)	Total ($)
Cost			
Balance – January 1, 2014	545,805	418	546,223
Additions	257,943	56	257,999
Acquisitions	17,268	–	17,268
Transfers from E&E assets	3,709	–	3,709
Balance – December 31, 2014	**824,725**	**474**	**825,199**
Additions	**49,576**	**26**	**49,602**
Dispositions to Boulder (Note 4)	**(584,143)**	**–**	**(584,143)**
Transfers from E&E assets	**698**	**–**	**698**
Balance – June 30, 2015	**290,856**	**500**	**291,356**
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 period	**32,893**	**33**	**32,926**
Dispositions to Boulder (Note 4)	**(180,989)**		**(180,989)**
Balance – June 30, 2015	**49,939**	**255**	**50,194**
Net book value			
December 31, 2014	626,690	252	626,942
June 30, 2015	**240,917**	**245**	**241,162**

(a) CAPITALIZATION OF GENERAL AND ADMINISTRATIVE AND SHARE-BASED COMPENSATION EXPENSES

During the six month period ended June 30, 2015, approximately $0.8 million of directly attributable general and administrative expense and $0.7 million of directly attributable share-based compensation expense were capitalized as expenditures on property and equipment (year ended December 31, 2014 – $1.7 million and $1.5 million, respectively).

(b) AMORTIZATION AND IMPAIRMENT CHARGES

At June 30, 2015, management determined that no impairment indicators were present and as such, did not perform an impairment test.

(c) FUTURE DEVELOPMENT COSTS AND SALVAGE VALUE

During the six months ended June 30, 2015, an estimated $369.3 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 $21.7 million of salvage value of production equipment was excluded (year ended December 31, 2014 – $388.1 million and $21.7 million, respectively).

(d) DISPOSITIONS TO BOULDER

During the six month period ended June 30, 2015, $584.1 million of property and equipment at historical cost and $181.0 million of accumulated depletion and depreciation was transferred to Boulder as part of the POA described in Note 4.

07 BANK DEBT

At June 30, 2015, the Company had a revolving demand credit facility (the "Credit Facility") with an authorized borrowing base of $115 million, including a $95 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 credit facility which is now fully repaid and settled.

Granite's demand 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 June 30, 2015, the Company was in compliance with the current ratio requirement.

At June 30, 2015, $28.2 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 to take place prior to October 31, 2015. 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 $12.9 million as at June 30, 2015 (December 31, 2014 – $34.2 million) based on an undiscounted total future liability of $16.6 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 2016 and 2026. At June 30, 2015, a risk-free rate of 2 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 $2.3 million of revisions is related to changes in the risk-free rate used in the calculation.

	Six Months Ended June 30, 2015	Year Ended December 31, 2014
(000s)	*($)*	*($)*
Balance – beginning of period	**34,165**	26,291
Liabilities incurred	**649**	2,722
Liabilities acquired	**–**	1,415
Liabilities disposed to Boulder (Note 4)	**(24,438)**	–
Revisions	**2,290**	2,904
Settlements	**(61)**	(17)
Accretion of decommissioning liabilities	**327**	850
Balance – end of period	**12,932**	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

	Six Months Ended June 30, 2015		Year Ended December 31, 2014	
	Shares	Amount	Shares	Amount
	(#)	*($000s)*	*(#)*	*($000s)*
Balance – beginning of period	**29,655,187**	**381,540**	27,184,053	309,323
Common shares issued (ii)	–	–	1,904,543	63,428
Exercise of options (iv)	**686,506**	**7,344**	315,949	3,479
Flow-through shares issued (iii)	–	–	250,642	10,002
Premium on flow-through shares (iii)	–	–	–	(1,654)
Share issuance costs	–	–	–	(4,048)
Tax benefit of share issuance costs	–	–	–	1,010
Balance – end of period	**30,341,693**	**388,884**	29,655,187	381,540

Note: Need a note to explain retro-active adjustment to share count.

(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 $0.1 million remains at June 30, 2015. To date, the Company has incurred $9.4 million of the total $10.0 million of qualifying exploration expenditures, with the entire amount to be spent by December 31, 2015.

(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 six months ended June 30, 2015, there were 2,059,723 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.

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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	**2015**	2014
(000s, except per share amounts)	*($)*	*($)*	*($)*	*($)*
Net income for the period	**143,635**	18,133	**145,396**	26,815
	(#)	*(#)*	*(#)*	*(#)*
Weighted-average number of common shares				
– basic	**30,044**	28,215	**29,850**	27,763
– diluted	**30,118**	29,254	**29,914**	28,829
	($)	*($)*	*($)*	*($)*
Net income per weighted average common share				
– basic	**4.78**	0.63	**4.87**	0.96
– diluted	**4.77**	0.63	**4.86**	0.93

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 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:

	Six Months Ended June 30, 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)**	**6.09**	–	–
Exercised on a cashless basis	**(3,166,159)**	**6.09**	–	–
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 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. Under the POA, options were granted 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:

	Six Months Ended June 30, 2015		Year Ended December 31, 2014	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
	(#)	*($)*	*(#)*	*($)*
Outstanding – January 1	**–**	–	–	–
Issued	**207,817**	**$3.96**	–	–
Outstanding – end of period	**207,817**	**$3.96**	–	–
Exercisable – end of period	**14,330**	**$4.44**	–	–

Weighted-Average Exercise Price	Options Outstanding	Weighted-Average Contractual Life	Options Exercisable
($)	*(#)*	*(years)*	*(#)*
As at June 30, 2015			
2.00 – 4.99	**186,487**	**1.46**	**14,330**
5.00 – 6.80	**21,330**	**2.31**	**0**
	207,817	**1.55**	**14,330**

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:

	Six Months Ended June 30, 2015
Risk-free interest rate	**0.64%**
Expected life	**0.64 years**
Expected volatility	**70%**
Expected dividend yield	**0%**
Fair value of options granted during the year *($/option)*	**$0.87/option**

A forfeiture rate of 2 percent for options granted during the six month period ended June 30, 2015 was used when recording share-based compensation expense. This estimate is adjusted to the actual forfeiture rate. Gross share-based compensation for the options was $1.6 million for the period ended June 30, 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 $0.9 million for the period (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 ("PBA") and time based awards ("TBA"). Both the TBAs and the PBAs vest one third on each of the first, second and third anniversaries of the grant date and the number of common shares issued for each award. 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:

	Six Months Ended June 30, 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 June 30, 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 six month period ended June 30, 2015:

	Six Months Ended June 30, 2015
Forfeiture rate	**2%**
Risk-free interest rate	**0.68%**
Expected life	**2.00 years**
Expected volatility	**65%**
Expected dividend yield	**5%**
Weighted-average fair value of PBAs granted during the period	$**6.34/award**

Gross share-based compensation related to PBAs was $0.2 million for the period ended June 30, 2015 (year ended December 31, 2014 - $nil). Of this amount, $47,000 was capitalized (year ended December 31, 2014 – $nil), resulting in total net share-based compensation expense related to PSUs of $0.1 million for the period (year ended December 31, 2014 - $nil).

The number of TBAs is as follows:

	Six Months Ended June 30, 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 six month period ended June 30, 2015:

	Six Months Ended June 30, 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 $25,000 for the period ended June 30, 2015 (year ended December 31, 2014 - $nil). Of this amount, $10,000 was capitalized (year ended December 31, 2014 – $nil), resulting in total net share-based compensation expense related to TBAs of $15,000 for the period (year ended December 31, 2014 - $nil).

11 SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital are comprised of:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	**2015**	2014
(000s)	*($)*	*($)*	*($)*	*($)*
Accounts receivable	**10,637**	(5,058)	**16,745**	(16,478)
Prepaid expenses and other	**(629)**	(332)	**(1,165)**	(888)
Accounts payable and accrued liabilities	**(2,275)**	(12,015)	**(30,836)**	15,893
	7,733	(17,405)	**(15,256)**	(1,473)
Related to operating activities	**5,335**	936	**(4,681)**	(10,993)
Related to financing activities	**910**	16	**910**	16
Related to investing activities	**1,488**	(18,357)	**(11,485)**	9,504
	7,733	(17,405)	**(15,256)**	(1,473)

12 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 following methods. 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 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 hierarchy 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

The fair value of accounts receivable, accounts payable and accrued liabilities 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 June 30, 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

As at June 30, 2015, the Company had the following crude oil, natural gas, foreign exchange and interest rate risk management contracts, with a total mark-to-market asset of $9.9 million, $9.8 million of which is short-term and $0.1 million of which is long-term (December 31, 2014 – asset of $23.3 million):

CRUDE OIL CONTRACTS

Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price
Jan.1/15 – Dec.31/15	Crude Oil	Collar	500 bbls/d	WTI-NYMEX	US$85.00/bbl (floor) US$100.80/bbl (cap)
Jan.1/15 – Dec.31/15	Crude Oil	Fixed	500 bbls/d	WTI-NYMEX	Cdn$99.00/bbl
Jan.1/15 – Dec.31/15	Crude Oil	Fixed	500 bbls/d	WTI-NYMEX	Cdn$99.39/bbl
Jan.1/15 – Dec.31/15	Crude Oil	Fixed	500 bbls/d	WTI-NYMEX	Cdn$100.00/bbl
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

FOREIGN EXCHANGE CONTRACT

	Period	Currency	Type of Contract	Quantity	Pricing Point (Cdn$/US$)
Jan. 1/15 – Dec. 31/15	US$	Average Rate Range Forward	US$1,300,000		Trigger – 1.1300 Cdn$/US$ Floor – 1.100 Cdn$/US$ Ceiling – 1.1110 Cdn$/US$

INTEREST RATE CONTRACT

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

Subsequent to June 30, 2015, Granite entered into the following crude oil risk management contracts:

Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price
Jan.1/16- Dec. 31/16	Crude OilFixed	250 bbls/d	WTI-NYMEX	US$62.75/bbl	
Jan.1/16- Dec. 31/16	Crude OilFixed	250 bbls/d	WTI-NYMEX	CAD$80.00/bbl	

13 COMMITMENTS

Years Ended December 31,	**2015**	2016	2017	Total
(000s)	*($)*	*($)*	*($)*	*($)*
Operating lease – office	106	53	–	159
Exploration expenditures (flow-through)	577	–	–	577
Total	683	53	–	736

As at June 30, 2015, the Company had contractual obligations for its office leases totalling approximately $0.2 million to March 2016. The head office lease obligations are comprised of the lease payments and an estimate of occupancy costs of the Company's head office space.

In connection with the Company's issuance of flow-through shares during the second quarter of 2014, Granite is required to spend $10.0 million of eligible exploration expenditures. As at June 30, 2015, $9.4 million of these expenditures have been incurred, with the remaining $0.6 million to be spent by December 31, 2015. The expenditures were renounced to shareholders in January 2015, effective December 31, 2014.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Brendan Carrigy
Chairman
Independent Businessman

Michael Kabanuk
President & Chief Executive Officer
Granite Oil Corp.

Martin Cheyne
President & 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

Gail Hannon
Chief Financial Officer

Jonathan Fleming
Executive Vice President

Tyler Klatt
VP Exploration

Daniel Kenney
Corporate Secretary

HEAD OFFICE

Suite 2200
520 Third Avenue S.W.
Calgary, Alberta T2P 0R3
Telephone: 403-767-3060
Facsimile: 403-263-9710
Website: www.graniteoil.ca

AUDITORS

KPMG LLP
Calgary, Alberta

BANKERS

National Bank of Canada
Calgary, Alberta

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

ABBREVIATIONS

bbls	barrels
boe	barrels of oil equivalent
GJ	gigajoules
/d	per day
mbbls	thousand barrels
mboe	thousand barrels of oil equiva-
lent	
mcf	thousand cubic feet
mm	million
mmbtu	million British thermal units
mmcf	million cubic feet
NGLs	natural gas liquids

CONVERSION OF UNITS

1.0 mcf	=	1.02 mmbtu
1.0 mcf	=	1.05 GJ
1.0 acre	=	0.40 hectares
2.5 acres	=	1.0 hectare
1.0 bbl	=	0.159 cubic metres
6.29 bbls	=	1.0 cubic metre
1.0 foot	=	0.3048 metres
3.281 feet	=	1.0 metre
1.0 mcf	=	28.2 cubic metres
0.035 mcf	=	1.0 cubic metre
1.0 mile	=	1.61 kilometres
0.62 miles	=	1.0 kilometre

Natural gas is equated to oil on the basis of 6 mcf : 1 bbl

2200, 520 – 3rd Ave. SW
Calgary, Alberta T2P 0R3

Telehone: 403-767-3060
Fax: 403-263-9710

graniteoil.ca