2016

ANNUAL REPORT

For the Year
Ended December 31

GRANITE OIL CORP.

www.graniteoil.ca

FINANCIAL AND OPERATING HIGHLIGHTS

Year Ended December 31,

	2016 (9)	2015 (9)	Change
(000s, except per share amounts)	*($)*	*($)*	*(%)*
FINANCIAL			
Oil and natural gas revenues	**45,508**	108,442	(58)
Funds from operations (1)	**24,236**	72,673	(67)
Per share – basic	**0.75**	2.41	(69)
Per share – diluted (2)	**0.74**	2.38	(69)
Cash flow from operating activities	**26,510**	61,317	(57)
Net income (loss)	**(7,277)**	150,216	(105)
Per share – basic	**(0.22)**	4.99	(104)
Per share – diluted (2)	**(0.22)**	4.92	(104)
Capital expenditures (3)	**21,623**	64,879	(67)
Net debt (4)	**31,763**	39,612	(20)
Shareholders' equity	**214,346**	211,293	1
(000s)	*(#)*	*(#)*	*(%)*
SHARE DATA			
At period-end	**33,672**	30,355	11
Weighted average – basic	**32,375**	30,100	8
Weighted average – diluted	**32,675**	30,557	7
OPERATING (5)			
Production			
Natural gas *(mcf/d)* (6)	**184**	6,160	(97)
Crude oil *(bbls/d)*	**2,835**	5,350	(47)
NGLs *(bbls/d)*	**–**	173	(100)
Total *(boe/d)*	**2,866**	6,550	(56)
Average wellhead prices			
Natural gas *($/mcf)*	**2.19**	2.85	(23)
Crude oil and NGLs *($/bbl)*	**43.59**	50.60	(14)
Combined average *($/boe)* (7)	**43.26**	45.36	(5)
Netbacks			
Operating netback *($/boe)* (8)	**27.69**	35.57	(22)
Reserves			
Proved (mboe)	**12,483**	11,166	12
Proved plus probable	**18,653**	17,704	5
Total net present value – proved plus probable (10% discount before taxes)	**292,193**	264,019	11
Undeveloped Land			
Gross (acres)	**381,554**	393,453	(3)
Net (acres)	**379,734**	391,633	(3)
Gross (net) wells drilled			
Oil *(#)*	**10 (10.0)**	14 (14.0)	-29 (-29)
Dry and abandoned *(#)*	**- (-)**	2 (2.0)	-100 (-100)
Total *(#)*	**10 (10.0)**	16 (16.0)	-38 (-38)
Average working interest *(%)*	**100**	100	–

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

(2) The Company uses the weighted average common shares (basic) when there is a net loss for the period to calculate net income (loss) per share diluted. The Company uses the weighted average common shares (diluted) to calculate the funds from operations diluted.

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

(4) 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.

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

(6) Commencing in March 2016, the Company began injecting the majority of its natural gas production into the Alberta Bakken property pursuant to the EOR scheme.

(7) Combined average realized prices includes all oil, gas and NGL sales revenue, excluding other income

(8) Operating netback, which is calculated by deducting royalties, operating expenses and transportation expenses from oil and gas revenue and adjusting for any realized hedging on financial instruments, is not a recognized measure under IFRS. Please refer to the commentary under "Non-GAAP Measurements" for further discussion.

(9) Refer to the description of the comparability of prior period information in the Management's Discussion and Analysis under "About Granite Oil Corp." and "Corporate Reorganization".

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) of the financial condition and results of operations for Granite Oil Corp. ("Granite" or "the Company") is dated March 22, 2017 and should be read in conjunction with the Company's audited financial statements and related notes for the years ended December 31, 2016 and 2015 and our Annual Information Form for the year ended December 31, 2016. All financial information is reported in Canadian dollars, unless otherwise noted. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), in Canadian dollars, except where indicated otherwise. Accounting policies adopted by the Company are set out in the notes to the audited annual financial statements for the year ended December 31, 2016. Additional information can be obtained by contacting the Company at Granite Oil Corp., 432, 222 - 3rd Avenue S.W., Calgary, Alberta, Canada T2P 0B4. Additional information regarding the Company, including the Annual Information Form, is also available on www.sedar.com and on the Company's website www.graniteoil.ca.

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

ABOUT GRANITE OIL CORP.

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

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

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

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

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

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

CORPORATE REORGANIZATION

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

The conveyance of the Brazeau Belly River Properties and the Northern Properties was completed under a conveyance agreement dated May 15, 2015 entered into between the Company and Boulder as part of the POA. In addition to the Brazeau Belly River Properties and the Northern Properties being transferred from the Company to Boulder, debt of $130 million as well as decommissioning obligations, derivative financial instruments and a deferred tax liability were also transferred to Boulder as part of the POA.

As a result of the POA, the results for the three months and year ended December 31, 2016 reflect the results of the stand-alone Granite property (Alberta Bakken) as well as the three months ended December 30, 2015, which reflects the results for the stand-alone Granite property (Alberta Bakken). For the year ended December 31, 2015 the results reflect 135 days of the results of the historical DeeThree properties (Brazeau Belly River, Alberta Bakken and Northern) and 230 days of results for the stand-alone Granite property (Alberta Bakken).

Please see below for the breakdown of sales volumes by area relating to the Alberta Bakken property and those properties disposed of on May 15, 2015 (Brazeau & Northern or "disposed properties") in each of the current and prior periods to better understand the effect of the POA on comparative figures:

	Three Months Ended December 31,		Year Ended December 31,	
	2016	2015	**2016**	2015
Sales				
Alberta Bakken *(boe/d)*	**2,978**	3,476	**2,866**	3,496
Brazeau & Northern *(boe/d)*	**–**	–	**–**	3,054
Total sales *(boe/d)*	**2,978**	3,476	**2,866**	6,550

2016 FINANCIAL AND OPERATING HIGHLIGHTS

- Record finding and development costs, including the change in future development capital:
  - $13.02/boe on a proved developed producing basis, resulting in a recycle ratio of 2.1 times;
  - $4.96/boe on a total proved basis, resulting in a recycle ratio of 5.6 times; and
  - $4.62/boe on a proved plus probable basis, resulting in a recycle ratio of 6.0 times.
- Executed a $21.5 million, 100% organic capital expenditure program on the Bakken Property, a 46% decrease in year-over-year expenditures, with the following highlights:
  - Drilled 10 (10.0 net) wells with a success rate of 100%, and reduced the average well cost to $1.25 million, a 50% year-over-year decrease;
  - Converted three producing wells to gas injectors and increased gas injection rates under the EOR scheme by 66%; and
  - Acquired 50,000 net acres of strategic Bakken lands.

- Continued improvement in drilling results throughout the year, with gas injection and completion-optimization strategies providing consistent well results from its second-half, five-well drilling program, with average IP rates of:
  - IP30 of 294 bbls/d of oil
  - IP90 of 213 bbls/d of oil
  - IP180 of 192 bbls/d of oil
- Continued to improve overall decline rates with up to 15 wells currently flowing oil, including several restricted wells, as the Company optimizes its injection scheme.
- Proved the effectiveness of 200 metre well spacing within the area of its gas injection EOR scheme. With drilling inventory of over 130 potential well locations considered to be material, the Company has 20 years of development and exploitation opportunities on its Bakken Property under its current model.
- Following strategic Corporate reorganization decisions made in 2016, the Company's G&A is budgeted to drop 25% to $2.25/boe in 2017 as it continues to realize efficiency gains. The Company recorded a one-time severance charge in the fourth quarter.
- The Company achieved operating costs of $6.65/boe for the fourth quarter of 2016 excluding an adjustment booked in the period relating primarily to prior year's facility equalization expenses.
- Maintained a strong balance sheet, exiting the year with $31.8 million of net debt on a current bank line of $60 million.

Funds from Operations(1)

	Three Months Ended December 31,		Year Ended December 31,	
	2016	2015	**2016**	2015
($000s)				
Cash flow from operating activities	**6,405**	19,934	**26,510**	61,317
Changes in non-cash working capital	**(202)**	(6,585)	**(2,274)**	11,356
Funds from operations	**6,203**	13,349	**24,236**	72,673

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

During the three months ended December 31, 2016, the Company generated funds from operations totaling $6.2 million ($0.18 per basic and diluted share) compared to $13.3 million ($0.44 per basic share and $0.43 per diluted share) in the comparative period of 2015 and $6.1 million ($0.18 per basic and diluted share) in the third quarter of 2016. The year-over-year decrease reflects decreased revenue primarily as a result of the decrease in sales volumes as well as lower realized gains on financial instruments as a number of the Company's higher priced crude oil contracts expired at the end of 2015. The increase from Q3 2016 can be attributed to both an increase in crude oil prices and sales volumes throughout Q4 2016.

Funds from operations totaled $24.2 million ($0.75 per basic share and $0.74 per diluted share) for the year ended December 31, 2016 compared to $72.7 million ($2.41 per basic share and $2.38 per diluted share) recorded in 2015. The decrease from the prior year reflects decreased revenue primarily as a result of the disposition of assets to Boulder pursuant to the POA (the disposed properties accounted for $49.0 million or 45% of revenue in 2015) compounded by a decline in crude oil prices.

Net Income (Loss)

For the three months ended December 31, 2016, the Company recorded a net loss of $1.1 million ($0.03 per basic and diluted share) compared to a net loss of $1.6 million ($0.05 per basic and diluted share) in the same period of 2015 and net income of $1.1 million ($0.03 per basic and diluted share) in the third quarter of 2016. The change in the net income (loss) over the same period in the prior year is largely due to the change in both the realized and unrealized gain (loss) on financial instruments recorded in the fourth quarter of 2016. The decrease in the Company's net income for the quarter as compared to the third quarter of 2016 is primarily due to the change in mark-to-market value of the Company's crude oil hedges.

For the year ended December 31, 2016, the Company recorded net loss of $7.3 million ($0.22 per basic and diluted share) as compared to net income of $150.2 million ($4.99 per basic share and $4.92 per diluted share) for the same period in the prior year. The change in the net income (loss) is due primarily to the gain recorded on the disposition of assets to Boulder pursuant to the POA.

FINANCIAL AND OPERATING RESULTS

Sales Volumes

	Three Months Ended December 31,		Year Ended December 31,	
	2016	2015	**2016**	2015
Sales				
Natural gas *(mcf/d)*	**299**	841	**184**	6,160
Crude oil *(bbls/d)*	**2,928**	3,334	**2,835**	5,350
NGLs *(bbls/d)*	**–**	2	**–**	173
Total sales *(boe/d)*	**2,978**	3,476	**2,866**	6,550

Production Split				
Natural gas	**2**	4	**1**	16
Crude oil	**98**	96	**99**	82
NGLs	**–**	–	**–**	2
Total	**100**	100	**100**	100

The Company commenced the injection of the majority of its natural gas production into the Alberta Bakken property pursuant to the EOR scheme in March 2016. In the fourth quarter of 2016, the Company's production oil sales were 98 percent of total Company production.

For the fourth quarter of 2016, the Company's production averaged 2,978 boe/d compared to 3,476 boe/d in the same period of 2015 and 2,752 bbl/d in the third quarter of 2016. On a per boe basis, this represents a 14 percent decrease year-over-year and a eight percent increase over the third quarter of 2016. The year-over-year decrease is primarily due to natural declines as well as the conversion of producing wells to gas injectors and a reduced drilling program throughout 2016 as compared to 2015. The increase in production volumes as compared to the third quarter of 2016 can be mainly attributed to new wells coming on production in the fourth quarter of 2016. During the three months ended December 31, 2016, production was comprised of 2,928 bbls/d of crude oil thereby increasing the Company's crude oil production to 98 percent of total corporate production from 96 percent in the same period in the prior year and a slight decrease from 99 percent in the third quarter of 2016.

For the year ended December 31, 2016, the Company's production averaged 2,866 boe/d compared to 6,550 boe/d in 2015. This 56 percent decrease is attributable to the effect of the POA (the disposed properties made up 3,054 boe/d or 47% percent of total sales volumes in 2015) combined with natural declines, a reduced drilling program and a decrease in natural gas sales volumes as the Company began injecting the majority of its natural gas production into the Alberta Bakken property pursuant to the EOR scheme.

Revenue

	Three Months Ended December 31,		Year Ended December 31,	
	2016	2015	**2016**	2015
($000s)				
Natural gas	**87**	197	**146**	6,401
Crude oil	**13,965**	12,961	**45,234**	100,201
NGLs and other	**20**	23	**128**	1,840
Total oil and natural gas revenue	**14,072**	13,181	**45,508**	108,442

During the three months ended December 31, 2016, revenue increased by 7 percent to $14.1 million from $13.2 million in the comparative period of 2015. The year-over-year increase can be attributed to an increase in crude oil market prices partially offset by a decrease in sales volumes. When compared to the third quarter of 2016, revenue increased by 21 percent to $14.1 million from $11.6 million due to a combination of increased commodity prices and higher sales volumes in the fourth quarter of 2016.

For the year ended December 31, 2016, revenue totaled $45.5 million compared to $108.4 million a year earlier, a decrease of 58%. This decrease was mainly the result of the POA which was effective May 15, 2015 (the disposed properties accounted for $49.0 million or 45% of revenue in 2015) compounded by reduced crude oil market prices and lower production volumes.

Pricing for both the three and twelve month periods ended December 31, 2016 is further discussed below in "Commodity Prices and Foreign Exchange".

Commodity Prices and Foreign Exchange

	Three Months Ended December 31,		Year Ended December 31,	
	2016	2015	**2016**	2015
Benchmark Prices				
Crude oil				
WTI *(US$/bbl)*	**49.29**	42.18	**43.37**	48.80
Edmonton Light (MSW) *(Cdn$/boe)*	**61.59**	52.86	**52.97**	57.11
Differential – MSW/WTI *(US$/bbl)*	**(3.11)**	(2.46)	**(3.21)**	(3.86)
Hardisty Bow River *(Cdn$/boe)*	**57.19**	47.28	**49.62**	54.74
Differential – Bow River/WTI *(US$/bbl)*	**(13.85)**	(14.25)	**(13.19)**	(13.18)
Natural gas				
NYMEX *(US$/mmbtu)* [(1)]	**3.18**	2.24	**2.55**	2.63
AECO *(Cdn$/mcf)*	**3.12**	2.48	**2.17**	2.70
Average Realized Prices				
Natural gas *($/mcf)*	**3.17**	2.54	**2.19**	2.85
Crude oil *($/bbl)*	**51.85**	42.25	**43.59**	51.32
NGLs *($/bbl)*	**-**	59.99	**-**	28.44
Combined average *($/boe)*	**51.30**	41.22	**43.26**	45.36
Foreign Exchange				
Cdn$/US$	**1.33**	1.34	**1.33**	1.28
US$/Cdn$	**0.75**	0.75	**0.75**	0.78

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

Crude Oil Pricing

The average realized price of Granite's crude oil was $51.85/bbl for the fourth quarter of 2016 compared to $42.25/bbl in the fourth quarter of 2015 and $45.95/bbl in the third quarter of 2016. Granite's realized oil price increased by 23 percent from the prior year's fourth quarter and by 13 percent from the third quarter of 2016 due to an increase in the US$ WTI benchmark oil price.

For the year ended December 31, 2016, the Company's average realized crude oil price was $43.59/bbl compared to $51.32/bbl in 2015 driven by lower average benchmark prices partially offset by a weakened Canadian dollar.

Natural Gas Pricing

Granite's average realized natural gas price was $3.17/mcf in the fourth quarter of 2016 versus $2.54/mcf in the fourth quarter of 2015 and $2.50/mcf in the third quarter of 2016. The Company's realized gas price increased by 25 percent from the same period in 2015 and 27 percent from the third quarter of 2016 as a result of the increase in the AECO gas index price.

For the year ended December 31, 2016, the Company's average realized price for natural gas decreased by 23 percent to $2.19/mcf from $2.85/mcf in 2015, driven by the decrease in the AECO gas index price. The Company began injecting the majority of its natural gas production into the Alberta Bakken property pursuant to the EOR scheme in March 2016.

Price Risk & Mitigation

Ongoing commodity price volatility may affect Granite's funds from operations and rates of return on capital programs. As continued volatility is expected in 2017, Granite will continue to take steps to mitigate these risks and protect its financial position.

The Company's financial results are significantly influenced by fluctuations in commodity prices, including price differentials and foreign exchange rates. As a means of managing commodity price volatility and its impact on cash flows, the Company seeks to protect itself from fluctuations in prices and exchange rates by maintaining an appropriate hedging strategy. As at December 31, 2016, Granite had five crude oil hedges and one foreign currency exchange hedge (refer to "Risk Management" below for details). Most commodity prices are based on US dollar benchmarks, which result in the Company's realized prices being influenced by the Canadian/US exchange rates. The Company does not sell or transact in foreign currency, but is affected by foreign currency exchange rate changes related to commodity prices as outlined above.

Royalties

	Three Months Ended December 31,		Year Ended December 31,	
	2016	2015	**2016**	2015
Oil and natural gas revenues *($000s)*	**14,052**	13,167	**45,380**	108,401
Other income *($000s)*	**20**	14	**128**	41
Total oil and natural gas revenue *($000s)*	**14,072**	13,181	**45,508**	108,442
Total royalties *($000s)*	**3,746**	3,594	**11,872**	27,411
Total royalties *($/boe)*	**13.67**	11.24	**11.32**	11.47
Percent of oil and natural gas revenue *(%)*	**27**	27	**26**	25

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

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

For the fourth quarter of 2016, royalties totaled $3.7 million or 27 percent of revenue compared to $3.6 million or 27 percent of revenue for the same quarter in 2015 and $2.8 million or 24 percent of revenue in the third quarter of 2016. The increase from the third quarter of 2016 can be attributed to Crown royalty credits related to prior period gas cost allowance (GCA) booked in Q3 2016 which lowered the royalty rate in the prior quarter. There were also some additional prior period gas cost allowance credits booked in Q4 2016 which lowered the royalty rate in the current quarter to 27% as compared to the Company's expected rate of 29% in the Alberta Bakken.

During the year ended December 31, 2016, royalties totaled $11.9 million or 26 percent of revenue compared to $27.4 million or 25 percent of revenue for 2015. The increase in the royalty rate as compared to the year ended December 31, 2015 was due to the properties disposed of in the POA, which were subject to a lower royalty rate than the Alberta Bakken property that remained with Granite upon completion of the POA (royalties on the disposed properties were $9.6 million, or 19% of $49.0 million in associated revenues in the same period in 2015) partially offset by the Crown royalty credits received and booked in the current period.

Operating and Transportation Expenses

	Three Months Ended December 31,		Year Ended December 31,	
	2016	2015	**2016**	2015
Operating expenses *($000s)*	**2,267**	1,889	**7,628**	16,648
Transportation expenses *($000s)*	**396**	581	**1,537**	6,177
Total operating and transportation expenses *($000s)*	**2,663**	2,470	**9,165**	22,825
Operating expenses *($/boe)*	**8.28**	5.91	**7.27**	6.96
Transportation expenses *($/boe)*	**1.45**	1.82	**1.47**	2.58
Total operating and transportation expenses *($/boe)*	**9.73**	7.73	**8.74**	9.54

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

Operating expenses for the fourth quarter of 2016 totaled $2.3 million or $8.28/boe compared to $1.9 million or $5.91/ boe in the same period of 2015 and $2.0 million or $7.86/boe in the third quarter of 2016. The increase in operating costs as compared to the fourth quarter of 2015 as well as the third quarter of 2016 can be attributed to equalizations received for prior period operating costs in the current quarter. On a production month basis, operating costs were $6.65 for the fourth quarter of 2016.

Transportation expenses for the three months ended December 31, 2016 were $0.4 million or $1.45/boe as compared to $0.6 million or $1.82/boe in the same period in the prior year and $0.4 million or $1.47/boe in the third quarter of 2015. Transportation costs remained consistent as compared to the third quarter of 2016. The decrease from the prior year can be attributed to lower production volumes as well as the fact that the fourth quarter of 2015 included prior period costs which came in higher than what was accrued for from the previous quarter.

For the year ended December 31, 2016, the Company incurred operating expenses of $7.6 million or $7.27/boe compared to $16.6 million or $6.96/boe in 2015. Transportation expenses for the year totaled $1.5 million or $1.47/boe versus $6.2 million or $2.58/boe in the previous year. The decrease in both operating and transportation costs on an absolute basis as compared to the year ended December 31, 2016, can be attributed to the effect of the POA and the fact that the Alberta Bakken property attracts lower operating and transportation costs compared to the properties disposed (the disposed properties attracted operating costs of $9.5 million or $8.55/boe and transportation costs of $4.1 million or $3.66/boe in 2015). The increase in operating costs on a per boe basis in 2016 as compared to 2015 is attributable to the equalizations for prior period operating costs discussed above.

Risk Management

Granite maintains a risk management program to reduce the volatility of revenues and to increase the certainty of funds from operations. Granite considers all of its risk management contracts to be effective economic hedges of the underlying business transactions. As at December 31, 2016, the Company had the following crude oil and interest rate risk management contracts, with a short-term mark-to-market liability of $2.9 million at December 31, 2016 (September 30, 2016 – liability of $0.4 million; December 31, 2015 – asset of $7.6 million):

Crude Oil Contracts

Remaining Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price
Jan. 1/17 – Jun. 30/17	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US $41.00/bbl
Jan. 1/17 – Jun. 30/17	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US $47.00/bbl
Jan. 1/17 – Dec. 31/17	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US $53.00/bbl
Jul. 1/17 – Dec. 31/17	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US $52.50/bbl
Jan. 1/17 – Dec. 31/17	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US $51.20/bbl

Foreign Exchange Contract

Period	Currency	Type of Contract	Quantity	Strike Price
Jan. 1/17 – Jun. 30/17	US$	Average Rate Forward	US $300,000	1.3126 (CAD/USD)

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

	Three Months Ended December 31,		Year Ended December 31,	
	2016	2015	**2016**	2015
Unrealized loss on financial instruments *($000s)*	**(2,483)**	(6,087)	**(10,521)**	(15,555)
Unrealized loss on financial instruments *($/boe)*	**(9.06)**	(19.03)	**(10.03)**	(6.51)

	Three Months Ended December 31,		Year Ended December 31,	
	2016	2015	**2016**	2015
Realized gain (loss) on financial instruments *($000s)*	**(101)**	7,653	**4,584**	26,831
Realized gain (loss) on financial instruments *($/boe)*	**(0.37)**	23.93	**4.37**	11.22

During the fourth quarter of 2016, the Company recorded an unrealized loss on financial instruments of $2.5 million and a realized loss of $0.1 million. In the same period of the prior year, the Company recorded an unrealized loss of $6.1 million and a realized gain of $7.7 million. In the third quarter of 2016, the Company recorded an unrealized gain of $0.4 million and a realized gain of $0.8 million. The unrealized loss resulted from the mark-to-market of financial risk management contracts at the period end. These non-cash unrealized derivative gains (losses) are generated by the change over the reporting period in the mark-to-market valuation of Granite's risk management contracts. The realized gains or losses represent actual cash settlements under the respective commodity, foreign exchange and interest rate contracts in the respective periods.

For the year ended December 31, 2016, the Company recorded an unrealized loss of $10.5 million and a realized gain of $4.6 million compared to an unrealized loss of $15.6 million and a realized gain of $26.8 million, respectively, for 2015.

Operating Netback (1)(2)

	Three Months Ended December 31,		Year Ended December 31,	
	2016	2015	**2016**	2015
($/boe)				
Average sales price	**51.37**	41.22	**43.38**	45.36
Royalties	**(13.67)**	(11.24)	**(11.32)**	(11.47)
Operating expenses	**(8.28)**	(5.91)	**(7.27)**	(6.96)
Transportation expenses	**(1.45)**	(1.82)	**(1.47)**	(2.58)
Operating netback prior to hedging gain (loss)	**27.97**	22.25	**23.32**	24.35
Realized gain (loss) on financial instruments	**(0.37)**	23.93	**4.37**	11.22
Operating netback (2)	**27.60**	46.18	**27.69**	35.57

(1) For a description of the boe conversion ratio, refer to "Other Measurements" below.
(2) Operating netback is a non-GAAP measure which is defined below under "Non-GAAP Measurements - Operating Netback".

The operating netback was $27.60/boe for the three months ended December 31, 2016 compared to $46.18/boe in the same period of 2015 and $28.67/boe in the third quarter of 2016. The year-over-year decrease is primarily attributable to the decrease in the realized gain (loss) on financial instruments. The decrease in the operating netback as compared to the third quarter of 2016 can be attributed to the increase in operating costs as a result of facility equalization expenses associated with prior period activity booked in the current quarter. On a production basis, operating costs were consistent quarter over quarter.

For the year ended December 31, 2016, the operating netback was $27.69/boe compared to $35.57/boe in 2015, due to lower year-to-date pricing and the decrease in the realized gain in financial instruments as well as slightly higher operating costs as a result of the equalizations discussed above partially offset by lower royalties and transportation expenses.

General and Administrative (G&A) Expenses

	Three Months Ended December 31,		Year Ended December 31,	
	2016	2015	**2016**	2015
($000s except per boe)				
Gross G&A expense	**1,171**	1,022	**4,015**	6,097
Capitalized G&A (direct)	**(157)**	(154)	**(621)**	(1,067)
Overhead recoveries		(10)	**-**	(208)
G&A expense (net)	**1,014**	858	**3,394**	4,822
G&A expense (net) *($/boe)*	**3.70**	2.68	**3.24**	2.02

Gross G&A expense totaled $1.2 million for the three-month period ended December 31, 2016 compared to $1.0 million in the comparable period of 2015 and $1.0 million in the third quarter of 2016. Net G&A costs were $1.0 million or $3.70/ boe in the fourth quarter of 2016 compared to $0.9 million or $2.68/boe a year earlier and $0.8 million or $3.27/boe in the third quarter of 2016. When compared to the same quarter of the prior year, gross G&A costs increased on an absolute basis due to severance payments made to former management and employees. As at December 31, 2016, the Company had eight full-time employees and four consultants versus 12 full- time employees and three consultants at December 31, 2015.

The Company capitalized direct G&A expenses amounting to $0.2 million and had overhead recoveries of $nil in the fourth quarter of 2016 versus $0.2 million and $0.01 million, respectively, in the comparative period of 2015, and $0.2 million and $nil, respectively, in the third quarter of 2016.

Net G&A expenses for the year ended December 31, 2016 totaled $3.4 million or $3.24/boe compared to $4.8 million or $2.02/boe for 2015. During the year ended December 31, 2016, the Company capitalized $0.6 million in direct costs related to its exploration and development efforts and $nil of overhead recoveries compared to $1.1 million and $0.2 million, respectively, in 2015.

Share-Based Compensation

	Three Months Ended December 31,		Year Ended December 31,	
	2016	2015	**2016**	2015
($000s except per boe)				
Gross share-based compensation	**540**	966	**5,363**	3,804
Share-based compensation reclassified to operating costs	**–**	–	–	(55)
Capitalized share-based compensation	**(469)**	(329)	**(2,245)**	(1,370)
Share-based compensation expense (net)	**71**	637	**3,118**	2,379
Share-based compensation expense (net) *($boe)*	**0.26**	1.99	**2.97**	1.00

On May 15, 2015, Granite adopted a Share Incentive Plan (“SIP”). The awards granted under the SIP vest one third on each of the first, second and third anniversaries of the grant date. Share incentives are made up of both time-based awards (“TBA“) and performance-based awards (“PBA“). Each performance based award granted is subject to a performance multiplier ranging from 0 to 2, dependent on the performance of Granite at the end of the vesting period relative to corporate performance measures determined at the discretion of Granite’s Board of Directors. The fair value of the awards granted under the plan is estimated at the grant date using a binomial pricing model. At December 31, 2016, the Company had 1,034,996 awards outstanding under this plan.

DeeThree’s stock option plan was terminated pursuant to the POA. Unvested, in-the-money DeeThree options that were outstanding at the time of the completion of the POA were replaced with options to acquire shares of Granite and Boulder respectively. The vesting schedule for these replacement options remained the same as the predecessor DeeThree options with the fair value of options granted estimated at the grant date using the Black-Scholes option-pricing model. At December 31, 2016, the Company had 71,720 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 (loss).

For the quarter ended December 31, 2016, the Company incurred net share-based compensation expense of $0.07 million or $0.26/boe versus $0.7 million or $1.99/boe in the same period of 2015 and $0.6 million or $2.26/boe in the third quarter of 2016. The decrease from both the fourth quarter of 2015 and the third quarter of 2016 is the result of the effect of the cancellation of share incentives in the fourth quarter of 2016. In the fourth quarter of 2016 the estimated performance multiplier for all PBAs is 1.5 which is consistent with the third quarter of 2016 (fourth quarter of 2015 – 1.0).

For the year ended December 31, 2016, Granite incurred net share-based compensation expense of $3.1 million or $2.97/boe compared to $2.4 million or $1.00/boe in 2015.

Depletion and Depreciation (D&D) Expense

	Three Months Ended December 31,		Year Ended December 31,	
	2016	2015	**2016**	2015
Depletion and depreciation expense *($000s)*	**4,425**	5,509	**17,528**	44,804
Depletion and depreciation expense *($/boe)*	**16.15**	17.23	**16.71**	18.74

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

For the three months ended December 31, 2016, the Company recorded D&D expense of $4.4 million or $16.15/boe compared to $5.5 million or $17.23/boe in the same period of 2015 and $4.0 million or $15.93/boe in the third quarter of 2016. The change in the D&D expense both year-over-year and quarter-over-quarter is attributable to both the change in production volumes and impact of the changes in future development costs and total reserves in the Company's 2016 reserve report as compared to prior periods.

For the year ended December 31, 2016, D&D expense was $17.5 million or $16.71/boe compared to $44.8 million or $18.74/boe in 2015.

Exploration and Evaluation (E&E) Expense

	Three Months Ended December 31,		Year Ended December 31,	
	2016	2015	**2016**	2015
Exploration and evaluation expense *($000s)*	**576**	2,769	**1,486**	4,191
Exploration and evaluation expense *($/boe)*	**2.10**	8.66	**1.42**	1.75

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

During the fourth quarter of 2016, the Company recorded E&E expense of $0.6 million or $2.10/boe compared to $2.8 million or $8.66/boe in the fourth quarter of 2015 and $0.1 million or $0.55/boe in the third quarter of 2016. The E&E expense recognized in the current quarter relates to lease expiries.

During the year ended December 31, 2016, the Company recorded E&E expense of $1.5 million or $1.42/boe compared to $4.2 million or $1.75/boe during 2015.

Accretion and Finance Expenses

	Three Months Ended December 31,		Year Ended December 31,	
	2016	2015	**2016**	2015
($000s except per boe)				
Accretion expense on decommissioning liabilities	**83**	71	**304**	471
Finance expense	**311**	538	**1,391**	3,550
Total accretion and finance expenses	**394**	609	**1,695**	4,021
Accretion expense on decommissioning liabilities *($/boe)*	**0.30**	0.22	**0.29**	0.20
Finance expense *($/boe)*	**1.14**	1.68	**1.33**	1.48
Total accretion and finance expenses *($/boe)*	**1.44**	1.90	**1.62**	1.68

Accretion expense represents the increase in the present value of the Company's decommissioning liabilities. In the fourth quarter of 2016, the Company recorded accretion expense of $0.08 million or $0.30/boe compared to $0.3 million or $0.29/boe in the same period of 2015 and $0.07 million or $0.29/boe in the third quarter of 2016.

During the three months ended December 31, 2016, the Company recorded interest and finance expenses of $0.3 million or $1.14/boe compared to $0.5 million or $1.14/boe in the same period of 2015 and $0.4 million or $1.46/boe in the previous quarter. The Company incurred interest charges and standby fees related to the Company's credit facility, which was drawn to $27.9 million at the end of the year (December 31, 2015 – $37.0 million; September 30, 2016 – $25.3 million).

For the year ended December 31, 2016, the Company recorded accretion expense of $0.3 million or $0.29/boe compared to $0.5 million or $0.20/boe in 2015. The Company also recorded finance expense of $1.4 million or $1.33/boe in 2016 compared to $3.6 million or $1.48/boe in the prior year.

Income Taxes

	Three Months Ended December 31,		Year Ended December 31,	
	2016	2015	**2016**	2015
Deferred income tax expense (recovery) *($000s)*	**(340)**	(314)	**(1,410)**	3,187
Deferred income tax expense (recovery) *($/boe)*	**(1.24)**	(0.98)	**1.34**	1.33

During the fourth quarter of 2016, the Company recorded a deferred income tax recovery of $0.3 million or $1.24/boe compared to a $0.3 million recovery or $0.98/boe in the same period of 2015 and a $0.6 million expense or $2.47/boe in the third quarter of 2016. The deferred income tax recovery is a function of the net loss incurred in the fourth quarter of 2016.

For the year ended December 31, 2016, the Company recorded a deferred income tax recovery of $1.4 million or $1.34/boe compared to a deferred income tax expense of $3.2 million expense or $1.33/boe in 2015. The deferred income tax recovery is a function of the net loss incurred in the year ended December 31, 2016.

Granite does not have current income taxes payable and does not expect to pay current income taxes in 2016 as the Company had estimated tax pools available at December 31, 2016 of $185 million (December 31, 2015 – $187 million).

INVESTMENT AND INVESTMENT EFFICIENCIES

Capital Expenditures and Acquisitions

(excluding decommissioning liabilities and capitalized share-based compensation)

	Three Months Ended December 31,		Year Ended December 31,	
	2016	2015	**2016**	2015
($000s except number of wells)				
Drilling and completions	**3,829**	5,937	**14,223**	48,359
Equipment and facilities	**957**	2,279	**4,392**	9,229
Workovers and gas injection conversion	**732**	94	**2,128**	2,737
Land and lease retention	**–**	–	**597**	2,709
Capitalized G&A and other	**158**	431	**633**	1,310
Total exploration and development	**5,676**	8,741	**21,973**	64,344
Property and equipment acquisitions, dispositions and adjustments	**(350)**	(109)	**(350)**	535
Total capital expenditures	**5,326**	8,632	**21,623**	64,879
Total wells drilled *(#)*	**3 (3.0)**	3 (3.0)	**10 (10.0)**	16 (16.0)

During the fourth quarter of 2016, the Company incurred a total of $5.3 million (fourth quarter 2015 – $8.6 million) in capital expenditures, excluding non-cash decommissioning liabilities and capitalized share-based compensation. Drilling and completion expenditures totaled $3.8 million in the fourth quarter of 2016 (fourth quarter 2015 – $5.9 million), $1.0 million was spent on tie-ins and facilities (fourth quarter 2015 – $2.3 million) and $0.7 million related to workovers and gas injection conversions (fourth quarter 2015 – $0.1 million). The remaining $0.2 million in the fourth quarter of 2016 (fourth quarter 2015 – $0.4 million) was invested in capitalized G&A and other corporate assets and $(0.4) million on property and equipment acquisitions, dispositions and adjustments (fourth quarter 2015 - $(0.1) million).

For the year ended December 31, 2016, the Company incurred a total of $21.6 million (2015 – $64.9 million) in capital expenditures, excluding the non-cash decommissioning liabilities and capitalized share-based compensation. Drilling and completion expenditures totaled $14.2 million (2015 – $48.4 million), $4.4 million was spent on tie-ins and facilities (2015 – $9.2 million), $2.1 million on workovers and gas injection conversions (2015 - $2.7 million), $0.6 million on land sales (2015 – $2.7 million). The remaining $0.6 million spent during the year ended December 31, 2016 (2015 – $1.3 million) was invested in capitalized G&A and other corporate assets and $(0.4) million on property and equipment acquisitions, dispositions and adjustments (2015 - $0.5 million).

Drilling Activity

	Exploration		Development		Total	
	Gross	Net	Gross	Net	Gross	Net
	(#)	*(#)*	*(#)*	*(#)*	*(#)*	*(#)*
Three Months Ended December 31, 2016						
Crude oil	**–**	**–**	**3**	**3.00**	**3**	**3.00**
Total wells	**–**	**–**	**3**	**3.00**	**3**	**3.00**
Success rate *(%)*		**–**		**100**		**100**
Average working interest *(%)*		**–**		**100**		**100**
Three Months Ended December 31, 2015						
Crude oil	–	–	2	2.00	2	2.00
Dry and abandoned	1	1.00	–	–	1	1.00
Total wells	1	1.00	2	2.00	3	3.00
Success rate *(%)*		–		100		67
Average working interest *(%)*		100		100		100
Year Ended December 31, 2016						
Crude oil	**–**	**–**	**10**	**10.00**	**10**	**10.00**
Total wells	**–**	**–**	**10**	**10.00**	**10**	**10.00**
Success rate *(%)*		**–**		**100**		
Average working interest *(%)*		**–**		**100**		**100**
Year Ended December 31, 2015						
Crude oil	–	–	14	14.00	14	14.00
Dry and abandoned	2	2.00	–	–	2	2.00
Total wells	2	2.00	14	14.00	16	16.00
Success rate *(%)*		–		100		88
Average working interest *(%)*		100		100		100

During the fourth quarter of 2016, Granite drilled a total of 3 gross (3.0 net) crude oil development wells on the Alberta Bakken property with a 100 percent success rate. During the three months ended December 31, 2015, the Company drilled 2 gross (2.0 net) crude oil development wells on the Alberta Bakken property and 1 gross (1.0 net) exploration well which was a vertical stratigraphic test well and was determined to be dry and abandoned on the Alberta Bakken property.

During the year ended December 31, 2016, Granite drilled a total of 10 gross (10.0 net) crude oil development wells on the Alberta Bakken property with a 100 percent success rate. During the year ended December 31, 2015, the Company drilled 14 gross (14.0 net) crude oil development wells, 10 gross (10.0 net) on the Alberta Bakken property and 4 gross (4.0 net) on the Brazeau property as well as 2 gross (2.0 net) exploration wells which were vertical stratigraphic test wells and were determined to be dry and abandoned well on the Alberta Bakken property.

LIQUIDITY AND FINANCIAL RESOURCES

Net Debt[(1)]

The following table summarizes net debt as at December 31, 2016 and 2015:

Years Ended December 31,	**2016**	2015
($000s)		
Working capital deficiency	**(3,862)**	(2,600)
Bank debt	**(27,901)**	(37,012)
Net debt [(1)] – end of period	**(31,763)**	(39,612)

(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 2016 with net debt of $39.6 million. During the year ended December 31, 2016, the Company generated funds from operations of $24.2 million, invested $21.6 million in capital expenditures and paid $13.5 million in dividends. In addition, the Company issued 2,324,300 common shares pursuant to a public offering for net proceeds of $15.4 million, 330,000 flow-through shares for net proceeds of $3.0 million and 120,117 options were exercised for total cash proceeds of $0.4 million. Granite exited the year with net debt of $31.8 million.

The Granite credit facility has an authorized borrowing base of $60 million consisting of a $45 million revolving demand credit facility and a $15 million revolving demand operating facility (December 31, 2015 - $80 million consisting of a $60 million revolving demand credit facility and a $20 million revolving demand operating facility). At December 31, 2016, the Granite facility was drawn to approximately $27.9 million with $32.1 million of unused borrowing capacity.

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

The amount of the facility is subject to a borrowing base test performed on a periodic basis by the lenders, based primarily on reserves and using commodity prices estimated by the lenders as well as other factors. The borrowing base of the credit facility is subject to review at least semi-annually with the next review scheduled for April 2017. 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.

The Company manages its liquidity through continuously monitoring cash flows from operating activities, review of actual capital expenditures against budget, managing maturity profiles of financial assets and financial liabilities and managing its commodity price risk management program. These activities ensure that the Company has sufficient funds to meets its financial obligations when due. The Company anticipates that it will continue to have adequate liquidity to fund its financial liabilities through its future cash flows from operations and available bank debt. The Company had no defaults or breaches on its bank debt or any of its financial liabilities as at or for the year ended December 31, 2016.

RELATED-PARTY TRANSACTIONS AND OFF-BALANCE-SHEET TRANSACTIONS

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

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Years Ended December 31,	2017	2018	2019	Total
($000s)				
Operating lease – office	129	-	-	129
Total commitments	129	-	-	129

As at December 31, 2016, the Company had contractual obligations for its office leases totaling approximately $0.1 million to July 2017. The office lease obligations are comprised of the lease payments and an estimate of occupancy costs of the Company's head office space.

In connection with the Company's issuance of flow-through shares during the second quarter of 2016, Granite is required to spend $3.0 million on eligible exploration expenditures by December 31, 2017.

SHARE CAPITAL

As at March 22, 2017, the Company had the following equity securities outstanding:

Common shares outstanding	33,712,482
Stock options outstanding	30,875
Share incentive awards outstanding	1,059,996

SELECTED QUARTERLY INFORMATION [1][4]

Three Months Ended	**Dec. 31, 2016**	Sept. 30, 2016	Jun. 30, 2016	Mar. 31, 2016	Dec. 31, 2015	Sept. 30, 2015	June 30, 2015	March 31, 2015
(000s, except per share amounts and production figures)	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*
Oil and natural gas revenues	**14,072**	11,582	11,837	8,017	13,181	15,195	33,989	46,077
Funds from operations	**6,203**	6,061	6,014	5,958	13,349	14,510	17,191	27,623
Per share – basic	**0.18**	0.18	0.19	0.20	0.44	0.48	0.57	0.93
Per share – diluted	**0.18**	0.18	0.19	0.19	0.43	0.47	0.57	0.91
Cash flow from operating activities	**6,405**	8,819	5,172	6,114	19,934	1,250	22,526	17,607
Net income (loss)	**(1,061)**	1,052	(5,010)	(2,258)	(1,610)	6,431	143,635	1,761
Per share – basic	**(0.03)**	0.03	(0.16)	(0.07)	(0.05)	0.21	4.78	0.06
Per share – diluted	**(0.03)**	0.03	(0.16)	(0.07)	(0.05)	0.21	4.77	0.06
Total assets	**291,051**	290,594	291,054	291,928	298,698	309,596	303,489	752,643
Capital expenditures [2]	**5,326**	6,244	5,731	4,322	8,632	6,587	11,956	37,060
Net debt [3]	**31,763**	29,323	25,697	41,126	39,612	41,546	45,047	180,784
Shareholders' equity	**214,346**	218,198	219,592	207,607	211,293	214,995	210,470	466,447
Dividends declared (per share)	**0.1050**	0.1050	0.1050	0.1050	0.1025	0.0950	0.0300	–
Production								
Natural gas (mcf/d)	**299**[5]	145[5]	–[5]	290	841	1,674	7,229	15,103
Crude oil (bbls/d)	**2,928**	2,728	2,858	2,828	3,334	3,358	5,603	9,188
NGLs (bbls/d)	–	–	–	–	2	7	102	591
Total (boe/d)	**2,978**	2,752	2,858	2,876	3,476	3,644	6,910	12,296

(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 and net debt, which is not prescribed under IFRS (see "Non-GAAP Measurements" below).

(2) Total capital expenditures, excluding acquisitions and non-cash transactions.

(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 comparability of prior period information in the Management's Discussion and Analysis under "About Granite Oil Corp." and "Corporate Reorganization".

(5) Commencing in March 2016, the Company began injecting the majority of its natural gas production into the Alberta Bakken property pursuant to the EOR scheme.

SELECTED ANNUAL INFORMATION [1][4]

	Years Ended December 31,		
	2016	2015	2014
(000s, except per share amounts and production figures)	*($)*	*($)*	*($)*
Oil and natural gas revenues	**45,508**	108,442	303,348
Funds from operations	**24,236**	72,673	173,179
Per share – basic	**0.75**	2.41	6.04
Per share – diluted	**0.74**	2.38	5.85
Cash flow from operating activities	**26,510**	61,317	184,239
Net income (loss)	**(7,277)**	150,216	76,233
Per share – basic	**(0.22)**	4.99	2.66
Per share – diluted	**(0.22)**	4.92	2.58
Total assets	**291,051**	298,698	743,202
Capital expenditures	**21,623**	64,879	296,549
Net debt	**31,763**	39,612	171,347
Shareholders' equity	**214,346**	211,293	463,509
Dividends declared (per share)	**0.4200**	0.2275	–
Production			
Natural gas *(mcf/d)*	**184**	6,160	13,823
Crude oil *(bbls/d)*	**2,835**	5,350	8,353
NGL *(bbls/d)*	**–**	173	668
Total *(boe/d)*	**2,866**	6,550	11,325

(1) The selected annual information was prepared in accordance with the accounting principles described in the notes to the financial statements, except for funds from operations and net debt, which is not prescribed under IFRS (see "Non-GAAP Measurements" below).
(2) Total capital expenditures, excluding acquisitions and non-cash transactions.
(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 comparability of prior period information in the Management's Discussion and Analysis under "About Granite Oil Corp." and "Corporate Organization".
(5) Commencing in March 2016, the Company began injecting the majority of its natural gas production into the Alberta Bakken property pursuant to the EOR scheme.

OUTLOOK

With the efficiency gains made throughout 2016 and its increasingly solid production base, Granite is well-positioned to manage continued uncertainty in commodity pricing throughout 2017. Capital expenditures for 2017 are expected to total $16.5 million, a 23% decrease year-over-year, and result in average production growth of 7% to approximately 3,050 bbl/d of oil, with the yearly dividend maintained at $0.42 per share. With an average WTI price of $55 USD this will result in year-end net debt of $33.2 million and a net debt to cash flow ratio of 1.1. Anticipated capital expenditures include approximately $3.0 million allocated towards high-impact, strategic exploration and pool delineation projects, which Granite has the flexibility to adjust should commodity prices warrant. Additionally, the Company is well-hedged through 2017, with 1,000 bbl/d hedged at an average price of $48.05 USD/bbl through the first half of 2017, and 750 bbl/d hedged at an average price of $52.23 USD/bbl through the second half of 2017, reducing its exposure to price volatility.

With the capital program dedicated predominantly towards drilling and the efficiency at which Granite can add producing barrels, Granite is confident it will continue to add value to shareholders despite the challenges in the commodity price environment.

BUSINESS RISKS AND RISK MITIGATION

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

Reserves and Resource Estimates

Granite's exploration and production activities are concentrated in the Western Canada Sedimentary Basin, where the industry is very competitive. There are a number of risks facing participants in the oil and natural gas industry, some of which are common to all businesses, while others are specific to the sector and company. 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.

Prices, Markets and Marketing

There are a number of factors that are beyond Granite's control which affect the price and marketability of oil and natural gas acquired, discovered or produced by the Corporation.

In Canada, the producers of oil are entitled to negotiate sales contracts directly with oil purchasers, with the result that the market determines the price of oil. Minor fluctuations in the supply and demand for oil and natural gas, market uncertainty, and the availability of access to local and foreign markets, among other factors listed below, result in large fluctuations in the price of oil and natural gas. Additional factors affecting the price of oil and natural gas may include, among others, economic and political conditions in the United States, Canada, Europe, China and emerging markets, the actions of the Organization of the Petroleum Exporting Countries ("OPEC"), governmental regulation, political stability in the Middle East, Northern Africa and elsewhere, the foreign supply and demand of oil and natural gas, the price of foreign imports and the availability of alternative fuel sources.

It is anticipated that oil prices will remain volatile as a result of global excess supply due to the increased growth of shale oil production in the United States, the decline in global demand for oil exports, OPEC's recent decisions pertaining to the oil production of OPEC member countries, and non-OPEC member countries' decisions on production levels, among other factors. Volatile crude oil and natural gas prices make it difficult to estimate the value of producing properties for development and acquisition activities and often cause disruption in the acquisition, divestiture or leasing of petroleum and natural gas producing properties, as buyers, sellers, lessors and lessees have difficulty agreeing on the value or terms of such arrangements. Price volatility also makes it difficult to budget for and project the return on potential acquisitions, development and exploration projects.

The factors discussed above could result in a material decrease in Granite's net production revenue and a reduction in its oil and natural gas acquisition, development, exploration and production activities. Any substantial or extended decline in oil and natural gas prices could result in a reduction of the Corporation's net revenue and have an adverse effect on the carrying value of its reserves, borrowing capacity, revenue, profitability, cash flow from operations and prospects. Additionally, the economics of production may change as a result of continued lower prices, which could result in reduced production volumes and a reduction in the general value of the Corporation's reserves.

Weakness in the Oil and Gas Industry

Several recent market events and conditions have caused significant weakness and volatility in commodity prices. Such events include, but are not limited to, global excess oil and natural gas supply, recent actions taken by OPEC, slowing growth in emerging economies, market volatility and disruptions in several oil and natural gas producing nations, sovereign debt levels and political upheavals in various countries. These events and conditions have caused a significant decrease in the valuation of oil and gas companies and a widespread decrease in confidence in the oil and gas industry, resulting in a corresponding tightening of credit conditions.

Volatility and uncertainty has been exacerbated in Canada by the recent changes in government at a federal level and at the provincial level in Alberta. As a result of these changes in government, there has been significant uncertainty surrounding regulatory, tax, royalty changes and environmental regulations that have been announced or may be implemented by the new governments. In addition, the uncertainty surrounding obtaining the necessary approvals to build pipelines and other facilities to provide better access to markets for the oil and gas industry in Western Canada has led to additional downward price pressure on oil and gas produced in Western Canada and uncertainty and reduced confidence in the oil and gas industry in Western Canada in particular.

Political Uncertainty

During 2016, the United States and certain European countries experienced significant political events that have cast uncertainty on the global financial and economic markets. During the recent presidential campaign in the United States, a number of election promises relating to trade and marketability of commodities were made. During the first quarter of 2017, the new American administration began to take steps to implement and act on certain of the election promises. Of the items that were discussed, the following could have a direct impact on the ability of the Corporation to market its products and the price that the Corporation could obtain for its products: renegotiation of the terms of the North American Free Trade Agreement, withdrawal of the United States from the Trans-Pacific Partnership, imposition of a tax on the importation of goods into the United States, reduction of regulation and taxation in the United States, and introduction of laws to reduce immigration and restrict access into the United States for citizens of certain countries. It is presently unclear exactly what actions the new administration in the United States will implement, and if implemented, how these actions may impact Canada and in particular the oil and gas industry. Any actions taken by the new United States administration may have a negative impact on the Canadian economy and on the businesses, financial conditions, results of operations and the valuation of Canadian oil and gas companies, including the Corporation.

In addition to the political disruption in the United States, in 2016 the citizens of the United Kingdom voted to withdraw from the European Union and the Government of the United Kingdom has begun taken steps to implement such withdrawal. Some European countries have also experienced the rise of anti-establishment political parties and public protests held against open-door immigration policies, trade and globalization. To the extent that certain political actions taken in North America, Europe and elsewhere in the world result in a marked decrease in free trade, access to personnel and freedom of movement, it could have an adverse effect on the Corporation's ability to market its products internationally, increase costs for goods and services required for the Corporation's operations, reduce access to skilled labour and negatively impact the Corporation's business, operations, financial conditions and ultimately the market value of the Common Shares.

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 demand credit facility with three banks. The amount authorized under Granite’s credit facility is dependent on the borrowing base determined by its lenders. Granite is required to comply with covenants under its credit facilities which may, in certain cases, include certain financial ratio tests, which from time to time either affect the availability or price of additional funding and in the event that Granite does not comply with these covenants, its access to capital could be restricted or repayment could be required. Events beyond Granite’s control may contribute to a failure to comply with such covenants. A failure to comply with covenants could result in a default under the credit facility, which could result in Granite being required to repay amounts owing thereunder. Even if Granite is able to obtain new financing in such circumstances, it may not be on commercially reasonable terms or on terms that are acceptable to the Corporation. If Granite is unable to repay amounts owing under the credit facility or other credit agreements, its lenders could proceed to foreclose or otherwise realize upon the collateral granted to them to secure the indebtedness. The acceleration of indebtedness under one agreement may permit acceleration of indebtedness under other agreements that contain cross default or cross-acceleration provisions. In addition, the credit facility and other credit agreements may impose operating and financial restrictions on the Corporation that could include restrictions on the payment of dividends, the repurchase or making of other distributions with respect to Granite’s securities, incurring of additional indebtedness, the provision of guarantees, the assumption of loans, making of capital expenditures, entering into of amalgamations, mergers, take-over bids or disposition of assets, among other restrictions. Granite routinely reviews the covenants under its credit facility based on actual and forecast results and has the ability to make changes to development plans to comply with such covenants. 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 may be exposed to third party credit risk through its royalty and contractual arrangements with current or future third parties, marketers of its petroleum and natural gas production, if any, and other industry participants. In the event any such entity fails to meet their royalty, contractual or financial obligations to Granite, such failures could materially adversely affect Granite's business and financial condition. Further, poor credit conditions may impact a third party's ability to fund the development and capital programs conducted, which in turn could result in a reduction of Granite's revenues. To the extent that any of such third parties go bankrupt, become insolvent or make a proposal or institute any proceedings relating to bankruptcy or insolvency, it could result in the Corporation being unable to collect all or portion of any money owing from such parties. Any of these factors could materially adversely affect the Corporation's financial and operational results.

Variations in Interest Rates and Foreign Exchange Rates

Global prices for crude oil and natural gas are generally set in U.S. dollars. The Canadian/U.S. dollar exchange rate, which fluctuates over time, consequently affects the price received by Granite producers of oil and natural gas, including Granite. Accordingly, exchange rates between Canada and the United States could affect the future value of Granite's reserves as determined by independent evaluators. Although a low value of the Canadian dollar relative to the United States dollar may positively affect the price the Corporation receives for its oil and natural gas production, it could also result in an increase in the price for certain goods used for the Corporation's operations, which may have a negative impact on the Corporation's financial results. To the extent that Granite engages in risk management activities related to offsetting foreign exchange rates and fluctuations, there is credit risk associated with counterparties with which Granite may contract.

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

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.

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

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Failure to comply with environmental regulations could have an adverse impact on Granite's reputation and the price of Common Shares. There is also risk that Granite could become involved in litigation or proceedings relating to environmental regulations, or be subject to costly fines or clean-up orders. 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 to the risks listed and discussed above, Granite is subject to several other risks and uncertainties which are described in detail in the Company's Annual Information Form (AIF) dated March 22, 2017.

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, 2016 and 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Granite is required to comply with National Instrument 52-109 – "Certification of Disclosure in Issuers' Annual and Interim Filings" and management has assessed the effectiveness of the Company's internal control over financial reporting as defined by this instrument. The assessment was based on the framework in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management concluded that Granite's internal control over financial reporting was effective as of December 31, 2016. No changes were made to Granite's internal control over financial reporting during the year ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, the internal control over financial reporting.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures (“DC&P”), as defined in National Instrument 52-109 Certification of Disclosure in Issuers’ Annual and Interim Filings, are designed to provide reasonable assurance that information required to be disclosed in the Company’s annual filings, interim filings or other reports filed, or submitted by the Company under securities legislation is recorded, processed, summarized and reported within the time periods specified under securities legislation and include controls and procedures designed to ensure that information required to be so disclosed is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Chief Executive Officer and the Chief Financial Officer of Granite evaluated the effectiveness of the design and operation of the Company’s DC&P. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that Granite’s DC&P were effective as at December 31, 2016.

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

FUTURE ACCOUNTING POLICY CHANGES

In July 2014, IFRS 9 “Financial Instruments” was issued as a complete standard, including the requirements previously issued related to classification and measurement of financial assets and liabilities, and additional amendments to introduce a new expected loss impairment model for financial assets, including credit losses. Retrospective application of this standard with certain exemptions is effective for fiscal years beginning on or after January 1, 2018, with earlier application permitted. The Company is evaluating the impact of this standard on the financial statements and does not anticipate material changes to the valuation of its financial assets.

In May 2014, the IASB issued IFRS 15 “Revenue from Contracts with Customers”. It replaces existing revenue recognition guidance and provides a single, principles based five-step model to be applied to all contracts with customers. Retrospective application of this standard is currently effective for fiscal years beginning on or after January 1, 2018, with earlier application permitted. The Company has commenced the process of identifying and reviewing sales contracts to determine the extent of the impact, if any, that this standard will have on the financial statements

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

NON- GAAP MEASUREMENTS

Funds from Operations

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

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

	Three Months Ended December 31,		Year Ended December 31,	
	2016	2015	**2016**	2015
($000s)				
Cash flow from operating activities	**6,405**	19,934	**26,510**	61,317
Changes in non-cash working capital	**(202)**	(6,585)	**(2,274)**	11,356
Funds from operations	**6,203**	13,349	**24,236**	72,673

Operating Netback

Operating netbacks are per boe measures used in operational and capital allocation decisions. Management believes that the Company's operating netback is the most useful supplemental measure as compared to other netback measures presented by the Company in previous MD&A's as it assists in analyzing the Company's operating performance. Operating netbacks are determined by deducting royalties, operating expenses and transportation expenses from oil and gas revenue and adjusted for any realized hedging gain (loss) on financial instruments.

Net Debt

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

OTHER MEASUREMENTS

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

FORWARD-LOOKING INFORMATION AND STATEMENTS

Certain statements in this MD&A may constitute forward-looking statements. These statements relate to future events or the Company's future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon by investors. These statements speak only as of the date of this MD&A and are expressly qualified, in their entirety, by this cautionary statement.

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

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

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

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

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

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF GRANITE OIL CORP.

We have audited the accompanying financial statements of Granite Oil Corp., which comprise the statements of financial position as at December 31, 2016 and December 31, 2015, the statements of operations and comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Granite Oil Corp. as at December 31, 2016 and December 31, 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants
March 22, 2017
Calgary, Canada

STATEMENTS OF FINANCIAL POSITION

As at	December 31, 2016	December 31, 2015
(000s)	*($)*	*($)*
ASSETS		
Current assets		
Accounts receivable (note 16)	**6,601**	10,927
Deposits and prepaid expenses	**506**	753
Derivative financial instruments (note 16)	**–**	7,615
	7,107	19,295
Non-current assets		
Exploration and evaluation assets (note 5)	**36,889**	37,463
Property and equipment (note 6)	**247,055**	241,940
Total assets	**291,051**	298,698
LIABILITIES		
Current liabilities		
Bank debt (note 7)	**27,901**	37,012
Accounts payable and accrued liabilities (note 16)	**9,790**	13,218
Dividend payable	**1,179**	1,062
Derivative financial instruments (note 16)	**2,894**	–
	41,764	51,292
Non-current liabilities		
Decommissioning liabilities (note 8)	**13,307**	13,349
Flow-through share premium liabilities (note 9)	**578**	–
Deferred tax liability (note 11)	**21,056**	22,764
Total liabilities	**76,705**	87,405
SHAREHOLDERS' EQUITY		
Share capital (note 9)	**411,036**	388,949
Contributed surplus	**16,287**	14,479
Deficit	**(212,977)**	(192,135)
Total shareholders' equity	**214,346**	211,293
Total liabilities and shareholders' equity	**291,051**	298,698

Commitments (note 17)

See accompanying notes to the financial statements.

On behalf of the Board of Directors,

Mike Kabanuk
President & Chief Executive Officer

Dennis Nerland
Director

STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

Years Ended December 31,	**2016**	2015
(000s, except per share amounts)	*($)*	*($)*
REVENUE		
Oil and natural gas revenues	**45,508**	108,442
Royalties	**(11,872)**	(27,411)
Oil and natural gas revenues, net of royalties	**33,636**	81,031
Unrealized loss on financial instruments	**(10,521)**	(15,555)
Realized gain on financial instruments	**4,584**	26,831
	27,699	92,307
EXPENSES		
Operating and transportation	**9,165**	22,825
General and administrative	**3,394**	4,822
Depletion and depreciation (note 6)	**17,528**	44,804
Share-based compensation (note 10)	**3,118**	2,379
Exploration and evaluation expense (note 5)	**1,486**	4,191
Accretion and finance expenses (note 14)	**1,695**	4,021
Transaction Costs – share-based compensation (note 4)	**–**	4,027
Transaction Costs – general and administration (note 4)	**–**	3,831
Gain on disposition (note 4)	**–**	(151,996)
	36,386	(61,096)
Income (loss) before income tax	**(8,687)**	153,403
TAXES		
Deferred income tax (recovery) expense (note 11)	**(1,410)**	3,187
Net income (loss) and comprehensive income (loss) for the year	**(7,277)**	150,216
Net income (loss) per share (note 9)		
Basic	**(0.22)**	4.99
Diluted	**(0.22)**	4.92

See accompanying notes to the financial statements.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Share Capital	Contributed Surplus	Retained Earnings (Deficit)	Total Equity
(000s)	*($)*	*($)*	*($)*	*($)*
Balance – January 1, 2016	**388,949**	**14,479**	**(192,135)**	**211,293**
Share-based compensation (note 10)	–	5,363	–	5,363
Common shares issued, net of share issue costs (note 9)	15,397	–	–	15,397
Flow-through shares issued (note 9)	3,003	–	–	3,003
Premium on flow-through shares (note 9)	(578)	–	–	(578)
Tax benefit of share issuance costs (note 9)	298	–	–	298
Issued on vesting of share incentives (note 9)	3,478	(3,478)	–	–
Exercise of options (note 9)	489	(77)	–	412
Dividends	–	–	(13,565)	(13,565)
Net loss	–	–	(7,277)	(7,277)
Balance – December 31, 2016	**411,036**	**16,287**	**(212,977)**	**214,346**
Balance – January 1, 2015	381,540	12,591	69,378	463,509
Share-based compensation	–	7,831	–	7,831
Exercise of options	7,409	(5,943)	–	1,466
Distribution of non-cash assets (note 4)	–	–	(404,825)	(404,825)
Dividends	–	–	(6,904)	(6,904)
Net income	–	–	150,216	150,216
Balance – December 31, 2015	388,949	14,479	(192,135)	211,293

See accompanying notes to the financial statements.

STATEMENTS OF CASH FLOWS

Years Ended December 31,	**2016**	2015
(000s)	*($)*	*($)*
Cash flow from (used in):		
Operating activities		
Net income (loss) for the	**(7,277)**	150,216
period Adjustments for:		
Depletion and depreciation expense (note 6)	**17,528**	44,804
Deferred income tax expense (recovery) (note 11)	**(1,410)**	3,187
Share-based compensation (note 10)	**3,118**	2,434
Transaction costs – share-based compensation (note 4)	–	4,027
Accretion (note 8)	**304**	471
Unrealized loss on financial instruments (note 16)	**10,521**	15,555
Exploration and evaluation expense (note 5)	**1,486**	4,191
Abandonment and reclamation costs (note 8)	**(34)**	(216)
Loss (gain) on disposition (note 4)	–	(151,996)
	24,236	72,673
Change in non-cash working capital (note 12)	**2,274**	(11,356)
	26,510	61,317
Financing activities		
Change in bank debt	**(9,111)**	(102,222)
Assumption of debt from Boulder transaction (note 4)	–	130,000
Dividends paid	**(13,450)**	(5,842)
Issuance of share capital	**19,918**	1,466
Share issuance costs	**(1,106)**	–
	(3,749)	23,402
Investing activities		
Property and equipment expenditures	**(20,686)**	(59,192)
Exploration and evaluation expenditures	**(937)**	(5,687)
Change in non-cash working capital (note 12)	**(1,129)**	(20,454)
	(22,752)	(85,333)
Foreign exchange (loss) gain on cash and cash equivalents held in foreign	**(9)**	614
Change in cash and cash equivalents	**–**	–
Cash and cash equivalents – beginning of period	**–**	–
Cash and cash equivalents – end of period	**–**	–
Interest Paid	**1,162**	2,936

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

As at and for the years ended December 31, 2016 and 2015

1 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 some of its activities jointly with others. These financial statements reflect only the Company's interests in such activities. Granite is registered and domiciled in Canada. Its main office is at 432, 222 Third Avenue S.W., Calgary, Alberta, T2P 0B4.

2 BASIS OF PRESENTATION

(a) Statement of Compliance

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

The financial statements were authorized for issuance by the Board of Directors on March 22, 2017.

(b) Basis of Measurement

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

(c) Functional and Presentation Currency

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

(d) Use of Estimates and Judgements

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

i) Key Sources of Estimation Uncertainty

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

ACQUISITIONS

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

VALUATION OF PROPERTY AND EQUIPMENT

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

Oil and natural gas development and production assets are depleted on a unit-of-production basis at a rate calculated by reference to proved and probable reserves determined in accordance with NI 51-101 and incorporate the estimated future cost of developing and extracting those reserves. Proved and probable reserves are estimated using independent reserve engineers’ reports and represent the estimated quantities of oil, natural gas and NGLs that geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. Proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable, it being 90 percent likely that the actual remaining quantities recovered will exceed the estimated proved reserves. Probable reserves are those additional reserves that are less certain to be recovered than proved reserves, it being equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves. The volume of estimated reserves is also a key determinant in assessing whether the carrying value of any of the Company’s development and production assets has been impaired.

The recoverable amounts of cash-generating units (CGUs) and individual assets are determined based on the higher of the present value of value-in-use calculations and discounted fair values less costs to sell. These calculations require the use of estimates and assumptions, including the discount rate. It is reasonably possible that the commodity price assumptions may change, which may then impact the estimated life of the field and economically recoverable reserves, and may then require a material adjustment to the carrying value of property and equipment. The Company monitors internal and external indicators of impairment relating to its fixed assets.

PROVISIONS FOR DECOMMISSIONING COSTS

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

i) Judgements

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

IMPAIRMENT

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

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

EXPLORATION AND EVALUATION ASSETS

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

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below were applied consistently to all periods presented in these financial statements.

(a) Property and Equipment

CAPITALIZATION

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

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

DEPLETION AND DEPRECIATION

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

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

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

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

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

IMPAIRMENT

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

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

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

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

CAPITALIZATION

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

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

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

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

IMPAIRMENT

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

(c) Business Combinations

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

(d) Leased Assets

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

(e) Joint Interest Activities

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

(f) Revenue Recognition

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

(g) Decommissioning Liabilities

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

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

(h) Income Taxes

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

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

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

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

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

(i) Flow-Through Shares

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

(j) Cash and Cash Equivalents

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

(k) Share- Based Compensation

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

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

Share incentive awards include both time-based awards (“TBA“) and performance-based awards (“PBA“). 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 1.5 has been assumed for PBAs outstanding at December 31, 2016. Fluctuations in share based compensation expense may occur due to changes in estimates of performance outcomes.

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

(l) Financial Instruments

i) Non- Derivative Financial Instruments

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

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

OTHER

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

ii) Derivative Financial Instruments

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

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

(m) Share Capital

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

(n) Per Share Amounts

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

(o) Future Accounting Policy Changes

In July 2014, IFRS 9 “Financial Instruments” was issued as a complete standard, including the requirements previously issued related to classification and measurement of financial assets and liabilities, and additional amendments to introduce a new expected loss impairment model for financial assets, including credit losses. Retrospective application of this standard with certain exemptions is effective for fiscal years beginning on or after January 1, 2018, with earlier application permitted. The Company is evaluating the impact of this standard on the financial statements and does not anticipate material changes to the valuation of its financial assets.

In May 2014, the IASB issued IFRS 15 “Revenue from Contracts with Customers”. It replaces existing revenue recognition guidance and provides a single, principles based five-step model to be applied to all contracts with customers. Retrospective application of this standard is currently effective for fiscal years beginning on or after January 1, 2018, with earlier application permitted. The Company has commenced the process of identifying and reviewing sales contracts to determine the extent of the impact, if any, that this standard will have on the financial statements.

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

4 PLAN OF ARRANGEMENT

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

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

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

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

The Company incurred $3.8 million in cash transaction costs related to the POA, including financial advisory accounting, legal and consulting fees recognized as "transaction costs – general and administrative" in earnings. 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 earnings as "transaction costs – share-based compensation".

05 EXPLORATION AND EVALUATION ASSETS

Years Ended December 31,	**2016**	2015
($000s)		
Balance – January 1	**37,463**	62,784
Additions	**1,257**	6,600
Transfers to property and equipment (note 6)	**(345)**	(742)
E&E expenses	**(199)**	(2,891)
Lease expiries	**(1,287)**	(1,300)
Disposition to Boulder (note 4)	–	(26,988)
Balance – December 31	**36,889**	37,463

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

During the year ended December 31, 2016, the Company expensed $0.2 million of preliminary drilling costs incurred related to the preparation of contingent locations (year ended December 31, 2015 - $2.9 million on two vertical stratigraphic test wells) and $1.3 million related to lease expiries on undeveloped land (December 31, 2015 – $1.3 million).

During the year ended December 31, 2016, approximately $0.1 million of directly attributable general and administrative expense and $0.3 million of directly attributable share-based compensation expense were capitalized as expenditures on exploration and evaluation assets (December 31, 2015 – $0.1 million and $0.2 million, respectively).

06 PROPERTY AND EQUIPMENT

($000s)	Oil and Natural Gas Properties	Office Equipment	Total
Cost or deemed cost			
Balance – January 1, 2015	824,725	474	825,199
Additions	62,813	49	62,862
Dispositions to Boulder (note 4)	(584,791)	–	(584,791)
Transfers from E&E assets (note 5)	742	–	742
Balance – December 31, 2015	**303,489**	**523**	**304,012**
Additions	**22,287**	**11**	**22,298**
Transfers from E&E assets	**345**	**–**	**345**
Balance – December 31, 2016	**326,121**	**534**	**326,655**
Accumulated depletion and depreciation			
Balance – January 1, 2015	198,035	222	198,257
Depletion and depreciation for the year	44,743	61	44,804
Dispositions to Boulder (note 4)	(180,989)	–	(180,989)
Balance – December 31, 2015	**61,789**	**283**	**62,072**
Depletion and depreciation for the year	**17,470**	**58**	**17,528**
Balance – December 31, 2016	**79,259**	**341**	**79,600**
Net book value			
December 31, 2015	241,700	240	241,940
December 31, 2016	**246,862**	**193**	**247,055**

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

During the year ended December 31, 2016, approximately $0.5 million of directly attributable general and administrative expense and $1.9 million of directly attributable share-based compensation expense were capitalized as expenditures on property and equipment (December 31, 2015 – $1.0 million and $1.2 million, respectively).

(b) Future Development Costs and Salvage Value

At December 31, 2016, an estimated $61.0 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 $9.5 million of salvage value of production equipment was excluded (December 31, 2015 – $73.4 million and $10.0 million, respectively).

7 BANK DEBT

At December 31, 2016, the Company had a revolving demand credit facility (the "Credit Facility") with an authorized borrowing base of $60 million, including a $45 million extendible revolving facility and a $15 million operating facility (December 31, 2015 – an authorized borrowing base of $80 million, including $60 million extendible revolving facility and a $20 million operating facility). The Credit Facility is considered a current liability due to its terms.

Interest is charged at a rate per annum equal to the Canadian prime rate during said period plus the applicable margin, being a range of 0.50 percent to 2.50 percent, as determined by the Company's debt to cash flow ratio. Standby fees associated with the facility are charged based on an applicable margin, being a range of 0.2 percent to 0.45 percent per annum on the undrawn portion of the facility, again based on the Company's debt to cash flow ratio. Under the Credit Facility, the Company is required to maintain a current ratio of not less than 1:1. The current ratio is calculated as current assets (excluding derivative financial instruments) plus any undrawn availability in the Credit Facility versus current liabilities (excluding derivative financial instruments and any amounts outstanding in the Credit Facility). At December 31, 2016, the Company was in compliance with the current ratio requirement.

At December 31, 2016, $27.9 million was drawn against this facility (December 31, 2015 – $37.0 million). The amount of the facility is subject to a borrowing base test performed on a periodic basis by the lenders, based primarily on reserves and using commodity prices estimated by the lenders as well as other factors. The borrowing base of the credit facility is subject to review at least semi-annually with the next review scheduled for April 2017. 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.

8 DECOMMISSIONING LIABILITIES

The Company has estimated the net present value of decommissioning obligations to be $13.3 million as at December 31, 2016 (December 31, 2015 – $13.3 million) based on an undiscounted total future liability of $18.6 million (December 31, 2015 – $17.6 million). These payments are expected to be incurred over a period of one to 20 years with the majority of costs to be incurred between 2028 and 2033. At December 31, 2016, a risk-free rate of 2.25 percent (December 31, 2015 – 2.25 percent) and an inflation rate of 2 percent (December 31, 2015 – 2 percent) were used to calculate the net present value of the decommissioning liabilities. The $1.0 million in revisions are related to changes in the risk-free rate used in the calculation throughout 2016 as well as the revision of other estimated costs to reclaim and abandon the Company's wells and facilities and the estimated timing of the costs to be incurred in future periods.

Years Ended December 31,	**2016**	2015
($000s)		
Balance – January 1	**13,349**	34,165
Liabilities incurred	**638**	1,272
Liabilities disposed to Boulder (note 4)	**–**	(24,284)
Revisions	**(950)**	1,941
Settlements	**(34)**	(216)
Accretion of decommissioning liabilities	**304**	471
Balance – December 31	**13,307**	13,349

9 SHARE CAPITAL

(a) Authorized

Unlimited number of common voting shares, no par value.

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

(b) Issued – Common Shares

Years Ended December 31,	**2016**		2015	
	Shares	Amount	Shares	Amount
	(#)	*($000s)*	*(#)*	*($000s)*
Balance – January 1	**30,355,024**	**388,949**	29,655,187	381,540
Common shares issued (ii)	**2,324,300**	**16,503**	–	–
Flow-through shares issued (iii)	**330,000**	**3,003**	–	–
Premium on flow-through shares (iii)	**–**	**(578)**	–	–
Exercise of options (iv)	**120,117**	**489**	699,837	7,409
Issued on vesting of share incentives (Note 10)	**542,196**	**3,478**	–	–
Share issuance costs	**–**	**(1,106)**	–	–
Tax benefit of share issuance costs	**–**	**298**	–	–
Balance – December 31	**33,671,637**	**411,036**	30,355,024	388,949

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 June 2016, the Company issued 2,324,300 common shares pursuant to a public offering for total gross proceeds of $16.5 million ($15.4 million net of share issuance costs), including 211,300 common shares issued pursuant to the partial exercise of an over-allotment held by the underwriters.

iii) Flow-Through Share Issuances

In May 2016, the Company issued 330,000 flow-through shares for total gross proceeds of $3.0 million. The implied premium on the flow-through shares of $1.75 per share or $0.6 million was recorded as a liability on the statement of financial position. To date, the Company has incurred $nil of the $3.0 million required qualifying exploration expenditures, with the entire amount to be incurred by December 31, 2017.

iv) Exercising of Options

During the year ended December 31, 2016, 120,117 options were exercised with a weighted average exercise price of $3.43 per share for total cash proceeds of $0.4 million and previously recognized share-based compensation expense of $0.08 million.

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

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

(c) Per Share Amounts

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

Years Ended December 31,	**2016**	2015
(000s, except per share amounts)	*($)*	*($)*
Net income (loss) for the year	**(7,277)**	150,216
Weighted-average number of common shares	*(#)*	*(#)*
– basic	**32,375**	30,100
– diluted	**32,375**	30,557
Net income (loss) per weighted average	*($)*	*($)*
– basic	**(0.22)**	4.99
– diluted	**(0.22)**	4.92

10 SHARE- BASED COMPENSATION

(a) DeeThree Options

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

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

	Year Ended December 31, 2016		Year Ended December 31, 2015	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
	(#)	*($)*	*(#)*	*($)*
Outstanding – January 1	–	–	7,676,328	5.94
Issued	–	–	–	–
Exercised	–	–	(465,101)	3.04
Forfeited	–	–	(105,361)	6.09
Cancelled	–	–	(3,939,707)	9.05
Exercised on a cashless basis	–	–	(3,166,159)	3.50
Outstanding – December 31	–	–	–	–
Exercisable – December 31	–	–	–	–

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 earnings as “transaction costs – share-based compensation” for the year ended December 31, 2015.

(b) Replacement Options

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

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

	Year Ended December 31, 2016		Year Ended December 31, 2015	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
	(#)	*($)*	*(#)*	*($)*
Outstanding – January 1	**194,486**	**3.96**	–	–
Issued	–	–	207,817	3.96
Exercised	**(120,117)**	**3.43**	(13,331)	4.05
Cancelled	**(2,649)**	**4.10**	–	–
Outstanding – December 31	**71,720**	**4.83**	194,486	3.96
Exercisable – December 31	**67,054**	**4.70**	82,646	3.13

Exercise Price	Weighted-Average Contractual Outstanding	Options Life	Weighted-Average Exercisable
($)	*(#)*	*(years)*	*(#)*
As at December 31, 2016			
3.00 – 3.99	**1,999**	**0.07**	**1,999**
4.00 – 4.99	**51,724**	**0.20**	**51,724**
5.00 – 5.99	**5,332**	**0.47**	**5.332**
6.00 – 6.99	**12,665**	**0.94**	**7,999**
	71,720	**0.35**	**67,054**

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

	Year Ended December 31, 2016	Year Ended December 31, 2015
Risk-free interest rate *(%)*	**-**	0.64
Expected life *(years)*	**-**	0.64
Expected volatility *(%)*	**-**	70
Expected dividend yield *(%)*	**-**	-
Fair value of options granted during the year *($/option)*	**-**	0.87

No options were granted in the year ended December 31, 2016. For the year ended December 31, 2015, a forfeiture rate of 2 percent was used when recording share-based compensation expense. This estimate is periodically adjusted to the actual forfeiture rate. Gross share-based compensation for the options was $0.04 million for the year ended December 31, 2016 (year ended December 31, 2015 - $1.7 million). Of this amount, $nil was reclassified to operating expense for the amount related to field employees (year ended December 31, 2015 – $0.06 million) and $nil was capitalized (year ended December 31, 2015 – $0.7 million), resulting in total net share-based compensation expense related to options of $0.04 million for the year (year ended December 31, 2015 - $1.0 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 (PBAs) and time based awards (TBAs). Both the TBAs and the PBAs vest one third on each of the first, second and third anniversaries of the grant date. The PBAs granted are subject to a performance multiplier ranging from 0 to 2. The payout multiplier is dependent on the performance of Granite at the end of the vesting period relative to corporate performance measures determined at the discretion of Granite's Board of Directors. The number of common shares issued for each PBA and TBA granted is adjusted for the payments of dividends from the date of the grant to the payment date. On the payment date, Granite has sole and absolute discretion to settle the awards in the form of either cash or common shares, or some combination thereof.

The number of PBAs is as follows:

	Year Ended December 31, 2016	Year Ended December 31, 2015
	PBAs	PBAs
	(#)	*(#)*
Outstanding – January 1	**829,103**	–
Issued	**656,250**	829,103
Redeemed	**(276,367)**	–
Cancelled	**(252,084)**	–
Outstanding – December 31	**956,902**	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. During the year ended December 31, 2016, 276,367 PBAs were redeemed for 503,565 common shares reflecting a performance multiplier of 1.75 and adjustment for dividends from the date of the original grant to the payment date. A performance multiplier of 1.5 has been assumed for PBAs outstanding at December 31, 2016. 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:

	Year Ended December 31, 2016	Year Ended December 31, 2015
Forfeiture rate *(%)*	**2**	2
Risk-free interest rate *(%)*	**0.55**	0.68
Expected life *(years)*	**2.00**	2.00
Expected volatility *(%)*	**48**	65
Expected dividend yield *(%)*	**6**	5
Weighted-average fair value of PBAs granted during the period *($/award)*	**5.98**	6.34

Gross share-based compensation related to PBAs was $4.9 million for the year ended December 31, 2016 (year ended December 31, 2015 - $1.8 million). Of this amount, $2.1 million was capitalized (year ended December 31, 2015 – $0.6 million), resulting in total net share-based compensation expense related to PBAs of $2.8 million for the year (year ended December 31, 2015 - $1.2 million).

The number of TBAs is as follows:

	Year Ended December 31, 2016	Year Ended December 31, 2015
	TBAs	TBAs
	(#)	*(#)*
Outstanding – January 1	**115,892**	–
Issued	**43,750**	115,892
Redeemed	**(38,631)**	–
Cancelled	**(42,917)**	–
Outstanding – December 31	**78,094**	115,892

The fair value of the TBAs is determined at the grant date using the binomial option-pricing model. During the year ended December 30, 2016, 38,631 TBAs were redeemed for 38,631 common shares.

The following assumptions were used to fair value the TBAs granted:

	Year Ended December 31, 2016	Year Ended December 31, 2015
Forfeiture rate *(%)*	**2**	2
Risk-free interest rate *(%)*	**0.55**	0.68
Expected life *(years)*	**2.00**	2.00
Expected volatility *(%)*	**48**	65
Expected dividend yield *(%)*	**6**	5
Weighted-average fair value of TBAs granted during the period *($/award)*	**5.98**	6.34

Gross share-based compensation related to TBAs was $0.4 million for the year ended December 31, 2016 (year ended December 31, 2015 - $0.2 million). Of this amount, $0.1 million was capitalized (year ended December 31, 2015 – $0.1 million), resulting in total net share-based compensation expense related to TBAs of $0.3 million for the year (year ended December 31, 2015 - $0.1 million).

11 INCOME TAXES

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

Years Ended December 31,	**2016**	2015
($000s except percentages)		
Income (loss) before income tax	**(8,687)**	153,403
Tax rate	**27%**	26%
Computed income tax expense provision	**(2,345)**	39,885
Increase (decrease) in income taxes resulting from:		
Share-based compensation	**933**	1,733
Gain on disposition (note 4)	**-**	(39,519)
Flow-through shares	**-**	156
Non-deductible expenses	**2**	5
Other	**-**	1,022
Subtotal	**(1,410)**	3,282
Flow-through share premium	**-**	(95)
Income tax expense (recovery)	**(1,410)**	3,187

For the year ended December 31, 2016 the blended statutory tax rate was 27% (2015 - 26%). The change in rate from the prior year is due to an increase in the Alberta provincial rate from 10% to 12% effective July 1, 2015.

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

The components of the Company's net deferred income tax assets and liabilities are as follows:

Years Ended December 31,	**2016**	2015
($000s)		
Deferred income tax assets (liabilities)		
Non-capital losses carried forward	**7,250**	7,455
Share issuance costs	**934**	1,545
Derivative financial instruments	**781**	(2,056)
Decommissioning liabilities	**3,593**	3,604
Net book value of property and equipment in excess of tax basis	**(33,614)**	(33,312)
Deferred income tax liabilities	**(21,056)**	(22,764)

($000s)	Balance January 1, 2016	Plan of Arrangement	Recognized Directly in Equity and Other	Recognized in Profit or Loss	Balance, December 31, 2016
E&E and property and equipment	**(33,312)**	**–**	**–**	**(302)**	**(33,614)**
Derivative financial instruments	**(2,056)**	**–**	**–**	**2,837**	**781**
Decommissioning liabilities	**3,604**	**–**	**–**	**(11)**	**3,593**
Share issuance costs	**1,544**	**–**	**298**	**(908)**	**934**
Non-capital losses carried forward	**7,456**	**–**	**–**	**(206)**	**7,250**
	(22,764)	**–**	**298**	**1,410**	**(21,056)**

($000s)	Balance January 1, 2015	Plan of Arrangement	Recognized Directly in Equity and Other	Recognized in Profit or Loss	Balance, December 31, 2015
E&E and property and equipment	(55,897)	30,638	(96)	(7,956)	(33,312)
Derivative financial instruments	(5,818)	(128)	–	3,889	(2,056)
Decommissioning liabilities	8,542	(6,110)	–	1,173	3,604
Share issuance costs	2,428	–	–	(884)	1,545
Non-capital losses carried forward	6,865	–	–	591	7,455
	(43,880)	24,400	(96)	(3,187)	(22,764)

The Company has $26.9 million of non-capital losses that begin to expire in 2029.

12 SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital are comprised of:

Years Ended December 31,	**2016**	2015
($000s)		
Accounts receivable	**4,326**	19,573
Deposits and prepaid expenses	**247**	(71)
Accounts payable and accrued liabilities	**(3,426)**	(51,312)
	1,145	(31,810)
Related to operating activities	**2,274**	(11,356)
Related to investing activities	**(1,129)**	(20,454)
	1,145	(31,810)

13 SUPPLEMENTAL DISCLOSURE

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

Compensation of key management personnel is comprised of the following:

Years Ended December 31,	**2016**	2015
($000s)		
Salaries and wages (including bonuses)	**1,020**	1,363
Benefits and other personnel costs	**29**	102
Share-based compensation [1]	**468**	1,856
	1,517	3,156

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

14 FINANCE EXPENSES

Years Ended December 31,	**2016**	2015
($000s)		
Finance expenses:		
Interest on bank debt	**1,172**	3,137
Standby and other fees related to credit facility	**219**	410
Part XII.6 tax related to flow-through shares	**-**	3
Accretion expense	**304**	471
Finance expenses recognized in net income	**1,695**	4,021

15 DETERMINATION OF FAIR VALUES

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

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

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

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

(a) Property and Equipment and E&E Assets

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

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

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

The fair value of accounts receivable, accounts payable and accrued liabilities and dividend payable is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. The fair value of these balances approximated their carrying value at December 31, 2016 due to their short term to maturity.

(c) Stock Options

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

(d) Performance Based Awards and Time Based Awards

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

(e) Derivative Financial Instruments

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

16 FINANCIAL RISK MANAGEMENT

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

(a) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's accounts receivable from joint venture partners and oil and natural gas marketers. This amount was $6.6 million at December 31, 2016 (December 31, 2015 – $10.9 million).

The Company's accounts receivable are with customers and joint venture partners in the oil and natural gas business and are subject to normal credit risks. Concentration of credit risk is mitigated by marketing substantially all of the Company's production to large purchasers under normal industry sale and payment terms. The industry has a pre-arranged monthly settlement day for payment of revenues from all buyers of natural gas and crude oil. This occurs on the 25th day following the month in which the production is sold. Granite mitigates associated credit risk by limiting transactions to credit-worthy counterparties. For the year ended December 31, 2016, the Company recorded $0.09 million in bad debt recovery (December 31, 2015 - $0.2 million bad debt expense). The exposure to credit risk at the reporting date by type was:

As at December 31,	**2016**	2015
($000s)		
Oil and natural gas marketing companies	**5,110**	4,561
Joint venture partners	**627**	2,213
Other	**844**	4,153
Total trade and other receivables	**6,581**	10,927

As at December 31, 2016 and 2015, the Company's trade and other receivables are aged as follows:

As at December 31,	**2016**	2015
($000s)		
Current (less than 90 days)	**5,841**	7,542
Past due (more than 90 days)	**740**	3,385
Total	**6,581**	10,927

(b) Liquidity Risk

Liquidity risk is the risk of having difficulty meeting obligations associated with financial liabilities. The financial liabilities on the statement of financial position consist of accounts payable and accrued liabilities, bank debt and dividend payable. Accounts payable and accrued liabilities consist of invoices payable to trade suppliers relating to office and field operating activities and the Company's capital spending program. Granite processes invoices within a normal payment period. As described in note 7, bank debt consists of the Credit Facility with an authorized borrowing base of $60 million, including a $45 million extendible revolving facility and a $15 million operating facility. The Company manages its liquidity through continuously monitoring cash flows from operating activities, review of actual capital expenditures against budget, managing maturity profiles of financial assets and financial liabilities and managing its commodity price risk management program. These activities ensure that the Company has sufficient funds to meets its financial obligations when due. The Company had no defaults or breaches on its bank debt or any of its financial liabilities as at or for the year ended December 31, 2016.

The following table details the Company's financial liabilities as at December 31, 2016:

As at December 31, 2016	Total	Within 1 Year	Over 1 Year
($000s)			
Non-derivative financial liabilities:			
Bank debt	**27,901**	**27,901**	**–**
Accounts payable and accrued liabilities	**9,790**	**9,790**	**–**
Dividend payable	**1,179**	**1,179**	**–**
Total financial liabilities	**38,870**	**38,870**	**–**

(c) Market Risk

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

COMMODITY PRICE RISK

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

As at December 31, 2016, the Company had the following crude oil and interest rate risk management contracts, with a total mark-to-market liability of $2.9 million (December 31, 2015 – $7.6 million asset):

CRUDE OIL CONTRACTS

Remaining Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price	Fair Value Asset (Liability) ($) (000s)
Jan. 1/17 – Jun. 30/17	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US $41.00/bbl	USD (749)
Jan. 1/17 – Jun. 30/17	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US $47.00/bbl	USD (392)
Jan. 1/17 – Dec. 31/17	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US $53.00/bbl	USD (304)
Jul. 1/17 – Dec. 31/17	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US $52.50/bbl	USD (205)
Jan. 1/17 – Dec. 31/17	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US $51.20/bbl	CAD (628)

FOREIGN EXCHANGE CONTRACTS

Period	Currency	Type of Contract	Quantity	Strike Price	Fair Value Asset (Liability) ($) (000s)
Jan. 1/17 – Jun. 30/17	US$	Average Rate Forward	US $300,000	1.3126 (CAD/USD)	USD (38)

(d) Capital Management

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

The following summarizes the Company's capital structure:

As at December 31,	**2016**	2015
($000s)		
Bank debt	**27,901**	37,012
Shareholders' equity	**214,346**	211,293

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

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

There were no changes in the Company's approach to capital management during the year ended December 31, 2016.

17 COMMITMENTS

Years Ended December 31,	2017	2018	2019	Total
($000s)				
Operating lease – office	129	-	-	129
Total commitments	129	-	-	129

As at December 31, 2016, the Company had contractual obligations for its office leases totaling approximately $0.1 million to July 2017. The office lease obligations are comprised of the lease payments and an estimate of occupancy costs of the Company's head office space.

In connection with the Company's issuance of flow-through shares during the second quarter of 2016, Granite is required to spend $3.0 million on eligible exploration expenditures by December 31, 2017.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Brendan Carrigy
Chairman
Independent Businessman

Michael Kabanuk
President & Chief Executive Officer
Granite Oil Corp.

Martin Cheyne
Chief Executive Officer
Boulder Energy Ltd.

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

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

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

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

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

OFFICERS

Michael Kabanuk
President & Chief Executive Officer
Granite Oil Corp.

Gail Hannon
Chief Financial Officer

Tyler Klatt
Vice President, Exploration

Daniel Kenney
Corporate Secretary

HEAD OFFICE

432 - 222 Third Avenue S.W.
Calgary, Alberta T2P 0B4
Telephone: 587-349-9113
Facsimile: 587-349-9129
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

CST Trust Company
Calgary, Alberta

STOCK TRADING

Toronto Stock Exchange
Trading Symbol: GXO

OTCQX
Trading Symbol: GXOCF