GRANITE OIL CORP.

2016 INTERIM REPORT

Q3

For the Three and Nine Months Ended September 30, 2016

www.graniteoil.ca

FINANCIAL AND OPERATING HIGHLIGHTS

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016 (6)	2015 (6)	Change	**2016** (6)	2015 (6)	Change
(000s, except per share amounts)	*($)*	*($)*	*(%)*	*($)*	*($)*	*(%)*
FINANCIAL						
Oil and natural gas revenues	**11,582**	15,195	(24)	**31,436**	95,261	(67)
Funds from operations (1)	**6,061**	14,510	(58)	**18,033**	59,324	(70)
Per share – basic	**0.18**	0.48	(63)	**0.56**	1.99	(72)
Per share – diluted (7)	**0.18**	0.47	(62)	**0.56**	1.97	(72)
Cash flow from operating activities	**8,819**	1,250	606	**20,105**	41,383	(51)
Net income (loss)	**1,052**	6,431	(84)	**(6,216)**	151,827	(104)
Per share – basic	**0.03**	0.21	(86)	**(0.19)**	5.10	(104)
Per share – diluted (7)	**0.03**	0.21	(86)	**(0.19)**	5.05	(104)
Capital expenditures (2)	**6,244**	6,587	(5)	**16,297**	55,603	(71)
Net debt (3)	**29,323**	41,546	(29)	**29,323**	41,546	(29)
Shareholders' equity	**218,198**	214,995	1	**218,126**	214,995	1
(000s)	*(#)*	*(#)*	*(%)*		*(#)*	*(%)*
SHARE DATA						
At period-end	**33,614**	30,342	11	**33,614**	30,342	11
Weighted average – basic	**33,598**	30,342	11	**31,942**	29,785	7
Weighted average – diluted (7)	**33,922**	30,567	11	**32,280**	30,058	7
OPERATING (5)						
Production						
Natural gas *(mcf/d)* **(8)**	**145**	1,674	(91)	**145**	7,953	(98)
Crude oil *(bbls/d)*	**2,728**	3,358	(19)	**2,804**	6,029	(53)
NGLs *(bbls/d)*	**–**	7	(100)	**–**	231	(100)
Total *(boe/d)*	**2,752**	3,644	(24)	**2,828**	7,585	(63)
Average wellhead prices						
Natural gas *($/mcf)*	**2.50**	2.86	(13)	**1.51**	2.86	(47)
Crude oil and NGLs *($/bbl)*	**45.95**	47.21	(3)	**40.70**	52.10	(22)
Combined average *($/boe)* (9)	**45.68**	44.91	2	**40.43**	45.99	(12)
Netbacks						
Operating netback *($/boe)* (4)	**28.67**	24.61	16	**27.73**	24.67	12
Gross (net) wells drilled						
Oil *(#)*	**3 (3.0)**	2 (2.0)	50 (50)	**7 (7.0)**	12 (12.0)	-42 (-42)
Dry and abandoned *(#)*	**- (-)**	1 (1.0)	-100 (-100)	**- (-)**	1 (1.0)	-100 (-100)
Total *(#)*	**3 (3.0)**	3 (3.0)	– (–)	**7 (7.0)**	13 (13.0)	-46 (-46)
Average working interest *(%)*	**100**	100	–	**100**	100	–

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

(2) Total capital expenditures, 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.

(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) 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.

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

(6) 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".

(7) 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.

(8) Commencing in March 2016, the Company began injecting 100 percent of its natural gas production into the Alberta Bakken property pursuant to the EOR scheme. Any gas sales reflected post March 2016 are the result of conservation efforts while planned injector maintenance occurs.

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

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 November 9, 2016 and should be read in conjunction with the Company's unaudited interim financial statements and related notes for the three and nine months ended September 30, 2016, as well as the Company's audited financial statements and related notes for the years ended December 31, 2015 and 2014. All financial information is reported in Canadian dollars, unless otherwise noted.

The corporate reorganization of DeeThree Exploration Ltd. into Granite and Boulder Energy Ltd. ("Boulder") was completed on May 15, 2015. See "About Granite Oil Corp." and "Corporate Reorganization" below. The Company's third quarter financial statements present the results for Granite only subsequent to May 15, 2015 and the combined results for the historical DeeThree properties for the period up to May 15, 2015. This is a significant factor in understanding the year-over-year and quarter-over-quarter financial results of Granite.

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. 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 reinject gas for enhanced oil recovery. Granite benefits from experienced, technically able, and proven leadership. The team has many of the same senior managers who discovered, delineated and developed the Alberta Bakken Property.

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

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

CORPORATE REORGANIZATION

On April 7, 2015, the Company entered into an Arrangement Agreement with Boulder Energy Ltd., then a wholly-owned subsidiary of DeeThree, which provided for the reorganization of the Company pursuant to the POA. On May 15, 2015, the Company completed the POA involving 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 and nine months ended September 30, 2016 reflect the results of the stand-alone Granite property (Alberta Bakken) as compared to the three months ended September 30, 2015, which reflects the results for the stand-alone Granite property (Alberta Bakken). For the nine month period ended September 30, 2015 the results reflect 135 days of the results of the historical DeeThree properties (Brazeau Belly River, Alberta Bakken and Northern) and 138 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 September 30,		Nine Months Ended September 30,	
	2016	2015	**2016**	2015
Sales				
Alberta Bakken *(boe/d)*	**2,752**	3,644	**2,828**	3,501
Brazeau & Northern *(boe/d)*	**–**	–	**–**	4,084
Total sales *(boe/d)*	**2,752**	3,644	**2,828**	7,585

2016 THIRD QUARTER FINANCIAL AND OPERATING HIGHLIGHTS

In the third quarter of 2016, the Company commenced a five well drilling program completing three of the five wells in the quarter. As of today's date, these wells have resulted in five of the most capital efficient wells in the pool's history. These wells have been drilled, completed and tied in for an average cost of $1.2 million, 55% less than the Company's average well costs in 2015, and approximately 40% less than booked costs in the Company's most recent independent reserve report. Additionally, through the combination of re-pressurization, optimized horizontal placement and refined completions techniques, the first four wells tested at an average final rate of approximately 400 bbls/d per well at the end of a four day test period. The first three of these wells continue to flow at restricted rates with lower initial declines, meeting the Company's long-term objectives. The fourth well has been brought on in the past few days and the fifth well is currently in the early testing stages.

Granite produced 2,752 boe/d during the third quarter of 2016. Total capital expended in the second quarter was $6.2 million, which includes the drilling and completion costs of $4.2 million, $0.8 million spent on facilities, $1.0 million on workovers and gas injection conversion, $0.03 million on the acquisition of additional land and $0.2 million on capitalized G&A and other. Third quarter funds flow from operations was $6.0 million.

2016 SECOND QUARTER FINANCIAL AND OPERATING HIGHLIGHTS

Granite has focused its activity on expanding its gas injection EOR scheme throughout 2016 with the goal of reducing production decline rates and increasing oil recoveries over the long term. In the second quarter of 2016, the Company has continued to expand gas injection rates under its EOR scheme, with overall voidage replacement tracking above 100%.

During the second quarter of 2016, the Company closed a $16.5 million equity financing ($15.4 million net of share issue costs) through the issuance of 2.3 million shares at $7.10 per share. This financing has given the Company the financial resources to continue with its business plan despite commodity price volatility. At quarter end, Granite's Balance Sheet remains strong with $24 million drawn on its $60 million credit facility and net debt of approximately $25.7 million.

Granite produced 2,858 bbl/d during the second quarter of 2016, the Company was injecting 100 percent of its natural gas production commencing in March 2016. Total capital expended in the second quarter was $5.7 million, which includes the drilling and completion costs of $4.4 million ($4.1 million related to the drilling of three Bakken horizontal wells in the second quarter of 2016), $1.0 million spent on a one-time facility expansion, $0.2 million on the acquisition of additional land and $0.2 million on capitalized G&A and other. Second quarter funds flow from operations was $6.0 million.

2016 FIRST QUARTER FINANCIAL AND OPERATING HIGHLIGHTS

Granite took advantage of competitive equipment and service pricing during the first quarter of 2016 to successfully complete several major facility projects, which considerably advanced the Company's long-term development and expansion of the EOR scheme. In addition to completing a number of field optimization projects, the Company installed and commissioned approximately 2,000 horsepower of additional gas compression equipment, as well as a utility pipeline and related meter station which will provide Granite with secure access to a long-term, reliable gas supply for use under the EOR scheme. With these facility expansions, the Company has built-in capacity for the further expansion of its EOR scheme and the future development of its Alberta Bakken oil pool with reduced capital commitments necessary for future growth. As well, during the re-pressurization phase, the Company is permitted to inject gas at rates greater than 100% VRR to return the oil pool to original pressure conditions. Accordingly, the Company is positioned to take advantage of current gas prices and its expanded facilities to optimize injection rates during this re-pressurization phase.

Granite produced 2,876 boe/d during the first quarter of 2016. Total capital expended in the first quarter was $4.3 million, which includes the drilling and completion of one Bakken horizontal well for $1.9 million, and $2.3 million of one-time capital outputs primarily for facilities and land. First quarter funds flow from operations was $6.0 million.

OUTLOOK

With the Company's 2016 capital program largely complete, Granite is looking forward to 2017. While the current year was challenging, with significant commodity price volatility and crude oil prices reaching record lows during the first quarter of 2016, Granite will exit the year having made dramatic improvements to its drilling design, gas flood effectiveness, associated capital efficiencies and recycle ratios.

The Company allocated significant capital throughout 2016 to expanding its gas flood infrastructure and land base as well as obtaining additional data on its EOR scheme through strategic testing initiatives. Granite also dramatically expanded its gas injection volumes during the year through the purchase of supplemental gas in order to take advantage of record low natural gas prices through mid-2016 to speed up re-pressurization of targeted portions of the pool. Having succeeded in this re-pressurization process, the Company has curtailed the purchase of additional gas as it matches current gas injection volumes to production levels.

Granite approaches 2017 with an excellent financial position, exiting the third quarter with less than $30 million of net debt and a strong hedge portfolio going into 2017 consisting of 1,000 bbls/d hedged for the first half at an average US$48.05 WTI and 750 bbls/d for the second half at an average of US$52.23 WTI. Third quarter operating netbacks averaged $28.67 per BOE, reflecting Granite's almost 100% oil weighting and low-cost structure, which provides the company with excellent cash flow generation capabilities.

In 2017 the Company will target over 90% of its budget on drilling activity in the Core Bakken pool, with a small portion of the budget targeting exportation activities west of the pool, all on 100% Granite-owned lands. Granite will provide 2017 guidance during December 2016.

Funds from Operations [(1)]

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	**2016**	2015
($000s)				
Cash flow from operating activities	**8,819**	1,250	**20,105**	41,383
Changes in non-cash working capital	**(2,758)**	13,260	**(2,072)**	17,941
Funds from operations	**6,061**	14,510	**18,033**	59,324

[(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 September 30, 2016, the Company generated funds from operations totaling $6.1 million ($0.18 per basic and diluted share) compared to $14.5 million ($0.48 per basic share and $0.47 per diluted share) in the comparative period of 2015 and $6.0 million ($0.19 per basic and diluted share) in the second quarter of 2016. Funds from operations has remained consistent for the third quarter of 2016 as compared to the second quarter of 2016. The decrease from the third quarter of 2015 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 crude oil contracts expired at the end of 2015.

Funds from operations totaled $18.0 million ($0.56 per basic and diluted share) for the nine months ended September 30, 2016 compared to $59.3 million ($1.99 per basic share and $1.97 per diluted share) recorded in the same period of 2015. The decrease from the nine months ended September 30, 2015, 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 51% of revenue in the same period in 2015) compounded by decreased commodity prices.

Net Income (Loss)

For the three months ended September 30, 2016, the Company recorded net income of $1.1 million ($0.03 per basic and diluted share) compared to net income of $6.4 million ($0.21 per basic and diluted share) in the same period of 2015 and net loss of $5.0 million ($0.16 per basic and diluted share) in the second 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 third quarter of 2016 as well as the loss on disposition to Boulder incurred in the third quarter of 2015 as compared to the current quarter. The increase in the Company's net income for the quarter as compared to the second quarter of 2016 is primarily due to the change in mark-to-market value of the Company's crude oil hedges.

For the nine months ended September 30, 2016, the Company recorded net loss of $6.2 million ($0.19 per basic and diluted share) as compared to net income of $151.8 million ($5.10 per basic share and $5.05 per diluted share) for the same period in the prior year. The change in the year-over-year 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 September 30,		Nine Months Ended September 30,	
	2016	2015	**2016**	2015
Sales				
Natural gas *(mcf/d)*	**145**	1,674	**145**	7,953
Crude oil *(bbls/d)*	**2,728**	3,358	**2,804**	6,029
NGLs *(bbls/d)*	**–**	7	**–**	231
Total sales *(boe/d)*	**2,752**	3,644	**2,828**	7,585
Production Split				
Natural gas	**1**	8	**1**	17
Crude oil	**99**	92	**99**	80
NGLs	–	–	–	3
Total	**100**	100	**100**	100

The Company commenced the injection of 100 percent of its natural gas production into the Alberta Bakken property pursuant to the EOR scheme in March 2016. Any gas sales reflected post March 2016 are the result of conservation efforts while planned injector maintenance occurs. In the third quarter of 2016, the Company's production oil sales were 99 percent of total Company production.

For the third quarter of 2016, the Company's production averaged 2,752 boe/d compared to 3,644 boe/d in the same period of 2015 and 2,858 bbl/d in the second quarter of 2016. On a per boe basis, this represents a 24 percent decrease year-over-year and a four percent decrease over the second 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 decrease in production volumes as compared to the second quarter of 2016 can be attributed to lower production volumes in the third quarter of 2016 as a result of workovers performed, gas-injector conversion and natural declines offset by new wells coming on production late in the third quarter of 2016. During the three months ended September 30, 2016, production was comprised of 2,728 bbls/d of crude oil thereby increasing the Company's crude oil production to 99 percent of total corporate production from 92 percent in the same period in the prior year and 100 percent in the second quarter of 2016.

For the first nine months of 2016, the Company's production averaged 2,828 boe/d compared to 7,585 boe/d in the same period in 2015. This 63 percent decrease is attributable to the effect of the POA (the disposed properties made up 4,084 boe/d or 54% percent of total sales volumes in the same period in 2015) combined with natural declines, a reduced drilling program and a decrease in natural gas sales volumes as the Company began injecting 100 percent of its natural gas production into the Alberta Bakken property pursuant to the EOR scheme. Any gas sales reflected post March 2016 are the result of conservation efforts while planned injector maintenance occurs.

Revenue

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	**2016**	2015
($000s)				
Natural gas	**33**	579	**59**	6,204
Crude oil	**11,533**	14,608	**31,269**	87,240
NGLs and other	**16**	8	**108**	1,817
Total oil and natural gas revenue	**11,582**	15,195	**31,436**	95,261

During the three months ended September 30, 2016, revenue decreased by 24 percent to $11.6 million from $15.2 million in the comparative period of 2015. The year-over-year decrease was mainly the result of a decrease in sales volumes compounded by a slight decrease in crude oil commodity prices. When compared to the second quarter of 2016, revenue decreased by 2 percent to $11.6 million from $11.8 million due to both a decrease in commodity prices and a slight decrease in production volumes.

For the first nine months of 2016, revenue totaled $31.4 million compared to $95.3 million for the same period in 2015. This decrease was mainly the result of the POA which was effective May 15, 2015 (the disposed properties accounted for $49.0 million or 51% of revenue in the same period in 2015) compounded by reduced crude oil market prices and a decline in production volumes.

Pricing for the three and nine months ended September 30, 2016 is further discussed below in “Commodity Prices and Foreign Exchange”.

Commodity Prices and Foreign Exchange

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	**2016**	2015
Benchmark Prices				
Crude oil				
WTI *(US$/bbl)*	**44.94**	46.43	**41.33**	51.00
Edmonton Light (MSW) *(Cdn$/boe)*	**54.67**	56.17	**50.01**	58.53
Differential – MSW/WTI *(US$/bbl)*	**(2.96)**	(3.42)	**(3.24)**	(4.36)
Hardisty Bow River *(Cdn$/boe)*	**51.54**	53.50	**46.59**	57.50
Differential – Bow River/WTI *(US$/bbl)*	**(13.18)**	(12.95)	**(13.28)**	(12.81)
Natural gas				
NYMEX *(US$/mmbtu)* (1)	**2.81**	2.77	**2.29**	2.79
AECO *(Cdn$/GJ)* (2)	**2.20**	2.63	**1.76**	2.75
Average Realized Prices				
Natural gas *($/mcf)*	**2.50**	2.86	**1.51**	2.86
Crude oil *($/bbl)*	**45.95**	47.28	**40.70**	53.00
NGLs *($/bbl)*	**–**	12.48	**–**	28.37
Combined average *($/boe)* (3)	**45.68**	44.91	**40.43**	45.99
Foreign Exchange				
Cdn$/US$	**1.3051**	1.3093	**1.3228**	1.2600
US$/Cdn$	**0.7662**	0.7638	**0.7560**	0.7937

(1) Mmbtu is the abbreviation for millions of British thermal units. One mcf of natural gas is approximately 1.02 mmbtu.
(2) GJ is the abbreviation for gigajoule. One mcf of natural gas is approximately 1.05 GJ
(3) Combined average realized prices includes all oil, gas and NGL sales revenue, excluding other income

Crude Oil Pricing

The average realized price of Granite's crude oil was $45.95/bbl for the third quarter of 2016 compared to $47.28/bbl in the third quarter of 2015 and $45.58/bbl in the second quarter of 2016. Granite's realized oil price decreased by three percent from the prior year's third quarter due to the decrease in the US$ WTI benchmark price and a strengthening in the Canadian dollar compounded by larger differentials. Granite's realized oil price was consistent in both the second and thirds quarters of 2016.

For the nine months ended September 30, 2016, the Company's average realized crude oil price was $40.70/bbl compared to $53.00/bbl in the same period in the prior year, a 23 percent decrease driven by lower benchmark prices and widening differentials partially offset by a weaker Canadian dollar.

Natural Gas Pricing

Granite's average realized natural gas price was $2.50/mcf in the third quarter of 2016 compared to $2.86/mcf in the third quarter of 2015 and $nil in the second quarter of 2016. The decrease in the natural gas price from the third quarter of 2015 is driven by the decrease in the AECO gas index price. Granite did not have any natural gas sales in the second quarter of 2016 as compared to minor gas sales in the third quarter of 2016 as a result of the Company injecting 100 percent of its natural gas production into the Alberta Bakken property pursuant to the EOR scheme. Any gas sales reflected post March 2016 are the result of conservation efforts while planned injector maintenance occurs.

Granite's average realized natural gas price was $1.51/mcf in the first nine months of 2016 versus $2.86/mcf in the same period of 2015. The Company's realized gas price decreased by 47 percent from the same period in 2015 driven by the decrease in the AECO gas index price.

Price Risk & Mitigation

Ongoing commodity price volatility may affect Granite's funds from operations and rates of return on capital programs. As continued volatility is expected in 2016 and 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 through its risk management program. As at September 30, 2016, Granite had nine crude oil hedges and four foreign exchange hedges (refer to "Risk Management" below for details). Most commodity prices are based on US dollar benchmarks, which result in the Company's realized prices being influenced by the Canadian/US exchange rates. The Company does not sell or transact in foreign currency, but is affected by foreign currency exchange rate changes related to commodity prices as outlined above.

Royalties

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	**2016**	2015
Oil and natural gas revenue *($000s)*	**11,566**	15,057	**31,328**	95,234
Other income *($000s)*	**16**	138	**108**	27
Total oil and natural gas revenue *($000s)*	**11,582**	15,195	**31,436**	95,261
Total royalties *($000s)*	**2,788**	4,620	**8,126**	23,817
Total royalties *($/boe)*	**11.01**	13.78	**10.49**	11.50
Percent of oil and natural gas revenue *(%)*	**24**	30	**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 third quarter of 2016, royalties totaled $2.8 million or 24 percent of oil and gas sales revenue compared to $4.6 million or 30 percent of revenue for the same quarter in 2015 and $3.5 million or 29 percent of revenue in the second quarter of 2016. Both the year-over-year and quarter-over-quarter royalty rate decrease was largely due to the receipt of Crown royalty credits related to prior period gas cost allowance (GCA) booked in the current period.

For the nine months ended September 30, 2016, royalties totaled $8.1 million or 26 percent of oil and gas sales revenue compared to $23.8 million or 25 percent of oil and gas sales revenue for the same period in 2015. The increase in the royalty rate as compared to the same period in 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 September 30,		Nine Months Ended September 30,	
	2016	2015	**2016**	2015
Operating expenses *($000s)*	**1,991**	2,006	**5,361**	14,759
Transportation expenses *($000s)*	**373**	319	**1,141**	5,596
Total operating and transportation expenses *($000s)*	**2,364**	2,325	**6,502**	20,355
Operating expenses *($/boe)*	**7.86**	5.98	**6.92**	7.13
Transportation expenses *($/boe)*	**1.47**	0.95	**1.47**	2.70
Total operating and transportation expenses *($/boe)*	**9.33**	6.93	**8.39**	9.83

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 third quarter of 2016 totaled $2.0 million or $7.86/boe compared to $2.0 million or $5.98/ boe in the same period of 2015 and $1.7 million or $6.45/boe in the second quarter of 2016. Operating expenses have increased slightly as compared to the second quarter of 2016 as a result of higher workover costs as well as prior period costs incurred in the current quarter. Operating costs on an absolute basis have remained consistent year-over-year.

Transportation expenses for the three months ended September 30, 2016 were $0.4 million or $1.47/boe compared to $0.3 million or $0.95/boe in the third quarter of 2015 and $0.4 million or $1.51/boe in the second quarter of 2016.

For the nine months ended September 30, 2016, the Company incurred operating expenses of $5.4 million or $6.92/boe compared to $14.8 million or $7.13/boe in the same period in the prior year. Transportation expenses for the first nine months of 2016 totaled $1.1 million or $1.47/boe as compared to $5.6 million or $2.70/boe in the same period in 2015. The decrease in both operating and transportation costs as compared to the nine months ended September 30, 2015, 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 the same period in 2015).

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 September 30, 2016, the Company had the following crude oil risk management contracts, with a total mark-to-market liability of $0.4 million (December 31, 2015 – $7.6 million asset):

Crude Oil Contracts

Remaining Period (000s)	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price
Oct. 1/16 – Dec 31/16	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	Cdn $78.00/bbl
Oct. 1/16 – Dec. 31/16	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US $62.75/bbl
Oct. 1/16 – Dec. 31/16	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	Cdn $80.00/bbl
Oct. 1/16 – Dec. 31/16	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US $32.02/bbl
Oct. 1/16 – Dec. 31/16	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US $40.00/bbl
Oct. 1/16 – 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
Jan. 1/17 – Dec. 31/17	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US $51.20/bbl

Foreign Exchange Contracts

Period	Currency	Type of Contract	Quantity	Strike Price
Oct. 3/16 – Jun. 30/17	US$	Average Rate Forward	US $300,000	1.3126 (CAD/USD)
Oct. 3/16 – Oct. 31/16	US$	Average Rate Forward	US $310,000	1.3100 (CAD/USD)
Nov. 1/16 – Nov. 30/16	US$	Average Rate Forward	US $300,000	1.3100 (CAD/USD)
Dec.1/16 – Dec. 30/16	US$	Average Rate Forward	US $310,000	1.3100 (CAD/USD)

Subsequent to September 30, 2016, Granite entered into the following crude oil risk management contracts:

CRUDE OIL CONTRACTS

Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price
Jul. 1/17 – Dec 31/17	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US $52.50/bbl

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	**2016**	2015
Unrealized gain (loss) on financial instruments *($000s)*	**435**	4,437	**(8,038)**	(9,468)
Unrealized gain (loss) on financial instruments *($/boe)*	**1.72**	13.24	**(10.37)**	(4.57)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	**2016**	2015
Realized gain (loss) on financial instruments *($000s)*	**829**	7,516	**4,685**	19,178
Realized gain (loss) on financial instruments *($/boe)*	**3.27**	22.42	**6.05**	9.26

During the third quarter of 2016, the Company recorded an unrealized gain on financial instruments of $0.4 million and a realized gain of $0.8 million. In the same period of the prior year, the Company recorded an unrealized gain of $4.4 million and a realized gain of $7.5 million. In the previous quarter, the Company recorded an unrealized loss of $5.8 million and a realized gain of $0.9 million. The unrealized gain in the third quarter of 2016 resulted from the change in the mark-to-market value of the Company's risk management contracts at the period end. These non-cash unrealized derivative losses (gains) are generated by the change over the reporting period in the mark-to-market valuation of Granite's risk management contracts. The realized gains or losses represent actual cash settlements under the respective commodity, foreign exchange and interest rate contracts in the respective periods.

For the nine months ended September 30, 2016, the Company recorded an unrealized loss of $8.0 million and a realized gain of $4.7 million compared to an unrealized loss of $9.5 million and a realized gain of $19.2 million, in the same period of 2015.

Operating Netback (1)(2)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	**2016**	2015
($/boe)				
Average sales price	**45.74**	45.32	**40.56**	46.00
Royalties	**(11.01)**	(13.78)	**(10.49)**	(11.50)
Operating expenses	**(7.86)**	(5.98)	**(6.92)**	(7.13)
Transportation expenses	**(1.47)**	(0.95)	**(1.47)**	(2.70)
Operating netback prior to hedging gain (loss)	**25.40**	24.61	**21.68**	24.67
Realized gain on financial instruments	**3.27**	22.42	**6.05**	9.26
Operating netback (2)	**28.67**	47.03	**27.73**	33.93

(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 $28.67/boe for the three months ended September 30, 2016 compared to $47.03/boe in the same period of 2015 and $27.80/boe in the second quarter of 2016. The year-over-year decrease is primarily attributable to the decrease in the realized gain on financial instruments. The operating netback has remained consistent for the second and third quarters of 2016.

For the first nine months of 2016, the operating netback was $27.73/boe compared to $33.93/boe in the same period of 2015, due to lower year-to-date pricing but offset by lower royalties, operating and transportation expenses.

General and Administrative (G&A) Expenses

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	**2016**	2015
($000s except per boe)				
Gross G&A expense	**984**	804	**2,845**	5,075
Capitalized G&A (direct)	**(156)**	(151)	**(465)**	(913)
Overhead recoveries	**–**	(17)	–	(198)
G&A expense (net)	**828**	636	**2,380**	3,964
G&A expense (net) *($/boe)*	**3.27**	1.90	**3.07**	1.91

Gross G&A expense totaled $1.0 million for the three-month period ended September 30, 2016 compared to $0.8 million in the comparable period of 2015 and $1.0 million in the second quarter of 2016. Net G&A costs were $0.8 million or $3.27/boe in the third quarter of 2016 compared to $0.6 million or $1.90/boe a year earlier and $0.8 million or $3.07/boe in the second quarter of 2016. When compared to the same quarter in the prior year, gross G&A costs increased on an absolute basis due to adjustments related to the POA booked in the third quarter of 2015 that reduced the Company's G&A for that quarter. G&A costs in the third quarter of 2016 remained consistent as compared to the second quarter of 2016.

Net G&A expense for the first nine months of 2016 totaled $2.4 million or $3.07/boe compared to $4.0 million or $1.91/boe in the same period of 2015.

The Company capitalized direct G&A expenses amounting to $0.2 million and had overhead recoveries of $nil in the third 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 second quarter of 2016.

During the nine months ended September 30, 2016, the Company capitalized $0.5 million in direct costs related to its exploration and development efforts and $nil of overhead recoveries compared to $0.9 million and $0.2 million, respectively, in the same period of 2015.

Share-Based Compensation

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	**2016**	2015
($000s except per boe)				
Gross share-based compensation	**1,003**	976	**4,823**	2,838
Share-based compensation reclassified to operating costs	**–**	–	**–**	(55)
Capitalized share-based compensation	**(431)**	(326)	**(1,776)**	(1,041)
Share-based compensation expense (net)	**572**	650	**3,047**	1,742
Share-based compensation expense (net) *($boe)*	**2.26**	1.94	**3.93**	0.84

On May 15, 2015, Granite adopted a Share Incentive Plan ("SIP"), described in note 10 to the interim financial statements for the period ended September 30, 2016. 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 ("TBA") and performance-based ("PBA") awards, each performance based award granted is subject to a performance multiplier ranging from 0 to 2, dependent on the performance of Granite at the end of the vesting period relative to corporate performance measures determined at the discretion of Granite's Board of Directors. The fair value of the awards granted under the plan is estimated at the grant date using a binomial pricing model. At September 30, 2016, the Company had 1,329,997 awards outstanding under this plan (December 31, 2015 – 944,995 awards).

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 September 30, 2016, the Company had 132,422 replacement options outstanding (December 31, 2015 – 194,486 replacement options).

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 stock incentives granted to the Company's employees, consultants and directors. For those stock options granted to field employees, their portion of the share-based compensation is reclassified to operating expenses, in order to be consistent with the recognition of their salaries on the statement of operations and comprehensive income.

For the quarter ended September 30, 2016, the Company incurred net share-based compensation expense of $0.6 million or $2.26/boe versus $0.7 million or $1.94/boe in the same period of 2015 and $1.4 million or $5.26/boe in the second quarter of 2016. The decrease from the second quarter of 2016 is the result of the effect of the settlement of the first tranche of share incentives in June 2016 as well as an increase in the performance multiplier for the outstanding PBAs which increased the share-based compensation in the second quarter of 2016. In the third quarter of 2016 the estimated performance multiplier for all PBAs has remained consistent at 1.5.

During the first nine months of 2016, Granite incurred net share based compensation of $3.0 million or $3.93/boe compared to $1.7 million or $0.84/boe in the same period in the prior year.

Depletion and Depreciation (D&D) Expense

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	**2016**	2015
Depletion and depreciation expense *($000s)*	**4,034**	6,369	**13,103**	39,295
Depletion and depreciation expense *($/boe)*	**15.93**	19.00	**16.91**	18.98

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 September 30, 2016, the Company recorded D&D expense of $4.0 million or $15.93/boe compared to $6.4 million or $19.00/boe in the same period of 2015 and $4.5 million or $17.20/boe in the second quarter of 2016. The absolute decrease in D&D expense year-over-year is largely attributable to the decrease in production volumes and change in future development costs.

For the nine months ended September 30, 2016, the Company recorded D&D expense of $13.1 million or $16.91/boe as compared to $39.3 million or $18.98/boe in the same period in the prior year.

Exploration and Evaluation (E&E) Expense

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	**2016**	2015
Exploration and evaluation expense *($000s)*	**139**	1,078	**910**	1,422
Exploration and evaluation expense *($/boe)*	**0.55**	3.21	**1.17**	0.69

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, preliminary drill costs as well as costs of undeveloped land lease expiries are expensed as they occur.

During the third quarter of 2016, the Company recorded E&E expense of $0.1 million or $0.55/boe compared to $1.1 million or $3.21/boe in the third quarter of 2015 and $0.6 million or $2.32/boe in the second quarter of 2016. The E&E expense recognized in the current quarter primarily relates to lease expiries.

During the nine months ended September 30, 2016, the Company recorded E&E expense of $0.9 million or $1.17/boe compared to $1.4 million or $0.69/boe in the comparable period of 2015.

Accretion and Finance Expenses

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	**2016**	2015
($000s except per boe)				
Accretion expense on decommissioning liabilities	**73**	73	**221**	400
Finance expense	**370**	320	**1,080**	3,012
Total accretion and finance expenses	**443**	393	**1,301**	3,412
Accretion expense on decommissioning liabilities *($/boe)*	**0.29**	0.23	**0.29**	0.19
Finance expense *($/boe)*	**1.46**	0.95	**1.39**	1.45
Total accretion and finance expenses *($/boe)*	**1.75**	1.18	**1.68**	1.64

Accretion expense represents the increase in the present value of the Company's decommissioning liabilities. In the third quarter of 2016, the Company recorded accretion expense of $0.07 million or $0.29/boe compared to $0.07 million or $0.23/boe in the same period of 2015 and $0.07 million or $0.27/boe in the second quarter of 2016.

During the three months ended September 30, 2016, the Company recorded interest and finance expenses of $0.4 million or $1.46/boe compared to $0.3 million or $0.95/boe in the same period of 2015 and $0.4 million or $1.62/boe in the previous quarter. The Company incurred interest charges and standby fees related to the Company's credit facility which was drawn to $25.3 million at the end of the quarter (December 31, 2015 – $37.0 million).

For the first nine months of 2016, the Company recorded accretion expense of $0.2 million or $0.29/boe compared to $0.4 million or $0.19/boe in the comparable period of 2015. The Company also recorded finance expense of $1.1 million or $1.39/boe compared to $3.0 million or $1.45/boe in the same period of the prior year.

Income Taxes

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	**2016**	2015
Deferred income tax expense (recovery) *($000s)*	**626**	2,664	**(1,070)**	3,501
Deferred income tax expense (recovery) *($/boe)*	**2.47**	7.95	**(1.38)**	1.69

During the third quarter of 2016, the Company recorded a deferred income tax expense of $0.6 million or $2.47/boe compared to a $2.7 million expense or $7.95/boe in the same period of 2015 and a $1.3 million recovery or $5.01/boe in the second quarter of 2016. The deferred income tax expense is a function of the net income in the third quarter of 2016.

During the nine months ended September 30, 2016, the Company recorded a deferred income tax recovery of $1.1 million or $1.38/boe compared to a $3.5 million expense or $1.69/boe in the same period in the prior year. The deferred income tax recovery is a function of the net loss for the nine months ended September 30, 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 September 30, 2016 of $186.5 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 September 30,		Nine Months Ended September 30,	
	2016	2015	**2016**	2015
($000s except number of wells)				
Drilling and completions	**4,179**	4,879	**10,394**	42,422
Equipment and facilities	**847**	819	**3,435**	6,950
Workovers and gas injection conversion	**1,025**	452	**1,396**	2,643
Land and lease retention	**34**	286	**597**	2,709
Capitalized G&A and other	**159**	151	**475**	879
Total exploration and development	**6,244**	6,587	**16,297**	55,603
Property acquisitions and adjustments	**-**	644	**-**	644
Total capital expenditures	**6,244**	7,231	**16,297**	56,247
Total wells drilled *(#)*	**3 (3.0)**	3 (3.0)	**7 (7.0)**	13 (13.0)

During the third quarter of 2016, the Company incurred a total of $6.2 million (third quarter 2015 – $7.2 million) in capital expenditures, excluding non-cash decommissioning liabilities and capitalized share-based compensation. Drilling and completion expenditures totaled $4.2 million in the third quarter of 2016 (third quarter 2015 – $4.9 million), $0.8 million was spent on tie-ins and facilities (third quarter 2015 – $0.8 million), $1.0 million on workovers and gas injection conversion (third quarter 2015 - $0.5 million) and $0.03 million on land sales (third quarter 2015 – $0.3 million). The remaining $0.2 million in the third quarter of 2016 (third quarter 2015 – $0.2 million) was invested in capitalized G&A and other corporate assets and $nil on property acquisitions and adjustments (third quarter 2015 - $0.6 million).

During the nine months ended September 30, 2016, the Company incurred a total of $16.3 million (2015 – $56.2 million) in capital expenditures, excluding non-cash decommissioning liabilities and capitalized share-based compensation. Drilling and completion expenditures totaled $10.4 million (2015 – $42.4 million), $3.4 million was spent on tie-ins and facilities (2015 – $6.7 million), $1.4 million on workovers and gas injection conversion (2015 - $2.6 million) and $0.6 million on land sales (2015 – $2.7 million). The remaining $0.5 million in the first nine months of 2016 (2015 – $0.9 million) was invested in capitalized G&A and other corporate assets and $nil on property acquisitions and adjustments (2015 - $0.6 million).

Drilling Activity

	Exploration		Development		Total	
	Gross	Net	Gross	Net	Gross	Net
	(#)	*(#)*	*(#)*	*(#)*	*(#)*	*(#)*
Three Months Ended September 30, 2016						
Crude oil	**–**	**–**	**3**	**3.0**	**3**	**3.0**
Total wells	**–**	**–**	**3**	**3.0**	**3**	**3.0**
Success rate *(%)*		**–**		**100**		**100**
Average working interest *(%)*		**–**		**100**		**100**
Three Months Ended September 30, 2015						
Crude oil	–	–	2	2.0	2	2.0
Dry and abandoned	1	1.0	–	–	1	1.0
Total wells	1	1.0	2	2.0	3	3.0
Success rate *(%)*		–		100		67
Average working interest *(%)*		100		100		100
Nine Months Ended September 30, 2016						
Crude oil	**–**	**–**	**7**	**7.0**	**7**	**7.0**
Total wells	**–**	**–**	**7**	**7.0**	**7**	**7.0**
Success rate *(%)*		**–**		**100**		**100**
Average working interest *(%)*		**–**		**100**		**100**
Nine Months Ended September 30, 2015						
Crude oil	–	–	12	12.0	12	12.0
Dry and abandoned	1	1.0	–	–	1	1.0
Total wells	1	1.0	12	12.0	13	13.0
Success rate *(%)*		–		100		92
Average working interest *(%)*		100		100		100

During the third 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 September 30, 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 text well and was determined to be dry and abandoned well on the Alberta Bakken property.

During the nine months ended September 30, 2016, Granite drilled a total of 7 gross (7.0 net) crude oil development wells on the Alberta Bakken property with a 100 percent success rate. During the nine months ended September 30, 2015, the Company drilled 12 gross (12.0 net) crude oil development wells, 8 gross (8.0 net) on the Alberta Bakken property and 4 gross (4.0 net) on the Brazeau property as well as 1 gross (1.0 net) exploration well which was a vertical stratigraphic text well and was 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 September 30, 2016 and December 31, 2015:

($000s)	**Nine Months Ended September 30, 2016**	Year Ended December 31, 2015
Working capital deficiency	**3,999**	2,600
Bank debt	**25,324**	37,012
Net debt [(1)] – end of period	**29,323**	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 first nine months of 2016, the Company generated funds from operations of $18.0 million, invested $16.3 million in capital expenditures and paid $10.0 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 62,064 options were exercised for total cash proceeds of $0.2 million. Granite exited the quarter with net debt of $29.3 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 September 30, 2016, the Granite facility was drawn to approximately $25.3 million with $34.7 million of unused borrowing capacity.

Interest is charged at a rate per annum equal to the Canadian prime rate during the 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 and is currently underway. A decrease in the borrowing base could result in a reduction to the credit facility. Collateral for this facility consists of a general security agreement, providing a security interest over all present and subsequently acquired personal property and a floating charge on all present and subsequently acquired land interest of the Company.

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 nine months ended September 30, 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,	2016	2017	2018	Total
($000s)				
Operating lease – office	55	129	–	184
Total commitments	55	129	–	184

As at September 30, 2016, the Company had contractual obligations for its office leases totaling approximately $0.2 million to July 2017. The office lease obligations are comprised of the lease payments and an estimate of occupancy costs of the Company's head office space.

SHARE CAPITAL

As at November 9, 2016, the Company had the following equity securities outstanding:

Common shares outstanding	33,666,293
Stock options outstanding	79,713
Share incentives outstanding	1,329,997

SELECTED QUARTERLY INFORMATION (1)(4)

Three Months Ended	**Sept. 30, 2016**	Jun. 30, 2016	Mar. 31, 2016	Dec. 31, 2015	Sept. 30, 2015	June 30, 2015	March 31, 2015	Dec. 31, 2014
(000s, except per share amounts and production figures)	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*
Oil and natural gas revenues	**11,582**	11,837	8,017	13,181	15,195	33,989	46,077	69,957
Funds from operations	**6,061**	6,014	5,958	13,349	14,510	17,191	27,623	41,773
Per share – basic	**0.18**	0.19	0.20	0.44	0.48	0.57	0.93	1.46
Per share – diluted	**0.18**	0.19	0.19	0.43	0.47	0.57	0.91	1.41
Cash flow from operating activities	**8,819**	5,172	6,114	19,934	1,250	22,526	17,607	54,239
Net income (loss)	**1,052**	(5,010)	(2,258)	(1,610)	6,431	143,635	1,761	28,312
Per share – basic	**0.03**	(0.16)	(0.07)	(0.05)	0.21	4.78	0.06	0.99
Per share – diluted	**0.03**	(0.16)	(0.07)	(0.05)	0.21	4.77	0.06	0.96
Total assets	**290,594**	291,054	291,928	298,698	309,596	303,489	752,643	743,202
Capital expenditures (2)	**6,244**	5,731	4,322	8,632	6,587	11,956	37,060	53,282
Net debt (3)	**29,323**	25,697	41,126	39,612	41,546	45,047	180,784	171,347
Shareholders' equity	**218,198**	219,592	207,607	211,293	214,995	210,470	466,447	463,509
Production								
Natural gas (mcf/d)	**145(5)**	–(5)	290	841	1,674	7,229	15,103	16,510
Crude oil (bbls/d)	**2,728**	2,858	2,828	3,334	3,358	5,603	9,188	9,275
NGLs (bbls/d)	**–**	–	–	2	7	102	591	815
Total (boe/d)	**2,752**	2,858	2,876	3,476	3,644	6,910	12,296	12,842

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

(2) Total capital expenditures, 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 "2016 Third Quarter Financial and Operating Highlights".

(5) Commencing in March 2016, the Company began injecting 100 percent of its natural gas production into the Alberta Bakken property pursuant to the EOR scheme. Any gas sales reflected post March 2016 are the result of conservation efforts while planned injector maintenance occurs.

BUSINESS RISKS AND RISK MITIGATION

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

Reserves and Resource Estimates

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

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

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

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

Volatility of Oil and Natural Gas Prices

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

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

Operational Matters

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

Access to Capital

The oil and natural gas industry is a very capital-intensive industry and, in order to fully realize the Company's strategic goals and business plans, Granite will rely on equity markets as a source of new capital in addition to bank financing and internally generated cash flow to fund its ongoing capital investments. Granite's ability to raise additional capital will depend on a number of factors that are beyond the Company's control, such as general economic and market conditions. Internally generated funds will also fluctuate with changing commodity prices. Granite currently has a $60 million syndicated demand facility with three banks. 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 and is currently underway. A decrease in the borrowing base could result in a reduction to the credit facility. The Company is required to comply with covenants under this facility and in the event it does not comply, access to capital could be restricted or repayment could be required. Granite routinely reviews the covenants based on actual and forecast results and has the ability to make changes to development plans to comply with the covenants under the credit facility. Granite anticipates it will continue to have adequate liquidity to fund its financial liabilities through its future funds from operations and available bank credit. Granite is committed to maintaining a strong balance sheet along with an adaptable capital expenditure program that can be adjusted to capitalize on, or reflect, acquisition opportunities and, if necessary, a tightening of liquidity sources. From its founding to the date of this MD&A, Granite has had no defaults or breaches on its bank debt or any of its financial liabilities.

Counterparty Risk

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

Variations in Interest Rates and Foreign Exchange Rates

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

Changes in Income Tax Legislation

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

Environmental Concerns

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

Project Risks

Granite's ability to execute projects and market oil and natural gas depends on numerous factors beyond its control, including: availability of processing capacity, availability and proximity of pipeline capacity, availability of storage capacity, supply of and demand for oil and natural gas, availability of alternative fuel sources, effects of inclement weather, availability of drilling and related equipment, unexpected cost increases, accidental events, change in regulations, and availability and productivity of skilled labour. Because of these factors, Granite could be unable to execute projects on time, on budget or at all, and may not be able to effectively market the oil and natural gas that it produces.

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

CRITICAL ACCOUNTING ESTIMATES

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

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

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Granite is required to comply with National Instrument 52-109 – "Certification of Disclosure in Issuers' Annual and Interim Filings" and management has assessed the effectiveness of the Company's internal control over financial reporting as defined by this instrument. The assessment was based on the framework in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The certification of interim filings for the interim period ended September 30, 2016 requires that Granite disclose in the interim MD&A any changes in the Company's internal control over financial reporting that occurred during the period that have materially affected, or are reasonably likely to materially affect, Granite's internal control over financial reporting. Granite confirms that no such changes were made to its internal controls over financial reporting during the three or nine months ended September 30, 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 full impact of the standard on the Company's financial statements is currently being assessed by the Company.

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

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

NON- GAAP MEASUREMENTS

This MD&A includes non-GAAP measures as further described herein. These non-GAAP measures do not have a standardized meaning prescribed by International Financial Reporting Standards ("IFRS or, alternatively, "GAAP") and therefore may not be comparable with the calculation of similar measures by other companies.

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 September 30,		Nine Months Ended September 30,	
	2016	2015	**2016**	2015
($000s)				
Cash flow from operating activities	**8,819**	1,250	**20,105**	41,383
Changes in non-cash working capital	**(2,758)**	13,260	**(2,072)**	17,941
Funds from operations	**6,061**	14,510	**18,033**	59,324

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.

STATEMENTS OF FINANCIAL POSITION

(Unaudited)

As at	**September 30, 2016**	December 31, 2015
(000s)	*($)*	*($)*
ASSETS		
Current assets		
Accounts receivable	**5,864**	10,927
Deposits and prepaid expenses	**466**	753
Derivative financial instruments (note 12)	**–**	7,615
	6,330	19,295
Non-current assets		
Exploration and evaluation assets (note 5)	**37,635**	37,463
Property and equipment (note 6)	**246,629**	241,940
Total assets	**290,594**	298,698
LIABILITIES		
Current liabilities		
Bank debt (note 7)	**25,324**	37,012
Accounts payable and accrued liabilities	**9,153**	13,218
Dividend payable	**1,176**	1,062
Derivative financial instruments (note 12)	**370**	–
	36,023	51,292
Non-current liabilities		
Decommissioning liabilities (note 8)	**14,373**	13,349
Flow-through share premium liability (note 9)	**578**	–
Derivative financial instruments (note 12)	**32**	–
Deferred tax liability	**21,390**	22,764
Total liabilities	**72,396**	87,405
SHAREHOLDERS' EQUITY		
Share capital (note 9)	**410,792**	388,949
Contributed surplus	**15,788**	14,479
Deficit	**(208,382)**	(192,135)
Total shareholders' equity	**218,198**	211,293
Total liabilities and shareholders' equity	**290,594**	298,698

See accompanying notes to the condensed interim financial statements.

STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	**2016**	2015
(000s, except per share amounts)	*($)*	*($)*	*($)*	*($)*
REVENUE				
Oil and natural gas revenues	**11,582**	15,195	**31,436**	95,261
Royalties	**(2,788)**	(4,620)	**(8,126)**	(23,817)
Oil and natural gas revenues, net of royalties	**8,794**	10,575	**23,310**	71,444
Unrealized gain (loss) on financial instruments	**435**	4,437	**(8,038)**	(9,468)
Realized gain on financial instruments	**829**	7,516	**4,685**	19,178
	10,058	22,528	**19,957**	81,154
EXPENSES				
Operating and transportation	**2,364**	2,325	**6,502**	20,355
General and administrative	**828**	636	**2,380**	3,964
Depletion and depreciation (note 6)	**4,034**	6,369	**13,103**	39,295
Share-based compensation (note 10)	**572**	650	**3,047**	1,742
Exploration and evaluation expense (note 5)	**139**	1,078	**910**	1,422
Accretion and finance expenses	**443**	393	**1,301**	3,412
Transaction costs – general and administrative (note 4)	**–**	141	**–**	3,802
Transaction costs – share-based compensation (note 4)	**–**	–	**–**	4,027
Loss (gain) on disposition to Boulder (note 4)	**–**	1,841	**–**	(152,193)
	8,380	13,433	**27,243**	(74,174)
Income (loss) before income tax	**1,678**	9,095	**(7,286)**	155,328
TAXES				
Deferred income tax expense (recovery)	**626**	2,664	**(1,070)**	3,501
Net income (loss) and comprehensive income (loss) for the period	**1,052**	6,431	**(6,216)**	151,827
Net income (loss) per share (note 9)				
Basic	**0.03**	0.21	**(0.19)**	5.10
Diluted	**0.03**	0.21	**(0.19)**	5.05

See accompanying notes to the condensed interim financial statements.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

	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)	**–**	**4,823**	**–**	**4,823**
Common shares issued, net of share issue costs	**15,384**	**–**	**–**	**15,384**
Flow-through shares issued	**3,003**	**–**	**–**	**3,003**
Premium on flow-through shares	**(578)**	**–**	**–**	**(578)**
Tax benefit of share issuance costs	**302**	**–**	**–**	**302**
Issued on vesting of share incentives	**3,478**	**(3,478)**	**–**	**–**
Exercise of options	**254**	**(36)**	**–**	**218**
Dividends	**–**	**–**	**(10,031)**	**(10,031)**
Net loss	**–**	**–**	**(6,216)**	**(6,216)**
Balance – September 30, 2016	**410,792**	**15,788**	**(208,382)**	**218,198**
Balance – January 1, 2015	381,540	12,591	69,378	463,509
Share-based compensation	–	6,865	–	6,865
Exercise of options	7,344	(5,932)	–	1,412
Distribution of non-cash assets (note 4)	–	–	(404,825)	(404,825)
Dividends	–	–	(3,793)	(3,793)
Net income	–	–	151,827	151,827
Balance – September 30, 2015	388,884	13,524	(187,413)	214,995

See accompanying notes to the condensed interim financial statements.

STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
(000s)	*($)*	*($)*	*($)*	*($)*
Cash flow from (used in):				
Operating activities				
Net income (loss) for the period	**1,052**	6,431	**(6,216)**	151,827
Adjustments for:				
Depletion and depreciation expense (note 6)	**4,034**	6,369	**13,103**	39,295
Deferred income tax expense (recovery)	**626**	2,664	**(1,070)**	3,501
Share-based compensation (note 10)	**572**	650	**3,047**	1,797
Transaction costs – share-based compensation (note 4)	–	–	–	4,027
Accretion (note 8)	**73**	73	**221**	400
Unrealized loss (gain) on financial instruments (note 12)	**(435)**	(4,437)	**8,038**	9,468
Exploration and evaluation expense (note 5)	**139**	1,078	**910**	1,422
Loss (gain) on disposition of Boulder (note 4)	–	1,841	–	(152,193)
Abandonment and reclamation costs	–	(159)	–	(220)
	6,061	14,510	**18,033**	59,324
Change in non-cash working capital (note 11)	**2,758**	(13,260)	**2,072**	(17,941)
	8,819	1,250	**20,105**	41,383
Financing activities				
Change in bank debt	**1,125**	16,526	**(11,688)**	(94,518)
Assumption of debt from Boulder transaction (note 4)	–	–	–	130,000
Dividends	**(3,529)**	(2,883)	**(10,031)**	(3,793)
Issuance of share capital	**79**	–	**19,724**	1,412
Share issuance costs	–	–	**(1,119)**	–
Change in non-cash working capital (note 11)	**1**	76	**114**	986
	(2,324)	13,719	**(3,000)**	34,087
Investing activities				
Property and equipment expenditures	**(6,024)**	(6,553)	**(15,491)**	(53,357)
Exploration and evaluation expenditures	**(220)**	(678)	**(806)**	(2,890)
Changes in non-cash working capital (note 11)	**(258)**	(7,880)	**(787)**	(19,365)
	(6,502)	(15,111)	**(17,084)**	(75,612)
Foreign exchange gain on cash and cash equivalents held in foreign	**7**	142	**(21)**	142
Change in cash and cash equivalents	–	–	–	–
Cash and cash equivalents – beginning of period	–	–	–	–
Cash and cash equivalents – end of period	–	–	–	–

See accompanying notes to the condensed interim financial statements.

1 REPORTING ENTITY

Granite Oil Corp. ("Granite" or the "Company") is a publicly traded company incorporated under the laws of Alberta. The Company is a dividend-paying, junior oil producer based in Calgary, Alberta that 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 condensed interim financial statements for the three and nine months ended September 30, 2016 were prepared in accordance with International Financial Reporting Standard 34 "Interim Financial Reporting" as issued by the International Accounting Standards Board (IASB).

The condensed interim financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2015.

These financial statements were authorized for issuance by the Board of Directors on November 9, 2016.

(b) Basis of Measurement

The financial statements of Granite were prepared on the historical cost basis, except for derivative financial instruments, which are measured at fair value. The methods used to measure fair values are discussed in note 12.

(c) Use of Estimates and Judgements

Significant estimates and judgements made by management in the preparation of these condensed interim financial statements remain unchanged and are outlined in Note 2 of the December 31, 2015 audited annual financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Current Accounting Policies

The Company's accounting policies are described in Note 3 of the December 31, 2015 audited annual financial statements. Those accounting policies have been applied consistently to all periods presented in these condensed interim financial statements.

(b) Future Accounting Policy Changes

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

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

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

4 PLAN OF ARRANGEMENT

On April 7, 2015, DeeThree Exploration Ltd. (“DeeThree“), as the Company was then called, and 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 New DeeThree shares and one half (0.5) of one share of Boulder. On May 14, 2015, the holders of common shares of DeeThree approved the POA. The POA was completed on May 15, 2015.

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

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

This transaction was considered to be a distribution of non-cash assets and was recorded at the fair market value of the Northern Assets at May 15, 2015. The weighted average trading price of Boulder shares after they commenced trading was used to determine the fair value of the net assets given up or $8.89 per common share. The carrying value was determined using the historical costs as recorded by DeeThree. The $152.0 million difference between Boulder’s fair value of $404.8 million and carrying value of $252.8 million was recognized on the statement of operations and comprehensive income as a gain on disposition of assets and reflects adjustments to the carrying value of Boulder net assets given up recorded subsequent to June 30, 2015.

The Company incurred $3.8 million in cash transaction costs related to the POA during the nine months ended September 30, 2015, including financial advisory accounting, legal and consulting fees recognized as “transaction costs – general and administrative” in the statement of operations and comprehensive income. For the options that were cancelled in relation to the POA, the remaining share based compensation of $4.0 million for the nine months ended September 30, 2015, was immediately recognized and expensed in the statement of operations and comprehensive income as “transaction costs – share-based compensation”.

5 EXPLORATION AND EVALUATION ASSETS

	Nine Months Ended September 30, 2016	Year Ended December 31, 2015
($000s)		
Balance – beginning of period	**37,463**	62,784
Additions	**1,119**	6,600
Disposition to Boulder (note 4)	**–**	(26,988)
Transfers to property and equipment	**(37)**	(742)
E&E expenses	**(199)**	(2,891)
Lease expiries	**(711)**	(1,300)
Balance – end of period	**37,635**	37,463

During the nine month period ended September 30, 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 in the Alberta Bakken) and $0.7 million related to lease expiries on undeveloped land (year ended December 31, 2015 – $1.3 million).

During the nine month period ended September 30, 2016, approximately $0.09 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 (year ended December 31, 2015 – $0.1 million and $0.2 million, respectively).

6 PROPERTY AND EQUIPMENT

	Oil and Natural Gas Properties	Office Equipment	Total
($000s)			
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	742	–	742
Balance – December 31, 2015	**303,489**	**523**	**304,012**
Additions	**17,746**	**9**	**17,755**
Transfers from exploration and evaluation assets	**37**	–	**37**
Balance – September 30, 2016	**321,272**	**532**	**321,804**
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 period	**13,059**	**44**	**13,103**
Balance – September 30, 2016	**74,848**	**327**	**75,175**
Net book value			
December 31, 2015	241,700	240	241,940
September 30, 2016	**246,424**	**205**	**246,629**

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

During the period ended September 30, 2016, approximately $0.4 million of directly attributable general and administrative expense and $1.5 million of directly attributable share-based compensation expense were capitalized as expenditures on property and equipment (year ended December 31, 2015 – $1.0 million and $1.2 million, respectively).

(b) Future Development Costs and Salvage Value

During the nine months ended September 30, 2016, an estimated $55.2 million of future development costs associated with proved plus probable undeveloped reserves were included in the calculation of depletion and depreciation expense and an estimated $10.0 million of salvage value of production equipment was excluded (December 31, 2015 – $73.4 million and $10.0 million, respectively).

7 BANK DEBT

At September 30, 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 a $60 million extendible revolving facility and a $20 million operating facility). The Credit Facility is considered a current liability due to its demand term.

Interest is charged at a rate per annum equal to the Canadian prime rate during the period plus the applicable margin, being a range of 0.50 percent to 2.50 percent, depending on the Company’s debt to cash flow ratio as determined by its lender.

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 drawn on the Credit Facility). At September 30, 2016, the Company was in compliance with the current ratio requirement.

At September 30, 2016, $25.3 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 and is currently underway. A decrease in the borrowing base could result in a reduction to the Credit Facility. Collateral for the Credit 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 $14.4 million as at September 30, 2016 (December 31, 2015 – $13.3 million) based on an undiscounted total future liability of $18.3 million (December 31, 2015 – $17.6 million). These payments are expected to be incurred over a period of two to 20 years with the majority of costs to be incurred between 2018 and 2028. At September 30, 2016, a risk-free rate of 2.00 percent (December 31, 2015 – 2.25 percent) and an inflation rate of 2.00 percent (December 31, 2015 – 2.00 percent) were used to calculate the net present value of the decommissioning liabilities.

($000s)	**Nine Months Ended September 30, 2016**	Year Ended December 31, 2015
Balance – beginning of period	**13,349**	34,165
Liabilities incurred	**437**	1,272
Revisions	**366**	1,941
Settlements	**-–**	(216)
Accretion of decommissioning liabilities	**221**	471
Liabilities disposed to Boulder (note 4)	**-–**	(24,284)
Balance – end of period	**14,373**	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

	Nine Months Ended September 30, 2016		Year Ended December 31, 2015	
	Shares	Amount	Shares	Amount
	(#)	*($000s)*	*(#)*	*($000s)*
Balance – beginning of period	**30,355,024**	**388,949**	29,655,187	381,540
Common shares issued (ii)	**2,324,300**	**16,503**	–	–
Exercise of options (iv)	**62,064**	**254**	699,837	7,409
Flow-through shares issued (iii)	**330,000**	**3,003**	–	–
Premium on flow-through shares (iii)	**–**	**(578)**	–	–
Issued on vesting of share incentives	**542,196**	**3,478**	–	–
Share issuance costs	**–**	**(1,119)**	–	–
Tax benefit of share issuance costs	**–**	**302**	–	–
Balance – end of period	**33,613,584**	**410,792**	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 Issuance

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 estimated share issuance costs), including 211,300 common shares issued pursuant to the exercise of an over-allotment held by the underwriters.

iii) Flow-through Share Issuance

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 and remains at September 30, 2016. To date, the Company has incurred $nil of the total $3.0 million qualifying expenditures, with the entire amount to be incurred by December 31, 2017.

iv) Exercising of Options

During the nine months ended September 30, 2016, 62,064 options were exercised at a weighted-average price of $3.52 per share for total cash proceeds of $0.2 million and previously recognized share-based compensation expense of $0.04 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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	**2016**	2015
(000s, except per share amounts)	*($)*	*($)*	*($)*	*($)*
Net income (loss) for the period	**1,052**	6,431	**(6,216)**	151,827
Weighted-average number of common shares	*(#)*	*(#)*	*(#)*	*(#)*
– basic	**33,598**	30,342	**31,942**	29,785
– diluted	**33,922**	30,567	**31,942**	30,058
Net income per weighted average common share	*($)*	*($)*	*($)*	*($)*
– basic	**0.03**	0.21	**(0.19)**	5.10
– diluted	**0.03**	0.21	**(0.19)**	5.05

10 SHARE- BASED COMPENSATION

(a) 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 as the original DeeThree options that were previously issued.

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

	Nine Months Ended September 30, 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	**(62,064)**	**3.52**	(13,331)	4.05
Outstanding – end of period	**132,422**	**4.16**	194,486	3.96
Exercisable – end of period	**124,423**	**3.99**	82,646	3.13

Exercise Price	Weighted-Average Contractual Outstanding	Options Life	Weighted-Average Exercisable
($)	*(#)*	*(years)*	*(#)*
As at September 30, 2016			
2.00 – 2.99	**36,325**	**0.05**	**36,325**
3.00 – 3.99	**6,331**	**0.32**	**6,331**
4.00 – 4.99	**71,769**	**0.45**	**71,769**
5.00 – 5.99	**5,332**	**0.72**	**5,332**
6.00 – 6.80	**12,665**	**1.20**	**4,666**
	132,422	**0.42**	**124,423**

Gross share-based compensation for the options was $0.03 million for the nine month period ended September 30, 2016 (year ended December 31, 2015 - $1.7 million). Of this amount, $nil was capitalized (year ended December 31, 2015 – $0.7 million), resulting in total net share-based compensation expense related to options of $0.03 million for the period (year ended December 31, 2015 - $1.0 million).

(b) 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:

	Nine Months Ended September 30, 2016	Year Ended December 31, 2015
	PBAs	PBAs
	(#)	*(#)*
Outstanding – January 1	**829,103**	–
Issued	**656,250**	829,103
Redeemed	**(276,367)**	–
Outstanding – end of period	**1,208,986**	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 nine months ended September 30, 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.

The following assumptions were used to value the PBAs granted during the nine month period ended September 30, 2016:

	Nine Months Ended September 30, 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 ($/award)	**5.98**	6.34

A performance multiplier of 1.5 has been assumed for the remaining PBAs outstanding at September 30, 2016 (December 31, 2015 – 1.0). Fluctuations in share based compensation expense may occur due to changes in estimates of performance outcomes.

Gross share-based compensation related to PBAs was $4.4 million for the nine months ended September 30, 2016 (year ended December 31, 2015 - $1.8 million). Of this amount, $1.6 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 period (year ended December 31, 2015 - $1.2 million).

The number of TBAs is as follows:

	Nine Months Ended September 30, 2016	Year Ended December 31, 2015
	TBAs	TBAs
	(#)	*(#)*
Outstanding – January 1	**115,892**	–
Issued	**43,750**	115,892
Redeemed	**(38,631)**	–
Outstanding – end of period	**121,011**	115,892

The fair value of the TBAs is determined at the grant date using the binomial option-pricing model. Fluctuations in share based compensation expense may occur due to changes in estimates of performance outcomes. During the nine months ended September 30, 2016, 38,631 TBAs were redeemed for 38,631 common shares.

The following assumptions were used to value the TBAs granted during the nine month period ended September 30, 2016:

	Nine Months Ended September 30, 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 ($/award)	**5.98**	6.34

Gross share-based compensation related to TBAs was $0.4 million for the nine months ended September 30, 2016 (year ended December 31, 2015 - $0.2 million). Of this amount, $0.2 million was capitalized (year ended December 31, 2015 – $0.1 million), resulting in total net share-based compensation expense related to TBAs of $0.2 million for the period (year ended December 31, 2015 - $0.1 million).

11 SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital are comprised of:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	**2016**	2015
($000s)				
Accounts receivable	**2,536**	(3,175)	**5,063**	13,569
Deposits and prepaid expenses	**626**	971	**287**	(194)
Accounts payable and accrued liabilities and dividend payable	**(661)**	(18,860)	**(3,951)**	(49,695)
	2,501	(21,064)	**1,399**	(36,320)
Related to operating activities	**2,758**	(13,260)	**2,072**	(17,941)
Related to financing activities	**1**	76	**114**	986
Related to investing activities	**(258)**	(7,880)	**(787)**	(19,365)
	2,501	(21,064)	**1,399**	(36,320)

12 DETERMINATION OF FAIR VALUES

A number of the Company's accounting policies and disclosures require the determination of fair value for financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the 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.

a. 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.

b. 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.

c. Level 3 – Valuations are derived from inputs that are not based on observable market data.

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

(a) Property and Equipment and E&E Assets

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

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

(b) 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 September 30, 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

The fair value measurement of the derivative financial instruments has a fair value hierarchy of Level 2.

As at September 30, 2016, the Company had the following crude oil risk management contracts, with a total mark-to-market liability of $0.4 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)
Oct. 1/16 – Dec 31/16	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	Cdn $78.00/bbl	CAD 456
Oct. 1/16 – Dec. 31/16	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US $62.75/bbl	USD 447
Oct. 1/16 – Dec. 31/16	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	Cdn $80.00/bbl	CAD 517
Oct. 1/16 – Dec. 31/16	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US $32.02/bbl	USD (489)
Oct. 1/16 – Dec. 31/16	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US $40.00/bbl	USD (246)
Oct. 1/16 – Jun. 30/17	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US $41.00/bbl	USD (665)
Jan. 1/17 – Jun. 30/17	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US $47.00/bbl	USD (180)
Jan. 1/17 – Dec. 31/17	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US $53.00/bbl	USD 121
Jan. 1/17 – Dec. 31/17	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US $51.20/bbl	USD (55)

FOREIGN EXCHANGE CONTRACTS

Period	Currency	Type of Contract	Quantity	Strike Price	Fair Value Asset (Liability) ($) (000s)
Oct. 3/16 – Jun. 30/17	US$	Average Rate Forward	US $300,000	1.3126 (CAD/USD)	USD 4.5
Oct. 3/16 – Oct. 31/16	US$	Average Rate Forward	US $310,000	1.3100 (CAD/USD)	USD (0.4)
Nov. 1/16 – Nov. 30/16	US$	Average Rate Forward	US $300,000	1.3100 (CAD/USD)	USD (0.3)
Dec.1/16 – Dec. 30/16	US$	Average Rate Forward	US $310,000	1.3100 (CAD/USD)	USD (0.2)

Subsequent to September 30, 2016, Granite entered into the following crude oil risk management contracts:

CRUDE OIL CONTRACTS

Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price
Jul. 1/17 – Dec 31/17	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US $52.50/bbl

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

Gail Hannon
Chief Financial Officer

Jonathan Fleming
Executive Vice President

Tyler Klatt
Vice President, Exploration

Daniel Kenney
Corporate Secretary

HEAD OFFICE

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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

Computershare Trust Company of Canada
Calgary, Alberta

STOCK TRADING

Toronto Stock Exchange
Trading Symbol: GXO

OTCQX
Trading Symbol: GXOCF