GRANITE OIL CORP.

Q1 2018

www.graniteoil.ca

INTERIM REPORT
For the Three Months Ended March 31

FINANCIAL AND OPERATING HIGHLIGHTS

Three Months Ended March 31,

	2018	2017
(000s, except per share amounts)	*($)*	*($)*
FINANCIAL		
Oil and natural gas revenues	**10,675**	14,451
Funds from operations (1)	**2,711**	6,560
Per share – basic	**0.08**	0.19
Per share – diluted (2)	**0.08**	0.19
Net income (loss)	**(3,353)**	2,500
Per share – basic	**(0.10)**	0.07
Per share – diluted (2)	**(0.10)**	0.07
Capital expenditures (3)	**3,461**	4,791
Net debt (4)	**42,949**	33,359
Shareholders’ equity	**195,391**	214,680
(000s)	*(#)*	*(#)*
SHARE DATA		
At period-end	**34,191**	33,712
Weighted average – basic	**34,191**	33,693
Weighted average – diluted	**34,357**	34,044
OPERATING (5)		
Production		
Natural gas *(mcf/d)*	**289**	730
Crude oil *(bbls/d)*	**2,157**	2,887
Total *(boe/d)*	**2,205**	3,009
Average wellhead prices		
Natural gas *($/mcf)*	**2.19**	2.45
Crude oil and NGLs *($/bbl)*	**54.71**	54.99
Combined average *($/boe)* (6)	**53.80**	53.36
Netbacks		
Operating netback *($/boe)* (7)	**20.12**	27.79
Gross (net) wells drilled		
Oil *(#)*	**1 (1.0)**	3 (3.0)
Total *(#)*	**1 (1.0)**	3 (3.0)
Average working interest *(%)*	**100**	100

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

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

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

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

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

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

(7) 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.

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 May 10, 2018 and should be read in conjunction with the Company's unaudited interim financial statements and related notes for the three months ended March 31, 2018, as well as the Company's audited financial statements and related notes for the years ended December 31, 2017 and 2016. All financial information is reported in Canadian dollars, unless otherwise noted. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), in Canadian dollars, except where indicated otherwise. Additional information regarding the Company, including the Annual Information Form, is also available on www.sedar.com and on the Company's website www.graniteoil.ca and by contacting the Company at Granite Oil Corp., 3230, 308 Fourth Avenue S.W., Calgary, Alberta, Canada T2P 0H7.

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

ABOUT GRANITE OIL CORP.

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

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

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

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

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.

2018 FIRST QUARTER FINANCIAL AND OPERATING HIGHLIGHTS

The first quarter of 2018 presented challenges for Granite, the biggest impacts being lower production levels resulting from slower development and mitigation of the results from the 100 m spacing wells, as well as increased WCS-WTI price differentials. The gap between WTI and WCS widened significantly beginning in the latter part of 2017 and continued throughout the first three months of 2018, averaging a $25.00 USD discount to WTI in the first quarter of 2018. This differential had a significant impact on the Company's funds flow. In addition, the Company had 1,300 bbl/d of oil hedged at an average price of $66.70 CAD during the first quarter, resulting in a realized hedging loss of approximately $1.4 million (approximately $7.19 per barrel).

Production during the first quarter averaged 2,205 boe/d (98% oil), largely due to the Company's decision to suspend its development drilling program over the period of July to December 2017 to further evaluate wells drilled on 100 m spacing during the first-half of 2017. During this time, the Company re-evaluated its go-forward development drilling strategy for the broader pool and also evaluated the efficiency of its gas injection EOR scheme based on base declines during a period without development drilling. As anticipated, this period of slowed development has resulted in a shallower corporate decline profile and the Company has returned to drilling new infill wells on 200 or 400 m offset spacing.

The planned disposition of a minor property referred to in the Granite's news release on December 18, 2017, was not completed and is currently included as part of the strategic alternatives review process resulting in a higher net debt position at March 31, 2018, than anticipated.

OUTLOOK

Given recent positive moves in crude oil prices and WCS-WTI price differentials, along with the strong drilling results achieved in 2018, Granite is optimistic about the second-half of 2018. As well, with numerous options to effectively minimize future increases in WCS-WTI price differentials, the Company is well-positioned to mitigate future price swings that may affect the broader Canadian crude market.

Funds from Operations [(1)]

	Three Months Ended March 31,	
	2018	2017
($000s)		
Cash flow from operating activities	**3,957**	6,086
Changes in non-cash working capital	**(1,246)**	474
Funds from operations	**2,711**	6,560

[(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 March 31, 2018, the Company generated funds from operations totaling $2.7 million ($0.08 per basic and diluted share) compared to $6.6 million ($0.19 per basic and diluted share) in the comparative period of 2017. The decline reflects decreased revenue mainly as a result of lower sales volumes compounded by slightly lower average realized prices in the quarter as well as realized hedging losses incurred in the first quarter of 2018 as compared to realized gains in the first quarter of 2017 and an increase in operating costs. This was partially offset by lower royalties in the current period.

Net Income (Loss)

For the three months ended March 31, 2018, the Company recorded net loss of $3.4 million ($0.10 per basic and diluted share) compared to a net income of $2.5 million ($0.07 per basic and diluted share) in the same period of 2017. 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 first quarter of 2017.

FINANCIAL AND OPERATING RESULTS

Sales Volumes

	Three Months Ended March 31,	
	2018	2017
Sales		
Natural gas *(mcf/d)*	**289**	730
Crude oil *(bbls/d)*	**2,157**	2,887
Total sales *(boe/d)*	**2,205**	3,009
Production Split		
Natural gas	**2**	4
Crude oil	**98**	96
Total	**100**	100

For the first quarter of 2018, the Company's production averaged 2,205 boe/d compared to 3,009 boe/d in the same period of 2017, a decrease of 27 percent. The decrease is the result of natural declines, the conversion of producing wells to gas injectors, a reduced drilling program throughout 2017 and 2018 as well as lower gas sales in the current quarter.

Revenue

	Three Months Ended March 31,	
	2018	2017
($000s)		
Natural gas	**57**	161
Crude oil	**10,618**	14,290
Total oil and natural gas revenue	**10,675**	14,451

During the three months ended March 31, 2018, revenue decreased by 26 percent to $10.7 million from $14.5 million in the comparative period of 2017. The decrease can be primarily attributed to a decrease in sales volumes compounded by a slight decrease in the average realized price in the current quarter.

Pricing for the three month period ended March 31, 2018 is further discussed below in "Commodity Prices and Foreign Exchange".

Commodity Prices and Foreign Exchange

	Three Months Ended March 31,	
	2018	2017
Benchmark Prices		
Crude oil		
WTI *(US$/bbl)*	**62.87**	51.91
Hardisty Bow River *(Cdn$/boe)*	**61.68**	59.38
Differential – Bow River/WTI *(US$/bbl)*	**(22.33)**	(14.45)
Natural gas		
NYMEX *(US$/mmbtu)* [(1)]	**3.00**	3.32
AECO *(Cdn$/mcf)*	**1.97**	2.55
Average Realized Prices		
Natural gas *($/mcf)*	**2.19**	2.45
Crude oil *($/bbl)*	**54.71**	54.99
Combined average *($/boe)*	**53.80**	53.36
Foreign Exchange		
Cdn$/US$	**1.27**	1.32
US$/Cdn$	**0.79**	0.76

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

Crude Oil Pricing

The average realized price of Granite's crude oil was $54.71/bbl for the first quarter of 2018 compared to $54.99/bbl in the first quarter of 2017. Granite's realized oil price decreased slightly by one percent from the comparable period in the prior year as a result of higher differentials and a less favourable exchange rate partially offset by an increase in the US$ WTI benchmark oil price.

Natural Gas Pricing

Granite's average realized natural gas price was $2.19/mcf in the first quarter of 2018 as compared to $2.45/mcf in the first quarter of 2017, a decrease of 11 percent attributable to the decrease in the 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 2018, Granite will continue to take steps to mitigate these risks and protect its financial position.

The Company's financial results are significantly influenced by fluctuations in commodity prices, including price differentials and foreign exchange rates. As a means of managing commodity price volatility and its impact on cash flows, the Company seeks to protect itself from fluctuations in prices and exchange rates by maintaining an appropriate hedging strategy. As at March 31, 2018, Granite had 15 crude oil hedges (refer to "Risk Management" below for details). Most commodity prices are based on US dollar benchmarks, which result in the Company's realized prices being influenced by the Canadian/US exchange rates. The Company is affected by foreign currency exchange rate changes related to commodity prices as outlined above.

Royalties

	Three Months Ended March 31,	
	2018	2017
Oil and natural gas revenues *($000s)*	**10,675**	14,451
Total royalties *($000s)*	**2,534**	4,094
Total royalties *($/boe)*	**12.77**	15.12
Percent of oil and natural gas revenue *(%)*	**24**	28

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.

For the first quarter of 2018, royalties were $2.5 million or 24 percent of revenue compared to $4.1 million or 28 percent of revenue in the first quarter in 2018. The decrease in the royalty rate in the current quarter is the result of a favourable true-up in royalties related to the annual Freehold Mineral Tax levy lowering the royalty rate in the current quarter by two percent.

Operating and Transportation Expenses

	Three Months Ended March 31,	
	2018	2017
Operating expenses *($000s)*	**2,426**	1,984
Transportation expenses *($000s)*	**296**	394
Total operating and transportation expenses *($000s)*	**2,722**	2,378
Operating expenses *($/boe)*	**12.23**	7.33
Transportation expenses *($/boe)*	**1.49**	1.45
Total operating and transportation expenses *($/boe)*	**13.72**	8.78

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 first quarter of 2018 were $2.4 million or $12.23/boe compared to $2.0 million or $7.33/ boe in the same period of 2017. The increase in operating costs as compared to the first quarter of 2017 is the result of adverse weather conditions and workover costs incurred in the first quarter of 2018.

Transportation expenses for the three months ended March 31, 2018, were $0.3 million or $1.49/boe as compared to $0.4 million or $1.45/boe in the same period in the prior year. Transportation costs increased slightly as a result of a mileage surcharge increase on a per boe basis.

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 March 31, 2018, the Company had the following crude oil risk management contracts, with a short-term mark-to-market liability of $3.8 million at March 31, 2018 (December 31, 2017 – liability of $2.8 million):

Crude Oil Contracts

Remaining Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price
2018					
Apr. 1/18 – Dec. 31/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $49.00
Apr. 1/18 – Dec. 31/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $50.00
Apr. 1/18 – Dec. 31/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $50.50
Apr. 1/18 – Dec. 31/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $52.00
Front Half 2018					
Apr. 1/18 – Jun. 30/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $48.90
Apr. 1/18 – Jun. 30/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $51.60
Spr. 1/18 – Jun. 30/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $52.45
Back Half 2018					
Jul. 1/18 – Dec. 31/18	Crude Oil	Fixed	200 bbls/d	WTI-NYMEX	CAD $70.74
Jul. 1/18 – Dec. 31/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	CAD $75.06
Jul. 1/18 – Dec. 31/18	Crude Oil	Fixed	200 bbls/d	WTI-NYMEX	US $55.40
Jul. 1/18 – Dec. 31/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $60.15
Q2 2018					
Apr. 1/18 – Jun. 30/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $56.55
Apr. 1/18 – Jun. 30/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $57.00
Apr. 1/18 – Jun. 30/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $57.55
Apr. 1/18 – Jun. 30/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	CAD $73.90

Subsequent to March 31, 2018, the Company entered into the following crude oil contract:

Period	Commodity	Type of Contract	Volume	Pricing Point	Price
Jul. 1/18 – Dec. 31/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $62.82/bbl
Jul. 1/18 – Dec. 31/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $68.30/bbl
Jan. 1/19 – Mar. 31/19	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $65.72/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 March 31,	
	2018	2017
Unrealized (loss) gain on financial instruments *($000s)*	**(979)**	2,487
Unrealized (loss) gain on financial instruments *($/boe)*	**(4.93)**	9.18

	Three Months Ended March 31,	
	2018	2017
Realized loss on financial instruments *($000s)*	**(1,426)**	(453)
Realized loss on financial instruments *($/boe)*	**(7.19)**	(1.67)

During the first quarter of 2018, the Company recorded an unrealized loss on financial instruments of $1.0 million and a realized loss of $1.4 million. In the same period of the prior year, the Company recorded an unrealized gain on financial instruments of

$2.5 million and a realized loss of $0.5 million. The unrealized loss for the first quarter of 2018 is a result of the mark-to-market value of financial risk management contracts outstanding as at March 31, 2018. These non-cash unrealized gains (losses) on financial instruments 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 contracts in the respective periods.

Operating Netback [1][2]

	Three Months Ended March 31,	
	2018	2017
($/boe)		
Average sales price	**53.80**	53.36
Royalties	**(12.77)**	(15.12)
Operating expenses	**(12.23)**	(7.33)
Transportation expenses	**(1.49)**	(1.45)
Operating netback prior to hedging gain (loss)	**27.31**	29.46
Realized loss on financial instruments	**(7.19)**	(1.67)
Operating netback [2]	**20.12**	27.79

(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 Company's operating netback was $20.12/boe for the three months ended March 31, 2018 compared to $27.79/boe in the same period of 2017. The decrease is primarily attributable to the increase in the realized loss on financial instruments compounded by a slight decrease in the average realized sales price as well as an increase in operating expenses and a slight increase in transportation expenses in the current period partially offset by lower royalties in the current quarter.

General and Administrative (G&A) Expenses

	Three Months Ended March 31,	
	2018	2017
($000s except per boe)		
Gross G&A expense	**959**	825
Capitalized G&A (direct)	**(151)**	(177)
G&A expense (net)	**808**	648
G&A expense (net) *($/boe)*	**4.07**	2.39

Gross G&A expense increased to $1.0 million for the three months ended March 31, 2018 from $0.8 million for the three months ended March 31, 2017. The increase in gross G&A expense can largely be attributed to $0.08 million in bad debt expense incurred in the first quarter of 2018 as well as higher legal costs in the first quarter of 2018. Net G&A costs were $0.8 million or $4.07/boe in the first quarter of 2018 compared to $0.6 million or $2.39/boe for the first quarter of 2017. The increase in net G&A expense on a per boe basis is due to both the increase in gross G&A discussed above as well as the lower sales volumes as discussed above.

The Company capitalized direct G&A expenses amounting to $0.2 million in both the first quarter of 2018 and the first quarter of 2017.

Share-Based Compensation

($000s except per boe)	Three Months Ended March 31, 2018	2017
Gross share-based compensation	**948**	1,197
Capitalized share-based compensation	**(421)**	(564)
Share-based compensation expense (net)	**527**	633
Share-based compensation expense (net) *($boe)*	**2.66**	2.34

The Company's Share Incentive Plan ("SIP") is made up of both time-based awards ("TBA") and performance-based awards ("PBA"). The awards granted under the SIP vest one third on each of the first, second and third anniversaries of the grant date. 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 March 31, 2018, the Company had 1,164,244 awards outstanding under the SIP.

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 share incentives granted to the Company's employees, consultants and directors.

For the quarter ended March 31, 2018, the Company incurred net share-based compensation expense of $0.5 million or $2.66/boe versus $0.6 million or $2.34/boe in the same period of 2017. The decrease from the first quarter of 2017 is the result of the effect of fewer outstanding share incentives as at March 31, 2018 as compared to the prior period. In the first quarter of 2018 the estimated performance multiplier for all PBAs is 1.5.

Depletion and Depreciation (D&D) Expense

	Three Months Ended March 31, 2018	2017
Depletion and depreciation expense *($000s)*	**3,525**	4,356
Depletion and depreciation expense *($/boe)*	**17.77**	16.08

For the three months ended March 31, 2018, the Company recorded D&D expense of $3.5 million or $17.77/boe compared to $4.4 million or $16.08/boe in the same period of 2017. The change in the D&D expense year-over-year is attributable to the impact of the changes in future development costs and total reserves in the Company's 2017 reserve report as compared to prior periods.

Exploration and Evaluation (E&E) Expense

	Three Months Ended March 31, 2018	2017
Exploration and evaluation expense *($000s)*	**1,582**	293
Exploration and evaluation expense *($/boe)*	**7.97**	1.08

During the first quarter of 2018, the Company recorded E&E expense of $1.6 million or $7.97/boe compared to $0.3 million or $1.08/boe in the first quarter of 2017. Of the $1.6 million in E&E expense recognized in the current quarter, $1.56 million relates to lease expiries and $0.02 million relates to additional costs incurred related to a dry & abandoned well location.

Accretion and Finance Expenses

	Three Months Ended March 31,	
	2018	2017
($000s except per boe)		
Accretion expense on decommissioning liabilities	**79**	75
Finance expense	**474**	318
Total accretion and finance expenses	**553**	393
Accretion expense on decommissioning liabilities *($/boe)*	**0.40**	0.28
Finance expense *($/boe)*	**2.39**	1.17
Total accretion and finance expenses *($/boe)*	**2.79**	1.45

Accretion expense represents the increase in the present value of the Company's decommissioning liabilities. In the first quarter of 2018, the Company recorded accretion expense of $0.08 million or $0.40/boe compared to $0.08 million or $0.28/boe in the same period of 2017.

During the three months ended March 31, 2018, the Company recorded interest and finance expenses of $0.5 million or $2.39/boe compared to $0.3 million or $1.17/boe in the same period of 2017. The Company incurred interest charges and standby fees related to the Company's credit facility, which was drawn to $39.7 million at the end of the quarter (December 31, 2017 – $36.4 million, March 31, 2017 - $28.3 million).

Income Taxes

	Three Months Ended March 31,	
	2018	2017
Deferred income tax expense (recovery) *($000s)*	**(628)**	1,190
Deferred income tax expense (recovery) *($/boe)*	**(3.17)**	4.39

During the first quarter of 2018, the Company recorded a deferred income tax recovery of $0.6 million or $3.17/boe compared to a $1.2 million expense or $4.39/boe in the same period of 2017. The deferred income tax expense is a function of the Company's net loss in the first quarter of 2018.

Granite does not have current income taxes payable and does not expect to pay current income taxes in 2018 as the Company had estimated tax pools available at March 31, 2018 of $187.5 million (December 31, 2017 – $187.3 million).

INVESTMENT AND INVESTMENT EFFICIENCIES

Capital Expenditures and Acquisitions

(excluding decommissioning liabilities and capitalized share-based compensation)

	Three Months Ended March 31,	
	2018	2017
($000s except number of wells)		
Drilling and completions	**1,779**	4,126
Equipment and facilities	**658**	416
Workovers and gas injection conversion	**834**	710
Land and lease retention	**18**	–
Capitalized G&A and other	**172**	214
Total exploration and development	**3,461**	5,466
Property and equipment acquisitions, dispositions and adjustments	**-**	(675)
Total capital expenditures	**3,461**	4,791
Total wells drilled *(#)*	**1 (1.0)**	3 (3.0)

During the first quarter of 2018, the Company incurred a total of $3.5 million (first quarter 2017 – $4.8 million) in capital expenditures, excluding non-cash decommissioning liabilities and capitalized share-based compensation. Drilling and completion expenditures totaled $1.8 million in the first quarter of 2018 (first quarter 2017 – $4.1 million), $0.7 million was spent on tie-ins and facilities (first quarter 2017 – $0.4 million) and $0.8 million related to workovers and gas injection conversions (first quarter 2017 – $0.7 million). The remaining $0.2 million in the first quarter of 2018 (first quarter 2017 – $0.2 million) was invested in land and lease retention, capitalized G&A and other corporate assets.

Drilling Activity

During the first quarter of 2018, Granite drilled a total of 1 gross (1.0 net) crude oil development well with a 100 percent success rate. During the three months ended March 31, 2017, the Company drilled 3.0 gross (3.0 net) crude oil development wells with a 100 percent success rate.

LIQUIDITY AND FINANCIAL RESOURCES

Net Debt[1]

The following table summarizes net debt as at March 31, 2018 and December 31, 2017:

	March 31, 2018	December 31, 2017
($000s)		
Working capital deficiency	**(3,205)**	(3,488)
Bank debt	**(39,744)**	(36,351)
Net debt [1] – end of period	**(42,949)**	(39,839)

[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 2018 with net debt of $39.8 million. During the three months ended March 31, 2018, the Company generated funds from operations of $2.7 million, invested $3.5 million in capital expenditures and paid $2.4 million in dividends. Granite exited the quarter with net debt of $42.9 million.

As at March 31, 2018 and December 31, 2017, Granite's credit facility has an authorized borrowing base of $50 million consisting of a $45 million revolving demand credit facility and a $5 million revolving demand operating facility. At March 31, 2018, Granite's credit facility was drawn to approximately $39.7 million, including letters of credit of $0.3 million, the Company had $40.0 million committed against the facility with $10.0 million of unused borrowing capacity.

Interest is charged at a rate per annum equal to the Canadian prime rate during said period plus the applicable margin, being a range of 1.5 percent to 3.0 percent, as determined by the Company's debt to cash flow ratio. Standby fees associated with this facility are charged based on an applicable margin, being a range of 0.63 percent to 1.0 percent per annum on the undrawn portion of the facility, based on the Company's debt to cash flow ratio. Under this credit facility, the Company is required to maintain a current ratio of not less than 1:1. The Company had no defaults or breaches on its bank debt or any of its financial liabilities as at or for the three months ended March 31, 2018.

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 Company's demand credit facility is subject to an annual review and semi-annual review. The annual review was completed in April 2018. The borrowing base remains unchanged following the annual review. The Company's credit facility is now provided by two lenders as one member of the lending syndicate left in advance of the completion of the 2018 annual review process, with its lending commitment being assumed by other syndicate members. An additional borrowing base review may be undertaken by the syndicate on or before June 30, 2018 and the semi-annual review will occur in Fall 2018. A decrease in the borrowing base could result in a reduction to the credit facility. Collateral for this facility has been provided for by, among other things, a demand debenture in the principal amount of $500,000,000 from Granite granting a floating charge over all present and after-acquired real and personal property of Granite, and a negative pledge and undertaking to provide fixed charges on major producing petroleum and natural gas reserves.

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.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Years Ended December 31,	2018	2019	2020	Total
($000s)				
Operating lease – office	163	218	218	599
Total commitments	163	218	218	599

As at March 31, 2018, the Company had contractual obligations for its office leases totaling approximately $0.6 million to December 2020. 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 May 10, 2018, the Company had the following equity securities outstanding:

Common shares outstanding	34,190,652
Stock incentive awards outstanding	1,164,244

SELECTED QUARTERLY INFORMATION [(1)]

Three Months Ended	**Mar. 31, 2018**	Dec. 31, 2017	Sep. 30, 2017	Jun. 30, 2017	Mar. 31, 2017	Dec. 31, 2016	Sept. 30, 2016	Jun. 30, 2016
(000s, except per share amounts and production figures)	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*
Oil and natural gas revenues	**10,675**	11,752	12,676	13,788	14,451	14,072	11,582	11,837
Funds from operations	**2,711**	4,815	6,218	6,743	6,560	6,203	6,061	6,014
Per share – basic	**0.08**	0.14	0.18	0.20	0.19	0.18	0.18	0.19
Per share – diluted	**0.08**	0.14	0.18	0.20	0.19	0.18	0.18	0.19
Cash flow from operating activities	**3,957**	6,952	5,028	4,847	6,086	6,405	8,819	5,172
Net income (loss)	**(3,353)**	(4,896)	(2,996)	(116)	2,500	(1,061)	1,052	(5,010)
Per share – basic	**(0.10)**	(0.14)	(0.09)	(0.00)	0.07	(0.03)	0.03	(0.16)
Per share – diluted	**(0.10)**	(0.14)	(0.09)	(0.00)	0.07	(0.03)	0.03	(0.16)
Total assets	**279,417**	281,171	287,166	292,618	292,175	291,051	290,594	291,054
Capital expenditures [(2)]	**3,461**	4,582	3,531	5,846	4,791	5,326	6,244	5,731
Net debt [(3)]	**42,949**	39,839	36,893	35,985	33,359	31,763	29,323	25,697
Shareholders' equity	**195,391**	200,155	207,266	212,735	214,680	214,346	218,198	219,592
Dividends declared (per share)	**0.0690**	0.0930	0.1050	0.1050	0.1050	0.1050	0.1050	0.1050
Production								
Natural gas (mcf/d)	**289**	–	499	448	730	299	145	–
Crude oil (bbls/d)	**2,157**	2,151	2,579	2,784	2,887	2,928	2,728	2,858
Total (boe/d)	**2,205**	2,151	2,662	2,859	3,009	2,978	2,752	2,858

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

(2) Total capital expenditures, excluding acquisitions and non-cash transactions. Refer to commentary under "Capital Expenditures" 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.

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 Estimates

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

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

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

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

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

Actual production and cash flow derived from Granite's crude oil, natural gas and natural gas liquids reserves will vary from the estimates contained in the reserves evaluation, and such variations could be material. The reserves evaluation is based in part on the assumed success of activities undertaken in future years. The reserves and estimated cash flows to be derived therefrom and contained in the Sproule Report will be reduced to the extent that such activities do not achieve the level of success assumed in the reserve evaluation. The Sproule Report is effective as of December 31, 2017 with a preparation date of March 5, 2018, and, except as may be specifically stated or required by Canadian securities laws, has not been updated and therefor does not reflect changes in the reserves since that date.

Prices, Markets and Marketing

There are a number of factors that are beyond Granite's control which affect the price and marketability of oil and natural gas acquired, discovered or produced by the Company. In Canada, the producers of oil are entitled to negotiate sales contracts directly with oil purchasers, with the result that the market determines the price of oil. The Company's ability to market its oil and natural gas may depend upon its ability to acquire capacity on pipelines that deliver natural gas to commercial markets or contract for the delivery of crude oil by rail. Deliverability uncertainties relate to the distance of the Company's reserves from pipelines, railway lines, processing and storage facilities operational problems affecting pipelines, railway lines and facilities; and government regulation relating to prices, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and expansion of pipelines. The Company's financial performance is substantially dependent on the marketability and prevailing prices of crude oil and natural gas.

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

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

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

In addition to the risks listed and discussed above, Granite is subject to several other risks and uncertainties which are described in detail in the Company's Annual Information Form (AIF) dated March 22, 2018.

Access to Capital

The oil and natural gas industry is a very capital-intensive industry and, in order to fully realize the Company's strategic goals and business plans, Granite will rely on equity markets as a source of new capital in addition to bank financing and internally generated cash flow to fund its ongoing capital investments. Granite's ability to raise additional capital will depend on a number of factors that are beyond the Company's control, such as general economic and market conditions. Internally generated funds will also fluctuate with changing commodity prices.

Granite currently has a demand credit facility with two banks. The amount authorized under Granite's credit facility is dependent on the borrowing base determined by its lenders. Granite is required to comply with covenants under its credit facilities which may, in certain cases, include certain financial ratio tests, which from time to time either affect the availability or price of additional funding and in the event that Granite does not comply with these covenants, its access to capital could be restricted or repayment could be required. Events beyond Granite's control may contribute to a failure to comply with such covenants. A failure to comply with covenants could result in a default under the credit facility, which could result in Granite being required to repay amounts owing thereunder. Even if Granite is able to obtain new financing in such circumstances, it may not be on commercially reasonable terms or on terms that are acceptable to the Company. If Granite is unable to repay amounts owing under the credit facility or other credit agreements, its lenders could proceed to foreclose or otherwise realize upon the collateral granted to them to secure the indebtedness. The acceleration of indebtedness under one agreement may permit acceleration of indebtedness under other agreements that contain cross default or cross-acceleration provisions. In addition, the credit facility and other credit agreements may impose operating and financial restrictions on the Company that could include restrictions on the payment of dividends, the repurchase or making of other distributions with respect to Granite's securities, incurring of additional indebtedness, the provision of guarantees, the assumption of loans, making of capital expenditures, entering into of amalgamations, mergers, take-over bids or disposition of assets, among other restrictions. Granite routinely reviews the covenants under its credit facility based on actual and forecast results and has the ability to make changes to development plans to comply with such covenants. Granite anticipates it will continue to have adequate liquidity to fund its financial liabilities through its future funds from operations and available bank credit. Granite is committed to maintaining a strong balance sheet along with an adaptable capital expenditure program that can be adjusted to capitalize on, or reflect, acquisition opportunities and, if necessary, a tightening of liquidity sources. From its founding to the date of this MD&A, Granite has had no defaults or breaches on its bank debt or any of its financial liabilities.

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, 2017 and 2016.

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, under the supervision of the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), Granite 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 March 31, 2018 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 months ended March 31, 2018.

It should be noted that while Granite's CEO and 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.

ACCOUNTING POLICY CHANGES

The Company retrospectively adopted IFRS 9 "Financial Instruments" effective January 1, 2018 and did not result in a change in the carrying value of any of the Company's financial instruments. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). The previous IAS 39 categories of held to maturity, loans and receivables and available for sale are eliminated. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9. IFRS 9 has introduced a single expected credit loss impairment model, which is based on changes in credit quality since initial recognition. The adoption of the expected credit loss impairment model did not have an impact on the financial statements of the Company. Accounts receivable, accounts payable, bank debt and dividend payable are classified and measured at amortized cost. Risk management contacts are classified and measured at FVTPL. The Company does not have any asset contracts and debt investments measured at FVOCI. IFRS 9 also contains a new hedge accounting model, however the Company did not apply hedge accounting to any of its risk management contracts.

The Company adopted IFRS 15 "Revenue from Contracts with Customers" on January 1, 2018 using the modified retrospective adoption approach to adopt the new standard. The Company reviewed its revenue contracts with customers using the principle based five-step model, which did not result in any material impact on the financial statements. The adoption expands disclosures in the notes to the condensed interim financial statements as prescribed by IFRS 15 to provide additional information on the Company's revenue streams and contractual arrangements.

As a result of this adoption, Granite has revised the description of its accounting policy for revenue recognition as follows:

Revenue from the sale of petroleum and natural gas is measured based on the consideration specified in contracts with customers. Revenue from contracts with customers is recognized when Granite satisfies a performance obligation by transferring a promised good or service to a customer. This is generally at the time when the customer obtains legal title to the product and when it is physically transferred to the custody transfer point agreed with the customer, often terminals, pipelines or other transportation methods.

FUTURE ACCOUNTING POLICY CHANGES

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

NON- GAAP MEASUREMENTS

Funds from Operations

This MD&A contains the terms "funds from operations" and "funds from operations per share", which should not be considered an alternative to or more meaningful than cash flow from 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.

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 March 31,	
	2018	2017
($000s)		
Cash flow from operating activities	**3,957**	6,086
Changes in non-cash working capital	**(1,246)**	474
Funds from operations	**2,711**	6,560

Operating Netback

Operating netback is a per boe measure 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), is 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	March 31, 2018	December 31, 2017
(000s)	*($)*	*($)*
ASSETS		
Current assets		
Accounts receivable	**4,552**	5,146
Deposits and prepaid expenses	**673**	671
	5,225	5,817
Non-current assets		
Exploration and evaluation assets (note 4)	**19,489**	21,031
Property and equipment (note 5)	**254,703**	254,323
Total assets	**279,417**	281,171
LIABILITIES		
Current liabilities		
Bank debt (note 6)	**39,744**	36,351
Accounts payable and accrued liabilities	**7,644**	8,519
Dividend payable	**786**	786
Derivative financial instruments (note 12)	**3,808**	2,831
	51,982	48,487
Non-current liabilities		
Decommissioning liabilities (note 7)	**13,834**	13,691
Deferred tax liability	**18,210**	18,838
Total liabilities	**84,026**	81,016
SHAREHOLDERS' EQUITY		
Share capital (note 8)	**413,891**	413,891
Contributed surplus	**19,561**	18,613
Deficit	**(238,061)**	(232,349)
Total shareholders' equity	**195,391**	200,155
Total liabilities and shareholders' equity	**279,417**	281,171

Subsequent Events (note 6 & 12)

See accompanying notes to the condensed interim financial statements.

STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(Unaudited)

Three Months Ended March 31,	**2018**	2017
(000s, except per share amounts)	*($)*	*($)*
REVENUE		
Oil and natural gas revenues (note 10)	**10,675**	14,451
Royalties	**(2,534)**	(4,094)
Oil and natural gas revenues, net of royalties	**8,141**	10,357
Unrealized (loss) gain on financial instruments	**(979)**	2,487
Realized loss on financial instruments	**(1,426)**	(453)
	5,736	12,391
EXPENSES		
Operating and transportation	**2,722**	2,378
General and administrative	**808**	648
Depletion and depreciation (note 5)	**3,525**	4,356
Share-based compensation (note 9)	**527**	633
Exploration and evaluation expense (note 4)	**1,582**	293
Accretion and finance expenses	**553**	393
	9,717	8,701
Income (loss) before income tax	**(3,981)**	3,690
TAXES		
Deferred income tax (recovery) expense	**(628)**	1,190
Net income (loss) and comprehensive income (loss) for the period	**(3,353)**	2,500
Net income (loss) per share (note 8)		
Basic	**(0.10)**	0.07
Diluted	**(0.10)**	0.07

See accompanying notes to the condensed interim financial statements.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

	Share Capital	Contributed Surplus	Deficit	Total Equity
(000s)	*($)*	*($)*	*($)*	*($)*
Balance – January 1, 2018	**413,891**	**18,613**	**(232,349)**	**200,155**
Share-based compensation (note 9)	–	948	–	948
Dividends declared	–	–	(2,359)	(2,359)
Net loss	–	–	(3,353)	(3,353)
Balance – March 31, 2018	**413,891**	**19,561**	**(238,061)**	**195,391**
Balance – January 1, 2017	411,036	16,287	(212,977)	214,346
Share-based compensation	–	1,197	–	1,197
Exercise of options	219	(43)	–	176
Dividends declared	–	–	(3,539)	(3,539)
Net income	–	–	2,500	2,500
Balance – March 31, 2017	411,255	17,441	(214,016)	214,680

See accompanying notes to the condensed interim financial statements.

STATEMENTS OF CASH FLOWS

(Unaudited)

Three Months Ended March 31,	**2018**	2017
(000s)	*($)*	*($)*
Cash flow from (used in):		
Operating activities		
Net income (loss) for the period	**(3,353)**	2,500
Adjustments for:		
Depletion and depreciation (note 5)	**3,525**	4,356
Deferred income tax expense (recovery)	**(628)**	1,190
Share-based compensation (note 9)	**527**	633
Accretion (note 7)	**79**	75
Unrealized loss (gain) on financial instruments	**979**	(2,487)
Exploration and evaluation expense (note 4)	**1,582**	293
	2,711	6,560
Change in non-cash working capital (note 11)	**1,246**	(474)
	3,957	6,086
Financing activities		
Change in bank debt	**3,393**	350
Dividends paid	**(2,359)**	(3,538)
Issuance of share capital	**–**	176
	1,034	(3,012)
Investing activities		
Property and equipment expenditures	**(3,404)**	(4,766)
Exploration and evaluation expenditures	**(57)**	(25)
Change in non-cash working capital (note 11)	**(1,529)**	1,719
	(4,990)	(3,072)
Foreign exchange loss on cash and cash equivalents held in foreign currency	**(1)**	(2)
Change in cash and cash equivalents	**–**	–
Cash and cash equivalents – beginning of period	**–**	–
Cash and cash equivalents – end of period	**–**	–
Interest Paid	**542**	300

See accompanying notes to the condensed interim financial statements.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

As at and for the period ended March 31, 2018
(Unaudited)

1 REPORTING ENTITY

Granite Oil Corp. ("Granite" or the "Company") is a publicly traded company incorporated under the laws of Alberta. The Company is principally engaged in the exploration for and exploitation, development and production of oil and natural gas, and conducts some of its activities jointly with others. These condensed interim financial statements reflect only the Company's interests in such activities. Granite is registered and domiciled in Canada. Its main office is at 3230, 308 Fourth Avenue S.W., Calgary, Alberta, T2P 0H7.

2 BASIS OF PRESENTATION

(a) Statement of Compliance

These condensed interim financial statements for the three months ended March 31, 2018 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, 2017.

The financial statements were authorized for issuance by the Board of Directors on May 10, 2018.

(b) Basis of Measurement

The condensed interim 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, 2017 audited annual financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Changes in Accounting Policies

The Company's accounting policies are described in Note 3 of the December 31, 2017 audited annual financial statements. Those accounting policies have been applied consistently to all periods presented in these condensed interim financial statements with the exception of the adoption of the following new standards effective as at January 1, 2018:

The Company retrospectively adopted IFRS 9 "Financial Instruments" effective January 1, 2018 and this did not result in a change in the carrying value of any of the Company's financial instruments. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). The previous IAS 39 categories of held to maturity, loans and receivables and available for sale are eliminated. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9. IFRS 9 has introduced a single expected credit loss impairment model, which is based on changes in credit quality since initial recognition. The adoption of the expected credit loss impairment model did not have an impact on the financial statements of the Company. Accounts receivable, accounts payable, bank debt and dividend payable are classified and measured at amortized cost. Risk management contacts are classified and measured at FVTPL. The Company does not have any asset contracts and debt investments measured at FVOCI. IFRS 9 also contains a new hedge accounting model, however the Company did not apply hedge accounting to any of its risk management contracts.

The Company adopted IFRS 15 "Revenue from Contracts with Customers" on January 1, 2018 using the modified retrospective adoption approach to adopt the new standard. The Company reviewed its revenue contracts with customers using the principle based five-step model, which did not result in any material impact on the financial statements. The adoption expands disclosures in the notes to the condensed interim financial statements as prescribed by IFRS 15 to provide additional information on the Company's revenue streams and contractual arrangements (see Note 10).

As a result of this adoption, Granite has revised the description of its accounting policy for revenue recognition as follows:

Revenue from the sale of petroleum and natural gas is measured based on the consideration specified in contracts with customers. Revenue from contracts with customers is recognized when Granite satisfies a performance obligation by transferring a promised good or service to a customer. This is generally at the time when the customer obtains legal title to the product and when it is physically transferred to the custody transfer point agreed with the customer, often terminals, pipelines or other transportation methods.

(b) Future Accounting Policy Changes

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

4 EXPLORATION AND EVALUATION ASSETS

($000s)	**Three Months Ended March 31, 2018**	Year Ended December 31, 2017
Balance – beginning of period	**21,031**	36,889
Additions	**107**	622
Transfers to property and equipment (note 5)	**(67)**	(2,010)
E&E expenses	**(20)**	(1,318)
Lease expiries	**(1,562)**	(13,152)
Balance – end of period	**19,489**	21,031

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

During the period ended March 31, 2018, the Company expensed $0.02 million in costs related to a dry & abandoned well location (year ended December 31, 2017 - $1.3 million) and $1.6 million related to lease expiries on undeveloped land (year ended December 31, 2017 – $13.2 million).

During the period ended March 31, 2018, approximately $0.02 million of directly attributable general and administrative expense and $0.05 million of directly attributable share-based compensation expense were capitalized as expenditures on exploration and evaluation assets (year ended December 31, 2017 – $0.1 million and $0.3 million, respectively).

5 PROPERTY AND EQUIPMENT

($000s)	Oil and Natural Gas Properties	Office Equipment	Total
Cost			
Balance – January 1, 2017	326,121	534	326,655
Additions	20,823	16	20,839
Transfers from E&E assets (note 4)	2,010	–	2,010
Balance – December 31, 2017	**348,954**	**550**	**349,504**
Additions	**3,836**	**2**	**3,838**
Transfers from E&E assets (note 4)	**67**	**–**	**67**
Balance – March 31, 2018	**352,857**	**552**	**353,409**
Accumulated depletion and depreciation			
Balance – January 1, 2017	79,259	341	79,600
Depletion and depreciation for the year	15,534	47	15,581
Balance – December 31, 2017	**94,793**	**388**	**95,181**
Depletion and depreciation for the period	**3,514**	**11**	**3,525**
Balance – March 31, 2018	**98,307**	**399**	**98,706**
Net book value			
December 31, 2017	254,161	162	254,323
March 31, 2018	**254,550**	**153**	**254,703**

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

During the period ended March 31, 2018, approximately $0.1 million of directly attributable general and administrative expense and $0.4 million of directly attributable share-based compensation expense were capitalized as expenditures on property and equipment (year ended December 31, 2017 – $0.5 million and $2.0 million, respectively).

(b) Future Development Costs and Salvage Value

At March 31, 2018, an estimated $64.6 million of future development costs associated with proved plus probable undeveloped reserves were included in the calculation of depletion and depreciation expense and an estimated $9.5 million of salvage value of production equipment was excluded (December 31, 2017 – $68.3 million and $9.5 million, respectively).

6 BANK DEBT

At March 31, 2018 and December 31, 2017, the Company had a revolving demand credit facility (the "Credit Facility") with an authorized borrowing base of $50 million, including a $45 million revolving demand credit facility and a $5 million demand operating facility. Borrowings under the Credit Facility are classified as a current liability due to the demand nature of the Credit Facility.

Interest is charged at a rate per annum equal to the Canadian prime rate during said period plus the applicable margin, being a range of 1.50 percent to 3.00 percent, as determined by the Company's debt to cash flow ratio. Standby fees associated with the facility are charged based on an applicable margin, being a range of 0.63 percent to 1.0 percent per annum on the undrawn portion of the facility, based on the Company's debt to cash flow ratio. Under the Credit Facility, the Company is required to maintain a current ratio of not less than 1:1. The current ratio is calculated as current assets (excluding derivative financial instruments) plus any undrawn availability in the Credit Facility versus current liabilities (excluding derivative financial instruments and any amounts outstanding on the Credit Facility). At March 31, 2018, the Company was in compliance with the current ratio requirement.

At March 31, 2018, $39.7 million was drawn against this facility (December 31, 2017 – $36.4 million). Including letters of credit of $0.3 million, the Company had $40.0 million committed against the facility as at March 31, 2018 (December 31, 2017 - $36.4 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 Company's demand credit facility is subject to an annual review and semi-annual review. The annual review was completed in April 2018. The borrowing base remains unchanged following the annual review. The Company's credit facility is now provided by two lenders as one member of the lending syndicate left in advance of the completion of the 2018 annual review process, with its lending commitment being assumed by other syndicate members. An additional borrowing base review may be undertaken by the syndicate on or before June 30, 2018 and the semi-annual review will occur in Fall 2018. A decrease in the borrowing base could result in a reduction to the credit facility. Collateral for this facility has been provided for by, among other things, a demand debenture in the principal amount of $500,000,000 from Granite granting a floating charge over all present and after-acquired real and personal property of Granite, and a negative pledge and undertaking to provide fixed charges on major producing petroleum and natural gas reserves.

7 DECOMMISSIONING LIABILITIES

The Company has estimated the net present value of decommissioning obligations to be $13.8 million as at March 31, 2018 (December 31, 2017 – $13.7 million) based on an undiscounted total future liability of $19.1 million (December 31, 2017 – $19.0 million). These payments are expected to be incurred over a period of one to 20 years with the majority of costs to be incurred between 2028 and 2033. At March 31, 2018, a risk-free rate of 2.25 percent (December 31, 2017 – 2.25 percent) and an inflation rate of 2 percent (December 31, 2017 – 2 percent) were used to calculate the net present value of the decommissioning liabilities.

($000s)	**Three Months Ended March 31, 2018**	Year Ended December 31, 2017
Balance – Beginning of Period	**13,691**	13,307
Liabilities incurred	**64**	629
Revisions	**–**	(229)
Settlements	**–**	(328)
Accretion of decommissioning liabilities	**79**	312
Balance – End of Period	**13,834**	13,691

8 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

	Three Months Ended March 31, 2018		Year Ended December 31, 2017	
	Shares	**Amount**	Shares	Amount
	(#)	*($000s)* *($000s)*	*(#)*	
Balance – Beginning of Period	**34,190,652**	**413,891**	33,671,637	411,036
Exercise of options (i)	**–**	**–**	51,087	278
Issued on vesting of share incentives (Note 9)	**–**	**–**	467,928	2,577
Balance – End of Period	**34,190,652**	**413,891**	34,190,652	413,891

i) Exercising of Options

During the year ended December 31, 2017, 51,087 options were exercised with a weighted average exercise price of $4.34 per share for total cash proceeds of $0.2 million and previously recognized share-based compensation expense of $0.06 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, March 31	**2018**	2017
(000s, except per share amounts)	*($)*	*($)*
Net income (loss) for the year	**(3,353)**	2,500
Weighted-average number of common shares	*(#)*	*(#)*
– basic	**34,191**	33,693
– diluted	**34,191**	34,044
Net income (loss) per weighted average	*($)*	*($)*
– basic	**(0.10)**	0.07
– diluted	**(0.10)**	0.07

9 SHARE-BASED COMPENSATION

(a) Replacement Stock Options

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

	Three Months Ended March 31, 2018		Year Ended December 31, 2017	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
	(#)	*($)*	*(#)*	*($)*
Outstanding – Beginning of Period	**9,332**	**6.80**	71,720	4.83
Exercised	–	–	(51,087)	4.34
Expired	**(9,332)**	**(6.80)**	(11,301)	5.43
Outstanding – Period End	–	–	9,332	6.80
Exercisable – Period End	–	–	9.332	6.80

Gross share-based compensation for the options was $nil for the both quarter ended March 31, 2018 and the year ended December 31, 2017.

(b) Share Incentive Plan

The Company's Share Incentive Plan ("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:

	Three Months Ended March 31, 2018	Year Ended December 31, 2017
	PBAs	PBAs
	(#)	*(#)*
Outstanding – Beginning of Period	**1,107,697**	956,902
Issued	–	411,739
Redeemed	–	(238,214)
Cancelled	–	(22,730)
Outstanding – End of Period	**1,107,697**	1,107,697

The fair value of the PBAs is determined at the grant date using the binomial option-pricing model, multiplied by the estimated performance multiplier. During the year ended December 31, 2017, 411,739 PBAs were granted and 238,214 PBAs were redeemed for 446,381 common shares reflecting the effect of the performance multiplier as well as accumulates dividends from the date of the original grant to the payment date. A performance multiplier of 1.5 has been assumed for PBAs outstanding at December 31, 2017 and March 31, 2018. Fluctuations in share based compensation expense may occur due to changes in estimates of performance outcomes.

Gross share-based compensation related to PBAs was $0.9 million for the quarter ended March 31, 2018 (three months ended March 31, 2017 - $1.1 million). Of this amount, $0.4 million was capitalized (three months ended March 31, 2017 – $0.5 million), resulting in total net share-based compensation expense related to PBAs of $0.5 million for the quarter (three months ended March 31, 2017 - $0.6 million).

There were 56,547 TBAs outstanding as at March 31, 2018 and December 31, 2017.

The fair value of the TBAs is determined at the grant date using the binomial option-pricing model.

Gross share-based compensation related to TBAs was $0.03 million for the period ended March 31, 2018 (three months ended March 31, 2017 - $0.07 million). Of this amount, $0.01 million was capitalized (three months ended March 31, 2017 – $0.02 million), resulting in total net share-based compensation expense related to TBAs of $0.02 million for the quarter (three months ended March 31, 2017 - $0.05 million).

10 OIL AND NATURAL GAS REVENUES

The Company sells its production pursuant to variable price contracts. The transaction price for variable priced contracts is based on the commodity price, adjusted for quality, location or other factors, whereby each component of the pricing formula can be either fixed or variable, depending on contract terms. Commodity prices are based on market indices that are determined on a monthly or daily basis.

The contracts generally have a term of one year or less, whereby delivery takes place throughout the contract period. Revenues are typically collected on the 25h day of the month following production.

The following table details the Company’s sales by product:

Three Months Ended March 31,	**2018**	2017
($000s)		
Natural gas	**57**	161
Crude oil	**10,618**	14,290
Total oil and natural gas revenues	**10,675**	14,451

11 SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital are comprised of:

Three Months Ended March 31,	**2018**	2017
($000s)		
Accounts receivable	**(594)**	(301)
Deposits and prepaid expenses	**2**	74
Accounts payable and accrued liabilities	**875**	1,472
	(283)	1,245
Related to operating activities	**1,246**	(474)
Related to investing activities	**(1,529)**	1,719
	(283)	1,245

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.

(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, Bank Debt, Accounts Payable and Accrued Liabilities and Dividend Payable

The fair value of accounts receivable, bank debt, 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 March 31, 2018 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) and performance multiplier (based on expected multiplier at date of settlement).

(e) Derivative Financial Instruments

Granite classifies the fair value measurement of the derivative financial instruments as a Level 2 based on the nature of the observable inputs used to value the instrument.

As at March 31, 2018, the Company had the following crude oil and interest rate risk management contracts, with a total mark-to-market liability of $3.8 million (December 31, 2017 – $2.8 million liability):

CRUDE OIL CONTRACTS

Remaining Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price ($/bbl)	Fair Value Liability (000s)
2018						
Apr. 1/18 – Dec. 31/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $49.00	US $(429.9)
Apr. 1/18 – Dec. 31/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $50.00	US $(399.7)
Apr. 1/18 – Dec. 31/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $50.50	US $(384.5)
Apr. 1/18 – Dec. 31/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $52.00	US $(339.1)
Front Half 2018						
Apr. 1/18 – Jun. 30/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $48.90	CAD $(239.7)
Apr. 1/18 – Jun. 30/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $51.60	CAD $(197.4)
Apr. 1/18 – Jun. 30/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $52.45	US $(142.7)
Back Half 2018						
Jul. 1/18 – Dec. 31/18	Crude Oil	Fixed	200 bbls/d	WTI-NYMEX	CAD $70.74	CAD $(347.3)
Jul. 1/18 – Dec. 31/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	CAD $75.06	CAD $(95.1)
Jul. 1/18 – Dec. 31/18	Crude Oil	Fixed	200 bbls/d	WTI-NYMEX	US $55.40	CAD $(333.5)
Jul. 1/18 – Dec. 31/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $60.15	US $(43.1)
Q2 2018						
Apr. 1/18 – Jun. 30/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $56.55	CAD $(95.0)
Apr. 1/18 – Jun. 30/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $57.00	US $(69.6)
Apr. 1/18 – Jun. 30/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $57.55	CAD $(83.4)
Apr. 1/18 – Jun. 30/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	CAD $73.90	CAD $(85.0)

Subsequent to March 31, 2018, the Company entered into the following crude oil contract:

Period	Commodity	Type of Contract	Volume	Pricing Point	Price
Jul. 1/18 – Dec. 31/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $62.82/bbl
Jul. 1/18 – Dec. 31/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $68.30/bbl
Jan. 1/19 – Mar. 31/19	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $65.72/bbl

CORPORATE INFORMATION

BOARD OF DIRECTORS

Brendan Carrigy (2)
Chairman
Independent Businessman

Michael Kabanuk
President & Chief Executive Officer
Granite Oil Corp.

Martin Cheyne
Chief Executive Officer
Boulder Energy Ltd.

Henry Hamm (3) (4)
Independent Businessman

Kathy Turgeon (1) (3) (4)
Chief Financial Officer
Peyto Exploration

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

Kevin Andrus (1) (2) (3)
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

Tyler Klatt
Vice President, Exploration

Daniel Kenney
Corporate Secretary

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EVALUATION ENGINEERS

Sproule Associates Limited
Calgary, Alberta

LEGAL COUNSEL

DLA Piper (Canada) LLP
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

AST Trust Company (Canada)
Calgary, Alberta

STOCK TRADING

Toronto Stock Exchange
Trading Symbol: GXO

OTCQX
Trading Symbol: GXOCF