FINANCIAL AND OPERATING HIGHLIGHTS

Year Ended December 31,

	2017	2016
(000s, except per share amounts)	*($)*	*($)*
FINANCIAL		
Oil and natural gas revenues	**52,667**	45,508
Funds from operations (1)	**24,336**	24,236
Per share – basic	**0.72**	0.75
Per share – diluted (2)	**0.71**	0.74
Net loss	**(5,508)**	(7,277)
Per share – basic	**(0.16)**	(0.22)
Per share – diluted (2)	**(0.16)**	(0.22)
Capital expenditures (3)	**18,750**	21,623
Net debt (4)	**39,839**	31,763
Shareholders' equity	**200,155**	214,346
(000s)	*(#)*	*(#)*
SHARE DATA		
At period-end	**34,190**	33,672
Weighted average – basic	**33,968**	32,375
Weighted average – diluted	**34,437**	32,675
OPERATING (5)		
Production		
Natural gas *(mcf/d)*	**417**	184
Crude oil *(bbls/d)*	**2,598**	2,835
Total *(boe/d)*	**2,668**	2,866
Average wellhead prices		
Natural gas *($/mcf)*	**2.78**	2.19
Crude oil and NGLs *($/bbl)*	**55.09**	43.59
Combined average *($/boe)* (6)	**54.09**	43.26
Netbacks		
Operating netback *($/boe)* (7)	**29.72**	27.69
Reserves		
Proved (mboe)	**14,302**	12,483
Proved plus probable	**19,534**	18,653
Total net present value – proved plus probable (10% discount before taxes)	**318,159**	292,193
Undeveloped Land		
Gross (acres)	**104,748**	381,554
Net (acres)	**103,487**	379,734
Gross (net) wells drilled		
Oil *(#)*	**9 (9.0)**	10 (10.0)
Dry and abandoned *(#)*	**1 (1.0)**	- (-)
Total *(#)*	**10 (10.0)**	10 (10.0)
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 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 Discussion and Analysis under "Capital Expenditures" 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 March 22, 2018 and should be read in conjunction with the Company's audited financial statements and related notes for the years ended December 31, 2017 and 2016 and our Annual Information Form for the year ended December 31, 2017. All financial information is reported in Canadian dollars, unless otherwise noted. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), in Canadian dollars, except where indicated otherwise. Accounting policies adopted by the Company are set out in the notes to the audited annual financial statements for the year ended December 31, 2017. Additional information can be obtained by contacting the Company at Granite Oil Corp., 3230, 308 – 4th Avenue S.W., Calgary, Alberta, Canada T2P 0H7. Additional information regarding the Company, including the Annual Information Form, is also available on www.sedar.com and on the Company's website www.graniteoil.ca.

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

ABOUT GRANITE OIL CORP.

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

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

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

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

The Company underwent a reorganization by way of a Plan of Arrangement (the "POA") on May 15, 2015 which divided the Company into two, focused and independent, publicly traded energy companies, being Granite and Boulder Energy Ltd. The POA was approved by a vote of shareholders of DeeThree Exploration Inc. ("DeeThree") on May 14, 2015 and was completed on May 15, 2015. As a result of the POA, the results post May 15, 2015, reflect the stand-alone Granite property (Alberta Bakken) and prior to May 15, 2015 reflect the results of the historical DeeThree properties (Brazeau Belly River, Alberta Bakken and Northern).

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.

2017 FINANCIAL AND OPERATING HIGHLIGHTS

In 2017, Granite invested $18.8 million of capital expenditures all organically, including approximately $3.0 million of exploration, into its 100%-owned Bakken oil property. This represents a decrease of approximately 27% in year over year development spending. While the Company drilled and completed only eight 100% working interest horizontal development wells, representing two less than the previous year, and converted five producing oil wells to gas injection, it still replaced its Proved Developed Producing (PDP) reserves by 215%. PDP F&D was a record $9.00/boe at 95% oil which resulted in a record recycle ratio of 3.3. This represents the third consecutive year of increasing PDP reserves replacement and recycle ratios. Granite's highly effective gas injection Enhanced Oil Recovery ("EOR") scheme continues to demonstrate its efficiency at converting barrels in the ground into developed producing production. Furthermore, cumulative oil production plus the Company's current PDP bookings amounts to only 5% recovery of the estimated original oil in place. With its recovery scheme and remaining infill drilling inventory, the Company expects this trend to continue on this early-life-cycle Bakken pool.

Funds from Operations [(1)]

	Three Months Ended December 31,		Year Ended December 31,	
	2017	2016	**2017**	2016
($000s)				
Cash flow from operating activities	**6,952**	6,405	**22,910**	26,510
Changes in non-cash working capital	**(2,137)**	(202)	**1,426**	(2,274)
Funds from operations	**4,815**	6,203	**24,336**	24,236

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

During the three months ended December 31, 2017, the Company generated funds from operations totaling $4.8 million ($0.14 per basic and diluted share) compared to $6.2 million ($0.18 per basic and diluted share) in the comparative period of 2016 and $6.2 million ($0.18 per basic and diluted share) in the third quarter of 2017. The decrease as compared to both the fourth quarter of 2016 as well as the third quarter of 2017 is primarily attributable to decreased revenue primarily as a result of the decrease in sales volumes.

Funds from operations totaled $24.3 million ($0.72 per basic share and $0.71 per diluted share) for the year ended December 31, 2017 compared to $24.2 million ($0.75 per basic share and $0.74 per diluted share) recorded in 2016. The slight increase from 2016 reflects increased revenue primarily as a result of an increase in commodity prices partially offset by a decrease in production volumes in the current year as well as a realized loss on financial instruments as compared to a gain in 2016.

Net Loss

For the three months ended December 31, 2017, the Company recorded a net loss of $4.9 million ($0.14 per basic and diluted share) compared to a net loss of $1.1 million ($0.03 per basic and diluted share) in the same period of 2016 and net loss of $3.0 million ($0.09 per basic and diluted share) in the third quarter of 2017. The change in the net loss over the same period in the prior year is largely due to the decrease in oil and natural gas revenues as a result of a decrease in production volumes in the fourth quarter of 2017 as well as higher exploration and evaluation expenses in the current quarter related to lease expiries and the drilling of one unsuccessful stratigraphic test well. The increase in the Company's net loss for the quarter as compared to the third quarter of 2017 is a result of the increase in the loss on both unrealized and realized financial instruments in the current quarter as well as higher exploration and evaluation expenses as discussed above.

For the year ended December 31, 2017, the Company recorded a net loss of $5.5 million ($0.16 per basic and diluted share) as compared to a net loss of $7.3 million ($0.22 per basic and diluted share) for the same period in the prior year. The net loss is consistent year over year. As compared to 2016, the Company realized higher oil and natural gas revenues as a result of an increase in benchmark prices as well as fewer losses on unrealized financial instruments. This was partially offset by an increase in exploration and evaluation expense largely driven by lease expiries on undeveloped land in the current year as well as lower production volumes in the current year and a loss of realized financial instruments as compared to a gain in 2016.

FINANCIAL AND OPERATING RESULTS

Sales Volumes

	Three Months Ended December 31,		Year Ended December 31,	
	2017	2016	**2017**	2016
Sales				
Natural gas *(mcf/d)*	**-**	299	**417**	184
Crude oil *(bbls/d)*	**2,151**	2,928	**2,598**	2,835
Total sales *(boe/d)*	**2,151**	2,978	**2,668**	2,866
Production Split				
Natural gas	**-**	2	**3**	1
Crude oil	**100**	98	**97**	99
Total	**100**	100	**100**	100

For the fourth quarter of 2017, the Company's production averaged 2,151 boe/d compared to 2,978 boe/d in the same period of 2016 and 2,662 bbl/d in the third quarter of 2017. On a per boe basis, this represents a 28 percent decrease year-over-year and a 19 percent decrease over the third quarter of 2017. Both the year-over-year and quarter-over-quarter decrease is primarily due to natural declines, the conversion of producing wells to gas injectors, a reduced drilling program throughout 2017 as compared to 2016 as well as no gas sales in the current quarter. During the three months ended December 31, 2017, production was comprised of 2,151 bbls/d of crude oil thereby increasing the Company's crude oil production to 100 percent of total corporate production from 98 percent in the same period in the prior year an increase from 97 percent in the third quarter of 2017.

For the year ended December 31, 2017, the Company's production averaged 2,668 boe/d compared to 2,866 boe/d in 2016. This seven percent decrease is attributable to natural declines, a reduced drilling program, the conversion of producing wells to gas injectors partially offset by an increase in natural gas sales volumes in 2017.

Revenue

	Three Months Ended December 31,		Year Ended December 31,	
	2017	2016	**2017**	2016
($000s)				
Natural gas	**-**	87	**424**	146
Crude oil	**11,752**	13,965	**52,243**	45,234
NGLs and other	**-**	20	**-**	128
Total oil and natural gas revenue	**11,752**	14,072	**52,667**	45,508

During the three months ended December 31, 2017, revenue decreased by 17 percent to $11.8 million from $14.1 million in the comparative period of 2016. The year-over-year decrease can be attributed to a decrease in sales volumes partially offset by an increase in crude oil market prices. When compared to the third quarter of 2017, revenue decreased by seven percent to $11.8 million from $12.7 million due to a combination of lower production volumes partially offset by increased commodity prices in the fourth quarter of

2017.

For the year ended December 31, 2017, revenue totaled $52.7 million compared to $45.5 million a year earlier, an increase of 16%. This increase was mainly the result of higher crude oil market prices partially offset by lower production volumes.

Pricing for both the three and twelve month periods ended December 31, 2017 is further discussed below in "Commodity Prices and Foreign Exchange".

Commodity Prices and Foreign Exchange

	Three Months Ended December 31,		Year Ended December 31,	
	2017	2016	**2017**	2016
Benchmark Prices				
Crude oil				
WTI *(US$/bbl)*	**55.40**	49.29	**50.93**	43.37
Hardisty Bow River *(Cdn$/boe)*	**65.39**	57.19	**53.08**	49.62
Differential – Bow River/WTI *(US$/bbl)*	**(11.92)**	(13.85)	**(11.65)**	(13.19)
Natural gas				
NYMEX *(US$/mmbtu)* [(1)]	**2.87**	3.18	**2.85**	2.55
AECO *(Cdn$/mcf)*	**1.62**	3.12	**1.41**	2.17
Average Realized Prices				
Natural gas *($/mcf)*	**-**	3.17	**2.78**	2.19
Crude oil *($/bbl)*	**59.38**	51.85	**55.09**	43.59
Combined average *($/boe)*	**59.38**	51.30	**54.09**	43.26
Foreign Exchange				
Cdn$/US$	**1.27**	1.33	**1.30**	1.33
US$/Cdn$	**0.79**	0.75	**0.77**	0.75

[(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 $59.38/bbl for the fourth quarter of 2017 compared to $51.85/bbl in the fourth quarter of 2016 and $52.85/bbl in the third quarter of 2017. Granite's realized oil price increased by 15 percent from the fourth quarter of 2016 due to an increase in the US$ WTI benchmark oil price compounded by lower differentials partially offset by a less favourable exchange rate and by 12 percent from the third quarter of 2017 due to an increase in the US$ WTI benchmark oil price and a more favourable exchange rate partially offset by higher differentials.

For the year ended December 31, 2017, the Company's average realized crude oil price was $55.09/bbl compared to $43.59/bbl in 2016 due to an increase in the US$ WTI benchmark oil price compounded by lower differentials and partially offset by a less favourable exchange rate.

Natural Gas Pricing

Granite had no natural gas sales in the fourth quarter of 2017 as compared to $3.17/mcf in the fourth quarter of 2016 and $2.95/mcf in the third quarter of 2017.

For the year ended December 31, 2017, the Company's average realized price for natural gas increased by 27 percent to $2.78/mcf from $2.19/mcf in 2016, driven by the larges fluctuations in the AECO gas index price throughout the year and the timing of the Company's gas sales.

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 December 31, 2017, Granite had 19 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 December 31,		Year Ended December 31,	
	2017	2016	**2017**	2016
Oil and natural gas revenues *($000s)*	**11,752**	14,052	**52,667**	45,380
Other income *($000s)*	**-**	20	**-**	128
Total oil and natural gas revenue *($000s)*	**11,752**	14,072	**52,667**	45,508
Total royalties *($000s)*	**2,815**	3,746	**13,432**	11,872
Total royalties *($/boe)*	**14.22**	13.67	**13.79**	11.32
Percent of oil and natural gas revenue *(%)*	**24**	27	**26**	26

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 fourth quarter of 2017, royalties totaled $2.8 million or 24 percent of revenue compared to $3.7 million or 27 percent of revenue for the same quarter in 2016 and $3.4 million or 27 percent of revenue in the third quarter of 2017. The decrease from both the fourth quarter of 2016 as well as the third quarter of 2017 can be attributed to prior period royalty credits booked in the fourth quarter of 2017 which lowered the royalty rate in the current quarter.

During the year ended December 31, 2017, royalties totaled $13.4 million or 26 percent of revenue compared to $11.8 million or 26 percent of revenue for 2016.

Operating and Transportation Expenses

	Three Months Ended December 31,		Year Ended December 31,	
	2017	2016	**2017**	2016
Operating expenses *($000s)*	**2,239**	2,267	**8,672**	7,628
Transportation expenses *($000s)*	**312**	396	**1,451**	1,537
Total operating and transportation expenses *($000s)*	**2,551**	2,663	**10,123**	9,165
Operating expenses *($/boe)*	**11.31**	8.28	**8.91**	7.27
Transportation expenses *($/boe)*	**1.58**	1.45	**1.49**	1.47
Total operating and transportation expenses *($/boe)*	**12.89**	9.73	**10.40**	8.74

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

Operating expenses for the fourth quarter of 2017 totaled $2.2 million or $11.31/boe compared to $2.3 million or $8.28/ boe in the same period of 2016 and $2.2 million or $9.10/boe in the third quarter of 2017. Operating costs have remained consistent on an absolute basis for all three quarters.

Transportation expenses for the three months ended December 31, 2017 were $0.3 million or $1.58/boe as compared to $0.4 million or $1.45/boe in the same period in the prior year and $0.3 million or $1.42/boe in the third quarter of 2017. Transportation costs were slightly higher than both the fourth quarter of 2016 as well as the third quarter of 2017 in the fourth quarter of 2017 as a result of additional costs incurred due to terminal outages as well as a slight increase in mileage surcharge on a per boe basis in the current quarter.

For the year ended December 31, 2017, the Company incurred operating expenses of $8.7 million or $8.91/boe compared to $7.6 million or $7.27/boe in 2016. Transportation expenses for the year totaled $1.5 million or $1.49/boe as compared to $1.5 million or $1.47/boe in 2016. The increase in operating costs in 2017 as compared to 2016 is attributable to a general increase in service costs throughout 2017 as well as additional workover costs in the current year. The increase in transportation costs on a per boe basis can be attributed to a slight increase in mileage surcharge on a per boe basis as well as the additional costs incurred on terminal outages discussed above.

Risk Management

Granite maintains a risk management program to reduce the volatility of revenues and to increase the certainty of funds from operations. As at December 31, 2017, the Company had the following crude oil risk management contracts, with a mark-to-market liability of $2.8 million at December 31, 2017 (December 31, 2016 – liability of $2.9 million).

Crude Oil Contracts

Remaining Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price
2018					
Jan. 1/18 – Dec. 31/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $49.00/bbl
Jan. 1/18 – Dec. 31/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $50.00/bbl
Jan. 1/18 – Dec. 31/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $50.50/bbl
Jan. 1/18 – Dec. 31/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $52.00/bbl
Front Half 2018					
Jan. 1/18 – Jun. 30/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $48.90/bbl
Jan. 1/18 – Jun. 30/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $51.60/bbl
Jan. 1/18 – Jun. 30/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $52.45/bbl
Back Half 2018					
Jul. 1/18 – Dec. 31/18	Crude Oil	Fixed	200 bbls/d	WTI-NYMEX	CAD $70.74/bbl
Jul. 1/18 – Dec. 31/18	Crude Oil	Fixed	200 bbls/d	WTI-NYMEX	US $55.40/bbl
Q1 2018					
Jan. 1/18 – Mar. 31/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $54.00/bbl
Jan. 1/18 – Mar. 31/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $55.00/bbl
Jan. 1/18 – Mar. 31/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	CAD $70.39/bbl
Jan. 1/18 – Mar. 31/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	CAD $73.14/bbl
Jan. 1/18 – Mar. 31/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	CAD $73.55/bbl
Jan. 1/18 – Mar. 31/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	CAD $74.00/bbl
Q2 2018					
Apr. 1/18 – Jun. 30/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $56.55/bbl
Apr. 1/18 – Jun. 30/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $57.00/bbl
Apr. 1/18 – Jun. 30/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $57.55/bbl
Apr. 1/18 – Jun. 30/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	CAD $73.90/bbl

Subsequent to December 31, 2017, the Company entered into the following crude oil risk management contracts:

Jul. 1/18 – Dec. 31/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	CAD $75.06/bbl
Jul. 1/18 – Dec. 31/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $60.15/bbl

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

	Three Months Ended December 31,		Year Ended December 31,	
	2017	2016	**2017**	2016
Unrealized gain (loss) on financial instruments *($000s)*	**(2,783)**	(2,483)	**43**	(10,521)
Unrealized gain (loss) on financial instruments *($/boe)*	**(14.06)**	(9.06)	**0.04**	(10.03)

	Three Months Ended December 31,		Year Ended December 31,	
	2017	2016	**2017**	2016
Realized gain (loss) on financial instruments *($000s)*	**(111)**	(101)	**(180)**	4,584
Realized gain (loss) on financial instruments *($/boe)*	**(0.56)**	(0.37)	**(0.18)**	4.37

During the fourth quarter of 2017, the Company recorded an unrealized loss on financial instruments of $2.8 million and a realized loss of $0.1 million. In the same period of the prior year, the Company recorded an unrealized loss of $2.5 million and a realized loss of $0.1 million. In the third quarter of 2017, the Company recorded an unrealized loss of $1.4 million and a realized gain of $0.5 million. The unrealized loss resulted from the change in the mark-to-market value of financial risk management contracts during the current period. These non-cash unrealized derivative gains (losses) are generated by the change over the reporting period in the mark-to-market valuation of Granite's risk management contracts. The realized gains or losses represent actual cash settlements under the respective commodity, foreign exchange and interest rate contracts in the respective periods.

For the year ended December 31, 2017, the Company recorded an unrealized gain of $0.04 million and a realized loss of $0.2 million compared to an unrealized loss of $10.5 million and a realized gain of $4.6 million for 2016.

Operating Netback (1)(2)

	Three Months Ended December 31,		Year Ended December 31,	
	2017	2016	**2017**	2016
($/boe)				
Average sales price	**59.38**	51.37	**54.09**	43.38
Royalties	**(14.22)**	(13.67)	**(13.79)**	(11.32)
Operating expenses	**(11.31)**	(8.28)	**(8.91)**	(7.27)
Transportation expenses	**(1.58)**	(1.45)	**(1.49)**	(1.47)
Operating netback prior to hedging gain (loss)	**32.27**	27.97	**29.90**	23.32
Realized gain (loss) on financial instruments	**(0.56)**	(0.37)	**(0.18)**	4.37
Operating netback (2)	**31.71**	27.60	**29.72**	27.69

(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 $31.71/boe for the three months ended December 31, 2017 compared to $27.60/boe in the same period of 2016 and $29.53/boe in the third quarter of 2017. The increase from the fourth quarter of 2016 is primarily attributable to the increase in the average sales price partially offset by the increase of the Company's royalty, operating and transportation expenses as well as an increase in the realized loss on a per boe basis. The increase in the operating netback as compared to the third quarter of 2017 can be largely attributed to the increase in average sales price partially offset by a realized loss on financial instruments in the current quarter as compared to a gain in the third quarter of 2017.

For the year ended December 31, 2017, the operating netback was $29.72/boe compared to $27.69/boe in 2016 as a result of the increase in the average sales price partially offset by the increase of the Company's royalty, operating and transportation expenses as well as a realized loss on financial instruments on a per boe basis as compared to a gain in the prior year.

General and Administrative (G&A) Expenses

	Three Months Ended December 31,		Year Ended December 31,	
	2017	2016	**2017**	2016
($000s except per boe)				
Gross G&A expense	**753**	1,171	**3,193**	4,015
Capitalized G&A (direct)	**(152)**	(157)	**(644)**	(621)
G&A expense (net)	**601**	1,014	**2,549**	3,394
G&A expense (net) *($/boe)*	**3.04**	3.70	**2.62**	3.24

Gross G&A expense totaled $0.8 million for quarter ended December 31, 2017 as compared to $1.2 million in the comparable period of 2016 and $0.8 million in the third quarter of 2017. Net G&A costs were $0.6 million or $3.04/ boe in the fourth quarter of 2017 compared to $1.0 million or $3.70/boe in the fourth quarter of 2016 and $0.6 million or $2.61/boe in the third quarter of 2017. Gross G&A costs decreased from the fourth quarter of 2016 to the fourth quarter of 2017 as a result of severance payments made to former management and employees in the fourth quarter of 2016. Gross G&A costs were consistent with the third quarter of 2017. As at December 31, 2017, the Company had nine full-time employees and four consultants as compared to eight full-time employees and four consultants at December 31, 2016.

The Company capitalized direct G&A expenses of $0.2 million in the fourth quarter of 2017 as compared to $0.2 million in both the fourth quarter of 2016 and the third quarter of 2017.

Net G&A expenses for the year ended December 31, 2017 totaled $2.5 million or $2.62/boe compared to $3.4 million or $3.24/boe for 2016. During the year ended December 31, 2017, the Company capitalized $0.6 million in direct costs related to its exploration and development efforts as compared to $0.6 million in 2016.

Share-Based Compensation

	Three Months Ended December 31,		Year Ended December 31,	
	2017	2016	**2017**	2016
($000s except per boe)				
Gross share-based compensation	**967**	540	**4,959**	5,363
Capitalized share-based compensation	**(426)**	(469)	**(2,311)**	(2,245)
Share-based compensation expense (net)	**541**	71	**2,648**	3,118
Share-based compensation expense (net) *($boe)*	**2.73**	0.26	**2.72**	2.97

On May 15, 2015, Granite adopted a Share Incentive Plan (“SIP”). The awards granted under the SIP vest one third on each of the first, second and third anniversaries of the grant date. Share incentives are made up of both time-based awards (“TBA“) and performance-based awards (“PBA“). Each performance based award granted is subject to a performance multiplier ranging from 0 to 2, dependent on the performance of Granite relative to corporate performance measures determined at the discretion of Granite’s Board of Directors. The fair value of the awards granted under the plan is estimated at the grant date using a binomial pricing model. At December 31, 2017, the Company had 1,164,244 awards outstanding under the SIP.

DeeThree’s stock option plan was terminated pursuant to the POA. Unvested, in-the-money DeeThree options that were outstanding at the time of the completion of the POA were replaced with options to acquire shares of Granite and Boulder respectively. The vesting schedule for these replacement options remained the same as the predecessor DeeThree options with the fair value of options granted estimated at the grant date using the Black-Scholes option-pricing model. At December 31, 2017, the Company had 9,332 replacement options outstanding.

Share-based compensation expense is a non-cash expense that reflects the amortization over the vesting period of the fair value of stock options, TBA's and PBA's granted to the Company's employees, consultants and directors.

For the quarter ended December 31, 2017, the Company incurred net share-based compensation expense of $0.5 million or $2.73/boe as compared to $0.07 million or $0.26/boe in the same period of 2016 and $0.6 million or $2.39/boe in the third quarter of 2017. The increase from the fourth quarter of 2016 is the result of the effect of the forfeiture of share incentives in the fourth quarter of 2016. Share based compensation was consistent with the third quarter of 2017 and the slight decrease is the result of the continued amortization of the Company's outstanding share awards. In the fourth quarter of 2017 the estimated performance multiplier for all PBAs is 1.5 which is consistent with both the fourth quarter of 2016 as well as the third quarter of 2017.

For the year ended December 31, 2017, Granite incurred net share-based compensation expense of $2.6 million or $2.72/boe compared to $3.1 million or $2.97/boe in 2016. The decrease in net share-based compensation in 2017 reflects the effect of the forfeited share incentives in the fourth quarter of 2016 as well as the change in performance multiplier in the current year for share incentives vested and released in 2017.

Depletion and Depreciation (D&D) Expense

	Three Months Ended December 31,		Year Ended December 31,	
	2017	2016	**2017**	2016
Depletion and depreciation expense *($000s)*	**3,293**	4,425	**15,581**	17,528
Depletion and depreciation expense *($/boe)*	**16.64**	16.15	**16.00**	16.71

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

For the three months ended December 31, 2017, the Company recorded D&D expense of $3.3 million or $16.64/boe compared to $4.4 million or $16.15/boe in the same period of 2016 and $3.8 million or $15.57/boe in the third quarter of 2017. The change in the D&D expense both year-over-year and quarter-over-quarter is attributable to both the change in production volumes and impact of the changes in future development costs and total reserves in the Company's 2017 reserve report as compared to prior periods.

For the year ended December 31, 2017, D&D expense was $15.6 million or $16.00/boe compared to $17.5 million or $16.71/boe in 2016.

Exploration and Evaluation (E&E) Expense

	Three Months Ended December 31,		Year Ended December 31,	
	2017	2016	**2017**	2016
Exploration and evaluation expense *($000s)*	**6,769**	576	**14,470**	1,486
Exploration and evaluation expense *($/boe)*	**34.20**	2.10	**14.86**	1.42

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 exploratory drilling costs until the well in question is complete and results have been evaluated. Costs related to wells determined to be uneconomical as well as costs of undeveloped land lease expiries are expensed as they occur.

During the fourth quarter of 2017, the Company recorded E&E expense of $6.7 million or $34.20/boe compared to $0.6 million or $2.10/boe in the fourth quarter of 2016 and $4.2 million or $17.25/boe in the third quarter of 2017. The E&E expense recognized in the current quarter relates to $5.5 million in lease expiries on undeveloped land as well as $1.3 million on the drilling of one unsuccessful vertical stratigraphic test well in the fourth quarter of 2017.

During the year ended December 31, 2017, the Company recorded E&E expense of $14.5 million or $14.86/boe compared to $1.5 million or $1.42/boe during 2016. The E&E expense in 2017 recognized in 2017 relates to $13.2 million in lease expiries and as well as $1.3 million on the drilling of one unsuccessful vertical stratigraphic test well in the fourth quarter of 2017.

Accretion and Finance Expenses

	Three Months Ended December 31,		Year Ended December 31,	
	2017	2016	**2017**	2016
($000s except per boe)				
Accretion expense on decommissioning liabilities	**78**	83	**312**	304
Finance expense	**562**	311	**1,719**	1,391
Total accretion and finance expenses	**640**	394	**2,031**	1,695
Accretion expense on decommissioning liabilities *($/boe)*	**0.39**	0.30	**0.32**	0.29
Finance expense *($/boe)*	**2.84**	1.14	**1.77**	1.33
Total accretion and finance expenses *($/boe)*	**3.23**	1.44	**2.09**	1.62

Accretion expense represents the increase in the present value of the Company's decommissioning liabilities. In the fourth quarter of 2017, the Company recorded accretion expense of $0.08 million or $0.39/boe compared to $0.08 million or $0.30/boe in the same period of 2016 and $0.08 million or $0.34/boe in the third quarter of 2017.

During the three months ended December 31, 2017, the Company recorded interest and finance expenses of $0.6 million or $2.84/boe compared to $0.3 million or $1.14/boe in the same period of 2016 and $0.3 million or $1.41/boe in the third quarter of 2017. The Company incurred interest charges and standby fees related to the Company's credit facility as well as additional bank fees related to the renewal of the Company's Credit Facility in the fourth quarter of 2017, which was drawn to $36.4 million as at December 31, 2017 (December 31, 2016 – $27.9 million; September 30, 2017 – $37.4 million).

For the year ended December 31, 2017, the Company recorded accretion expense of $0.3 million or $0.32/boe compared to $0.3 million or $0.29/boe in 2016. The Company also recorded finance expense of $1.7 million or $1.77/boe in 2017 compared to $1.4 million or $1.33/boe in the prior year. The increase in finance expense is related to the increase in average bank debt in 2017 as compared to 2016 as well as increased fees on the renewal of the Company's Credit Facility in 2017 as compared to the prior year.

Income Taxes

	Three Months Ended December 31,		Year Ended December 31,	
	2017	2016	**2017**	2016
Deferred income tax recovery *($000s)*	**(3,456)**	(340)	**(2,796)**	(1,410)
Deferred income tax recovery *($/boe)*	**(17.46)**	(1.24)	**(2.87)**	(1.34)

During the fourth quarter of 2017, the Company recorded a deferred income tax recovery of $3.5 million or $17.56/boe compared to a $0.3 million recovery or $1.24/boe in the same period of 2016 and a $0.9 million recovery or $3.51/boe in the third quarter of 2017. The deferred income tax recovery is a function of the net loss incurred in the fourth quarter of 2017.

For the year ended December 31, 2017, the Company recorded a deferred income tax recovery of $2.8 million or $2.87/boe compared to a deferred income tax recovery of $1.4 million or $1.34/boe in 2016. The deferred income tax recovery is a function of the net loss incurred in the year ended December 31, 2017.

Granite does not have current income taxes payable and does not expect to pay current income taxes in 2017 as the Company had estimated tax pools available at December 31, 2017 of $187.3 million (December 31, 2016 – $186.0 million).

INVESTMENT AND INVESTMENT EFFICIENCIES

Capital Expenditures and Acquisitions

(excluding decommissioning liabilities and capitalized share-based compensation)

	Three Months Ended December 31,		Year Ended	
	2017	2016	**2017**	2016
($000s except number of wells)				
Drilling and completions	**2,731**	3,829	**13,664**	14,223
Equipment and facilities	**272**	957	**2,933**	4,392
Workovers and gas injection	**920**	732	**2,359**	2,128
Land and lease retention	**59**	–	**65**	597
Capitalized G&A and other	**158**	158	**662**	633
Total exploration and development	**4,140**	5,676	**19,683**	21,973
Property and equipment acquisitions, dispositions and adjustments	**442**	(350)	**(933)**	(350)
Total capital expenditures	**4,582**	5,326	**18,750**	21,623
Total wells drilled *(#)*	**2 (2.0)**	3 (3.0)	**10 (10.0)**	10 (10.0)

During the fourth quarter of 2017, the Company incurred a total of $4.6 million (fourth quarter 2016 – $5.3 million) in capital expenditures, excluding non-cash decommissioning liabilities and capitalized share-based compensation. Drilling and completion expenditures totaled $2.7 million in the fourth quarter of 2017 (fourth quarter 2016 – $3.8 million), $0.3 million was spent on tie-ins and facilities (fourth quarter 2016 – $1.0 million) and $0.9 million related to workovers and gas injection conversions (fourth quarter 2016 – $0.7 million) and $0.06 million on land sales (fourth quarter 2016 - $nil). The remaining $0.2 million in the fourth quarter of 2017 (fourth quarter 2016 – $0.2 million) was invested in capitalized G&A and other corporate assets and $0.4 million on property and equipment acquisitions, dispositions and adjustments (fourth quarter 2016 - $(0.4) million).

For the year ended December 31, 2017, the Company incurred a total of $18.8 million (2016 – $21.6 million) in capital expenditures, excluding the non-cash decommissioning liabilities and capitalized share-based compensation. Drilling and completion expenditures totaled $13.7 million (2016 – $14.2 million), $2.9 million was spent on tie-ins and facilities (2016 – $4.4 million), $2.4 million on workovers and gas injection conversions (2016 - $2.1 million) and $0.06 million on land sales (2016 – $0.6 million). The remaining $0.4 million spent during the year ended December 31, 2017 (2016 – $0.6 million) was invested in capitalized G&A and other corporate assets and $(0.9) million on property and equipment acquisitions, dispositions and adjustments (2016 - $(0.4) million).

Drilling Activity

During the fourth quarter of 2017, Granite drilled a total of 1 gross (1.0 net) crude oil development well and 1 gross (1.0 net) exploration well which was determined to be dry and abandoned. During the three months ended December 31, 2016, the Company drilled 3 gross (3.0 net) crude oil development wells.

During the year ended December 31, 2017, Granite drilled a total of 9 gross (9.0 net) crude oil development wells and 1 gross (1.0 net) exploration well which was determined to be dry and abandoned. During the year ended December 31, 2016, the Company drilled 10 gross (10.0 net) crude oil development wells.

LIQUIDITY AND FINANCIAL RESOURCES

Net Debt[1]

The following table summarizes net debt as at December 31, 2017 and 2016:

Years Ended December 31,	**2017**	2016
($000s)		
Working capital deficiency	**(3,488)**	(3,862)
Bank debt	**(36,351)**	(27,901)
Net debt [1] – end of period	**(39,839)**	(31,763)

[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 2017 with net debt of $31.8 million. During the year ended December 31, 2017, the Company generated funds from operations of $24.3 million, invested $18.8 million in capital expenditures and declared $13.7 million in dividends. In addition, 51,087 options were exercised for total cash proceeds of $0.2 million. Granite exited the year with net debt of $39.8 million.

The Granite 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 (December 31, 2016 - $60 million consisting of a $45 million revolving demand credit facility and a $15 million revolving demand operating facility). At December 31, 2017, the Granite facility was drawn to approximately $36.4 million with $10.2 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 1.50 percent to 3.0 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 0.63 percent to 1.0 percent per annum on the undrawn portion of the facility, again based on the Company's debt to cash flow ratio. Under this credit facility, the Corporation is required to maintain a current ratio of not less than 1:1.

The amount of the facility is subject to a borrowing base test performed on a periodic basis by the lenders, based primarily on reserves and using commodity prices estimated by the lenders as well as other factors. The borrowing base of the credit facility is subject to review at least semi-annually with the next review scheduled for April 2018. A decrease in the borrowing base could result in a reduction to the credit facility. Collateral for this facility consists of, among other things, a $500 million demand debenture 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. The Company had no defaults or breaches on its bank debt or any of its financial liabilities as at or for the year ended December 31, 2017.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Years Ended December 31,	2018	2019	2020	Total
($000s)				
Operating lease – office	218	218	218	654
Total commitments	218	218	218	654

As at December 31, 2017, the Company had contractual obligations for its office lease totaling approximately $0.7 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 March 22, 2018, the Company had the following equity securities outstanding:

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

SELECTED QUARTERLY INFORMATION (1)

Three Months Ended	**Dec. 31, 2017**	Sep. 30, 2017	Jun. 30, 2017	Mar. 31, 2017	Dec. 31, 2016	Sept. 30, 2016	Jun. 30, 2016	Mar. 31, 2016
(000s, except per share amounts and production figures)	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*
Oil and natural gas revenues	**11,752**	12,676	13,788	14,451	14,072	11,582	11,837	8,017
Funds from operations	**4,815**	6,218	6,743	6,560	6,203	6,061	6,014	5,958
Per share – basic	**0.14**	0.18	0.20	0.19	0.18	0.18	0.19	0.20
Per share – diluted	**0.14**	0.18	0.20	0.19	0.18	0.18	0.19	0.19
Cash flow from operating activities	**6,952**	5,028	4,847	6,086	6,405	8,819	5,172	6,114
Net income (loss)	**(4,896)**	(2,996)	(116)	2,500	(1,061)	1,052	(5,010)	(2,258)
Per share – basic	**(0.14)**	(0.09)	(0.00)	0.07	(0.03)	0.03	(0.16)	(0.07)
Per share – diluted	**(0.14)**	(0.09)	(0.00)	0.07	(0.03)	0.03	(0.16)	(0.07)
Total assets	**281,171**	287,166	292,618	292,175	291,051	290,594	291,054	291,928
Capital expenditures (2)	**4,582**	3,531	5,846	4,791	5,326	6,244	5,731	4,322
Net debt (3)	**39,839**	36,893	35,985	33,359	31,763	29,323	25,697	41,126
Shareholders' equity	**200,155**	207,266	212,735	214,680	214,346	218,198	219,592	207,607
Dividends declared (per share)	**0.0930**	0.1050	0.1050	0.1050	0.1050	0.1050	0.1050	0.1050
Production								
Natural gas (mcf/d)	–	499	448	730	299	145	–	290
Crude oil (bbls/d)	**2,151**	2,579	2,784	2,887	2,928	2,728	2,858	2,828
Total (boe/d)	**2,151**	2,662	2,859	3,009	2,978	2,752	2,858	2,876

(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.

SELECTED ANNUAL INFORMATION [1]

	Years Ended December 31,		
	2017	2016	2015[4]
(000s, except per share amounts and production figures)	*($)*	*($)*	*($)*
Oil and natural gas revenues	**52,667**	45,508	108,442
Funds from operations	**24,336**	24,236	72,673
Per share – basic	**0.72**	0.75	2.41
Per share – diluted	**0.71**	0.74	2.38
Cash flow from operating activities	**22,910**	26,510	61,317
Net income (loss)	**(5,508)**	(7,277)	150,216
Per share – basic	**(0.16)**	(0.22)	4.99
Per share – diluted	**(0.16)**	(0.22)	4.92
Total assets	**281,171**	291,051	298,698
Capital expenditures	**18,750**	21,623	64,879
Net debt	**39,839**	31,763	39,612
Shareholders' equity	**200,155**	214,346	211,293
Dividends declared (per share)	**0.4080**	0.4200	0.2275
Production			
Natural gas *(mcf/d)*	**417**	184	6,160
Crude oil *(bbls/d)*	**2,598**	2,835	5,350
NGL *(bbls/d)*	**–**	–	173
Total *(boe/d)*	**2,668**	2,866	6,550

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

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

(4) Refer to the description of the comparability of prior period information in under "About Granite Oil Corp."

OUTLOOK & SUBSEQUENT EVENTS

On March 20, 2018, Granite announced the initiation of a formal process to explore strategic alternatives as the Board believes that the current trading price of its common shares does not adequately reflect the underlying value of the Company and its successful EOR project. The Board has appointed an independent committee (the "Special Committee") to undertake a broad review of potential alternatives to enhance shareholder value. Such strategic alternatives may include, but are not limited to, a sale or merger of the Company or other form of business combination; a sale or joint venture involving all or a portion of the assets; a recapitalization of the Company or other form of strategic investment; or the purchase or sale of assets.

Cormark Securities Inc. and National Bank Financial Inc. have been engaged by the Special Committee as co-financial advisors in connection with the Process.

Granite has not set a definitive schedule for the Process and the Company does not intend to provide updates or otherwise disclose developments with respect to the Process until the Board of Directors has approved a definitive transaction or strategic alternative, or otherwise determines that disclosure is necessary or appropriate.

Granite will continue to execute its 2018 capital plan, which includes drilling and completing its second well of the year early in the second quarter. The Company will continue to prioritize its balance sheet and dividend while efficiently converting barrels in the ground into producing barrels.

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

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. Management concluded that Granite's internal control over financial reporting was effective as of December 31, 2017.

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.

No changes were made to Granite's internal control over financial reporting during the year ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, the internal control over financial reporting.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures ("DC&P"), as defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, are designed to provide reasonable assurance that information required to be disclosed in the Company's annual filings, interim filings or other reports filed, or submitted by the Company under securities legislation is recorded, processed, summarized and reported within the time periods specified under securities legislation and include controls and procedures designed to ensure that information required to be so disclosed is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Chief Executive Officer and the Chief Financial Officer of Granite evaluated the effectiveness of the design and operation of the Company's DC&P. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that Granite's DC&P were effective as at December 31, 2017.

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

FUTURE ACCOUNTING POLICY CHANGES

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

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers". It replaces existing revenue recognition guidance and provides a single, principles based five-step model to be applied to all contracts with customers. Retrospective application of this standard is currently effective for fiscal years beginning on or after January 1, 2018, with earlier application permitted. The Company has substantially completed its review of its revenue streams and underlying contracts with customers and does not anticipate a material impact to the Company's net income. The company will expand disclosures in the notes to the financial statements as prescribed by IFRS 15 to provide additional information on the Company's revenue streams and contractual arrangements.

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

NON- GAAP MEASUREMENTS

Funds from Operations

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

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

	Three Months Ended December 31,		Year Ended December 31,	
	2017	2016	**2017**	2016
($000s)				
Cash flow from operating activities	**6,952**	6,405	**22,910**	26,510
Changes in non-cash working capital	**(2,137)**	(202)	**1,426**	(2,274)
Funds from operations	**4,815**	6,203	**24,336**	24,236

Operating Netback

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

Net Debt

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

OTHER MEASUREMENTS

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

FORWARD-LOOKING INFORMATION AND STATEMENTS

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

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

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

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

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

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

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Granite Oil Corp.

We have audited the accompanying financial statements of Granite Oil Corp., which comprise the statements of financial position as at December 31, 2017 and December 31, 2016, the statements of operations and comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Granite Oil Corp. as at December 31, 2017 and December 31, 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants March 22, 2018
Calgary, Canada

STATEMENTS OF FINANCIAL POSITION

As at	December 31, 2017	December 31, 2016
(000s)	*($)*	*($)*
ASSETS		
Current assets		
Accounts receivable (note 15)	**5,146**	6,601
Deposits and prepaid expenses	**671**	506
	5,817	7,107
Non-current assets		
Exploration and evaluation assets (note 4)	**21,031**	36,889
Property and equipment (note 5)	**254,323**	247,055
Total assets	**281,171**	291,051
LIABILITIES		
Current liabilities		
Bank debt (note 6)	**36,351**	27,901
Accounts payable and accrued liabilities (note 15)	**8,519**	9,790
Dividend payable	**786**	1,179
Derivative financial instruments (note 15)	**2,831**	2,894
	48,487	41,764
Non-current liabilities		
Decommissioning liabilities (note 7)	**13,691**	13,307
Flow-through share premium liabilities (note 8)	**–**	578
Deferred tax liability (note 10)	**18,838**	21,056
Total liabilities	**81,016**	76,705
SHAREHOLDERS' EQUITY		
Share capital (note 8)	**413,891**	411,036
Contributed surplus	**18,613**	16,287
Deficit	**(232,349)**	(212,977)
Total shareholders' equity	**200,155**	214,346
Total liabilities and shareholders' equity	**281,171**	291,051

Commitments (note 16)

Subsequent Event (note 15 & note 17)

See accompanying notes to the financial statements.

On behalf of the Board of Directors,

Mike Kabanuk
President & Chief Executive Officer

Kathy Turgeon
Director

STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

Years Ended December 31,	2017	2016
(000s, except per share amounts)	*($)*	*($)*
REVENUE		
Oil and natural gas revenues	**52,667**	45,508
Royalties	**(13,432)**	(11,872)
Oil and natural gas revenues, net of royalties	**39,235**	33,636
Unrealized gain (loss) on financial instruments	**43**	(10,521)
Realized gain (loss) on financial instruments	**(180)**	4,584
	39,098	27,699
EXPENSES		
Operating and transportation	**10,123**	9,165
General and administrative	**2,549**	3,394
Depletion and depreciation (note 5)	**15,581**	17,528
Share-based compensation (note 9)	**2,648**	3,118
Exploration and evaluation expense (note 4)	**14,470**	1,486
Finance expenses (note 13)	**2,031**	1,695
	47,402	36,386
Loss before income taxes	**(8,304)**	(8,687)
TAXES		
Deferred income tax recovery (note 10)	**(2,796)**	(1,410)
Net loss and comprehensive loss for the year	**(5,508)**	(7,277)
Net loss per share (note 8)		
Basic	**(0.16)**	(0.22)
Diluted	**(0.16)**	(0.22)

See accompanying notes to the financial statements.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Share Capital	Contributed Surplus	Deficit	Total Equity
(000s)	*($)*	*($)*	*($)*	*($)*
Balance – January 1, 2017	**411,036**	**16,287**	**(212,977)**	**214,346**
Share-based compensation (note 9)	**–**	**4,959**	**–**	**4,959**
Issued on vesting of share incentives (note 8)	**2,577**	**(2,577)**	**–**	**–**
Exercise of options (note 8)	**278**	**(56)**	**–**	**222**
Dividends	**–**	**–**	**(13,864)**	**(13,864)**
Net loss	**–**	**–**	**(5,508)**	**(5,508)**
Balance – December 31, 2017	**413,891**	**18,613**	**(232,349)**	**200,155**
Balance – January 1, 2016	388,949	14,479	(192,135)	211,293
Share-based compensation	–	5,363	–	5,363
Common shares issued, net of share issue costs	15,397	–	–	15,397
Flow-through shares issued	3,003	–	–	3,003
Premium on flow-through shares	(578)	–	–	(578)
Tax benefit of share issuance costs	298	–	–	298
Issued on vesting of share incentives	3,478	(3,478)	–	–
Exercise of options	489	(77)	–	412
Dividends	–	–	(13,565)	(13,565)
Net loss	–	–	(7,277)	(7,277)
Balance – December 31, 2016	411,036	16,287	(212,977)	214,346

See accompanying notes to the financial statements.

STATEMENTS OF CASH FLOWS

Years Ended December 31,	**2017**	2016
(000s)	*($)*	*($)*
Cash flow from (used in):		
Operating activities		
Net loss for the period	**(5,508)**	(7,277)
Adjustments for:		
Depletion and depreciation expense (note 5)	**15,581**	17,528
Deferred income tax expense (recovery) (note 10)	**(2,796)**	(1,410)
Share-based compensation (note 9)	**2,648**	3,118
Accretion (note 7)	**312**	304
Unrealized (gain) loss on financial instruments (note 15)	**(43)**	10,521
Exploration and evaluation expense (note 4)	**14,470**	1,486
Abandonment and reclamation costs (note 7)	**(328)**	(34)
	24,336	24,236
Change in non-cash working capital (note 11)	**(1,426)**	2,274
	22,910	26,510
Financing activities		
Change in bank debt	**8,450**	(9,111)
Dividends paid	**(14,256)**	(13,450)
Issuance of share capital	**222**	19,918
Share issuance costs	**–**	(1,106)
	(5,584)	(3,749)
Investing activities		
Property and equipment expenditures	**(18,401)**	(20,686)
Exploration and evaluation expenditures	**(349)**	(937)
Change in non-cash working capital (note 11)	**1,445**	(1,129)
	(17,305)	(22,752)
Foreign exchange (loss) gain on cash and cash equivalents held in foreign	**(21)**	(9)
Change in cash and cash equivalents	**–**	–
Cash and cash equivalents – beginning of period	**–**	–
Cash and cash equivalents – end of period	**–**	–
Interest Paid	**1,280**	1,162

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

As at and for the years ended December 31, 2017 and 2016

1 REPORTING ENTITY

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

2 BASIS OF PRESENTATION

(a) Statement of Compliance

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

The financial statements were authorized for issuance by the Board of Directors on March 22, 2018.

(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 14.

(c) Functional and Presentation Currency

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

(d) Use of Estimates and Judgements

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

i) Key Sources of Estimation Uncertainty

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

ACQUISITIONS

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

VALUATION OF PROPERTY AND EQUIPMENT

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

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

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

PROVISIONS FOR DECOMMISSIONING COSTS

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

i) Judgments

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

IMPAIRMENT

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

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

E XPLORATION AND EVALUATION ASSETS

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

3 SIGNIFICANT ACCOUNTING POLICIES

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

(a) Property and Equipment

CAPITALIZATION

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

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

DEPLETION AND DEPRECIATION

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

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

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

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

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

IMPAIRMENT

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

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

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

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

CAPITALIZ ATION

Pre-licence costs are recognized in earnings as incurred.

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

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

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

IMPAIRMENT

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

(c) Business Combinations

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

(d) Leased Assets

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

(e) Joint Interest Activities

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

(f) Revenue Recognition

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

(g) Decommissioning Liabilities

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

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

(h) Income Taxes

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

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

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

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

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

(i) Flow-Through Shares

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

(j) Cash and Cash Equivalents

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

(k) Share- Based Compensation

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

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

Share incentive awards include both time-based awards (“TBA“) and performance-based awards (“PBA“). The fair value of the PBAs is determined at the grant date using the binomial option-pricing model, multiplied by the estimated performance multiplier. Fluctuations in share based compensation expense may occur due to changes in estimates of performance outcomes.

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

(l) Financial Instruments

i) Non- Derivative Financial Instruments

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

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

OTHER

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

ii) Derivative Financial Instruments

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

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

(m) Share Capital

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

(n) Per Share Amounts

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

(o) Future Accounting Policy Changes

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

In May 2014, the IASB issued IFRS 15 “Revenue from Contracts with Customers”. It replaces existing revenue recognition guidance and provides a single, principles based five-step model to be applied to all contracts with customers. Retrospective application of this standard is currently effective for fiscal years beginning on or after January 1, 2018, with earlier application permitted. The Company has concluded that the standard will not have a material impact on the financial statements. The Company has substantially completed its review of its revenue streams and underlying contracts with customers and does not anticipate a material impact to the Company’s earnings. The Company will expand disclosures in the notes to the financial statements as prescribed by IFRS 15 to provide additional information on the Company’s revenue streams and contractual arrangements.

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

Years Ended December 31,	**2017**	2016
($000s)		
Balance – January 1	**36,889**	37,463
Additions	**622**	1,257
Transfers to property and equipment (note 5)	**(2,010)**	(345)
E&E expenses	**(1,318)**	(199)
Lease expiries	**(13,152)**	(1,287)
Balance – December 31	**21,031**	36,889

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 year ended December 31, 2017, the Company incurred $1.3 million related to the drilling of one unsuccessful vertical stratigraphic test well (year ended December 31, 2016 - $0.2 million on the preparation of contingent locations) and $13.2 million related to lease expiries on undeveloped land (December 31, 2016 – $1.3 million).

During the year ended December 31, 2017, approximately $0.1 million of directly attributable general and administrative expense and $0.3 million of directly attributable share-based compensation expense were capitalized as expenditures on exploration and evaluation assets (December 31, 2016 – $0.1 million and $0.3 million, respectively).

5 PROPERTY AND EQUIPMENT

	Oil and Natural Gas Properties	Office Equipment	Total
($000s)			
Cost or deemed cost			
Balance – January 1, 2016	303,489	523	304,012
Additions	22,287	11	22,298
Transfers from E&E assets (note 4)	345	–	345
Balance – December 31, 2016	**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**
Accumulated depletion and depreciation			
Balance – January 1, 2016	61,789	283	62,072
Depletion and depreciation for the year	17,470	58	17,528
Balance – December 31, 2016	**79,259**	**341**	**79,600**
Depletion and depreciation for the year	**15,534**	**47**	**15,581**
Balance – December 31, 2017	**94,793**	**388**	**95,181**
Net book value			
December 31, 2016	246,862	193	247,055
December 31, 2017	**254,161**	**162**	**254,323**

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

During the year ended December 31, 2017, approximately $0.5 million of directly attributable general and administrative expense and $2.0 million of directly attributable share-based compensation expense were capitalized as expenditures on property and equipment (December 31, 2016 – $0.5 million and $1.9 million, respectively).

(b) Future Development Costs and Salvage Value

At December 31, 2017, an estimated $68.3 million of future development costs associated with proved plus probable undeveloped reserves were included in the calculation of depletion and depreciation expense and an estimated $9.5 million of salvage value of production equipment was excluded (December 31, 2016 – $61.0 million and $9.5 million, respectively).

6 BANK DEBT

At 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 revolving 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, again based on the Company's debt to cash flow ratio. Under the Credit Facility, the Company is required to maintain a current ratio of not less than 1:1. The current ratio is calculated as current assets (excluding derivative financial instruments) plus any undrawn availability in the Credit Facility versus current liabilities (excluding derivative financial instruments and any amounts outstanding in the Credit Facility). At December 31, 2017, the Company was in compliance with the current ratio requirement.

At December 31, 2017, $36.4 million was drawn against this facility (December 31, 2016 – $27.9 million). The amount of the facility is subject to a borrowing base test performed on a periodic basis by the lenders, based primarily on reserves and using commodity prices estimated by the lenders as well as other factors. The borrowing base of the credit facility is subject to review at least semi-annually with the next review scheduled for April 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 $13.7 million as at December 31, 2017 (December 31, 2016 – $13.3 million) based on an undiscounted total future liability of $19.0 million (December 31, 2016 – $18.6 million). These payments are expected to be incurred over a period of one to 20 years with the majority of costs to be incurred between 2028 and 2033. At December 31, 2017, a risk-free rate of 2.25 percent (December 31, 2016 – 2.25 percent) and an inflation rate of 2 percent (December 31, 2016 – 2 percent) were used to calculate the net present value of the decommissioning liabilities. The $0.2 million in revisions for the year ended December 31, 2017, are related to changes in the risk-free rate used in the calculation throughout 2017.

Years Ended December 31,	**2017**	2016
($000s)		
Balance – January 1	**13,307**	13,349
Liabilities incurred	**629**	638
Revisions	**(229)**	(950)
Settlements	**(328)**	(34)
Accretion of decommissioning liabilities	**312**	304
Balance – December 31	**13,691**	13,307

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

Years Ended December 31,	**2017**		2016	
	Shares	Amount	Shares	Amount
	(#)	*($000s)*	*(#)*	*($000s)*
Balance – January 1	**33,671,637**	**411,036**	30,355,024	388,949
Common shares issued (i)	**–**	**–**	2,324,300	16,503
Flow-through shares issued (ii)	**–**	**–**	330,000	3,003
Premium on flow-through shares (ii)	**–**	**–**	–	(578)
Exercise of options (iii)	**51,087**	**278**	120,117	489
Issued on vesting of share incentives (note 9)	**467,928**	**2,577**	542,196	3,478
Share issuance costs	**–**	**–**	–	(1,106)
Tax benefit of share issuance costs	**–**	**–**	–	298
Balance – December 31	**34,190,652**	**413,891**	33,671,637	411,036

i) Common Share Issuances

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

ii) Flow-Through Share Issuances

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

iii) 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.

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

(c) Per Share Amounts

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

Years Ended December 31,	**2017**	2016
(000s, except per share amounts)	*($)*	*($)*
Net loss for the year	**(5,508)**	(7,277)
Weighted-average number of common shares	*(#)*	*(#)*
– basic	**33,968**	32,375
– diluted	**33,968**	32,375
Net loss per weighted average common shares	*($)*	*($)*
– basic	**(0.16)**	(0.22)
– diluted	**(0.16)**	(0.22)

9 SHARE- BASED COMPENSATION

(a) Replacement Stock Options

DeeThree's stock option plan was terminated in connection with the Plan of Arrangement ("POA") which divided the Company into two publically traded energy companies, Granite and Boulder Energy Ltd. ("Boulder"), on May 15, 2015. Unvested in-the-money DeeThree options that were outstanding at the time of the completion of the POA were replaced with options to acquire shares of Granite and Boulder respectively. Replacement options were issued based on the exercise price proportion of the fraction A/B, where A is the volume weighted average price of the Boulder common shares on the first five trading days on the TSX and B is the aggregate of (i) the volume weighted average price of Boulder common shares for the first five trading days on the TSX and (ii) the volume weighted average price of the Granite common shares on the first five trading days on the TSX. All Granite replacement options granted under the POA maintain the same vesting and expiry dates from when the original DeeThree options were previously issued.

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

	Year Ended December 31, 2017		Year Ended December 31, 2016	
	Options	**Weighted-Average Exercise Price**	Options	Weighted-Average Exercise Price
	(#)	***($)***	*(#)*	*($)*
Outstanding – January 1	**71,720**	**4.83**	194,486	3.96
Exercised	**(51,087)**	**4.34**	(120,117)	3.43
Expired	**(11,301)**	**5.43**	-	-
Cancelled	**-**	**-**	(2,649)	4.10
Outstanding – December 31	**9,332**	**6.80**	71,720	4.83
Exercisable – December 31	**9,332**	**6.80**	67,054	4.70

Exercise Price	Weighted-Average Contractual Outstanding	Options Life	Weighted-Average Exercisable
($)	*(#)*	*(years)*	*(#)*
As at December 31, 2017			
6.00 – 6.99	**9,332**	**0.01**	**9,332**
	9,332	**0.01**	**9,332**

Gross share-based compensation for the options was $nil for the year ended December 31, 2017 (December 31, 2016 - $0.04 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:

	Year Ended December 31, 2017	Year Ended December 31, 2016
	PBAs	PBAs
	(#)	*(#)*
Outstanding – January 1	**956,902**	829,103
Issued	**411,739**	656,250
Redeemed	**(238,214)**	(276,367)
Cancelled	**(22,730)**	(252,084)
Outstanding – December 31	**1,107,697**	956,902

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 were redeemed for 446,381 common shares reflecting the effect of the performance multiplier as well as accumulated dividends from the date of the original grant to the payment date. During the year ended December 31, 2016, 276,367 PBAs were redeemed for 503,565 common shares reflecting the effect of the performance multiplier as well as accumulated dividends. A performance multiplier of 1.5 has been assumed for PBAs outstanding at December 31, 2017 and December 31, 2016. Fluctuations in share based compensation expense may occur due to changes in estimates of performance outcomes.

The following assumptions were used to value the PBAs granted:

	Year Ended December 31, 2017	Year Ended December 31, 2016
Forfeiture rate *(%)*	**2**	2
Risk-free interest rate *(%)*	**0.83**	0.55
Expected life *(years)*	**2.00**	2.00
Expected volatility *(%)*	**43**	48
Expected dividend yield *(%)*	**6**	6
Weighted-average fair value of PBAs granted during the period *($/award)*	**4.96**	5.98

Gross share-based compensation related to PBAs was $4.8 million for the year ended December 31, 2017 (year ended December 31, 2016 - $4.9 million). Of this amount, $2.3 million was capitalized (year ended December 31, 2016 – $2.1 million), resulting in total net share-based compensation expense related to PBAs of $2.5 million for the year (year ended December 31, 2016 - $2.8 million).

The number of TBAs is as follows:

	Year Ended December 31, 2017	Year Ended December 31, 2016
	TBAs	TBAs
	(#)	*(#)*
Outstanding – January 1	**78,094**	115,892
Issued	**-**	43,750
Redeemed	**(21,547)**	(38,631)
Cancelled	**-**	(42,917)
Outstanding – December 31	**56,547**	78,094

The fair value of the TBAs is determined at the grant date using the binomial option-pricing model. During the year ended December 31, 2017, 21,547 TBAs were redeemed for 21,547 common shares. During the year ended December 30, 2016, 38,631 TBAs were redeemed for 38,631 common shares.

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

	Year Ended December 31, 2017	Year Ended December 31, 2016
Forfeiture rate *(%)*	**-**	2
Risk-free interest rate *(%)*	**-**	0.55
Expected life *(years)*	**-**	2.00
Expected volatility *(%)*	**-**	48
Expected dividend yield *(%)*	**-**	6
Weighted-average fair value of TBAs granted during the period *($/award)*	**-**	5.98

Gross share-based compensation related to TBAs was $0.2 million for the year ended December 31, 2017 (year ended December 31, 2016 - $0.4 million). Of this amount, $0.06 million was capitalized (year ended December 31, 2016 – $0.1 million), resulting in total net share-based compensation expense related to TBAs of $0.14 million for the year (year ended December 31, 2016 - $0.3 million).

10 INCOME TAXES

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

Years Ended December 31,	**2017**	2016
($000s except percentages)		
Loss before income taxes	**(8,304)**	(8,687)
Tax rate	**27%**	27%
Computed income tax expense provision	**(2,242)**	(2,345)
Increase (decrease) in income taxes resulting from:		
Share-based compensation	**(962)**	933
Flow-through shares	**811**	-
Other	**175**	2
Subtotal	**(2,218)**	(1,410)
Flow-through share premium	**(578)**	-
Deferred income tax recovery	**(2,796)**	(1,410)

For the year ended December 31, 2017 and December 31, 2016 the blended statutory tax rate was 27%.

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

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

($000s)	Balance January 1, 2017	Recognized Directly in Equity and Other	Recognized in Profit or Loss	Balance December 31, 2017
E&E, property and equipment and intangibles	**(33,614)**	**(578)**	**(10,399)**	**(44,591)**
Derivative financial instruments	**781**	**–**	**(17)**	**764**
Decommissioning liabilities	**3,593**	**–**	**104**	**3,697**
Share issuance costs	**934**	**–**	**(535)**	**399**
Non-capital losses carried forward	**7,250**	**–**	**12,369**	**19,619**
Share-based compensation	**–**	**–**	**1,274**	**1,274**
	(21,056)	**(578)**	**2,796**	**(18,838)**

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

The Company has $72.7 million of non-capital losses that begin to expire in 2029.

11 SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital are comprised of:

Years Ended December 31, ($000s)	**2017**	2016
Accounts receivable	**1,455**	4,326
Deposits and prepaid expenses	**(165)**	247
Accounts payable and accrued liabilities	**(1,271)**	(3,426)
	19	1,145
Related to operating activities	**(1,426)**	2,274
Related to investing activities	**1,445**	(1,129)
	19	1,145

12 SUPPLEMENTAL DISCLOSURE

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

Compensation of key management personnel is comprised of the following:

Years Ended December 31,	**2017**	2016
($000s)		
Salaries and wages (including bonuses)	**695**	1,020
Benefits and other personnel costs	**22**	29
Share-based compensation [1]	**3,461**	4,407
	4,178	5,456

[1] Share-based compensation represents the gross share-based compensation associated with options and share incentives for executive officers and directors.

13 FINANCE EXPENSES

Years Ended December 31,	**2017**	2016
($000s)		
Finance expenses:		
Interest on bank debt	**1,326**	1,172
Standby and other fees related to credit facility	**379**	219
Part XII.6 tax related to flow-through shares	**14**	-
Accretion expense (note 7)	**312**	304
Finance expenses	**2,031**	1,695

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

(a) Property and Equipment and E&E Assets

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

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

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

The fair value of accounts receivable, accounts payable and accrued liabilities and dividend payable is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. The fair value of these balances approximated their carrying value at December 31, 2017 due to their short term to maturity.

(c) Stock Options

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

(d) Performance Based Awards and Time Based Awards

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

(e) Derivative Financial Instruments

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

15 FINANCIAL RISK MANAGEMENT

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

(a) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's accounts receivable from joint venture partners and oil and natural gas marketers. This amount was $5.1 million at December 31, 2017 (December 31, 2016 – $6.6 million).

The Company's accounts receivable are with customers and joint venture partners in the oil and natural gas business and are subject to normal credit risks. Concentration of credit risk is mitigated by marketing substantially all of the Company's production to large purchasers under normal industry sale and payment terms. The industry has a pre-arranged monthly settlement day for payment of revenues from all buyers of natural gas and crude oil. This occurs on the 25th day following the month in which the production is sold. Granite mitigates associated credit risk by limiting transactions to credit-worthy counterparties. For the year ended December 31, 2017, the Company recorded $0.05 million in bad debt expense (December 31, 2016 - $0.09 million bad debt recovery). The exposure to credit risk at the reporting date by type was:

As at December 31,	**2017**	2016
($000s)		
Oil and natural gas marketing companies	**3,114**	5,110
Joint venture partners	**1,151**	627
Other	**881**	864
Total trade and other receivables	**5,146**	6,601

As at December 31, 2017 and 2016, the Company's trade and other receivables are aged as follows:

As at December 31,	**2017**	2016
($000s)		
Current (less than 90 days)	**4,975**	5,861
Past due (more than 90 days)	**171**	740
Total	**5,146**	6,601

(b) Liquidity Risk

Liquidity risk is the risk of having difficulty meeting obligations associated with financial liabilities. The financial liabilities on the statement of financial position consist of accounts payable and accrued liabilities, bank debt and dividend payable. Accounts payable and accrued liabilities consist of invoices payable to trade suppliers relating to office and field operating activities and the Company's capital spending program. Granite processes invoices within a normal payment period. As described in note 6, bank debt consists of the Credit Facility with an authorized borrowing base of $50 million, including a $45 million extendible revolving facility and a $5 million operating facility. The Company manages its liquidity through continuously monitoring cash flows from operating activities, review of actual capital expenditures against budget, managing maturity profiles of financial assets and financial liabilities and managing its commodity price risk management program. These activities ensure that the Company has sufficient funds to meets its financial obligations when due. The Company had no defaults or breaches on its bank debt or any of its financial liabilities as at or for the year ended December 31, 2017.

The following table details the Company's financial liabilities as at December 31, 2017:

As at December 31, 2017	Total	Within 1 Year	Over 1 Year
($000s)			
Non-derivative financial liabilities:			
Bank debt	**36,351**	**36,351**	**–**
Accounts payable and accrued liabilities	**8,519**	**8,519**	**–**
Dividend payable	**786**	**786**	**–**
Total financial liabilities	**45,656**	**45,656**	**–**

(c) Market Risk

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

COMMODITY PRICE RISK

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

As at December 31, 2017, the Company had the following crude oil and interest rate risk management contracts, with a total mark-to-market liability of $2.8 million (December 31, 2016 – $2.9 million liability):

CRUDE OIL CONTRACTS

Remaining Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price ($/bbl)	Fair Value Asset (Liability) ($) (000s)
2018						
Jan. 1/18 – Dec. 31/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $49.00	US $(372.2)
Jan. 1/18 – Dec. 31/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $50.00	US $(336.1)
Jan. 1/18 – Dec. 31/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $50.50	US $(318.1)
Jan. 1/18 – Dec. 31/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $52.00	US $(263.9)
Front Half 2018						
Jan. 1/18 – Jun. 30/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $48.90	CAD $(255.1)
Jan. 1/18 – Jun. 30/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $51.60	CAD $(193.9)
Jan. 1/18 – Jun. 30/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $52.45	US $(138.9)
Back Half 2018						
Jul. 1/18 – Dec. 31/18	Crude Oil	Fixed	200 bbls/d	WTI-NYMEX	CAD $70.74	CAD $(93.1)
Jul. 1/18 – Dec. 31/18	Crude Oil	Fixed	200 bbls/d	WTI-NYMEX	US $55.40	US $(139.3)
Q1 2018						
Jan. 1/18 – Mar. 31/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $54.00	US $(57.4)
Jan. 1/18 – Mar. 31/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $55.00	CAD $(60.9)
Jan. 1/18 – Mar. 31/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	CAD $70.39	CAD $(49.4)
Jan. 1/18 – Mar. 31/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	CAD $73.14	CAD $(24.7)
Jan. 1/18 – Mar. 31/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	CAD $73.55	CAD $(21.1)
Jan. 1/18 – Mar. 31/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	CAD $74.00	CAD $(16.7)
Q2 2018						
Apr. 1/18 – Jun. 30/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $56.55	CAD $(38.5)
Apr. 1/18 – Jun. 30/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $57.00	US $(26.6)
Apr. 1/18 – Jun. 30/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $57.55	US $(27.2)
Apr. 1/18 – Jun. 30/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	CAD $73.90	CAD $(12.2)

Subsequent to December 31, 2017, the Company entered into the following crude oil and interest rate risk management contracts:

Jul. 1/18 – Dec. 31/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	CAD $75.06/bbl
Jul. 1/18 – Dec. 31/18	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	US $60.15/bbl

(d) Capital Management

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

The following summarizes the Company's capital structure:

As at December 31,	**2017**	2016
($000s)		
Bank debt	**36,351**	27,901
Shareholders' equity	**198,385**	214,346

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

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

There were no changes in the Company's approach to capital management during the year ended December 31, 2017.

16 COMMITMENTS

Years Ended December 31,	2018	2019	2020	Total
($000s)				
Operating lease – office	218	218	218	654
Total commitments	218	218	218	654

As at December 31, 2017, the Company had contractual obligations for its office lease totaling approximately $0.7 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.

17 SUBSEQUENT EVENTS

On March 20, 2018, Granite announced the initiation of a formal process to explore strategic alternatives as the Board believes that the current trading price of its common shares does not adequately reflect the underlying value of the Company and its successful EOR project. The Board has appointed an independent committee (the "Special Committee") to undertake a broad review of potential alternatives to enhance shareholder value. Such strategic alternatives may include, but are not limited to, a sale or merger of the Company or other form of business combination; a sale or joint venture involving all or a portion of the assets; a recapitalization of the Company or other form of strategic investment; or the purchase or sale of assets.

Cormark Securities Inc. and National Bank Financial Inc. have been engaged by the Special Committee as co-financial advisors in connection with the Process.

Granite has not set a definitive schedule for the Process and the Company does not intend to provide updates or otherwise disclose developments with respect to the Process until the Board of Directors has approved a definitive transaction or strategic alternative, or otherwise determines that disclosure is necessary or appropriate.

Please see note 15 for detail of financial instruments entered in subsequent to December 31, 2017.

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)(3)(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
Granite Oil Corp.

Gail Hannon
Chief Financial Officer

Tyler Klatt
Vice President, Exploration

Daniel Kenney
Corporate Secretary

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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

AST Trust Company (Canada)
Calgary, Alberta

STOCK TRADING

Toronto Stock Exchange
Trading Symbol: GXO

OTCQX
Trading Symbol: GXOCF