

## FINANCIAL AND OPERATING HIGHLIGHTS

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
<i>(000s, except per share amounts)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>
<b>FINANCIAL</b>				
Oil and natural gas revenues	<b>11,505</b>	14,094	<b>20,801</b>	24,679
Cash flow from operations	<b>3,532</b>	3,791	<b>6,082</b>	7,748
Funds from operations <sup>(1)</sup>	<b>4,463</b>	4,089	<b>8,765</b>	6,800
Per share – basic	<b>0.12</b>	0.12	<b>0.23</b>	0.20
Per share – diluted <sup>(2)</sup>	<b>0.11</b>	0.12	<b>0.23</b>	0.19
Net income (loss)	<b>2,678</b>	(361)	<b>793</b>	(3,714)
Per share – basic	<b>0.07</b>	(0.01)	<b>0.02</b>	(0.11)
Per share – diluted <sup>(2)</sup>	<b>0.07</b>	(0.01)	<b>0.02</b>	(0.11)
Capital expenditures <sup>(3)</sup>	<b>3,341</b>	5,841	<b>4,060</b>	9,302
Net debt <sup>(4)</sup>	<b>42,832</b>	47,072	<b>42,832</b>	47,072
Shareholders' equity	<b>194,555</b>	192,730	<b>194,555</b>	192,730
<i>(000s)</i>	<i>(#)</i>	<i>(#)</i>	<i>(#)</i>	<i>(#)</i>
<b>SHARE DATA</b>				
At period-end	<b>38,776</b>	34,191	<b>38,776</b>	34,191
Weighted average – basic	<b>38,572</b>	34,191	<b>38,388</b>	34,191
Weighted average – diluted	<b>38,851</b>	34,921	<b>38,666</b>	34,897
<b>OPERATING <sup>(5)</sup></b>				
Production				
Natural gas ( <i>mcf/d</i> )	<b>44</b>	121	<b>116</b>	204
Crude oil ( <i>bbls/d</i> )	<b>1,689</b>	2,197	<b>1,622</b>	2,177
Total ( <i>boe/d</i> )	<b>1,696</b>	2,217	<b>1,641</b>	2,211
Average wellhead prices				
Natural gas ( <i>\$/mcf</i> )	<b>1.40</b>	0.88	<b>4.18</b>	1.80
Crude oil and NGLs ( <i>\$/bbl</i> )	<b>74.81</b>	70.45	<b>70.57</b>	62.69
Combined average ( <i>\$/boe</i> ) <sup>(6)</sup>	<b>74.53</b>	69.87	<b>70.04</b>	61.90
Netbacks				
Operating netback ( <i>\$/boe</i> ) <sup>(7)</sup>	<b>39.10</b>	28.83	<b>40.16</b>	24.51
Gross (net) wells drilled				
Oil (#)	<b>1 (1.0)</b>	2 (2.0)	<b>1 (1.0)</b>	3 (3.0)
Total (#)	<b>1 (1.0)</b>	2 (2.0)	<b>1 (1.0)</b>	3 (3.0)
Average working interest (%)	<b>100</b>	100	<b>100</b>	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 August 9, 2019 and should be read in conjunction with the Company's interim financial statements and related notes for the three and six months ended June 30, 2019, as well as the audited financial statements and related notes for the years ended December 31, 2018 and 2017 and our Annual Information Form for the year ended December 31, 2018. 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, 2018. 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](http://www.sedar.com) and on the Company's website [www.graniteoil.ca](http://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 junior oil producer based in Calgary, Alberta that owns and operates a large 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-term through responsible reservoir management while achieving and sustaining low annual pool-wide production decline 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 evaluate possible strategic acquisitions, where appropriate.

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.

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.

## 2019 SECOND QUARTER FINANCIAL AND OPERATING HIGHLIGHTS

During the first six months of 2019, Granite has reduced its net debt by over 10%, exiting the second quarter with net debt of approximately \$42.8 million, down approximately \$4.9 million from year-end 2018. Granite paid down approximately \$0.8 million in net debt during the second quarter while increasing production by approximately 7% as compared to the first quarter. The Company generated funds from operations of approximately \$4.2 million in the second quarter, with capital expenditures of approximately \$3.3 million and one-time severance and corporate cash costs of approximately \$0.4 million.

During the second quarter, Granite drilled and completed its first development well since June, 2018. This well averaged approximately 260 bbl/d of oil over the first 90 days of production, exceeding type curve estimates and continuing the trend of strong drilling results achieved in 2018. This is the fourth consecutive well in which the Company tested higher frac intensity, with results to-date demonstrating strong performance benefits of this optimized completions strategy and further substantiating the production potential

of the Company's drilling inventory.

Production during the second quarter averaged approximately 1,696 boe/d (99.6% oil), representing a 7% increase over the first quarter of 2019. Granite had six wells shut-in for the duration of the second quarter as part of its rotational re-pressurization program and EOR optimization strategy, and has yet to re-initiate production on these wells due to strong field performance through the start of the year and continuing into the third quarter. This strategy provides the Company with the opportunity to further repressure these shut-in areas and also evaluate a potential recompletion strategy for historically under-stimulated wells.

## OUTLOOK

Granite continues to deliver on its business plan, being focused on debt repayment and prudent capital management. The Company has reduced its net debt by over 10% relative to year-end 2018, increased production quarter-over-quarter by approximately 7%, while limiting its capital expenditures to \$4.1 million over the first half of 2019. With its 2019 capital program heavily weighted to the second quarter, Granite will continue to reduce its net debt through the remainder of 2019 and is on-track to exit the year with net debt between \$37 and \$39 million, depending upon prevailing commodity prices.

## Funds from Operations <sup>(1)</sup>

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
(\$000s)				
Cash flow from (used in) operating activities	<b>3,532</b>	3,791	<b>6,082</b>	7,748
Changes in non-cash working capital	<b>931</b>	298	<b>2,683</b>	(948)
Funds from (used in) operations	<b>4,463</b>	4,089	<b>8,765</b>	6,800

<sup>(1)</sup> Funds from (used in) 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 June 30, 2019, the Company generated funds from operations totaling \$4.5 million (\$0.12 per basic and \$0.11 per diluted share) compared to \$4.1 million (\$0.12 per basic and diluted share) in the comparative period of 2018. The increase is largely attributable to lower realized hedging losses for the second quarter of 2019 as compared to the realized losses in the second quarter of 2018. This was partially offset by lower revenues, net of royalties in the second quarter of 2019.

Funds from operations totaled \$8.8 million (\$0.23 per basic and diluted share) for the six months ended June 30, 2019, compared to \$6.8 million (\$0.20 per basic and \$0.19 per diluted share) in the same period of 2018. The increase is largely attributable to realized hedging gains for the first six months of 2019 as compared to realized losses in the first six months of 2018 partially offset by lower revenues, net of royalties.

## Net Income (Loss)

For the three months ended June 30, 2019, the Company recorded net income of \$2.7 million (\$0.07 per basic and diluted share) compared to a net loss of \$0.4 million (\$0.01 per basic and diluted share) in the same period of 2018.

For the six months ended June 30, 2019, the Company recorded net income of \$0.8 million (\$0.02 per basic and diluted share) as compared to a net loss of \$3.7 million (\$0.11 per basic and diluted share) for the same period in the prior year.

## FINANCIAL AND OPERATING RESULTS

### Sales Volumes

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
<b>Sales</b>				
Natural gas ( <i>mcf/d</i> )	44	121	116	204
Crude oil ( <i>bbls/d</i> )	1,689	2,197	1,622	2,177
Total sales ( <i>boe/d</i> )	1,696	2,217	1,641	2,211
<b>Production Split</b>				
Natural gas (%)	1	1	1	1
Crude oil (%)	99	99	99	99
Total	100	100	100	100

For the second quarter of 2019, the Company's production averaged 1,689 boe/d (99% oil) compared to 2,217 boe/d (99% oil) in the same period of 2018. On a per-boe basis, this represents a 24 percent decrease year-over-year. The year-over-year reduction in oil sales is primarily due to natural declines, the conversion of one producing oil well to a gas injector and a reduced drilling program throughout 2018 and 2019.

For the first six months of 2019, the Company's production averaged 1,641 boe/d compared to 2,211 boe/d in the same period in 2018. This 26 percent decrease is primarily due to natural declines, the conversion of one producing oil well to a gas injector, a reduced drilling program throughout 2018 and 2019 and weather related curtailments in early 2019.

### Revenue

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
<i>(\$000s)</i>				
Natural gas	6	10	88	67
Crude oil	11,499	14,084	20,713	24,702
Total oil and natural gas revenue	11,505	14,094	20,801	24,769

During the three months ended June 30, 2019, revenue decreased by 18 percent to \$11.5 million from \$14.1 million in the comparative period of 2018. The year-over-year decrease can be attributed to a decrease in sales volumes primarily offset by higher wellhead prices.

For the first six months of 2019, revenue totaled \$20.8 million compared to \$24.8 million for the same period in 2018. This decrease can be attributed to the decrease in production volumes partially offset by an increase in crude oil market prices in the first six months of 2018.

Pricing for both the three and six month periods ended June 30, 2019 is further discussed below in "Commodity Prices and Foreign Exchange".

## Commodity Prices and Foreign Exchange

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
<b>Benchmark Prices</b>				
Crude oil				
WTI (US\$/bbl)	59.81	67.88	57.36	65.37
Differential – WCS/WTI (US\$/bbl)	(10.67)	(19.27)	(11.48)	(21.77)
Natural gas				
NYMEX (US\$/mmbtu) <sup>(1)</sup>	2.51	2.83	2.69	2.84
AECO 5A daily index (Cdn\$/GJ) <sup>(2)</sup>	0.98	1.12	1.73	1.54
AECO 7A monthly index (Cdn\$/GJ) <sup>(2)</sup>	1.11	0.97	1.48	1.37
<b>Average Realized Prices</b>				
Natural gas (\$/mcf)	1.40	0.88	4.18	1.80
Crude oil (\$/bbl)	74.81	70.45	70.57	62.69
Combined average (\$/boe)	74.53	69.87	70.04	61.90
<b>Foreign Exchange</b>				
Cdn\$/US\$	1.34	1.30	1.33	1.28
US\$/Cdn\$	0.75	0.77	0.75	0.78

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

<sup>(2)</sup> GJ is the abbreviation for gigajoule. One mcf of natural gas is approximately 1.05 GJ.

### Crude Oil Pricing

The average realized price of Granite's crude oil was \$74.81/bbl for the second quarter of 2019 compared to \$70.45/bbl in the second quarter of 2018. Granite's realized oil price increased by 6 percent from the comparable period in the prior year due to the increase in the benchmark prices.

For the six months ended June 30, 2019, the Company's average realized crude oil price was \$70.57/bbl compared to \$62.69/bbl in the same period in the prior year, a 13 percent increase driven by higher benchmark prices.

### Natural Gas Pricing

Granite's average realized natural gas price was \$1.40/mcf in the second quarter of 2019 as compared to \$0.88/mcf in the second quarter of 2018.

Granite's average realized natural gas price was \$4.18/mcf in the first six months of 2019 as compared to \$1.80/mcf in the same period of 2018.

### 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 2019 and 2020, 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. 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 June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Oil and natural gas revenues (\$000s)	<b>11,505</b>	14,094	<b>20,801</b>	24,769
Royalties (\$000s)	<b>2,825</b>	3,595	<b>4,278</b>	6,129
Royalties (\$/boe)	<b>18.30</b>	17.82	<b>14.40</b>	15.32
Percent of oil and natural gas revenue (%)	<b>25</b>	26	<b>21</b>	25

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

For the second quarter of 2019, royalties were \$2.8 million or 25 percent of revenue compared to \$3.6 million or 26 percent of revenue in the second quarter in 2018.

For the six months ended June 30, 2019, royalties totaled \$4.3 million or 21 percent of oil and gas sales revenue compared to \$6.1 million or 25 percent of oil and gas sales revenue for the same period in 2018. The decrease in the royalty rate is the result of a favourable true-up to the 2018 Freehold Mineral Tax levy thereby lowering the royalty rate in the six months ended June 30, 2019.

## Operating and Transportation Expenses

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Operating expenses (\$000s)	<b>1,932</b>	2,232	<b>4,011</b>	4,658
Transportation expenses (\$000s)	<b>649</b>	500	<b>1,245</b>	796
Total operating and transportation expenses (\$000s)	<b>2,581</b>	2,732	<b>5,256</b>	5,454
Operating expenses (\$/boe)	<b>12.52</b>	11.06	<b>13.51</b>	11.64
Transportation expenses (\$/boes)	<b>4.20</b>	2.48	<b>4.19</b>	1.99
Total operating and transportation expenses (\$/boe)	<b>16.72</b>	13.54	<b>17.70</b>	13.63

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

Operating expenses for the second quarter of 2019 totaled \$1.9 million or \$12.52/boe compared to \$2.2 million or \$11.06/ boe in the same period of 2018. Operating costs on an absolute dollar basis are lower during the second quarter of 2019 relative to 2018 due to lower production volumes in 2019 as well as a reduction in operating costs associated with shut-in shallow gas volumes in 2019.

Transportation expenses for the three months ended June 30, 2019 were \$0.6 million or \$4.20/boe as compared to \$0.5 million or \$2.48/boe in the same period in the prior year. Transportation costs increased in the second quarter of 2019 as a result of the additional transportation costs related to volumes delivered direct-to-refinery in Montana as compared to volumes delivered to a loading terminal in Milk River, Alberta, during the same period of the prior year.

For the six months ended June 30, 2019, the Company incurred operating expenses of \$4.0 million or \$13.51/boe compared to \$4.7 million or \$11.64/boe in the same period in the prior year. Transportation expenses for the first six months of 2019 totaled \$1.2 million or \$4.19/boe as compared to \$0.8 million or \$1.99/boe in the same period in 2018. Operating costs on an absolute dollar basis are lower during the second quarter of 2019 relative to 2018 due to lower production volumes in 2019 as well as a reduction in operating costs associated with shut-in shallow gas volumes in 2019. Transportation costs increased in the second quarter of 2019 as a result of the additional transportation costs related to volumes delivered direct-to-refinery in Montana as compared to volumes delivered to a loading terminal in Milk River during the same period of the prior year.

## Risk Management

Granite maintains a risk management program to reduce the volatility of revenues and to increase the certainty of funds from operations and cash flow from operations. As at June 30, 2019, the Company had the following crude oil risk management contracts, with a mark-to-market asset of \$0.3 million (December 31, 2018 – asset of \$3.7 million).

### Crude Oil Contracts

Remaining Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price
<b>Q3 2019</b>					
Jul. 1/19 – Sep.30/19	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	CAD \$85.50
Jul. 1/19 – Sep.30/19	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	CAD \$86.40
Jul. 1/19 – Sep.30/19	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	USD \$69.20
Jul. 1/19 – Sep.30/19	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	CAD \$87.70
Jul. 1/19 – Sep. 30/19	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	USD \$56.50
Jul. 1/19 – Sep. 30/19	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	CAD \$76.00
Jul. 1/19 – Sep. 30/19	Crude Oil	Fixed	100 bbls/d	WCS-WTI Differential	CAD (\$24.65)
Jul. 1/19 – Sep. 30/19	Crude Oil	Fixed	100 bbls/d	WCS-WTI Differential	CAD (\$21.75)
Jul. 1/19 – Sep. 30/19	Crude Oil	Fixed	100 bbls/d	WCS-WTI Differential	CAD (\$21.50)
Jul. 1/19 – Sep. 30/19	Crude Oil	Fixed	100 bbls/d	WCS-WTI Differential	USD (\$18.55)
Jul. 1/19 – Sep. 30/19	Crude Oil	Fixed	100 bbls/d	WCS-WTI Differential	CAD (\$22.00)
Jul. 1/19 – Sep. 30/19	Crude Oil	Fixed	100 bbls/d	WCS-WTI Differential	CAD (\$23.65)
<b>Q4 2019</b>					
Oct. 1/19 – Dec. 31/19	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	USD \$57.70
Oct. 1/19 – Dec. 31/19	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	USD \$59.20
Oct. 1/19 – Dec. 31/19	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	USD \$58.41
Oct. 1/19 – Dec. 31/19	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	USD \$58.56
Oct. 1/19 – Dec. 31/19	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	USD \$59.30
Oct. 1/19 – Dec. 31/19	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	USD \$60.30
Oct. 1/19 – Dec. 31/19	Crude Oil	Fixed	100 bbls/d	WCS-WTI Differential	USD (\$21.90)
Oct. 1/19 – Dec. 31/19	Crude Oil	Fixed	100 bbls/d	WCS-WTI Differential	USD (\$22.05)



Oct. 1/19 – Dec. 31/19	Crude Oil	Fixed	100 bbls/d	WCS-WTI Differential	USD (\$21.70)
Oct. 1/19 – Dec. 31/19	Crude Oil	Fixed	100 bbls/d	WCS-WTI Differential	USD (\$21.10)
Oct. 1/19 – Dec. 31/19	Crude Oil	Fixed	100 bbls/d	WCS-WTI Differential	USD (\$22.30)
<b>Q1 2020</b>					
Jan. 1/20 – Mar. 31/20	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	USD \$62.65
Jan. 1/20 – Mar. 31/20	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	USD \$61.60
Jan. 1/20 – Mar. 31/20	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	USD \$61.31
Jan. 1/20 – Mar. 31/20	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	USD \$57.55
<b>Q2 2020</b>					
Apr. 1/20 – Jun. 30/20	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	USD \$60.15

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 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 June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Unrealized gain (loss) on financial instruments (\$000s)	<b>510</b>	(811)	<b>(3,351)</b>	(1,790)
Unrealized gain (loss) on financial instruments (\$/boe)	<b>3.30</b>	(4.02)	<b>(11.28)</b>	(4.47)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Realized gain (loss) on financial instruments (\$000s)	<b>(63)</b>	(1,952)	<b>659</b>	(3,378)
Realized gain (loss) on financial instruments (\$/boe)	<b>(0.41)</b>	(9.68)	<b>2.22</b>	(8.44)

During the second quarter of 2019, the Company recorded an unrealized gain on financial instruments of \$0.5 million and a realized loss of \$0.06 million. In the same period of the prior year, the Company recorded an unrealized loss of \$0.8 million and a realized loss of \$2.0 million. The unrealized gain is a result of 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 six months ended June 30, 2019, the Company recorded an unrealized loss of \$3.4 million and a realized gain of \$0.7 million compared to an unrealized loss of \$1.8 million and a realized loss of \$3.4 million, in the same period of 2018.



## Operating Netback <sup>(1)(2)</sup>

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
<i>(\$/boe)</i>				
Average sales price (including other income)	<b>74.53</b>	69.87	<b>70.04</b>	61.90
Royalties	<b>(18.30)</b>	(17.82)	<b>(14.40)</b>	(15.32)
Operating expenses	<b>(12.52)</b>	(11.06)	<b>(13.51)</b>	(11.64)
Transportation expenses	<b>(4.20)</b>	(2.48)	<b>(4.19)</b>	(1.99)
Operating netback prior to hedging gain (loss)	<b>39.51</b>	38.51	<b>37.94</b>	32.95
Realized gain (loss) on financial instruments	<b>(0.41)</b>	(9.68)	<b>2.22</b>	(8.44)
Operating netback	<b>39.10</b>	28.83	<b>40.16</b>	24.51

<sup>(1)</sup> For a description of the boe conversion ratio, refer to "Other Measurements" below.

<sup>(2)</sup> Operating netback is a non-GAAP measure which is defined below under "Non-GAAP Measurements - Operating Netback".

The operating netback was \$39.10/boe for the three months ended June 30, 2019 compared to \$28.83/boe in the same period of 2018. The increase from the second quarter of 2018 is primarily attributable to the increase in the average sales price and a smaller realized loss on financial instruments was recognized as compared to the second quarter of 2018. These increases were partially offset by higher royalties, operating and transportation costs on a per boe basis.

For the first six months of 2019, the operating netback was \$40.16/boe compared to \$24.51/boe in the same period of 2018, this increase is largely attributable to the realized hedging gain in the first six months of 2019 as compared to losses incurred in the first six month of 2018 as well as the increase in the realized sales price over the same period partially offset by higher royalties, operating and transportation costs on a per boe basis.

## General and Administrative (G&A) Expenses

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
<i>(\$000s except per boe)</i>				
Gross G&A expense	<b>909</b>	820	<b>1,902</b>	1,778
Capitalized G&A	<b>(168)</b>	(146)	<b>(318)</b>	(296)
G&A expense	<b>741</b>	674	<b>1,584</b>	1,482
G&A expense <i>(\$/boe)</i>	<b>4.80</b>	3.34	<b>5.33</b>	3.70

Gross G&A expense totaled \$0.9 million for quarter ended June 30, 2019 as compared to \$0.8 million in the comparable period of 2018. Net G&A costs were \$0.7 million or \$4.80/ boe in the second quarter of 2019 compared to \$0.7 million or \$3.34/boe in the second quarter of 2018. During the second quarter of 2019, the Company incurred severance costs of \$0.2 million which attributed to the increase in G&A costs over the prior year more than offsetting realized cost savings in other areas.

Net G&A expense for the first six months of 2019 totaled \$1.6 million or \$5.33/boe compared to \$1.5 million or \$3.70/boe in the same period of 2018.

The Company capitalized direct G&A expenses of \$0.2 million in the second quarter of 2019 as compared to \$0.1 million in the second quarter of 2018.

During the six months ended June 30, 2019, the Company capitalized \$0.3 million in direct costs related to its exploration and development efforts compared to \$0.3 million in the same period of 2018.

## Share- Based Compensation

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
<i>(\$000s except per boe)</i>				
Gross share-based compensation	<b>351</b>	59	<b>572</b>	1,007
Capitalized share-based compensation (recovery)	<b>64</b>	(24)	<b>(46)</b>	(445)
Share-based compensation expense	<b>415</b>	35	<b>526</b>	562
Share-based compensation expense <i>(\$/boe)</i>	<b>2.69</b>	0.17	<b>1.77</b>	1.40

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. Cash settled awards are revalued at the end of each reporting period. At June 30, 2019, the Company had 401,172 awards outstanding under the SIP.

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

For the quarter ended June 30, 2019, the Company incurred net share-based compensation of \$0.4 million or \$2.69/boe as compared to an expense \$0.04 million or \$0.17/boe in the same period of 2018.

During the first six months of 2019, Granite incurred net share based compensation of \$0.6 million or \$1.77/boe compared to \$0.6 million or \$1.40/boe in the same period in the prior year.

## Depletion and Depreciation (D&D) Expense

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Depletion and depreciation expense <i>(\$000s)</i>	<b>2,647</b>	3,509	<b>5,115</b>	7,034
Depletion and depreciation expense <i>(\$/boe)</i>	<b>17.15</b>	17.39	<b>17.22</b>	17.58

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).

For the three months ended June 30, 2019, the Company recorded D&D expense of \$2.6 million or \$17.15/boe compared to \$3.5 million or \$17.39/boe in the same period of 2018. The change in the D&D expense year-over-year 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 2018 reserve report as compared to prior periods.

For the six months ended June 30, 2019, the Company recorded D&D expense of \$5.1 million or \$17.22/boe as compared to \$7.0 million or \$17.58/boe in the same period in the prior year.

## Exploration and Evaluation (E&E) Expenses

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Exploration and evaluation expense (\$000s)	<b>1,891</b>	393	<b>2,247</b>	1,975
Exploration and evaluation expense (\$/boe)	<b>12.25</b>	1.95	<b>7.57</b>	4.94

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 uneconomic as well as costs of undeveloped land lease expiries are expensed as they occur.

During the second quarter of 2019, the Company recorded E&E expense of \$1.9 million or \$12.25/boe compared to \$0.4 million or \$1.95/boe in the second quarter of 2018. The E&E expenses were primarily attributed to seismic data expensed and lease expiries in the quarter.

During the six months ended June 30, 2019, the Company recorded E&E expense of \$2.2 million or \$7.57/boe compared to \$2.0 million or \$4.94/boe in the comparable period of 2018.

## Accretion and Finance Expenses

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
<i>(\$000s except per boe)</i>				
Accretion expense on decommissioning liabilities	<b>74</b>	80	<b>150</b>	159
Finance expense	<b>780</b>	699	<b>1,457</b>	1,173
Total accretion and finance expenses	<b>854</b>	779	<b>1,607</b>	1,332
Accretion expense on decommissioning liabilities (\$/boe)	<b>0.49</b>	0.40	<b>0.51</b>	0.40
Finance expense (\$/boe)	<b>5.05</b>	3.47	<b>4.90</b>	2.93
Total accretion and finance expenses (\$/boe)	<b>5.54</b>	3.87	<b>5.41</b>	3.33

Accretion expense represents the increase in the present value of the Company's decommissioning liabilities. In the second quarter of 2019, the Company recorded accretion expense of \$0.07 million or \$0.49/boe compared to \$0.08 million or \$0.40/boe in the same period of 2018.

For the first six months of 2019, the Company recorded accretion expense of \$0.2 million or \$0.51/boe compared to \$0.2 million or \$0.40/boe in the comparable period of 2018.

During the three months ended June 30, 2019, the Company recorded interest and finance expenses of \$0.8 million or \$5.05/boe compared to \$0.7 million or \$3.47/boe in the same period of 2018. For the six months ended June 30, 2019, the Company recorded interest and finance expenses of \$1.5 million or \$4.90/boe, compared to \$1.2 million or \$2.93/boe.

The Company incurred interest charges and standby fees related to the Company's credit facility as well as additional bank fees related to the continuation of the Company's Credit Facility in the second quarter of 2019, which was drawn to \$44.3 million as at June 30, 2019 (December 31, 2018 – \$46.4 million, June 30, 2018 - \$44.9 million).

## Income Taxes

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Deferred income tax expense (recovery) (\$000s)	<b>(2,680)</b>	(25)	<b>(3,297)</b>	(653)
Deferred income tax expense (recovery) (\$/boe)	<b>(17.35)</b>	(0.12)	<b>(11.10)</b>	(1.63)

During the second quarter of 2019, the Company recorded a deferred income tax recovery of \$2.7 million or \$17.35/boe compared to a \$0.03 million recovery or \$0.12/boe in the same period of 2018. The deferred income tax recovery is largely attributable to a recovery of \$3.0 million attributable to decreases in the Alberta provincial income tax rate for the periods from July 1, 2019 to January 1, 2022 which reduces the provincial rate to 11% effective July 1, 2019, and further reduces it by 1% on January 1 for each of the years 2020, 2021, and 2022, eventually bringing the provincial rate to 8%.

During the six months ended June 30, 2019, the Company recorded a deferred income tax recovery of \$3.3 million or \$11.10/boe compared to a \$0.7 million recovery or \$1.63/boe in the same period in the prior year. The deferred income tax recovery is a function of the rate change as discussed above as well as the loss incurred in the first six months of 2019.

Granite does not have current income taxes payable and does not expect to pay current income taxes in 2019 as the Company had estimated tax pools available at June 30, 2019 of \$179.8 million (December 31, 2018 – \$184.0 million).

## INVESTMENT AND INVESTMENT EFFICIENCIES

### Capital Expenditures and Acquisitions

(excluding decommissioning liabilities and capitalized share-based compensation)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
<i>(\$000s except number of wells)</i>				
Drilling and completions	<b>2,603</b>	4,800	<b>2,504</b>	6,579
Equipment and facilities	<b>414</b>	478	<b>643</b>	1,136
Gas injection conversion and workovers	<b>163</b>	432	<b>594</b>	1,266
Land and lease retention	<b>7</b>	-	<b>11</b>	18
Capitalized G&A and other	<b>154</b>	131	<b>308</b>	303
Total capital expenditures	<b>3,341</b>	5,841	<b>4,060</b>	9,302
Total wells drilled (#)	<b>1(1.0)</b>	2 (2.0)	<b>1(1.0)</b>	3 (3.0)

During the second quarter of 2019, the Company incurred a total of \$3.3 million (second quarter 2018 – \$5.8 million) in capital expenditures, excluding non-cash decommissioning liabilities and capitalized share-based compensation. Drilling and completion expenditures totaled \$2.6 million in the second quarter of 2019 (second quarter 2018 – \$4.8 million), \$0.4 million was spent on tie-ins and facilities (second quarter 2018 – \$0.5 million) and \$0.2 million related to gas injection conversions and workovers (second quarter 2018 – \$0.4 million). The remaining \$0.2 million in the second quarter of 2019 (second quarter 2018 – \$0.1 million) was invested in land and lease retention, capitalized G&A and other corporate assets.

During the six months ended June 30, 2019, the Company incurred a total of \$4.1 million (2018 – \$9.3 million) in capital expenditures, excluding non-cash decommissioning liabilities, capitalized share-based compensation and property and equipment acquisitions, dispositions and adjustments. Drilling and completion expenditures totaled \$2.5 million (2018 – \$6.6 million), \$0.6 million was spent on tie-ins and facilities (2018 – \$1.1 million), \$0.6 million related to workovers and gas injection conversion (2018 - \$1.3 million). The

remaining \$0.3 million in the six months ended June 30, 2019 (2018 – \$0.3 million) was invested in capitalized G&A, other corporate assets and lease and land retention.

## Drilling Activity

During the second quarter of 2019, Granite drilled 1 gross (1.0 net) crude oil development well with 100% success rate, compared to 2 gross (2.0 net) crude oil development well drilled during the three months ended June 30, 2018.

During the six months ended June 30, 2019, Granite drilled a total of 1 gross (1.0 net) crude oil development well with a 100 percent success rate. During the six months ended June 30, 2018, the Company drilled 3 gross (3.0 net) crude oil development wells with a 100 percent success rate.

## LIQUIDITY AND FINANCIAL RESOURCES

### Net Debt<sup>(1)</sup>

The following table summarizes net debt as at June 30, 2019 and December 31, 2018

	June 30, 2019	December 31, 2018
<i>(\$000s)</i>		
Working capital (deficiency)	1,451	(1,351)
Bank debt	<b>(44,283)</b>	(46,380)
Net debt <sup>(1)</sup> – end of period	<b>(42,832)</b>	(47,731)

<sup>(1)</sup> Net debt, which is calculated as current liabilities (excluding derivative financial instruments) and bank debt less current assets (excluding derivative financial instruments), is not a recognized measure under IFRS. Please refer to the commentary under “Non-GAAP Measurements” for further discussion.

Granite entered 2018 with net debt of \$47.7 million. During the six months ended June 30, 2019, the Company generated funds from operations of \$8.8 million, invested \$4.1 million in capital expenditures, issued \$0.5 million in common shares and settled share incentive awards for \$0.2 million. Granite exited the second quarter of 2019 with net debt of \$42.8 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. At June 30, 2019, the Granite facility was drawn to approximately \$44.3 million with \$5.3 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 Company’s debt to cash flow ratio. Standby fees associated with this facility are charged based on an applicable margin, being a range of 0.63 percent to 1.0 percent per annum on the undrawn portion of the facility, again based on the Company’s debt to cash flow ratio. Under this credit facility, the Company is required to maintain a current ratio of not less than 1:1. The current ratio is calculated as the ratio of current assets (excluding derivative financial instruments) plus any undrawn availability in the Credit Facility to current liabilities (excluding derivative financial instruments and any amounts outstanding in the Credit Facility). At June 30, 2019 the Company’s current ratio was 2.84

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 completion during Fall 2019. 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 meet 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 period ended June 30, 2019.

The current challenging economic climate may lead to further adverse changes in cash flow, working capital levels or debt balances, which may also have a direct impact on the Company's operating results and financial position. These and other factors may adversely affect the Company's liquidity and the Company's ability to generate profits and cash flows in the future. In light of the current volatility in oil and gas prices and uncertainty regarding the pipeline and transportation capacity constraints, the preparation of financial forecasts is challenging. Due to the volatile economic environment, it is possible that the Company could either trigger an additional borrowing base review or breach the covenants noted within its credit facility agreement in fiscal 2019 or future periods. If a covenant violation does occur, this will represent an event of default under the facility and the lender has the right to demand repayment of all amounts owed under the facility.

## CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Years Ended December 31,	2019	2020	Total
(\$000s)			
Operating lease – office	109	218	327
Total commitments	109	218	327

As at June 30, 2019, the Company had contractual obligations for its office lease totaling approximately \$0.3 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 August 9, 2019, the Company had the following equity securities outstanding:

Common shares outstanding	38,775,730
Share incentive awards outstanding	401,172

## SELECTED QUARTERLY INFORMATION <sup>(1)</sup>

Three Months Ended	Jun. 30, 2019	Mar. 31, 2019	Dec. 31, 2018	Sep. 30, 2018	Jun. 30, 2018	Mar. 31, 2018	Dec. 31, 2017	Sept. 30, 2017
(000s, except per share amounts and production figures)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Oil and natural gas revenues	11,505	9,296	5,878	12,724	14,094	10,675	11,752	12,676
Funds from (used in) operations	4,463	4,302	(697)	3,071	4,089	2,711	4,815	6,218
Per share – basic	0.12	0.11	(0.02)	0.09	0.12	0.08	0.14	0.18
Per share – diluted	0.11	0.11	(0.02)	0.09	0.12	0.08	0.14	0.18
Cash flow from (used in) operating activities	3,532	2,427	(781)	3,223	3,791	3,957	6,952	5,028

Net income (loss)	<b>2,678</b>	(1,885)	3,830	637	(361)	(3,353)	(4,896)	(2,996)
Per share – basic	<b>0.07</b>	(0.05)	0.11	0.02	(0.01)	(0.10)	(0.14)	(0.09)
Per share – diluted	<b>0.07</b>	(0.05)	0.11	0.02	(0.01)	(0.10)	(0.14)	(0.09)
Total assets	<b>273,495</b>	274,075	276,601	277,503	283,365	279,417	281,171	287,166
Capital expenditures <sup>(2)</sup>	<b>3,341</b>	719	206	703	5,841	3,461	4,582	3,531
Net debt <sup>(3)</sup>	<b>42,832</b>	43,638	47,731	47,069	47,072	42,949	39,839	36,893
Shareholders' equity	<b>194,555</b>	190,945	192,106	189,441	192,730	195,391	200,155	207,266
Dividends declared (per share)	-	-	0.0330	0.0690	0.0690	0.0690	0.0930	0.1050
<b>Production</b>								
Natural gas (mcf/d)	<b>44</b>	189	-	-	121	289	-	499
Crude oil (bbls/d)	<b>1,689</b>	1,553	1,618	1,951	2,197	2,157	2,151	2,579
Total (boe/d)	<b>1,696</b>	1,585	1,618	1,951	2,217	2,205	2,151	2,662

<sup>(1)</sup> 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).

<sup>(2)</sup> Total capital expenditures, excluding acquisitions and non-cash transactions. Refer to commentary under "Capital Expenditures" for further information.

<sup>(3)</sup> Net debt, which is calculated as current liabilities (excluding derivative financial instruments) and bank debt less current assets (excluding derivative financial instruments), is not a recognized measure under IFRS. Please refer to the commentary under "Non-GAAP Measurements" for further discussion.

## BUSINESS RISKS AND RISK MITIGATION

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

### Reserves Estimates

There are numerous uncertainties inherent in estimating quantities of crude oil, natural gas and natural gas liquids reserves and the future cash flows attributed to such reserves. The reserves and associated cash flow information set forth 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, 2018 with a preparation date of March 7, 2019, and, except as may be specifically stated or required by Canadian securities laws, has not been updated and therefore does not reflect changes in the reserves since that date.

### **Prices, Markets and Marketing**

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

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

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

The factors discussed above could result in a material decrease in Granite's net production revenue and a reduction in its oil and natural gas acquisition, development, exploration and production activities. Any substantial or extended decline in oil and natural gas prices could result in a reduction of the Company's net revenue and have an adverse effect on the carrying value of its

reserves, borrowing capacity, revenue, profitability, cash flow from operations and prospects. Additionally, the economics of production may change as a result of continued lower or volatile commodity prices, which could result in reduced production volumes and a reduction in the general value of the Company's reserves.

In addition to the risks listed and discussed above, Granite is subject to several other risks and uncertainties which are described in detail in the Company's Annual Information Form (AIF) dated March 21, 2019.

### **Access to Capital**

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

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

### **CRITICAL ACCOUNTING ESTIMATES**

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

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.

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, 2018 and 2017.

## **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),

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 three or six months ended June 30, 2019 that have materially affected, or are reasonably likely to materially affect, the internal control over financial reporting.

## **ACCOUNTING POLICY CHANGES**

On January 1, 2019, the Company adopted IFRS 16 “Leases”. The standard introduces a single recognition and measurement model for lessees, which requires recognition of lease assets and lease obligations on the balance sheet. Short term leases and leases for low value assets are exempt from recognition in the statement of financial position and are recognized through net income or loss.

The Company has adopted IFRS 16 on January 1, 2019 using the modified retrospective method which does not require restatement of prior period comparative financial information. If a transition adjustment is required, the Company would record the cumulative effect of initial application within retained earnings at January 1, 2019. The Company has completed the evaluation of all contracts that fall within the scope of IFRS 16 and has determined that no transition adjustment is required at January 1, 2019.

Upon transition to IFRS 16, Granite has used the following practical expedients permitted by the standard:

- The accounting for leases with a remaining lease term of less than 12 months as at January 1, 2019 and low value leases are not recognized on the balance sheet and lease payments are instead recognized in the financial statements as incurred.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Upon the adoption of IFRS 16, the Company adopted the following significant accounting policy effective January 1, 2019:

### **Leases**

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A lease liability is recognized at the commencement of the lease term at the present value of future lease payments. A corresponding right-of-use asset is recognized at the amount of the lease liability, adjusted for lease incentives received, retirement costs and initial direct costs. Depreciation is recognized on the right-of-use asset over the lease term. Interest expense is

recognized on the lease liabilities using the effective interest rate method and lease payments are applied against the lease liability.

## NON-GAAP MEASUREMENTS

### Funds from Operations

This MD&A contains the terms “funds from (used in) operations” and “funds from (used in) 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 (used in) operations and funds from (used in) operations per share may not be comparable to that reported by other companies. Management uses funds from (used in) operations to analyze operating performance and leverage, and considers funds from (used in) 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 (used in) operations is calculated using cash flow from (used in) operating activities as presented in the statement of cash flows, before changes in non-cash working capital. Granite presents funds from (used in) operations per share whereby per share amounts are calculated using weighted-average shares outstanding.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
<i>(\$000s)</i>				
Cash flow from (used in) operating activities	<b>3,532</b>	3,791	<b>6,082</b>	7,748
Changes in non-cash working capital	<b>931</b>	298	<b>2,683</b>	(948)
Funds from operations	<b>4,463</b>	4,089	<b>8,765</b>	6,800

### 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](http://www.sedar.com)), or at the Company's website ([www.graniteoil.ca](http://www.graniteoil.ca)). Furthermore, the forward-looking statements contained in this MD&A are made as of the date of this MD&A and the Company does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws. The Company's forward-looking statements are expressly qualified in their entirety by this cautionary statement.

# STATEMENTS OF FINANCIAL POSITION

(Unaudited)

As at	June 30, 2019	December 31, 2018
<i>(000s)</i>	<i>(\$)</i>	<i>(\$)</i>
<b>ASSETS</b>		
<b>Current assets</b>		
Accounts receivable	4,421	2,246
Deposits and prepaid expenses	690	707
Derivative financial instruments (note 12)	350	3,687
	<b>5,461</b>	6,640
<b>Non-current assets</b>		
Exploration and evaluation assets (note 4)	12,608	14,938
Property and equipment (note 5)	255,426	255,023
<b>Total assets</b>	<b>273,495</b>	276,601
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Bank debt (note 6)	44,283	46,380
Accounts payable and accrued liabilities	3,660	4,304
	<b>47,943</b>	50,684
<b>Non-current liabilities</b>		
Decommissioning liabilities (note 7)	14,236	13,754
Deferred tax liability (note 13)	16,761	20,057
<b>Total liabilities</b>	<b>78,940</b>	84,495
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 8)	419,405	416,192
Contributed surplus	14,160	15,717
Deficit	(239,010)	(239,803)
<b>Total shareholders' equity</b>	<b>194,555</b>	192,106
<b>Total liabilities and shareholders' equity</b>	<b>273,495</b>	276,601

See accompanying notes to the condensed interim financial statements.

## STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
<i>(000s, except per share amounts)</i>	(\$)	(\$)	(\$)	(\$)
<b>REVENUE</b>				
Oil and natural gas revenues (note 10)	<b>11,505</b>	14,094	<b>20,801</b>	24,769
Royalties	<b>(2,825)</b>	(3,595)	<b>(4,278)</b>	(6,129)
Oil and natural gas revenues, net of royalties	<b>8,680</b>	10,499	<b>16,523</b>	18,640
Unrealized gain (loss) on financial instruments	<b>510</b>	(811)	<b>(3,351)</b>	(1,790)
Realized gain (loss) on financial instruments	<b>(63)</b>	(1,952)	<b>659</b>	(3,378)
	<b>9,127</b>	7,736	<b>13,831</b>	13,472
<b>EXPENSES</b>				
Operating and transportation	<b>2,581</b>	2,732	<b>5,256</b>	5,454
General and administrative	<b>741</b>	674	<b>1,584</b>	1,482
Depletion and depreciation (note 5)	<b>2,647</b>	3,509	<b>5,115</b>	7,034
Share-based compensation (note 9)	<b>415</b>	35	<b>526</b>	562
Exploration and evaluation expense (note 4)	<b>1,891</b>	393	<b>2,247</b>	1,975
Accretion and Finance expenses	<b>854</b>	779	<b>1,607</b>	1,332
	<b>9,129</b>	8,122	<b>16,335</b>	17,839
Income (loss) before income taxes	<b>(2)</b>	(386)	<b>(2,504)</b>	(4,367)
<b>TAXES</b>				
Deferred income tax recovery (note 13)	<b>(2,680)</b>	(25)	<b>(3,297)</b>	(653)
<b>Net income (loss) and comprehensive income (loss)</b>	<b>2,678</b>	(361)	<b>793</b>	(3,714)
Net income (loss) per share (note 8)				
Basic	<b>0.07</b>	(0.01)	<b>0.02</b>	(0.11)
Diluted	<b>0.07</b>	(0.01)	<b>0.02</b>	(0.11)

See accompanying notes to the condensed interim financial statements.



## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

	Share Capital	Contributed Surplus	Deficit	Total Equity
<i>(000s)</i>	(\$)	(\$)	(\$)	(\$)
<b>Balance – January 1, 2019</b>	<b>416,192</b>	<b>15,717</b>	<b>(239,803)</b>	<b>192,106</b>
Common shares issued, net of share issue costs (note 8)	463	–	–	463
Issued on vesting of share incentives	2,750	(2,995)	–	(245)
Share-based compensation (note 9)	–	1,438	–	1,438
Net income	–	–	793	793
<b>Balance – June 30, 2019</b>	<b>419,405</b>	<b>14,160</b>	<b>(239,010)</b>	<b>194,555</b>
Balance – January 1, 2018	413,891	18,613	(232,349)	200,155
Share-based compensation (note 9)	–	1,006	–	1,006
Dividends	–	–	(4,717)	(4,717)
Net loss	–	–	(3,714)	(3,714)
Balance – June 30, 2018	413,891	19,619	(240,780)	192,730

See accompanying notes to the condensed interim financial statements

# STATEMENTS OF CASH FLOWS

(Unaudited)

	Three months Ended June 30,		Six months Ended June 30,	
	2019	2018	2019	2018
(000s)	(\$)	(\$)	(\$)	(\$)
<b>Cash flow from (used in):</b>				
<b>Operating activities</b>				
Net income (loss) for the period	2,678	(361)	793	(3,714)
Adjustments for:				
Depletion and depreciation expense (note 5)	2,647	3,509	5,115	7,034
Deferred income tax recovery	(2,680)	(25)	(3,297)	(653)
Share-based compensation expense (note 9)	415	35	526	562
Accretion (note 7)	75	80	150	159
Unrealized (gain) loss on financial instruments	(510)	811	3,351	1,790
Exploration and evaluation expense (note 4)	1,891	393	2,247	1,975
Abandonment and reclamation costs (note 7)	(53)	(353)	(120)	(353)
	4,463	4,089	8,765	6,800
Change in non-cash working capital (note 11)	(931)	(298)	(2,683)	948
	3,532	3,791	6,082	7,748
<b>Financing activities</b>				
Change in bank debt	39	5,107	(2,097)	8,500
Settlement of share incentive awards	(245)	-	(245)	-
Dividends paid	-	(2,358)	-	(4,717)
Issuance of share capital (note 8)	-	-	462	-
	(206)	2,749	(1,880)	3,783
<b>Investing activities</b>				
Property and equipment expenditures	(3,334)	(5,822)	(4,049)	(9,226)
Exploration and evaluation expenditures	(7)	(19)	(11)	(76)
Change in non-cash working capital (note 11)	36	(686)	(129)	(2,215)
	(3,305)	(6,527)	(4,189)	(11,517)
<b>Foreign exchange loss on cash and cash equivalents held in foreign currency</b>	(21)	(13)	(13)	(14)
<b>Change in cash and cash equivalents</b>	-	-	-	-
<b>Cash and cash equivalents – beginning of period</b>	-	-	-	-
<b>Cash and cash equivalents – end of period</b>	-	-	-	-
<b>Interest Paid</b>	819	532	1,295	1,074

See accompanying notes to the condensed interim financial statements.

# NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

As at and for the three and six month periods ended June 30, 2019

(Unaudited)

## 1 REPORTING ENTITY

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

## 2 BASIS OF PRESENTATION

### (a) Statement of Compliance

These condensed interim financial statements for the three months and six months ended June 30, 2019 and 2018 were prepared in accordance with International Financial Reporting Standard 34 “Interim Financial Reporting” as issued by the International Accounting Standards Board (IASB).

The condensed interim financial statements should be read in conjunction with the Company’s audited financial statements for the year ended December 31, 2018.

The financial statements were authorized for issuance by the Board of Directors on August 9, 2019.

### (b) Basis of Measurement

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

### (c) Functional and Presentation Currency

The condensed interim financial statements are presented in Canadian dollars, the Company’s functional currency.

### (d) Use of Estimates and Judgements

Significant estimates and judgements made by management in the preparation of these condensed interim financial statements remain unchanged and are outlined in Note 2 of the December 31, 2018, audited annual financial statements.

### (e) Liquidity

The current challenging economic climate may lead to further adverse changes in cash flows, working capital levels and/or debt balances, which may also have a direct impact on the Company’s operating results and financial position. These and other factors may adversely affect the Company’s liquidity and the Company’s ability to generate profits and cash flows in the future. At June 30, 2019, the Company remains in compliance with all financial covenants pertaining to its bank debt, and based on current available information, management expects to comply with all financial covenants during the year ended December 31, 2019. However, in light of the current volatility in oil and gas prices and uncertainty regarding the pipeline and transportation capacity constraints, the preparation of financial forecasts is challenging. Due to the volatile economic environment, it is possible that the Company could be subjected to a reduction in its borrowing base of the credit facility or breach the financial covenants noted within its credit facility agreement (see Note 6) in fiscal 2019 or future periods. If a covenant violation does occur, this will represent an event of default under the facility and the lender has the right to demand repayment of all amounts owed under the facility.

### 3 SIGNIFICANT ACCOUNTING POLICIES

#### (a) Current Accounting Policies

The Company's accounting policies are described in Note 3 of the December 31, 2018, audited annual financial statements. Those accounting policies have been applied consistently to all periods presented in these condensed interim financial statements with the exception of the adoption of the following new standard effective as at January 1, 2019:

##### Changes in significant accounting policies

On January 1, 2019, the Company adopted IFRS 16 "Leases". The standard introduces a single recognition and measurement model for lessees, which requires recognition of lease assets and lease obligations on the balance sheet. Short term leases and leases for low value assets are exempt from recognition in the statement of financial position and are recognized through net income or loss.

The Company has adopted IFRS 16 on January 1, 2019 using the modified retrospective method which does not require restatement of prior period comparative financial information. If a transition adjustment is required, the Company would record the cumulative effect of initial application within retained earnings at January 1, 2019. The Company has completed the evaluation of all contracts that fall within the scope of IFRS 16 and has determined that no transition adjustment is required at January 1, 2019.

Upon transition to IFRS 16, Granite has used the following practical expedients permitted by the standard:

- The accounting for leases with a remaining lease term of less than 12 months as at January 1, 2019 and low value leases are not recognized on the balance sheet and lease payments are instead recognized in the financial statements as incurred.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Upon the adoption of IFRS 16, the Company adopted the following significant accounting policy effective January 1, 2019:

##### Leases

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A lease liability is recognized at the commencement of the lease term at the present value of future lease payments. A corresponding right-of-use asset is recognized at the amount of the lease liability, adjusted for lease incentives received, retirement costs and initial direct costs. Depreciation is recognized on the right-of-use asset over the lease term. Interest expense is recognized on the lease liabilities using the effective interest rate method and lease payments are applied against the lease liability.

### 4 EXPLORATION AND EVALUATION ASSETS

	Six Months Ended June 30, 2019	Year Ended December 31, 2018
<i>(\$000s)</i>		
Balance – beginning of period	14,938	21,031
Additions	(22)	11
Transfers to property and equipment (note 5)	(61)	(3,764)
E&E expenses	(1,165)	(27)
Lease expiries	(1,082)	(2,313)
Balance – end of period	12,608	14,938

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

During the period ended June 30, 2019, the Company transferred \$0.06 million to property and equipment (year ended December 31, 2018 - \$3.8 million), expensed \$1.1 million related to lease expiries on undeveloped land (December 31, 2018 – \$2.3 million) and \$1.2 million in other E&E expenses (December 31, 2018 – nil).

## 5 PROPERTY AND EQUIPMENT

	Oil and Natural Gas Properties	Office Equipment	Total
<i>(\$000s)</i>			
<b>Cost</b>			
Balance – January 1, 2018	348,954	550	349,504
Additions	9,623	8	9,631
Transfers from E&E assets (note 4)	3,764	–	3,764
<b>Balance – December 31, 2018</b>	<b>362,341</b>	<b>558</b>	<b>362,899</b>
<b>Additions</b>	<b>5,454</b>	<b>3</b>	<b>5,457</b>
<b>Transfers from E&amp;E assets (note 4)</b>	<b>61</b>	<b>–</b>	<b>61</b>
<b>Balance – June 30, 2019</b>	<b>367,856</b>	<b>561</b>	<b>368,417</b>
<b>Accumulated depletion and depreciation</b>			
Balance – January 1, 2018	94,793	388	95,181
Depletion and depreciation for the period	12,655	40	12,695
<b>Balance – December 31, 2018</b>	<b>107,448</b>	<b>428</b>	<b>107,876</b>
<b>Depletion and depreciation for the period</b>	<b>5,098</b>	<b>17</b>	<b>5,115</b>
<b>Balance – June 30, 2019</b>	<b>112,546</b>	<b>445</b>	<b>112,991</b>
<b>Net book value</b>			
December 31, 2018	254,893	130	255,023
<b>June 30, 2019</b>	<b>255,310</b>	<b>116</b>	<b>255,426</b>

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

During the six month period ended June 30, 2019, approximately \$0.3 million of directly attributable general and administrative expense and \$0.8 million of directly attributable share-based compensation expense were capitalized as expenditures on property and equipment (December 31, 2018 – \$0.6 million and \$(0.8) million, respectively).

### (b) Future Development Costs and Salvage Value

At June 30, 2019, an estimated \$66.6 million of future development costs associated with proved plus probable undeveloped reserves were included in the calculation of depletion and depreciation expense and an estimated \$9.5 million of salvage value of production equipment was excluded (December 31, 2018 – \$68.8 million and \$9.5 million, respectively).

## 6 BANK DEBT

At June 30, 2019, and December 31, 2018, 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, 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 the ratio of current assets (excluding derivative financial instruments) plus any undrawn availability in the Credit Facility to current liabilities (excluding derivative financial instruments and any amounts outstanding in the Credit Facility). At June 30, 2019, the Company's current ratio was 2.84:1 and consequently the Company is in compliance with the current ratio requirement. See further discussion in Note 2(e).

At June 30, 2019, \$44.3 million was drawn against this facility (December 31, 2018 – \$46.4 million). Including letters of credit of \$0.4 million, the Company had \$44.7 million committed against the facility as at June 30, 2019 (December 31, 2018 - \$46.7 million). Availability of the facility is subject to a borrowing base test performed on a semi-annual 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 completion for Fall 2019. 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 \$14.2 million as at June 30, 2019 (December 31, 2018 – \$13.8 million) based on an undiscounted total future liability of \$18.5 million (December 31, 2018 – \$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 June 30, 2019, a risk-free rate of 2.00 percent (December 31, 2018 – 2.20 percent) and an inflation rate of 2 percent (December 31, 2018 – 2 percent) were used to calculate the net present value of the decommissioning liabilities.

	Six Months Ended June 30, 2019	Year Ended December 31, 2018
(\$000s)		
Balance – beginning of period	13,754	13,691
Liabilities incurred	69	190
Revisions	383	200
Settlements	(120)	(654)
Accretion of decommissioning liabilities	150	325
Balance – end of period	<b>14,236</b>	13,754

## 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

	Six Months Ended June 30, 2019		Year Ended December 31, 2018	
	Shares (#)	Amount (000s)	Shares (#)	Amount (000s)
Balance – beginning of period	<b>37,528,379</b>	<b>416,192</b>	34,190,652	413,891
Common shares issued	<b>840,714</b>	<b>463</b>	3,000,800	1,536
Issued on vesting of share incentives	<b>406,637</b>	<b>2,750</b>	336,927	765
Balance - end of period	<b>38,775,730</b>	<b>419,405</b>	37,528,379	416,192

### i) Common Share Issuances

On January 18, 2019, the Company issued 840,714 common shares at the closing of the final tranche of the December 2018 private placement for gross proceeds of \$0.5 million.

### (c) Per Share Amounts

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019 (\$)	2018 (\$)	2019 (\$)	2018 (\$)
<i>(000s, except per share amounts)</i>				
Net income (loss) for the period	<b>2,678</b>	(361)	<b>793</b>	(3,714)
Weighted-average number of common shares				
– basic	<b>38,572</b>	34,191	<b>38,388</b>	34,191
– diluted	<b>38,851</b>	34,191	<b>38,666</b>	34,191
Net income (loss) per weighted average common shares				
– basic	<b>0.07</b>	(0.01)	<b>0.02</b>	(0.11)
– diluted	<b>0.07</b>	(0.01)	<b>0.02</b>	(0.11)

## 9 SHARE-BASED COMPENSATION

### (a) Share Incentive Plan

The Company's Share Incentive Plan ("SIP") consists of performance based awards ("PBAs") and time based awards ("TBAs"). Both the TBAs and the PBAs vest one third on each of the first, second and third anniversaries of the grant date. The PBAs granted are subject to a performance multiplier ranging from 0 to 2. The payout multiplier is dependent on the performance of Granite at the end of the vesting period relative to corporate performance measures determined at the discretion of Granite's Board of Directors. The number of common shares issued for each PBA and TBA granted is adjusted for the payments of dividends from the date of the grant to the payment date. On the payment date, Granite has sole and absolute discretion to settle the awards in the form of either cash or common shares, or some combination thereof.



The number of PBAs is as follows:

	<b>Six Months Ended June 30, 2019</b>	Year Ended December 31, 2018
	PBAs	PBAs
	(#)	(#)
Outstanding – Beginning of Period	<b>826,570</b>	1,107,697
Redeemed	<b>(380,483)</b>	(261,525)
Forfeited	<b>(59,915)</b>	(19,602)
Outstanding – End of Period	<b>386,172</b>	826,570

During the six months ended June 30, 2019, no PBAs were granted and 380,483 were redeemed for a cash settlement of \$0.2 million and 401,637 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, 2018, 261,525 PBAs were redeemed for a cash settlement of \$0.3 million and 302,880 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. A weighted average performance multiplier of 1.0 has been estimated for PBAs outstanding at June 30, 2019 (December 31, 2018 – 1.0). Fluctuations in share based compensation expense may occur due to changes in estimates of performance outcomes.

Gross share-based compensation related to PBAs was \$0.4 million for the quarter ended June 30, 2019 (three months ended June 30, 2018 – \$0.04 million). Of this amount, \$0.06 million was capitalized (three months ended June 30, 2018 – \$0.02 million), resulting in total net share-based compensation recovery related to PBAs of \$(1.8) million for the quarter (three months ended June 30, 2018 – \$0.02 million).

Gross share-based compensation related to PBAs was \$0.6 million for the six months ended June 30, 2019 (six months ended June 30, 2018 – \$1.0 million). Of this amount, \$(0.05) million was capitalized (six months ended June 30, 2018 – \$0.4 million), resulting in total net share-based compensation recovery related to PBAs of \$(1.6) million (six months ended June 30, 2018 – \$0.6 million).

The number of TBAs is as follows:

	<b>Six Months Ended June 30, 2019</b>	Year Ended December 31, 2018
	TBAs	TBAs
	(#)	(#)
Outstanding – Beginning of Period	<b>22,500</b>	56,547
Redeemed	<b>(5,000)</b>	(34,047)
Forfeited	<b>(2,500)</b>	
Outstanding – End of Period	<b>15,000</b>	22,500

During the six months ended June 30, 2019, 5,000 TBAs were redeemed for 5,000 common shares, 2,500 TBAs were forfeited and no TBAs were granted. During the year ended December 30, 2018, 34,047 TBAs were redeemed for 34,047 common shares and no TBAs were granted.

Gross share-based compensation related to TBAs was \$nil for the quarter ended June 30, 2019 (quarter ended June 30, 2018 - \$0.02 million). Of this amount, \$nil was capitalized (quarter ended June 30, 2018 – \$0.01 million), resulting in total net share-based compensation expense related to TBAs of \$nil for the quarter (quarter ended June 30, 2018 - \$0.01 million).

Gross share-based compensation related to TBAs was \$nil for the six months ended June 30, 2019 (six months ended June 30, 2018 - \$0.04 million). Of this amount, \$nil was capitalized (six months ended June 30, 2018 – \$0.01 million), resulting in total net share-based compensation expense related to TBAs of \$nil for the quarter (six months ended June 30, 2018 - \$0.03 million).

## (b) Stock Option Plan

The Company's stock option plan was approved on May 29, 2019. The number and weighted-average exercise prices of stock options are as follows:

	Six Months Ended June 30, 2019		Year Ended December 31, 2018	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
	(#)	(\$)	(#)	(\$)
Outstanding – January 1	–	–	–	–
Issued	<b>938,000</b>	<b>0.69</b>	–	–
Outstanding – end of period	<b>938,000</b>	<b>0.69</b>	–	–
Exercisable – end of period	–	–	–	–

Exercise Price	Outstanding	Options Life	Weighted-Average Fair Value
(\$)	(#)	(years)	(\$)
<b>As at June 30, 2019</b>			
<b>0.69</b>	<b>938,000</b>	<b>4.96</b>	<b>0.28</b>
	<b>938,000</b>	<b>4.96</b>	<b>0.28</b>

The following weighted average assumptions were used to value the options granted:

	Six Months Ended June 30, 2019	Year Ended December 31, 2018
Forfeiture rate (%)	<b>2</b>	-
Risk-free interest rate (%)	<b>1.39</b>	-
Expected life (years)	<b>2.00</b>	-
Expected volatility (%)	<b>76.25</b>	-
Weighted-average fair value (\$/option)	<b>0.28</b>	-

Gross share-based compensation for the options were \$0.07 million for the three and six month periods ended June 30, 2019 (three and six months ended June 30, 2018 - \$nil). Of this amount, \$nil was capitalized (three and six months ended June 30, 2018 – \$nil), resulting in total net share-based compensation expense related to options of \$0.07 million for the period (three and six months ended June 30, 2018 - \$nil).

## 10 OIL AND NATURAL GAS REVENUES

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
(\$000s)				
Natural Gas	6	10	88	67
Oil	11,499	14,084	20,713	24,702
Total oil and natural gas revenues	11,505	14,094	20,801	24,769

## 11 SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital are comprised of:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
(\$000s)				
Accounts receivable	456	(1,727)	(2,175)	(1,135)
Deposits and prepaid expenses	159	(130)	17	(132)
Accounts payable and accrued liabilities	(1,510)	875	(654)	-
	(895)	(984)	(2,812)	(1,267)
Related to operating activities	(931)	(298)	(2,683)	948
Related to investing activities	36	(686)	(129)	(2,215)
	(895)	(984)	(2,812)	(1,267)

## 12 DETERMINATION OF FAIR VALUES

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

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

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide continuous pricing information.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices

for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

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 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 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 Bank Debt

The fair value of accounts receivable, accounts payable and accrued liabilities and bank debt is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. The fair value of these balances approximated their carrying value at June 30, 2019 due to their short term to maturity.

### (c) Performance Based Awards, Time Based Awards and Stock Options

The fair value of awards granted under the SIP is measured using the binomial model. The fair value of awards under the stock option plan is measured using the Black-Scholes 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).

### (d) 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.

As at June 30, 2019, the Company had the following crude oil contracts with a total mark-to-market asset of \$0.3 million (December 31, 2018 – \$3.7 million asset):

#### CRUDE OIL CONTRACTS

Remaining Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price	Fair Value Asset (Liability) (\$) (000s)
Q3 2019						
Jul. 1/19 – Sep.30/19	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	CAD \$85.50	CAD \$82.7
Jul. 1/19 – Sep.30/19	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	CAD \$86.40	CAD \$91.0
Jul. 1/19 – Sep.30/19	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	USD \$69.20	CAD \$129.0
Jul. 1/19 – Sep.30/19	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	CAD \$87.70	CAD \$102.9

Jul. 1/19 – Sep. 30/19	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	USD \$56.50	CAD \$(23.2)
Jul. 1/19 – Sep. 30/19	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	CAD \$76.00	CAD \$(4.3)
Jul. 1/19 – Sep. 30/19	Crude Oil	Fixed	100 bbls/d	WCS-WTI Differential	CAD (\$24.65)	CAD \$(53.9)
Jul. 1/19 – Sep. 30/19	Crude Oil	Fixed	100 bbls/d	WCS-WTI Differential	CAD (\$21.75)	CAD \$(27.4)
Jul. 1/19 – Sep. 30/19	Crude Oil	Fixed	100 bbls/d	WCS-WTI Differential	CAD (\$21.50)	CAD \$(25.1)
Jul. 1/19 – Sep. 30/19	Crude Oil	Fixed	100 bbls/d	WCS-WTI Differential	USD (\$18.55)	CAD \$(49.9)
Jul. 1/19 – Sep. 30/19	Crude Oil	Fixed	100 bbls/d	WCS-WTI Differential	CAD (\$22.00)	CAD \$(29.7)
Jul. 1/19 – Sep. 30/19	Crude Oil	Fixed	100 bbls/d	WCS-WTI Differential	CAD (\$23.65)	CAD \$(44.8)
<b>Q4 2019</b>						
Oct. 1/19 – Dec. 31/19	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	USD \$57.70	USD \$(1.7)
Oct. 1/19 – Dec. 31/19	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	USD \$59.20	USD \$12.0
Oct. 1/19 – Dec. 31/19	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	USD \$58.41	USD \$4.8
Oct. 1/19 – Dec. 31/19	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	USD \$58.56	USD \$6.1
Oct. 1/19 – Dec. 31/19	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	USD \$59.30	USD \$12.9
Oct. 1/19 – Dec. 31/19	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	USD \$60.30	USD \$22.0
Oct. 1/19 – Dec. 31/19	Crude Oil	Fixed	100 bbls/d	WCS-WTI Differential	USD (\$21.90)	CAD \$(19.7)
Oct. 1/19 – Dec. 31/19	Crude Oil	Fixed	100 bbls/d	WCS-WTI Differential	USD (\$22.05)	CAD \$(21.5)
Oct. 1/19 – Dec. 31/19	Crude Oil	Fixed	100 bbls/d	WCS-WTI Differential	USD (\$21.70)	USD \$(13.2)
Oct. 1/19 – Dec. 31/19	Crude Oil	Fixed	100 bbls/d	WCS-WTI Differential	USD (\$21.10)	USD \$(7.8)
Oct. 1/19 – Dec. 31/19	Crude Oil	Fixed	100 bbls/d	WCS-WTI Differential	USD (\$22.30)	USD \$(18.7)
<b>Q1 2020</b>						
Jan. 1/20 – Mar. 31/20	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	USD \$62.65	USD \$50.4
Jan. 1/20 – Mar. 31/20	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	USD \$61.60	USD \$41.0
Jan. 1/20 – Mar. 31/20	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	USD \$61.31	USD \$38.4
Jan. 1/20 – Mar. 31/20	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	USD \$57.55	CAD \$6.2
<b>Q2 2020</b>						
Apr. 1/20 – Jun. 30/20	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	USD \$60.15	USD \$35.4

## 13 INCOME TAX

For the six months ended June 30, 2019, the deferred tax recovery includes a recovery of \$3.0 million attributable to decreases in the Alberta provincial income tax rate for the periods from July 1, 2019 to January 1, 2022 which reduces the provincial rate to 11% effective July 1, 2019, and further reduces it by 1% on January 1 for each of the years 2020, 2021, and 2022, eventually bringing the provincial rate to 8%.

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

**Brendan Carrigy** <sup>(1)(2)(3)</sup>  
Chairman  
Independent Businessman

**Michael Kabanuk**  
President & Chief Executive Officer  
Granite Oil Corp.

**Martin Cheyne** <sup>(3)</sup>  
Chief Executive Officer  
Boulder Energy Ltd.

**Brad Porter** <sup>(1)(2)</sup>  
Independent Businessman

**Kevin Andrus** <sup>(1)(2)(3)</sup>  
Chief Financial Officer  
GMT Exploration Company LLC

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

## OFFICERS

**Michael Kabanuk**  
President & Chief Executive Officer  
Granite Oil Corp.

**John (Jack) A. Smith**  
Interim Chief Financial Officer

**Devon Griffiths**  
Chief Operating Officer

**Daniel Kenney**  
Corporate Secretary

## HEAD OFFICE

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Telephone: 587-349-9113  
Facsimile: 587-349-9129  
Website: [www.graniteoil.ca](http://www.graniteoil.ca)

## AUDITORS

**KPMG LLP**  
Calgary, Alberta

## BANKERS

**National Bank of Canada**  
Calgary, Alberta

**ATB Financial**  
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