GRANITE OIL CORP.

Q3|19 INTERIM REPORT

For the Three and Nine Months Ended September 30
www.graniteoil.ca

FINANCIAL AND OPERATING HIGHLIGHTS

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	**2019**	2018
(000's, except per share amounts)	***($)***	*($)*	***($)***	*($)*
FINANCIAL				
Oil and natural gas revenues	**9,543**	12,724	**30,344**	37,493
Cash flow from operations	**4,333**	3,223	**10,416**	10,971
Funds from operations [(1)]	**3,198**	3,071	**11,963**	9,871
Per share basic	**0.08**	0.09	**0.31**	0.29
Per share diluted [(2)]	**0.08**	0.09	**0.31**	0.28
Net income (loss)	**889**	637	**1,682**	(3,077)
Per share basic	**0.02**	0.02	**0.04**	(0.09)
Per share diluted [(2)]	**0.02**	0.02	**0.04**	(0.09)
Capital expenditures [(3)]	**1,540**	703	**5,601**	10,005
Net debt [(4)]	**41,140**	47,069	**41,140**	47,069
Shareholders' equity	**195,415**	189,441	**195,415**	189,441
OPERATING [(5)]				
Production				
Crude oil *(bbls/d)*	**1,511**	1,951	**1,584**	2,100
Natural gas *(mcf/d)*	**22**	-	**84**	137
Total *(boe/d)*	**1,515**	1,951	**1,598**	2,123
Average wellhead prices				
Crude oil *($/bbl)*	**68.65**	70.90	**69.95**	65.26
Natural gas *($/mcf)*	**0.96**	-	**3.89**	1.73
Combined average *($/boe)* [(6)]	**68.50**	70.90	**69.55**	64.69
Netback				
Operating netback *($/boe)* [(7)]	**34.73**	26.38	**38.43**	25.09
Gross (net) oil wells drilled *(#)*	**- (-)**	- (-)	**1 (1.0)**	3 (3.0)
Average working interest *(%)*	**N/A**	N/A	**100**	100
(000s)	***(#)***	*(#)*	***(#)***	*(#)*
SHARE DATA				
At period end	**38,776**	34,191	**38,776**	34,191
Weighted average common shares (basic)	**38,776**	34,191	**38,098**	34,191
Weighted average common shares (diluted) [(2)]	**39,104**	35,166	**38,437**	35,185

(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 November 6, 2019 and should be read in conjunction with the Company's interim financial statements and related notes for the three and nine months ended September 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 and on the Company's website www.graniteoil.ca.

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

ABOUT GRANITE OIL CORP.

Granite is a 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 THIRD QUARTER FINANCIAL AND OPERATING HIGHLIGHTS

Granite continued its focus on debt reduction during the third quarter of 2019, further decreasing net debt by $1.7 million to $41.1 million at the end of the quarter. The Company has successfully reduced net debt by approximately 14% over the first nine months of 2019, and is on-track to reduce it by a further ~4% by year end.

Capital expenditures for the quarter were $1.5 million, which funded the recompletion test described below, well workovers, and facility projects designed to reduce future operating costs. Estimated production was approximately 1,575 boe/d, which is principally the result of the Company electing to keep over 250 bbl/d of oil production from five re-pressurized wells originally slated to be brought on-stream during the quarter shut-in for a future recompletion program. Severe weather in Southern Alberta at the end of September prevented the Company from shipping its oil inventory for the final three days of the quarter. This impacted oil sales, which averaged 1,511 bbl/d, and associated revenue for the quarter. Accordingly, these sales volumes and revenues will be realized in October and reflected in the Company's fourth-quarter results.

With the ever-increasing focus on abandonment liabilities of Canadian oil and gas producers, the Company remains proactive in its efforts to achieve its goal of abandoning all of its shut-in shallow gas wells by year-end 2020. During the third quarter, Granite completed the abandonment of approximately 18% of the Company's wells slated for abandonment. This commitment to the responsible management of its assets will help to further improve Granite's top-tier liability management ratio ('LMR') of 6.5, and will ultimately result in a significant reduction to operating costs as the Company removes tax and lease-rental obligations associated with these assets.

Granite continues to test new ways to improve both the efficiency at which it adds oil production and the ultimate, long-term oil recovery of its large, 100%-owned, early-life-cycle Bakken oil pool through its gas injection enhanced recovery scheme ('EOR') and other complementary strategies.

Over recent years, Granite has evolved its completion programs in parallel with its gas flood to optimize production rate and ultimate recovery of its development wells. As part of this evolution, the Company has tested progressively tighter frac spacing, having reduced from as high as 80 meters in 2015 down to approximately 26 meters on its most recent development well. Granite's four most recent development wells have been completed with average frac interval spacing of approximately 33 meters and have demonstrated consistently stronger production performance.

With the success of increased frac density on new development wells, Granite has been evaluating the potential of a recompletion program to efficiently add production and increase the overall oil recovery of legacy producing wells originally completed with longer frac interval spacing.

During the third quarter, Granite tested a recompletion program on a producing well originally completed in 2015 with average frac interval spacing of approximately 80 meters. The test consisted of 21 new frac stages added over a previously completed lateral length of approximately 700 meters. Interval spacing between new frac stages averaged approximately 25 meters, with average proppant tonnages of approximately 7.5 tons per stage. The initial test was conducted on a well in the gas flood area which was under pressured, allowing for more accurate quantification of results, and has increased production by approximately three-times relative to the pre-frac production rate over an extended testing period.

The Company has identified 15 additional wells as recompletion candidates, with up to 12,000 meters of potential unstimulated lateral to be fracked. Of significant, compounding benefit is the Company's ability to utilize its gas injection EOR scheme to increase reservoir pressure prior to future operations in order to enhance production rates following the recompletions. Accordingly, in anticipation of the test results, the Company elected to keep five wells shut-in in a re-pressurized area during the third quarter for a future recompletions program. The significantly higher reservoir pressure in this area relative to the test well is expected to provide additional torque on the production rates of these wells.

The Company will remain focused on its debt-reduction and efficiency goals through the remainder of 2019 and will commence a recompletion program in the first quarter of 2020. Granite is encouraged by the potential of future recompletions to accelerate its plans by strengthening the Company's ability to add producing barrels through this relatively low-risk capital operation. With over 80 potential infill drilling locations that will serve as the backbone of future development of its Bakken pool, the recompletion strategy provides an additional mechanism by which Granite can increase shareholder value in the current energy environment.

OUTLOOK

Granite continues to strengthen its balance sheet while successfully navigating a volatile and challenging market. As the Company continues to pay down debt, it is increasing its inventory of highly economic capital projects, reducing its already limited abandonment liability, and improving corporate and operational efficiencies. Granite has consistently proven its free-cash-flow-generating capability and the efficiency at which it adds producing barrels. At its current debt repayment rate, Granite is rapidly positioning itself to increasingly deploy a larger component of its free cash flow to growth projects and other available avenues to increase shareholder value.

FINANCIAL AND OPERATING RESULTS

FUNDS FROM OPERATIONS [1]

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	**2019**	2018
($000s)				
Cash flow from operating activities	**4,333**	3,223	**10,416**	10,971
Changes in non-cash working capital	**(1,135)**	(152)	**1,547**	(1,100)
Funds from operations	**3,198**	3,071	**11,963**	9,871

[1] 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 September 30, 2019, the Company generated funds from operations totaling $3.2 million ($0.08 per basic and diluted share) compared to $3.1 million ($0.09 per basic and diluted share) in the comparative period of 2018. The increase is largely attributable to a realized gain on financial instruments in the third quarter of 2019 as compared to a loss in the same period in the prior year. This was partially offset by lower revenues, net of royalties in the third quarter of 2019.

Funds from operations totaled $12.0 million ($0.31 per basic and diluted share) for the nine months ended September 30, 2019, compared to $9.9 million ($0.29 per basic and $0.28 per diluted share) in the same period of 2018. The increase is largely attributable to realized hedging gains for the first nine months of 2019 as compared to realized losses in the first nine months of 2018 partially offset by lower revenues, net of royalties for the nine months ended September 30, 2019.

NET INCOME (LOSS)

For the three months ended September 30, 2019, the Company recorded net income of $0.9 million ($0.02 per basic and diluted share) compared to net income of $0.6 million ($0.02 per basic and diluted share) in the same period of 2018.

For the nine months ended September 30, 2019, the Company recorded net income of $1.7 million ($0.04 per basic and diluted share) as compared to a net loss of $3.1 million ($0.09 per basic and diluted share) for the same period in the prior year.

SALES VOLUMES

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	**2019**	2018
Natural gas *(mcf/d)*	**22**	-	**84**	137
Crude oil *(bbls/d)*	**1,511**	1,951	**1,584**	2,100
Total sales volumes *(boe/d)*	**1,515**	1,951	**1,598**	2,123

For the third quarter of 2019, the Company's production averaged 1,515 boe/d (99% oil) compared to 1,951 boe/d (100% oil) in the same period of 2018, a decrease of 22 percent. The 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 2019 and the latter half of 2018 as well as severe weather which prevented the sale of the Company's oil production for the last few days of the quarter. In addition, the Company had five re-pressurized wells shut-in throughout the third quarter of 2019 as part of the Company's technical strategy for its future recompletion program.

For the first nine months of 2019, the Company's production averaged 1,598 boe/d compared to 2,123 boe/d in the same period in 2018. This 25 percent decrease is primarily due to natural declines, the conversion of one producing oil well to a gas injector, a reduced drilling program and the shut-in wells related to the Company's technical strategy for its future recompletion program, as well as weather and weather-related curtailments during the third quarter and in early 2019.

REVENUE

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	**2019**	2018
($000s)				
Natural gas	**2**	-	**90**	67
Crude oil	**9,541**	12,724	**30,254**	37,426
Total oil and natural gas revenue	**9,543**	12,724	**30,344**	37,493

During the three months ended September 30, 2019, revenue decreased by 25 percent to $9.5 million from $12.7 million for the same period in 2018. The year-over-year decrease can be attributed to a decrease in sales volumes.

For the first nine months of 2019, revenue decreased 19 percent to $30.3 million as compared to $37.5 million for the same period in 2018. This decrease can be attributed to the decrease in sales volumes partially offset by an increase in crude oil market prices in the first nine months of 2019.

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

Commodity Prices and Foreign Exchange

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	**2019**	2018
Benchmark Prices				
Crude Oil				
WTI *(US$/bbl)*	**56.45**	69.50	**57.06**	66.75
Differential – WCS/WTI *(US$/bbl)*	**(12.24)**	(22.25)	**(11.74)**	(21.93)
Natural gas				
NYMEX *(US$/mmbtu)*[1]	**2.33**	2.91	**2.57**	2.84
AECO 5A Daily Index *(Cdn$/GJ)*	**0.86**	1.13	**1.44**	1.41
AECO 7A Monthly Index *(Cdn$/GJ)*	**0.99**	1.28	**1.31**	1.34
Average Realized Prices				
Natural gas *($/mcf)*	**0.96**	-	**3.89**	1.73
Crude Oil *($/bbl)*	**68.65**	70.90	**69.95**	65.26
Combined average *($/boe)*	**68.50**	70.90	**69.55**	64.69
Foreign exchange				
Cdn$/US$	**1.32**	1.30	**1.33**	1.28
US$/Cdn$	**0.76**	0.77	**0.75**	0.78

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

(2) 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 $68.65/bbl for the third quarter of 2019 compared to $70.90/bbl in the third quarter of 2018. Granite's realized oil price decreased by three percent from the comparable period in the prior year due to the decrease in the benchmark prices as well as a less favourable average foreign exchange rate, partially offset by narrowing differentials.

For the nine months ended September 30, 2019, the Company's average realized crude oil price was $69.95/bbl compared to $65.26/bbl in the same period in the prior year, a seven percent increase driven by narrowing differentials and a more favourable exchange rate partially offset by lower benchmark prices.

Natural Gas Pricing

Granite's average realized natural gas price was $0.96/mcf in the third quarter of 2019. The Company did not have any natural gas sales in the third quarter of 2018.

Granite's average realized natural gas price was $3.89/mcf in the first nine months of 2019 as compared to $1.73/mcf in the same period of 2018. The change in the natural gas price is driven by large fluctuations in the gas index price throughout each period and the timing of the Company's gas sales.

Price Risk & Mitigation

Ongoing commodity price volatility may affect Granite's funds from operations and rates of return on capital programs. As continued volatility is expected in 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 September 30		Nine Months Ended September 30	
	2019	2018	**2019**	2018
Oil and natural gas revenue *($000s)*	**9,543**	12,724	**30,344**	37,493
Royalties *($000s)*	**2,210**	3,382	**6,488**	9,511
Royalties *($/boe)*	**15.86**	18.85	**14.87**	16.41
Percentage of oil and natural gas revenue *(%)*	**23**	27	**21**	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 third quarter of 2019, royalties were $2.2 million or 23 percent of revenue compared to $3.4 million or 27 percent of revenue in the third quarter in 2018. The decrease in the royalty rate is attributable to lower realized pricing which lowered the royalty rate for the current period as well as a decrease in the estimated Freehold Mineral Tax levy for 2019. In addition, the Company also realized lower royalties as a result of a larger portion of the Company's production being subject to lower Crown royalty rates as compared to Freehold royalties.

For the nine months ended September 30, 2019, royalties totaled $6.5 million or 21 percent of oil and gas sales revenue compared to $9.5 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 nine months ended September 30, 2019 as well as lower royalty rates experienced in the current period as a result of a greater percentage of Crown production as discussed above.

OPERATING AND TRANSPORTATION EXPENSES

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	**2019**	2018
Operating expenses *($000s)*	**1,918**	2,171	**5,930**	6,829
Transportation expenses *($000s)*	**699**	478	**1,943**	1,274
Total operating and transportation expenses *($000s)*	**2,617**	2,649	**7,873**	8,103
Operating expenses *($/boe)*	**13.77**	12.10	**13.59**	11.78
Transportation expenses *($/boe)*	**5.02**	2.66	**4.45**	2.20
Total operating and transportation expenses *($/boe)*	**18.79**	14.76	**18.04**	13.98

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

Operating expenses for the third quarter of 2019 totaled $1.9 million or $13.77/boe compared to $2.2 million or $12.10/ boe in the same period of 2018. Operating costs on an absolute dollar basis are lower during the third quarter of 2019 relative to 2018 due to lower production volumes in the current quarter as well as a reduction in operating costs associated with shut-in shallow gas volumes in 2019.

Transportation expenses for the three months ended September 30, 2019 were $0.7 million or $5.02/boe as compared to $0.5 million or $2.66/boe in the same period in the prior year. Transportation costs increased in the third quarter of 2019 as a result of the additional transportation costs related to a higher percentage of the Company's volumes delivered direct-to-refinery in Montana as compared to the majority of volumes delivered to a loading terminal in Milk River, Alberta, during the same period of the prior year.

For the nine months ended September 30, 2019, the Company incurred operating expenses of $5.9 million or $13.59/boe compared to $6.8 million or $11.78/boe in the same period in the prior year. Operating costs on an absolute dollar basis are lower during 2019 relative to 2018 due to lower production volumes in the current year as well as a reduction in operating costs associated with shut-in shallow gas volumes in 2019.

Transportation expenses for the first nine months of 2019 totaled $1.9 million or $4.45/boe as compared to $1.3 million or $2.20/boe in the same period in 2018. Transportation costs increased in 2019 as a result of the additional transportation costs related to a higher percentage of the Company's volumes delivered direct-to-refinery in Montana as compared to the majority of 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 September 30, 2019, the Company had the following crude oil risk management contracts, with a mark-to-market asset of $0.5 million (December 31, 2018 – asset of $3.7 million).

Crude Oil Contracts

Remaining Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price
Q4 2019					
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	150 bbls/d	WTI-NYMEX	CAD $70.50
Oct. 1/19 – Dec. 31/19	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	CAD $74.60
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 $(22.05)
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 $(21.90)
Oct. 1/19 – Dec. 31/19	Crude Oil	Fixed	100 bbls/d	WCS-WTI Differential	USD $(22.30)
Q1 2020					
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
Jan. 1/20 – Mar. 31/20	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	CAD $76.40
Jan. 1/20 – Mar. 31/20	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	CAD $75.00
Q2 2020					
Apr. 1/20 – Jun. 30/20	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	USD $60.15
Apr. 1/20 – Jun. 30/20	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	CAD $71.15
Apr. 1/20 – Jun. 30/20	Crude Oil	Fixed	200 bbls/d	WTI-NYMEX	CAD $70.22
Q3 2020					
Jul. 1/20 – Sep. 30/20	Crude Oil	Fixed	150 bbls/d	WTI-NYMEX	CAD $69.00
Jul. 1/20 – Sep. 30/20	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	CAD $69.66

Subsequent to quarter end, the Company entered into the following contracts:

Jan. 1/20 – Mar. 31/20	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	CAD $74.10
Apr. 1/20 – Jun. 30/20	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	CAD $71.20
Jul. 1/20 – Sep. 30/20	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	CAD $68.00
Jul. 1/20 – Sep. 30/20	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	CAD $68.20
Oct. 1/20 – Dec. 31/20	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	CAD $68.22

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 September 30		**Nine Months Ended September 30**	
	2019	2018	**2019**	2018
Unrealized gain (loss) on financial instruments *($000s)*	**201**	534	**(3,150)**	(1,256)
Unrealized gain (loss) on financial instruments *($/boe)*	**1.44**	2.98	**(7.22)**	(2.17)
Realized gain (loss) on financial instruments *($000s)*	**123**	(1,958)	**782**	(5,336)
Realized gain (loss) on financial instruments *($/boe)*	**0.88**	(10.91)	**1.79**	(9.21)

During the third quarter of 2019, the Company recorded an unrealized gain on financial instruments of $0.2 million and a realized gain of $0.1 million. In the same period of the prior year, the Company recorded an unrealized gain of $0.5 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 nine months ended September 30, 2019, the Company recorded an unrealized loss of $3.2 million and a realized gain of $0.8 million compared to an unrealized loss of $1.3 million and a realized loss of $5.3 million in the same period of 2018.

OPERATING NETBACK

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	**2019**	2018
($/boe)				
Average realized price	**68.50**	70.90	**69.55**	64.69
Royalties	**(15.86)**	(18.85)	**(14.87)**	(16.41)
Operating expenses	**(13.77)**	(12.10)	**(13.59)**	(11.78)
Transportation expenses	**(5.02)**	(2.66)	**(4.45)**	(2.20)
Operating netback prior to hedging gain (loss)	**33.85**	37.29	**36.64**	34.30
Realized gain (loss) on financial instruments	**0.88**	(10.91)	**1.79**	(9.21)
Operating netback	**34.73**	26.38	**38.43**	25.09

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

The operating netback was $34.73/boe for the three months ended September 30, 2019 compared to $26.38/boe in the same period of 2018. The increase from the third quarter of 2018 is primarily attributable to the realized gain on financial instruments in the third quarter of 2019 as compared to a realized loss on financial instruments for the same period in the prior year. This increase was partially offset by a lower average realized price in the current quarter as well as higher transportation expenses.

For the first nine months of 2019, the operating netback was $38.43/boe compared to $25.09/boe in the same period of 2018, this increase is largely attributable to the realized gain on financial instruments in the first nine months of 2019 as compared to losses incurred in the first nine month of 2018 as well as the increase in the realized sales price over the same period.

GENERAL AND ADMINISTRATIVE EXPENSES

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	**2019**	2018
Gross general and administrative expenses *($000s)*	**758**	1,045	**2,660**	2,823
Capitalized general and administrative expenses *($000s)*	**(90)**	(155)	**(408)**	(451)
General and administrative expenses *($000s)*	**668**	890	**2,252**	2,372
General and administrative expenses *($/boe)*	**4.79**	4.96	**5.16**	4.09

Gross general and administrative ("G&A") expenses totaled $0.8 million for the three months ended September 30, 2019 as compared to $1.0 million in the comparable period of 2018. Net G&A costs were $0.7 million or $4.79/ boe in the third quarter of 2019 compared to $0.9 million or $4.96/boe in the third quarter of 2018. The decrease in costs from the same period in the prior year is the result of non-recurring expenses related to the Company's strategic alternatives process which were incurred in the third quarter of 2018 increasing costs in that quarter as well as corporate restructuring initiatives during 2019.

Net G&A expense for the first nine months of 2019 totaled $2.3 million or $5.16/boe compared to $2.4 million or $4.09/boe in the same period of 2018.

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

During the nine months ended September 30, 2019, the Company capitalized $0.4 million in direct costs related to its exploration and development efforts compared to $0.5 million in the same period of 2018.

SHARE-BASED COMPENSATION

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	**2019**	2018
Gross share-based compensation *($000s)*	**(63)**	(1,567)	**1,410**	(560)
Capitalized share-based compensation *($000s)*	**46**	735	**(901)**	290
Share-based compensation expense *($000s)*	**(17)**	(832)	**509**	(270)
Share-based compensation expense *($/boe)*	**(0.12)**	(4.64)	**1.17**	(0.47)

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 September 30, 2019, the Company had 401,172 awards outstanding under the SIP.

The Company's stock option plan was approved on May 29, 2019. The fair value of the awards granted under the plan is estimated at the grant date using a Black-Scholes pricing model. At September 30, 2019, the Company has 938,000 stock options outstanding with a weighted average exercise price of $0.69.

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 three months ended September 30, 2019, the Company incurred net share-based compensation recovery of $0.01 million or $0.12/boe as compared to a recovery of $0.8 million or $4.64/boe in the same period of 2018.

During the first nine months of 2019, Granite incurred net share based compensation of $0.5 million or $1.17/boe compared to a $0.3 million recovery or $0.47/boe in the same period in the prior year.

DEPLETION AND DEPRECIATION EXPENSE

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	**2019**	2018
Depletion and depreciation expense *($000s)*	**2,433**	3,082	**7,548**	10,116
Depletion and depreciation expense *($/boe)*	**17.46**	17.17	**17.30**	17.45

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 September 30, 2019, the Company recorded D&D expense of $2.4 million or $17.46/boe compared to $3.1 million or $17.17/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 nine months ended September 30, 2019, the Company recorded D&D expense of $7.5 million or $17.30/boe as compared to $10.1 million or $17.45/boe in the same period in the prior year.

EXPLORATION AND EVALUATION EXPENSE

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	**2019**	2018
Exploration and evaluation expense *($000s)*	**50**	196	**2,297**	2,171
Exploration and evaluation expense *($/boe)*	**0.36**	1.09	**5.26**	3.75

Granite accumulates costs related to its exploration and evaluation ("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 third quarter of 2019, the Company recorded E&E expense of $0.01 million or $0.36/boe compared to $0.2 million or $1.09/boe in the third quarter of 2018. The E&E expenses for the three months ended September 30, 2019, are the result of lease expiries in the current quarter.

During the nine months ended September 30, 2019, the Company recorded E&E expense of $2.3 million or $5.26/boe compared to $2.2 million or $3.75/boe in the comparable period of 2018. The E&E expenses for the nine months ended September 30, 2019, were primarily the result of seismic data expensed as well as lease expiries in the current year.

ACCRETION AND FINANCE EXPENSES

	September 30		September 30	
	2019	2018	**2019**	2018
Accretion expenses on decommissioning liabilities *($000s)*	**76**	86	**226**	245
Finance expense *($000s)*	**678**	591	**2,135**	1,764
Accretion and finance expenses *($000s)*	**754**	677	**2,361**	2,009
Accretion expenses on decommissioning liabilities *($/boe)*	**0.55**	0.48	**0.52**	0.42
Finance expense *($/boe)*	**4.87**	3.29	**4.89**	3.04
Accretion and finance expenses *($/boe)*	**5.42**	3.77	**5.41**	3.46

Accretion expense represents the increase in the present value of the Company's decommissioning liabilities. In the third quarter of 2019, the Company recorded accretion expense of $0.08 million or $0.55/boe compared to $0.09 million or $0.48/boe in the same period of 2018.

For the first nine months of 2019, the Company recorded accretion expense of $0.2 million or $0.52/boe compared to $0.2 million or $0.42/boe in the comparable period of 2018.

During the three months ended September 30, 2019, the Company recorded interest and finance expenses of $0.7 million or $4.87/boe compared to $0.6 million or $3.29/boe in the same period of 2018. For the nine months ended September 30, 2019, the Company recorded interest and finance expenses of $2.1 million or $4.89/boe, compared to $1.7 million or $3.04/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 $41.5 million as at September 30, 2019 (December 31, 2018 – $46.4 million, September 30, 2018 - $45.0 million).

INCOME TAXES

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	**2019**	2018
Deferred income tax expense (recovery) *($000s)*	**263**	619	**(3,034)**	(34)
Deferred income tax expense (recovery) *($/boe)*	**1.88**	3.45	**6.95**	(0.06)

During the third quarter of 2019, the Company recorded a deferred income tax expense of $0.3 million or $1.88/boe compared to a $0.6 million expense or $3.45/boe in the same period of 2018. The deferred income tax expense is a function of the net income for the third quarter of 2019.

During the nine months ended September 30, 2019, the Company recorded a deferred income tax recovery of $3.0 million or $6.95/boe compared to a $0.01 million recovery or $0.06/boe in the same period in the prior year. 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%.

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 September 30, 2019 of $178.1 million (December 31, 2018 – $184.0 million).

INVESTMENT AND INVESTMENT EFFICIENCIES

CAPITAL EXPENDITURES

The Company's capital expenditures, excluding decommissioning liabilities and capitalized share-based compensation, consist of the following:

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	**2019**	2018
($000s except number of wells and success rate)				
Drilling and completions	**1,120**	276	**3,624**	6,885
Equipment and facilities	**342**	37	**986**	1,173
Gas injection conversion and workovers	**72**	80	**665**	1,346
Land and lease retention	**(2)**	150	**9**	168
Capitalized G&A and other	**8**	160	**316**	463
Total capital expenditures	**1,540**	703	**5,601**	10,005
Wells drilled (#)	**-**	-	**1 (1.0)**	3 (3.0)
Success rate (%)	**-**	-	**100**	100

LIQUIDITY AND FINANCIAL RESOURCES

NET DEBT

	As at September 30 2019	As at December 31 2018
($000s)		
Working capital (deficiency)	**360**	(1,351)
Bank debt	**(41,500)**	(46,380)
Net Debt [1] – end of period	**(41,140)**	(47,731)

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

Granite entered 2019 with net debt of $47.7 million. During the nine months ended September 30, 2019, the Company generated funds from operations of $11.96 million, invested $5.6 million in capital expenditures, issued $0.46 million in common shares and settled share incentive awards for $0.25 million. Granite exited the third quarter of 2019 with net debt of $41.1 million.

At September 30, 2019 Granite's credit facility had an authorized borrowing base of $50 million consisting of a $45 million revolving demand credit facility and a $5 million revolving demand operating facility and was drawn to approximately $41.5 million with $8.1 million of unused borrowing capacity, including letters of credit of $0.4 million.

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 September 30, 2019 the Company's current ratio was 2.94.

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. Granite's borrowing base was confirmed at $50 million at August 30, 2019 and effective October 1, 2019, Granite's authorized amount of the $50 million borrowing base was $45 million, consisting of a $40 million revolving demand credit facility and a $5 million revolving demand operating facility. The borrowing base of the credit facility is subject to review at least semi-annually with the Fall 2019 review currently underway and scheduled for completion by November 30, 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 September 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.

COMMITMENTS

Years Ended December 31,	2019	2020	Total
($000s)			
Office lease	54	218	272
Total commitments	54	218	272

SHARE CAPITAL

As at November 6, 2019, the Company has the following equity securities outstanding:

Common Shares	39,061,575
Share Incentive Awards	-
Stock Options	938,000

SELECTED QUARTERLY INFORMATION (1)

	2019 Q3	**2019 Q2**	**2019 Q1**	**2018 Q4**	**2018 Q3**	**2018 Q2**	**2018 Q1**	**2017 Q4**
Financial								
($ thousands, except per share amounts and production)								
Petroleum and natural gas sales	**9,543**	11,505	9,296	5,878	12,724	14,094	10,675	11,752
Funds from (used in) operations	**3,198**	4,463	4,302	(697)	3,071	4,089	2,711	4,815
- Per share basic	**0.08**	0.12	0.11	(0.02)	0.09	0.12	0.08	0.14
- Per share diluted	**0.08**	0.11	0.11	(0.02)	0.09	0.12	0.08	0.14
Cash flow from (used in) operations	**4,332**	3,532	2,427	(781)	3,223	3,791	3,957	6,952
Net Income (Loss)	**889**	2,678	(1,885)	3,830	637	(361)	(3,353)	(4,896)
- Per share basic	**0.02**	0.07	(0.05)	0.11	0.02	(0.01)	(0.10)	(0.14)
- Per share diluted	**0.02**	0.07	(0.05)	0.11	0.02	(0.01)	(0.10)	(0.14)
Total Assets	**272,299**	273,495	274,075	276,601	277,503	283,365	279,417	281,171
Capital expenditures	**1,540**	3,341	719	206	703	5,841	3,461	4,582
Net debt	**41,140**	42,832	43,638	47,731	47,069	47,072	42,949	39,839
Shareholders' equity	**195,415**	194,555	190,945	192,106	189,441	192,730	195,391	200,155
Dividends declared (per share)	**-**	-	-	0.033	0.069	0.069	0.069	0.093
Production								
- Crude Oil *(bbls/d)*	**1,511**	1,689	1,553	1,618	1,951	2,197	2,157	2,151
- Natural gas *(mcf/d)*	**22**	44	189	-	-	121	289	-
- Total daily production *(boe/d)*	**1,515**	1,696	1,585	1,618	1,951	2,217	2,205	2,151

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

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

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

BUSINESS RISKS AND RISK MITIGATION

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

RESERVES ESTIMATES

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

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

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

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

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

Actual production and cash flow derived from Granite's crude oil, natural gas and natural gas liquids reserves will vary from the estimates contained in the reserves evaluation, and such variations could be material. The reserves evaluation is based in part on the assumed success of activities undertaken in future years. The reserves and estimated cash flows to be derived therefrom and contained in the Sproule Report will be reduced to the extent that such activities do not achieve the level of success assumed in the reserve evaluation. The Sproule Report is effective as of December 31, 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.

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.

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.

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" 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 nine months ended September 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 September 30		Nine Months Ended September 30	
	2019	**2018**	**2019**	**2018**
($000s)				
Cash flow from operating activities	**4,333**	3,223	**10,416**	10,971
Changes in non-cash working capital	**(1,135)**	(152)	**1,547**	(1,100)
Funds from operations	**3,198**	3,071	**11,963**	9,871

OPERATING NETBACK

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

NET DEBT

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

OTHER MEASUREMENTS

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

FORWARD-LOOKING INFORMATION AND STATEMENTS

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

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

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

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

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

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

GRANITE OIL CORP.

Statements of Financial Position

(Unaudited)

As at	Note	September 30 2019	December 31 2018
(000s)		*($)*	*($)*
ASSETS			
Current Assets			
Accounts receivable		**3,997**	2,246
Deposits and prepaid expenses		**709**	707
Derivative financial instruments	*12*	**548**	3,687
		5,254	6,640
Non-current Assets			
Exploration and evaluation assets	*4*	**12,557**	14,938
Property, plant and equipment	*5*	**254,488**	255,023
Total Assets		**272,299**	276,601
LIABILITIES			
Current Liabilities			
Bank Debt	*6*	**41,500**	46,380
Accounts payable and accrued liabilities		**4,346**	4,304
		45,846	50,684
Non-current Liabilities			
Decommissioning liabilities	*7*	**14,015**	13,754
Deferred taxes	*13*	**17,023**	20,057
Total Liabilities		**76,884**	84,495
SHAREHOLDERS' EQUITY			
Share capital	*8*	**419,405**	416,192
Contributed surplus		**14,131**	15,717
Deficit		**(238,121)**	(239,803)
Total Shareholders' Equity		**195,415**	192,106
Total Liabilities and Shareholders' Equity		**272,299**	276,601

Subsequent Events (note 6 & 12)

The accompanying notes are an integral part of these condensed interim financial statements.

GRANITE OIL CORP.

Statements of Operations and Comprehensive Income (Loss)

(Unaudited)

	Note	Three Months Ended September 30 2019	2018	Nine Months Ended September 30 2019	2018
(000s, except per share amounts)		*($)*	*($)*	*($)*	*($)*
REVENUE					
Oil and natural gas revenues	*10*	**9,543**	12,724	**30,344**	37,493
Royalties		**(2,210)**	(3,382)	**(6,488)**	(9,511)
Oil and natural gas revenues, net of royalties		**7,333**	9,342	**23,856**	27,982
Unrealized gain (loss) on financial instruments		**201**	534	**(3,150)**	(1,256)
Realized gain (loss) on financial instruments		**123**	(1,958)	**782**	(5,336)
		7,657	7,918	**21,488**	21,390
EXPENSES					
Operating and transportation		**2,617**	2,649	**7,873**	8,103
General and administrative		**668**	890	**2,252**	2,372
Depletion and depreciation	*5*	**2,433**	3,082	**7,548**	10,116
Share-based compensation	*9*	**(17)**	(832)	**509**	(270)
Exploration and evaluation	*4*	**50**	196	**2,297**	2,171
Accretion and finance		**754**	677	**2,361**	2,009
		6,505	6,662	**22,840**	24,501
Income (loss) before income taxes		**1,152**	1,256	**(1,352)**	(3,111)
TAXES					
Deferred income tax expense (recovery)	*13*	**263**	619	**(3,034)**	(34)
Net income (loss) and comprehensive income (loss)		**889**	**637**	**1,682**	**(3,077)**
Net income (loss) per common share					
Basic	*8*	**0.02**	0.02	**0.04**	(0.09)
Diluted	*8*	**0.02**	0.02	**0.04**	(0.09)

The accompanying notes are an integral part of these condensed interim financial statements.

GRANITE OIL CORP.

Statements of Changes in Shareholders' Equity

(Unaudited)

	Note	Share Capital	Contributed Surplus	Deficit	Total Equity
(000s)		*($)*	*($)*	*($)*	*($))*
Balance as at January 1, 2019		**416,192**	**15,717**	**(239,803)**	**192,106**
Common shares issued	*8*	462	-	-	462
Issued on vesting of share incentives	*8*	2,751	(2,996)	-	(245)
Share-based compensation	*9*	-	1,410	-	1,410
Net income		-	-	1,682	1,682
Balance as at September 30, 2019		**419,405**	**14,131**	**(238,121)**	**195,415**
Balance as at January 1, 2018		413,891	18,613	(232,349)	200,155
Share-based compensation		-	(560)	-	(560)
Dividends		-	-	(7,077)	(7,077)
Net loss		-	-	(3,077)	(3,077)
Balance as at September 30, 2018		413,891	18,053	(242,503)	189,441

The accompanying notes are an integral part of these condensed interim financial statements.

GRANITE OIL CORP.

Statements of Cash Flows

(Unaudited)

	Note	Three Months Ended September 30 2019	Three Months Ended September 30 2018	Nine Months Ended September 30 2019	Nine Months Ended September 30 2018
(000s)		*($)*	*($)*	*($)*	*($)*
Cash flow from (used in):					
Operating activities					
Net income (loss) for the period		**889**	637	**1,682**	(3,077)
Adjusted for:					
Depletion and depreciation expense	*5*	**2,433**	3,082	**7,548**	10,116
Deferred income tax expense (recovery)		**263**	619	**(3,034)**	(34)
Share-based compensation expense	*9*	**(17)**	(832)	**509**	(270)
Accretion expense	*7*	**76**	86	**226**	245
Unrealized loss (gain) on financial instruments		**(201)**	(534)	**3,150**	1,256
Exploration and evaluation expense	4	**50**	196	**2,297**	2,171
Abandonment and reclamations costs	*7*	**(295)**	(183)	**(415)**	(536)
		3,198	3,071	**11,963**	9,871
Change in non-cash working capital	*11*	**1,135**	152	**(1,547)**	1,100
		4,333	3,223	**10,416**	10,971
Financing activities					
Change in bank debt		**(2,784)**	143	**(4,880)**	8,643
Settlement of share incentive awards	*9*	**-**	-	**(245)**	-
Dividends paid		**-**	(2,360)	**-**	(7,077)
Issuance of share capital	*8*	**-**	-	**462**	-
		(2,784)	(2,217)	**(4,663)**	1,566
Investing activities					
Property and equipment expenditures		**(1,540)**	(661)	**(5,590)**	(9,887)
Exploration and evaluation expenditures		**-**	(42)	**(11)**	(118)
Change in non-cash working capital	11	**(12)**	(298)	**(140)**	(2,513)
		(1,552)	(1,001)	**(5,741)**	(12,518)
Foreign exchange (loss) gain on cash and cash equivalents held in foreign currency		**3**	(5)	**(12)**	(19)
Change in cash and cash equivalents		**-**	-	-	-
Cash and cash equivalents, beginning of period		**-**	-	-	-
Cash and cash equivalents, end of period		**-**	**-**	**-**	**-**
Interest Paid		**666**	410	**1,960**	1,484

The accompanying notes are an integral part of these condensed interim financial statements.

GRANITE OIL CORP.

Notes to Condensed Interim Financial Statements

As at and for the three and nine month periods ended September 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

Statement of Compliance

These condensed interim financial statements for the three months and nine months ended September 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 November 6, 2019.

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.

Functional and presentation currency

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

Use of estimates and judgments

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.

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 September 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 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

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 deficit 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

	Nine Months Ended September 30 2019	Year Ended December 31 2018
($000s)		
Balance, beginning of period	**14,938**	21,031
Additions	**(23)**	11
Transfer to property and equipment (note 5)	**(61)**	(3,764)
Exploration and evaluation expenses	**(1,165)**	(27)
Lease expiries	**(1,132)**	(2,313)
Balance, end of period	**12,557**	14,938

Exploration & evaluation ("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 September 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 (year ended December 31, 2018 – $2.3 million) and $1.2 million in other E&E expenses (year ended December 31, 2018 – nil).

5. PROPERTY AND EQUIPMENT

($000s)	Oil and Natural Gas Properties	Office Equipment	Total
Cost			
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
Balance, December 31, 2018	362,341	558	362,899
Additions	**6,946**	**6**	**6,952**
Transfers from E&E Assets (note 4)	**61**	**-**	**61**
Balance, September 30, 2019	**369,348**	**564**	**369,912**
Accumulated depletion and depreciation			
Balance, January 1, 2018	94,793	388	95,181
Depletion and depreciation for the year	12,655	40	12,695
Balance, December 31, 2018	107,448	428	107,876
Depletion and depreciation for the period	**7,523**	**25**	**7,548**
Balance, September 30, 2019	**114,971**	**453**	**115,424**
Net Book Value			
December 31, 2018	254,893	130	255,023
September 30, 2019	**254,377**	**111**	**254,488**

Capitalization of General and Administrative and Share-Based Compensation Expenses

During the nine month period ended September 30, 2019, approximately $0.4 million of directly attributable general and administrative expense and $1.0 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.

Future Development Costs and Salvage Value

At September 30, 2019, an estimated $67.1 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 September 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 September 30, 2019, the Company's current ratio was 2.94:1 and consequently the Company is in compliance with the current ratio requirement. See further discussion in Note 2.

At September 30, 2019, $41.5 million was drawn against this facility (December 31, 2018 – $46.4 million). Including letters of credit of $0.4 million, the Company had $41.9 million committed against the facility as at September 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. Granite's borrowing base was confirmed at $50 million at August 30, 2019 and effective October 1, 2019, Granite's authorized amount of the $50 million borrowing base was $45 million, consisting of a $40 million revolving demand credit facility and a $5 million revolving demand operating facility. The borrowing base of the credit facility is subject to review at least semi-annually with the Fall 2019 review currently underway and scheduled for completion by November 30, 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 $14.0 million as at September 30, 2019 (December 31, 2018 – $13.8 million) based on an inflated undiscounted total future liability of $18.6 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 September 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.

($000s)	**Nine Months Ended September 30 2019**	Year Ended December 31 2018
Balance, beginning of period	**13,754**	13,691
Liabilities incurred	**69**	190
Revisions	**381**	200
Settlements	**(415)**	(654)
Accretion	**226**	325
Balance, end of period	**14,015**	13,754

8. SHARE CAPITAL

Authorized

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

Issued and Outstanding

	Nine Months Ended September 30 2019		Year Ended December 31 2018	
	Number	**Amount**	Number	Amount
	(#)	*($000s)*	*(#)*	*($000s)*
Common shares				
Balance, beginning of period	**37,528,379**	**416,192**	34,190,652	413,891
Common share issuances	**840,714**	**462**	3,000,800	1,536
Issued on vesting of share incentives (note 9)	**406,637**	**2,751**	336,927	765
Balance, end of period	**38,775,730**	**419,405**	37,528,379	416,192

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.

Per Share Amounts

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

	Three Months Ended September 30		**Nine Months Ended September**	
	2019	2018	**2019**	2018
(000s, except per share amounts)	*($)*	*($)*	*($)*	*($)*
Net income (loss) for the period	**889**	637	**1,682**	(3,077)
	(#)	*(#)*	*(#)*	*(#)*
Weighted average common shares				
Basic	**38,776**	34,191	**38,098**	34,191
Diluted	**39,104**	35,166	**38,437**	34,191
	($)	*($)*	*($)*	*($)*
Net Income (Loss) per Weighted Average Common Share				
Basic	**0.02**	0.02	**0.04**	(0.09)
Diluted	**0.02**	0.02	**0.04**	(0.09)

9. SHARE-BASED COMPENSATION

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 and TBAs is as follows:

	Nine Months Ended September 30 2019	
	Number of	
	PBAs	**TBAs**
Balance, beginning of period	**826,570**	**22,500**
Redeemed	**(380,483)**	**(5,000)**
Forfeited	**(59,915)**	**(2,500)**
Balance, end of period	**386,172**	**15,000**

	Year Ended December 31 2018	
	Number of	
	PBAs	TBAs
Balance, beginning of period	1,107,697	56,547
Redeemed	(261,525)	(34,047)
Forfeited	(19,062)	-
Balance, end of period	826,570	22,500

During the nine months ended September 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 and 59,915 were forfeited. 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 and 19,062 were forfeited. Fluctuations in share based compensation expense may occur due to changes in estimates of performance outcomes.

Gross share-based compensation related to PBAs was $(0.1) million for the quarter ended September 30, 2019 (three months ended September 30, 2018 – $(1.5) million). Of this amount, $(0.05) million was capitalized (three months ended September 30, 2018 – $(0.7) million), resulting in total net share-based compensation recovery related to PBAs of $(0.05) million for the quarter (three months ended September 30, 2018 – $(0.8) million).

Gross share-based compensation related to PBAs was $1.4 million for the nine months ended September 30, 2019 (nine months ended September 30, 2018 – $(0.6) million). Of this amount, $1.0 was capitalized (nine months ended September 30, 2018 – $(0.3) million), resulting in total net share-based compensation related to PBAs of $0.4 million (nine months ended September 30, 2018 – $(0.3) million).

During the nine months ended September 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.

Gross share-based compensation related to TBAs was $nil for the quarter ended September 30, 2019 and 2018.

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

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:

	Nine Months Ended September 30, 2019		Year Ended December 31, 2018	
	Number	**Weighted Average Exercise Price**	Number	Weighted Average Exercise Price
	(#)	***($)***	*(#)*	*($)*
Balance, beginning of period	**-**	**-**	-	-
Issued	**938,000**	**0.69**	-	-
Balance, end of period	**938,000**	**0.69**	-	-
Vested and exercisable, end of period	**-**	**-**	-	-

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

	Nine Months Ended September 30 2019	Year Ended December 31 2018
Risk-free interest rate *(%)*	**1.39**	-
Expected life *(years)*	**2.00**	-
Estimated volatility *(%)*	**76.25**	-
Estimated forfeiture rate *(%)*	**2**	-
Weighted average fair value *($/option)*	**0.28**	-

Gross share-based compensation for the options was $0.04 million for the three and nine month periods ended September 30, 2019 (three and nine months ended September 30, 2018 - $nil). Of this amount, $nil was capitalized (three and nine months ended September 30, 2018 – $nil), resulting in total net share-based compensation expense related to options of $0.04 million for the period (three and nine months ended September 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 September 30		**Nine Months Ended September**	
	2019	2018	**2019**	2018
($000s)				
Natural gas	**2**	-	**90**	67
Oil	**9,541**	12,724	**30,254**	37,426
Total oil and natural gas revenues	**9,543**	12,724	**30,344**	37,493

11. SUPPLEMENTAL CASH FLOW INFORMATION

	Three Months Ended September 30		**Nine Months Ended September**	
Changes in non-cash working capital	**2019**	2018	**2019**	2018
($000s)				
Accounts receivable	**424**	1,875	**(1,751)**	740
Deposits and prepaid expenses	**(20)**	316	**(2)**	184
Accounts payable and accrued liabilities	**719**	(2,337)	**66**	(2,337)
	1,123	(146)	**(1,687)**	(1,413)
Related to operating activities	**1,135**	152	**(1,547)**	1,100
Related to investing activities	**(12)**	(298)	**(140)**	(2,513)
	1,123	(146)	**(1,687)**	(1,413)

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.
- 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.

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.

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 September 30, 2019 due to their short term to maturity.

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).

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 September 30, 2019, the Company had the following crude oil contracts with a total mark-to-market asset of $0.5 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)
Q4 2019						
Oct. 1/19 – Dec. 31/19	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	USD $57.70	USD $35
Oct. 1/19 – Dec. 31/19	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	USD $59.20	USD $49
Oct. 1/19 – Dec. 31/19	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	USD $58.41	USD $42
Oct. 1/19 – Dec. 31/19	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	USD $58.56	USD $43
Oct. 1/19 – Dec. 31/19	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	USD $59.30	USD $50
Oct. 1/19 – Dec. 31/19	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	USD $60.30	USD $59
Oct. 1/19 – Dec. 31/19	Crude Oil	Fixed	150 bbls/d	WTI-NYMEX	CAD $70.50	CAD $(11)
Oct. 1/19 – Dec. 31/19	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	CAD $74.60	CAD $30
Oct. 1/19 – Dec. 31/19	Crude Oil	Fixed	100 bbls/d	WCS-WTI Differential	USD $(21.10)	USD $(76)
Oct. 1/19 – Dec. 31/19	Crude Oil	Fixed	100 bbls/d	WCS-WTI Differential	USD $(22.05)	CAD $(107)
Oct. 1/19 – Dec. 31/19	Crude Oil	Fixed	100 bbls/d	WCS-WTI Differential	USD $(21.70)	USD $(81)
Oct. 1/19 – Dec. 31/19	Crude Oil	Fixed	100 bbls/d	WCS-WTI Differential	USD $(21.90)	CAD $(105)
Oct. 1/19 – Dec. 31/19	Crude Oil	Fixed	100 bbls/d	WCS-WTI Differential	USD $(22.30)	USD $(87)
Q1 2020						
Jan. 1/20 – Mar. 31/20	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	USD $62.65	USD $89
Jan. 1/20 – Mar. 31/20	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	USD $61.60	USD $80
Jan. 1/20 – Mar. 31/20	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	USD $61.31	USD $77
Jan. 1/20 – Mar. 31/20	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	USD $57.55	CAD $57
Jan. 1/20 – Mar. 31/20	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	CAD $76.40	CAD $60
Jan. 1/20 – Mar. 31/20	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	CAD $75.00	CAD $47
Q2 2020						
Apr. 1/20 – Jun. 30/20	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	USD $60.15	USD $76
Apr. 1/20 – Jun. 30/20	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	CAD $71.15	CAD $26
Apr. 1/20 – Jun. 30/20	Crude Oil	Fixed	200 bbls/d	WTI-NYMEX	CAD $70.22	CAD $34
Q3 2020						
Jul. 1/20 – Sep. 30/20	Crude Oil	Fixed	150 bbls/d	WTI-NYMEX	CAD $69.00	CAD $23
Jul. 1/20 – Sep. 30/20	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	CAD $69.66	CAD $22

Subsequent to quarter end, the Company entered into the following contracts:

Jan. 1/20 – Mar. 31/20	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	CAD $74.10
Apr. 1/20 – Jun. 30/20	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	CAD $71.20
Jul. 1/20 – Sep. 30/20	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	CAD $68.00
Jul. 1/20 – Sep. 30/20	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	CAD $68.20
Oct. 1/20 – Dec. 31/20	Crude Oil	Fixed	100 bbls/d	WTI-NYMEX	CAD $68.22

13. INCOME TAX

For the nine months ended September 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 [1][2][3]
Chairman
Independent Businessman

Michael Kabanuk
President & Chief Executive Officer
Granite Oil Corp.

Martin Cheyne [3]
Chief Executive Officer
Boulder Energy Ltd.

Brad Porter [1][2]
Independent Businessman

Kevin Andrus [1][2][3]
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

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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