STATEMENTS OF FINANCIAL POSITION

(Unaudited)

As at	September 30, 2015	December 31, 2014
(000s)	*($)*	*($)*
Assets		
Current assets		
Accounts receivable	**16,379**	29,524
Deposits and prepaid expenses	**876**	682
Derivative financial instruments *(note 12)*	**13,571**	23,270
	30,826	53,476
Non-current assets		
Derivative financial instruments *(note 12)*	**602**	–
Exploration and evaluation assets *(note 5)*	**37,722**	62,784
Property and equipment *(note 6)*	**240,446**	626,942
Total assets	**309,596**	743,202
Liabilities		
Current liabilities		
Bank debt *(note 7)*	**44,716**	–
Accounts payable and accrued liabilities	**13,099**	62,319
Dividend payable	**986**	–
	58,801	62,319
Non-current liabilities		
Bank debt *(note 7)*	**–**	139,234
Decommissioning liabilities *(note 8)*	**12,722**	34,165
Flow-through share premium liabilities *(note 9)*	**–**	95
Deferred tax liability	**23,078**	43,880
Total liabilities	**94,601**	279,693
Shareholders' equity		
Share capital *(note 9)*	**388,884**	381,540
Contributed surplus	**13,524**	12,591
Retained earnings (deficit)	**(187,413)**	69,378
Total shareholders' equity	**214,995**	463,509
Total liabilities and shareholders' equity	**309,596**	743,202

Commitments *(note 13)*

See accompanying notes to the interim financial statements.

STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	**2015**	2014
(000s, except per share amounts)	*($)*	*($)*	*($)*	*($)*
Revenue				
Oil and natural gas revenues	**15,195**	87,188	**95,261**	233,391
Royalties	**(4,620)**	(18,110)	**(23,817)**	(52,336)
Oil and natural gas revenues, net of royalties	**10,575**	69,078	**71,444**	181,055
Expenses				
Operating and transportation	**2,325**	13,100	**20,355**	35,743
General and administrative	**636**	1,600	**3,964**	5,414
Transaction costs – general and administrative *(note 4)*	**141**	–	**3,802**	–
Depletion and depreciation *(note 6)*	**6,369**	21,776	**39,295**	57,014
Share-based compensation *(note 10)*	**650**	900	**1,742**	2,160
Transaction costs – share-based compensation *(note 4)*	**–**	–	**4,027**	–
Exploration and evaluation expense *(note 5)*	**1,078**	6,499	**1,422**	8,459
Loss (gain) on disposition of Boulder *(note 4)*	**1,841**	–	**(152,193)**	–
	13,040	43,875	**(77,586)**	108,790
Unrealized loss (gain) on financial instruments	**(4,437)**	(6,062)	**9,468**	(2,922)
Realized loss (gain) on financial instruments	**(7,516)**	674	**(19,178)**	5,087
Accretion and finance expenses	**393**	1,250	**3,412**	4,133
	1,480	39,737	**(83,884)**	115,088
Income before income tax	**9,095**	29,341	**155,328**	65,967
Taxes				
Deferred income tax expense	**2,664**	8,235	**3,501**	18,046
Net income and comprehensive income for the period	**6,431**	21,106	**151,827**	47,921
Net income per share *(note 9)*				
Basic	**0.21**	0.71	**5.10**	1.69
Diluted	**0.21**	0.69	**5.05**	1.63

See accompanying notes to the interim financial statements.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

	Share Capital	Contributed Surplus	Retained Earnings (Deficit)	Total Equity
(000s)	*($)*	*($)*	*($)*	*($)*
Balance – January 1, 2015	**381,540**	**12,591**	**69,378**	**463,509**
Share-based compensation	**–**	**6,865**	**–**	**6,865**
Exercise of options	**7,344**	**(5,932)**	**–**	**1,412**
Distribution of non-cash assets *(note 4)*	**–**	**–**	**(404,825)**	**(404,825)**
Dividends	**–**	**–**	**(3,793)**	**(3,793)**
Net income	**–**	**–**	**151,827**	**151,827**
Balance – September 30, 2015	**388,884**	**13,524**	**(187,413)**	**214,995**
Balance – January 1, 2014	309,323	8,602	(6,855)	311,070
Common shares issued	63,428	–	–	63,428
Flow-through shares issued	10,002	–	–	10,002
Premium on flow-through shares	(1,654)	–	–	(1,654)
Share issuance costs	(3,862)	–	–	(3,862)
Tax benefit of share issuance costs	963	–	–	963
Share-based compensation	–	3,693	–	3,693
Exercise of options	2,895	(843)	–	2,052
Net income	–	–	47,921	47,921
Balance – September 30, 2014	381,095	11,452	41,066	433,613

See accompanying notes to the interim financial statements.

STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	**2015**	2014
(000s)	*($)*	*($)*	*($)*	*($)*
Cash flow from (used in):				
Operating activities				
Net income for the period	**6,431**	21,106	**151,827**	47,921
Adjustments for:				
Depletion and depreciation expense *(note 6)*	**6,369**	21,776	**39,295**	57,014
Deferred income tax expense	**2,664**	8,235	**3,501**	18,046
Share-based compensation *(note 10)*	**650**	953	**1,797**	2,284
Transaction costs – share-based compensation *(note 4)*	**–**	–	**4,027**	–
Accretion *(note 8)*	**73**	213	**400**	621
Unrealized loss (gain) on financial instruments	**(4,437)**	(6,062)	**9,468**	(2,922)
Exploration and evaluation expense *(note 5)*	**1,078**	6,499	**1,422**	8,459
Loss (gain) on disposition of Boulder *(note 4)*	**1,841**	–	**(152,193)**	–
Abandonment and reclamation costs *(note 8)*	**(159)**	–	**(220)**	–
	14,510	52,720	**59,324**	131,423
Change in non-cash working capital *(note 11)*	**(13,260)**	9,570	**(17,941)**	(1,423)
	1,250	62,290	**41,383**	130,000
Financing activities				
Change in bank debt	**16,526**	21,337	**(94,518)**	19,087
Assumption of debt from Boulder transaction *(note 4)*	**–**	–	**130,000**	–
Dividends	**(2,883)**	–	**(3,793)**	–
Issuance of share capital	**–**	–	**1,412**	75,482
Share issuance costs	**–**	–	**–**	(3,862)
Change in non-cash working capital *(note 11)*	**76**	(16)	**986**	–
	13,719	**21,321**	**34,087**	90,707
Investing activities				
Property and equipment expenditures	**(6,553)**	(67,439)	**(53,357)**	(203,383)
Exploration and evaluation expenditures	**(678)**	(11,440)	**(2,890)**	(16,881)
Property acquisitions	**–**	(6,106)	**–**	(11,321)
Changes in non-cash working capital *(note 11)*	**(7,880)**	1,374	**(19,365)**	10,878
	(15,111)	(83,611)	**(75,612)**	(220,707)
Foreign exchange gain on cash and cash equivalents held in foreign currency	**142**	**–**	**142**	**–**
Change in cash and cash equivalents	**–**	**–**	**–**	**–**
Cash and cash equivalents – beginning of period	**–**	**–**	**–**	**–**
Cash and cash equivalents – end of period	**–**	**–**	**–**	**–**

See accompanying notes to the interim financial statements.

NOTES TO THE FINANCIAL STATEMENTS

As at and for the three and nine month periods ended September 30, 2015

(Unaudited)

01 REPORTING ENTITY

Granite Oil Corp. ("Granite" or the "Company"), formerly DeeThree Exploration Ltd., 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 many 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 located at Suite 2200, 520 Third Avenue S.W., Calgary, Alberta.

02 BASIS OF PRESENTATION

(a) STATEMENT OF COMPLIANCE

These financial statements for the three and nine months ended September 30, 2015 were prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as issued by the International Accounting Standards Board (IASB).

The interim financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2014.

The financial statements were authorized for issuance by the Board of Directors on November 4, 2015.

(b) USE OF ESTIMATES AND JUDGMENTS

Significant estimates and judgments made by management in the preparation of these interim financial statements remain unchanged and are outlined in Note 2 of the December 31, 2014 audited annual financial statements other than those relating to the distribution of non-cash assets.

DISTRIBUTION OF NON-CASH ASSETS

All non-cash assets and liabilities distributed to shareholders by Granite must be recognized at their fair value on the date of disposition. The Company used significant judgments related to the fair value measurement of assets and liabilities distributed pursuant to the POA, including the shares of Boulder Energy Ltd. ("Boulder").

03 SIGNIFICANT ACCOUNTING POLICIES

(a) CURRENT ACCOUNTING POLICIES

The Company's accounting policies are described in Note 3 to the December 31, 2014 audited annual financial statements. Those accounting policies have been applied consistently to all periods presented in these interim financial statements.

(b) FUTURE ACCOUNTING POLICY CHANGES

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

In December 2014, the IASB issued narrow-focus amendments to IAS 1 Presentation of Financial Statements to clarify existing requirements related to materiality, order of notes, subtotals, accounting policies and disaggregation. Retrospective application of this standard is effective for fiscal years beginning on or after January 1, 2016, with earlier application permitted. The adoption of this amended standard is not expected to have a material impact on the Company's disclosure.

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

(c) ADDITIONAL SIGNIFICANT ACCOUNTING POLICIES

The assets and liabilities given up by Granite under the common-control transaction, including property, plant and equipment, exploration and evaluation assets, decommissioning liabilities, derivative financial instruments, bank debt and a deferred tax liability, were originally recognized on the date of acquisition at their respective fair market values.

04 PLAN OF ARRANGEMENT

On April 7, 2015, DeeThree Exploration Ltd. and Boulder Energy Ltd. entered into a Plan of Arrangement (the "POA") whereby DeeThree would transfer its oil and natural gas properties located in the Brazeau Belly River and Peace River Arch areas of Northern Alberta, Canada ("Northern Assets") to Boulder and each DeeThree shareholder received one third (0.3333) of one share of New DeeThree shares and one half (0.5) of one share of Boulder. On May 14, 2015, the holders of common shares of DeeThree approved the POA. The POA was completed on May 15, 2015.

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

Fair market value of Boulder Assets given up:	
Fair market value of Boulder shares issued	(404,825)
Carrying value of Boulder net assets given up	252,632
Gain on disposition of assets	(152,193)

Assets and liabilities transferred to Boulder:	
Assumption of debt by Boulder	130,000
Property and equipment	(403,798)
Exploration and evaluation assets	(26,988)
Decommissioning liabilities	24,280
Derivative financial instruments	512
Deferred income taxes	24,400
Working capital	(1,038)
Carrying value of Boulder net assets given up	(252,632)

This transaction was considered to be a distribution of non-cash assets and was recorded at the fair market value of the Northern Assets at May 15, 2015. The weighted average trading price of Boulder shares after they commenced trading was used to determine the fair value of the net assets given up or $8.89 per common share. The carrying value was determined using the historical costs as recorded by DeeThree. The $152.2 million difference between Boulder's fair value of $404.8 million and carrying value of $252.6 million was recognized on the statement of operations and comprehensive income as a gain on disposition of Boulder.

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

05 EXPLORATION AND EVALUATION ASSETS

	Nine Months Ended September 30, 2015	Year Ended December 31, 2014
(000s)	*($)*	*($)*
Balance – beginning of period	**62,784**	45,611
Additions	**4,073**	23,454
Acquisitions	**–**	6,746
Dispositions to Boulder (note 4)	**(26,988)**	–
Transfers to property and equipment	**(725)**	(3,709)
E&E expenses	**(604)**	(8,570)
Lease expiries	**(818)**	(748)
Balance – end of period	**37,722**	62,784

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 and acquisitions represent E&E assets included in business combinations during the period.

During the nine month period ended September 30, 2015, the Company incurred $0.8 million related to lease expiries on undeveloped land (year ended December 31, 2014 - $0.7 million) and incurred $0.6 million related to the drilling of an unsuccessful vertical stratigraphic test well in the Ferguson area (year ended December 31, 2014 – $8.6 million on three vertical stratigraphic test wells in Ferguson and one well in the Peace River Arch area that was determined to be unsuccessful).

During the nine month period ended September 30, 2015, approximately $0.1 million of directly attributable general and administrative expense and $0.1 million of directly attributable share-based compensation expense were capitalized as expenditures on exploration and evaluation assets (year ended December 31, 2014 – $0.6 million and $0.5 million, respectively).

During the nine month period ended September 30, 2015, $27.0 million of E&E assets was transferred to Boulder as part of the POA described in Note 4.

06 PROPERTY AND EQUIPMENT

(000s)	Oil and Natural Gas Properties ($)	Office Equipment ($)	Total ($)
Cost			
Balance – January 1, 2014	545,805	418	546,223
Additions	257,943	56	257,999
Acquisitions	17,268	–	17,268
Transfers from E&E assets	3,709	–	3,709
Balance – December 31, 2014	**824,725**	**474**	**825,199**
Additions	**55,846**	**26**	**55,872**
Dispositions to Boulder (Note 4)	**(584,787)**	**–**	**(584,787)**
Transfers from E&E assets	**725**	**–**	**725**
Balance – September 30, 2015	**296,509**	**500**	**297,009**
Accumulated depletion and depreciation			
Balance – January 1, 2014	117,305	153	117,458
Depletion and depreciation for the year	80,730	69	80,799
Balance – December 31, 2014	**198,035**	**222**	**198,257**
Depletion and depreciation for the period	**39,249**	**46**	**39,295**
Dispositions to Boulder (Note 4)	**(180,989)**	**–**	**(180,989)**
Balance – September 30, 2015	**56,295**	**268**	**56,563**
Net book value			
December 31, 2014	626,690	252	626,942
September 30, 2015	**240,214**	**232**	**240,446**

(a) CAPITALIZATION OF GENERAL AND ADMINISTRATIVE AND SHARE-BASED COMPENSATION EXPENSES

During the nine month period ended September 30, 2015, approximately $0.8 million of directly attributable general and administrative expense and $0.9 million of directly attributable share-based compensation expense were capitalized as expenditures on property and equipment (year ended December 31, 2014 – $1.7 million and $1.5 million, respectively).

(b) AMORTIZATION AND IMPAIRMENT CHARGES

At September 30, 2015, due to continued declines in commodity prices, the Company identified impairment indicators and performed an impairment test on its Southern CGU. The recoverable amount was estimated using a fair value less costs to sell calculation based on expected future cash flows generated from proved and probable reserves at an appropriate discount rate. The impairment test determined a recoverable amount in excess of the CGUs carrying amount and, therefore, for the nine months ended September 30, 2015 no impairment was recorded.

The impairment test carried out at September 30, 2015 used the following commodity price estimates:

	WTI Cushing Oklahoma 40 Degree API Oil	Canadian Light Sweet Crude 40 Degree API Oil	Alberta AECO-C Spot Gas	Foreign Exchange Rate
	(US$/bbl)	*(Cdn$/bbl)*	*(Cdn$/mmbtu)*	*(US$/Cdn$)*
2015	46.00	55.68	2.92	0.760
2016	55.00	64.87	3.10	0.780
2017	70.00	75.76	3.32	0.850
2018	75.00	83.82	3.91	0.850
2019	80.00	89.41	4.49	0.850
Annual escalation thereafter	1.5%	1.5%	1.5%	1.5%

(c) FUTURE DEVELOPMENT COSTS AND SALVAGE VALUE

As at September 30, 2015, an estimated $93.0 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 $9.4 million of salvage value of production equipment was excluded (year ended December 31, 2014 – $388.1 million and $21.7 million, respectively).

(d) DISPOSITIONS TO BOULDER

During the nine month period ended September 30, 2015, $584.8 million of property and equipment at historical cost and $181.0 million of accumulated depletion and depreciation was transferred to Boulder as part of the POA described in Note 4.

07 BANK DEBT

At September 30, 2015, the Company had a revolving demand credit facility (the "Credit Facility") with an authorized borrowing base of $115 million, including a $95 million extendible revolving facility and a $20 million operating facility (December 31, 2014 – syndicated credit facility with an authorized borrowing base of $310 million, including $280 million extendible revolving facility and a $30 million operating facility).

In connection with the completion of the POA, each of Granite and Boulder obtained new credit facilities from syndicates of lenders. The amounts of $42.5 million and $130 million were drawn down under the Granite credit facility and the Boulder credit facility respectively to repay the obligations of DeeThree under its credit facility which is now fully repaid and settled.

Granite's demand credit facility is considered a current liability due to its term.

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 0.50 percent to 2.50 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 0.2 percent to 0.45 percent per annum on the undrawn portion of the facility, again based on the Company's debt to cash flow ratio. Under the Credit Facility, the Company is required to maintain a current ratio of not less than 1:1. The current ratio is calculated as current assets (excluding derivative financial instruments) plus any undrawn availability in the Credit Facility versus current liabilities (excluding derivative financial instruments and any amounts outstanding in the Credit Facility). At September 30, 2015, the Company was in compliance with the current ratio requirement.

At September 30, 2015, $44.7 million was drawn against this facility (December 31, 2014 – $139.2 million). The amount of the facility is subject to a borrowing base test performed on a periodic basis by the lenders, based primarily on reserves and using commodity prices estimated by the lenders as well as other factors. The borrowing base of the credit facility is subject to review semi-annually and is currently underway. A decrease in the borrowing base could result in a reduction to the credit facility. Collateral for this facility consists of a general security agreement, providing a security interest over all present and subsequently acquired personal property and a floating charge on all present and subsequently acquired land interests of the Company.

08 DECOMMISSIONING LIABILITIES

The Company has estimated the net present value of decommissioning obligations to be $12.7 million as at September 30, 2015 (December 31, 2014 – $34.2 million) based on an undiscounted total future liability of $16.7 million (December 31, 2014 – $47.1 million). These payments are expected to be incurred over a period of 2 to 20 years with the majority of costs to be incurred between 2017 and 2026. At September 30, 2015, a risk-free rate of 2.25 percent (December 31, 2014 – 2.5 percent) and an inflation rate of 2 percent (December 31, 2014 – 2 percent) were used to calculate the net present value of the decommissioning liabilities. The $1.9 million of revisions is related to changes in the risk-free rate used in the calculation.

	Nine Months Ended September 30, 2015	Year Ended December 31, 2014
(000s)	*($)*	*($)*
Balance – beginning of period	**34,165**	26,291
Liabilities incurred	**716**	2,722
Liabilities acquired	**–**	1,415
Liabilities disposed to Boulder (Note 4)	**(24,280)**	–
Revisions	**1,941**	2,904
Settlements	**(220)**	(17)
Accretion of decommissioning liabilities	**400**	850
Balance – end of period	**12,722**	34,165

09 SHARE CAPITAL

(a) AUTHORIZED

Unlimited number of common voting shares, no par value.

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

(b) ISSUED – COMMON SHARES

	Nine Months Ended September 30, 2015		Year Ended December 31, 2014 (i)	
	Shares	Amount	Shares	Amount
	(#)	*($000s)*	*(#)*	*($000s)*
Balance – beginning of period	**29,655,187**	**381,540**	27,184,053	309,323
Common shares issued (ii)	**–**	**–**	1,904,543	63,428
Exercise of options (iv)	**686,506**	**7,344**	315,949	3,479
Flow-through shares issued (iii)	**–**	**–**	250,642	10,002
Premium on flow-through shares (iii)	**–**	**–**	–	(1,654)
Share issuance costs	**–**	**–**	–	(4,048)
Tax benefit of share issuance costs	**–**	**–**	–	1,010
Balance – end of period	**30,341,693**	**388,884**	29,655,187	381,540

(i) PLAN OF ARRANGEMENT

In May 2015, in connection with the POA, the Company's outstanding common shares were exchanged whereby each previous DeeThree shareholder received one third (0.3333) of a Granite share and one-half (0.5) a share of Boulder for each DeeThree share previously held. This adjustment in shares has been retrospectively applied to all current and comparative periods within these financial statements.

(ii) COMMON SHARE ISSUANCES

In May 2014, the Company issued 1,904,543 common shares pursuant to a public offering for total gross proceeds of $63.4 million ($60.0 million net of estimated share issuance costs), including 101,390 common shares issued pursuant to the partial exercise of an over-allotment held by the underwriters.

(iii) FLOW-THROUGH SHARE ISSUANCES

In May 2014, the Company issued 250,642 flow-through shares for total gross proceeds of $10.0 million ($9.4 million net of estimated share issuance costs). The implied premium on the flow-through shares of $2.20 per share or $1.7 million was recorded as a liability on the statement of financial position and none remains at September 30, 2015. To date, the Company has incurred $10.0 million of the required qualifying exploration expenditures.

(iv) EXERCISING OF OPTIONS

The presentation of the number of options below does not reflect the share adjustment of 0.3333 in connection with the POA.

During the nine months ended September 30, 2015, there were 2,059,723 DeeThree options exercised. These included 465,101 DeeThree options exercised for total cash proceeds of $1.4 million and previously recognized share-based compensation expense of $0.8 million. It also included 3,166,159 DeeThree options exercised on a cashless basis in connection with the POA, with previously recognized share-based compensation expense of $5.1 million.

During 2014, 947,944 DeeThree options were exercised for total cash proceeds of $2.4 million and previously recognized share-based compensation expense of $1.1 million.

(C) PER SHARE AMOUNTS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	**2015**	2014
(000s, except per share amounts)	*($)*	*($)*	*($)*	*($)*
Net income for the period	**6,431**	21,106	**151,827**	47,921
	(#)	*(#)*	*(#)*	*(#)*
Weighted-average number of common shares				
– basic	**30,342**	29,607	**29,785**	28,380
– diluted	**30,567**	30,649	**30,058**	29,383
	($)	*($)*	*($)*	*($)*
Net income per weighted average common share				
– basic	**0.21**	0.71	**5.10**	1.69
– diluted	**0.21**	0.69	**5.05**	1.63

10 SHARE-BASED COMPENSATION

(a) DEETHREE OPTIONS

Prior to the POA, DeeThree had an option program that entitled officers, directors, employees and certain consultants to purchase Company shares. Options were granted based on the five-day volume-weighted average common share price prior to the date of grant, vest 20 percent after nine months and then 20 percent on the first, second, third and fourth anniversaries from the grant date and expire five years from the grant date. As part of the POA, all of the DeeThree options were either exercised, cancelled or exchanged for the replacement options (see Note 10(b) below. The presentation of the number of options and their exercise prices do not reflect the share adjustment of 0.3333 in connection with the POA.

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

	Nine Months Ended September 30, 2015		Year Ended December 31, 2014	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
	(#)	*($)*	*(#)*	*($)*
Outstanding – January 1	**7,676,328**	**5.94**	6,524,272	4.21
Issued	**–**	**–**	2,165,000	9.77
Exercised	**(465,101)**	**3.04**	(947,944)	2.56
Forfeited	**(105,361)**	**6.09**	(65,000)	9.25
Cancelled	**(3,939,707)**	**6.09**	–	–
Exercised on a cashless basis	**(3,166,159)**	**6.09**	–	–
Outstanding – end of period	**–**	**–**	7,676,328	5.94
Exercisable – end of period	**–**	**–**	3,916,972	4.39

For the options that were cancelled in relation to the POA, the remaining share based compensation of $4.0 million was immediately recognized and expensed in the statement of operations and comprehensive income as “transaction costs – share-based compensation”.

(b) GRANITE OPTIONS

DeeThree’s stock option plan was terminated pursuant to the POA. Unvested in-the-money DeeThree options that were outstanding at the time of the completion of the POA were replaced with options to acquire shares of Granite and Boulder respectively. Under the POA, options were granted based on the exercise price proportion (as explained in the Information Circular dated April 9, 2015) of the fraction A/B, where A is the volume weighted average price of the Boulder Common Shares on the first five trading days on the TSX and B is the aggregate of (i) the volume weighted average price of Boulder Common shares for the first five trading days on the TSX and (ii) the volume weighted average price of the Granite Common shares on the first five trading days on the TSX. All Granite replacement options granted under the POA maintain the same vesting and expiry dates from when the original DeeThree options were previously issued.

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

	Nine Months Ended September 30, 2015		Year Ended December 31, 2014	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
	(#)	*($)*	*(#)*	*($)*
Outstanding – January 1	**–**	**–**	–	–
Issued	**207,817**	**$3.96**	–	–
Outstanding – end of period	**207,817**	**$3.96**	–	–
Exercisable – end of period	**15,663**	**$4.51**	–	–

Weighted-Average Exercise Price	Options Outstanding	Weighted-Average Contractual Life	Options Exercisable
($)	*(#)*	*(years)*	*(#)*
As at September 30, 2015			
2.00 – 4.99	**186,487**	**1.21**	**14,663**
5.00 – 6.80	**21,330**	**2.05**	**1,000**
	207,817	**1.30**	**15,663**

The fair value of the common share purchase options granted was estimated as at the date of grant using the Black-Scholes option-pricing model and the following weighted-average assumptions:

	Nine Months Ended September 30, 2015
Risk-free interest rate (%)	**0.64**
Expected life (years)	**0.64**
Expected volatility (%)	**70**
Expected dividend yield (%)	**0**
Fair value of options granted during the year ($/option)	**0.87**

A forfeiture rate of 2 percent for options granted during the nine month period ended September 30, 2015 was used when recording share-based compensation expense. This estimate is adjusted to the actual forfeiture rate. Gross share-based compensation for the options was $1.7 million for the period ended September 30, 2015 (year ended December 31, 2014 - $5.0 million). Of this amount, $0.06 million was reclassified to operating expense for the amount related to field employees (year ended December 31, 2014 – $0.2 million) and $0.7 million was capitalized (year ended December 31, 2014 – $1.9 million), resulting in total net share-based compensation expense related to options of $1.0 million for the period (year ended December 31, 2014 - $2.9 million).

(c) SHARE INCENTIVE PLAN

On May 15, 2015, Granite adopted a Share Incentive Plan ("SIP") for directors, officers, certain employees and eligible consultants. The SIP consists of performance based awards ("PBA") and time based awards ("TBA"). Both the TBAs and the PBAs vest one third on each of the first, second and third anniversaries of the grant date and the number of common shares issued for each award. The PBAs granted are subject to a performance multiplier ranging from 0 to 2. The payout multiplier is dependent on the performance of Granite at the end of the vesting period relative to corporate performance measures determined at the discretion of Granite's Board of Directors. The number of common shares issued for each PBA and TBA granted is adjusted for the payments of dividends from the date of the grant to the payment date. On the payment date, Granite has sole and absolute discretion to settle the awards in the form of either cash or common shares, or some combination thereof.

The number of PBAs is as follows:

	Nine Months Ended September 30, 2015	Year Ended December 31, 2014
	PBAs	PBAs
	(#)	*(#)*
Outstanding – January 1	**–**	–
Issued	**829,103**	–
Outstanding – end of period	**829,103**	–

The fair value of the PBAs is determined at the grant date using the binomial option-pricing model, multiplied by the estimated performance multiplier. A performance multiplier of 1 has been assumed for PBAs outstanding at September 30, 2015. Fluctuations in share based compensation expense may occur due to changes in estimates of performance outcomes.

The following assumptions were used to value the PBAs granted during the nine month period ended September 30, 2015:

	Nine Months Ended September 30, 2015
Forfeiture rate (%)	**2**
Risk-free interest rate (%)	**0.68**
Expected life (years)	**2.00**
Expected volatility (%)	**65**
Expected dividend yield (%)	**5**
Weighted-average fair value of PBAs granted during the period ($/award)	**6.34**

Gross share-based compensation related to PBAs was $1.0 million for the period ended September 30, 2015 (year ended December 31, 2014 - $nil). Of this amount, $0.3 million was capitalized (year ended December 31, 2014 – $nil), resulting in total net share-based compensation expense related to PBAs of $0.7 million for the period (year ended December 31, 2014 - $nil).

The number of TBAs is as follows:

	Nine Months Ended September 30, 2015	Year Ended December 31, 2014
	TBAs	TBAs
	(#)	*(#)*
Outstanding – January 1	**–**	–
Issued	**115,892**	–
Outstanding – end of period	**115,892**	–

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

The following assumptions were used to fair value the TBAs granted during the nine month period ended September 30, 2015:

	Nine Months Ended September 30, 2015
Forfeiture rate (%)	**2**
Risk-free interest rate (%)	**0.68**
Expected life (years)	**2.00**
Expected volatility (%)	**65**
Expected dividend yield (%)	**5**
Weighted-average fair value of TBAs granted during the period ($/award)	**6.34**

Gross share-based compensation related to TBAs was $0.13 million for the period ended September 30, 2015 (year ended December 31, 2014 - $nil). Of this amount, $0.05 million was capitalized (year ended December 31, 2014 – $nil), resulting in total net share-based compensation expense related to TBAs of $0.08 million for the period (year ended December 31, 2014 - $nil).

11 SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital are comprised of:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	**2015**	2014
(000s)	*($)*	*($)*	*($)*	*($)*
Accounts receivable	**(3,175)**	443	**13,569**	(16,035)
Prepaid expenses and other	**971**	415	**(194)**	(473)
Accounts payable and accrued liabilities	**(18,860)**	10,070	**(49,695)**	25,963
	(21,064)	10,928	**(36,320)**	9,455
Related to operating activities	**(13,260)**	9,570	**(17,941)**	(1,423)
Related to financing activities	**76**	(16)	**986**	-
Related to investing activities	**(7,880)**	1,374	**(19,365)**	10,878
	(21,064)	10,928	**(36,320)**	9,455

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 following methods. 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, 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 hierarchy of Level 2.

(a) PROPERTY AND EQUIPMENT AND E&E ASSETS

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

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

(b) CASH AND CASH EQUIVALENTS, ACCOUNTS RECEIVABLE, ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The fair value of accounts receivable, accounts payable and accrued liabilities 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, 2015 due to their short term to maturity.

(c) STOCK OPTIONS

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

(d) PERFORMANCE BASED AWARDS AND TIME BASED AWARDS

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

(e) DERIVATIVE FINANCIAL INSTRUMENTS

As at September 30, 2015, the Company had the following crude oil, natural gas, foreign exchange and interest rate risk management contracts, with a total mark-to-market asset of $14.2 million, $13.6 million of which is short-term and $0.6 million of which is long-term (December 31, 2014 – asset of $23.3 million).

CRUDE OIL CONTRACTS

Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price
Jan.1/15 – Dec.31/15	Crude Oil	Collar	500 bbls/d	WTI-NYMEX	US$85.00/bbl (floor) US$100.80/bbl (cap)
Jan.1/15 – Dec.31/15	Crude Oil	Fixed	500 bbls/d	WTI-NYMEX	Cdn$99.00/bbl
Jan.1/15 – Dec.31/15	Crude Oil	Fixed	500 bbls/d	WTI-NYMEX	Cdn$99.39/bbl
Jan.1/15 – Dec.31/15	Crude Oil	Fixed	500 bbls/d	WTI-NYMEX	Cdn$100.00/bbl
March 1/15- June 30/16	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	Cdn$72.92/bbl
Jan.1/16- Dec. 31/16	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	Cdn$78.00/bbl
Jan.1/16- Dec. 31/16	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US$62.75/bbl
Jan.1/16- Dec. 31/16	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	Cdn$80.00/bbl

FOREIGN EXCHANGE CONTRACT

	Period	Currency	Type of Contract	Quantity	Pricing Point (Cdn$/US$)
Jan. 1/15 – Dec. 31/15	US$	Average Rate Range Forward	US$1,300,000		Trigger – 1.1300 Cdn$/US$ Floor – 1.100 Cdn$/US$ Ceiling – 1.1110 Cdn$/US$

INTEREST RATE CONTRACT

Term	Amount	Fixed Rate	Index
Feb. 18 /14 – Feb. 18/16	Cdn$10 million	1.44%	CDOR

13 COMMITMENTS

Years Ended December 31,	**2015**	2016	Thereafter	Total
(000s)	*($)*	*($)*	*($)*	*($)*
Operating lease – office	**53**	53	–	106
Total commitments	**53**	53	–	106

As at September 30, 2015, the Company had contractual obligations for its office leases totaling approximately $0.1 million to March 2016. The head office lease obligations are comprised of the lease payments and an estimate of occupancy costs of the Company's head office space.