INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF GRANITE OIL CORP.

We have audited the accompanying financial statements of Granite Oil Corp., which comprise the statements of financial position as at December 31, 2015 and December 31, 2014, the statements of operations and comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Granite Oil Corp. as at December 31, 2015 and December 31, 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

March 21, 2016
Calgary, Canada

STATEMENTS OF FINANCIAL POSITION

As at	**December 31, 2015**	December 31, 2014
(000s)	*($)*	*($)*
ASSETS		
Current assets		
Accounts receivable (note 16)	**10,927**	29,524
Deposits and prepaid expenses	**753**	682
Derivative financial instruments (note 16)	**7,615**	23,270
	19,295	53,476
Non-current assets		
Exploration and evaluation assets (note 5)	**37,463**	62,784
Property and equipment (note 6)	**241,940**	626,942
Total assets	**298,698**	743,202
LIABILITIES		
Current liabilities		
Bank debt (note 7)	**37,012**	–
Accounts payable and accrued liabilities (note 16)	**13,218**	62,319
Dividend payable	**1,062**	–
	51,292	62,319
Non-current liabilities		
Bank debt (note 7)	**–**	139,234
Decommissioning liabilities (note 8)	**13,349**	34,165
Flow-through share premium liabilities (note 9)	**–**	95
Deferred tax liability (note 11)	**22,764**	43,880
Total liabilities	**87,405**	279,693
SHAREHOLDERS' EQUITY		
Share capital (note 9)	**388,949**	381,540
Contributed surplus	**14,479**	12,591
Retained earnings (deficit)	**(192,135)**	69,378
Total shareholders' equity	**211,293**	463,509
Total liabilities and shareholders' equity	**298,698**	743,202

Commitments (note 17)
Subsequent Events (note 16)

See accompanying notes to the financial statements.

On behalf of the Board of Directors,

Mike Kabanuk
President & Chief Executive Officer

Dennis Nerland
Director

STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

Years Ended December 31,	**2015**	2014
(000s, except per share amounts)	*($)*	*($)*
REVENUE		
Oil and natural gas revenues	**108,442**	303,348
Royalties	**(27,411)**	(68,613)
Oil and natural gas revenues, net of royalties	**81,031**	234,735
EXPENSES		
Operating and transportation	**22,825**	48,048
General and administrative	**4,822**	8,311
Transaction Costs – general and administration (note 4)	**3,831**	–
Depletion and depreciation (note 6)	**44,804**	80,799
Share-based compensation (note 10)	**2,379**	2,902
Transaction Costs – share-based compensation (note 4)	**4,027**	–
Exploration and evaluation expense (note 5)	**4,191**	9,318
Loss (gain) on disposition (note 4)	**(151,996)**	90
	(65,117)	149,468
Unrealized loss (gain) on financial instruments	**15,555**	(25,494)
Realized loss (gain) on financial instruments	**(26,831)**	426
Accretion and finance expenses (note 14)	**4,021**	5,771
	(72,372)	130,171
Income before income tax	**153,403**	104,564
TAXES		
Deferred income tax expense (note 11)	**3,187**	28,331
Net income and comprehensive income for the period	**150,216**	76,233
Net income per share (note 9)		
Basic	**4.99**	2.66
Diluted	**4.92**	2.58

See accompanying notes to the financial statements.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	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	–	7,831	–	7,831
Exercise of options	7,409	(5,943)	–	1,466
Distribution of non-cash assets (note 4)	–	–	(404,825)	(404,825)
Dividends	–	–	(6,904)	(6,904)
Net income	–	–	150,216	150,216
Balance – December 31, 2015	**388,949**	**14,479**	**(192,135)**	**211,293**
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	(4,048)	–	–	(4,048)
Tax benefit of share issuance costs	1,010	–	–	1,010
Share-based compensation	–	5,040	–	5,040
Exercise of options	3,479	(1,051)	–	2,428
Net income	–	–	76,233	76,233
Balance – December 31, 2014	381,540	12,591	69,378	463,509

See accompanying notes to the financial statements.

STATEMENTS OF CASH FLOWS

Years Ended December 31,	**2015**	2014
(000s)	*($)*	*($)*
Cash flow from (used in):		
Operating activities		
Net income for the period	**150,216**	76,233
Adjustments for:		
Depletion and depreciation expense (note 6)	**44,804**	80,799
Deferred income tax expense (note 11)	**3,187**	28,331
Share-based compensation (note 10)	**2,434**	3,069
Transaction costs – share-based compensation (note 4)	**4,027**	–
Accretion (note 8)	**471**	850
Unrealized loss (gain) on financial instruments (note 16)	**15,555**	(25,494)
Exploration and evaluation expense (note 5)	**4,191**	9,318
Abandonment and reclamation costs (note 8)	**(216)**	(17)
Loss (gain) on disposition (note 4)	**(151,996)**	90
	72,673	173,179
Change in non-cash working capital (note 12)	**(11,356)**	11,060
	61,317	184,239
Financing activities		
Change in bank debt	**(102,222)**	50,830
Assumption of debt from Boulder transaction (note 4)	**130,000**	–
Dividends	**(6,904)**	–
Issuance of share capital	**1,466**	75,858
Share issuance costs	**–**	(4,048)
Change in non-cash working capital (note 12)	**1,062**	–
	23,402	122,640
Investing activities		
Property and equipment expenditures	**(59,192)**	(254,057)
Exploration and evaluation expenditures	**(5,687)**	(19,893)
Property acquisitions (note 4)	**–**	(22,599)
Changes in non-cash working capital (note 12)	**(20,454)**	(10,330)
	(85,333)	(306,879)
Foreign exchange gain on cash and cash equivalents held in foreign currency	**614**	–
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 financial statements.

NOTES TO THE FINANCIAL STATEMENTS

As at and for the years ended December 31, 2015 and 2014

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 at 423, 222 Third Avenue S.W., Calgary, Alberta.

02 BASIS OF PRESENTATION

(a) Statement of Compliance

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

The financial statements were authorized for issuance by the Board of Directors on March 21, 2016.

(b) Basis of Measurement

The financial statements of Granite were prepared on the historical cost basis, except for derivative financial instruments, which are measured at fair value. The methods used to measure fair values are discussed in note 15.

(c) Functional and Presentation Currency

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

(d) Use of Estimates and Judgements

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

i) Key Sources of Estimation Uncertainty

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

ACQUISITIONS

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

VALUATION OF PROPERTY AND EQUIPMENT

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

- Oil and natural gas development and production assets are depleted on a unit-of-production basis at a rate calculated by reference to proved and probable reserves determined in accordance with NI 51-101 and incorporate the estimated future cost of developing and extracting those reserves. Proved and probable reserves are estimated using independent reserve engineers' reports and represent the estimated quantities of oil, natural gas and NGLs that geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. Proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable, it being 90 percent likely that the actual remaining quantities recovered will exceed the estimated proved reserves. Probable reserves are those additional reserves that are less certain to be recovered than proved reserves, it being equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves. The volume of estimated reserves is also a key determinant in assessing whether the carrying value of any of the Company's development and production assets has been impaired.
- The recoverable amounts of cash-generating units (CGUs) and individual assets have been determined based on the higher of the present value of value-in-use calculations and discounted fair values less costs to sell. These calculations require the use of estimates and assumptions, including the discount rate. It is reasonably possible that the commodity price assumptions may change, which may then impact the estimated life of the field and economically recoverable reserves, and may then require a material adjustment to the carrying value of property and equipment. The Company monitors internal and external indicators of impairment relating to its fixed assets.

PROVISIONS FOR DECOMMISSIONING COSTS

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

MEASUREMENT OF SHARE-BASED COMPENSATION

The Company's estimate of share-based compensation depends on estimates of historical volatility, dividend yield, expected term and forfeiture rates.

VALUATION AND UTILIZATION OF TAX LOSSES

The deferred tax liability is based on estimates as to the timing of the reversal of temporary differences, substantively enacted tax rates and the likelihood of assets being realized.

VALUATION OF DERIVATIVE FINANCIAL INSTRUMENTS

The Company's estimate of the fair value of derivative financial instruments depends on estimated forward prices and volatility in those prices.

ii) Judgements

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

IMPAIRMENT

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

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

EXPLORATION AND EVALUATION ASSETS

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

03 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below were applied consistently to all periods presented in these financial statements. Certain comparative amounts were reclassified to conform with the current period's presentation.

(a) Property and Equipment

CAPITALIZATION

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

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

DEPLETION AND DEPRECIATION

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

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

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

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

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

IMPAIRMENT

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

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

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

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

CAPITALIZATION

Pre-licence costs are recognized in the statement of operations as incurred.

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

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

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

IMPAIRMENT

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

(c) Business Combinations

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

(d) Leased Assets

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

(e) Joint Interest Activities

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

(f) Revenue Recognition

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

(g) Decommissioning Liabilities

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

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

(h) Income Taxes

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

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

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

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

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

(i) Flow-Through Shares

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

(j) Cash and Cash Equivalents

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

(k) Share-Based Compensation

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

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

Share incentives include both time-based (“TBA“) and performance-based (“PBA“) share incentives. 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 December 31, 2015. Fluctuations in share based compensation expense may occur due to changes in estimates of performance outcomes.

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

(l) Financial Instruments

i) Non-Derivative Financial Instruments

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

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised of cash on hand, term deposits held with banks and other short-term, highly liquid investments with maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management, whereby Company management has the ability and intent to net bank overdrafts against cash, are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

OTHER

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

ii) Derivative Financial Instruments

The Company may enter into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices. These instruments are not used for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges and, therefore, has not applied hedge accounting, even though the Company considers all commodity contracts to be economic hedges. As a result, all financial derivative contracts are classified as fair value through profit or loss and are recorded on the statement of financial position at fair value. Transaction costs are recognized in profit or loss when incurred. As at December 31, 2015, the Company has commodity and foreign exchange financial derivative contracts.

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

(m) Share Capital

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

(n) Per Share Amounts

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

(o) Future Accounting Policy Changes

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

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

04 PLAN OF ARRANGEMENT & OTHER ACQUISITIONS

On April 7, 2015, DeeThree Exploration Ltd. ("DeeThree") and Boulder Energy Ltd. ("Boulder") 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.

	Year ended December 31, 2015
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	252,829
Gain on disposition of assets	(151,996)
Assets and liabilities transferred to Boulder:	
Assumption of debt by Boulder	130,000
Property and equipment	(403,802)
Exploration and evaluation assets	(26,988)
Decommissioning liabilities	24,284
Derivative financial instruments	512
Deferred income taxes	24,400
Working capital	(1,235)
Carrying value of Boulder net assets given up	252,829

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 $152.0 million difference between Boulder's fair value of $404.8 million and carrying value of $252.8 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".

During the year ended December 31, 2014, the Company completed several minor transactions to acquire interests in producing oil and natural gas assets principally located in the Brazeau area of Alberta for total consideration of $22.6 million. Had the acquisitions closed on January 1, 2014, the Company estimates that its pro forma revenue and net income for the period would not have been significantly affected.

	Year ended December 31, 2014
($000s)	
Net assets acquired	
Petroleum and natural gas assets	**17,268**
E&E assets	**6,746**
Decommissioning liabilities	**(1,415)**
	22,599
Consideration	
Total cash consideration	**22,599**

05 EXPLORATION AND EVALUATION ASSETS

Years Ended December 31,	**2015**	2014
($000s)		
Balance – January 1	**62,784**	45,611
Additions	**6,600**	23,454
Acquisitions through business combinations	**–**	6,746
Disposition to Boulder (note 4)	**(26,988)**	–
Transfers to property and equipment	**(742)**	(3,709)
E&E expenses	**(2,891)**	(8,570)
Lease expiries	**(1,300)**	(748)
Balance – December 31	**37,463**	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 year and acquisitions represent E&E assets included in business combinations during the year.

During the year ended December 31, 2015, the Company incurred $2.9 million related to the drilling of two unsuccessful vertical stratigraphic test wells in the Alberta Bakken area (year ended December 31, 2014 - $8.6 million on three vertical stratigraphic test wells in the Alberta Bakken and one well in the Peace River Arch area that was determined to be unsuccessful) and $1.3 million related to lease expiries on undeveloped land (December 31, 2014 – $0.7 million).

During the year ended December 31, 2015, approximately $0.1 million of directly attributable general and administrative expense and $0.2 million of directly attributable share-based compensation expense were capitalized as expenditures on exploration and evaluation assets (December 31, 2014 – $0.6 million and $0.5 million, respectively).

06 PROPERTY AND EQUIPMENT

($000s)	Oil and Natural Gas Properties	Office Equipment	Total
Cost or deemed cost			
Balance – January 1, 2014	545,805	418	546,223
Additions	257,943	56	257,999
Acquisitions (note 4)	17,268	–	17,268
Transfers from E&E assets	3,709	–	3,709
Balance – December 31, 2014	**824,725**	**474**	**825,199**
Additions	**62,813**	**49**	**62,862**
Dispositions to Boulder (note 4)	**(584,791)**	**–**	**(584,791)**
Transfers from E&E assets	**742**	**–**	**742**
Balance – December 31, 2015	**303,489**	**523**	**304,012**
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 year	**44,743**	**61**	**44,804**
Dispositions to Boulder (note 4)	**(180,989)**	**–**	**(180,989)**
Balance – December 31, 2015	**61,789**	**283**	**62,072**
Net book value			
December 31, 2014	626,690	252	626,942
December 31, 2015	**241,700**	**240**	**241,940**

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

During the year ended December 31, 2015, approximately $1.0 million of directly attributable general and administrative expense and $1.2 million of directly attributable share-based compensation expense were capitalized as expenditures on property and equipment (December 31, 2014 – $1.7 million and $1.5 million, respectively).

(b) Amortization and Impairment Charges

At December 31, 2015, due to continued declines in commodity prices, the Company identified impairment indicators and performed an impairment test on its only CGU. The recoverable amount was estimated using a value in use 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 for the year ended December 31, 2015 no impairment was recorded.

The impairment test carried out at December 31, 2015 used the following commodity price estimates:

	WTI Cushing, Oklahoma 40º API Oil	Canadian Light Sweet Crude 40º API Oil	Alberta AECO-C Spot Gas	Foreign Exchange Rate
	(US$/bbl)	*(Cdn$/bbl)*	*(Cdn$/mmbtu)*	*(US$/Cdn$)*
2016	45.00	55.20	2.25	0.750
2017	60.00	69.00	2.95	0.800
2018	70.00	78.43	3.42	0.830
2019	80.00	89.41	3.91	0.850
2020	81.20	91.71	4.20	0.850
2021	82.42	93.08	4.28	0.850
2022	83.65	94.48	4.35	0.850
2023	84.91	95.90	4.43	0.850
2024	86.18	97.34	4.51	0.850
2025	87.48	98.80	4.59	0.850
2026	88.79	100.28	4.67	0.850
Annual escalation thereafter	1.5%	1.5%	1.5%	1.5%

(c) Future Development Costs and Salvage Value

At December 31, 2015, an estimated $73.4 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 $10.0 million of salvage value of production equipment was excluded (December 31, 2014 – $388.1 million and $21.7 million, respectively).

07 BANK DEBT

At December 31, 2015, the Company had a revolving demand credit facility (the "Credit Facility") with an authorized borrowing base of $80 million, including a $60 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 prior credit facility which was fully repaid and settled.

The 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 December 31, 2015, the Company was in compliance with the current ratio requirement.

At December 31, 2015, $37.0 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 at least semi-annually with the next review scheduled for April 2016. 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 $13.3 million as at December 31, 2015 (December 31, 2014 – $34.2 million) based on an undiscounted total future liability of $17.6 million (December 31, 2014 – $47.1 million). These payments are expected to be incurred over a period of two to 20 years with the majority of costs to be incurred between 2017 and 2026. At December 31, 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 in revisions are related to changes in the risk-free rate used in the calculation.

Years Ended December 31,	**2015**	2014
($000s)		
Balance – January 1	**34,165**	26,291
Liabilities incurred	**1,272**	2,722
Liabilities acquired	**–**	1,415
Liabilities disposed to Boulder (note 4)	**(24,284)**	
Revisions	**1,941**	2,904
Settlements	**(216)**	(17)
Accretion of decommissioning liabilities	**471**	850
Balance – December 31	**13,349**	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

Years Ended December 31,	**2015**		2014	
	Shares	Amount	Shares	Amount
	(#)	*($000s)*	*(#)*	*($000s)*
Balance – January 1	**29,655,187**	**381,540**	27,184,053	309,323
Common shares issued (ii)	**–**	**–**	1,904,543	63,428
Flow-through shares issued (iii)	**–**	**–**	250,642	10,002
Premium on flow-through shares (iii)	**–**	**–**	–	(1,654)
Exercise of options (iv)	**699,837**	**7,409**	315,949	3,479
Share issuance costs	**–**	**–**	–	(4,048)
Tax benefit of share issuance costs	**–**	**–**	–	1,010
Balance – December 31	**30,355,024**	**388,949**	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 December 31, 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 year ended December 31, 2015 the Company issued 686,506 common shares in Granite as a result of 3,631,260 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. In addition to the DeeThree options exercised, 13,331 Granite options were exercised during the year ended December 31, 2015, for total cash proceeds of $0.06 million and previously recognized share-based compensation expense of $0.01 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:

Years Ended December 31,	**2015**	2014
(000s, except per share amounts)	*($)*	*($)*
Net income for the period	**150,216**	76,233
Weighted-average number of common shares	*(#)*	*(#)*
– basic	**30,100**	28,693
– diluted	**30,557**	29,585
Net income per weighted average common share	*($)*	*($)*
– basic	**4.99**	2.66
– diluted	**4.92**	2.58

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 six 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 DeeThree 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:

	Year Ended December 31, 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)**	**9.05**	–	–
Exercised on a cashless basis	**(3,166,159)**	**3.50**	–	–
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 in connection with 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. Replacement options were issued 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:

	Year Ended December 31, 2015		Year Ended December 31, 2014	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
	(#)	*($)*	*(#)*	*($)*
Outstanding – January 1	**–**	**–**	–	–
Issued	**207,817**	**3.96**	–	–
Exercised	**(13,331)**	**4.05**	–	–
Outstanding – end of period	**194,486**	**3.96**	–	–
Exercisable – end of period	**82,646**	**3.13**	–	–

Exercise Price	Weighted-Average Contractual Outstanding	Options Life	Weighted-Average Exercisable
($)	*(#)*	*(years)*	*(#)*
As at December 31, 2015			
2.00 – 4.99	**176,489**	**0.97**	**81,646**
5.00 – 6.80	**17,997**	**1.81**	**1,000**
	194,486	**1.05**	**82,646**

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:

	Year Ended December 31, 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 year ended December 31, 2015 was used when recording share-based compensation expense. This estimate is periodically adjusted to the actual forfeiture rate. Gross share-based compensation for the options was $1.7 million for the year ended December 31, 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 year (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 and time based awards. Both the TBAs and the PBAs vest one third on each of the first, second and third anniversaries of the grant date. The PBAs granted are subject to a performance multiplier ranging from 0 to 2. The payout multiplier is dependent on the performance of Granite at the end of the vesting period relative to corporate performance measures determined at the discretion of Granite's Board of Directors. The number of common shares issued for each PBA and TBA granted is adjusted for the payments of dividends from the date of the grant to the payment date. On the payment date, Granite has sole and absolute discretion to settle the awards in the form of either cash or common shares, or some combination thereof.

The number of PBAs is as follows:

	Year Ended December 31, 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 December 31, 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 year ended December 31, 2015:

	Year Ended December 31, 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 $1.8 million for the year ended December 31, 2015 (year ended December 31, 2014 - $nil). Of this amount, $0.6 million was capitalized (year ended December 31, 2014 – $nil), resulting in total net share-based compensation expense related to PBAs of $1.2 million for the year (year ended December 31, 2014 - $nil).

The number of TBAs is as follows:

	Year Ended December 31, 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 year ended December 31, 2015:

	Year Ended December 31, 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 $0.2 million for the year ended December 31, 2015 (year ended December 31, 2014 - $nil). Of this amount, $0.1 million was capitalized (year ended December 31, 2014 – $nil), resulting in total net share-based compensation expense related to TBAs of $0.1 million for the year (year ended December 31, 2014 - $nil).

11 INCOME TAXES

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

Years Ended December 31,	2015	2014
($000s except percentages)		
Income before income tax	**153,403**	104,564
Tax rate	**26%**	25%
Computed income tax expense provision	**39,885**	26,141
Increase (decrease) in income taxes resulting from:		
Share-based compensation	**1,733**	841
Gain on disposition (note 4)	**(39,519)**	–
Flow-through shares	**156**	3,608
Non-deductible expenses	**5**	9
Other	**1,022**	(10)
Subtotal	**3,282**	30,589
Flow-through share premium	**(95)**	(2,258)
Income tax expense	**3,187**	28,331

In 2015 the blended statutory tax rate was 26% (2014 - 25%). The change from 2014 was due to an increase in the Alberta provincial rate from 10% to 12% effective July 1, 2015. The change in rate resulted in an increase to the deferred income tax liability of $1,625.

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

Company's net deferred income tax assets and liabilities are as follows:

Years Ended December 31,	**2015**	2014
($000s)		
Deferred income tax assets (liabilities)		
Non-capital losses carried forward	**7,455**	6,865
Share issuance costs	**1,545**	2,428
Derivative financial instruments	**(2,056)**	(5,818)
Decommissioning liabilities	**3,604**	8,542
Net book value of property and equipment in excess of tax basis	**(33,312)**	(55,897)
Deferred income tax liabilities	**(22,764)**	(43,880)

	Balance January 1, 2015	Plan of Arrangement	Recognized Directly in Equity and Other	Recognized in Profit or Loss	Balance, December 31, 2015
($000s)					
E&E, and property and equipment	**(55,897)**	**30,638**	**(96)**	**(7,956)**	**(33,312)**
Derivative financial instruments	**(5,818)**	**(128)**	**–**	**3,889**	**(2,056)**
Decommissioning liabilities	**8,542**	**(6,110)**	**–**	**1,173**	**3,604**
Share issuance costs	**2,428**	**–**	**–**	**(884)**	**1,544**
Non-capital losses carried forward	**6,865**	**–**	**–**	**591**	**7,456**
	(43,880)	**24,400**	**(96)**	**(3,187)**	**(22,764)**

	Balance January 1, 2014	Plan of Arrangement	Recognized Directly in Equity and Other	Recognized in Profit or Loss	Balance, December 31, 2014
($000s)					
E&E, and property and equipment	(30,072)	–	(2,254)	(23,571)	(55,897)
Derivative financial instruments	555	–	–	(6,373)	(5,818)
Decommissioning liabilities	6,574	–	–	1,968	8,542
Share issuance costs	3,438	–	1,010	(2,020)	2,428
Non-capital losses carried forward	5,200	–	–	1,665	6,865
	(14,305)	–	(1,244)	(28,331)	(43,880)

The Company has $27.6 million of non-capital losses that begin to expire in 2029.

12 SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital are comprised of:

Years Ended December 31,	**2015**	2014
($000s)		
Accounts receivable	**19,573**	(7,216)
Deposits and prepaid expenses	**(71)**	(86)
Accounts payable and accrued liabilities	**(50,250)**	8,032
	(30,748)	730
Related to operating activities	**(11,356)**	11,060
Related to financing activities	**1,062**	–
Related to investing activities	**(20,454)**	(10,330)
	(30,748)	730

13 SUPPLEMENTAL DISCLOSURE

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

Compensation of key management personnel is comprised of the following:

Years Ended December 31,	**2015**	2014
($000s)		
Salaries and wages (including bonuses)	**1,363**	2,422
Benefits and other personnel costs	**102**	167
Share-based compensation (1)	**1,856**	1,761
	3,156	4,350

(1) Represents the amortization of share-based compensation associated with options and share incentives granted to executive officers and directors as recorded in the financial statements.

14 FINANCE EXPENSES

Years Ended December 31,	**2015**	2014
($000s)		
Finance expenses:		
Interest on bank debt	**3,137**	4,275
Standby and other fees related to credit facility	**410**	636
Part XII.6 tax related to flow-through shares	**3**	10
Accretion expense	**471**	850
Finance expenses recognized in net income	**4,021**	5,771

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

(a) Property and Equipment and E&E Assets

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

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

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

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

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.

16 FINANCIAL RISK MANAGEMENT

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

(a) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's accounts receivable from joint venture partners and oil and natural gas marketers. This amount was $10.9 million at December 31, 2015 (December 31, 2014 – $29.5 million).

The Company's accounts receivable are with customers and joint venture partners in the oil and natural gas business and are subject to normal credit risks. Concentration of credit risk is mitigated by marketing substantially all of the Company's production to large purchasers under normal industry sale and payment terms. The industry has a pre-arranged monthly settlement day for payment of revenues from all buyers of natural gas and crude oil. This occurs on the 25th day following the month in which the production is sold. Granite mitigates associated credit risk by limiting transactions to credit-worthy counterparties. For the year ended December 31, 2015, the Company recorded $0.2 million in bad debt expense (December 31, 2014 - $0.5 million). The exposure to credit risk at the reporting date by type was:

As at December 31,	**2015**	2014
($000s)		
Oil and natural gas marketing companies	**4,561**	18,100
Joint venture partners	**2,213**	6,082
Other	**4,153**	5,342
Total trade and other receivables	**10,927**	29,524

As at December 31, 2015 and 2014, the Company's trade and other receivables are aged as follows:

As at December 31,	**2015**	2014
($000s)		
Current (less than 90 days)	**7,542**	26,788
Past due (more than 90 days)	**3,385**	2,736
Total	**10,927**	29,524

(b) Liquidity Risk

Liquidity risk is the risk of having difficulty meeting obligations associated with financial liabilities. The financial liabilities on the statement of financial position consist of accounts payable and accrued liabilities, and bank debt. Accounts payable and accrued liabilities consist of invoices payable to trade suppliers relating to office and field operating activities and the Company's capital spending program. Granite processes invoices within a normal payment period. As described in note 7, bank debt consists of the Credit Facility with an authorized borrowing base of $80 million, including a $60 million extendible revolving facility and a $20 million operating facility. The Company manages its liquidity through continuously monitoring cash flows from operating activities, review of actual capital expenditures against budget, managing maturity profiles of financial assets and financial liabilities and managing its commodity price risk management program. These activities ensure that the Company has sufficient funds to meets its financial obligations when due. The Company had no defaults or breaches on its bank debt or any of its financial liabilities as at or for the year ended December 31, 2015.

The following table details the Company's financial liabilities as at December 31, 2015:

As at December 31, 2015	Total	Within 1 Year	Over 1 Year
($000s)			
Non-derivative financial liabilities:			
Bank debt	**37,012**	**37,012**	–
Accounts payable and accrued liabilities	**13,218**	**13,218**	–
Dividend payable	**1,062**	**1,062**	–
Total financial liabilities	**51,292**	**51,292**	–

(c) Market Risk

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

COMMODITY PRICE RISK

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

As at December 31, 2015, the Company had the following crude oil and interest rate risk management contracts, with a total mark-to-market asset of $7.6 million (December 31, 2014 – $23.3 million):

CRUDE OIL CONTRACTS

Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price	Fair Value (000s)
March 1/15 – June 30/16	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	Cdn$72.92/bbl	Cdn 1,000
Jan. 1/16 – Dec 31/16	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	Cdn$78.00/bbl	Cdn 1,885
Jan. 1/16 – Dec. 31/16	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US$62.75/bbl	US 1,940
Jan. 1/16 – Dec. 31/16	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	Cdn$80.00/bbl	Cdn 2,066

INTEREST RATE CONTRACT

Term	Amount	Fixed Rate	Index	Fair Value (000s)
Feb. 18 /14 – Feb. 18/16	Cdn$10 million	1.44%	CDOR	Cdn (9)

Subsequent to December 31, 2015, Granite entered into the following crude oil risk management contracts:

CRUDE OIL CONTRACTS

Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price
Feb. 1/16 – June 30/16	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US $32.00/bbl
Feb. 1/16 – Dec. 31/16	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US $32.02/bbl
July 1/16 – Dec. 31/16	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US $40.00/bbl
July 1/16 – June 30/17	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US $41.00/bbl

(d) Capital Management

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

The following summarizes the Company's capital structure:

As at December 31,	**2015**	2014
($000s)		
Bank debt	**37,012**	139,234
Shareholders' equity	**211,293**	463,509

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

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

There were no changes in the Company's approach to capital management during the year ended December 31, 2015.

17 COMMITMENTS

Years Ended December 31,	2016	2017	2018	Total
($000s)				
Operating lease – office	214	129	-	343
Total commitments	214	129	-	343

As at December 31, 2015, the Company had contractual obligations for its office leases totaling approximately $0.3 million to July 2017. The office lease obligations are comprised of the lease payments and an estimate of occupancy costs of the Company's head office space.