

STATEMENTS OF FINANCIAL POSITION

(Unaudited)

As at	September 30,	December 31,
	2016	2015
(000s)	(\$)	(\$)
ASSETS		
Current assets		
Accounts receivable	5,864	10,927
Deposits and prepaid expenses	466	753
Derivative financial instruments (note 12)	—	7,615
	6,330	19,295
Non-current assets		
Exploration and evaluation assets (note 5)	37,635	37,463
Property and equipment (note 6)	246,629	241,940
Total assets	290,594	298,698
LIABILITIES		
Current liabilities		
Bank debt (note 7)	25,324	37,012
Accounts payable and accrued liabilities	9,153	13,218
Dividend payable	1,176	1,062
Derivative financial instruments (note 12)	370	—
	36,023	51,292
Non-current liabilities		
Decommissioning liabilities (note 8)	14,373	13,349
Flow-through share premium liability (note 9)	578	—
Derivative financial instruments (note 12)	32	—
Deferred tax liability	21,390	22,764
Total liabilities	72,396	87,405
SHAREHOLDERS' EQUITY		
Share capital (note 9)	410,792	388,949
Contributed surplus	15,788	14,479
Deficit	(208,382)	(192,135)
Total shareholders' equity	218,198	211,293
Total liabilities and shareholders' equity	290,594	298,698

See accompanying notes to the condensed interim financial statements.

STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
(000s, except per share amounts)	(\$)	(\$)	(\$)	(\$)
REVENUE				
Oil and natural gas revenues	11,582	15,195	31,436	95,261
Royalties	(2,788)	(4,620)	(8,126)	(23,817)
Oil and natural gas revenues, net of royalties	8,794	10,575	23,310	71,444
Unrealized gain (loss) on financial instruments	435	4,437	(8,038)	(9,468)
Realized gain on financial instruments	829	7,516	4,685	19,178
	10,058	22,528	19,957	81,154
EXPENSES				
Operating and transportation	2,364	2,325	6,502	20,355
General and administrative	828	636	2,380	3,964
Depletion and depreciation (note 6)	4,034	6,369	13,103	39,295
Share-based compensation (note 10)	572	650	3,047	1,742
Exploration and evaluation expense (note 5)	139	1,078	910	1,422
Accretion and finance expenses	443	393	1,301	3,412
Transaction costs – general and administrative (note 4)	–	141	–	3,802
Transaction costs – share-based compensation (note 4)	–	–	–	4,027
Loss (gain) on disposition to Boulder (note 4)	–	1,841	–	(152,193)
	8,380	13,433	27,243	(74,174)
Income (loss) before income tax	1,678	9,095	(7,286)	155,328
TAXES				
Deferred income tax expense (recovery)	626	2,664	(1,070)	3,501
Net income (loss) and comprehensive income (loss) for the period	1,052	6,431	(6,216)	151,827
Net income (loss) per share (note 9)				
Basic	0.03	0.21	(0.19)	5.10
Diluted	0.03	0.21	(0.19)	5.05

See accompanying notes to the condensed interim financial statements.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

	Share Capital	Contributed Surplus	Retained Earnings (Deficit)	Total Equity
(000s)	(\$)	(\$)	(\$)	(\$)
Balance – January 1, 2016	388,949	14,479	(192,135)	211,293
Share-based compensation (note 10)	–	4,823	–	4,823
Common shares issued, net of share issue costs	15,384	–	–	15,384
Flow-through shares issued	3,003	–	–	3,003
Premium on flow-through shares	(578)	–	–	(578)
Tax benefit of share issuance costs	302	–	–	302
Issued on vesting of share incentives	3,478	(3,478)	–	–
Exercise of options	254	(36)	–	218
Dividends	–	–	(10,031)	(10,031)
Net loss	–	–	(6,216)	(6,216)
Balance – September 30, 2016	410,792	15,788	(208,382)	218,198
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

See accompanying notes to the condensed interim financial statements.

STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
(000s)	(\$)	(\$)	(\$)	(\$)
Cash flow from (used in):				
Operating activities				
Net income (loss) for the period	1,052	6,431	(6,216)	151,827
Adjustments for:				
Depletion and depreciation expense (note 6)	4,034	6,369	13,103	39,295
Deferred income tax expense (recovery)	626	2,664	(1,070)	3,501
Share-based compensation (note 10)	572	650	3,047	1,797
Transaction costs – share-based compensation (note 4)	–	–	–	4,027
Accretion (note 8)	73	73	221	400
Unrealized loss (gain) on financial instruments (note 12)	(435)	(4,437)	8,038	9,468
Exploration and evaluation expense (note 5)	139	1,078	910	1,422
Loss (gain) on disposition of Boulder (note 4)	–	1,841	–	(152,193)
Abandonment and reclamation costs	–	(159)	–	(220)
	6,061	14,510	18,033	59,324
Change in non-cash working capital (note 11)	2,758	(13,260)	2,072	(17,941)
	8,819	1,250	20,105	41,383
Financing activities				
Change in bank debt	1,125	16,526	(11,688)	(94,518)
Assumption of debt from Boulder transaction (note 4)	–	–	–	130,000
Dividends	(3,529)	(2,883)	(10,031)	(3,793)
Issuance of share capital	79	–	19,724	1,412
Share issuance costs	–	–	(1,119)	–
Change in non-cash working capital (note 11)	1	76	114	986
	(2,324)	13,719	(3,000)	34,087
Investing activities				
Property and equipment expenditures	(6,024)	(6,553)	(15,491)	(53,357)
Exploration and evaluation expenditures	(220)	(678)	(806)	(2,890)
Changes in non-cash working capital (note 11)	(258)	(7,880)	(787)	(19,365)
	(6,502)	(15,111)	(17,084)	(75,612)
Foreign exchange gain on cash and cash equivalents held in foreign	7	142	(21)	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 condensed interim financial statements.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

As at and for the three and nine month periods ended September 30, 2016
(Unaudited)

1 REPORTING ENTITY

Granite Oil Corp. ("Granite" or the "Company") is a publicly traded company incorporated under the laws of Alberta. The Company is a dividend-paying, junior oil producer based in Calgary, Alberta that is principally engaged in the exploration for and exploitation, development and production of oil and natural gas, and conducts some of its activities jointly with others. These financial statements reflect only the Company's interests in such activities. Granite is registered and domiciled in Canada. Its main office is at 432, 222 Third Avenue S.W., Calgary, Alberta, T2P 0B4.

2 BASIS OF PRESENTATION

(a) Statement of Compliance

These condensed interim financial statements for the three and nine months ended September 30, 2016 were prepared in accordance with International Financial Reporting Standard 34 "Interim Financial Reporting" as issued by the International Accounting Standards Board (IASB).

The condensed interim financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2015.

These financial statements were authorized for issuance by the Board of Directors on November 9, 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 12.

(c) Use of Estimates and Judgements

Significant estimates and judgements made by management in the preparation of these condensed interim financial statements remain unchanged and are outlined in Note 2 of the December 31, 2015 audited annual financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Current Accounting Policies

The Company's accounting policies are described in Note 3 of the December 31, 2015 audited annual financial statements. Those accounting policies have been applied consistently to all periods presented in these condensed 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 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.

4 PLAN OF ARRANGEMENT

On April 7, 2015, DeeThree Exploration Ltd. (“DeeThree”), as the Company was then called, and Boulder Energy Ltd. (“Boulder”) entered into a Plan of Arrangement (the “POA”) whereby DeeThree transferred its oil and natural gas properties located in the Brazeau Belly River and Peace River Arch areas of Northern Alberta, Canada (collectively “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 assets and reflects adjustments to the carrying value of Boulder net assets given up recorded subsequent to June 30, 2015.

The Company incurred \$3.8 million in cash transaction costs related to the POA during the nine months ended September 30, 2015, 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 for the nine months ended September 30, 2015, was immediately recognized and expensed in the statement of operations and comprehensive income as “transaction costs – share-based compensation”.

5 EXPLORATION AND EVALUATION ASSETS

	Nine Months Ended September 30, 2016	Year Ended December 31, 2015
(\$000s)		
Balance – beginning of period	37,463	62,784
Additions	1,119	6,600
Disposition to Boulder (note 4)	–	(26,988)
Transfers to property and equipment	(37)	(742)
E&E expenses	(199)	(2,891)
Lease expiries	(711)	(1,300)
Balance – end of period	37,635	37,463

During the nine month period ended September 30, 2016, the Company expensed \$0.2 million of preliminary drilling costs incurred related to the preparation of contingent locations (year ended December 31, 2015 - \$2.9 million on two vertical stratigraphic test wells in the Alberta Bakken) and \$0.7 million related to lease expiries on undeveloped land (year ended December 31, 2015 – \$1.3 million).

During the nine month period ended September 30, 2016, approximately \$0.09 million of directly attributable general and administrative expense and \$0.3 million of directly attributable share-based compensation expense were capitalized as expenditures on exploration and evaluation assets (year ended December 31, 2015 – \$0.1 million and \$0.2 million, respectively).

6 PROPERTY AND EQUIPMENT

	Oil and Natural Gas Properties	Office Equipment	Total
(\$000s)			
Cost			
Balance – January 1, 2015	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
Additions	17,746	9	17,755
Transfers from exploration and evaluation assets	37	–	37
Balance – September 30, 2016	321,272	532	321,804
Accumulated depletion and depreciation			
Balance – January 1, 2015	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
Depletion and depreciation for the period	13,059	44	13,103
Balance – September 30, 2016	74,848	327	75,175
Net book value			
December 31, 2015	241,700	240	241,940
September 30, 2016	246,424	205	246,629

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

During the period ended September 30, 2016, approximately \$0.4 million of directly attributable general and administrative expense and \$1.5 million of directly attributable share-based compensation expense were capitalized as expenditures on property and equipment (year ended December 31, 2015 – \$1.0 million and \$1.2 million, respectively).

(b) Future Development Costs and Salvage Value

During the nine months ended September 30, 2016, an estimated \$55.2 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, 2015 – \$73.4 million and \$10.0 million, respectively).

7 BANK DEBT

At September 30, 2016 the Company had a revolving demand credit facility (the “Credit Facility”) with an authorized borrowing base of \$60 million, including a \$45 million extendible revolving facility and a \$15 million operating facility (December 31, 2015, an authorized borrowing base of \$80 million, including a \$60 million extendible revolving facility and a \$20 million operating facility). The Credit Facility is considered a current liability due to its demand term.

Interest is charged at a rate per annum equal to the Canadian prime rate during the period plus the applicable margin, being a range of 0.50 percent to 2.50 percent, depending on the Company’s debt to cash flow ratio as determined by its lender.

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 drawn on the Credit Facility). At September 30, 2016, the Company was in compliance with the current ratio requirement.

At September 30, 2016, \$25.3 million was drawn against this facility (December 31, 2015 – \$37.0 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 and is currently underway. A decrease in the borrowing base could result in a reduction to the Credit Facility. Collateral for the Credit 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.

8 DECOMMISSIONING LIABILITIES

The Company has estimated the net present value of decommissioning obligations to be \$14.4 million as at September 30, 2016 (December 31, 2015 – \$13.3 million) based on an undiscounted total future liability of \$18.3 million (December 31, 2015 – \$17.6 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 2018 and 2028. At September 30, 2016, a risk-free rate of 2.00 percent (December 31, 2015 – 2.25 percent) and an inflation rate of 2.00 percent (December 31, 2015 – 2.00 percent) were used to calculate the net present value of the decommissioning liabilities.

	Nine Months Ended September 30, 2016	Year Ended December 31, 2015
(\$000s)		
Balance – beginning of period	13,349	34,165
Liabilities incurred	437	1,272
Revisions	366	1,941
Settlements	—	(216)
Accretion of decommissioning liabilities	221	471
Liabilities disposed to Boulder (note 4)	—	(24,284)
Balance – end of period	14,373	13,349

9 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, 2016		Year Ended December 31, 2015	
	Shares	Amount	Shares	Amount
	(#)	(\$000s)	(#)	(\$000s)
Balance – beginning of period	30,355,024	388,949	29,655,187	381,540
Common shares issued (ii)	2,324,300	16,503	—	—
Exercise of options (iv)	62,064	254	699,837	7,409
Flow-through shares issued (iii)	330,000	3,003	—	—
Premium on flow-through shares (iii)	—	(578)	—	—
Issued on vesting of share incentives	542,196	3,478	—	—
Share issuance costs	—	(1,119)	—	—
Tax benefit of share issuance costs	—	302	—	—
Balance – end of period	33,613,584	410,792	30,355,024	388,949

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 Issuance

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

iii) Flow-through Share Issuance

In May 2016, the Company issued 330,000 flow-through shares for total gross proceeds of \$3.0 million. The implied premium on the flow-through shares of \$1.75 per share or \$0.6 million was recorded as a liability on the statement of financial position and remains at September 30, 2016. To date, the Company has incurred \$nil of the total \$3.0 million qualifying expenditures, with the entire amount to be incurred by December 31, 2017.

iv) Exercising of Options

During the nine months ended September 30, 2016, 62,064 options were exercised at a weighted-average price of \$3.52 per share for total cash proceeds of \$0.2 million and previously recognized share-based compensation expense of \$0.04 million.

The presentation of the number of DeeThree 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.

(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,	
	2016	2015	2016	2015
<i>(000s, except per share amounts)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>
Net income (loss) for the period	1,052	6,431	(6,216)	151,827
Weighted-average number of common shares	<i>(#)</i>	<i>(#)</i>	<i>(#)</i>	<i>(#)</i>
– basic	33,598	30,342	31,942	29,785
– diluted	33,922	30,567	31,942	30,058
Net income per weighted average common share	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>
– basic	0.03	0.21	(0.19)	5.10
– diluted	0.03	0.21	(0.19)	5.05

10 SHARE- BASED COMPENSATION

(a) Replacement 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 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 as the original DeeThree options that were previously issued.

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

	Nine Months Ended September 30, 2016		Year Ended December 31, 2015	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
	(#)	(\$)	(#)	(\$)
Outstanding – January 1	194,486	3.96	–	–
Issued	–	–	207,817	3.96
Exercised	(62,064)	3.52	(13,331)	4.05
Outstanding – end of period	132,422	4.16	194,486	3.96
Exercisable – end of period	124,423	3.99	82,646	3.13

Exercise Price	Weighted-Average Contractual Outstanding	Options Life	Weighted-Average Exercisable
(\$)	(#)	(years)	(#)
As at September 30, 2016			
2.00 – 2.99	36,325	0.05	36,325
3.00 – 3.99	6,331	0.32	6,331
4.00 – 4.99	71,769	0.45	71,769
5.00 – 5.99	5,332	0.72	5,332
6.00 – 6.80	12,665	1.20	4,666
	132,422	0.42	124,423

Gross share-based compensation for the options was \$0.03 million for the nine month period ended September 30, 2016 (year ended December 31, 2015 - \$1.7 million). Of this amount, \$nil was capitalized (year ended December 31, 2015 - \$0.7 million), resulting in total net share-based compensation expense related to options of \$0.03 million for the period (year ended December 31, 2015 - \$1.0 million).

(b) Share Incentive Plan

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

The number of PBAs is as follows:

	Nine Months Ended September 30, 2016	Year Ended December 31, 2015
	PBAs	PBAs
	(#)	(#)
Outstanding – January 1	829,103	–
Issued	656,250	829,103
Redeemed	(276,367)	–
Outstanding – end of period	1,208,986	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. During the nine months ended September 30, 2016, 276,367 PBAs were redeemed for 503,565 common shares reflecting a performance multiplier of 1.75 and adjustment for dividends from the date of the original grant to the payment date.

The following assumptions were used to value the PBAs granted during the nine month period ended September 30, 2016:

	Nine Months Ended September 30, 2016	Year Ended December 31, 2015
Forfeiture rate (%)	2	2
Risk-free interest rate (%)	0.55	0.68
Expected life (years)	2.00	2.00
Expected volatility (%)	48	65
Expected dividend yield (%)	6	5
Weighted average fair value of PBAs granted (\$/award)	5.98	6.34

A performance multiplier of 1.5 has been assumed for the remaining PBAs outstanding at September 30, 2016 (December 31, 2015 – 1.0). Fluctuations in share based compensation expense may occur due to changes in estimates of performance outcomes.

Gross share-based compensation related to PBAs was \$4.4 million for the nine months ended September 30, 2016 (year ended December 31, 2015 - \$1.8 million). Of this amount, \$1.6 million was capitalized (year ended December 31, 2015 – \$0.6 million), resulting in total net share-based compensation expense related to PBAs of \$2.8 million for the period (year ended December 31, 2015 - \$1.2 million).

The number of TBAs is as follows:

	Nine Months Ended September 30, 2016	Year Ended December 31, 2015
	TBAs	TBAs
	(#)	(#)
Outstanding – January 1	115,892	–
Issued	43,750	115,892
Redeemed	(38,631)	–
Outstanding – end of period	121,011	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. During the nine months ended September 30, 2016, 38,631 TBAs were redeemed for 38,631 common shares.

The following assumptions were used to value the TBAs granted during the nine month period ended September 30, 2016:

	Nine Months Ended September 30, 2016	Year Ended December 31, 2015
Forfeiture rate (%)	2	2
Risk-free interest rate (%)	0.55	0.68
Expected life (years)	2.00	2.00
Expected volatility (%)	48	65
Expected dividend yield (%)	6	5
Weighted average fair value of PBAs granted (\$/award)	5.98	6.34

Gross share-based compensation related to TBAs was \$0.4 million for the nine months ended September 30, 2016 (year ended December 31, 2015 - \$0.2 million). Of this amount, \$0.2 million was capitalized (year ended December 31, 2015 – \$0.1 million), resulting in total net share-based compensation expense related to TBAs of \$0.2 million for the period (year ended December 31, 2015 - \$0.1 million).

11 SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital are comprised of:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
(\$000s)				
Accounts receivable	2,536	(3,175)	5,063	13,569
Deposits and prepaid expenses	626	971	287	(194)
Accounts payable and accrued liabilities and dividend payable	(661)	(18,860)	(3,951)	(49,695)
	2,501	(21,064)	1,399	(36,320)
Related to operating activities	2,758	(13,260)	2,072	(17,941)
Related to financing activities	1	76	114	986
Related to investing activities	(258)	(7,880)	(787)	(19,365)
	2,501	(21,064)	1,399	(36,320)

12 DETERMINATION OF FAIR VALUES

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

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

- a. Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide continuous pricing information.
- b. Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- c. Level 3 – Valuations are derived from inputs that are not based on observable market data.

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

(a) Property and Equipment and E&E Assets

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

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

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

The fair value of accounts receivable, accounts payable and accrued liabilities and dividend payable is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. The fair value of these balances approximated their carrying value at September 30, 2016 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

The fair value measurement of the derivative financial instruments has a fair value hierarchy of Level 2.

As at September 30, 2016, the Company had the following crude oil risk management contracts, with a total mark-to-market liability of \$0.4 million (December 31, 2015 – \$7.6 million asset):

CRUDE OIL CONTRACTS

Remaining Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price	Fair Value Asset (Liability) (\$ (000s))
Oct. 1/16 – Dec 31/16	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	Cdn \$78.00/bbl	CAD 456
Oct. 1/16 – Dec. 31/16	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US \$62.75/bbl	USD 447
Oct. 1/16 – Dec. 31/16	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	Cdn \$80.00/bbl	CAD 517
Oct. 1/16 – Dec. 31/16	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US \$32.02/bbl	USD (489)
Oct. 1/16 – Dec. 31/16	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US \$40.00/bbl	USD (246)
Oct. 1/16 – Jun. 30/17	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US \$41.00/bbl	USD (665)
Jan. 1/17 – Jun. 30/17	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US \$47.00/bbl	USD (180)
Jan. 1/17 – Dec. 31/17	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US \$53.00/bbl	USD 121
Jan. 1/17 – Dec. 31/17	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US \$51.20/bbl	USD (55)

FOREIGN EXCHANGE CONTRACTS

Period	Currency	Type of Contract	Quantity	Strike Price	Fair Value Asset (Liability) (\$ (000s))
Oct. 3/16 – Jun. 30/17	US\$	Average Rate Forward	US \$300,000	1.3126 (CAD/USD)	USD 4.5
Oct. 3/16 – Oct. 31/16	US\$	Average Rate Forward	US \$310,000	1.3100 (CAD/USD)	USD (0.4)
Nov. 1/16 – Nov. 30/16	US\$	Average Rate Forward	US \$300,000	1.3100 (CAD/USD)	USD (0.3)
Dec. 1/16 – Dec. 30/16	US\$	Average Rate Forward	US \$310,000	1.3100 (CAD/USD)	USD (0.2)

Subsequent to September 30, 2016, Granite entered into the following crude oil risk management contracts:

CRUDE OIL CONTRACTS

Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price
Jul. 1/17 – Dec 31/17	Crude Oil	Fixed	250 bbls/d	WTI-NYMEX	US \$52.50/bbl