



Second Quarter Report
2016

GRANITE REIT



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GRANITE ANNOUNCES 2016 SECOND QUARTER RESULTS

August 3, 2016, Toronto, Ontario, Canada — Granite Real Estate Investment Trust and Granite REIT Inc. (TSX: GRT.UN; NYSE: GRPU) (“Granite” or the “Trust”) today announced their combined results for the three and six month periods ended June 30, 2016.

HIGHLIGHTS

Highlights for the three month period ended June 30, 2016, including events subsequent to the quarter, are set out below:

- Funds from operations (“FFO”)⁽¹⁾ remained consistent at \$39.9 million (\$0.85 per stapled unit) in comparison to \$40.3 million (\$0.86 per stapled unit) in the second quarter of 2015. The second quarter of 2016 had higher revenue from both favourable exchange rates and the lease up of two development properties in the United States. The prior year’s quarter had the favourable impact of a significant income tax recovery and incremental close out revenue associated with certain lease expiries;
- Magna International Inc. exercised its contractual lease renewal options for two special purpose properties in Canada with an aggregate square footage of 2.1 million and annualized lease payments⁽²⁾ of \$16.4 million. The renewal options are each for 12 years thereby extending the lease terms to December 31, 2029. The lease expiries were previously December 31, 2017;
- Leased the remaining 250,000 square feet of the recently completed development property in Pennsylvania, United States to the existing tenant occupying 500,000 square feet of the property. The 750,000 square foot property is now fully leased and has annual revenue of approximately \$4.0 million;
- Sold three non-core properties in the United States and Germany representing approximately 0.8 million square feet and \$2.9 million in annual revenue for gross proceeds of approximately \$23.0 million;
- The balance sheet leverage ratio⁽³⁾ was 22%, available liquidity comprising cash and an available credit line was approximately \$400 million and the FFO payout ratio⁽⁴⁾ for the quarter was 72%; and
- Announced the appointment of Mr. Ilias Konstantopoulos as Granite’s new Chief Financial Officer effective September 12, 2016.

Granite’s results for the three and six month periods ended June 30, 2016 and 2015 are summarized below (all figures are in Canadian dollars):

<i>(in thousands, except per unit figures)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues	\$56,387	\$53,470	\$ 112,764	\$ 106,506
Net income	\$57,524	\$48,241	\$ 100,923	\$ 103,056
Funds from operations (“FFO”) ⁽¹⁾	\$39,947	\$40,304	\$ 81,301	\$ 79,099
Basic and Diluted FFO per stapled unit ⁽¹⁾	\$ 0.85	\$ 0.86	\$ 1.73	\$ 1.68
Fair value of investment properties ⁽⁵⁾			\$2,511,331	\$2,408,525

Readers are cautioned that certain terms used in this press release such as FFO, annualized lease payments (“ALP”) and any related per unit amounts used by management to measure, compare and explain the operating results and financial performance of the Trust do not have standardized meanings prescribed under International Financial Reporting Standards (“IFRS”) and, therefore, should not be

construed as alternatives to net income, cash flow from operating activities or revenue, as appropriate, calculated in accordance with IFRS. Additionally, because these terms do not have a standardized meaning prescribed by IFRS, they may not be comparable to similarly titled measures presented by other publicly traded entities.

- (1) FFO is defined as net income attributable to stapled unitholders prior to fair value gains (losses), gains (losses) on sale of investment properties, acquisition transaction costs, deferred income taxes and certain other non-cash items, adjusted for non-controlling interests in such items. The Trust's determination of FFO follows the definition prescribed by the Real Estate Property Association of Canada ("REALPAC") and is a widely used measure by analysts and investors in evaluating the performance of real estate entities. Granite considers FFO to be a meaningful supplemental measure that can be used to determine the Trust's ability to service debt, finance capital expenditures and provide distributions to stapled unitholders. FFO is reconciled to net income, which is the most directly comparable IFRS measure (see "*Reconciliation of Funds from Operations to Net Income Attributable to Stapled Unitholders*"). FFO does not represent or approximate cash generated from operating activities determined in accordance with IFRS and is not reconciled to cash flow from operating activities as the calculation of FFO does not consider changes in working capital items or adjust for certain other non-cash items that are included in the determination of cash flow from operating activities in accordance with IFRS.
- (2) ALP represents Granite's total annual rent assuming that contractual lease payments in place at the last day of the reporting period were in place for an entire year or less than a year if non-renewal or termination notices have been provided or the disposal of a property is certain. Accordingly, any revenue changes from future contractual rent adjustments, renewal and re-leasing activities or expansion and improvement projects to be completed are not reflected in ALP as at any given period end. In addition, rents denominated in foreign currencies are converted to Canadian dollars based on exchange rates in effect at the last day of the reporting period. Granite considers annualized lease payments to be a useful indicator of rental revenue (excluding tenant recoveries and straight-line revenue adjustments) anticipated in the upcoming 12 month period. ALP is also a measure that is used by analysts in evaluating the outlook for real estate entities as it provides a forward-looking estimate of revenue using the present trends and foreign exchange rates in effect at the last day of the reporting period. ALP is not reconciled to any IFRS measure as it is an indicator of anticipated revenue and therefore not comparable to any measure in the combined financial statements.
- (3) Leverage ratio is calculated as total debt divided by the fair value of investment properties, expressed as a percentage, and is a supplemental measure widely used by analysts and investors in evaluating the Trust's degree of leverage and the relative strength of its balance sheet.
- (4) The FFO payout ratio is calculated as distributions declared to unitholders divided by FFO in a period and is a supplemental measure widely used by analysts and investors in evaluating the sustainability of the Trust's distributions to stapled unitholders.
- (5) At period end.

GRANITE'S COMBINED FINANCIAL RESULTS

Three month period ended June 30, 2016

For the three month period ended June 30, 2016, rental revenue increased by \$2.9 million to \$56.4 million from \$53.5 million in the second quarter of 2015. The increase in rental revenue was primarily due to the effect of favourable foreign exchange rates and leasing up the two development properties in the United States. The second quarter of 2015 also included \$0.9 million of close out fees associated with four lease expiries.

Granite's net income in the second quarter of 2016 was \$57.5 million compared to \$48.2 million for the second quarter of 2015. Net income increased primarily due to the increase in rental revenue and the after tax impact of the increase in the net fair value gains on investment properties, partially offset by the increase in loss on sale of investment properties and foreign exchange losses.

FFO for the second quarter of 2016 was \$39.9 million compared to \$40.3 million in the prior year period. During the second quarter of 2016, the higher rental revenue was offset by increases in current income tax expense, which was significantly higher than the prior year period due to a favourable settlement of an income tax audit in 2015, foreign exchange losses and interest expense.

Six month period ended June 30, 2016

For the six month period ended June 30, 2016, rental revenue increased \$6.3 million to \$112.8 million from \$106.5 million in the prior year period primarily due to the favourable impact of foreign exchange rates.

Granite's net income for the six month period ended June 30, 2016 was \$100.9 million compared to \$103.1 million in the prior year period. Although revenue increased \$6.3 million, a reduction in the after tax impact of net fair value gains on investment properties, an increase in current income tax expense due largely to the favourable settlement of an income tax audit in 2015 and interest expense together with a loss on sale of investment properties resulted in a decrease of \$2.2 million in net income.

FFO for the six month period ended June 30, 2016 was \$81.3 million compared to \$79.1 million in the prior year period. The increase of \$2.2 million was primarily due to an increase in rental revenue, partially offset by

increases in current income tax expense, for the reasons noted above, interest expense and property operating costs.

A more detailed discussion of Granite's combined financial results for the three and six month periods ended June 30, 2016 and 2015 is contained in Granite's Management's Discussion and Analysis of Results of Operations and Financial Position and the unaudited condensed combined financial statements for those periods and the notes thereto, which are available through the internet on Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval ("SEDAR") and can be accessed at www.sedar.com and on the United States Securities and Exchange Commission's (the "SEC") Electronic Data Gathering, Analysis and Retrieval System ("EDGAR") which can be accessed at www.sec.gov.

RECONCILIATION OF FUNDS FROM OPERATIONS TO NET INCOME ATTRIBUTABLE TO STAPLED UNITHOLDERS

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
<i>(in thousands, except per unit information)</i>				
Net income attributable to stapled unitholders	\$ 57,179	\$ 46,097	\$ 99,604	\$ 100,459
Add (deduct):				
Fair value gains on investment properties, net	(26,034)	(21,511)	(34,748)	(46,754)
Fair value losses (gains) on financial instruments	682	851	(167)	240
Loss on sale of investment properties	1,035	48	1,374	233
Current income tax expense associated with the sale of investment properties	1,688	—	707	350
Deferred income tax expense	5,286	12,710	13,465	22,063
Non-controlling interests relating to the above	111	2,109	1,066	2,508
FFO	\$ 39,947	\$ 40,304	\$ 81,301	\$ 79,099
Basic and Diluted FFO per stapled unit	\$ 0.85	\$ 0.86	\$ 1.73	\$ 1.68
Basic number of stapled units outstanding	47,073	47,017	47,049	47,017
Diluted number of stapled units outstanding	47,081	47,087	47,057	47,105

CONFERENCE CALL

Granite will hold a conference call on Thursday, August 4, 2016 at 8:30 a.m. Eastern time. The number to use for this call is 1-800-676-7402. Overseas callers should use +1-416-981-9080. Please call in at least 10 minutes prior to start time. The conference call will be chaired by Michael Forsayeth, Chief Executive Officer. For anyone unable to listen to the scheduled call, the rebroadcast numbers will be: North America — 1-800-558-5253 and Overseas — +1-416-626-4100 (enter reservation number 21814361) and will be available until Monday, August 15, 2016.

ABOUT GRANITE

Granite is a Canadian-based REIT engaged in the ownership and management of predominantly industrial, warehouse and logistics properties in North America and Europe. Granite owns approximately 30.0 million square feet in 94 rental income properties. Our tenant base currently includes Magna International Inc. and its operating subsidiaries as our largest tenants, together with tenants from other industries.

For further information, please contact Michael Forsayeth, Chief Executive Officer, at 647-925-7600.

OTHER INFORMATION

Additional property statistics as at June 30, 2016 have been posted to our website at <http://www.granitereit.com/propertystatistics/view-property-statistics>. Copies of financial data and other publicly filed documents are available through the internet on SEDAR which can be accessed at www.sedar.com and on EDGAR which can be accessed at www.sec.gov.

FORWARD-LOOKING STATEMENTS

This press release may contain statements that, to the extent they are not recitations of historical fact, constitute “forward-looking statements” or “forward-looking information” within the meaning of applicable securities legislation, including the United States Securities Act of 1933, as amended, the United States Securities Exchange Act of 1934, as amended, and applicable Canadian securities legislation. Forward-looking statements and forward-looking information may include, among others, statements regarding Granite’s future plans, goals, strategies, intentions, beliefs, estimates, costs, objectives, economic performance, expectations, or foresight or the assumptions underlying any of the foregoing. Words such as “may”, “would”, “could”, “should”, “will”, “likely”, “expect”, “anticipate”, “believe”, “intend”, “plan”, “forecast”, “project”, “estimate”, “seek” and similar expressions are used to identify forward-looking statements and forward-looking information. Forward-looking statements and forward-looking information should not be read as guarantees of future events, performance or results and will not necessarily be accurate indications of whether or the times at or by which such future performance will be achieved. Undue reliance should not be placed on such statements. There can be no assurance that the intended developments in Granite’s relationships with its tenants, the expansion and diversification of Granite’s real estate portfolio, the expected cost of development and re-development projects and the expected sources of funding and increases in leverage can be achieved in a timely manner, with the expected impact or at all. Forward-looking statements and forward-looking information are based on information available at the time and/or management’s good faith assumptions and analyses made in light of Granite’s perception of historical trends, current conditions and expected future developments, as well as other factors Granite believes are appropriate in the circumstances, and are subject to known and unknown risks, uncertainties and other unpredictable factors, many of which are beyond Granite’s control, that could cause actual events or results to differ materially from such forward-looking statements and forward-looking information. Important factors that could cause such differences include, but are not limited to, the risk of changes to tax or other laws and treaties that may adversely affect Granite Real Estate Investment Trust’s mutual fund trust status under the *Income Tax Act* (Canada) or the effective tax rate in other jurisdictions in which Granite operates; economic, market and competitive conditions and other risks that may adversely affect Granite’s ability to achieve desired developments in its relationships with its tenants, expand and diversify its real estate portfolio and increase its leverage; and the risks set forth in the “Risk Factors” section in Granite’s Annual Information Form for 2015 dated March 2, 2016, filed on SEDAR at www.sedar.com and attached as Exhibit 1 to the Trust’s Annual Report on Form 40-F for the year ended December 31, 2015, filed with the SEC and available online on EDGAR at www.sec.gov, all of which investors are strongly advised to review. The “Risk Factors” section also contains information about the material factors or assumptions underlying such forward-looking statements and forward-looking information. Forward-looking statements and forward-looking information speak only as of the date the statements and information were made and unless otherwise required by applicable securities laws, Granite expressly disclaims any intention and undertakes no obligation to update or revise any forward-looking statements or forward-looking information contained in this press release to reflect subsequent information, events or circumstances or otherwise.

Management's Discussion and Analysis of Results of Operations and Financial Position

For the three and six month periods ended June 30, 2016

Management's Discussion and Analysis of Results of Operations and Financial Position ("MD&A") of Granite Real Estate Investment Trust ("Granite REIT") and Granite REIT Inc. ("Granite GP") summarizes the significant factors affecting the combined operating results, financial condition, liquidity and cash flows of Granite REIT, Granite GP and their subsidiaries (collectively "Granite" or the "Trust") for the three and six month periods ended June 30, 2016. Unless otherwise noted, all amounts are in Canadian dollars ("Cdn. dollars") and all tabular amounts are in millions of Cdn. dollars. This MD&A should be read in conjunction with the accompanying unaudited condensed combined financial statements for the three and six month periods ended June 30, 2016 and the audited combined financial statements for the year ended December 31, 2015. This MD&A is prepared as at August 3, 2016. Additional information relating to Granite, including the Annual Information Form ("AIF") for fiscal 2015, can be obtained from the Trust's website at www.granitereit.com, on SEDAR at www.sedar.com and on EDGAR at www.sec.gov.

OVERVIEW

Granite is a Canadian-based real estate investment trust ("REIT") engaged in the ownership and management of predominantly industrial, warehouse and logistics properties in North America and Europe. Granite owns approximately 30.0 million square feet in 94 rental income properties. Our tenant base currently includes Magna International Inc. and its operating subsidiaries (collectively "Magna") as our largest tenant, together with tenants from other industries.

Granite's investment properties consist of income-producing properties, properties and land under development and land held for development (see "*INVESTMENT PROPERTIES*"). Our income-producing properties consist of light industrial properties, heavy industrial manufacturing facilities, corporate offices, warehouse and logistics properties, product development and engineering centres and test facilities in nine countries: Canada, the United States, Austria, Germany, the Netherlands, the Czech Republic, the United Kingdom, Spain and Poland. The lease payments are primarily denominated in three currencies: the Cdn. dollar, the U.S. dollar and the euro.

SIGNIFICANT MATTERS

Lease Renewals — Special Purpose Properties

On June 30, 2016, Magna exercised its contractual lease renewal options for two Canadian special purpose properties (see "*INVESTMENT PROPERTIES*") whose leases were to expire December 31, 2017. In accordance with the terms set out in the leases, the renewal options are each for 12 years, thereby extending the lease terms to December 31, 2029. These two properties have total annualized lease payments of \$16.4 million and represent an aggregate square footage of 2.1 million (see "*PERFORMANCE MEASUREMENT*" and "*LEASING PROFILE — Annualized Lease Payments*").

Officer Appointments

On July 25, 2016, Granite announced the appointment of Ilias Konstantopoulos as Chief Financial Officer. Mr. Konstantopoulos is a senior financial executive who brings over 20 years of corporate finance, mergers and acquisitions, and capital markets expertise to Granite from his roles as Managing Partner at Brookfield Financial Securities LP and Managing Director at BMO Capital Markets.

On March 31, 2016, Michael P. Forsayeth was appointed Granite's Chief Executive Officer. Prior to March 31, 2016, Mr. Forsayeth was Chief Financial Officer and Interim Chief Executive Officer.

Normal Course Issuer Bid

On April 20, 2016, Granite announced the acceptance by the Toronto Stock Exchange (“TSX”) of Granite’s Notice of Intention to Make a Normal Course Issuer Bid (“NCIB”). Pursuant to the NCIB, Granite proposes to purchase through the facilities of the TSX and any alternative trading system in Canada, from time to time and if considered advisable, up to an aggregate of 3,647,837 of Granite’s issued and outstanding stapled units. The NCIB commenced on April 26, 2016 and will conclude on the earlier of the date on which purchases under the bid have been completed and April 25, 2017. Pursuant to the policies of the TSX, daily purchases made by Granite through the TSX may not exceed 26,386 stapled units, subject to certain exceptions. Granite has not made any purchases of its outstanding stapled units since the commencement of the NCIB.

Foreign Currencies

Fluctuations in the Cdn. dollar relative to other currencies will result in fluctuations in the reported Cdn. dollar value of revenues, expenses, cash flows, assets and liabilities. At June 30, 2016, approximately 72% of Granite’s rental revenues were denominated in currencies other than the Cdn. dollar (see “*LEASING PROFILE — Annualized Lease Payments*”). In addition, virtually all of Granite’s interest expense is denominated in foreign currencies primarily as a result of the cross currency interest rate swaps in place. Approximately 81% of Granite’s debt was denominated in euros and the remaining 19% denominated in U.S. dollars as at June 30, 2016. As such, material changes in the value of the Cdn. dollar relative to these foreign currencies (primarily the euro and U.S. dollar) may have a significant impact on the Trust’s financial results.

The following tables reflect the changes in the average exchange rates during the three and six month periods ended June 30, 2016 and 2015, as well as the exchange rates as at June 30, 2016 and December 31, 2015, between the two most common currencies in which the Trust conducts business and the Cdn. dollar.

	Average Exchange Rates					
	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Change	2016	2015	Change
1 U.S. dollar equals Cdn. dollars	<u>1.289</u>	1.229	5%	<u>1.332</u>	1.235	8%
1 euro equals Cdn. dollars	<u>1.455</u>	<u>1.360</u>	<u>7%</u>	<u>1.485</u>	<u>1.378</u>	<u>8%</u>

	Exchange Rates as at				
	June 30, 2016	March 31, 2016	Change	December 31, 2015	Change
1 U.S. dollar equals Cdn. dollars	<u>1.301</u>	1.297	— %	1.384	(6)%
1 euro equals Cdn. dollars	<u>1.435</u>	<u>1.478</u>	<u>(3)%</u>	<u>1.503</u>	<u>(5)%</u>

The results of operations and financial position of all U.S. and most European operations were translated into Cdn. dollars using the exchange rates shown in the preceding tables. The changes in these foreign exchange rates impacted the reported Cdn. dollar amounts of the Trust’s revenues, expenses, assets and liabilities. From time to time, Granite may enter into derivative financial arrangements for currency hedging purposes, but the Trust’s policy is not to utilize such arrangements for speculative purposes. Throughout this MD&A, reference is made, where significant, to the impact of foreign exchange fluctuations on reported Cdn. dollar amounts.

PERFORMANCE MEASUREMENT

In addition to using performance measures determined in accordance with International Financial Reporting Standards (“IFRS”), Granite also measures its performance using certain non-IFRS measures and believes that these supplemental performance measures are also useful to the reader. These are:

- Funds from operations (“FFO”);
- Comparable FFO;
- FFO payout ratio;
- Annualized lease payments (“ALP”); and
- Leverage ratio.

Readers are cautioned that certain terms used in this MD&A such as FFO, comparable FFO, FFO payout ratio, ALP, leverage ratio and any related per unit amounts used by management to measure, compare and explain the operating results and financial performance of the Trust do not have standardized meanings prescribed under IFRS and, therefore, should not be construed as alternatives to net income, cash flow from operating activities or revenue, as appropriate, calculated in accordance with IFRS. Additionally, because these terms do not have standardized meanings prescribed by IFRS, they may not be comparable to similarly titled measures presented by other publicly traded entities. These terms are defined in the following paragraphs and cross referenced, where appropriate, to a reconciliation elsewhere in the MD&A to the most comparable IFRS measure in the Trust’s combined financial statements for the three and six month periods ended June 30, 2016.

Funds from operations

FFO is defined as net income attributable to stapled unitholders prior to fair value gains (losses), gains (losses) on sale of investment properties, acquisition transaction costs, deferred income taxes and certain other non-cash items, adjusted for non-controlling interests in such items. The Trust’s determination of FFO follows the definition prescribed by the Real Estate Property Association of Canada (“REALPAC”) and is a widely used measure by analysts and investors in evaluating the performance of real estate entities. Granite considers FFO to be a meaningful supplemental measure that can be used to determine the Trust’s ability to service debt, finance capital expenditures and provide distributions to stapled unitholders. FFO is reconciled to net income, which is the most directly comparable IFRS measure (see “*RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2016 — Funds From Operations*” and “*RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2016 — Funds From Operations*”). FFO does not represent or approximate cash generated from operating activities determined in accordance with IFRS and is not reconciled to cash flow from operating activities, as the calculation of FFO does not consider changes in working capital items or adjust for certain other non-cash items that are included in the determination of cash flow from operating activities in accordance with IFRS.

Comparable funds from operations

When applicable, certain large unusual items that are not expected to be of a recurring nature may be added to or deducted from FFO to arrive at a comparable FFO amount. In periods when comparable FFO is presented, any adjustment made to FFO will be explicitly described and quantified. For the three and six month periods ended June 30, 2016 and 2015, there were no such adjustments and therefore comparable FFO has not been presented.

FFO payout ratio

The FFO payout ratio is calculated as distributions declared to unitholders divided by FFO or comparable FFO, if applicable, in a period and is a supplemental measure widely used by analysts and investors in evaluating the sustainability of the Trust’s distributions to stapled unitholders.

Annualized lease payments

ALP represents Granite's total annual rent assuming that contractual lease payments in place at the last day of the reporting period were in place for an entire year or less than a year if non-renewal or termination notices have been provided or the disposal of a property is certain. Accordingly, any revenue changes from future contractual rent adjustments, renewal and re-leasing activities or expansion and improvement projects to be completed are not reflected in ALP as at any given period end. In addition, rents denominated in foreign currencies are converted to Cdn. dollars based on exchange rates in effect at the last day of the reporting period (see "SIGNIFICANT MATTERS — Foreign Currencies"). Granite considers annualized lease payments to be a useful indicator of rental revenue excluding tenant recoveries and straight-line revenue adjustments anticipated in the upcoming 12 month period. ALP is also a measure that is used by analysts in evaluating the outlook for real estate entities, as it provides a forward-looking estimate of such revenue using the present trends and foreign exchange rates in effect at the last day of the reporting period. ALP is not reconciled to any IFRS measure as it is an indicator of anticipated revenue excluding tenant recoveries and straight-line revenue adjustments and therefore not comparable to any measure in the combined financial statements.

Leverage ratio

The leverage ratio is calculated as total debt divided by the fair value of investment properties, expressed as a percentage, and is a supplemental measure widely used by analysts and investors in evaluating the Trust's degree of leverage and the relative strength of its balance sheet.

INVESTMENT PROPERTIES

Granite's investment properties consist of income-producing properties, properties and land under development and land held for development. The income-producing properties can be categorized as (i) modern logistics/distribution warehouse facilities, which were recently acquired or newly developed/redeveloped within the last three years, (ii) multi-purpose facilities, which are tenantable by a wide variety of potential users, or (iii) special purpose facilities designed and built with unique features and leased to Magna. The fair values of the investment properties were as follows:

<u>As at</u>	<u>June 30, 2016</u>	<u>December 31, 2015</u>
Modern logistics/distribution warehouse facilities	\$ 590.4	\$ 580.4
Multi-purpose facilities	681.3	733.3
Special purpose facilities	1,232.9	1,262.9
Income-Producing Properties	2,504.6	2,576.6
Properties and Land Under Development	—	8.6
Land Held For Development	6.7	7.2
	<u>\$2,511.3</u>	<u>\$2,592.4</u>

The change in investment properties by category is shown in the following table:

	<u>January 1, 2016</u>	<u>Fair value gains (losses)</u>	<u>Capital expenditures and acquisitions</u>	<u>Dispositions and transfers</u>	<u>Foreign exchange</u>	<u>Other changes</u>	<u>June 30, 2016</u>
Modern logistics/distribution warehouse facilities	\$ 580.4	17.9	6.4	13.6	(31.4)	3.5	\$ 590.4
Multi-purpose facilities	733.3	(3.1)	0.4	(32.0)	(18.4)	1.1	681.3
Special purpose facilities	1,262.9	19.9	0.1	—	(47.6)	(2.4)	1,232.9
Income-Producing Properties	2,576.6	34.7	6.9	(18.4)	(97.4)	2.2	2,504.6
Properties and Land Under Development	8.6	—	5.8	(13.6)	(0.8)	—	—
Land Held For Development	7.2	—	—	—	(0.5)	—	6.7
	<u>\$2,592.4</u>	<u>34.7</u>	<u>12.7</u>	<u>(32.0)</u>	<u>(98.7)</u>	<u>2.2</u>	<u>\$2,511.3</u>

During the six months ended June 30, 2016, investment properties decreased by \$81.1 million primarily as a result of the net impact of the following:

- i. net fair value gains of \$34.7 million primarily attributable to changes in leasing assumptions relating to (i) new lease and renewal activities, in particular the 12 year lease renewals associated with two special purpose properties in Canada and the property recently developed and fully leased in Pennsylvania, United States and (ii) market rent increases and changes in rent assumptions for certain properties in Granite's portfolio. These changes in leasing assumptions were partially offset by the negative impact of certain leases in Canada and the United States that are closer to expiry, for which the re-leasing assumptions are less favourable than the terms of leases currently in place;
- ii. capital expenditures totalling \$12.7 million of which \$5.8 million was invested in the recently developed property in Wroclaw, Poland and \$6.4 million was invested in tenant improvements on the two recently developed properties in the United States leased to non-Magna tenants;
- iii. a decrease of \$32.0 million related to the disposition of income-producing properties located in the United States, Germany and Austria (three properties were leased to Magna, one property was leased to a non-Magna tenant and one property was vacant); and
- iv. \$98.7 million of foreign exchange losses which included \$44.8 million and \$52.5 million of foreign exchange losses related to the weakening of the U.S. dollar and euro, respectively, against the Cdn. dollar. The foreign exchange losses represent less than 4% of the fair value of investment properties.

Income-Producing Properties

At June 30, 2016, Granite had 94 income-producing properties which represented 29.9 million square feet of rentable space. The portfolio included some office buildings that comprised less than 1% of the total square footage of the income-producing properties.

The fair value of the income-producing portfolio by country as at June 30, 2016 and December 31, 2015 was as follows:

	June 30, 2016		December 31, 2015	
	Fair Value	Percent of Total	Fair Value	Percent of Total
Canada	\$ 682.1	27%	\$ 671.4	26%
Austria	697.2	28	735.9	29
United States	710.0	28	734.8	28
Germany	247.6	10	272.2	11
Netherlands	119.6	5	125.1	5
Other	48.1	2	37.2	1
	<u>\$2,504.6</u>	<u>100%</u>	<u>\$2,576.6</u>	<u>100%</u>

As at June 30, 2016, the number of properties and the fair value of the income-producing portfolio by country and category was as follows:

	Modern logistics/distribution warehouse facilities		Multi-purpose facilities		Special purpose facilities		Total	
	Fair Value	# prop	Fair Value	# prop	Fair Value	# prop	Fair Value	# prop
Canada	\$ 7.5	1	\$368.1	35	\$ 306.5	4	\$ 682.1	40
Austria	—	—	88.5	7	608.7	4	697.2	11
United States	346.7	8	108.6	14	254.7	3	710.0	25
Germany	102.8	5	81.8	5	63.0	1	247.6	11
Netherlands	119.6	3	—	—	—	—	119.6	3
Other	13.8	1	34.3	3	—	—	48.1	4
	<u>\$590.4</u>	<u>18</u>	<u>\$681.3</u>	<u>64</u>	<u>\$1,232.9</u>	<u>12</u>	<u>\$2,504.6</u>	<u>94</u>

Fair values were primarily determined by discounting the expected future cash flows, generally over a term of 10 years, including a terminal value based on the application of a capitalization rate to estimated year 11 cash flows. The Trust measures its income-producing properties and properties under development using valuations prepared by management. The Trust does not measure its investment properties based on valuations prepared by external appraisers but uses such appraisals as data points, together with other external market information accumulated by management, in arriving at its own conclusions on values. There has been no change in the valuation methodology used during the period. The key valuation metrics for Granite's investment properties are summarized in note 3 to the unaudited condensed combined financial statements for the three and six month periods ended June 30, 2016.

At June 30, 2016, Granite had eight active improvement projects in Canada, the United States and Austria. The total estimated cost of these projects is approximately \$3.8 million of which \$0.5 million had been spent at June 30, 2016. Of the remaining project costs, \$1.3 million will be funded from draws on a construction loan and the remaining will be funded using cash from operations. The projects are expected to be completed during the remainder of the year.

Properties and Land Under Development

In the fourth quarter of 2015, Granite commenced the construction on the first of three logistics-warehouse facilities to be situated on development land purchased in Wroclaw, Poland in May 2015. During the three month period ended June 30, 2016, the construction of this first 0.3 million square foot facility was completed for total costs of \$12.0 million. The project was funded using cash from operations.

Land Held for Development

In May 2015, the Trust acquired a 28 acre parcel of development land located in Wroclaw, Poland for a purchase price of \$6.0 million. The phased development of three facilities for approximately 0.6 million square feet of logistics-warehouse space has commenced with the completed construction of one 0.3 million square foot facility as noted above. The construction of the remaining two facilities is expected to commence once Granite's pre-leasing objectives are achieved. In December 2014, Granite acquired a 29 acre site located in Plainfield, Indiana which is being held for future development; this development land provides for approximately 0.5 million square feet of logistics-industrial space.

LEASING PROFILE

Magna, Our Largest Tenant

At June 30, 2016, Magna was the tenant at 63 (December 2015 — 66) of Granite's income-producing properties and comprised 79% (December 2015 — 79%) of Granite's annualized lease payments. Magna is a diversified global automotive supplier that designs, develops and manufactures technologically advanced automotive systems, assemblies, modules and components, and engineers and assembles complete vehicles, primarily for sale to original equipment manufacturers of cars and light trucks. Magna's product capabilities span a number of major automotive areas, including interior systems, seating systems, closure systems, body and chassis systems, vision systems, electronic systems, exterior systems, powertrain systems, roof systems, hybrid electric vehicles/systems and complete vehicle engineering and assembly.

Granite's relationship with Magna is an arm's length landlord and tenant relationship governed by the terms of Granite's leases with Magna. The terms of the lease arrangements with Magna generally provide for the following:

- the obligation of Magna to pay for costs of occupancy, including operating costs, property taxes and maintenance and repair costs;
- rent escalations based on either fixed-rate steps or inflation;
- renewal options tied to market rental rates or inflation;
- environmental indemnities from the tenant; and
- a right of first refusal in favour of Magna on the sale of a property.

Renewal terms, rates and conditions are typically set out in our leases with Magna and form the basis for tenancies that continue beyond the expiries of the initial lease terms.

According to its public disclosure, Magna's success is primarily dependent upon the levels of car and light truck production by Magna's customers, the relative amount of content Magna has in the various programs and its operating costs in the various countries in which it operates. Granite expects Magna to continuously seek to optimize its global manufacturing footprint and consequently, Magna may not renew leases for facilities currently under lease at their expiries.

Annualized Lease Payments

Granite's annualized lease payments as at June 30, 2016, including the changes from March 31, 2016 and December 31, 2015, were as follows:

	<u>Three Months Ended June 30, 2016</u>	<u>Six Months Ended June 30, 2016</u>
Annualized lease payments, beginning of period	\$226.1	\$228.6
Contractual rent adjustments	0.7	2.0
Dispositions	(2.7)	(3.1)
New leases and re-leasing	1.5	3.8
Effect of changes in foreign currency exchange rates	(2.8)	(8.5)
Annualized lease payments, as at June 30, 2016	<u><u>\$222.8</u></u>	<u><u>\$222.8</u></u>

During the second quarter of 2016, annualized lease payments decreased by \$3.3 million from \$226.1 million at March 31, 2016 to \$222.8 million at June 30, 2016. This decrease reflected the net impact of the following:

- i. contractual rent adjustments increased annualized lease payments by \$0.7 million which included \$0.6 million related to Consumer Price Index ("CPI") based increases on properties representing 2.4 million square feet of leaseable area in Austria and the Netherlands and \$0.1 million related to fixed contractual adjustments;
- ii. the sale of three properties in the United States and Germany with an aggregate square footage of 0.8 million decreased annualized lease payments by \$2.7 million;
- iii. the lapse of rent free revenue periods associated with the leasing of the three recently developed properties in the United States and Poland increased annualized lease payments by \$2.1 million while the expiry of a lease for a property in Canada decreased annualized lease payments by \$0.6 million; and
- iv. changes in foreign currency exchange rates arising from the weakening of the euro against the Cdn. dollar decreased annualized lease payments by \$2.8 million.

On a year to date basis, annualized lease payments decreased by \$5.8 million from \$228.6 million at December 31, 2015 to \$222.8 million at June 30, 2016. This decrease reflected the cumulative impact of the following:

- i. contractual rent adjustments increased annualized lease payments by \$2.0 million which included \$1.5 million related to CPI based increases on properties representing 10.1 million square feet of leaseable area in North America and Europe and \$0.5 million related to fixed contractual adjustments;
- ii. the sale of four properties in the United States and Germany with an aggregate square footage of 0.9 million decreased annualized lease payments by \$3.1 million;
- iii. the leasing of the recently developed properties in the United States and Poland increased annualized lease payments by \$5.0 million while the expiry of a lease for a property in Canada decreased annualized lease payments by \$1.2 million; and

- iv. changes in foreign currency exchange rates decreased annualized lease payments by \$8.5 million. The weakening of the euro and U.S. dollar against the Cdn. dollar decreased annualized lease payments by \$4.7 million and \$3.8 million, respectively.

The annualized lease payments by currency at June 30, 2016 and December 31, 2015 were as follows:

	June 30, 2016		December 31, 2015	
Euro	\$ 98.1	44%	\$103.2	45%
Cdn. dollar	63.7	28	64.1	28
U.S. dollar	60.2	27	60.4	26
Other	0.8	1	0.9	1
	\$222.8	100%	\$228.6	100%

Leasing Activity

2016 Lease Expiries

Granite had nine leases with expiry dates in 2016. The following table details the status of these leases as at August 3, 2016:

	Number of leases	Square Footage <i>(in thousands)</i>	ALP <i>(in millions)</i>
Modern logistics/distribution warehouse facilities	3	481	\$3.4
Multi-purpose facilities	4	695	3.7
Renewed or extended leases	7	1,176	7.1
Multi-purpose facilities	2	658	—
Disposed	2	658	—
<i>Total 2016 lease expiries</i>	9	1,834	\$7.1

Other New Leases, Renewals and Extensions

Leasing activity through August 3, 2016 related to space not subject to 2016 lease expiries included the following:

- i. Magna exercised its contractual lease renewal options for two Canadian special purpose properties that were to expire December 31, 2017. The renewal options are each for 12 years, thereby extending the lease terms to December 31, 2029. These two properties have a total ALP of \$16.4 million and represent an aggregate square footage of 2.1 million;
- ii. the remaining 0.25 million square feet of the recently completed development property in Pennsylvania, United States was leased to the non-Magna tenant who executed a lease in the first quarter of 2016 for 0.5 million square feet of the property. The property is now fully leased with an ALP of \$2.9 million at June 30, 2016. In conjunction with the leasing of the additional space, the term of the lease for the property was extended to March 31, 2022 from September 30, 2021;
- iii. a lease expiry representing a total area of 0.3 million square feet and ALP of \$2.1 million in the Netherlands, which is leased to a non-Magna tenant, was extended by one year to May 31, 2018; and
- iv. a lease expiring in December 2017 representing a total area of 0.2 million square feet and ALP of \$0.5 million in the United States, which is leased to Magna, was renewed for five years to December 2022.

Lease Expiration

As at June 30, 2016, Granite's portfolio had a weighted average lease term by square footage of 5.4 years (December 31, 2015 — 4.7 years) with lease expiries by area (in thousands of square feet) and related annualized lease payments (in millions) set out in the table below:

	Total Rental Area	Vacant Sq Ft	2016		2017		2018		2019		2020		2021		2022 and Beyond	
			Sq Ft	ALP \$	Sq Ft	ALP \$	Sq Ft	ALP \$	Sq Ft	ALP \$	Sq Ft	ALP \$	Sq Ft	ALP \$	Sq Ft	ALP \$
Canada	7,719	91	—	—	1,751	23.3	1,918	11.0	435	2.6	1,033	6.8	316	3.1	2,175	16.9
U.S.	8,871	—	312 ⁽¹⁾	1.2	643	8.2	989	5.6	1,475	13.7	59	0.5	87	0.6	5,306	30.4
Austria	8,022	—	—	—	—	—	1,500	11.8	392	3.5	—	—	389	2.7	5,741	45.7
Germany	3,156	—	300 ⁽¹⁾	1.7	—	—	1,014	7.3	303	1.6	—	—	—	—	1,539	10.9
Netherlands	1,441	—	—	—	—	—	314	2.1	500	3.0	627	4.3	—	—	—	—
Other	705	165	—	—	—	—	90	0.8	136	0.6	—	—	314	2.9	—	—
Total	29,914	256	612	2.9	2,394	31.5	5,825	38.6	3,241	25.0	1,719	11.6	1,106	9.3	14,761	103.9
% of portfolio:																
* by sq ft	100%	1%	2%		8%		19%		11%		6%		4%		49%	
* by ALP	100%		1%		14%		17%		12%		5%		4%		47%	

⁽¹⁾ Three leases with short termination notices.

Leasing Costs and Lease Incentives

Direct leasing costs include broker commissions incurred in negotiating and arranging tenant leases. Lease incentives include the cost of leasehold improvements to tenant spaces or cash allowances provided to tenants for leasehold improvement costs. For the three and six month periods ended June 30, 2016, the Trust incurred leasing costs and lease incentives of \$0.9 million and \$2.0 million, respectively.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2016

Highlights

<i>(in millions, except per unit information)</i>	Three Months Ended June 30,		
	2016	2015	Change
Rental revenue and tenant recoveries	\$56.4	\$53.5	5%
Net income attributable to stapled unitholders	57.2	46.1	24%
Funds from Operations ⁽¹⁾	39.9	40.3	(1)%
Basic and Diluted FFO per stapled unit ⁽¹⁾	\$0.85	\$0.86	(1)%
FFO payout ratio	72%	67%	5%

⁽¹⁾ See "Results of Operations for the Three Months Ended June 30, 2016 — Funds from Operations".

Rental Revenue and Tenant Recoveries

Rental revenue for the three month period ended June 30, 2016 increased \$2.9 million to \$56.4 million from \$53.5 million in the prior year period primarily due to the favourable impact of foreign exchange rates. The change in rental revenue is set out below:

Rental revenue, three months ended June 30, 2015	\$53.5
Contractual rent adjustments	0.6
Completed projects on-stream	0.4
Renewals and re-leasing of income-producing properties	(0.1)
Disposals of income-producing properties	(0.9)
Effect of changes in foreign currency exchange rates	2.3
Other, including straight-line adjustments to rental revenue	0.6
Rental revenue, three months ended June 30, 2016	\$56.4

Additional details pertaining to the changes in rental revenue are as follows:

- i. the \$0.6 million increase in revenue from contractual rent adjustments included \$0.3 million from CPI based increases and \$0.3 million from fixed contract adjustments;
- ii. the completion of improvement and expansion projects in Canada and Austria contributed an incremental \$0.4 million to rental revenue;
- iii. the renewal or extension of four leases at rental rates which were lower than the expiring lease rates decreased revenue by \$0.2 million while the leasing of a previously vacant space in the United States increased revenue by \$0.1 million;
- iv. rental revenue was negatively impacted by \$0.9 million due to the sale of income-producing properties in the United States and Germany;
- v. foreign exchange had a \$2.3 million positive impact on reported rental revenues as the strengthening of the U.S. dollar and euro against the Cdn. dollar increased rental revenue by \$0.7 million and \$1.6 million, respectively; and
- vi. other items, which had a net positive impact of \$0.6 million on revenue, included \$1.6 million of rent free straight-line revenue adjustments relating to the lease up of the two completed development properties in the United States, partially offset by \$0.9 million in close-out fees received in 2015 with respect to expired leases for properties in the United States and Austria.

Property Operating Costs

Property operating costs, which include property taxes, utilities, insurance, repairs and maintenance, legal and other property-related expenses, were \$1.6 million for both the three month periods ended June 30, 2016 and 2015. Property operating costs for the second quarter of 2016 included an increase of \$0.2 million associated with (i) property costs for the recently developed facility in Pennsylvania, United States that was under construction in the prior year period and (ii) costs to lease up and associated with the occupancy by tenants at the completed development properties in the United States and Poland. Property operating costs for the second quarter of 2015 included \$0.3 million of property related advisory costs associated with the Trust's review of its strategic alternatives.

General and Administrative Expenses

General and administrative expenses for the three month periods ended June 30, 2016 and 2015 were \$7.0 million and \$7.2 million, respectively. The \$0.2 million decrease was primarily due to a \$0.3 million reduction in compensation costs associated with fewer grants outstanding under Granite's executive unit-based compensation plan and a \$0.2 million decrease in advisory costs incurred in the second quarter of 2015 with respect to the review of strategic alternatives, partially offset by a \$0.3 million increase in professional fees related to certain internal reorganizations and administrative matters.

Depreciation and Amortization

Depreciation and amortization expense relates to the amortization of fixed assets pertaining to our offices in Toronto, Canada and Vienna, Austria.

Interest Expense and Other Financing Costs, Net

Net interest expense and other financing costs were \$4.9 million in the three month period ended June 30, 2016 compared to \$4.5 million in the prior year period. The interest expense increased \$0.4 million in the three month period ended June 30, 2016 primarily due to \$0.5 million from increased draws on the construction loans and foreign exchange resulting from the weakening of the Cdn. dollar as all of Granite's debt is effectively denominated in foreign currencies, partially offset by a reduction in interest costs of \$0.2 million associated with a lower outstanding balance on the revolving credit facility.

Foreign Exchange Losses (Gains), Net

Granite recognized net foreign exchange losses of \$0.6 million in the three month period ended June 30, 2016 and \$0.1 million of net foreign exchange gains in the three month period ended June 30, 2015. Net foreign exchange losses for the three month period ended June 30, 2016 of \$0.6 million included \$0.9 million of net foreign exchange losses arising from the re-measurement of certain assets and liabilities of the Trust that are

denominated in U.S. dollars and euros, partially offset by \$0.3 million of realized foreign exchange gains on derivative financial instruments such as foreign exchange contracts. The net foreign exchange gains of \$0.1 million in the three month period ended June 30, 2015 included \$0.3 million of realized foreign exchange gains on derivative financial instruments such as foreign exchange contracts, partially offset by \$0.2 million of net foreign exchange losses arising from the re-measurement of certain assets and liabilities of the Trust that are denominated in U.S. dollars and euros.

Fair Value Gains on Investment Properties, Net

Net fair value gains on investment properties were \$26.0 million and \$21.5 million in the three month periods ended June 30, 2016 and 2015. In the three month period ended June 30, 2016, the net fair value gains of \$26.0 million were attributable to positive changes in leasing assumptions related to (i) new lease and renewal activities, in particular the 12 year lease renewals associated with two special purpose properties in Canada and the lease up of the remaining vacant space at the development property in Pennsylvania, United States and (ii) market rent increases for certain properties in Granite's portfolio, partially offset by (iii) the negative impact of certain leases in Canada and the United States that are closer to expiry, for which the re-leasing assumptions are less favourable than the terms of leases currently in place.

The net fair value gains in the three month period ended June 30, 2015 of \$21.5 million were attributable to a compression in discount and terminal capitalization rates for certain properties across Granite's portfolio, in particular the two properties recently developed in the United States, partially offset by the negative impact of certain leases in Canada and the United States that are closer to expiry and the re-leasing assumptions are expected to be on less favourable terms than the current leases in place.

Fair Value Losses (Gains) on Financial Instruments

Granite recognized net fair value losses on financial instruments of \$0.7 million and \$0.9 million in the three month periods ended June 30, 2016 and 2015, respectively. The net fair value losses of \$0.7 million in the three month period ended June 30, 2016 primarily consisted of unrealized fair value losses related to changes in estimates to contingent consideration obligations which were recognized in connection with acquisitions completed in 2013, partially offset by unrealized fair value gains on foreign exchange contracts outstanding at the end of the period. The net foreign exchange losses of \$0.9 million in the three month period ended June 30, 2015 consisted of unrealized fair value losses related to foreign exchange contracts outstanding at the end of the period (see note 12 to the unaudited condensed combined financial statements for the three and six month periods ended June 30, 2016).

Loss on Sale of Investment Properties

The loss on sale of investment properties of \$1.0 million for the three month period ended June 30, 2016 was primarily related to the costs associated with the sale of three income-producing properties in the United States and Germany for aggregate gross proceeds of \$23.0 million.

In July 2015, Granite sold an income-producing property located in Germany for gross proceeds of \$3.5 million. The loss on sale of investment properties in the three month period ended June 30, 2015 was primarily comprised of costs associated with the sale of this property.

Income Tax Expense

Income tax expense for the three months ended June 30, 2016 and 2015 was \$8.9 million and \$12.4 million, respectively. Current tax expense (recovery) in the periods comprised of:

	Three Months Ended June 30,	
	2016	2015
Foreign operations	\$1.4	\$ 1.1
Canadian corporate entities	—	(0.1)
Related to the sale of investment properties	1.7	—
Withholding taxes related to foreign dividends received	0.3	—
Change in reserve due to settlements of tax audits	—	(1.4)
Change in other tax reserves, net	0.2	0.1
Current tax expense (recovery)	<u>\$3.6</u>	<u>\$(0.3)</u>

Also included in income tax expense for the three months ended June 30, 2016 and 2015 was a deferred tax expense of \$5.3 million and \$12.7 million, respectively. Virtually all of the deferred tax expense is attributable to the foreign jurisdictions that Granite operates in and is comprised of:

	Three Months Ended June 30,	
	2016	2015
Fair value gains / losses in respect of investment properties	\$ 4.1	\$ 9.3
Timing differences pertaining to tax depreciation	2.5	3.7
Related to the sale of investment properties	(1.8)	—
Other items	0.5	(0.3)
Deferred tax expense	<u>\$ 5.3</u>	<u>\$12.7</u>

The Trust's effective tax rate was 13.3% in the three months ended June 30, 2016 compared to 20.5% in the three months ended June 30, 2015. The decline in the effective tax rate primarily relates to deferred taxes and the jurisdiction in which fair value gains and losses occurred in the second quarter of 2016 compared to the second quarter of 2015.

The Trust is structured with the objective of optimizing after-tax distributions it receives from its various taxable subsidiary entities. Income tax and tax treaty related legislative changes, including those pertaining to withholding taxes, may affect the amount of distributions made to the Trust by its subsidiary entities, and may impact the taxable income earned by the Trust and the sources of income distributed by the Trust.

Net Income

For the three month period ended June 30, 2016, net income was \$57.5 million compared to \$48.2 million in the prior year period. The \$9.3 million net increase was primarily due to a \$2.9 million increase in rental revenue, a \$4.5 million increase in net fair value gains on investment properties and a \$3.5 million decrease in income tax expense, partially offset by a \$1.0 million increase in loss on sale of investment properties and a \$0.7 million increase in foreign exchange losses.

Funds From Operations

<i>(in thousands, except per unit information)</i>	Three Months Ended June 30,		
	2016	2015	Change
Net income attributable to stapled unitholders	\$ 57,179	\$ 46,097	
Add (deduct):			
Fair value gains on investment properties, net	(26,034)	(21,511)	
Fair value losses on financial instruments	682	851	
Loss on sale of investment properties	1,035	48	
Current income tax expense associated with the sale of investment properties	1,688	—	
Deferred income tax expense	5,286	12,710	
Non-controlling interests relating to the above	111	2,109	
FFO	\$ 39,947	\$ 40,304	(1)%
Basic and Diluted FFO per stapled unit	\$ 0.85	\$ 0.86	(1)%
Basic number of stapled units outstanding	47,073	47,017	
Diluted number of stapled units outstanding	47,081	47,087	

FFO for the three month periods ended June 30, 2016 and 2015 was \$39.9 million and \$40.3 million, respectively. The \$0.4 million decrease in FFO was primarily due to:

- i. a \$2.2 million increase in current income tax expense primarily due to a favourable settlement of an income tax audit in 2015;
- ii. an increase in foreign exchange losses of \$0.7 million; and
- iii. an increase in interest expense of \$0.4 million, partially offset by
- iv. an increase in rental revenue and tenant recoveries of \$2.9 million.

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2016

Highlights

<i>(in millions, except per unit information)</i>	Six Months Ended June 30,		
	2016	2015	Change
Rental revenue and tenant recoveries	\$112.8	\$106.5	6%
Net income attributable to stapled unitholders	99.6	100.5	(1)%
Funds from Operations ⁽¹⁾	81.3	79.1	3%
Basic and Diluted FFO per stapled unit ⁽¹⁾	\$ 1.73	\$ 1.68	3%
FFO payout ratio	69%	68%	1%

⁽¹⁾ See "Results of Operations for the Six Months Ended June 30, 2016 — Funds from Operations".

<i>(in millions, except number of properties)</i>	June 30,	December 31,	Change
	2016	2015	
Number of income-producing properties	94	98	(4)%
Leaseable area (sq. ft.)	29.9	30.5	(2)%
Annualized lease payments	\$ 222.8	\$ 228.6	(3)%
Investment properties, fair value	\$2,511.3	\$2,592.4	(3)%

Rental Revenue and Tenant Recoveries

Rental revenue for the six month period ended June 30, 2016 increased \$6.3 million to \$112.8 million from \$106.5 million in the prior year period primarily due to the favourable impact of foreign exchange rates. The change in rental revenue is set out below:

Rental revenue, six months ended June 30, 2015	\$106.5
Contractual rent adjustments	1.2
Completed projects on-stream	0.5
Renewals and re-leasing of income-producing properties	(0.4)
Disposals of income-producing properties	(1.1)
Effect of changes in foreign currency exchange rates	5.7
Other, including straight-line adjustments to rental revenue	0.4
Rental revenue, six months ended June 30, 2016	<u>\$112.8</u>

Additional details pertaining to the changes in rental revenue are as follows:

- i. the \$1.2 million increase in revenue from contractual rent adjustments included \$0.6 million from CPI based increases and \$0.6 million from fixed contract adjustments;
- ii. the completion of improvement and expansion projects in Canada and Austria contributed an incremental \$0.5 million to rental revenue;
- iii. the renewal or extension of seven leases in Canada and the United States at rental rates which were lower than the expiring lease rates decreased revenue by \$0.6 million while the leasing of previously vacant space in the United States increased revenue by \$0.2 million;
- iv. rental revenue was negatively impacted by \$1.1 million due to the sale of income-producing properties in North America and Germany;
- v. foreign exchange had a \$5.7 million positive impact on reported rental revenues as the strengthening of the U.S. dollar and euro against the Cdn. dollar increased rental revenue by \$2.2 million and \$3.6 million, respectively; and
- vi. other items, which had a net positive impact of \$0.4 million on revenue, included \$1.6 million of rent free straight-line revenue adjustments relating to the lease up of the two completed development properties in the United States, partially offset by \$0.9 million in close-out fees received in 2015 with respect to expired leases for properties in the United States and Austria.

Property Operating Costs

Property operating costs, which include property taxes, utilities, insurance, repairs and maintenance, legal and other property-related expenses, were \$3.7 million for the six month period ended June 30, 2016 in comparison to \$3.3 million in the prior year period. The \$0.4 million increase in property costs related to (i) an increase of \$0.2 million in property taxes due to a reduction in rebates associated with vacant properties received in the prior year period and (ii) an increase of \$0.4 million as the recently developed facility in Pennsylvania, United States was under construction in the prior year period, partially offset by (iii) a \$0.4 million reduction in property related advisory costs associated with the Trust's review of strategic alternatives in the prior year period.

General and Administrative Expenses

General and administrative expenses for the six month periods ended June 30, 2016 and 2015 were \$13.9 million and \$13.7 million, respectively. The \$0.2 million net increase included (i) \$0.8 million of professional fees related to certain internal reorganizations, administrative matters, the hiring of new personnel and temporary staff replacements and (ii) \$0.1 million increase in advisory costs incurred with respect to the review of strategic alternatives, partially offset by (iii) a \$0.8 million reduction in compensation costs associated with fewer grants outstanding under Granite's executive unit-based compensation plan and the decreased valuation of the units outstanding under Granite's unit-based compensation plans.

Depreciation and Amortization

Depreciation and amortization expense relates to the amortization of fixed assets pertaining to our offices in Toronto, Canada and Vienna, Austria.

Interest Expense and Other Financing Costs, Net

Net interest expense and other financing costs were \$9.9 million in the six month period ended June 30, 2016 compared to \$9.0 million in the prior year period. The interest expense increased \$0.9 million in the six month period ended June 30, 2016 primarily due to \$1.1 million from increased draws on the construction loans and foreign exchange resulting from the weakening of the Cdn. dollar as all of Granite's debt is effectively denominated in foreign currencies, partially offset by a reduction in interest costs of \$0.3 million associated with a lower outstanding balance on the revolving credit facility.

Foreign Exchange Losses (Gains), Net

Granite recognized net foreign exchange losses of \$0.4 million and \$0.2 million in the six month periods ended June 30, 2016 and 2015, respectively. The net foreign exchange losses of \$0.4 million in the six month period ended June 30, 2016 primarily related to \$0.9 million of net foreign exchange losses arising from the re-measurement of certain assets and liabilities of the Trust that are denominated in U.S. dollars and euros, partially offset by \$0.5 million of realized foreign exchange gains on derivative financial instruments such as foreign exchange contracts. The net foreign exchange losses of \$0.2 million in the six month period ended June 30, 2015 were primarily related to the re-measurement of certain assets and liabilities of the Trust that are denominated in U.S. dollars and euros.

Fair Value Gains on Investment Properties, Net

Net fair value gains on investment properties were \$34.7 million in the six months ended June 30, 2016 compared to \$46.8 million in the prior year period. In the six month period ended June 30, 2016, the net fair value gains of \$34.7 million were primarily attributable to changes in leasing assumptions related to (i) new lease and renewal activities, in particular the 12 year lease renewals associated with two special purpose properties in Canada and the property recently developed and leased in Pennsylvania, United States and (ii) market rent increases and changes in rent assumptions for certain properties in Granite's portfolio. The changes in leasing assumptions were partially offset by the negative impact of certain leases in Canada and the United States that are closer to expiry, for which the re-leasing assumptions are less favourable than the terms of leases currently in place.

In the six month period ended June 30, 2015, the net fair value gains of \$46.8 million were attributable to (i) a compression in discount and terminal capitalization rates for certain properties in Granite's portfolio, in particular properties acquired in Europe in 2013 and two properties recently developed in the United States, together with favourable changes to cash flow assumptions and (ii) positive changes in leasing assumptions for certain properties in the United States, Austria and the Netherlands following recent renewal activity, partially offset by (iii) the negative impact of certain leases in Canada and the United States that are closer to expiry and the re-leasing assumptions are expected to be on less favourable terms than the current leases in place.

Fair Value Losses (Gains) on Financial Instruments

Granite recognized net fair value gains on financial instruments of \$0.2 million in the six month period ended June 30, 2016 in comparison to net fair value losses of \$0.2 million in the six month period ended June 30, 2015. Net fair value gains on financial instruments for the six month period ended June 30, 2016 included \$1.5 million of unrealized fair value gains related to foreign exchange contracts outstanding at the end of the period, partially offset by \$1.3 million of unrealized fair value losses related to changes in estimates to contingent consideration obligations which were recognized in connection with acquisitions completed in 2013. Net fair value losses on financial instruments for the six months ended June 30, 2015 were primarily attributed to fair value losses related to the interest rate caps associated with the mortgages payable (see note 12 to the unaudited condensed combined financial statements for the six month period ended June 30, 2016).

Loss on Sale of Investment Properties

The loss on sale of investment properties of \$1.4 million for the six month period ended June 30, 2016 was primarily related to the costs associated with the sale of five income-producing properties in the United States, Germany and Austria for aggregate gross proceeds of \$32.0 million.

In the six months ended June 30, 2015, Granite disposed of two income-producing properties located in North America for aggregate gross proceeds of \$4.8 million and incurred a \$0.2 million loss on disposal due to the associated selling costs.

Income Tax Expense

Income tax expense for the six months ended June 30, 2016 and 2015 was \$17.0 million and \$23.2 million, respectively. Current tax expense in the period comprised of:

	Six Months Ended June 30,	
	2016	2015
Foreign operations	\$ 2.4	\$ 1.8
Canadian corporate entities	(0.4)	0.1
Related to the sale of investment properties	0.8	0.3
Withholding taxes related to foreign dividends received	0.3	—
Change in reserve due to settlements of tax audits	(0.1)	(1.6)
Change in other tax reserves, net	0.6	0.5
Current tax expense	<u>\$ 3.6</u>	<u>\$ 1.1</u>

Also included in income tax expense for the six months ended June 30, 2016 and 2015 was a deferred tax expense of \$13.5 million and \$22.1 million, respectively. Virtually all of the deferred tax expense is attributable to the foreign jurisdictions that Granite operates in and is comprised of:

	Six Months Ended June 30,	
	2016	2015
Fair value gains / losses in respect of investment properties	\$ 6.7	\$13.7
Timing differences pertaining to tax depreciation	6.0	8.1
Related to the sale of investment properties	(0.9)	—
Other items	1.7	0.3
Deferred tax expense	<u>\$13.5</u>	<u>\$22.1</u>

The Trust's effective tax rate was 14.4% in the six months ended June 30, 2016 as compared to 18.4% in the six months ended June 30, 2015. The decline in the effective tax rate primarily relates to deferred taxes and the jurisdiction in which fair value gains and losses occurred in the six months ended June 30, 2016 compared to the six months ended June 30, 2015.

The Trust is structured with the objective of optimizing after-tax distributions it receives from its various taxable subsidiary entities. Income tax and tax treaty related legislative changes, including those pertaining to withholding taxes, may affect the amount of distributions made to the Trust by its subsidiary entities, and may impact the taxable income earned by the Trust and the sources of income distributed by the Trust.

Net Income

For the six month period ended June 30, 2016, net income was \$100.9 million compared to \$103.1 million in the prior year period. The decrease of \$2.2 million was primarily due to:

- i. a reduction in net fair value gains on investment properties of \$12.1 million;
- ii. an increase in interest expense of \$0.9 million; and

- iii. an increase of \$1.2 million in loss on sale of investment properties, partially offset by;
- iv. an increase in rental revenue and tenant recoveries of \$6.3 million; and
- v. a decrease in income tax expense of \$6.2 million.

Funds From Operations

<i>(in thousands, except per unit information)</i>	Six Months Ended June 30,		
	2016	2015	Change
Net income attributable to stapled unitholders	\$ 99,604	\$100,459	
Add (deduct):			
Fair value gains on investment properties, net	(34,748)	(46,754)	
Fair value losses (gains) on financial instruments	(167)	240	
Loss on sale of investment properties	1,374	233	
Current income tax expense associated with the sale of investment properties	707	350	
Deferred income tax expense	13,465	22,063	
Non-controlling interests relating to the above	1,066	2,508	
FFO	\$ 81,301	\$ 79,099	3%
Basic and Diluted FFO per stapled unit	\$ 1.73	\$ 1.68	3%
Basic number of stapled units outstanding	47,049	47,017	
Diluted number of stapled units outstanding	47,057	47,105	

FFO for the six month periods ended June 30, 2016 and 2015 was \$81.3 million and \$79.1 million, respectively. The \$2.2 million increase in FFO was primarily due to:

- i. a \$6.3 million increase in rental revenue, partially offset by;
- ii. a \$2.1 million increase in current tax expense primarily due to a favourable settlement of an income tax audit in 2015;
- iii. a \$0.9 million increase in interest expense; and
- iv. a \$0.4 million increase in property operating costs.

LIQUIDITY AND CAPITAL RESOURCES

Operating activities generated cash of \$40.4 million and \$89.3 million in the three and six month periods ended June 30, 2016. At June 30, 2016, the Trust had cash and cash equivalents of \$158.5 million and unitholders' equity of \$1.8 billion.

Cash Flows

Three Months Ended June 30, 2016

Operating Activities

Components of the Trust's cash flows for the three month periods ended June 30, 2016 and 2015 were as follows:

	Three Months Ended June 30,	
	2016	2015
Net income	\$ 57.5	\$48.2
Items not involving current cash flows	(20.1)	(6.2)
Current income tax expense (recovery)	3.6	(0.3)
Income taxes paid	(1.7)	(1.2)
Interest expense	4.5	4.2
Interest paid	(4.7)	(4.2)
Changes in working capital balances	1.3	(1.9)
Cash provided by operating activities	\$ 40.4	\$38.6

In the three month period ended June 30, 2016, operating activities generated cash of \$40.4 million compared to \$38.6 million in the prior year period. The increase of \$1.8 million was primarily due to an increase of \$1.8 million in rental revenue (excluding straight-line revenue adjustments) and a \$3.2 million increase in cash provided by changes in working capital balances, partially offset by a \$3.9 million increase in current income tax expense.

In the three month period ended June 30, 2016, changes in working capital balances generated cash of \$1.3 million. The components comprised an increase of \$3.1 million in deferred revenue due to the timing of rental receipts, in particular the receipt of July rents at Granite's two largest facilities located in Graz, Austria, partially offset by an increase of \$1.3 million in accounts receivable primarily due to the value-added tax associated with the construction expenditures for the development property in Wroclaw, Poland and the hold back of sale proceeds from the disposal of a property in Germany and a decrease of \$0.9 million in accounts payable and accrued liabilities primarily related to compensation and severance payments.

For the three month period ended June 30, 2015, the change in working capital balances used cash of \$1.9 million which comprised an increase of \$1.1 million in accounts receivable, primarily due to value-added tax receivable related to the acquisition of development land in Poland and expansion projects in Europe and a decrease of \$2.0 million in deferred revenue due to timing of rental receipts, partially offset by a decrease of \$0.4 million in prepaid expenses and an increase of \$0.9 million in accounts payable and accrued liabilities primarily related to the accrual of incentive compensation pay.

Investing Activities

Investing activities for the second quarter of 2016 generated net cash of \$13.4 million, which primarily consisted of net proceeds of \$22.0 million from the disposal of three income-producing properties during the quarter, partially offset by investment property capital expenditures of \$8.7 million primarily related to the recently completed development property in Poland and tenant improvements to the two developed properties in the United States which were recently leased to non-Magna tenants.

Investing activities for the second quarter of 2015 used cash of \$10.2 million, which primarily consisted of cash payments of \$6.0 million related to the acquisition of development land in Poland and investment property capital expenditures of \$4.1 million primarily related to the construction of the development property in Pennsylvania, United States.

Financing Activities

Cash used in financing activities for the three month period ended June 30, 2016 of \$36.3 million was primarily related to distributions paid of \$28.7 million, \$11.6 million of repayments of U.S. dollar denominated bank

indebtedness and \$0.3 million of repayments of U.S. dollar secured long-term debt, partially offset by \$4.3 million of proceeds from secured long-term debt borrowings to fund the tenant improvement expenditures incurred at the properties in the United States (see “LIQUIDITY AND CAPITAL RESOURCES — Bank and Debenture Financing — Construction Loans”).

Cash used in financing activities for the three month period ended June 30, 2015 of \$30.7 million primarily related to distributions paid of \$27.1 million, the repayment of U.S. dollar denominated bank indebtedness of \$7.4 million and \$0.3 million of repayments of U.S. dollar secured long-term debt, partially offset by \$4.1 million of proceeds from a construction loan.

Six Months Ended June 30, 2016

Operating Activities

Components of the Trust’s cash flows from operating activities for the six month periods ended June 30, 2016 and 2015 were as follows:

	Six Months Ended June 30,	
	2016	2015
Net income	\$100.9	\$103.1
Items not involving current cash flows	(20.3)	(20.9)
Current income tax expense	3.6	1.1
Income taxes recovered (paid)	1.0	(1.9)
Interest expense	9.2	8.3
Interest paid	(9.1)	(8.1)
Changes in working capital balances	4.0	(1.9)
Cash provided by operating activities	\$ 89.3	\$ 79.7

For the six month period ended June 30, 2016, cash provided by operating activities generated cash of \$89.3 million compared to \$79.7 million in the prior year period. The increase of \$9.6 million was primarily related to the \$5.3 million increase in rental revenue (excluding straight-line revenue adjustments) and a \$5.9 million increase in changes in working capital balances, partially offset by the increase in current income tax expense of \$2.5 million.

The change in working capital balances for the six months ended June 30, 2016 resulted in increased cash of \$4.0 million, which consisted of a \$5.4 million increase in deferred revenue due to the timing of rental receipts, in particular, as noted previously, the receipt of July rents at Granite’s two largest facilities located in Graz and a \$0.7 million increase from restricted cash, partially offset by a decrease of \$2.4 million in accounts payable and accrued liabilities mainly related to payments of incentive compensation pay, severance and director/trustee special committee fees.

For the six month period ended June 30, 2015, the change in working capital balances resulted in decreased cash of \$1.9 million, due to a \$1.3 million increase in accounts receivable primarily related to value-added tax receivable associated with the development land acquisition in Poland and expansion projects in Europe and a decrease of \$2.1 million in accounts payable and accrued liabilities mainly related to the payment of incentive compensation pay, partially offset by a decrease of \$0.4 million in prepaid expenses and a \$1.2 million increase in deferred revenue due to the timing of rental receipts.

Investing Activities

Investing activities for the six month period ended June 30, 2016 generated cash of \$14.1 million. The major components included \$30.7 million of net proceeds received from the disposition of five income-producing properties, partially offset by \$16.5 million of investment property capital expenditures primarily for the development properties in Poland and the United States as noted previously.

For the six months ended June 30, 2015, investing activities used cash of \$24.0 million which included \$14.9 million of investment property capital expenditures primarily for projects in the United States and

Austria, \$6.0 million paid with respect to the acquisition of development land in Poland and \$7.7 million of income tax payments related to the disposition of the Mexican investment property portfolio in June 2014, partially offset by \$4.7 million of net proceeds received from the disposal of two income-producing properties.

Financing Activities

For the six month period ended June 30, 2016, financing activities used cash of \$58.9 million which largely comprised distribution payments of \$55.7 million and \$11.6 million of U.S. dollar denominated bank indebtedness repayments, partially offset by \$9.3 million of U.S. dollar secured long-term debt borrowings used to fund tenant improvement expenditures at the two developed properties in the United States which were recently leased to non-Magna tenants.

Cash used in financing activities for the six month period ended June 30, 2015 of \$60.1 million was primarily related to distribution payments of \$54.2 million and the repayment of U.S. dollar denominated bank indebtedness of \$18.7 million, partially offset by \$13.3 million of U.S. dollar secured long-term debt borrowings related to the construction of the property in Pennsylvania, United States.

Bank and Debenture Financing

Granite's debt consisted of the following:

	June 30, 2016		December 31, 2015	
	Carrying Value	Percent of Total	Carrying Value	Percent of Total
Unsecured debentures, net	\$ 448.0	80%	\$ 447.7	76%
Cross currency interest rate swaps	7.4	1	25.3	4
Mortgages, net	45.5	8	49.0	9
Construction loans, net	54.4	10	48.0	8
Bank indebtedness	6.5	1	19.4	3
	<u>\$ 561.8</u>	<u>100%</u>	<u>\$ 589.4</u>	<u>100%</u>
Fair value of investment properties	<u>\$2,511.3</u>		<u>\$2,592.4</u>	
Leverage ratio ⁽¹⁾	<u>22%</u>		<u>23%</u>	

⁽¹⁾ Defined as total debt divided by the total fair value of investment properties.

Unsecured Debentures and Cross Currency Interest Rate Swaps

In July 2014, the Trust issued \$250.0 million of Series 2 senior debentures due July 5, 2021 (the "2021 Debentures"). Interest on the 2021 Debentures is payable semi-annually in arrears on January 5 and July 5 of each year. The 2021 Debentures rank equally with all of the Trust's existing and future unsubordinated and unsecured indebtedness and are guaranteed by Granite REIT and Granite GP. At June 30, 2016, all of the 2021 Debentures remained outstanding and the balance net of issuance costs was \$248.9 million.

Also in July 2014, the Trust entered into a cross currency interest rate swap to exchange the Cdn. dollar 3.788% interest payments from the 2021 Debentures to euro denominated payments at 2.68%. In addition, under the terms of the swap, the Trust will pay principal proceeds of euro 171.9 million for \$250.0 million on July 5, 2021. As at June 30, 2016, the fair value of the cross currency interest rate swap was a net financial liability of \$1.3 million.

In October 2013, the Trust issued \$200.0 million of Series 1 senior debentures due October 2, 2018 (the "2018 Debentures"). Interest on the 2018 Debentures is payable semi-annually in arrears on April 2 and October 2 of each year. The 2018 Debentures rank equally with all of the Trust's existing and future unsubordinated and unsecured indebtedness and are guaranteed by Granite REIT and Granite GP. At June 30, 2016, all of the 2018 Debentures remained outstanding and the balance net of issuance costs was \$199.1 million.

Also in October 2013, the Trust entered into a cross currency interest rate swap to exchange the \$200.0 million proceeds and related 4.613% interest payments from the 2018 Debentures to euro 142.3 million and euro denominated interest payments at a 3.56% interest rate. Under the terms of the swap, on October 2, 2018, the

Trust will repay the principal proceeds received of euro 142.3 million for \$200.0 million. As at June 30, 2016, the fair value of the cross currency interest rate swap was a net financial liability of \$6.0 million.

Mortgages

In connection with acquisitions completed in 2013, the Trust has two mortgages outstanding totalling \$45.5 million (U.S. \$35.0 million), net of issuance costs. The mortgages mature on June 10, 2017 and May 10, 2018, respectively, and both bear interest at LIBOR plus 2.50%. Interest rate caps were entered into for 100% of the mortgage amounts and for the duration of the mortgages thereby limiting the interest rate exposure to a maximum of 4.0%. The mortgages are recourse only to the three investment properties acquired which are pledged as collateral.

Construction Loans

In June 2014, Granite entered into a secured loan for U.S. \$26.2 million (the “2017 Construction Loan”) relating to the construction of a 0.75 million square foot industrial facility in the United States. The 2017 Construction Loan bears interest at LIBOR plus 2.25% and matures on June 20, 2017. Proceeds from the 2017 Construction Loan may only be used to pay for the construction cost of improvements on the property and other related costs, and loan advances are made based on the value of the work completed. Granite also has the option to extend the maturity date for two successive periods to June 20, 2018 and 2019, subject to certain terms and conditions. The 2017 Construction Loan is secured by a first mortgage lien on the property. At June 30, 2016, the amount outstanding net of issuance costs was \$30.9 million (U.S. \$23.7 million).

In July 2013, the Trust entered into a secured loan for U.S. \$17.0 million (the “2016 Construction Loan”) relating to the construction of a 0.63 million square foot multipurpose facility in the United States. The 2016 Construction Loan bears interest at LIBOR plus 2.25% and matures on July 25, 2016. Proceeds from the 2016 Construction Loan may only be used to pay for the cost of improvements on the property and other related costs, and loan advances are made based on the value of the work completed. The maximum amount available under the 2016 Construction Loan may be increased to U.S. \$19.0 million, subject to certain terms and conditions being met. The Trust has the option to extend the maturity date for two successive periods to July 25, 2017 and 2018, subject to certain terms and conditions. The 2016 Construction Loan is secured by a first mortgage lien on the property. At June 30, 2016, the amount outstanding net of issuance costs was \$23.6 million (U.S. \$18.1 million). During the six month period ended June 30, 2016, the maximum commitment amount available under the 2016 Construction Loan was increased to U.S. \$19.0 million from U.S. \$17.0 million. In addition, subsequent to June 30, 2016, the 2016 Construction Loan was extended to July 25, 2017.

Credit Facility

Effective December 11, 2014, the Trust entered into an amended and restated agreement for an unsecured senior revolving credit facility in the amount of \$250.0 million that is available by way of Cdn. dollar, U.S. dollar or euro denominated loans or letters of credit (the “Granite Credit Facility”) and matures on February 1, 2018. The Trust has the option to extend the maturity date by one year to February 1, 2019, subject to the agreement of the lenders in respect of a minimum of 66% of the aggregate amount committed under the Granite Credit Facility. The Granite Credit Facility provides Granite with the ability to increase the amount of the commitment by an additional aggregate principal amount of up to \$50.0 million with the consent of the participating lenders. Interest on drawn amounts is calculated based on an applicable margin of 1.45% determined by the Trust’s current external credit rating. At June 30, 2016, the Trust had \$6.5 million (U.S. \$5.0 million) drawn under the Granite Credit Facility and \$0.3 million in letters of credit issued against the Granite Credit Facility. Management believes that the Trust’s cash resources, cash flow from operations and available third-party borrowings will be sufficient to finance its operations and capital expenditures program over the next year as well as pay distributions. Additional acquisition and development activity will depend on the availability of suitable investment opportunities and related financing.

At June 30, 2016, the Trust was in compliance with its debt agreements and related covenants.

Credit Ratings

On December 10, 2015, Moody's Investors Service, Inc. confirmed its credit rating of the Trust of Baa2 with a stable outlook. On May 26, 2016, DBRS Limited confirmed the BBB rating on the 2018 Debentures and 2021 Debentures with a stable trend. Credit ratings are intended to provide investors with an independent measure of credit quality of an issue of securities. A rating accorded to any security is not a recommendation to buy, sell or hold such securities and may be subject to revision or withdrawal at any time by the rating organization which granted such ratings.

Distributions

As required by National Policy 41-201, *Income Trusts and Other Indirect Offerings*, the following table outlines the differences between cash flow from operating activities and cash distributions as well as the differences between net income and cash distributions, in accordance with the guidelines.

<i>(in thousands)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	<u>\$ 57,524</u>	<u>\$ 48,241</u>	<u>\$100,923</u>	<u>\$103,056</u>
Cash provided by operating activities	<u>40,432</u>	<u>38,561</u>	<u>89,303</u>	<u>79,681</u>
Distributions paid and payable	<u>(28,668)</u>	<u>(27,081)</u>	<u>(56,278)</u>	<u>(54,163)</u>
Cash flows from operating activities over distributions paid and payable	<u>\$ 11,764</u>	<u>\$ 11,480</u>	<u>\$ 33,025</u>	<u>\$ 25,518</u>

Distributions declared to stapled unitholders in the three month periods ended June 30, 2016 and 2015 were \$28.7 million or 60.9 cents per stapled unit and \$27.1 million or 57.6 cents per stapled unit, respectively. Total distributions declared to stapled unitholders in the six months ended June 30, 2016 and 2015 were \$56.3 million or \$1.20 per stapled unit and \$54.2 million or \$1.15 per stapled unit, respectively. Distributions for the three and six month periods ended June 30, 2016 and 2015 were funded from cash flows from operating activities.

Net income prepared in accordance with IFRS recognizes revenue and expenses at time intervals that do not necessarily match the receipt or payment of cash. Therefore, when establishing cash distributions to unitholders, consideration is given to factors such as cash generated from and required for operating activities and forward-looking cash flow information, including forecasts and budgets. Management does not expect current or potential commitments to replace and maintain its investment properties to adversely affect distributions.

CONTROLS AND PROCEDURES

During the second quarter of 2016, there were no changes in the internal controls over financial reporting that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

COMMITMENTS, CONTRACTUAL OBLIGATIONS, CONTINGENCIES AND OFF-BALANCE SHEET ARRANGEMENTS

In the ordinary course of business activities, the Trust may become subject to litigation and other claims brought by, among others, tenants, suppliers and former employees. Management believes that adequate provisions have been recorded in the accounts where required. Although it is not possible to accurately estimate the extent of potential costs and losses, if any, management believes, but can provide no assurance, that the ultimate resolution of such claims would not have a material effect on the financial position of the Trust.

Off-balance sheet arrangements consist of letters of credit, construction and development project commitments and certain operating agreements. At June 30, 2016, the Trust had contractual commitments

related to construction and development projects amounting to approximately \$3.3 million and commitments on non-cancellable operating leases requiring future minimum annual rental payments as follows:

Not later than 1 year	\$0.5
Later than 1 year and not later than 5 years	1.8
Later than 5 years	0.4
	<u>\$2.7</u>

In addition, the Trust is committed to making annual payments under two ground leases for the land upon which two income-producing properties are situated of \$0.5 million and \$0.1 million to the years 2049 and 2096, respectively, and to making future payments of interest and principal on long-term debt.

For further discussion of commitments, contractual obligations, contingencies and off-balance sheet arrangements, refer to notes 5, 6, 8, 15 and 17 to the unaudited condensed combined financial statements for the three and six month periods ended June 30, 2016.

OUTSTANDING STAPLED UNITS

As at the date of this MD&A, the Trust had 47,073,026 stapled units issued and outstanding.

DISTRIBUTIONS

Granite REIT's monthly distribution to unitholders is currently 20.3 cents per stapled unit, representing, on an annualized basis, \$2.44 per stapled unit. Total distributions declared in the three and six months ended June 30, 2016 were \$28.7 million and \$56.3 million, respectively. On July 18, 2016, distributions of \$9.6 million or 20.3 cents per stapled unit were declared and will be paid on August 15, 2016.

The portion of distributions by Granite REIT for 2016 which will be income for Canadian income tax purposes is currently estimated to be in the range of 85% to 95%. This estimate could change by the end of 2016.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with IFRS requires management to apply judgment and make estimates that affect the amounts reported and disclosed in the combined financial statements. Management bases estimates on historical experience and various other assumptions that are believed to be reasonable in the circumstances, the results of which form the basis for making judgments about the values of assets and liabilities. On an ongoing basis, management evaluates its estimates. However, actual results could differ from those estimates.

The Trust's significant accounting policies that involve the most judgment and estimates are as follows:

Judgments

Leases

The Trust's policy for revenue recognition is described in note 2(j) of the audited combined financial statements for the year ended December 31, 2015. The Trust makes judgments in determining whether certain leases are operating or finance leases, in particular tenant leases with long contractual terms, leases where the property is a large square-footage and/or architecturally unique and long-term ground leases where the Trust is the lessee.

Investment properties

The Trust's policy relating to investment properties is described in note 2(d) of the audited combined financial statements for the year ended December 31, 2015. In applying this policy, judgment is applied in determining whether certain costs incurred for tenant improvements are additions to the carrying amount of the property or represent incentives, identifying the point at which practical completion of properties under development occurs and determining borrowing costs to be capitalized to the carrying value of properties under development. Judgment is also applied in determining the use, extent and frequency of independent appraisals.

Income taxes

The Trust applies judgment in determining whether it will continue to qualify as a REIT for both Canadian and U.S. tax purposes for the foreseeable future. However, should it at some point no longer qualify, the Trust would be subject to income tax which could materially affect future distributions to unitholders and would also be required to recognize current and deferred income taxes.

Estimates and Assumptions

Valuation of investment properties

The fair value of investment properties is determined by management using primarily the discounted cash flow method in which the income and expenses are projected over the anticipated term of the investment plus a terminal value discounted using an appropriate discount rate. The Trust obtains, from time to time, appraisals from independent qualified real estate valuation experts. However, the Trust does not measure its investment properties based on these valuations but uses such appraisals as data points, together with other external market information accumulated by management, in arriving at its own conclusions on values. There has been no change in the valuation methodology used during the period. The critical assumptions relating to the Trust's estimates of fair values of investment properties include the receipt of contractual rents, contractual renewal terms, expected future market rental rates, discount rates that reflect current market uncertainties, capitalization rates and recent investment property prices. If there is any change in these assumptions or regional, national or international economic conditions, the fair value of investment properties may change materially. Refer to note 3 of the unaudited condensed combined financial statements for the three and six month periods ended June 30, 2016 for further information on the estimates and assumptions made by management in connection with the fair values of investment properties.

Fair value of financial instruments

Where the fair value of financial assets or liabilities recorded on the balance sheet or disclosed in the notes cannot be derived from active markets, it is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as credit risk and volatility. Changes in assumptions about these factors could materially affect the reported fair value of financial instruments.

Income taxes

The Trust operates in a number of countries and is subject to the income tax laws and related tax treaties in each of its operating jurisdictions. These laws and treaties can be subject to different interpretations by relevant taxation authorities. Significant judgment is required in the estimation of Granite's income tax expense, interpretation and application of the relevant tax laws and treaties and provision for any exposure that may arise from tax positions that are under audit by relevant taxation authorities.

The recognition and measurement of deferred tax assets or liabilities is dependent on management's estimate of future taxable profits and income tax rates that are expected to be in effect in the period the asset is realized or the liability is settled. Any changes in management's estimates can result in changes in deferred tax assets or liabilities as reported in the combined balance sheets and also the deferred income tax expense in the combined statements of income.

NEW ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS

The accounting policies adopted in the preparation of the condensed combined financial statements are consistent with those followed in the preparation of the Trust's annual combined financial statements for the year ended December 31, 2015.

Future Accounting Policy Changes

New accounting standards issued but not yet applicable to the combined financial statements for the three and six month periods ended June 30, 2016, are described below. Granite intends to adopt these standards when they become effective.

IFRS 9, Financial Instruments (“IFRS 9”)

In July 2014, the International Accounting Standards Board (“IASB”) issued the final version of IFRS 9, *Financial Instruments* (“IFRS 9”) which will replace IAS 39, *Financial Instruments: Recognition and Measurement* (“IAS 39”). IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities and requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. While determination is made at initial recognition, classification depends on the entity’s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The most significant change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity’s own credit risk is recorded in other comprehensive income rather than the income statement. IFRS 9 has a mandatory effective date for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Trust has not yet determined the impact of this standard on its combined financial statements.

IFRS 15, Revenue from Contracts with Customers (“IFRS 15”)

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers* (“IFRS 15”) which provides a single comprehensive model to account for revenue arising from contracts with customers. The objective of IFRS 15 is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. The core principle of the standard is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects consideration to which the entity expects to be entitled in exchange for those goods and services. IFRS 15 excludes contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. The standard has a mandatory effective date for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Trust has not yet determined the impact of this standard on its combined financial statements.

IFRS 16, Leases (“IFRS 16”)

In January 2016, the IASB issued IFRS 16, *Leases* (“IFRS 16”) which replaces IAS 17, *Leases* and its associate interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains similar to current accounting practice. The standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted for entities that apply IFRS 15. The Trust does not expect this standard to have a significant impact on its combined financial statements.

IFRS 2, Share-based Payment (“IFRS 2”)

In June 2016, the IASB issued amendments to IFRS 2, *Share-based Payment* (“IFRS 2”) clarifying how to account for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature and a modification to the terms and conditions that change the classification of the transactions. These amendments are effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Trust has not yet determined the impact of this standard on its combined financial statements.

RISKS AND UNCERTAINTIES

Investing in the Trust’s stapled units involves a high degree of risk. There are a number of risk factors that could have a material adverse effect on our business, financial condition, operating results and prospects. These risks and uncertainties are discussed in our AIF filed with securities regulators in Canada and available online at www.sedar.com and Annual Report on Form 40-F filed with the SEC and available online on EDGAR at www.sec.gov, each in respect of the year ended December 31, 2015, and remain substantially unchanged in respect of the three and six month periods ended June 30, 2016.

SUPPLEMENTARY QUARTERLY FINANCIAL DATA (UNAUDITED)

Refer to note 2 of the audited combined financial statements for the year ended December 31, 2015 for a description of the accounting policies used in the determination of the financial data.

	Q2'16	Q1'16	Q4'15	Q3'15	Q2'15	Q1'15	Q4'14	Q3'14
Rental revenue and tenant recoveries	\$56,387	\$56,377	\$54,939	\$54,854	\$53,470	\$53,036	\$51,016	\$51,301
Net income attributable to stapled unitholders: ^{(1),(2)}	\$57,179	\$42,425	\$45,165	\$47,710	\$46,097	\$54,362	\$21,454	\$3,636
Add (deduct):								
Fair value losses (gains) on investment properties	(26,034)	(8,714)	(11,041)	(15,287)	(21,511)	(25,243)	17,793	4,704
Fair value losses (gains) on financial instruments	682	(849)	262	1,258	851	(611)	38	124
Acquisition transaction costs	—	—	—	—	—	—	189	—
Loss (gain) on sale of investment properties	1,035	339	454	726	48	185	(1,678)	80
Current income tax expense (recovery) associated with the sale of investment properties	1,688	(981)	—	351	—	350	439	—
Deferred income tax expense (recovery)	5,286	8,179	4,486	5,746	12,710	9,353	(1,832)	1,580
Non-controlling interests relating to the above	111	955	170	(733)	2,109	399	(157)	9
FFO	\$39,947	\$41,354	\$39,496	\$39,771	\$40,304	\$38,795	\$36,246	\$10,133
Adjustments to calculate comparable FFO ⁽³⁾	—	—	—	—	—	—	—	28,580
Comparable FFO ⁽³⁾	\$39,947	\$41,354	\$39,496	\$39,771	\$40,304	\$38,795	\$36,246	\$38,713
Basic FFO per stapled unit	\$0.85	\$0.88	\$0.84	\$0.85	\$0.86	\$0.82	\$0.77	\$0.22
Diluted FFO per stapled unit	\$0.85	\$0.88	\$0.84	\$0.84	\$0.86	\$0.82	\$0.77	\$0.22
Basic comparable FFO per stapled unit ⁽³⁾	\$0.85	\$0.88	\$0.84	\$0.85	\$0.86	\$0.82	\$0.77	\$0.82
Diluted comparable FFO per stapled unit ⁽³⁾	\$0.85	\$0.88	\$0.84	\$0.84	\$0.86	\$0.82	\$0.77	\$0.82
Cash distributions declared per stapled unit	\$0.609	\$0.587	\$0.576	\$0.576	\$0.576	\$0.576	\$0.558	\$0.549
Payout ratio ⁽³⁾	72%	67%	69%	68%	67%	70%	72%	67%
Basic stapled units outstanding	47,073	47,025	47,017	47,017	47,017	47,017	47,014	47,014
Diluted stapled units outstanding	47,081	47,032	47,025	47,100	47,087	47,085	47,091	47,083

⁽¹⁾ The results for 2016 include \$8.7 million and \$26.0 million (\$6.1 million and \$21.9 million net of income taxes) in the first and second quarters of net fair value gains on investment properties.

⁽²⁾ The results for 2015 included \$25.2 million, \$21.5 million, \$15.3 million and \$11.0 million (\$20.8 million, \$12.4 million, \$9.8 million and \$6.9 million net of income taxes) in the first, second, third and fourth quarters of net fair value gains on investment properties.

The results for 2014 included \$4.7 million and \$17.8 million (\$2.9 million and \$16.3 million net of income taxes) in the third and fourth quarters of net fair value losses on investment properties and \$28.6 million (\$28.6 million net of income taxes) in the third quarter related to the early redemption of unsecured debentures which were due on December 22, 2016 (the "2016 Debentures").

⁽³⁾ Comparable FFO in the third quarter of 2014 excludes \$28.6 million with respect to the early redemption costs of the 2016 Debentures.

FORWARD-LOOKING STATEMENTS

This MD&A may contain statements that, to the extent they are not recitations of historical fact, constitute “forward-looking statements” or “forward-looking information” within the meaning of applicable securities legislation, including the United States Securities Act of 1933, as amended, the United States Securities Exchange Act of 1934, as amended, and applicable Canadian securities legislation. Forward-looking statements and forward-looking information may include, among others, statements regarding Granite’s future plans, goals, strategies, intentions, beliefs, estimates, costs, objectives, capital structure, cost of capital, tenant base, tax consequences, economic performance or expectations, or the assumptions underlying any of the foregoing. Words such as “may”, “would”, “could”, “should”, “will”, “likely”, “expect”, “anticipate”, “believe”, “intend”, “plan”, “forecast”, “project”, “estimate”, “seek” and similar expressions are used to identify forward-looking statements and forward-looking information. Forward-looking statements and forward-looking information should not be read as guarantees of future events, performance or results and will not necessarily be accurate indications of whether or the times at or by which such future performance will be achieved. Undue reliance should not be placed on such statements. There can also be no assurance that intended developments in Granite’s relationships with its tenants, the expansion and diversification of Granite’s real estate portfolio, Granite’s ability to purchase stapled units under its NCIB, the improvement of the overall quality of assets, the increase of overall operational expertise, market knowledge, asset, leasing and property management capabilities and the expected increases in leverage can be achieved in a timely manner, with the expected impact or at all. Forward-looking statements and forward-looking information are based on information available at the time and/or management’s good faith assumptions and analyses made in light of Granite’s perception of historical trends, current conditions and expected future developments, as well as other factors Granite believes are appropriate in the circumstances, and are subject to known and unknown risks, uncertainties and other unpredictable factors, many of which are beyond Granite’s control, that could cause actual events or results to differ materially from such forward-looking statements and forward-looking information. Important factors that could cause such differences include, but are not limited to, the risk of changes to tax or other laws and treaties that may adversely affect Granite REIT’s mutual fund trust status under the *Income Tax Act* (Canada) (the “Tax Act”) or the effective tax rate in other jurisdictions in which Granite operates; economic, market and competitive conditions and other risks that may adversely affect Granite’s ability to achieve desired developments in its relationships with its tenants, expand and diversify its real estate portfolio and increase its leverage; and the risks set forth in the “Risk Factors” section in Granite’s AIF for 2015 dated March 2, 2016, filed on SEDAR at www.sedar.com and attached as Exhibit 1 to the Trust’s Annual Report on Form 40-F for the year ended December 31, 2015 filed with the SEC and available online on EDGAR at www.sec.gov, all of which investors are strongly advised to review. The “Risk Factors” section also contains information about the material factors or assumptions underlying such forward-looking statements and forward-looking information. Forward-looking statements and forward-looking information speak only as of the date the statements and information were made and unless otherwise required by applicable securities laws, Granite expressly disclaims any intention and undertakes no obligation to update or revise any forward-looking statements or forward-looking information contained in this MD&A to reflect subsequent information, events or circumstances or otherwise.

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Condensed Combined Financial Statements
of Granite Real Estate Investment Trust
and Granite REIT Inc.

For the three and six months ended June 30, 2016 and 2015

Condensed Combined Balance Sheets

(Canadian dollars in thousands)

(Unaudited)

<u>As at</u>	<u>Note</u>	<u>June 30, 2016</u>	<u>December 31, 2015</u>
ASSETS			
Non-current assets:			
Investment properties	3	\$2,511,331	\$2,592,386
Deferred tax assets		6,875	7,776
Fixed assets, net		855	1,197
Other assets	4	1,389	1,629
		<u>2,520,450</u>	<u>2,602,988</u>
Current assets:			
Accounts receivable		3,597	3,849
Income taxes receivable		394	3,172
Prepaid expenses and other		1,665	1,337
Restricted cash		612	1,336
Cash and cash equivalents		158,508	119,155
Total assets		<u>\$2,685,226</u>	<u>\$2,731,837</u>
LIABILITIES AND EQUITY			
Non-current liabilities:			
Unsecured debentures, net	5	\$ 447,962	\$ 447,657
Cross currency interest rate swaps	5	7,361	25,252
Secured long-term debt	6	15,118	76,117
Deferred tax liabilities		209,951	207,966
Other non-current liabilities	7	13,923	12,884
		<u>694,315</u>	<u>769,876</u>
Current liabilities:			
Deferred revenue		12,070	7,061
Bank indebtedness	8	6,505	19,376
Current portion of secured long-term debt	6	84,829	20,874
Accounts payable and accrued liabilities	9	29,964	39,015
Distributions payable	10	9,556	9,027
Income taxes payable		9,265	7,821
Total liabilities		<u>846,504</u>	<u>873,050</u>
Equity:			
Stapled unitholders' equity		1,828,460	1,849,031
Non-controlling interests		10,262	9,756
Total equity		<u>1,838,722</u>	<u>1,858,787</u>
Total liabilities and equity		<u>\$2,685,226</u>	<u>\$2,731,837</u>

Commitments and contingencies (note 17)

See accompanying notes

Condensed Combined Statements of Income
(Canadian dollars in thousands)
(Unaudited)

	Note	Three Months Ended June 30,		Six Months Ended June 30,	
		2016	2015	2016	2015
Rental revenue and tenant recoveries		\$ 56,387	\$ 53,470	\$112,764	\$106,506
Property operating costs	12(a)	1,646	1,584	3,689	3,322
General and administrative expenses	12(b)	6,998	7,239	13,922	13,690
Depreciation and amortization		176	180	355	359
Interest expense and other financing costs, net	12(c)	4,887	4,483	9,939	8,970
Foreign exchange losses (gains), net		619	(68)	434	192
Fair value gains on investment properties, net	3	(26,034)	(21,511)	(34,748)	(46,754)
Fair value losses (gains) on financial instruments	12(d)	682	851	(167)	240
Loss on sale of investment properties	3	1,035	48	1,374	233
Income before income taxes		66,378	60,664	117,966	126,254
Income tax expense	13	8,854	12,423	17,043	23,198
Net income		\$ 57,524	\$ 48,241	\$100,923	\$103,056
Net income attributable to:					
Stapled unitholders		\$ 57,179	\$ 46,097	\$ 99,604	\$100,459
Non-controlling interests		345	2,144	1,319	2,597
		<u>\$ 57,524</u>	<u>\$ 48,241</u>	<u>\$100,923</u>	<u>\$103,056</u>

See accompanying notes

Condensed Combined Statements of Comprehensive Income

(Canadian dollars in thousands)

(Unaudited)

	Note	Three Months Ended June 30,		Six Months Ended June 30,	
		2016	2015	2016	2015
Net income		\$ 57,524	\$48,241	\$100,923	\$103,056
Other comprehensive income (loss):					
Foreign currency translation adjustment ⁽¹⁾ . . .		(30,335)	13,467	(85,690)	27,797
Unrealized gains (losses) on cross currency interest rate swaps, includes income taxes of nil ⁽¹⁾	5(b)	13,173	(7,502)	17,836	14,095
Net foreign exchange gain (loss) on net investment hedge, includes income taxes of nil ⁽¹⁾		82	1,056	1,299	(4,697)
Total other comprehensive income (loss)		(17,080)	7,021	(66,555)	37,195
Comprehensive income		\$ 40,444	\$55,262	\$ 34,368	\$140,251

⁽¹⁾ Items that may be reclassified subsequently to net income

Comprehensive income attributable to:					
Stapled unitholders		\$ 40,100	\$53,163	\$ 33,610	\$137,263
Non-controlling interests		344	2,099	758	2,988
Comprehensive income		\$ 40,444	\$55,262	\$ 34,368	\$140,251

See accompanying notes

Condensed Combined Statements of Equity
(Canadian dollars in thousands)
(Unaudited)

Six Months Ended June 30, 2016	Number of Units	Stapled Units	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Total	Non-controlling interests	Total
Equity at January 1, 2016	47,017	\$2,124,198	\$61,425	\$(557,092)	\$220,500	\$1,849,031	\$ 9,756	\$1,858,787
Net income	—	—	—	99,604	—	99,604	1,319	100,923
Other comprehensive loss	—	—	—	—	(65,994)	(65,994)	(561)	(66,555)
Distributions	—	—	—	(56,278)	—	(56,278)	(252)	(56,530)
Units issued on settlement of deferred stapled units	56	2,097	—	—	—	2,097	—	2,097
Equity at June 30, 2016	47,073	\$2,126,295	\$61,425	\$(513,766)	\$154,506	\$1,828,460	\$10,262	\$1,838,722

Six Months Ended June 30, 2015	Number of Units	Stapled Units	Contributed surplus	Deficit	Accumulated other comprehensive income	Total	Non-controlling interests	Total
Equity at January 1, 2015	47,017	\$2,124,202	\$61,425	\$(642,099)	\$ 86,457	\$1,629,985	\$6,258	\$1,636,243
Net income	—	—	—	100,459	—	100,459	2,597	103,056
Other comprehensive income	—	—	—	—	36,804	36,804	391	37,195
Distributions	—	—	—	(54,163)	—	(54,163)	(100)	(54,263)
Units issued on settlement of deferred stapled units	— ⁽¹⁾	1	—	—	—	1	—	1
Equity at June 30, 2015	47,017	\$2,124,203	\$61,425	\$(595,803)	\$123,261	\$1,713,086	\$9,146	\$1,722,232

⁽¹⁾ 37 stapled units were issued

See accompanying notes

Condensed Combined Statements of Cash Flows
(Canadian dollars in thousands)
(Unaudited)

	Note	Three Months Ended June 30,		Six Months Ended June 30,	
		2016	2015	2016	2015
OPERATING ACTIVITIES					
Net income		\$ 57,524	\$ 48,241	\$100,923	\$103,056
Items not involving current cash flows	14(a)	(20,131)	(6,238)	(20,316)	(20,934)
Current income tax expense (recovery)	13(a)	3,568	(287)	3,578	1,135
Income taxes recovered (paid)		(1,653)	(1,198)	987	(1,856)
Interest expense		4,495	4,150	9,222	8,346
Interest paid		(4,686)	(4,245)	(9,093)	(8,178)
Changes in working capital balances	14(b)	1,315	(1,862)	4,002	(1,888)
Cash provided by operating activities		<u>40,432</u>	<u>38,561</u>	<u>89,303</u>	<u>79,681</u>
INVESTING ACTIVITIES					
Investment properties:					
Proceeds on disposal, net	3	22,027	—	30,663	4,668
Capital expenditures		(8,709)	(4,132)	(16,517)	(14,861)
Acquisition of development land	3	—	(5,990)	—	(5,990)
Fixed asset additions		(3)	(45)	(24)	(92)
Decrease (increase) in other assets		57	(82)	(58)	(41)
Cash used in investing activities from discontinued operations	14(d)	—	—	—	(7,725)
Cash provided by (used in) investing activities		<u>13,372</u>	<u>(10,249)</u>	<u>14,064</u>	<u>(24,041)</u>
FINANCING ACTIVITIES					
Distributions paid		(28,667)	(27,081)	(55,749)	(54,163)
Proceeds from secured long-term debt		4,340	4,053	9,256	13,267
Repayment of secured long-term debt		(279)	(266)	(575)	(418)
Repayments of bank indebtedness		(11,572)	(7,368)	(11,572)	(18,693)
Financing costs paid		—	(3)	(25)	(33)
Distributions to non-controlling interests		(81)	(61)	(252)	(100)
Cash used in financing activities		<u>(36,259)</u>	<u>(30,726)</u>	<u>(58,917)</u>	<u>(60,140)</u>
Effect of exchange rate changes on cash and cash equivalents		(2,436)	1,680	(5,097)	996
Net increase (decrease) in cash and cash equivalents during the period		15,109	(734)	39,353	(3,504)
Cash and cash equivalents, beginning of period		143,399	113,463	119,155	116,233
Cash and cash equivalents, end of period		<u>\$158,508</u>	<u>\$112,729</u>	<u>\$158,508</u>	<u>\$112,729</u>

See accompanying notes

Notes to Condensed Combined Financial Statements

(All amounts in Canadian dollars and all tabular amounts in thousands unless otherwise noted)

(All amounts as at June 30, 2016 and December 31, 2015 and for the three and six month periods ended June 30, 2016 and 2015 are unaudited)

1. NATURE AND DESCRIPTION OF THE TRUST

Effective January 3, 2013, Granite Real Estate Inc. (“Granite Co.”) completed its conversion from a corporate structure to a stapled unit real estate investment trust (“REIT”) structure. All of the common shares of Granite Co. were exchanged, on a one-for-one basis, for stapled units, each of which consists of one unit of Granite Real Estate Investment Trust (“Granite REIT”) and one common share of Granite REIT Inc. (“Granite GP”). Granite REIT is an unincorporated, open ended, limited purpose trust established under and governed by the laws of the province of Ontario and created pursuant to a Declaration of Trust dated September 28, 2012 and amended on January 3, 2013. Granite GP was incorporated on September 28, 2012 under the *Business Corporations Act* (British Columbia). Granite REIT, Granite GP and their subsidiaries (together “Granite” or the “Trust”) are carrying on the business previously conducted by Granite Co.

The stapled units trade on the Toronto Stock Exchange and on the New York Stock Exchange. The principal office of Granite REIT is 77 King Street West, Suite 4010, P.O. Box 159, Toronto-Dominion Centre, Toronto, Ontario, M5K 1H1, Canada. The registered office of Granite GP is Suite 2600, Three Bentall Centre, 595 Burrard Street P.O. Box 49314, Vancouver, British Columbia, V7X 1L3, Canada.

The Trust is a Canadian-based REIT engaged in the ownership and management of predominantly industrial, warehouse and logistics properties in North America and Europe. The Trust’s tenant base currently includes Magna International Inc. and its operating subsidiaries (together “Magna”) as its largest tenants, together with tenants from other industries.

These condensed combined financial statements were approved by the Board of Trustees of Granite REIT and Board of Directors of Granite GP on August 3, 2016.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation and Statement of Compliance

The condensed combined financial statements for the three and six month periods ended June 30, 2016 have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board (“IASB”). These interim condensed combined financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Trust’s annual financial statements as at and for the year ended December 31, 2015.

(b) Combined Financial Statements and Basis of Consolidation

As a result of the REIT conversion described in note 1, the Trust does not have a single parent; however, each unit of Granite REIT and each share of Granite GP trade as a single stapled unit and accordingly, Granite REIT and Granite GP have identical ownership. Therefore, these financial statements have been prepared on a combined basis whereby the assets, liabilities and results of Granite GP and Granite REIT have been combined. The combined financial statements include the subsidiaries of Granite GP and Granite REIT. Subsidiaries are fully consolidated by Granite GP or Granite REIT from the date of acquisition, being the date on which control is obtained. The subsidiaries continue to be consolidated until the date that such control ceases. Control exists when Granite GP or Granite REIT have power, exposure or rights to variable returns and the ability to use their power over the entity to affect the amount of returns it generates.

All intercompany balances, income and expenses and unrealized gains and losses resulting from intercompany transactions are eliminated.

(c) Accounting Policies

The accounting policies adopted in the preparation of the condensed combined financial statements are consistent with those followed in the preparation of the Trust's annual combined financial statements for the year ended December 31, 2015.

(d) Future Accounting Policy Changes

In July 2014, the IASB issued the final version of IFRS 9, *Financial Instruments* ("IFRS 9") which will replace IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities and requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. While determination is made at initial recognition, classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The most significant change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement. IFRS 9 has a mandatory effective date for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Trust has not yet determined the impact of this standard on its combined financial statements.

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15") which provides a single comprehensive model to account for revenue arising from contracts with customers. The objective of IFRS 15 is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. The core principle of the standard is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects consideration to which the entity expects to be entitled in exchange for those goods and services. IFRS 15 excludes contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. The standard has a mandatory effective date for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Trust has not yet determined the impact of this standard on its combined financial statements.

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In June 2016, the IASB issued amendments to IFRS 2, *Share-based Payment* ("IFRS 2") clarifying how to account for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature and a modification to the terms and conditions that change the classification of the transactions. These amendments are effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Trust has not yet determined the impact of this standard on its combined financial statements.

3. INVESTMENT PROPERTIES

<u>As at</u>	<u>June 30, 2016</u>	<u>December 31, 2015</u>
Income-Producing Properties	\$2,504,598	\$2,576,562
Properties and Land Under Development	—	8,651
Land Held For Development	6,733	7,173
	<u>\$2,511,331</u>	<u>\$2,592,386</u>

Changes in investment properties are shown in the following table:

	<u>Six Months Ended June 30, 2016</u>			<u>Year Ended December 31, 2015</u>		
	<u>Income-Producing Properties</u>	<u>Properties and Land Under Development</u>	<u>Land Held For Development</u>	<u>Income-Producing Properties</u>	<u>Properties and Land Under Development</u>	<u>Land Held For Development</u>
Balance, beginning of period	\$2,576,562	\$ 8,651	\$7,173	\$2,275,220	\$ 31,349	\$ 3,809
Additions						
— Capital expenditures	6,895	5,826	—	10,079	14,040	—
— Acquisitions	—	—	—	—	—	5,990
— Land under development	—	—	—	—	2,474	(2,474)
— Completed projects	13,685	(13,685)	—	41,382	(41,382)	—
Fair value gains (losses), net	34,748	—	—	74,256	—	(1,174)
Foreign currency translation, net	(97,466)	(792)	(440)	191,960	2,170	1,022
Disposals	(32,038)	—	—	(16,330)	—	—
Other changes	2,212	—	—	(5)	—	—
Balance, end of period	<u>\$2,504,598</u>	<u>\$ —</u>	<u>\$6,733</u>	<u>\$2,576,562</u>	<u>\$ 8,651</u>	<u>\$ 7,173</u>

During the six months ended June 30, 2016, the Trust disposed of five income-producing properties located in the United States, Austria and Germany for aggregate gross proceeds of \$32.0 million and incurred a \$1.4 million loss on disposal due to the associated selling costs. The fair value gain during the six month period ended June 30, 2016, excluding the properties sold in the period, was \$29.4 million.

On May 26, 2015, the Trust acquired 28 acres of development land in Poland for a purchase price of \$6.0 million.

The Trust determines the fair value of each income-producing property based upon, among other things, rental income from current leases and assumptions about rental income from future leases reflecting market conditions and lease renewal at the applicable balance sheet dates, less future cash outflows in respect of such leases. Fair values are primarily determined by discounting the expected future cash flows, generally over a term of 10 years including a terminal value based on the application of a capitalization rate to estimated year 11 cash flows. The fair values of properties and land under development are measured using a discounted cash flow model, net of costs to complete, as of the balance sheet date unless fair value cannot be determined, in which case, they are valued at cost. The Trust measures its investment properties using valuations prepared by management. The Trust does not measure its investment properties based on valuations prepared by external appraisers but uses such appraisals as data points, together with other external market information accumulated by management, in arriving at its own conclusions on values. There has been no change in the valuation methodology during the period.

Valuations are most sensitive to changes in discount rates and terminal capitalization rates. The key valuation metrics for investment properties are set out below:

	June 30, 2016			December 31, 2015		
	Maximum	Minimum	Weighted average	Maximum	Minimum	Weighted average
Canada						
Discount rate	8.25%	6.97%	7.76%	8.25%	6.97%	7.76%
Terminal cap rate	8.50%	5.75%	7.30%	8.50%	5.75%	7.27%
United States						
Discount rate	14.00%	6.25%	8.24%	14.00%	6.75%	8.43%
Terminal cap rate	13.00%	5.75%	7.84%	13.00%	6.00%	8.07%
Germany						
Discount rate	9.00%	7.00%	7.99%	9.50%	7.00%	8.04%
Terminal cap rate	9.50%	6.00%	8.13%	9.50%	6.00%	8.12%
Austria						
Discount rate	9.00%	8.25%	8.47%	10.00%	8.25%	8.48%
Terminal cap rate	9.50%	8.75%	8.96%	9.50%	8.75%	8.97%
Netherlands						
Discount rate	7.50%	7.00%	7.17%	7.50%	7.10%	7.24%
Terminal cap rate	7.30%	7.25%	7.28%	7.30%	7.25%	7.28%
Other						
Discount rate	10.00%	8.75%	9.67%	10.00%	8.25%	9.64%
Terminal cap rate	10.50%	7.50%	9.82%	10.50%	7.75%	9.88%

Included in investment properties is \$11.8 million (December 31, 2015 — \$11.6 million) of net straight-line rent receivable arising from the recognition of rental revenue on a straight-line basis over the lease term.

Details about contractual obligations to purchase, construct and develop properties can be found in the commitments and contingencies note (note 17).

Minimum rental commitments on non-cancellable tenant operating leases are as follows:

Not later than 1 year	\$ 213,385
Later than 1 year and not later than 5 years	602,663
Later than 5 years	355,292
	<u>\$1,171,340</u>

4. OTHER ASSETS

Other assets consist of:

As at	June 30, 2016	December 31, 2015
Deferred financing costs	\$ 281	\$ 352
Long-term receivables	534	589
Interest rate caps (note 6)	6	90
Deposits	568	598
	<u>\$1,389</u>	<u>\$1,629</u>

5. UNSECURED DEBENTURES, NET

(a) Unsecured debentures, net, consist of:

As at	Maturity Date	June 30, 2016		December 31, 2015	
		Amortized Cost	Principal issued and outstanding	Amortized Cost	Principal issued and outstanding
4.613% Debentures	October 2, 2018	\$199,095	\$200,000	\$198,901	\$200,000
3.788% Debentures	July 5, 2021	248,867	250,000	248,756	250,000
		<u>\$447,962</u>	<u>\$450,000</u>	<u>\$447,657</u>	<u>\$450,000</u>

(b) Cross currency interest rate swaps consist of:

As at	June 30, 2016	December 31, 2015
Financial liability		
2018 Cross Currency Interest Rate Swap — fair value	\$6,024	\$15,359
2021 Cross Currency Interest Rate Swap — fair value	1,337	9,893
	<u>\$7,361</u>	<u>\$25,252</u>

On October 7, 2013, the Trust entered into a cross currency interest rate swap (the “2018 Cross Currency Interest Rate Swap”) to exchange the \$200.0 million proceeds and 4.613% interest payments from the debentures that mature in 2018 for euro 142.3 million and euro denominated interest payments at a 3.56% interest rate. Under the terms of the swap, on October 2, 2018, the Trust will repay the principal proceeds received of euro 142.3 million.

On July 3, 2014, the Trust entered into a cross currency interest rate swap (the “2021 Cross Currency Interest Rate Swap”) to exchange the 3.788% interest payments from the debentures that mature in 2021 for euro denominated payments at a 2.68% interest rate. In addition, under the terms of the swap, the Trust will pay principal proceeds of euro 171.9 million for \$250.0 million on July 5, 2021.

The cross currency interest rate swaps are designated as net investment hedges of the Trust’s investment in foreign operations. The effectiveness of the hedges are assessed quarterly. For the three and six month periods ended June 30, 2016, the Trust has assessed that the hedges continued to be effective. As an effective hedge, the unrealized gains or losses on the cross currency interest rate swaps are recognized in other comprehensive income (loss). The Trust has elected to record the differences resulting from the lower interest rate associated with the cross currency interest rate swaps in the statement of income.

6. SECURED LONG-TERM DEBT

Secured long-term debt consists of:

As at	Maturity Date	Interest Rate	June 30, 2016		December 31, 2015	
			U.S. \$ Outstanding ⁽¹⁾	Cdn \$ Outstanding ⁽¹⁾	U.S. \$ Outstanding ⁽¹⁾	Cdn \$ Outstanding ⁽¹⁾
Mortgage payable	June 10, 2017	LIBOR + 2.50% ⁽²⁾	\$23,068	\$30,009	\$23,327	\$32,285
Mortgage payable	May 10, 2018	LIBOR + 2.50% ⁽²⁾	11,913	15,498	12,059	16,690
Construction Loan	July 25, 2016	LIBOR + 2.25%	18,115	23,566	14,272	19,752
Construction Loan	June 20, 2017	LIBOR + 2.25%	23,733	30,874	20,422	28,264
			<u>\$76,829</u>	<u>\$99,947</u>	<u>\$70,080</u>	<u>\$96,991</u>
Less: due within one year			65,208	84,829	15,082	20,874
			<u>\$11,621</u>	<u>\$15,118</u>	<u>\$54,998</u>	<u>\$76,117</u>

⁽¹⁾ The amounts outstanding are net of transaction costs.

⁽²⁾ Interest rate caps were purchased for 100% of the mortgage amounts and for the duration of the mortgages thereby limiting the interest rate exposure to a maximum of 4%.

The mortgages and construction loans are recourse only to specific properties. Properties securing the mortgages have a fair value of \$97.4 million at June 30, 2016 and are pledged as collateral. The construction loans are secured by first mortgage liens on the properties having an aggregate fair value of \$127.0 million at June 30, 2016.

During the six month period ended June 30, 2016, the maximum commitment amount available under the construction loan that matures in July 2016 was increased to U.S. \$19.0 million from U.S. \$17.0 million. In addition, subsequent to June 30, 2016, the construction loan that expired on July 25, 2016 was extended to July 25, 2017.

7. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities consist of:

<u>As at</u>	<u>June 30, 2016</u>	<u>December 31, 2015</u>
Contingent consideration	\$ 6,362	\$ 5,286
Tenant allowance payable	7,561	7,598
	<u>\$13,923</u>	<u>\$12,884</u>

Contingent consideration was recognized in connection with acquisitions completed in 2013. This amount is dependent upon a number of assumptions related to the fair value of the properties acquired which are subject to change over the period to the date of payment. During the three month period ended June 30, 2016, with the properties fully leased and given recent increases in the fair value of these properties, the contingent consideration obligation was increased by \$1.3 million to reflect these changes in the valuation assumptions (note 12(d)). For a description of the valuation process used to determine the fair value of the properties, refer to note 3.

The tenant allowance payable of euro 6.0 million is due in January 2018 and relates to a lease extension at the Eurostar facility in Graz, Austria. The future payable of euro 6.0 million has been discounted and is being accreted to its face value through a charge to interest expense.

8. BANK INDEBTEDNESS

Effective December 11, 2014, Granite REIT Holdings Limited Partnership (“Granite LP”) entered into an amended and restated agreement for an unsecured senior revolving credit facility in the amount of \$250.0 million that is available by way of Canadian dollar, U.S. dollar or euro denominated loans or letters of credit (the “Credit Facility”) and matures on February 1, 2018 with the option to extend the maturity date by one year to February 1, 2019, subject to the agreement of the lenders in respect of a minimum of 66% of the aggregate amount committed under the Credit Facility. At June 30, 2016, Granite LP had \$6.5 million (U.S. \$5.0 million) drawn under the Credit Facility and \$0.3 million in letters of credit issued against the Credit Facility.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of:

<u>As at</u>	<u>June 30, 2016</u>	<u>December 31, 2015</u>
Accounts payable	\$ 4,780	\$ 4,601
Accrued salaries, incentives and severance	4,529	6,555
Accrued interest payable	7,121	7,128
Accrued construction payable	1,271	5,158
Accrued professional fees	1,751	2,487
Accrued employee unit-based compensation	850	2,451
Accrued trustee/director unit-based compensation	5,738	5,204
Other accrued liabilities	3,924	5,431
	<u>\$29,964</u>	<u>\$39,015</u>

10. DISTRIBUTIONS TO STAPLED UNITHOLDERS

Total distributions declared to stapled unitholders in the three month period ended June 30, 2016 were \$28.7 million (2015 — \$27.1 million) or 60.9 cents per stapled unit (2015 — 57.6 cents per stapled unit). Total distributions declared to stapled unitholders in the six month period ended June 30, 2016 were \$56.3 million (2015 — \$54.2 million) or \$1.20 per stapled unit (2015 — \$1.15 per stapled unit). Distributions payable at June 30, 2016 of \$9.6 million, representing the June 2016 distribution, were paid on July 15, 2016. On July 18, 2016, distributions of \$9.6 million or 20.3 cents per stapled unit were declared and will be paid on August 15, 2016.

11. STAPLED UNITHOLDERS' EQUITY

(a) Unit-based Compensation

Incentive Stock Option Plan

The Incentive Stock Option Plan (the "Option Plan") allows for the grant of stock options or appreciation rights to directors, officers, employees and consultants. A reconciliation of the changes in the options outstanding is presented below:

	<u>2016</u>		<u>2015</u>	
	<u>Number (000s)</u>	<u>Weighted Average Exercise Price</u>	<u>Number (000s)</u>	<u>Weighted Average Exercise Price</u>
Options outstanding, January 1 . . .	50	\$32.21	50	\$32.21
Exercised	—	—	—	—
Options outstanding and exercisable, June 30	<u>50</u>	<u>\$32.21</u>	<u>50</u>	<u>\$32.21</u>

Director/Trustee Deferred Share Unit Plan

The Trust has two Non-Employee Director Share-Based Compensation Plans (the "DSPs") which provide for a deferral of up to 100% of each outside director's total annual remuneration, at specified levels

elected by each director, until such director ceases to be a director. A reconciliation of the changes in the notional deferred share units (“DSUs”) outstanding is presented below:

	2016		2015	
	Number (000s)	Weighted Average Grant Date Fair Value	Number (000s)	Weighted Average Grant Date Fair Value
DSUs outstanding, January 1	135	\$35.51	110	\$34.45
Granted	14	38.82	12	42.49
DSUs outstanding, June 30	149	\$35.75	122	\$35.22

Executive Deferred Stapled Unit Plan

The Trust has an Executive Share Unit Plan (the “Stapled Unit Plan”) which is designed to provide equity-based compensation in the form of stapled units to executives and other employees. A reconciliation of the changes in stapled units outstanding is presented below:

	2016		2015	
	Number (000s)	Weighted Average Grant Date Fair Value	Number (000s)	Weighted Average Grant Date Fair Value
Stapled units outstanding, January 1	72	\$41.03	97	\$38.19
New grants	26	37.01	32	42.61
Forfeited ⁽¹⁾	—	37.33	—	—
Settled ⁽²⁾	(57)	38.24	—	39.01
Stapled units outstanding, June 30	41	\$40.05	129	\$39.38

⁽¹⁾ 198 stapled units were forfeited during the three month period ended March 31, 2016.

⁽²⁾ 57 thousand stapled units (2015 — 37 stapled units) were settled and included fractional units settled in cash during the three month period ended March 31, 2016.

During the three month period ended June 30, 2016, the Trust recognized a unit-based compensation expense of \$0.7 million (2015 — \$1.1 million) which included a \$0.4 million expense (2015 — \$0.3 million) pertaining to the DSP plans, a \$0.3 million expense (2015 — \$0.6 million) pertaining to the Stapled Unit Plan and a net expense of less than \$0.1 million (2015 — \$0.2 million) related to the re-measurement of the Option Plan liability in the period.

During the six month period ended June 30, 2016, the Trust recognized unit-based compensation expense of \$1.0 million (2015 — \$1.9 million) which included a \$0.5 million expense (2015 — \$0.7 million) pertaining to the DSP plans, a \$0.5 million expense (2015 — \$1.0 million) pertaining to the Stapled Unit Plan and a net expense of less than \$0.1 million (2015 — \$0.2 million) related to the re-measurement of the Option Plan liability in the period.

(b) Accumulated Other Comprehensive Income

Accumulated other comprehensive income consists of the following:

<u>As at June 30,</u>	<u>2016</u>	<u>2015</u>
Foreign currency translation gains on investments in subsidiaries, net of related hedging activities and non-controlling interests ⁽¹⁾	\$163,782	\$114,456
Gains (losses) on derivatives designated as net investment hedges	(9,276)	8,805
	<u>\$154,506</u>	<u>\$123,261</u>

⁽¹⁾ Includes foreign currency translation gains from non-derivative financial instruments designated as net investment hedges.

(c) Normal Course Issuer Bid

On April 20, 2016, Granite announced the acceptance by the Toronto Stock Exchange (“TSX”) of Granite’s Notice of Intention to Make a Normal Course Issuer Bid (“NCIB”). Pursuant to the NCIB, Granite proposes to purchase through the facilities of the TSX and any alternative trading system in Canada, from time to time and if considered advisable, up to an aggregate of 3,647,837 of Granite’s issued and outstanding stapled units. The NCIB commenced on April 26, 2016 and will conclude on the earlier of the date on which purchases under the bid have been completed and April 25, 2017. Pursuant to the policies of the TSX, daily purchases made by Granite through the TSX may not exceed 26,386 stapled units, subject to certain exceptions. As at June 30, 2016, the Trust has not made purchases of its stapled units under the NCIB.

12. COSTS AND EXPENSES (INCOME)

(a) Property operating costs consist of:

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Non-recoverable from tenants:				
Property taxes and utilities	\$ 94	\$ 85	\$ 527	\$ 349
Legal	62	282	192	477
Consulting	123	198	193	367
Environmental and appraisals	74	59	219	176
Repairs and maintenance	64	120	214	190
Other	284	248	648	526
	<u>701</u>	<u>992</u>	<u>1,993</u>	<u>2,085</u>
Recoverable from tenants:				
Property taxes and utilities	556	325	965	654
Repairs and maintenance	156	94	240	150
Other	233	173	491	433
	<u>945</u>	<u>592</u>	<u>1,696</u>	<u>1,237</u>
Property operating costs	<u>\$1,646</u>	<u>\$1,584</u>	<u>\$3,689</u>	<u>\$3,322</u>

(b) General and administrative expenses consist of:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Salaries and benefits	\$3,320	\$3,571	\$ 6,805	\$ 6,966
Audit, legal and consulting	1,256	1,017	2,489	2,010
Trustee/director fees and related expenses	239	233	586	429
Unit-based compensation for employees and trustees/ directors	753	1,079	1,037	1,922
Other	1,430	1,339	3,005	2,363
	<u>\$6,998</u>	<u>\$7,239</u>	<u>\$13,922</u>	<u>\$13,690</u>

(c) Interest expense and other financing costs, net consist of:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Interest and amortized issuance costs relating to debentures	\$3,672	\$3,441	\$ 7,490	\$6,971
Interest on mortgages payable and construction loans	829	542	1,652	1,031
Amortization of deferred financing costs	49	48	97	100
Other interest and accretion charges	430	530	955	1,076
	4,980	4,561	10,194	9,178
Capitalized interest	(25)	(15)	(91)	(62)
Interest income	(68)	(63)	(164)	(146)
	<u>\$4,887</u>	<u>\$4,483</u>	<u>\$ 9,939</u>	<u>\$8,970</u>

(d) Fair value losses (gains) on financial instruments consist of:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Foreign exchange forward contracts, net	\$ (624)	\$802	\$ (1,536)	\$ 19
Interest rate caps	16	49	79	221
Contingent consideration	1,290	—	1,290	—
	<u>\$ 682</u>	<u>\$851</u>	<u>\$ (167)</u>	<u>\$240</u>

13. INCOME TAXES

(a) The major components of the income tax expense are:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Current income tax expense (recovery)	\$3,568	\$ (287)	\$ 3,578	\$ 1,135
Deferred income tax expense	5,286	12,710	13,465	22,063
Income tax expense	\$8,854	\$12,423	\$17,043	\$23,198

Included in current income tax expense for the three month period ended June 30, 2016 is a \$1.7 million expense associated with the disposition of two properties in Germany. For the six month period ended June 30, 2016, current tax expense includes the \$1.7 million expense associated with the disposition of the German properties and a \$1.0 million recovery associated with the disposition of a property in Austria. For the six month period ended June 30, 2015, current tax expense includes \$0.3 million arising from the disposition of a property in the United States.

(b) The effective income tax rate reported in the condensed combined statements of income varies from the Canadian statutory rate for the following reasons:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Income before income taxes	\$ 66,378	\$60,664	\$117,966	\$126,254
Expected income taxes at the Canadian statutory tax rate of 26.5% (2015 — 26.5%)	\$ 17,590	\$16,076	\$ 31,261	\$ 33,457
Income distributed and taxable to unitholders	(12,692)	(4,594)	(21,679)	(10,798)
Net foreign rate differentials	1,163	2,494	2,747	1,515
Net change in provisions for uncertain tax positions . . .	248	(1,837)	557	(1,648)
Net permanent differences	1,895	1,839	3,539	431
Withholding taxes and other	650	(1,555)	618	241
Income tax expense	\$ 8,854	\$12,423	\$ 17,043	\$ 23,198

14. DETAILS OF CASH FLOWS

(a) Items not involving current cash flows are shown in the following table:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Straight-line rent adjustment	\$ 31	\$ 1,170	\$ 1,488	\$ 2,484
Unit-based compensation expense	753	1,079	1,037	1,922
Fair value gains on investment properties	(26,034)	(21,511)	(34,748)	(46,754)
Depreciation and amortization	176	180	355	359
Fair value losses (gains) on financial instruments	682	851	(167)	240
Loss on sale of investment properties	1,035	48	1,374	233
Amortization of issuance costs relating to debentures	235	201	466	394
Amortization of deferred financing costs	49	48	97	100
Deferred income taxes	5,286	12,710	13,465	22,063
Other	(2,344)	(1,014)	(3,683)	(1,975)
	<u>\$ (20,131)</u>	<u>\$ (6,238)</u>	<u>\$ (20,316)</u>	<u>\$ (20,934)</u>

(b) Changes in working capital balances are shown in the following table:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Accounts receivable	\$ (1,268)	\$ (1,138)	\$ 95	\$ (1,338)
Prepaid expenses and other	320	365	234	365
Accounts payable and accrued liabilities	(880)	939	(2,376)	(2,144)
Deferred revenue	3,145	(2,028)	5,371	1,229
Restricted cash	(2)	—	678	—
	<u>\$ 1,315</u>	<u>\$ (1,862)</u>	<u>\$ 4,002</u>	<u>\$ (1,888)</u>

(c) Non-cash financing activities

During the six month period ended June 30, 2016, 56 thousand stapled units (2015 — less than one thousand stapled units) with a value of \$2.1 million (2015 — less than \$0.1 million) were issued under the Stapled Unit Plan.

(d) Discontinued operations

During the six month period ended June 30, 2015, Granite paid \$7.7 million of current income tax installments associated with the taxable gain arising on the sale of the portfolio of Mexican properties in June 2014. As the Mexican properties represented a significant geographical area of operations, the Trust had retroactively presented the Mexican portfolio as discontinued operations in prior financial statements.

15. FAIR VALUE AND RISK MANAGEMENT

(a) Fair Value of Financial Instruments

The following table provides the classification and measurement of financial assets and liabilities as at June 30, 2016:

Measurement basis	Fair value through profit or loss	Loans and receivables / other financial liabilities		Total	Total
	(Fair value)	(Amortized cost)	(Fair value)	(Carrying Value)	(Fair Value)
Financial assets					
Other assets	\$ 6 ⁽¹⁾	\$ 534 ⁽²⁾	\$ 534	\$ 540	\$ 540
Accounts receivable	—	3,597	3,597	3,597	3,597
Prepaid expenses and other . .	631 ⁽³⁾	—	—	631	631
Restricted cash	—	612	612	612	612
Cash and cash equivalents . . .	—	158,508	158,508	158,508	158,508
	<u>\$ 637</u>	<u>\$163,251</u>	<u>\$163,251</u>	<u>\$163,888</u>	<u>\$163,888</u>
Financial liabilities					
Unsecured debentures, net . .	\$ —	\$447,962	\$471,150	\$447,962	\$471,150
Cross currency interest rate swaps	7,361	—	—	7,361	7,361
Secured long-term debt	—	99,947	99,947	99,947	99,947
Other non-current liabilities . . .	13,923	—	—	13,923	13,923
Bank indebtedness	—	6,505	6,505	6,505	6,505
Accounts payable and accrued liabilities	3 ⁽⁴⁾	29,961	29,961	29,964	29,964
Distributions payable	—	9,556	9,556	9,556	9,556
	<u>\$21,287</u>	<u>\$593,931</u>	<u>\$617,119</u>	<u>\$615,218</u>	<u>\$638,406</u>

⁽¹⁾ Interest rate caps included in other assets.

⁽²⁾ Long-term receivables included in other assets.

⁽³⁾ Foreign exchange forward contracts included in prepaid expenses.

⁽⁴⁾ Foreign exchange forward contracts included in accounts payable and accrued liabilities.

The following table provides the classification and measurement of financial assets and liabilities as at December 31, 2015:

Measurement basis	Fair value through profit or loss	Loans and receivables / other financial liabilities		Total	Total
	(Fair value)	(Amortized cost)	(Fair value)	(Carrying Value)	(Fair Value)
Financial assets					
Other assets	\$ 90 ⁽⁵⁾	\$ 589 ⁽⁶⁾	\$ 589	\$ 679	\$ 679
Accounts receivable	—	3,849	3,849	3,849	3,849
Prepaid expenses and other	24 ⁽⁷⁾	—	—	24	24
Restricted cash	—	1,336	1,336	1,336	1,336
Cash and cash equivalents	—	119,155	119,155	119,155	119,155
	<u>\$ 114</u>	<u>\$124,929</u>	<u>\$124,929</u>	<u>\$125,043</u>	<u>\$125,043</u>
Financial liabilities					
Unsecured debentures, net	\$ —	\$ 447,657	\$ 467,255	\$ 447,657	\$ 467,255
Cross currency interest rate swaps	25,252	—	—	25,252	25,252
Secured long-term debt	—	96,991	96,991	96,991	96,991
Other non-current liabilities	12,884	—	—	12,884	12,884
Bank indebtedness	—	19,376	19,376	19,376	19,376
Accounts payable and accrued liabilities	932 ⁽⁸⁾	38,083	38,083	39,015	39,015
Distributions payable	—	9,027	9,027	9,027	9,027
	<u>\$39,068</u>	<u>\$611,134</u>	<u>\$630,732</u>	<u>\$650,202</u>	<u>\$669,800</u>

⁽⁵⁾ Interest rate caps included in other assets.

⁽⁶⁾ Long-term receivables included in other assets.

⁽⁷⁾ Foreign exchange forward contracts included in prepaid expenses.

⁽⁸⁾ Foreign exchange forward contracts included in accounts payable and accrued liabilities.

The fair value of the Trust's accounts receivable, cash and cash equivalents, restricted cash, bank indebtedness, accounts payable and accrued liabilities and distributions payable approximate their carrying amounts due to the relatively short periods to maturity of these financial instruments. The fair value of other non-current liabilities approximates the carrying value as it is revalued at each reporting date. The fair value of the unsecured debentures is determined using quoted market prices. The fair value of the cross currency interest rate swaps is determined using market inputs quoted by their counterparties. The fair value of the secured long-term debt approximates its carrying amount as the mortgages and construction loans payable were drawn recently and bear interest at rates comparable to current market rates that would be used to calculate fair value.

The Trust periodically purchases foreign exchange forward contracts to hedge specific anticipated foreign currency transactions and mitigate its foreign exchange exposure on its net cash flows. At June 30, 2016, the Trust held seven foreign exchange forward contracts (December 31, 2015 — nine contracts outstanding). The foreign exchange contracts in place are to purchase \$22.2 million and sell euro 15.0 million. For the three and six month periods ended June 30, 2016, the Trust recorded net fair value gains of \$0.6 million (2015 — net fair value losses of \$0.8 million) and \$1.5 million (2015 — net fair value losses of less than \$0.1 million), respectively, on these outstanding foreign exchange forward contracts.

As disclosed in note 6, the Trust entered into two interest rate caps to hedge the interest rate risk associated with the mortgages payable. The interest rate caps have not been designated and the Trust is not employing hedge accounting for these instruments. The fair value of the interest rate caps at June 30,

2016 was less than \$0.1 million (December 31, 2015 — \$0.1 million). For the three and six month periods ended June 30, 2016, the Trust recorded fair value losses of less than \$0.1 million (2015 — less than \$0.1 million) and \$0.1 million (2015 — \$0.2 million), respectively, on these interest rate caps.

(b) Fair Value Hierarchy

Fair value measurements are based on inputs of observable and unobservable market data that a market participant would use in pricing an asset or liability. IFRS establishes a fair value hierarchy which is summarized below:

Level 1: Fair value determined based on quoted prices in active markets for identical assets or liabilities.

Level 2: Fair value determined using significant observable inputs, generally either quoted prices in active markets for similar assets or liabilities or quoted prices in markets that are not active.

Level 3: Fair value determined using significant unobservable inputs, such as pricing models, discounted cash flows or similar techniques.

The following tables represent information related to the Trust's assets and liabilities measured or disclosed at fair value on a recurring and non-recurring basis and the level within the fair value hierarchy in which the fair value measurements fall.

<u>As at June 30, 2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
ASSETS AND LIABILITIES MEASURED OR DISCLOSED AT FAIR VALUE			
Assets measured at fair value			
Investment properties	\$ —	\$ —	\$2,511,331
Interest rate caps included in other assets	—	6	—
Foreign exchange forward contracts included in prepaid expenses and other	—	631	—
Liabilities measured or disclosed at fair value			
Unsecured debentures, net	471,150	—	—
Cross currency interest rate swaps	—	7,361	—
Other non-current liabilities	—	—	13,923
Secured long-term debt	—	99,947	—
Bank indebtedness	—	6,505	—
Foreign exchange forward contracts included in accounts payable and accrued liabilities	—	3	—
Net assets (liabilities) measured at fair value	<u>\$(471,150)</u>	<u>\$(113,179)</u>	<u>\$2,497,408</u>

<u>As at December 31, 2015</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
ASSETS AND LIABILITIES MEASURED OR DISCLOSED AT FAIR VALUE			
Assets measured at fair value			
Investment properties	\$ —	\$ —	\$2,592,386
Interest rate caps included in other assets	—	90	—
Foreign exchange forward contracts included in prepaid expenses and other	—	24	—
Liabilities measured or disclosed at fair value			
Unsecured debentures, net	467,255	—	—
Cross currency interest rate swaps	—	25,252	—
Other non-current liabilities	—	—	12,884
Secured long-term debt	—	96,991	—
Bank indebtedness	—	19,376	—
Foreign exchange forward contracts included in accounts payable and accrued liabilities	—	932	—
Net assets (liabilities) measured at fair value	<u><u>\$(467,255)</u></u>	<u><u>\$(142,437)</u></u>	<u><u>\$2,579,502</u></u>

For assets and liabilities that are measured at fair value on a recurring basis, the Trust determines whether transfers between the levels of the fair value hierarchy have occurred by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. For the three and six month periods ended June 30, 2016 and the year ended December 31, 2015, there were no transfers between the levels.

(c) Risk Management

Foreign exchange risk

As at June 30, 2016, the Trust is exposed to foreign exchange risk primarily in respect of movements in the euro and the U.S. dollar. The Trust is structured such that its foreign operations are primarily conducted by entities with a functional currency which is the same as the economic environment in which the operations take place. As a result, the net income impact of currency risk associated with financial instruments is limited as its financial assets and liabilities are generally denominated in the functional currency of the subsidiary that holds the financial instrument. However, the Trust is exposed to foreign currency risk on its net investment in its foreign currency denominated operations and certain Trust level foreign currency denominated assets and liabilities. At June 30, 2016, the Trust's foreign currency denominated net assets are \$1.2 billion, primarily in U.S. dollars and euros. A 1% change in the U.S. dollar and euro exchange rates relative to the Canadian dollar will result in a gain or loss of approximately \$2.3 million and \$8.9 million, respectively, to comprehensive income (loss).

16. COMBINED FINANCIAL INFORMATION

The condensed combined financial statements include the financial position and results of operations and cash flows of each of Granite REIT and Granite GP. Below is a summary of the financial information for each entity along with the elimination entries and other adjustments that aggregate to the condensed combined financial statements:

Balance Sheet

As at June 30, 2016

	Granite REIT	Granite GP	Eliminations/ Adjustments	Granite REIT and Granite GP Combined
ASSETS				
Non-current assets:				
Investment properties	\$2,511,331			\$2,511,331
Investment in Granite LP	—	6	(6)	—
Other non-current assets	9,119			9,119
	<u>2,520,450</u>	<u>6</u>	<u>(6)</u>	<u>2,520,450</u>
Current assets:				
Other current assets	6,264	4		6,268
Intercompany receivable ⁽¹⁾	—	6,044	(6,044)	—
Cash and cash equivalents	158,466	42		158,508
Total assets	<u>\$2,685,180</u>	<u>6,096</u>	<u>(6,050)</u>	<u>\$2,685,226</u>
LIABILITIES AND EQUITY				
Non-current liabilities:				
Unsecured debentures, net	\$ 447,962			\$ 447,962
Other non-current liabilities	246,353			246,353
	<u>694,315</u>			<u>694,315</u>
Current liabilities:				
Bank indebtedness	6,505			6,505
Intercompany payable ⁽¹⁾	6,044		(6,044)	—
Other current liabilities	139,594	6,090		145,684
Total liabilities	<u>846,458</u>	<u>6,090</u>	<u>(6,044)</u>	<u>846,504</u>
Equity:				
Stapled unitholders' equity	1,828,454	6		1,828,460
Non-controlling interests	10,268		(6)	10,262
Total liabilities and equity	<u>\$2,685,180</u>	<u>6,096</u>	<u>(6,050)</u>	<u>\$2,685,226</u>

⁽¹⁾ Represents employee and trustee/director compensation related amounts which will be reimbursed by Granite LP.

Balance Sheet

As at December 31, 2015

	<u>Granite REIT</u>	<u>Granite GP</u>	<u>Eliminations/ Adjustments</u>	<u>Granite REIT and Granite GP Combined</u>
ASSETS				
Non-current assets:				
Investment properties	\$2,592,386			\$2,592,386
Investment in Granite LP	—	5	(5)	—
Other non-current assets	<u>10,602</u>			<u>10,602</u>
	2,602,988	<u>5</u>	<u>(5)</u>	2,602,988
Current assets:				
Other current assets	9,645	49		9,694
Intercompany receivable ⁽¹⁾	—	8,910	(8,910)	—
Cash and cash equivalents	<u>119,000</u>	<u>155</u>		<u>119,155</u>
Total assets	<u>\$2,731,633</u>	<u>9,119</u>	<u>(8,915)</u>	<u>\$2,731,837</u>
LIABILITIES AND EQUITY				
Non-current liabilities:				
Unsecured debentures, net	\$ 447,657			\$ 447,657
Other non-current liabilities	<u>322,219</u>			<u>322,219</u>
	769,876			769,876
Current liabilities:				
Bank indebtedness	19,376			19,376
Intercompany payable ⁽¹⁾	8,910		(8,910)	—
Other current liabilities	<u>74,684</u>	<u>9,114</u>		<u>83,798</u>
Total liabilities	<u>872,846</u>	<u>9,114</u>	<u>(8,910)</u>	<u>873,050</u>
Equity:				
Stapled unitholders' equity	1,849,026	5		1,849,031
Non-controlling interests	<u>9,761</u>		(5)	<u>9,756</u>
Total liabilities and equity	<u>\$2,731,633</u>	<u>9,119</u>	<u>(8,915)</u>	<u>\$2,731,837</u>

⁽¹⁾ Represents employee and trustee/director compensation related amounts which will be reimbursed by Granite LP.

Income Statement

Three Months Ended June 30, 2016

	Granite REIT	Granite GP	Eliminations/ Adjustments	Granite REIT and Granite GP Combined
Revenues	\$ 56,387			\$ 56,387
General and administrative expenses	6,998			6,998
Interest expense and other financing costs, net	4,887			4,887
Other costs and expenses, net	2,441			2,441
Share of (income) loss of Granite LP	—	(1)	1	—
Fair value gains on investment properties, net	(26,034)			(26,034)
Fair value losses on financial instruments	682			682
Loss on sale of investment properties	1,035			1,035
Income before income taxes	<u>66,378</u>	<u>1</u>	<u>(1)</u>	<u>66,378</u>
Income tax expense	8,854			8,854
Net income	<u>57,524</u>	<u>1</u>	<u>(1)</u>	<u>57,524</u>
Less net income attributable to non-controlling interests	346		(1)	345
Net income attributable to stapled unitholders	<u>\$ 57,178</u>	<u>1</u>	<u>—</u>	<u>\$ 57,179</u>

Income Statement

Three Months Ended June 30, 2015

	Granite REIT	Granite GP	Eliminations/ Adjustments	Granite REIT and Granite GP Combined
Revenues	\$ 53,470			\$ 53,470
General and administrative expenses	7,239			7,239
Interest expense and other financing costs, net	4,483			4,483
Other costs and expenses, net	1,696			1,696
Share of (income) loss of Granite LP	—	(1)	1	—
Fair value gains on investment properties, net	(21,511)			(21,511)
Fair value losses on financial instruments	851			851
Loss on sale of investment properties	48			48
Income before income taxes	<u>60,664</u>	<u>1</u>	<u>(1)</u>	<u>60,664</u>
Income tax expense	12,423			12,423
Net income	<u>48,241</u>	<u>1</u>	<u>(1)</u>	<u>48,241</u>
Less net income attributable to non-controlling interests	2,145		(1)	2,144
Net income attributable to stapled unitholders	<u>\$ 46,096</u>	<u>1</u>	<u>—</u>	<u>\$ 46,097</u>

Income Statement
Six Months Ended June 30, 2016

	<u>Granite REIT</u>	<u>Granite GP</u>	<u>Eliminations/ Adjustments</u>	<u>Granite REIT and Granite GP Combined</u>
Revenues	\$112,764			\$112,764
General and administrative expenses	13,922			13,922
Interest expense and other financing costs, net	9,939			9,939
Other costs and expenses, net	4,478			4,478
Share of (income) loss of Granite LP	—	(1)	1	—
Fair value gains on investment properties, net	(34,748)			(34,748)
Fair value gains on financial instruments	(167)			(167)
Loss on sale of investment properties	1,374			1,374
Income before income taxes	117,966	1	(1)	117,966
Income tax expense	17,043			17,043
Net income	100,923	1	(1)	100,923
Less net income attributable to non-controlling interests	1,320		(1)	1,319
Net income attributable to stapled unitholders	\$ 99,603	1	—	\$ 99,604

Income Statement
Six Months Ended June 30, 2015

	<u>Granite REIT</u>	<u>Granite GP</u>	<u>Eliminations/ Adjustments</u>	<u>Granite REIT and Granite GP Combined</u>
Revenues	\$106,506			\$106,506
General and administrative expenses	13,690			13,690
Interest expense and other financing costs, net	8,970			8,970
Other costs and expenses, net	3,873			3,873
Share of (income) loss of Granite LP	—	(2)	2	—
Fair value gains on investment properties, net	(46,754)			(46,754)
Fair value losses on financial instruments	240			240
Loss on sale of investment properties	233			233
Income before income taxes	126,254	2	(2)	126,254
Income tax expense	23,198			23,198
Net income	103,056	2	(2)	103,056
Less net income attributable to non-controlling interests	2,599		(2)	2,597
Net income attributable to stapled unitholders	\$100,457	2	—	\$100,459

Statement of Cash Flows

Three Months Ended June 30, 2016

	Granite REIT	Granite GP	Eliminations/ Adjustments	Granite REIT and Granite GP Combined
OPERATING ACTIVITIES				
Net income	\$ 57,524	1	(1)	\$ 57,524
Items not involving current cash flows	(20,131)	(1)	1	(20,131)
Changes in working capital balances .	1,321	(6)	—	1,315
Other operating activities	1,724	—	—	1,724
Cash provided by (used in) operating activities	40,438	(6)	—	40,432
INVESTING ACTIVITIES				
Investment property capital additions .	(8,709)	—	—	(8,709)
Other investing activities	22,081	—	—	22,081
Cash provided by investing activities	13,372	—	—	13,372
FINANCING ACTIVITIES				
Distributions paid	(28,667)	—	—	(28,667)
Other financing activities	(7,592)	—	—	(7,592)
Cash used in financing activities . . .	(36,259)	—	—	(36,259)
Effect of exchange rate changes . . .	(2,436)	—	—	(2,436)
Net increase (decrease) in cash and cash equivalents during the period	\$ 15,115	(6)	—	\$ 15,109

Statement of Cash Flows

Three Months Ended June 30, 2015

	Granite REIT	Granite GP	Eliminations/ Adjustments	Granite REIT and Granite GP Combined
OPERATING ACTIVITIES				
Net income	\$ 48,241	1	(1)	\$ 48,241
Items not involving current cash flows	(6,238)	(1)	1	(6,238)
Changes in working capital balances .	(1,896)	34	—	(1,862)
Other operating activities	(1,580)	—	—	(1,580)
Cash provided by operating activities	38,527	34	—	38,561
INVESTING ACTIVITIES				
Investment property capital additions .	(4,132)	—	—	(4,132)
Acquisition of development land	(5,990)	—	—	(5,990)
Other investing activities	(127)	—	—	(127)
Cash used in investing activities . . .	(10,249)	—	—	(10,249)
FINANCING ACTIVITIES				
Distributions paid	(27,081)	—	—	(27,081)
Other financing activities	(3,645)	—	—	(3,645)
Cash used in financing activities . . .	(30,726)	—	—	(30,726)
Effect of exchange rate changes . . .	1,680	—	—	1,680
Net increase (decrease) in cash and cash equivalents during the period	\$ (768)	34	—	\$ (734)

Statement of Cash Flows

Six Months Ended June 30, 2016

	Granite REIT	Granite GP	Eliminations/ Adjustments	Granite REIT and Granite GP Combined
OPERATING ACTIVITIES				
Net income	\$100,923	1	(1)	\$100,923
Items not involving current cash flows	(20,316)	(1)	1	(20,316)
Changes in working capital balances .	4,115	(113)	—	4,002
Other operating activities	4,694	—	—	4,694
Cash provided by (used in) operating activities	89,416	(113)	—	89,303
INVESTING ACTIVITIES				
Investment property capital additions .	(16,517)	—	—	(16,517)
Other investing activities	30,581	—	—	30,581
Cash provided by investing activities	14,064	—	—	14,064
FINANCING ACTIVITIES				
Distributions paid	(55,749)	—	—	(55,749)
Other financing activities	(3,168)	—	—	(3,168)
Cash used in financing activities . . .	(58,917)	—	—	(58,917)
Effect of exchange rate changes . . .	(5,097)	—	—	(5,097)
Net increase (decrease) in cash and cash equivalents during the period	\$ 39,466	(113)	—	\$ 39,353

Statement of Cash Flows

Six Months Ended June 30, 2015

	Granite REIT	Granite GP	Eliminations/ Adjustments	Granite REIT and Granite GP Combined
OPERATING ACTIVITIES				
Net income	\$103,056	2	(2)	\$103,056
Items not involving current cash flows	(20,934)	(2)	2	(20,934)
Changes in working capital balances .	(1,884)	(4)	—	(1,888)
Other operating activities	(553)	—	—	(553)
Cash provided by (used in) operating activities	79,685	(4)	—	79,681
INVESTING ACTIVITIES				
Investment property capital additions .	(14,861)	—	—	(14,861)
Acquisition of development land	(5,990)	—	—	(5,990)
Other investing activities	4,535	—	—	4,535
Cash used in investing activities from discontinued operations	(7,725)	—	—	(7,725)
Cash used in investing activities . . .	(24,041)	—	—	(24,041)
FINANCING ACTIVITIES				
Distributions paid	(54,163)	—	—	(54,163)
Other financing activities	(5,977)	—	—	(5,977)
Cash used in financing activities . . .	(60,140)	—	—	(60,140)
Effect of exchange rate changes . . .	996	—	—	996
Net decrease in cash and cash equivalents during the period . . .	\$ (3,500)	(4)	—	\$ (3,504)

17. COMMITMENTS AND CONTINGENCIES

- (a) In the ordinary course of business activities, the Trust may become subject to litigation and other claims brought by, among others, tenants, suppliers and former employees. Management believes that adequate provisions have been recorded in the accounts where required. Although it is not possible to accurately estimate the extent of potential costs and losses, if any, management believes, but can provide no assurance, that the ultimate resolution of such claims would not have a material effect on the financial position of the Trust.
- (b) At June 30, 2016, the Trust's contractual commitments related to construction and development projects amounted to approximately \$3.3 million which are expected to be incurred during the remainder of 2016.
- (c) At June 30, 2016, the Trust had commitments on non-cancellable operating leases requiring future minimum annual rental payments as follows:

Not later than 1 year	\$ 451
Later than 1 year and not later than 5 years	1,766
Later than 5 years	<u>414</u>
	<u>\$2,631</u>

In addition, the Trust is committed to making annual payments under two ground leases for the land upon which two income-producing properties are situated of \$0.5 million and \$0.1 million to the years 2049 and 2096, respectively. The fair value of the investment properties situated on the land under ground leases is \$48.3 million.



REIT Information

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Exchange Listings

Stapled Units – Toronto Stock Exchange (GRT.UN) and New York Stock Exchange (GRPU)

Please refer to our website (www.granitereit.com) for information on Granite's compliance with the corporate governance standards of the New York Stock Exchange and applicable Canadian standards and guidelines.

Publicly Available Documents

Copies of the financial statements for the year ended December 31, 2015 are available through the Internet on the Electronic Data Gathering Analysis and Retrieval System (EDGAR), which can be accessed at www.sec.gov, and on the System for Electronic Document Analysis and Retrieval (SEDAR), which can be accessed at www.sedar.com. Other required securities filings can also be found on EDGAR and SEDAR.

GRANITE
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