UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 40-F

☐ **STATEMENT PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934**

☒ **ANNUAL REPORT PURSUANT TO SECTION 13(a) OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended December 31, 2018

GRANITE REAL ESTATE INVESTMENT TRUST

(Commission File Number: 001-35771)
(Name of registrant)

Province of Ontario, Canada
(Province or other jurisdiction of incorporation or organization)

GRANITE REIT INC.

(Commission File Number: 001-35772)
(Name of registrant)

Province of British Columbia, Canada
(Province or other jurisdiction of incorporation or organization)

77 King Street West, Suite 4010, P.O. Box 159
Toronto-Dominion Centre
Toronto, Ontario
M5K 1H1
(Address of Principal Executive Offices)

6500 (Primary Standard Industrial Classification Code Number (if applicable))	**N/A** (I.R.S. Employer identification Number (if applicable))

CT Corporation System
28 Liberty St.
New York, NY 10005
(212) 894-8940
(Name, address (including zip code) and telephone number (including area code) of agent for service in the United States)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Stapled Units, each consisting of one unit of Granite Real Estate Investment Trust and one common share of Granite REIT Inc.	**The New York Stock Exchange**

Securities registered or to be registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

For annual reports, indicate by check mark the information filed with this Form:

☒ Annual information form ☒ Audited annual financial statements

Indicate the number of outstanding shares of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: **45,685,229 Stapled Units outstanding as of December 31, 2018.**

Indicate by check mark whether the Registrant by filing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934 (the "Exchange Act"). If "Yes" is marked, indicate the filing number assigned to the Registrant in connection with such Rule.

Yes ☐ No ☒

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 12b-2 of the Exchange Act.

Emerging growth company ☐

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

☐

EXPLANATORY NOTE

This annual report on Form 40-F is filed by Granite Real Estate Investment Trust ("Granite REIT") and Granite REIT Inc. ("Granite GP", together with Granite REIT, the "Registrants" and each a "Registrant"). The Annual Information Form, Management's Discussion and Analysis of Operations and Financial Position and audited financial statements filed as Exhibits to this annual report relate to the combined operations and activities of the Registrants. For more information regarding the Registrants and the Stapled Units, see "Description of the Stapled Units" below.

DESCRIPTION OF THE STAPLED UNITS

On January 3, 2013, Granite Real Estate Inc. ("Granite Co.") completed its conversion from a corporate structure to a stapled unit Real Estate Investment Trust structure. The conversion was implemented pursuant to a plan of arrangement under the *Business Corporations Act* (Québec) (the "2013 Arrangement"). Under the 2013 Arrangement, all of the common shares of Granite Co. were exchanged, on a one-for-one basis, for stapled units (the "Stapled Units"), each of which consists of one unit of Granite REIT and one common share of Granite GP. The Registrants, through Granite REIT Holdings Limited Partnership and its subsidiaries, continue to carry on the business previously conducted by Granite Co. and its subsidiaries. For more information regarding the Stapled Units and the 2013 Arrangement, see the Annual Information Form dated March 6, 2019, filed as Exhibit 1 to this annual report on Form 40-F.

CONTROLS AND PROCEDURES

The conclusions below on controls and procedures and the conclusions below on internal control over financial reporting are for each individual registrant, Granite Real Estate Investment Trust and Granite REIT Inc.

A. *Disclosure controls and procedures*. The President and Chief Executive Officer and Chief Financial Officer of the Registrants have evaluated the effectiveness of each Registrant's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this annual report (the "Evaluation Date"). They have concluded that, as of the Evaluation Date, each Registrant's disclosure controls and procedures were effective to ensure that information required to be disclosed by such Registrant in the reports that it files or submits under the Act is (i) recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's (the "SEC") rules and forms and (ii) accumulated and communicated to the Registrant's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

B. *Management's report on internal control over financial reporting*. The Registrants' management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, for the Registrants.

The Registrants' internal control over financial reporting is a process designed by, or under the supervision of, the Registrants' principal executive and principal financial officers, or persons performing similar functions, and effected by the Registrant's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Registrants' assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that the Registrants' receipts and expenditures are being made only in accordance with authorizations of its management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Registrants' assets that could have a material effect on the financial statements.

Under the supervision and with the participation of the Registrants' President and Chief Executive Officer and Chief Financial Officer, management conducted an evaluation of the effectiveness of each Registrant's internal control over financial reporting, as of the Evaluation Date, based on the framework set forth in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway

Commission (COSO). Based on its evaluation under this framework, management concluded that each Registrant's internal control over financial reporting was effective as of the Evaluation Date.

Deloitte LLP, an independent registered public accounting firm, who audited and reported on the combined financial statements for the year ended December 31, 2018, which are filed as Exhibit 2 to this annual report, has also issued an attestation report under standards of the Public Company Accounting Oversight Board (United States) on the Registrants' internal control over financial reporting as of the Evaluation Date. The required attestation report is appended to the audited combined financial statements for the year ended December 31, 2018, filed as Exhibit 2 to this annual report.

C. *Changes in internal control over financial reporting*. As of the Evaluation Date, there were no changes in the Registrants' internal control over financial reporting that occurred during the period covered by this annual report that have materially affected, or that are reasonably likely to materially affect, the Registrants' internal control over financial reporting.

D. *Limitations on the effectiveness of controls and procedures*. The Registrants' management, including the President and Chief Executive Officer and the Chief Financial Officer, do not expect that the Registrants' controls and procedures will prevent all potential error and fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

AUDIT COMMITTEE AND AUDIT COMMITTEE FINANCIAL EXPERT

Each Registrant has a separately designated standing audit committee ("Audit Committee") established in accordance with section 3(a)(58)(A) of the Exchange Act. The members of the Audit Committee for each Registrant are Messrs. Gerald Miller, Donald Clow, Al Mawani.

Each Registrant's Board of Trustees or Board of Directors, as applicable, has determined that it has three audit committee financial experts (as such term is defined in Form 40-F) serving on its Audit Committee. Each Registrant's Board of Trustees or Board of Directors, as applicable, has determined that each of Mr. Miller Mr. Clow and Mr. Mawani is an audit committee financial expert and is independent, as that term is defined by the New York Stock Exchange's corporate governance standards applicable to the Registrants. The SEC has indicated that the designation of a person as an audit committee financial expert does not impose on such person any duties, obligations or liability that are greater than those imposed on such person as a member of the Audit Committee and the Board of Directors or the Board of Trustees, as applicable, in the absence of such designation or identification and does not affect the duties, obligations or liability of any other member of the Audit Committee or the Board of Directors or the Board of Trustees, as applicable.

AUDIT COMMITTEE PRE-APPROVAL POLICIES AND PROCEDURES

Please refer to the section entitled "Audit Committee" in the Annual Information Form of Granite Real Estate Investment Trust, included as an Exhibit to this annual report, for details on policies relating to the pre-approval of all audit services and permitted non-audit services provided to the Registrants by Deloitte LLP. For the year ended December 31, 2018, none of the Registrants' audit-related fees made use of the *de minimis* exception to the pre-approval provisions contained in paragraph (c)(7)(i) of Rule 2-01 of Regulation S-X.

CODE OF ETHICS

The Registrants have adopted a "code of ethics" (as that term is defined in Form 40-F), entitled the "Code of Conduct and Ethics," that applies to employees, including officers, as well as trustees and directors. A copy of the Code of Conduct and Ethics has been posted to the website of the Registrants (www.granitereit.com). The information on the Registrants' website shall not be deemed to be incorporated by reference in this annual report.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

Please refer to the section entitled "Audit Committee — Audit Fees" in the Annual Information Form of Granite Real Estate Investment Trust, included as an Exhibit to this annual report, for details on the fees billed to the Registrants by Deloitte LLP and its affiliates for professional services rendered in each of the fiscal years ended December 31, 2018 and December 31, 2017.

OFF-BALANCE SHEET ARRANGEMENTS

The Registrants' off-balance sheet arrangements consist of letters of credit to support certain contractual commitments, property purchase commitments, construction and development project commitments and certain operating agreements. For a discussion of these arrangements, please refer to notes 9 and 20 to the audited combined financial statements for the year ended December 31, 2018, included as Exhibit 2 to this annual report.

CONTRACTUAL OBLIGATIONS

Please refer to the section entitled "Commitments, Contractual Obligations, Contingencies and Off-Balance Sheet Arrangements" in the Management's Discussion and Analysis of Operations and Financial Position for the year ended December 31, 2018, included as Exhibit 3 to this annual report.

CORPORATE GOVERNANCE

Please refer to the Registrants' website (www.granitereit.com) for information on the Registrants' compliance with the corporate governance standards of the New York Stock Exchange and compliance with the corporate governance rules of the Canadian securities regulators. The information on the Registrants' website shall not be deemed to be incorporated by reference in this annual report.

UNDERTAKING AND CONSENT TO SERVICE OF PROCESS

A. Undertaking

Each Registrant hereby undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the SEC staff and to furnish promptly, when requested to do so by the SEC staff, information relating to the securities in relation to which the obligation to file an annual report on Form 40-F arises, or to transactions in said securities.

B. Consent to Service of Process

Each Registrant has previously filed with the SEC a Form F-X in connection with this annual report on Form 40-F.

SIGNATURES

Pursuant to the requirements of the Exchange Act, each Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereto duly authorized.

Date: March 6, 2019	GRANITE REAL ESTATE INVESTMENT TRUST
	By: /s/ ILIAS KONSTANTOPOULOS
	Name: Ilias Konstantopoulos
	Title: Chief Financial Officer
Date: March 6, 2019	GRANITE REIT INC.
	By: /s/ ILIAS KONSTANTOPOULOS
	Name: Ilias Konstantopoulos
	Title: Chief Financial Officer

EXHIBIT INDEX

1.	Annual Information Form dated as of March 6, 2019.
2.	Audited combined financial statements for the years ended December 31, 2018 and 2017, together with the auditors' report of the independent registered public accounting firm thereon and the effectiveness of the Registrants' internal control over financial reporting.
3.	Management's Discussion and Analysis of Operations and Financial Position for the three month period and year ended December 31, 2018.
4.	Consent of Deloitte LLP.
99.1	Certificate of the President and Chief Executive Officer of the Registrants pursuant to 18 U.S.C. Section 1350, as enacted pursuant to Section 906 of Sarbanes-Oxley Act of 2002.
99.2	Certificate of the President and Chief Executive Officer of the Registrants required by Rule 13a-14(a) or Rule 15d-14(a), pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
99.3	Certificate of the Chief Financial Officer of the Registrants required pursuant to 18 U.S.C. Section 1350, as enacted pursuant to Section 906 of Sarbanes-Oxley Act of 2002.
99.4	Certificate of the Chief Financial Officer of the Registrants by Rule 13a-14(a) or Rule 15d- 14(a), pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
101	Interactive Data Files.

EXHIBIT 1

GRANITE
REIT

Granite Real Estate Investment Trust

Annual Information Form
March 6, 2019

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GENERAL MATTERS

This annual information form contains information about both Granite Real Estate Investment Trust and Granite REIT Inc. The trust units of Granite REIT and the common shares of Granite GP trade as stapled units (''Stapled Units''), each consisting of one REIT Unit and one GP Share. The Stapled Units are listed on the TSX under the symbol ''GRT.UN'' and on the NYSE under the symbol ''GRP.U''.

Date of Information

Information in this AIF is dated as of December 31, 2018, unless otherwise indicated.

Note Regarding Financial Information

Financial information of Granite REIT and Granite GP is presented on a combined basis as permitted under exemptions granted by applicable Canadian securities regulatory authorities. Accordingly, throughout this Annual Information Form, unless otherwise specified or the context otherwise indicates, ''**Granite**'' refers to the combined Granite REIT and Granite GP and their subsidiaries.

Financial data included in this Annual Information Form has been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. This Annual Information Form should be read in conjunction with the combined financial statements and management's discussion and analysis and appended notes, each of which appear in Granite's annual report for 2018. Granite refers to Canadian dollars as ''**dollars**'' or ''**$**'', United States dollars as ''**USD**'' and Euros as ''**EUR**''. Granite publishes its financial statements in Canadian dollars.

Non-IFRS Measures

In addition to using financial measures determined in accordance with IFRS, Granite also uses certain non-IFRS measures in managing its business to measure financial and operating performance as well as for capital allocation decisions and valuation purposes. Granite believes that providing these measures on a supplemental basis to the IFRS results is helpful to investors in assessing the overall performance of Granite's business. These non-IFRS measures include net leverage ratio. Readers are cautioned that this measure does not have a standardized meaning prescribed under IFRS and, therefore, should not be construed as alternatives to net income, cash provided by operating activities or any other measure calculated in accordance with IFRS. Additionally, because this term does not have a standardized meaning prescribed by IFRS, it may not be comparable to similarly titled measures presented by other reporting issuers. Refer to ''Glossary of Terms'' for a definition of net leverage ratio. Net leverage ratio is calculated from the audited combined financial statements as at and for the year ended December 31, 2018 as follows:

As at December 31, 2018		**(in millions)**
Unsecured debt, net		**$1,198.4**
Cross currency interest rate swaps, net		**104.8**
Less: cash and cash equivalents		**658.2**
Net debt	**[A]**	**$ 645.0**
Investment properties, all unencumbered by secured debt	**[B]**	**$3,425.0**
Net leverage ratio	**[A]/[B]**	**19%**

FORWARD-LOOKING STATEMENTS

This Annual Information Form and the documents incorporated by reference herein 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 ''outlook'', ''may'', ''would'', ''could'', ''should'', ''will'', ''likely'', ''expect'', ''anticipate'', ''believe'', ''intend'', ''plan'', ''forecast'', ''objective'', ''strategy'', ''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: the expansion and diversification of Granite's real estate portfolio; the reduction in Granite's exposure to Magna and the special purpose properties; Granite's ability to strategically redeploy the proceeds from recently sold properties; the ability of Granite to find satisfactory acquisition, joint venture and development opportunities; Granite's ability to optimize its balance sheet and dispose of any non-core assets on satisfactory terms; and the expected amount of any distributions, including any expected increases, 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 management 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 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 expand and diversify its portfolio and pay the expected amount of any distributions; and the risks set forth in this Annual Information Form in the ''Risk Factors'' section, 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 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 Annual Information Form to reflect subsequent information, events or circumstances or otherwise.

GLOSSARY OF TERMS

‘‘**2.43% Swap**’’ means the cross-currency interest rate swap entered into by Granite to exchange the $400 million proceeds and related 3.873% interest payments from the 2023 Debentures to EUR 281.1 million and euro-denominated interest payments at a 2.43% interest rate.

‘‘**2011 Arrangement**’’ means the completion of a court-approved plan of arrangement of Granite Co. under the *Business Corporations Act* (Ontario), which eliminated Granite Co.’s dual class share capital structure through which Mr. Frank Stronach and his family had previously controlled Granite Co.

‘‘**2013 Arrangement**’’ means the completion of Granite Co.’s conversion from a corporate structure to a stapled unit real estate investment trust structure pursuant to a plan of arrangement under the *Business Corporations Act* (Québec) on January 3, 2013.

‘‘**2014 Indenture**’’ means, together, the trust indenture and supplemental indenture providing for, among other things, the creation and issue of the 2021 Debentures.

‘‘**2016 Indenture**’’ means, together, the trust indenture and supplemental indenture providing for, among other things, the creation and issue of the 2023 Debentures.

‘‘**2021 Debentures**’’ means the $250 million aggregate principal amount of 3.788% Series 2 Senior Debentures due 2021 issued by Granite LP on July 3, 2014.

‘‘**2022 Term Facility**’’ means the new senior unsecured non-revolving term facility in the amount of USD 185 million entered into by Granite LP on December 19, 2018.

‘‘**2023 Debentures**’’ means the $400 million of 3.873% Series 3 Senior Debentures due November 30, 2023 issued by Granite LP.

‘‘**2025 Term Facility**’’ means the new senior unsecured non-revolving term facility in the amount of $300 million entered into by Granite LP On December 12, 2018.

‘‘**AIF**’’ or ‘‘**Annual Information Form**’’ means this annual information form.

‘‘**annualized revenue**’’ means rental revenue excluding tenant recoveries, recognized in accordance with IFRS, in the month of December 2018 multiplied by twelve months.

‘‘**Arrangement Agreement**’’ means the arrangement agreement dated January 31, 2011 between MI Developments Inc., the Stronach Shareholder and The Stronach Trust (including the schedules thereto).

“Audit Committee” means the audit committee of Granite REIT or the audit committee of Granite GP, as the context requires.

‘‘**BCBCA**’’ means the *Business Corporations Act* (British Columbia).

‘‘**capital**’’ in the context of the proportionate amount invested in Magna or in the calculation of a leverage ratio are to the carrying value of Granite’s investment properties as reported on its combined balance sheet.

‘‘**Credit Facility**’’ means Granite’s unsecured revolving credit facility in the amount of $500 million with a five-year term commencing on February 1, 2018.

‘‘**DBRS**’’ means DBRS Limited.

‘‘**Debentures**’’ means, collectively, the 2021 Debentures, the 2023 Debentures and any other debentures subsequently issued under the 2014 Indenture and the 2016 Indenture.

‘‘**Declaration of Trust**’’ means Granite REIT’s amended and restated declaration of trust dated December 20, 2017.

‘‘**Directors**’’ means the Board of Directors of Granite GP.

‘‘**Disclosable Interest**’’ has the meaning set out under the heading ‘‘*Declaration of Trust and Description of REIT Units — Conflict of Interest Provisions*’’.

‘‘**Exempt Plans**’’ has the meaning set out under the heading ‘‘*Risk Factors — Risks Relating to the Stapled Units — Redemptions of Stapled Units*’’.

‘‘**FDAP**’’ has the meaning set out under the heading ‘‘*Risk Factors — Risk Relating to Taxation — United States — Potential Uncertainty as to the Availability of Treaty Benefits to Distributions from Granite America*’’.

‘‘**FIRPTA**’’ means the United States Foreign Investment in Real Property Tax Act of 1980.

‘‘**Forbearance Agreement**’’ means the forbearance agreement entered into by Granite Co. prior to the implementation of the 2011 Arrangement.

‘‘**GLA**’’ means gross leasable area.

‘‘**GP Redemption Right**’’ has the meaning set out under the heading ‘‘*Declaration of Trust and Description of REIT Units — REIT Unit Redemption Rights*’’.

‘‘**GP Share**’’ means the common shares of Granite GP.

‘‘**Granite America**’’ means Granite REIT America Inc.

‘‘**Granite Co.**’’ means, for periods prior to January 3, 2013, Granite’s predecessor Granite Real Estate Inc.

‘‘**Granite GP**’’ means Granite REIT Inc.

‘‘**Granite LP**’’ means Granite REIT Holdings Limited Partnership.

‘‘**Granite REIT**’’ means Granite Real Estate Investment Trust.

‘‘**leverage**’’ or ‘‘**leverage ratio**’’, unless otherwise indicated, refers to the carrying value of total debt divided by the total fair value of investment properties and ‘‘**net leverage ratio**’’ subtracts cash and cash equivalents from total debt.

‘‘**Magna**’’, unless otherwise indicated, refers to Magna International Inc., its operating divisions and subsidiaries and its other controlled entities.

‘‘**Moody’s**’’ means Moody’s Investor Service.

‘‘**NCIB**’’ means normal course issuer bid.

‘‘**Non-Residents**’’ are to persons who are not residents of Canada for the purposes of the Tax Act.

‘‘**Non-Resident Beneficiaries**’’ means Non-Residents or partnerships that are not Canadian partnerships within the meaning of the Tax Act.

‘‘**NYSE**’’ means the New York Stock Exchange.

‘‘**PFIC**’’ means a passive foreign investment company for U.S. federal income tax purposes.

‘‘**qualifying income exception**’’ has the meaning set out under the heading ‘‘*Risk Factors — Risk Relating to Taxation — United States — Granite REIT’s Status as a Partnership*’’.

“REIT Exception’’ has the meaning set out under the heading ‘‘*Risk Factors — Risk Relating to Taxation — Canada — Real Estate Investment Trust Status*’’.

‘‘**REIT Unitholder**’’ means a holder of a REIT Unit or REIT Units.

‘‘**REIT Unit**’’ means the trust units of Granite REIT.

‘‘**Resident Canadian**’’ means a resident in Canada for purposes of the Tax Act.

‘‘**SEC**’’ means the United States Securities and Exchange Commission.

‘‘**SF**’’ means square feet.

‘‘**SIFT**’’ has the meaning set out under the heading ‘‘*Investment Guidelines and Operating Policies of Granite — REIT Investment Guidelines*’’.

‘‘**Stapled Units**’’ has the meaning set out under the heading ‘‘*General Matters*’’.

‘‘**Stronach Shareholder**’’ means 445327 Ontario Limited.

‘‘**Support Agreement**’’ means the support agreement dated as of January 3, 2013 entered into by Granite REIT and Granite GP, as amended and restated on December 20, 2017.

‘‘**Tax Act**’’ means the *Income Tax Act* (Canada).

‘‘**Transfer Agreement**’’ means the transfer agreement between Granite Co., the Stronach Shareholder and The Stronach Trust, entered into immediately prior to the implementation of the 2011 Arrangement.

‘‘**TSX**’’ means the Toronto Stock Exchange.

‘‘**Trustees**’’ means the board of trustees of Granite REIT.

‘‘**Unit Redemption Assets**’’ has the meaning set out under the heading ‘‘*Declaration of Trust and Description of REIT Units — REIT Unit Redemption Right*’’.

‘‘**Unit Redemption Date**’’ has the meaning set out under the heading ‘‘*Declaration of Trust and Description of REIT Units — REIT Unit Redemption Right*’’.

‘‘**Unit Redemption Price**’’ has the meaning set out under the heading ‘‘*Declaration of Trust and Description of REIT Units — REIT Unit Redemption Right*’’.

CORPORATE STRUCTURE

Granite REIT

Granite REIT is an unincorporated, open-ended, limited purpose trust established under and governed by the laws of the Province of Ontario pursuant to the Declaration of Trust. Although it is intended that Granite REIT qualify as a ''mutual fund trust'' pursuant to the Tax Act, Granite REIT is not a mutual fund under applicable securities laws. The principal office and centre of administration of Granite REIT is located at 77 King Street West, Suite 4010, P.O. Box 159, Toronto-Dominion Centre, Toronto, Ontario, M5K 1H1.

Granite GP

Granite GP was incorporated on September 28, 2012 pursuant to the BCBCA. On January 4, 2013, the articles of Granite GP were altered to remove a class of non-voting shares that had been used for certain steps of the 2013 Arrangement. The head office of Granite GP is located at 77 King Street West, Suite 4010, P.O. Box 159, Toronto-Dominion Centre, Toronto, Ontario, M5K 1H1 and the registered office of Granite GP is Suite 2600, Three Bentall Centre, 595 Burrard Street P.O. Box 49314, Vancouver, British Columbia, V7X 1L3.

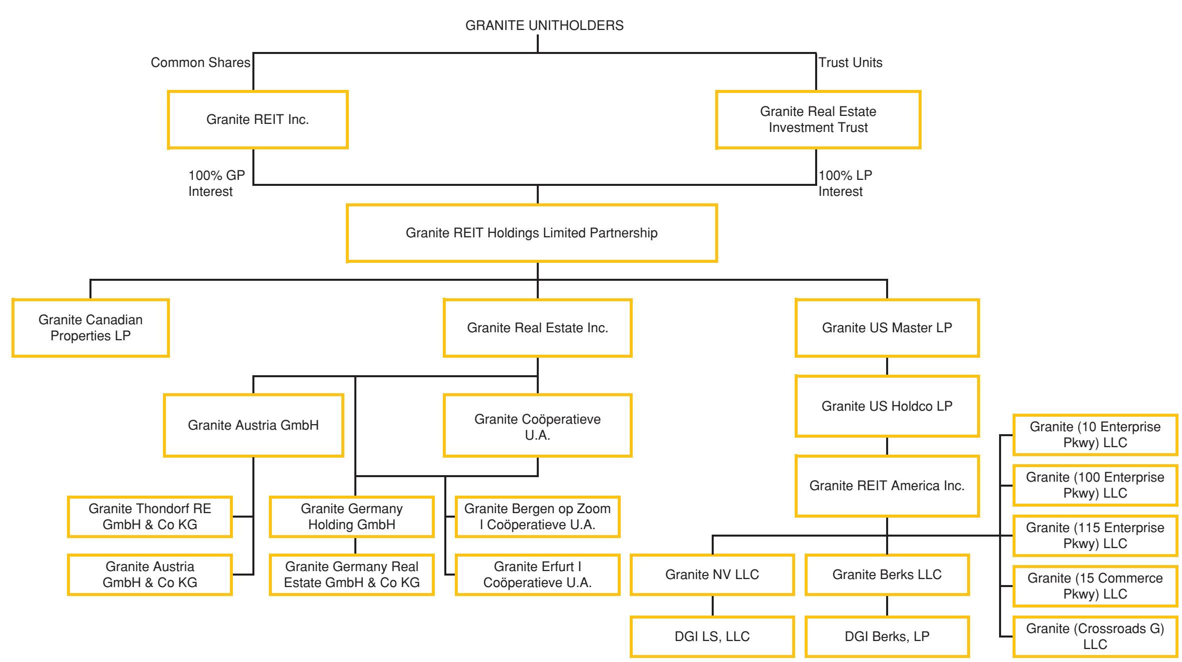
Granite LP

Granite's business is carried on directly and indirectly by Granite LP, all of the partnership units of which are owned by Granite REIT and Granite GP.

Organizational Structure and Subsidiaries

The following chart summarizes Granite's structure as at December 31, 2018:

Organizational Structure and Subsidiaries



Granite LP's material subsidiaries as at December 31, 2018 and their respective jurisdictions of incorporation or formation are listed below. Parent/subsidiary relationships are identified by indentation. The percentages of the votes attaching to all voting securities beneficially owned by Granite LP or over which Granite exercises control or direction, directly or indirectly, are also indicated. Subsidiaries not listed individually each represent less than 10% of Granite's total 2018 combined revenues and total combined assets as at December 31, 2018 and, in the aggregate, represent less than 20% of Granite's total 2018 combined revenues and total combined assets as at December 31, 2018. Granite LP's percentage voting interest is equivalent to Granite's economic interest in each subsidiary listed below. The voting securities of each subsidiary are held in the form of common shares or, in the case of limited partnerships and their foreign equivalents, share quotas or partnership interests.

List of Material Subsidiaries

	Ownership of Voting Securities	Jurisdiction of Incorporation or Formation
Granite Canadian Properties LP	100%	Ontario
Granite US Master LP	100%	Delaware
Granite US Holdco LP	100%	Delaware
Granite REIT America Inc.	100%	Delaware
Granite NV LLC	100%	Delaware
DGI LS, LLC	100%	Delaware
Granite Berks LLC	100%	Delaware
DGI Berks, LP	100%	Delaware
Granite (10 Enterprise Pkwy) LLC	100%	Delaware
Granite (100 Enterprise Pkwy) LLC	100%	Delaware
Granite (115 Enterprise Pkwy) LLC	100%	Delaware
Granite (15 Commerce Pkwy) LLC	100%	Delaware
Granite (Crossroads G) LLC	100%	Delaware
Granite Real Estate Inc.	100%	Quebec
Granite Austria GmbH	100%	Austria
Granite Thondorf RE GmbH & Co KG	100%	Austria
Granite Austria GmbH & Co KG	100%	Austria
Granite Coöperatieve U.A.	100%	Netherlands
Granite Bergen op Zoom I Coöperatieve U.A.	100%	Netherlands
Granite Erfurt I Coöperatieve U.A.	100%	Netherlands
Granite Germany Holding GmbH	99.74%	Germany
Granite Germany Real Estate GmbH & Co KG	99.74%	Germany

GENERAL DEVELOPMENT OF THE BUSINESS

The following is a summary of the general development of Granite over the past three years:

2016

On March 2, 2016, Granite announced a 5.7% increase in its monthly distribution to $0.203 per Stapled Unit, to reflect a targeted annualized distribution of approximately $2.44 per Stapled Unit, an increase from the previously annualized distribution of $2.30 per Stapled Unit.

On March 2, 2016, Granite also announced that following the consideration of a full range of alternatives by the Trustees, its review of strategic alternatives had concluded. Supported by the advice of its advisors, the Trustees determined that pursuing Granite's existing strategic objectives was the best course of action for Granite in the current circumstances.

On March 31, 2016, Granite announced the appointment of Michael Forsayeth to Chief Executive Officer.

On April 20, 2016, Granite announced that the TSX had accepted Granite's notice of intention to make a normal course issuer bid. Pursuant to the NCIB, Granite proposed to purchase up to an aggregate of 3,647,837 of its issued and outstanding Stapled Units through the facilities of the TSX and any alternative trading system in Canada, from time to time, if Granite's Stapled Units are trading at a price that Granite believes is materially below intrinsic value. The NCIB is for a period of 12 months commencing from 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.

In July 2016, Granite announced the appointment of Ilias Konstantopoulos to Chief Financial Officer effective September 12, 2016.

On October 3, 2016, Granite concluded binding agreements with Magna and certain of its Cosma International Group subsidiaries to extend or renew early and extend the leases for 15 properties, including seven special purpose properties, that in total represent approximately seven million square feet or 24% of Granite's total income producing property portfolio as at September 30, 2016.

In November 2016, Granite acquired the non-controlling interests and satisfied the contingent consideration associated with five properties in the United States for cash consideration of $20.9 million. In conjunction with the purchase, the secured mortgages and construction loans outstanding were refinanced with unsecured debt and, as a result, Granite's entire property portfolio is now unencumbered.

On December 20, 2016, Granite LP issued $400 million of 3.873% Series 3 Senior Debentures due November 30, 2023. On December 20, 2016, Granite entered into a cross currency interest rate swap to exchange the $400 million proceeds and related 3.873% interest payments from the 2023 Debentures to EUR 281.1 million and euro denominated interest payments at a 2.43% interest rate. See ''*Credit Facility and Indebtedness — Other Unsecured Indebtedness*''.

On December 21, 2016, Granite LP redeemed in full its outstanding $200 million 4.613% Series 1 Senior Debentures due October 2, 2018 and terminated the associated cross currency interest rate swap outstanding.

During 2016, Brydon Cruise and Donald Clow were appointed as Trustees of Granite REIT and Directors of Granite GP.

For the year ended December 31, 2016, Granite:

(i) including the binding agreements with Magna announced on October 3, 2016, renewed, extended or entered into 28 leases, representing an aggregate of approximately 9.5 million square feet, with annual revenue of approximately $82.1 million. Of these 28 leases, Granite entered into a seven-year lease for its 750,000 square foot recently constructed industrial property located in Bethel Township, Pennsylvania, United States;

(ii) entered into an agreement with Magna to acquire certain building expansions at two special purpose properties located in Bowling Green, Kentucky, United States and Piedmont, South Carolina, United States for a total purchase price of approximately USD 54 million. These expansions, which represent approximately 525,000 square feet of leasable area, were recently completed and funded by Magna and will generate incremental revenue of approximately USD 4.4 million. The lease terms for each of these properties was renewed early and extended to January 31, 2032; and

(iii) sold seven properties for gross proceeds in aggregate of $42.0 million, with such properties being located in the United States, Austria and Germany.

2017

In January 2017, Granite commenced monthly distributions of $0.217 per Stapled Unit reflecting a targeted annualized distribution of $2.60 per Stapled Unit, an increase of 8.3% from distributions of $2.40 per Stapled Unit made in 2016.

On May 11, 2017, Granite announced that the TSX had accepted Granite's notice of intention to make a normal course issuer bid. Pursuant to the NCIB, Granite proposed to purchase up to an aggregate of 4,118,757 of its issued and outstanding Stapled Units through the facilities of the TSX and any alternative trading system in Canada, from time to time, if Granite's Stapled Units are trading at a price that Granite believes is materially below intrinsic value. The NCIB is for a period of 12 months commencing on May 16, 2017 and will conclude on the earlier of the date on which purchases under the bid have been completed or May 15, 2018. During 2017, Granite purchased 241,034 Stapled Units on the open market at a weighted average purchase price of $49.94 per Stapled Unit.

On June 14, 2017, Wesley Voorheis, Peter Dey and Brydon Cruise announced that they would not be standing for re-election at Granite's annual general meetings of unitholders. On June 15, 2017, Peter Aghar, Samir Manji, Al Mawani, Remco Daal and Kelly Marshall were elected at such meetings as trustees of Granite REIT and directors of Granite GP.

On September 25, 2017, Michael Forsayeth, Granite's Chief Executive Office, announced his retirement from Granite effective September 30, 2018.

On October 12, 2017, Granite announced that it had completed its acquisition of a 2.2 million square foot portfolio of three warehouse and logistics properties in the United States from IDI Gazeley at a purchase price of USD 122.8 million.

On November 7, 2017, Granite announced a 4.6% increase in its monthly distribution to $0.227 per Stapled Unit, to reflect a targeted annualized distribution of approximately $2.72 per Stapled Unit, an increase from the previously annualized distribution of $2.60 per Stapled Unit.

For the year ended December 31, 2017, Granite:

(i) renewed, extended or entered into 21 leases, representing an aggregate of approximately 3.4 million square feet, with annual revenue of approximately $22.0 million; and

(ii) acquired three properties consisting of approximately 2.2 million square feet, with revenue of approximately USD 7.6 million.

2018

Acquisitions

The following table provides a summary of Granite's acquisitions in 2018:

2018 Acquisitions *(in millions, except as noted)* Property Address	Location	Sq ft[(1)]	Weighted Average Lease Term, in years by sq ft[(1)]	Date Acquired	Property Purchase Price	In-going Stabilized Yield[(1)]
Income-producing properties:						
3870 Ronald Reagan Parkway	Plainfield, IN	0.6	5.8	Mar 23, 2018	**$ 50.8**	5.3%
181 Antrim Commons Drive	Greencastle, PA	0.4	14.6	Apr 4, 2018	**44.3**	5.7%
Ohio portfolio (four properties):						
10, 100 and 115 Enterprise Parkway and 15 Commerce Parkway	West Jefferson, OH	3.8	7.0	May 23, 2018	**299.3**	6.0%
Joseph-Meyer-Straße 3	Erfurt, Germany	0.7	4.7	Jul 12, 2018	**82.7**	5.4%
120 Velocity Way	Shepherdsville, KY	0.7	4.8	Dec 3, 2018	**65.9**	5.7%
Development land:						
12.9 acres of development land, Lot 18, Park 70	West Jefferson, OH	N/A	N/A	Nov 1, 2018	**1.2**	N/A
Total		**6.2**	**6.8**		**$544.2**	**5.8%**

(1) As at the date of acquisition

Dispositions

The following table provides a summary of Granite's dispositions in 2018:

2018 Dispositions *(in millions, except as noted)* Property Address	Location	Sq ft	Date Disposed	Sale Price	Annualized Revenue[(1)]
111 Cosma Drive	Bowling Green, KY	1.2	Jan 30, 2018	**$170.0**	**$12.0**
1 Cosma Court and 170 Edward Street	St. Thomas, ON	1.5	Jan 30, 2018	**154.6**	**10.8**
Newpark campus (seven properties):					
521, 550, 561, 564, 581, 594 and 630 Newpark Boulevard	Newmarket, ON	0.6	Jan 31, 2018	**63.0**	**2.8**
1 Clearview Drive	Tillsonburg, ON	0.3	Jul 18, 2018	**7.2**	**0.6**
120 Moon Acres Road	Piedmont, SC	1.1	Sep 13, 2018	**216.4**	**14.2**
1000 JD Yarnell Industrial Parkway	Clinton, TN	0.5	Sep 13, 2018	**54.8**	**4.1**
337 and 375 Magna Drive	Aurora, ON	0.1	Sep 27, 2018	**60.0**	**3.7**
Industriestrasse 11	Schleiz, Germany	0.1	Oct 4, 2018	**3.6**	**0.4**
		5.4		**$729.6**	**$48.6**

(1) Annualized revenue is calculated as rental revenue excluding tenant recoveries, recognized in accordance with IFRS, in the month the property was first classified as an asset held for sale multiplied by twelve months.

Other

On February 1, 2018, Granite entered into an unsecured revolving credit facility in the amount of $500 million with a five-year term commencing February 1, 2018. The Credit Facility replaced Granite's existing $250 million credit facility.

On May 16, 2018, Granite announced that the TSX had accepted Granite's notice of intention to make a normal course issuer bid. Pursuant to the NCIB, Granite proposed to purchase up to an aggregate of 3,939,255 of its issued and outstanding Stapled Units through the facilities of the TSX and any alternative trading system in Canada, from time to time, if Granite's Stapled Units are trading at a price that Granite believes is materially below intrinsic value. The NCIB is for a period of 12 months commencing on May 18, 2018 and will conclude on the earlier of the date on which purchases under the bid have been completed or May 17, 2019. During 2018, Granite purchased 1,282,171 Stapled Units on the open market at a weighted average purchase price of $49.54 per Stapled Unit.

On June 4, 2018, Granite announced the appointment of Kevan Gorrie as Granite's President and Chief Executive Officer effective August 1, 2018, replacing Michael Forsayeth.

On June 14, 2018, at the annual general meetings of Granite GP and Granite REIT, Jennifer Warren was elected as a Trustee of Granite REIT and a director of Granite GP.

On November 6, 2018, Granite announced that it had increased its targeted annualized distribution to $2.80 from $2.72 per Stapled Unit, to be effective upon the distribution payable for January 2019.

On December 12, 2018, Granite entered into a new seven-year senior unsecured non-revolving term facility in the amount of $300 million. Through a cross currency interest rate swap Granite exchanged the variable interest payments for EUR denominated payments at a 2.202% fixed interest rate.

On December 17, 2018, Granite declared a special distribution of $1.20 per Stapled Unit which consisted of $0.30 per Stapled Unit payable in cash and $0.90 per Stapled Unit payable in Stapled Units.

On December 19, 2018, Granite entered into a new four-year senior unsecured non-revolving term facility in the amount of USD 185 million. Through a cross currency interest rate swap Granite exchanged the variable interest payments for EUR denominated payments at a 1.225% fixed interest rate.

2019

On March 1, 2019, Granite acquired two properties near Dallas, Texas collectively comprising approximately 1 million square feet with a weighted average lease term of 9.7 years for total consideration of $168.8 million.

In the first quarter of 2019 Granite sold six properties for a total of $43.7 million that comprised a parcel of vacant land in Brampton, ON, a 0.1 million square foot property located in Richmond Hill, ON and four Magna-tenanted properties comprising 0.6 million square feet in Iowa, United States.

BUSINESS OVERVIEW

Granite is a Canadian-based real estate investment trust engaged in the acquisition, development, ownership and management of industrial, warehouse and logistics properties in North America and Europe. As at March 6, 2019, Granite owns 86 investment properties in nine countries having approximately 33.6 million square feet of gross leasable area.

Granite provides REIT Unitholders with stable cash flow generated by revenue it derives from the ownership of and investment in income-producing real estate properties. It strives to maximize long term unit value through the execution of its long-term strategy of building an institutional quality and globally diversified industrial real estate business. Underpinning this strategy, Granite seeks to grow and diversify its asset base through acquisitions, development, re-development and dispositions; to optimize its balance sheet; and to reduce its exposure to Magna and the special purpose properties over the long term.

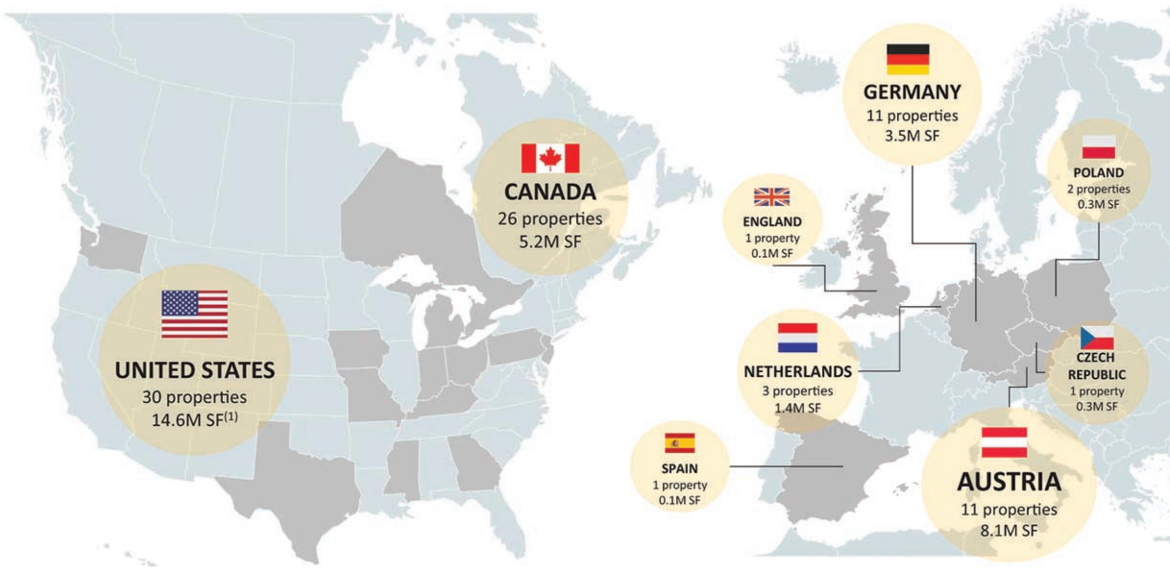
A key component of Granite's strategy is to reduce the proportion of total capital invested in Magna-tenanted properties and thereby increase the percentage of lease revenue earned from non-Magna tenants. In 2018, Granite continued to execute on its diversification strategy through the acquisition of eight income-producing properties and through repurposing certain other properties vacated by Magna.

Granite has positioned itself to capitalize on market opportunities within its geographic footprint and execute on its strategy as well as benefit from a net leverage ratio of 19%, liquidity of approximately $1.2 billion and a strong pipeline of acquisition and development opportunities. This favourable liquidity position and low leverage will facilitate Granite's near-term objectives to accelerate acquisition growth, effectively deploy Granite's balance sheet and execute on its long-term strategy of building an institutional quality and globally diversified industrial real estate business.

Investment Properties

Granite's investment properties consist of income-producing properties, properties under development and land held for development as set out in the audited combined financial statements as at December 31, 2018. Granite's investment properties as at March 6, 2019 are summarized below:

Investment Properties Summary
Nine countries/86 properties/33.6[1] million square feet



(1) Includes a 0.3 million square foot expansion completed in West Jefferson, OH and two income-producing properties representing 1.0 million of GLA acquired subsequent to December 31, 2018.

Income Producing Properties

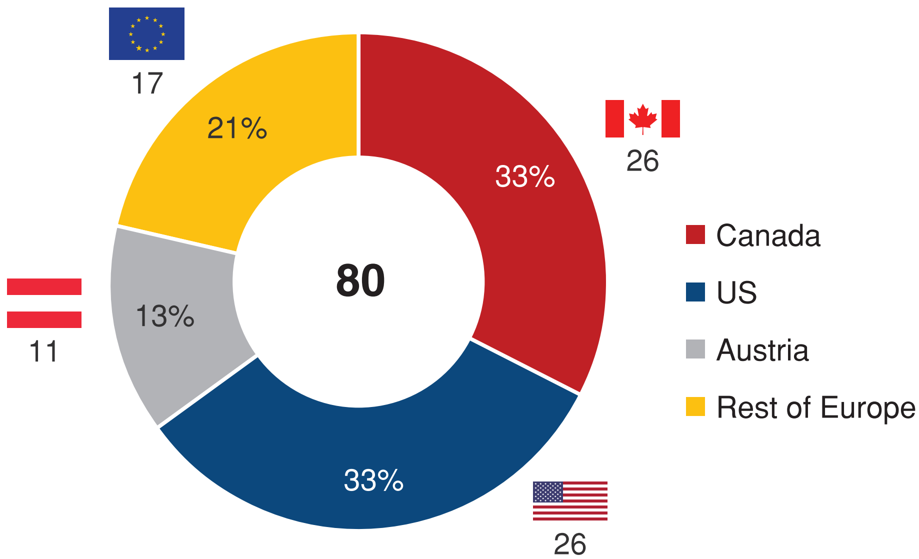
Geographic Breakdown

Granite's income-producing properties are located in nine countries: Canada, the United States, Austria, Germany, the Netherlands, the Czech Republic, Poland, the United Kingdom and Spain. Lease payments are primarily denominated in three currencies: the Euro, the Canadian dollar and the United States dollar. Unless the context requires otherwise, references to income-producing properties do not include the properties currently classified by Granite as assets held for sale (six properties), properties under development (two properties), and land held for development (two properties) as set out in the audited combined financial statements as at December 31, 2018.

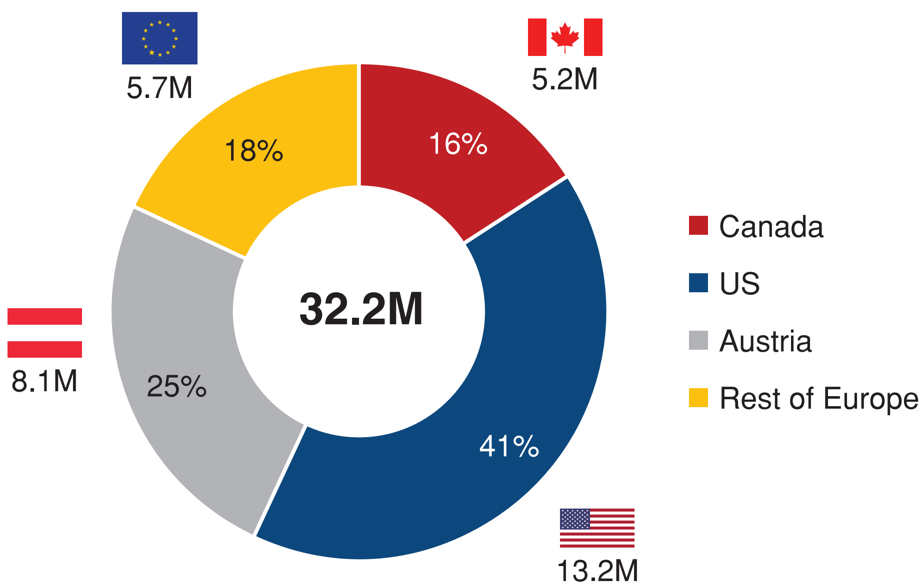
The following charts show the geographic breakdown of Granite's income-producing properties by number and approximate square footage:

Geographic Breakdown

Number of Income-Producing Properties



Square Feet



The following table shows the geographic breakdown of Granite's income-producing properties by fair value as at December 31, 2018:

Real Estate Assets

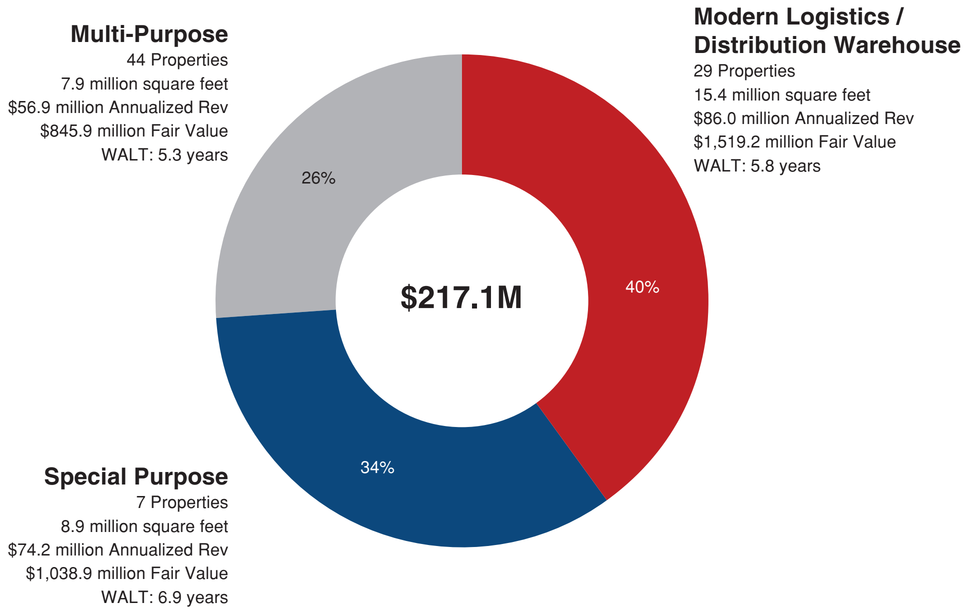
Location	Income-Producing Property Portfolio Fair Value	Income-Producing Property Portfolio Fair Value
	(in millions)	**(%)**
North America		
Canada	$ 708.6	21
United States	$1,255.3	36
Europe		
Austria	$ 840.8	25
Germany	$ 373.5	11
Netherlands	$ 155.8	5
Other	$ 70.0	2
Total	$3,404.0	**100.0**

Property Types

Substantially all of Granite's income-producing properties are for industrial use and can be categorized as (i) modern logistics/distribution warehouse facilities, which were recently acquired or newly developed/redeveloped, (ii) multi-purpose facilities, which are tenantable by a wide variety of potential users or (iii) special purpose properties designed and built with specialized features and leased to Magna. The attributes of the income-producing properties are versatile and are based on the needs of the tenant such that an industrial property used by a certain tenant for light or heavy manufacturing can be used by another tenant for other industrial uses after some retrofitting if necessary. Given that the three categories of industrial properties also have several overlapping attributes and risks, the overall risk profile of the three categories of properties within Granite's portfolio is considered to be substantially similar.

The chart below illustrates the proportion of Granite's annualized revenue from income-producing properties that are modern logistics/distribution warehouse facilities, multi-purpose facilities and special purpose properties as at December 31, 2018.

Modern Logistics/Distribution Warehouse vs. Multi-Purpose vs. Special Purpose Income-Producing Properties by Annualized Revenue[1]



Notes:

(1) The chart does not include the ten properties currently classified by Granite as assets held for sale (six properties), properties under development (two properties), and land held for development (two properties) in the combined financial statements as at December 31, 2018.

Tenant Overview

In addition to Magna, at December 31, 2018, Granite had 47 other tenants from various industries which in aggregate comprised 46% of the Trust's annualized revenue. These tenants each accounted for less than 4% of the Trust's annualized revenue as at December 31, 2018.

Granite's top 10 tenants by annualized revenue at December 31, 2018 are summarized in the table below:

Top 10 Tenants Summary

Tenant	Annualized Revenue %	GLA %	WALT (years)	Credit Rating[1][2]
Magna	54%	47%	5.9	A(low)
Restoration Hardware	3%	4%	9.3	NR
Ingram Micro	3%	3%	6.0	BBB(low)
Mars Petcare	3%	4%	3.3	NR
Hanon Systems	2%	1%	14.1	AA
Ricoh	2%	2%	6.5	BBB(high)
Grupo Antolin	2%	3%	9.7	B(high)
Samsung	2%	2%	3.2	AA(low)
Torrid	2%	2%	6.7	NR
LGI	2%	2%	4.2	NR
Top 10 Tenants	**75%**	**70%**	**6.1**	

(1) Credit rating is quoted on the DBRS equivalent rating scale where publicly available. NR refers to Not Rated.
(2) The credit rating indicated above may, in some instances, apply to an affiliated company of Granite's tenant.

As at December 31, 2018, Magna, a diversified global automotive supplier, was the tenant at 41 of Granite's 80 income-producing properties and lease payments under those leases represented approximately 54% of Granite's annualized revenue in 2018. See ''— *Magna, Granite's Largest Tenant*''.

Granite believes that its existing portfolio of Magna-tenanted properties provides a level of stability for its business. Granite's seven special purpose properties are occupied exclusively by Magna in Canada, Austria and Germany. Magna has invested significant capital in these active production facilities making it expensive to relocate. The special purpose attributes of these properties may make it more difficult to lease to future tenants should Magna vacate (see ''Risk Factors''), but, currently with a weighted average remaining lease term of 6.9 years as at December 31, 2018, they also present the opportunity for a stable and, relative to modern logistics/distribution warehouse and multi-purpose properties, enhanced rental income stream. See ''— *Magna, Granite's Largest Tenant*''. On balance, the risk profile of the special purpose properties is substantially similar to that of Granite's multi-purpose properties and modern logistics/distribution warehouses.

Expansion and Improvement Projects

Capital expenditures can include expansion or development expenditures as well as maintenance or improvement capital expenditures. Expansion or development capital expenditures are discretionary in nature and are incurred to generate new revenue streams and/or increase the productivity of a property. Maintenance or improvement capital expenditures relate to sustaining the existing earnings capacity of a property. During the year ended December 31, 2018, Granite incurred $20.3 million of expansion or development capital expenditures and $8.2 million of maintenance or improvement capital expenditures.

Of the $20.3 million in expansion or development capital expenditures made by Granite during 2018, $19.9 million related to building expansion in Columbus, Ohio. The remaining amount related to the developments in Indiana and Poland.

Of the $8.2 million in maintenance or improvement capital expenditures made by Granite during 2018, $4.2 million related to tenant fit out work for a new tenant at the property in Olive Branch, Mississippi and $2.7 million related to work done at the property in Novi, Michigan. The remaining $1.3 million of maintenance or improvement capital expenditures related to small improvement projects at various properties.

As at December 31, 2018 Granite had two properties under development comprising a 29 acre site located in Indiana, United States where Granite is planning to construct a 0.5 million square foot logistics-industrial property in 2019 and a 15 acre site in Altbach, Germany where Granite is demolishing the existing building and will begin construction of a 0.3 million square foot Class A distribution/light industrial facility later in 2019.

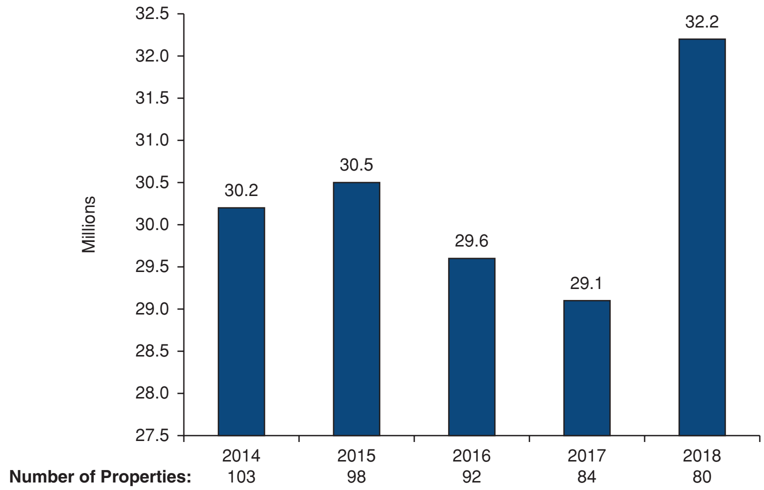
For most construction projects, Granite uses its experience and local expertise to construction-manage specific elements of a project to maximize returns and minimize construction costs. On the remainder of its projects, Granite outsources design and construction. Depending on the nature and location of the project, Granite either manages construction with regular on-site supervision by its employees, or remotely through cost, scope of work and other management control systems. Granite does not have long-term contractual commitments with its contractors, subcontractors, consultants or suppliers of materials, who are generally selected on a competitive bid basis.

Profile of Granite's Real Estate Portfolio

Granite's Income-Producing Real Estate Portfolio

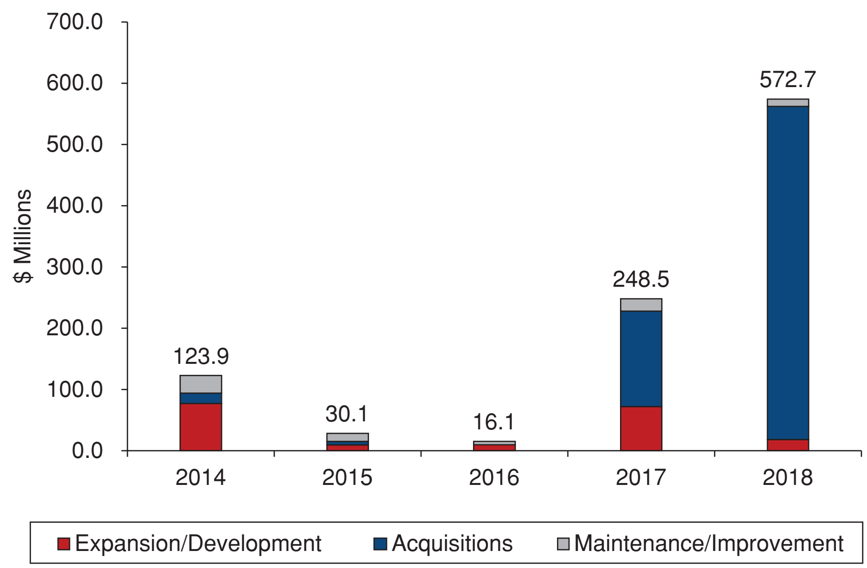
The following chart shows the total leasable area (net of dispositions) and number of properties within Granite's income-producing property portfolio in each of the last 5 years:

Total Leasable Area and Number of Properties



The chart below shows Granite's historical capital expenditures for its real estate portfolio, including (i) maintenance or improvements, (ii) acquisitions, and (iii) development/expansions in each of the last 5 years:

Annual Capital Expenditures



Schedule of Lease Expiries

The weighted average remaining term to expiry based on leased area for income-producing properties was as follows as at December 31 in each of the last five years:

December 31, 2018 — 6.0 years;
December 31, 2017 — 5.9 years;
December 31, 2016 — 7.0 years;
December 31, 2015 — 4.7 years; and
December 31, 2014 — 5.3 years.

Lease Expiration

As at December 31, 2018, Granite's portfolio had a weighted average lease term by square footage of 6.0 years (December 31, 2017 — 5.9 years) with lease expiries by GLA (in thousands of square feet), lease count and annualized revenue (calculated as rental revenue excluding tenant recoveries, recognized in accordance with IFRS, in December 2018 multiplied by twelve months, in millions) as set out in the table below:

Lease Maturity Summary

Country	Total GLA	Total Lease Count	Total Annualized Revenue $	Vacancies Sq Ft	2019 Sq Ft	2019 Annualized Revenue $	2020 Sq Ft	2020 Annualized Revenue $	2021 Sq Ft	2021 Annualized Revenue $	2022 Sq Ft	2022 Annualized Revenue $	2023 Sq Ft	2023 Annualized Revenue $	2024 Sq Ft	2024 Annualized Revenue $	2025 and Beyond Sq Ft	2025 and Beyond Annualized Revenue $
Canada	**5,260**	**25**	**39.7**	190	85	0.7	843	6.0	316	2.9	639	4.4	594	3.0	389	2.6	2,204	20.1
United States	**13,907**	**40**	**76.2**	135	817	4.4	1,091	6.2	87	0.7	2,903	13.5	2,010	10.0	1,434	8.0	5,430	33.4
Austria	**8,101**	**12**	**63.8**	—	—	—	101	0.6	389	2.7	802	9.7	125	1.2	5,349	38.8	1,335	10.8
Germany	**3,504**	**11**	**24.4**	—	—	—	195	0.7	548	3.7	283	2.3	1,947	14.3	—	—	531	3.4
Netherlands	**1,441**	**3**	**9.6**	—	—	—	—	—	—	—	—	—	314	2.2	—	—	1,127	7.4
Other	**751**	**8**	**5.6**	—	45	0.2	133	0.6	336	3.2	56	0.4	90	0.8	91	0.4	—	—
Total	**32,964**	**99**	**219.3**	**325**	**947**	**5.3**	**2,363**	**14.1**	**1,676**	**13.2**	**4,683**	**30.3**	**5,080**	**31.5**	**7,263**	**49.8**	**10,627**	**75.1**
Less: Properties classified as assets held for sale																		
Canada	**(45)**	**—**	**—**	(45)	—	—	—	—	—	—	—	—	—	—	—	—	—	—
United States	**(683)**	**(4)**	**(2.2)**	—	—	—	—	—	—	—	(311)	(0.9)	—	—	—	—	(372)	(1.3)
As at December 31, 2018	**32,236**	**95**	**217.1**	**280**	**947**	**5.3**	**2,363**	**14.1**	**1,676**	**13.2**	**4,372**	**29.4**	**5,080**	**31.5**	**7,263**	**49.8**	**10,255**	**73.8**
% of portfolio as at December 31, 2018:																		
* by sq ft	**100%**			**0.9%**	**2.9%**		**7.3%**		**5.2%**		**13.6%**		**15.8%**		**22.5%**		**31.8%**	
* by Annualized Revenue			**100%**			**2.4%**		**6.5%**		**6.1%**		**13.6%**		**14.5%**		**22.9%**		**34.0%**
Leasing and acquisition activities between January 1, 2019 and March 6, 2019:																		
As at December 31, 2018	**32,236**	**95**	**217.1**	280	947	5.3	2,363	14.1	1,676	13.2	4,372	29.4	5,080	31.5	7,263	49.8	10,255	73.8
Acquisition of two Texas properties[(1)] (acquired March 1, 2019)																		
— United States	**1,019**	**2**	**10.9**	—	—	—	—	—	—	—	—	—	—	—	—	—	1,019	10.9
Expansion of Columbus, Ohio property[(1)]																		
— United States	**308**	**—**	**1.4**	—	—	—	—	—	—	—	—	—	—	—	—	—	308	1.4
Renewals, Extensions and Vacancies																		
— Canada	**—**	**—**	**—**	—	—	—	(253)	(2.6)	—	—	(292)	(1.6)	—	—	545	4.2	—	—
— United States	**—**	**(1)**	**(0.8)**	107	(107)	(0.8)	—	—	—	—	—	—	—	—	—	—	—	—
Total	**33,563**	**96**	**228.6**	**387**	**840**	**4.5**	**2,110**	**11.5**	**1,676**	**13.2**	**4,080**	**27.8**	**5,080**	**31.5**	**7,808**	**54.0**	**11,582**	**86.1**

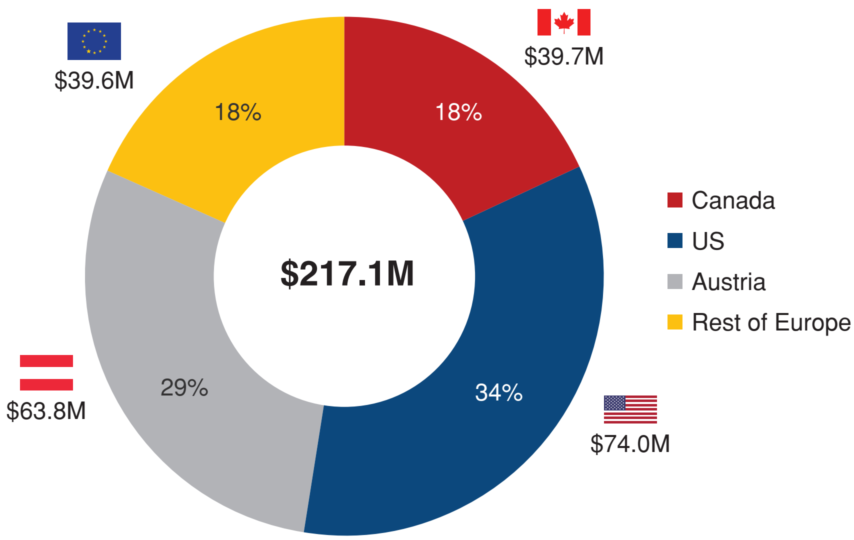
[(1)]The annualized revenue for the acquisition and expansion represents the pro-forma revenue expected over a twelve month period.

Principal Markets in which Granite Operates

Geographic Diversification

The following chart shows a breakdown of Granite's $217.1 million of annualized revenue by country from income-producing properties (excluding revenue from assets held for sale) as at December 31, 2018:

Income-Producing Property Portfolio Breakdown of Annualized Revenue by Country at December 31, 2018 (in millions of dollars)



The chart below shows the breakdown of Granite's income-producing property portfolio by country, category, fair value and number of properties as at December 31, 2018:

Income-Producing Property Portfolio Breakdown by Country, Category, Fair Value and Number Properties as at December 31, 2018 (in millions of dollars)

	Modern logistics/distribution warehouse facilities		Multi purpose facilities		Special purpose properties		Total	
	Fair Value	#	Fair Value	#	Fair Value	#	Fair Value	#
Canada	$ 11.8	1	$443.3	23	$ 253.5	2	$ 708.6	26
Austria	—	—	124.9	7	715.9	4	840.8	11
United States	1,118.7	18	136.5	8	—	—	1,255.3	26
Germany	207.7	6	96.2	3	69.5	1	373.5	10
Netherlands	155.8	3	—	—	—	—	155.8	3
Other	25.2	1	44.9	3	—	—	70.0	4
	$1,519.2	**29**	**$845.9**	**44**	**$1,038.9**	**7**	**$3,404.0**	**80**

Income-Producing Properties in Canada

Approximately 93% of the Canadian income-producing properties based on revenue as at December 31, 2018 are located in the Greater Toronto Area. The remaining three properties in the Canadian portfolio are located in Southwestern Ontario. The lease payments for properties in Canada are denominated in Canadian dollars.

Income-Producing Properties in the United States

Approximately 39% of the annualized revenue as at December 31, 2018 from Granite's income-producing properties in the United States is derived from properties located in Ohio, 14% is derived from properties located in Indiana, 11% is derived from properties located in Michigan and 10% is derived from properties located in Pennsylvania. The remainder of Granite's revenue from the United States is derived from properties located in Missouri, Mississippi, New Jersey, Georgia, Oregon, and Kentucky. The lease payments for properties in the United States are denominated in USD.

Income-Producing Properties in Austria

Approximately 96% of the Austrian income-producing properties based on revenue as at December 31, 2018 are located in the Province of Styria. Magna's Eurostar and Thondorf plants (Granite's two largest income-producing properties globally, accounting for approximately 16% of Granite's total annualized revenue) are located in the city of Graz, which is located in the Province of Styria approximately 170 kilometers south of Vienna. The lease payments for properties in Austria are denominated in EUR.

Income-Producing Properties in Germany

The properties are primarily located in the states of Baden-Württemberg, Hessen, Bavaria, Thüringen/ Thuringia, Nordrhein-Westfalen and Niedersachsen/Lower Saxony. The lease payments for properties located in Germany are denominated in EUR.

Income-Producing Properties in the Netherlands

Granite's income-producing property portfolio includes three properties in the Netherlands, which are located in the states of Noord-Brabant, Gelderland and Zuid-Holland. The lease payments for properties located in the Netherlands are denominated in EUR.

Income-Producing Properties in Other European Locations

Granite's income-producing property portfolio also includes a property in the United Kingdom. The lease payments for this property are denominated in British pounds.

Granite has one income-producing property in each of Spain and the Czech Republic. The lease payments for these properties are denominated in EUR.

Granite has one income producing property in Poland. The lease payments for this property are denominated in EUR and Polish zlotys.

Development Land

Land held for development comprise a 16 acre parcel of land located in Wroclaw, Poland that could provide for approximately 0.3 million square feet of logistics-warehouse space as well as 12.9 acres of development land in Ohio, United States.

Development Lands in Poland and the United States

Granite has two development properties in its real estate portfolio. Construction of up to two additional buildings will commence on development land located in Wroclaw, Poland once Granite's pre-leasing objectives are achieved. The second parcel of land is in Ohio, United States and is being held for future build-to-suit opportunities and/or future speculative development.

Property Under Development in Germany and the United States

Granite has two properties under development in its real estate portfolio. The first property comprises a 29 acre site located in Indiana, United States where Granite is planning to construct a 0.5 million square foot logistics-industrial property in 2019 and the second is a 15 acre site in Altbach, Germany where Granite is demolishing the existing building and expects to begin construction of a 0.3 million square foot Class A distribution/light industrial facility later in 2019.

Foreign Exchange

As at December 31, 2018, approximately 78% of Granite's revenue was denominated in foreign currencies. As Granite reports its financial results in Canadian dollars and does not currently hedge all of its non-Canadian dollar rental revenues, foreign currency fluctuations can have a material impact on Granite's financial results.

Leasing Arrangements

Leases

Granite's leases generally provide that the tenant is responsible for all costs of occupancy, including operating costs, property taxes, the costs of maintaining insurance in respect of the property, maintenance costs and non-structural replacement costs. The tenant is not responsible for income taxes or capital taxes charged to Granite.

Granite's leases generally provide that Granite is responsible, at its own expense, for structural repairs and replacements relating to the structural, non-process related elements of its properties. For certain components of a property, such as the roof membrane, paved areas and non-process related HVAC systems, some of Granite's leases provide that Granite pays for the costs of replacement as necessary and, in most of those cases, recovers such costs, plus interest, from the tenant over the expected useful life of the item replaced, as additional rent during the term of the lease.

Contractual Rental Escalations

A majority of Granite's existing leases provide for periodic rent escalations based either on fixed-rate step increases or on the basis of a consumer price index adjustment.

Renewal Options

A majority of Granite's existing leases include built-in renewal options, generally tied to either market rental rates or to the existing rent plus an increase based upon a consumer price index adjustment. In cases where the renewal is linked to market rates, the determination of market rent is, failing agreement, generally subject to arbitration.

Surrender Obligations

Granite's leases generally provide that the tenant is obligated to surrender the premises to a condition consistent with the condition on the commencement date of the lease, subject to reasonable wear and tear.

The majority of Granite's leases provide that, if requested by the landlord, the tenant is obligated to remove any alterations to the premises carried out over the term of the lease.

Environmental Obligations

Granite's leases also generally provide that the tenant must maintain the properties in accordance with applicable laws, including environmental laws, and that the tenant must remove all hazardous and toxic substances from the premises when and as required by applicable laws, regulations and ordinances and, in any event, prior to the termination of its occupation of the premises. Substantially all of Granite's leases also require the tenant to assume the costs of environmental compliance, including remediation or clean-up of any contamination that they have caused or contributed to on the leased premises. The leases generally also contain indemnities in Granite's favour with respect to environmental matters. In certain circumstances, these indemnities expire after a specified number of years following the termination of the lease. Despite the tenants' obligation to indemnify Granite, Granite is also responsible under applicable law for ensuring that its properties are in compliance with environmental laws. See ''*Risk Factors*''.

The leases generally provide that Granite may conduct environmental assessments and audits from time to time at its sole expense. See ''*— Government Regulation*''.

Restrictions on Sales and Tenant Rights of Refusal

Most of Granite's significant leases with Magna include a right of refusal in favour of the tenant with respect to the sale of the property in question. This right typically provides the tenant with a right to match any third party offer within a prescribed period of time, failing which Granite is free to accept the offer and complete the sale to the third party. Some of Granite's leases with Magna provide that so long as the tenant is controlled, directly or indirectly, by Magna, Granite may not sell the property to a competitor of the tenant without the tenant's consent.

Tenant Assignment Rights

Granite's leases generally include a restriction on assignment by the tenant without Granite's consent, other than to an affiliate of the tenant. Granite's leases do not generally restrict a change of control of the tenant however, in most cases the original tenant is not released from its obligations under the leases upon such occurrence.

Government Regulation

Granite is subject to a wide range of laws and regulations imposed by governmental authorities, including zoning, building and similar regulations that affect its real estate holdings and tax laws and regulations in the various jurisdictions in which Granite operates.

Employees

As at December 31, 2018, Granite employed 44 people, the majority of whom are based at its headquarters in Toronto, and the balance of whom are located in Austria and the Netherlands. Granite is not party to any collective bargaining agreements with any of its employees.

Magna, Granite's Largest Tenant

At December 31, 2018, Magna International Inc. or one of its operating subsidiaries was the tenant at 41 of Granite's income-producing properties and comprised 54% of Granite's annualized revenue and 47% of Granite's gross leasable area. According to its public disclosure, Magna International Inc. has a credit rating of A3 with a stable outlook by Moody's, A— with a stable outlook by Standard & Poor's and A(low) with a stable outlook by DBRS. Magna is a mobility technology company and one of the world's largest automotive suppliers with international manufacturing operations and product development, engineering and sales centres in 28 countries. Its capabilities include body exteriors and structures, power and vision technologies, seating systems and complete vehicle solutions.

For information on the conditions affecting the automotive industry and Magna’s results of operations, Granite encourages investors to consult Magna’s public disclosure, including its most recent Management’s Discussion and Analysis of Results of Operations and Financial Position and its annual information form. None of those documents or their contents, however, shall be deemed to be incorporated by reference into this Annual Information Form unless specifically otherwise noted in this Annual Information Form. According to its public disclosure, Magna’s success is primarily dependent upon the levels of North American and European car and light truck production by Magna’s customers and the relative amount of content Magna has in the various programs.

Granite’s relationship with Magna is an arm’s length landlord and tenant relationship governed by the terms of Granite’s leases. Granite’s properties are generally leased to operating subsidiaries of Magna International Inc. and are not guaranteed by the parent company; however, Magna International Inc. is the tenant under certain of Granite’s leases.

INVESTMENT GUIDELINES AND OPERATING POLICIES OF GRANITE

REIT Investment Guidelines

The Declaration of Trust provides certain guidelines on investments which may be made directly or indirectly by Granite REIT. The assets of Granite REIT may be invested only in accordance with such guidelines including, among others, those summarized below:

(a) activities will focus primarily on acquiring, holding, developing, maintaining, improving, leasing, managing, repositioning, disposing or otherwise dealing with revenue producing real property;

(b) Granite REIT shall not make or hold any investment, take any action or omit to take any action that would result in:

  (i) Granite REIT not qualifying as a ''mutual fund trust'' or ''unit trust'', both within the meaning of the Tax Act;

  (ii) REIT Units not qualifying as qualified investments for investment by trusts governed by registered retirement savings plans, registered retirement income funds, registered education savings plans, deferred profit-sharing plans, registered disability savings plans or tax-free savings accounts;

  (iii) Granite REIT not qualifying as a ''real estate investment trust'', as defined in subsection 122.1(1) of the Tax Act if, as a consequence of Granite REIT not so qualifying, Granite REIT would be subject to tax on ''taxable Specified Investment Flow-Through (''**SIFT**'') trust distributions'' pursuant to section 122 of the Tax Act; or (iv) Granite REIT being liable to pay a tax imposed under Part XII.2 of the Tax Act;

(c) best efforts will be used to ensure that Granite REIT will not be a ''publicly traded partnership'' taxable as a corporation under Section 7704 of the Internal Revenue Code of 1986;

(d) factors to be considered in making investments shall include the political environment and governmental and economic stability in the relevant jurisdiction(s), the long-term growth prospects of the assets and the economy in the relevant jurisdiction(s), the currency in the relevant jurisdiction(s) and the income-producing stability of the assets;

(e) Granite REIT may make its investments and conduct its activities, directly or indirectly, through an investment in one or more persons on such terms as the Trustees may from time to time determine, including without limitation by way of joint ventures, partnerships and limited liability companies;

(f) Granite REIT may only invest in operating businesses indirectly through one or more trusts, partnerships, corporations or other legal entities; and

(g) Granite REIT shall not invest in raw land for development, except for (i) existing properties with additional development, (ii) the purpose of renovating or expanding existing properties, or (iii) the development of new properties, provided that the aggregate cost of the investments of Granite REIT in raw land, after giving effect to the proposed investment, will not exceed 15% of Gross Book Value (as defined in the Declaration of Trust).

Operating Policies

The Declaration of Trust provides that the operations and activities of Granite REIT shall be conducted in accordance with the policies summarized below:

(a) Granite REIT shall not trade in currency or interest rate futures contracts other than trades for hedging purposes that comply with National Instrument 81-102 — *Mutual Funds*, as amended from time to time, or any successor instrument or rule;

(b) (i) any written instrument under which Granite REIT grants a mortgage, and (ii) to the extent practicable, written instruments which create a material obligation, shall contain a provision or be subject to an acknowledgement to the effect that the obligation being created is not personally binding upon, and that resort shall not be had to, nor shall recourse or satisfaction be sought from, the private property of any of the Trustees, REIT Unitholders, annuitants or beneficiaries under a plan of which a REIT Unitholder acts as a trustee or a carrier, or officers, employees or agents of Granite REIT, but that only property of Granite REIT or a specific portion shall be bound; Granite REIT, however, is not required, but shall use all reasonable efforts, to comply with this requirement in respect of obligations assumed by Granite REIT upon the acquisition of real property;

(c) Granite REIT shall not incur or assume any Indebtedness (as defined in the Declaration of Trust) if, after giving effect to the incurring or assumption of the Indebtedness, the total Indebtedness of Granite REIT would be more than 65% of Gross Book Value (as defined in the Declaration of Trust);

(d) Granite REIT shall not guarantee any liabilities of any person unless such guarantee: (i) is given in connection with an otherwise permitted investment; (ii) has been approved by the Trustees; and (iii) (A) would not disqualify Granite REIT as a ''mutual fund trust'' within the meaning of the Tax Act, and (B) would not result in Granite REIT losing any other status under the Tax Act that is otherwise beneficial to Granite REIT and REIT Unitholders;

(e) except for real property held by a person partially owned by Granite REIT, title to each real property shall be held by and registered in the name of Granite REIT, the Trustees or in the name of a corporation or other entity wholly-owned, directly or indirectly, by Granite REIT or jointly, directly or indirectly, by Granite REIT with joint venturers or in such other manner which, in the opinion of management, is commercially reasonable;

(f) Granite REIT shall conduct such diligence as is commercially reasonable in the circumstances on each real property that it intends to acquire and obtain a report with respect to the physical condition thereof from an independent and experienced consultant;

(g) Granite REIT shall either (a) have conducted an environmental site assessment or (b) be entitled to rely on an environmental site assessment dated no earlier than six months prior to receipt by Granite REIT, in respect of each real property that it intends to acquire, and if the environmental site assessment report recommends that further environmental site assessments be conducted Granite REIT shall have conducted such further environmental site assessments, in each case, by an independent and experienced environmental consultant; and

(h) Granite REIT shall obtain and maintain, or cause to be obtained and maintained, at all times, insurance coverage in respect of its potential liabilities and the accidental loss of value of its assets from risks, in amounts, with such insurers, and on such terms as the Trustees consider appropriate, taking into account all relevant factors including the practices of owners of comparable properties.

Amendments to Investment Guidelines and Operating Policies

Pursuant to the Declaration of Trust, all of Granite REIT's investment guidelines and the operating policies of Granite REIT set out in paragraphs (a), (c), (d), (f) and (g) under the heading ''— Operating Policies'' may be amended only with the approval of two-thirds of the votes cast at a meeting of REIT Unitholders. The remaining operating policies set out under the heading ''— Operating Policies'' may be amended with the approval of a majority of the votes cast at a meeting of REIT Unitholders.

Notwithstanding the foregoing paragraph, if at any time a government or regulatory authority having jurisdiction over Granite REIT or any property of Granite REIT shall enact any law, regulation or requirement which is in conflict with any investment guideline or operating policy of Granite REIT then in force, such guideline or policy in conflict shall, if the Trustees on the advice of legal counsel to Granite REIT so resolve, be deemed to have been amended to the extent necessary to resolve any such conflict and, notwithstanding anything to the contrary in the Declaration of Trust, any such resolution of the Trustees shall not require the prior approval of REIT Unitholders.

RISK FACTORS

Investing in securities of Granite involves a high degree of risk. In addition to the other information contained in this Annual Information Form, investors should carefully consider the following risk factors before investing in securities of Granite. The occurrence of any of the following risks could have a material adverse effect on Granite's business, financial condition, results of operations and cash flows. Other risks and uncertainties that are not known to Granite or that Granite believes are not material may also have a material adverse effect on Granite's business, financial condition, results of operations and cash flows.

Risks Relating to Granite's Business

Tenant Concentration

Although one element of Granite's strategy is to diversify and reduce its exposure to Magna by increasing the proportion of lease revenue that it derives from other tenants, as at December 31, 2018, 41 of Granite's 80 income-producing properties were leased to Magna International Inc. or its operating subsidiaries. For the year ended December 31, 2018, payments under those leases represented approximately 54% of Granite's annualized revenue and approximately 47% based on gross leasable area.

Granite's properties are generally leased to operating subsidiaries of Magna and are not guaranteed by the parent company, however, Magna is the tenant under certain of Granite's leases. As a result, Granite may not have the contractual right to proceed directly against Magna International Inc. in the event that one of these subsidiaries defaults on its lease. Granite could be materially adversely affected if any Magna subsidiaries became unable to meet their respective financial obligations under their leases, and if Magna International Inc. was unwilling or unable to provide funds to such subsidiaries for the purpose of enabling them to meet such obligations.

Granite encourages investors to consult Magna's public disclosure for information on factors affecting the business of Magna, including the factors described in the section on industry trends and risks in Magna's Management's Discussion and Analysis of Results of Operations and Financial Position prepared as at November 7, 2018, which section, excluding any forward-looking information contained therein expressly referring to Magna's beliefs, is incorporated by reference into this AIF.

Lease Renewals and Occupancy

Granite's tenants may not renew expiring leases on terms favourable to Granite, or at all. Granite may not be able to find a new tenant for any property for which the lease has expired, in each case on terms as favourable as the expired lease, or at all, particularly properties that are considered to be special purpose in nature and were designed and built with unique features or are located in secondary markets.

Market rates may be lower at the time renewal options are exercised, and accordingly, leases may be renewed at lower levels of rent than are currently in place. Granite may incur significant costs in making property modifications, improvements or repairs required by a new tenant. The failure to maintain a significant number of Granite's income-producing properties under lease would have a material adverse effect on Granite's financial condition and operating results. As at December 31, 2018, Granite's occupancy rate was 99.1% excluding six properties held for sale.

Credit Risk

Granite may incur losses resulting from a failure of a tenant to meet its payment obligations. Granite's financial condition and operating results would be adversely affected if Magna or a significant number of other tenants were to become unable to meet their financial obligations to Granite. Furthermore, a rejection or termination of a lease under the protection of bankruptcy, insolvency or similar laws, could cause a temporary reduction of Granite's cash flow.

Geographic Exposure

During 2018, 22% of Granite's revenue was generated in Canada, 26% in Austria, 36% in the United States, 10% in Germany and the remainder in five other countries. Operating in different regions and countries exposes Granite to political, economic and other risks as well as multiple foreign regulatory requirements that are subject to change, including:

- consequences from changes in tax laws and treaties, including restrictions on the repatriation of funds;
- downturns in countries or geographic regions where Granite has significant operations;
- economic tensions between governments and changes in international trade and investment policies;
- regulations restricting Granite's ability to do business in certain countries;
- local regulatory compliance requirements; and
- political and economic instability, natural calamities, war, and terrorism.

The effects of these risks may, individually or in the aggregate, materially adversely affect Granite's business, financial condition, results of operations and cash flows.

Foreign Currency

A majority of Granite's revenue is not denominated in Canadian dollars. Since Granite reports its financial results in Canadian dollars and does not currently hedge all of its non-Canadian dollar rental revenues, Granite is subject to foreign currency fluctuations that could, from time to time, have a material adverse impact on Granite's business, financial condition, results of operations and cash flows.

From time to time, Granite may attempt to hedge its exposure to the impact that changes in foreign currency rates or interest rates may have on Granite's revenue and liabilities through the use of derivative financial instruments. The use of derivative financial instruments, including forwards, futures, swaps and options, in Granite's risk management strategy carries certain risks, including the risk that losses on a hedge position will reduce revenue. A hedge may not be effective in eliminating all the risks inherent in any particular position. Additionally, all of Granite's outstanding debt is denominated in foreign currencies to more naturally hedge its non-Canadian cash-inflows. Granite's profitability may be adversely affected during any period as a result of the use of derivatives.

Automotive Industry

Although Granite intends to continue to increase the proportion of lease revenue it derives from tenants other than Magna, Granite's business is subject to conditions affecting the automotive industry generally.

The global automotive industry is cyclical. Economic uncertainty or a deterioration of the global economy for an extended period of time may result in lower consumer confidence, which has a significant impact on consumer demand for vehicles, as vehicle production is closely related to consumer demand.

This could have a material adverse effect on Magna, its customers and suppliers and, in turn, on Granite's profitability and financial condition. A decrease in the long-term profitability or viability of the automotive industry and the automotive parts sector in particular would have a material adverse impact on Granite's properties and its operating results.

Environmental Matters

Some of Granite's tenants engage in industrial operations using hazardous materials. Under various federal, state, provincial and local environmental laws, ordinances and regulations, a current or previous owner, an occupier or previous occupier, and their directors and officers, may be liable for costs to remove and remediate contaminants at an affected property, as well as at off-site affected properties. Such laws often impose liability whether or not the owner or occupier knew of, or was responsible for, the presence of the contaminants. In addition, the presence of contaminants and hazardous building materials (such as asbestos) or the requirement to remediate, may materially impair the value of Granite's properties and adversely affect its ability to borrow by using affected properties as collateral. Certain environmental laws and common law principles can impose liability for contamination, and third parties may seek to recover from owners and prior owners and their directors and officers for damages. As an owner and prior owner of properties, Granite and its directors and officers are subject to these potential liabilities.

Capital and operating expenditures necessary to comply with environmental laws and regulations, to defend against claims and to remediate contaminated property may have a material adverse effect on Granite's operating results and its financial condition. To date, environmental laws and regulations have not had a material effect on Granite's operations or its financial condition. However, Granite is subject to ever more stringent environmental standards as a result of enhanced environmental regulation and increased environmental enforcement, compliance with which may have a material adverse effect on Granite's business, financial condition, results of operations and cash flows. Granite cannot predict the future costs that it may be required to incur to meet its environmental obligations.

On occasion, tenants' operations and Granite's properties may become the subject of complaints from adjacent landowners, or inquiries or investigations by environmental regulators. Almost all of the costs relating to such complaints, inquiries or investigations to date have been incurred by Granite's tenants pursuant to the terms of the relevant leases. In the past, Granite has engaged consultants and incurred immaterial costs with respect to environmental matters arising from adjacent or nearby properties in order to protect the condition and marketability of its properties.

Moreover, environmental laws may impose restrictions on the manner in which a property may be used or to which a property is subject on transfer. These environmental restrictions may limit development or expansion of a property in Granite's portfolio and may affect its value.

Competition

In each of the real estate markets in which Granite operates, it competes for suitable real estate investments with many other parties, including real estate investment trusts, pension funds, insurance companies, private investors and other investors (both Canadian and foreign), which are currently seeking, or which may seek in the future, real estate investments similar to those desired by Granite. Some of Granite's competitors may have greater financial resources, or lower required return thresholds than Granite does, or operate with different investment guidelines and operating policies. Accordingly, Granite may not be able to compete successfully for these investments.

If competing properties of a similar type are built in the area where one of Granite's properties is located, or similar properties located in the vicinity of one of Granite's properties are substantially refurbished, the net operating income derived from, and the value of, such property could be reduced.

Key Personnel

The operations of Granite depend on the services of certain key personnel. The loss of the services of any member of Granite's management team could have an adverse effect on Granite.

Cyber Security

Granite relies on its information technology systems for its financial reporting and day-to-day operations. Granite employs systems and websites that allow for the storage and transmission of proprietary or confidential information regarding its business, tenants and employees.

Security breaches could expose Granite to a risk of loss or misuse of this information, potential liability and reputational damage. Granite may not be able to anticipate or prevent rapidly evolving types of cyber-attacks. Actual or anticipated attacks may cause Granite to incur increased costs, including costs to deploy additional personnel and protection technologies, train employees and engage third party experts and consultants. Advances in computer capabilities, new technological discoveries or other developments may result in the technology used by Granite to protect transaction or other data being breached or compromised. Data and security breaches can also occur as a result of non-technical issues, including intentional or inadvertent breach by employees or persons with whom Granite has commercial relationships that result in the unauthorized release of personal or confidential information.

If Granite were unable to operate its systems, make enhancements as needed or if there was a cyber-security breach into Granite's network, it could have an adverse effect on Granite's ability to manage its operations and meet its obligations including its financial reporting obligations, which in turn could have an adverse impact on Granite's business, financial condition, results of operations and financial condition.

General Risks Associated with Real Property Ownership

Because Granite owns, leases and develops real property in multiple jurisdictions, it is subject to risks that may vary by jurisdiction. The investment returns available from investments in real estate depend in large part on the amount of income earned by the properties, capital appreciation generated by the properties, as well as the expenses incurred. Granite may experience delays and incur substantial costs in enforcing its rights as lessor under defaulted leases.

In addition, a variety of other factors outside of Granite's control affect income from properties and real estate values, including governmental regulations, zoning regulations, and condemnation/eminent domain laws, and can make it more expensive or time-consuming to expand, modify or renovate existing structures. The value of Granite's properties is also dependent on the credit and financial stability of Granite's tenants, and the bankruptcy or insolvency of any of Granite's tenants could adversely affect Granite's financial position. Operating costs for a property, including maintenance costs, property taxes and insurance, remain payable regardless of whether the property is producing income.

When interest rates increase, the cost of acquiring, developing, expanding or renovating real property increases and real property values may decrease as the number of potential buyers decreases. In addition, real estate investments are often difficult to sell quickly. Similarly, if financing becomes less available, it becomes more difficult both to acquire and to sell real property. Moreover, governments can, under eminent domain laws, take real property. Sometimes this taking is for less compensation than the owner believes the property is worth.

A deterioration of economic and political conditions, including through rising interest rates or inflation, high unemployment, increasing energy prices, declining real estate values, increased volatility in global capital markets, international conflicts, sovereign debt concerns, an increase in protectionist measures and/or other factors, could adversely affect the value of Granite's property portfolio, business, financial condition, results of operations and financial condition.

Development Risk

Granite intends to develop properties as suitable opportunities arise. Real estate development includes risks associated with:

- construction delays or cost overruns that may increase project costs;
- failure to receive zoning, occupancy and other required governmental permits and authorizations;
- development costs incurred for projects that are not pursued to completion;
- natural disasters, such as earthquakes, floods or fires, that could adversely impact a project;
- governmental restrictions on the nature, use or size of a project.

Granite's development projects may not be completed on time or within budget, and there may be difficulty in securing tenants for the development, which could adversely affect Granite's operating results.

Liquidity of Real Estate Investments

Real estate investments, particularly those that are special purpose in nature, tend to be relatively illiquid. This may limit Granite's ability to adjust or adapt its portfolio promptly in response to changing economic or investment conditions. If the liquidation of assets is required, there is a significant risk that Granite would realize sale proceeds of less than the current fair value of its real estate investments.

Additionally, many of Granite's significant leases provide the tenant with rights of first refusal, which may adversely affect the marketability and market value of its income-producing property portfolio. These rights of first refusal may deter third parties from incurring the time and expense that would be necessary for them to bid on Granite's properties in the event that Granite desires to sell those properties. See ''*Business Overview — Leasing Arrangements — Restrictions on Sales and Tenant Rights of Refusal*''.

Inability to Execute Growth Strategy

Granite's ability to achieve its strategic objectives is subject to known and unknown risks, uncertainties and other unpredictable factors which, in addition to those discussed herein, include: adverse changes to foreign or domestic laws; changes in economic, market and competitive conditions; and other risks that may adversely affect Granite's ability to grow and diversify its asset base through acquisitions, development, re-development and dispositions; to optimize its balance sheet; to reduce its exposure to Magna and the special purpose properties over the long term; and to achieve its near-term strategy of acquiring and developing an institutional quality portfolio in key e-commerce and distribution markets (see also ''*— Increased Financial Leverage*'').

Failure to Obtain Future Financing

Granite's access to third-party financing will be subject to a number of factors, including general market conditions; global economic volatility; Granite's credit rating; the market's perception of Granite's stability and growth potential; Granite's current and future cash flow and earnings; and Granite's ability to renew certain long-term leases. There is no assurance that capital will be available when needed or on favourable terms. Granite's failure to access required capital on acceptable terms could adversely affect its, cash flows, operating results and financial condition and Granite's ability to make acquisitions, maintain existing assets and make capital investments, Granite may have restricted access to capital and increased borrowing costs which could adversely affect possible future debt or equity security issuances.

Financing Risk

Granite is exposed to financing risk on maturing debentures and bank indebtedness, as well as interest rate risk on borrowings. If its indebtedness is replaced by new debt that has less favourable terms or it is unable to secure adequate funding, distributions to holders of Stapled Units may be adversely impacted (see also ''— *Failure to Obtain Future Financing*'').

A portion of the cash flow generated by Granite's property portfolio is used to meet its obligations under its outstanding debt and there can be no assurance that Granite will continue to generate sufficient cash flow from operations to meet interest payment obligations or principal repayment obligations upon the applicable maturity dates. If Granite is unable to meet interest or principal payment obligations, it could be required to seek renegotiation of such payments or obtain additional equity, debt or other financing, and failure to do so could materially adversely affect Granite's financial condition and results of operations and adversely impact cash distributions on the Stapled Units. Furthermore, if a property is mortgaged to secure the payment of indebtedness and Granite is unable to meet mortgage payments, the mortgagee could foreclose upon the property, appoint a receiver and receive an assignment of rents and leases or pursue other remedies, all of which could result in lost revenues and asset value.

The documents governing the 2021 Debentures, the 2023 Debentures and the Credit Facility contain various financial covenants which are measured on the basis of the combined financial statements of Granite REIT and Granite GP. Failure to comply with obligations under the documents governing such indebtedness may adversely impact cash distributions on the Stapled Units.

Granite is also exposed to interest rate risk, and, to the extent that Granite incurs variable rate indebtedness, its cost of borrowing will fluctuate as interest rates change. Accordingly, if interest rates rise significantly, Granite's operating results, financial condition and cash flow could be adversely affected and the amount of cash available for distribution on the Stapled Units could be decreased.

Acquisitions

Granite expects to continue to acquire new properties and dispose of properties in accordance with its growth and diversification strategy, and Granite may also acquire going-concern businesses. It is Granite's operating policy to conduct such diligence as is commercially reasonable in the circumstances on each business or real property that it intends to acquire, including, where appropriate, obtaining a report with respect to the physical condition of real properties from an independent and experienced consultant.

Acquisitions of properties are subject to commercial risks and satisfaction of closing conditions that may include, among other things, receipt of estoppel certificates and obtaining title insurance. Such acquisitions may not be completed or, if completed, may not be on terms that are as favourable as initially negotiated. In the event that Granite does not complete an announced acquisition, it may have an adverse effect on Granite's operating results.

Integrating acquired properties and businesses also involves a number of risks that could materially and adversely affect Granite's business, including:

- failure of the acquired properties or businesses to achieve expected investment results;
- risks relating to the integration of the acquired properties or businesses and the retention and integration of key personnel relating to the acquired properties or businesses; and
- the risk that major tenants or clients of the acquired properties or businesses may not be retained following the expiry of their leases.

Furthermore, the properties and businesses acquired may have undisclosed liabilities for which Granite may not be entitled to any recourse against the vendor, and any contractual, legal, insurance or other remedies may be insufficient. The discovery of any material liabilities subsequent to the closing of the acquisition for any property or business could have a material adverse effect on Granite's cash flows, financial condition and results of operations.

There can be no assurance that Granite will be able to find attractive opportunities toward which to deploy capital or the proceeds of dispositions, or that Granite will be able to replace the revenue from disposed properties with revenue from newly acquired properties on satisfactory terms or to acquire assets on an accretive basis.

Capital Expenditures

In order to retain marketable rentable space and to generate sustainable revenue over the long term, Granite must maintain or, in some cases, improve each property's condition to meet market demand. In addition, maintaining a rental property in accordance with Granite's leases and market standards can entail costs, including, without limitation, new roofs, paved areas or structural repairs, which Granite may not be able to recover from its tenants.

Numerous factors, including the age of the building, the materials used at the time of construction, currently unknown regulatory violations or new regulatory requirements, could result in substantial unbudgeted costs. If the actual costs of maintaining or upgrading a property exceed Granite's estimates, or if hidden defects are discovered, which are not covered by insurance or contractual warranties, or if Granite is not permitted to recover such costs pursuant to its leases or due to legal constraints, it will incur additional and unexpected costs.

These maintenance, repair and capital costs could have a material adverse effect on Granite's business, financial condition, results of operations and cash flows.

Uninsured Losses

It is Granite's policy to obtain and maintain, or cause to be obtained and maintained, at all times, insurance coverage in respect of its potential liabilities and the accidental loss of value of its assets from risks, in amounts, with selected insurers, and on such terms as it considers appropriate, taking into account all relevant factors including the practices of owners of comparable properties.

Granite does not carry insurance for generally uninsured losses, such as losses from riots, certain environmental hazards, war or certain terrorist attacks.

If Granite experiences a loss which is uninsured or which exceeds its policy coverage limits, Granite could lose the capital invested in the damaged properties as well as the anticipated future cash flows from those properties. In addition, it is difficult to evaluate the stability and net assets or capitalization of insurance companies and any insurer's ability to meet its claim payment obligations. A failure of an insurance company to make payments to Granite upon an event of loss covered by an insurance policy could have a material adverse effect on Granite's business, financial condition, results of operations and cash flows.

Litigation Risk

Granite is sometimes the subject of complaints or litigation from tenants, employees or other third parties for various actions. The damages sought against Granite in these litigation claims can be substantial. If one or more valid and substantiated claims were to greatly exceed Granite's liability insurance coverage limits or if Granite's insurance policies do not cover such a claim, this could have a material adverse effect on Granite's business, financial condition, results of operations and cash flows.

Regulatory Risk

Granite is subject to numerous federal, provincial, state and local laws and governmental regulations relating to environmental protections, product quality standards, and building and zoning requirements. If Granite fails to comply with existing or future laws or regulations, it may be subject to governmental or judicial fines or sanctions, while incurring substantial legal fees and costs. In addition, Granite's capital expenses could increase due to compliance or remediation measures that may be required if it is found to be noncompliant with any existing or future laws or regulations.

Financial Reporting

Granite maintains information systems, procedures and controls to ensure all information disclosed externally is as complete, reliable and timely as possible. Such internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS.

Because of the inherent limitations in all control systems, including well-designed and operated systems, no control system can provide complete assurance that the objectives of the control system will be met. Furthermore, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, will be detected or prevented. Inherent limitations in control systems include, without limitation, the risk of isolated errors and the risk that management's assumptions and judgments may ultimately prove to be incorrect under varying conditions.

Additionally, controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people or by management override. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential conditions.

Increased Financial Leverage

One of Granite's strategic objectives is to increase its leverage to a range of 35% to 40%. As at December 31, 2018, Granite's net leverage ratio was 19%.

The degree to which Granite is leveraged could have important consequences to holders of Granite securities. These include: (i) a significant portion of Granite's cash flow may be dedicated to the payment of the principal of, and interest on, Granite's indebtedness, thereby reducing the amount of funds available for the payment of cash distributions to holders of Stapled Units; (ii) certain of Granite's borrowings may be at variable rates of interest, which exposes Granite to the risk of increased interest rates; (iii) a high level of debt would increase vulnerability to general adverse economic and industry conditions; (iv) the covenants contained in the indebtedness will limit Granite's ability to dispose of assets, encumber assets, pay distributions and make potential investments; (v) a high leverage percentage may place Granite at a competitive disadvantage compared to other owners of similar real estate assets that are less leveraged and therefore Granite may be prevented from taking advantage of opportunities; (vi) a high leverage percentage may make it more likely that a reduction in Granite's borrowing base following a periodic valuation (or redetermination) could require Granite to repay a portion of then-outstanding borrowings; and (vii) a high leverage percentage may impair Granite's ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general trust or other purposes. Under the Declaration of Trust, Granite REIT (including entities wholly or partially owned by Granite REIT on a proportionate consolidation basis) may not incur or assume any Indebtedness (as defined in the Declaration of Trust) if, after giving effect to the incurring or assumption of the Indebtedness, the total Indebtedness of Granite REIT would be more than 65% of Gross Book Value (as defined in the Declaration of Trust).

Risks Relating to Taxation

Canada

Mutual Fund Trust Status

Granite REIT may cease to qualify as a mutual fund trust for purposes of the Tax Act. If Granite REIT did not qualify as a mutual fund trust for such purposes continuously throughout a taxation year, it would be subject to adverse tax consequences which likely would result in a significant portion of its income becoming subject to Canadian income tax and materially reduce the level of cash distributions made to REIT Unitholders.

Real Estate Investment Trust Status

Granite REIT would be subject to Canadian income tax (under the so-called ''SIFT'' tax rules) on a similar basis to a Canadian public corporation on its income for a year unless it qualifies in that year as a real estate investment trust for purposes of the Tax Act (the ''**REIT Exception**''). If Granite REIT did not qualify under the REIT Exception for one or more of its taxation years, it would have higher cash taxes payable and the level of cash distributions made to REIT Unitholders would be materially reduced. The conditions for satisfying the REIT Exception are onerous, and include various numerical tests (including tests entailing valuations of assets or measurement of various revenue streams) which must be satisfied at any point in time throughout the year in question. Accordingly, there is a risk (including as a result of unanticipated developments or changes in law) that Granite REIT will not qualify under the REIT Exception as a real estate investment trust under the Tax Act for one or more of its taxation years.

Changes to Tax Laws

Granite operates in multiple foreign jurisdictions. Accordingly, it is subject to the tax laws and related tax treaties in each of those jurisdictions and the risk that those tax laws and treaties may change in the future. Any such changes could adversely affect taxes payable including withholding taxes, the effective tax rate in the jurisdictions in which Granite operates and the portion of distributions that would be income for Canadian income tax purposes.

Risks Related to the Positions Taken by Granite in its Tax Filings

Tax provisions, including current and deferred tax assets and liabilities in Granite's financial statements and tax filing positions, require estimates and interpretations of Canadian and foreign tax laws, regulations, and tax treaties, and judgments as to their interpretation and application to Granite's specific situation. In addition, the computation of income and other taxes payable involves many complex factors and there can be no assurance that Canadian or foreign tax agencies will agree with Granite's tax filing positions or will not change their administrative practices to the detriment of Granite and its security holders. While Granite believes that its tax filing positions are appropriate and supportable under applicable law, they are always subject to review and assessment by the relevant taxation authorities. Therefore, it is possible that additional taxes could be payable by Granite or withheld on distributions received from non-resident subsidiaries or distributed to REIT Unitholders or that additional taxable income could be allocated by Granite REIT to its REIT Unitholders (potentially in excess of cash distributions made to them).

United States

Granite America's Status as a U.S. REIT

As of January 1, 2013, Granite America qualified as a REIT for United States federal income tax purposes. REITs are subject to numerous requirements, including requirements relating to the character of their income and assets. If Granite America fails to qualify as a REIT for U.S. federal income tax purposes, it would be subject to U.S. federal income tax as a corporation, and distributions to Granite REIT (and ultimately to REIT Unitholders) could be reduced.

Under section 269B of the United States Internal Revenue Code certain entities that are treated as ''stapled entities'' are subject to adverse effects. Granite GP should not be treated as stapled to Granite America under current law. If Granite GP nevertheless were treated as stapled to Granite America for these purposes, Granite America and Granite GP could be treated as one entity, which could potentially result in Granite America failing to qualify as a REIT and could reduce the amount of available distributions made by Granite America to Granite REIT (and ultimately to REIT Unitholders).

Granite REIT's Status as a Partnership

Granite REIT's status as a partnership for U.S. federal income tax purposes requires that 90% or more of Granite REIT's gross income for every taxable year consists of qualifying income (the ''**qualifying income exception**''), and that Granite REIT not be registered under the *Investment Company Act*. Granite REIT expects that it will be able to utilize the qualifying income exception in each taxable year, but Granite REIT could cease to be treated as a partnership for U.S. federal income tax purposes should this exception not be met in any given year, resulting in materially reduced distributions if Granite REIT is subject to U.S. corporate level income tax or increased U.S. withholding tax on dividend distributions from its U.S. subsidiaries.

Risks Related to PFIC Status

Granite REIT, Granite GP or their subsidiaries may be considered a PFIC for U.S. federal income tax purposes. U.S.-resident REIT Unitholders directly or indirectly owning an interest in a PFIC may experience adverse U.S. tax consequences.

U.S. Return Filing Obligation if Granite REIT Recognizes FIRPTA Gain

Granite REIT intends to manage its affairs so that the risk of recognizing a gain under FIRPTA is minimized. However, if Granite REIT recognizes a FIRPTA gain, Non-U.S.-resident REIT Unitholders will be subject to U.S. federal income tax and U.S. income tax return filing obligations.

Potential Uncertainty as to the Availability of Treaty Benefits to Distributions from Granite America

Treaty-reduced rates of withholding tax on Fixed, Determinable, Annual, Periodical (''**FDAP**'') payments that are considered to be US sourced, are not available under a treaty if REIT Unitholders are not considered the beneficial owners of the income earned by Granite REIT or are not considered to have derived such income within the meaning of the applicable Treasury Department regulations. Granite believes that REIT Unitholders will be treated as deriving the income earned by Granite REIT and REIT Unitholders will be treated as the beneficial owners of such income. If REIT Unitholders were not considered the beneficial owners of Granite REIT's income, the portion of distributions to REIT Unitholders which would be considered FDAP payments would not be eligible for a reduced rate of withholding tax and Granite REIT may be assessed by the IRS for failure to withhold at an appropriate rate. As a practical matter, Granite may not be able to recover most of the amount of such assessment from REIT Unitholders.

Risks Relating to the Stapled Units

Distributions

The REIT Units are equity securities of Granite REIT and are not fixed income securities. A fundamental characteristic that distinguishes the REIT Units from fixed income securities is that Granite REIT does not have a fixed obligation to make payments to holders of REIT Units and does not have an obligation to return the initial purchase price of a REIT Unit on a certain date in the future (although the REIT Units are redeemable on demand, subject to certain limitations, as provided in the Declaration of Trust). Granite REIT has the ability to reduce or suspend distributions to holders of REIT Units if circumstances warrant. The ability of Granite REIT to make cash distributions to holders of REIT Units, and the actual amount distributed, will be entirely dependent on the operations and assets of Granite REIT and its subsidiaries, and will be subject to various factors including financial performance, obligations under indebtedness, fluctuations in working capital and capital expenditure requirements. There can be no assurance regarding the amount of income to be generated by Granite's properties.

In addition, unlike interest payments on an interest-bearing debt security, Granite REIT's cash distributions to holders of REIT Units are composed of different types of payments (portions of which may be fully or partially taxable or may constitute non-taxable returns of capital). The composition for tax purposes of those distributions may change over time, thus affecting the after-tax returns to holders of REIT Units. Therefore, the rate of return over a defined period for a holder of REIT Units may not be comparable to the rate of return on a fixed income security that provides a ''return on capital'' over the same period.

Holders of GP Shares have no contractual or legal right to dividends, and the declaration of dividends is in the discretion of the Directors of Granite GP. Payment of dividends will depend on, among other things, the earnings, financial condition, level of indebtedness and financial commitments of Granite GP, statutory solvency tests applicable to the declaration and payment of dividends and other factors considered relevant by the directors of Granite GP. In the current Stapled Unit structure, Granite GP would be entirely dependent on its relatively nominal general partner interest in Granite LP in order to receive funds from which to pay dividends. In light of its nominal earnings (if any), Granite GP did not pay dividends in 2017 or 2018 and does not expect to pay dividends in 2019.

Although Granite REIT intends to distribute the majority of the consolidated income it earns, less expenses and amounts, if any, paid by Granite REIT in connection with the redemption of REIT Units, the actual amount of distributions paid in respect of the REIT Units will depend upon numerous factors, all of which are susceptible to a number of risks and uncertainties beyond the control of Granite. Granite may also determine to retain cash reserves in certain of Granite's subsidiaries for the proper conduct of its business. Adding to these reserves in any year would reduce the amount of distributable cash and, hence, of cash available for distributions in that year. Accordingly, there can be no assurance regarding the actual levels of distributions by Granite REIT or Granite GP. The market value of Stapled Units may decline significantly if Granite REIT suspends or reduces distributions.

Distributions by Granite REIT are payable in cash unless the Trustees determine to pay such amount in Units or fractions thereof. If Granite REIT does not have enough cash to pay distributions in an amount necessary to ensure it will not be liable to pay income tax under Part I of the Tax Act in a taxation year, distributions may be paid in the form of Units or fractions thereof, which could result in REIT Unitholders having taxable income but not receiving cash with respect to such amount.

Subordination of REIT Units and GP Shares

In the event of a bankruptcy, liquidation or reorganization of Granite LP or its subsidiaries, holders of certain of their indebtedness and certain trade creditors will generally be entitled to payment of their claims from the assets from such entities before any assets are made available for upstream distribution, eventually to Granite REIT or Granite GP. GP Shares and REIT Units will be effectively subordinated to the credit facilities, the 2021 Debentures and the 2023 Debentures and most of the other indebtedness and liabilities of Granite LP and its subsidiaries. None of Granite LP or its subsidiaries will be limited (other than pursuant to their credit facilities or other debt instruments, including the Credit Facility, the 2014 Indenture and 2016 Indenture) in their respective ability to incur secured or unsecured indebtedness.

Non-Resident Ownership

The Declaration of Trust imposes various restrictions on holders of REIT Units (which apply regardless of whether the REIT Units are held in the form of Stapled Units). REIT Unitholders that are Non-Residents are prohibited from beneficially owning more than 49% of REIT Units (on a non-diluted and fully-diluted basis). These restrictions may limit (or inhibit the exercise of) the rights of certain persons, including persons who are not residents of Canada for purposes of the Tax Act and non-Canadians, to acquire Stapled Units or REIT Units, to exercise their rights as REIT Unitholders and to initiate and complete take-over bids in respect of the Stapled Units or REIT Units. As a result, these restrictions may limit the demand for Stapled Units or REIT Units from certain persons and thereby adversely affect the liquidity and market value of the Stapled Units or REIT Units held by the public. See ''*Declaration of Trust and Description of REIT Units — Limitations on Non-Resident Ownership of REIT Units*''.

Currency Risk Associated with Granite's Distributions.

Holders of Stapled Units residing in countries where the Canadian dollar is not the functional currency will be subject to foreign currency risk associated with Granite's distributions, which are denominated in Canadian dollars.

Dependence on Granite LP

Granite REIT is an open-ended, limited purpose trust which is, for purposes of its income, entirely dependent on Granite LP, and in turn on its subsidiaries. Granite GP is also entirely dependent on Granite LP, and in turn on its subsidiaries, as its principal asset is its relatively nominal general partner interest in Granite LP. Granite REIT remains dependent upon the ability of Granite LP to pay distributions or returns of capital in respect of the Granite LP Units, which ability, in turn, is dependent upon the operations and assets of Granite LP's subsidiaries.

Market Price of Stapled Units

A publicly-traded real estate investment trust will not necessarily trade at values determined by reference to the underlying value of its business. The prices at which the Stapled Units (or REIT Units and GP Shares, after an Event of Uncoupling) will trade cannot be predicted. The market price of the Stapled Units (or REIT Units and GP Shares, after an Event of Uncoupling) could be subject to significant fluctuations in response to variations in quarterly operating results, distributions and other factors, including changes in general market conditions, fluctuations in the markets for equity securities and numerous other factors beyond Granite's control.

The annual yield on the Stapled Units (or REIT Units and GP Shares, after an Event of Uncoupling) as compared to the annual yield on other financial instruments may also influence the price of Stapled Units (or REIT Units and GP Shares, after an Event of Uncoupling) in the public trading markets. In general, an increase in market interest may lead investors in Stapled Units (or REIT Units and GP Shares, after an Event of Uncoupling) to demand a higher annual yield which could adversely affect the quoted price of Stapled Units (or REIT Units and GP Shares, after an Event of Uncoupling).

In addition, the securities markets have in the past experienced and may in the future experience significant price and volume fluctuations from time to time unrelated or disproportionate to the operating performance of particular issuers. These broad fluctuations may adversely affect the market price of the Stapled Units (or REIT Units and GP Shares, after an Event of Uncoupling).

Since REIT Units and GP Shares do not trade independently, but rather are stapled together as Stapled Units, investors in Stapled Units are subject to all of the risks of an investment in both REIT Units and GP Shares.

Non-Direct Investment

Granite REIT's principal assets are limited partnership interests in Granite LP. Each REIT Unit represents an equal, undivided, beneficial interest in Granite REIT and does not represent a direct investment in Granite REIT's assets and should not be viewed by investors as a direct investment in Granite REIT's assets. Similarly, Granite GP's principal asset is its relatively nominal general partner interest in Granite LP. Granite GP is a separate legal entity and a GP Share does not represent a direct investment in Granite GP's assets and should not be viewed by investors as a direct investment in Granite GP's assets.

The REIT Units are not ''deposits'' within the meaning of the *Canada Deposit Insurance Corporation Act* and are not insured under the provisions of that Act or any other legislation. Furthermore, Granite REIT is not a trust company and, accordingly, is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company. In addition, although Granite REIT is intended to qualify as a ''mutual fund trust'' as defined by the Tax Act, Granite REIT is not a ''mutual fund'' as defined by applicable securities legislation.

The REIT Units do not represent a direct investment in the business of Granite LP and should not be viewed by investors as shares or interests in such entity or any other company. The REIT Units do not represent debt instruments and there is no principal amount owing to REIT Unitholders under the REIT Units.

The rights of REIT Unitholders are based primarily on the Declaration of Trust. There is no statute governing Granite REIT's affairs equivalent to the BCBCA which sets out the rights and entitlements of shareholders of corporations in various circumstances. As such, REIT Unitholders do not have the statutory rights with respect to Granite REIT normally associated with ownership of shares of a corporation including, for example, the right to bring ''oppression'' or ''derivative'' actions. As well, Granite REIT may not be a recognized entity under certain existing insolvency legislation such as the *Bankruptcy and Insolvency Act* (Canada) and the *Companies Creditors' Arrangement Act* (Canada) and thus the treatment of REIT Unitholders upon an insolvency is uncertain.

Redemptions of Stapled Units

The Stapled Units are redeemable on demand by the holder, subject to the limitations described under ''*Risks Relating to the Stapled Units*''. It is anticipated that the redemption right will not be the primary mechanism for holders of Stapled Units to liquidate their investment. Upon a redemption of REIT Units, the Trustees may distribute cash or Unit Redemption Assets (as defined under ''*Declaration of Trust and Description of REIT Units — REIT Unit Redemption Right*'') to the redeeming REIT Unitholders, subject to obtaining any required regulatory approvals and complying with the requisite terms and conditions of such approvals. The property so distributed may not be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, registered disability savings plans, registered education savings plans, tax-free savings accounts and deferred profit-sharing plans, each within the meaning of the Tax Act (collectively, ''**Exempt Plans**'') depending upon the circumstances at the time.

Additionally, such securities, if any, are not expected to be listed on any stock exchange and no established market is expected to develop in such securities and they may be subject to resale restrictions under applicable securities laws.

Following an Event of Uncoupling, the GP Shares will no longer be redeemable on demand by the holder.

Dilution of Stapled Units

Granite may issue an unlimited number of Stapled Units for the consideration and on such terms and conditions as are established by the Trustees of Granite REIT and the Directors of Granite GP without the approval of any holders of Stapled Units. Any further issuance of Stapled Units will dilute the interests of existing holders.

Liability of REIT Unitholders

The Declaration of Trust provides that no REIT Unitholders, in such capacity, will be subject to any liability for, among other things, the obligations, liabilities or activities of Granite REIT. In addition, legislation has been enacted in the Province of Ontario and certain other provinces that is intended to provide REIT Unitholders in those provinces with limited liability comparable to shareholders of a corporation. However, there remains a risk, which management of Granite REIT considers to be remote in the circumstances, that a REIT Unitholder could be held personally liable for the obligations of Granite REIT to the extent that claims are not satisfied out of the assets of Granite REIT.

Uncoupling of Stapled Units — Significant Expenditures

An ''Event of Uncoupling'' shall occur only: (i) in the event that REIT Unitholders vote in favour of the uncoupling of REIT Units and GP Shares such that the two securities will trade separately; or (ii) at the sole discretion of the Trustees or the Directors of Granite GP, but only in the event of the bankruptcy, insolvency, winding-up or reorganization (under an applicable law relating to insolvency) of Granite REIT or Granite GP or the taking of corporate action by Granite REIT or Granite GP in furtherance of any such action or the admitting in writing by Granite REIT or Granite GP of its inability to pay its debts generally as they become due. As a result of changes in applicable Canadian, U.S. or other foreign tax laws, or otherwise, it may become desirable to uncouple REIT Units and GP Shares such that the two securities trade separately. There can be no guarantee that such an uncoupling will be accomplished in a timely manner, or at all, and Granite may incur significant expenditures related to administrative expenses and legal and tax advice in respect of holding a meeting of REIT Unitholders or otherwise to effect an uncoupling of REIT Units and GP Shares. The market value of the Stapled Units may decline significantly if a desirable uncoupling cannot be effected in a timely manner, or at all.

Uncoupling of Stapled Units — De-listing of REIT Units

If an Event of Uncoupling occurs, either or both of the REIT Units or GP Shares may be de-listed from the TSX or the NYSE and consequently, there may be no market through which a holder can liquidate its investment in such securities following an Event of Uncoupling. If the REIT Units or GP Shares are de-listed upon an Event of Uncoupling, there can be no assurance that they will be re-listed or posted for trading or quoted on the TSX, the NYSE or any other market for securities. If de-listing were to occur, the REIT Units or GP Shares may not be qualified investments for Exempt Plans depending on the circumstances at the time.

Uncoupling of Stapled Units — Non-Compliance with Canadian Securities Laws.

Granite GP relies and intends to rely on certain exemptions from Canadian securities laws set out in exemption orders obtained from applicable Canadian securities regulatory authorities, including with respect to certain continuous disclosure requirements. Granite REIT also relies on such exemption orders to, among other things, permit it to prepare and file combined financial statements of Granite REIT and Granite GP. If there is an Event of Uncoupling, or if certain other conditions of such exemptive relief are not met, Granite GP or Granite REIT may be in default of certain requirements of Canadian securities laws until they comply in full with such requirements. Such a default could impair the ability of Granite REIT and/or Granite GP to undertake financings and could lead to regulatory sanctions.

Risks Relating to the Debentures

Credit Ratings and Credit Risk

The credit rating assigned to the Debentures by each of the applicable credit ratings agencies is not a recommendation to buy, hold or sell the Debentures. A rating is not a comment on the market price of a security nor is it an assessment of ownership given various investment objectives. There can be no assurance that the credit ratings assigned to the Debentures will remain in effect for any given period of time and ratings may be upgraded, downgraded, placed under review, confirmed and discontinued by an applicable credit ratings agency at any time. Real or anticipated changes in credit ratings on the Debentures may affect the market value of the Debentures. In addition, real or anticipated changes in credit ratings may affect the cost at which Granite LP can access the capital markets. See ''*Credit Facility and Indebtedness — Credit Ratings*''.

Repayment Risk

The likelihood that holders of the Debentures will receive payments owing to them under the terms of the Debentures will depend on the financial health of Granite REIT, Granite GP and Granite LP and their creditworthiness. In addition, the Debentures and the guarantees thereof will be unsecured obligations of Granite LP (in the case of the Debentures) and Granite REIT and Granite GP (in the case of the guarantees) and, therefore, if Granite LP, Granite REIT or Granite GP becomes bankrupt, liquidates its assets, reorganizes or enters into certain other transactions, its assets will be available to pay its obligations with respect to the Debentures and the guarantees thereof only after it has paid all of its secured indebtedness, if any, in full. There may be insufficient assets remaining following such payments to pay amounts due on any or all of the Debentures then outstanding.

Structural Subordinate of Debentures

Liabilities of a parent entity whose assets are held by various subsidiaries may result in the structural subordination of the creditors of the parent corporation to the creditors, including trade creditors, of such subsidiaries. The parent entity is entitled only to the residual equity of its subsidiaries after all debt obligations of its subsidiaries are discharged. In the event of a bankruptcy, liquidation or reorganization of Granite LP, Granite REIT or Granite GP, holders of indebtedness of Granite LP, Granite REIT and Granite GP (including holders of Debentures) may become subordinate to creditors of the subsidiaries of Granite LP.

Fluctuations in Market Price and Value of the Debentures

The market price or value of the Debentures depends on many factors, including liquidity of the Debentures, prevailing interest rates and the markets for similar securities, general economic conditions and Granite's financial condition, historic financial performance and future prospects.

Prevailing interest rates will affect the market value of the Debentures. Assuming all other factors remain unchanged, the market value of the Debentures will decline as prevailing interest rates for comparable debt instruments rise, and increase as prevailing interest rates for comparable debt instruments decline.

Challenging market conditions, the health of the economy as a whole and numerous other factors beyond the control of Granite LP may have a material effect on the business, financial condition, liquidity and results of operations of Granite LP. Financial markets have recently experienced significant price and volume fluctuations that have particularly affected the market prices of securities of issuers and that have often been unrelated to the operating performance, underlying asset values or prospects of such issuers. There can be no assurance that continuing fluctuations in price and volume will not occur. Accordingly, the market price of the Debentures may decline even if Granite LP's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are objective evidence of impairment, which may result in impairment losses. If such increased levels of volatility and market turmoil continue, Granite LP's operations could be adversely impacted and the market price of the Debentures may be adversely affected.

Liquidity of Debentures

There is currently only a secondary market with very limited liquidity through which the Debentures may be sold. No assurance can be given that an active or liquid trading market for the Debentures will be maintained and holders may not be able to resell Debentures. This may affect the pricing of the Debentures, the transparency and availability of trading prices, the liquidity of the Debentures and the extent of issuer regulation. To the extent that an active trading market for the Debentures does not exist, the liquidity and trading prices for the Debentures may be adversely affected. Whether or not the Debentures will trade at lower prices depends on many factors, including liquidity of the Debentures, prevailing interest rates and the markets for similar securities, general economic conditions and Granite's financial condition and future prospects.

Change of Control

Granite LP may be required to purchase all outstanding Debentures upon the occurrence of a ''Change of Control'' (as defined in the 2014 Indenture and 2016 Indenture). However, it is possible that following a Change of Control, Granite LP will not have sufficient funds at that time to make any required purchase of outstanding Debentures or that restrictions contained in other indebtedness will restrict those purchases.

Early Redemption of Debentures

Granite LP may choose to redeem the Debentures prior to maturity, in whole or in part, at any time or from time to time, especially when prevailing interest rates are lower than the rate borne by the Debentures. If prevailing rates are lower at the time of redemption, a holder would not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as the interest rate on the Debentures being redeemed.

DESCRIPTION OF STAPLED UNITS

The Stapled Units consist of one REIT Unit and one GP Share. The Declaration of Trust and Articles of Granite GP each contain provisions to achieve the ''stapling'' of the REIT Units and the GP Shares until such time as an Event of Uncoupling occurs. See ''*Declaration of Trust and Description of REIT Units — Allotment and Issue of REIT Units*'', ''*Declaration of Trust and Description of REIT Units — Transferability and Stapling of REIT Units*'' and ''*Granite GP Capital Structure*''.

An ''Event of Uncoupling'' shall occur only: (i) in the event that REIT Unitholders vote in favour of the uncoupling of REIT Units and GP Shares such that the two securities will trade separately; or (ii) at the sole discretion of the Trustees or the Directors of Granite GP, but only in the event of the bankruptcy, insolvency, winding-up or reorganization (under an applicable law relating to insolvency) of Granite REIT or Granite GP or the taking of corporate action by Granite REIT or Granite GP in furtherance of any such action or the admitting in writing by Granite REIT or Granite GP of its inability to pay its debts generally as they become due.

Support Agreement

The following is a summary of certain provisions of the Support Agreement and does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the Support Agreement, as filed on SEDAR.

Pursuant to the Declaration of Trust and the Articles of Granite GP, at all times, each REIT Unit must be ''stapled'' to a GP Share unless there is an Event of Uncoupling. As part of the 2013 Arrangement, Granite REIT and Granite GP entered into a support agreement dated as of January 3, 2013, as amended and restated on December 20, 2017, which contains provisions that facilitate the Stapled Unit structure.

Among other things, the Support Agreement provides for:

(i) coordination of the declaration and payment of distributions by Granite REIT and dividends by Granite GP so as to provide, unless otherwise agreed, for simultaneous record dates and payment dates;

(ii) coordination between the parties so as to permit them to perform their respective obligations pursuant to the Declaration of Trust, the Articles of Granite GP, equity-based compensation plans, any dividend or distribution re-investment plan and any unitholder rights plan;

(iii) for each party to take all such actions and do all such things as are necessary or desirable to enable and permit the other party to perform its obligations arising under any right, warrant, option or other convertible security and enable the delivery of Stapled Units thereunder or in connection therewith; and

(iv) for each party to take all such actions and do all such things as are necessary or desirable to issue REIT Units or GP Shares, as applicable, simultaneously (or as close to simultaneously as possible) with the issue of GP Shares or REIT Units, as applicable, and to otherwise ensure at all times that each holder of a particular number of REIT Units holds an equal number of GP Shares, including participating in and cooperating with any public or private distribution of Stapled Units by, among other things, signing prospectuses or other offering documents.

Under the Support Agreement, the parties have agreed to keep each other informed of potential issues of securities, consult with each other and cooperate in connection with such an issue. The Support Agreement provides for coordination and cooperation of the parties in the event of any acquisition by the parties of, or offer to acquire, Stapled Units. The Support Agreement prevents (i) Granite GP from acquiring, or offering to acquire, GP Shares unless either of Granite GP or Granite REIT simultaneously acquires, or offers to acquire, the accompanying REIT Units, and (ii) Granite REIT from acquiring, or offering to acquire, REIT Units, unless Granite GP simultaneously acquires, or offers to acquire, the accompanying GP Shares.

The Support Agreement contains provisions to facilitate the preparation and filing of combined financial statements of Granite REIT and Granite GP and other public disclosure documents containing disclosure about Granite REIT and Granite GP. The parties are required to cooperate with each other in the preparation of combined financial statements and other public disclosure documents; provide relevant financial and other information to each other; maintain a consistent financial presentation, to the extent appropriate and practicable in accordance with applicable accounting principles; and maintain the same fiscal year end. The Support Agreement also provides for the cooperation and coordination of the parties in calling and holding meetings of holders of REIT Units and GP Shares, respectively, including having the same record dates and meeting dates, holding concurrent or sequential meetings and cooperating in the preparation of a management information circular and other meeting materials.

DECLARATION OF TRUST AND DESCRIPTION OF REIT UNITS

The following is a summary of certain provisions of the Declaration of Trust and does not purport to be complete and is subject to and is qualified in its entirety by reference to the Declaration of Trust, as filed on SEDAR.

REIT Units

The beneficial interests in Granite REIT are represented and constituted by a single class of ‘‘trust units’’. An unlimited number of REIT Units may be issued pursuant to the Declaration of Trust. Each REIT Unit represents an equal undivided beneficial interest in any distributions by Granite REIT, whether of net income, net realized capital gains or other amounts and, in the event of termination of Granite REIT, in the net assets of Granite REIT remaining after satisfaction of all liabilities, and no REIT Unit has any preference or priority over any other.

No REIT Unitholder is entitled to call for any partition or division of Granite REIT’s property or for a distribution of any particular asset forming part of Granite REIT’s property or of any particular monies or funds received by the Trustees. The legal ownership of the property of Granite REIT and the right to conduct the activities and operations of Granite REIT are vested exclusively in the Trustees, and no REIT Unitholder has or is deemed to have any right of ownership in any of the property of Granite REIT, except as a beneficiary of Granite REIT and as specifically provided in the Declaration of Trust.

REIT Unitholders may attend and vote at all meetings of the REIT Unitholders, either in person or by proxy, and each REIT Unit is entitled to one vote at all such meetings or in respect of any written resolution of REIT Unitholders.

Subject to applicable regulatory approval, the issued and outstanding REIT Units may be subdivided or consolidated from time to time by the Trustees without REIT Unitholder approval, provided that if an Event of Uncoupling has not occurred, the REIT Units shall not be subdivided or consolidated unless immediately following such subdivision or consolidation there will be issued and outstanding an equal number of REIT Units and GP Shares.

The REIT Units are not ‘‘deposits’’ within the meaning of the *Canada Deposit Insurance Corporation Act* and are not insured under the provisions of such Act or any other legislation. Furthermore, Granite REIT is not a trust company and, accordingly, is not registered under any trust and loan company legislation as it does not carry on the business of a trust company.

Allotment and Issue of REIT Units

The consideration for any REIT Unit must be paid in one or more of money, property or past services performed for or for the direct or indirect benefit of Granite REIT, the value of which consideration received by Granite REIT, as determined by the Trustees, equals or exceeds the issue price set for the REIT Unit. Subject to the foregoing and the restrictions noted at ''— Limitations on Non-Resident Ownership of REIT Units'', the Trustees may allot and issue REIT Units at such time or times and in such manner (including pursuant to any reinvestment plan relating to distributions of Granite REIT or dividends of Granite GP, equity-based compensation plans of Granite REIT, Granite GP or their respective affiliates or pursuant to a unitholder rights plan of Granite REIT and/or shareholder rights plan of Granite GP), and for such consideration and to such person, persons or class of persons as the Trustees in their sole discretion shall determine, provided that, if an Event of Uncoupling has not occurred, no REIT Unit may be issued to any person unless (i) a GP Share is simultaneously issued to such person or (ii) Granite REIT has arranged that REIT Units will be consolidated (subject to any applicable regulatory approval) immediately after such issuance, such that each holder of a REIT Unit will hold an equal number of REIT Units and GP Shares immediately following such consolidation. REIT Units may be issued and sold on an instalment basis, in which event beneficial ownership of such REIT Units may be represented by instalment receipts, but shall otherwise be non-assessable. REIT Units may also be issued in satisfaction of any non-cash distribution by Granite REIT to the REIT Unitholders.

The Trustees may also create and issue rights, warrants or options or other instruments or securities (including, subject to the provisions summarized under ''Investment Guidelines and Operating Policies of Granite REIT'', debt securities) exercisable for, convertible into, exchangeable for or otherwise pursuant to which a holder may subscribe for, acquire or receive payment in, fully paid REIT Units and, provided that an Event of Uncoupling has not occurred, Stapled Units.

Transferability and Stapling of REIT Units

Provided that an Event of Uncoupling has not occurred, each REIT Unit may be transferred only together with a GP Share and, in the event that Granite GP (i) subdivides, re-divides or changes the then outstanding GP Shares into a greater number of GP Shares, (ii) reduces, combines, consolidates or changes the then outstanding GP Shares into a lesser number of GP Shares, or (iii) reclassifies or otherwise changes the GP Shares, Granite REIT (subject to any applicable regulatory approval) shall cause a corresponding change to simultaneously be made to, or in, REIT Units unless such event does not result in a holder of a GP Share holding an unequal number of GP Shares and REIT Units (including if a dividend or distribution by Granite GP in the form of GP Shares, or issuance by Granite GP of GP Shares, which, in each case, is followed immediately by a consolidation after which each holder of a REIT Unit holds an equal number of GP Shares). See also ''— *Limitations on Non-Resident Ownership of REIT Units*''.

No transfer of REIT Units shall be effective as against the Trustees or shall be in any way binding upon the Trustees until the transfer has been recorded on the register to be maintained by Granite REIT's registrar and transfer agent.

Purchases of REIT Units

Granite REIT may purchase or otherwise acquire at any time, in each case for cancellation, the whole or from time to time any part of the outstanding REIT Units, at a price per REIT Unit and on a basis determined by the Trustees in compliance with all applicable securities laws, regulations or policies and the policies of any applicable stock exchange, provided that, if an Event of Uncoupling has not occurred, Granite GP simultaneously purchases the GP Shares stapled to the REIT Units that Granite REIT seeks to purchase or otherwise acquire.

Trustees

Number of Trustees and Quorum

The Declaration of Trust provides that Granite REIT will have a minimum of three and a maximum of 15 Trustees.

The number of Trustees may be fixed within such limits, from time to time, and increased or decreased within such limits, from time to time, by resolution of the Trustees. If the number of Trustees so fixed is increased, the Trustees may, from time to time, appoint one or more additional Trustees to fill such a vacancy, provided that the number of additional Trustees so appointed must not at any time exceed one-third of the number of the current Trustees who were elected or appointed as Trustees other than pursuant to the foregoing.

Trustee Power and Authority

The Trustees, subject only to the specific limitations contained in the Declaration of Trust, including without limitation those described in ''*Investment Guidelines and Operating Policies of Granite REIT*'' and ''*— Amendments to the Declaration of Trust — Amendments by REIT Unitholders*'', shall have, without further or other authorization, action or consent and free from any control or direction on the part of REIT.

Unitholders, full, absolute and exclusive power, control and authority over the assets of Granite REIT and over the activities and operations of Granite REIT to the same extent as if the Trustees were the sole and absolute legal and beneficial owners of such assets in their own right, to do all such acts and things as in their sole judgment and discretion are necessary or incidental to, or desirable for, the carrying out of any of the purposes of Granite REIT or the conducting of the activities and operations of Granite REIT.

In particular, the Trustees have the power and authority to, among other things: (a) retain, invest and re-invest the capital or other funds of Granite REIT in real or personal property of any kind; (b) possess and exercise all the rights, powers and privileges appertaining to the ownership of the property of Granite REIT; (c) increase the capital of Granite REIT at any time by the issuance of additional REIT Units; (d) invest in, purchase or otherwise acquire and hold for investment the entire or any participating interest in notes, debentures, bonds or other obligations which are secured by any mortgages; (e) sell, rent, lease, hire, exchange, release, partition, assign, mortgage, pledge, hypothecate, grant security interests in, encumber, negotiate, convey, transfer or otherwise dispose of any or all of the property of Granite REIT; (f) enter into leases, contracts, obligations and other agreements; (g) issue any type of debt securities or convertible debt securities and borrow money or incur any other form of indebtedness for the purpose of carrying out the purposes, activities and operations of Granite REIT; (h) guarantee, indemnify or act as surety with respect to payment or performance of obligations of other persons, to the extent, in the opinion of the Trustees, necessary or incidental to or desirable for the carrying out of any of the purposes of Granite REIT or conducting the activities and operations of Granite REIT; (i) lend money or other property of Granite REIT; (j) elect, appoint, engage or employ officers of Granite REIT who may be removed or discharged at the discretion of the Trustees; (k) collect, sue for and receive sums of money coming due to Granite REIT; (l) renew, modify, release, compromise, extend, consolidate or cancel, in whole or in part, any obligation to or of Granite REIT; (m) to the extent permitted by law, indemnify, or enter into agreements with respect to the indemnification of, the Trustees; (n) except as prohibited by law or the Declaration of Trust, delegate any of the powers and duties of the Trustees; and (o) do all such other acts and things as are incidental to the foregoing, and exercise all powers which are necessary or useful to carry on the activities and operations of Granite REIT, to promote any of the purposes for which Granite REIT is formed and to carry out the provisions of the Declaration of Trust.

Term of Trustees

Trustees elected or appointed hold office for a term that, subject to the terms of the Declaration of Trust, expires at the conclusion of the next annual meeting of REIT Unitholders or until their successors are elected or appointed, and shall be eligible for election or re-election.

Residency of Trustees and Quorum

A majority of the Trustees must be Resident Canadians. If at any time a majority of the Trustees are not Resident Canadians because of the resignation, removal, death or change in circumstance of any Trustee who was a Resident Canadian, or there are no Trustees who are Resident Canadians, the Trustee or Trustees who are not Resident Canadians shall, immediately before that time, be deemed to have resigned and shall cease to be Trustees with effect from the time of such deemed resignation.

A quorum of the Trustees will be a majority of the Trustees then holding office, provided that a majority of Trustees present are Resident Canadians.

A majority of meetings of the Trustees in each calendar year must be held in Canada.

Resignation and Removal of Trustees

A Trustee may resign at any time and such resignation shall take effect on the date notice is given or at any later time specified in the notice. A Trustee may be removed at any time (i) with or without cause by a majority of the votes cast at a meeting of REIT Unitholders or (ii) by the other Trustees if the Trustee is convicted of an indictable offence, or if the Trustee ceases to be qualified to act as a trustee of Granite REIT and does not promptly resign. Any removal of a Trustee shall take effect immediately following the aforesaid vote or resolution.

Vacancies

The resignation, deemed resignation, removal or death of a Trustee, or failure of the REIT Unitholders to elect some, but not all, of the required number of Trustees, shall cause a vacancy to occur and a majority of the Trustees continuing in office may fill such a vacancy; provided that, if such vacancy arises as a result of removal of a Trustee by REIT Unitholders, such vacancy may be filled by the REIT Unitholders electing a replacement Trustee at the meeting at which the Trustee is removed. If REIT Unitholders fail to elect any Trustees, the Trustees then in office will continue to hold office, subject to the terms of the Declaration of Trust.

Until vacancies resulting from the resignation, deemed resignation, removal or death of a Trustee are filled (through election by REIT Unitholders, appointment by the remaining Trustees or otherwise in accordance with the Declaration of Trust), the remaining Trustee or Trustees (even if less than a quorum) may exercise the powers of the Trustees under the Declaration of Trust.

If at any time the number of Trustees is less than the required number and the remaining Trustee or Trustees fail or are unable to appoint one or more additional Trustees or if, upon the deemed resignation of one or more Trustees there would be no Trustees, then the Trustees then in office shall promptly call a special meeting of REIT Unitholders to fill the vacancies (and conduct such other business, if any, that may be dealt with at that meeting) and, if they fail to call a meeting or if there are no Trustees then in office, the meeting may be called by any REIT Unitholder.

Standard of Care of Trustees, Indemnification and Limitations of Liability

The Declaration of Trust provides that that the Trustees shall exercise their powers and carry out their functions thereunder honestly and in good faith with a view to the best interests of Granite REIT and the REIT Unitholders and that in connection therewith the Trustees shall exercise the care, diligence and skill that a reasonably prudent individual would exercise in comparable circumstances.

The Declaration of Trust provides that the Trustees shall at all times be indemnified and saved harmless out of the property of Granite REIT from and against losses which the Trustees may suffer, sustain, incur or be required to pay as a result of, or in connection with any claim for or in respect of any act, deed, matter or thing whatsoever made, done, acquiesced in or omitted in or about or in relation to the execution of their duties as Trustees and also from and against all other losses which they sustain or incur in or about or in relation to the activities and operations of Granite REIT, unless: (i) at the time that the indemnity or payment is made, Granite REIT was prohibited from giving the indemnity or paying the expenses by the then governing declaration of trust; (ii) in relation to the subject matter of any proceeding or investigation for which indemnification is sought, the Trustee did not act honestly and in good faith with a view to the best interests of Granite REIT and the REIT Unitholders; or (iii) in the case of any criminal or administrative action or proceeding that is enforced by a monetary penalty, the Trustee did not have reasonable grounds for believing that the Trustee's conduct in respect of which the proceeding was brought was lawful. The Declaration of Trust also provides, in certain circumstances, for the advance of funds to a Trustee and repayment of such funds to Granite REIT.

Pursuant to the Declaration of Trust, none of the Trustees or any agent of Granite REIT shall be liable to Granite REIT or any REIT Unitholder or former REIT Unitholder for (i) any action taken in good faith in reliance on any documents that are, prima facie, properly executed, (ii) any depreciation of, or loss to, Granite REIT incurred by reason of the sale of any security, (iii) the loss or disposition of monies or securities, or (iv) any other action or failure to act, including the failure to compel in any way any former or acting Trustee to redress any breach of trust or any failure by any person to perform obligations or pay monies owed to Granite REIT, except for a breach of the duties and standard of care, diligence and skill set out above. If the Trustees have retained an appropriate expert or advisor with respect to any matter connected with their duties under the Declaration of Trust, the Trustees may in good faith act or refuse to act based on the advice of such expert or advisor and, notwithstanding any provision of the Declaration of Trust, including the duties and standard of care, diligence and skill set out above, the Trustees will not be liable for any action or refusal to act in good faith based on the advice of any such expert or advisor which it is reasonable to conclude is within the expertise of such expert or advisor to give. The Declaration of Trust further provides that (i) subject to the duties and standard of care, diligence and skill set out above, none of the Trustees nor any agent of Granite REIT shall be subject to any liability in their personal capacities for any debts, liabilities, obligations, claims, demands, judgments, costs, charges or expenses (including legal expenses) against or with respect to Granite REIT or in respect to the activities of Granite REIT, (ii) other than the property and assets of Granite REIT, no property or assets of the Trustees, owned in their personal capacity or otherwise, will be subject to any levy, execution or other enforcement procedure with regard to any obligations of Granite REIT under the Declaration of Trust or under any other agreements and no recourse with respect to such obligations may be had or taken, directly or indirectly, against the Trustees in any capacity other than their capacity as Trustees of Granite REIT or against any successor, heir, executor, administrator or legal representative of the Trustees, and (iii) Granite REIT shall be solely liable therefor and resort shall be had solely to the property and assets of Granite REIT for payment or performance thereof.

The Declaration of Trust also provides that the foregoing matters in this paragraph will apply mutatis mutandis to each individual who: (i) is or was an officer of Granite REIT; (ii) was a Trustee; (iii) is or was, or holds or held a position equivalent to that of, a director or officer of Granite GP or of a person at a time when that person is or was an affiliate of Granite REIT or of Granite GP; (iv) at the request of Granite REIT or Granite GP, is or was, or holds or held a position equivalent to that of, a director or officer of a person; and

(v) the heirs and personal or other legal representatives of any of the foregoing individuals or an individual who is a Trustee. Granite REIT shall also indemnify any such persons in such other circumstances as the Declaration of Trust or law permits or requires.

REIT Unit Redemption Right

REIT Units are redeemable at any time on demand by the holders thereof; provided that, prior to an Event of Uncoupling, a REIT Unit may only be redeemed together with a tender for retraction by the holder of a GP Share forming part of the applicable Stapled Unit. A REIT Unitholder who wishes to exercise the redemption right is required to duly complete and properly execute a notice, in a form approved by the Trustees, requiring Granite REIT to redeem that number of REIT Units specified in the notice, which notice shall be sent to the head office of Granite REIT or any principal office of the transfer agent in respect of REIT Units. No form or manner of completion or execution of a notice shall be sufficient unless the same is in all respects satisfactory to the Trustees and is accompanied by any further evidence that the Trustees may reasonably require with respect to the identity, capacity or authority of the person giving such notice.

On Granite REIT's acceptance of the notice to redeem REIT Units, the REIT Unitholder shall thereafter cease to have any rights with respect to the REIT Units tendered for redemption (other than to receive the redemption payment therefor) including the right to receive any distributions thereon which are declared payable to the REIT Unitholders of record on a date which is subsequent to the day of receipt by Granite REIT of such notice. REIT Units shall be deemed to be tendered for redemption on the date (the ''**Unit Redemption Date**'') that Granite REIT has, to the satisfaction of the Trustees, received the notice and other required documents or evidence. All REIT Units redeemed by Granite REIT will be cancelled.

A REIT Unitholder shall, upon Granite REIT's receipt of a valid redemption notice, be entitled to be paid, in respect of each REIT Unit so tendered for redemption an amount per REIT Unit (the ''**Unit Redemption Price**'') equal to:

(i) prior to an Event of Uncoupling, the amount by which the lesser of:

  (a) 95% of the ''market price'' of a Stapled Unit on the TSX (or, if not traded on the TSX, another applicable principal market), during the 10-trading day period commencing immediately after the Unit Redemption Date; and

  (b) the ''closing market price'' of a Stapled Unit on the TSX (or, if not traded on the TSX, another applicable principal market), on the Unit Redemption Date; exceeds the retraction price of a GP Share on the Unit Redemption Date; or

(ii) following an Event of Uncoupling, the lesser of:

  (a) 95% of the ''market price'' of a REIT Unit on the TSX (or, if not traded on the TSX, another applicable principal market), during the 10-trading day period commencing immediately after the Unit Redemption Date; and

  (b) the ''closing market price'' of a REIT Unit on the TSX (or, if not traded on the TSX, another applicable principal market), on the Unit Redemption Date.

For the purposes of the foregoing,

(i) the ''market price'' of a Stapled Unit (or REIT Unit) will be an amount equal to the volume weighted average of the trading prices of the Stapled Units (or REIT Units) for each of the trading days on which there was a trade of Stapled Units (or REIT Units) during the specified 10-trading day period; provided that if there was trading on the applicable exchange or market for fewer than five of the 10 trading days, the ''market price'' shall be the simple average of the following prices established for each of the 10 trading days: for each day on which there was no trading, the average of the last bid and ask prices; and for each day that there was trading, the volume weighted average trading price of the Stapled Units (or REIT Units); and

(ii) the ''closing market price'' of a Stapled Unit (or REIT Unit) for a particular date shall be an amount equal to: (a) the closing price of the Stapled Units (or REIT Units) if there was a trade on that date and the exchange or market provides a closing price; (b) the average of the highest and lowest prices of Stapled Units (or REIT Units) if there was trading and the exchange or other market provides only the highest and lowest trading prices of Stapled Units (or REIT Units) traded on that date; and (c) the average of the last bid and last ask prices of the Stapled Units (or REIT Units) if there was no trading on that date.

The aggregate cash redemption price payable by Granite REIT in respect of all REIT Units tendered for redemption during any calendar month shall be satisfied by way of a cash payment on or before the last day of the calendar month following the month in which the REIT Units were tendered for redemption, provided that such entitlement to receive cash shall not be applicable to REIT Units tendered for redemption by a REIT Unitholder, if:

(i) the total amount payable by Granite REIT in respect of REIT Units tendered for redemption in a calendar month and the total amount payable by Granite GP in respect of GP Shares tendered for retraction in the same calendar month exceeds $100,000; provided that the Trustees may, in their sole discretion, waive such limitation in respect of all REIT Units tendered for redemption in any calendar month;

(ii) at the time the REIT Units are tendered for redemption, the outstanding REIT Units or, prior to an Event of Uncoupling, Stapled Units are not listed for trading or quoted on any stock exchange or market which, in the sole discretion of the Trustees, provides representative fair market value prices for the REIT Units or Stapled Units, as the case may be; or

(iii) the normal trading of the outstanding REIT Units or, prior to an Event of Uncoupling, Stapled Units is suspended or halted on any stock exchange on which the REIT Units or Stapled Units, as applicable, are listed for trading or, if not so listed, on any market on which the REIT Units or Stapled Units, as applicable, are quoted for trading, on the Unit Redemption Date for such REIT Units or for more than five trading days during the 10-trading day period commencing immediately after the Unit Redemption Date for such REIT Units.

If a REIT Unitholder is not entitled to receive its entire redemption price in cash upon the redemption of REIT Units as a result of one or more of the foregoing limitations, then each REIT Unit tendered for redemption will, subject to any applicable regulatory approvals, be paid and satisfied by way of a distribution in specie to such REIT Unitholder consisting of notes of Granite LP or another subsidiary of Granite LP having a net asset value in excess of $50 million, having a maturity date of 10 years from their date of issue, a principal amount equal to the applicable Unit Redemption Price and an interest rate which, as determined by the general partner of Granite LP, (or, following an Event of Uncoupling, by the Trustees), will result in such notes having a fair market value equal to their principal amount (such notes, the ''**Unit Redemption Assets**''). The Unit Redemption Price payable in respect of such REIT Units tendered for redemption during any month shall be paid by the transfer of the Unit Redemption Assets, to or to the order of the REIT Unitholder who exercised the right of redemption, on or before the last business day of the calendar month following the month in which the REIT Units were tendered for redemption. No principal amount of Redemption Assets that is not an integral multiple of $10 will be distributed and, where Redemption Assets to be received by a former REIT Unitholder include a principal amount that is not an integral multiple of $10, the principal amount of such Redemption Assets shall be rounded to the nearest integral multiple of $10 (with $5 being rounded up).

Notwithstanding the foregoing, Granite GP has the right (the ''**GP Redemption Right**'') to require Granite REIT to redeem at any time or from time to time at the demand of Granite GP all or any part of the Units that

Granite GP may acquire from time to time pursuant to any issuer bid for Stapled Units. Each redemption by Granite REIT pursuant to the GP Redemption Right of a Unit forming part of a Stapled Unit acquired by Granite GP pursuant to an issuer bid shall occur immediately and concurrently with the cancellation by Granite GP of the Granite GP Common Share forming part of such Stapled Unit.

Meetings of REIT Unitholders

The Declaration of Trust provides that there shall be an annual meeting of the REIT Unitholders at such time and place in Canada as the Trustees shall prescribe for the purpose of electing Trustees, appointing the auditors of Granite REIT and transacting such other business as the Trustees may determine or as may properly be brought before the meeting. The annual meeting of REIT Unitholders may be held at the same time and place as the annual meeting of holders of GP Shares.

A meeting of REIT Unitholders may be convened at any time and place and for any purpose by the Granite REIT Trustees and must be convened (subject to, and on the same terms, conditions and exceptions which apply to a corporation governed by the BCBCA), if requisitioned by REIT Unitholders holding in the aggregate not less than 5% of the outstanding REIT Units.

REIT Unitholders may attend and vote at all meetings of the REIT Unitholders either in person or by proxy and a proxyholder need not be a REIT Unitholder. The quorum of REIT Unitholders for the transaction of business at a meeting of REIT Unitholders shall exist where two or more REIT Unitholders holding REIT Units carrying not less than 25% of the number of votes attached to all REIT Units entitled to be voted at such meeting are present in person or represented by proxy. The Declaration of Trust contains further provisions as to quorum, the notice required and other procedures with respect to the calling and holding of meetings of REIT Unitholders.

The Declaration of Trust provides that none of the following shall occur unless the same has been duly approved by the REIT Unitholders at a meeting duly called and held:

(i) subject to certain exceptions (see ''— *Trustees*''), the appointment, election or removal of Trustees;

(ii) the appointment or removal of auditors of Granite REIT;

(iii) any amendment to the Declaration of Trust (except as noted at ''*Investment Guidelines and Operating Policies of Granite REIT — Amendments to Investment Guidelines and Operating Policies*'' or ''*— Amendments to the Declaration of Trust — Amendments by Trustees*''); or

(iv) the matters noted at ''*— Amendments to the Declaration of Trust — Amendments by REIT Unitholders*''.

Except with respect to the matters specified above or as noted under ''*— Amendments to the Declaration of Trust — Amendments by REIT Unitholders*'', no vote of the REIT Unitholders will in any way bind the Trustees.

Limitations on Non-Resident Ownership of REIT Units

At no time may more than 49% (on either a basic or fully-diluted basis) of the REIT Units be held for the benefit of any Non-Resident Beneficiaries. The Trustees may require declarations as to the jurisdictions in which beneficial owners of REIT Units are resident or declarations from holders of REIT Units as to whether such REIT Units are held for the benefit of Non-Resident Beneficiaries. If the Trustees become aware that more than 49% (on either a basic or fully-diluted basis) of the REIT Units then outstanding are, or may be, held for the benefit of Non-Resident Beneficiaries or that such a situation is imminent, the Trustees may cause Granite REIT to make a public announcement thereof and shall not accept a subscription for REIT Units from or issue or register a transfer of REIT Units to a person unless the person provides a declaration that the person is not a Non-Resident (or, in the discretion of the Trustees, that the person is not a Non-Resident

Beneficiary) and does not hold its REIT Units for a Non-Resident Beneficiary. If, notwithstanding the foregoing, the Trustees determine that more than 49% of the REIT Units (on either a basic or fully-diluted basis) are held for the benefit of Non-Resident Beneficiaries, the Trustees may cause Granite REIT to send a notice to Non-Resident holders of REIT Units, chosen in inverse order to the order of acquisition or registration or in such manner as the Trustees may consider equitable and practicable, requiring them to sell their REIT Units or a portion thereof within a specified period of not more than 60 days. If the REIT Unitholders receiving such notice have not sold the specified number of REIT Units or provided the Trustees with satisfactory evidence that they are not Non-Residents and do not hold their REIT Units for the benefit of Non-Resident Beneficiaries within such period, the Trustees may cause Granite REIT to sell such REIT Units on behalf of such REIT Unitholders and, in the interim, the voting and distribution rights attached to such REIT Units shall be suspended. Upon such sale the affected holders shall cease to be holders of REIT Units and their rights shall be limited to receiving the net proceeds from such sale.

Amendments to the Declaration of Trust

Amendments by REIT Unitholders

Except as noted below, the Declaration of Trust may be amended by the vote of a majority of the votes cast at a meeting of REIT Unitholders called for that purpose.

The Declaration of Trust provides that none of the following shall occur unless the same has been duly approved by the affirmative vote of at least two-thirds of the votes cast at a meeting of REIT Unitholders duly called and held:

(i) any amendment to change a right with respect to any outstanding REIT Units to reduce the amount payable thereon upon termination of Granite REIT or to diminish or eliminate any voting rights pertaining thereto;

(ii) any amendment to the duration or termination provisions of Granite REIT;

(iii) any amendment relating to the powers, duties, obligations, liabilities or indemnification of the Trustees;

(iv) the uncoupling of Stapled Units to provide for separate trading of the REIT Units and the GP Shares, except as provided for in part (ii) of the definition of an Event of Uncoupling;

(v) the termination of Granite REIT;

(vi) any sale or transfer of the assets of Granite REIT as an entirety or substantially as an entirety (other than as part of an internal reorganization of the assets of Granite REIT as approved by the Trustees); or

(vii) any amendment to the investment guidelines set out under the heading ''Investment Guidelines and Operating Policies of Granite REIT — Investment Guidelines'' and the operating policies set out under the heading ''Investment Guidelines and Operating Policies of Granite REIT — Operating Policies'', except as noted under ''Investment Guidelines and Operating Policies of Granite REIT — Amendments to Investment Guidelines and Operating Policies''.

Amendments by Trustees

The Declaration of Trust provides that the Trustees may make the following amendments to the Declaration of Trust in their sole discretion and without the approval of REIT Unitholders:

(i) amendments for the purpose of ensuring continuing compliance with applicable laws, regulations, requirements or policies of any governmental authority having jurisdiction over the Trustees or over Granite REIT or the distribution of REIT Units;

(ii) amendments which, in the opinion of the Trustees, provide additional protection for REIT Unitholders;

(iii) amendments which, in the opinion of the Trustees are necessary or desirable to remove conflicts or inconsistencies in the Declaration of Trust;

(iv) amendments which, in the opinion of the Trustees, are necessary or desirable to remove conflicts or inconsistencies between the disclosure in this information circular and the Declaration of Trust;

(v) amendments of a minor or clerical nature or to correct typographical mistakes, ambiguities or manifest omissions or errors which amendments in the opinion of the Trustees are necessary or desirable and not prejudicial to the REIT Unitholders;

(vi) such amendments to the Declaration of Trust as the Trustees in their discretion deem necessary or desirable (a) as a result of changes in the taxation laws from time to time which may affect Granite REIT, the REIT Unitholders, annuitants or beneficiaries under a plan of which a REIT Unitholder acts as a trustee or a carrier, or to qualify for a particular status under taxation laws including to qualify as a ''mutual fund trust'' or a ''real estate investment trust'' for purposes of the Tax Act or to otherwise prevent Granite REIT or any of its subsidiaries from becoming subject to taxation under the SIFT Rules or under Part XII.2 of the Tax Act, or (b) as a result of changes in accounting standards (including the implementation of International Financial Reporting Standards) from time to time which may affect Granite REIT, the REIT Unitholders or annuitants or beneficiaries under a plan of which a REIT Unitholder acts as a trustee or a carrier;

(vii) amendments which in the opinion of the Trustees are not prejudicial to REIT Unitholders and are necessary or desirable (which, for greater certainty, exclude amendments in respect of which a REIT Unitholder vote is specifically otherwise required); and (vii) amendments which in the opinion of the Trustees are necessary or desirable to enable Granite REIT to issue REIT Units for which the purchase price is payable on an instalment basis.

Written Resolutions of REIT Unitholders

Pursuant to the Declaration of Trust, a resolution signed in writing by REIT Unitholders will be effective, as if it had been passed at a meeting of REIT Unitholders, if: (i) in the case of a resolution of REIT Unitholders that may be approved by the affirmative vote of a majority of the votes cast at a meeting of REIT Unitholders, such resolution is, after being submitted to all of the REIT Unitholders, consented to in writing by REIT Unitholders who, in the aggregate, hold not less than two-thirds of the outstanding Units; and (ii) in the case of a resolution of REIT Unitholders that may be approved by the affirmative vote of at least two-thirds of the votes cast at a meeting of REIT Unitholders, such resolution is consented to in writing by all of the REIT Unitholders.

Term of Granite REIT

Granite REIT has been established for a term that will continue for so long as any of the Granite REIT property is held by the Trustees, unless earlier terminated by the REIT Unitholders (see ''— *Amendments to the Declaration of Trust — Amendments by REIT Unitholders*'').

The Declaration of Trust provides that upon the termination of Granite REIT, the liabilities of Granite REIT will be discharged or provided for with due speed and the net assets of Granite REIT will be liquidated and the proceeds distributed proportionately to the REIT Unitholders, unless some other procedure is provided for by resolution of REIT Unitholders in compliance with the Declaration of Trust. Such distribution may be made in cash or in kind or partly in each, all as the Trustees in their sole discretion may determine.

Acquisition Offers

The Declaration of Trust contains provisions (consistent with those applicable to Granite GP under the BCBCA) to the effect that if an offer is made to acquire Stapled Units and, within four months after the making of the offer, the offer is accepted by REIT Unitholders who, in aggregate, hold at least 90% of the Stapled Units, other than Stapled Units already held at the date of the offer by, or by a nominee of, the offeror or its affiliates, the offeror will be entitled to acquire the REIT Units held by REIT Unitholders who did not accept the offer, on the terms on which the offeror acquired REIT Units from REIT Unitholders who accepted the offer.

Information and Reports

The Declaration of Trust provides that within such time period as is acceptable under National Instrument 51-102 — *Continuous Disclosure Obligations*, as amended from time to time (or other equivalent applicable regulations or successors thereto), upon a REIT Unitholder's request or otherwise as required by applicable law, the Trustees will send or make available to REIT Unitholders the audited comparative financial statements for each fiscal year required to be sent or made available to REIT Unitholders under applicable securities laws (including any exemption therefrom, and including combined financial statements of Granite REIT and Granite GP, if and as applicable). Within such time period as is acceptable under National Instrument 51-102 — *Continuous Disclosure Obligations*, as amended from time to time (or other equivalent applicable regulations or successors thereto) after the end of each of the first three fiscal quarters of each year, upon a REIT Unitholder's request or otherwise as required by applicable law, the Trustees will also send or make available the unaudited comparative financial statements for the period then ended required to be sent or made available to REIT Unitholders under applicable securities laws (including any exemption therefrom, and including combined financial statements of Granite REIT and Granite GP, if and as applicable).

The Trustees will supply REIT Unitholders with any information that may be required by them in connection with their obligations under the Tax Act and equivalent provincial legislation.

Conflict of Interest Provisions

The Declaration of Trust contains ''conflict of interest'' provisions that serve to protect REIT Unitholders without creating undue limitations on Granite REIT. The Declaration of Trust contains provisions, similar to those contained in the BCBCA, that require disclosure from a Trustee or officer of Granite REIT in respect of a contract or transaction that (i) is material to Granite REIT, (ii) Granite REIT has entered, or proposes to enter, into, and (iii) either: (a) the Trustee or officer of Granite REIT has a material interest in; or (b) is with a person of which the Trustee or officer of Granite REIT is a director or officer or in which the Trustee or officer of Granite REIT has a material interest (each a ''**Disclosable Interest**''). Similar to the BCBCA, the Declaration of Trust provides that a Trustee or officer of Granite REIT does not hold a Disclosable Interest in a contract or transaction merely because, among other reasons: (i) the contract or transaction is an arrangement by way of security granted by Granite REIT for money loaned to, or obligations undertaken by, the Trustee or officer of Granite REIT, or a person in whom the Trustee or officer of Granite REIT has a material interest, for the benefit of Granite REIT or an affiliate of Granite REIT; (ii) the contract or transaction relates to an indemnity or insurance for one or more Trustees or officers of Granite REIT in accordance with the Declaration of Trust; (iii) the contract or transaction relates to the remuneration of the Trustee or officer of Granite REIT in that person's capacity as a Trustee (or director), officer, employee or agent of Granite REIT or of an affiliate of Granite REIT; (iv) the contract or transaction relates to a loan to Granite REIT, and the Trustee or officer of Granite REIT, or a person in whom the Trustee or officer of Granite REIT has a material interest, is or is to be a guarantor of some or all of the loan; or (v) the contract or transaction has been or will be made with or for the benefit of a person that is affiliated with Granite REIT and the Trustee or officer of Granite REIT is also a Trustee, director or officer of that person or an affiliate of that person. Notwithstanding any of the foregoing, prior to an Event of Uncoupling, no Trustee or officer of Granite REIT will have a Disclosable Interest in a contract or transaction or proposed contract or transaction with Granite REIT solely by virtue of such person being a director or officer of Granite GP or Granite LP or any of their affiliates. The Declaration of Trust will also provide that a Trustee who has such a Disclosable Interest in a contract or transaction into which Granite REIT has entered or proposes to enter is not entitled to vote on any resolution to approve that contract or transaction, unless all the Trustees have such a Disclosable Interest in that contract or transaction, in which case any or all of the Trustees may vote on such resolution, however, subject to certain exceptions, the Trustees will be liable to account to Granite REIT for any profit that accrues to the Trustee under or as a result of such a contract or transaction.

GRANITE GP CAPITAL STRUCTURE

Granite GP's authorized share capital consists of an unlimited number of GP Shares without par value. Until an Event of Uncoupling occurs, GP Shares will trade together with REIT Units as Stapled Units.

Holders of GP Shares are entitled to: (i) one vote per share at all meetings of shareholders (except for meetings of holders of another specified class or series of Granite GP shares); (ii) receive *pari passu* with other holders of GP Shares, any dividends as and when declared by the Directors of Granite GP; and (iii) receive *pari passu* with other holders of GP Shares the remaining assets of Granite GP available for distribution to Granite GP shareholders in the event of the liquidation, dissolution or winding-up of Granite GP.

Prior to the occurrence of an Event of Uncoupling, holders of GP Shares can require Granite GP to redeem their GP Shares provided that Stapled Units are in existence at the time at which redemption is sought, and that the holder simultaneously tenders to Granite REIT for redemption an equal number of REIT Units held by the holder. In order to exercise this right of retraction, a holder of GP Shares will have to give the required notice to Granite GP and will be entitled to receive a redemption price per share equal to 0.001% of the lesser of 95% of the ''Market Price'' and ''Closing Market Price'' of the Stapled Units, as described above under ''Declaration of Trust and Description of REIT Units — REIT Unit Redemption Right''.

Prior to the occurrence of an Event of Uncoupling, (i) a GP Share may only be transferred together with a REIT Unit, and (ii) no GP Share may be issued unless (a) it is issued in conjunction with the concurrent issue of a REIT Unit to form a Stapled Unit, or (b) Granite GP has arranged that the GP Shares will be consolidated (subject to any applicable regulatory approval) immediately after such issuance, such that each holder of a GP Share will hold an equal number of GP Shares and REIT Units immediately following such consolidation.

CREDIT FACILITY AND INDEBTEDNESS

Debentures, Term Loans and Credit Facility

Debt Instrument	Issue Date	Maturity Date	Principal O/S
2021 Debentures	3-Jul-14	5-Jul-21	$250M
2023 Debentures	20-Dec-16	30-Nov-23	$400M
Credit Facility	1-Feb-18	1-Feb-23	N/A
2025 Term Loan	12-Dec-18	12-Dec-25	$300M
2022 Term Loan	19-Dec-18	19-Dec-22	USD185M

Credit Facility

As at December 31, 2018, Granite LP is the borrower under the Credit Facility in the amount of $500 million (which may be increased with the consent of lenders participating in such increase provided that no increase beyond $600 million is permitted without the consent of all of the lenders under the Credit Facility). The Credit Facility matures on February 1, 2023, although Granite LP has the option to extend the maturity date by one year to February 1, 2024, subject to the agreement of lenders in respect of a minimum of 66⅔% of the aggregate amount committed under the new facility. Granite LP is permitted to borrow under the facility by way of Canadian dollar, U.S. dollar or euro denominated loans or letters of credit. Interest on drawn amounts is calculated based on an applicable margin determined by reference to the external credit rating of Granite REIT and Granite GP, as is a commitment fee in respect of undrawn amounts. The Credit Facility is guaranteed by Granite REIT and Granite GP. Although Granite LP is the borrower under the Credit Facility, the financial covenants must be satisfied on the basis of the combined financial statements of Granite REIT and Granite GP.

As at December 31, 2018, Granite LP had no amounts drawn under the Credit Facility and $0.1 million in letters of credit issued against the Credit Facility. At December 31, 2018, Granite was in compliance with all of these covenants.

Term Facilities

On December 12, 2018, Granite LP entered into the 2025 Term Facility. The 2025 Term Facility matures on December 12, 2025. The 2025 Term Facility was available in Canadian dollar, U.S. dollar or euro denominated funds in one drawdown and is fully pre payable without penalty. Any amount repaid may not be re-borrowed. Interest on drawn amounts is calculated based on CDOR plus an applicable margin determined by reference to the external credit rating of Granite LP. The 2025 Term Facility is guaranteed by Granite REIT and Granite GP. Although Granite LP is the borrower under the 2025 Term Facility, the financial covenants must be satisfied on the basis of the combined financial statements of Granite REIT and Granite GP. On December 12, 2018, Granite LP drew the full $300 million available under the 2025 Term Facility. As at December 31, 2018, the full $300 million remained outstanding under the 2025 Term Facility.

On December 12, 2018, Granite LP entered into the 2.202% Swap, under which Granite LP will pay principal proceeds of EUR 198.2 million in exchange for which it will receive $300 million on December 12, 2025.

On December 19, 2018, Granite LP entered into the 2022 Term Facility. The 2022 Term Facility matures on December 19, 2022. The 2022 Term Facility was available in United States dollars in one drawdown and is fully pre payable without penalty. Any amount repaid may not be re-borrowed. Interest on drawn amounts is calculated based on LIBOR plus an applicable margin determined by reference to the external credit rating of Granite LP. The 2022 Term Facility is guaranteed by Granite REIT and Granite GP. Although Granite LP is the borrower under the 2022 Term Facility, the financial covenants must be satisfied on the basis of the combined financial statements of Granite REIT and Granite GP. On December 19, 2018, Granite LP drew the full USD 185 million available under the 2022 Term Facility. As at December 31, 2018, the full USD 185 million remained outstanding under the 2022 Term Facility.

On December 19, 2018, Granite LP entered into the 1.225% Swap, under which Granite LP will pay principal proceeds of EUR 163.0 million in exchange for which it will receive USD 185 million on December 19, 2022.

Other Unsecured Indebtedness

On July 3, 2014, Granite LP issued the 2021 Debentures under the 2014 Indenture. The 2021 Debentures rank equally with all of Granite REIT's and Granite GP's existing and future unsubordinated and unsecured indebtedness and are fully and unconditionally guaranteed by Granite REIT and Granite GP as to the payment of principal, premium (if any) and interest thereon and certain other amounts when and as the same become due and payable pursuant to the 2014 Indenture. Pursuant to the terms of the 2014 Indenture, there are various financial covenants which must be satisfied, which are tested on the basis of the combined financial statements of Granite REIT and Granite GP. BNY Trust Company is the trustee for the 2021 Debentures.

On July 3, 2014, Granite LP entered into the 2.68% Swap, under which Granite LP will pay principal proceeds of EUR 171.9 million in exchange for which it will receive $250 million on July 5, 2021.

On December 20, 2016, Granite LP issued the 2023 Debentures under the 2016 Indenture. The 2023 Debentures rank equally with all of Granite REIT's and Granite GP's existing and future unsubordinated and unsecured indebtedness and are fully and unconditionally guaranteed by Granite REIT and Granite GP as to the payment of principal, premium (if any) and interest thereon and certain other amounts when and as the same become due and payable pursuant to the 2016 Indenture. Pursuant to the terms of the 2016 Indenture, there are various financial covenants which must be satisfied, which are tested on the basis of the combined financial statements of Granite REIT and Granite GP. BNY Trust Company is the trustee for the 2023 Debentures.

On December 20, 2016, Granite LP entered into the 2.43% Swap, under which Granite LP will pay principal proceeds of EUR 281.1 million in exchange for which it will receive $400 million on November 30, 2023.

As at December 31, 2018, all 2021 Debentures and 2023 Debentures remained outstanding. For further details relating to the attributes and characteristics of the 2021 Debentures and 2023 Debentures, including provisions relating to payments of interest and principal, redemption and purchase for cancellation, covenants, successor companies, defeasance, modification and waiver, please see the full text of the trust indenture entered into by Granite LP dated October 2, 2013, which provides for the issuance of one or more series of unsecured debt securities of Granite LP by way of supplemental indentures and the supplemental indentures thereto, including the supplemental indentures that form part of the 2014 Indenture and the 2016 Indenture, all of which are available on SEDAR at www.sedar.com.

Credit Ratings

The credit ratings for Granite's senior unsecured debentures as of the date of this Annual Information Form are as follows:

Credit Ratings		
	DBRS	**Moody's**
Senior Unsecured Debentures	BBB	Baa2
Outlook	Stable	Stable
Date of Latest Report	March 19, 2018	April 12, 2018

As of March 6, 2019, the 2021 Debentures and the 2023 Debentures each had investment grade ratings of ''BBB'' with a ''Stable'' trend from DBRS and ''Baa2'' with a ''Stable'' outlook from Moody's, each as of the date of their latest report. Ratings may be subject to revision or withdrawal at any time by the rating organization.

According to the DBRS rating system, long-term debt rated BBB is of adequate credit quality. The ability and capacity to meet the payment of financial obligations is considered acceptable though Granite may be vulnerable to future events. The DBRS long-term rating scale provides an opinion on the risk that an issuer will fail to satisfy its financial obligations in accordance with the terms under which an obligation has been issued (risk of default). Ratings are based on quantitative and qualitative considerations relevant to the issuer and range from AAA to D; all rating categories other than AAA and D also contain subcategories ''(high)'' and ''(low)'' with the absence of either designation indicating that the rating is in the middle of the category. A BBB rating is the fourth highest rating out of the ten major levels of DBRS' rating scale and is in the middle range of such rating.

According to the Moody's rating system, debt securities rated Baa2 are subject to moderate credit risk and are considered medium grade and as such may possess certain speculative characteristics. Moody's long-term ratings are opinions of the relative credit risk of financial obligations with an original maturity of one year or more. They address the possibility that a financial obligation will not be honored as promised. Such ratings use Moody's Global Scale and reflect both the likelihood of default and any financial loss suffered in the event of default. Moody's ratings are based on a scale of Aaa to C and numerical modifiers 1, 2 and 3 are applied to each rating category, with 1 indicating that the obligation ranks in the higher end of the category, 2 indicating a mid-range ranking and 3 indicating a ranking in the lower end of the category. A rating of Baa2 is the fourth highest rating out of the nine major levels of Moody's rating scale and the ''2'' indicates the middle range of the current rating.

Credit ratings are intended to provide investors with an independent measure of credit quality of an issue of securities. A rating accorded to any securities 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. To Granite's knowledge, as of March 6, 2019, there was no announcement or proposed announcement that was to be made by a rating organization to the effect that the organization is reviewing or intends to revise or withdraw a rating previously assigned. There can be no assurance that a rating will remain in effect for any given period of time or that a rating will not be lowered, withdrawn or revised by the rating agency if in its judgment circumstances so warrant.

Granite has made customary payments of rating fees to DBRS and Moody's in connection with the above-mentioned ratings assigned to the 2021 Debentures and the 2023 Debentures, and will continue to make such payments to DBRS and Moody's in the ordinary course from time to time in connection with the confirmation of such ratings and future offerings of certain debt securities of Granite, if any.

DISTRIBUTION AND DIVIDEND POLICY

Distribution Policy of Granite REIT and Granite GP

Pursuant to the Declaration of Trust, Granite REIT may make distributions as declared from time to time by the Trustees. Any distributions declared in respect of a calendar month (or such other period as determined by the Trustees) will be paid to REIT Unitholders of record as at the close of business on the last business day of the calendar month immediately preceding the month in which the distribution is to be paid (or such other time and date fixed by the Trustees in accordance with the Declaration of Trust). The distribution for any applicable period will be paid on or about the 15th day of the immediately following month (or on such other date as determined by the Trustees in their discretion). In addition, the Declaration of Trust provides that the total amount of distributions due and payable on or before December 31 of any calendar year shall not be less than the amount necessary to ensure that Granite REIT will not be liable to pay income tax under Part I of the Tax Act for such year. The amount, if any, which is required to be distributed to comply with the preceding sentence shall be due and payable, on the earlier of the last distribution date in respect of each year and December 31 of such year, to REIT Unitholders of record on that date, and such amount will be payable in cash unless the Trustees determine in their absolute discretion to pay such amount in REIT Units.

Where the Trustees determine that Granite REIT does not have available cash in an amount sufficient to pay the full amount of any distribution or where the Trustees otherwise determine in their absolute discretion that all or a portion of a distribution should not be paid in cash, the payment may, at the option of the Trustees, include the issuance of additional REIT Units, or fractions of REIT Units, if necessary, having a fair market value as determined by the Trustees equal to the difference between the amount of such distribution and the amount of cash which either has been determined by the Trustees in their absolute discretion to be available, or which the Trustees have otherwise determined shall be distributed in their absolute discretion, as the case may be, for the payment of such distribution. The Declaration of Trust further provides that immediately after a distribution made in REIT Units in accordance with the foregoing, the number of outstanding REIT Units will be consolidated so that each REIT Unitholder will hold after the consolidation the same number of REIT Units as the REIT Unitholder held before the REIT Unit distribution.

Currently, Granite REIT intends to make monthly distributions in the estimated amount of $0.233 per REIT Unit.

The portion of distributions by Granite REIT for 2019 which will be income for Canadian income tax purposes is estimated to be in the range of 90% to 100%. This estimate could change by the end of 2019. In light of its nominal anticipated earnings (if any), it is not expected that Granite GP will pay dividends in 2019.

Distributions of Granite REIT

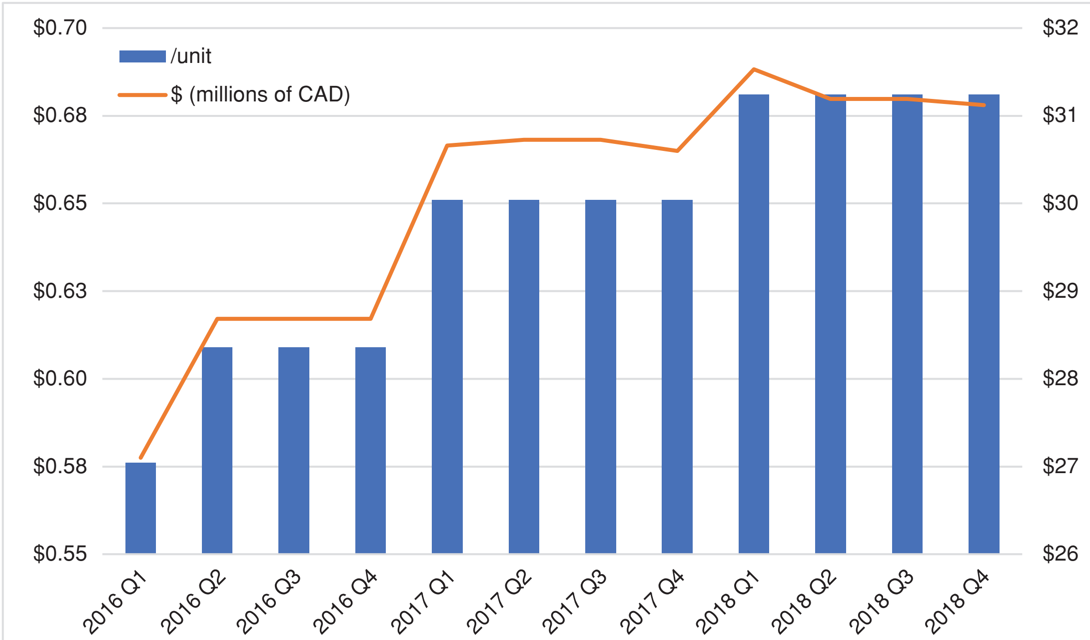
The following charts summarize distributions paid by Granite REIT in each of the previous three years:

Total Distributions by Year

Year	$(millions of CAD)	$/unit
2016	113.2	2.40
2017	122.7	2.60
2018	125.0	2.72

Note: On December 17, 2018, Granite declared a special distribution of $1.20 per Stapled Unit, payable on January 15, 2019, which consisted of $0.30 per Stapled Unit payable in cash and $0.90 per Stapled Unit payable in Stapled Units.

Historical Distributions by Quarter



MARKET FOR SECURITIES

Trading Price and Volume

Granite's Stapled Units are listed for trading on the TSX under the symbol ''GRT.UN'' and on the NYSE under the symbol ''GRP.U''. The volume of trading and the high and low trading price of Granite's Stapled Units on the TSX for each month of the year ended December 31, 2018 are set forth in the following table:

Trading Price and Volume

	Stapled Units		
TSX 2018	**High ($)**	**Low ($)**	**Traded Volume**
January	52.04	48.67	2,001,439
February	50.85	47.93	1,650,203
March	51.76	48.18	1,721,844
April	51.30	49.51	1,119,291
May	53.99	50.27	1,878,659
June	54.97	51.53	3,293,834
July	55.67	52.75	1,691,421
August	55.91	53.49	1,283,029
September	57.68	54.75	1,899,059
October	55.74	52.37	2,114,036
November	56.62	53.85	1,689,690
December	55.42	52.69	2,887,247

Source: TSX Market Data

TRUSTEES AND MANAGEMENT OF GRANITE

The following table provides the name, province or state and country of residence; the current position, board committee membership (where applicable) and office held with each of Granite REIT and Granite GP; and the principal occupation (if not with Granite REIT or Granite GP) of each of Granite's current Trustees and officers and Granite GP's current Directors and officers, as well as the date since which each such individual has served on the board, or was appointed as an officer, of Granite:

Name, Province/State and Country of Residence	Position and Office Held with each of Granite REIT and Granite GP (as applicable)	Present Principal Occupation (if not with Granite)	Trustee/Director/Officer Since
Kelly Marshall[(1)] . . . . Ontario, Canada	Trustee and Chairman Director and Chairman	Executive Vice President of Strategic Partnerships at Ontario Municipal Employee Retirement System	June 15, 2017
Peter Aghar[(2)] . . . . Ontario, Canada	Trustee Director	Principal of Crux Capital Corporation	June 15, 2017
Donald E. Clow[(3)] . . . . Nova Scotia, Canada	Trustee Director	President and CEO of Crombie REIT	November 22, 2016
Remco Daal[(1)] . . . . British Columbia, Canada	Trustee Director	President of Canadian Real Estate for QuadReal Property Group	June 15, 2017
Kevan Gorrie . . . . Ontario, Canada	President and Chief Executive Officer Trustee Director		August 1, 2018
Samir Manji[(4)] . . . . British Columbia, Canada	Trustee Director	Founder, Chief Executive Officer of Sandpiper Group	June 15, 2017
Al Mawani[(3)(5)] . . . . Ontario, Canada	Trustee Director	Principal of Exponent Capital Partners Inc.	June 15, 2017
Gerald Miller[(6)] . . . . British Columbia, Canada	Trustee Director	Corporate Director	June 30, 2011
Jennifer Warren[(4)] . . . . New York, New York	Trustee Director	Head of U.S. Issuer Services at Computershare	June 14, 2018
Ilias Konstantopoulos . . . . Ontario, Canada	Chief Financial Officer		September 12, 2016
Lorne Kumer . . . . Ontario, Canada	Executive Vice President, Head of Global Real Estate		February 13, 2010

Notes:

(1) Member of the Investment Committee of Granite GP.

(2) Chair of the Investment Committee of Granite GP.

(3) Member of the Audit Committee of each of Granite REIT and Granite GP.

(4) Member of the Compensation, Governance and Nominating Committee of Granite GP.

(5) Chair of the Compensation, Governance and Nominating Committee of Granite GP.

(6) Chair of the Audit Committee of each of Granite REIT and Granite GP.

As at December 31, 2018, the Trustees, Directors and executive officers of Granite, as a group, beneficially owned, directly or indirectly, or exercised control or direction over 1,122,853 stapled units of Granite, representing approximately 2.5% of the total number of Stapled Units outstanding.

The term of office of each Trustee and Director expires at the time of Granite REIT's and Granite GP's Joint Annual General Meeting, which for 2019 is expected to be held on June 13, 2019. In the event that successors are not elected, the Trustees and Directors will remain in office until their successors are elected or appointed in accordance with applicable law and the constating documents of Granite REIT and Granite GP.

Officers serve at the pleasure of the Board of Trustees of Granite REIT or Board of Directors of Granite GP, as applicable. Certain background concerning the current Trustees, Directors and officers of Granite, including their principal occupations over the last five years, is summarized below.

Kelly Marshall — Chairman of Granite REIT; Chairman of Granite GP

Since November 1, 2017, Mr. Marshall is Executive Vice President of Strategic Partnerships at Ontario Municipal Employee Retirement System (''**OMERS**'') where he leads the growth of the pension fund's strategic partnerships, including its relationships with third-party organizations, co-investors and other finance partners. Prior to OMERS, Mr. Marshall served as Managing Partner, Corporate Finance at Brookfield Asset Management Inc. (''**Brookfield Management**'') where he was responsible for the global corporate finance activities and oversaw all financings in each core region and business line. Throughout his 16 years with Brookfield Management, he completed in excess of USD 100 billion in debt and equity transactions. Those transactions involved corporate and asset level issuances in North and South America, Europe, UK, Australia and India for all of Brookfield Management's real estate, renewable power and infrastructure businesses.

Mr. Marshall has over 25 years of finance experience, which was initially developed working for Olympia and York Developments Ltd. at Canary Wharf. This was followed by periods of employment with Citibank, in its real estate asset management group, and then two prominent U.S.-based real estate finance investment companies, Fortress Investment Group and Lonestar Opportunity Fund.

Peter Aghar — Trustee of Granite REIT; Director of Granite GP

Mr. Aghar is the founder and President of Crux Capital Corporation, a value-add real estate investor, developer and venture capital investor active across Canada. Since 2013, Crux and its partners have purchased over 3 million square feet of commercial property and are participating in over 1 million square feet of development. Mr. Aghar has a successful 20-year track record as an opportunistic value investor on an institutional scale, having been responsible for more than one hundred real estate transactions totaling over $10 billion in value. Transactions have consisted of investments in Canada, the United States and internationally, including equity investments, developments, joint ventures, structured and mezzanine debt, open and closed end private equity funds as well as the privatization and launch of several public entities. Mr. Aghar was formerly President and Chief Investment Officer of KingSett Capital and a Managing Director of Institutional Accounts at GE Capital Real Estate.

Mr. Aghar is a board member in a variety of companies and investment funds as well a member of the Young President Organization. He is a CPA, CMA and is a graduate of the University of Waterloo with an Honors Mathematics Degree.

Donald E. Clow — Trustee of Granite REIT; Director of Granite GP

Mr. Clow has been the President and Chief Executive Officer of Crombie REIT, a Canadian Real Estate Investment Trust that owns and operates shopping centres, freestanding grocery stores and office buildings with an enterprise value of approximately $4.75 billion, since 2009.

Prior to joining Crombie REIT, Mr. Clow was the President of ECL Developments Limited, a real estate development subsidiary of Empire Company Limited (''**Empire**''). Prior to joining Empire, he was the

President of Southwest Properties, an entrepreneurial real estate developer and owner of commercial and residential property.

Mr. Clow serves on the Board of Governors of Acadia University, the Board of Directors for REALpac, the BOMA National Advisory Board and the ICSC Foundation Canada.

Mr. Clow holds a Bachelor of Business Administration from Acadia University, earned his CA designation with KPMG and was designated a Fellow Chartered Accountant in 2002. He is a recent graduate of the YPO President's Program in Leadership at the Harvard Business School and is a member of World Presidents' Organization (WPO).

Remco Daal — Trustee of Granite REIT; Director of Granite GP

Mr. Daal has been President of Canadian Real Estate for QuadReal Property Group since its establishment in June 2016, responsible for QuadReal's domestic operations, including investment, development, and the management operation of the Canadian property portfolio. QuadReal is a global real estate company owned by the British Columbia Investment Management Corporation (bcIMC), one of Canada's largest institutional investors, and has managed assets valued at over $18 billion.

From 2000 to 2016, Mr. Daal worked at Bentall Kennedy Group, one of North America's largest real estate investment advisors and Canada's largest property manager, most recently as President and Chief Operating Officer from 2009 to 2016. Prior to joining Bentall Kennedy, Mr. Daal held senior positions with CIBC Development Corporation and a private Toronto-based development company. Mr. Daal has over 25 years of experience in the real estate sector.

Mr. Daal currently serves on the board of Parkbridge Lifestyle Communities Inc. as well as the Faculty Advisory Board of UBC's Sauder School of Business.

Samir Manji — Trustee of Granite REIT; Director of Granite GP

Mr. Manji has a long history in real estate. He is the founder and CEO of Sandpiper Group, a Vancouver-based real estate private equity firm established in 2016. In the early 90's, Samir founded Amica Mature Lifestyles Inc. (a public company listed on the TSX), where he built Canada's leading luxury seniors housing brand, and was the Chairman and CEO of the company until exiting in 2015 with the sale of the Company to Ontario Teachers' Pension Plan for an enterprise value of $1.1 billion.

Through his family-controlled company, Barney River Investments Ltd., he has been involved in over $2 billion in hospitality, seniors housing and multifamily residential real estate acquisitions and dispositions. Over the past decade, Barney River has acquired several significant properties in the Greater Toronto Area, including the Hilton and Westin Harbour Castle hotels in downtown Toronto.

Mr. Manji was recognized in 2006 as a recipient of Canada's Top 40 Under 40 and was also named the Ernst & Young Entrepreneur of the Year award winner in the business-to-consumer products and services category in British Columbia in 2010.

Mr. Manji graduated from the University of Waterloo and received his CPA, CA with KPMG LLP in Toronto.

He is an active member of the Young Presidents' Organization and he is the current President of the Ismaili Council of British Columbia.

Al Mawani — Trustee of Granite REIT; Director of Granite GP

Mr. Mawani is currently a Principal of Exponent Capital Partners Inc., a private equity investor and real estate advisory firm. Mr. Mawani has over 35 years of experience in the commercial real estate industry. His 15-year c-suite experience includes: 11 years as EVP & CFO of then TSX-listed Oxford Properties Group from 1989 to 2001, President & CEO of TSX-listed Calloway/ Smart REIT during 2011 to 2013, and President & CEO of privately-owned Rodenbury Investments during 2015 and 2016. He was an executive at a private equity investment firm during 2002 to 2004.

He has served on many TSX-listed boards since 2002 including serving as chair of Audit Committees and Governance & Compensation Committees. Mr. Mawani has also been a director of Extendicare Inc. since December 2017 and a director of First Capital Realty Inc. since May 2018.

Mr. Mawani is a CPA and CA and has a Master of Business Administration from University of Toronto and a Masters in Law from York University.

Gerald Miller — Trustee of Granite REIT; Director of Granite GP

Mr. Miller was Executive Vice President, Finance and Chief Financial Officer of West Fraser Timber Co. Ltd. (''**West Fraser**'') from January 2009 until his retirement in July 2011. Mr. Miller has been a director of West Fraser since April 2012. From February 2007 to December 2008, Mr. Miller's principal occupation was Executive Vice President, Operations of West Fraser. Prior to that, since 1986, Mr. Miller held several other senior finance, administration and operations offices at West Fraser, including Vice-President, Corporate Controller; Vice-President, Administration; and Executive Vice-President, Pulp and Paper.

Mr. Miller is an experienced CPA, CA and has been a member of the Chartered Professional Accountants of British Columbia and the Chartered Professional Accountants of Canada for over 30 years. Prior to joining West Fraser in 1986, he was a Senior Audit and Tax Manager with one of the major Canadian Chartered Professional Accounting firms.

Mr. Miller holds a Bachelor of Commerce degree from the University of British Columbia.

Jennifer Warren — Trustee of Granite REIT; Director of Granite GP

Since December 2018, Jennifer Warren serves as the Head of U.S. Issuer Services at Computershare. Previously, Ms. Warren was Managing Director and Head, U.S. Region and President and CEO of CIBC World Markets Corp. for Canadian Imperial Bank of Commerce (CIBC) from 2013 to 2017 responsible for all business and governance functions of CIBC's operating business in the U.S. Prior to this role, Ms. Warren was Senior Vice-President, General Counsel (Canada) for CIBC from 2006 to 2013, responsible for the Canadian legal team of CIBC, as well as the Privacy and Ombudsman Office and the global documentation team. She managed a 100-person team who provided a comprehensive range of legal services to the bank's main businesses: CIBC Retail and Business Banking, Wealth Management, and Wholesale Banking.

Ms. Warren began her career in 1990 as a corporate/commercial lawyer with Blake, Cassels & Graydon LLP. In 1996, she joined Rogers Communications Inc. (RCI), the parent company of the Rogers group of companies. Ms. Warren became Vice-President, Assistant General Counsel of RCI in 2000 and became the senior legal advisor to, and a member of, the senior management team of Rogers Cable Inc. (an RCI subsidiary), as well as, a key member of the RCI corporate team responsible for acquisitions, divestitures, financings, strategic alliances, outsourcings and private investments.

Ms. Warren holds a Bachelor of Laws and a Bachelor of Science from the University of Toronto.

Kevan Gorrie — Trustee, President and Chief Executive Officer of Granite REIT; Director, President and Chief Executive Officer of Granite GP

Mr. Gorrie joined Granite as its President and Chief Executive Officer on August 1, 2018 and was appointed Trustee and a Director of Granite effective August 1, 2018. With over 20 years of corporate real estate experience in Canada, the United States and Germany, Mr. Gorrie most recently served as the President and Chief Executive Officer of Pure Industrial Real Estate Trust (''**PIRET**'') where he successfully grew and led the business until its strategic sale to Blackstone Property Partners and Ivanhoé Cambridge in May, 2018.

Prior to joining PIRET, Mr. Gorrie led the industrial business for Oxford Properties Group, the real estate investment arm of a major Canadian pension fund, where he built a platform comprising 13 million square feet of income producing properties and development projects across major Canadian industrial markets, encompassing acquisition, asset management, leasing, operations and development.

Mr. Gorrie is a graduate of the civil engineering program at the University of Toronto and is a member of the Institute of Corporate Directors (ICD.D).

Ilias Konstantopoulos — Chief Financial Officer of Granite REIT; Chief Financial Officer of Granite GP

Mr. Konstantopoulos has been Granite's Chief Financial Officer since September 12, 2016 and brings a diverse and global background that includes over 20 years of corporate finance, mergers and acquisitions, and capital markets expertise as well as extensive experience in real estate. Previously, Mr. Konstantopoulos served as Managing Partner at Brookfield Financial and Managing Director at BMO Capital Markets and worked for several years at Ernst & Young where he earned his Canadian Chartered Professional Accountant, CA, and United States Certified Public Accountant, CPA, designations.

Mr. Konstantopoulos graduated from McGill University with a Bachelor of Engineering and a Master of Business Administration and is a Professional Engineer.

Lorne Kumer — Executive Vice President, Head of Global Real Estate of Granite REIT; Executive Vice-President, Head of Global Real Estate of Granite GP

Mr. Kumer oversees all aspects of Granite property operations related to Granite's global real estate platform including asset management, acquisitions, dispositions, and development. He is also responsible for the global Magna International relationship.

Mr. Kumer has over 25 years of experience in the real estate industry working for both public and private development companies. His experience includes property development, leasing, land planning and construction. For over 15 years, Mr. Kumer has worked for Granite and Magna in various roles including the management of Granite's North American income-producing properties portfolio. Prior to joining Granite, Mr. Kumer held senior positions in the real estate industry including Vice President at C. Hunter Real Estate Corporation in Toronto and Vice President with Peregrine Hunter Properties Ltd.

Mr. Kumer holds a Bachelor of Arts (Honours), business administration, from the Richard Ivey School of Business at the University of Western Ontario.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

To the knowledge of Granite, except as set out below, no Trustee, Director or executive officer of Granite:

(i) is, or within ten years prior to the date hereof has been, a director, chief executive officer or chief financial officer of any company (including Granite REIT or Granite GP) that was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days:

   (a) that was issued while the Director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or

   (b) that was issued after the Director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer;

To the knowledge of Granite, except as set out below, no Trustee, Director or executive officer of Granite or a unitholder or shareholder holding a sufficient number of securities to affect materially the control of Granite REIT or Granite GP, respectively:

(i) is, as at the date of this AIF or within ten years before the date of the AIF has been, a director or executive officer of any company (including Granite REIT or Granite GP) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets;

(ii) has, within ten years prior to the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder; or

(iii) been subject to:

(a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or

(b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Conflicts of Interest

Remco Daal is President, Canadian Real Estate of QuadReal Property Group (''**Quadreal**'') and a member of the QuadReal Investment Committee. There may be market investment opportunities that both Granite and QuadReal pursue.

AUDIT COMMITTEE

Composition of the Audit Committee

Each of Granite REIT and Granite GP has a separately designated standing audit committee (each an ''**Audit Committee**''), currently composed of Messrs. Miller (Chairman), Clow and Mawani, each of whom has been determined by the Board of Trustees, in the case of Granite REIT, or the Board of Directors, in the case of Granite GP, to be ''independent'' and ''financially literate'', as such terms are defined in Multilateral Instrument 52-110 — *Audit Committees* and ''independent'' under the corporate governance standards of the NYSE applicable to audit committees. As well, it has been determined that each of Messrs. Miller, Clow and Mawani is an ''audit committee financial expert'' within the meaning of the rules of the SEC under the Sarbanes-Oxley Act of 2002. The education and experience of each Audit Committee member that is relevant to the performance of his responsibilities as a member of each Audit Committee is set forth in their respective biographies above under the heading ''Management of Granite REIT''.

Pre-Approval Policies and Procedures

Each Audit Committee is responsible for the appointment, compensation, retention and oversight of the work of the external auditor, Deloitte LLP for fiscal 2018. Each Audit Committee has established a policy to pre-approve all audit and permitted non-audit services provided to Granite by the external auditor, as well as the related fees to be paid to the external auditor.

Under such policy, the respective Audit Committee shall approve in advance any retainer of the external auditor to provide any non-audit service to Granite REIT or Granite GP, as the case may be, in accordance with applicable law, the rules and regulations of the NYSE, and policies and procedures approved by the Board of Trustees or Board of Directors, as applicable. Each Audit Committee may delegate pre-approval authority to any of its members. The decisions of any member of an Audit Committees to whom this authority has been delegated must be presented to the full committee at its next scheduled committee meeting.

Audit Committee's Charter

The charter of the Audit Committee of Granite REIT is attached as Appendix A to this Annual Information Form. The charter of the Audit Committee of Granite GP is attached as Appendix B to this Annual Information Form. Each charter is also available at www.granitereit.com.

Audit Fees

The following table sets forth the fees billed to Granite by Deloitte LLP and its affiliates for professional services rendered for the fiscal years ended December 31, 2018 and 2017.

Audit Fees

Fees	2018	2017
Audit Fees[(1)]	**$859,250**	$776,000
Audit-Related Fees[(2)]	**$ 98,200**	$ 93,100
Tax Fees	**$ —**	$ —
All Other Fees[(3)]	**$ 3,540**	$ 3,400
Total	**$960,990**	$872,500

Notes:

(1) Audit Fees related to the annual audit and quarterly review of Granite's combined financial statements and services that are normally provided in connection with Granite's statutory and regulatory filings, including the auditor attestation requirements of the *Sarbanes-Oxley Act* and Granite's securities offerings.

(2) Audit-Related Fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of Granite's financial statements and that are not included in category (1) above. They include fees for the audit of certain subsidiary financial statements.

(3) All Other Fees capture fees in respect of all services not falling under any of the foregoing categories.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Except as otherwise disclosed herein, no Trustee, Director or executive officer of Granite, nor any person or company that beneficially owns, or controls or directs, directly or indirectly, more than ten percent of any class or series of Granite's voting securities, or an associate or affiliate thereof, has any material interests, directly or indirectly in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or is reasonably expected to materially affect Granite.

AUDITORS, REGISTRAR AND TRANSFER AGENT

The auditors of Granite REIT and Granite GP are Deloitte LLP, located at Bay Adelaide Centre, East Tower, 8 Adelaide Street West, Suite 200, Toronto, Ontario, M5H 0A9. The registrar and transfer agent of Stapled Units is Computershare Investor Services Inc. at its principal offices in Toronto, Ontario. The co-transfer agent and co-registrar of Stapled Units in the United States is Computershare Trust Company, N.A. at its offices in Louisville, Kentucky.

Deloitte LLP is independent of Granite REIT and Granite GP within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Ontario, and within the meaning of the Act and the applicable rules and regulations thereunder adopted by the Securities and Exchange Commission (SEC) and the Public Company Accounting Oversight Board (United States) (PCAOB).

LEGAL PROCEEDINGS

Granite is party to various legal actions and claims arising in the ordinary course of its business, such as litigation with contractors, suppliers, governmental authorities, sellers and purchasers. Granite believes that none of these actions or claims, either individually or in combination, has had or, in the case of current actions and claims, will have, a material adverse effect on its financial condition or results of operations.

MATERIAL CONTRACTS

Agreements in Connection with the 2011 Arrangement

In connection with the 2011 Arrangement, Granite Co., the Stronach Shareholder and the Stronach Trust entered into the Arrangement Agreement on January 31, 2011. Under the Arrangement Agreement, the parties agreed to effect certain transactions in connection with the implementation of the Arrangement. The Arrangement Agreement contains covenants, representations and warranties of and from each of Granite, the Stronach Shareholder and the Stronach Trust and various conditions precedent, both mutual and with respect to each party. Concurrently with the entering into of the Arrangement Agreement, each of Granite Co., the Stronach Shareholder, the Stronach Trust and the Initiating Shareholders entered into the Agreement with Initiating Shareholders. The Agreement with the Initiating Shareholders, among other things, provides the Initiating Shareholders with the ability to compel Granite, the Stronach Shareholder and the Stronach Trust to comply with certain obligations under the Arrangement Agreement. Each of the Arrangement Agreement and the Agreement with Initiating Shareholders are described in detail in the Management Information Circular of Granite Co. dated February 22, 2011 and such descriptions are hereby incorporated by reference herein. Copies of the Arrangement Agreement and the Agreement with Initiating Shareholders are available on SEDAR at www.sedar.com.

Immediately prior to the implementation of the 2011 Arrangement, a transfer agreement between Granite Co., the Stronach Shareholder, certain subsidiaries of the Stronach Shareholder and the Stronach Trust providing for the transfer to that purchaser of certain assumed liabilities relating to the Assets, substantially in the form attached as Schedule C to the Arrangement Agreement was declared effective. In addition, also prior to the implementation of the 2011 Arrangement, Granite Co. entered into a forbearance agreement pursuant to which Granite became restricted from entering into the horseracing or gaming business, making any debt or equity investment in, or otherwise giving financial assistance to, any entity primarily engaged in the horseracing or gaming business or entering into any transactions with, or providing any services or personnel to, any entity primarily engaged in the horseracing or gaming business, substantially in the form attached as Schedule D to the Arrangement Agreement. Each of the Transfer Agreement and the Forbearance Agreement are described in the Management Information Circular of Granite Co. dated February 22, 2011 and such descriptions are hereby incorporated by reference herein. Copies of the forms of Transfer Agreement and Forbearance Agreement are available on SEDAR at www.sedar.com.

Other Material Contracts

The following additional material contracts have been entered into by Granite and are still in effect:

(i) the 2014 Indenture (as more fully described under ''*Credit Facility and Indebtedness — Other Unsecured Indebtedness*'');

(ii) the 2016 Indenture (as more fully described under ''*Credit Facility and Indebtedness — Other Unsecured Indebtedness*''); and

(iii) the Support Agreement (as more fully described under ''Description of Stapled Units — Support Agreement'').

Copies of the material contracts listed above may be found on SEDAR at www.sedar.com.

ADDITIONAL INFORMATION

Additional information relating to Granite REIT and Granite GP may be found on SEDAR at www.sedar.com under their respective SEDAR profiles. Additional information, including Trustees', Directors' and executive officers' remuneration and indebtedness, principal holders of securities and securities authorized for issuance under the equity compensation plans is contained in the joint Management Information Circular/ Proxy Statement of Granite REIT and Granite GP dated May 11, 2018 for the annual general meetings of the unitholders of Granite REIT and shareholders of Granite GP held on June 14, 2018. Additional financial information is provided in the audited combined financial statements of Granite and related Management's Discussion and Analysis for the year ended December 31, 2018.

APPENDIX A — GRANITE REIT AUDIT COMMITTEE CHARTER

GRANITE REAL ESTATE INVESTMENT TRUST

AUDIT COMMITTEE CHARTER

I. Purpose and Scope

The audit committee (the ''**Committee**'') of Granite Real Estate Investment Trust (the ''**Trust**'') is a committee of the Board of Trustees (the ''**Board**''). The Committee shall oversee the accounting and financial reporting processes of the Trust and the audits of the Trust's financial statements and exercise the responsibilities and duties set out in this Charter.

II. Membership

1. *Number of Members*

The Committee shall be composed of three or more members of the Board.

2. *Independence*

Each member of the Committee must be independent in accordance with applicable law and the applicable rules and regulations of the Canadian Securities Administrators, the United States Securities and Exchange Commission, the New York Stock Exchange and any other regulator or authority having jurisdiction over the Trust from time to time (the ''**Applicable Requirements**'').

3. *Financial Literacy*

Each member of the Committee shall be financially literate and shall have such accounting or financial management expertise as is required to comply with the Applicable Requirements.

4. *Term*

The members of the Committee shall be appointed annually by the Board. Each member of the Committee shall serve at the pleasure of the Board until the member resigns, is removed or ceases to be a member of the Board.

5. *Chair*

The members of the Committee shall elect a Chair of the Committee from among their number.

III. Duties and Responsibilities

The Committee shall have the functions and responsibilities set out below as well as any other functions that are specifically delegated to the Committee by the Board and that the Board is authorized to delegate by applicable laws and regulations. In addition to these functions and responsibilities, the Committee shall perform the duties required of an audit committee by any Applicable Requirements.

1. *Financial Reports*

(a) **General**

The Committee is responsible for overseeing the Trust's financial statements and financial disclosures. Management is responsible for the preparation, presentation and integrity of the Trust's financial statements and financial disclosures and for the appropriateness of the accounting principles and the reporting policies used by the Trust. The auditors are responsible for auditing the Trust's annual consolidated financial statements and for reviewing the Trust's unaudited interim financial statements.

(b) **Review of Annual Financial Reports**

The Committee shall review the annual audited combined financial statements of the Trust and Granite REIT Inc., the external auditor's report thereon and the related management's discussion and analysis of financial condition and results of operation (''**MD&A**''). After completing its review, if advisable, the Committee shall recommend for Board approval such annual financial statements and the related MD&A.

(c) **Review of Interim Financial Reports**

The Committee shall review the interim combined financial statements of the Trust and Granite REIT Inc., the external auditor's review report thereon and the related MD&A. After completing its review, if advisable, the Committee shall recommend for Board approval such interim financial statements and the related MD&A.

(d) **Financial Statement Review Considerations**

In conducting its review of the annual financial statements or the interim financial statements, the Committee shall:

(i) meet with management and the external auditor to discuss the financial statements and MD&A;

(ii) review the disclosures in the financial statements;

(iii) review the audit report or review report prepared by the external auditor;

(iv) discuss with management, the auditors and internal legal counsel, as requested, any litigation claim or other contingency that could have a material effect on the financial statements;

(v) review the accounting policies followed and critical accounting and other significant estimates and judgements underlying the financial statements as presented by management;

(vi) review any material effects of regulatory accounting initiatives or off-balance sheet structures on the financial statements as presented by management, including requirements relating to complex or unusual transactions, significant changes to accounting principles and alternative treatments under applicable accounting principles;

(vii) review any material changes in accounting policies and any significant changes in accounting practices and their impact on the financial statements as presented by management;

(viii) review management's report on the effectiveness of internal controls over financial reporting;

(ix) review the factors identified by management as factors that may affect future financial results;

(x) review responses received under the Trust's Internal Reporting Procedures (as defined below); and

(xi) review any other matters related to the Trust's financial statements that are brought forward by the auditors or management or which are required to be communicated to the Committee under accounting policies, auditing standards or Applicable Requirements.

(e) **Review of Other Financial Disclosures**

The Committee shall review and, if advisable, recommend for Board approval financial disclosure in a prospectus or other securities offering document of the Trust, press releases disclosing, or based upon, financial results of the Trust and any other material financial disclosure in a document that is publicly disseminated.

(f) **Review of Forward-Looking Information**

The Committee shall review and, if advisable, recommend for Board approval any material future-oriented financial information or financial outlook and endeavour to ensure that there is a reasonable basis for drawing any conclusions or making any forecasts and projections set out in such disclosures.

2. ***Auditors***

(a) **General**

The Committee shall be responsible for oversight of the work of the auditors, including the external auditor's work in preparing or issuing an audit report, performing other audit, review or attest services or any other related work. The external auditor will report directly to the Committee.

(b) **Nomination and Compensation**

The Committee shall review and, if advisable, select and recommend for Board approval the external auditor to be nominated and the compensation of such external auditor. The Committee shall have ultimate authority to approve all audit engagement terms, including the external auditor's audit plan.

(c) **Resolution of Disagreements**

The Committee shall resolve any disagreements between management and the auditors as to financial reporting matters brought to its attention.

(d) **Discussions with External Auditor**

The Committee shall periodically discuss with the external auditor such matters as are required by applicable auditing standards to be discussed by the external auditor with the Committee.

(e) **Audit Plan**

The Committee shall periodically review a summary of the external auditor's annual audit plan. The Committee shall consider and review with the external auditor any material changes to the scope of the plan.

(f) **Independence of External Auditor**

Before the external auditor issues its report on the annual financial statements, the Committee shall obtain from the external auditor a formal written statement describing all relationships between the external auditor and the Trust; discuss with the external auditor any disclosed relationships or services that may affect the objectivity and independence of the external auditor; and obtain written confirmation from the external auditor that it is objective and independent within the meaning of the applicable Rules of Professional Conduct/Code of Ethics adopted by the provincial institute or order of chartered accountants to which the external auditor belongs and other Applicable Requirements. The Committee shall take appropriate action to oversee the independence of the external auditor.

(g) **Evaluation of Lead Partner**

The Committee shall periodically review the qualifications and performance of the lead partner(s) of the external auditor.

(h) **Requirement for Pre-Approval of Non-Audit Services**

The Committee shall approve in advance any retainer of the external auditor to provide any non-audit service to the Trust in accordance with Applicable Requirements and Board approved policies and procedures. The Committee may delegate pre-approval authority to any member of the Committee. The decisions of any member of the Committee to whom this authority has been delegated must be presented to the full Committee at its next scheduled Committee meeting.

(i) **Approval of Hiring Policies**

The Committee shall review and approve the Trust's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Trust and the Committee shall be responsible for specified reporting and pre-approval functions thereunder.

3. ***Internal Controls***

(a) **General**

The Committee shall review the Trust's system of internal controls.

(b) **Establishment, Review and Approval**

The Committee shall require management to implement and maintain appropriate systems of internal controls in accordance with Applicable Requirements, including internal controls over financial reporting and disclosure, and shall review, evaluate and approve these procedures. The Committee shall periodically consider and review with management and the auditors:

(i) the effectiveness of, or weaknesses or deficiencies in: the design or operation of the Trust's internal controls (including computerized information system controls and security); the overall control environment for managing business risks; and accounting, financial and disclosure controls (including, without limitation, controls over financial reporting), non-financial controls, and legal and regulatory controls and the impact of any identified weaknesses in internal controls on management's conclusions;

(ii) any significant changes in internal controls over financial reporting that are disclosed, or considered for disclosure, including those in the Trust's periodic regulatory filings;

(iii) any material issues raised by any inquiry or investigation by regulators;

(iv) the Trust's fraud prevention and detection program, including deficiencies in internal controls that may impact the integrity of financial information, or may expose the Trust to other significant internal or external fraud losses and the extent of those losses and any disciplinary action in respect of fraud taken against management or other employees who have a significant role in financial reporting; and

(v) any related significant issues and recommendations of the auditors together with management's responses thereto, including the timetable for implementation of recommendations to correct weaknesses in internal controls over financial reporting and disclosure controls.

4. *Internal Audit Function*

The Committee shall periodically review and approve the internal audit function, including its plan, budget and resources. The Committee shall direct management to make changes it deems advisable in respect of the internal audit function.

5. *Internal Reporting Procedures*

The Committee shall establish procedures (the ''**Internal Reporting Procedures**'') for (a) the receipt, retention, and treatment of complaints received by the Trust regarding accounting, internal accounting controls or auditing matters; and (b) the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters. Any such complaints or concerns that are received shall be reviewed by the Committee and, if the Committee determines that the matter requires further investigation, it will direct the Chair of the Committee to engage outside advisors, as necessary or appropriate, to investigate the matter and will work with management to reach a satisfactory conclusion. The Committee shall review investigations and any resolutions of complaints received and report to the Board thereon. The Committee shall be responsible for approving exceptions to the Internal Reporting Procedures.

6. *Risk Management*

The Committee shall be responsible for overseeing the identification and assessment of the principal risks to the operations of the Trust and the establishment and management of appropriate systems to manage such risks with a view to achieving a proper balance between risks incurred and potential return to holders of securities of the Trust and to the long-term viability of the Trust. In this regard, the Committee shall require management to report periodically to the Committee, and the Committee shall report periodically to the Board, on the principal risks faced by the Trust and the steps implemented by manage to management these risks.

7. *Compliance with Legal and Regulatory Requirements*

The Committee shall review reports from management members on: legal or compliance matters that may have a material impact on the Trust; the effectiveness of the Trust's compliance policies; and any material communications received from regulators. The Committee shall review management's evaluation of and representations relating to compliance with specific applicable law and guidance, and management's plans to remediate any deficiencies identified. The Committee shall be responsible for granting waivers to the Code of Conduct and Ethics of the Trust and Granite REIT Inc.

8. *Audit Committee Disclosure*

The Committee shall prepare, review and recommend for Board approval any audit committee disclosures required by Applicable Requirements in the Trust's disclosure documents.

9. *Financial Executives*

The Committee shall review and discuss with management the appointment of key financial executives and recommend qualified candidates to the Board, as appropriate.

10. *Charter Review*

The Committee shall review and assess the adequacy of this Charter from time to time, as required, to ensure compliance with Applicable Requirements and recommend to the Board for its approval any modifications to this Charter as are considered appropriate.

IV. Meetings

1. *Procedure*

The time and place of the meetings of the Committee, the calling of meetings of the Committee and the procedure at such meetings in all respects shall be determined by the Committee; provided, however, that a majority of the members of the Committee shall constitute a quorum.

2. *Reporting to the Board*

The Chair shall provide a report to the Board on material matters considered by the Committee.

3. *In Camera Sessions*

The Committee shall hold meetings, or portions of meetings, at which management is not present. The Committee shall also periodically meet separately with management, the internal auditors and the external auditors.

V. Delegation

The Committee may, to the extent permissible by Applicable Requirements, designate a sub-committee to review any matter within this Charter as the Committee deems appropriate.

VI. Outside Advisors

The Committee shall have the authority to retain external legal counsel, consultants or other advisors to assist it in fulfilling its responsibilities and to set and pay the respective compensation for these advisors. The Trust shall provide appropriate funding, as determined by the Committee, for the services of these advisors.

APPENDIX B — GRANITE GP AUDIT COMMITTEE CHARTER

GRANITE REIT INC.

AUDIT COMMITTEE CHARTER

I. Purpose and Scope

The audit committee (the ''**Committee**'') of Granite REIT Inc. (the ''**Company**'') is a committee of the Board of Directors (the ''**Board**''). The Committee shall oversee the accounting and financial reporting processes of the Company and the audits of the Company's financial statements and exercise the responsibilities and duties set out in this Charter.

II. Membership

1. *Number of Members*

The Committee shall be composed of three or more members of the Board.

2. *Independence*

Each member of the Committee must be independent in accordance with applicable law and the applicable rules and regulations of the Canadian Securities Administrators, the United States Securities and Exchange Commission, the New York Stock Exchange and any other regulator or authority having jurisdiction over the Company from time to time (the ''**Applicable Requirements**'').

3. *Financial Literacy*

Each member of the Committee shall be financially literate and shall have such accounting or financial management expertise as is required to comply with the Applicable Requirements.

4. *Term*

The members of the Committee shall be appointed annually by the Board. Each member of the Committee shall serve at the pleasure of the Board until the member resigns, is removed or ceases to be a member of the Board.

5. *Chair*

The members of the Committee shall elect a Chair of the Committee from among their number.

III. Duties and Responsibilities

The Committee shall have the functions and responsibilities set out below as well as any other functions that are specifically delegated to the Committee by the Board and that the Board is authorized to delegate by applicable laws and regulations. In addition to these functions and responsibilities, the Committee shall perform the duties required of an audit committee by any Applicable Requirements.

1. *Financial Reports*

(a) **General**

The Committee is responsible for overseeing the Company's financial statements and financial disclosures. Management is responsible for the preparation, presentation and integrity of the Company's financial statements and financial disclosures and for the appropriateness of the accounting principles and the reporting policies used by the Company. The auditors are responsible for auditing the Company's annual consolidated financial statements and for reviewing the Company's unaudited interim financial statements.

(b) **Review of Annual Financial Reports**

The Committee shall review the annual audited combined financial statements of the Company and Granite Real Estate Investment Trust, the external auditor's report thereon and the related management's discussion and analysis of financial condition and results of operation (''**MD&A**''). After completing its review, if advisable, the Committee shall recommend for Board approval such annual financial statements and the related MD&A.

(c) **Review of Interim Financial Reports**

The Committee shall review the interim combined financial statements of the Company and Granite Real Estate Investment Trust, the external auditor's review report thereon and the related MD&A. After completing its review, if advisable, the Committee shall recommend for Board approval such interim financial statements and the related MD&A.

(d) **Financial Statement Review Considerations**

In conducting its review of the annual financial statements or the interim financial statements, the Committee shall:

(i) meet with management and the external auditor to discuss the financial statements and MD&A;

(ii) review the disclosures in the financial statements;

(iii) review the audit report or review report prepared by the external auditor;

(iv) discuss with management, the auditors and internal legal counsel, as requested, any litigation claim or other contingency that could have a material effect on the financial statements;

(v) review the accounting policies followed and critical accounting and other significant estimates and judgements underlying the financial statements as presented by management;

(vi) review any material effects of regulatory accounting initiatives or off-balance sheet structures on the financial statements as presented by management, including requirements relating to complex or unusual transactions, significant changes to accounting principles and alternative treatments under applicable accounting principles;

(vii) review any material changes in accounting policies and any significant changes in accounting practices and their impact on the financial statements as presented by management;

(viii) review management's report on the effectiveness of internal controls over financial reporting;

(ix) review the factors identified by management as factors that may affect future financial results;

(x) review responses received under the Company's Internal Reporting Procedures (as defined below); and

(xi) review any other matters related to the Company's financial statements that are brought forward by the auditors or management or which are required to be communicated to the Committee under accounting policies, auditing standards or Applicable Requirements.

(e) **Review of Other Financial Disclosures**

The Committee shall review and, if advisable, recommend for Board approval financial disclosure in a prospectus or other securities offering document of the Company, press releases disclosing, or based upon, financial results of the Company and any other material financial disclosure in a document that is publicly disseminated.

(f) **Review of Forward-Looking Information**

The Committee shall review and, if advisable, recommend for Board approval any material future-oriented financial information or financial outlook and endeavour to ensure that there is a reasonable basis for drawing any conclusions or making any forecasts and projections set out in such disclosures.

2. ***Auditors***

(a) **General**

The Committee shall be responsible for oversight of the work of the auditors, including the external auditor's work in preparing or issuing an audit report, performing other audit, review or attest services or any other related work. The external auditor will report directly to the Committee.

(b) **Nomination and Compensation**

The Committee shall review and, if advisable, select and recommend for Board approval the external auditor to be nominated and the compensation of such external auditor. The Committee shall have ultimate authority to approve all audit engagement terms, including the external auditor's audit plan.

(c) **Resolution of Disagreements**

The Committee shall resolve any disagreements between management and the auditors as to financial reporting matters brought to its attention.

(d) **Discussions with External Auditor**

The Committee shall periodically discuss with the external auditor such matters as are required by applicable auditing standards to be discussed by the external auditor with the Committee.

(e) **Audit Plan**

The Committee shall periodically review a summary of the external auditor's annual audit plan. The Committee shall consider and review with the external auditor any material changes to the scope of the plan.

(f) **Independence of External Auditor**

Before the external auditor issues its report on the annual financial statements, the Committee shall obtain from the external auditor a formal written statement describing all relationships between the external auditor and the Company; discuss with the external auditor any disclosed relationships or services that may affect the objectivity and independence of the external auditor; and obtain written confirmation from the external auditor that it is objective and independent within the meaning of the applicable Rules of Professional Conduct/Code of Ethics adopted by the provincial institute or order of chartered accountants to which the external auditor belongs and other Applicable Requirements. The Committee shall take appropriate action to oversee the independence of the external auditor.

(g) **Evaluation of Lead Partner**

The Committee shall periodically review the qualifications and performance of the lead partner(s) of the external auditor.

(h) **Requirement for Pre-Approval of Non-Audit Services**

The Committee shall approve in advance any retainer of the external auditor to provide any non-audit service to the Company in accordance with Applicable Requirements and Board approved policies and procedures. The Committee may delegate pre-approval authority to any member of the Committee. The decisions of any member of the Committee to whom this authority has been delegated must be presented to the full Committee at its next scheduled Committee meeting.

(i) **Approval of Hiring Policies**

The Committee shall review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Company and the Committee shall be responsible for specified reporting and pre-approval functions thereunder.

3. ***Internal Controls***

(a) **General**

The Committee shall review the Company's system of internal controls.

(b) **Establishment, Review and Approval**

The Committee shall require management to implement and maintain appropriate systems of internal controls in accordance with Applicable Requirements, including internal controls over financial reporting and disclosure, and shall review, evaluate and approve these procedures. The Committee shall periodically consider and review with management and the auditors:

(i) the effectiveness of, or weaknesses or deficiencies in: the design or operation of the Company's internal controls (including computerized information system controls and security); the overall control environment for managing business risks; and accounting, financial and disclosure controls (including, without limitation, controls over financial reporting), non-financial controls, and legal and regulatory controls and the impact of any identified weaknesses in internal controls on management's conclusions;

(ii) any significant changes in internal controls over financial reporting that are disclosed, or considered for disclosure, including those in the Company's periodic regulatory filings;

(iii) any material issues raised by any inquiry or investigation by regulators;

(iv) the Company's fraud prevention and detection program, including deficiencies in internal controls that may impact the integrity of financial information, or may expose the Company to other significant internal or external fraud losses and the extent of those losses and any disciplinary action in respect of fraud taken against management or other employees who have a significant role in financial reporting; and

(v) any related significant issues and recommendations of the auditors together with management's responses thereto, including the timetable for implementation of recommendations to correct weaknesses in internal controls over financial reporting and disclosure controls.

4. *Internal Audit Function*

The Committee shall periodically review and approve the internal audit function, including its plan, budget and resources. The Committee shall direct management to make changes it deems advisable in respect of the internal audit function.

5. *Internal Reporting Procedures*

The Committee shall establish procedures (the ''**Internal Reporting Procedures**'') for (a) the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and (b) the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters. The Internal Reporting Procedures shall also be available for reports of breaches of the Code of Conduct and Ethics. Any such complaints or concerns that are received shall be reviewed by the Committee and, if the Committee determines that the matter requires further investigation, it will direct the Chair of the Committee to engage outside advisors, as necessary or appropriate, to investigate the matter and will work with management to reach a satisfactory conclusion. The Committee shall review investigations and any resolutions of complaints received and report to the Board thereon. The Committee shall be responsible for approving exceptions to the Internal Reporting Procedures.

6. *Risk Management*

The Committee shall be responsible for overseeing the identification and assessment of the principal risks to the operations of the Company and the establishment and management of appropriate systems to manage such risks with a view to achieving a proper balance between risks incurred and potential return to holders of securities of the Company and to the long-term viability of the Company. In this regard, the Committee shall require management to report periodically to the Committee, and the Committee shall report periodically to the Board, on the principal risks faced by the Company and the steps implemented by management to manage these risks.

7. *Compliance with Legal and Regulatory Requirements*

The Committee shall review reports from management members on: legal or compliance matters that may have a material impact on the Company; the effectiveness of the Company's compliance policies; and any material communications received from regulators. The Committee shall review management's evaluation of and representations relating to compliance with specific applicable law and guidance, and management's plans to remediate any deficiencies identified. The Committee shall be responsible for granting waivers to the Code of Conduct and Ethics of the Company and Granite Real Estate Investment Trust.

8. *Audit Committee Disclosure*

The Committee shall prepare, review and recommend for Board approval any audit committee disclosures required by Applicable Requirements in the Company's disclosure documents.

9. *Financial Executives*

The Committee shall review and discuss with management the appointment of key financial executives and recommend qualified candidates to the Board, as appropriate.

10. *Charter Review*

The Committee shall review and assess the adequacy of this Charter from time to time, as required, to ensure compliance with Applicable Requirements and recommend to the Board for its approval any modifications to this Charter as are considered appropriate.

IV. Meetings

1. *Procedure*

The time and place of the meetings of the Committee, the calling of meetings of the Committee and the procedure at such meetings in all respects shall be determined by the Committee; provided, however, that a majority of the members of the Committee shall constitute a quorum.

2. *Reporting to the Board*

The Chair shall provide a report to the Board on material matters considered by the Committee.

3. *In Camera Sessions*

The Committee shall hold meetings, or portions of meetings, at which management is not present. The Committee shall also periodically meet separately with management, the internal auditors and the external auditors.

V. Delegation

The Committee may, to the extent permissible by Applicable Requirements, designate a sub-committee to review any matter within this Charter as the Committee deems appropriate.

VI. Outside Advisors

The Committee shall have the authority to retain external legal counsel, consultants or other advisors to assist it in fulfilling its responsibilities and to set and pay the respective compensation for these advisors. The Company shall provide appropriate funding, as determined by the Committee, for the services of these advisors.

EXHIBIT 2

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

For the year ended December 31, 2018

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management of Granite Real Estate Investment Trust and Granite REIT Inc. (collectively the ''Trust'') is responsible for the preparation and presentation of the combined financial statements and all information included in the 2018 Annual Report. The combined financial statements were prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and where appropriate, reflect estimates based on management's best judgement in the circumstances. Financial information as presented elsewhere in the 2018 Annual Report has been prepared by management to ensure consistency with information contained in the combined financial statements. The combined financial statements have been audited by independent auditors and reviewed by the Audit Committees and approved by both the Board of Trustees of Granite Real Estate Investment Trust and the Board of Directors of Granite REIT Inc.

Management is responsible for the development and maintenance of systems of internal accounting and administrative controls of high quality. Such systems are designed to provide reasonable assurance that the financial information is accurate, relevant and reliable and that the Trust's assets are appropriately accounted for and adequately safeguarded. Management has determined that, as at December 31, 2018 and based on the framework set forth in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, internal control over financial reporting was effective. The Trust's Chief Executive Officer and Chief Financial Officer, in compliance with Section 302 of the U.S. Sarbanes-Oxley Act of 2002 (''SOX''), has provided a SOX-related certification in connection with the Trust's annual disclosure document in the U.S. (Form 40-F) to the U.S. Securities and Exchange Commission. In accordance with National Instrument 52-109, a similar certification has been provided to the Canadian Securities Administrators.

The Trust's Audit Committees are appointed by their respective Boards and are comprised solely of outside independent Directors or Trustees. The Audit Committees meet periodically with management, as well as with the independent auditors, to satisfy themselves that each is properly discharging its responsibilities to review the combined financial statements and the independent auditors' report and to discuss significant financial reporting issues and auditing matters. The Audit Committees report their findings to the Boards for consideration when approving the combined financial statements for issuance to the stapled unitholders.

The combined financial statements and the effectiveness of internal control over financial reporting have been audited by Deloitte LLP, the independent auditors, in accordance with the standards of the Public Company Accounting Oversight Board (United States) on behalf of the stapled unitholders. The Auditors' Reports outline the nature of their examination and their opinion on the combined financial statements of the Trust and the effectiveness of the Trust's internal control over financial reporting. The independent auditors have full and unrestricted access to the Audit Committees.

Kevan Gorrie
President and Chief Executive Officer

Ilias Konstantopoulos
Chief Financial Officer

Toronto, Canada
March 6, 2019

Report of Independent Registered Public Accounting Firm

To the Board of Trustees and Unitholders of Granite Real Estate Investment Trust and the Board of Directors and Shareholders of Granite REIT Inc.

Opinion on the Combined Financial Statements

We have audited the accompanying combined balance sheets of Granite REIT Inc. and Granite Real Estate Investment Trust and subsidiaries (collectively, the ''Trust''), as at December 31, 2018 and December 31, 2017, the related combined statements of net income, comprehensive income, unitholders' equity and cash flows, for each of the two years in the period ended December 31, 2018, and the related notes, (collectively referred to as the ''financial statements''). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2018 and 2017, and its financial performance and its cash flows for each of the two years in the period ended December 31, 2018, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Trust's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 6, 2019 expressed an unqualified opinion on the Trust's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on the Trust's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Trust in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
Toronto, Canada
March 6, 2019

We have served as the Trust's auditor since 2012.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees and Unitholders of Granite Real Estate Investment Trust and the Board of Directors and Shareholders of Granite REIT Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Granite REIT Inc. and Granite Real Estate Investment Trust and subsidiaries (collectively, the ''Trust'') as of December 31, 2018, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Trust maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the combined financial statements as at and for the year ended December 31, 2018, of the Trust and our report dated March 6, 2019, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Trust's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Trust's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Trust in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
Toronto, Canada
March 6, 2019

Combined Balance Sheets

(Canadian dollars in thousands)

As at December 31,	Note	2018	2017
ASSETS			
Non-current assets:			
Investment properties	3, 4	$3,424,978	$2,733,568
Acquisition deposits	3	34,288	—
Deferred tax assets	13(c)	5,301	5,742
Fixed assets, net		771	951
Other assets	6	13,425	666
		3,478,763	2,740,927
Current assets:			
Assets held for sale	5	44,238	391,453
Accounts receivable		4,316	2,310
Income taxes receivable	13	212	180
Prepaid expenses and other	7	2,510	2,029
Restricted cash		470	515
Cash and cash equivalents	15(d)	658,246	69,019
Total assets		$4,188,755	$3,206,433
LIABILITIES AND EQUITY			
Non-current liabilities:			
Unsecured debt, net	8(a)	$1,198,414	$ 647,306
Cross currency interest rate swaps	8(b)	104,757	61,466
Deferred tax liabilities	13(c)	303,965	244,052
		1,607,136	952,824
Current liabilities:			
Other liability	9	—	8,968
Deferred revenue	9	4,290	3,965
Bank indebtedness	9	—	32,552
Accounts payable and accrued liabilities	9	41,967	43,342
Distributions payable	10	24,357	10,647
Income taxes payable	13	14,020	16,273
Total liabilities		1,691,770	1,068,571
Equity:			
Stapled unitholders' equity	11	2,495,518	2,136,614
Non-controlling interests		1,467	1,248
Total equity		2,496,985	2,137,862
Total liabilities and equity		$4,188,755	$3,206,433

Commitments and contingencies (note 20)
See accompanying notes

On behalf of the Boards:

/s/ Kelly Marshall
Director/Trustee

/s/ Gerald J. Miller
Director/Trustee

Combined Statements of Net Income
(Canadian dollars in thousands)

Years ended December 31,	Note	2018	2017[1]
Rental revenue		**$ 219,986**	$ 216,131
Tenant recoveries	**12(a)**	**26,501**	26,945
Lease termination and close-out fees		**996**	1,607
Revenue		**247,483**	244,683
Property operating costs	**12(b)**	**30,942**	31,345
Net operating income		**216,541**	213,338
General and administrative expenses	**12(c)**	**29,404**	26,066
Proxy contest expenses	**12(d)**	**—**	5,866
Depreciation and amortization		**300**	335
Interest income		**(2,638)**	(540)
Interest expense and other financing costs	**12(e)**	**22,413**	20,011
Foreign exchange losses (gains), net	**12(f)**	**(9,390)**	572
Fair value gains on investment properties, net	**4, 5**	**(354,707)**	(212,106)
Fair value losses on financial instruments	**12(g)**	**562**	823
Acquisition transaction costs	**3**	**7,968**	718
Loss on sale of investment properties	**5**	**6,871**	427
Other income	**12(h)**	**(2,250)**	—
Income before income taxes		**518,008**	371,166
Income tax expense	**13**	**52,651**	13,418
Net income		**$ 465,357**	$ 357,748

(1) The Trust has retrospectively applied IFRS 15, *Revenue from Contracts with Customers* (note 2(o)).

Net income attributable to:		
Stapled unitholders	**$ 465,156**	$ 357,702
Non-controlling interests	**201**	46
	$ 465,357	$ 357,748

See accompanying notes

Combined Statements of Comprehensive Income

(Canadian dollars in thousands)

Years ended December 31,	Note	2018	2017
Net income		**$465,357**	$357,748
Other comprehensive income (loss):			
Foreign currency translation adjustment[1]		**141,355**	17,825
Unrealized loss on net investment hedges, includes income taxes of nil[1]	**8(b)**	**(48,431)**	(52,810)
Total other comprehensive income (loss)		**92,924**	(34,985)
Comprehensive income		**$558,281**	$322,763

[1] Items that may be reclassified subsequently to net income if a foreign subsidiary is disposed of or hedges are terminated or no longer assessed as effective (note 2(h)).

Comprehensive income attributable to:		
Stapled unitholders	**$558,042**	$322,534
Non-controlling interests	**239**	229
	$558,281	$322,763

See accompanying notes

Combined Statements of Unitholders' Equity

(Canadian dollars in thousands)

Year ended December 31, 2018	Number of units (000s)	Stapled units	Contributed surplus	Retained earnings (Deficit)	Accumulated other comprehensive income	Stapled unitholders' equity	Non-controlling interests	Equity
As at January 1, 2018	**46,903**	**$2,118,460**	**$60,274**	**$(160,686)**	**$118,566**	**$2,136,614**	**$1,248**	**$2,137,862**
Net income	—	—	—	465,156	—	465,156	201	465,357
Other comprehensive income	—	—	—	—	92,886	92,886	38	92,924
Distributions (note 10)	—	—	41,128	(179,969)	—	(138,841)	(20)	(138,861)
Units issued under the stapled unit plan (note 11(b))	64	3,233	—	—	—	3,233	—	3,233
Units repurchased for cancellation (note 11(c))	(1,282)	(57,915)	(5,615)	—	—	(63,530)	—	(63,530)
As at December 31, 2018	**45,685**	**$2,063,778**	**$95,787**	**$ 124,501**	**$211,452**	**$2,495,518**	**$1,467**	**$2,496,985**

Year ended December 31, 2017	Number of units (000s)	Stapled units	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Stapled unitholders' equity	Non-controlling interests	Equity
As at January 1, 2017	**47,123**	**$2,128,378**	**$61,425**	**$(395,330)**	**$153,734**	**$1,948,207**	**$1,529**	**$1,949,736**
Net income	—	—	—	357,702	—	357,702	46	357,748
Other comprehensive income (loss)	—	—	—	—	(35,168)	(35,168)	183	(34,985)
Distributions (note 10)	—	—	—	(123,058)	—	(123,058)	(510)	(123,568)
Units issued under the stapled unit plan (note 11(b))	22	977	—	—	—	977	—	977
Units repurchased for cancellation (note 11(c))	(242)	(10,895)	(1,151)	—	—	(12,046)	—	(12,046)
As at December 31, 2017	**46,903**	**$2,118,460**	**$60,274**	**$(160,686)**	**$118,566**	**$2,136,614**	**$1,248**	**$2,137,862**

See accompanying notes

Combined Statements of Cash Flows

(Canadian dollars in thousands)

Years ended December 31,	Note	2018	2017
OPERATING ACTIVITIES			
Net income		**$ 465,357**	$ 357,748
Items not involving current cash flows	15(a)	**(294,790)**	(192,530)
Leasing commissions paid		**(4,225)**	(2,581)
Tenant incentives paid		**(9,913)**	(1,036)
Current income tax expense	13(a)	**7,631**	7,709
Income taxes paid		**(10,273)**	(3,468)
Interest expense		**21,440**	18,151
Interest paid		**(21,116)**	(17,719)
Changes in working capital balances	15(b)	**3,777**	(7,597)
Cash provided by operating activities		**157,888**	158,677
INVESTING ACTIVITIES			
Investment properties:			
Property acquisitions	3	**(547,895)**	(153,979)
Development land purchase	3	**(1,225)**	—
Proceeds from disposals, net	4, 5	**681,319**	—
Mortgage receivable proceeds	5	**30,000**	—
Capital expenditures			
— Maintenance or improvements		**(17,799)**	(10,736)
— Developments or expansions		**(15,378)**	(72,404)
Acquisition deposits	3	**(33,086)**	—
Fixed asset additions		**(111)**	(553)
Decrease (increase) in other assets		**36**	(175)
Cash provided by (used in) investing activities		**95,861**	(237,847)
FINANCING ACTIVITIES			
Distributions paid		**(125,131)**	(122,637)
Proceeds from unsecured term loans	8	**548,677**	—
Proceeds from bank indebtedness		**247,274**	121,097
Repayments of bank indebtedness		**(279,768)**	(90,142)
Financing costs paid		**(3,319)**	(1,000)
Distributions to non-controlling interests		**(20)**	(510)
Repurchase of stapled units	11(c)	**(63,530)**	(12,046)
Cash provided by (used in) financing activities		**324,183**	(105,238)
Effect of exchange rate changes on cash and cash equivalents		**11,295**	7,212
Net increase (decrease) in cash and cash equivalents during the year		**589,227**	(177,196)
Cash and cash equivalents, beginning of year		**69,019**	246,215
Cash and cash equivalents, end of year		**$ 658,246**	$ 69,019

See accompanying notes

Notes to Combined Financial Statements

(All amounts in thousands of Canadian dollars unless otherwise noted)

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 as subsequently amended on January 3, 2013 and December 20, 2017. 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 acquisition, development, ownership and management of industrial, warehouse and logistics properties in North America and Europe. The Trust's tenant base includes Magna International Inc. and its operating subsidiaries (together ''Magna'') as its largest tenants, in addition to tenants from various other industries.

These combined financial statements were approved by the Board of Trustees of Granite REIT and Board of Directors of Granite GP on March 6, 2019.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies described below were applied consistently to all periods presented in these combined financial statements. New accounting standards and interpretations adopted in the year ended December 31, 2018 are described in note 2(o) and future accounting standards not yet effective are described in note 2(p).

(a) Basis of Presentation and Statement of Compliance

The combined financial statements have been prepared in accordance with International Financial Reporting Standards (''IFRS'') as issued by the International Accounting Standards Board (''IASB'').

(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) Trust Units

The stapled units are redeemable at the option of the holder and, therefore, are required to be accounted for as financial liabilities, except where certain exemption conditions are met, in which case redeemable instruments may be classified as equity. The attributes of the stapled units meet the exemption conditions set out in IAS 32, *Financial Instruments: Presentation* and are, therefore, presented as equity for purposes of that standard.

(d) Investment Properties

The Trust accounts for its investment properties, which include income-producing properties, properties under development and land held for development, in accordance with IAS 40, *Investment Property*. For acquired investment properties that meet the definition of a business, the acquisition is accounted for as a business combination (note 2(e)); otherwise they are initially measured at cost including directly attributable expenses. Subsequent to acquisition, investment properties are carried at fair value, which is determined based on available market evidence at the balance sheet date including, among other things, rental revenue from current leases and reasonable and supportable assumptions that represent what knowledgeable, willing parties would assume about rental revenue from future leases less future cash outflows in respect of capital expenditures. Gains and losses arising from changes in fair value are recognized in net income in the period of change.

Income-Producing Properties

The carrying value of income-producing properties includes the impact of straight-line rental revenue (note 2(k)), tenant incentives and deferred leasing costs since these amounts are incorporated in the determination of the fair value of income-producing properties.

When an income-producing property is disposed of, the gain or loss is determined as the difference between the disposal proceeds, net of selling costs, and the carrying amount of the property and is recognized in net income in the period of disposal.

Properties Under Development

The Trust's development properties are classified as such until the property is substantially completed and available for occupancy. The Trust capitalizes acquisition, development and expansion costs, including direct construction costs, borrowing costs and indirect costs wholly attributable to development. Borrowing costs are capitalized to projects under development or construction based on the average accumulated expenditures outstanding during the period multiplied by the Trust's average borrowing rate on existing debt. Where borrowings are associated with specific developments, the amount capitalized is the gross borrowing cost incurred on such borrowings less any investment income arising on temporary investment of these borrowings. The capitalization of borrowing costs is suspended if there are prolonged periods that development activity is interrupted. The Trust capitalizes direct and indirect costs, including property taxes and insurance of the development property, if activities necessary to ready the development property for its intended use are in progress. Costs of internal personnel and other indirect costs that are not wholly attributable to a project are expensed as incurred.

Properties under development are measured at fair value with appropriate estimates made for construction costs and timeline and related assumptions in order to determine the fair value of the property.

(e) Business Combinations

The Trust accounts for investment property acquisitions as a business combination if the particular assets and set of activities acquired can be operated and managed as a business in their current state for the purpose of providing a return to the unitholders. The Trust applies the acquisition method to account for business combinations. The consideration transferred for a business combination is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Trust. The total consideration includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired as well as liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Trust recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of the acquiree's identifiable net assets.

Acquisition related costs are expensed as incurred.

Any contingent consideration is recognized at fair value at the acquisition date. Subsequent changes to the fair value of contingent consideration that is recorded as an asset or liability is recognized in net income.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the identifiable net assets acquired. If the consideration transferred is lower than the fair value of the net assets acquired, the difference is recognized in net income.

(f) Assets Held for Sale

Non-current assets (and disposal groups) are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is satisfied when the asset is available for immediate sale in its present condition, management is committed to the sale and it is highly probable to occur within one year.

(g) Foreign Currency Translation

The assets and liabilities of the Trust's foreign operations are translated into Canadian dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case, for material transactions, the exchange rates at the dates of those transactions are used. Exchange differences arising are recognized in other comprehensive income and accumulated in equity.

In preparing the financial statements of each entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the average rates of exchange prevailing in the period. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences on monetary items are recognized in net income in the period in which they arise except for:

- The effective portion of exchange differences on transactions entered into in order to hedge certain foreign currency risks are recognized in other comprehensive income;
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation) are recognized in other comprehensive income; and
- Exchange differences on foreign currency borrowings related to capitalized interest for assets under construction.

(h) Derivatives and Hedging

Derivative instruments, such as the cross currency interest rate swaps and the foreign exchange forward contracts, are recorded in the combined balance sheet at fair value, including those derivatives that are embedded in financial or non-financial contracts. Changes in the fair value of derivative instruments which are not designated as hedges for accounting purposes are recognized in the combined statements of net income. The Trust utilizes derivative financial instruments from time to time in the management of its foreign currency and interest rate exposures. The Trust's policy is not to utilize derivative financial instruments for trading or speculative purposes.

The Trust applies hedge accounting to certain derivative and non-derivative financial instruments designated as hedges of net investments in subsidiaries with a functional currency other than the Canadian dollar. Hedge accounting is discontinued prospectively when the hedge relationship is terminated or no longer qualifies as a hedge, or when the hedging item is sold or terminated. In a net investment hedging relationship, the effective portion of foreign exchange gains or losses on the hedging instruments is recognized in other comprehensive income and the ineffective portion is recognized in net income. The amounts recorded in accumulated other comprehensive income are recognized in net income when there is a disposition or partial disposition of the foreign subsidiary.

(i) Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents include cash and short-term investments with original maturities of three months or less.

Restricted cash represents segregated cash accounts for a specific purpose and cannot be used for general corporate purposes.

(j) Fixed Assets

Fixed assets are recorded at cost less accumulated depreciation. Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the fixed assets, which typically range from 3 to 5 years for computer hardware and software and 5 to 7 years for other furniture and fixtures. Leasehold improvements are amortized over the term of the applicable lease.

(k) Revenue Recognition

Where Granite has retained substantially all the benefits and risks of ownership of its rental properties, leases with its tenants are accounted for as operating leases. Where substantially all the benefits and risks of ownership of the Trust's rental properties have been transferred to its tenants, the Trust's leases are accounted for as finance leases. All of the Trust's current leases are operating leases.

Certain leases contain rent escalation clauses or provide for tenant occupancy during periods for which no rent is due. Granite records the total rental income on a straight-line basis over the term of the lease. An accrued straight-line rent receivable is recorded from tenants for the difference between the straight-line rent and the rent that is contractually owing. In addition, tenant incentives including cash allowances provided to tenants are recognized as a reduction in rental revenue on a straight-line basis over the term of the lease where it is determined that the tenant fixturing has no benefit to Granite beyond the existing tenancy.

(l) Unit-Based Compensation Plans

Incentive Stock Option Plan

Compensation expense for option grants is based on the fair value of the options at the grant date and is recognized over the period from the grant date to the date the award is vested. A liability is recognized for outstanding options based upon the fair value as the Trust is an open-ended trust making its units redeemable. During the period in which options are outstanding, the liability is adjusted for changes in the fair value with such adjustments being recognized as compensation expense in general and administrative expenses in the period in which they occur. The liability balance is reduced as options are exercised and recorded in equity as stapled units along with the proceeds received on exercise.

Executive Deferred Stapled Unit Plan

The executive deferred stapled unit plan is measured at fair value at the date of grant and amortized to compensation expense from the effective date of the grant to the final vesting date. Compensation expense is recognized on a proportionate basis consistent with the vesting features of each tranche of the grant. Compensation expense for executive deferred stapled units granted under the plan is recognized in general and administrative expenses with a corresponding liability recognized based upon the fair value of the Trust's stapled units as the Trust is an open-ended trust making its units redeemable. During the period in which the executive deferred stapled units are outstanding, the liability is adjusted for changes in the market value of the Trust's stapled unit, with such adjustments being recognized as compensation expense in general and administrative expenses in the period in which they occur. The liability balance is reduced as deferred stapled units are settled for stapled units and recorded in equity.

Director/Trustee Deferred Share Unit Plan

The compensation expense and a corresponding liability associated with the director/trustee deferred share unit plan is measured based on the market value of the underlying stapled units. During the period in which the awards are outstanding, the liability is adjusted for changes in the market value of the underlying stapled unit, with such positive or negative adjustments being recognized in general and administrative expenses in the period in which they occur. The liability balance is settled for cash when a director/trustee ceases to be a member of the Board.

(m) Income Taxes

Operations in Canada

Granite qualifies as a mutual fund trust under the Income Tax Act (Canada) (the ''Act'') and as such the Trust itself will not be subject to income taxes provided it continues to qualify as a REIT for purposes of the Act. A REIT is not taxable and not considered to be a Specified Investment Flow-through Trust provided it complies with certain tests and it distributes all of its taxable income in a taxation year to its unitholders.

The Trust's qualification as a REIT results in no current or deferred income tax being recognized in the combined financial statements for income taxes related to the Canadian investment properties. Current income tax related to certain taxable Canadian entities is determined on the basis of enacted or substantively enacted tax rates and laws at each balance sheet date.

Operations in the United States

The Trust's investment property operations in the United States are conducted in a qualifying United States REIT (''US REIT'') for purposes of the Internal Revenue Code of 1986, as amended. As a qualifying US REIT, it is not taxable provided it complies with certain tests in addition to the requirement to distribute substantially all of its taxable income.

As a qualifying US REIT, current income taxes on U.S. taxable income have not been recorded in the combined financial statements. However, the Trust has recorded deferred income taxes that may arise on the disposition of its investment properties as the Trust will likely be subject to entity level income tax in connection with such transactions pursuant to the Foreign Investment in Real Property Tax Act.

Operations in Europe

The Trust consolidates certain entities that continue to be subject to income tax.

Income taxes for taxable entities in Europe, as well as other entities in Canada or the United States subject to tax, are recorded as follows:

Current Income Tax

The current income tax expense is determined on the basis of enacted or substantively enacted tax rates and laws at each balance sheet date.

Deferred Income Tax

Deferred income tax is recorded, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and the amounts reported in the combined financial statements. Deferred income tax is measured using tax rates and laws that are enacted and substantively enacted as at each balance sheet date which are expected to apply when the temporary differences are expected to reverse. Deferred income tax assets are recognized only to the extent that it is probable that sufficient future taxable profit will be available against which the deductible temporary difference can be utilized.

Each of the current and deferred tax assets and liabilities are offset when they are levied by the same taxation authorities on either the same taxable entities, or different taxable entities within the same reporting group that settle on a net basis, and when there is a legal right to offset.

(n) Significant Accounting Judgments, Estimates and Assumptions

The preparation of these combined financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenue and expenses during the reporting periods.

Management believes that the judgments, estimates and assumptions utilized in preparing the combined financial statements are reasonable and prudent; however, actual results could be materially different and require an adjustment to the reported results.

Judgments

The following are the critical judgments that have been made in applying the Trust's accounting policies and that have the most significant effect on the amounts recognized in the combined financial statements:

Leases

The Trust's policy for revenue recognition is described in note 2(k). 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 specialized 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). In applying this policy, judgment is used 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, it would be subject to income tax and would be required to recognize current and deferred income taxes.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include the following:

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 appraisals but uses them as data points, together with other external market information accumulated by management, in arriving at its own conclusions on values. Management uses valuation assumptions such as discount rates, terminal capitalization rates and market rental rates applied in external appraisals or sourced from valuation experts; however, the Trust also uses its historical renewal experience with tenants, its direct knowledge of the specialized nature of Granite's portfolio and tenant profile and the actual condition of the properties in making business judgments about lease renewal probabilities, renewal rents and capital expenditures. 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 4 for further information on the estimates and assumptions made by management.

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, they are determined using valuation techniques including the discounted cash flow method. 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 estimate 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 net income.

(o) Accounting Standards Adopted in 2018

The Trust applied new standards and interpretations in the annual combined financial statements for the year ended December 31, 2018 with comparative figures adjusted accordingly. The nature and effect of the changes are disclosed below.

IFRS 15, *Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers* (''IFRS 15'') which replaced IAS 18, *Revenue* and IAS 11, *Construction Contracts* and other related revenue interpretations effective January 1, 2018. IFRS 15 establishes the principles that the Trust applies to report useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

As the Trust's most material revenue stream of rental revenue is outside the scope of the new standard, the adoption of the new standard did not have a material impact on the combined statements of net income and comprehensive income. The recovery of costs related to common area maintenance services is considered within the scope of IFRS 15 and the Trust has concluded that the pattern of revenue recognition remains unchanged. As a result of the adoption of IFRS 15, the Trust discloses revenue recognized from contracts with tenants related to common area maintenance recoveries separately from other sources of revenue. In addition, the Trust assessed that it is a principal in relation to property taxes and insurance that are paid directly by the tenants under certain net leases as the Trust is primarily responsible for fulfilling the promise to satisfy its property tax obligations and is a beneficiary as it relates to potential property insurance claims. Therefore, the Trust recognizes the gross amount of consideration for property taxes and insurance premiums. As a result of the adoption of IFRS 15, for the years ended December 31, 2018 and 2017, tenant recoveries revenue and property operating costs each increased by $16.7 million and $22.0 million, respectively. There was no impact to net income, opening retained earnings, unitholders' equity or cash flows from the adoption of this standard as at December 31, 2018 and December 31, 2017, and for each of the periods then ended, and accordingly an opening balance sheet for the earliest period related to the adoption of the standard is not presented. Refer to note 12(a) for the incremental disclosures required under IFRS 15.

IFRS 9, *Financial Instruments*

In July 2014, the IASB issued IFRS 9, *Financial Instruments* (''IFRS 9'') which replaced IAS 39, *Financial Instruments: Recognition and Measurement* (''IAS 39'') effective January 1, 2018. IFRS 9 provides new guidance on the classification and measurement, impairment and hedge accounting for financial instruments in addition to clarification for the treatment of modifications of financial liabilities. IFRS 9 is required to be adopted retrospectively with certain available transition provisions.

The adoption of this standard did not have any significant impact on the combined financial statements for the current or prior years.

Classification and measurement:

IFRS 9 requires a new approach for the classification and measurement of financial assets based on the Trust's business models for managing these financial assets and their contractual cash flow characteristics. This approach is summarized as follows:

- Assets held for the purpose of collecting contractual cash flows that solely represent payments of principal and interest are measured at amortized cost.
- Assets held within a business model where assets are both held for the purpose of collecting contractual cash flows or sold prior to maturity and the contractual cash flows solely represent payments of principal and interest are measured at fair value through other comprehensive income (''FVTOCI'').
- Assets held within another business model or assets that do not have contractual cash flow characteristics that are solely payments of principal and interest are measured at fair value through profit or loss (''FVTPL'').

The Trust completed its review of all financial instruments held and performed a cash flow and business model assessment, and the impact is summarized as follows:

- The Trust's cash and cash equivalents, restricted cash, accounts receivable and certain long-term receivables, previously classified as loans and receivables under IAS 39, are now classified as amortized cost and continue to be measured at amortized cost.
- The Trust's unsecured debentures, bank indebtedness, accounts payable and accrued liabilities and distributions payable, previously classified as other financial liabilities under IAS 39, are now classified as amortized cost and continue to be measured at amortized cost.
- The Trust's derivative asset and liability instruments continue to be classified and measured at FVTPL.

The following summarizes the Trust's classification and measurement of its financial assets and liabilities:

	Classification and Measurement Basis
Financial assets	
Long-term receivables included in other assets	Amortized Cost
Long-term proceeds receivable associated with a property disposal included in other assets	Fair Value
Accounts receivable	Amortized Cost
Short-term proceeds receivable associated with a property disposal included in accounts receivable	Fair Value
Foreign exchange forward contracts included in prepaid expenses and other	Fair Value
Restricted cash	Amortized Cost
Cash and cash equivalents	Amortized Cost
Financial liabilities	
Unsecured debentures, net	Amortized Cost
Unsecured term loans, net	Amortized Cost
Cross currency interest rate swaps	Fair Value
Bank indebtedness	Amortized Cost
Tenant incentive allowance included in other liability	Fair Value
Accounts payable and accrued liabilities	Amortized Cost
Foreign exchange forward contracts included in accounts payable and accrued liabilities	Fair Value
Distributions payable	Amortized Cost

Refer to note 16 for the measurement basis of financial assets and liabilities under IFRS 9.

Impairment:

IFRS 9 introduces a new expected credit loss (''ECL'') impairment model for all financial assets measured at amortized cost or debt instruments measured at FVTOCI.

The ECL model uses an allowance for expected credit losses being recorded regardless of whether or not there has been an actual loss event. The Trust measures the loss allowance for its financial assets at an amount equal to the lifetime ECL. The impact of the credit loss modelling process is summarized as follows:

- The Trust did not record an ECL allowance against long-term receivables as historical experience of loss on these balances is insignificant and, based on the assessment of forward-looking information, no significant increases in losses are expected. The Trust will continue to assess the valuation of these instruments.
- The Trust did not record an ECL allowance against accounts receivable and has determined that its internal processes of evaluating each receivable on a specific basis for collectability using historical experience and adjusted for forward-looking information, would appropriately allow the Trust to determine if there are significant increases in credit risk to then record a corresponding ECL allowance.

Hedge accounting:

IFRS 9 also introduces a new hedge accounting model that expands the scope of hedge items and risks eligible for hedge accounting and aligns hedge accounting more closely with risk management. This new standard did not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; however, it provides for more hedging strategies that are used for risk management to qualify for hedge accounting and introduces more judgment to assess the effectiveness of a hedging relationship. In accordance with IFRS 9's transition provisions for hedge accounting, the Trust has chosen as its accounting policy to continue to apply the hedge accounting requirement of IAS 39 for hedge relationships existing on and subsequent to January 1, 2018. Refer to note 2(h) for the Trust's accounting policy associated with hedge accounting.

Financial liabilities:

Generally, IFRS 9 did not introduce changes to the measurement of financial liabilities. The Trust continues to measure its financial liabilities at amortized cost.

In regards to term modifications for financial liabilities, IFRS 9 requires that when a financial liability measured at amortized cost is modified or exchanged, and such modification or exchange does not result in derecognition, the adjustment to the amortized cost of the financial liability is recognized in net income.

IFRS 2, *Share-based Payment*

In June 2016, the IASB issued amendments to IFRS 2, *Share-based Payment* 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 January 1, 2018. The adoption of this amendment did not have an impact on the combined financial statements.

IAS 40, *Investment Properties*

On December 8, 2016, the IASB issued an amendment to IAS 40, *Investment Properties* that requires an asset to be transferred to or from investment property only when there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. The amendments are effective for years beginning on January 1, 2018. The adoption of these amendments and clarifications did not have an impact on the combined financial statements.

(p) Future Accounting Policy Changes

IFRS 16, *Leases*

In January 2016, the IASB issued IFRS 16, *Leases* (''IFRS 16'') which replaces IAS 17, *Leases* and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a non-lease component on the basis of whether the customer controls the specified asset. For those contracts that are or contain 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 largely unchanged as the distinction between operating and finance leases is retained. The standard is effective for annual periods beginning on or after January 1, 2019. The Trust does not expect this standard to have a significant impact on its combined financial statements as leases with tenants are expected to be accounted for as operating leases in the same manner they are currently being reported. The Trust has two investment properties located on land that is leased. Currently, the ground rent payments are expensed. It is expected that under IFRS 16, a right-of-use asset addition to investment properties and a lease obligation liability will be recorded with associated financing charges. The Trust also has rent expense associated with office space in Toronto, Canada and Vienna, Austria and office equipment. It is expected that under IFRS 16, a right-of-use asset addition and obligation liability will be recorded for these lease obligations as well. The Trust has completed the issue identification phase of the transition and is in the process of completing its evaluation of the resulting impact on its combined financial statements and internal controls.

IFRIC 23, *Uncertainty over Income Tax Treatments*

In June 2017, the IFRS Interpretations Committee issued IFRIC 23, *Uncertainty over Income Tax Treatments* (''IFRIC 23'') which clarifies how the recognition and measurement requirements of IAS 12, *Income Taxes*, are applied where there is uncertainty over income tax treatments. This standard is effective for annual periods beginning on or after January 1, 2019. The Trust is currently assessing the impact of IFRIC 23 on its combined financial statements.

IFRS 3, *Business Combinations*

In October 2018, the IASB issued amendments to IFRS 3, *Business Combinations*. The amendments clarified the definition of a business and provide guidance on whether an acquisition represents a group of assets or a business. The amendments also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. Distinguishing between a business and a group of assets is important as an acquirer would only recognize goodwill when acquiring a business. The amendments apply to transactions for which the acquisition date is on or after the first annual reporting period beginning on or after January 1, 2020. Earlier adoption is permitted. The Trust is assessing the impact of these amendments on its combined financial statements.

3. ACQUISITIONS

During the years ended December 31, 2018 and 2017, Granite acquired income-producing properties and development land consisting of the following:

Business Combination — Income-Producing Properties:

2018 Acquisitions

Property	Location	Date acquired	Property purchase price
3870 Ronald Reagan Parkway	Plainfield, Indiana	March 23, 2018	**$ 50,835**
181 Antrim Commons Drive	Greencastle, Pennsylvania	April 4, 2018	**44,323**
Ohio portfolio (four properties): 10, 100 and 115 Enterprise Parkway and 15 Commerce Parkway	West Jefferson, Ohio	May 23, 2018	**299,297**
Joseph-Meyer-Straße 3	Erfurt, Germany	July 12, 2018	**82,677**
120 Velocity Way	Shepherdsville, Kentucky	December 3, 2018	**65,866**
Total purchase price			**$542,998**

During the year ended December 31, 2018, the Trust recognized $20.1 million of revenue and $33.2 million of net income related to the aforementioned acquisitions completed in 2018. Had these acquisitions occurred on January 1, 2018, the Trust would have recognized proforma revenue and net income of approximately $35.4 million and $56.7 million, respectively, during the year ended December 31, 2018.

2017 Acquisition

Property	Location	Date acquired	Property purchase price
Mississippi and Ohio portfolio (three properties):			
8735 South Crossroads Drive, 535 Gateway Blvd and 601 & 673 Gateway Blvd	Olive Branch, Mississippi and Monroe, Ohio	October 6, 2017	$154,726
Total purchase price			$154,726

During the year ended December 31, 2017, the Trust recognized $2.8 million of revenue and $1.6 million of net income related to the aforementioned acquisition completed in 2017. Had this acquisition occurred on January 1, 2017, the Trust would have recognized proforma revenue and net income of approximately $10.4 million and $7.0 million, respectively, during the year ended December 31, 2017.

The following table summarizes the total consideration paid for the income-producing property acquisitions and the fair value of the total identifiable net assets acquired at the acquisition dates:

	2018 acquisitions	2017 acquisition
Purchase consideration		
Cash on hand	**$380,206**	$117,227
Cash sourced from credit facility	**167,689**	36,752
Total cash consideration paid	**$547,895**	$153,979
Recognized amounts of identifiable net assets acquired measured at their respective fair values:		
Investment properties	**$542,998**	$154,726
Working capital	**4,897**	(747)
Total identifiable net assets	**$547,895**	$153,979

During the year ended December 31, 2018, the Trust incurred $7.4 million (2017 — $0.5 million) of land transfer tax, legal and advisory costs associated with the aforementioned completed acquisitions, of which $5.4 million (2017 — nil) related to land transfer tax for the German acquisition. The Trust incurred an additional $0.6 million (2017 — $0.2 million) of costs related to pursuing other acquisition opportunities. These costs are included in acquisition transaction costs in the combined statements of net income.

Asset Purchase — Development Land:

On November 1, 2018, Granite purchased approximately 12.9 acres of development land in West Jefferson, Ohio for cash consideration of $1.2 million.

Acquisition Deposits

As at December 31, 2018, Granite had made deposits of $34.3 million relating to property acquisitions. A deposit of $7.0 million was made to acquire the leasehold interest in two income-producing properties located in Mississauga, Ontario for total consideration of $154.0 million. This commitment to purchase the two leasehold interests is subject to customary closing conditions and the consent of the ground lessor. A deposit of $27.3 million (US$20.0 million) was also made in connection with a contractual commitment to acquire a property under development in the state of Texas. This commitment to purchase the property under development is subject to specific confidentiality provisions and customary closing conditions including certain purchase rights in favour of the tenant and is expected to close concurrently with the lease commencement in the third quarter of 2019 following construction of the building. These contractual commitments are included in the commitments and contingencies note (note 20(b)).

4. INVESTMENT PROPERTIES

As at December 31,	2018	2017
Income-producing properties	**$3,403,985**	$2,714,684
Properties under development	**17,009**	—
Land held for development	**3,984**	18,884
	$3,424,978	$2,733,568

Changes in investment properties are shown in the following table:

Years ended December 31,	2018			2017	
	Income-producing properties	**Properties under development**	**Land held for development**	**Income-producing properties**	**Land held for development**
Balance, beginning of year	**$2,714,684**	**$ —**	**$ 18,884**	$2,646,292	$ 6,803
Additions					
— Capital expenditures:					
Maintenance or improvements	**8,164**	**—**	**—**	21,065	—
Developments or expansions	**19,986**	**287**	**66**	72,774	—
— Acquisitions (note 3)	**542,998**	**—**	**1,232**	154,726	—
— Leasing commissions	**3,340**	**—**	**—**	3,573	—
— Tenant incentives	**816**	**—**	**—**	803	—
Transfers to properties under development	**(12,206)**	**16,473**	**(4,267)**	(12,076)	12,076
Fair value gains, net	**353,258**	**—**	**1,253**	212,106	—
Foreign currency translation, net	**147,336**	**249**	**196**	12,800	5
Amortization of straight-line rent	**4,274**	**—**	**—**	(1,101)	—
Amortization of tenant incentives	**(5,402)**	**—**	**—**	(5,410)	—
Other changes	**(972)**	**—**	**—**	585	—
Classified as assets held for sale (note 5)	**(372,291)**	**—**	**(13,380)**	(391,453)	—
Balance, end of year	**$3,403,985**	**$17,009**	**$ 3,984**	$2,714,684	$18,884

During the year ended December 31, 2018, the Trust disposed of 16 properties (2017 — no dispositions) previously classified as assets held for sale for aggregate gross proceeds of $729.6 million (note 5). The fair value gains during the year ended December 31, 2018, excluding the 16 properties sold in the year, was $354.5 million. As at December 31, 2018, six properties with an aggregate fair value of $44.2 million, were classified as assets held for sale (note 5).

The Trust determines the fair value of an 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 renewals 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, plus a terminal value based on the application of a capitalization rate to estimated year 11 cash flows. The fair values of properties under development are measured using a discounted cash flow model, net of costs to complete, as of the balance sheet date. 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 external appraisals as data points, together with other external market information accumulated by management, in arriving at its own conclusions on values. Management uses valuation assumptions such as discount rates, terminal capitalization rates and market rental rates applied in external appraisals or sourced from valuation experts; however, the Trust also uses its historical renewal experience with tenants, its direct knowledge of the specialized nature of Granite's portfolio and tenant profile and its knowledge of the actual condition of the properties in making business judgments about lease renewal probabilities, renewal rents and capital expenditures. There has been no change in the valuation methodology during the year.

Included in investment properties is $14.8 million (2017 — $9.8 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 20).

Tenant minimum rental commitments payable to Granite on non-cancellable operating leases (excluding assets held for sale) are as follows:

Not later than 1 year	$ 222,093
Later than 1 year and not later than 5 years	759,729
Later than 5 years	494,554
	$1,476,376

Valuations are most sensitive to changes in discount rates and terminal capitalization rates. The key valuation metrics for income-producing properties by country are set out below:

As at December 31,	2018[1]			2017[1]		
	Maximum	**Minimum**	**Weighted average[2]**	**Maximum**	**Minimum**	**Weighted average[2]**
Canada						
Discount rate	**7.75%**	**5.00%**	**5.63%**	8.25%	6.50%	6.84%
Terminal capitalization rate	**7.00%**	**5.00%**	**6.01%**	8.00%	5.75%	6.17%
United States						
Discount rate	**10.00%**	**5.75%**	**6.68%**	11.00%	6.25%	7.68%
Terminal capitalization rate	**9.75%**	**5.25%**	**6.46%**	10.75%	5.75%	7.30%
Germany						
Discount rate	**8.25%**	**5.70%**	**6.89%**	9.00%	6.50%	7.89%
Terminal capitalization rate	**8.75%**	**5.25%**	**6.89%**	9.50%	5.75%	7.91%
Austria						
Discount rate	**10.00%**	**8.00%**	**8.37%**	10.00%	7.75%	8.05%
Terminal capitalization rate	**10.00%**	**7.00%**	**7.88%**	9.50%	8.25%	8.53%
Netherlands						
Discount rate	**6.50%**	**5.70%**	**5.93%**	7.00%	6.25%	6.62%
Terminal capitalization rate	**7.45%**	**6.00%**	**6.48%**	7.30%	7.05%	7.17%
Other						
Discount rate	**9.50%**	**6.75%**	**8.23%**	9.85%	7.25%	8.62%
Terminal capitalization rate	**10.00%**	**6.75%**	**8.48%**	10.00%	6.75%	8.39%
Total						
Discount rate	**10.00%**	**5.00%**	**6.90%**	11.00%	6.25%	7.59%
Terminal capitalization rate	**10.00%**	**5.00%**	**6.81%**	10.75%	5.75%	7.48%

(1) Excludes assets held for sale at the respective year end (note 5).
(2) Weighted based on income-producing property fair value.

The table below summarizes the sensitivity of the fair value of income-producing properties to changes in either the discount rate or terminal capitalization rate:

	Discount Rate		**Terminal Capitalization Rate**	
Rate sensitivity	**Fair value**	**Change in fair value**	**Fair value**	**Change in fair value**
+50 basis points	$3,278,655	$(125,330)	$3,273,191	$(130,794)
+25 basis points	3,340,091	(63,894)	3,335,690	(68,295)
Base rate	**3,403,985**	**—**	**3,403,985**	**—**
−25 basis points	3,467,547	63,562	3,475,841	71,856
−50 basis points	$3,533,654	$ 129,669	$3,554,797	$ 150,812

5. ASSETS HELD FOR SALE AND DISPOSITIONS

At December 31, 2018, six investment properties with an aggregate fair value of $44.2 million are classified as assets held for sale. At December 31, 2017, 10 investment properties having a fair value of $391.5 million were classified as assets held for sale and were disposed of in January 2018.

The six properties classified as assets held for sale at December 31, 2018 consist of the following:

Property	Location	Fair value
3 Walker Drive	Brampton, Ontario	**$13,380**
375 Edward Street	Richmond Hill, Ontario	**7,800**
403 S 8th Street	Montezuma, Iowa	**7,148**
1951 A Avenue	Victor, Iowa	**5,520**
408 N Maplewood Avenue	Williamsburg, Iowa	**7,162**
411 N Maplewood Avenue	Williamsburg, Iowa	**3,228**
		$44,238

All six properties were sold during January and February 2019 for aggregate proceeds of $43.7 million.

During the year ended December 31, 2018, 16 properties located in Canada, the United States and Germany previously classified as assets held for sale were disposed. The properties consist of the following:

Property	Location	Date disposed	Sale price
111 Cosma Drive	Bowling Green, Kentucky	January 30, 2018	**$169,998**
1 Cosma Court and 170 Edward Street	St Thomas, Ontario	January 30, 2018	**154,568**
Newpark campus (seven properties):			
521, 550, 561, 564, 581, 594 and 630 Newpark Boulevard	Newmarket, Ontario	January 31, 2018	**63,000**
1 Clearview Drive	Tillsonburg, Ontario	July 18, 2018	**7,200**
120 Moon Acres Road	Piedmont, South Carolina	September 13, 2018	**216,459**
1000 JD Yarnell Industrial Parkway	Clinton, Tennessee	September 13, 2018	**54,798**
337 and 375 Magna Drive	Aurora, Ontario	September 27, 2018	**60,000**
Industriestrasse 11	Schleiz, Germany	October 4, 2018	**3,585**
			$729,608

The gross proceeds of $63.0 million for the seven properties in Newmarket, Ontario included a vendor take-back mortgage of $30.0 million. The mortgage receivable bore interest at an annual rate of 6.0% and was repaid on April 16, 2018.

The gross proceeds noted above for the property disposals in South Carolina and Tennessee included $12.3 million (US$9.5 million) and $0.4 million (US$0.3 million) of proceeds that are expected to be received in the first quarters of 2020 and 2019, respectively. The estimated sale price of $216.5 million for the South Carolina disposition and $54.8 million for the Tennessee disposition was determined using an income approach which assumed a forecast consumer price index inflation factor at the date of disposition. Accordingly, the proceeds receivable are subject to change and will be dependent upon the actual consumer price index inflation factors as at December 31, 2018 and 2019. During the year ended December 31, 2018, the changes in the proceeds receivable are shown in the following table:

	South Carolina property	Tennessee property
Balance, September 13, 2018	**$12,313**	**$ 400**
Change in consumer price index inflation factor	**(1,166)**	**(231)**
Foreign exchange	**658**	**62**
Balance, December 31, 2018	**$11,805**	**$ 231**

At December 31, 2018, the proceeds receivable of $11.8 million (US$8.7 million) for the property disposed of in South Carolina is recorded in other assets (note 6) and the $0.2 million (US$0.2 million) proceeds receivable from the Tennessee property disposal is included in accounts receivable on the combined balance sheet.

In connection with the property disposal in South Carolina, Granite has retained an obligation to make certain repairs to the building. Accordingly, a liability of approximately $2.0 million is recorded in accounts payable and accrued liabilities on the combined balance sheet (note 9). The estimated amount was determined using a third-party report but can change over time as the repairs are completed.

The following table summarizes the fair value changes in properties classified as assets held for sale:

Years ended December 31,	**2018**	**2017**
Balance, beginning of year	**$ 391,453**	$ —
Fair value gains, net	**196**	—
Foreign currency translation, net	**(3,466)**	—
Disposals	**(729,608)**	—
Classified as assets held for sale from investment properties (note 4)	**385,671**	391,453
Other	**(8)**	—
Balance, end of year	**$ 44,238**	$391,453

During the year ended December 31, 2018, Granite incurred $6.9 million (2017 — $0.4 million) of broker commissions and legal and advisory costs associated with the disposal or planned disposal of the assets held for sale which are included in loss on sale of investment properties on the combined statements of net income. The $6.9 million loss on sale of investment properties for the year ended December 31, 2018 also included $1.4 million relating to the adjustment in proceeds receivable from the South Carolina and Tennessee property disposals arising from the change in consumer price index inflation factors noted above.

6. OTHER ASSETS

Other assets consist of:

As at December 31,	2018	2017
Deferred financing costs associated with the revolving credit facility	$ 1,172	$211
Long-term receivables	448	455
Long-term proceeds receivable associated with a property disposal (note 5)	11,805	—
	$13,425	$666

The long-term proceeds receivable associated with a property disposal is expected to be settled in the first quarter of 2020.

7. CURRENT ASSETS

Prepaid Expenses and Other

As at December 31, 2018, prepaid expenses and other of $2.5 million (2017 — $2.0 million) primarily includes prepaid insurance premiums of $1.0 million (2017 — $0.6 million), prepaid interest associated with the 2025 Term Loan (note 8) of $0.4 million (2017 — nil) and unrealized gains on foreign exchange forward contracts of $0.1 million (2017 — $0.7 million).

8. UNSECURED DEBT AND CROSS CURRENCY INTEREST RATE SWAPS

(a) Unsecured Debentures and Term Loans, Net

As at December 31,		2018		2017	
	Maturity Date	Amortized Cost(1)	Principal issued and outstanding	Amortized Cost(1)	Principal issued and outstanding
2021 Debentures	July 5, 2021	$ 249,424	$ 250,000	$249,201	$250,000
2023 Debentures	November 30, 2023	398,425	400,000	398,105	400,000
2022 Term Loan(2)	December 19, 2022	251,853	252,414	—	—
2025 Term Loan	December 12, 2025	298,712	300,000	—	—
		$1,198,414	$1,202,414	$647,306	$650,000

(1) The amounts outstanding are net of deferred financing costs. The deferred financing costs are amortized using the effective interest method and recorded in interest expense.

(2) The term loan maturing on December 19, 2022 is denominated in US dollars and was originally drawn in the amount of US$185.0 million.

2021 Debentures

On July 3, 2014, Granite REIT Holdings Limited Partnership (''Granite LP''), a wholly-owned subsidiary of Granite, issued at par $250.0 million aggregate principal amount of 3.788% 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. Deferred financing costs of $1.6 million were incurred and recorded as a reduction against the principal owing.

The 2021 Debentures are redeemable, in whole or in part, at Granite's option at any time and from time to time, at a price equal to accrued and unpaid interest plus the greater of (a) 100% of the principal amount of the 2021 Debentures to be redeemed; and (b) the Canada Yield Price. The Canada Yield Price means, in respect of a 2021 Debenture, a price equal to which, if the 2021 Debenture were to be issued at such price on the redemption date, would provide a yield thereon from the redemption date to its maturity date equal to 46.0 basis points above the yield that a non-callable Government of Canada bond, trading at par, would carry if issued on the redemption date with a maturity date of July 5, 2021. Granite also has the option to redeem the 2021 Debentures at par plus any accrued and unpaid interest within 30 days of the maturity date of July 5, 2021.

2023 Debentures

On December 20, 2016, Granite LP issued $400.0 million aggregate principal amount of 3.873% Series 3 senior debentures due November 30, 2023 (the ''2023 Debentures'') at a nominal premium. Interest on the 2023 Debentures is payable semi-annually in arrears on May 30 and November 30 of each year. Deferred financing costs of $2.2 million were incurred and recorded as a reduction against the principal owing.

The 2023 Debentures are redeemable, in whole or in part, at Granite's option at any time and from time to time, at a price equal to accrued and unpaid interest plus the greater of (a) 100% of the principal amount of the 2023 Debentures to be redeemed; and (b) the Canada Yield Price. The Canada Yield Price means, in respect of a 2023 Debenture, a price equal to which, if the 2023 Debenture were to be issued at such price on the redemption date, would provide a yield thereon from the redemption date to its maturity date equal to 62.5 basis points above the yield that a non-callable Government of Canada bond, trading at par, would carry if issued on the redemption date with a maturity date of November 30, 2023. Granite also has the option to redeem the 2023 Debentures at par plus any accrued and unpaid interest within 30 days of the maturity date of November 30, 2023.

2022 Term Loan

On December 19, 2018, Granite LP entered into a senior unsecured non-revolving term facility in the amount of US$185.0 million (the ''2022 Term Loan'') that matures on December 19, 2022. The 2022 Term Loan was available in one US dollar drawdown and is fully prepayable without penalty. Any amount repaid may not be re-borrowed. On December 19, 2018, US$185.0 million was drawn on the 2022 Term Loan. Interest on drawn amounts is calculated based on LIBOR plus an applicable margin determined by reference to the external credit rating of Granite LP and is payable monthly in arrears. Deferred financing costs of $0.6 million were incurred and recorded as a reduction against the principal owing.

2025 Term Loan

On December 12, 2018, Granite LP entered into a senior unsecured non-revolving term facility in the amount of $300.0 million (the ''2025 Term Loan'') that matures on December 12, 2025. The 2025 Term Loan was available in one drawdown and is fully prepayable without penalty. Any amount repaid may not be re-borrowed. On December 12, 2018, $300.0 million was drawn on the 2025 Term Loan. Interest on drawn amounts is calculated based on the Canadian Dollar Offered Rate (''CDOR'') plus an applicable margin determined by reference to the external credit rating of Granite LP and is payable monthly in advance. Deferred financing costs of $1.3 million were incurred and recorded as a reduction against the principal owing.

The 2021 Debentures, 2023 Debentures, 2022 Term Loan and 2025 Term Loan rank pari passu with all of Granite LP's other existing and future senior unsecured indebtedness and are guaranteed by Granite REIT and Granite GP.

(b) Cross Currency Interest Rate Swaps

As at December 31,	2018	2017
Financial liabilities at fair value		
2021 Cross Currency Interest Rate Swap	**$ 26,877**	$19,429
2023 Cross Currency Interest Rate Swap	**56,922**	42,037
2022 Cross Currency Interest Rate Swap	**3,826**	—
2025 Cross Currency Interest Rate Swap	**17,132**	—
	$104,757	$61,466

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 2021 Debentures for Euro denominated payments at a 2.68% fixed interest rate. In addition, under the terms of the swap, the Trust will pay principal proceeds of €171.9 million in exchange for which it will receive $250.0 million on July 5, 2021.

On December 20, 2016, the Trust entered into a cross currency interest rate swap (the ‘‘2023 Cross Currency Interest Rate Swap’’) to exchange the 3.873% interest payments from the 2023 Debentures for Euro denominated payments at a 2.43% fixed interest rate. In addition, under the terms of the swap, the Trust will pay principal proceeds of €281.1 million in exchange for which it will receive $400.0 million on November 30, 2023.

On December 19, 2018, the Trust entered into a cross currency interest rate swap (the ‘‘2022 Cross Currency Interest Rate Swap’’) to exchange the LIBOR plus margin interest payments from the 2022 Term Loan for Euro denominated payments at a 1.225% fixed interest rate. In addition, under the terms of the swap, the Trust will pay principal proceeds of €163.0 million in exchange for which it will receive US$185.0 million on December 19, 2022.

On December 12, 2018, the Trust entered into a cross currency interest rate swap (the ‘‘2025 Cross Currency Interest Rate Swap’’) to exchange the CDOR plus margin interest payments from the 2025 Term Loan for Euro denominated payments at a 2.202% fixed interest rate. In addition, under the terms of the swap, the Trust will pay principal proceeds of €198.2 million in exchange for which it will receive $300.0 million on December 12, 2025.

The cross currency interest rate swaps are designated as net investment hedges of the Trust’s investment in foreign operations. In addition, the Trust has on occasion designated its US dollar draws from the credit facility as net investment hedges of its investment in the US operations. The effectiveness of the hedges are assessed quarterly. For the year ended December 31, 2018, the Trust has assessed that the hedges continued to be effective. As an effective hedge, the fair value gains or losses on the cross currency interest rate swaps and the foreign exchange gains or losses on the outstanding 2022 Term Loan and US dollar credit facility draws are recognized in other comprehensive income. The Trust has elected to record the differences resulting from the lower interest rate associated with the cross currency interest rate swaps in the combined statements of net income.

9. CURRENT LIABILITIES

Other Liability

As at December 31, 2017, the other liability consisted of a tenant allowance payable of $9.0 million (€6.0 million). This tenant allowance was paid to a tenant on February 2, 2018 and related to a 2014 lease extension at the Eurostar facility in Graz, Austria. The €6.0 million allowance was discounted and was accreted to its face value through a charge to interest expense. During the year ended December 31, 2018, accretion of $0.1 million (2017 — $0.7 million) was charged to interest expense.

Deferred Revenue

Deferred revenue relates to prepaid and unearned revenue received from tenants and fluctuates with the timing of rental receipts.

Bank Indebtedness

On February 1, 2018, the Trust entered into a new unsecured revolving credit facility in the amount of $500.0 million that is available by way of Canadian dollar, US dollar or Euro denominated loans or letters of credit and matures on February 1, 2023. The Trust has the option to extend the maturity date by one year to February 1, 2024 subject to the agreement of lenders in respect of a minimum of 66⅔% of the aggregate amount committed under the facility. The credit facility provides the Trust with the ability to increase the amount of the commitment by an additional aggregate principal amount of up to $100.0 million with the consent of the participating lenders. As at December 31, 2018, the Trust had no amounts (2017 — $32.6 million) drawn from the credit facility and $0.1 million (2017 — $0.2 million) in letters of credit issued against the facility.

Accounts Payable and Accrued Liabilities

As at December 31,	2018	2017
Accounts payable	**$ 5,352**	$ 5,676
Accrued salaries, incentives and benefits	**5,364**	4,304
Accrued interest payable	**6,606**	6,016
Accrued construction payable	**2,429**	12,622
Accrued professional fees	**2,910**	2,434
Accrued employee unit-based compensation	**3,193**	3,416
Accrued trustee/director unit-based compensation	**2,330**	1,367
Accrued property operating costs	**2,013**	3,110
Accrued land transfer tax in connection with an acquisition	**5,499**	—
Accrued leasing commissions	**407**	1,291
Accrual associated with a property disposal (note 5)	**2,047**	—
Other accrued liabilities	**3,817**	3,106
	$41,967	$43,342

10. DISTRIBUTIONS TO STAPLED UNITHOLDERS

Distributions payable at December 31, 2018 of $24.3 million were paid on January 15, 2019 and represent the December 2018 monthly distributions of $10.6 million (23.3 cents per stapled unit) and a special distribution of $13.7 million (30.0 cents per stapled unit). Distributions payable at December 31, 2017 of $10.6 million were paid on January 16, 2018 and represented the December 2017 monthly distributions.

Total distributions declared to stapled unitholders are as follows:

Years ended December 31,	2018		2017	
	Total distributions	Distributions per unit	Total distributions	Distributions per unit
Monthly distributions paid and payable in cash	**$125,131**	**$2.73**	$123,058	$2.61
Special distribution payable in cash	**13,710**	**$0.30**	—	—
Special distribution payable in stapled units	**41,128**	**$0.90**	—	—
	$179,969		$123,058	

As a result of the increase in taxable income generated primarily as a result of the sale transactions in 2018, Granite's Board of Trustees declared a special distribution in December 2018 of $1.20 per stapled unit which comprised 30.0 cents per unit payable in cash and 90.0 cents per unit payable by the issuance of stapled units. Immediately following the issuance of the stapled units, the stapled units were consolidated such that each unitholder held the same number of stapled units after the consolidation as each unitholder held prior to the special distribution. As at December 31, 2018, the special distribution declared in units of $41.1 million was recorded to contributed surplus in accordance with IAS 32, *Financial Instruments: Presentation* as the Trust was settling the distribution with a fixed number of its own equity instruments.

Subsequent to December 31, 2018, the distributions declared in January 2019 in the amount of $10.6 million or 23.3 cents per stapled unit were paid on February 15, 2019 and the distributions declared in February 2019 of $10.6 million or 23.3 cents per stapled unit will be paid on March 15, 2019.

11. STAPLED UNITHOLDERS' EQUITY

(a) Stapled Units

The stapled units consist of one unit of Granite REIT and one common share of Granite GP. Granite REIT is authorized to issue an unlimited number of units. Granite GP's authorized share capital consists of an unlimited number of common shares without par value. Each stapled unit is entitled to distributions and/or dividends in the case of Granite GP as and when declared and, in the event of termination of Granite REIT and Granite GP, to the net assets of Granite REIT and Granite GP remaining after satisfaction of all liabilities.

(b) Unit-Based Compensation

Incentive Stock Option Plan

The Incentive Stock Option Plan allows for the grant of stock options or stock appreciation rights to directors, officers, employees and consultants. As at December 31, 2018 and December 31, 2017, there were no options outstanding under this plan.

Director/Trustee Deferred Share Unit Plan

Granite established Non-Employee Director Share-Based Compensation Plans (the ''DSPs'') which provide for a deferral of up to 100% of each non-employee director's total annual remuneration, at specified levels elected by each director, until such director ceases to be a director. The amounts deferred under the DSPs are reflected by notional deferred share units (''DSUs'') whose value at the time that the particular payment to the director is determined reflects the fair market value of a stapled unit. The value of a DSU thus appreciates or depreciates with changes in the market price of the stapled units. The DSPs also provide for the accrual of notional distribution equivalents on any distributions paid on the stapled units. Under the DSPs, when a director or trustee leaves the Board, the director or trustee receives a cash payment at an elected date equal to the value of the accrued DSUs at such date. There is no option under the DSPs for directors or trustees to receive stapled units in exchange for DSUs.

A reconciliation of the changes in the DSUs outstanding is presented below:

	2018		2017	
	Number (000s)	**Weighted Average Grant Date Fair Value**	**Number (000s)**	**Weighted Average Grant Date Fair Value**
DSUs outstanding, January 1	**28**	**$41.88**	147	$35.43
Granted	**16**	**53.11**	23	48.75
Settled	**—**	**—**	(142)	50.81
DSUs outstanding, December 31	**44**	**$46.01**	28	$41.88

Executive Deferred Stapled Unit Plan

The Executive Stapled Unit Plan (the ''Stapled Unit Plan'') is designed to provide equity-based compensation in the form of stapled units to executives and other employees (the ''Participants''). The maximum number of stapled units which may be issued pursuant to the Stapled Unit Plan is 1.0 million. The Stapled Unit Plan entitles a Participant to receive a stapled unit or a cash payment equal to the market value of the stapled unit, which on any date is the volume weighted average trading price of a stapled unit on the Toronto Stock Exchange or New York Stock Exchange over the preceding five trading days. The form of redemption of the stapled units is determined by the Compensation, Governance and Nominating Committee and is not at the option of the Participant. Vesting conditions in respect of a grant are determined by the Compensation, Governance and Nominating Committee at the time the grant is made and may result in the vesting of more or less than 100% of the number of stapled units. The Stapled Unit Plan also provides for the accrual of distribution equivalent amounts based on distributions paid on the stapled units. Stapled units are, unless otherwise agreed or otherwise required by the Stapled Unit Plan, settled within 60 days following vesting. A reconciliation of the changes in stapled units outstanding under the Stapled Unit Plan is presented below:

	2018		2017	
	Number (000s)	**Weighted Average Grant Date Fair Value**	**Number (000s)**	**Weighted Average Grant Date Fair Value**
Stapled units outstanding, January 1	**106**	**$43.32**	82	$42.34
New grants(1)	**75**	**53.29**	49	45.81
Forfeited	**—**	**—**	(3)	45.23
Settled	**(64)**	**42.14**	(22)	45.36
Stapled units outstanding, December 31(1)	**117**	**$50.34**	106	$43.32

(1) New grants include 3,730 performance based units granted to an executive during 2018 (2017 — nil).

The Trust's unit-based compensation expense recognized in general and administrative expenses was:

Years ended December 31,	**2018**	**2017**
DSPs for trustees/directors	**$ 948**	$2,001
Stapled Unit Plan for executives and employees	**2,996**	2,911
Unit-based compensation expense	**$3,944**	$4,912
Fair value remeasurement expense included in the above	**$ 500**	$1,237

(c) Normal Course Issuer Bid

On May 16, 2018, 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 3,939,255 of Granite's issued and outstanding stapled units. The NCIB commenced on May 18, 2018 and will conclude on the earlier of the date on which purchases under the bid have been completed and May 17, 2019. Pursuant to the policies of the TSX, daily purchases made by Granite through the TSX may not exceed 16,546 stapled units, subject to certain exceptions. Granite entered into an automatic securities purchase plan with a broker in order to facilitate repurchases of the stapled units under the NCIB during specified blackout periods. Pursuant to a previous notice of intention to conduct a NCIB, Granite received approval from the TSX to purchase stapled units for the period May 16, 2017 to May 15, 2018.

During the year ended December 31, 2018, Granite repurchased 1,282,171 stapled units (2017 — 241,034 stapled units) for consideration of $63.5 million (2017 — $12.0 million). The difference between the repurchase price and the average cost of the stapled units of $5.6 million (2017 — $1.2 million) was recorded to contributed surplus. Subsequent to year end and as at March 6, 2019, an additional 700 units were repurchased for less than $0.1 million.

(d) Accumulated Other Comprehensive Income

Accumulated other comprehensive income consists of the following:

As at December 31,	**2018**	**2017**
Foreign currency translation gains on investments in subsidiaries, net of related hedging activities and non-controlling interests[(1)]	**$ 320,158**	$183,729
Fair value losses on derivatives designated as net investment hedges	**(108,706)**	(65,163)
	$ 211,452	$118,566

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

12. RECOVERIES, COSTS AND EXPENSES

(a) Tenant recoveries revenue consist of:

Years ended December 31,	2018	2017
Property taxes	**$19,344**	$22,609
Property insurance	**2,174**	1,903
Operating costs	**4,983**	2,433
	$26,501	$26,945

(b) Property operating costs consist of:

Years ended December 31,	2018	2017
Non-recoverable from tenants:		
Property taxes and utilities	**$ 1,077**	$ 1,035
Legal	**436**	324
Consulting	**123**	379
Environmental and appraisals	**702**	708
Repairs and maintenance	**725**	659
Ground rents	**664**	628
Other	**730**	653
	$ 4,457	$ 4,386
Recoverable from tenants:		
Property taxes and utilities	**$20,127**	$23,105
Property insurance	**2,138**	1,910
Repairs and maintenance	**2,069**	749
Property management fees	**1,470**	741
Other	**681**	454
	$26,485	$26,959
Property operating costs	**$30,942**	$31,345

(c) General and administrative expenses consist of:

Years ended December 31,	2018	2017
Salaries, incentives and benefits	**$16,030**	$12,113
Audit, legal and consulting	**3,972**	3,382
Trustee/director fees and related expenses	**1,067**	1,438
Unit-based compensation including distributions and revaluations	**3,214**	4,017
Other public entity costs	**1,651**	1,687
Office rents	**900**	901
Other	**2,570**	2,528
	$29,404	$26,066

(d) In connection with the proxy contest that preceded the June 2017 annual general meeting (''AGM''), Granite incurred $5.9 million of expenses in the year ended December 31, 2017. Included in the proxy contest expenses are legal, advisory and proxy solicitation costs incurred directly by Granite and a $2.0 million reimbursement of out-of-pocket fees and expenses incurred by Front Four Capital Group and Sandpiper Group regarding matters relating to the AGM. Sandpiper Group received $0.7 million of the reimbursement. An individual affiliated with Sandpiper Group is a related party of Granite by virtue of becoming a director of Granite GP and a trustee of Granite REIT.

(e) Interest expense and other financing costs consist of:

Years ended December 31,	**2018**	**2017**
Interest and amortized issuance costs relating to debentures and term loans	**$18,544**	$17,416
Amortization of deferred financing costs and other interest expense and accretion charges	**3,869**	2,595
	$22,413	$20,011

(f) For the year ended December 31, 2018, foreign exchange gains of $9.4 million (2017 — loss of $0.6 million) included, among other, an $8.5 million foreign exchange gain due to the remeasurement of the US dollar proceeds from the sale of three investment properties in January 2018 and a $1.4 million gain from the settlement of two cross currency swaps during the 2018 year for which the Trust did not employ hedge accounting.

(g) Fair value losses on financial instruments consist of:

Years ended December 31,	**2018**	**2017**
Foreign exchange forward contracts, net	**$562**	$823
	$562	$823

(h) During the year ended December 31, 2018, Granite entered into a settlement agreement related to a land use matter for a property in Ontario, Canada. Granite was awarded a settlement amount of $2.3 million of which $1.4 million was received during 2018 and the remaining balance was collected in January 2019.

13. INCOME TAXES

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

Years ended December 31,	2018	2017
Current income tax:		
Current taxes	**$ 7,902**	$ 6,503
Current taxes referring to previous periods	**(973)**	228
Withholding taxes and other	**702**	978
	$ 7,631	$ 7,709
Deferred income tax:		
Origination and reversal of temporary differences	**$56,423**	$42,250
Impact of changes in tax rates	**(4,637)**	(35,047)
Benefits arising from a previously unrecognized tax loss that reduced:		
— Current tax expense	**(6,408)**	—
— Deferred tax expense	**(200)**	—
Withholding taxes on profits of subsidiaries	**85**	(629)
Other	**(243)**	(865)
	$45,020	$ 5,709
Income tax expense	**$52,651**	$13,418

For the year ended December 31, 2018, current tax expense includes $0.2 million (2017 — nil) associated with the disposition of a property in Germany.

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

Years ended December 31,	2018	2017
Income before income taxes	**$518,008**	$371,166
Expected income taxes at the Canadian statutory tax rate of 26.5% (2017 — 26.5%)	**$137,272**	$ 98,359
Income distributed and taxable to unitholders	**(81,272)**	(50,005)
Net foreign rate differentials	**(7,830)**	(3,708)
Net change in provisions for uncertain tax positions	**810**	1,762
Net permanent differences	**7,261**	1,947
Net effect of change in tax rates	**(4,637)**	(35,047)
Withholding taxes and other	**1,047**	110
Income tax expense	**$ 52,651**	$ 13,418

(c) Deferred tax assets and liabilities consist of temporary differences related to the following:

As at December 31,	2018	2017
Deferred tax assets:		
Investment properties	**$ 769**	$ 11
Eligible capital expenditures	**2,441**	2,625
Other	**2,091**	3,106
Deferred tax assets	**$ 5,301**	$ 5,742
Deferred tax liabilities:		
Investment properties	**$304,593**	$243,357
Withholding tax on undistributed subsidiary profits	**682**	512
Other	**(1,310)**	183
Deferred tax liabilities	**$303,965**	$244,052

(d) Changes in the net deferred tax liabilities consist of the following:

Years ended December 31,	2018	2017
Balance, beginning of year	**$238,310**	$231,852
Deferred tax expense recognized in net income	**45,020**	5,709
Foreign currency translation of deferred tax balances	**15,334**	749
Net deferred tax liabilities, end of year	**$298,664**	$238,310

(e) Net cash payments of income taxes amounted to $10.3 million for the year ended December 31, 2018 (2017 — $3.5 million) which included $0.7 million of withholding taxes paid (2017 — $1.0 million).

(f) The Trust conducts operations in a number of countries with varying statutory rates of taxation. Judgment is required in the estimation of income tax expense and deferred income tax assets and liabilities in each of the Trust's operating jurisdictions. This process involves estimating actual current tax exposure, assessing temporary differences that result from the different treatments of items for tax and accounting purposes, assessing whether it is more likely than not that deferred income tax assets will be realized and, based on all the available evidence, determining if a provision is required on all or a portion of such deferred income tax assets. The Trust reports a liability for uncertain tax positions (''unrecognized tax benefits'') taken or expected to be taken in a tax return. The Trust recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense.

As at December 31, 2018, the Trust had $13.2 million (2017 — $12.0 million) of unrecognized income tax benefits, including $0.3 million (2017 — $0.2 million) related to accrued interest and penalties, all of which could ultimately reduce the Trust's effective tax rate should these tax benefits become recognized. The Trust believes that it has adequately provided for reasonably foreseeable outcomes related to tax examinations and that any resolution will not have a material effect on the combined financial position, results of operations or cash flows. However, the Trust cannot predict with any level of certainty the exact nature of any future possible outcome.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows:

As at December 31,	2018	2017
Unrecognized tax benefits balance, beginning of year	**$12,035**	$10,143
Decreases for tax positions of prior years	**(1,183)**	(416)
Increases for tax positions of current year	**1,898**	1,727
Foreign currency impact	**447**	581
Unrecognized tax benefits balance, end of year	**$13,197**	$12,035

It is reasonably possible that the gross unrecognized tax benefits, as of December 31, 2018, could decrease in the next 12 months. The quantum of the decrease could range between a nominal amount and $2.8 million (2017 — a nominal amount and $0.4 million) and relates primarily to tax years becoming statute barred for purposes of future tax examinations by local taxing authorities and the outcome of current tax examinations. For the year ended December 31, 2018, $0.1 million of interest and penalties was recorded (2017 — $0.1 million) in income tax expense in the combined statements of net income.

As at December 31, 2018, the following tax years remained subject to examination:

Major Jurisdictions	
Canada	2012 through 2018
United States	2015 through 2018
Austria	2013 through 2018
Germany	2013 through 2018
Netherlands	2013 through 2018

As at December 31, 2018, the Trust had approximately $280.0 million of Canadian capital loss carryforwards that do not expire and other losses and deductible temporary differences in various tax jurisdictions of approximately $32.9 million. The Trust believes it is not probable that these tax assets can be realized; and accordingly, no related deferred tax asset was recognized at December 31, 2018.

14. SEGMENTED DISCLOSURE INFORMATION

The Trust has one reportable segment — the ownership and rental of industrial real estate as determined by the information reviewed by the chief operating decision maker who is the President and Chief Executive Officer. The following tables present certain information with respect to geographic segmentation:

Revenue

Years ended December 31,	2018		2017	
Canada	**$ 54,372**	**22%**	$ 73,261	30%
United States	**88,006**	**36%**	72,143	30%
Austria	**65,523**	**26%**	61,687	25%
Germany	**24,735**	**10%**	22,721	9%
Netherlands	**8,621**	**3%**	9,577	4%
Other Europe	**6,226**	**3%**	5,294	2%
	$247,483	**100%**	$244,683	100%

For the year ended December 31, 2018, revenue from Magna comprised approximately 61% (2017 — 75%) of the Trust's total revenue.

Investment properties

As at December 31,	2018		2017	
Canada	**$ 708,645**	**21%**	$ 621,003	23%
United States	**1,261,183**	**37%**	874,499	32%
Austria	**840,803**	**24%**	780,030	28%
Germany	**385,703**	**11%**	265,734	10%
Netherlands	**155,778**	**5%**	127,807	5%
Other Europe	**72,866**	**2%**	64,495	2%
	$3,424,978	**100%**	$2,733,568	100%

15. DETAILS OF CASH FLOWS

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

Years ended December 31,	2018	2017
Straight-line rent amortization	**$ (4,274)**	$ 1,101
Tenant incentive amortization	**5,402**	5,410
Unit-based compensation expense (note 11(b))	**3,944**	4,912
Fair value gains on investment properties	**(354,707)**	(212,106)
Depreciation and amortization	**300**	335
Fair value losses on financial instruments	**562**	823
Loss on sale of investment properties	**6,871**	427
Amortization of issuance costs relating to debentures and term loans	**555**	542
Amortization of deferred financing costs	**497**	219
Deferred income taxes	**45,020**	5,709
Other	**1,040**	98
	$(294,790)	$(192,530)

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

Years ended December 31,	2018	2017
Accounts receivable	**$(1,626)**	$(1,191)
Prepaid expenses and other	**(475)**	(362)
Accounts payable and accrued liabilities	**5,788**	(4,681)
Deferred revenue	**(245)**	(1,411)
Restricted cash	**335**	48
	$ 3,777	$(7,597)

(c) Non-cash investing and financing activities

The combined statement of cash flows for the year ended December 31, 2018 does not include i) property disposal proceeds of $0.2 million and $11.8 million that are expected to be received in the years 2019 and

2020, respectively (note 5) and ii) the special distribution declared in December 2018 of $54.8 million (note 10). In addition, during the year ended December 31, 2018, 64 thousand stapled units (2017 — 22 thousand stapled units) with a value of $3.2 million (2017 — $1.0 million) were issued under the Stapled Unit Plan (note 11(b)) and are not recorded in the combined statements of cash flows.

(d) Cash and cash equivalents consist of:

Years ended December 31,	2018	2017
Cash	**$534,975**	$55,608
Short-term deposits	**123,271**	13,411
	$658,246	$69,019

16. FAIR VALUE AND RISK MANAGEMENT

(a) Fair Value of Financial Instruments

The following table provides the measurement basis of financial assets and liabilities as at December 31, 2018 and 2017:

As at December 31,	2018		2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Other assets	**$ 12,253[1]**	**$ 12,253**	$ 455[1]	$ 455
Accounts receivable	**4,316**	**4,316**	2,310	2,310
Prepaid expenses and other	**111[2]**	**111**	705[2]	705
Restricted cash	**470**	**470**	515	515
Cash and cash equivalents	**658,246**	**658,246**	69,019	69,019
	$ 675,396	**$ 675,396**	$ 73,004	$ 73,004
Financial liabilities				
Unsecured debentures, net	**$ 647,849**	**$ 654,365**	$647,306	$655,035
Unsecured term loans, net	**550,565**	**550,565**	—	—
Cross currency interest rate swaps	**104,757**	**104,757**	61,466	61,466
Other liability	**—**	**—**	8,968	8,968
Bank indebtedness	**—**	**—**	32,552	32,552
Accounts payable and accrued liabilities	**41,957**	**41,957**	43,300	43,300
Accounts payable and accrued liabilities	**10[3]**	**10**	42[3]	42
Distributions payable	**24,357**	**24,357**	10,647	10,647
	$1,369,495	**$1,376,011**	$804,281	$812,010

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

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

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

The fair values 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 the long-term receivables approximate their carrying amount as the receivable either bears interest at rates comparable to current market rates or is revalued at each reporting period. The fair value of the foreign exchange forward contracts approximate their carrying value as the asset or liability is revalued at the reporting date. The fair values of the unsecured debentures are determined using quoted market prices. The fair values of the term loans approximate their carrying amounts as the term loans were recently drawn and bear interest at rates comparable to current market rates at the reporting date. The fair values of the cross currency interest rate swaps are determined using market inputs quoted by their counterparties. The fair value of the other liability approximated its carrying value as the liability was revalued at each reporting date.

The Trust periodically purchases foreign exchange forward contracts to hedge specific anticipated foreign currency transactions and to mitigate its foreign exchange exposure on its net cash flows. At December 31, 2018, the Trust held three outstanding foreign exchange forward contracts (2017 — 18 contracts outstanding). The foreign exchange contracts are comprised of contracts to purchase $9.5 million and sell €6.0 million. For the year ended December 31, 2018, the Trust recorded a net fair value loss of $0.6 million (2017 — $0.8 million) on the outstanding foreign exchange forward contracts (note 12(g)).

(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 using 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.

As at December 31, 2018	Level 1	Level 2	Level 3
ASSETS AND LIABILITIES MEASURED OR DISCLOSED AT FAIR VALUE			
Assets measured at fair value			
Investment properties	**$ —**	**$ —**	**$3,424,978**
Assets held for sale	**—**	**—**	**44,238**
Long-term proceeds receivable associated with a property disposal included in other assets (note 5)	**—**	**—**	**11,805**
Short-term proceeds receivable associated with a property disposal included in accounts receivable (note 5)	**—**	**—**	**231**
Foreign exchange forward contracts included in prepaid expenses and other	**—**	**111**	**—**
Liabilities measured or disclosed at fair value			
Unsecured debentures, net	**654,365**	**—**	**—**
Unsecured term loans, net	**—**	**550,565**	**—**
Cross currency interest rate swaps	**—**	**104,757**	**—**
Foreign exchange forward contracts included in accounts payable and accrued liabilities	**—**	**10**	**—**
Net assets (liabilities) measured or disclosed at fair value	**$(654,365)**	**$(655,221)**	**$3,481,252**

As at December 31, 2017	Level 1	Level 2	Level 3
ASSETS AND LIABILITIES MEASURED OR DISCLOSED AT FAIR VALUE			
Assets measured at fair value			
Investment properties	$ —	$ —	$2,733,568
Assets held for sale	—	—	391,453
Foreign exchange forward contracts included in prepaid expenses and other	—	705	—
Liabilities measured or disclosed at fair value			
Unsecured debentures, net	655,035	—	—
Cross currency interest rate swaps	—	61,466	—
Other liability	—	—	8,968
Bank indebtedness	—	32,552	—
Foreign exchange forward contracts included in accounts payable and accrued liabilities	—	42	—
Net assets (liabilities) measured or disclosed at fair value	**$(655,035)**	**$(93,355)**	**$3,116,053**

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 years ended December 31, 2018 and 2017, there were no transfers between the levels.

Refer to note 4, Investment Properties, and note 5, Assets Held for Sale and Dispositions, for a description of the valuation techniques and inputs used in the fair value measurement and for a reconciliation of the fair value measurements of investment properties, assets held for sale and proceeds receivable associated with property disposals which are recognized in Level 3 of the fair value hierarchy.

(c) Risk Management

The main risks arising from the Trust's financial instruments are credit, interest rate, foreign exchange and liquidity risks. The Trust's approach to managing these risks is summarized below:

(i) Credit risk

The Trust's financial assets that are exposed to credit risk consist primarily of cash and cash equivalents and accounts receivable.

Cash and cash equivalents include short-term investments, such as term deposits, which are invested in governments and financial institutions with a minimum credit rating of BBB (based on Standard & Poor's (''S&P'') rating scale) or A3 (based on Moody's Investor Services' (''Moody's'') rating scale). Concentration of credit risk is further reduced by limiting the amount that is invested in any one government or financial institution.

Magna accounts for approximately 61% of the Trust's rental revenue. Although its operating subsidiaries are not individually rated, Magna International Inc. has an investment grade credit rating from Moody's, S&P and Dominion Bond Rating Service which mitigates the Trust's credit risk. Substantially all of the Trust's accounts receivable are collected within 30 days. The balance of accounts receivable past due is not significant.

(ii) Interest rate risk

As at December 31, 2018, the Trust's exposure to interest rate risk is limited. Approximately 56% of the Trust's interest bearing debt consists of fixed rate debt in the form of the 2021 Debentures and the 2023 Debentures. After taking into account the related cross currency interest rate swaps, the 2021 Debentures and the 2023 Debentures have effective fixed interest rates of 2.68% and 2.43%, respectively. The remaining 44% of the Trust's interest bearing debt consists of variable rate debt in the form of the 2022 Term Loan and 2025 Term Loan. After taking into account the related cross currency interest rate swaps, the 2022 Term Loan and 2025 Term Loan have effective fixed interest rates of 1.225% and 2.202%, respectively.

(iii) Foreign exchange risk

As at December 31, 2018, the Trust is exposed to foreign exchange risk primarily in respect of movements in the Euro and the US 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 December 31, 2018, the Trust's foreign currency denominated net assets are $2.8 billion primarily in US dollars and Euros. A 1% change in the US dollar and Euro exchange rates relative to the Canadian dollar would result in a gain or loss of approximately $14.6 million and $12.5 million, respectively, to comprehensive income.

Granite generates rental income that is not all denominated in Canadian dollars. Since the financial results are reported in Canadian dollars, the Trust is subject to foreign currency fluctuations that could, from time to time, have an impact on the operating results. For the year ended December 31, 2018, a 1% change in the US dollar and Euro exchange rates relative to the Canadian dollar would have impacted revenue by approximately $0.9 million and $1.1 million, respectively.

For the year ended December 31, 2018, the Trust has designated its cross currency interest rate swaps relating to the $650.0 million of unsecured debentures and $552.4 million of unsecured term loans as hedges of its net investment in the European operations (note 8(b)). In addition, the Trust has on occasion designated its US dollar draws from the credit facility as hedges of its net investment in the US operations.

(iv) Liquidity risk

Liquidity risk is the risk the Trust will encounter difficulties in meeting its financial obligations as they become due. The Trust may also be subject to the risks associated with debt financing, including the risks that the unsecured debentures, term loans and credit facility may not be able to be refinanced. The Trust's objectives in minimizing liquidity risk are to maintain prudent levels of leverage on its investment properties, staggering its debt maturity profile and maintaining investment grade credit ratings. In addition, the Declaration of Trust establishes certain debt ratio limits.

The estimated contractual maturities of the Trust's financial liabilities are summarized below:

As at December 31, 2018	Total	2019	2020	2021	2022	2023	Thereafter
Unsecured debentures	**$ 650,000**	$ —	$ —	$250,000	$ —	$400,000	$ —
Unsecured term loans	**552,414**	—	—	—	252,414	—	300,000
Cross currency interest rate swaps	**104,757**	—	—	26,877	3,826	56,922	17,132
Interest payments[1]:							
Unsecured debentures, net of cross currency interest rate swap savings	**73,387**	17,497	17,497	17,497	10,448	10,448	—
Unsecured term loans, net of cross currency interest rate swap savings	**59,275**	9,784	9,784	9,784	9,784	6,713	13,426
Accounts payable and accrued liabilities	**41,967**	40,177	1,560	230	—	—	—
Distributions payable	**24,357**	24,357	—	—	—	—	—
	$1,506,157	$91,815	$28,841	$304,388	$276,472	$474,083	$330,558

(1) Represents aggregate interest expense expected to be paid over the term of the debt, on an undiscounted basis, based on actual current interest rates and average foreign exchange rates.

17. CAPITAL MANAGEMENT

The Trust's capital structure comprises the total of the stapled unitholders' equity and debt. The total managed capital of the Trust is summarized below:

As at December 31,	2018	2017
Unsecured debentures, net	**$ 647,849**	$ 647,306
Unsecured term loans, net	**550,565**	—
Cross currency interest rate swaps	**104,757**	61,466
Bank indebtedness	**—**	32,552
Total debt	**1,303,171**	741,324
Stapled unitholders' equity	**2,495,518**	2,136,614
Total managed capital	**$3,798,689**	$2,877,938

The Trust manages, monitors and adjusts its capital balances in response to the availability of capital, economic conditions and investment opportunities with the following objectives in mind:

- Compliance with investment and debt restrictions pursuant to the Amended and Restated Declaration of Trust;
- Compliance with existing debt covenants;
- Maintaining investment grade credit ratings;
- Supporting the Trust's business strategies including ongoing operations, property development and acquisitions;
- Generating stable and growing cash distributions; and
- Building long-term unitholder value.

The Amended and Restated Declaration of Trust contains certain provisions with respect to capital management which include:

- The Trust shall not incur or assume any indebtedness if, after giving effect to the incurring or assumption of the indebtedness, the total indebtedness of the Trust would be more than 65% of the Gross Book Value (as defined in the Amended and Restated Declaration of Trust); and
- The Trust shall not invest in raw land for development, except for (i) existing properties with additional development, (ii) the purpose of renovating or expanding existing properties or (iii) the development of new properties, provided that the aggregate cost of the investments of the Trust in raw land, after giving effect to the proposed investment, will not exceed 15% of Gross Book Value.

At December 31, 2018, the Trust's combined debt consists of the unsecured debentures, the term loans and the credit facility when drawn, each of which have various financial covenants. These covenants are defined within the trust indenture, the term loan agreements and the credit facility agreement and, depending on the debt instrument, include a total indebtedness ratio, a secured indebtedness ratio, an interest coverage ratio, an unencumbered asset ratio and a minimum equity threshold. The Trust monitors these provisions and covenants and was in compliance with their respective requirements as at December 31, 2018 and 2017.

Distributions are made at the discretion of the Board of Trustees (the ''Board'') and Granite REIT intends to distribute each year all of its taxable income pursuant to its Amended and Restated Declaration of Trust as calculated in accordance with the Income Tax Act. As the Trust's taxable income exceeded monthly distributions during the year ended December 31, 2018, the Trust declared a special distribution of $1.20 per stapled unit (note 10). This special distribution was made to ensure that Granite would not be liable to pay income taxes for the taxation year ending December 31, 2018. For fiscal year 2018, the Trust also declared a monthly distribution of $0.227 per stapled unit from January to November and a monthly distribution of $0.233 per stapled unit for the month of December. The Board determines monthly distribution levels having considered, among other factors, estimated 2018 and 2019 cash generated from operations and capital requirements, the alignment of its current and targeted payout ratios with the Trust's strategic objectives and compliance with the above noted provisions and financial covenants.

18. RELATED PARTY TRANSACTIONS

For the year ended December 31, 2018, key management personnel include the Trustees/Directors, the current President and Chief Executive Officer, the former Chief Executive Officer, the former Chief Operating Officer, the Chief Financial Officer and the Executive Vice President, Head of Global Real Estate. For the year ended December 31, 2017, key management personnel included the Trustees/Directors, the Chief Executive Officer, the Chief Operating Officer and the Chief Financial Officer. Information with respect to the Trustees'/ Directors' fees is included in notes 11(b) and 12(c). The compensation expense associated with the Trust's key management personnel was as follows:

Years ended December 31,	**2018**	**2017**
Salaries, incentives and short-term benefits	**$6,057**	$3,051
Unit-based compensation expense including fair value adjustments	**2,380**	2,371
	$8,437	$5,422

Accounts payable and accrued liabilities at December 31, 2018 includes $0.4 million (2017 — nil) of compensation owing to the former Chief Executive Officer.

Related party transactions for the year ended December 31, 2017 also included a $0.7 million reimbursement of proxy contest expenses to a company affiliated with a director/trustee of Granite in connection with the 2017 annual general meeting (note 12(d)).

19. COMBINED FINANCIAL INFORMATION

The 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 combined financial statements:

Balance Sheet	**As at December 31, 2018**			
	Granite REIT	**Granite GP**	**Eliminations/ Adjustments**	**Granite REIT and Granite GP Combined**
ASSETS				
Non-current assets:				
Investment properties	**$3,424,978**			**$3,424,978**
Investment in Granite LP[1]	**—**	**17**	**(17)**	**—**
Other non-current assets	**53,785**			**53,785**
	3,478,763	**17**	**(17)**	**3,478,763**
Current assets:				
Assets held for sale	**44,238**			**44,238**
Other current assets	**7,462**	**46**		**7,508**
Intercompany receivable[2]	**—**	**7,130**	**(7,130)**	**—**
Cash and cash equivalents	**657,432**	**814**		**658,246**
Total assets	**$4,187,895**	**8,007**	**(7,147)**	**$4,188,755**
LIABILITIES AND EQUITY				
Non-current liabilities:				
Unsecured debt, net	**$1,198,414**			**$1,198,414**
Other non-current liabilities	**408,722**			**408,722**
	1,607,136			**1,607,136**
Current liabilities:				
Intercompany payable[2]	**7,130**		**(7,130)**	**—**
Other current liabilities	**76,644**	**7,990**		**84,634**
Total liabilities	**1,690,910**	**7,990**	**(7,130)**	**1,691,770**
Equity:				
Stapled unitholders' equity	**2,495,501**	**17**		**2,495,518**
Non-controlling interests	**1,484**		**(17)**	**1,467**
Total liabilities and equity	**$4,187,895**	**8,007**	**(7,147)**	**$4,188,755**

(1) Granite LP is 100% owned by Granite REIT and Granite GP.

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

Balance Sheet	As at December 31, 2017			
	Granite REIT	Granite GP	Eliminations/ Adjustments	Granite REIT and Granite GP Combined
ASSETS				
Non-current assets:				
Investment properties	$2,733,568			$2,733,568
Investment in Granite LP[1]	—	12	(12)	—
Other non-current assets	7,359			7,359
	2,740,927	12	(12)	2,740,927
Current assets:				
Assets held for sale	391,453			391,453
Other current assets	4,988	46		5,034
Intercompany receivable[2]	—	6,331	(6,331)	—
Cash and cash equivalents	68,572	447		69,019
Total assets	**$3,205,940**	**6,836**	**(6,343)**	**$3,206,433**
LIABILITIES AND EQUITY				
Non-current liabilities:				
Unsecured debt, net	$ 647,306			$ 647,306
Other non-current liabilities	305,518			305,518
	952,824			952,824
Current liabilities:				
Bank indebtedness	32,552			32,552
Intercompany payable[2]	6,331		(6,331)	—
Other current liabilities	76,371	6,824		83,195
Total liabilities	1,068,078	6,824	(6,331)	1,068,571
Equity:				
Stapled unitholders' equity	2,136,602	12		2,136,614
Non-controlling interests	1,260		(12)	1,248
Total liabilities and equity	**$3,205,940**	**6,836**	**(6,343)**	**$3,206,433**

(1) Granite LP is 100% owned by Granite REIT and Granite GP.

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

Income Statement	**Year ended December 31, 2018**			
	Granite REIT	**Granite GP**	**Eliminations/ Adjustments**	**Granite REIT and Granite GP Combined**
Revenue	**$ 247,483**			**$ 247,483**
General and administrative expenses	**29,404**			**29,404**
Interest expense and other financing costs	**22,413**			**22,413**
Other costs and expenses, net	**16,964**			**16,964**
Share of (income) loss of Granite LP	**—**	(5)	5	**—**
Fair value gains on investment properties, net	**(354,707)**			**(354,707)**
Fair value loss on financial instruments	**562**			**562**
Acquisition transaction costs	**7,968**			**7,968**
Loss on sale of investment properties	**6,871**			**6,871**
Income before income taxes	**518,008**	5	(5)	**518,008**
Income tax expense	**52,651**			**52,651**
Net income	**465,357**	5	(5)	**465,357**
Less net income attributable to non-controlling interests	**206**		(5)	**201**
Net income attributable to stapled unitholders	**$ 465,151**	5	—	**$ 465,156**

Income Statement	**Year ended December 31, 2017**			
	Granite REIT	**Granite GP**	**Eliminations/ Adjustments**	**Granite REIT and Granite GP Combined**
Revenue	$ 244,683			$ 244,683
General and administrative expenses	26,066			26,066
Proxy contest expenses	5,866			5,866
Interest expense and other financing costs	20,011			20,011
Other costs and expenses, net	31,712			31,712
Share of (income) loss of Granite LP	—	(4)	4	—
Fair value gains on investment properties, net	(212,106)			(212,106)
Fair value losses on financial instruments	823			823
Acquisition transaction costs	718			718
Loss on sale of investment properties	427			427
Income before income taxes	371,166	4	(4)	371,166
Income tax expense	13,418			13,418
Net income	357,748	4	(4)	357,748
Less net income attributable to non-controlling interests	50		(4)	46
Net income attributable to stapled unitholders	**$ 357,698**	**4**	**—**	**$ 357,702**

Statement of Cash Flows	Year ended December 31, 2018			
	Granite REIT	Granite GP	Eliminations/ Adjustments	Granite REIT and Granite GP Combined
OPERATING ACTIVITIES				
Net income	**$ 465,357**	**5**	**(5)**	**$ 465,357**
Items not involving current cash flows	**(294,790)**	**(5)**	**5**	**(294,790)**
Changes in working capital balances	**3,410**	**367**		**3,777**
Other operating activities	**(16,456)**			**(16,456)**
Cash provided by operating activities	**157,521**	**367**	**—**	**157,888**
INVESTING ACTIVITIES				
Business acquisitions	**(547,895)**			**(547,895)**
Proceeds from disposals, net	**681,319**			**681,319**
Investment property capital additions				
— Maintenance or improvements	**(17,799)**			**(17,799)**
— Developments or expansions	**(15,378)**			**(15,378)**
Acquisition deposits	**(33,086)**			**(33,086)**
Other investing activities	**28,700**			**28,700**
Cash provided by investing activities	**95,861**	**—**	**—**	**95,861**
FINANCING ACTIVITIES				
Distributions paid	**(125,131)**			**(125,131)**
Other financing activities	**449,314**			**449,314**
Cash provided by financing activities	**324,183**	**—**	**—**	**324,183**
Effect of exchange rate changes	**11,295**			**11,295**
Net increase in cash and cash equivalents during the year	**$ 588,860**	**367**	**—**	**$ 589,227**

Statement of Cash Flows	Year ended December 31, 2017			
	Granite REIT	Granite GP	Eliminations/ Adjustments	Granite REIT and Granite GP Combined
OPERATING ACTIVITIES				
Net income	$ 357,748	4	(4)	$ 357,748
Items not involving current cash flows	(192,530)	(4)	4	(192,530)
Changes in working capital balances	(8,011)	414		(7,597)
Other operating activities	1,056			1,056
Cash provided by operating activities	158,263	414	—	158,677
INVESTING ACTIVITIES				
Business acquisitions	(153,979)			(153,979)
Investment property capital additions				
— Maintenance or improvements	(10,736)			(10,736)
— Developments or expansions	(72,404)			(72,404)
Other investing activities	(728)			(728)
Cash used in investing activities	(237,847)	—	—	(237,847)
FINANCING ACTIVITIES				
Distributions paid	(122,637)			(122,637)
Other financing activities	17,399			17,399
Cash used in financing activities	(105,238)	—	—	(105,238)
Effect of exchange rate changes	7,212			7,212
Net increase (decrease) in cash and cash equivalents during the year	**$(177,610)**	**414**	**—**	**$(177,196)**

20. COMMITMENTS AND CONTINGENCIES

(a) The Trust is subject to various legal proceedings and claims that arise in the ordinary course of business. Management and legal counsel evaluate all claims which are generally covered by Granite's insurance policies. Any liability from remaining claims is not probable to occur and would not have a material adverse effect on the combined financial statements. However, actual outcomes may differ from management's expectations.

(b) At December 31, 2018, the Trust's contractual commitments related to construction and development projects, the purchase of a property in the United States and the leasehold interest in two properties in Canada (note 3) amounted to approximately $457.0 million.

(c) At December 31, 2018, the Trust had commitments on non-cancellable operating leases requiring future minimum annual rental payments as follows:

Not later than 1 year	$ 461
Later than 1 year and not later than 5 years	1,123
Later than 5 years	—
	$1,584

In addition, the Trust is committed to making annual payments under two ground leases for the land upon which two income-producing properties in Europe are situated of $0.5 million and $0.1 million to the years 2049 and 2096, respectively. As at December 31, 2018, the fair value of the investment properties situated on the land under ground leases is $57.2 million.

(d) The Trust owns a property located in Canada for which the tenant has a purchase option to acquire the property from Granite at a stipulated price included in the lease agreement. To date, the tenant has not exercised such purchase option to acquire the property.

21. SUBSEQUENT EVENTS

(a) During January and February 2019, all six properties classified as assets held for sale at December 31, 2018 were sold for aggregate proceeds of $43.7 million, which approximated their carrying value (note 5).

(b) On March 1, 2019, Granite acquired two income-producing industrial properties near Dallas, Texas at a purchase price of US$123.7 million which was funded with cash on hand.

(c) Subsequent to December 31, 2018, the Trust declared monthly distributions in January and February 2019 of $10.6 million each (note 10).

EXHIBIT 3

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BASIS OF PRESENTATION

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 month period and year ended December 31, 2018. Unless otherwise noted, all amounts are in millions of Canadian dollars. This MD&A should be read in conjunction with the accompanying audited combined financial statements for the year ended December 31, 2018 prepared in accordance with International Financial Reporting Standards (''IFRS'') as issued by the International Accounting Standards Board. The MD&A was prepared as at March 6, 2019 and its contents were approved by the Board of Trustees of Granite REIT and Board of Directors of Granite GP on this date. Additional information relating to Granite, including the 2018 Annual Information Form (''AIF'') dated March 6, 2019, 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.

In addition to using financial measures determined in accordance with IFRS, Granite also uses certain non-IFRS measures in managing its business to measure financial and operating performance as well as for capital allocation decisions and valuation purposes. Granite believes that providing these measures on a supplemental basis to the IFRS results is helpful to investors in assessing the overall performance of Granite's business. These non-IFRS measures include net operating income before lease termination and close-out fees, straight-line rent and tenant incentive amortization (''NOI — cash basis''), same property NOI — cash basis, funds from operations (''FFO''), adjusted funds from operations (''AFFO''), FFO payout ratio, AFFO payout ratio, leverage ratio, interest coverage ratio, net leverage ratio, indebtedness ratio, unencumbered asset coverage ratio and any related per unit amounts. Readers are cautioned that these measures do not have standardized meanings prescribed under IFRS and, therefore, should not be construed as alternatives to net income, cash provided by operating activities or any other measure 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 reporting issuers. Refer to ''*NON-IFRS MEASURES*'' for definitions and reconciliations of non-IFRS measures to IFRS financial measures.

FINANCIAL AND OPERATING HIGHLIGHTS

	Three Months Ended December 31,		Years Ended December 31,	
(in millions, except as noted)	**2018**	**2017**	**2018**	**2017**
Operating highlights				
Revenue[1]	**$59.9**	$ 62.6	**$247.5**	$244.7
NOI — cash basis[2]	**52.9**	56.2	**216.7**	218.2
Net income attributable to stapled unitholders	**85.9**	233.6	**465.2**	357.7
FFO[2][3]	**40.9**	41.6	**168.9**	153.2
AFFO[2][3]	**39.8**	32.6	**138.1**	145.4
Cash flows provided from operating activities	**34.7**	38.2	**157.9**	158.7
Monthly distributions paid	**31.1**	30.6	**125.1**	122.6
FFO payout ratio[2][4]	**77%**	75%	**78%**	78%
AFFO payout ratio[2][4]	**79%**	95%	**91%**	82%
Per unit amounts				
Diluted FFO[2][3]	**$0.90**	$ 0.89	**$ 3.68**	$ 3.25
Diluted AFFO[2][3]	**$0.87**	$ 0.69	**$ 3.01**	$ 3.09
Monthly distributions paid	**$0.68**	$ 0.65	**$ 2.72**	$ 2.60
Diluted weighted average number of units	**45.7**	47.0	**45.9**	47.1

As at December 31,	**2018**	**2017**
Financial highlights		
Investment properties — fair value[5]	**$3,425.0**	$2,733.6
Assets held for sale[5]	**44.2**	391.4
Cash and cash equivalents	**658.2**	69.0
Total debt	**1,303.2**	741.4
Trading price per unit (TSX: GRT.UN)	**$ 53.21**	$ 49.25
Debt metrics, ratings and outlook		
Net leverage ratio[2]	**19%**	25%
Interest coverage ratio[2]	**9.4x**	9.5x
Weighted average cost of debt	**2.17%**	2.54%
Weighted average debt term-to-maturity, in years	**4.7**	4.8
DBRS rating and outlook	**BBB stable**	BBB stable
Moody's rating and outlook	**Baa2 stable**	Baa2 stable
Property metrics[5]		
Number of investment properties	**84**	87
Income-producing properties	**80**	84
Properties under development	**2**	—
Land held for development	**2**	3
Gross leasable area (''GLA''), square feet	**32.2**	29.1
Occupancy, by GLA	**99.1%**	98.4%
Magna as a percentage of annualized revenue[6]	**54%**	71%
Magna as a percentage of GLA	**47%**	61%
Weighted average lease term, in years by GLA	**6.0**	5.9
Overall capitalization rate[7]	**6.7%**	7.6%

(1) Granite has retrospectively applied IFRS 15, *Revenue from Contracts with Customers* (see ''*NEW ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS*'') and all historical periods herein have been restated to reflect such treatment.

(2) For definitions of Granite's non-IFRS measures, refer to the section ''*NON-IFRS MEASURES*''.

(3) For the year ended December 31, 2018, Granite recognized $1.0 million ($0.02 per unit) in revenue related to a lease termination and close-out fee and a net $8.5 million ($0.19 per unit) foreign exchange gain on the remeasurement of US dollar cash proceeds from the sale of investment properties in January 2018. For the year ended December 31, 2017, Granite incurred $5.9 million ($0.12 per unit) of expenses in connection with a proxy contest that preceded the June 2017 annual general meeting and recognized $1.6 million ($0.03 per unit) related to lease termination and close-out fees in revenue. FFO, AFFO and the per unit amounts include the aforementioned items.

In the first quarter of 2018, Granite also paid $9.1 million ($0.19 per unit) related to a tenant incentive allowance for a 2014 lease extension at the Eurostar facility in Graz, Austria. AFFO and AFFO per unit amounts have been reduced by this $9.1 million tenant allowance payment.

(4) For comparative purposes, the FFO payout ratio and AFFO payout ratio exclude the lease termination and close-out fee of $1.0 million and the net $8.5 million foreign exchange gain on the remeasurement of US dollar cash proceeds from the sale of properties for the year ended December 31, 2018 as well as the lease termination and close-out fees of $1.6 million and the $5.9 million of proxy contest expenses in the prior year. AFFO payout ratio further excludes the $9.1 million tenant incentive payment made in 2018 in connection with the 2014 lease extension at the Eurostar facility.

(5) Assets held for sale are excluded from investment properties and related property metrics. Accordingly, six such assets that were held for sale at December 31, 2018 and 10 such assets that were held for sale at December 31, 2017 were excluded from investment properties and related property metrics at December 31, 2018 and December 31, 2017, respectively, throughout this MD&A.

(6) Annualized revenue for each period presented is calculated as rental revenue excluding tenant recoveries, recognized in accordance with IFRS, in the month of December multiplied by twelve months.

(7) Refer to ''Valuation Metrics by Investment Property Asset Category'' in ''*Investment Properties*'' section.

BUSINESS OVERVIEW AND STRATEGIC OUTLOOK

Business Overview

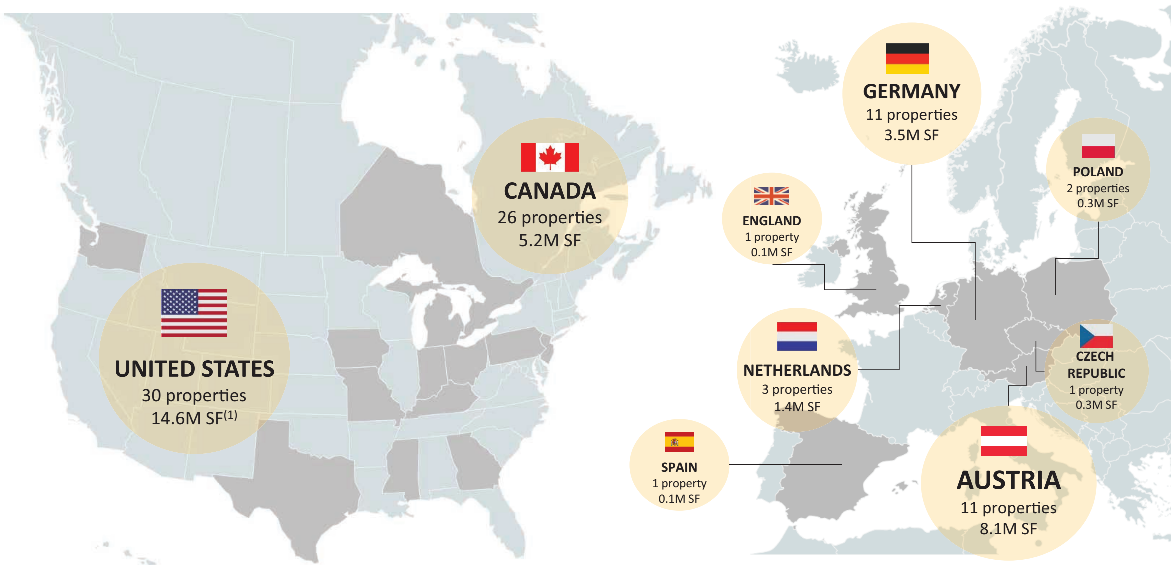
Granite is a Canadian-based real estate investment trust (''REIT'') engaged in the acquisition, development, ownership and management of industrial, warehouse and logistics properties in North America and Europe. As at March 6, 2019, Granite owns 86 investment properties in nine countries having approximately 33.6 million square feet of gross leasable area. The tenant base includes Magna International Inc. and its operating subsidiaries (collectively ''Magna'') as the largest tenant, in addition to tenants from various other industries. Properties leased to Magna are generally leased to operating subsidiaries of Magna International Inc. and the terms of the leases are not guaranteed by the parent company except for certain leases wherein the parent is the tenant.

Granite's investment properties consist of income-producing properties, properties under development and land held for development (see ''*INVESTMENT PROPERTIES*''). The income-producing properties consist of light industrial properties, heavy industrial manufacturing facilities, warehouse and logistics properties, corporate offices, product development and engineering centres and test facilities. The lease payments are primarily denominated in three currencies: the Canadian dollar (''$''), the Euro (''€'') and the US dollar (''US$'').

Granite's investment properties (excluding the six assets held for sale) by geographic location, property count and square footage as at March 6, 2019 are summarized below:

Investment Properties Summary

Nine countries/86 properties/33.6[1] million square feet



(1) Includes a 0.3 million square foot expansion completed in West Jefferson, OH and two income-producing properties representing 1.0 million of GLA acquired subsequent to December 31, 2018.

Strategic Outlook

Management continues to identify and pursue value creation opportunities that will build on Granite's current foundation, leverage the balance sheet and invest to grow and diversify the asset base.

Granite's long-term strategy is to continue to build an institutional quality and globally diversified industrial real estate business; to grow and diversify its asset base through acquisitions, development, re-development and dispositions; to optimize its balance sheet; and to reduce its exposure to Magna and the special purpose properties (see ''*INVESTMENT PROPERTIES*'') over the long-term.

Following the sale of 16 non-core properties in 2018 (see ''*SIGNIFICANT MATTERS*''), Granite has positioned itself to capitalize on market opportunities within its geographic footprint and execute on its strategy as well as benefit from a net leverage ratio of 19%, liquidity of approximately $1.2 billion and a strong pipeline of acquisition and development opportunities.

As Granite looks to the remainder of 2019, its priorities are as follows:

- Strategically redeploy the proceeds from the recently sold properties and financing initiatives;
- Accelerate growth in its target markets in North America and Europe primarily through property, portfolio and corporate acquisitions as well as through joint venture arrangements and development of modern logistics and e-commerce assets in e-commerce markets;
- Continue to dispose of select non-core assets;
- Maintain a target occupancy in excess of 98%;
- Enhance Granite's global platform;
- Grow net asset value as well as FFO and AFFO per unit; and
- Pursue development opportunities within the existing portfolio.

Executing on these near-term priorities will accelerate the ongoing transformation of Granite into an institutional quality e-commerce and distribution real estate business.

SIGNIFICANT MATTERS

Property Acquisitions

During the year ended December 31, 2018, Granite acquired seven income-producing modern properties in the United States and one in Germany as well as one property comprised of development land in the United States. Property acquisitions consisted of the following:

2018 Acquisitions *(in millions, except as noted)* Property Address	Location	Sq ft[1]	Weighted Average Lease Term, in years by sq ft[1]	Date Acquired	Property Purchase Price	In-going Stabilized Yield[1]
Income-producing properties:						
3870 Ronald Reagan Parkway	Plainfield, IN	0.6	5.8	Mar 23, 2018	**$ 50.8**	5.3%
181 Antrim Commons Drive	Greencastle, PA	0.4	14.6	Apr 4, 2018	**44.3**	5.7%
Ohio portfolio (four properties):						
10, 100 and 115 Enterprise Parkway						
and 15 Commerce Parkway	West Jefferson, OH	3.8	7.0	May 23, 2018	**299.3**	6.0%
Joseph-Meyer-Straße 3	Erfurt, Germany	0.7	4.7	Jul 12, 2018	**82.7**	5.4%
120 Velocity Way	Shepherdsville, KY	0.7	4.8	Dec 3, 2018	**65.9**	5.7%
Development land:						
12.9 acres of development land,						
Lot 18, Park 70	West Jefferson, OH	N/A	N/A	Nov 1, 2018	**1.2**	N/A
Total		**6.2**	**6.8**		**$544.2**	**5.8%**

(1) As at the date of acquisition

Acquisition, Construction and Development Commitments

Granite had the following property expansion and purchase commitments as well as construction and development commitments:

Commitments *(in millions, except as noted)* Property Location	Additional sq ft	Payments/ Deposits Made[1]	Future Commitments	Total Cost	Year-One Stabilized Yield
As at December 31, 2018:					
Expansion at West Jefferson, OH	0.3	$20.6	$ 3.5	**$ 24.1**	6.1%
Leasehold interest in two properties in Mississauga, ON	0.9	7.0	147.0	**154.0**	4.5%
Properties under development in Texas and Indiana as well as					
other construction commitments	1.4	34.5	306.5	**341.0**	6.0%
	2.6	**$62.1**	**$457.0**	**$519.1**	**5.4%**
Commitments between January 1, 2019 and March 6, 2019:					
Two property purchases in Wilmer and Hutchins, TX[2]	1.0	—	168.8	**168.8**	6.2%
Demolition phase of property under development in Germany	—	—	1.7	**1.7**	N/A
	3.6	**$62.1**	**$627.5**	**$689.6**	**5.6%**

(1) As at December 31, 2018

(2) Subsequent to December 31, 2018, Granite committed to acquire these properties. On March 1, 2019, Granite purchased the properties for total consideration of $168.8 million.

Commitments as at December 31, 2018

In January 2019, Granite completed a building expansion at a West Jefferson, Ohio property for $24.1 million (US$17.7 million) that added 0.3 million square feet and is expected to contribute approximately $1.4 million in additional annual revenue upon rent commencement in the first quarter of 2020 subsequent to a rent-free period of approximately one year. Construction of the expansion commenced during the third quarter of 2018 and was substantially completed in January 2019.

A deposit of $7.0 million was made during 2018 to acquire the leasehold interest in two income-producing properties located in Mississauga, Ontario for total consideration of $154.0 million. This commitment to purchase the leasehold interest is subject to customary closing conditions and the consent of the ground lessor. The purchase is expected to close in the second quarter of 2019.

A deposit of $27.3 million (US$20.0 million) was also made during 2018 in connection with a contractual commitment to acquire a property under development in the state of Texas. This commitment to purchase the property under development is subject to specific confidentiality provisions and customary closing conditions including certain purchase rights in favour of the tenant and is expected to close concurrently with the lease commencement in the third quarter of 2019 following construction of the building.

As at December 31, 2018, Granite's commitment to purchase these aforementioned properties and expansion together with additional contractual commitments related to construction and development projects, including the development of a property in Plainfield, Indiana, amounted to approximately $457 million.

Commitments subsequent to December 31, 2018

On March 1, 2019, Granite acquired two properties in the United States for $168.8 million (US$123.7 million). The first property, 201 Sunridge Boulevard, Wilmer, Texas, is a 0.8 million square feet, 30-foot clear height distribution centre situated on 53.4 acres of land. Constructed in 2008, the property is 100% leased to a subsidiary of Unilever for a remaining lease term of 9.5 years. The excess land on the property can support a building expansion of up to 0.3 million square feet, providing attractive site flexibility and the potential for additional income in the future. The second property, 3501 North Lancaster Hutchins Road, Hutchins, Texas, is a 174.6 acre site, containing three buildings totaling 0.2 million square feet. The property is 100% leased to a leading wholesale automotive auction company for a remaining lease term of 10.4 years. The gross leasable area of the existing buildings represents a site coverage ratio of only 2.6%, providing significant potential for future development. Both properties are located within the southeast Dallas-Fort Worth industrial market.

During the first quarter of 2019, Granite entered into an agreement for approximately $1.7 million (€1.1 million) to demolish an existing building on a 15 acre site in Altbach, Germany. As at March 6, 2019, the demolition of the property is almost complete and construction of a 0.3 million square foot distribution/light industrial facility is expected to commence later in 2019.

2018 Property Dispositions

During the year ended December 31, 2018, 16 properties previously classified as assets held for sale were disposed of for approximately $730 million and an overall capitalization rate of 6.7%. The properties consisted of the following:

2018 Dispositions *(in millions, except as noted)* Property Address	Location	Sq ft	Date Disposed	Sale Price	Annualized Revenue[(1)]
111 Cosma Drive	Bowling Green, KY	1.2	Jan 30, 2018	**$170.0**	**$12.0**
1 Cosma Court and 170 Edward Street	St. Thomas, ON	1.5	Jan 30, 2018	**154.6**	**10.8**
Newpark campus (seven properties): 521, 550, 561, 564, 581, 594 and 630 Newpark Boulevard	Newmarket, ON	0.6	Jan 31, 2018	**63.0**	**2.8**
1 Clearview Drive	Tillsonburg, ON	0.3	Jul 18, 2018	**7.2**	**0.6**
120 Moon Acres Road	Piedmont, SC	1.1	Sep 13, 2018	**216.4**	**14.2**
1000 JD Yarnell Industrial Parkway	Clinton, TN	0.5	Sep 13, 2018	**54.8**	**4.1**
337 and 375 Magna Drive	Aurora, ON	0.1	Sep 27, 2018	**60.0**	**3.7**
Industriestrasse 11	Schleiz, Germany	0.1	Oct 4, 2018	**3.6**	**0.4**
		5.4		**$729.6**	**$48.6**

(1) Annualized revenue is calculated as rental revenue excluding tenant recoveries, recognized in accordance with IFRS, in the month the property was first classified as an asset held for sale multiplied by twelve months.

During the year ended December 31, 2018, Granite completed the sale of its two remaining special purpose properties in the United States located in Piedmont, South Carolina and Clinton, Tennessee. The gross proceeds for these two properties of $216.4 million and $54.8 million included amounts that are expected to be received in the first quarters of 2020 and 2019, respectively, and were based on an estimated consumer price index inflation factor at the date of disposition. At December 31, 2018, the expected remaining proceeds receivable was $11.8 million (US$8.7 million) for the property disposed of in South Carolina and $0.2 million (US$0.2 million) for the Tennessee property disposal. The proceeds receivable are subject to change and will be dependent upon the actual inflation factors.

Assets Held for Sale

At December 31, 2018, six investment properties located in Canada and the United States were classified as assets held for sale. The six properties, having an aggregate fair value of $44.2 million, consisted of the following:

Held for Sale *(in millions, except as noted)* Property Address	Location	Sq ft	Fair Value	Annualized Revenue[(1)]
3 Walker Drive (nine acre parcel of land)	Brampton, ON	N/A	**$13.4**	**$ —**
375 Edward Street	Richmond Hill, ON	0.1	**7.8**	**—**
403 S 8th Street	Montezuma, IA	0.2	**7.1**	**0.8**
1951 A Avenue	Victor, IA	0.1	**5.5**	**0.6**
408 N Maplewood Avenue	Williamsburg, IA	0.2	**7.2**	**0.6**
411 N Maplewood Avenue	Williamsburg, IA	0.1	**3.2**	**0.2**
		0.7	**$44.2**	**$2.2**

(1) Annualized revenue is calculated as rental revenue excluding tenant recoveries, recognized in accordance with IFRS, in the month the property was first classified as an asset held for sale multiplied by twelve months.

These aforementioned properties were classified as assets held for sale on the combined balance sheets at December 31, 2018 and were excluded from the value of investment properties. These properties are also excluded from references to investment properties and related property metrics on the date thereof throughout this MD&A. During January and February 2019, all six properties classified as assets held for sale were sold for aggregate gross proceeds of $43.7 million.

Unsecured Term Loans

On December 12, 2018, Granite entered into and fully drew down a $300.0 million seven-year senior unsecured non-revolving term facility (the ''2025 Term Loan''). Through a cross currency interest rate swap, Granite has exchanged the variable rate interest payments (Canadian Dollar Offered Rate ''CDOR'' plus margin) from the 2025 Term Loan for Euro denominated payments at a 2.202% fixed interest rate.

On December 19, 2018, Granite entered into and fully drew down a US$185.0 million four-year senior unsecured non-revolving term facility (the ''2022 Term Loan''). Through a cross currency interest rate swap, Granite has exchanged the variable rate interest payments (LIBOR plus margin) from the 2022 Term Loan for Euro denominated payments at a 1.225% fixed interest rate.

Granite intends to use the net proceeds from both term loans for general corporate purposes, including to fund development and property acquisitions.

Officer and Board Appointments

Effective August 1, 2018, Kevan Gorrie became Granite's President and Chief Executive Officer, a trustee of Granite REIT and a director of Granite GP, replacing Michael Forsayeth.

Special Distribution to Unitholders

As a result of the increase in taxable income generated primarily by the sale transactions in 2018, Granite's Board of Trustees declared a special distribution in December 2018 of $1.20 per stapled unit which comprised 30.0 cents per unit payable in cash and 90.0 cents per unit payable by the issuance of stapled units. The cash portion of the special distribution was intended to provide liquidity to unitholders to cover all or part of any non-resident withholding taxes or other income tax obligations that may arise from the additional taxable income being distributed via the special distribution. On January 15, 2019, immediately following the issuance of the stapled units related to the portion of the special distribution payable in stapled units of 90.0 cents per unit, the stapled units were consolidated such that each unitholder held the same number of stapled units after the consolidation as each unitholder held prior to the special distribution.

Increase in Monthly Distributions

The 2019 targeted annualized distribution increased by 2.9% to $2.80 (23.3 cents per month) per stapled unit commencing with the monthly distribution paid in January 2019.

RESULTS OF OPERATIONS

Foreign Currency Translation

The majority of Granite's investment properties are located in Europe and the United States and the cash flows derived from such properties are primarily denominated in Euros and US dollars. Accordingly, fluctuations in the Canadian dollar, Granite's reporting currency, relative to the Euro and US dollar will result in fluctuations in the reported values of revenues, expenses, cash flows, assets and liabilities. The most significant foreign currency exchange rates that impact Granite's business are summarized in the following table:

	Average Exchange Rates						Period End Exchange Rates		
	Three Months Ended December 31,			Years Ended December 31,					
	2018	2017	Change	**2018**	2017	Change	December 31, 2018	December 31, 2017	Change
$ per €1.00 . . .	**1.508**	1.497	1%	**1.530**	1.465	4%	**1.563**	1.505	4%
$ per US$1.00 .	**1.322**	1.271	4%	**1.296**	1.298	—%	**1.364**	1.252	9%

The average exchange rates for the three months ended December 31, 2018 were higher when compared to those for the three months ended December 31, 2017 as a result of the relative weakening of the Canadian dollar vis-à-vis the Euro and US dollar, which, on a comparative basis, increased the Canadian dollar equivalent of revenue and expenses from Granite's European and U.S. operations.

For the year ended December 31, 2018 compared to the prior year, the average exchange rates of the Canadian dollar to the Euro and US dollar were higher and slightly lower, respectively, which on a comparative basis, increased the Canadian dollar equivalent of revenue and expenses from Granite's European operations and marginally decreased the Canadian dollar equivalent of revenue and expenses from Granite's U.S. operations.

The period end exchange rates of the Canadian dollar to the Euro and US dollar on December 31, 2018 were higher when compared to the December 31, 2017 exchange rates. As a result, the Canadian dollar equivalent of assets and liabilities from Granite's European and U.S. subsidiaries were higher when compared to December 31, 2017.

On a net basis, the effect of the changes in exchange rates on Granite's operating results for the three month period and year ended December 31, 2018 was as follows:

Effects of Changes in Exchange Rates on Operating Results

(in millions, except per unit information)	Three Months Ended December 31, 2018 vs 2017	Years Ended December 31, 2018 vs 2017
Increase in revenue	$ 0.9	$ 4.5
Increase in NOI — cash basis	0.8	4.4
Increase in net income	1.2	5.0
Increase in FFO	0.9	2.8
Increase in AFFO	0.8	2.8
Increase in FFO per unit	$ 0.02	$ 0.06
Increase in AFFO per unit	$ 0.02	$ 0.06

Operating Results

Revenue

Revenue						
	Three Months Ended December 31,			Years Ended December 31,		
	2018	2017(1)	$ change	2018	2017(1)	$ change
Rental revenue	**$53.5**	$55.7	(2.2)	**$220.0**	$216.1	3.9
Tenant recoveries . . .	**6.4**	6.9	(0.5)	**26.5**	27.0	(0.5)
Lease termination and close-out fees .	**—**	—	—	**1.0**	1.6	(0.6)
Revenue	**$59.9**	$62.6	(2.7)	**$247.5**	$244.7	2.8

(1) Granite has retrospectively applied IFRS 15, *Revenue from Contracts with Customers* (see ''*NEW ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS*'') and all historical periods herein have been restated to reflect such treatment.

Revenue for the three month period ended December 31, 2018 decreased $2.7 million to $59.9 million from $62.6 million in the prior year period. The components contributing to the change in revenue are detailed below:

Q4 2018 vs Q4 2017 Change in Revenue

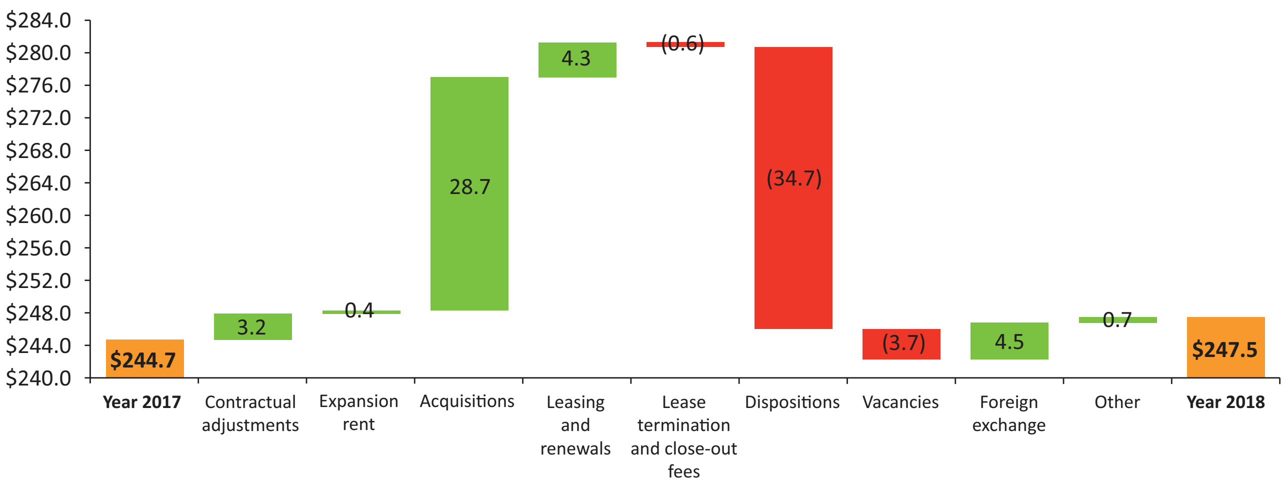
Additional details pertaining to the components of the change in revenue are as follows:

- contractual rent adjustments included $0.7 million from consumer price index based increases and $0.1 million from fixed contractual adjustments related to rent escalations;
- the acquisitions of properties located in the United States and Germany in 2018 increased revenue by $8.6 million, which included $0.7 million of tenant recoveries;
- revenue increased by $1.4 million primarily due to the partial lease-up of a property in Novi, Michigan;

- the sale of 16 investment properties in Canada, the United States and Germany in 2018 decreased revenue by $13.8 million of which $1.6 million related to a reduction in property tax and insurance tenant recoveries;
- vacancies arising from a lease expiry for a property in the Netherlands and three lease expiries for properties in Canada decreased revenue by $0.4 million each. The property in the Netherlands was re-leased in December 2018; and
- foreign exchange had a $0.9 million positive impact as the weakening of the Canadian dollar against the Euro and US dollar increased revenue by $0.1 million and $0.8 million, respectively.

Revenue for the year ended December 31, 2018 increased $2.8 million to $247.5 million from $244.7 million in the prior year. The components contributing to the change in revenue are detailed below:

Year 2018 vs Year 2017 Change in Revenue



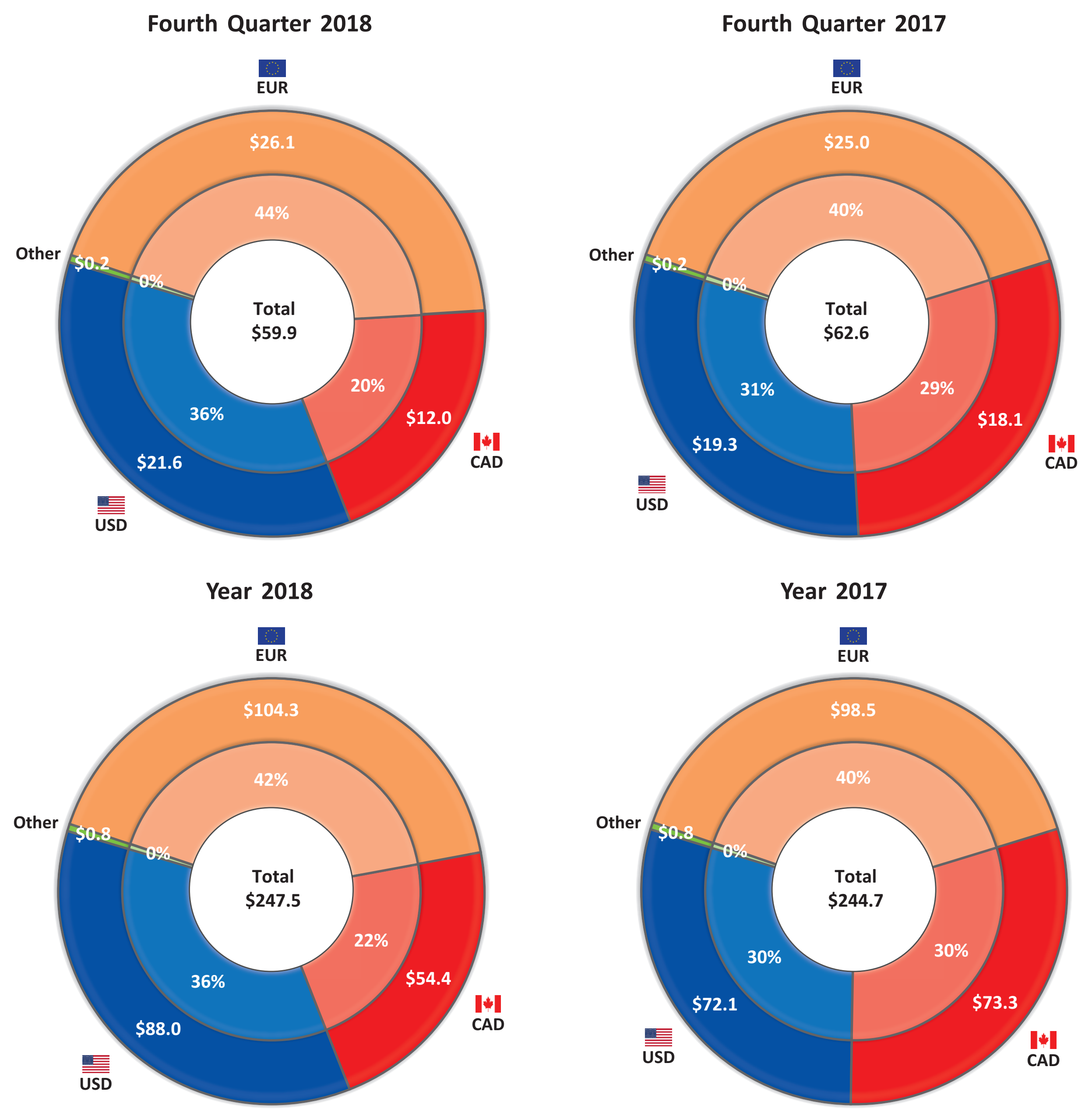
Additional details pertaining to the components of the change in revenue are as follows:

- contractual rent adjustments included $2.8 million from consumer price index based increases and $0.4 million from fixed contractual adjustments related to rent escalations;
- revenue increased by $0.4 million primarily due to the purchase of two building expansions in the United States in the prior year;
- the acquisitions of properties located in the United States and Germany from October 2017 to December 2018 increased revenue by $28.7 million, which included $2.8 million of tenant recoveries;
- revenue increased by $4.3 million primarily due to the partial lease-up of a property in Novi, Michigan;
- revenue decreased by $1.6 million as a result of the lease termination and close-out fees received in the prior year, partially offset by a $1.0 million lease termination fee in 2018 for an acquired property in the United States for which the leasable area was re-leased to a new tenant;
- the sale of 16 properties in Canada, the United States and Germany in 2018 decreased revenue by $34.7 million of which $4.4 million related to a reduction in property tax and insurance tenant recoveries;

- lease expiries for five properties in North America and two properties in Europe resulted in vacancies that decreased revenue by $1.5 million and $2.2 million, respectively; and
- foreign exchange had a net $4.5 million positive impact largely from the weakening of the Canadian dollar against the Euro.

Revenue by major currency for the three month periods and years ended December 31, 2018 and 2017 was as follows:

Revenue by Currency



The mix in revenue for the three months and year ended December 31, 2018 compared to the prior year periods has changed primarily with revenue denominated in US dollars increasing and revenue denominated in Canadian dollars decreasing as a result of the recent U.S. acquisitions and Canadian property dispositions.

As a majority of the Trust's revenue is denominated in currencies other than the Canadian dollar, Granite uses derivative financial instruments, including cross currency interest rate swaps and forward currency contracts, to partially hedge its exposure to foreign currencies and reduce the potential impact that foreign currency rate changes may have on Granite's operating results, cash flows and distributions.

Net Operating Income

Net operating income (''NOI'') in the three months ended December 31, 2018 was $52.4 million compared to $54.5 million in the three months ended December 31, 2017. NOI in the year ended December 31, 2018 was $216.6 million compared to $213.3 million in the year ended December 31, 2017. NOI — cash basis excludes the impact of lease termination and close-out fees, and straight-line rent and tenant incentive amortization and reflects the cash generated by the income-producing properties excluding lease termination and close-out fees on a period-over-period basis. NOI — cash basis was $52.9 million in the three months ended December 31, 2018 compared with $56.2 million in the prior year period. NOI — cash basis was $216.7 million in the year ended December 31, 2018 compared with $218.2 million in the year ended December 31, 2017.

Same property NOI — cash basis refers to the NOI — cash basis for those properties owned by Granite throughout the entire current and prior year periods under comparison. Same property NOI — cash basis excludes properties that were acquired, disposed of, classified as properties under or held for development or assets held for sale during the periods under comparison. Same property NOI — cash basis in the three months ended December 31, 2018 was $42.9 million compared to $41.3 million in the three months ended December 31, 2017. Same property NOI — cash basis in the year ended December 31, 2018 was $170.9 million compared to $164.6 million in the year ended December 31, 2017. The changes in NOI, NOI — cash basis and same property NOI — cash basis are detailed below:

Changes in NOI[3], NOI — Cash Basis and Same Property NOI — Cash Basis

	Sq ft[1] (in millions)	Three Months Ended December 31,			Sq ft[1] (in millions)	Years Ended December 31,		
		2018	**2017[2]**	**$ change**		**2018**	**2017[2]**	**$ change**
Revenue		**$59.9**	$62.6	(2.7)		**$247.5**	$244.7	2.8
Less: Property operating costs		**7.5**	8.1	(0.6)		**30.9**	31.4	(0.5)
NOI[3]		**$52.4**	$54.5	(2.1)		**$216.6**	$213.3	3.3
Add (deduct):								
Lease termination and close-out fees		**—**	—	—		**(1.0)**	(1.6)	0.6
Straight-line rent amortization		**(0.8)**	0.3	(1.1)		**(4.3)**	1.1	(5.4)
Tenant incentive amortization		**1.3**	1.4	(0.1)		**5.4**	5.4	—
NOI — cash basis	32.2	**$52.9**	$56.2	(3.3)	32.2	**$216.7**	$218.2	(1.5)
Less NOI — cash basis for:								
Acquisitions	8.4	**9.5**	2.3	7.2	8.4	**26.0**	2.3	23.7
Dispositions, assets held for sale and developments	0.7	**0.5**	12.6	(12.1)	6.0	**19.8**	51.3	(31.5)
Same property NOI — cash basis	23.8	**$42.9**	$41.3	1.6	23.8	**$170.9**	$164.6	6.3

(1) The square footage relating to the NOI — cash basis represents GLA of 32.2 million square feet as at December 31, 2018. The square footage relating to the same property NOI — cash basis represents Granite's GLA of 23.8 million square feet as at

December 31, 2018, which excludes the impact from the acquisitions, dispositions, assets held for sale and developments during the relevant periods.

(2) The Trust has retrospectively applied IFRS 15, *Revenue from Contracts with Customers* (see ''*NEW ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS*'') and all historical periods herein have been restated to reflect such treatment.

(3) NOI is calculated in accordance with IFRS and is included in the audited combined financial statements as at and for the year ended December 31, 2018. Previously, Granite reported NOI as a non-IFRS financial measure, calculated as set forth above but excluding lease termination and close-out fee revenue. NOI for the year ended December 31, 2017 as calculated under the prior method was previously reported as $211.7 million, and for the quarter ended December 31, 2017 was previously reported as $54.5 million.

Property operating costs include recoverable and non-recoverable costs from tenants and consist of property taxes, utilities, insurance, repairs and maintenance, legal and other property-related expenses. None of Granite's employee compensation expenses are included in property operating costs.

Straight-line rent amortization represents the scheduled fixed rent changes or rent-free periods in leases that are recognized in revenue evenly on a straight-line basis over the term of the lease. Tenant incentive amortization mainly represents allowances provided to tenants that are recognized in revenue evenly on a straight-line basis over the term of the lease and primarily comprises the amortization associated with the cash allowance incentives paid to Magna in respect of the 10-year lease extensions exercised during the 2014 year at the Thondorf and Eurostar properties in Graz, Austria.

NOI — cash basis for the three month period ended December 31, 2018 decreased $3.3 million to $52.9 million from $56.2 million in the prior year period due to the decrease in rental revenue as noted previously and the straight-line rent amortization associated with the recent acquisitions in the United States and rent-free period for the re-leasing of a property in the Netherlands.

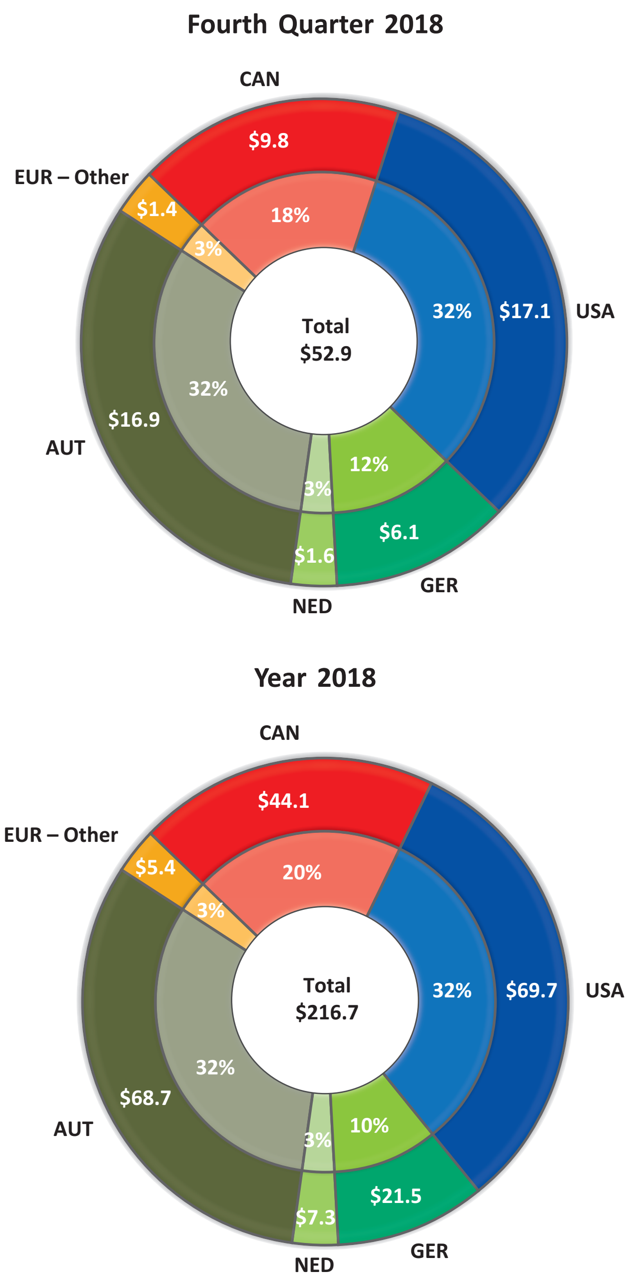
NOI — cash basis for the year ended December 31, 2018 decreased $1.5 million to $216.7 million from $218.2 million in the prior year as a result of the straight-line rent amortization for the properties mentioned above and rent-free periods associated with the partial lease-up of vacant space in Novi, Michigan and the early renewals and extensions of three leases in North America and Germany, partially offset by the increase in rental revenue as noted previously.

Same property NOI — cash basis for the three month period ended December 31, 2018 increased $1.6 million (3.9%) to $42.9 million primarily due to the increase in contractual rents, partial lease-up of the property in Novi, Michigan and the favourable foreign exchange impact from the weakening of the Canadian dollar against the US dollar, partially offset by vacancies for properties in Canada and the Netherlands. Excluding the impact of foreign exchange, same property NOI — cash basis for the three month period ended December 31, 2018 would have increased by 1.9%.

Same property NOI — cash basis for the year ended December 31, 2018 increased $6.3 million (3.8%) to $170.9 million largely resulting from the increase in contractual rents, the partial lease-up of the vacant space in Novi, Michigan and the property in Poland, and the favourable foreign exchange impact from the weakening of the Canadian dollar against the Euro, partially offset by vacancies for properties in North America and the Netherlands and rent-free periods for certain lease renewals in Europe. Excluding the impact of foreign exchange, same property NOI — cash basis for the year ended December 31, 2018 would have increased by 0.3%.

NOI — cash basis for the three month periods and years ended December 31, 2018 and 2017 by geography was as follows:

NOI — Cash Basis by Geography



The mix in NOI — cash basis for the three months and year ended December 31, 2018 compared to the prior year periods has changed primarily with the percentage attributable to the United States increasing and Canada decreasing as a result of the recent U.S. acquisitions and Canadian property dispositions.

Granite's property portfolio and NOI — cash basis are geographically diversified, which reduces the risk to Granite's operating results of any particular country's economic downturn.

General and Administrative Expenses

General and administrative expenses consisted of the following:

General and Administrative Expenses

	Three Months Ended December 31,			Years Ended December 31,		
	2018	**2017**	**$ change**	**2018**	**2017**	**$ change**
Salaries and benefits	**$4.2**	$3.1	1.1	**$16.0**	$12.1	3.9
Audit, legal and consulting	**1.0**	0.9	0.1	**4.0**	3.4	0.6
Trustee/director fees and related expenses	**0.2**	0.4	(0.2)	**1.1**	1.4	(0.3)
Unit-based compensation including distributions and revaluations	**0.6**	0.7	(0.1)	**3.2**	4.0	(0.8)
Other public entity costs	**0.4**	0.4	—	**1.6**	1.7	(0.1)
Office rents	**0.2**	0.2	—	**0.9**	0.9	—
Other	**0.6**	0.9	(0.3)	**2.6**	2.5	0.1
General and administrative expenses	**$7.2**	$6.6	0.6	**$29.4**	$26.0	3.4

General and administrative expenses were $7.2 million for the three month period ended December 31, 2018 and increased $0.6 million in comparison to the prior year period primarily as a result of the following:

- an increase in salaries and benefits expense mainly due to higher incentive pay expense, partially offset by;
- a decrease in trustee/director fees as a result of a reduction in board fees starting in 2017; and
- a decrease in other general and administrative expenses primarily due to fees for various administrative matters, such as staff replacements and travel, incurred in the prior year period.

General and administrative expenses were $29.4 million for the year ended December 31, 2018 and increased $3.4 million in comparison to the prior year primarily as a result of the following:

- an increase in salaries and benefits expense mainly due to compensation costs associated with departing employees including Granite's former Chief Executive Officer and Chief Operating Officer as well as higher incentive pay expense in the 2018 year; and
- an increase in audit, legal and consulting costs due to corporate advisory matters including internal reorganizations and administrative matters, such as temporary staff replacements. These increases were partially offset by:
- the reduction in unit-based compensation costs mainly due to the decrease in fair value remeasurement expense resulting from fluctuations in the market price of the Trust's stapled units. For the years ended December 31, 2018 and 2017, general and administrative expenses included a

fair value remeasurement expense of $0.5 million and $1.2 million, respectively, associated with the unit-based compensation plans.

Proxy Contest Expenses

In the year ended December 31, 2017, Granite incurred expenses of $5.9 million in connection with the proxy contest leading up to Granite's June 2017 annual general meeting. Included in the proxy contest expenses are legal, advisory and proxy solicitation costs incurred directly by Granite and a $2.0 million reimbursement of out-of-pocket fees and expenses incurred by Front Four Capital Group and Sandpiper Group regarding matters relating to the annual general meeting. Sandpiper Group received $0.7 million of the reimbursement. An individual affiliated with Sandpiper Group is a related party of Granite by virtue of becoming a director of Granite GP and a trustee of Granite REIT.

Interest Income

Interest income for the three month periods ended December 31, 2018 and 2017 was $0.8 million and $0.1 million, respectively. The $0.7 million increase is primarily due to interest income earned from higher cash balances resulting from property dispositions and the drawdowns from the term loans.

Interest income for the years ended December 31, 2018 and 2017 was $2.6 million and $0.5 million, respectively. The $2.1 million increase is primarily due to interest income earned from higher cash balances as noted above and a vendor take-back mortgage receivable associated with a property disposition. The mortgage receivable bore interest at an annual rate of 6.0% and was repaid on April 16, 2018.

Interest Expense and Other Financing Costs

Interest expense and other financing costs for the three month periods ended December 31, 2018 and 2017 remained consistent at $5.5 million. The fourth quarter of 2018 included interest expense associated with the term loan drawdowns in December 2018 while the prior year period included interest expense for the outstanding credit facility draws.

Interest expense and other financing costs for the years ended December 31, 2018 and 2017 were $22.4 million and $20.0 million, respectively. The $2.4 million increase is primarily related to:

- the higher interest expense associated with the credit facility draws and term loans indebtedness during 2018;
- the foreign exchange impact resulting from the relative weakening of the Canadian dollar against the Euro on the cross currency interest rate swaps; and
- the higher standby fees relating to the increased borrowing capacity under the credit facility.

As at December 31, 2018, Granite's weighted average cost of interest-bearing debt was 2.17% (2017 — 2.54%) and the weighted average debt term-to-maturity was 4.7 years (2017 — 4.8 years).

Foreign Exchange Gains/Losses, Net

Granite recognized net foreign exchange gains of $1.4 million and $0.8 million in the three month periods ended December 31, 2018 and 2017, respectively. The $0.6 million increase in net foreign exchange gains is primarily due to the settlement of two cross currency interest rate swaps entered into to fund the property acquisition in Germany.

Granite recognized net foreign exchange gains of $9.4 million in the year ended December 31, 2018 which included an $8.5 million foreign exchange gain related to the remeasurement of the US dollar cash proceeds received from the sale of three investment properties in January 2018. In comparison, Granite recognized net foreign exchange losses of $0.6 million in the year ended December 31, 2017. The $10.0 million increase in net foreign exchange gains is substantially due to the remeasurement of the US dollar cash proceeds and, to a lesser extent, the settlement of two cross currency interest rate swaps as noted above, partially offset by the net remeasurement of certain monetary assets and liabilities of the Trust that are denominated in US dollars or Euros.

Fair Value Gains/Losses on Investment Properties, Net

Net fair value gains on investment properties were $52.9 million and $185.2 million in the three month periods ended December 31, 2018 and 2017, respectively. In the three month period ended December 31, 2018, net fair value gains of $52.9 million were largely attributable to a compression in discount and terminal capitalization rates for properties located in Canada, the United States and the Netherlands that resulted from a greater market demand for industrial real estate properties and, to a lesser extent, the increase in fair value to the expected sale price for the multi-purpose properties sold in the first quarter of 2019 and the positive changes in leasing assumptions associated with new leases and lease renewals.

The net fair value gains on investment properties in the three month period ended December 31, 2017 of $185.2 million were primarily attributable to i) the increase in fair value to the sale price for the 10 properties (three special purpose properties and seven multi-purpose facilities) sold in January 2018 and the higher valuation implied on certain remaining special purpose properties (see ''*INVESTMENT PROPERTIES*'') from the pricing realized and the liquidity potential demonstrated from the sale and ii) a compression in discount and terminal capitalization rates for certain multi-purpose properties located in Canada resulting from market demand which led to improved asset pricing.

Net fair value gains on investment properties were $354.7 million and $212.1 million in the years ended December 31, 2018 and 2017, respectively. In the year ended December 31, 2018, net fair value gains of $354.7 million were largely attributable to i) an increase in fair value to the sale price for the multi-purpose and special purpose properties sold in 2018 and 2019, ii) a compression in discount and terminal capitalization rates and an increase in market rents for properties located in Canada, the United States, Germany and the Netherlands resulting from a greater market demand and, to a lesser extent, iii) positive changes in leasing assumptions primarily from contractual rent increases, new leases and lease renewals.

The net fair value gains on investment properties in the year ended December 31, 2017 of $212.1 million were attributable to several factors, and, in particular, to i) the increase in fair value to the sale price for the 10 properties sold in January 2018 and the higher valuation implied on certain remaining special purpose properties, as noted above, ii) a compression in discount and terminal capitalization rates for certain modern warehouse and multi-purpose properties located in Canada, the United States and Europe resulting from market demand which led to improved asset pricing and iii) favourable changes in leasing assumptions from new leases or renewals executed at multi-purpose properties located in Canada and the United States and modern warehouse properties in Europe.

Acquisition Transaction Costs

Acquisition transaction costs for the three month period and year ended December 31, 2018 were $0.4 million and $8.0 million compared to $0.4 million and $0.7 million for the prior year periods, respectively. Acquisition transaction costs primarily include land transfer tax, legal and advisory costs associated with completed acquisitions and, to a lesser extent, legal and advisory costs associated with pursuing acquisition opportunities that were not completed. The increase in acquisition transaction costs for the current year is due to greater overall acquisition activity and a $5.4 million land transfer tax for the property acquired in Germany.

Loss on Sale of Investment Properties

The loss on sale of investment properties for the three month period and year ended December 31, 2018 was $1.5 million and $6.9 million, respectively, compared to $0.4 million for both prior year periods. Loss on sale of investment properties is related to broker commissions and legal and advisory costs associated with the dispositions or planned dispositions of assets held for sale.

Other Income

Other income of $2.3 million for the year ended December 31, 2018 is attributable to a settlement amount related to a land use matter for a property in Ontario, Canada. Granite received $1.4 million of the settlement during 2018 and the remaining balance was collected in January 2019.

Income Tax Expense

Income tax expense comprised the following:

Income Tax Expense

	Three Months Ended December 31,			Years Ended December 31,		
	2018	**2017**	**$ change**	**2018**	**2017**	**$ change**
Foreign operations	**$ 1.3**	$ 1.4	(0.1)	**$ 5.9**	$ 5.2	0.7
Withholding taxes	**—**	—	—	**0.7**	1.0	(0.3)
Related to sale of an investment property	**—**	—	—	**0.2**	—	0.2
Other	**(0.5)**	0.1	(0.6)	**0.8**	1.5	(0.7)
Current tax expense	**0.8**	1.5	(0.7)	**7.6**	7.7	(0.1)
Deferred tax expense	**4.6**	(8.0)	12.6	**45.0**	5.7	39.3
Income tax expense	**$ 5.4**	$(6.5)	11.9	**$52.6**	$13.4	39.2

For the three months ended December 31, 2018, the current tax expense decreased compared to the prior year period primarily due to the favourable settlement of an Austrian tax matter in the fourth quarter of 2018.

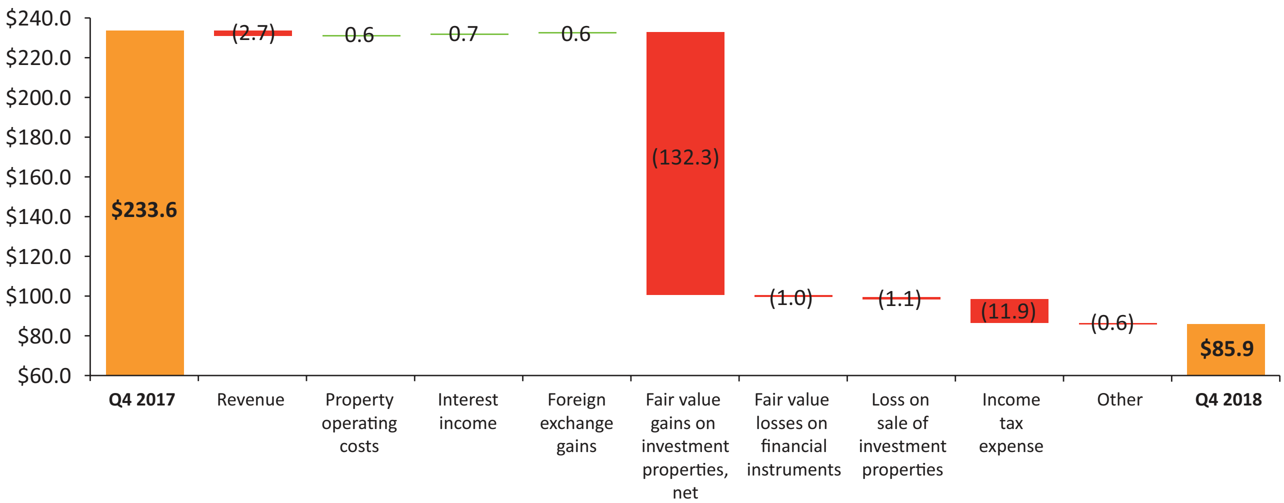
For the year ended December 31, 2018, the current tax expense decreased compared to the prior year primarily due to the favourable settlement of an Austrian tax matter and lower withholding taxes incurred on inter-company dividends, partially offset by higher taxable income generated in taxable European jurisdictions, the foreign exchange impact resulting from the relative weakening of the Canadian dollar on Euro denominated tax expense and the tax expense associated with the disposition of a property located in Germany.

The increase in deferred tax expense for the three months and year ended December 31, 2018 compared to the prior year periods was primarily due to an increase in fair value gains in jurisdictions in which deferred taxes are recorded and the reduction in the US tax rate enacted in December 2017 that resulted in a deferred tax recovery in the prior year.

Net Income Attributable to Stapled Unitholders

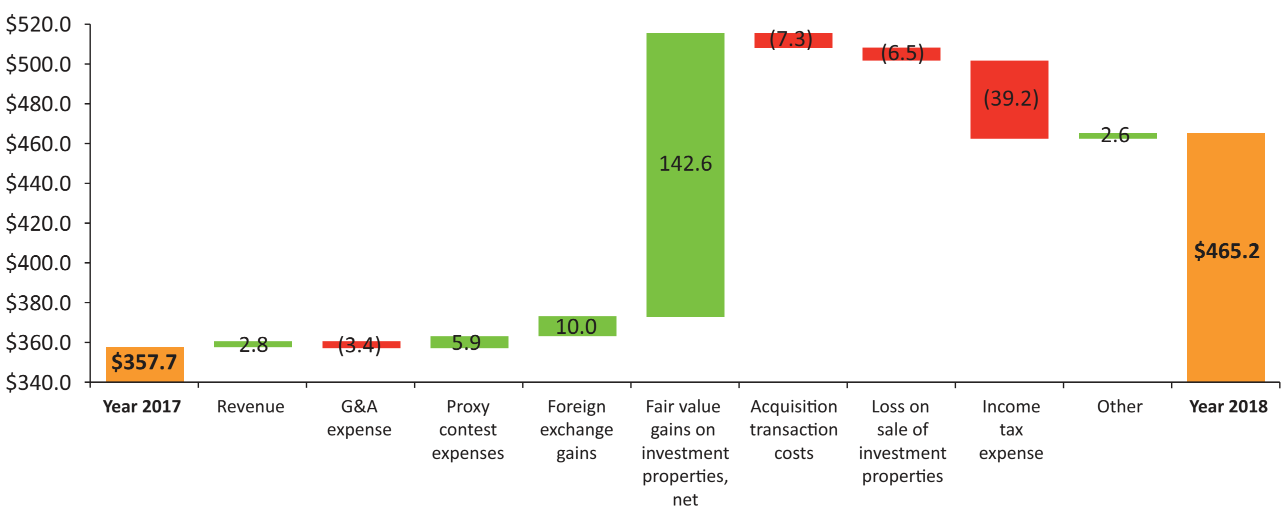
For the three month period ended December 31, 2018, net income attributable to stapled unitholders was $85.9 million compared to $233.6 million in the prior year period. The $147.7 million net decrease was primarily due to a $132.3 million decrease in net fair value gains on investment properties and an $11.9 million increase in income tax expense. The $147.7 million decrease in net income attributable to stapled unitholders is summarized below:

Q4 2018 vs Q4 2017 Change in Net Income Attributable to Stapled Unitholders



For the year ended December 31, 2018, net income attributable to stapled unitholders was $465.2 million compared to $357.7 million in the prior year. The $107.5 million net increase was primarily due to a $142.6 million increase in net fair value gains on investment properties, partially offset by a corresponding $39.3 million increase in deferred income tax expense. The $107.5 million increase in net income attributable to stapled unitholders is summarized below:

Year 2018 vs Year 2017 Change in Net Income Attributable to Stapled Unitholders



Funds From Operations and Adjusted Funds From Operations

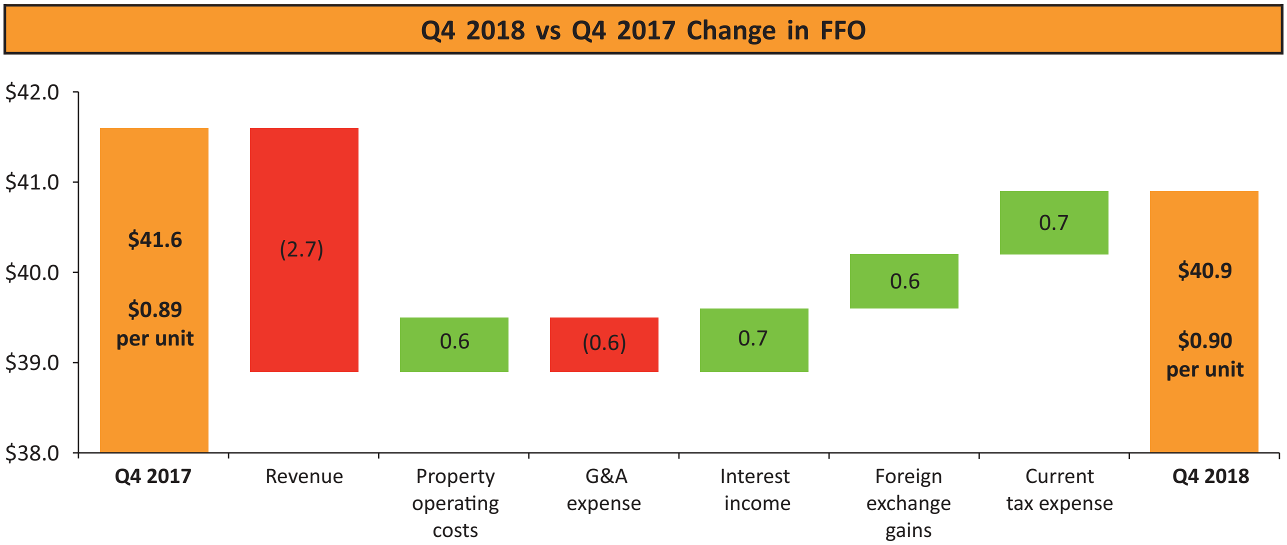
The reconciliation of net income attributable to stapled unitholders to FFO and AFFO for the three months and years ended December 31, 2018 and 2017 is presented below:

FFO AND AFFO RECONCILIATION

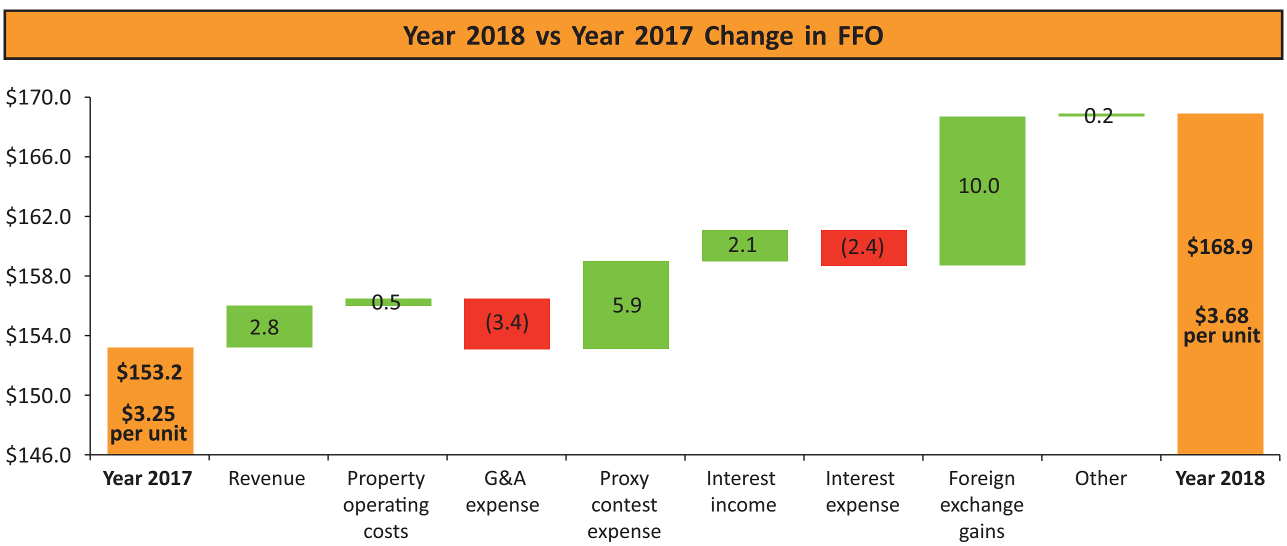
		Three Months Ended December 31,		Years Ended December 31,	
(in millions, except per unit information)		**2018**	**2017**	**2018**	**2017**
Net income attributable to stapled unitholders		**$ 85.9**	$ 233.6	**$ 465.2**	$ 357.7
Add (deduct):					
Fair value gains on investment properties, net		**(52.9)**	(185.2)	**(354.7)**	(212.1)
Fair value losses on financial instruments		**1.4**	0.4	**0.5**	0.8
Acquisition transaction costs		**0.4**	0.4	**8.0**	0.7
Loss on sale of investment properties		**1.5**	0.4	**6.9**	0.4
Other income — settlement award		**—**	—	**(2.3)**	—
Current income tax expense associated with the sale of an investment property		**—**	—	**0.2**	—
Deferred income tax expense		**4.6**	(8.0)	**45.0**	5.7
Non-controlling interests relating to the above		**—**	—	**0.1**	—
FFO	**[A]**	**$ 40.9**	$ 41.6	**$ 168.9**	$ 153.2
Add (deduct):					
Maintenance or improvement capital expenditures paid		**(1.2)**	(9.3)	**(17.8)**	(10.7)
Leasing commissions paid		**(0.2)**	(1.2)	**(4.2)**	(2.6)
Tenant incentives paid		**(0.2)**	(0.2)	**(9.9)**	(1.0)
Tenant incentive amortization		**1.3**	1.4	**5.4**	5.4
Straight-line rent amortization		**(0.8)**	0.3	**(4.3)**	1.1
AFFO	**[B]**	**$ 39.8**	$ 32.6	**$ 138.1**	$ 145.4
Per unit amounts:					
Basic and Diluted FFO per stapled unit	**[A]/[C] and [A]/[D]**	**$ 0.90**	$ 0.89	**$ 3.68**	$ 3.25
Basic and Diluted AFFO per stapled unit	**[B]/[C] and [B]/[D]**	**$ 0.87**	$ 0.69	**$ 3.01**	$ 3.09
Basic weighted average number of stapled units	**[C]**	**45.7**	46.9	**45.9**	47.1
Diluted weighted average number of stapled units	**[D]**	**45.7**	47.0	**45.9**	47.1

Funds From Operations

FFO for the three month period ended December 31, 2018 was $40.9 million ($0.90 per unit) compared to $41.6 million ($0.89 per unit) in the prior year period. The $0.7 million decrease in FFO is summarized below:



FFO for the year ended December 31, 2018 was $168.9 million ($3.68 per unit) compared to $153.2 million ($3.25 per unit) in the prior year. The $15.7 million ($0.43 per unit) increase in FFO is summarized below:

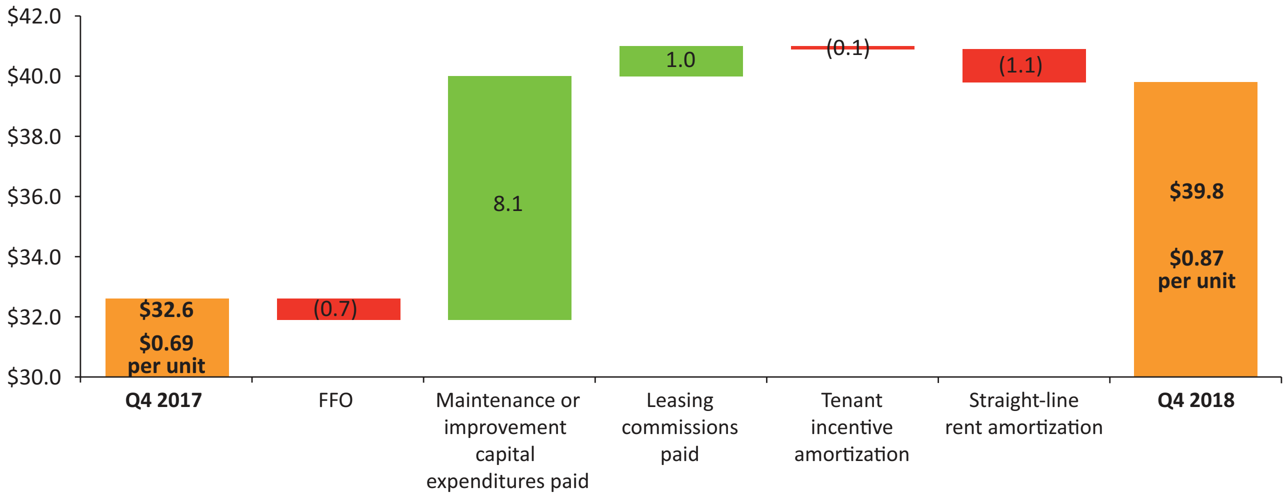


Excluding the following items which can be a source of variance between periods: the lease termination and close-out fee of $1.0 million ($0.02 per unit) and the net foreign exchange gain on the remeasurement of US dollar cash proceeds from the sale of investment properties in January 2018 of $8.5 million ($0.19 per unit), FFO would have been $159.4 million ($3.47 per unit) in the year ended December 31, 2018. In comparison, excluding the proxy contest expense of $5.9 million ($0.12 per unit) and the lease termination and close-out fees of $1.6 million ($0.03 per unit), FFO would have been $157.5 million ($3.34 per unit) in the prior year.

Adjusted Funds From Operations

As previously detailed in the FFO and AFFO reconciliation table, AFFO for the three month period ended December 31, 2018 was $39.8 million ($0.87 per unit) compared to $32.6 million ($0.69 per unit) in the prior year period. The $7.2 million ($0.18 per unit) increase in AFFO is summarized below:

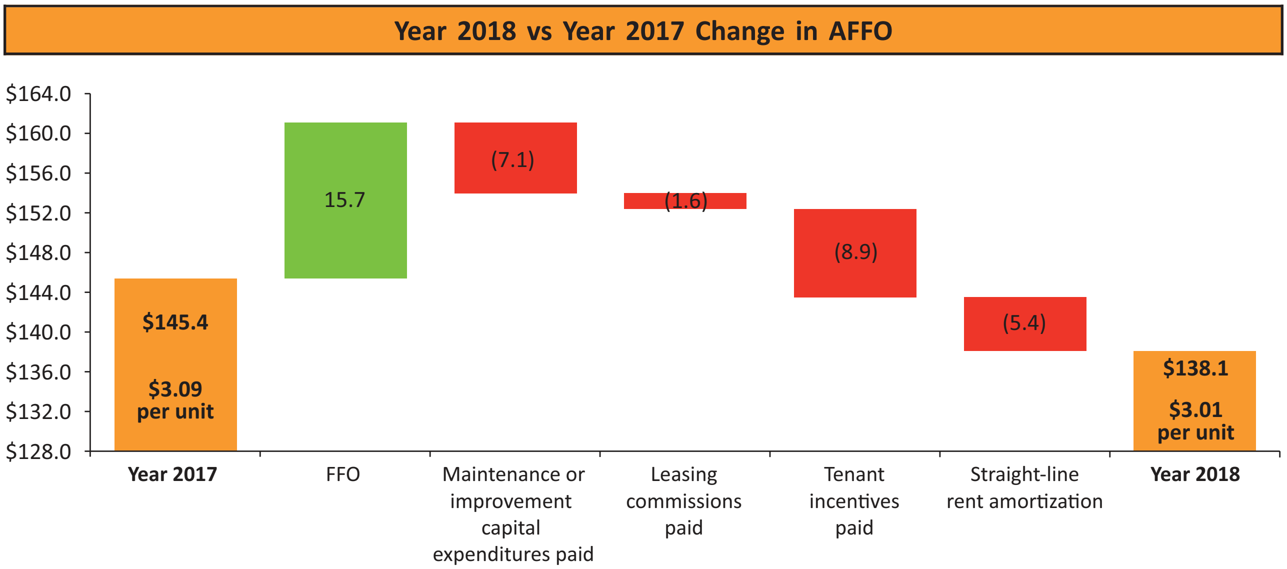
Q4 2018 vs Q4 2017 Change in AFFO



Additional details pertaining to the components of the change in AFFO are as follows:

- the $0.7 million decrease in FFO, as noted previously;
- an $8.1 million decrease in capital expenditures paid largely relating to an improvement project at the partially leased-up property in Novi, Michigan in the prior year period; and
- a $1.0 million decrease in leasing commissions paid largely relating to the property in Novi, Michigan in the prior year period, as noted above, partially offset by;
- a $0.1 million decrease in AFFO from tenant incentive amortization; and
- a $1.1 million decrease in AFFO from straight-line rent amortization associated with the recent acquisitions in the United States and rent-free period for the re-leasing of a property in the Netherlands.

AFFO for the year ended December 31, 2018 was $138.1 million ($3.01 per unit) compared to $145.4 million ($3.09 per unit) in the prior year. The $7.3 million ($0.08 per unit) decrease in AFFO is summarized below:



Additional details pertaining to the components of the change in AFFO are as follows:

- the $15.7 million increase in FFO, as noted above, partially offset by;
- a $7.1 million increase in capital expenditures paid largely relating to improvement projects at properties in Novi, Michigan and Olive Branch, Mississippi;
- a $1.6 million increase in leasing commissions paid primarily relating to the re-leasing of the property in Olive Branch, Mississippi, the developed property in Poland, as well as lease renewals and extensions for two properties in the United States and Germany, partially offset by leasing commissions paid for the partially leased-up property in Novi, Michigan in the prior year;
- a $8.9 million increase in tenant incentives paid in 2018 largely relating to a tenant allowance for a 2014 lease extension at the Eurostar facility in Graz, Austria; and
- a $5.4 million decrease in AFFO from straight-line rent amortization, primarily from newly acquired properties in the United States and rent-free periods associated with the partial lease-up of vacant space in Novi, Michigan, the re-leasing of a property in the Netherlands and the early renewals and extensions of three leases in North America and Germany.

Excluding the following items which can be a source of variance between periods: lease termination and close-out fee of $1.0 million ($0.02 per unit) recognized in revenue, the net foreign exchange gain on the remeasurement of US dollar cash proceeds from the sale of investment properties in January 2018 of $8.5 million ($0.19 per unit) and the payment of the tenant incentive allowance made in connection with a 2014 lease extension at the Eurostar facility in Graz, Austria of $9.1 million ($0.19 per unit), AFFO would have been $137.7 million ($2.99 per unit) in the year ended December 31, 2018. In comparison, excluding the proxy contest expense of $5.9 million ($0.12 per unit) and lease termination and close-out fees of $1.6 million ($0.03 per unit), AFFO would have been $149.7 million ($3.18 per unit) in the prior year.

INVESTMENT PROPERTIES

Granite's investment properties consist of income-producing properties, properties under development and land held for development. Substantially all of the income-producing properties are for industrial use and can be categorized as (i) modern logistics/distribution warehouse facilities (''modern warehouse facilities''), which were recently acquired or newly developed/redeveloped, (ii) multi-purpose facilities, which are tenantable by a wide variety of potential users or (iii) special purpose properties designed and built with specialized features and leased to Magna. The attributes of the income-producing properties are versatile and are based on the needs of the tenant such that an industrial property used by a certain tenant for light or heavy manufacturing can be used by another tenant for other industrial uses after some retrofitting if necessary. Accordingly, the investment property portfolio is substantially for industrial use and, as such, Granite determined that its asset class comprises industrial properties for purposes of financial reporting. The fair value of the industrial properties, as noted below, is based upon the current tenanting, existing use and attributes of such properties.

Properties under development comprise a 29 acre site located in Indiana, United States where Granite is planning to construct a 0.5 million square foot logistics-industrial property in 2019 and a 15 acre site in Altbach, Germany where Granite is demolishing the existing building and expects to begin construction of a 0.3 million square foot Class A distribution/light industrial facility later in 2019. Land held for development comprise a 16 acre parcel of land located in Wroclaw, Poland that could provide for approximately 0.3 million square feet of logistics-warehouse space as well as 12.9 acres of development land in Ohio, United States which was recently acquired.

Summary attributes of the investment properties at December 31, 2018 and 2017 were as follows:

Investment Properties Summary[1]

As at December 31,	2018	2017
(in millions, except as noted)		
Investment properties — fair value	**$3,425.0**	$2,733.6
Income-producing properties	**3,404.0**	2,714.7
Properties under development	**17.0**	—
Land held for development	**4.0**	18.9
Overall capitalization rate	**6.7%**	7.6%
Number of investment properties	**84**	87
Income-producing properties	**80**	84
Properties under development	**2**	—
Land held for development	**2**	3
Property metrics		
GLA, square feet	**32.2**	29.1
Occupancy, by GLA	**99.1%**	98.4%
Weighted average lease term, in years by square footage	**6.0**	5.9
Total number of tenants	**48**	40
Magna as a percentage of annualized revenue[2]	**54%**	71%
Magna as a percentage of GLA	**47%**	61%

Assets Held for Sale[1]

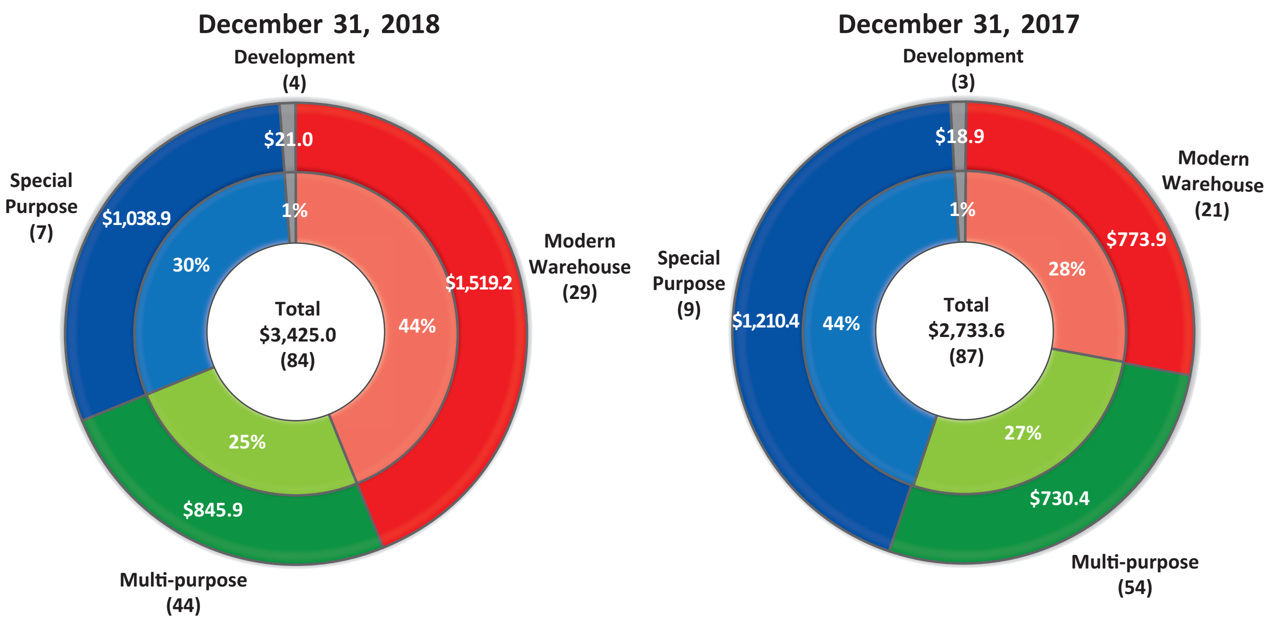
As at December 31,	2018	2017
(in millions, except as noted)		
Assets held for sale		
Fair value	**$44.2**	$391.4
Number of properties	**6**	10
GLA, square feet	**0.7**	3.2
Magna as a percentage of GLA	**94%**	95%
Annualized revenue[2]	**$ 2.2**	$ 25.6

(1) Assets held for sale are excluded from investment properties and related property metrics. Accordingly, six such assets that were held for sale at December 31, 2018 (subsequently sold) and 10 such assets that were held for sale at December 31, 2017 were excluded from investment properties and related property metrics at December 31, 2018 and December 31, 2017, respectively, throughout this MD&A.

(2) Annualized revenue for each period presented is calculated as rental revenue excluding tenant recoveries, recognized in accordance with IFRS, in the month of December multiplied by twelve months.

The fair value of the investment properties by asset category as at December 31, 2018 and 2017 was as follows:

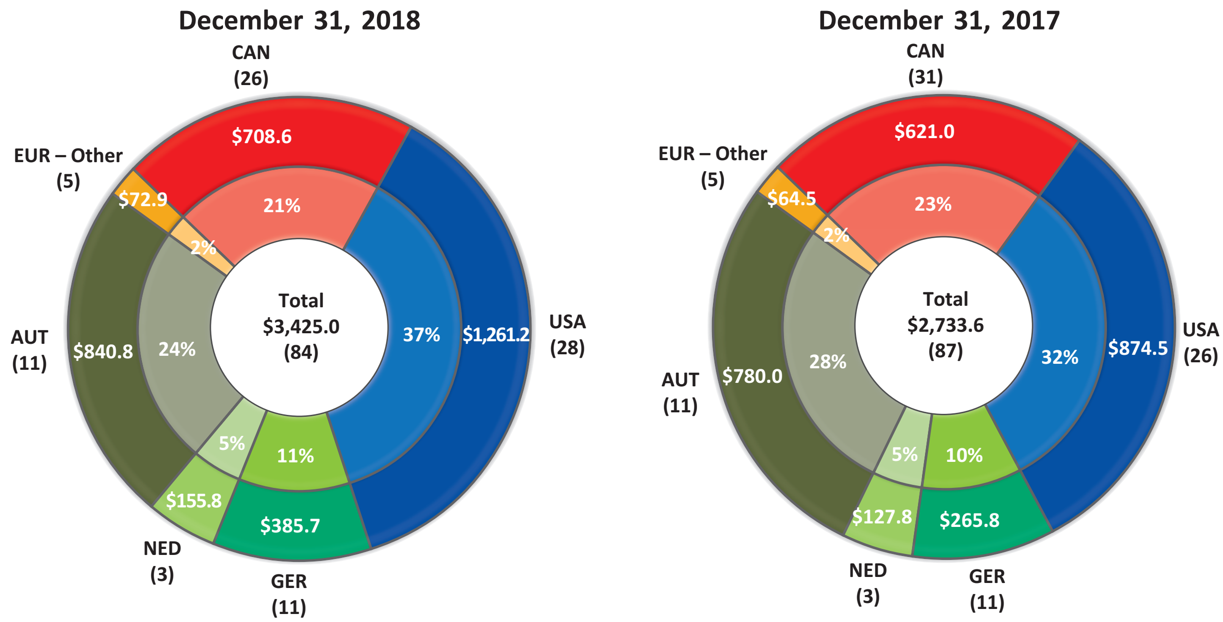
Fair Value of Investment Properties by Asset Category[1]



(1) Number of properties denoted in parentheses

Granite has a specialized and high quality global portfolio of large scale properties strategically located in Canada, the United States and Europe. The fair value of the investment properties by country as at December 31, 2018 and 2017 was as follows:

Fair Value of Investment Properties by Geography[(1)]



(1) Number of properties denoted in parentheses

The change in the fair value of investment properties by asset category during the year ended December 31, 2018 was as follows:

Change in Fair Value of Investment Properties by Asset Category

	January 1, 2018	Fair value gains	Acquisitions	Capital expenditures	Foreign exchange gains	Transfers	Other changes	Classified as assets held for sale	December 31, 2018
Modern warehouse facilities	**$ 773.9**	85.8	543.0	24.8	85.1	—	6.6	—	**$1,519.2**
Multi-purpose facilities	**730.4**	204.4	—	3.3	21.8	(12.2)	—	(101.8)	**845.9**
Special purpose properties	**1,210.4**	63.1	—	—	40.4	—	(4.5)	(270.5)	**1,038.9**
Income-Producing Properties	**2,714.7**	**353.3**	**543.0**	**28.1**	**147.3**	**(12.2)**	**2.1**	**(372.3)**	**3,404.0**
Properties Under Development	**—**	—	—	0.3	0.3	16.4	—	—	**17.0**
Land Held For Development	**18.9**	1.2	1.2	0.1	0.2	(4.2)	—	(13.4)	**4.0**
	$2,733.6	**$354.5**	**$544.2**	**$28.5**	**$147.8**	**—**	**$ 2.1**	**$(385.7)**	**$3,425.0**

During the year ended December 31, 2018, the fair value of investment properties increased by $691.4 million, primarily due to:

- net fair value gains of $354.5 million which were largely attributable to i) an increase in fair value to the sale price for the multi-purpose and special purpose properties sold in 2018 or in 2019, ii) for properties across the modern warehouse, multi-purpose and special purpose asset categories, a compression in discount and terminal capitalization rates and an increase in market rents resulting from a greater market demand for industrial real estate properties and, to a lesser extent, iii) positive changes in leasing assumptions primarily from contractual rent increase, new leases and lease renewals;
- the acquisitions of seven income-producing properties in the United States and one property in Germany for $544.2 million consisting of a portfolio of four properties near Columbus, Ohio for $299.3 million, one property in Greencastle, Pennsylvania for $44.3 million, one property in Plainfield, Indiana for $50.8 million, one property in Shepherdsville, Kentucky for $65.9 million and one property in Erfurt, Germany for $82.7 million, as well as the purchase of 12.9 acres of development land in West Jefferson, Ohio for $1.2 million (see ''*SIGNIFICANT MATTERS*'');
- capital expenditures of $28.5 million, of which $19.9 million related to the construction of a 0.3 million square foot expansion at an acquired property near Columbus, Ohio, and the remaining largely related to maintenance or improvement capital expenditures including $4.2 million for a modern warehouse property located in Mississippi, United States, which was acquired in October 2017 and re-leased to another tenant, and $2.7 million for a multi-purpose property located in Michigan, United States, which was leased to a tenant for part of the space during the third quarter of 2017. Capital expenditures can include expansion or development expenditures and maintenance or improvement expenditures. Expansion or development capital expenditures are discretionary in nature and are incurred to generate new revenue streams and/or increase the productivity of a property. Maintenance or improvement capital expenditures relate to sustaining the existing earnings capacity of a property;
- foreign exchange gains of $147.8 million, which primarily included foreign exchange gains of $98.2 million and $49.1 million resulting from the relative weakening of the Canadian dollar against the US dollar and the Euro, respectively; and
- the classification of 12 properties valued at $385.7 million as assets held for sale, six of which were sold during the second half of the year. The remaining six properties are classified as assets held for sale on the combined balance sheet and excluded from the investment properties categorization (see ''*SIGNIFICANT MATTERS*''). The remaining six properties were sold during January and February 2019.

Fair values were primarily determined by discounting the expected future cash flows, generally over a term of 10 years, plus a terminal value based on the application of a capitalization rate to estimated year 11 cash flows. Granite measures its investment properties using valuations prepared by management. Granite does not measure its investment properties based on valuations prepared by external appraisers but uses such external appraisals as data points, together with other external market information accumulated by management, in arriving at its own conclusions on values. Management uses valuation assumptions such as discount rates, terminal capitalization rates and market rental rates applied in external appraisals or sourced from valuation experts; however, the Trust also uses its historical renewal experience with tenants, its direct knowledge of the specialized nature of Granite's portfolio and tenant profile and its knowledge of the actual condition of the properties in making business judgments about lease renewal probabilities, renewal rents and capital expenditures. There has been no change in the valuation methodology used during the year ended December 31, 2018. The key valuation metrics for Granite's investment properties including the discount and terminal capitalization rates by jurisdiction are summarized in note 4 to the audited combined financial statements for the year ended December 31, 2018. In addition, valuation metrics for Granite's income-producing properties (excluding assets held for sale) by asset category as at December 31, 2018 and 2017 were as follows:

Valuation Metrics by Income-Producing Property Asset Category

	Modern warehouse facilities		Multi-purpose facilities		Special purpose properties		Total	
As at December 31,	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Overall capitalization rate[(1)(2)]	**5.66%**	6.18%	**7.06%**	8.84%	**7.77%**	7.77%	**6.65%**	7.60%
Terminal capitalization rate[(1)]	**6.25%**	6.49%	**6.95%**	7.49%	**7.50%**	8.11%	**6.81%**	7.48%
Discount rate[(1)]	**6.34%**	6.98%	**7.02%**	8.04%	**7.63%**	7.72%	**6.90%**	7.59%

(1) Weighted based on income-producing property fair value.
(2) Overall capitalization rate is calculated as stabilized net operating income (property revenue less property expenses) divided by the fair value of the property.

The compression in overall capitalization rates, terminal capitalization rates and discount rates across Granite's portfolio at December 31, 2018 in comparison to the prior year was primarily attributable to a greater market demand for industrial real estate and, to a lesser extent, positive changes in leasing assumptions related to new leases and lease renewals. In addition, as a result of the acquisitions and dispositions during 2018, the composition of Granite's property portfolio has shifted to a greater number of modern warehouse facilities which have lower capitalization rates and fewer special purpose and multi-purpose properties which generally have higher capitalization rates.

A sensitivity analysis of the fair value of income-producing properties to changes in the overall capitalization rate, terminal capitalization rate and discount rate at December 31, 2018 is presented below:

Sensitivity Analysis of Fair Value of Income-Producing Properties

Rate sensitivity	Overall capitalization rate	Terminal capitalization rate	Discount rate
+50 bps	3,154.6	3,273.2	3,278.7
+25 bps	3,274.3	3,335.7	3,340.1
Base rate	**$3,404.0**	**$3,404.0**	**$3,404.0**
-25 bps	3,545.1	3,475.8	3,467.5
-50 bps	3,699.2	3,554.8	3,533.7

Maintenance or Improvement Capital Expenditures and Leasing Costs

As defined previously in the change in fair value of investment properties by asset category, maintenance or improvement capital expenditures relate to sustaining the existing earnings capacity of the property portfolio.

Leasing costs include direct 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 and/or cash allowances provided to tenants for leasehold improvement costs.

Maintenance or Improvement Capital Expenditures and Leasing Costs Payments

The maintenance or improvement capital expenditures and leasing costs paid by quarter and for the years ended December 31, 2018 and 2017 were as follows:

Maintenance or Improvement Capital Expenditures and Leasing Costs Paid

		Q1'17	Q2'17	Q3'17	Q4'17	2017 Total	Q1'18	Q2'18	Q3'18	Q4'18	2018 Total
Maintenance or improvement capital expenditures paid		$ 0.6	$ 0.3	$ 0.6	$ 9.3	$10.8	$ 8.8	$ 6.2	$ 1.6	$ 1.2	$17.8
Leasing costs paid		0.3	0.3	1.6	1.4	3.6	10.8	2.4	0.5	0.4	14.1
Total paid	**[A]**	**$ 0.9**	**$ 0.6**	**$ 2.2**	**$10.7**	**$14.4**	**$19.6**	**$ 8.6**	**$ 2.1**	**$ 1.6**	**$31.9**
GLA, square feet	**[B]**	30.1	30.2	30.2	29.1	N/A	29.7	31.8	32.5	32.2	N/A
$ paid per square feet	**[A]/[B]**	**$0.03**	**$0.02**	**$0.07**	**$0.37**	**$0.49**	**$0.66**	**$0.27**	**$0.06**	**$0.05**	**$1.04**

In the first quarter of 2018, Granite paid $9.1 million related to a tenant incentive allowance for a 2014 lease extension at the 1.1 million square foot Eurostar facility in Graz, Austria.

Commencing with the third quarter of 2017, Granite undertook to re-develop its Novi, MI property which was vacated by Magna in March 2017. Granite leased 71% of the space to Hanon Systems for a minimum lease term of 15 years commencing in January 2018. The 0.3 million square foot facility is one of the very few office properties in Granite's portfolio.

Granite has invested a total of $22.7 million in capital during 2017 and 2018 to reposition and lease the Novi, MI flex office property. The following is a summary of the capital expenditures and leasing costs paid by quarter in connection with the Novi, MI property:

Novi, MI Property: Maintenance or Improvement Capital Expenditures and Leasing Costs Paid

	Q1'17	Q2'17	Q3'17	Q4'17	2017 Total	Q1'18	Q2'18	Q3'18	Q4'18	2018 Total
Maintenance or improvement capital expenditures paid	—	—	$ 0.1	$ 8.0	$ 8.1	$ 8.4	$ 3.2	$ 0.1	$ 0.5	$12.2
Leasing costs paid	—	—	1.2	1.0	2.2	0.2	—	—	—	0.2
Total paid	—	—	**$ 1.3**	**$ 9.0**	**$10.3**	**$ 8.6**	**$ 3.2**	**$ 0.1**	**$ 0.5**	**$12.4**

Granite is actively marketing the remaining 0.1 million square feet of available space and anticipates incurring additional cash outflows totaling approximately $6.6 million in capital expenditures and leasing costs during 2019 to complete the Novi, MI facility and lease-up of the remaining available space.

Excluding the non-recurring or unusual items noted above for the Graz, Austria and Novi, MI properties, the maintenance or improvement capital expenditures and leasing costs paid by quarter and for the years ended December 31, 2018 and 2017 were as follows:

Maintenance or Improvement Capital Expenditures and Leasing Costs Paid — Excluding Novi, MI and Graz, Austria

		Q1'17	Q2'17	Q3'17	Q4'17	2017 Total	Q1'18	Q2'18	Q3'18	Q4'18	2018 Total
Maintenance or improvement capital expenditures paid		$ 0.6	$ 0.3	$ 0.5	$ 1.3	$ 2.7	$ 0.4	$ 3.0	$ 1.5	$ 0.7	$ 5.6
Leasing costs paid		0.3	0.3	0.4	0.4	1.4	1.5	2.4	0.5	0.4	4.8
Total paid	**[C]**	**$ 0.9**	**$ 0.6**	**$ 0.9**	**$ 1.7**	**$ 4.1**	**$ 1.9**	**$ 5.4**	**$ 2.0**	**$ 1.1**	**$10.4**
GLA, square feet	**[D]**	30.1	30.2	29.9	28.8	N/A	29.4	31.5	32.2	31.9	N/A
$ paid per square feet	**[C]/[D]**	**$0.03**	**$0.02**	**$0.03**	**$0.06**	**$0.14**	**$0.06**	**$0.17**	**$0.06**	**$0.03**	**$0.32**

Leasing Profile

Magna, Granite's Largest Tenant

At December 31, 2018, Magna International Inc. or one of its operating subsidiaries was the tenant at 41 (December 31, 2017 — 52) of Granite's income-producing properties and comprised 54% (December 31, 2017 — 71%) of Granite's annualized revenue and 47% (December 2017 — 61%) of Granite's GLA. According to its public disclosure, Magna International Inc. has a credit rating of A3 with a stable outlook by Moody's Investor Service, A- with a stable outlook by Standard & Poor's and A(low) with a stable outlook by DBRS Limited. Magna International Inc. is a technology company and one of the world's largest automotive suppliers with international manufacturing operations and product development, engineering and sales centres. Its capabilities include body exteriors and structures, power and vision technologies, seating systems and complete vehicle solutions.

Granite's relationship with Magna is an arm's length landlord and tenant relationship governed by the terms of Granite's leases. Granite's properties are generally leased to operating subsidiaries of Magna International Inc. and are not guaranteed by the parent company; however, Magna International Inc. is the tenant under certain of Granite's leases. 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 Granite's 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 North American, European and Chinese car and light truck production by Magna's customers and the relative amount of content Magna has in the various programs. Granite expects Magna to continuously seek to optimize its global manufacturing footprint and consequently, Magna may or may not renew leases for facilities currently under lease at their expiries.

Other Tenants

In addition to Magna, at December 31, 2018, Granite had 47 other tenants from various industries which in aggregate comprised 46% of the Trust's annualized revenue. These tenants each accounted for less than 4% of the Trust's annualized revenue as at December 31, 2018.

Granite's top 10 tenants by annualized revenue at December 31, 2018 are summarized in the table below:

Top 10 Tenants Summary

Tenant	Annualized Revenue %	GLA %	WALT (years)	Credit Rating(1)(2)
Magna	54%	47%	5.9	A(low)
Restoration Hardware	3%	4%	9.3	NR
Ingram Micro	3%	3%	6.0	BBB(low)
Mars Petcare	3%	4%	3.3	NR
Hanon Systems	2%	1%	14.1	AA
Ricoh	2%	2%	6.5	BBB(high)
Grupo Antolin	2%	3%	9.7	B(high)
Samsung	2%	2%	3.2	AA(low)
Torrid	2%	2%	6.7	NR
LGI	2%	2%	4.2	NR
Top 10 Tenants	**75%**	**70%**	**6.1**	

(1) Credit rating is quoted on the DBRS equivalent rating scale where publicly available. NR refers to Not Rated.

(2) The credit rating indicated above may, in some instances, apply to an affiliated company of Granite's tenant.

Lease Expiration

As at December 31, 2018, Granite's portfolio had a weighted average lease term by square footage of 6.0 years (December 31, 2017 — 5.9 years) with lease expiries by GLA (in thousands of square feet), lease count and annualized revenue (calculated as rental revenue excluding tenant recoveries, recognized in accordance with IFRS, in December 2018 multiplied by twelve months, in millions) as set out in the table below:

Lease Maturity Summary

Country	Total GLA	Total Lease Count	Total Annualized Revenue $	Vacancies Sq Ft	2019 Sq Ft	2019 Annualized Revenue $	2020 Sq Ft	2020 Annualized Revenue $	2021 Sq Ft	2021 Annualized Revenue $	2022 Sq Ft	2022 Annualized Revenue $	2023 Sq Ft	2023 Annualized Revenue $	2024 Sq Ft	2024 Annualized Revenue $	2025 and Beyond Sq Ft	2025 and Beyond Annualized Revenue $
Canada	**5,260**	**25**	**39.7**	190	85	0.7	843	6.0	316	2.9	639	4.4	594	3.0	389	2.6	2,204	20.1
United States	**13,907**	**40**	**76.2**	135	817	4.4	1,091	6.2	87	0.7	2,903	13.5	2,010	10.0	1,434	8.0	5,430	33.4
Austria	**8,101**	**12**	**63.8**	—	—	—	101	0.6	389	2.7	802	9.7	125	1.2	5,349	38.8	1,335	10.8
Germany	**3,504**	**11**	**24.4**	—	—	—	195	0.7	548	3.7	283	2.3	1,947	14.3	—	—	531	3.4
Netherlands	**1,441**	**3**	**9.6**	—	—	—	—	—	—	—	—	—	314	2.2	—	—	1,127	7.4
Other	**751**	**8**	**5.6**	—	45	0.2	133	0.6	336	3.2	56	0.4	90	0.8	91	0.4	—	—
Total	**32,964**	**99**	**219.3**	**325**	**947**	**5.3**	**2,363**	**14.1**	**1,676**	**13.2**	**4,683**	**30.3**	**5,080**	**31.5**	**7,263**	**49.8**	**10,627**	**75.1**
Less: Properties classified as assets held for sale																		
Canada	**(45)**	**—**	**—**	(45)	—	—	—	—	—	—	—	—	—	—	—	—	—	—
United States	**(683)**	**(4)**	**(2.2)**	—	—	—	—	—	—	—	(311)	(0.9)	—	—	—	—	(372)	(1.3)
As at December 31, 2018	**32,236**	**95**	**217.1**	**280**	**947**	**5.3**	**2,363**	**14.1**	**1,676**	**13.2**	**4,372**	**29.4**	**5,080**	**31.5**	**7,263**	**49.8**	**10,255**	**73.8**
% of portfolio as at December 31, 2018:																		
* by sq ft	**100%**			**0.9%**	**2.9%**		**7.3%**		**5.2%**		**13.6%**		**15.8%**		**22.5%**		**31.8%**	
* by Annualized Revenue			**100%**			**2.4%**		**6.5%**		**6.1%**		**13.6%**		**14.5%**		**22.9%**		**34.0%**
Leasing and acquisition activities between January 1, 2019 and March 6, 2019:																		
As at December 31, 2018	**32,236**	**95**	**217.1**	280	947	5.3	2,363	14.1	1,676	13.2	4,372	29.4	5,080	31.5	7,263	49.8	10,255	73.8
Acquisition of two Texas properties[(1)] (acquired March 1, 2019)																		
— United States	**1,019**	**2**	**10.9**	—	—	—	—	—	—	—	—	—	—	—	—	—	1,019	10.9
Expansion of Columbus, Ohio property[(1)]																		
— United States	**308**	**—**	**1.4**	—	—	—	—	—	—	—	—	—	—	—	—	—	308	1.4
Renewals, Extensions and Vacancies																		
— Canada	**—**	**—**	**—**	—	—	—	(253)	(2.6)	—	—	(292)	(1.6)	—	—	545	4.2	—	—
— United States	**—**	**(1)**	**(0.8)**	107	(107)	(0.8)	—	—	—	—	—	—	—	—	—	—	—	—
Total	**33,563**	**96**	**228.6**	**387**	**840**	**4.5**	**2,110**	**11.5**	**1,676**	**13.2**	**4,080**	**27.8**	**5,080**	**31.5**	**7,808**	**54.0**	**11,582**	**86.1**

[(1)]The annualized revenue for the acquisition and expansion represents the pro-forma revenue expected over a twelve month period.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Granite has various sources of available liquidity including cash, cash equivalents and the unused portion of its unsecured credit facility that aggregated to $1,158.1 million as at December 31, 2018 compared to $286.2 million at December 31, 2017, as summarized below:

Sources of Available Liquidity

As at December 31,	2018	2017
Cash and cash equivalents	**$ 658.2**	$ 69.0
Unused portion of credit facility(1)	**499.9**	217.2
Available liquidity	**$1,158.1**	$ 286.2
Assets held for sale(2)	**$ 44.2**	$ 391.4
Unencumbered assets(3)	**$3,425.0**	$2,733.6

(1) In February 2018, Granite entered into a new five-year $500.0 million credit facility thereby increasing its borrowing capacity by $250.0 million. See *''Debt Structure — Credit Facility''.*

(2) Six properties located in Canada and the United States were classified as assets held for sale on the combined financial statements at December 31, 2018 and were subsequently sold during January and February 2019. Ten properties located in Canada and the United States were classified as assets held for sale at December 31, 2017 and were subsequently sold in January 2018.

(3) Unencumbered assets represent the carrying value of investment properties (excluding any assets held for sale) that are not encumbered by secured debt. Granite can seek to obtain secured financing against its unencumbered assets subject to certain restrictions and financial covenant limitations in its credit facility and term loan agreements as well as trust indentures.

The increase in available liquidity is due to cash proceeds realized from property dispositions and drawdowns on the terms loans completed in December 2018. Additional sources of liquidity available to Granite include cash flow generated from operations, asset sales and, if necessary, financing that may be obtained on its unencumbered assets.

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 to pay distributions. Granite expects to fund its ongoing operations and future growth through the use of (i) existing cash and cash equivalents, (ii) cash flow from operating activities, (iii) cash flows from asset sales, (iv) short-term financing available from the credit facility and/or (v) the issuance of unsecured debentures or equity, subject to market conditions.

Cash Flow Components

Components of the Trust's cash flows were as follows:

Cash Flow Components Summary

	Three Months Ended December 31,			Years Ended December 31,		
	2018	**2017**	**$ change**	**2018**	**2017**	**$ change**
Cash and cash equivalents, beginning of period	**$192.7**	$190.9	1.8	**$ 69.0**	$ 246.2	(177.2)
Cash provided by operating activities	**34.7**	38.2	(3.5)	**157.9**	158.7	(0.8)
Cash provided by (used in) investing activities	**(86.3)**	(157.0)	70.7	**95.8**	(237.9)	333.7
Cash provided by (used in) financing activities	**506.8**	(6.6)	513.4	**324.2**	(105.2)	429.4
Effect of exchange rate changes on cash and cash equivalents	**10.3**	3.5	6.8	**11.3**	7.2	4.1
Cash and cash equivalents, end of period	**$658.2**	$ 69.0	589.2	**$658.2**	$ 69.0	589.2

Operating Activities

In the three month period ended December 31, 2018, operating activities generated cash of $34.7 million compared to $38.2 million in the prior year period. The decrease of $3.5 million was due to various factors including, among others, an increase in income taxes paid of $2.0 million primarily related to increased tax instalments.

In the year ended December 31, 2018, operating activities generated cash of $157.9 million compared to $158.7 million in the prior year. The decrease of $0.8 million was due to various factors including, among other, the following:

- an increase in tenant incentives paid of $8.9 million which substantially related to a $9.1 million payment in 2018 associated with a 2014 lease extension at the Eurostar facility in Graz, Austria;
- an increase in income taxes paid of $6.8 million primarily relating to increased tax instalments and the receipt of an income tax refund in the prior year;
- an increase in interest paid of $3.4 million related to increased credit facility draws throughout the year and higher standby fees for the credit facility; and
- an increase in leasing commissions paid of $1.6 million, partially offset by;
- an increase in cash provided by working capital changes of $11.4 million primarily due to an increase in accounts payable and accrued liabilities largely related to the land transfer tax for the property acquired in Germany, an obligation to make certain repairs in connection with a property disposed of in the United States and unit-based compensation payments made in the prior year to former directors/trustees; and

- an increase in net realized foreign exchange gains of $10.0 million primarily due to the remeasurement of the US dollar proceeds received from the sale of investment properties in January 2018.

Investing Activities

Investing activities for the three month period ended December 31, 2018 used cash of $86.3 million and primarily related to the following:

- the acquisition of an income-producing property in Shepherdsville, Kentucky for $65.9 million;
- the purchase of 12.9 acres of development land in West Jefferson, Ohio for $1.2 million;
- investment property expansion capital expenditures paid of $14.5 million substantially relating to the construction of a 0.3 million square foot expansion at an acquired property near Columbus, Ohio, and maintenance and improvement capital expenditures paid of $1.2 million largely relating to improvement projects at a property in Novi, Michigan and a multi-tenanted property in Pooler, Georgia; and
- a $7.0 million deposit to acquire the leasehold interest in two income-producing properties located in Mississauga, Ontario for total consideration of $154.0 million. This commitment to purchase is subject to customary closing conditions and the consent of the ground lessor. These cash outflows are partially offset by;
- net proceeds of $3.5 million received from the disposition of a property in Germany.

Investing activities for the three month period ended December 31, 2017 used cash of $157.0 million and primarily related to the remaining balance paid for the acquisition of three income-producing properties in the United States of $146.7 million.

Investing activities for the year ended December 31, 2018 generated cash of $95.8 million and primarily related to the following:

- net proceeds of $681.3 million received from the disposition of 16 income-producing properties in Canada, the United States and Germany. The property dispositions in South Carolina and Tennessee have remaining proceeds of $11.8 million (US$8.7 million) and $0.2 million (US$0.2 million) that are expected to be received in the first quarters of 2020 and 2019, respectively; and
- the receipt of a $30.0 million vendor take-back mortgage resulting from the sale of seven properties in Newmarket, Ontario in January 2018, partially offset by;
- the acquisitions of eight income-producing properties in the United States and Germany for $547.9 million consisting of a $304.2 million portfolio of four properties in West Jefferson, Ohio, $50.7 million for a property in Plainfield, Indiana, $44.4 million for a property in Greencastle, Pennsylvania, $82.7 million for a property in Erfurt, Germany and one property in Shepherdsville, Kentucky for $65.9 million;
- the purchase of 12.9 acres of development land in West Jefferson, Ohio for $1.2 million;
- investment property maintenance and improvement capital expenditures paid of $17.8 million largely relating to improvement projects at the property in Novi, Michigan as noted above and a modern warehouse property located in Olive Branch, Mississippi which was acquired in October 2017 and re-leased to another tenant, and development and expansion capital expenditures paid of $15.4 million largely relating to the 0.3 million square foot expansion at the property near Columbus, Ohio mentioned previously; and

- $33.1 million of deposits relating to property acquisitions. A $7.0 million deposit was made to acquire the leasehold interest in two properties located in Mississauga, Ontario as noted above. A $26.1 million deposit was made to acquire a property under development in the state of Texas. The commitment to purchase the property under development is subject to specific confidentiality provisions and customary closing conditions including certain purchase rights in favour of the tenant and is expected to close concurrently with the lease commencement in the third quarter of 2019 following construction of the building.

Investing activities for the year ended December 31, 2017 used cash of $237.9 million of which $154.0 million related to the acquisition of three income-producing properties in the United States, $70.8 million related to the purchase of expansion capital expenditures for additions constructed at two special purpose properties in the United States and investment property maintenance and improvement capital expenditures of $10.7 million largely relating to the property in Novi, Michigan as well as maintenance projects in Canada.

Financing Activities

Cash provided by financing activities for the three month period ended December 31, 2018 of $506.8 million largely comprised $548.7 million of proceeds from unsecured term loans, partially offset by $31.1 million of distribution payments and $6.3 million of bank indebtedness repayments.

Cash used in financing activities for the three month period ended December 31, 2017 of $6.6 million related to $30.6 million of distribution payments and $6.5 million to repurchase the Trust's stapled units under the normal course issuer bid, partially offset by a net $31.0 million of US dollar denominated bank indebtedness proceeds that was used to fund an acquisition in October 2017.

Cash provided by financing activities for the year ended December 31, 2018 of $324.2 million comprised $548.7 million of proceeds from unsecured term loans, partially offset by distribution payments of $125.1 million, repurchases of the Trust's stapled units under the normal course issuer bid of $63.5 million and net $32.5 million of bank indebtedness repayments.

Cash used in financing activities for the year ended December 31, 2017 of $105.2 million largely comprised distribution payments of $122.6 million and repurchases of the Trust's stapled units of $12.0 million under the normal course issuer bid, partially offset by net $31.0 million of US dollar denominated bank indebtedness proceeds that were used to fund an acquisition in October 2017.

Debt Structure

Granite's debt structure and key debt metrics as at December 31, 2018 and 2017 were as follows:

Summary Debt Structure and Debt Metrics

As at December 31,		2018	2018 Adjusted[2]	2017	2017 Adjusted[2]
Unsecured debt, net		**$1,198.4**	**$1,198.4**	$ 647.3	$ 647.3
Cross currency interest rate swaps, net		**104.8**	**104.8**	61.5	61.5
Bank indebtedness		**—**	**—**	32.6	32.6
Total debt	**[A]**	**$1,303.2**	**$1,303.2**	$ 741.4	$ 741.4
Less: cash and cash equivalents		**658.2**	**702.0**	69.0	460.4
Net debt	**[B]**	**$ 645.0**	**$ 601.2**	$ 672.4	$ 281.0
Investment properties, all unencumbered by secured debt	**[C]**	**$3,425.0**	**$3,425.0**	$2,733.6	$2,733.6
Adjusted EBITDA[1]	**[D]**	**$ 187.0**	**$ 181.1**	$ 185.0	$ 159.4
Interest expense		**$ 22.4**	**$ 22.4**	$ 20.0	$ 20.0
Interest income		**(2.6)**	**(2.6)**	(0.5)	(0.5)
Interest expense, net	**[E]**	**$ 19.8**	**$ 19.8**	$ 19.5	$ 19.5
Debt metrics					
Leverage ratio[1]	**[A]/[C]**	**38%**	**38%**	27%	27%
Net leverage ratio[1]	**[B]/[C]**	**19%**	**18%**	25%	10%
Interest coverage ratio[1]	**[D]/[E]**	**9.4x**	**9.1x**	9.5x	8.2x
Unencumbered asset coverage ratio[1]	**[C]/[A]**	**2.6x**	**2.6x**	3.7x	3.7x
Indebtedness ratio[1]	**[A]/[D]**	**7.0x**	**7.2x**	4.0x	4.7x
Weighted average cost of debt		**2.17%**	**2.17%**	2.54%	2.54%
Weighted average debt term-to-maturity, in years		**4.7**	**4.7**	4.8	4.8
Ratings and outlook					
DBRS		**BBB stable**	**BBB stable**	BBB stable	BBB stable
Moody's		**Baa2 stable**	**Baa2 stable**	Baa2 stable	Baa2 stable

(1) Represents a non-IFRS measure. For definitions of Granite's non-IFRS measures, refer to the section ''*NON-IFRS MEASURES*''.

(2) The 2018 Adjusted column represents the summary of debt structure and debt metrics at December 31, 2018 after adjusting for the following items:

- the cash proceeds from the dispositions of the six assets held for sale; and
- the Adjusted EBITDA relating to a reduction of $2.2 million associated with the revenue reduction from the sale of the six assets held for sale and $18.1 million from proforma EBITDA of the dispositions occurring on January 1, 2018, partially offset by an increase of $14.4 million from proforma EBITDA of the acquisitions occurring at the beginning of the year.

The 2017 Adjusted column represents the summary of debt structure and debt metrics at December 31, 2017 after adjusting for the cash proceeds from the sale of the 10 properties in January 2018 as well as the corresponding reduction in Adjusted EBITDA of $25.6 million for the year 2017 associated with the revenue reduction from the sale of the 10 properties.

Unsecured Debt and Cross Currency Interest Rate Swaps

2025 Term Loan and Cross Currency Interest Rate Swap

On December 12, 2018, Granite REIT Holdings Limited Partnership (''Granite LP'') entered into a senior unsecured non-revolving term facility in the amount of $300.0 million (the ''2025 Term Loan'') that matures on December 12, 2025. The 2025 Term Loan was available in one drawdown and is fully prepayable without penalty. Any amount repaid may not be re-borrowed. On December 12, 2018, $300.0 million was drawn on the 2025 Term Loan. Interest on drawn amounts is calculated based on CDOR plus an applicable margin determined by reference to the external credit rating of Granite LP and is payable monthly in advance. At December 31, 2018, the full $300.0 million remained outstanding and the balance, net of deferred financing costs, was $298.7 million.

On December 12, 2018, the Trust entered into a cross currency interest rate swap to exchange the CDOR plus margin interest payments from the 2025 Term Loan for Euro denominated payments at a 2.202% fixed interest rate. In addition, under the terms of the swap, the Trust will pay principal proceeds of €198.2 million in exchange for which it will receive $300.0 million on December 12, 2025. As at December 31, 2018, the fair value of the cross currency interest rate swap was a net financial liability of $17.1 million.

2022 Term Loan and Cross Currency Interest Rate Swap

On December 19, 2018, the Trust entered into a senior unsecured non-revolving term facility in the amount of US$185.0 million (the ''2022 Term Loan'') that matures on December 19, 2022. The 2022 Term Loan was available in one US dollar drawdown and is fully prepayable without penalty. Any amount repaid may not be re-borrowed. On December 19, 2018, US$185.0 million was drawn on the 2022 Term Loan. Interest on drawn amounts is calculated based on LIBOR plus an applicable margin determined by reference to the external credit rating of Granite LP and is payable monthly in arrears. At December 31, 2018, the full US$185.0 million remained outstanding and the balance, net of deferred financing costs, was $251.9 million.

On December 19, 2018, the Trust entered into a cross currency interest rate swap to exchange the LIBOR plus margin interest payments from the 2022 Term Loan for Euro denominated payments at a 1.225% fixed interest rate. In addition, under the terms of the swap, the Trust will pay principal proceeds of €163.0 million in exchange for which it will receive US$185.0 million on December 19, 2022. As at December 31, 2018, the fair value of the cross currency interest rate swap was a net financial liability of $3.8 million.

2023 Debentures and Cross Currency Interest Rate Swap

On December 20, 2016, the Trust issued $400.0 million aggregate principal amount of 3.873% Series 3 senior debentures due November 30, 2023 (the ''2023 Debentures''). Interest on the 2023 Debentures is payable semi-annually in arrears on May 30 and November 30 of each year. At December 31, 2018, all of the 2023 Debentures remained outstanding and the balance, net of deferred financing costs, was $398.4 million.

On December 20, 2016, the Trust entered into a cross currency interest rate swap to exchange the 3.873% interest payments from the 2023 Debentures for Euro denominated payments at a 2.43% fixed interest rate. Under the terms of the swap, the Trust will pay principal proceeds of €281.1 million in exchange for which it will receive $400.0 million on November 30, 2023. As at December 31, 2018, the fair value of the cross currency interest rate swap was a net financial liability of $56.9 million.

2021 Debentures and Cross Currency Interest Rate Swap

In July 2014, the Trust issued $250.0 million aggregate principal amount of 3.788% 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. At December 31, 2018, all of the 2021 Debentures remained outstanding and the balance, net of deferred financing costs, was $249.4 million.

In July 2014, the Trust entered into a cross currency interest rate swap to exchange the 3.788% interest payments from the 2021 Debentures for Euro denominated payments at a 2.68% fixed interest rate. Under the terms of the swap, the Trust will pay principal proceeds of €171.9 million in exchange for which it will receive $250.0 million on July 5, 2021. As at December 31, 2018, the fair value of the cross currency interest rate swap was a net financial liability of $26.9 million.

The 2021 Debentures, 2023 Debentures, 2022 Term Loan and 2025 Term Loan rank pari passu with all of the Trust's other existing and future senior unsecured indebtedness and are guaranteed by Granite REIT and Granite GP. The fair values of the cross currency interest rate swaps are dependent upon a number of assumptions including the Euro exchange rate against the Canadian or US dollars and the Euro, Canadian and U.S. government benchmark interest rates.

Credit Facility

On February 1, 2018, the Trust entered into a new unsecured revolving credit facility in the amount of $500.0 million that is available by way of Canadian dollar, US dollar or Euro denominated loans or letters of credit and matures on February 1, 2023. The Trust has the option to extend the maturity date by one year to February 1, 2024 subject to the agreement of lenders in respect of a minimum of 66⅔% of the aggregate amount committed under the facility. The credit facility provides the Trust with the ability to increase the amount of the commitment by an additional aggregate principal amount of up to $100.0 million with the consent of the participating lenders. Interest on drawn amounts is calculated based on an applicable margin determined by reference to the external credit rating of Granite REIT and Granite GP, as is a commitment fee in respect of undrawn amounts. As at December 31, 2018, the Trust had no amounts drawn from the credit facility and $0.1 million in letters of credit issued against the facility.

Debt Metrics and Financial Covenants

Granite uses the debt metrics noted above to assess its borrowing capacity and the ability to meet its current and future financing obligations. At December 31, 2018, the debt ratios remain relatively favourable providing financial flexibility for future growth.

Granite's unsecured debentures, term loans and credit facility agreements contain financial and non-financial covenants that include maintaining certain leverage and debt service ratios. As at December 31, 2018, Granite was in compliance with all of these covenants.

Credit Ratings

On April 12, 2018, Moody's Investors Service, Inc. (''Moody's'') confirmed its credit rating on the 2021 Debentures and 2023 Debentures of Baa2 with a stable outlook. On March 19, 2018, DBRS confirmed the BBB rating on the 2021 Debentures and the 2023 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.

Unitholders' Equity

Outstanding Stapled Units

As at March 6, 2019, the Trust had 45,684,529 stapled units issued and outstanding. The decrease from the issued and outstanding stapled units of 45,685,229 at December 31, 2018 resulted from the repurchase of 700 stapled units pursuant to Granite's normal course issuer bid subsequent to year end (see ''*NORMAL COURSE ISSUER BID*'').

Distributions

Monthly distributions declared to stapled unitholders in the three month periods ended December 31, 2018 and 2017 were $31.4 million or 68.7 cents per stapled unit and $31.0 million or 66.1 cents per stapled unit, respectively. Monthly distributions declared to stapled unitholders in the years ended December 31, 2018 and 2017 were $125.1 million or $2.73 per stapled unit and $123.1 million or $2.61 per stapled unit, respectively.

As a result of the increase in taxable income generated primarily by the sale transactions in 2018, Granite's Board of Trustees declared a special distribution in December 2018 of $1.20 per stapled unit which comprised 30.0 cents per unit payable in cash and 90.0 cents per unit payable by the issuance of stapled units. Immediately following the issuance of the stapled units, the stapled units were consolidated such that each unitholder held the same number of stapled units after the consolidation as each unitholder held prior to the special distribution. See ''*SIGNIFICANT MATTERS — Special Distributions to Unitholders*''.

The distributions declared in January 2019 in the amount of $10.6 million or 23.3 cents per stapled unit were paid on February 15, 2019 and the distributions declared in February 2019 of $10.6 million or 23.3 cents per stapled unit will be paid on March 15, 2019.

Pursuant to the requirement of 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 Policy guidelines.

Cash Flows from Operating Activities in Excess (Shortfall) of Distributions Paid and Payable

	Three Months Ended December 31,		Years Ended December 31,	
	2018	**2017**	**2018**	**2017**
Net income	**$ 85.9**	$233.6	**$ 465.4**	$ 357.7
Cash flows provided by operating activities	**34.7**	38.2	**157.9**	158.7
Monthly distributions paid and payable	**(31.4)**	(31.0)	**(125.1)**	(123.1)
Special distribution payable in cash	**(13.7)**	—	**(13.7)**	—
Cash flows from operating activities in excess (shortfall) of distributions paid and payable	**$(10.4)**	$ 7.2	**$ 19.1**	$ 35.6

Monthly distributions paid for the three month periods and years ended December 31, 2018 and 2017 were funded with cash flows from operating activities. The special distribution paid in cash on January 15, 2019 was funded with available cash on hand.

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 FFO, AFFO, 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 future commitments to replace or maintain its investment properties to adversely affect cash distributions.

Normal Course Issuer Bid

On May 16, 2018, 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 3,939,255 of Granite's issued and outstanding stapled units. The NCIB commenced on May 18, 2018 and will conclude on the earlier of the date on which purchases under the bid have been completed and May 17, 2019. Pursuant to the policies of the TSX, daily purchases made by Granite through the TSX may not exceed 16,546 stapled units, subject to certain exceptions. Granite entered into an automatic securities purchase plan with a broker in order to facilitate repurchases of the stapled units under the NCIB during specified blackout periods. Pursuant to a previous notice of intention to conduct a NCIB, Granite received approval from the TSX to purchase stapled units for the period May 16, 2017 to May 15, 2018.

During the year ended December 31, 2018, Granite repurchased 1,282,171 stapled units for consideration of $63.5 million and an additional 700 units for consideration of less than $0.1 million subsequent to the year-end at an aggregate average purchase price of $49.55 per unit. During the year ended December 31, 2017, Granite repurchased 241,034 stapled units for consideration of $12.0 million representing an average purchase price of $49.94 per unit.

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

The Trust is subject to various legal proceedings and claims that arise in the ordinary course of business. Management believes that the final outcome of such matters will not have a material adverse effect on the financial position, results of operations or liquidity of the Trust. However, actual outcomes may differ from management's expectations.

The Trust has made commitments for future payments of interest and principal on bank indebtedness and long-term debt, construction and development project costs, purchases of properties and certain other costs. At December 31, 2018, these contractual obligations had the following maturities:

As at December 31, 2018	Total	2019	2020	2021	2022	2023	Thereafter
Unsecured debentures	**$ 650.0**	$ —	$ —	$250.0	$ —	$400.0	$ —
Unsecured term loans	**552.4**	—	—	—	252.4	—	300.0
Cross currency interest rate swaps	**104.7**	—	—	26.9	3.8	56.9	17.1
Interest payments:							
Unsecured debentures, net of cross currency interest rate swap savings	**73.4**	17.5	17.5	17.5	10.4	10.5	—
Unsecured term loans, net of cross currency interest rate swap savings	**59.3**	9.8	9.8	9.8	9.8	6.7	13.4
Construction, development and property purchase commitments	**457.0**	457.0	—	—	—	—	—
	$1,896.8	$484.3	$27.3	$304.2	$276.4	$474.1	$330.5

Off-balance sheet arrangements consist of outstanding letters of credit to support certain contractual obligations, property purchase commitments, construction and development project commitments and certain operating agreements. At December 31, 2018, the Trust had $0.1 million in letters of credit outstanding. Additionally, the Trust had contractual commitments related to construction and development projects, the purchase of a property in the United States, and the purchase of a leasehold interest in two properties in Canada amounting in aggregate to approximately $457.0 million at December 31, 2018. The construction and development projects are expected to be completed in the latter part of 2019. The commitment to purchase the property in the United States is subject to specific confidentiality provisions and customary closing conditions including certain purchase rights in favour of the tenant and is expected to close in the third quarter of 2019 following construction of the building. The commitment to purchase the leasehold interest in two income-producing properties in Canada, which is expected to close in the second quarter of 2019, is subject to customary closing conditions and the consent of the ground lessor. Granite expects to fund these commitments through the use of cash on hand, cash from operations and/or Granite's credit facility. At December 31, 2018, the Trust also had 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	1.1
Later than 5 years	—
	$1.6

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.

For further discussion of commitments, contractual obligations, contingencies and off-balance sheet arrangements, refer to notes 8, 9, 16 and 20 to the audited combined financial statements for the year ended December 31, 2018 and ''*LIQUIDITY AND CAPITAL RESOURCES*''.

RELATED PARTY TRANSACTIONS

For a discussion of the Trust's transactions with related parties, refer to note 18 of the audited combined financial statements for the year ended December 31, 2018.

NON-IFRS MEASURES

Funds from operations

FFO is a non-IFRS performance measure that is widely used by the real estate industry in evaluating the operating performance of real estate entities. Granite calculates FFO as net income attributable to stapled unitholders excluding fair value gains (losses) on investment properties and financial instruments, gains (losses) on sale of investment properties including the associated current income tax, acquisition transaction costs, deferred income taxes and certain other items, net of 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'') White Paper on Funds From Operations & Adjusted Funds From Operations for IFRS dated February 2018 and as subsequently amended (''White Paper''). Granite considers FFO to be a meaningful supplemental measure that can be used to determine the Trust's ability to service debt, fund 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 — Funds From Operations and Adjusted Funds From Operations*''). FFO should not be construed as an alternative to net income or cash flow generated from operating activities determined in accordance with IFRS.

Adjusted funds from operations

AFFO is a non-IFRS performance measure that is widely used by the real estate industry in evaluating the recurring economic earnings performance of real estate entities after considering certain costs associated with sustaining such earnings. Granite calculates AFFO as net income attributable to stapled unitholders including all adjustments used to calculate FFO and further adjusts for actual maintenance capital expenditures that are required to sustain Granite's productive capacity, leasing costs such as leasing commissions and tenant allowances paid, tenant improvements and non-cash straight-line rent and tenant incentive amortization, net of non-controlling interests in such items. The Trust's determination of AFFO follows the definition prescribed by REALPAC's White Paper. Granite considers AFFO to be a meaningful supplemental measure that can be used to determine the Trust's ability to service debt, fund expansion capital expenditures, fund property development and provide distributions to stapled unitholders after considering costs associated with sustaining operating earnings. AFFO is also reconciled to net income, which is the most directly comparable IFRS measure (see ''*RESULTS OF OPERATIONS — Funds From Operations and Adjusted Funds From Operations*''). AFFO should not be construed as an alternative to net income or cash flow generated from operating activities determined in accordance with IFRS.

FFO and AFFO payout ratios

The FFO and AFFO payout ratios are calculated as monthly distributions declared to unitholders divided by FFO and AFFO, respectively, in a period. FFO payout ratio and AFFO payout ratio may exclude revenue or expenses incurred during a period that can be a source of variance between periods. The FFO payout ratio and AFFO payout ratio are supplemental measures widely used by analysts and investors in evaluating the sustainability of the Trust's monthly distributions to stapled unitholders.

FFO and AFFO Payout Ratios

(in millions, except as noted)		Three Months Ended December 31, 2018	Three Months Ended December 31, 2017	Years Ended December 31, 2018	Years Ended December 31, 2017
Monthly distributions declared to unitholders	**[A]**	**$31.4**	$31.0	**$125.1**	$123.1
FFO		**40.9**	41.6	**168.9**	153.2
Add (deduct):					
Proxy contest expenses		**—**	—	**—**	5.9
Foreign exchange gain on the remeasurement of US cash proceeds from sale of properties		**—**	—	**(8.5)**	—
Lease termination and close-out fees		**—**	—	**(1.0)**	(1.6)
FFO adjusted for the above	**[B]**	**$40.9**	$41.6	**$159.4**	$157.5
AFFO		**39.8**	32.6	**138.1**	145.4
Add (deduct):					
Proxy contest expenses		**—**	—	**—**	5.9
Tenant allowance payment made in connection with a 2014 lease extension at the Eurostar facility in Austria		**—**	—	**9.1**	—
Foreign exchange gain on the remeasurement of US cash proceeds from sale of properties		**—**	—	**(8.5)**	—
Lease termination and close-out fees		**—**	—	**(1.0)**	(1.6)
AFFO adjusted for the above	**[C]**	**$39.8**	$32.6	**$137.7**	$149.7
FFO payout ratio	**[A]/[B]**	**77%**	75%	**78%**	78%
AFFO payout ratio	**[A]/[C]**	**79%**	95%	**91%**	82%

Net operating income — cash basis

Granite uses NOI on a cash basis, which adjusts NOI to exclude lease termination and close-out fees, and the non-cash impact from straight-line rent and tenant incentive amortization recognized during the period (see ''*RESULTS OF OPERATIONS — Net Operating Income*''). NOI — cash basis is a commonly used measure by the real estate industry and Granite believes it is a useful supplementary measure of the income generated by and operating performance of income-producing properties in addition to the most comparable IFRS measure, which Granite believes is NOI. NOI — cash basis is also a key input in Granite's determination of the fair value of its investment property portfolio.

Same property net operating income — cash basis

Same property NOI — cash basis refers to the NOI — cash basis for those properties owned by Granite throughout the entire current and prior year periods under comparison. Same property NOI — cash basis excludes properties that were acquired, disposed of, classified as properties under or held for development or assets held for sale during the periods under comparison (see ''*RESULTS OF OPERATIONS — Net Operating Income*''). Granite believes that same property NOI — cash basis is a useful supplementary measure in understanding period-over-period organic changes in NOI — cash basis from the same stock of properties owned.

Adjusted earnings before interest, income taxes, depreciation and amortization (''Adjusted EBITDA'')

Adjusted EBITDA is calculated as net income before lease termination and close-out fees, interest expense, interest income, income tax expense, depreciation and amortization expense, foreign exchange gains (losses) on the remeasurement of proceeds from the sale of investment properties, proxy contest expenses, fair value gains (losses) on investment properties and financial instruments, acquisition transaction costs, other income relating to a settlement award and gains (losses) on the sale of investment properties. Adjusted EBITDA represents an operating cash flow measure that Granite uses in calculating the interest coverage ratio and indebtedness ratio noted below. Adjusted EBITDA is also defined in Granite's debt agreements and used in calculating the Trust's debt covenants.

Adjusted EBITDA Reconciliation

For the years ended December 31,	2018	2017
Net income	**$ 465.4**	$ 357.7
Add (deduct):		
Lease termination and close-out fees	**(1.0)**	(1.6)
Interest expense and other financing costs	**22.4**	20.0
Interest income	**(2.6)**	(0.5)
Income tax expense	**52.6**	13.4
Depreciation and amortization	**0.3**	0.3
Foreign exchange gain on the remeasurement of US cash proceeds from sale of properties	**(8.5)**	—
Fair value gains on investment properties, net	**(354.7)**	(212.1)
Fair value losses on financial instruments	**0.5**	0.8
Loss on sale of investment properties	**6.9**	0.4
Acquisition transaction costs	**8.0**	0.7
Other income — settlement award	**(2.3)**	—
Proxy contest expenses	**—**	5.9
Adjusted EBITDA	**$ 187.0**	$ 185.0

Interest coverage ratio

The interest coverage ratio is calculated on a 12-month trailing basis using Adjusted EBITDA divided by net interest expense. Granite believes the interest coverage ratio is useful in evaluating the Trust's ability to meet its interest expense obligations (see ''*LIQUIDITY AND CAPITAL RESOURCES — Debt Structure*'').

Indebtedness ratio

The indebtedness ratio is calculated as total debt divided by Adjusted EBITDA and Granite believes it is useful in evaluating the Trust's ability to repay outstanding debt using its operating cash flows (see ''*LIQUIDITY AND CAPITAL RESOURCES — Debt Structure*'').

Leverage and net leverage ratios

The leverage ratio is calculated as the carrying value of total debt divided by the fair value of investment properties while the net leverage ratio subtracts cash and cash equivalents from total debt. The leverage ratio and net leverage ratio are supplemental measures that Granite believes are useful in evaluating the

Trust's degree of financial leverage, borrowing capacity and the relative strength of its balance sheet (see ''*LIQUIDITY AND CAPITAL RESOURCES — Debt Structure*'').

Unencumbered asset coverage ratio

The unencumbered asset coverage ratio is calculated as the carrying value of investment properties (excluding assets held for sale) that are not encumbered by secured debt divided by the carrying value of total unsecured debt and is a supplemental measure that Granite believes is useful in evaluating the Trust's degree of asset coverage provided by its unencumbered investment properties to total unsecured debt (see ''*LIQUIDITY AND CAPITAL RESOURCES — Debt Structure*'').

SIGNIFICANT 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(k) of the audited combined financial statements for the year ended December 31, 2018. 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 specialized 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, 2018. In applying this policy, judgment is used 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 United States 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 additional current and/or 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 appraisals but uses them as data points, together with other external market information accumulated by management, in arriving at its own conclusions on values. Management uses valuation assumptions such as discount rates, terminal capitalization rates and market rental rates applied in external appraisals or sourced from valuation experts; however, the Trust also uses its historical renewal experience with tenants, its direct knowledge of the specialized nature of Granite's portfolio and tenant profile and its knowledge of the actual condition of the properties in making business judgments about lease renewal probabilities, renewal rents and capital expenditures. There has been no change in the valuation methodology used during the year ended December 31, 2018. 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 the ''*Investment Properties*'' section and note 4 of the audited combined financial statements for the year ended December 31, 2018 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 net income.

NEW ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS

New Standards Adopted

Effective January 1, 2018, the Trust applied for the first time certain standards and amendments that require restatement of previous financial statements. The nature and effect of these changes on the combined financial statements are disclosed below.

IFRS 15, *Revenue from Contracts with Customers*

In May 2014, the International Accounting Standards Board (''IASB'') issued IFRS 15, *Revenue from Contracts with Customers* (''IFRS 15'') which replaced IAS 18, *Revenue* and IAS 11, *Construction Contracts* and other related revenue interpretations effective January 1, 2018. IFRS 15 establishes the principles that the Trust applies to report useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

As the Trust's most material revenue stream of rental revenue is outside the scope of the new standard, the adoption of the new standard did not have a material impact on the combined statements of net income and comprehensive income. The recovery of costs related to common area maintenance services is considered within the scope of IFRS 15 and the Trust has concluded that the pattern of revenue recognition remains unchanged. As a result of the adoption of IFRS 15, the Trust discloses revenue recognized from contracts with tenants related to common area maintenance recoveries separately from other sources of revenue. In addition, the Trust assessed that it is a principal in relation to property taxes and insurance that are paid directly by the tenants under certain net leases as the Trust is primarily responsible for fulfilling the promise to satisfy its property tax obligations and is a beneficiary as it relates to potential property insurance claims. Therefore, the Trust recognizes the gross amount of consideration for property taxes and insurance premiums. As a result of the adoption of IFRS 15, in the three month periods ended December 31, 2018 and 2017, tenant recoveries revenue and property operating costs each increased by $3.5 million and $5.4 million, respectively. For the years ended December 31, 2018 and 2017, tenant recoveries revenue and property operating costs each increased by $16.7 million and $22.0 million, respectively. There was no impact to net income, opening retained earnings, unitholders' equity or cash flows from the adoption of this standard. Refer to note 12(a) to the audited combined financial statements for the incremental disclosures required under IFRS 15.

IFRS 9, *Financial Instruments*

In July 2014, the IASB issued IFRS 9, *Financial Instruments* (''IFRS 9'') which replaced IAS 39, *Financial Instruments: Recognition and Measurement* (''IAS 39'') effective January 1, 2018. IFRS 9 provides new guidance on the classification and measurement, impairment and hedge accounting for financial instruments in addition to clarification for the treatment of modifications of financial liabilities. IFRS 9 is required to be adopted retrospectively with certain available transition provisions.

The adoption of this standard did not have any significant impact on the combined financial statements for the current or prior periods.

Classification and measurement:

IFRS 9 requires a new approach for the classification and measurement of financial assets based on the Trust's business models for managing these financial assets and their contractual cash flow characteristics. This approach is summarized as follows:

- Assets held for the purpose of collecting contractual cash flows that solely represent payments of principal and interest are measured at amortized cost.

- Assets held within a business model where assets are both held for the purpose of collecting contractual cash flows or sold prior to maturity and the contractual cash flows solely represent payments of principal and interest are measured at fair value through other comprehensive income (''FVTOCI'').
- Assets held within another business model or assets that do not have contractual cash flow characteristics that are solely payments of principal and interest are measured at fair value through profit or loss (''FVTPL'').

The Trust has completed its review of all financial instruments held and has performed a cash flow and business model assessment and the impact is summarized as follows:

- The Trust's cash and cash equivalents, restricted cash, accounts receivable and long-term receivables, previously classified as loans and receivables under IAS 39, are now classified as amortized cost and continue to be measured at amortized cost.
- The Trust's unsecured debentures, bank indebtedness, accounts payable and accrued liabilities and distributions payable, previously classified as other financial liabilities under IAS 39, are now classified as amortized cost and continue to be measured at amortized cost.
- The Trust's derivative asset and liability instruments continue to be classified and measured at FVTPL.

Refer to notes 2(o) and 16 to the audited combined financial statements for the classification and measurement basis of financial assets and liabilities under IFRS 9.

Impairment:

IFRS 9 introduces a new expected credit loss (''ECL'') impairment model for all financial assets measured at amortized cost or debt instruments measured at FVTOCI.

The ECL model uses an allowance for expected credit losses being recorded regardless of whether or not there has been an actual loss event. The Trust measures the loss allowance for its financial assets at an amount equal to the lifetime ECL. The impact of the credit loss modelling process is summarized as follows:

- The Trust did not record an ECL allowance against long-term receivables as historical experience of loss on these balances is insignificant and, based on the assessment of forward-looking information, no significant increases in losses are expected. The Trust will continue to assess the valuation of these instruments.
- The Trust did not record an ECL allowance against accounts receivable and has determined that its internal processes of evaluating each receivable on a specific basis for collectability using historical experience and adjusted for forward-looking information, would appropriately allow the Trust to determine if there are significant increases in credit risk to then record a corresponding ECL allowance.

Hedge accounting:

IFRS 9 also introduces a new hedge accounting model that expands the scope of hedge items and risks eligible for hedge accounting and aligns hedge accounting more closely with risk management. This new standard did not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; however, it provides for more hedging strategies that are used for risk management to qualify for hedge accounting and introduces more judgment to assess the effectiveness of a hedging relationship.

Financial liabilities:

Generally, IFRS 9 did not introduce changes to the measurement of financial liabilities. The Trust continues to measure its financial liabilities at amortized cost.

In regards to term modifications for financial liabilities, IFRS 9 requires that when a financial liability measured at amortized cost is modified or exchanged, and such modification or exchange does not result in derecognition, the adjustment to the amortized cost of the financial liability is recognized in profit or loss.

IFRS 2, *Share-based Payment*

In June 2016, the IASB issued amendments to IFRS 2, *Share-based Payment* 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 January 1, 2018. The adoption of this amendment did not have an impact on the combined financial statements.

IAS 40, *Investment Properties*

On December 8, 2016, the IASB issued an amendment to IAS 40, *Investment Properties* that requires an asset to be transferred to or from investment property only when there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. The amendments are effective for years beginning on January 1, 2018. The adoption of these amendments and clarifications did not have an impact on the combined financial statements.

Future Accounting Policy Changes

New accounting standards issued but not yet applicable to the combined financial statements for the year ended December 31, 2018 are described below. Granite intends to adopt these standards when they become effective.

IFRS 16, *Leases*

In January 2016, the IASB issued IFRS 16, *Leases* (''IFRS 16'') which replaces IAS 17, *Leases* and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a non-lease component on the basis of whether the customer controls the specified asset. For those contracts that are or contain 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 largely unchanged as the distinction between operating and finance leases is retained. The standard is effective for annual periods beginning on or after January 1, 2019. The Trust does not expect this standard to have a significant impact on its combined financial statements as leases with tenants are expected to be accounted for as operating leases in the same manner they are currently being reported. The Trust has two investment properties located on land that is leased. Currently, the ground rent payments are expensed. It is expected that under IFRS 16, a right-of-use asset addition to investment properties and a lease obligation liability will be recorded with associated financing charges. The Trust also has rent expense associated with office space in Toronto, Canada and Vienna, Austria and office equipment. It is expected that under IFRS 16, a right-of-use asset addition and obligation liability will be recorded for these lease obligations as well. The Trust has completed the issue identification phase of the transition and is in the process of completing its evaluation of the resulting impact on its combined financial statements and internal controls.

IFRIC 23, *Uncertainty over Income Tax Treatments*

In June 2017, the IFRS Interpretations Committee issued IFRIC 23, *Uncertainty over Income Tax Treatments* (''IFRIC 23'') which clarifies how the recognition and measurement requirements of IAS 12, *Income Taxes*, are applied where there is uncertainty over income tax treatments. This standard is effective for annual periods beginning on or after January 1, 2019. The Trust is currently assessing the impact of IFRIC 23 on its combined financial statements.

IFRS 3, *Business Combinations*

In October 2018, the IASB issued amendments to IFRS 3, *Business Combinations*. The amendments clarified the definition of a business and provide guidance on whether an acquisition represents a group of assets or a business. The amendments also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. Distinguishing between a business and a group of assets is important as an acquirer would only recognize goodwill when acquiring a business. The amendments apply to transactions for which the acquisition date is on or after the first annual reporting period beginning on or after January 1, 2020. Earlier adoption is permitted. The Trust is assessing the impact of these amendments on its combined financial statements.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure Controls and Procedures

The President and Chief Executive Officer and the Chief Financial Officer of Granite have evaluated the effectiveness of the Trust's disclosure controls and procedures as defined in National Instrument 52-109 — *Certification of Disclosure in Issuers' Annual and Interim Filings* (''NI 52-109'') and in Rules 13a-15(e) and 15d-15(e) under the United States Securities and Exchange Act of 1934 as of December 31, 2018 (the ''Evaluation Date''). They have concluded that, as of the Evaluation Date, the Trust's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Trust in the reports that they file or submit is (i) recorded, processed, summarized and reported within the time periods specified in the applicable rules and (ii) accumulated and communicated to the Trust's management, including their principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting

The Trust's management is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in NI 52-109 and Rules 13a-15(f) and 15d-15(f) under the United States Securities Exchange Act of 1934) for the Trust.

The Trust's internal control over financial reporting is a process designed by, or under the supervision of, the Trust's principal executive and principal financial officers, or persons performing similar functions, and effected by the Trust's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Trust's assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that the Trust's receipts and expenditures are being made only in accordance with authorizations of its management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Trust's assets that could have a material effect on the financial statements.

Under the supervision and with the participation of the Trust's President and Chief Executive Officer and Chief Financial Officer, management conducted an evaluation of the effectiveness of the Trust's internal control over financial reporting, as of the Evaluation Date, based on the framework set forth in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation under this framework, management concluded that the Trust's internal control over financial reporting was effective as of December 31, 2018.

Deloitte LLP, an independent registered public accounting firm, who audited and reported on the Trust's combined financial statements as at and for the year ended December 31, 2018 and whose report is included in the Trust's annual report for fiscal 2018, has also issued an attestation report under standards of the Public Company Accounting Oversight Board (United States) on the Trust's internal control over financial reporting as of December 31, 2018. The attestation report precedes the audited financial statements included in the Trust's annual report for fiscal 2018.

Changes in Internal Control Over Financial Reporting

As of the Evaluation Date, there were no changes in the Trust's internal control over financial reporting that occurred during the period beginning on the date immediately following the end of the period in respect of which Granite made its most recent previous interim filing and ended on December 31, 2018 that have materially affected, or that are reasonably likely to materially affect, the Trust's internal control over financial reporting.

Limitation on the Effectiveness of Controls and Procedures

Granite's management, including the President and Chief Executive Officer and the Chief Financial Officer, does not expect that the Trust's controls and procedures will prevent all potential error and fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

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 Granite's business, financial condition, operating results and prospects. These risks and uncertainties are discussed in Granite's 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, 2018.

SELECTED ANNUAL AND QUARTERLY DATA

The annual and quarterly financial data reflects fluctuations in revenue, FFO, AFFO, investment properties and total debt primarily from the timing of leasing and development activities, property sales, acquisitions and foreign exchange. Investment properties also fluctuate from the effect of measuring properties at fair value under IFRS. Net income attributable to unitholders primarily fluctuates from fair value gains/losses on investment properties.

Refer to note 2 of the audited combined financial statements for the year ended December 31, 2018 for a description of the accounting policies used in the determination of the financial data.

Annual Data

Years ended December 31,	2018	2017	2016
(in millions, except as noted)			
Operating highlights[(1)(2)]			
Revenue[(3)]	**$ 247.5**	$ 244.7	$ 245.2
NOI — cash basis[(1)]	**$ 216.7**	$ 218.2	$ 220.6
Fair value gain on investment properties, net	**$ 354.7**	$ 212.1	$ 175.9
Net income attributable to stapled unitholders	**$ 465.2**	$ 357.7	$ 279.3
Cash provided by operating activities	**$ 157.9**	$ 158.7	$ 160.0
FFO[(1)]	**$ 168.9**	$ 153.2	$ 149.7
AFFO[(1)]	**$ 138.1**	$ 145.4	$ 149.3
FFO payout ratio[(1)]	**78%**	78%	71%
AFFO payout ratio[(1)]	**91%**	82%	71%
Per unit amounts			
Diluted FFO[(1)]	**$ 3.68**	$ 3.25	$ 3.18
Diluted AFFO[(1)]	**$ 3.01**	$ 3.09	$ 3.17
Monthly distributions paid	**$ 2.72**	$ 2.60	$ 2.40
Financial highlights			
Investment properties[(4)]	**$3,425.0**	$2,733.6	$2,653.1
Assets held for sale	**$ 44.2**	$ 391.4	—
Cash and cash equivalents	**$ 658.2**	$ 69.0	$ 246.2
Total debt	**$1,303.2**	$ 741.4	$ 657.4
Diluted weighted average units outstanding	**45.9**	47.1	47.1
Maintenance or improvements capital expenditures paid[(5)]	**$ 5.6**	$ 2.7	$ 2.1
Leasing costs paid[(5)]	**$ 4.8**	$ 1.4	$ 3.7
Property metrics[(4)]			
Number of income-producing properties	**80**	84	92
GLA, square feet	**32.2**	29.1	29.6
Occupancy, by GLA	**99.1%**	98.4%	99.4%
Weighted average lease term, years	**6.0**	5.9	7.0

(1) For definitions of Granite's non-IFRS measures, refer to the section ''*NON-IFRS MEASURES*''.

(2) Explanations for specific changes in the annual financial data table above are as follows:

- **2018** — Net income attributable to unitholders, cash provided by operating activities and FFO included $1.0 million ($0.02 per unit) in revenue related to a lease termination and close-out fee and a net $8.5 million ($0.19 per unit) foreign exchange gain on the remeasurement of US dollar cash proceeds from the sale of investment properties in January 2018. FFO used to calculate FFO payout ratio and AFFO payout ratio excludes the aforementioned items as they can be a source of variance between periods. AFFO payout ratio further excludes a $9.1 million tenant incentive payment made in 2018 in connection with the 2014 lease extension at the Eurostar facility. The fair value gains on investment properties of $354.7 million were largely attributable to i) an increase in fair value to the sale price for the multi-purpose and special purpose properties sold in 2018 or in 2019, ii) a compression in discount and terminal capitalization rates and an increase in market rents for properties located in Canada, the United States, Germany and the Netherlands resulting from a greater market demand and, to a lesser extent, iii) positive changes in leasing assumptions primarily from contractual rent increases, new leases and lease renewals.

- **2017** — Net income attributable to unitholders, cash provided by operating activities and FFO included $1.6 million of lease termination and close-out fees in revenue in connection with tenants having vacated properties and $5.9 million of expenses in connection with the proxy contest leading up to Granite's June 2017 annual general meeting. FFO used to calculate FFO payout ratio and AFFO payout ratio excludes the aforementioned items as they can be a source of variance between periods. The fair value gain on investment properties of $212.1 million was attributable to several factors, and, in particular, from i) the increase in fair value to the sale price for 10 properties, including three special purpose properties, sold in January 2018 and the higher valuation implied on certain remaining special purpose properties from the pricing realized and the liquidity potential demonstrated from the sale, ii) a compression in discount and terminal capitalization rates for certain modern warehouse and multi-purpose properties located in Canada, the United States and Europe and iii) favourable changes in leasing assumptions from new leases or renewals executed during 2017.

- **2016** — Net income attributable to unitholders, cash provided by operating activities and FFO included $11.9 million of redemption costs associated with the early redemption of debentures that were due to mature in October 2018. FFO used to calculate FFO payout ratio and AFFO payout ratio excludes the $11.9 million early redemption expense as this cost can be a source of variance between periods. The fair value gain on investment properties of $175.9 million included the positive changes to leasing assumptions, which generally resulted in increased certainty and the extension of contractual cash flows, relating to lease extensions or renewals and extensions associated with 15 properties, including seven special purpose properties, concluded with Magna.

(3) The Trust has retrospectively applied IFRS 15, *Revenue from Contracts with Customers* (see ''*NEW ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS*'') and all historical periods herein have been restated to reflect such treatment.

(4) Excludes properties held for sale which are classified as assets held for sale on the combined balance sheet as at December 31, 2018 and 2017.

(5) Excludes maintenance or improvement capital expenditures and leasing costs related to a $9.1 million tenant incentive allowance for a 2014 lease extension in Graz, Austria paid in 2018 and the partially re-leased flex office property in Novi, Michigan paid in 2017 and 2018 (see ''*INVESTMENT PROPERTIES*'').

Quarterly Data 2018

(in millions, except as noted)	Mar 31, 2018	Jun 30, 2018	Sep 30, 2018	Dec 31, 2018
***Operating highlights*[(1)(2)]**				
Revenue[(3)]	$ 61.7	$ 62.1	$ 63.8	$ 59.9
NOI — cash basis[(1)]	$ 52.2	$ 55.2	$ 56.4	$ 52.9
Fair value gain on investment properties, net	$ 32.3	$ 127.9	$ 141.6	$ 52.9
Net income attributable to stapled unitholders	$ 72.4	$ 149.1	$ 157.8	$ 85.9
Cash provided by operating activities	$ 37.6	$ 45.0	$ 40.6	$ 34.7
FFO[(1)]	$ 51.3	$ 37.6	$ 39.1	$ 40.9
AFFO[(1)]	$ 31.2	$ 29.4	$ 37.7	$ 39.8
FFO payout ratio[(1)]	79%	79%	80%	77%
AFFO payout ratio[(1)]	109%	99%	82%	79%
Per unit amounts				
Diluted FFO[(1)]	$ 1.11	$ 0.82	$ 0.85	$ 0.90
Diluted AFFO[(1)]	$ 0.67	$ 0.64	$ 0.82	$ 0.87
Monthly distributions paid	$ 0.68	$ 0.68	$ 0.68	$ 0.68
Financial highlights				
Investment properties[(4)]	$2,916.1	$3,031.2	$3,198.0	$3,425.0
Assets held for sale	—	$ 341.4	$ 17.0	$ 44.2
Cash and cash equivalents	$ 273.8	$ 50.1	$ 192.7	$ 658.2
Total debt	$ 745.7	$ 817.6	$ 715.9	$1,303.2
Diluted weighted average units outstanding	46.3	45.8	45.8	45.7
Maintenance or improvements capital expenditures paid[(5)]	$ 0.4	$ 3.0	$ 1.5	$ 0.7
Leasing costs paid[(5)]	$ 1.5	$ 2.4	$ 0.5	$ 0.4
***Property metrics*[(4)]**				
Number of income-producing properties	85	84	85	80
GLA, square feet	29.7	31.8	32.5	32.2
Occupancy, by GLA	98.7%	97.3%	97.3%	99.1%
Weighted average lease term, years	6.0	5.9	5.9	6.0

(1) For definitions of Granite's non-IFRS measures, refer to the section ''*NON-IFRS MEASURES*''.

(2) Explanations for specific changes in the quarterly financial data table above are as follows:

- **Q1'18** — Revenue, net income attributable to unitholders, cash provided by operating activities and FFO included $1.0 million of lease termination and close-out fee in revenue in connection with a tenant having vacated a property and a $10.4 million foreign exchange gain on the remeasurement of US dollar proceeds from the sale of investment properties in January 2018. FFO used to calculate FFO payout ratio and AFFO payout ratio excludes the aforementioned items as these items can be a source of variance between periods. AFFO included $9.1 million related to the payment of a tenant incentive allowance made in connection with a 2014 lease extension at the Eurostar facility in Graz, Austria. AFFO used to calculate AFFO payout ratio excludes the $9.1 million tenant incentive payment as this cost can be a source of variance between periods.

- **Q2'18** — Net income attributable to unitholders, cash provided by operating activities and FFO included a $1.9 million foreign exchange loss on the remeasurement of US dollar proceeds from the sale of investment properties in January 2018. FFO used to calculate FFO payout ratio and AFFO payout ratio excludes the $1.9 million foreign exchange loss on the remeasurement of US dollar proceeds from the sale of investment properties as this item can be a source of variance between periods. Fair value gain on investment properties of $127.9 million included the increase in fair value to the expected sale price of six multi-purpose and special purpose properties classified as assets held for sale in the second quarter of 2018.

- **Q3'18** — Fair value gain on investment properties of $141.6 million included a compression in discount and terminal capitalization rates and an increase in market rents for properties in Canada, the United States, Germany and the Netherlands resulting from the limited availability and greater market demand for industrial real estate properties.
- **Q4'18** — Fair value gains on investment properties of $52.9 million were largely attributable to a compression in discount and terminal capitalization rates for properties located in Canada, the United States and the Netherlands that resulted from a greater market demand for industrial real estate properties and, to a lesser extent, the increase in fair value to the expected sale price for the multi-purpose properties sold in 2019 and the positive changes in leasing assumptions associated with new leases and lease renewals.

(3) The Trust has retrospectively applied IFRS 15, *Revenue from Contracts with Customers* (see ''*NEW ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS*'') and all historical periods herein have been restated to reflect such treatment.

(4) Excludes properties held for sale which are classified as assets held for sale on the combined balance sheet as at the respective quarter-end.

(5) Excludes maintenance or improvement capital expenditures and leasing costs paid related to a $9.1 million tenant incentive allowance for a 2014 lease extension in Graz, Austria and the partially re-leased flex office property in Novi, Michigan (see ''*INVESTMENT PROPERTIES*'').

Quarterly Data 2017

(in millions, except as noted)	Mar 31, 2017	Jun 30, 2017	Sep 30, 2017	Dec 31, 2017
Operating highlights[1][2]				
Revenue[3]	$ 60.8	$ 60.5	$ 60.8	$ 62.6
NOI — cash basis[1]	$ 54.4	$ 54.2	$ 53.4	$ 56.2
Fair value gain (loss) on investment properties, net	$ (7.3)	$ 17.2	$ 17.0	$ 185.2
Net income attributable to stapled unitholders	$ 30.2	$ 42.9	$ 51.0	$ 233.6
Cash provided by operating activities	$ 46.2	$ 33.8	$ 40.5	$ 38.2
FFO[1]	$ 39.6	$ 31.6	$ 40.4	$ 41.6
AFFO[1]	$ 40.3	$ 32.4	$ 40.1	$ 32.6
FFO payout ratio[1]	78%	82%	79%	75%
AFFO payout ratio[1]	76%	80%	80%	95%
Per unit amounts				
Diluted FFO[1]	$ 0.84	$ 0.67	$ 0.85	$ 0.89
Diluted AFFO[1]	$ 0.86	$ 0.69	$ 0.85	$ 0.69
Monthly distributions paid	$ 0.65	$ 0.65	$ 0.65	$ 0.65
Financial highlights				
Investment properties[4]	$2,717.6	$2,758.0	$2,749.0	$2,733.6
Assets held for sale	—	—	—	$ 391.4
Cash and cash equivalents	$ 189.7	$ 196.5	$ 190.9	$ 69.0
Total debt	$ 650.5	$ 682.7	$ 691.5	$ 741.4
Diluted weighted average units outstanding	47.1	47.2	47.2	47.0
Maintenance or improvements capital expenditures paid[5]	$ 0.6	$ 0.3	$ 0.5	$ 1.3
Leasing costs paid[5]	$ 0.3	$ 0.3	$ 0.4	$ 0.4
Property metrics[4]				
Number of income-producing properties	92	92	92	84
GLA, square feet	30.1	30.2	30.2	29.1
Occupancy, by GLA	98.4%	98.1%	98.4%	98.4%
Weighted average lease term, years	6.9	6.7	6.6	5.9

(1) For definitions of Granite's non-IFRS measures, refer to the section ''*NON-IFRS MEASURES*''.

(2) Explanations for specific changes in the quarterly financial data table above are as follows:

- **Q2'17** — Net income attributable to unitholders, cash provided by operating activities and FFO included $5.9 million of expenses in connection with the proxy contest leading up to Granite's June 2017 annual general meeting. FFO used to calculate FFO payout ratio and AFFO payout ratio excludes the $5.9 million proxy contest expenses as this cost can be a source of variance between periods.
- **Q3'17** — Revenue, net income attributable to unitholders, cash provided by operating activities and FFO included $1.6 million of lease termination and close-out fees in revenue in connection with tenants having vacated properties. FFO used to calculate FFO payout ratio and AFFO payout ratio excludes the $1.6 million lease termination and close-out fees as this revenue can be a source of variance between periods.
- **Q4'17** — Fair value gain on investment properties of $185.2 million included the increase in fair value to the sale price for 10 properties, including three special purpose properties, sold in January 2018 and the higher valuation implied on certain remaining special purpose properties from the pricing realized and the liquidity potential demonstrated from the sale.

(3) The Trust has retrospectively applied IFRS 15, *Revenue from Contracts with Customers* (see ''*NEW ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS*'') and all historical periods herein have been restated to reflect such treatment.

(4) Excludes properties held for sale which are classified as assets held for sale on the combined balance sheet as at the respective quarter-end.

(5) Excludes maintenance or improvement capital expenditures and leasing costs paid related to the partially re-leased flex office property in Novi, Michigan (see ''*INVESTMENT PROPERTIES*'').

FORWARD-LOOKING STATEMENTS

This MD&A and accompanying letter to unitholders 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 ''outlook'', ''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: the expansion and diversification of Granite's real estate portfolio and the reduction in Granite's exposure to Magna and the special purpose properties; the ability of Granite to find satisfactory acquisition, joint venture and development opportunities and to strategically redeploy the proceeds from recently sold properties and financing initiatives; the expected completion of the acquisitions of a property in the United States and the construction and leasing of a building thereon and the leasehold interest in two properties in Canada; Granite's ability to dispose of any non-core assets on satisfactory terms; Granite's ability to meet its target occupancy goals; and the expected amount of any distributions, 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) 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 expand and diversify its real estate portfolio and dispose of any non-core assets on satisfactory terms; and the risks set forth in the ''Risk Factors'' section in Granite's AIF for 2018 dated March 6, 2019, 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, 2018 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.

EXHIBIT 4

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the use of our reports dated March 6, 2019 relating to the combined financial statements of Granite REIT Inc. and Granite Real Estate Investment Trust and subsidiaries (collectively, the "Trust") and the effectiveness of the Trust's internal control over financial reporting appearing in this Annual Report on Form 40-F for the year ended December 31, 2018.

Toronto, Canada
March 6, 2019

/s/ Deloitte LLP

Deloitte LLP
Chartered Professional Accountants,
Licensed Public Accountants

EXHIBIT 99.1

Certification Pursuant to 18 U.S.C. 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002
Granite Real Estate Investment Trust

In connection with the annual report of Granite Real Estate Investment Trust (the "Company") on Form 40-F for the fiscal year ended December 31, 2018 (the "Report") to which this certification is an exhibit, I, Kevan Gorrie, Trustee, President and Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 6, 2019

By: /s/ KEVAN GORRIE
Name: Kevan Gorrie
Title: Trustee, President and Chief Executive Officer

EXHIBIT 99.1

Certification Pursuant to 18 U.S.C. 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002
Granite REIT Inc.

In connection with the annual report of Granite REIT Inc. (the "Company") on Form 40-F for the fiscal year ended December 31, 2018 (the "Report") to which this certification is an exhibit, I, Kevan Gorrie, Director, President and Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 6, 2019

By: /s/ KEVAN GORRIE

Name: Kevan Gorrie
Title: Director, President and Chief Executive Officer

EXHIBIT 99.2

Certifications
Granite Real Estate Investment Trust

I, Kevan Gorrie, certify that:

1. I have reviewed this annual report on Form 40-F of Granite Real Estate Investment Trust;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;
4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and
5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 6, 2019

By: /s/ KEVAN GORRIE

Name: Kevan Gorrie
Title: Trustee, President and Chief Executive Officer

EXHIBIT 99.2

Certifications
Granite REIT Inc.

I, Kevan Gorrie, certify that:

1. I have reviewed this annual report on Form 40-F of Granite REIT Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 6, 2019

By: /s/ KEVAN GORRIE

Name: Kevan Gorrie
Title: Director, President and Chief Executive Officer

EXHIBIT 99.3

Certification Pursuant to 18 U.S.C. 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002
Granite Real Estate Investment Trust

In connection with the annual report of Granite Real Estate Investment Trust (the "Company") on Form 40-F for the fiscal year ended December 31, 2018 (the "Report") to which this certification is an exhibit, I, Ilias Konstantopoulos, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 6, 2019

By: /s/ ILIAS KONSTANTOPOULOS
Name: Ilias Konstantopoulos
Title: Chief Financial Officer

EXHIBIT 99.3

Certification Pursuant to 18 U.S.C. 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002
Granite REIT Inc.

In connection with the annual report of Granite REIT Inc. (the "Company") on Form 40-F for the fiscal year ended December 31, 2018 (the "Report") to which this certification is an exhibit, I, Ilias Konstantopoulos, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 6, 2019

By: /s/ ILIAS KONSTANTOPOULOS
Name: Ilias Konstantopoulos
Title: Chief Financial Officer

EXHIBIT 99.4

Certifications
Granite Real Estate Investment Trust

I, Ilias Konstantopoulos, certify that:

1. I have reviewed this annual report on Form 40-F of Granite Real Estate Investment Trust;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 6, 2019

By: /s/ ILIAS KONSTANTOPOULOS
Name: Ilias Konstantopoulos
Title: Chief Financial Officer

EXHIBIT 99.4

Certifications
Granite REIT Inc.

I, Ilias Konstantopoulos, certify that:

1. I have reviewed this annual report on Form 40-F of Granite REIT Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 6, 2019

By: /s/ ILIAS KONSTANTOPOULOS

Name: Ilias Konstantopoulos
Title: Chief Financial Officer