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, 2014

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

CT Corporation System
111 Eighth Avenue
New York, NY 10011
(212) 894-8700
(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: **47,016,909 Stapled Units outstanding as of December 31, 2014.**

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 Securities 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 ☐

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 4, 2015, filed as Exhibit 1 to this annual report on Form 40-F.

CONTROLS AND PROCEDURES

A. *Disclosure controls and procedures*. The Chief Executive Officer and the Chief Financial Officer of the Registrants have evaluated the effectiveness of the Registrants' 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, the Registrants' disclosure controls and procedures were effective to ensure that material information relating to the Registrants would be made known to them and would be disclosed on a timely basis.

B. *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 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' Chief Executive Officer and Chief Financial Officer, management conducted an evaluation of the effectiveness of the Registrants' 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 the Registrants' 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, 2014, 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, 2014, 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 Chief Executive Officer and the Chief Financial Officer, does 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, Barry Gilbertson and Scott Oran.

Each Registrant's Board of Trustees or Board of Directors, as applicable, has determined that it has one audit committee financial expert (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 Mr. Miller 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, 2014, 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, 2014 and December 31, 2013.

OFF-BALANCE SHEET ARRANGEMENTS

The Registrants' off-balance sheet arrangements consist of letters of credit, construction and development project commitments and certain operating agreements. For a discussion of these arrangements, please refer to notes 9 and 22 to the audited combined financial statements for the year ended December 31, 2014, 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, 2014, 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 4, 2015

GRANITE REAL ESTATE INVESTMENT TRUST

By: /s/ THOMAS HESLIP

Name: Thomas Heslip
Title: Trustee and Chief Executive Officer

Date: March 4, 2015

GRANITE REIT INC.

By: /s/ THOMAS HESLIP

Name: Thomas Heslip
Title: Director and Chief Executive Officer

EXHIBIT INDEX

1.	Annual Information Form dated as of March 4, 2015.
2.	Audited combined financial statements for the year ended December 31, 2014, together with the auditors' report thereon and the auditors' report on internal controls, from the Annual Report to Stapled Unitholders for fiscal 2014.
3.	Management's Discussion and Analysis of Operations and Financial Position for the three-month period and year ended December 31, 2014, from the Annual Report to Stapled Unitholders for fiscal 2014.
4.	Consent of Deloitte LLP.
99.1	Certificate of the 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 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.

EXHIBIT 1

Granite Real Estate Investment Trust

Annual Information Form

March 4, 2015

TABLE OF CONTENTS

GENERAL MATTERS

This annual information form ("**Annual Information Form**" or "**AIF**") contains information about both Granite Real Estate Investment Trust ("**Granite REIT**") and Granite REIT Inc. ("**Granite GP**"). The trust units of Granite REIT (each a "**REIT Unit**") and the common shares of Granite GP (each a "**GP Share**") trade as stapled units ("**Stapled Units**"), each consisting of one REIT Unit and one GP Share. The Stapled Units are listed on the Toronto Stock Exchange (the "**TSX**") under the symbol "GRT.UN" and on the New York Stock Exchange (the "**NYSE**") under the symbol "GRP.U."

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 and investees and, for periods prior to January 3, 2013, their predecessor Granite Real Estate Inc. ("**Granite Co.**") and its predecessors and subsidiaries.

When the term "annualized lease payments" or "ALP" is used in this Annual Information Form, Granite means, for any fiscal year, the total annual rent payable to Granite if the lease payments as at the last day of such fiscal year were in place for the entire fiscal year or for a period which is less than a year if non-renewal or termination notices have been provided or the disposal of a property is certain. Accordingly, any revenue changes from future contractual rent adjustments, renewal and re-leasing activities or expansion and improvement projects to be completed are not reflected in annualized lease payments as at December 31, 2014. In determining ALP, rents denominated in foreign currencies are converted to Canadian dollars based on exchange rates in effect as at the last day of the reporting period. These amounts do not conform to revenue recognition policies under International Financial Reporting Standards ("**IFRS**").

Financial data included in this Annual Information Form has been prepared in accordance with IFRS as issued by the International Accounting Standards Board. This Annual Information Form should be read in conjunction with the annual audited combined financial statements and management's discussion and analysis and appended notes each of which appear in Granite's annual report. Unless otherwise indicated, the statistical and financial data contained in this Annual Information Form is presented in Canadian dollars as at December 31, 2014. Granite refers to Canadian dollars as "**dollars**", "**$**" or "**Cdn.$**", United States dollars as "**U.S.$**" or "**U.S. dollars**" and euros as "**eur**". Granite publishes its financial statements in Canadian dollars.

References herein to "**Trustees**" are to the Board of Trustees of Granite REIT.

References herein to "**Directors**" are to the Board of Directors of Granite GP.

References herein to "**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.

References herein to **"leasing commission costs**" are to direct leasing costs that include broker commissions incurred in negotiating and arranging tenant leases.

References herein to "**leverage**" are, unless indicated otherwise, to total debt divided by total capital.

References herein to "**Magna**", unless indicated otherwise, are to Magna International Inc., its operating divisions and subsidiaries and other controlled entities. References herein to leases with Magna include leases with operating subsidiaries of Magna International Inc., and when reference is made to the tenant at certain of Granite's properties being Magna, it is to Magna International Inc. or one of its operating subsidiaries.

CAUTIONARY NOTE REGARDING 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. In particular, this Annual Information Form contains forward-looking statements and forward-looking information regarding Granite's relationships with its tenants, the diversification of Granite's real estate portfolio and expected increases in leverage. Words such as "may", "would", "could", "will", "likely", "expect", "anticipate", "believe", "intend", "plan", "forecast", "project", "estimate", "seek" and similar expressions are used to identify forward-looking statements and forward-looking information. Forward-looking statements and forward-looking information should not be read as guarantees of future events, performance or results and will not necessarily be accurate indications of whether or the times at or by which such future performance will be achieved. Undue reliance should not be placed on such statements. There can also be no assurance that intended developments in Granite's relationships with its tenants, the expansion and diversification of Granite's real estate portfolio and the expected increases in leverage can be achieved in a timely manner, with the expected impact or at all. Forward-looking statements and forward-looking information are based on information available at the time and/or management's good faith assumptions and analyses made in light of Granite's perception of historical trends, current conditions and expected future developments, as well as other factors Granite believes are appropriate in the circumstances, and are subject to known and unknown risks, uncertainties and other unpredictable factors, many of which are beyond Granite's control, that could cause actual events or results to differ materially from such forward-looking statements and forward-looking information. Important factors that could cause such differences include, but are not limited to: the risk of changes to tax or other laws and treaties that may adversely affect Granite REIT's mutual fund trust status under the *Income Tax Act* (Canada) (the "**Tax Act**") or the effective tax rate in other jurisdictions in which Granite operates; economic, market and competitive conditions and other risks that may adversely affect Granite's ability to achieve desired developments in its relationships with its tenants, expand and diversify its real estate portfolio and increase its leverage; and the risks set forth in 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.

GRANITE — CORPORATE STRUCTURE

Granite's business is carried on directly and indirectly by Granite REIT Holdings Limited Partnership ("**Granite LP**"), all of the partnership units of which are owned by Granite REIT and Granite GP.

Granite REIT

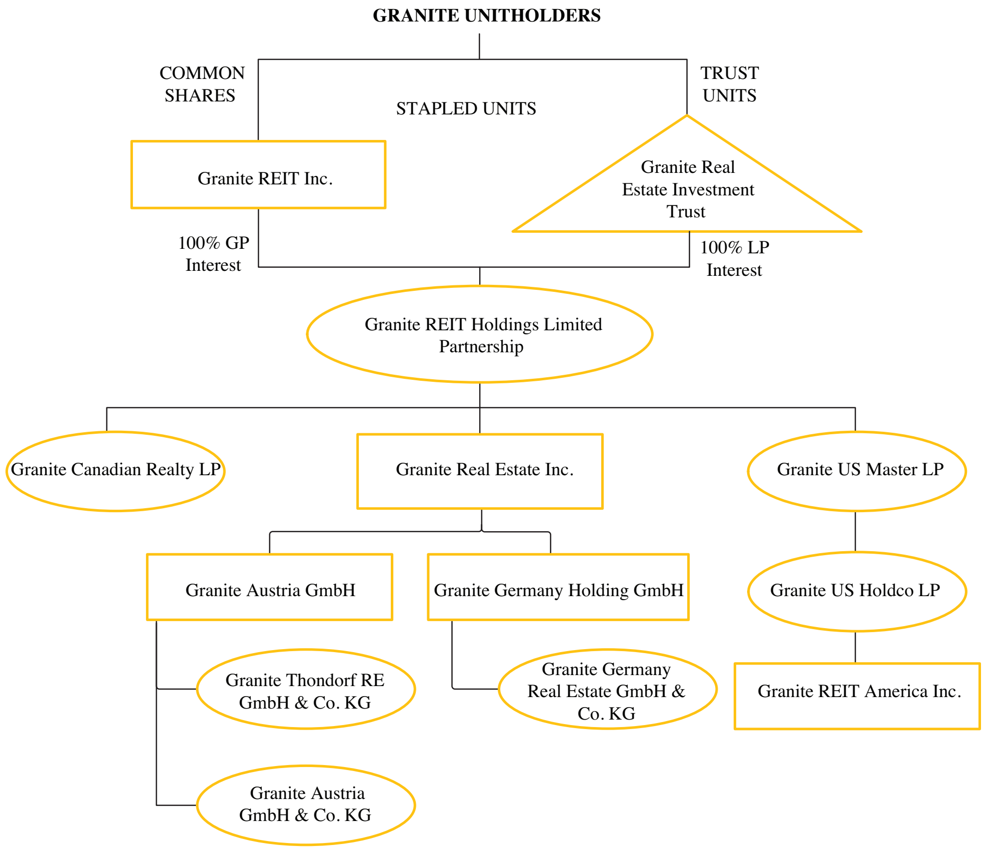
Granite REIT is an unincorporated, open-ended, limited purpose trust established under and governed by the laws of the Province of Ontario pursuant to an amended and restated declaration of trust (the "**Declaration of Trust**") dated January 3, 2013. Although it is intended that Granite REIT qualify 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 *Business Corporations Act* (British Columbia) (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 (as defined below under "General Development of the Business"). 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.

Organizational Structure and Subsidiaries

The following chart summarizes Granite's structure.



Granite LP's material subsidiaries 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 2014 combined revenues and total combined assets as at December 31, 2014 and, in the aggregate, represent less than 20% of Granite's total 2014 combined revenues and total combined assets as at December 31, 2014. Granite LP's percentage voting interest is equivalent to its 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.

	Ownership of Voting Securities	Jurisdiction of Incorporation or Formation
Granite Canadian Realty LP	100%	Ontario
Granite US Master LP	100%	Delaware
Granite US Holdco LP	100%	Delaware
Granite REIT America Inc.	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 Germany Holding GmbH	99.74%	Germany
Granite Germany Real Estate GmbH & Co. KG	99.74%	Germany

GENERAL DEVELOPMENT OF THE BUSINESS

Three-Year History

2012

On June 13, 2012, Granite Co. changed its name from MI Developments Inc. to Granite Real Estate Inc. On September 25, 2012, Granite Co. was continued from under the *Business Corporations Act* (Ontario) to under the *Business Corporations Act* (Québec), as previously approved by its shareholders.

On November 15, 2012, Granite Co.'s shareholders approved the 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) (the "**2013 Arrangement**"). On November 20, 2012, the Superior Court of Québec approved the 2013 Arrangement.

For the year ended December 31, 2012, Granite:

(i) renewed or extended 16 leases, representing an aggregate of approximately 2.4 million square feet, with annualized lease payments of approximately $10 million; and

(ii) incurred capital expenditures totaling $33.6 million in the completion of three expansion projects for a total of $22.3 million and seven improvement projects for a total of $6.2 million, and the partial completion of five additional projects. The three expansion projects contributed an aggregate of approximately 264,000 square feet of leasable area.

2013

On January 3, 2013, Granite Co. completed the 2013 Arrangement. On January 4, 2013, the Stapled Units began trading on the TSX under the symbol "GRT.UN" and on the NYSE under the symbol "GRP.U".

On February 1, 2013, Granite established a new unsecured revolving credit facility in the amount of $175 million. See "Credit Facility and Indebtedness — Credit Facility".

In February 2013, Granite commenced monthly distributions of $0.175 per Stapled Unit, to reflect a targeted annualized distribution of $2.10 per Stapled Unit. This reflected an increase from the previously targeted annualized dividend of $2.00 per Stapled Unit.

On October 2, 2013, Granite LP issued at par $200 million of 4.613% Series 1 senior debentures (the "**2018 Debentures**") due October 2, 2018. On October 7, 2013, Granite entered into a cross currency interest rate swap to exchange the $200 million proceeds and related 4.613% interest payments from the 2018 Debentures to euro 142 million and euro denominated interest payments at a 3.56% interest rate (the "**3.56% Swap**"). See "Credit Facility and Indebtedness — Other Unsecured Indebtedness".

For the year ended December 31, 2013, Granite:

(i) renewed, extended or entered into 21 leases, representing an aggregate of approximately 4.8 million square feet, with annualized lease payments of approximately $25.5 million;

(ii) acquired 12 income properties and two development properties with an aggregate purchase price to Granite of $284 million, representing $23.4 million in new annualized lease payments and 21 new tenants, with such properties being located in Germany, the Netherlands and the United States; and

(iii) sold four properties for net proceeds in aggregate of $16.8 million, with such properties being located in Canada, the United States, Poland and the United Kingdom.

2014 In January 2014, Granite commenced monthly distributions of $0.183 per Stapled Unit, to reflect a targeted annualized distribution of $2.20 per Stapled Unit. This reflected an increase from the previously targeted annualized distribution of $2.10 per Stapled Unit.

On July 3, 2014, Granite LP issued at par $250 million of 3.788% Series 2 senior debentures due July 5, 2021 (the "**2021 Debentures**"). On July 3, 2014, Granite entered into a cross currency interest rate swap to exchange the $250 million proceeds and related 3.788% interest payments from the 2021 Debentures to euro 171.9 million and euro denominated interest payments at a 2.68% interest rate (the "**2.68% Swap**"). See "Credit Facility and Indebtedness — Other Unsecured Indebtedness".

On August 5, 2014, Granite LP redeemed in full its outstanding $265 million 6.05% debentures due December 22, 2016 (the "**2016 Debentures**"). See "Credit Facility and Indebtedness — Other Unsecured Indebtedness".

For the year ended December 31, 2014, Granite:

(i) renewed, extended or entered into 16 leases, representing an aggregate of approximately 7.2 million square feet, with annualized lease payments of approximately $46 million;

(ii) acquired two income properties and 29 acres of adjacent expansion/development lands in Indiana with an aggregate purchase price to Granite of $79.7 million, representing $4.8 million in new annualized lease payments and one new tenant; and

(iii) sold twelve properties and a small parcel of excess land for gross proceeds in aggregate of $152.9 million, with such properties being located in Mexico, Germany and the United States.

On December 10, 2014, Granite REIT announced an increase to its targeted monthly distribution to $0.192 per Stapled Unit, up from $0.183 per Stapled Unit, to reflect a targeted annualized distribution of $2.30 per Stapled Unit. This reflected an increase from the previously targeted annualized distribution of $2.20 per Stapled Unit.

On December 11, 2014 Granite entered into an amended and restated credit facility agreement (the "**Facility**") to increase the amount available under the Facility from $175 million to $250 million at a lower interest rate. See "Credit Facility and Indebtedness — Credit Facility".

BUSINESS OVERVIEW

Granite is engaged in the ownership and management of predominantly industrial, warehouse and logistics properties in North America and Europe. As at December 31, 2014, Granite's real estate portfolio includes 103 income-producing properties representing approximately 30 million square feet of leasable area with a fair value of approximately $2.3 billion.

Granite provides holders of REIT Units ("**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 active management of its portfolio, the acquisition of additional income-producing properties, selected sales of properties and the development and construction of projects and properties which enhance the quality, diversification and value of its real estate portfolio.

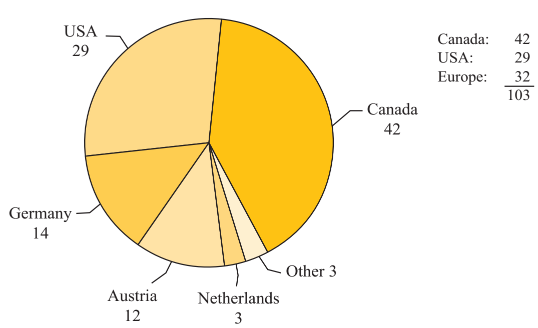
A key component of Granite's strategy, is to reduce the proportion of total capital invested in Magna-tenanted properties and thereby increase the percentage of lease revenue earned from non-Magna tenants. In 2014, Granite continued to execute on its diversification strategy with new acquisitions, selected dispositions, asset repositioning and selected development. It has reduced the proportion of total capital invested in Magna-tenanted properties from 95% on December 31, 2011 to 79% and the Magna tenant concentration from 97% on December 31, 2011 to 82%, based on annualized lease payments. See "Profile of Granite's Real Estate Portfolio — Historical Growth of Granite's Real Estate Portfolio". In 2014, Granite also selectively invested in Magna properties (see "— Improvement and Expansion Projects") and increased its leverage, consistent with Granite's strategic objectives. As at December 31, 2014, Granite's leverage was 25% of total capital, up from 14% of total capital as at January 1, 2012.

Geographic Breakdown

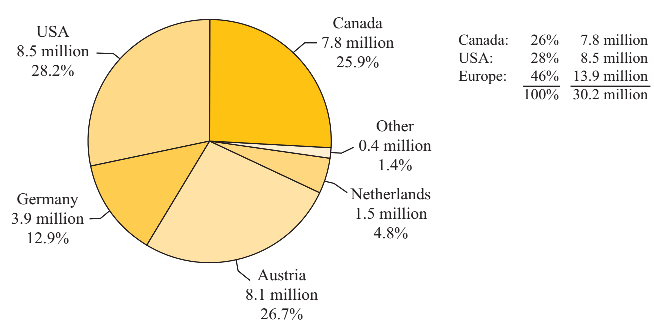
Granite's properties are located in eight countries: Canada, the United States, Austria, Germany, The Netherlands, the Czech Republic, the United Kingdom and Spain. Lease payments are primarily denominated in three currencies: the euro, the Canadian dollar and the U.S. dollar. The following charts show 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, 2014.

Real Estate Assets

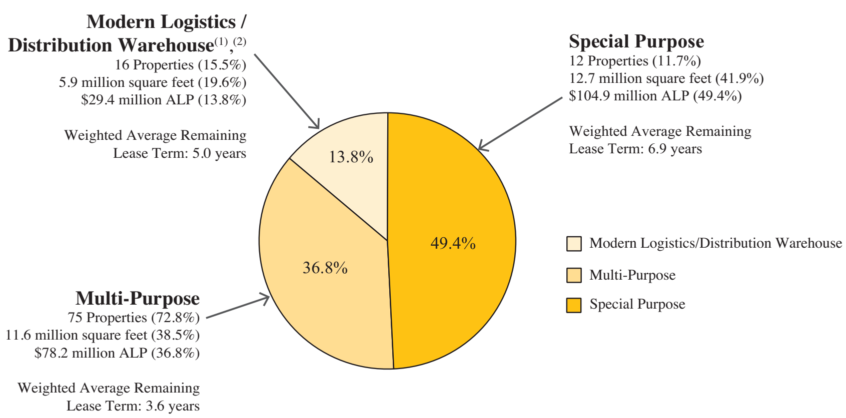
Location	Income-Producing Property Portfolio Fair Value (in millions)	Income-Producing Property Portfolio Fair Value (%)
North America		
Canada	$ 678.5	29.8
U.S.	$ 546.2	24.0
Europe		
Austria	$ 677.1	29.8
Germany	$ 242.5	10.6
The Netherlands	$ 97.2	4.3
Other	$ 33.7	1.5
Total	$2,275.2	100.0

Property Types

Granite's income-producing properties can be categorized generally as (i) modern logistics/distribution warehouse facilities, (ii) multi-purpose facilities, which are tenantable by a wide variety of potential users, or (iii) special purpose facilities.

The chart below illustrates the proportion of Granite's income-producing properties that are modern logistics/distribution warehouse facilities, multi-purpose facilities and special purpose facilities as at December 31, 2014.

Modern Logistics/Distribution Warehouse vs. Multi-Purpose vs. Special Purpose Income-Producing Facilities by Annualized Lease Payments (ALP)



(1) Modern Logistics figures include 631,366 square foot Shepherdsville (Louisville, Kentucky) facility that is currently vacant.

(2) Modern Logistics figures do not include 750,000 square foot Berks (Bethel, Pennsylvania) facility currently under construction scheduled to be complete May 2015.

Tenant Base

As at December 31, 2014, Magna, a diversified global automotive supplier, was the tenant at 73 of Granite's 103 income-producing properties and lease payments under those leases represented approximately 82% of Granite's annualized lease payments. See "— Business and Operations of Magna, Granite's Principal Tenant".

As a result of its acquisition strategy, Granite has a growing list of other tenants that currently includes: ALSO Actebis, Cardinal Health, DB Schenker, Dole, HH Gregg, Ingram Micro Inc., Kate Spade and Company, Kuhne + Nagel, Meyer & Meyer, Peer 1 Networks, Ricoh, Sears, Siemens Canada, Tchibo, Van Uden Logistic, and Schaeflein Logistics GmbH.

Granite believes that its existing portfolio of Magna-tenanted properties provides a level of stability for its business. Granite's 12 special purpose properties are occupied exclusively by Magna in locations throughout Canada, the United States, Austria and Germany. The special purpose attributes of these properties cause them to have a higher risk profile, but they also present the opportunity for a stable and, relative to modern logistics/distribution warehouse and multi-purpose properties, an enhanced rental income stream. See "— Business and Operations of Magna, Granite's Principal Tenant".

Improvement and Expansion Projects

During the year ended December 31, 2014, Granite completed five improvement projects at Magna-tenanted facilities in Canada representing a total cost of approximately $5.5 million. These improvement projects increased annualized lease payments by $0.5 million and did not attract additional leasing commission costs. Granite also completed three improvement projects at non-Magna-tenanted facilities during the year ended December 31, 2014, two in Canada and one in the U.S, representing a total cost of approximately $3.5 million. One of these projects increased annualized lease payments by $0.1 million and two of these improvement projects attracted additional leasing commission costs of $0.5 million.

As at December 31, 2014, Granite had three active expansion or improvement projects in Canada and Austria, with aggregate anticipated remaining costs of approximately $3.8 million. Granite currently expects to complete these projects in the first half of 2015.

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.

Development Projects

For the year ended December 31, 2014, Granite incurred $28.5 million of capital expenditures (excluding the cost of acquisition) pertaining to two development properties in the United States.

As at December 31, 2014, Granite had one property still under construction, which is a 0.75 million square foot industrial facility on an 89.2 acre land site located in Pennsylvania.

During 2014, the construction of a 0.63 million square foot multi-purpose facility on a 35.9 acre land site in Kentucky was completed. That property is currently being actively marketed for lease.

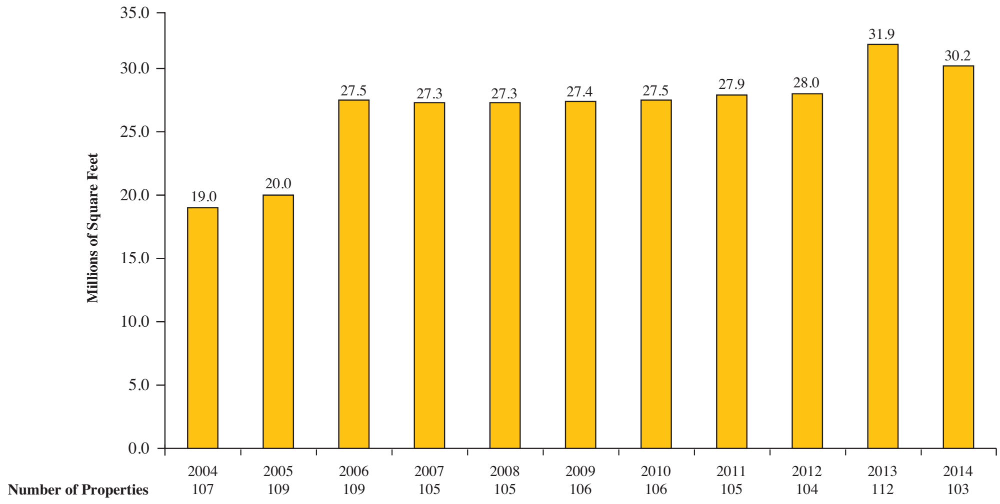
Profile of Granite's Real Estate Portfolio

Historical Growth of Granite's Real Estate Portfolio

Granite's income-producing property portfolio has grown from approximately 19 million square feet of leasable area in 107 properties in 2004 to approximately 30 million square feet of leasable area in 103 properties as at December 31, 2014.

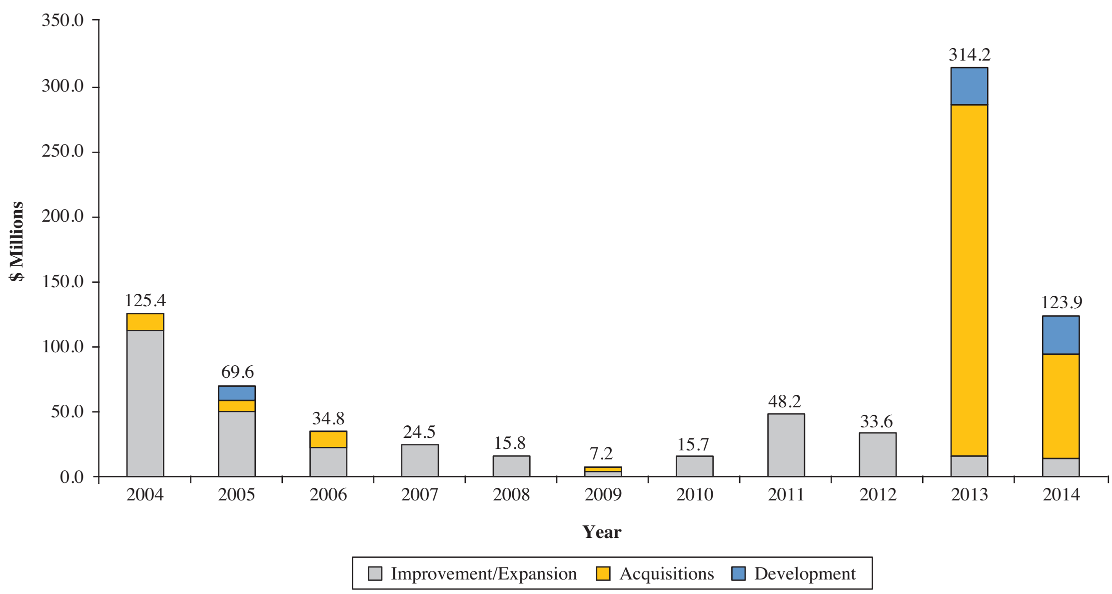
The following chart shows the total leasable area (net of dispositions) and number of properties within Granite's income-producing property portfolio in each of the last 11 years.

Income-Producing Property Portfolio
Total Leasable Area and Number of Properties



The following chart shows Granite's historical capital expenditures for its real estate portfolio, including (i) improvements and expansions, (ii) acquisitions, and (iii) development.

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:

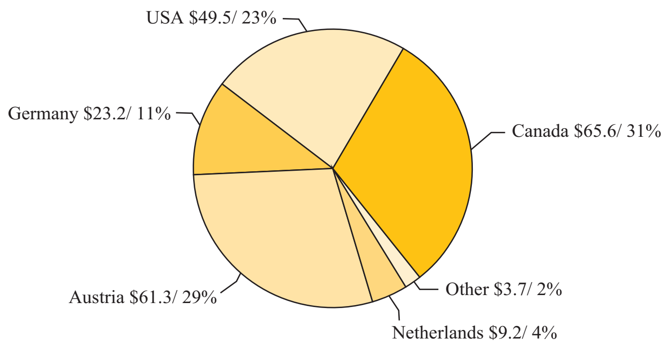
December 31, 2014 — 5.3 years;
December 31, 2013 — 4.8 years;
December 31, 2012 — 4.8 years;
December 31, 2011 — 5.4 years;
December 31, 2010 — 6.1 years;

Principal Markets in Which Granite Operates

Geographic Diversification

The following chart shows a breakdown of Granite's $212.5 million of annualized lease payments by country as at December 31, 2014.

Income-Producing Property Portfolio
Breakdown of Annualized Lease Payments at December 31, 2014 by Country
(in millions of Dollars)



Income-Producing Properties in Canada

Granite's 42 Canadian income-producing properties are located in Ontario. 36 properties representing approximately 76% of the Canadian income-producing properties based on annualized lease payments as at December 31, 2014 are located in the Greater Toronto Area. The remaining six 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

Granite's income-producing property portfolio includes 29 properties in the United States. Approximately 24% of the annualized lease payments as at December 31, 2014 from Granite's income-producing properties in the United States is derived from properties located in Michigan, 17% is derived from a property in Kentucky, 18% is derived from a property in South Carolina and 12% is derived from properties located in Indiana. The remainder of Granite's annualized lease payments from the United States are derived from properties located in Tennessee, Illinois, Iowa, Missouri, New Jersey, Georgia, Ohio, Oregon and Maryland. The lease payments for properties in the United States are denominated in U.S. dollars.

Development Properties in the United States

Granite has two development properties in its real estate portfolio. One of the properties is located in Pennsylvania and is currently under development, while the second property is a land parcel in Indiana that is currently being held in inventory for future build-to-suit opportunities and/or future speculative development.

Income-Producing Properties in Austria

Granite's income-producing property portfolio includes 12 properties in Austria. Approximately 97% of the Austrian income-producing properties based on annualized lease payments as at December 31, 2014 are located in the Province of Styria. Magna's Eurostar and Thondorf plants (Granite's two largest income-producing properties globally, accounting for approximately 17% of Granite's total annualized lease payments) are located in the city of Graz, which is located approximately 170 kilometres south of Vienna. The lease payments for properties in Austria are denominated in euros.

Income-Producing Properties in Germany

Granite's income-producing property portfolio includes 14 properties in Germany. The properties are primarily located in the states of Baden-Württemberg, Hessen, Bavaria, Thüringen/Thuringia, Saarland, Nordrhein-Westfalen and Niedersachsen/Lower Saxony. The lease payments for properties located in Germany are denominated in euros.

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 euros.

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

Income-Producing Properties in Mexico

From January 1, 2014 to June 26, 2014, Granite's income-producing property portfolio included eight properties in Mexico, which were located in the states of Puebla, Coahuila and Nuevo Leon. The lease payments for properties in Mexico were denominated in U.S. dollars. On June 26, 2014 Granite completed the disposition of its portfolio of Mexican properties to a subsidiary of Magna for a purchase price of U.S. $105.0 million, before closing adjustments.

Foreign Exchange

As at December 31, 2014, approximately 68% of Granite's annual lease payments were denominated in the euro and the U.S. dollar. 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 significant 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 replacements 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 course of the lease.

Contractual Step-Ups in Rental Rates

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 (generally limited to 10% over five years), with the latter generally pertaining to Granite's special purpose properties. In cases where the renewal is linked to market rates, the determination of market rent is, failing agreement, generally subject to arbitration.

Obligation to Restore Premises

Granite's leases generally provide that the tenant is obligated to restore 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. The leases generally also contain indemnities in Granite's favour with respect to environmental matters. Those indemnities expire after a specified number of years following the termination of the lease. The leases generally provide that Granite may conduct environmental assessments and audits from time to time at its sole expense. See "— Government Regulation".

On occasion, tenants' operations and Granite's properties may become the subject of complaints from adjacent landowners, or inquiries or investigations by environmental regulators (see "Risk Factors"). 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 minimal costs with respect to environmental matters arising from adjacent or nearby properties in order to protect the condition and marketability of its properties.

Restrictions on Sales and Tenant Rights of Refusal

Most of Granite's significant leases 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 International Inc., 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 affiliates or associates of the tenant. Granite's leases do not generally restrict a change of control of the tenant.

Granite's Business Strengths

Granite believes that it has a significant number of important key strengths, including:

- a large, geographically diversified industrial portfolio of properties that provides stable income and opportunities for expansion and growth;
- a strong balance sheet with comparatively low leverage, which provides financial flexibility to pursue attractive growth opportunities;
- a strong track record of on-time and on-budget development and construction in all of its geographic markets;

- BBB and Baa2 "investment grade" ratings from DBRS Limited ("**DBRS**") and Moody's Investors Service, Inc. ("**Moody's**") respectively;
- a Board of Directors, a senior real estate management team and a construction group with extensive experience with industrial and logistics buildings and expertise in the markets, properties and requirements of Granite's tenants; and
- an entrepreneurial culture that drives Granite's employees and management to grow its business.

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.

As an owner and developer of real property, Granite is also subject to environmental laws and regulations relating to air emissions, soil and ground water quality, noise emissions, wastewater discharge, waste management and storage of hazardous substances. Granite's leases permit it to conduct environmental assessments and audits from time to time at its own expense. 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. 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".

Employees

As at December 31, 2014, Granite employed 60 people, the majority of whom are based at its headquarters in Toronto, and the balance of whom are located in Austria, the United States, The Netherlands, Iceland and Luxembourg. Granite is not party to any collective bargaining agreements with any of its employees.

Business and Operations of Magna, Granite's Principal Tenant

As at December 31, 2014, Magna was the tenant of 73 of Granite's 103 income-producing properties. Magna is a diversified global automotive supplier. Magna designs, develops and manufactures technologically advanced automotive systems, assemblies, modules and components, and engineers and assembles complete vehicles, primarily for sale to original equipment manufacturers of cars and light trucks. Magna's product capabilities span a number of major automotive areas, including interior systems, seating systems, closure systems, body and chassis systems, vision systems, electronic systems, exterior systems, powertrain systems, roof systems, hybrid electric vehicles/systems and complete vehicle engineering and assembly. According to Magna's public disclosure, as at December 31, 2014, Magna had 313 manufacturing operations and 84 product development, engineering and sales centres, in 28 countries.

Magna is a public company, with its common shares listed for trading on the TSX and NYSE. 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 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. The ongoing challenge of the automotive industry, and other factors, have resulted in Magna seeking to take advantage of growing markets and consolidating, moving, closing and/or selling operating facilities to align its capacity utilization and manufacturing footprint with vehicle production and consumer demand. Magna has disclosed that it has significant ongoing activities in its "Rest of World" segment, including a number of facilities in Asia and South America. Granite management expects Magna to continuously seek to optimize its global manufacturing footprint and consequently, Magna may not renew leases for facilities currently under lease at their expiries.

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 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 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, operating results, cash flows and prospects. 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, operating results, cash flows and prospects.

Risks Relating to Granite's Business

A large majority of Granite's revenue comes from payments that Granite receives under leases with Magna, so factors affecting Magna's businesses will also affect Granite.

Although one element of Granite's strategy is to diversify by increasing the proportion of lease revenue that it derives from tenants other than Magna, as at December 31, 2014, 73 of Granite's 103 income-producing properties were leased to operating subsidiaries of Magna. For the year ended December 31, 2014, payments under leases with Magna represented approximately 82% of Granite's annualized lease payments.

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 for the three months and year ended December 31, 2014, which section, excluding any forward-looking information contained therein expressly referring to Magna's beliefs, is incorporated by reference into this AIF.

The level of business Granite has with Magna has declined, and beyond the existing lease agreements, Granite has no agreement with Magna that it will continue to do business with Granite in the same manner as it has in the past or at all.

Granite may experience reductions in the amount of expansion-related business that it receives from Magna as Magna pursues its disclosed significant ongoing activities in its "Rest of the World" segment. Although Granite has acted as the developer, real estate advisor, property manager and owner of a significant number of the industrial facilities for Magna since Granite's inception, Granite has no assurance that it will continue to be able to do so.

Although Granite intends to continue to diversify by significantly increasing the proportion of lease revenue that it derives from tenants other than Magna, most of the historical growth of Granite's rental portfolio has been dependent on Granite's relationship with Magna as a tenant of income-producing properties and as a customer for development projects.

Granite may be unable to renew leases on favourable terms or find new tenants for vacant properties.

Granite's tenants have in the past determined, and may in the future determine, not to lease certain properties from Granite and not to renew certain leases on terms as favourable to Granite as the existing arrangements, or at all. Granite may be unable to lease a vacant property in its portfolio on economically favourable terms, particularly properties that are considered to be special purpose in nature and were designed and built with unique features or are located in secondary or rural markets.

In addition, Granite may not be able to renew an expiring lease or to find a new tenant for the property for which the lease has expired, in each case on terms as favourable as the expired lease or at all. Renewal options are generally based on changes in the consumer price index or prevailing market rates. 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's tenants may fail to renew their leases if they need to relocate their operations as a result of changes in location of their customers' operations, if they choose to discontinue operations, or if they opt to pursue negotiation of a new lease. Many factors will affect Granite's ability to lease vacant properties, and Granite may incur significant costs in making property modifications, improvements or repairs required by a new tenant.

Granite's operating and net income and the value of Granite's property portfolio depend on the credit and financial stability of its tenants.

Granite would be adversely affected if Magna or a significant number of other tenants were to become unable to meet their obligations to Granite. In addition, Granite may incur substantial costs in protecting its investments in leased properties, particularly if it experiences delays and limitations in enforcing its rights against defaulting tenants. Furthermore, if one of Granite's significant tenants rejects or terminates a lease under the protection of bankruptcy, insolvency or similar laws, Granite's cash flow could be materially adversely affected. 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.

The tenants for the majority of Granite's properties are non-public subsidiaries of Magna International Inc., which does not guarantee the obligations of its subsidiaries under their leases with Granite. 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's international operations expose it to additional risks that may materially adversely affect Granite's business.

During 2014, 30% of Granite's revenue was generated in Canada, 28% in Austria, 21% in the United States, 12% 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;
- economic 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.

Foreign currency fluctuations could reduce Granite's revenues and increase Granite's costs, and any future hedging transactions may limit Granite's gains or result in losses.

A majority of Granite's current property portfolio is located outside of Canada and generates lease payments that are 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 an adverse impact on Granite's financial position or operating results.

From time to time, Granite may attempt to minimize or 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 profits and the cash available for development projects or dividends. A hedge may not be effective in eliminating all the risks inherent in any particular position. Granite's profitability may be adversely affected during any period as a result of the use of derivatives.

Granite is subject to risks affecting the automotive parts industry.

Since Magna operates in the automotive parts industry, Granite's business is, and for the foreseeable future will be, subject to conditions affecting the automotive industry generally. Although Granite intends to continue to increase the proportion of lease revenue it derives from tenants other than Magna, it is likely that Granite's dependence on the automotive industry will continue to be significant.

The global automotive industry is cyclical. 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, may result in lower consumer confidence, which has a significant impact on consumer demand for vehicles. Vehicle production is closely related to consumer demand. Economic uncertainty or a deterioration of the global economy for an extended period of time could have a material adverse effect on the profitability and financial condition of participants in the automotive parts industry, including Magna's customers and suppliers. The bankruptcy or insolvency of a major customer or supplier of Magna could have a material adverse effect on Granite's profitability and financial position. 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 the financial condition of Granite's Magna tenants and could therefore adversely impact the value of Granite's properties and its operating results.

Environmental compliance costs and liabilities arising from Granite's real estate may adversely affect Granite.

Many of Granite's tenants engage in heavy 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 results of operations 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 future results of operations and financial condition. Granite cannot predict the future costs that it may be required to incur to meet its environmental obligations.

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.

Granite is subject to competition for the acquisition of new properties and it may not compete successfully, which would limit its ability to invest in and develop new properties.

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. Increased competition for real estate investments resulting, for example, from increases in the availability of investment funds or reductions in financing costs would tend to increase purchase prices and reduce the yields from the investments.

Granite is dependent on 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.

Real estate investments are subject to numerous risks that could adversely affect Granite's operating results, many of which are beyond Granite's control.

Because Granite owns, leases and develops real property in multiple jurisdictions, it is subject to the risks generally incident to investments in real property, which risk may vary by jurisdiction. The investment returns available from investments in real estate depend in large part on the amount of income earned and 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, including costs associated with being unable to rent vacant properties to new tenants on a timely basis or with making improvements or repairs required by a new tenant.

In addition, a variety of other factors outside of Granite's control affect income from properties and real estate values, including environmental laws and other governmental regulations, real estate, zoning, tax and eminent domain laws, interest rate levels and the availability of financing. For example, new or existing environmental, real estate, zoning or tax laws can make it more expensive or time consuming to develop real property or expand, modify or renovate existing structures. 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.

Real estate development is subject to timing, budgeting and other risks that could adversely affect Granite's operating results.

Subject to compliance with the Declaration of Trust, Granite intends to develop properties as suitable opportunities arise, taking into consideration the general economic climate. Real estate development has a number of risks, including risks associated with:

- the potential insolvency of a third party developer (where Granite is not the developer);
- a third party developer's failure to use advanced funds in payment of construction costs;
- 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, hurricanes, floods or fires that could adversely impact a project;
- increases in interest rates during the period of the development;
- inability to raise capital; and
- governmental restrictions on the nature 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 its operating results.

Real property investments are relatively illiquid and are subject to volatile valuations.

Real estate investments, particularly those that are special purpose in nature, are relatively illiquid. This may limit Granite's ability to adjust or adapt its portfolio promptly in response to changing economic or investment conditions. If for whatever reason 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. Accordingly, these rights of first refusal may adversely affect Granite's ability to sell its properties or the prices that Granite receives for them upon any sale. See "Business Overview — Leasing Arrangements — Restrictions on Sales and Tenant Rights of Refusal".

Granite may be unable to successfully execute its strategy, or may fail to realize benefits which are currently targeted to result from the implementation of that 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 tax or other laws; changes in economic, market and competitive conditions; and other risks that may adversely affect Granite's ability to optimize its relationship with Magna, diversify its lease portfolio and increase its leverage (see also "— Granite may face additional risks if it increases its degree of financial leverage").

Granite may be unable to obtain necessary future financing.

Granite's access to third-party financing will be subject to a number of factors, including general market conditions; Granite's credit rating; the market's perception of Granite's stability and growth potential; Granite's current and future cash flow and earnings; Granite's ability to renew certain long term leases; and compliance with the Declaration of Trust. 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 investments, cash flows, operating results and financial condition. Additionally, as a result of global economic volatility, Granite may have restricted access to capital and increased borrowing costs. As future acquisitions and capital expenditures will be financed out of cash generated from operations, borrowings and possible future debt or equity security issuances, Granite's ability to do so is dependent on, among other factors, the overall state of capital markets and investor appetite for investments in the real estate sector and automotive industry and in Granite's securities in particular.

To the extent that external sources of capital become limited or unavailable or available on onerous terms, Granite's ability to make acquisitions and capital investments and maintain existing assets may be impaired, and its assets, liabilities, business, financial condition and results of operations may be materially and adversely affected as a result.

As a borrower, Granite is subject to interest rate and other debt-related risks.

Granite is exposed to financing risk on maturing debentures, mortgages 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 "— Granite may be unable to obtain necessary 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. Failure to make or renegotiate interest or principal payments or obtain additional equity, debt or other financing 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 to Granite.

The documents governing the 2018 Debentures, the 2021 Debentures, mortgages, construction loans and the Facility contain various financial covenants which are measured on the basis of the combined and consolidated 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 decreased.

Granite may face unexpected risks relating to acquisitions.

Granite expects to continue to acquire new properties and 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 real property or business that it intends to acquire and obtain 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.

Granite may incur significant capital expenditures and other fixed costs.

Certain significant expenditures, including property taxes, maintenance costs, mortgage payments, insurance costs and related charges, must be made throughout the period of ownership of real property, regardless of whether the property is producing sufficient income to pay such expenses. In order to retain desirable rentable space and to generate adequate revenue over the long term, Granite must maintain or, in some cases, improve each property's condition to meet market demand.

Maintaining a rental property in accordance with market standards over its useful life can entail costs, which Granite may not be able to recover from its tenants. These may include costs of a new roof, paved areas or structural repairs. Numerous factors, including the age of the building, the material and substances used at the time of construction or currently unknown building code violations, could result in substantial unbudgeted costs for refurbishment or modernization. If the actual costs of maintaining or upgrading a property exceed Granite's estimates, or if hidden defects are discovered during maintenance or upgrading, which are not covered by insurance or contractual warranties, or if Granite is not permitted to raise the rents due to legal constraints, it will incur additional and unexpected costs. 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.

Any failure by Granite to undertake appropriate maintenance and refurbishment work in response to the factors described above could adversely affect the rental income it earns from such properties.

Potential losses to Granite's properties may not be covered by insurance or may exceed Granite's policy coverage limits.

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 such 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 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 and financial condition.

Because Granite is involved in litigation from time to time and is subject to numerous laws and governmental regulations, it could incur substantial judgments, fines, legal fees and other costs.

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. Additionally, 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 remediation measures that may be required if it is found to be noncompliant with any existing or future laws or regulations.

Granite's controls over financial reporting have limitations and may not prevent material errors or fraud.

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. These inherent limitations include, without limitation, the possibility that management's assumptions and judgments may ultimately prove to be incorrect under varying conditions and circumstances and the impact of isolated errors.

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.

Granite may face additional risks if it increases its degree of financial leverage.

One of Granite's strategic objectives is to increase its leverage to a range of 40% to 50% of its total capital. As at December 31, 2014, Granite's leverage was 25% of total capital, up from 14% of total capital as at January 1, 2012.

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 borrow additional funds, 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 may be able to take advantage of opportunities that its indebtedness would prevent Granite from pursuing; (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

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 the taxes payable, including withholding taxes, the effective tax rate in the jurisdictions in which Granite operates and the portion of distributions which would be income for Canadian income tax purposes.

Tax authorities may disagree with 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 federal, provincial and foreign tax rules and regulations, and judgments as to their interpretation and application to Granite's specific situation. In addition, there can be no assurance that federal, provincial 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 securityholders. Granite's multi-jurisdictional organizational structure is complex, as was the conversion to a stapled unit real estate investment trust structure pursuant to the 2013 Arrangement. The computation of income and other taxes payable as a result of various transactions that Granite has completed involves many complex factors as well as Granite's interpretation of and compliance with relevant tax legislation, treaties and regulations. 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, that the ultimate value of Granite's tax assets and liabilities could change in the future and that such additional taxes and changes to such amounts could be materially adverse to Granite.

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 materially reduce its ability to make distributions on REIT Units. Furthermore, if Granite REIT was considered not to have been established primarily for the benefit of Canadian-resident Unitholders (or, under proposals to amend the Tax Act publicly announced by the Minister of Finance (Canada) quite a number of years ago, it became even temporarily majority-owned by non-resident persons and/or partnerships which had one or more non-resident members), Granite REIT would be permanently disqualified from qualifying as a mutual fund trust for such purposes.

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**"). The conditions for satisfying the REIT Exception are onerous, and include various numerical tests (including tests entailing valuations or measurement of various revenue streams) which must be satisfied throughout the year in question. Therefore, financial results for a year, or developments occurring during the year, that were not anticipated earlier in the year, amendments to the Tax Act which adversely affect the availability to Granite REIT of the REIT Exception or challenges by the Canada Revenue Agency (the "**CRA**") to valuations made by or on behalf of management to interpretations adopted in applying the REIT Exception, or to other calculations, that are relevant to the application of the REIT Exception, could result in the REIT Exception not being available for the year.

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. If this were to occur, Granite REIT could have higher cash taxes payable and the level of future cash distributions made on the REIT Units could be materially reduced.

Potential Foreign Accrual Property Income

In circumstances specified in the Tax Act, Granite Co., Granite Netherlands C.V. ("**Granite Netherlands**"), or Granite US Holdco LP, would be required to include in computing its income the amount of income of its non-resident subsidiaries considered under the Tax Act to be "foreign accrual property income," or "FAPI." Substantially all of the income of Granite Netherlands and Granite US Holdco LP for purposes of the Tax Act, including any FAPI, must be included in computing the income of Granite REIT, as an indirect partner. Depending on the circumstances, significant asset dispositions by such non-resident subsidiaries of such partnerships or of Granite Co., or maturity of intercompany loans or advances, could result in the recognition of FAPI. This would result in an increase in the taxable income of Granite Co. or Granite REIT which, in turn, could result in a corresponding income tax liability of Granite Co. or an increase in the level of taxable income to be distributed and allocated to REIT Unitholders (or, to the extent not distributed, subjected to taxation in the hands of Granite REIT).

Potential Withholding Tax on Return-of-Capital Distributions

If the proportion of the real estate assets indirectly held by Granite REIT as Canadian real estate assets were to increase significantly, this could cause return-of-capital distributions made by Granite REIT to non-resident REIT Unitholders to become subject to withholding tax of 15% under Part XIII.2 of the Tax Act.

Uncertainty Regarding Withholding Tax Rate for U.S. Residents

In the case of distributions paid by Granite REIT to REIT Unitholders who otherwise would qualify for reduced rates of withholding under the Canada-United States Income Tax Convention (the "**U.S. Treaty**"), it is uncertain as to whether the rate of Canadian withholding tax imposed on such distributions is 25%, or whether such rate of withholding tax is reduced to 15% or 0% (based on the geographic source of the distribution) by virtue of the U.S. Treaty. Granite REIT currently withholds on such distributions made by it from time to time at a rate of 25% based on its understanding of the current views of the CRA. There can be no assurance that a U.S.-resident REIT Unitholder could receive a refund of any portion of such withholding tax on application to the CRA.

Potential Assessments for Withholding Tax

As discussed in part above, there are potential legal and factual uncertainties as to the rate at which Granite REIT should withhold tax on distributions made by it to Non-Residents. If Granite REIT were to withhold at too low a rate and were later assessed for such failure by CRA, Granite REIT might not be able as a practical matter to recover most of the amount of such assessment from the non-residents to whom it had made such distributions (and would not have even a legal right to so recover interest or penalties). In such event, the cash available for subsequent distributions to both resident and non-resident REIT Unitholders could be reduced.

United States Taxation

REIT Unitholders may recognize taxable income without receiving corresponding cash distributions.

Because Granite REIT is treated as a partnership for U.S. federal income tax purposes, U.S.-resident REIT Unitholders will be required to recognize income in accordance with Granite REIT's recognition and allocation of such income. Granite REIT may derive taxable income from investments that is not matched by a corresponding distribution of cash. It is also possible that the U.S. federal income tax liability of a U.S.-resident REIT Unitholder with respect to its allocable share of Granite REIT's income for a particular taxable year could exceed the cash distribution to the U.S.-resident REIT Unitholder for the year.

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, and that Granite REIT not be registered under the Investment Company Act. Qualifying income generally includes dividends, interest, capital gains from the sale or other disposition of stocks and securities and certain other forms of investment income. 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 under certain circumstances, 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 Passive Foreign Investment Company (PFIC) Status

Granite Co., certain of Granite Co.'s subsidiaries, Granite GP, or subsidiaries of Granite REIT 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.

Granite REIT Could Potentially Cease to be Considered Regularly Traded

Granite REIT expects to be considered to be "regularly traded" for purposes of the Foreign Investment in Real Property Tax Act of 1980 ("**FIRPTA**"), but this determination is made on a quarterly basis. If for any quarter Granite REIT is not considered to be "regularly traded" all Non-U.S.-resident REIT Unitholders, including those holding 5% or smaller interests, would be subject to U.S. federal income tax and U.S. filing requirements upon the disposition of REIT Units.

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

Granite REIT intends to manage its affairs so that recognition of a FIRPTA gain 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 are not available under the 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 REIT believes that REIT Unitholders will be treated as deriving the income earned by Granite REIT and as the beneficial owners of such income. If REIT Unitholders were not considered the beneficial owners of Granite REIT's income for these purposes, distributions from Granite REIT America Inc. ("**Granite America**"), an indirect Delaware subsidiary of Granite REIT that holds the U.S. assets of Granite REIT and that has elected to be treated as a REIT for U.S. federal income tax purposes, Granite REIT would not be eligible for a reduced rate of withholding tax.

Potential Application of Stapled Entity Rules

Under section 269B of the U.S. 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 to Granite REIT (and ultimately to REIT Unitholders).

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

As of January 1, 2013, Granite America qualified as a REIT for U.S. 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 an entity, and distributions to Granite REIT (and ultimately to REIT Unitholders) could be reduced.

Risks Relating to the Stapled Units

Cash distributions are not guaranteed and will fluctuate with the performance of the business or as a result of other factors. Distributions by Granite REIT may be paid in the form of additional REIT Units.

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 2013 or 2014 and does not expect to pay dividends in 2015.

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.

The REIT Units and GP Shares are structurally subordinated.

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 2018 Debentures and the 2021 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 Facility, the 2013 Indenture and 2014 Indenture) in their respective ability to incur secured or unsecured indebtedness.

There is a limitation on Non-Resident ownership of REIT Units.

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 (as defined below) 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 ("**Non-Residents**") 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".

Non-Canadian Holders of Stapled Units will be subject to foreign 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.

Granite REIT and Granite GP are dependent 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. Although Granite REIT intends to distribute the majority of the consolidated income earned by Granite REIT, less expenses and amounts, if any, paid by Granite REIT in connection with the redemption of REIT Units, there can be no assurance regarding Granite REIT's ability to make distributions, which 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.

The market price of Stapled Units (or REIT Units and GP Shares, after an Event of Uncoupling) may be unpredictable and volatile.

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, 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.

The nature of the Stapled Units gives rise to certain risks, including that they do not represent direct investments in Granite LP or other subsidiaries of Granite.

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.

There are risks and limitations associated with the redemption right applicable to Stapled Units.

The Stapled Units are redeemable on demand by the holder, subject to the limitations described under Risks Relating to 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.

Holders of Stapled Units may be diluted if additional Stapled Units are issued.

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.

REIT Unitholders may have liability for obligations of Granite REIT in certain circumstances.

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.

If uncoupling of the Stapled Units occurs, it may not occur in the manner or on the timing desired by Granite, it may give rise to significant expenditures, and it may result in the REIT Units or GP Shares being de-listed.

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.

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.

If an Event of Uncoupling occurs, or if the conditions of applicable exemptions are not met, Granite may not be in 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 may change.

The credit rating assigned to the 2018 Debentures, the 2021 Debentures and any other debentures subsequently issued under the 2013 Indenture or 2014 Indenture (collectively, 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".

Repayments to Debenture holders are subject to credit risk and prior ranking to indebtedness.

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 in full. There may be insufficient assets remaining following such payments to pay amounts due on any or all of the Debentures then outstanding.

Debentures are structurally subordinated.

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.

The market price and value of the Debentures will fluctuate.

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.

The trading market for the Debentures is illiquid.

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.

Granite LP may be unable to purchase Debentures on a 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 2013 Indenture and 2014 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.

Granite LP may redeem the Debentures prior to maturity.

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 (the "**Support Agreement**") 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 repurchase of, or offer to repurchase, Stapled Units, and prevents Granite GP from repurchasing, or offering to repurchase, GP Shares, and Granite REIT from repurchasing, or offering to repurchase, REIT Units, unless the other party simultaneously repurchases, or offers to repurchase, its component part of the applicable Stapled Units.

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 (ii) 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: (i) one-third of the number of Trustees in office upon completion of the 2013 Arrangement, if, at the time of the appointments, one or more of the Trustees in office upon completion of the 2013 Arrangement have not yet completed their first term of office; or (ii) in any other case, 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 in Canada for purposes of the Tax Act (“**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 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).

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-Residents or partnerships that are not Canadian partnerships within the meaning of the Tax Act ("**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 (as defined below) 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

Credit Facility

Granite LP is the borrower in respect of an unsecured senior revolving credit facility in the amount of $250 million (which may be increased with the consent of lenders participating in such increase provided that no increase beyond $300 million is permitted without the consent of all of the lenders under the Facility). The Facility has been guaranteed by Granite REIT and Granite GP and matures on February 1, 2018, although Granite LP has the option to extend the maturity date by one year to February 1, 2019, subject to the agreement of lenders in respect of a minimum of 66⅔% of the aggregate amount committed under the 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. Although Granite LP is the borrower under the Facility, the financial covenants which must be satisfied on the basis of the combined and consolidated financial statements of Granite REIT and Granite GP.

As at December 31, 2014, U.S.$54 million was drawn under the Facility. Granite LP, Granite REIT and Granite GP are in compliance with all of their covenants under the Facility.

Other Unsecured Indebtedness

On October 2, 2013, Granite LP issued the 2018 Debentures under a trust indenture and supplemental indenture providing for, among other things, the creation and issue of the 2018 Debentures (together, the "**2013 Indenture**"). The 2018 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, Granite GP and up until August 5, 2014, certain subsidiaries of Granite LP 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 2013 Indenture. Pursuant to the terms of the 2013 Indenture, there are various financial covenants which must be satisfied, which are tested on the basis of the combined and consolidated financial statements of Granite REIT and Granite GP. BNY Trust Company is the trustee for the 2018 Debentures.

On October 7, 2013, Granite LP entered into the 3.56% Swap, under which Granite LP will repay the principal proceeds received of euro 142 million for $200 million on October 2, 2018. The proceeds from the 2018 Debentures and corresponding cross currency interest rate swap were used to finance the European acquisitions.

On July 3, 2014, Granite LP issued the 2021 Debentures under a trust indenture and supplemental indenture providing for, among other things, the creation and issue of the 2021 Debentures (together, 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 and up until August 5, 2014, certain subsidiaries of Granite LP 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 and consolidated 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 euro 172 million for $250 million on July 5, 2021.

As at December 31, 2014, all 2018 Debentures and 2021 Debentures remained outstanding. For further details relating to the attributes and characteristics of the 2018 Debentures and 2021 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 2013 Indenture and the 2014 Indenture available on SEDAR at www.sedar.com.

Other Secured Indebtedness

In connection with the acquisition on February 13, 2013 of a 90% interest in two income-producing properties in Logan, New Jersey and Savannah, Georgia, Granite obtained a first mortgage loan from Wells Fargo Bank, National Association, in the amount of U.S.$23.9 million (100% interest). The loan is secured by each of the Savannah and Logan properties. The loan bears interest at a variable rate, adjusted monthly, calculated as 2.5% plus the one-month London InterBank Offered Rate ("**LIBOR**"), and is repayable by monthly payments of interest only which commenced on March 10, 2013 and ended on February 10, 2015, and by monthly payments of interest and principal which commence on March 10, 2015 and end on June 10, 2017. To mitigate the interest rate risk associated with the loan, the subsidiary purchased an interest rate cap relating to 100% of the amount of the loan limiting its interest rate exposure to a maximum of 4.00% over the term of the loan. The loan matures on June 10, 2017. As at December 31, 2014, U.S.$23.9 million of the mortgage payable was outstanding.

In connection with the acquisition on May 10, 2013 of a 95% interest in an income-producing property in Portland, Oregon, Granite obtained a first mortgage loan from Wells Fargo Bank, National Association, in the amount of U.S.$12.6 million (100% interest). The loan is secured by the property. The loan bears interest at a variable rate, adjusted monthly, calculated as 2.5% plus LIBOR and is repayable by monthly payments of interest only which commenced on June 10, 2013 and end on May 10, 2018, and by monthly payments of interest and principal commencing on May 10, 2014. To mitigate the interest rate risk associated with the loan, Granite purchased an interest rate cap relating to 100% of the amount of the loan limiting its interest rate exposure to a maximum of 4.00% over the term of the loan. The loan matures on May 10, 2018. As at December 31, 2014, U.S.$12.4 million of the mortgage payable was outstanding.

In connection with the acquisition on May 8, 2013 of a 90% interest in development land in Shepherdsville, Kentucky, Granite obtained a construction loan on July 25, 2013 from U.S. Bank National Association in the amount of U.S.$17 million (100% interest). The loan is secured by the property. The proceeds of the loan are intended to be used to pay costs associated with the construction of a building at the property. The maximum amount available under the construction loan may be increased to U.S.$19 million, subject to satisfaction of certain terms and conditions. The construction loan bears interest at a variable rate, adjusted monthly, calculated as 2.25% plus LIBOR. Prior to maturity, interest on the loan will be funded out of loan proceeds. The entire principal of the construction loan matures on July 25, 2016, but there is an option to extend the maturity date for two successive periods to July 25, 2017 and 2018, subject to certain terms and conditions. As at December 31, 2014, U.S.$13.4 million was drawn under the construction loan.

In connection with the acquisition on April 15, 2013 of a 90% interest in development land in Bethel Township, Pennsylvania, Granite obtained a construction loan on June 20, 2014 from U.S. Bank National Association in the amount of U.S.$26.2 million (100% interest). The loan is secured by the property. The proceeds of the loan have been used to pay costs associated with the construction of a building at the property. The construction loan bears interest at a variable rate, adjusted monthly, calculated as 2.25% plus LIBOR. Prior to maturity, interest on the loan will be funded out of loan proceeds. The entire principal of the construction loan matures on June 20, 2017, but there is an option to extend the maturity date for two successive periods to June 20, 2018 and 2019, subject to certain terms and conditions. As at December 31, 2014, U.S.$7.7 million was drawn under the construction loan.

Credit Ratings

As of March 4, 2015, the 2018 Debentures and the 2021 Debentures each had investment grade ratings of "BBB" with a "Stable" trend, from DBRS and "Baa2" with a "Stable" outlook from Moody's. 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 the organization may be vulnerable to future events. The DBRS long-term rating scale provides an opinion on the risk of default. That is, the risk that an issuer will fail to satisfy its financial obligations in accordance with the terms under which an obligation has been issued. Ratings are based on quantitative and qualitative considerations relevant to the issuer, and the relative ranking of claims. All rating categories other than AAA and D also contain subcategories "(high)" and "(low)". The absence of either a "(high)" or "(low)" designation indicates the rating is in the middle of the category.

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. 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. 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 honoured 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.

Credit ratings and stability 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 4, 2015, 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.

Granite has made customary payments of rating fees to DBRS and Moody's in connection with the above-mentioned ratings assigned to the 2018 Debentures and 2021 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 $0.192 per REIT Unit.

The portion of distributions by Granite REIT for 2015 which will be income for Canadian income tax purposes is estimated to be in the range of 75% to 85%. This estimate could change by the end of 2015. In light of its nominal anticipated earnings (if any), it is not expected that Granite GP will pay dividends in 2015.

Distributions of Granite REIT

In 2014, Granite REIT declared 11 monthly distributions of $0.183 per Stapled Unit and one monthly distribution of $0.192 per Stapled Unit.

In 2013, Granite REIT declared 11 monthly distributions of $0.175 per Stapled Unit and one monthly distribution of $0.183 per Stapled Unit.

Dividends of Granite Co.

In 2012, Granite Co. declared one quarterly dividend of U.S.$0.50 per common share and three quarterly dividends of Cdn.$0.50 per common share.

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, 2014 are set forth in the following table:

	Stapled Units		
TSX 2014	**High ($)**	**Low ($)**	**Traded Volume**
January	38.81	36.80	2,573,442
February	38.60	36.88	1,346,879
March	40.72	37.90	1,090,314
April	42.79	39.66	805,629
May	42.63	39.25	1,073,558
June	40.14	37.81	1,122,333
July	41.33	39.50	1,690,705
August	42.16	40.05	1,128,403
September	41.24	38.28	1,236,344
October	41.55	37.02	1,350,579
November	42.17	39.24	1,019,402
December	43.00	39.05	1,280,154

Source: TSX Market Data

Prior Sales

On July 3, 2014, Granite LP issued the 2021 Debentures at a price of $100.00 per $100.00 principal amount of 2021 Debentures. See "Credit Facility and Indebtedness — Other Unsecured Indebtedness".

TRUSTEES AND MANAGEMENT OF GRANITE REIT

The following tables provide the name, province or state and country of residence, the position 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 Trustees and officers and Granite GP's Directors and officers, and the date since which such Trustee/Director has served on the board, or such individual was appointed as an officer, of the predecessor of Granite REIT and Granite GP, Granite Co.:

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
G. WESLEY VOORHEIS(1) . . Ontario, Canada	Trustee and Chairman Director and Chairman	Managing Director of VC & Co. Incorporated	June 30, 2011
MICHAEL BRODY(1)(2) . . . . . New Jersey, USA	Trustee Director	Consultant	June 30, 2011
PETER DEY(1)(2) . . . . Ontario, Canada	Trustee and Vice-Chairman Director and Vice-Chairman	Chairman of Paradigm Capital Inc.	June 30, 2011
BARRY GILBERTSON(2)(3) . . Bath, Somerset, United Kingdom	Trustee Director	Real Estate Specialist Professional	June 30, 2011
THOMAS HESLIP . . . . Ontario, Canada	Trustee and Director Chief Executive Officer		December 1, 2011
GERALD MILLER(2)(3) . . . . . British Columbia, Canada	Trustee Director	Corporate Director	June 30, 2011
SCOTT ORAN(1)(3) . . . . Massachusetts, USA	Trustee Director	Managing Director of Dinosaur Capital Partners LLC	June 30, 2011
MICHAEL FORSAYETH . . . . Ontario, Canada	Chief Financial Officer		August 12, 2011
JENNIFER TINDALE . . . . . . Ontario, Canada	Executive Vice President, General Counsel and Secretary		June 30, 2011
JOHN DE ARAGON . . . . . . Ontario, Canada	Executive Vice President, Real Estate Investment		February 27, 2012
LORNE KUMER . . . . Ontario, Canada	Executive Vice President, Real Estate Portfolio and Asset Management		February 13, 2010
STEFAN WIERZBINSKI . . . . Vienna, Austria	Executive Vice President Europe		February 6, 2013

Notes:

(1) Member of the Corporate Governance and Nominating Committee of Granite GP chaired by Peter Dey.

(2) Member of the Compensation Committee of Granite GP chaired by Barry Gilbertson.

(3) Member of the Audit Committee of each of Granite REIT and Granite GP, each chaired by Gerald Miller

As at December 31, 2014, the Trustees, Directors and executive officers of Granite, as a group, beneficially owned, directly or indirectly, or exercised control or direction over 29,807 stapled units of Granite, representing less than one percent of the total number of Stapled Units outstanding before giving effect to the exercise of options or other convertible securities held by such trustees and officers.

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 2015 is expected to be held on June 17, 2015. 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.

G. Wesley Voorheis — Trustee and Chairman of Granite REIT; Director and Chairman of Granite GP

Since 1995 Mr. Voorheis has been the Managing Director of VC & Co. Incorporated and a Partner of Voorheis & Co. LLP, which act as strategic and other advisors to institutional, private equity, and other shareholders with respect to their investments in Canadian public and private companies.

Mr. Voorheis has been a director and Chairman of the Board of HudBay Minerals Inc. since March 2009 and a director of RONA inc. since January 2013. He was a director and member of the Audit Committee of Coventree Inc. from April 2008 to February 2012 and a director of Easyhome Ltd. from April 2010 to December 2011. Mr. Voorheis has acted as the Chief Executive Officer and a director of Hollinger Inc. and as the Chairman of the Board of YBM Magnex International Inc., following the reconstitutions of the boards of these companies. He has also served as Chairman of a number of special board committees and as a director of various other Canadian publicly traded companies.

Prior to the establishment of VC & Co. Incorporated and Voorheis & Co. LLP in 1995, Mr. Voorheis was a partner at a major Toronto law firm.

Michael Brody — Trustee of Granite REIT; Director of Granite GP

Mr. Brody has over 30 years of experience in commercial real estate, evenly divided between the capital markets and property sectors. Mr. Brody is a senior advisor providing non-executive consulting services to The Blackstone Group L.P., a NYSE-listed entity. From May 2008 to August 2011, Mr. Brody was the President and Chief Operating Officer of Loeb Partners Realty, LLC, a privately-held real estate company headquartered in New York. From July 2009 to December 2010, Mr. Brody served on the Board of Rock US Joint Ventures, a Lloyds Banking Group/HBOS-controlled entity. From 2002 to 2008, Mr. Brody served as a Managing Director and Head of CMBS Origination for Merrill Lynch & Co. Prior to that, Mr. Brody acted as Senior Vice President and Chief Credit Officer of GMAC Commercial Mortgage and a Managing Director for Nomura Securities in New York and San Francisco, where he was part of the commercial mortgage-backed securities team. Mr. Brody began his career as a leasing broker with Cushman & Wakefield and has acted as a Vice President of Asset Management for the Mack Company and as a Vice President of Goldfarb Properties.

Mr. Brody received a Bachelor of Arts degree from Cornell University and a Masters in Business Administration in finance from Columbia University.

Peter Dey — Trustee and Vice-Chairman of Granite REIT; Director and Vice-Chairman of Granite GP

Mr. Dey has been the Chairman of Paradigm Capital Inc., an investment dealer, since November 2005. He has been a director of Goldcorp Inc. since June 2006.

He was a director of Caracal Energy Inc. from March 2013 to July 2014, a director of Enablence Technologies Inc. from October 2011 to October 2013, and a director of Coventree Inc. from April 2008 to February 2012. Mr. Dey was a Partner of the Toronto law firm Osler, Hoskin & Harcourt LLP, where he specialized in corporate board issues and mergers and acquisitions, from 2001 to 2005, and prior to that from 1985 to 1994 and from 1973 to 1983. From 1994 to 2001, Mr. Dey was Chairman of Morgan Stanley Canada Limited, where he helped develop the Canadian investment banking business and the overall strategic direction of Morgan Stanley in Canada. From 1993 to 1995, Mr. Dey chaired The Toronto Stock Exchange Committee on Corporate Governance in Canada that released the December 1994 report entitled "Where Were the Directors?", known as the Dey Report. Mr. Dey has also served as Chairman of the Ontario Securities

Commission and was Canada's representative to the OECD Task Force that developed the OECD Principles of Corporate Governance released in May of 1999.

Mr. Dey is Chairman of the Private Sector Advisory Group of the Global Corporate Governance Forum, established by the World Bank and the Organization for Economic Cooperation and Development. He is also a director of the Massachusetts Museum of Contemporary Art.

Mr. Dey attended Queen's University, where he earned his Bachelor of Science in 1963 and Dalhousie University, where he earned his Bachelor of Laws degree in 1966. He received his Master of Laws degree from Harvard University in 1967.

Barry Gilbertson — Trustee of Granite REIT; Director of Granite GP

Mr. Gilbertson has more than 40 years of experience in real estate and construction. He has been Managing Director of Tigger Limited, trading as Barry Gilbertson Consultancy, since August 2010, providing professional advice focused on strategy and risk to businesses with significant real estate interests. He has been a director of RONA inc. since January 2013 and the senior independent director of LSE-listed Custodian REIT plc (UK) since March 2014. Until March 2012, he served as a non-executive consultant at Knight Frank LLP, the international real estate advisory firm. Mr. Gilbertson was a partner at PricewaterhouseCoopers LLP ("PwC") from 1996 until 2011, where he focused on business recovery, turnaround and corporate finance projects ranging from international multi-bank work to single lender projects in the United Kingdom. At PwC, Mr. Gilbertson led the work-out of the U.S.$8 billion real estate investment portfolio owned (as well as the corporate property occupied in the United Kingdom and Europe) by Lehman Brothers (In Administration), together with other significant turnaround projects, such as Rock, a real estate group in New York. Mr. Gilbertson has led or worked on projects, or spoken at conferences, in some 34 countries, and spoken at 8 world events in various countries.

Mr. Gilbertson was global President of The Royal Institution of Chartered Surveyors (RICS) (from 2004 to 2005), a member of The Bank of England Property Forum (from 2003 to 2010), the founder Chairman of NARA (the Non-Administrative Receivers Association) in 1995, the co-founder Vice Chair of WAVO (the World Association of Valuation Organisations) in 2004, the Chair of Valuation for the United Nations Real Estate Advisory Group (as an individual member of UN REAG from 2000 to 2005), and has been a Counselor of Real Estate (CRE) since 1998. Mr. Gilbertson has been Visiting Professor at The University of Northumbria in Newcastle, United Kingdom since 2003, was appointed in 2014 as a Visiting Professor at The Royal Agricultural University in UK, a Visiting Lecturer at 20 universities in China, Germany, Kenya, the United Kingdom and the United States, and has in excess of 100 published articles to his name.

Mr. Gilbertson served as a Trustee and Board Director at the College of Estate Management (from 2005 to 2014). He is currently a member of The Council (and The Court) of the University of Bath, UK, serving on three committees including Finance. Mr. Gilbertson is a member of the Architecture & Planning Committee of the Bath Preservation Trust, UK. He is a Founding Fellow of the Institute of Continuing Professional Development, a Freeman of the City of London, United Kingdom and holds Honorary Membership designations from four professional bodies — in South Africa, in Romania and in the United Kingdom.

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.

Scott Oran — Trustee of Granite REIT; Director of Granite GP

Mr. Oran has been Managing Director of Dinosaur Capital Partners LLC, a real estate investment and advisory firm, since November 2009. Mr. Oran was a member of Gordon Brothers Group, an advisory and financial services company, from May 2009 to November 2009. From November 2003 until January 2009, Mr. Oran served as Executive Director of Morgan Stanley, where he was responsible for its real estate investing activities in New England and the mid-Atlantic United States.

Mr. Oran has 28 years of experience in the real estate industry. Earlier in his career, Mr. Oran was Partner and Regional Director of TA Associates Realty and Vice President of Fleet Bank in Boston. Mr. Oran has also acted as Director of Acquisitions for Unihab, a real estate developer. He began his career at Booz, Allen & Hamilton, a management consulting firm.

Mr. Oran graduated from Princeton University with a Bachelor of Science in Engineering degree in civil engineering and received his Masters in Business Administration from Harvard Business School.

Thomas Heslip — Trustee and Chief Executive Officer of Granite REIT; Director and Chief Executive Officer of Granite GP

Mr. Heslip has been the Chief Executive Officer of Granite since December 1, 2011. Mr. Heslip has had a 32 year career covering commercial property development, real estate investment, management and operations in Canada, the United States, Asia and Europe. Previously, Mr. Heslip served as the President and Chief Executive Officer of Realex Properties Corp. from April 6, 2009 to February 2011 when it was sold to Dundee Real Estate Investment Trust (now Dream Office REIT). He has previously held senior management positions at Fortress Canada, Goldman Sachs, CIBC Development Corp. and The Cadillac Fairview Corporation Limited.

Mr. Heslip holds a Masters of Arts degree in Economics and Public Administration and a Bachelor of Arts degree in Economics and Business Administration from the University of Guelph.

Michael Forsayeth — Chief Financial Officer of Granite REIT; Chief Financial Officer of Granite GP

Mr. Forsayeth has been Granite's Chief Financial Officer since August 12, 2011. From June 2007 to July 2011, Mr. Forsayeth was Chief Financial Officer of Intrawest. Mr. Forsayeth has been a director of Imvescor Restaurant Group Inc. since November 2014. Over the course of his 30 plus-year career, Mr. Forsayeth has held senior executive financial and operating positions in several public and private Canadian companies, including Cara Operations Ltd, Laidlaw Inc., Derlan Industries Limited and Bank of Montreal. Mr. Forsayeth is a CPA, CA and also spent nine years with Coopers & Lybrand (now PricewaterhouseCoopers) in various areas including the audit practice and the insolvency group, and on a secondment in their London, England office.

Mr. Forsayeth graduated from Queen's University with an Honours Bachelor of Commerce degree.

Jennifer Tindale — Executive Vice President, General Counsel and Secretary of Granite REIT; Executive Vice-President, General Counsel and Secretary of Granite GP

Ms. Tindale is Granite's Executive Vice-President, General Counsel and Secretary and has been an officer of Granite since June 30, 2011. Prior to that Ms. Tindale was most recently Vice President, Associate General Counsel & Corporate Secretary at Biovail Corporation ("**Biovail**"). In this role, Ms. Tindale managed the company's legal matters and was a member of its executive management team. Over her four years at Biovail, Ms. Tindale provided leadership on numerous corporate acquisitions, licensing transactions, two proxy contests and a merger transaction.

Prior to joining Biovail in 2006, Ms. Tindale was a partner at Blake, Cassels & Graydon LLP, practicing corporate securities law in the Toronto office.

Ms. Tindale holds a Bachelor of Arts and a Bachelor of Laws from the University of Western Ontario.

John De Aragon — Executive Vice President, Real Estate Investment of Granite REIT; Executive Vice-President, Real Estate Investment of Granite GP

Mr. De Aragon oversees Granite's investment activities (acquisitions and dispositions) in connection with its real estate diversification strategy. As a member of Granite's senior management team, he is also directly involved in the overall integration and alignment of its diversified investments with the activities (expansions, lease strategies, acquisitions and dispositions) of Granite's existing and future Magna-tenanted properties.

Mr. De Aragon has over 24 years of experience in the real estate industry, covering all aspects from finance and accounting to acquisitions, mergers and asset management. His experience covers a wide variety of real estate sectors (retail, office and industrial), markets, investors and operating companies. He has held senior positions in real estate and investment in Canada and worldwide. These include having been Managing Director of a New York private equity firm (responsible for real estate portfolios in Canada, the U.S. and Europe) from 2005 to 2009, Vice President of Bentall Kennedy and Senior Director Investment and Development at CIBC Development Corp.

Mr. De Aragon graduated from the University of Guelph with a Bachelor of Arts in Management Economics.

Lorne Kumer — Executive Vice President, Real Estate Portfolio and Asset Management of Granite REIT; Executive Vice-President, Real Estate Portfolio and Asset Management of Granite GP

Mr. Kumer oversees all aspects of Granite's North American portfolio and asset management activities. These include asset strategies and business plans, property operations activities, leasing and expansions for both the Granite's Magna-tenanted properties as well as the Granite's diversified portfolio.

Mr. Kumer also plays a key role in providing direction and support to the overall investment activities (acquisitions and dispositions) of Granite. As a member of Granite's senior management team, he is a key leader in the overall integration and alignment of Granite's existing and future Magna-tenanted portfolio and Granite's diversified real estate strategy and portfolio.

Mr. Kumer has over 23 years of experience in the real estate industry working for both public and private development companies. His experience includes acquisitions, due diligence, leasing, land use and development approvals, sales and construction. For over 10 years, Mr. Kumer has worked for Granite in various roles including the management of Granite's significant land development portfolio and leasing within the 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 Ivy School of Business at the University of Western Ontario.

Stefan Wierzbinski — Executive Vice President Europe of Granite REIT; Executive Vice President Europe of Granite GP

Mr. Stefan Wierzbinski is Granite's Executive Vice President Europe, based in Vienna, Austria. Mr. Wierzbinski is responsible for acquisition, development, leasing and management of Granite's industrial real estate portfolio in Europe. He joined Granite in 2001.

From 1997 to 2001, Mr. Wierzbinski worked with Arthur Andersen in Vienna, Austria as a tax consultant and auditor in several industries, including construction and real estate.

Mr. Wierzbinski holds a Masters in Business Administration from the University of Business Administration in Vienna, Austria.

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.

From on or about July 1, 2009 to December 31, 2010, Mr. Brody was a director of Rock U.S. Holdings Inc. and its subsidiary entities. During that period, two single-asset subsidiary entities, Rock New York (183 Madison Avenue) LLC and Rock New York (100-104 Fifth Avenue) LLC voluntarily filed for bankruptcy protection under U.S. bankruptcy legislation in the U.S. Bankruptcy Court of Delaware. The properties were sold through court-approved pre-petition auction process.

Mr. Voorheis was a director of Hollinger Inc. ("**Hollinger**") from May 2006 to June 2008 and its chief executive officer from April 2007 to June 2008. Mr. Voorheis agreed to join the Hollinger board at the request of a shareholder to deal with certain management misconduct. Prior to Mr. Voorheis' involvement in Hollinger (on May 18, 2004), the OSC issued a temporary cease trade order that prohibited certain directors, officers and insiders of Hollinger from trading in securities of Hollinger, subject to certain exceptions, as a result of Hollinger's failure to file financial statements on a timely basis as required under Ontario securities laws. On June 1, 2004, the OSC issued a management cease trade order (the "**MCTO**") (later varied on March 8, 2005, August 10, 2005 and April 28, 2006). The April 28, 2006 variation added the then current directors and officers of Hollinger to the list of persons subject to the MCTO. The MCTO was later revoked on April 10, 2007 by an OSC order, after remediation by Hollinger of its historical continuous disclosure record on March 7, 2007. Related cease trade orders were also issued by securities regulatory authorities in British Columbia on May 31, 2004 and Alberta on June 10, 2004 but were revoked, or expired, following the revocation of the MCTO by the OSC.

On August 1, 2007, Hollinger obtained an initial order for creditor protection from the court under the *Companies' Creditors Arrangement Act* (Canada) and made a concurrent application for a companion order under Chapter 15 of the United States Bankruptcy Code. These proceedings included Hollinger and its wholly-owned subsidiaries, Sugra Limited and 4322525 Canada Inc. The initial order and the U.S. proceedings provided for an initial stay period of 30 days, and were subsequently extended. On May 26, 2008, the Court approved an agreement (announced by Hollinger on May 14, 2008) between Hollinger and its two principal creditors addressing matters in dispute among those parties and which stated that Mr. Voorheis would be resigning as an officer and director of Hollinger. On June 17, 2008, Mr. Voorheis resigned as a director and officer of Hollinger. Hollinger's Series II preference shares and the common shares are subject to a cease trader order issued by the OSC on July 23, 2008. Hollinger has stated that the cease trade order was issued as a result of Hollinger's determination, in the interests of reducing its costs for the benefit of its stakeholders, not to prepare and file annual audited financial statements and other annual disclosure documents in respect of Hollinger's financial year ended March 31, 2008. Consequently, following June 30, 2008, Hollinger has been in default of its continuous disclosure filing requirements under Canadian securities laws.

Mr. Voorheis was a director of Sun Times Media Group, Inc. ("**Sun Times**") from August 2007 to June 2008. Mr. Voorheis agreed to join the Sun Times board at the request of a Hollinger shareholder to deal with certain management misconduct. On March 31, 2009, Sun Times and its domestic subsidiaries filed voluntary petitions under Chapter 11 of the United States Bankruptcy Code.

Mr. Voorheis and Mr. Dey were appointed directors of Coventree Inc. ("**Coventree**") in April 2008. On December 7, 2009, the OSC commenced proceedings against Coventree and certain of its officers in connection to events which occurred prior to Mr. Voorheis and Mr. Dey's involvement with Coventree. The proceedings relate to whether Coventree complied with its disclosure obligations in its prospectus relating to the initial public offering of its shares, and its timely disclosure obligations in 2007 prior to the market for certain asset-backed commercial paper freezing up on August 13, 2007 (collectively "**Coventree Proceedings**"). On November 8, 2011, the OSC issued orders in connection with the Coventree Proceedings which included an order that until its winding up is completed, trading in any securities by Coventree cease and that any Ontario securities law exemptions not apply to Coventree, provided that this order will not prevent the winding up of Coventree or trades in securities reasonably related to that winding up. Coventree appealed the OSC order at the Ontario Divisional Court in late 2012. On March 19, 2013, the decision of the OSC was upheld by the Ontario Divisional Court. On September 17, 2013, leave to appeal to the Court of Appeal for Ontario was denied.

On June 30, 2010, the shareholders of Coventree approved a special resolution authorizing the winding up of Coventree and the distribution of its remaining assets, if any, to shareholders pursuant to the plan of liquidation and distribution. The Liquidation Plan commenced on February 15, 2012, when a liquidator was appointed for the purposes of winding up the Coventree's affairs and Mr. Voorheis and Mr. Dey resigned as directors, and Mr. Voorheis became an inspector of the company's liquidation on that date.

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**") composed of Messrs. Miller (Chairman), Gilbertson and Oran, 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, Mr. Miller has been determined to be a "financial expert" within the meaning of the rules of the United States Securities and Exchange Commission (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 2014. 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, 2014 and 2013.

Fees	2014	2013
Audit Fees[(1)]	$755,000	$828,400
Audit-Related Fees[(2)]	$ 72,000	$150,000
All Other Fees[(3)]	$ 8,800	$ 2,300
Total	$835,800	$980,700

Notes:

(1) Audit Fees consist of fees billed or for 2014, estimated, for the annual audit and quarterly review of Granite's combined or consolidated 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 consultations concerning financial accounting and reporting standards, audit of subsidiary financial statements, review of security controls and operational effectiveness of systems.

(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 Brookfield Place, Suite 1400, 181 Bay Street, Toronto, Ontario, M5J 2V1. 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 Golden, Colorado.

Deloitte LLP is independent of Granite REIT and Granite GP within the meaning of the Rules of Professional Conduct of CPA Ontario and the rules and Standards of the Public Company Accounting Oversight Board and the securities laws and regulations administered by the SEC.

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 an 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 (the "**Transfer Agreement**") 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 2013 Indenture (as more fully described under "Credit Facility and Indebtedness — Other Unsecured Indebtedness");

(ii) the 2014 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 will be contained in the joint Management Information Circular/Proxy Statement of Granite REIT and Granite GP for the annual general meetings of the unitholders of Granite REIT and shareholders of Granite GP expected to be held on June 17, 2015. 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, 2014.

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*

At the time of the annual appointment of the members of the Committee, the Board shall appoint a member of the Committee as Chair of the Committee.

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 and fees, 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 and the General Counsel 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*

At the time of the annual appointment of the members of the Committee, the Board shall appoint a member of the Committee as Chair of the Committee.

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 and fees, 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 and the General Counsel 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, 2014

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 2014 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 2014 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 cost controls of high quality, within reasonable cost. 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, 2014 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''), have 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 Multilateral 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 annually 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 Canadian generally accepted auditing standards and 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 examinations and their opinions 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.

THOMAS HESLIP
Chief Executive Officer

MICHAEL FORSAYETH
Chief Financial Officer

Toronto, Canada,
March 4, 2015

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.

We have audited the accompanying combined financial statements of Granite Real Estate Investment Trust and Granite REIT Inc. and subsidiaries (collectively, the ''Trust''), which comprise the combined balance sheets as at December 31, 2014 and December 31, 2013 and the combined statements of income, combined statements of comprehensive income, combined statements of unitholders' equity and combined statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Combined Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

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

Opinion

In our opinion, the combined financial statements present fairly, in all material respects, the financial position of the Trust and subsidiaries as at December 31, 2014 and December 31, 2013 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Other Matter

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Trust's internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 4, 2015 expressed an unqualified opinion on the Trust's internal control over financial reporting.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
March 4, 2015
Toronto, Canada

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.

We have audited the internal control over financial reporting of Granite Real Estate Investment Trust and Granite REIT Inc. and subsidiaries (collectively, the ''Trust'') as of December 31, 2014, based on the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. 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 conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company'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 International Financial Reporting Standards as issued by the International Accounting Standards Board. 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 International Financial Reporting Standards as issued by the International Accounting Standards Board, 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 the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Trust maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the combined financial statements as of and for the year ended December 31, 2014 of the Trust and our report dated March 4, 2015 expressed an unmodified opinion on those financial statements.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
March 4, 2015
Toronto, Canada

Combined Balance Sheets

(Canadian dollars in thousands)

As at December 31,	Note	2014	2013
ASSETS			
Non-current assets:			
Investment properties	4	**$2,310,378**	$2,351,897
Deferred tax assets	11	**7,206**	8,173
Fixed assets, net		**1,746**	1,938
Other assets	5	**1,879**	1,958
Cross currency interest rate swap	6	**481**	—
		2,321,690	2,363,966
Current assets:			
Accounts receivable		**2,247**	2,491
Income taxes receivable	11	**921**	930
Prepaid expenses and other		**1,885**	1,366
Restricted cash	3	**4,782**	4,360
Cash and cash equivalents		**116,233**	95,520
Total assets		**$2,447,758**	$2,468,633
LIABILITIES AND STAPLED UNITHOLDERS' EQUITY			
Non-current liabilities:			
Unsecured debentures, net	6	**$ 447,049**	$ 462,070
Cross currency interest rate swap	6	**3,829**	11,003
Secured long-term debt	7	**65,247**	41,856
Deferred tax liabilities	11	**155,708**	166,622
Other non-current liabilities	8	**10,809**	3,777
		682,642	685,328
Current liabilities:			
Deferred revenue		**5,299**	5,194
Bank indebtedness	9	**62,645**	53,180
Current portion of secured long-term debt	7	**832**	—
Accounts payable and accrued liabilities	10	**36,649**	33,178
Distributions payable		**9,027**	8,591
Income taxes payable	11	**14,421**	6,652
Total liabilities		**811,515**	792,123
Equity:			
Stapled unitholders' equity		**1,629,985**	1,671,227
Non-controlling interests		**6,258**	5,283
Total equity		**1,636,243**	1,676,510
Total liabilities and stapled unitholders' equity		**$2,447,758**	$2,468,633

Commitments and contingencies (note 22)
See accompanying notes

On behalf of the Boards:

/s/ G. Wesley Voorheis
Director/Trustee

/s/ Gerald J. Miller
Director/Trustee

Combined Statements of Income

(Canadian dollars in thousands)

Years ended December 31,	Note	2014	2013
Rental revenue and tenant recoveries		**$207,410**	$189,900
Property operating costs	14(a)	**6,876**	5,545
General and administrative expenses	14(b)	**28,061**	27,065
Depreciation and amortization		**621**	454
Interest expense and other financing costs, net	14(c)	**23,967**	20,586
Early redemption costs of unsecured debentures	6	**28,580**	—
Foreign exchange gains, net		**(3,063)**	(46)
Fair value losses on investment properties, net	4	**51,620**	16,182
Fair value gains on financial instruments	14(d)	**(177)**	(72)
Acquisition transaction costs		**189**	14,246
Gain on Meadows holdback	14(e)	**—**	(5,143)
Loss (gain) on sale of investment properties	4	**(1,416)**	778
Income before income taxes		**72,152**	110,305
Income tax expense (recovery)	11	**8,492**	(33,139)
Net income from continuing operations		**63,660**	143,444
Net income from discontinued operations	15	**6,757**	1,822
Net income		**$ 70,417**	$145,266
Net income attributable to:			
Stapled unitholders			
Continuing operations		**$ 63,456**	$143,209
Discontinued operations		**6,757**	1,822
		70,213	145,031
Non-controlling interests			
Continuing operations		**204**	235
Discontinued operations		**—**	—
		204	235
		$ 70,417	$145,266

See accompanying notes

Combined Statements of Comprehensive Income

(Canadian dollars in thousands)

Years ended December 31,	Note	2014	2013
Net income		**$ 70,417**	$145,266
Other comprehensive income (loss):			
Foreign currency translation adjustment[1]		**(9,358)**	126,527
Unrealized gain (loss) on cross currency interest rate swaps[1]	6(d)	**6,200**	(11,490)
Net foreign exchange loss on net investment hedge, includes income taxes of nil[1]		**(1,393)**	(6,992)
Reclassification of cumulative foreign currency translation amounts relating to foreign operation disposed of in the year	15	**(5,722)**	—
Total other comprehensive income (loss)		**(10,273)**	108,045
Comprehensive income		**$ 60,144**	$253,311

[1] Items that may be reclassified subsequently to net income

Comprehensive income attributable to:		
Stapled unitholders		
Continuing operations	**$ 57,943**	$243,883
Discontinued operations	**1,666**	8,993
	59,609	252,876
Non-controlling interests		
Continuing operations	**535**	435
Discontinued operations	**—**	—
	535	435
Comprehensive income	**$ 60,144**	$253,311

See accompanying notes

Combined Statements of Unitholders' Equity

(Canadian dollars in thousands)

Year Ended December 31, 2014	Number of Units	Stapled Units	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Total	Non-controlling interests	Total
Equity at January 1, 2014	**46,945**	**$2,121,412**	**$61,425**	**$(608,671)**	**$97,061**	**$1,671,227**	**$5,283**	**$1,676,510**
Net income	—	—	—	70,213	—	70,213	204	70,417
Other comprehensive income (loss)	—	—	—	—	(10,604)	(10,604)	331	(10,273)
Distributions	—	—	—	(103,641)	—	(103,641)	(221)	(103,862)
Contributions from non-controlling interests	—	—	—	—	—	—	661	661
Units issued on exercise of stapled unit options	50	1,916	—	—	—	1,916	—	1,916
Units issued on settlement of deferred stapled units	22	874	—	—	—	874	—	874
Equity at December 31, 2014	**47,017**	**$2,124,202**	**$61,425**	**$(642,099)**	**$86,457**	**$1,629,985**	**$6,258**	**$1,636,243**

Year Ended December 31, 2013	Number of Units	Stapled Units	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Total	Non-controlling interests	Total
Equity at January 1, 2013	**46,833**	**$2,117,256**	**$63,168**	**$(654,828)**	**$(10,784)**	**$1,514,812**	**$1,041**	**$1,515,853**
Net income	—	—	—	145,031	—	145,031	235	145,266
Other comprehensive income	—	—	—	—	107,845	107,845	200	108,045
Distributions	—	—	—	(98,922)	—	(98,922)	(215)	(99,137)
Contributions from non-controlling interests	—	—	—	—	—	—	4,022	4,022
Units issued on exercise of stapled unit options	105	3,892	—	—	—	3,892	—	3,892
Units issued on settlement of deferred stapled units	7	264	—	—	—	264	—	264
Reclassification of unit-based awards	—	—	(1,743)	48	—	(1,695)	—	(1,695)
Equity at December 31, 2013	**46,945**	**$2,121,412**	**$61,425**	**$(608,671)**	**$97,061**	**$1,671,227**	**$5,283**	**$1,676,510**

See accompanying notes

Combined Statements of Cash Flows

(Canadian dollars in thousands)

Years ended December 31,	Note	2014	2013
OPERATING ACTIVITIES			
Net income from continuing operations		**$ 63,660**	$143,444
Items not involving current cash flows	17(a)	**64,503**	(25,627)
Tenant allowance		**(37,769)**	—
Current income tax expense	11(a)	**4,254**	8,524
Income taxes paid	11(e)	**(4,377)**	(12,425)
Interest expense		**22,625**	19,945
Interest paid		**(19,349)**	(17,059)
Changes in working capital balances from continuing operations	17(b)	**(6,156)**	555
Cash provided by operating activities from continuing operations		**87,391**	117,357
Cash provided by operating activities from discontinued operations		**5,472**	10,537
Cash provided by operating activities		**92,863**	127,894
INVESTING ACTIVITIES			
Investment properties:			
Proceeds on disposal, net	4	**39,095**	16,843
Capital expenditures		**(43,701)**	(28,853)
Business acquisitions (2013 — net of cash acquired of $375)	3	**(75,149)**	(233,363)
Acquisition of development lands	3	**(3,831)**	(14,204)
Fixed asset additions		**(458)**	(673)
Proceeds from notes receivable		**—**	7,870
Increase in other assets		**(199)**	(1,209)
Cash provided by investing activities from discontinued operations	4,15	**104,370**	—
Cash provided by (used in) investing activities		**20,127**	(253,589)
FINANCING ACTIVITIES			
Distributions paid		**(103,205)**	(90,331)
Proceeds from units issued		**1,781**	3,116
Proceeds from unsecured debentures	6	**250,000**	200,000
Repayment of unsecured debentures	6	**(265,000)**	—
Proceeds from secured long-term debt		**19,784**	—
Repayment of secured long-term debt		**(225)**	—
Proceeds from bank indebtedness		**62,813**	129,095
Repayments of bank indebtedness		**(54,740)**	(78,692)
Financing costs paid		**(2,361)**	(2,765)
Contributions from non-controlling interests		**661**	1,921
Distributions to non-controlling interests		**(221)**	(215)
Cash provided by (used in) financing activities		**(90,713)**	162,129
Effect of exchange rate changes on cash and cash equivalents		**(1,564)**	8,013
Net increase in cash and cash equivalents during the year		**20,713**	44,447
Cash and cash equivalents, beginning of year		**95,520**	51,073
Cash and cash equivalents, end of year		**$ 116,233**	$ 95,520

See accompanying notes

Notes to Combined Financial Statements

(All amounts in Canadian dollars and all tabular amounts in thousands 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. The conversion to a REIT was implemented pursuant to a court approved plan of arrangement (the ''Arrangement'') under the *Business Corporations Act* (Quebec). Through a series of steps and reorganizations Granite Real Estate Investment Trust (''Granite REIT'') and Granite REIT Inc. (''Granite GP''), in addition to other entities, were formed. Granite REIT is an unincorporated, open ended, limited purpose trust established under and governed by the laws of the province of Ontario and created pursuant to a Declaration of Trust dated September 28, 2012 and amended on January 3, 2013. Granite GP was incorporated on September 28, 2012 under the *Business Corporations Act* (British Columbia).

Under the Arrangement, 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 REIT and one common share of Granite GP. Granite REIT, Granite GP and their subsidiaries (together ''Granite'' or the ''Trust'') are carrying on the business previously conducted by Granite Co. The assets, liabilities and operations of the new combined stapled unit structure comprise all the assets, liabilities and operations of Granite Co. The stapled units trade on the Toronto Stock Exchange and on the New York Stock Exchange. The principal office of Granite REIT is 77 King Street West, Suite 4010, P.O. Box 159, Toronto-Dominion Centre, Toronto, Ontario, M5K 1H1, Canada. The registered office of Granite GP is Suite 2600, Three Bentall Centre, 595 Burrard Street P.O. Box 49314, Vancouver, British Columbia, V7X 1L3, Canada.

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

These combined financial statements were approved by the Board of Trustees of Granite REIT and Board of Directors of Granite GP on March 4, 2015.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies described below have been applied consistently to all periods presented in these combined financial statements.

(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 and the steps and reorganizations 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) Common Control Transactions

IFRS does not include specific measurement guidance for transfers of businesses or subsidiaries between entities under common control. However, based on accounting pronouncements and the IFRS framework, the Trust has selected as its accounting policy to account for such transactions at predecessor carrying values used in prior reporting periods (note 1).

(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 (''IAS 40''). 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(j)), tenant inducements 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 as stated above, however, where fair value is not reliably determinable, the property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably determinable.

(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 accordance with IAS 39, Financial Instruments: Recognition and Measurement (''IAS 39'') 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 is lower than the fair value of the net assets acquired, the difference is recognized in net income.

(f) 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; and
- 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.

(g) Financial Instruments and Hedging

Financial assets

The Trust classifies its financial assets upon initial recognition as fair value through profit or loss (''FVTPL''), held to maturity, loans and receivables or available for sale.

Loans and receivables, which include accounts receivable, cash and cash equivalents, restricted cash and certain other assets, are initially measured at fair value and are subsequently measured at amortized cost less provision for impairment. A provision for impairment is recognized when there is objective evidence that collection may not be possible under the original terms of the contract. Indicators of impairment include default on payments and significant financial difficulty of the tenant or counterparty. The carrying amount of the asset is reduced through a provision account, and the amount of the loss is recognized in net income. Bad debt write-offs occur when the Trust determines collection is unlikely. Any subsequent recoveries of amounts previously written off are credited against general and administrative expenses in net income. Accounts receivable that are more than one month past due are not considered impaired unless there is evidence that collection is not possible.

The Trust does not currently have any financial assets classified as held to maturity or available for sale.

Financial liabilities

The Trust classifies its financial liabilities upon initial recognition as FVTPL or other financial liabilities. Other financial liabilities, which include unsecured debentures, secured long-term debt, bank indebtedness, accounts payable and accrued liabilities and distributions payable, are measured at amortized cost. The Trust's policy for the treatment of financing costs related to the issuance of long term debt is to present debt instruments on the balance sheets net of the related financing costs, with the net balance accreting to the face value of the debt over its term following the effective interest method. The costs of obtaining a revolving credit facility are capitalized and amortized over the term of the facility on a straight-line basis.

Derivatives and Hedging

Derivative instruments 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 statement of 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.

(h) Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents include cash on account, demand deposits and short-term investments with maturities of less than three months at the date of acquisition.

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

(i) 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.

(j) 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. For leases involving land and buildings, the Trust evaluates the land and building separately in determining the appropriate lease treatment, unless the fair value of the land at the inception of the lease is considered to be immaterial. All of the Trust's current leases (the ''Leases'') are operating leases.

The majority of the Leases are net leases under which the lessee is responsible for the direct payment of all operating costs related to the properties, including property taxes, insurance, utilities and non-structural repairs and maintenance. Revenues and operating expenses for these Leases do not include any amounts related to operating costs paid directly by such lessees. The remaining Leases generate rental revenue that includes the recovery of operating costs.

The Leases may provide for either scheduled fixed rent increases or periodic rent increases based on increases in a local price index. Where periodic rent increases depend on increases in a local price index, such rent increases are accounted for as contingent rentals and recognized in income in applicable future years. Where scheduled fixed rent increases exist in operating leases, the total scheduled fixed lease payments of the lease are recognized in income evenly on a straight-line basis over the term of the lease.

(k) 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 was 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 deferred stapled units granted under the plan is recognized as general and administrative expenses with a corresponding liability recognized based on 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 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.

(l) Income Taxes

Operations in Canada

Upon completion of the Arrangement, Granite qualified 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. Further, as a result of converting to a REIT, certain deferred income taxes reported prior to January 3, 2013 were reversed through deferred income tax expense. Current income tax related to certain taxable Canadian entities are 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 these taxable entities 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 and 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 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 with the same reporting group that settle on a net basis, and when there is a legal right to offset.

(m) 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 (''IAS 32'') and are therefore presented as equity for purposes of that standard.

(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(j). The Trust makes judgments in determining whether certain leases are operating or finance leases, in particular tenant leases with long contractual terms, leases where the property is a large square-footage and/or architecturally unique and long-term ground leases where the Trust is the lessee.

Investment properties

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

Income taxes

The Trust applies judgment in determining whether it will continue to qualify as a REIT for both Canadian and U.S. tax purposes for the foreseeable future. However, should it at some point no longer qualify, 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 valuations, but uses such appraisals as data points, together with other external market information accumulated by management, in arriving at its own conclusions on values. 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 income.

(o) Adoption of Accounting Standards

There are a number of amendments to IAS 32 Financial Instruments: Presentation (''IAS 32''), relating to offsetting certain assets and liabilities. These amendments relate to the application of the guidance set out in IAS 32 and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The amendments are effective January 1, 2014. The adoption of these amendments did not have an impact on the Trust's combined financial statements.

In May 2013, IFRIC Interpretation 21 — Levies (''IFRIC 21'') was issued which is an interpretation of IAS 37 — Provisions, Contingent Liabilities and Contingent Assets. IFRIC 21 clarifies what the obligating event is that gives rise to a levy and when a liability should be recognized. IFRIC 21 is effective for years beginning on or after January 1, 2014 and must be applied retrospectively. For the purposes of IFRIC 21, property taxes payable by the Trust are considered levies. The adoption of this standard did not have an impact on the Trust's combined financial statements.

(p) Future Accounting Policy Changes

In July 2014, the IASB issued the final version of IFRS 9 — Financial Instruments (''IFRS 9'') which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 — Financial Instruments: Recognition and Measurement (''IAS 39''). The key elements of the final standard are as follows: *Classification and measurement* — introduces a logical approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. *Impairment* — introduces a new, expected-loss impairment model that will require more timely recognition of expected credit losses. IFRS 9 also includes new disclosure requirements about expected credit losses and credit risk. *Hedge accounting* — introduces a substantially reformed model for hedge accounting that more closely aligns with risk management activities undertaken by entities when hedging their financial and non-financial risk exposures. *Own credit* — removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss and are recognized in other comprehensive income instead. IFRS 9 will be applied retrospectively for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Trust has not yet determined the impact of this standard on its combined financial statements.

In May 2014, the IASB issued IFRS 15 — Revenue from Contracts with Customers (''IFRS 15''), which replaces IAS 11 — Construction Contracts and IAS 18 — Revenue, as well as various other interpretations regarding revenue. IFRS 15 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 also contains enhanced disclosure requirements. It will be applied retrospectively for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Trust has not yet determined the impact of this standard on its combined financial statements.

3. ACQUISITIONS

Acquisitions of income-producing properties and development lands completed during the years ended December 31, 2014 and 2013 consist of the following:

(a) Acquisitions in the year ended December 31, 2014

(i) Business combination — Income-producing properties

On December 30, 2014, the Trust acquired two income-producing logistics-distribution properties located in the United States. The following table summarizes the consideration paid for the acquisition and the fair values of the assets acquired and liabilities assumed at the acquisition date:

	Total
Purchase consideration:	
Cash sourced from Credit Facility (note 9)	$62,635
Cash on hand	12,514
Total consideration paid	**$75,149**
Recognized amounts of identifiable assets acquired and liabilities assumed measured at their respective fair values:	
Investment properties	$75,864
Working capital	(715)
Total identifiable net assets	**$75,149**

During the year ended December 31, 2014, the Trust recognized revenue and net income of less than $0.1 million, related to the aforementioned acquisition. Had this acquisition occurred on January 1, 2014, the Trust would have recognized approximately $5.1 million (pro-forma/unaudited) of revenue and $3.5 million (pro-forma/unaudited) of net income during the year ended December 31, 2014. The Trust incurred transaction costs of $0.2 million which are included in acquisition transaction costs in the combined statements of income.

(ii) Asset purchase — Development land

On December 30, 2014, in conjunction with the aforementioned acquisition of two income-producing properties, the Trust also acquired 29 acres of adjacent development land in the United States for a purchase price of $3.8 million.

(b) Acquisitions in the year ended December 31, 2013

(i) Business combinations — Income-producing properties

Income-producing properties located in the United States

On February 13, 2013, the Trust, through a 90% owned subsidiary, DGI LS, LLC, acquired two income-producing multipurpose industrial properties. On May 10, 2013, the Trust, through a 95% owned subsidiary, DGI Portland, LLC, acquired an income-producing multipurpose industrial property. On August 9, 2013, the Trust acquired a single-tenant incoming-producing logistics-distribution property. The non-controlling interest in each partnership was determined using the purchase price paid for the Trust's percentage share interest of the respective partnership.

Income-producing properties located in Europe

On October 16, 2013, the Trust acquired six single-tenant logistics-distribution income-producing properties, four located in Germany and two located in The Netherlands. The Trust also acquired a single-tenant logistics-distribution income-producing property located in The Netherlands on November 1, 2013, and acquired a single-tenant logistics-distribution facility located in Germany on November 27, 2013.

The following table summarizes the consideration paid for the acquisitions, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date:

	U.S. Properties	European Properties	Total
Purchase consideration:			
Cash sourced from the revolving credit facility (note 9) or issuance of 2018 Debentures (note 6(a))	$ 44,076	$188,737	**$232,813**
Cash on hand	925	—	**925**
Contingent consideration	688	—	**688**
Total consideration paid	$ 45,689	$188,737	**$234,426**
Recognized amounts of identifiable assets acquired and liabilities assumed measured at their respective fair values:			
Investment properties	$ 83,450	$185,704	**$269,154**
Working capital	777	(1,155)	**(378)**
Restricted cash[(1)]	—	4,188	**4,188**
Mortgages payable	(36,437)	—	**(36,437)**
Identifiable net assets	47,790	188,737	**236,527**
Non-controlling interests	(2,101)	—	**(2,101)**
Total	$ 45,689	$188,737	**$234,426**

(1) Restricted cash represents funds held in escrow with respect to property improvements to be undertaken by a tenant at one of the properties located in The Netherlands. These funds will be disbursed to the tenant as completion of the improvements occurs.

During the year ended December 31, 2013, the Trust recognized $9.0 million of revenue and $7.1 million of net income, related to the acquisitions considered to be business combinations. Had these acquisitions occurred on January 1, 2013, the Trust would have recognized approximately $24.2 million (pro-forma/unaudited) of revenue and $14.7 million (pro-forma/unaudited) of net income during the year ended December 31, 2013.

(ii) Asset purchases — Development lands

On April 15, 2013, the Trust, through a 90% owned subsidiary, DGI Berks, LP, acquired development land in the United States. The Trust, through a 90% owned subsidiary, DGI Shepherdsville, LLC, also acquired development land in the United States on May 8, 2013. The aggregate purchase price for these development lands was $17.0 million, which included contingent consideration of $2.8 million.

(iii) Transaction costs and contingent consideration

For the year ended December 31, 2013, the Trust incurred transaction costs of $14.2 million related to the above-mentioned acquisitions considered to be business combinations which include $10.2 million related to land transfer tax for the European acquisitions. These amounts are included in acquisition transaction costs in the combined statements of income.

The contingent consideration recognized in connection with the aforementioned transactions was estimated to be $4.3 million at December 31, 2014 and is expected to be settled in 2018 (note 8).

4. INVESTMENT PROPERTIES

As at December 31,	**2014**	2013
Income-Producing Properties	**$2,275,220**	$2,325,583
Properties and Land Under Development	**31,349**	18,108
Land Held For Development	**3,809**	8,206
	$2,310,378	$2,351,897

Changes in investment properties are shown in the following table:

As at December 31,	**2014**			2013		
	Income-Producing Properties	**Properties and Land Under Development**	**Land Held For Development**	Income-Producing Properties	Properties and Land Under Development	Land Held For Development
Balance, beginning of year	**$2,325,583**	**$ 18,108**	**$ 8,206**	$1,941,936	$ 1,761	$ —
Additions						
— Capital expenditures	**15,809**	**27,626**	**816**	13,152	14,584	278
— Acquisitions	**75,864**	**—**	**3,831**	269,154	7,461	9,508
— Land under development	**—**	**9,034**	**(9,034)**	—	—	—
— Completed projects	**24,762**	**(24,762)**	**—**	6,364	(6,364)	—
— Tenant allowances	**44,492**	**—**	**—**	—	—	—
Fair value losses, net	**(51,624)**	**—**	**—**	(23,297)	—	(1,927)
Foreign currency translation, net	**(4,662)**	**1,343**	**(10)**	135,428	666	347
Disposals	**(151,251)**	**—**	**—**	(17,447)	—	—
Other changes	**(3,753)**	**—**	**—**	293	—	—
Balance, end of year	**$2,275,220**	**$ 31,349**	**$ 3,809**	$2,325,583	$18,108	$ 8,206

On June 26, 2014, Granite completed the disposition of its portfolio of Mexican properties to a subsidiary of Magna for gross proceeds of $113.7 million (U.S. $105.0 million) and incurred a $5.1 million loss on disposal due to certain closing adjustments and associated selling costs. The Trust has presented the results of the Mexican portfolio as discontinued operations in the combined financial statements (note 15). In addition, during the year ended December 31, 2014, the Trust disposed of a further four income-producing properties located in the United States and Germany for aggregate gross proceeds of $37.6 million and incurred a combined loss on disposal of $0.3 million due to the associated selling costs. The Trust also disposed of one parcel of excess land at an income-producing property in Europe and recorded a gain on disposal of $1.7 million which represents the gross proceeds net of nominal selling costs.

During the year ended December 31, 2013, the Trust disposed of four income-producing properties located in North America and Europe, for aggregate gross proceeds of $17.4 million and incurred a $0.6 million loss on disposal due to the associated selling costs.

The fair value losses during the years ended December 31, 2014 and 2013, excluding properties sold in the relevant year, were $55.0 million and $28.5 million, respectively.

The Trust determines the fair value of each income-producing property based upon, among other things, rental income from current leases and assumptions about rental income from future leases reflecting market conditions and lease renewal at the applicable balance sheet dates, less future cash outflows in respect of such leases. Fair values are primarily determined by discounting the expected future cash flows, generally over a term of 10 years including a terminal value based on the application of a capitalization rate to estimated year 11 cash flows. The fair values of properties and land under development are measured using a discounted cash flow model, net of costs to complete, as of the balance sheet date unless fair value cannot be determined, in which case, they are valued at cost. The Trust measures its investment properties using valuations prepared by management. The Trust does not measure its investment properties based on valuations prepared by external appraisers but uses such appraisals as data points, together with other external market information accumulated by management, in arriving at its own conclusions on values.

The Trust's internal valuation team consists of individuals knowledgeable and experienced in the fair value techniques for investment properties. On a quarterly basis, the fair values of the investment properties are updated by the Trust's internal valuation team for current leasing and market assumptions, utilizing market capitalization rates as provided by independent real estate appraisal firms with representations and expertise in the various jurisdictions in which Granite's investment properties are located. The resulting changes in fair values are analyzed at each reporting date and the internal valuation team presents a report to senior management that explains the fair value movements. This report and the results of the updated valuations and processes are formally reviewed by and discussed with senior management quarterly. For all investment properties, the current use equates to the highest and best use.

Valuations are most sensitive to changes in discount rates and terminal capitalization rates. The table below summarizes the sensitivity of the fair value of investment 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	$2,234,473	$(75,905)	$2,247,231	$(63,147)
+25 basis points	2,271,915	(38,463)	2,277,987	(32,391)
Base rate	2,310,378	—	2,310,378	—
−25 basis points	2,349,859	39,481	2,344,891	34,513
−50 basis points	2,390,463	80,085	2,381,631	71,253

The key valuation metrics for investment properties are set out below:

As at December 31,	2014			2013		
	Maximum	**Minimum**	**Weighted average**	Maximum	Minimum	Weighted average
Canada						
Discount rate	**8.50%**	**6.50%**	**7.75%**	8.50%	6.50%	7.76%
Terminal cap rate	**8.50%**	**5.75%**	**7.25%**	8.50%	5.75%	7.26%
United States						
Discount rate	**14.00%**	**6.72%**	**8.80%**	14.00%	7.30%	9.35%
Terminal cap rate	**13.00%**	**5.64%**	**8.64%**	13.00%	7.25%	9.24%
Mexico						
Discount rate	**—**	**—**	**—**	13.25%	11.75%	12.91%
Terminal cap rate	**—**	**—**	**—**	13.75%	11.25%	12.95%
Germany						
Discount rate	**9.50%**	**6.20%**	**8.26%**	9.25%	6.20%	8.15%
Terminal cap rate	**9.50%**	**7.50%**	**8.25%**	9.25%	7.50%	8.37%
Austria						
Discount rate	**9.00%**	**8.25%**	**8.48%**	8.75%	8.25%	8.38%
Terminal cap rate	**9.50%**	**8.75%**	**8.97%**	9.25%	8.75%	8.87%
Netherlands						
Discount rate	**9.21%**	**6.84%**	**8.39%**	9.21%	6.84%	8.39%
Terminal cap rate	**7.50%**	**7.50%**	**7.50%**	7.50%	7.50%	7.50%
Other						
Discount rate	**10.60%**	**8.50%**	**9.72%**	11.00%	9.25%	9.97%
Terminal cap rate	**10.50%**	**8.25%**	**9.97%**	10.50%	8.50%	10.19%

Included in investment properties is $11.4 million (December 31, 2013 — $11.2 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 22).

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

Not later than 1 year	$ 205,624
Later than 1 year and not later than 5 years	629,150
Later than 5 years	316,536
	$1,151,310

5. OTHER ASSETS

Other assets consist of:

As at December 31,	2014	2013
Deferred financing costs	**$ 524**	$ 433
Long-term receivables	**533**	525
Interest rate caps (note 7)	**362**	678
Deposits	**460**	322
	$1,879	$1,958

6. UNSECURED DEBENTURES, NET

Unsecured debentures, net, consist of:

As at December 31,	Maturity Date	2014 Amortized Cost	2014 Principal issued and outstanding	2013 Amortized Cost	2013 Principal issued and outstanding
4.613% Debentures	October 2, 2018	**$198,515**	**$200,000**	$198,129	$200,000
3.788% Debentures	July 5, 2021	**248,534**	**250,000**	—	—
6.05% Debentures	December 22, 2016	**—**	**—**	263,941	265,000
		$447,049	**$450,000**	$462,070	$465,000

(a) 4.613% Debentures

On October 2, 2013, Granite REIT Holdings Limited Partnership (''Granite LP''), a wholly owned subsidiary of Granite, issued at par the 4.613% Series 1 senior debentures (the ''2018 Debentures''). The 2018 Debentures rank equally with all of the Trust's existing and future unsubordinated and unsecured indebtedness and are guaranteed by Granite REIT and Granite GP. The proceeds from the 2018 Debentures together with the corresponding cross currency interest rate swap, were used to finance the European acquisitions made in 2013.

The 2018 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 2018 Debentures to be redeemed; and (b) the Canada Yield Price. The Canada Yield Price means, in respect of a 2018 Debenture, a price equal to which, if the 2018 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 67.5 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 October 2, 2018.

Interest on the 2018 Debentures is payable semi-annually in arrears on April 2 and October 2 of each year. The unamortized portion of the $2.0 million of expenses incurred in connection with the issuance of the 2018 Debentures is presented as a reduction of the carrying amount of the 2018 Debentures.

(b) 3.788% Debentures

On July 3, 2014, Granite LP issued at par $250.0 million of 3.788% Series 2 senior debentures due July 5, 2021 (the ''2021 Debentures''). The 2021 Debentures rank equally with all of the Trust's existing and future unsubordinated and unsecured indebtedness and are guaranteed by Granite REIT and Granite GP. The proceeds from the 2021 Debentures, together with other available funds, were used to redeem the 6.05% debentures (the ''2016 Debentures'').

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.

Interest on the 2021 Debentures is payable semi-annually in arrears on January 5 and July 5 of each year. The unamortized portion of the $1.6 million of expenses incurred in connection with the issuance of the 2021 Debentures is presented as a reduction of the carrying amount of the 2021 Debentures.

(c) 6.05% Debentures

On December 22, 2004, Granite Co. issued the 2016 Debentures at a price of $995.70 per $1,000.00 of principal amount. The unamortized portion of the $3.1 million of expenses incurred in connection with the issuance of the 2016 Debentures was presented as a reduction of the carrying amount of the 2016 Debentures.

On August 5, 2014, Granite LP redeemed all of the outstanding 2016 Debentures for an aggregate redemption price of $294.7 million, being the higher of the principal amount, and the Canada Yield Price calculated in accordance with the trust indenture governing the 2016 Debentures, together in each case with accrued and unpaid interest to August 5, 2014 of $2.0 million. For the year ended December 31, 2014, the Trust recorded costs on the early redemption of the 2016 Debentures of $28.6 million which included a redemption premium of $27.7 million and $0.9 million of accelerated amortization of issuance costs and discount accretion related to the 2016 Debentures.

(d) Cross currency interest rate swaps

As at December 31,	**2014**	2013
Financial liability		
2018 Cross Currency Interest Rate Swap — fair value	**$3,829**	$11,003
Financial asset		
2021 Cross Currency Interest Rate Swap — fair value	**$ 481**	$ —

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

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

The cross currency interest rate swaps are designated as net investment hedges of the Trust's investment in foreign operations. The effectiveness of the hedges are assessed quarterly. For the year ended December 31, 2014, the Trust has assessed that the hedges continued to be effective. As an effective hedge, the unrealized gains or losses on the cross currency interest rate swaps that are related to fair value 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 statement of income.

7. SECURED LONG-TERM DEBT

Secured long-term debt consists of:

As at December 31,			**2014**		2013	
	Maturity Date	**Interest Rate**	**U.S. $ Outstanding(1)**	**Cdn $ Outstanding(1)**	U.S. $ Outstanding(1)	Cdn $ Outstanding(1)
Mortgage payable	June 10, 2017	LIBOR + 2.50%	**$23,753**	**$27,556**	$23,713	$25,221
Mortgage payable	May 10, 2018	LIBOR + 2.50%	**12,351**	**14,328**	12,541	13,338
2016 Construction Loan	July 25, 2016	LIBOR + 2.25%	**13,322**	**15,455**	3,099	3,297
2017 Construction Loan	June 20, 2017	LIBOR + 2.25%	**7,534**	**8,740**	—	—
			$56,960	**$66,079**	$39,353	$41,856
Less: due within one year			**717**	**832**	—	—
			$56,243	**$65,247**	$39,353	$41,856

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

(a) Mortgages payable

The Trust has two mortgages payable totaling $42.0 million (U.S. $36.2 million) relating to two business acquisitions completed on February 13 and May 10, 2013 (note 3(b)(i)). As a condition of the mortgage agreements, the Trust was required to hedge its interest rate exposure. Accordingly, it purchased interest rate caps for 100% of the mortgage amounts and for the duration of the mortgages thereby limiting its exposure to interest rate fluctuations to a maximum of 4%. The mortgages payable balance is net of deferred financing costs of $0.2 million. Principal mortgage repayments are as follows:

2015	$ 894
2016	1,002
2017	26,836
2018	13,319
	$42,051

The mortgages are recourse only to specific properties. Properties securing the mortgages have a fair value of $73.4 million at December 31, 2014 and are pledged as collateral.

(b) 2016 Construction Loan

On July 25, 2013, Granite entered into a construction loan (the ''2016 Construction Loan'') for U.S. $17.0 million relating to a development project in the United States. Proceeds from the 2016 Construction Loan may only be used to pay for the construction cost of improvements on the property and other related costs, and loan advances are made based on the value of the work completed. The maximum amount available under the 2016 Construction Loan may be increased to U.S. $19.0 million, subject to certain terms and conditions being met. Granite also has the option to extend the maturity date for two successive periods to July 25, 2017 and 2018, subject to certain terms and conditions. The 2016 Construction Loan is secured by a first mortgage lien on the property which had a fair value of $26.9 million at December 31, 2014. The development was completed in 2014.

(c) 2017 Construction Loan

On June 20, 2014, Granite entered into a construction loan (the ''2017 Construction Loan'') for U.S. $26.2 million relating to land that was previously held for development in the United States (note 3(b)(ii)). Proceeds from the 2017 Construction Loan may only be used to pay for the construction cost of improvements on the property and other related costs, and loan advances are made based on the value of the work completed. Granite also has the option to extend the maturity date for two successive periods to June 20, 2018 and 2019, subject to certain terms and conditions. The 2017 Construction Loan is secured by a first mortgage lien on the property which had a fair value of $31.3 million at December 31, 2014.

8. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities consist of:

As at December 31,	**2014**	2013
Contingent consideration	**$ 4,272**	$ 3,777
Tenant allowance payable	**6,537**	—
	$10,809	$ 3,777

Contingent consideration was recognized in connection with acquisitions completed in 2013 and is expected to be settled during 2018. The fair value of the contingent consideration was estimated using an income approach and is dependent upon achieving certain predetermined returns over a five year period. This estimate is dependent upon a number of assumptions which are subject to change over the period to the date of payment.

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

9. BANK INDEBTEDNESS

Effective December 11, 2014, Granite LP entered into an amended and restated agreement for an unsecured senior revolving credit facility in the amount of $250.0 million that is available by way of Canadian dollar, U.S. dollar or euro denominated loans or letters of credit (the ‘‘Credit Facility’’) and matures on February 1, 2018 with the option to extend the maturity date by one year to February 1, 2019, subject to the agreement of lenders in respect of a minimum of 66⅔% of the aggregate amount committed under the Credit Facility. The Credit Facility provides Granite LP with the ability to increase the amount of the commitment by an additional aggregate principal amount of up to $50.0 million with the consent of the participating lenders. The Credit Facility is guaranteed by Granite REIT and Granite GP. Interest on drawn amounts is calculated based on an applicable margin determined by the Trust’s external credit rating. Based on the current credit rating, Granite LP would be subject to interest at a rate per annum equal to the base rate (i.e. LIBOR, Canadian prime business rate or eurocurrency rate) depending on the currency Granite LP borrows in plus an applicable margin of up to 1.45%. At December 31, 2014, Granite LP had $62.6 million (U.S. $54.0 million) drawn under the Credit Facility and $1.2 million in letters of credit issued against the Credit Facility.

The Credit Facility replaced an unsecured senior revolving credit facility in the amount of $175.0 million that was available by way of Canadian dollar, U.S. dollar or euro denominated loans or letters of credit that would have matured on February 1, 2015. Interest on drawn amounts was calculated based on an applicable margin determined by the Trust’s external credit rating. During 2014, the Trust was subject to interest at a rate per annum equal to the base rate (i.e. LIBOR, Canadian prime business rate or eurocurrency rate) depending on the currency the Trust borrowed in plus an applicable margin of up to 1.63%. At December 31, 2013, the Trust had $53.2 million (U.S. $50.0 million) drawn and $1.2 million in letters of credit issued against the revolving credit facility.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of:

As at December 31,	**2014**	2013
Accounts payable	**$ 4,608**	$ 5,828
Accrued salaries and wages	**5,197**	4,771
Accrued interest payable	**7,129**	2,708
Accrued construction payable	**7,652**	7,141
Accrued acquisition costs	**—**	1,733
Accrued employee unit-based compensation	**3,096**	1,751
Accrued trustee/director unit-based compensation	**4,632**	3,291
Other accrued liabilities	**4,335**	5,955
	$36,649	$33,178

11. INCOME TAXES

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

Years ended December 31,	2014	2013
Current income tax:		
Current taxes	**$3,662**	$ 4,034
Withholding taxes and other	**592**	4,490
	4,254	8,524
Deferred income tax:		
Origination and reversal of temporary differences	**4,559**	5,627
Impact of changes in tax rates	**68**	(87)
Reversal of withholding taxes on profits of subsidiaries	**(592)**	(4,430)
Reversal of deferred tax liability upon REIT conversion and related reorganizations	**—**	(41,950)
Other	**203**	(823)
	4,238	(41,663)
Income tax expense (recovery)	**$8,492**	$(33,139)

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

Years ended December 31,	2014	2013
Income before income taxes	**$ 72,152**	$110,305
Expected income taxes at the Canadian statutory tax rate of 26.5% (2013 — 26.5%)	**$ 19,120**	$ 29,231
Income distributed and taxable to unitholders	**(11,178)**	(23,735)
Reversal of deferred tax liability upon REIT conversion and related reorganizations	**—**	(41,950)
Net foreign rate differentials	**651**	2,379
Net change in provisions for uncertain tax positions	**(1,265)**	(224)
Net permanent differences	**813**	(160)
Net effect of change in tax rates	**68**	(87)
Withholding taxes and other items	**283**	1,407
Income tax expense (recovery)	**$ 8,492**	$ (33,139)

(c) Deferred tax assets and liabilities consist of temporary differences related to the following:

As at December 31,	2014	2013
Deferred tax assets:		
Investment properties	**$ 1,494**	$ 2,447
Eligible capital expenditures	**3,263**	3,509
Other	**2,449**	2,217
Total deferred tax assets	**7,206**	8,173
Deferred tax liabilities:		
Investment properties	**155,582**	165,362
Withholding tax on undistributed subsidiary profits	**834**	1,014
Other	**(708)**	246
Total deferred tax liabilities	**155,708**	166,622
Net deferred tax liabilities	**$148,502**	$158,449

(d) Changes in the net deferred tax liabilities consist of the following:

Years ended December 31,	2014	2013
Balance, beginning of year	**$158,449**	$185,215
Deferred tax recovery recognized in net income	**(9,648)**	(41,825)
Foreign currency translation of deferred tax balances	**(299)**	15,059
	$148,502	$158,449

(e) Net cash payments of income taxes amounted to $4.4 million (2013 — $12.4 million) for the year ended December 31, 2014 which included $0.6 million of withholding taxes (2013 — $4.2 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 taxes 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 valuation allowance 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, 2014, the Trust had $13.9 million (2013 — $14.2 million) of unrecognized income tax benefits, (including $0.2 million (2013 — $0.3 million) of related accrued interest and penalties), all of which could ultimately reduce the Trust's effective tax rate. The Trust is currently under audit in Canada for the 2008 and 2011 taxation years, the United States for the 2011 taxation year and Germany for the 2008 through 2011 taxation years. The Trust believes that it has adequately provided for reasonably foreseeable outcomes related to the tax examinations and that any resolution will not have a material adverse effect on the combined financial position or results of operations. 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,	2014	2013
Unrecognized tax benefits balance, beginning of year	**$14,165**	$12,263
Decreases for tax positions of prior years	**(3,369)**	(510)
Increases for tax positions of current year	**3,398**	1,749
Foreign currency impact	**(312)**	663
Unrecognized tax benefits balance, end of year	**$13,882**	$14,165

It is reasonably possible that the gross unrecognized tax benefits, as of December 31, 2014, could decrease in the next 12 months by an estimated range of a nominal amount to $5.5 million (2013 — nominal amount to $5.5 million) relating primarily to tax years becoming statute barred for purposes of future tax examinations by local taxing authorities and the outcome of current tax examinations.

As at December 31, 2014, the following tax years remained subject to examination by the major tax jurisdictions:

Major Jurisdictions	
Canada	2008 through 2014
United States	2011 through 2014
Mexico	2009 through 2014
Austria	2009 through 2014
Germany	2008 through 2014
Netherlands	2013 through 2014

As at December 31, 2014, the Trust had approximately $475.0 million of Canadian capital loss carryforwards that do not expire, approximately U.S. $540.0 million of Foreign Investment in Real Property Tax Act losses that will expire in 2015 and 2017, and other losses and deductible temporary differences in various tax jurisdictions of approximately $18.9 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, 2014.

12. STAPLED UNITHOLDERS' EQUITY

(a) Stapled Units

In accordance with the Arrangement (note 1), effective January 3, 2013, all 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 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 (the ''Option Plan'') allows for the grant of stock options or appreciation rights to directors, officers, employees and consultants. Options expire on the 10th anniversary of the date of grant, subject to earlier cancellation from events specified in each recipient's option agreement. No options have been granted since August 2010.

A reconciliation of the changes in the options outstanding is presented below:

	2014		2013	
	Number (000s)	**Weighted Average Exercise Price**	Number (000s)	Weighted Average Exercise Price
Options outstanding, January 1	**100**	**$33.92**	205	$32.01
Exercised	**(50)**	**35.62**	(105)	30.20
Options outstanding and exercisable, December 31	**50**[1]	**$32.21**	100[2]	$33.92

[1] Outstanding and exercisable options were issued in 2007

[2] Outstanding and exercisable options included 50,000 options issued in each of 2004 and 2007.

Director/Trustee Deferred Share Unit Plan

Effective November 3, 2003, Granite Co. established a Non-Employee Director Share-Based Compensation Plan (the ''DSP''), which provides for a deferral of up to 100% of each outside director's total annual remuneration, at specified levels elected by each director, until such director ceases to be a director. In connection with the Arrangement, effective January 3, 2013, the DSP was amended to entitle the holder to receive a payment based on the fair market value of a preferred share of Granite Co. that is equal in value to a stapled unit of the Trust. In addition, effective January 3, 2013, a new deferred share unit plan (the ''new DSP'') was established by Granite GP whereby each non-employee director/trustee is entitled to receive a portion of their annual retainer (and to elect to receive up to 100% of their annual remuneration) as deferred share units, which entitles them to receive a payment based on the fair market value of a preferred share of Granite Co. that is equal in value to a stapled unit.

The amounts deferred under the DSP and new DSP plans 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 the Granite Co. preferred shares. The value of a DSU thus appreciates or depreciates with changes in the market price of the stapled units. The DSP and new DSP also provide for the accrual of notional distribution equivalents on any distributions paid on the stapled units. Under the DSP and new DSP, 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 DSP and new DSP for directors or trustees to receive stapled units in exchange for DSUs.

A reconciliation of the changes in the DSUs outstanding is presented below:

	2014		2013	
	Number (000s)	**Weighted Average Grant Date Fair Value**	Number (000s)	Weighted Average Grant Date Fair Value
DSUs outstanding, January 1	**87**	**$32.92**	61	$30.95
Granted	**23**	**40.06**	26	37.62
DSUs outstanding, December 31	**110**	**$34.45**	87	$32.92

Executive Deferred Stapled Unit Plan

Effective August 7, 2011, Granite Co. established an Executive Share Unit Plan which was amended, effective January 3, 2013, as a result of the Arrangement to conform to the REIT structure (the ''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 Committee and is not at the option of the Participant. Vesting conditions in respect of a grant are determined by the Compensation 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 is presented below:

	2014		2013	
	Number (000s)	**Weighted Average Grant Date Fair Value**	Number (000s)	Weighted Average Grant Date Fair Value
Stapled units outstanding, January 1	**62**	**$37.42**	38	$35.63
Granted	**57**	**39.07**	31	39.03
Settled	**(22)**	**38.39**	(7)	35.41
Stapled units outstanding, December 31	**97**	**$38.19**	62	$37.42

At December 31, 2014, unrecognized compensation cost related to the Stapled Unit Plan was $1.1 million, which will be amortized over the weighted average remaining requisite service period of less than one year.

During the year ended December 31, 2014, the Trust recognized unit-based compensation expense of $3.7 million (2013 — $2.1 million), which included a $1.3 million expense (2013 — $1.0 million) pertaining to the DSP plans and a $2.4 million expense (2013 — $1.1 million) pertaining to the Stapled Unit Plan.

(c) Accumulated Other Comprehensive Income

Accumulated other comprehensive income consists of the following:

As at December 31,	**2014**	2013
Foreign currency translation gains on investments in subsidiaries, net of related hedging activities and non-controlling interests	**$91,747**	$108,551
Losses on derivatives designated as net investment hedges	**(5,290)**	(11,490)
	$86,457	$ 97,061

13. DISTRIBUTIONS TO STAPLED UNITHOLDERS

Total distributions declared to stapled unitholders in the year ended December 31, 2014 were $103.6 million (2013 — $98.9 million) or $2.21 per stapled unit (2013 — $2.11 per stapled unit). Distributions payable at December 31, 2014 of $9.0 million, representing the December 2014 distribution, were paid on January 15, 2015. Subsequent to December 31, 2014, distributions of 19.2 cents per stapled unit were declared on January 16 and February 17, 2015. The distribution declared in January 2015 in the amount of $9.0 million was paid on February 17, 2015 and the distribution declared in February 2015 will be paid on March 16, 2015.

14. COSTS AND EXPENSES (INCOME)

(a) Property operating costs consist of:

Years ended December 31,	**2014**	2013
Non-recoverable from tenants:		
Property taxes and utilities	**$1,140**	$1,158
Legal	**1,106**	1,161
Environmental and appraisals	**563**	772
Repairs and maintenance	**515**	592
Other	**1,180**	715
	4,504	4,398
Recoverable from tenants:		
Property taxes and utilities	**1,204**	692
Repairs and maintenance	**384**	182
Other	**784**	273
	2,372	1,147
Property operating costs	**$6,876**	$5,545

(b) General and administrative expenses consist of:

Years ended December 31,	**2014**	2013
Salaries and benefits	**$14,647**	$12,948
Audit, legal and consulting	**4,173**	3,927
REIT conversion and reorganization related costs	**—**	2,479
Trustee/director fees and related expenses	**988**	962
Unit-based compensation for employees and trustees/directors	**3,698**	2,105
Other	**4,555**	4,644
	$28,061	$27,065

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

Years ended December 31,	**2014**	2013
Interest, accretion and costs on debentures	**$20,921**	$18,250
Interest on mortgages payable and construction loan	**1,546**	877
Amortization of deferred financing costs	**447**	589
Other interest and accretion charges	**1,572**	1,307
	24,486	21,023
Capitalized interest	**(99)**	(119)
Interest income	**(420)**	(318)
	$23,967	$20,586

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

Years ended December 31,	**2014**	2013
Foreign exchange forward contracts, net	**$(537)**	$ —
Interest rate caps	**360**	(72)
	$(177)	$(72)

(e) Gain on Meadows holdback

In the first quarter of 2013, the Trust entered into a settlement agreement pursuant to which the Trust received U.S. $5.0 million relating to a holdback receivable of a former subsidiary's sale of a property in 2006. The settlement proceeds comprised a cash payment of U.S. $1.5 million and a non-interest bearing promissory note of U.S. $3.5 million payable in U.S. $0.5 million monthly instalments which commenced March 31, 2013 and concluded with the final instalment received in October 2013.

15. DISCONTINUED OPERATIONS

During the second quarter of 2014, Granite disposed of its portfolio of Mexican properties. As the Mexican properties represented a significant geographical area of operations, the Trust has retroactively presented the Mexican portfolio as discontinued operations in the combined financial statements.

Granite's results of operations from discontinued operations are as follows:

Years ended December 31,	**Note**	**2014**	2013
Rental revenue		**$ 7,079**	$13,347
Operating costs and expenses		**90**	335
Fair value losses on investment properties, net		**4**	9,042
Income before income taxes		**6,985**	3,970
Income tax expense		**(1,702)**	(1,804)
Income from discontinued operations before net gain on sale of disposed properties		**5,283**	2,166
Loss on sale of investment properties[(1)]	**4**	**(5,071)**	(344)
Reclassification of cumulative foreign currency translation amounts relating to foreign operation disposed of in the year		**5,722**	—
Income tax recovery		**823**	—
Net gain (loss) on sale of disposed properties		**1,474**	(344)
Net income from discontinued operations		**$ 6,757**	$ 1,822

(1) Loss on sale of investment properties for 2014 included closing adjustments and associated selling costs and for 2013 included associated selling costs.

During the year ended December 31, 2014, Granite paid $5.1 million of current income tax installments associated with the sale of the portfolio of Mexican properties.

16. 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 chief executive officer. The following tables present certain information with respect to geographic segmentation:

Revenues

Years ended December 31,	**2014**	2013
Canada	**$ 64,253**	$ 62,762
United States	**43,981**	39,865
Austria	**59,484**	60,782
Germany	**25,930**	20,535
Netherlands	**9,587**	1,762
Other Europe	**4,175**	4,194
	$207,410	$189,900

For the year ended December 31, 2014, revenues from Magna were approximately 83% (2013 — 92%) of the Trust's total revenues.

Investment properties

As at December 31,	2014	2013
Canada	**$ 678,500**	$ 701,130
United States	**581,335**	451,431
Mexico	**—**	111,678
Austria	**677,101**	674,610
Germany	**242,540**	276,228
Netherlands	**97,248**	101,522
Other Europe	**33,654**	35,298
	$2,310,378	$2,351,897

17. DETAILS OF CASH FROM OPERATING ACTIVITIES FROM CONTINUING OPERATIONS

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

Years ended December 31,	2014	2013
Straight-line rent adjustment	**$ 4,567**	$ 1,200
Unit-based compensation expense	**3,698**	2,105
Fair value losses on investment properties	**51,620**	16,182
Depreciation and amortization	**621**	454
Fair value gains on financial instruments	**(177)**	(72)
Gain on settlement of Meadows note	**—**	(5,143)
Loss (gain) on sale of investment properties	**(1,416)**	778
Amortization of issuance costs and discount accretion of debentures	**1,655**	494
Amortization of deferred financing costs	**447**	589
Foreign exchange on note receivable	**—**	(115)
Deferred income taxes	**4,238**	(41,663)
Other	**(750)**	(436)
	$64,503	$(25,627)

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

Years ended December 31,	2014	2013
Accounts receivable	**$ 136**	$ 1,231
Prepaid expenses and other	**67**	(247)
Accounts payable and accrued liabilities	**(6,401)**	169
Deferred revenue	**42**	(1,120)
Restricted cash	**—**	522
	$(6,156)	$ 555

(c) Non-cash financing activities

During the year ended December 31, 2014, 22 thousand stapled units (2013 — 7 thousand stapled units) with a value of $0.9 million (2013 — $0.3 million) were issued under the Stapled Unit Plan.

18. FAIR VALUE AND RISK MANAGEMENT

(a) Fair Value of Financial Instruments

The following table provides the classification and measurement of financial assets and liabilities as at December 31, 2014:

	Fair value through profit or loss	Loans and receivables/ other financial liabilities		Total	Total
Measurement basis	(Fair value)	(Amortized cost)	(Fair value)	(Carrying Value)	(Fair Value)
Financial assets					
Other assets	$362[1]	$ 533[2]	$ 533	$ 895	$ 895
Cross currency interest rate swap	481	—	—	481	481
Accounts receivable	—	2,247	2,247	2,247	2,247
Prepaid expenses and other	586[3]	—	—	586	586
Restricted cash	—	4,782	4,782	4,782	4,782
Cash and cash equivalents	—	116,233	116,233	116,233	116,233
	$1,429	**$123,795**	**$123,795**	**$125,224**	**$125,224**
Financial liabilities					
Unsecured debentures, net	$—	$447,049	$468,700	$447,049	$468,700
Cross currency interest rate swap	3,829	—	—	3,829	3,829
Secured long-term debt	—	66,079	66,079	66,079	66,079
Other non-current liabilities	—	10,809	10,809	10,809	10,809
Bank indebtedness	—	62,645	62,645	62,645	62,645
Accounts payable and accrued liabilities	49[4]	36,600	36,600	36,649	36,649
Distributions payable	—	9,027	9,027	9,027	9,027
	$3,878	**$632,209**	**$653,860**	**$636,087**	**$657,738**

(1) Interest rate caps included in other assets.

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

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

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

The following table provides the classification and measurement of financial assets and liabilities as at December 31, 2013:

	Fair value through profit or loss	Loans and receivables/ other financial liabilities		Total	Total
Measurement basis	(Fair value)	(Amortized cost)	(Fair value)	(Carrying Value)	(Fair Value)
Financial assets					
Other assets	$ 678[5]	$ 525[6]	$ 525	$ 1,203	$ 1,203
Accounts receivable	—	2,491	2,491	2,491	2,491
Restricted cash	—	4,360	4,360	4,360	4,360
Cash and cash equivalents	—	95,520	95,520	95,520	95,520
	$ 678	**$102,896**	**$102,896**	**$103,574**	**$103,574**
Financial liabilities					
Unsecured debentures, net	$ —	$462,070	$485,558	$462,070	$485,558
Cross currency interest rate swap	11,003	—	—	11,003	11,003
Secured long-term debt	—	41,856	41,856	41,856	41,856
Other non-current liabilities	—	3,777	3,777	3,777	3,777
Bank indebtedness	—	53,180	53,180	53,180	53,180
Accounts payable and accrued liabilities	—	33,178	33,178	33,178	33,178
Distributions payable	—	8,591	8,591	8,591	8,591
	$11,003	**$602,652**	**$626,140**	**$613,655**	**$637,143**

(5) Interest rate caps included in other assets.

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

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

The Trust periodically purchases foreign exchange forward contracts to hedge specific anticipated foreign currency transactions and mitigate its foreign exchange exposure on its net cash flows. At December 31, 2014, the Trust held six foreign exchange forward contracts (December 31, 2013 — no contracts outstanding). The foreign exchange contracts are comprised of five contracts to purchase $24.5 million and sell euro 17.0 million and one contract to purchase $2.3 million and sell U.S. $2.0 million. For the year ended December 31, 2014, the Trust recorded a net fair value gain of $0.5 million (2013 — no fair value gains or losses) on these outstanding foreign exchange forward contracts.

As disclosed in note 7, the Trust entered into two interest rate caps to hedge the interest rate risk associated with the mortgages payable. The interest rate caps have not been designated and the Trust is not employing hedge accounting for these instruments. The fair value of the interest rate caps at December 31, 2014 was $0.4 million (2013 — $0.7 million). For the year ended December 31, 2014, the Trust recorded a net fair value loss of $0.4 million (2013 — net fair value gain of $0.1 million) on these interest rate caps.

(b) Fair Value Hierarchy

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

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

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

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

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

As at December 31, 2014	Level 1	Level 2	Level 3
ASSETS AND LIABILITIES MEASURED OR DISCLOSED AT FAIR VALUE			
Assets measured at fair value			
Investment properties	$ —	$ —	$2,310,378
Cross currency interest rate swap	—	481	—
Interest rate caps included in other assets	—	362	—
Foreign exchange forward contracts included in prepaid expenses and other	—	586	—
Liabilities measured or disclosed at fair value			
Unsecured debentures, net	468,700	—	—
Cross currency interest rate swap	—	3,829	—
Other non-current liabilities	—	—	10,809
Secured long-term debt	—	66,079	—
Bank indebtedness	—	62,645	—
Foreign exchange forward contracts included in accounts payable and accrued liabilities	—	49	—
Net Assets (Liabilities) measured at fair value	$(468,700)	$(131,173)	$2,299,569

As at December 31, 2013	Level 1	Level 2	Level 3
ASSETS AND LIABILITIES MEASURED OR DISCLOSED AT FAIR VALUE			
Assets measured at fair value			
Investment properties	$ —	$ —	$2,351,897
Interest rate caps included in other assets	—	678	—
Liabilities measured or disclosed at fair value			
Unsecured debentures, net	485,558	—	—
Cross currency interest rate swap	—	11,003	—
Other non-current liabilities	—	—	3,777
Secured long-term debt	—	41,856	—
Bank indebtedness	—	53,180	—
Net Assets (Liabilities) measured at fair value	$(485,558)	$(105,361)	$2,348,120

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, 2014 and 2013, there were no transfers between the levels.

Refer to note 4, Investment Properties, 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 in Level 3. Refer to note 8, Other Non-current Liabilities, for a description of the valuation techniques used in the fair value measurement of non-current liabilities in Level 3.

(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 commercial paper, which are invested in governments, financial institutions and corporations with a minimum credit rating of A– (based on Standard & Poor's (''S&P'') rating scale) or A3 (based on Moody's Investor Services' rating scale). Concentration of credit risk is further reduced by limiting the amount that is invested in any one government, financial institution or corporation.

Magna accounts for approximately 83% of the Trust's rental revenue. Although its operating subsidiaries are not individually rated, Magna International Inc. has an investment grade credit rating from 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, 2014, the Trust's exposure to interest rate risk is limited. Approximately 78% of the Trust's debt consists of fixed rate debt in the form of the 2018 Debentures and the 2021 Debentures. These debentures, after taking into account the related cross currency interest rate swaps, have effective fixed interest rates of 3.56% and 2.68% respectively. The mortgage debts account for 7% of the Trust's debt and the interest rates are capped at 4.0% as a result of the interest rate caps that were entered into. As a result, only 15% of the Trust's debt is exposed to variable interest rate risk.

(iii) Foreign exchange risk

As at December 31, 2014, the Trust is exposed to foreign exchange risk primarily in respect of movements in the euro and the U.S. dollar. The Trust is structured such that its foreign operations are primarily conducted by entities with a functional currency which is the same as the economic environment in which the operations take place. As a result, the net income impact of currency risk associated with financial instruments is limited as its financial assets and liabilities are generally denominated in the functional currency of the subsidiary that holds the financial instrument. However, the Trust is exposed to foreign currency risk on its net investment in its foreign currency denominated operations and certain Trust level foreign currency denominated assets and liabilities. At December 31, 2014, the Trust's foreign currency denominated net assets are $972.0 million primarily in U.S. dollars and euros. A 1% change in the U.S. dollar and euro exchange rates relative to the Canadian dollar will result in a gain or loss of approximately $1.3 million and $8.1 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, 2014, a 1% change in the U.S. dollar and euro exchange rates relative to the Canadian dollar would have impacted rental income and tenant recoveries by approximately $0.4 million and $1.0 million, respectively.

For the year ended December 31, 2014, the Trust designated its U.S. dollar borrowings of $54.0 million under the Credit Facility as a hedge of its net investment in the U.S. operations. In addition, the Trust has designated its cross currency interest rate swaps relating to the $450.0 million of unsecured debentures as hedges of its net investment in the European operations (note 6(d)).

(iv) Liquidity risk

Liquidity risk is the risk the Trust will encounter difficulties in meeting its financial obligations. The Trust will be subject to the risks associated with debt financing, including the risk that its Credit Facility, mortgages payable and construction loans will 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, stagger its debt maturity profile and maintain investment grade credit ratings. In addition, the Declaration of Trust establishes certain debt ratio limits.

The contractual maturities of the Trust's financial liabilities are summarized below:

(in thousands)		Payments due by year					
As at December 31, 2014	**Total**	**2015**	**2016**	**2017**	**2018**	**2019**	**Thereafter**
Unsecured debentures	**$450,000**	$ —	$ —	$ —	$200,000	$ —	$250,000
Cross currency interest rate swap	**3,829**	—	—	—	3,829	—	—
Secured long-term debt[1]	**66,634**	894	16,600	35,821	13,319	—	—
Bank indebtedness[1]	**62,645**	—	—	—	62,645	—	—
Interest expense[2]:							
Unsecured debentures, net of cross currency interest rate swap savings	**74,711**	13,786	13,757	13,757	13,757	6,552	13,102
Secured long-term debt	**4,108**	1,699	1,511	772	126	—	—
Bank indebtedness	**3,130**	1,015	1,015	1,015	85	—	—
Contingent consideration	**4,817**	—	—	—	4,817	—	—
Tenant allowance payable	**8,423**	—	—	—	8,423	—	—
Accounts payable and accrued liabilities	**36,649**	35,947	578	124	—	—	—
Distributions payable	**9,027**	9,027	—	—	—	—	—
	$723,973	$62,368	$33,461	$51,489	$307,001	$6,552	$263,102

(1) Contractual maturities do not reflect extension options available to the Trust.

(2) Represents aggregate interest expense expected to be paid over the term of the debt, on an undiscounted basis, based on current interest and foreign exchange rates.

19. CAPITAL MANAGEMENT

The Trust's capital structure comprises the total of the stapled unitholders' equity and consolidated debt. The total managed capital of the Trust is summarized below:

As at December 31,	**2014**	2013
Unsecured debentures, net	**$ 447,049**	$ 462,070
Cross currency interest rate swap — financial liability	**3,829**	11,003
Cross currency interest rate swap — financial asset	**(481)**	—
Secured long-term debt	**66,079**	41,856
Bank indebtedness	**62,645**	53,180
Total debt	**579,121**	568,109
Stapled unitholders' equity	**1,629,985**	1,671,227
Total managed capital	**$2,209,106**	$2,239,336

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 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 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 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 proposed investment, will not exceed 15% of Gross Book Value.

Currently, the Trust's consolidated debt consists of the Credit Facility, the 2018 Debentures, the 2021 Debentures, property specific mortgage financing and the Construction Loans and each of these components have various financial covenants. These covenants are defined within the relevant document and, depending on the debt instrument, include a total indebtedness ratio, a secured indebtedness ratio, interest coverage ratio, unencumbered asset ratio, maximum payout ratio and minimum equity amounts. The Trust monitors these provisions and covenants and was in compliance with their respective requirements at December 31, 2014.

Distributions are made at the discretion of the Board of Trustees (the ''Board''). However, Granite REIT intends to distribute each year all of its taxable income as calculated in accordance with the Income Tax Act. For the fiscal year 2014, the Trust provided to its unitholders a monthly distribution of $0.183 per stapled unit which was increased to $0.192 per stapled unit for December's distribution. The Board determined this distribution level having considered, among other factors, estimated 2014 and 2015 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.

20. RELATED PARTY TRANSACTIONS

Key management personnel include the Trustees/Directors, the Chief Executive Officer and the Chief Financial Officer. Information with respect to the Trustees/Directors fees is included in note 14(b). The compensation paid or payable to the Trust's key management personnel for services was as follows:

Years ended December 31,	**2014**	2013
Salaries, incentives and short-term benefits	**$2,435**	$2,404
Unit-based compensation	**1,031**	716
	$3,466	$3,120

21. 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, 2014			
	Granite REIT	Granite GP	Eliminations/ Adjustments	Granite REIT and Granite GP Combined
ASSETS				
Non-current assets:				
Investment properties	$2,310,378			$2,310,378
Investment in Granite LP	—	3	(3)	—
Other non-current assets	11,312			11,312
	2,321,690	3	(3)	2,321,690
Current assets:				
Other current assets	9,791	44		9,835
Intercompany receivable[(1)]	—	6,083	(6,083)	—
Cash and cash equivalents	116,160	73		116,233
Total assets	$2,447,641	6,203	(6,086)	$2,447,758
LIABILITIES AND STAPLED UNITHOLDERS' EQUITY				
Non-current liabilities:				
Unsecured debentures, net	$ 447,049			$ 447,049
Other non-current liabilities	235,593			235,593
	682,642			682,642
Current liabilities:				
Bank indebtedness	62,645			62,645
Intercompany payable	6,083		(6,083)	—
Other current liabilities	60,028	6,200		66,228
Total liabilities	811,398	6,200	(6,083)	811,515
Equity:				
Stapled unitholders' equity	1,629,982	3		1,629,985
Non-controlling interests	6,261		(3)	6,258
Total liabilities and stapled unitholders' equity	$2,447,641	6,203	(6,086)	$2,447,758

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

Balance Sheet	As at December 31, 2013			
	Granite REIT	Granite GP	Eliminations/ Adjustments	Granite REIT and Granite GP Combined
ASSETS				
Non-current assets:				
Investment properties	$2,351,897			$2,351,897
Investment in Granite LP	—	2	(2)	—
Other non-current assets	12,069			12,069
	2,363,966	2	(2)	2,363,966
Current assets:				
Other current assets	9,147			9,147
Intercompany receivable[(1)]	—	850	(850)	—
Cash and cash equivalents	95,520			95,520
Total assets	$2,468,633	852	(852)	$2,468,633
LIABILITIES AND STAPLED UNITHOLDERS' EQUITY				
Non-current liabilities:				
Unsecured debentures, net	$ 462,070			$ 462,070
Other non-current liabilities	223,258			223,258
	685,328			685,328
Current liabilities:				
Bank indebtedness	53,180			53,180
Intercompany payable	850		(850)	—
Other current liabilities	52,765	850		53,615
Total liabilities	792,123	850	(850)	792,123
Equity:				
Stapled unitholders' equity	1,671,225	2		1,671,227
Non-controlling interests	5,285		(2)	5,283
Total liabilities and stapled unitholders' equity	$2,468,633	852	(852)	$2,468,633

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

Income Statement	Year Ended December 31, 2014			
	Granite REIT	Granite GP	Eliminations/ Adjustments	Granite REIT and Granite GP Combined
Revenues	$207,410			$207,410
General and administrative expenses	28,061			28,061
Interest expense and other financing costs, net	23,967			23,967
Early redemption costs of unsecured debentures	28,580			28,580
Other costs and expenses	4,434			4,434
Share of (income) loss of Granite LP	—	(1)	1	—
Fair value losses on investment properties, net	51,620			51,620
Fair value gains on financial instruments	(177)			(177)
Acquisition transaction costs	189			189
Gain on sale of investment properties	(1,416)			(1,416)
Income before income taxes	72,152	1	(1)	72,152
Income tax expense	8,492			8,492
Net income from continuing operations	63,660	1	(1)	63,660
Net income from discontinued operations	6,757			6,757
Net income	70,417	1	(1)	70,417
Less net income attributable to non-controlling interests	205		(1)	204
Net income attributable to stapled unitholders	$ 70,212	1	—	$ 70,213

Income Statement	Year Ended December 31, 2013			
	Granite REIT	Granite GP	Eliminations/ Adjustments	Granite REIT and Granite GP Combined
Revenues	$189,900			$189,900
General and administrative expenses	27,065			27,065
Interest expense and other financing costs, net	20,586			20,586
Other costs and expenses	5,953			5,953
Share of (income) loss of Granite LP	—	(2)	2	—
Fair value losses on investment properties, net	16,182			16,182
Fair value gains on financial instruments	(72)			(72)
Loss on sale of investment properties	778			778
Acquisition transaction costs	14,246			14,246
Gain on Meadows holdback	(5,143)	—	—	(5,143)
Income before income taxes	110,305	2	(2)	110,305
Income tax recovery	(33,139)	—	—	(33,139)
Net income from continuing operations	143,444	2	(2)	143,444
Net income from discontinued operations	1,822	—	—	1,822
Net income	145,266	2	(2)	145,266
Less net income attributable to non-controlling interests	237	—	(2)	235
Net income attributable to stapled unitholders	$145,029	2	—	$145,031

Statement of Cash Flows	Year Ended December 31, 2014			
	Granite REIT	Granite GP	Eliminations/ Adjustments	Granite REIT and Granite GP Combined
OPERATING ACTIVITIES				
Net income from continuing operations	$ 63,660	1	(1)	$ 63,660
Items not involving current cash flows	64,503	(1)	1	64,503
Changes in working capital balances from continuing operations	(6,229)	73	—	(6,156)
Other operating activities	(34,616)			(34,616)
Cash provided by operating activities from continuing operations	87,318	73	—	87,391
Cash provided by operating activities from discontinued operations	5,472			5,472
Cash provided by operating activities	92,790	73	—	92,863
INVESTING ACTIVITIES				
Investment property capital additions	(47,532)			(47,532)
Business acquisitions	(75,149)			(75,149)
Other investing activities	38,438			38,438
Cash provided by investing activities from discontinued operations	104,370			104,370
Cash provided by investing activities	20,127	—	—	20,127
FINANCING ACTIVITIES				
Distributions paid	(103,205)			(103,205)
Other financing activities	12,492			12,492
Cash used in financing activities	(90,713)	—	—	(90,713)
Effect of exchange rate changes	(1,564)			(1,564)
Net increase in cash and cash equivalents during the year	$ 20,640	73	—	$ 20,713

Statement of Cash Flows	Year Ended December 31, 2013			
	Granite REIT	Granite GP	Eliminations/ Adjustments	Granite REIT and Granite GP Combined
OPERATING ACTIVITIES				
Net income from continuing operations	$ 143,444	2	(2)	$ 143,444
Items not involving current cash flows	(25,627)	(2)	2	(25,627)
Changes in working capital balances from continuing operations	555			555
Other operating activities	(1,015)			(1,015)
Cash provided by operating activities from continuing operations	117,357	—	—	117,357
Cash provided by operating activities from discontinued operations	10,537			10,537
Cash provided by operating activities	127,894	—	—	127,894
INVESTING ACTIVITIES				
Business acquisitions (net of cash acquired of $375)	(233,363)			(233,363)
Investment property capital additions	(43,057)			(43,057)
Other investing activities	22,831			22,831
Cash used in investing activities	(253,589)	—	—	(253,589)
FINANCING ACTIVITIES				
Distributions paid	(90,331)			(90,331)
Other financing activities	252,460			252,460
Cash provided by financing activities	162,129	—	—	162,129
Effect of exchange rate changes	8,013			8,013
Net increase in cash and cash equivalents during the year	$ 44,447	—	—	$ 44,447

22. COMMITMENTS AND CONTINGENCIES

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

(b) At December 31, 2014, the Trust's contractual commitments related to construction and development projects amounted to approximately $13.0 million which are expected to be incurred in the first half of 2015.

(c) At December 31, 2014, the Trust had commitments on non-cancellable operating leases requiring future minimum annual rental payments as follows:

Not later than 1 year	$ 428
Later than 1 year and not later than 5 years	858
Later than 5 years	270
	$1,556

In addition, the Trust is committed to making annual payments under two ground leases for the land upon which two income-producing properties are situated of $0.5 million and $0.1 million to the years 2049 and 2096, respectively. The fair value of the investment properties situated on the land under ground leases is $42.1 million.

23. SUBSEQUENT EVENTS

(a) On January 26, 2015, the Trust sold an income-producing property located in Canada for gross proceeds of approximately $2.0 million.

(b) Subsequent to December 31, 2014, Granite LP repaid $11.4 million (U.S. $9.0 million) related to amounts drawn on the Credit Facility (note 9).

EXHIBIT 3

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

For the three month period and year ended December 31, 2014

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, 2014. Unless otherwise noted, all amounts are in Canadian dollars (''Cdn. dollars'') and all tabular amounts are in millions of Cdn. dollars. This MD&A should be read in conjunction with the accompanying audited combined financial statements for the year ended December 31, 2014. This MD&A is prepared as at March 4, 2015. Additional information relating to Granite, including the Annual Information Form (''AIF'') for fiscal 2014 can be obtained from the Trust's website at www.granitereit.com, on SEDAR at www.sedar.com and on EDGAR at www.sec.gov.

OVERVIEW

Granite is a Canadian-based real estate investment trust (''REIT'') engaged in the ownership and management of predominantly industrial, warehouse and logistics properties in North America and Europe. Granite owns approximately 30.0 million square feet in over 100 rental income properties. Our tenant base currently includes Magna International Inc. and its operating subsidiaries (collectively ''Magna'') as our largest tenant, together with tenants from other industries.

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

SIGNIFICANT MATTERS

Acquisition

On December 30, 2014, Granite acquired three properties located in Plainfield (Indianapolis), Indiana for a total purchase price of $79.7 million (U.S. $68.8 million), funded through a draw from Granite's credit facility and cash on hand. The portfolio consists of two income-producing logistics-distribution properties totaling approximately 1.0 million square feet and 29 acres of adjacent development land. The two income-producing properties are fully leased to December 2024 to a single tenant and have annualized lease payments of $4.8 million. The development land provides for up to 0.6 million square feet of additional logistics-industrial space.

Sale of Mexican Properties Portfolio

On June 26, 2014, Granite completed the disposition of its portfolio of Mexican properties to Magna for net cash proceeds before income taxes of $108.6 million. The loss on disposal of $5.1 million included a $4.6 million closing adjustment and $0.5 million in selling costs related to the disposition. Prior to the disposition, the 2.4 million square foot portfolio of properties was leased to Magna and had annualized lease payments of approximately $14.4 million. As the Mexican properties represented a significant geographical area of operations, the associated income and expenses have been reported, on a retroactive basis, as discontinued operations, which are presented separately from income and expenses from continuing operations in the audited combined statements of income for the year ended December 31, 2014.

Series 2 Senior Debentures

On July 3, 2014, Granite REIT Holdings Limited Partnership (''Granite LP''), a wholly owned subsidiary of the Trust, issued at par $250.0 million 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. The 2021 Debentures rank equally with all of the Trust's existing and future unsubordinated and unsecured indebtedness and are guaranteed by Granite REIT and Granite GP.

On July 3, 2014, the Trust entered into a cross currency interest rate swap to exchange the 3.788% Cdn. dollar interest payments from the 2021 Debentures to euro denominated payments at 2.68%. In addition, under the terms of the swap, the Trust will pay principal proceeds of euro 171.9 million for $250.0 million on July 5, 2021. The proceeds from the 2021 Debentures, together with other available funds, were used to redeem the $265.0 million debentures due in 2016 (the ''2016 Debentures'').

Redemption of 2016 Debentures

On August 5, 2014 (the ''Redemption Date''), Granite LP redeemed all of the outstanding unsecured debentures originally issued in December 2004 and which were due on December 22, 2016 for an aggregate redemption price of $294.7 million, being the higher of the principal amount, and the Canada Yield Price calculated in accordance with the trust indenture governing the 2016 Debentures, together in each case with accrued and unpaid interest to the Redemption Date of $2.0 million. In the year ended December 31, 2014, the Trust recorded early redemption costs of $28.6 million which included a $27.7 million redemption premium and $0.9 million of accelerated amortization of the issuance costs and discount accretion related to the 2016 Debentures.

Leasing activity

During the year ended December 31, 2014, Granite renewed, extended or entered into 16 leases representing approximately 7.2 million square feet.

Foreign Currencies

Fluctuations in the Cdn. dollar relative to other currencies will result in fluctuations in the reported Cdn. dollar value of revenues, expenses, cash flows, assets and liabilities. At December 31, 2014, approximately 69% of Granite's rental revenues are denominated in currencies other than the Cdn. dollar (see *''LEASING PROFILE — Annualized Lease Payments'')*. In addition, virtually all of Granite's interest expense is denominated in foreign currencies primarily as a result of the cross currency interest rate swaps in place. Approximately 78% of Granite's debt was denominated in euros and the remaining 22% denominated in U.S. dollars as at December 31, 2014. As such, material changes in the value of the Cdn. dollar relative to these foreign currencies (primarily the euro and U.S. dollar) may have a significant impact on the Trust's financial results.

The following tables reflect the changes in the average exchange rates during the three month periods and years ended December 31, 2014 and 2013, as well as the exchange rates as at December 31, 2014, September 30, 2014 and December 31, 2013, between the two most common currencies in which the Trust conducts business and the Cdn. dollar.

	Average Exchange Rates					
	Three Months Ended December 31,			Year Ended December 31,		
	2014	2013	Change	**2014**	2013	Change
1 U.S. dollar equals Cdn. dollars	**1.136**	1.050	8%	**1.105**	1.030	7%
1 euro equals Cdn. dollars	**1.419**	1.430	(1%)	**1.467**	1.369	7%

	Exchange Rates as at				
	December 31, 2014	September 30, 2014	Change from September 30, 2014	December 31, 2013	Change from December 31, 2013
1 U.S. dollar equals Cdn. dollars	**1.160**	1.121	3%	1.064	9%
1 euro equals Cdn. dollars	**1.404**	1.415	(1%)	1.466	(4%)

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

PERFORMANCE MEASUREMENT

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

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

Readers are cautioned that certain terms used in this MD&A and accompanying letter to unitholders such as FFO, comparable FFO, FFO payout ratio, ALP and any related per unit amounts used by management to measure, compare and explain the operating results and financial performance of the Trust do not have standardized meanings prescribed under IFRS and, therefore, should not be construed as alternatives to net income, cash flow from operating activities or revenue, as appropriate, calculated in accordance with IFRS. Additionally, because these terms do not have standardized meanings prescribed by IFRS they may not be comparable to similarly titled measures presented by other publicly traded entities. These terms are defined in the following paragraphs and cross referenced, where appropriate, to a reconciliation elsewhere in the MD&A to the most comparable IFRS measure in the Trust's combined financial statements for the year ended December 31, 2014.

Funds from operations

FFO is defined as net income attributable to stapled unitholders prior to fair value gains (losses), gains (losses) on sale of investment properties, acquisition transaction costs, deferred income taxes and certain other non-cash items, adjusted for non-controlling interests in such items. The Trust's determination of FFO follows the definition prescribed by the Real Estate Property Association of Canada (''REALPAC'') and is a widely used measure by analysts and investors in evaluating the performance of real estate entities. Granite considers FFO to be a meaningful supplemental measure that can be used to determine the Trust's ability to service debt, finance capital expenditures and provide distributions to stapled unitholders. FFO is reconciled to net income, which is the most directly comparable IFRS measure (see *''RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED DECEMBER 31, 2014 — Funds From Operations''* and *''RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2014 — Funds From Operations''*). FFO does not represent or approximate cash generated from operating activities determined in accordance with IFRS and is not reconciled to cash flow from operating activities as the calculation of FFO does not consider changes in working capital items or adjust for certain other non-cash items that are included in the determination of cash flow from operating activities in accordance with IFRS.

Comparable funds from operations

Comparable FFO for the year ended December 31, 2014 excludes $28.6 million of early redemption costs associated with the 2016 Debentures. As the redemption of the remaining unsecured debentures is not expected to be of a recurring nature, the costs have been added to FFO to arrive at a comparable FFO amount for current and prior periods. Comparable FFO for the year ended December 31, 2013 excludes $4.2 million of current income tax expense associated with withholding taxes paid in the second quarter of 2013 related to the repatriation of prior years' earnings from foreign jurisdictions primarily associated with certain planned internal reorganizations undertaken post the REIT conversion. As the $4.2 million withholding tax payment is a result of a significant earnings repatriation that is not expected to recur at a similar level of magnitude, it has been added to FFO to arrive at a comparable FFO amount for current and prior periods. In the future, other large unusual items that are not expected to be of a recurring nature may also be considered when determining comparable FFO and will be explicitly described and quantified.

FFO payout ratio

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

Annualized lease payments

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

INVESTMENT PROPERTIES

Granite's investment properties consist of income-producing properties, properties and land under development and land held for development. The fair values of the investment properties were as follows:

As at December 31,	2014	2013
Income-Producing Properties	**$2,275.2**	$2,325.6
Properties and Land Under Development	**31.4**	18.1
Land Held For Development	**3.8**	8.2
	$2,310.4	$2,351.9

During the year ended December 31, 2014, investment properties decreased by $41.5 million primarily as a result of:

i. a decrease of $151.3 million which included $113.7 million for the disposition of our portfolio of Mexican properties and $37.6 million related to the disposal of four other properties located in the United States and Germany;

ii. net fair value losses of $51.6 million attributable to changes in leasing assumptions for properties in both North America and Europe and an increase in discount and terminal capitalization rates for certain properties in Austria and Germany, partially offset by compression in discount and terminal capitalization rates for certain properties in the United States; and

iii. $3.3 million of net foreign exchange losses which included $46.0 million of net foreign exchange losses related to the weakening of the euro against the Cdn. dollar partially offset by $43.8 million of net foreign currency gains related to the strengthening of the U.S. dollar against the Cdn. dollar.

These decreases were partially offset by:

i. an increase of $79.7 million due to the acquisition of properties;

ii. a net increase of $44.5 million due to lease incentives incurred with respect to the extension of two leases for properties in Graz, Austria; and

iii. capital expenditures totaling $44.3 million.

Income-Producing Properties

At December 31, 2014, Granite had over 100 income-producing properties which represented approximately 30.0 million square feet of rentable space. The portfolio also included some office buildings that comprised of less than 1% of the total square footage of the income-producing properties.

The fair value of the income-producing portfolio by country as at December 31, 2014 and 2013 was as follows:

	December 31, 2014		December 31, 2013	
	Fair Value	**Percent of Total**	**Fair Value**	**Percent of Total**
Canada	**$ 678.5**	30%	$ 701.1	30%
Austria	**677.1**	30	674.6	29
United States	**546.2**	24	425.2	18
Germany	**242.5**	11	276.2	12
Netherlands	**97.2**	4	101.5	4
Mexico	**—**	—	111.7	5
Other	**33.7**	1	35.3	2
	$2,275.2	100%	$2,325.6	100%

Fair values were primarily determined by discounting the expected future cash flows, generally over a term of 10 years, including a terminal value based on the application of a capitalization rate to estimated year 11 cash flows. The Trust measures its income-producing properties and properties under development using valuations prepared by management. The Trust does not measure its investment properties based on valuations prepared by external appraisers but uses such appraisals as data points, together with other external market information accumulated by management, in arriving at its own conclusions on values. The key valuation metrics for Granite's investment properties are summarized in note 4 to the audited combined financial statements for the year ended December 31, 2014.

At December 31, 2014, Granite had one active improvement project in Canada and two expansion projects at income-producing properties in Austria. The total estimated cost of these projects is approximately $9.4 million of which $5.6 million had been spent as at December 31, 2014 with the remaining cost to be funded during the first half of 2015 using cash from operations.

Properties and Land Under Development

At December 31, 2014, the Trust had one property under development: an 89.2 acre land site located in Bethel Township, Pennsylvania which is being developed into a 0.75 million square foot industrial facility. As at December 31, 2014, construction costs of $21.7 million had been incurred for this project which is expected to be completed in the second quarter of 2015. Contractual commitments related to the project were $9.2 million at December 31, 2014. On June 20, 2014, the Trust entered into a secured construction loan (the ''2017 Construction Loan'') for U.S. $26.2 million relating to funding for this project (see *''LIQUIDITY AND CAPITAL RESOURCES — Bank and Debenture Financing — Construction Loans''*). As at December 31, 2014, $8.7 million had been drawn under the 2017 Construction Loan.

During the year ended December 31, 2014, the construction of a 0.63 million square foot multipurpose facility on a 35.9 acre land site located at Settlers Point Business Park in Shepherdsville, Kentucky was completed and the property is being actively marketed for lease. The project was primarily funded by a secured construction loan for U.S. $17.0 million (the ''2016 Construction Loan''), which was entered into on July 25, 2013. At December 31, 2014, $15.5 million had been drawn under the 2016 Construction Loan (see *''LIQUIDITY AND CAPITAL RESOURCES — Bank and Debenture Financing — Construction Loans'')*.

Land Held for Development

In December 2014, Granite acquired a 29 acre site located in Plainfield, Indiana (see ''*SIGNIFICANT MATTERS — Acquisition*'') which is being held for future development.

LEASING PROFILE

Magna, Our Largest Tenant

At December 31, 2014, Magna was the tenant at 73 (2013 — 82) of Granite's income-producing properties and comprised 82% (2013 — 85%) of Granite's annualized lease payments. Magna is a diversified global automotive supplier that designs, develops and manufactures technologically advanced automotive systems, assemblies, modules and components, and engineers and assembles complete vehicles, primarily for sale to original equipment manufacturers of cars and light trucks. Magna's product capabilities span a number of major automotive areas, including interior systems, seating systems, closure systems, body and chassis systems, vision systems, electronic systems, exterior systems, powertrain systems, roof systems, hybrid electric vehicles/systems and complete vehicle engineering and assembly.

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

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

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

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

Annualized Lease Payments

ALP for the year ended December 31, 2014 decreased by $9.4 million primarily due to the disposition of the Mexican property portfolio in the second quarter of 2014. Granite's annualized lease payments as at

December 31, 2014, including the changes from September 30, 2014 and December 31, 2013, were as follows:

	Three Months Ended December 31, 2014	Year Ended December 31, 2014
Annualized lease payments, beginning of period	$206.9	$221.9
Acquisition	4.8	4.8
Contractual rent adjustments	0.6	2.4
Completed projects on-stream	0.4	0.8
Disposals	(1.0)	(17.8)
Vacancies	—	(0.6)
Renewals	—	(0.4)
Re-leasing	—	1.4
Effect of changes in foreign currency exchange rates	0.8	—
Annualized lease payments, as at December 31, 2014	$212.5	$212.5

During the fourth quarter of 2014, annualized lease payments increased by $5.6 million from $206.9 million at September 30, 2014 to $212.5 million at December 31, 2014 primarily due to the acquisition of two income-producing properties in the United States (see *''SIGNIFICANT MATTERS — Acquisition''*). Annualized lease payments for the period were also impacted by the following:

i. Contractual rent adjustments increased annualized lease payments by $0.6 million and mainly related to fixed contractual rent increases on properties in North America and Germany;

ii. The completion of three improvement projects totaling $3.5 million in Canada increased annualized lease payments by $0.4 million;

iii. A reduction of $1.0 million due to the disposal of two income-producing properties in North America, including a disposal of an income-producing property which closed in January 2015; and

iv. The strengthening of the U.S. dollar against the Cdn. dollar resulted in an increase in annualized lease payments of $1.6 million which was partially offset by an $0.8 million decrease in annualized lease payments related to the weakening of the euro against the Cdn. dollar.

On a year-over-year basis, annualized lease payments decreased by $9.4 million from $221.9 million at December 31, 2013 to $212.5 million at December 31, 2014. This net decrease reflects the cumulative impact of the following:

i. The negative impact on annualized lease payments of:

   a. $17.8 million due to the disposal of the portfolio of Mexican properties as noted above, and five other income-producing properties in North America and Europe;

   b. $0.6 million related to a vacancy in the United States; and

   c. a net $0.4 million due to the renewal or extension of 10 leases representing 5.0 million square feet of leaseable area in North America and Europe at rental rates which were overall lower than the expiring lease rates in place;

ii. The previously noted acquisition increased annualized lease payments by $4.8 million;

iii. Contractual rent adjustments increased annualized lease payments by $2.4 million mostly related to Consumer Price Index (''CPI'') based increases on properties representing 10.1 million square feet of leaseable area in North America and Europe and to a lessor extent, fixed contractual rent increases on properties in North America;

iv. The completion of 10 improvement projects totaling $6.7 million in North America and Europe increased annualized lease payments by $0.8 million;

v. The re-leasing of two vacant properties in North America contributed an additional $1.4 million to annualized lease payments; and

vi. Net changes in foreign currency rates had a nominal impact on annualized lease payments. The weakening of the euro against the Cdn. dollar resulted in a decrease in annualized lease payments of $4.3 million while the strengthening of the U.S. dollar against the Cdn. dollar resulted in increases in annualized lease payments of $4.3 million.

The annualized lease payments by currency at December 31, 2014 and December 31, 2013 were as follows:

	December 31, 2014		December 31, 2013	
Euro	**$ 96.6**	**45%**	$100.9	45%
Cdn. dollar	**65.6**	**31**	64.0	29
U.S. dollar	**49.5**	**23**	55.9	25
Other	**0.8**	**1**	1.1	1
	$212.5	**100%**	$221.9	100%

Leasing Activity

2014 Lease Expiries

	Number of leases	Square Footage (in thousands)	ALP (in millions)
Renewed leases	4	479	$2.5
Leases with short termination notices	2	312	1.1
Negotiations in-progress	1	300	1.4
Dispositions	2	426	—
Vacated	1	84	—
	10	1,601	$5.0

Other New Leases and Extensions

During 2014, Granite extended six leases with an aggregate square footage of 5.6 million that had expiries beyond 2014. The two most significant extensions were for two properties in Graz, Austria and are described below.

On January 30, 2014, Magna agreed to a lease extension at the Thondorf facility in Graz, Austria. The lease expiry for the 3.9 million square foot facility was extended from December 31, 2017 to January 31, 2024. In connection with the extension, the current rental rate will remain fixed for the balance of the term and Granite paid a one-time lease incentive in the amount of $37.8 million (euro 25.0 million) in the first quarter of 2014. This incentive is being amortized against the related rental revenue over the remaining lease term.

On March 28, 2014, Magna agreed to a lease extension at the Eurostar facility in Graz, Austria. The 1.1 million square foot Eurostar facility is adjacent to the Thondorf facility noted above and its lease expiry was extended from December 31, 2017 to January 31, 2024, to be coterminous with the Thondorf facility. In connection with the extension, in January 2018 contractual rents will increase based on a modified CPI formula and, at that time, Granite will pay a one-time lease incentive in the amount of euro 6.0 million. As set out in note 8 to the audited combined financial statements for the year ended December 31, 2014, this obligation has been recorded in the combined balance sheet at its discounted value of $6.5 million and is being amortized against the related rental revenue over the remaining term of the lease.

During the first quarter of 2014, Granite executed an 11 year lease of a property in the United States that became vacant in 2013. This property was sold in the fourth quarter of 2014 when the tenant exercised a purchase option included in the lease. During the second quarter of 2014, Granite entered into a six year lease with a tenant who took possession of a 0.2 million square foot previously vacant property in Canada. During the third quarter of 2014, Granite extended three leases with Magna which had expiry dates of January 2015. Also during the third quarter of 2014, in conjunction with an expansion project to be undertaken in the first half of 2015, the lease expiry on a property leased to Magna in Austria will be extended 10 years from the completion date of the expansion. The lease expiry relating to this property was June 2018.

Lease Expiration

As at December 31, 2014, Granite's portfolio had a weighted average lease term by square footage of 5.3 years, compared to 4.8 years as at December 31, 2013, with lease expiries by square footage (in thousands) and related annualized lease payments (in millions) set out in the table below:

	Total Rental Area	Vacant	2015		2016		2017		2018		2019		2020		2021 and Beyond	
		Sq Ft	Sq Ft	ALP $	Sq Ft	ALP $	Sq Ft	ALP $	Sq Ft	ALP $	Sq Ft	ALP $	Sq Ft	ALP $	Sq Ft	ALP $
Canada	7,834	94	224	1.0	369	3.6	3,581	37.4	1,872	11.8	435	2.5	967	6.6	292	2.7
U.S.	8,525	907	626	2.3	403	1.5	728	8.4	931	4.6	1,389	11.7	—	—	3,541	21.0
Austria	8,085	88	—	—	381	2.6	—	—	1,495	11.1	380	3.3	—	—	5,741	44.3
Germany	3,898	—	300	1.4	965	3.9	—	—	596	4.2	303	1.6	195	1.5	1,539	10.6
Netherlands	1,441	—	314	2.1	—	—	—	—	—	—	500	2.9	627	4.2	—	—
Other	434	—	—	—	—	—	—	—	90	0.8	90	0.4	—	—	254	2.5
Total	**30,217**	**1,089**	**1,464**	**6.8**	**2,118**	**11.6**	**4,309**	**45.8**	**4,984**	**32.5**	**3,097**	**22.4**	**1,789**	**12.3**	**11,367**	**81.1**
% of portfolio	100%	4%	5%		7%		14%		16%		10%		6%		38%	

Leasing Costs and Lease Incentives

Direct leasing costs include broker commissions incurred in negotiating and arranging tenant leases. Lease incentives include the cost of leasehold improvements to tenant spaces or cash allowances provided to tenants for leasehold improvement costs. For the three month period and year ended December 31, 2014, the Trust incurred leasing costs and lease incentives of $0.2 million and $45.2 million respectively, which included the lease incentives related to the extension of two leases for properties in Graz, Austria (see *''LEASING PROFILE — Other New Leases and Extensions'')* in the first quarter of 2014.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED DECEMBER 31, 2014

Components of the Trust's net income (loss) for the three month periods ended December 31, 2014 and 2013 were as follows:

(in millions, except per unit information)	Three Months Ended December 31, 2014	2013	Change
Rental revenue and tenant recoveries	**$51.0**	$51.2	
Property operating costs	**1.6**	1.7	
General and administrative	**8.4**	8.1	
Depreciation and amortization	**0.2**	0.1	
Interest expense and other financing costs, net	**4.5**	6.7	
Foreign exchange losses (gains), net	**(1.2)**	0.2	
Fair value losses on investment properties, net	**17.8**	29.9	
Fair value gains on financial instruments	**—**	(0.2)	
Acquisition transaction costs	**0.2**	7.7	
Loss (gain) on sale of investment properties	**(1.7)**	0.4	
Income (loss) before income taxes	**21.2**	(3.4)	
Income tax expense (recovery)	**(0.1)**	0.5	
Net income (loss) from continuing operations	**21.3**	(3.9)	
Net income from discontinued operations	**—**	1.5	
Net income (loss)	**$21.3**	$(2.4)	
Net income (loss) from continuing operations attributable to stapled unitholders	**21.5**	(4.1)	N/A
Net income (loss) attributable to stapled unitholders	**21.5**	(2.6)	N/A
Funds from Operations[(1)]	**36.2**	36.5	(1%)
Comparable Funds from Operations[(1)]	**36.2**	36.5	(1%)
Diluted FFO per stapled unit[(1)]	**$0.77**	$0.78	(1%)
Diluted comparable FFO per stapled unit[(1)]	**$0.77**	$0.78	(1%)
FFO payout ratio	**72%**	69%	3%

N/A — not applicable

(1) See ''Results of Operations for the Three Months Ended December 31, 2014 — Funds from Operations''.

Rental Revenue and Tenant Recoveries

Rental revenue for the three month period ended December 31, 2014 decreased $0.2 million to $51.0 million from $51.2 million in the prior year period. The change in rental revenue is set out below:

Rental revenue, three months ended December 31, 2013	$51.2
Acquisitions	0.9
Contractual rent adjustments	0.5
Completed projects on-stream	0.2
Vacancies and disposals of income-producing properties	(1.6)
Effect of changes in foreign currency exchange rates	0.7
Other, including straight-line adjustments to rental revenue	(0.9)
Rental revenue, three months ended December 31, 2014	$51.0

The net decrease in rental revenue for the three months ended December 31, 2014 compared to the fourth quarter of 2013 was comprised of the following:

i. Rental revenue was negatively impacted by $1.6 million primarily due to vacancies resulting from the non-renewal of three expired leases representing 0.4 million square feet of leaseable area in the United States and Austria and the sale of four income-producing properties in the United States and Europe;

ii. Other items having a $0.9 million negative impact on rental revenue primarily related to the amortization of the lease incentives in respect of the lease extensions at the Thondorf and Eurostar properties;

iii. The acquisition of eight income-producing properties in the fourth quarter of 2013, representing 2.6 million square feet of leaseable area, contributed an additional $0.9 million to rental revenue;

iv. The $0.5 million increase in revenue from contractual rent adjustments included $0.4 million from CPI based increases and $0.1 million from fixed contract adjustments;

v. The completion of improvement projects in North America contributed an incremental $0.2 million to rental revenue; and

vi. Foreign exchange had a net $0.7 million positive impact on reported rental revenues as the weakening of the Cdn. dollar against the U.S. dollar denominated rents resulted in an increase in rental revenue of $0.9 million while the strengthening of the Cdn. dollar against the euro negatively impacted reported rental revenue by $0.2 million.

Property Operating Costs

Property operating costs, which include property taxes, utilities, insurance, repairs and maintenance, legal and other property-related expenses, were $1.6 million for the three month period ended December 31, 2014 in comparison to $1.7 million in the prior year period. The net decrease was primarily comprised of lower repairs and maintenance costs and lower advisory costs related to the re-leasing of properties that were mostly offset by increases related to property costs recoverable from tenants attributable to acquisitions in the fourth quarter of 2013.

General and Administrative Expenses

General and administrative expenses for the three month periods ended December 31, 2014 and 2013 were $8.4 million and $8.1 million, respectively. Relative to the prior year period, the fourth quarter of 2014 included $1.1 million associated with additional grants awarded under Granite's unit-based compensation plans, the increased valuation of the units outstanding under those plans due to the appreciation of the market price of the stapled units, severance and slightly higher staffing levels. Mitigating this increase was a $0.6 million decrease in advisory costs related to the REIT conversion and related internal reorganizations, and other professional fees.

Depreciation and Amortization

Depreciation and amortization expense is related to the amortization of fixed assets relating to our offices in Toronto, Canada and Vienna, Austria.

Interest Expense and Other Financing Costs, Net

Net interest expense and other financing costs were $4.5 million in the three month period ended December 31, 2014 compared to $6.7 million in the prior year period. Granite's debt profile since December 31, 2013 has changed significantly due to the acquisition activities and refinancing initiatives undertaken during the year thereby impacting net interest expense. The net interest expense and other financing costs for the three month periods ended December 31, 2014 and 2013 was comprised of the following:

	Three months ended December 31,		
	2014	2013	Change
2018 Debentures, issued October 2013[1]	**$1.9**	$1.9	$ —
2021 Debentures, issued July 2014[2]	**1.7**	—	1.7
2016 Debentures, redeemed August 2014[3]	**—**	4.1	(4.1)
	3.6	6.0	(2.4)
Mortgages and construction loan	**0.5**	0.3	0.2
Other financing costs, net	**0.4**	0.4	—
	$4.5	$6.7	$(2.2)

(1) see ''*LIQUIDITY AND CAPITAL RESOURCES — Bank and Debenture Financing*''

(2) see ''*SIGNIFICANT MATTERS — Series 2 Senior Debentures*''

(3) see ''*SIGNIFICANT MATTERS — Redemption of 2016 Debentures*''

Foreign Exchange Losses (Gains), Net

Granite recognized net foreign exchange gains of $1.2 million in the three month period ended December 31, 2014 compared to net foreign exchange losses of $0.2 million in the prior year period. Net foreign exchange gains for the three month period ended December 31, 2014 included $1.0 million of net foreign exchange gains on certain assets and liabilities of the Trust that are denominated in U.S. dollars and euros and $0.2 million of realized foreign exchange gains on derivative financial instruments such as foreign exchange contracts. The net foreign exchange losses in the three month period ended December 31, 2013 primarily related to $0.8 million of net realized foreign exchange losses on foreign exchange contracts, partially offset by $0.6 million of net foreign exchange gains on certain assets and liabilities of the Trust that are denominated in U.S. dollars and euros.

Fair Value Losses on Investment Properties, Net

Net fair value losses on investment properties were $17.8 million in the three month period ended December 31, 2014 compared to a $29.9 million loss in the prior year period. In the three month period ended December 31, 2014, the net fair value losses were attributable to changes in leasing assumptions for properties across the portfolio and the amount or timing of cash flows primarily attributable to capital expenditures for properties in North America. The net fair value losses in the three month period ended December 31, 2013 were attributable to changes in leasing assumptions and the timing of cash flows for the Canadian and Austrian property portfolios.

Fair Value Losses (Gains) on Financial Instruments

Granite recognized net fair value losses on financial instruments of less than $0.1 million in the three month period ended December 31, 2014 compared to net fair value gains of $0.2 million in the prior year period. The net fair value gains and losses for each of the three month periods ended December 31, 2014 and 2013 were attributable to the fair value changes relating to foreign exchange contracts outstanding at the end of the period and interest rate caps associated with the mortgages payable.

Acquisition Transaction Costs

Acquisition transaction costs for the three month period ended December 31, 2014 of $0.2 million related primarily to advisory costs associated with the acquisition in December 2014. In the fourth quarter of 2013, Granite incurred $7.7 million in acquisition transaction costs which included $6.7 million of land transfer taxes and $1.0 million of advisory costs related to acquisitions of income-producing properties in Europe that were completed in the fourth quarter of 2013.

Loss (Gain) on Sale of Investment Properties

The net gain on sale of investment properties in the three months ended December 31, 2014 was related to the sale of excess land in Austria for gross proceeds of $1.7 million net of nominal selling costs. During the three month period ended December 31, 2013, Granite disposed of three properties in the United States and Europe for aggregate gross proceeds of $6.8 million and incurred a $0.3 million loss on disposal due to the associated selling costs. The Trust also incurred $0.1 million of costs related to the sale of an investment property in Germany, which closed in January 2014.

Income Tax Expense (Recovery)

Income tax recovery for the three months ended December 31, 2014 was $0.1 million. Included in the quarter's income tax recovery was a current income tax expense of $1.7 million comprised of:

i. $1.5 million expense related to foreign operations and Canadian corporate entities subject to tax;

ii. $0.4 million expense related to the sale of excess land in Austria; and

iii. $0.2 million recovery in unrecognized tax benefits.

Also included in the quarter's income tax recovery was a deferred tax recovery of $1.8 million that related primarily to the net fair value losses in respect of investment properties in foreign jurisdictions, the reversal of deferred tax liabilities related to the disposition of excess land in Austria, other timing differences associated with certain foreign operations and to a lesser extent related withholding taxes.

A tax recovery of 0.5% was recorded in the fourth quarter of 2014, compared to an income tax expense of 14.7% in the fourth quarter of 2013, as a result of larger fair value losses in the prior quarter in entities that do not record deferred taxes.

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

Net Income (Loss) from Continuing Operations

For the three month period ended December 31, 2014, net income from continuing operations was $21.3 million compared to a net loss of $3.9 million in the prior year period. The $25.2 million net increase was primarily due to a $12.1 million decrease in net fair value losses on investment properties, a $7.5 million decrease in acquisition transaction costs, a $2.2 million decrease in net interest expense, a $2.1 million increase in net gain on the sale of investment properties and a $0.6 million decrease in income tax expense.

Net Income from Discontinued Operations

Net income from discontinued operations consists of revenue, expenses and fair value gains associated with the Mexican property portfolio. The Trust's results of operations for the three month period ended December 31, 2014 were not impacted by the discontinued operations as the disposition of the portfolio of Mexican properties was completed on June 26, 2014. Net income from discontinued operations for the fourth quarter of 2013, which included $0.3 million of costs related to the sale of the Mexican property portfolio, consisted of the following:

	Three Months Ended December 31,	
	2014	2013
Rental revenue	**$—**	$3.4
Operating costs and expenses	**—**	0.1
Fair value gains on investment properties, net	**—**	(0.1)
Income before income taxes	**—**	3.4
Income tax expense	**—**	(1.6)
Income from discontinued operations before loss on sale of disposed properties	**—**	1.8
Loss on disposal of investment properties	**—**	(0.3)
Net income from discontinued operations	**$—**	$1.5

Net Income (Loss)

Net income was $21.3 million in the three month period ended December 31, 2014 compared to a $2.4 million net loss in the prior year period. The increase of $23.7 million was due to a $25.2 million increase in net income from continuing operations for the reasons noted above, partially offset by a $1.5 million decrease in net income from discontinued operations.

Funds From Operations

	Three Months Ended December 31,		
(in thousands, except per unit information)	**2014**	2013	Change
Net income (loss) attributable to stapled unitholders	**$21,454**	$ (2,599)	
Add (deduct):			
Fair value losses on investment properties	**17,793**	29,898	
Fair value losses (gains) on financial instruments	**38**	(216)	
Acquisition transaction costs	**189**	7,751	
Loss (gain) on sale of investment properties	**(1,678)**	450	
Current income tax expense associated with the sale of an investment property	**439**	—	
Deferred income taxes	**(1,832)**	(341)	
Non-controlling interests relating to the above	**(157)**	107	
FFO adjustments related to discontinued operations	**—**	1,420	
FFO	**$36,246**	$36,470	(1%)
Basic and diluted FFO per stapled unit	**$ 0.77**	$ 0.78	(1%)
Basic number of stapled units outstanding	**47,014**	46,942	
Diluted number of stapled units outstanding	**47,091**	46,957	

FFO for the fourth quarter of 2014 was $36.2 million and was derived solely from continuing operations. FFO for the fourth quarter of 2013 was $36.5 million and comprised of $33.6 million from continuing operations and $2.9 million from discontinued operations. The $2.6 million increase in FFO from continuing operations was primarily due to decreased net interest expense of $2.2 million and increased net foreign exchange gains of $1.4 million, partially offset by $0.5 million of higher current income taxes.

RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2014

Highlights

(in millions, except per unit information)	Years Ended December 31, 2014	2013	Change
Rental revenue and tenant recoveries	**$207.4**	$189.9	9%
Net income from continuing operations attributable to stapled unitholders	**63.5**	143.2	(56%)
Net income attributable to stapled unitholders	**70.2**	145.0	(52%)
Funds from Operations[1]	**125.3**	138.3	(9%)
Comparable Funds from Operations[2]	**153.8**	142.5	8%
Diluted FFO per stapled unit[1]	**$ 2.66**	$ 2.95	(9%)
Diluted comparable FFO per stapled unit[2]	**$ 3.27**	$ 3.04	8%
FFO payout ratio[2]	**67%**	69%	(2%)

(1) See *"Results of Operations for the Year Ended December 31, 2014 — Funds from Operations"*

(2) Comparable FFO for the year ended December 31, 2014 excludes $28.6 million ($0.61 per stapled unit) incurred in the third quarter of 2014 with respect to the early redemption of the 2016 Debentures. Comparable FFO for the year ended December 31, 2013 excludes $4.2 million ($0.09 per stapled unit) of withholding taxes paid in the second quarter of 2013 related to the repatriation of prior years' earnings from foreign jurisdictions (See "*PERFORMANCE MEASUREMENT — Comparable funds from operations*").

(in millions, except number of properties)	December 31, 2014	December 31, 2013	Change
Number of income-producing properties	**103**	112	(8%)
Leaseable area (sq. ft.)	**30.2**	31.9	(5%)
Annualized lease payments	**$ 212.5**	$ 221.9	(4%)
Investment properties, fair value	**$2,310.4**	$2,351.9	(2%)

Rental Revenue and Tenant Recoveries

Rental revenue for the year ended December 31, 2014 increased $17.5 million to $207.4 million from $189.9 million in the prior year. The change in rental revenue is set out below:

Rental revenue, year ended December 31, 2013	$189.9
Acquisitions	15.8
Contractual rent adjustments	2.3
Completed projects on-stream	1.3
Renewals and re-leasing of income-producing properties	(3.1)
Vacancies and disposals of income-producing properties	(6.0)
Effect of changes in foreign currency exchange rates	8.9
Other, including straight-line adjustments to rental revenue	(1.7)
Rental revenue, year ended December 31, 2014	$207.4

Rental revenue for the year ended December 31, 2014 increased by approximately 9% compared to the prior year mainly due to the acquisitions completed in 2013 and favourable foreign exchange rates. Additional details pertaining to the changes in rental revenue are as follows:

i. The acquisition of 12 income-producing properties in 2013, representing 4.2 million square feet of leaseable area, contributed $15.8 million to rental revenue;

ii. The $2.3 million increase in revenue from contractual rent adjustments included $1.6 million from CPI based increases and $0.7 million from fixed contract adjustments;

iii. The completion of expansion or improvement projects in Europe and North America, which added a combined 0.2 million square feet of leaseable area, contributed an incremental $1.3 million to rental revenue;

iv. Foreign exchange had a $8.9 million positive impact on reported rental revenues as the weakening of the Cdn. dollar against the euro and U.S. dollar denominated rents resulted in an increase in rental revenue of $5.9 million and $2.9 million, respectively;

v. Renewals and re-leasing had a $3.1 million net negative impact on revenues compared to the prior year. This decrease was primarily due to the renewal or extension of 24 leases representing 9.3 million square feet of leaseable area across North America and Europe most of which were negotiated at rental rates lower than the expiring lease rates in place. The decrease in revenue was partially offset by $0.5 million of revenue related to the re-leasing of two previously vacant properties representing 0.3 million square feet of leaseable area in North America;

vi. Rental revenue for the year ended December 31, 2014 was also negatively impacted by $6.0 million due to vacancies primarily resulting from the non-renewal by Magna of four expired leases representing 0.5 million square feet of leaseable area in the United States and Austria and the sale of six income-producing properties in the United States and Europe; and

vii. Other items having a negative impact on revenue of $1.7 million primarily related to the amortization of the lease incentives in respect of the lease extensions at the Thondorf and Eurostar properties partially offset by the additional tenant recoveries and straight-line rent adjustments from the income-producing properties acquired in Germany in the fourth quarter of 2013.

Property Operating Costs

Property operating costs, which include property taxes, utilities, insurance, repairs and maintenance, legal and other property-related expenses, were $6.9 million for the year ended December 31, 2014 in comparison to $5.5 million in the prior year. The increase of $1.4 million primarily comprised a $1.2 million increase of property costs recoverable from tenants and $0.5 million of ground lease costs both of which resulted from acquisitions in the fourth quarter of 2013, partially offset by $0.3 million of lower environmental and appraisal costs and repair and maintenance expenditures.

General and Administrative Expenses

General and administrative expenses for the years ended December 31, 2014 and 2013 were $28.1 million and $27.1 million, respectively. The $1.0 million net increase primarily consisted of:

i. $3.3 million in higher compensation costs that included additional grants awarded under Granite's unit-based compensation plans to employees and directors/trustees, the increased valuation of the units outstanding under those plans due to the appreciation of the market price of the stapled units, merit increases, severance, increased staffing levels and the impact of higher foreign exchange rates; and

ii. a $2.5 million decrease in advisory costs related to the conversion to a REIT and related internal reorganizations incurred in the year ended December 31, 2013.

Depreciation and Amortization

Depreciation and amortization expense is related to the amortization of fixed assets relating to our offices in Toronto, Canada and Vienna, Austria.

Interest Expense and Other Financing Costs, Net

Net interest expense and other financing costs were $24.0 million in the year ended December 31, 2014 compared to $20.6 million in the prior year. Granite's debt profile since December 31, 2013 has changed significantly as previously discussed. The net interest expense and other financing costs for the year ended December 31, 2014 was comprised of the following:

	Years ended December 31,		
	2014	2013	Change
2018 Debentures, issued October 2013[1]	**$ 7.8**	$ 1.9	$ 5.9
2021 Debentures, issued July 2014[2]	**3.3**	—	3.3
2016 Debentures, redeemed August 2014[3]	**9.8**	16.4	(6.6)
	20.9	18.3	2.6
Mortgages and construction loan	**1.5**	0.9	0.6
Other financing costs, net	**1.6**	1.4	0.2
	$24.0	$20.6	$ 3.4

[1] see ''*LIQUIDITY AND CAPITAL RESOURCES — Bank and Debenture Financing*''

[2] see ''*SIGNIFICANT MATTERS — Series 2 Senior Debentures*''

[3] see ''*SIGNIFICANT MATTERS — Redemption of 2016 Debentures*''

Early Redemption Costs of Unsecured Debentures

In the year ended December 31, 2014, Granite recorded early redemption costs related to the 2016 Debentures of $28.6 million which included a redemption premium of $27.7 million and $0.9 million of accelerated amortization of issuance costs and discount accretion related to the debentures.

Foreign Exchange Gains, Net

Granite recognized net foreign exchange gains of $3.1 million in the year ended December 31, 2014 compared to net foreign exchange gains of less than $0.1 million in the prior year. Net foreign exchange gains for the year ended December 31, 2014 included (i) $1.5 million of foreign exchange gains due to the re-measurement of a U.S. dollar denominated cash balance representing the proceeds from the sale of the Mexican properties, (ii) $0.9 million of net foreign exchange gains on certain assets and liabilities of the Trust that are denominated in U.S. dollars and euros and (iii) $0.7 million of net foreign exchange gains on derivative financial instruments such as foreign exchange forwards contracts. The net foreign exchange gains in the year ended December 31, 2013 included $1.2 million of net foreign exchange gains on certain assets and liabilities of the Trust that are denominated in U.S. dollars and euros offset by $1.2 million of realized net foreign exchange losses associated with foreign exchange forwards contracts.

Fair Value Losses on Investment Properties, Net

Net fair value losses on investment properties were $51.6 million in the year ended December 31, 2014 compared to net fair value losses on investment properties of $16.2 million in the prior year. In the year ended December 31, 2014, the net fair value losses were attributable to changes in leasing assumptions for properties in both North America and Europe and an increase in discount and terminal capitalization rates for certain properties in Austria and Germany, partially offset by compression in discount and terminal capitalization rates for certain properties in the United States. The net fair value losses in the year ended December 31, 2013 of $16.2 million primarily resulted from changes in leasing assumptions related to market rents and lease renewals, and the amount or timing of cash flows attributable to capital expenditures partially offset by compression in discount and terminal capitalization rates in North America.

Fair Value Gains on Financial Instruments

Granite recognized net fair value gains on financial instruments of $0.2 million and $0.1 million in the years ended December 31, 2014 and 2013, respectively. Net fair value gains on financial instruments for the year ended December 31, 2014 were attributable to the fair value changes related to foreign exchange contracts outstanding at the end of the year and interest rate caps associated with the mortgages payable. Net fair value gains on financial instruments for the year ended December 31, 2013 were related to the increase in the fair value of interest rate caps associated with the mortgages payable (see note 14 to the audited combined financial statements for the year ended December 31, 2014).

Acquisition Transaction Costs

As previously discussed, acquisition transaction costs of $0.2 million for the year ended December 31, 2014 were related primarily to advisory costs associated with the acquisition in December 2014. In the year ended December 31, 2013, Granite incurred $14.2 million in acquisition transaction costs. These costs included $13.3 million of primarily land transfer taxes and advisory costs related to acquisitions of income-producing properties in Europe which occurred in the fourth quarter of 2013 and $0.9 million of advisory costs associated with the acquisition of four income-producing properties in the United States.

Gain on Meadows Holdback

In the first quarter of 2013, the Trust entered into a settlement agreement pursuant to which the Trust received U.S. $5.0 million relating to a holdback receivable of a former subsidiary's sale of a property in 2006. The settlement proceeds comprised a cash payment of U.S. $1.5 million and a non-interest bearing promissory note of U.S. $3.5 million payable in U.S. $0.5 million monthly instalments which commenced March 31, 2013 and concluded with the final instalment received in October 2013.

Loss (Gain) on Sale of Investment Properties

The net gain on sale of investment properties of $1.4 million for the year ended December 31, 2014 related to the sale of a parcel of excess land located in Austria for gross proceeds of $1.7 million, net of $0.3 million of selling costs associated with the disposal of four income-producing properties located in the United States and Germany.

In the year ended December 31, 2013, the net loss on sale of investment properties included $0.6 million of selling costs associated with the disposal of an income-producing property located in Poland and three vacant properties located in North America and the United Kingdom. The Trust also incurred $0.2 million of costs related to the sale of an investment property in Germany, which closed in January 2014.

Income Tax Expense (Recovery)

Income tax expense for the year ended December 31, 2014 was $8.5 million. Included in the tax expense for the year was a current income tax expense of $4.3 million comprised of:

i. $4.0 million expense related to foreign operations and Canadian corporate entities subject to tax;

ii. $1.8 million recovery in unrecognized tax benefits that included the release of a tax reserve of $3.6 million on the successful completion of a federal income tax audit in Canada;

iii. $0.6 million related to withholding tax expense paid on the repatriation from foreign operations that was fully offset by the reversal of the deferred tax expense recorded in prior periods; and

iv. $1.5 million tax expense related to the sale of an income-producing property in Germany and excess land in Austria.

The deferred tax portion of the income tax expense was $4.2 million and related largely to other timing differences associated with certain foreign operations and to a lesser extent related withholding taxes offset by fair value losses on investment properties in foreign jurisdictions.

The effective income tax rate for the year ended December 31, 2014 was 11.8% compared to an effective income tax rate of 8.0% for the year ended December 31, 2013, excluding a $41.9 million reversal of the Canadian deferred tax liabilities recorded prior to the January 3, 2013 REIT conversion. The effective tax rate for the current year was higher than the prior year primarily due to the impact of the net fair value losses on investment properties and other expenses in entities that do not record deferred taxes and the tax expense associated with the above noted property sales in Europe.

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

Net Income from Continuing Operations

For the year ended December 31, 2014, net income from continuing operations was $63.7 million compared to $143.4 million in the prior year. The decrease of $79.7 million was primarily due to a $45.9 million increase in deferred tax expense largely from the reversal of $41.9 million in Canadian deferred tax liabilities in the prior year as a result of converting to a REIT on January 3, 2013, a $35.4 million increase in net fair value losses on investment properties and the $28.6 million of early redemption costs related to the 2016 Debentures. These decreases in net income from continuing operations were partially offset by increased rental revenue and tenant recoveries of $17.5 million and decreased acquisition transaction costs of $14.1 million.

Net Income from Discontinued Operations

On June 26, 2014, Granite completed the disposition of its portfolio of Mexican properties to Magna for net cash proceeds before income taxes of $108.6 million. In the year ended December 31, 2014, Granite incurred a loss on disposal of $5.1 million which included a $4.6 million closing adjustment and $0.5 million in selling costs related to the disposition. As a result of the disposition of the Mexican operation, net cumulative foreign currency translation gains of $5.7 million, which had been recorded in other comprehensive income, were reclassified from equity and recorded in net income. Net income from discontinued operations and the related net gain (loss) on sale was comprised of the following:

	Years ended December 31,	
	2014	2013
Rental revenue	**$ 7.1**	$13.3
Operating costs and expenses	**0.1**	0.3
Fair value losses on investment properties, net	**—**	9.0
Income before income taxes	**7.0**	4.0
Income tax expense	**(1.6)**	(1.8)
Income from discontinued operations before net gain (loss) on sale of disposed properties	**5.4**	2.2
Loss on sale of investment properties	**(5.1)**	(0.3)
Reclassification of cumulative foreign currency translation amounts relating to foreign operation disposed of in the year	**5.7**	—
Income tax recovery	**0.8**	—
Net gain (loss) on sale of disposed properties	**1.4**	(0.3)
Net income from discontinued operations	**$ 6.8**	$ 1.9

Net Income

Net income was $70.4 million in the year ended December 31, 2014 in comparison to $145.3 million in the prior year. The $74.9 million decrease was due to the $79.7 million decrease in net income from continuing operations for the reasons previously noted partially offset by a $4.9 million increase in net income from discontinued operations.

Funds From Operations

(in thousands, except per unit information)	Year Ended December 31, 2014	2013	Change
Net income attributable to stapled unitholders	**$ 70,213**	$145,031	
Add (deduct):			
Fair value losses on investment properties	**51,620**	16,182	
Fair value gains on financial instruments	**(177)**	(72)	
Gain on Meadows holdback	**—**	(5,143)	
Acquisition transaction costs	**189**	14,246	
Loss (gain) on sale of investment properties	**(1,416)**	778	
Current income tax expense associated with the sale of investment properties	**1,538**	—	
Deferred income taxes	**4,238**	(41,856)	
Non-controlling interests relating to the above	**(104)**	(105)	
FFO adjustments related to discontinued operations	**(848)**	9,224	
FFO	**125,253**	138,285	(9%)
Early redemption costs of unsecured debentures	**28,580**	—	
Withholding tax payment	**—**	4,220	
Comparable FFO	**$153,833**	$142,505	8%
Basic and diluted FFO per stapled unit	**$ 2.66**	$ 2.95	(9%)
Basic and diluted comparable FFO per stapled unit	**$ 3.27**	$ 3.04	8%
Basic number of stapled units outstanding	**47,001**	46,925	
Diluted number of stapled units outstanding	**47,071**	46,949	

Comparable FFO for the year ended December 31, 2014 was $153.8 million and comprised of $147.9 million from continuing operations and $5.9 million from discontinued operations. Comparable FFO for the year ended December 31, 2013 was $142.5 million and comprised of $131.4 million from continuing operations and $11.1 million from discontinued operations. The $11.3 million increase in comparable FFO was primarily due to increased rental revenue of $17.5 million and a $3.0 million increase in net foreign exchange gains partially offset by a $3.4 million increase in net interest expense, a $1.0 million increase in general and administrative expenses and a $5.2 million decrease in FFO from the discontinued operation.

LIQUIDITY AND CAPITAL RESOURCES

Operating activities of continuing operations generated cash of $39.1 million and $87.4 million in the three month period and year ended December 31, 2014, respectively. At December 31, 2014, the Trust had cash and cash equivalents of $116.2 million and unitholders' equity of $1.6 billion.

Cash Flows

Three Months Ended December 31, 2014

Components of the Trust's cash flows for the three month periods ended December 31, 2014 and 2013 were as follows:

	Three months ended December 31,	
	2014	2013
Cash Flows		
Net income (loss) from continuing operations	**$ 21.3**	$ (3.9)
Items not involving current cash flows	**17.2**	29.0
Current income tax expense	**1.7**	2.0
Income taxes paid	**(0.3)**	(0.4)
Interest expense	**3.9**	6.5
Interest paid	**(3.2)**	(7.6)
Changes in working capital balances from continuing operations	**(1.5)**	(0.6)
Cash provided by operating activities from continuing operations	**39.1**	25.0
Cash provided by (used in) operating activities from discontinued operations	**(0.2)**	3.1
Cash provided by operating activities	**$ 38.9**	$ 28.1
Acquisitions	**$(79.0)**	$(179.8)
Real estate properties and fixed asset additions	**(15.8)**	(6.4)
Cash provided by other investing activities from continuing operations	**14.6**	6.6
Cash used in investing activities	**$(80.2)**	$(179.6)
Distributions paid	**$(25.8)**	$ (24.6)
Proceeds from issuance of debt	**71.7**	200.0
Repayments of debt	**(0.1)**	(9.8)
Cash used in other financing activities	**(0.4)**	(1.5)
Cash provided by financing activities	**$ 45.4**	$ 164.1

Operating Activities

In the three month period ended December 31, 2014, operating activities from continuing operations generated cash of $39.1 million compared to $25.0 million in the prior year period. The increase of $14.1 million was primarily due to a $7.5 million decrease in acquisition transaction costs, a $4.4 million decrease in interest paid and a $1.4 million increase in net foreign exchange gains.

In the three month period ended December 31, 2014, changes in working capital balances used cash of $1.5 million. The components comprised:

i. a decrease in accounts payable and accrued liabilities of $3.8 million, primarily due to the release of deposits received in the previous quarter related to the sale of an income-producing property which closed in the fourth quarter of 2014; partially offset by

ii. an increase in deferred revenue of $0.9 million, due to the timing of rental receipts;

iii. a decrease in accounts receivable of $0.9 million, also due to the timing of rental receipts; and

iv. a decrease in prepaid expenses of $0.5 million.

For the three month period ended December 31, 2013, the change in working capital balances used cash of $0.6 million and was primarily comprised of a $1.3 million decrease in accounts payable and accrued liabilities, primarily due to the payment of accrued acquisition costs, partially offset by a $0.8 million decrease in accounts receivable due to the receipt of VAT receivable related to a completed expansion project in Germany.

Cash provided by operating activities from discontinued operations for the three month period ended December 31, 2013 of $3.1 million was primarily related to $3.4 million of rental revenue.

Investing Activities

Investing activities for the three month period ended December 31, 2014 used net cash of $80.2 million, which was comprised of:

i. cash payments of $79.0 million related to the acquisition of three properties (see ''*SIGNIFICANT MATTERS — Acquisition*'');

ii. investment property capital expenditures of $15.7 million; and

iii. net proceeds of $14.6 million related to the disposal of two income-producing properties in the United States and Germany and excess land in Austria.

Cash used in investing activities for the fourth quarter of 2013 of $179.6 million was primarily due to cash payments of $179.8 million related to acquisitions and investment property capital expenditures of $6.1 million, partially offset by net proceeds of $6.6 million on the disposal of investment properties.

Financing Activities

Cash provided by financing activities for the three month period ended December 31, 2014 of $45.4 million was primarily attributed to $62.8 million of borrowings from U.S. dollar denominated bank indebtedness and $8.9 million of proceeds from the 2017 Construction Loan (see *''LIQUIDITY AND CAPITAL RESOURCES — Bank and Debenture Financing'')* net of distribution payments of $25.8 million.

Cash provided by financing activities for the three month period ended December 31, 2013 of $164.1 million was primarily related to $200.0 million of proceeds received from the issuance of the debentures that mature in 2018 (see ''*LIQUIDITY AND CAPITAL RESOURCES — Bank and Debenture Financing*'') partially offset by distribution payments of $24.6 million, repayment of bank indebtedness of $9.8 million and $1.7 million of financing costs paid with respect to the issuance of the debentures maturing in 2018.

Year Ended December 31, 2014

Operating Activities

	Years Ended December 31,	
	2014	2013
Cash Flows		
Net income from continuing operations	**$ 63.7**	$143.4
Items not involving current cash flows	**64.5**	(25.6)
Tenant allowance	**(37.8)**	—
Current income tax expense	**4.3**	8.5
Income taxes paid	**(4.4)**	(12.4)
Interest expense	**22.6**	19.9
Interest paid	**(19.4)**	(17.0)
Changes in working capital balances from continuing operations	**(6.1)**	0.6
Cash provided by operating activities from continuing operations	**87.4**	117.4
Cash provided by operating activities from discontinued operations	**5.5**	10.5
Cash provided by operating activities	**$ 92.9**	$127.9

For the year ended December 31, 2014, operating activities from continuing operations generated cash of $87.4 million compared to $117.4 million in the prior year. Excluding the $37.8 million payment related to the lease incentive in respect of the extension at Granite's largest facility in Thondorf, Austria and the $27.7 million of payments related to the early redemption of the 2016 Debentures, cash provided by operating activities from continuing operations for the year ended December 31, 2014 would have been $152.9 million. The $35.5 million net increase over the prior year was primarily related to:

i. a $17.5 million increase in rental revenue;

ii. a $14.1 million decrease in acquisition transaction costs;

iii. a $8.0 million decrease in income tax payments; and

iv. a $3.0 million increase in net foreign exchange gains; partially offset by

v. a $6.7 million increase in cash used by changes in working capital balances.

The change in working capital balances for the year ended December 31, 2014 reflected a use of cash of $6.1 million primarily due to a $6.4 million decrease in accounts payable and accrued liabilities, which included payments of acquisition expenses, and lower property-related and professional fee accruals.

For the year ended December 31, 2013, the change in working capital balances generated cash of $0.6 million primarily due to a $1.2 million decrease in accounts receivable primarily due to the collection of a receivable related to a completed capital project and a $0.5 million transfer of funds from restricted cash upon the completion of a capital project, partially offset by a $1.1 million decrease in deferred revenue due to the timing of rental receipts.

Cash provided by operating activities from discontinued operations for the year ended December 31, 2014 of $5.5 million primarily consists of $7.1 million of rental revenue, partially offset by $1.0 million of income taxes paid. Cash provided by operating activities from discontinued operations for the year ended December 31, 2013 of $10.5 million was primarily related to $13.3 million of rental revenue partially offset by $2.1 million of income tax payments and $0.3 million of net cash outflows related to the change in working capital balances.

Investing Activities

Investing activities for the year ended December 31, 2014 provided cash of $20.1 million. The major components included $104.4 million of proceeds received on the disposition of the Mexican properties which was net of $5.1 million of income tax instalments, $39.1 million of net proceeds received on the disposal of five other properties, partially offset by $79.0 million of cash payments related to the previously discussed acquisition and $43.7 million of investment property capital expenditures.

For the year ended December 31, 2013, investing activities used cash of $253.6 million. This was largely attributable to $247.6 million of cash payments related to acquisitions and $28.9 million in investment property capital expenditures that were partially offset by net proceeds from the disposal of income-producing properties of $16.8 million and proceeds from notes receivable of $7.9 million.

Financing Activities

For the year ended December 31, 2014, financing activities used cash of $90.7 million which was largely comprised of the following:

i. the $265.0 million repayment of the 2016 Debentures (*see ''SIGNIFICANT MATTERS — Redemption of 2016 Debentures''*);

ii. distribution payments of $103.2 million; and

iii. payments of $2.4 million for financing costs related to the 2021 Debentures and the 2017 Construction Loan (see *''LIQUIDITY AND CAPITAL RESOURCES — Bank and Debenture Financing'');*

that were partially offset by:

iv. $250.0 million of proceeds received from the issuance of the 2021 Debentures;

v. $8.1 million of net U.S. dollar denominated borrowings from bank indebtedness;

vi. U.S. dollar secured long-term debt borrowings of $19.8 million; and

vii. $1.8 million received upon the exercise of unit options.

Cash generated by financing activities for the year ended December 31, 2013 of $162.1 million was primarily related to $200.0 million of proceeds received on the issuance of the debentures that mature in 2018 (see ''*LIQUIDITY AND CAPITAL RESOURCES — Bank and Debenture Financing*''), $50.4 million of net borrowings from bank indebtedness and $3.1 million received upon the exercise of unit options, partially offset by distribution payments of $90.3 million.

Bank and Debenture Financing

Granite's debt consisted of the following:

	December 31, 2014		December 31, 2013	
	Carrying Value	Percent of Total	Carrying Value	Percent of Total
Unsecured debentures, net	**$447.0**	**77%**	$462.0	81%
Cross currency interest rate swaps, net	**3.4**	**1**	11.0	2
Mortgages, net	**41.9**	**7**	38.6	7
Construction loans, net	**24.2**	**4**	3.3	1
Bank indebtedness	**62.6**	**11**	53.2	9
	$579.1	**100%**	$568.1	100%
Fair value of investment properties	**$2,310.4**		$2,351.9	
Leverage ratio[1]	**25%**		24%	

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

Unsecured Debentures and Cross Currency Interest Rate Swaps

On July 3, 2014, Granite LP issued $250.0 million of Series 2 senior debentures due July 5, 2021. Interest on the 2021 Debentures is payable semi-annually in arrears on January 5 and July 5 of each year. The 2021 Debentures rank equally with all of the Trust's existing and future unsubordinated and unsecured indebtedness and are guaranteed by Granite REIT and Granite GP. The proceeds from the 2021 Debentures, together with other available funds, were used to redeem the 2016 Debentures. At December 31, 2014, all of the 2021 Debentures remained outstanding and the balance net of issuance costs was $248.5 million.

Also on July 3, 2014, the Trust entered into a cross currency interest rate swap to exchange the Cdn. dollar 3.788% interest payments from the 2021 Debentures to euro denominated payments at 2.68%. In addition, under the terms of the swap, the Trust will pay principal proceeds of euro 171.9 million for $250.0 million on July 5, 2021. As at December 31, 2014, the fair value of the cross currency interest rate swap was a net financial asset of $0.5 million.

In October 2013, Granite issued $200.0 million Series 1 senior debentures due October 2, 2018 (the ''2018 Debentures''). The 2018 Debentures rank equally with all of the Trust's existing and future unsubordinated and unsecured indebtedness and are guaranteed by Granite REIT and Granite GP. At December 31, 2014, all of the 2018 Debentures remained outstanding and the balance net of issuance costs was $198.5 million.

Also in October 2013, the Trust entered into a cross currency interest rate swap to exchange the $200.0 million proceeds and related 4.613% interest payments from the 2018 Debentures to euro 142.3 million and euro denominated interest payments at a 3.56% interest rate. Under the terms of the swap, on October 2, 2018, the Trust will repay the principal proceeds received of euro 142.3 million for $200.0 million. As at December 31, 2014, the fair value of the cross currency interest rate swap was a net financial liability of $3.8 million.

In December 2004, Granite issued $265.0 million of unsecured debentures, which were due December 22, 2016, at a price of $995.70 per $1,000.00 of principal amount. As noted earlier, in the third quarter of 2014, the 2016 Debentures were fully redeemed for an aggregate redemption price of $294.7 million, which included a redemption premium of $27.7 million and accrued and unpaid interest to the Redemption Date of $2.0 million (*see ''SIGNIFICANT MATTERS — Redemption of 2016 Debentures''*).

Mortgages

In connection with the acquisitions of income-producing properties that were completed in February and May 2013, the Trust has two mortgages outstanding totaling $41.9 million (U.S. $36.1 million), net of issuance costs. The mortgages mature on June 10, 2017 and May 10, 2018, respectively, and both bear interest at LIBOR plus 2.50%. Interest rate caps were entered into for 100% of the mortgage amounts and for the duration of the mortgages thereby limiting the interest rate exposure to a maximum of 4.0%. The mortgages are recourse only to the three investment properties acquired which are pledged as collateral.

Construction Loans

On June 20, 2014, Granite entered into the 2017 Construction Loan for U.S. $26.2 million relating to land that was previously held for development (see *''INVESTMENT PROPERTIES — Properties and Land Under Development'')*. The 2017 Construction Loan bears interest at LIBOR plus 2.25% and matures on June 20, 2017. Proceeds from the 2017 Construction Loan may only be used to pay for the construction cost of improvements on the property and other related costs and loan advances are made based on the value of the work completed. Granite also has the option to extend the maturity date for two successive periods to June 20, 2018 and 2019, subject to certain terms and conditions. The 2017 Construction Loan is secured by a first mortgage lien on the property. At December 31, 2014, the amount outstanding net of issuance costs was $8.7 million (U.S. $7.5 million).

In July 2013, the Trust entered into the 2016 Construction Loan for U.S. $17.0 million relating to the construction of a multipurpose facility in the United States (see *''INVESTMENT PROPERTIES — Properties and Land Under Development'').* The 2016 Construction Loan bears interest at LIBOR plus 2.25% and matures on July 25, 2016. Proceeds from the 2016 Construction Loan may only be used to pay for the cost of improvements on the property and other related costs and loan advances are made based on the value of the work completed. The maximum amount available under the 2016 Construction Loan may be increased to U.S. $19.0 million, subject to certain terms and conditions being met. The Trust has the option to extend the maturity date for two successive periods to July 25, 2017 and 2018, subject to certain terms and conditions. The 2016 Construction Loan is secured by a first mortgage lien on the property. At December 31, 2014, the amount outstanding net of issuance costs was $15.5 million (U.S. $13.3 million).

Credit Facility

Effective December 11, 2014, the Trust entered into an amended and restated agreement for an unsecured senior revolving credit facility in the amount of $250.0 million that is available by way of Cdn. dollar, U.S. dollar or euro denominated loans or letters of credit (the ''Granite Credit Facility'') and matures on February 1, 2018. The Trust has the option to extend the maturity date by one year to February 1, 2019, subject to the agreement of lenders in respect of a minimum of 66⅔% of the aggregate amount committed under the Granite Credit Facility. The Granite Credit Facility provides Granite with the ability to increase the amount of the commitment by an additional aggregate principal amount of up to $50.0 million with the consent of the participating lenders. Interest on drawn amounts is calculated based on an applicable margin of 1.45% determined by the Trust's current external credit rating. At December 31, 2014, the Trust had $62.6 million (U.S. $54.0 million) drawn under the Granite Credit Facility and $1.2 million in letters of credit issued against the Granite Credit Facility.

The Granite Credit Facility replaced an unsecured senior revolving credit facility in the amount of $175.0 million that was available by way of Cdn. dollar, U.S. dollar or euro denominated loans or letters of credit and would have matured on February 1, 2015.

Management believes that the Trust's cash resources, cash flow from operations and available third-party borrowings will be sufficient to finance its operations and capital expenditures program over the next year as well as pay distributions. Additional acquisition and development activity will depend on the availability of suitable investment opportunities and related financing.

At December 31, 2014, the Trust was in compliance with its debt agreements and related covenants.

Credit Ratings

On June 16, 2014, Moody's Investors Service, Inc. upgraded its credit rating of the Trust to Baa2 with a stable outlook from Baa3 with a positive outlook and on June 30, 2014, Moody's confirmed the higher rating. On July 23, 2014, DBRS Limited confirmed the BBB rating on the 2018 Debentures and 2021 Debentures with a stable trend. Credit ratings are intended to provide investors with an independent measure of credit quality of an issue of securities. A rating accorded to any security is not a recommendation to buy, sell or hold such securities and may be subject to revision or withdrawal at any time by the rating organization which granted such ratings.

Distributions

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

	Three Months Ended December 31,		**Years ended December 31,**	
(in thousands)	**2014**	2013	**2014**	2013
Net income (loss)	**$ 21,356**	$ (2,391)	**$ 70,417**	$145,266
Cash flows provided by operating activities	**38,924**	28,069	**92,863**	127,894
Distributions paid and payable	**(26,234)**	(25,021)	**(103,641)**	(98,922)
Cash flows from operating activities over (under) distributions paid and payable	**$ 12,690**	$ 3,048	**$ (10,778)**	$ 28,972

Distributions declared to stapled unitholders in the three month periods ended December 31, 2014 and 2013 were $26.2 million or 55.8 cents per stapled unit and $25.0 million or 53.3 cents per stapled unit, respectively. Total distributions declared to stapled unitholders in the years ended December 31, 2014 and 2013 were $103.6 million or $2.21 per stapled unit and $98.9 million or $2.11 per stapled unit, respectively. Excluding the $27.7 million of payments related to the early redemption of the 2016 Debentures that was funded with the proceeds from the sale of the Mexican properties and the $37.8 million lease incentive related to the Thondorf lease extension that was funded with cash on hand, cash provided by operating activities for the year ended December 31, 2014 would have been $158.4 million, being a more representative amount and more comparable to the prior year. The Trust expects distributions to be funded from cash flows from operating activities.

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

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The 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''), as of the end of the period covered by the annual filings (as defined in NI 52-109) (the ''Evaluation Date''). They have concluded that, as of the Evaluation Date, the Trust's disclosure controls and procedures were effective to ensure that material information relating to Granite and its subsidiaries would be made known to them by others within those entities and would be disclosed on a timely basis. However, as recommended by Canadian and United States securities regulators, the Trust will continue to periodically evaluate its disclosure controls and procedures and will make modifications from time to time as deemed necessary to ensure that information is recorded, processed, summarized and reported within the time periods specified in the applicable rules.

Management's Report on Internal Control Over Financial Reporting

The Trust's management is responsible for establishing and maintaining 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. Under the supervision and with the participation of Granite's Chief Executive Officer and Chief Financial Officer, management conducted an evaluation of the effectiveness of Granite'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 Granite's internal control over financial reporting was effective as of December 31, 2014.

Deloitte LLP, an independent registered public accounting firm, who audited the Trust's combined financial statements as at and for the year ended December 31, 2014 and whose report is included in the Trust's annual report for fiscal 2014, has also issued an attestation report under standards of the Public Company Accounting Oversight Board (United States) on Granite's internal control over financial reporting as of December 31, 2014. The attestation report precedes the financial statements included in the Trust's annual report for fiscal 2014.

Changes in Internal Control Over Financial Reporting

As of the Evaluation Date, there have been 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, 2014 that have materially affected, or 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 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.

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

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

The Trust has made commitments for future payments of interest and principal on long-term debt, construction and development project costs and certain other costs. At December 31, 2014, future payments, including interest payments, under these contractual obligations were as follows:

(in thousands) **As at December 31, 2014**	**Total**	Payments due by year **2015**	**2016**	**2017**	**2018**	**2019**	**Thereafter**
Unsecured debentures	**$450,000**	$ —	$ —	$ —	$200,000	$ —	$250,000
Cross currency interest rate swap	**3,829**	—	—	—	3,829	—	—
Secured long-term debt	**66,634**	894	16,600	35,821	13,319	—	—
Bank indebtedness	**62,645**	—	—	—	62,645	—	—
Interest expense:							
Unsecured debentures, net of cross currency interest rate swaps	**74,711**	13,786	13,757	13,757	13,757	6,552	13,102
Secured long-term debt	**4,108**	1,699	1,511	772	126	—	—
Bank indebtedness	**3,130**	1,015	1,015	1,015	85	—	—
Contingent consideration	**4,817**	—	—	—	4,817	—	—
Lease incentive payable	**8,423**	—	—	—	8,423	—	—
Construction and development commitments	**12,975**	12,975	—	—	—	—	—
	$691,272	$30,369	$32,883	$51,365	$307,001	$6,552	$263,102

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.

Off-balance sheet arrangements consisted of $1.2 million in letters of credit, construction and development project commitments of approximately $13.0 million and $1.6 million related to certain operating agreements.

For further discussion of commitments, contractual obligations, contingencies and off-balance sheet arrangements, refer to notes 6, 7, 8, 9, 18 and 22 to the audited combined financial statements for the year ended December 31, 2014 and ''*LIQUIDITY AND CAPITAL RESOURCES*''.

RELATED PARTY TRANSACTIONS

For a discussion of the Trust's transactions with related parties, please refer to note 20 to the audited combined financial statements for the year ended December 31, 2014.

OUTSTANDING STAPLED UNITS

As at the date of this MD&A, the Trust had 47,016,874 stapled units issued and outstanding. The decrease from the issued and outstanding stapled units of 47,016,909 at December 31, 2014 resulted from the redemption of 35 stapled units in February 2015.

DISTRIBUTIONS

Granite REIT's monthly distribution to unitholders is currently 19.2 cents per stapled unit, representing, on an annualized basis, $2.30 per stapled unit. Total distributions declared in the year ended December 31, 2014 were $103.6 million. In January and February 2015, Granite declared monthly distributions of 19.2 cents per stapled unit or $9.0 million, with respect to the one month periods ended January 31, 2015 and February 28, 2015, respectively. The distribution declared in January 2015 was paid on February 17, 2015 and the distribution declared in February 2015 will be paid on March 16, 2015.

CRITICAL ACCOUNTING ESTIMATES

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

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

Judgments

Leases

The Trust's policy for revenue recognition is described in note 2(j) of the audited combined financial statements for the year ended December 31, 2014. The Trust makes judgments in determining whether certain leases are operating or finance leases, in particular tenant leases with long contractual terms, leases where the property is a large square-footage and/or architecturally unique and long-term ground leases where the Trust is the lessee.

Investment properties

The Trust's policy relating to investment properties is described in note 2(d) of the audited combined financial statements for the year ended December 31, 2014. In applying this policy, judgment is applied in determining whether certain costs incurred for tenant improvements are additions to the carrying amount of the property or represent incentives, identifying the point at which practical completion of properties under development occurs and determining borrowing costs to be capitalized to the carrying value of properties under development. Judgment is also applied in determining the use, extent and frequency of independent appraisals.

Income taxes

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

Estimates and Assumptions

Valuation of investment properties

The fair value of investment properties is determined by management using primarily the discounted cash flow method in which the income and expenses are projected over the anticipated term of the investment plus a terminal value discounted using an appropriate discount rate. The Trust obtains, from time to time, appraisals from independent qualified real estate valuation experts. However, the Trust does not measure its investment properties based on these valuations, but uses such appraisals as data points, together with other external market information accumulated by management, in arriving at its own conclusions on values. 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 of the audited combined financial statements for the year ended December 31, 2014 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, they are determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as credit risk and volatility. Changes in assumptions about these factors could materially affect the reported fair value of financial instruments.

Income taxes

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

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

NEW ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS

Adoption of Accounting Standards

The Trust adopted the following new standards and interpretations effective January 1, 2014.

There were a number of amendments to International Accounting Standard 32 Financial Instruments: Presentation (''IAS 32''), relating to offsetting certain assets and liabilities. These amendments relate to the application of the guidance set out in IAS 32 and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The amendments were effective January 1, 2014. The adoption of these amendments did not have an impact on the Trust's combined financial statements.

In May 2013, IFRIC Interpretation 21 — Levies (''IFRIC 21'') was issued which is an interpretation of IAS 37 — Provisions, Contingent Liabilities and Contingent Assets. IFRIC 21 clarifies what the obligating event is that gives rise to a levy and when a liability should be recognized. IFRIC 21 was effective for years beginning on or after January 1, 2014 and must be applied retrospectively. For the purposes of IFRIC 21, property taxes payable by the Trust are considered levies. The adoption of this standard did not have an impact on the Trust's 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, 2014, are described below. Granite intends to adopt these standards when they become effective.

IFRS 9, Financial instruments (''IFRS 9'')

In July 2014, the International Accounting Standards Board (''IASB'') issued the final version of IFRS 9 — Financial Instruments which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 — Financial Instruments: Recognition and Measurement. The key elements of the final standard are as follows: *Classification and measurement* — introduces a logical approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. *Impairment* — introduces a new, expected-loss impairment model that will require more timely recognition of expected credit losses. IFRS 9 also includes new disclosure requirements about expected credit losses and credit risk. *Hedge accounting* —

introduces a substantially reformed model for hedge accounting that more closely aligns with risk management activities undertaken by entities when hedging their financial and non-financial risk exposures. *Own credit* — removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss and are recognized in other comprehensive income instead. IFRS 9 will be applied retrospectively for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Trust has not yet determined the impact of this standard on its combined financial statements.

IFRS 15, Revenue from contracts with customers ("IFRS 15")

In May 2014, the IASB issued IFRS 15 — Revenue from Contracts with Customers, which replaces IAS 11 — Construction Contracts and IAS 18 — Revenue, as well as various other interpretations regarding revenue. IFRS 15 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 also contains enhanced disclosure requirements. It will be applied retrospectively for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Trust has not yet determined the impact of this standard on its combined financial statements.

RISKS AND UNCERTAINTIES

Investing in our stapled units involves a high degree of risk. There are a number of risk factors that could have a material adverse effect on our business, financial condition, operating results and prospects. These risks and uncertainties are discussed in our AIF filed with securities regulators in Canada and available online at www.sedar.com and Annual Report on Form 40-F filed with the SEC and available online on EDGAR at www.sec.gov, each in respect of the year ended December 31, 2014.

SELECTED ANNUAL AND QUARTERLY DATA

Refer to note 2 of the audited combined financial statements for the year ended December 31, 2014 for a description of the accounting policies used in the determination of the financial data.

(in thousands, except per unit/share information)

Years ended December 31,	**2014**	**2013**	**2012[1]**
Rental revenue and tenant recoveries	**$207,410**	$189,900	$168,818
Net income attributable to stapled unitholders or common shareholders:			
Continuing operations	**$ 63,456**	$143,209	$136,802
Discontinued operations	**6,757**	1,822	12,954
Net income attributable to stapled unitholders or common shareholders	**$ 70,213**	$145,031	$149,756
Add (deduct):			
Fair value losses (gains) on investment properties	**51,620**	16,182	(30,323)
Fair value losses (gains) on financial instruments	**(177)**	(72)	359
Gain on Meadows holdback	**—**	(5,143)	—
Acquisition transaction costs	**189**	14,246	—
Loss (gain) on sale of investment properties	**(1,416)**	778	21
Current income tax expense associated with sale of investment properties	**1,538**	—	—
Deferred income taxes	**4,238**	(41,856)	(6,812)
Non-controlling interests relating to the above	**(104)**	(105)	(15)
FFO adjustments related to discontinued operations	**(848)**	9,224	(3,131)
FFO	**$125,253**	$138,285	$109,855
Adjustments to calculate comparable FFO	**28,580**	4,220	—
Comparable FFO[2]	**$153,833**	$142,505	$109,855
Diluted FFO per stapled unit or share	**$ 2.66**	$ 2.95	$ 2.34
Diluted comparable FFO per stapled unit or share[2]	**$ 3.27**	$ 3.04	$ 2.34
Cash distributions or dividends declared per stapled unit or share	**$ 2.21**	$ 2.11	$ 1.99
Payout ratio[2]	**67%**	69%	85%
Basic stapled units or shares outstanding	**47,001**	46,925	46,855
Diluted stapled units or shares outstanding	**47,071**	46,949	46,876

(1) The amounts reflected for 2012 have been restated for IFRS.

(2) Comparable FFO in the year ended December 31, 2014 excludes $28.6 million with respect to the early redemption of the 2016 Debentures. Comparable FFO in the year ended December 31, 2013 excludes the $4.2 million of withholding taxes paid with respect to the repatriation of prior years' earnings from foreign jurisdictions primarily associated with certain planned internal reorganizations undertaken post REIT conversion.

(in thousands, except per unit information)	Mar 31, 2014(1)	Jun 30, 2014(1)	Sep 30, 2014(1)	Dec 31, 2014(1)	Total 2014
Rental revenue and tenant recoveries	$52,933	$52,160	$51,301	$51,016	$207,410
Net income attributable to stapled unitholders from:					
Continuing operations	$12,067	$26,299	$ 3,636	$21,454	$ 63,456
Discontinued operations	2,388	4,369	—	—	6,757
Net income attributable to stapled unitholders	$14,455	$30,668	$ 3,636	$21,454	$ 70,213
Add (deduct):					
Fair value losses on investment properties	23,553	5,570	4,704	17,793	51,620
Fair value losses (gains) on financial instruments	38	(377)	124	38	(177)
Acquisition transaction costs	—	—	—	189	189
Loss (gain) on sale of investment properties	182	—	80	(1,678)	(1,416)
Current income tax expense associated with sale of investment properties	1,099	—	—	439	1,538
Deferred income taxes	(1,051)	5,541	1,580	(1,832)	4,238
Non-controlling interests relating to the above	10	34	9	(157)	(104)
FFO adjustments related to discontinued operations	718	(1,566)	—	—	(848)
FFO	$39,004	$39,870	$10,133	$36,246	$125,253
Adjustments to calculate comparable FFO(2)	—	—	28,580	—	28,580
Comparable FFO(2)	$39,004	$39,870	$38,713	$36,246	$153,833
Diluted FFO per stapled unit	$ 0.83	$ 0.85	$ 0.22	$ 0.77	$ 2.66
Diluted comparable FFO per stapled unit(2)	$ 0.83	$ 0.85	$ 0.82	$ 0.77	$ 3.27
Cash distributions declared per stapled unit	$ 0.55	$ 0.55	$ 0.55	$ 0.56	$ 2.21
Payout ratio(2)	66%	65%	67%	72%	67%
Basic stapled units outstanding	46,962	47,014	47,014	47,014	47,001
Diluted stapled units outstanding	46,973	47,070	47,083	47,091	47,071

(1) The results for 2014 included $23.6 million, $5.6 million, $4.7 million,and $17.8 million ($22.8 million, $5.0 million, $2.9 million and $16.3 million net of income taxes) in the first, second, third and fourth quarters of net fair value losses on investment properties and $28.6 million ($28.6 million net of income taxes) in the third quarter related to the early redemption of the 2016 Debentures.

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

(in thousands, except per unit information)	Mar 31, 2013[1]	Jun 30, 2013[1]	Sep 30, 2013[1]	Dec 31, 2013[1]	Total 2013
Rental revenue and tenant recoveries	$44,946	$46,151	$47,565	$51,238	$189,900
Net income (loss) attributable to stapled unitholders from:					
Continuing operations	$88,955	$39,073	$19,246	$ (4,065)	$143,209
Discontinued operations	5,336	4,475	(9,455)	1,466	1,822
Net income (loss) attributable to stapled unitholders	$94,291	$43,548	$ 9,791	$ (2,599)	$145,031
Add (deduct):					
Fair value losses (gains) on investment properties	(15,030)	(8,122)	9,436	29,898	16,182
Fair value losses (gains) on financial instruments	(495)	643	(4)	(216)	(72)
Gain on Meadows holdback	(5,143)	—	—	—	(5,143)
Acquisition transaction costs	411	382	5,702	7,751	14,246
Loss on sale of investment properties	—	328	—	450	778
Deferred income taxes	(37,322)	(3,624)	(569)	(341)	(41,856)
Non-controlling interests relating to the above	54	(260)	(6)	107	(105)
FFO adjustments related to discontinued operations	(2,760)	(1,637)	12,201	1,420	9,224
FFO	$34,006	$31,258	$36,551	$36,470	$138,285
Adjustments to calculate comparable FFO[2]	—	4,220	—	—	4,220
Comparable FFO[2]	$34,006	$35,478	$36,551	$36,470	$142,505
Diluted FFO per stapled unit	$ 0.73	$ 0.67	$ 0.78	$ 0.78	$ 2.95
Diluted comparable FFO per stapled unit[2]	$ 0.73	$ 0.76	$ 0.78	$ 0.78	$ 3.04
Cash distributions declared per stapled unit	$ 0.52	$ 0.53	$ 0.53	$ 0.53	$ 2.11
Payout ratio[2]	72%	69%	67%	69%	69%
Basic stapled units outstanding	46,882	46,932	46,942	46,942	46,925
Diluted stapled units outstanding	46,910	46,948	46,948	46,957	46,949

(1) The results for 2013 included (i) $1.4 million, $0.6 million, $0.3 million and $0.2 million ($1.4 million, $0.6 million, $0.3 million and $0.1 million net of income taxes) in the first, second, third and fourth quarters of advisory costs related to the REIT conversion and related corporate reorganizations, (ii) $0.4 million, $0.4 million, $5.7 million and $7.8 million ($0.4 million, $0.4 million,$4.7 million and $5.9 million net of income taxes) in the first, second, third and fourth quarters of acquisition transaction costs, (iii) $5.1 million ($5.1 million net of income taxes) in the first quarter related to a gain on the Meadows holdback, (iv) $18.7 million and $10.9 million ($17.4 million and $9.0 million net of income taxes) in the first and second quarters of fair value gains and $25.1 million and $29.8 million ($22.8 million and $25.0 million net of income taxes) of fair value losses in the third and fourth quarters on investment properties, (v) $4.2 million in the second quarter of current tax expense related to net withholding tax on the repatriation of prior years' earnings from foreign jurisdictions and (vi) a $41.9 million deferred income tax recovery related to the REIT conversion in the first quarter.

(2) Comparable FFO in the second quarter of 2013 excludes the $4.2 million of withholding taxes paid with respect to the repatriation of prior years' earnings from foreign jurisdictions primarily associated with certain planned internal reorganizations undertaken post REIT conversion.

FORWARD-LOOKING STATEMENTS

This MD&A and the 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 ''may'', ''would'', ''could'', ''will'', ''likely'', ''expect'', ''anticipate'', ''believe'', ''intend'', ''plan'', ''forecast'', ''project'', ''estimate'', ''seek'' and similar expressions are used to identify forward-looking statements and forward-looking information. Forward-looking statements and forward-looking information should not be read as guarantees of future events, performance or results and will not necessarily be accurate indications of whether or the times at or by which such future performance will be achieved. Undue reliance should not be placed on such statements. There can also be no assurance that intended developments in Granite's relationships with its tenants, the expansion and diversification of Granite's real estate portfolio, the improvement of the overall quality of assets, the increase of overall operational expertise, market knowledge, asset, leasing and property management capabilities and the expected increases in leverage can be achieved in a timely manner, with the expected impact or at all. Forward-looking statements and forward-looking information are based on information available at the time and/or management's good faith assumptions and analyses made in light of Granite's perception of historical trends, current conditions and expected future developments, as well as other factors Granite believes are appropriate in the circumstances, and are subject to known and unknown risks, uncertainties and other unpredictable factors, many of which are beyond Granite's control, that could cause actual events or results to differ materially from such forward-looking statements and forward-looking information. Important factors that could cause such differences include, but are not limited to, the risk of changes to tax or other laws and treaties that may adversely affect Granite REIT's mutual fund trust status under the *Income Tax Act* (Canada) (the ''Tax Act'') or the effective tax rate in other jurisdictions in which Granite operates; economic, market and competitive conditions and other risks that may adversely affect Granite's ability to achieve desired developments in its relationships with its tenants, expand and diversify its real estate portfolio and increase its leverage; and the risks set forth in the ''Risk Factors'' section in Granite's AIF for 2014, 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, 2014 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 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 4, 2015 relating to the combined financial statements of Granite Real Estate Investment Trust and Granite REIT Inc. (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, 2014.

Toronto, Canada
March 4, 2015

/s/ DELOITTE LLP

Deloitte LLP
Chartered Professional Accountants,
Chartered 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, 2014 (the "Report") to which this certification is an exhibit, I, Thomas Heslip, Trustee 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 4, 2015

By: /s/ THOMAS HESLIP

Name: Thomas Heslip
Title: Trustee 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, 2014 (the "Report") to which this certification is an exhibit, I, Thomas Heslip, Director 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 4, 2015

By: /s/ THOMAS HESLIP

Name: Thomas Heslip
Title: Director and Chief Executive Officer

EXHIBIT 99.2

Certifications
Granite Real Estate Investment Trust

I, Thomas Heslip, 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 4, 2015

By: /s/ THOMAS HESLIP

Name: Thomas Heslip
Title: Trustee and Chief Executive Officer

EXHIBIT 99.2

Certifications
Granite REIT Inc.

I, Thomas Heslip, 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 4, 2015

By: /s/ THOMAS HESLIP

Name: Thomas Heslip
Title: Director 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, 2014 (the "Report") to which this certification is an exhibit, I, Michael Forsayeth, 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 4, 2015

By: /s/ MICHAEL FORSAYETH

Name: Michael Forsayeth
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, 2014 (the "Report") to which this certification is an exhibit, I, Michael Forsayeth, 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 4, 2015

By: /s/ MICHAEL FORSAYETH

Name: Michael Forsayeth
Title: Chief Financial Officer

EXHIBIT 99.4

Certifications
Granite Real Estate Investment Trust

I, Michael Forsayeth, 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 4, 2015

By: /s/ MICHAEL FORSAYETH

Name: Michael Forsayeth
Title: Chief Financial Officer

EXHIBIT 99.4

Certifications
Granite REIT Inc.

I, Michael Forsayeth, 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 4, 2015

By: /s/ MICHAEL FORSAYETH

Name: Michael Forsayeth
Title: Chief Financial Officer