



Second Quarter Report
2018

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL POSITION

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BASIS OF PRESENTATION

Management's Discussion and Analysis of Results of Operations and Financial Position ("MD&A") of Granite Real Estate Investment Trust ("Granite REIT") and Granite REIT Inc. ("Granite GP") summarizes the significant factors affecting the combined operating results, financial condition, liquidity and cash flows of Granite REIT, Granite GP and their subsidiaries (collectively "Granite" or the "Trust") for the three and six month periods ended June 30, 2018. Unless otherwise noted, all amounts are in millions of Canadian dollars. This MD&A should be read in conjunction with the accompanying unaudited condensed combined financial statements for the three and six month periods ended June 30, 2018 and the audited combined financial statements for the year ended December 31, 2017 prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The MD&A was prepared as at July 31, 2018 and its contents were approved by the Board of Trustees of Granite REIT and Board of Directors of Granite GP on this date. Additional information relating to Granite, including the Annual Report and Annual Information Form ("AIF") for fiscal 2017, can be obtained from the Trust's website at www.granitereit.com, on SEDAR at www.sedar.com and on EDGAR at www.sec.gov.

In addition to using financial measures determined in accordance with IFRS, Granite also uses certain non-IFRS measures in managing its business to measure financial and operating performance as well as for capital allocation decisions and valuation purposes. Granite believes that providing these measures on a supplemental basis to the IFRS results is helpful to investors in assessing the overall performance of Granite's business. These non-IFRS measures include net operating income ("NOI"), NOI before straight-line rent and tenant incentive amortization ("NOI — cash basis"), funds from operations ("FFO"), adjusted funds from operations ("AFFO"), FFO payout ratio, AFFO payout ratio, leverage ratio, interest coverage ratio, net leverage ratio, indebtedness ratio, unencumbered asset coverage ratio and any related per unit amounts. Readers are cautioned that these measures do not have standardized meanings prescribed under IFRS and, therefore, should not be construed as alternatives to net income, cash flow from operating activities or any other measure calculated in accordance with IFRS. Additionally, because these terms do not have standardized meanings prescribed by IFRS, they may not be comparable to similarly titled measures presented by other reporting issuers. Refer to "NON-IFRS MEASURES" for definitions and reconciliations of non-IFRS measures to IFRS financial measures.

FINANCIAL AND OPERATING HIGHLIGHTS

<i>(in millions, except as noted)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Operating highlights				
Revenue ⁽¹⁾	\$ 62.1	\$ 60.5	\$123.8	\$121.3
NOI — cash basis ⁽²⁾	55.2	54.2	107.5	108.6
Net income attributable to stapled unitholders	149.2	42.9	221.5	73.1
FFO ⁽²⁾⁽³⁾	37.6	31.6	88.7	71.2
AFFO ⁽²⁾⁽³⁾	29.4	32.5	60.5	72.8
Cash flows provided from operating activities	45.0	33.8	82.5	80.0
Distributions paid	31.2	30.7	62.8	61.4
FFO payout ratio ⁽²⁾⁽⁴⁾	79%	82%	79%	80%
AFFO payout ratio ⁽²⁾⁽⁴⁾	99%	80%	104%	78%
Per unit amounts				
Diluted FFO ⁽²⁾⁽³⁾	\$ 0.82	\$ 0.67	\$ 1.93	\$ 1.51
Diluted AFFO ⁽²⁾⁽³⁾	\$ 0.64	\$ 0.69	\$ 1.32	\$ 1.54
Distributions paid	\$0.681	\$0.651	\$1.362	\$1.302
Diluted weighted average number of units	45.8	47.2	46.1	47.2
As at June 30, 2018 and December 31, 2017			2018	2017
Financial highlights				
Investment properties — fair value ⁽⁵⁾			\$3,031.2	\$2,733.6
Assets held for sale ⁽⁵⁾			341.4	391.4
Cash and cash equivalents			50.1	69.0
Total debt			817.6	741.4
Trading price per unit (TSX: GRT.UN)			\$ 53.62	\$ 49.25
Debt metrics				
Net leverage ratio ⁽²⁾			25%	25%
Interest coverage ratio ⁽²⁾			9.7x	9.5x
Weighted average cost of debt			2.65%	2.54%
Weighted average debt term-to-maturity, in years			4.0	4.8
Property metrics⁽⁵⁾				
Number of investment properties			87	87
Income-producing properties			84	84
Land held for development			3	3
Gross leasable area (“GLA”), square feet			31.8	29.1
Occupancy, by GLA			97.3%	98.4%
Magna as a percentage of annualized revenue ⁽⁶⁾			62%	71%
Magna as a percentage of GLA			50%	61%
Weighted average lease term, in years by GLA			5.9	5.9
Overall capitalization rate ⁽⁷⁾			7.0%	7.6%

- (1) Granite has retrospectively applied IFRS 15, *Revenue from Contracts with Customers* (see “NEW ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS”).
- (2) For definitions of Granite’s non-IFRS measures, refer to the section “NON-IFRS MEASURES”.
- (3) In the first quarter of 2018, Granite recognized \$1.0 million (\$0.02 per unit) in revenue relating to a lease termination and close-out fee and a \$10.4 million (\$0.23 per unit) foreign exchange gain on US dollar cash proceeds from the sale of investment properties in January 2018. In the second quarter of 2018, Granite recognized a \$1.9 million (\$0.04 per unit) foreign exchange loss on US dollar cash proceeds from the sale of investment properties in January 2018. In the second quarter of 2017, in connection with a proxy contest that preceded the June 2017 annual general meeting, Granite incurred \$5.9 million (\$0.12 per unit) of proxy contest expenses. FFO, AFFO and the per unit amounts include the \$1.0 million of lease termination and close-out fee, the net \$8.5 million foreign exchange gain on US dollar cash proceeds from the sale of investment properties and the \$5.9 million of proxy contest expenses. In the first quarter of 2018, Granite also paid \$9.1 million (\$0.19 per unit) relating to a tenant incentive allowance for a 2014 lease extension at the Eurostar facility in Graz, Austria. AFFO and AFFO per unit amounts have been reduced by the \$9.1 million tenant allowance payment made in connection with the 2014 lease extension at the Eurostar facility.
- (4) For comparative purposes, the FFO payout ratio and AFFO payout ratio exclude the \$1.0 million of lease termination and close-out fee, the net \$8.5 million foreign exchange gain on US dollar cash proceeds from the sale of investment properties and the \$5.9 million in proxy contest expenses. AFFO payout ratio further excludes the \$9.1 million tenant incentive payment made in connection with the 2014 lease extension at the Eurostar facility.
- (5) Six investment properties located in Canada, the United States and Germany were classified as assets held for sale on the combined financial statements at June 30, 2018. Ten investment properties located in Canada and the United States were classified as assets held for sale at December 31, 2017. Accordingly, in this MD&A, references to investment properties and related property metrics exclude these properties that were classified as assets held for sale.
- (6) Annualized revenue is calculated as rental revenue excluding tenant recoveries, recognized in accordance with IFRS, in the reported quarter multiplied by four quarters.
- (7) Refer to “Valuation Metrics by Investment Property Asset Category” in “Investment Properties” section.

BUSINESS OVERVIEW AND STRATEGIC OUTLOOK

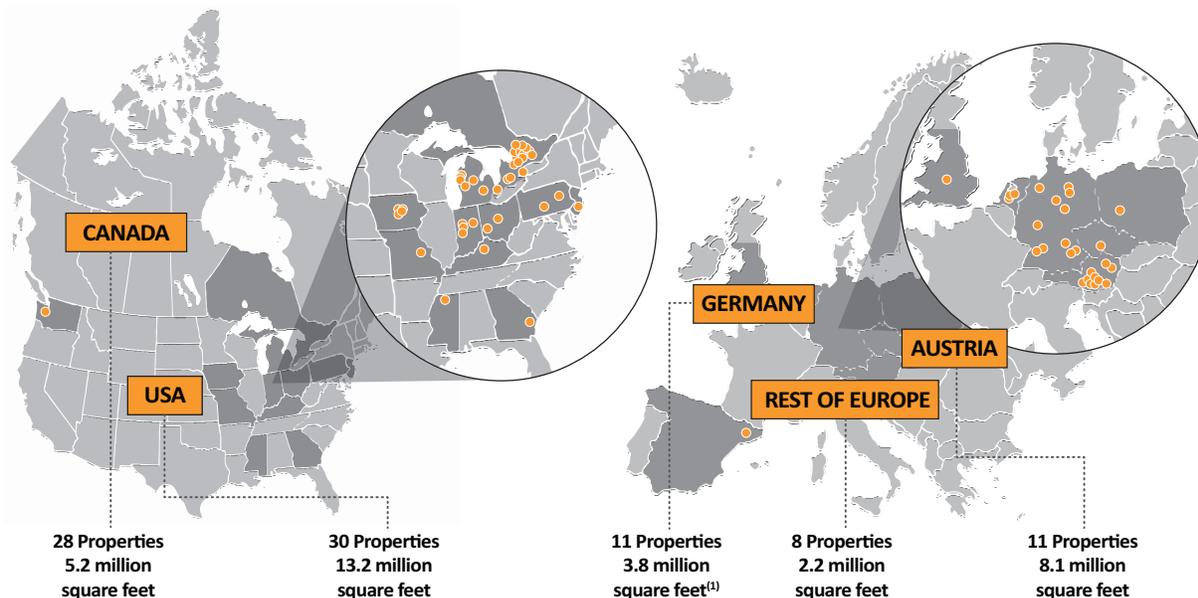
Business Overview

Granite is a Canadian-based real estate investment trust (“REIT”) engaged in the ownership and management of predominantly industrial, warehouse and logistics properties in North America and Europe. As at July 31, 2018, and including a 0.7 million square foot property purchased subsequent to the second quarter of 2018, Granite owns 88 investment properties in nine countries having approximately 32.5 million square feet and five additional properties that are held for sale. The tenant base includes Magna International Inc. and its operating subsidiaries (collectively “Magna”) as the largest tenant, in addition to tenants from other industries. Properties leased to Magna are generally leased to operating subsidiaries of Magna International Inc. and the terms of the leases are not guaranteed by the parent company except for certain leases wherein the parent is the tenant.

Granite’s investment properties consist of income-producing properties, properties and land under development and land held for development (see “INVESTMENT PROPERTIES”). The income-producing properties consist of light industrial properties, heavy industrial manufacturing facilities, warehouse and logistics properties, corporate offices, product development and engineering centres and test facilities. The lease payments are primarily denominated in three currencies: the Canadian dollar (“\$”), the euro (“€”)

and the US dollar (“US\$”). Granite’s investment properties (excluding the five remaining properties held for sale) by geographic location, property count and square footage as at July 31, 2018 are summarized below:

Investment Properties Summary
Nine countries/88 properties/32.5 million square feet⁽¹⁾



⁽¹⁾ Includes a 0.7 million square foot property purchased subsequent to June 30, 2018.

Strategic Outlook

Management is identifying and pursuing value creation opportunities that will build on Granite’s current foundation while managing the existing real estate portfolio, leveraging the balance sheet and investing to grow and diversify the asset base.

Granite’s long-term strategy is to continue to build a high quality and globally diversified industrial real estate business; to grow and diversify its asset base through acquisitions, development, re-development and dispositions; to optimize its balance sheet; and to reduce its exposure to Magna and the special purpose properties (see “*INVESTMENT PROPERTIES*”) over the long-term.

Following the sale of the 10 properties in January 2018 and one in July 2018, and the planned dispositions of five properties held for sale as at June 30, 2018 (see “*SIGNIFICANT MATTERS*”), Granite has positioned itself to seize market opportunities within its geographic footprint and execute on its strategy as well as benefit from a net leverage ratio of 14%, liquidity of approximately \$800 million and a strong pipeline of acquisition opportunities in a rising interest rate environment.

As Granite looks to the remainder of 2018, its priorities are as follows:

- Replace the revenue from the recently sold properties;
- Accelerate growth in its key markets in North America and Europe primarily through property, portfolio and corporate acquisitions as well as through joint venture arrangements and development;
- Continue to sell certain properties that are deemed non-core; and
- Seek to attain a target occupancy in excess of 98%.

Executing on these near-term priorities will accelerate the ongoing transformation of Granite into a high quality, globally diversified industrial real estate business.

SIGNIFICANT MATTERS

Property Acquisitions

During the six month period ended June 30, 2018 and subsequent to the quarter-end, Granite acquired six income-producing modern industrial properties in the United States and one in Germany, respectively, consisting of the following:

(in millions, except as noted)

Property	Location	Sq ft ⁽¹⁾	Weighted average lease term, in years by sq ft ⁽¹⁾	In-going stabilized yield ⁽¹⁾	Date acquired	Property purchase price
Acquired during the six months ended June 30, 2018:						
3870 Ronald Reagan Parkway	Plainfield, Indiana	0.6	5.8	5.3%	March 23, 2018	\$ 50.8
181 Antrim Commons Drive	Greencastle, Pennsylvania	0.4	14.6	5.7%	April 4, 2018	44.3
<i>Ohio portfolio (four properties):</i>						
10, 100 and 115 Enterprise Parkway and 15 Commerce Parkway	West Jefferson, Ohio	3.8	7.0	6.0%	May 23, 2018	299.4
Acquired between July 1, 2018 and July 31, 2018:						
Joseph-Meyer-Straße 3	Erfurt, Germany	0.7	4.7	5.4%	July 12, 2018	82.7
Total		5.5	7.1	5.8%		\$477.2

⁽¹⁾ As at the date of acquisition

Granite has committed to fund and acquire a building expansion at the 10 Enterprise Parkway, West Jefferson, Ohio property for US\$ 17.7 million that would add 0.3 million square feet and approximately \$1.5 million in additional annual revenue upon rent commencement which is expected in the first quarter of 2020. The intended expansion will increase the overall weighted average lease term of the acquired Ohio portfolio to 7.6 years.

Property Dispositions

At June 30, 2018, six non-core investment properties located in Canada, the United States and Germany were classified as held for sale. The six properties, having an aggregate fair value of \$341.4 million, consisted of the following:

Property	Location	Sq ft (in millions)	Fair value	Annualized Revenue ⁽¹⁾
337 and 375 Magna Drive	Aurora, Ontario	0.1	\$ 60.0	\$ 3.7
1 Clearview Drive	Tillsonburg, Ontario	0.3	7.2	0.6
Industriestrasse 11	Schleiz, Germany	0.1	3.7	0.4
1000 JD Yarnell Industrial Parkway	Clinton, Tennessee	0.5	54.8	4.1
120 Moon Acres Road	Piedmont, South Carolina	1.1	215.7	14.2
		2.1	\$341.4	\$23.0

⁽¹⁾ Annualized revenue is calculated as rental revenue excluding tenant recoveries, recognized in accordance with IFRS, in the second quarter of 2018 multiplied by four quarters.

The property in Tillsonburg, Ontario was sold on July 18, 2018 for \$7.2 million. On July 27, 2018, Magna exercised its rights of first refusal in response to a third party offer to acquire Granite's two remaining special

purpose properties in the United States for a total purchase price of approximately \$270 million (US\$ 207 million). The properties are located in Piedmont, South Carolina and Clinton, Tennessee. Completion of the transactions is subject to customary closing conditions and is expected to occur later in the third quarter of 2018. The remaining three properties are also expected to be sold during the third quarter of 2018.

At December 31, 2017, 10 investment properties located in Canada and the United States were classified as held for sale and were subsequently sold in January 2018. The investment properties consisted of the following:

Property	Location	Sq ft (in millions)	Date disposed	Sale price	Annualized Revenue ⁽¹⁾
111 Cosma Drive	Bowling Green, Kentucky	1.2	January 30, 2018	\$170.0	\$12.0
1 Cosma Court and 170 Edward Street	St. Thomas, Ontario	1.5	January 30, 2018	154.6	10.8
<i>Newpark campus (seven properties):</i>					
521, 550, 561, 564, 581, 594 and 630 Newpark Boulevard	Newmarket, Ontario	0.6	January 31, 2018	63.0	2.8
		3.3		\$387.6	\$25.6

⁽¹⁾ Annualized revenue is calculated as rental revenue excluding tenant recoveries, recognized in accordance with IFRS, in the fourth quarter of 2017 multiplied by four quarters.

These aforementioned properties were classified as assets held for sale on the combined balance sheets at June 30, 2018 or December 31, 2017 and were excluded from the value of investment properties. Accordingly, in this MD&A, these properties are also excluded from references to investment properties and related property metrics.

Officer and Board Appointments

On July 31, 2018, Kevan Gorrie was appointed Granite’s President and Chief Executive Officer, a trustee of Granite REIT and a director of Granite GP, all effective August 1, 2018. Mr. Gorrie is an accomplished real estate professional in the industrial real estate market with over 20 years of experience. He most recently served as the President and Chief Executive Officer of Pure Industrial Real Estate Trust, where he successfully grew and led that business until its recent strategic sale.

On July 31, 2018, Michael Forsayeth, who is retiring at the end of the third quarter as previously announced, resigned as Granite’s Chief Executive Officer and as a trustee of Granite REIT and a director of Granite GP, effective August 1, 2018.

On June 14, 2018, Jennifer Warren was elected as a trustee of Granite REIT and a director of Granite GP, bringing each boards’ size to nine members. Previously, Ms. Warren was Managing Director and Head, U.S. Region and President and CEO of CIBC World Markets Corp. for Canadian Imperial Bank of Commerce (CIBC) and Senior Vice President, General Counsel (Canada) for CIBC.

Special Distribution to Unitholders

As a result of the increase in taxable income generated by the transactions completed in the 2018 year-to-date and those anticipated to be completed during the remainder of 2018, Granite expects to make a special distribution to unitholders in accordance with its Declaration of Trust. The amount and form of consideration of such special distribution will be determined later in the year and will be dependent upon, among other, the actual taxable income generated for the entire current year. Granite anticipates declaring any such special distribution on or before December 31, 2018.

Normal Course Issuer Bid

On May 16, 2018, Granite renewed its normal course issuer bid (“NCIB”) for an additional 12 months. During the six months ended June 30, 2018, Granite repurchased 1,233,459 stapled units at an average price of \$49.41 per unit for a total consideration of \$60.9 million. For the prior NCIB period between May 16, 2017 to May 15, 2018, Granite purchased an aggregate of 1,474,493 stapled units at an average price of \$49.50 per unit for a total consideration of \$73.0 million.

RESULTS OF OPERATIONS

Foreign Currency Translation

The majority of Granite’s investment properties are located in Europe and the United States and the cash flows derived from such properties are primarily denominated in euros and US dollars. Accordingly, fluctuations in the Canadian dollar, Granite’s reporting currency, relative to the euro and US dollar will result in fluctuations in the reported values of revenues, expenses, cash flows, assets and liabilities. The most significant foreign currency exchange rates that impact Granite’s business are summarized in the following table:

	Average Exchange Rates						Period End Exchange Rates		
	Three Months Ended June 30,			Six Months Ended June 30,			June 30, 2018	December 31, 2017	Change
	2018	2017	Change	2018	2017	Change			
\$ per €1.00	1.539	1.479	4%	1.547	1.445	7%	1.535	1.505	2%
\$ per US\$ 1.00 . .	1.291	1.345	(4%)	1.278	1.334	(4%)	1.314	1.252	5%

For the three and six months ended June 30, 2018 compared to the respective prior year periods, the average exchange rates of the Canadian dollar to the euro and US dollar were higher and lower, respectively, which, on a comparative basis, increased the Canadian dollar equivalent of revenue and expenses from Granite’s European operations and decreased the Canadian dollar equivalent of revenue and expenses from Granite’s U.S. operations.

On a net basis, the effect of the changes in exchange rates on Granite’s operating results for the three and six months ended June 30, 2018 was as follows:

Effects of Changes in Exchange Rates on Operating Results

<i>(in millions, except per unit information)</i>	Three Months Ended June 30,	Six Months Ended June 30,
	2018 vs 2017	2018 vs 2017
Increase in revenue	\$ 0.3	\$ 2.0
Increase in NOI — cash basis	0.5	2.3
Increase (decrease) in net income	(0.2)	1.1
Increase (decrease) in FFO	(0.2)	0.6
Increase in AFFO	0.2	0.7
Increase in FFO per unit	—	\$ 0.01
Increase in AFFO per unit	—	\$ 0.02

The period end exchange rates of the Canadian dollar to the euro and US dollar on June 30, 2018 were higher when compared to the December 31, 2017 exchange rates. As a result, the Canadian dollar equivalent of assets and liabilities from Granite’s European and U.S. subsidiaries were higher when compared to December 31, 2017.

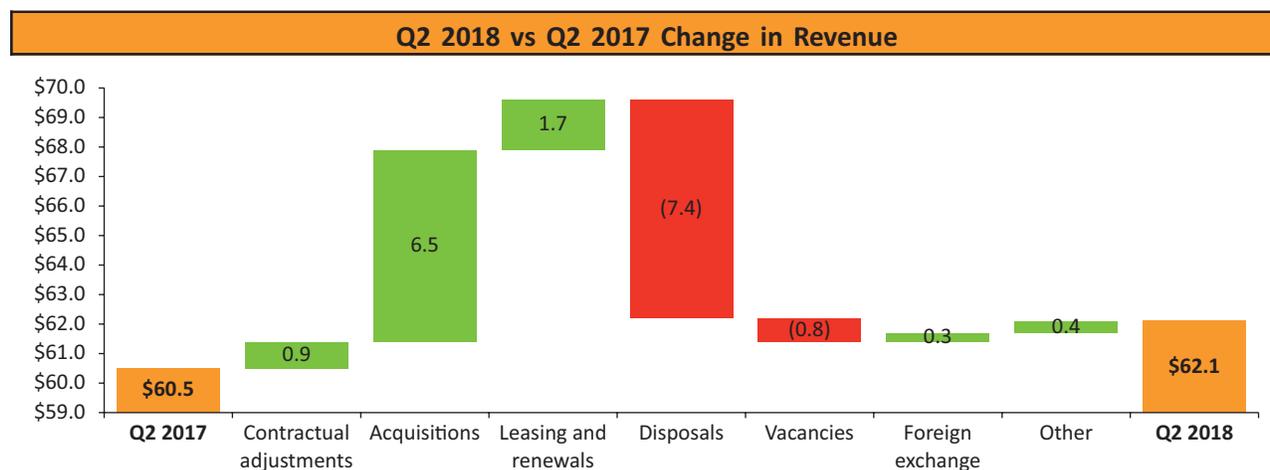
Operating Results

Revenue

Revenue						
	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017 ⁽¹⁾	\$ change	2018	2017 ⁽¹⁾	\$ change
Rental revenue	\$55.3	\$53.9	1.4	\$109.3	\$107.8	1.5
Tenant recoveries	6.8	6.6	0.2	13.5	13.5	—
Lease termination and close-out fee	—	—	—	1.0	—	1.0
Revenue	\$62.1	\$60.5	1.6	\$123.8	\$121.3	2.5

⁽¹⁾ Granite has retrospectively applied IFRS 15, *Revenue from Contracts with Customers* (see “NEW ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS”).

Revenue for the three month period ended June 30, 2018 increased \$1.6 million to \$62.1 million from \$60.5 million in the prior year period. The components contributing to the change in revenue are detailed below:

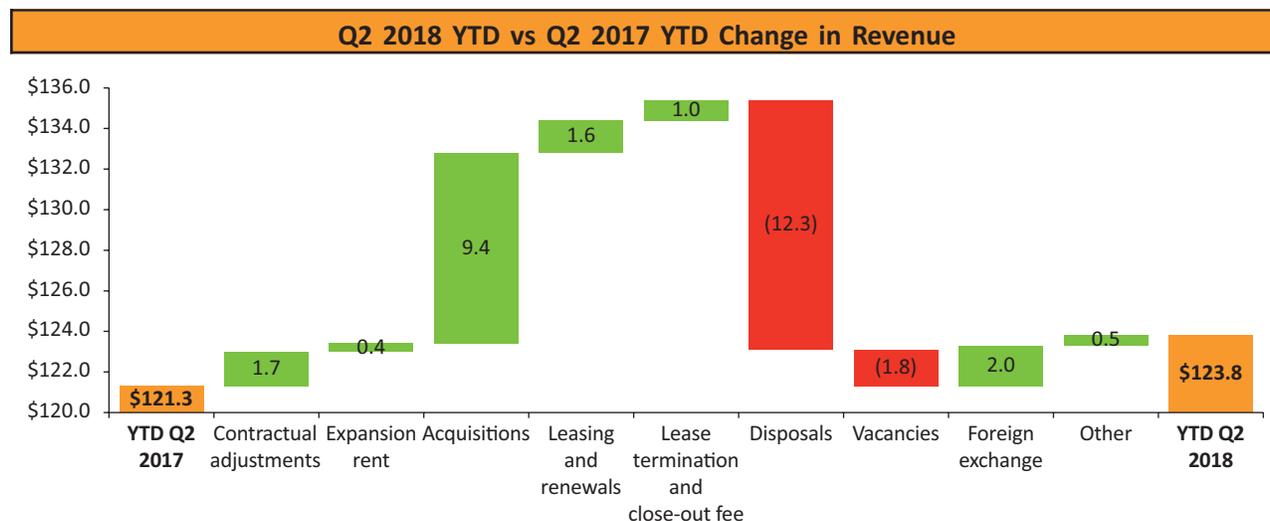


Additional details pertaining to the components of the change in revenue are as follows:

- contractual rent adjustments included \$0.8 million from Consumer Price Index based increases and \$0.1 million from fixed contractual adjustments related to rent escalations;
- the acquisitions of nine properties located in the United States from October 2017 to May 2018 increased revenue by \$6.5 million, which included \$0.8 million of tenant recoveries;
- revenue increased by \$1.7 million primarily due to the leasing of the vacant space in Novi, Michigan;
- the sale of 10 income-producing properties in Canada and the United States in January 2018 decreased revenue by \$7.4 million of which \$1.0 million related to a reduction in property tax and insurance tenant recoveries;
- vacancies from three lease expiries in Germany, Netherlands and Canada decreased revenue by \$0.5 million, \$0.2 million and \$0.1 million, respectively; and

- foreign exchange had a net \$0.3 million positive impact as the weakening of the Canadian dollar against the euro increased revenue by \$1.0 million while the relative strengthening of the Canadian dollar against the US dollar decreased revenue by \$0.7 million.

Revenue for the six month period ended June 30, 2018 increased \$2.5 million to \$123.8 million from \$121.3 million in the prior year period. The components contributing to the change in revenue are detailed below:

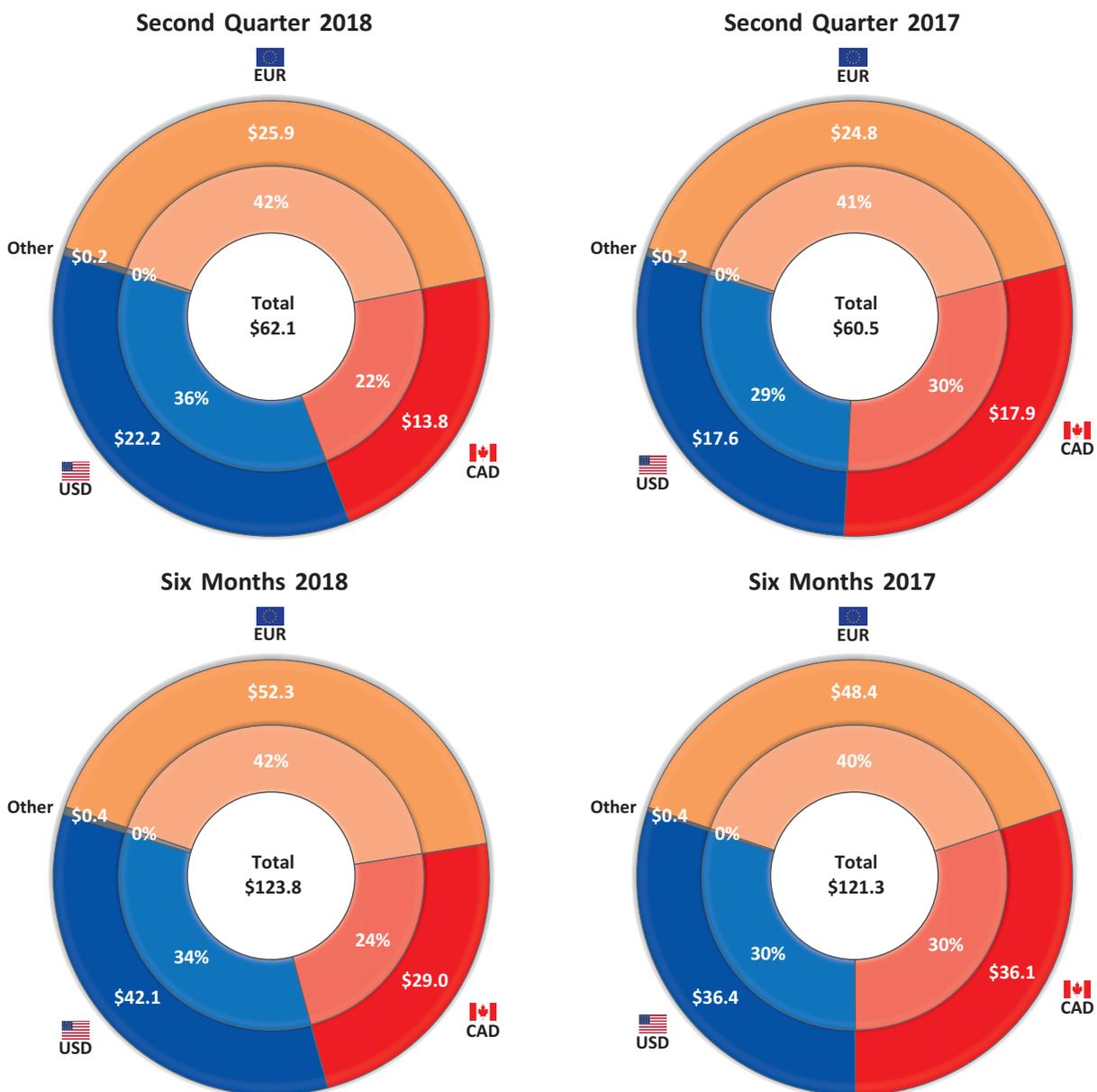


Additional details pertaining to the components of the change in revenue are as follows:

- contractual rent adjustments included \$1.5 million from Consumer Price Index based increases and \$0.2 million from fixed contractual adjustments related to rent escalations;
- revenue increased by \$0.4 million primarily due to the purchase of a building expansion at a special purpose property in the United States, which is held for sale as at June 30, 2018;
- the acquisitions of nine properties located in the United States from October 2017 to May 2018 increased revenue by \$9.4 million, which included \$1.2 million of tenant recoveries;
- revenue increased by \$1.6 million primarily due to the leasing of the vacant space in Novi, Michigan;
- a fee in connection with the termination of a lease for a recently acquired property in the United States increased revenue by \$1.0 million. The leasable area at this property was re-leased to a new tenant in the first quarter of 2018;
- the sale of 10 income-producing properties in Canada and the United States in January 2018 decreased revenue by \$12.3 million of which \$1.7 million related to a reduction in property tax and insurance tenant recoveries (see "SIGNIFICANT MATTERS");
- vacancies from three lease expiries in North America and two lease expiries in Europe decreased revenue by \$0.7 million and \$1.1 million, respectively; and
- foreign exchange had a net \$2.0 million positive impact as the weakening of the Canadian dollar against the euro increased revenue by \$3.4 million while the relative strengthening of the Canadian dollar against the US dollar decreased revenue by \$1.4 million.

Revenue by major currency for the three and six months ended June 30, 2018 and 2017 was as follows:

Revenue by Currency



The mix in revenue for the three and six months ended June 30, 2018 compared to the prior year periods has changed primarily with revenue denominated in US dollars increasing and revenue denominated in Canadian dollars decreasing as a result of the recent US acquisitions and Canadian property dispositions. As a majority of the Trust’s revenue is denominated in currencies other than the Canadian dollar, Granite uses derivative financial instruments, including cross currency interest rate swaps and forward currency contracts, to hedge its exposure to foreign currencies and minimize the potential impact that foreign currency rate changes may have on Granite’s operating results, cash flows and distributions.

Net Operating Income

NOI in the three months ended June 30, 2018 was \$54.7 million compared to \$52.7 million in the three months ended June 30, 2017. NOI in the six months ended June 30, 2018 was \$107.5 million compared to \$105.6 million in the six months ended June 30, 2017. NOI — cash basis excludes the impact of straight-line rent and tenant incentive amortization and reflects the cash generated by the income-producing properties on a period-over-period basis. NOI — cash basis was \$55.2 million in the three months ended June 30, 2018 compared with \$54.2 million in the prior year period. NOI — cash basis was \$107.5 million in the six months ended June 30, 2018 compared with \$108.6 million in the six months ended June 30, 2017. The changes in NOI and NOI — cash basis are detailed below:

Changes in NOI and NOI — Cash Basis						
	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017 ⁽¹⁾	\$ change	2018	2017 ⁽¹⁾	\$ change
Revenue	\$62.1	\$60.5	1.6	\$123.8	\$121.3	2.5
Less:						
Lease termination and close-out fee	—	—	—	1.0	—	1.0
Property operating costs . . .	7.4	7.8	(0.4)	15.3	15.7	(0.4)
NOI	54.7	52.7	2.0	107.5	105.6	1.9
Add (deduct):						
Straight-line rent amortization	(0.8)	0.1	(0.9)	(2.7)	0.3	(3.0)
Tenant incentive amortization	1.3	1.4	(0.1)	2.7	2.7	—
NOI — cash basis	\$55.2	\$54.2	1.0	\$107.5	\$108.6	(1.1)

⁽¹⁾ The Trust has retrospectively applied IFRS 15, *Revenue from Contracts with Customers* (see “NEW ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS”).

Property operating costs include recoverable and non-recoverable costs from tenants and consist of property taxes, utilities, insurance, repairs and maintenance, legal and other property-related expenses. None of Granite’s employee compensation expenses are included in property operating costs.

Tenant incentive amortization mainly represents allowances provided to tenants that are recognized in income evenly on a straight-line basis over the term of the lease and primarily comprises the amortization associated with the cash allowance incentives paid to Magna in respect of the lease extensions exercised during the 2014 year at the Thondorf and Eurostar properties in Graz, Austria.

NOI — cash basis for the three month period ended June 30, 2018 increased \$1.0 million to \$55.2 million from \$54.2 million in the prior year period primarily due to the \$1.6 million increase in revenue, as noted previously, partially offset by a decrease of \$0.9 million in straight-line rent amortization for rent-free periods associated with the lease-up of vacant space in Novi, Michigan and the early renewal and extension of a lease in Germany.

NOI — cash basis for the six month period ended June 30, 2018 decreased \$1.1 million to \$107.5 million from \$108.6 million in the prior year period as a result of a decrease of \$3.0 million in straight-line rent amortization mainly associated with the rent-free periods for the two properties mentioned above as well as an early renewal and extension of a lease in the United States and the exclusion of the lease termination and close-out fee in the amount of \$1.0 million, partially offset by the \$2.5 million increase in revenue, as noted previously.

NOI — cash basis for the three and six months ended June 30, 2018 and 2017 by geography was as follows:

NOI — Cash Basis by Geography



The mix in NOI — cash basis for the three and six months ended June 30, 2018 compared to the prior year periods has changed primarily with the percentage attributable to the United States increasing and Canada decreasing as a result of the recent US acquisitions and Canadian property dispositions.

Granite’s property portfolio and NOI — cash basis are geographically diversified, which reduces the risk to Granite’s operating results of any particular country’s economic downturn.

General and Administrative Expenses

General and administrative expenses consisted of the following:

General and Administrative Expenses						
	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	\$ change	2018	2017	\$ change
Salaries and benefits	\$3.6	\$3.1	0.5	\$ 8.1	\$ 6.2	1.9
Audit, legal and consulting	1.1	1.0	0.1	1.9	1.7	0.2
Trustee/director fees and related expenses	0.3	0.4	(0.1)	0.6	0.7	(0.1)
Unit-based compensation including distributions and revaluations	0.6	1.8	(1.2)	1.6	2.6	(1.0)
Other public entity costs	0.6	0.6	—	0.9	0.9	—
Office rents	0.2	0.2	—	0.4	0.4	—
Other	0.8	0.5	0.3	1.1	1.2	(0.1)
General and administrative expenses	\$7.2	\$7.6	(0.4)	\$14.6	\$13.7	0.9

General and administrative expenses were \$7.2 million for the three month period ended June 30, 2018 and decreased \$0.4 million in comparison to the prior year period primarily from:

- a reduction in unit-based compensation costs as a result of fewer awards outstanding under the plans and a decrease in the fair value remeasurement expense resulting from fluctuations in the market price of the Trust's stapled units. In the second quarters of 2018 and 2017, the fair value remeasurement expense was \$0.2 million and \$1.0 million, respectively. This reduction was partially offset by:
- an increase in salaries and benefits expense primarily due to compensation costs associated with Granite's departing Chief Executive Officer.

General and administrative expenses were \$14.6 million for the six month period ended June 30, 2018 and increased \$0.9 million in comparison to the prior year period primarily as a result of the following:

- an increase in salaries and benefits expense largely due to compensation paid to a former officer who departed in the first quarter of 2018 and, to a lesser extent, compensation costs associated with Granite's departing Chief Executive Officer. The compensation costs included unit-based compensation awards that were settled in cash. This increase was partially offset by:
- the reduction in unit-based compensation costs mainly due to the fewer awards outstanding and the decrease in fair value remeasurement expense, as noted previously. For the six months ended June 30, 2018 and 2017, general and administrative expenses included a fair value remeasurement expense of \$0.5 million and \$1.2 million, respectively, associated with the unit-based compensation plans.

Proxy Contest Expenses

In the three and six month periods ended June 30, 2017, Granite incurred expenses of \$5.9 million in connection with the proxy contest leading up to Granite's June 2017 annual general meeting. Included in the proxy contest expenses are legal, advisory and proxy solicitation costs incurred directly by Granite and a \$2.0 million reimbursement of out-of-pocket fees and expenses incurred by Front Four Capital Group and Sandpiper Group regarding matters relating to the annual general meeting. Sandpiper Group received

\$0.7 million of the reimbursement. An individual affiliated with Sandpiper Group is a related party of Granite by virtue of becoming a director of Granite GP and a trustee of Granite REIT.

Interest Income

Interest income for the three month periods ended June 30, 2018 and 2017 was \$0.5 million and \$0.1 million, respectively. The \$0.4 million increase is primarily due to interest income earned from higher cash balances.

Interest income for the six month periods ended June 30, 2018 and 2017 was \$1.7 million and \$0.3 million, respectively. The \$1.4 million increase is primarily due to interest income earned from higher cash balances and a vendor take-back mortgage receivable, both of which arose from the sale of 10 properties in Canada and the United States in January 2018. The mortgage receivable bore interest at an annual rate of 6.0% and was repaid on April 16, 2018.

Interest Expense and Other Financing Costs

Interest expense and other financing costs for the three month periods ended June 30, 2018 and 2017 were \$5.5 million and \$4.9 million, respectively. The \$0.6 million increase is primarily related to interest expense on the outstanding credit facility indebtedness used to fund the properties acquired in May 2018.

Interest expense and other financing costs for the six months ended June 30, 2018 and 2017 were \$11.0 million and \$9.7 million, respectively. The \$1.3 million increase is primarily related to:

- the interest expense associated with the outstanding credit facility indebtedness during 2018;
- the foreign exchange impact resulting from the relative weakening of the Canadian dollar against the euro on the cross currency interest rate swaps. Granite receives the Canadian dollar amount required for interest payments to its debenture holders and in exchange pays euro denominated interest to the swap counterparties; and
- the accelerated amortization of deferred financing costs relating to the \$250.0 million credit facility that was replaced.

As at June 30, 2018, Granite's weighted average cost of debt was 2.65% and the weighted average debt term-to-maturity was 4.0 years.

Foreign Exchange Gains/Losses, Net

Granite recognized net foreign exchange losses of \$2.3 million and \$0.6 million in the three month periods ended June 30, 2018 and 2017, respectively. The \$1.7 million increase in net foreign exchange losses is due to the remeasurement of monetary assets, primarily the US dollar cash on hand from property disposals, during the second quarter of 2018.

Granite recognized net foreign exchange gains of \$9.1 million and foreign exchange losses of \$0.8 million in the six month periods ended June 30, 2018 and 2017, respectively. The \$9.9 million increase in net foreign exchange gains is substantially due to the remeasurement of the US dollar cash proceeds received from the sale of three investment properties in January 2018.

Fair Value Gains/Losses on Investment Properties, Net

Net fair value gains on investment properties were \$127.9 million and \$17.2 million in the three month periods ended June 30, 2018 and 2017, respectively. In the three month period ended June 30, 2018, the net fair value gains of \$127.9 million were largely attributable to i) the increase in fair value to the expected sale price of the six multi-purpose and special purpose properties classified as assets held for sale in the second quarter of 2018 (see "SIGNIFICANT MATTERS") and ii) for certain properties across Granite's portfolio,

positive changes in leasing assumptions primarily from fair market rent increases and a compression in discount and terminal capitalization rates resulting from market demand.

The net fair value gains on investment properties in the three month period ended June 30, 2017 of \$17.2 million were primarily attributable to i) a compression in discount and terminal capitalization rates for certain modern warehouse properties located in the United States and Germany and ii) favourable changes in leasing assumptions for certain special purpose properties in Canada and the United States (see “*INVESTMENT PROPERTIES*”) related to the long-term contractual lease term and certainty of cash flows. The compression in discount and terminal capitalization rates for certain modern warehouse properties resulted from market demand which led to improved asset pricing.

Net fair value gains on investment properties were \$160.2 million and \$9.9 million in the six month periods ended June 30, 2018 and 2017, respectively. In the six month period ended June 30, 2018, the net fair value gains of \$160.2 million were primarily attributable to i) the increase in fair value to the expected sale price of six multi-purpose and special purpose properties as noted above and ii) for certain properties across Granite’s portfolio, positive changes in leasing assumptions primarily from contractual and fair market rent increases as well as lease renewals and a compression in discount and terminal capitalization rates resulting from market demand.

The net fair value gains on investment properties in the six month period ended June 30, 2017 of \$9.9 million were attributable to a compression in discount and terminal capitalization rates for certain modern warehouse properties and favourable changes in leasing assumptions for certain special purpose properties as noted above. These factors contributing to the fair value gains in the six month period ended June 30, 2017 were partially offset by the unfavourable changes in leasing assumptions relating to market rent decreases and re-leasing and renewal activities as well as capital expenditure assumptions for certain multi-purpose properties in Canada and the United States.

Acquisition Transaction Costs

Acquisition transaction costs for the three and six month periods ended June 30, 2018 of \$1.6 million and \$1.7 million, respectively, largely related to legal and advisory costs associated with the acquisitions of the six properties in the United States (see “*SIGNIFICANT MATTERS*”).

Loss on Sale of Investment Properties

The loss on sale of investment properties of \$0.1 million for the three month period ended June 30, 2018 is related to advisory costs associated with the assets held for sale.

The loss on sale of investment properties of \$1.2 million for the six month period ended June 30, 2018 is primarily related to commission, legal and advisory costs associated with the disposal of 10 investment properties in Canada and the United States in January 2018.

Other income

Other income of \$2.3 million for the three and six month periods ended June 30, 2018 is attributable to a settlement amount related to a land use matter for a property in Ontario, Canada. Granite received \$1.4 million of the settlement and the remaining balance is to be collected in the first quarter of 2019.

Income Tax Expense

Income tax expense comprised the following:

Income Tax Expense						
	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	\$ change	2018	2017	\$ change
Foreign operations	\$ 1.4	\$1.2	0.2	\$ 3.0	\$ 2.6	0.4
Withholding taxes	0.7	0.6	0.1	0.7	1.0	(0.3)
Related to sale of an investment property	0.2	—	0.2	0.2	—	0.2
Other	0.5	0.5	—	0.9	0.9	—
Current tax expense	2.8	2.3	0.5	4.8	4.5	0.3
Deferred tax expense	18.1	5.2	12.9	26.1	6.6	19.5
Income tax expense	\$20.9	\$7.5	13.4	\$30.9	\$11.1	19.8

For the three months ended June 30, 2018, the Trust incurred higher current tax expense compared to the prior year period largely related to the planned disposition of a property located in Germany and the foreign exchange impact resulting from the relative weakening of the Canadian dollar on euro denominated tax expense.

For the six months ended June 30, 2018, the Trust incurred higher current tax expense compared to the prior year period primarily due to the above, partially offset by withholding taxes paid on larger inter-company dividends in the six months ended June 30, 2017.

The increase in deferred tax expense for the three and six months ended June 30, 2018 compared to the prior year periods was primarily due to an increase in fair value gains in jurisdictions in which deferred taxes are recorded and the foreign exchange impact resulting from the relative weakening of the Canadian dollar on euro denominated tax expense.

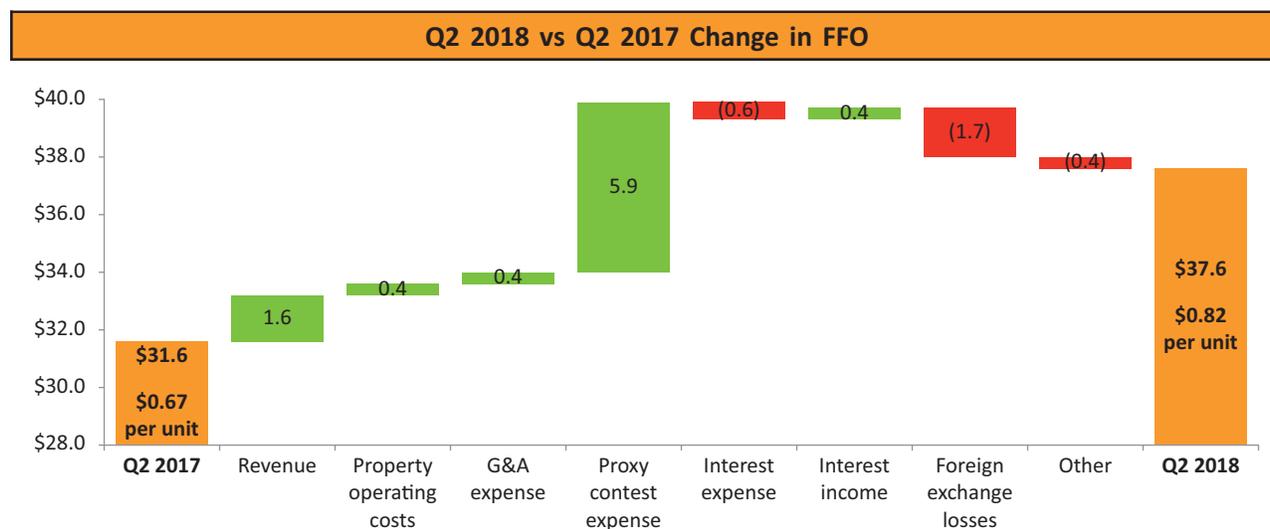
Net Income

For the three month period ended June 30, 2018, net income was \$149.2 million compared to \$42.8 million in the prior year period. The \$106.4 million net increase was primarily due to a \$110.7 million increase in net fair value gains on investment properties.

For the six month period ended June 30, 2018, net income was \$221.6 million compared to \$73.1 million in the prior year period. The \$148.5 million net increase was primarily due to a \$150.3 million increase in net fair value gains on investment properties.

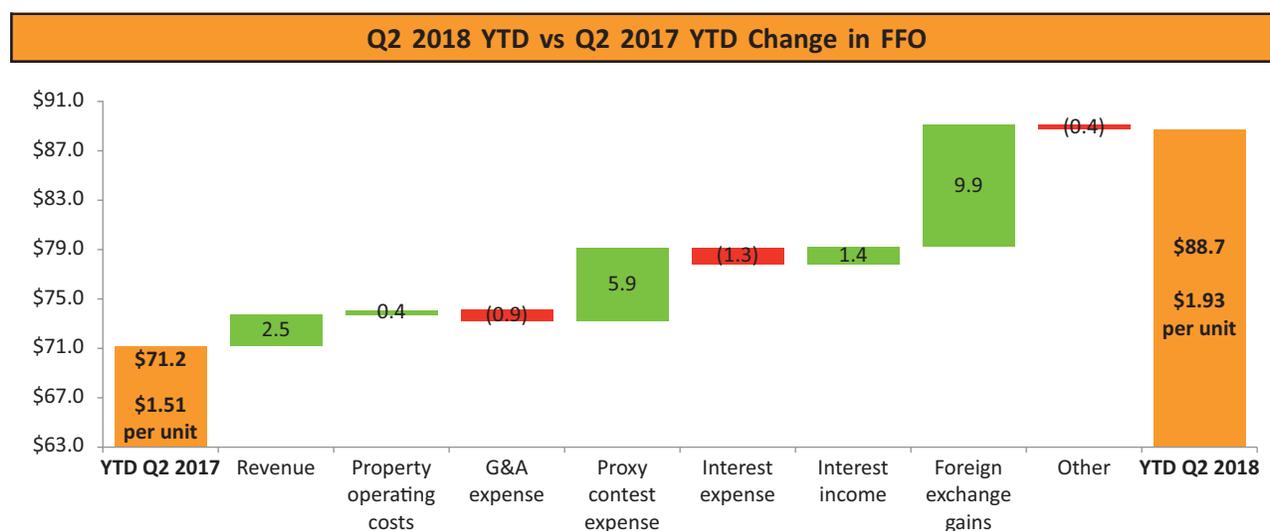
Funds From Operations

FFO for the three month period ended June 30, 2018 was \$37.6 million (\$0.82 per unit) compared to \$31.6 million (\$0.67 per unit) in the prior year period. The \$6.0 million (\$0.15 per unit) increase in FFO is summarized below:



Excluding the foreign exchange loss on US dollar cash proceeds from the sale of investment properties in January 2018 of \$1.9 million (\$0.04 per unit), FFO would have been \$39.5 million (\$0.86 per unit) in the three month period ended June 30, 2018. In comparison, excluding the proxy contest expense of \$5.9 million (\$0.12 per unit), FFO would have been \$37.5 million (\$0.79 per unit) in the prior year period.

FFO for the six months ended June 30, 2018 was \$88.7 million (\$1.93 per unit) compared to \$71.2 million (\$1.51 per unit) in the prior year period. The \$17.5 million (\$0.42 per unit) increase in FFO is summarized below:

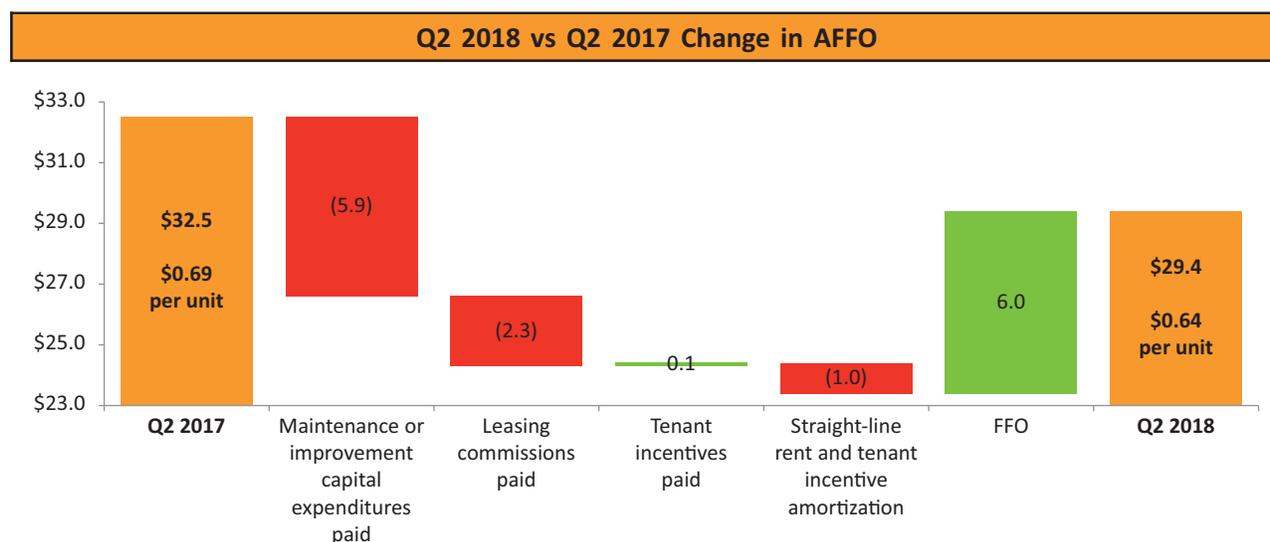


Excluding the lease termination and close-out fee of \$1.0 million (\$0.02 per unit) and the net foreign exchange gain on US dollar cash proceeds from the sale of investment properties in January 2018 of

\$8.5 million (\$0.19 per unit), FFO would have been \$79.2 million (\$1.72 per unit) in the six month period ended June 30, 2018. In comparison, excluding the proxy contest expense of \$5.9 million (\$0.12 per unit), FFO would have been \$77.1 million (\$1.63 per unit) in the prior year period.

Adjusted Funds From Operations

As previously detailed in the FFO and AFFO reconciliation table, AFFO for the three month period ended June 30, 2018 was \$29.4 million (\$0.64 per unit) compared to \$32.5 million (\$0.69 per unit) in the prior year period. The net \$3.1 million (\$0.05 per unit) decrease in AFFO is summarized below:

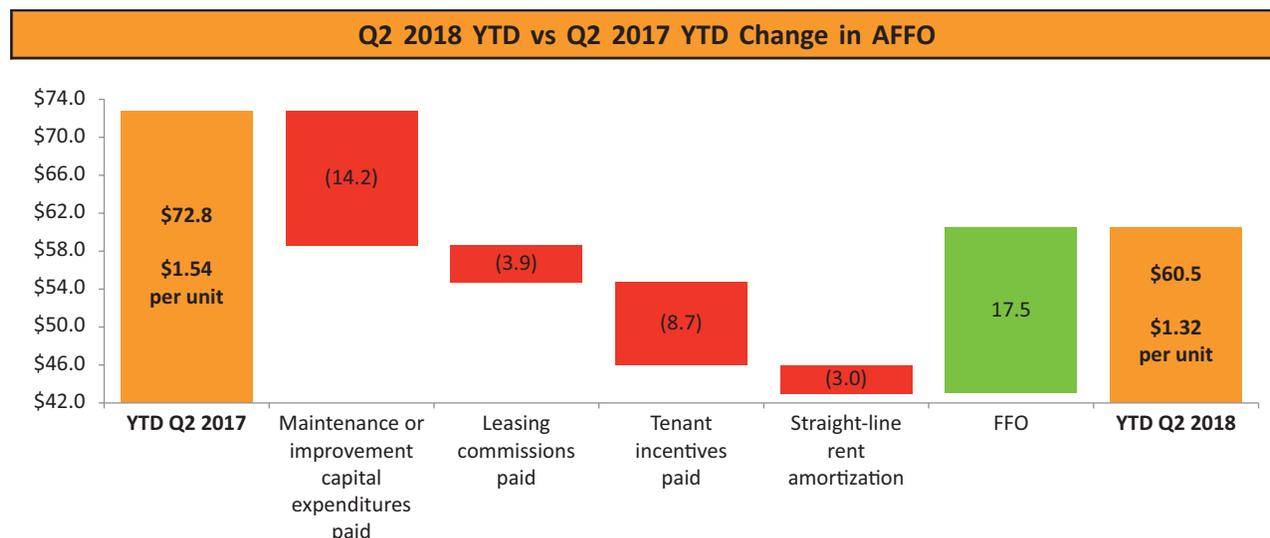


Additional details pertaining to the components of the change in AFFO are as follows:

- a \$5.9 million increase in capital expenditures paid relating to improvement projects at a property in Novi, Michigan which was occupied by a non-Magna tenant starting January 2018 and a modern warehouse property located in Olive Branch, Mississippi which was acquired in October 2017 and re-leased to a non-Magna tenant;
- a \$2.3 million increase in leasing commissions paid largely relating to the re-leasing of the property located in Olive Branch, Mississippi; and
- a \$1.0 million decrease in straight-line rent and tenant incentive amortization primarily due to rent-free periods associated with the lease-up of vacant space in Novi, Michigan and the early renewal and extension of a lease in Germany, partially offset by;
- the \$6.0 million increase in FFO, as noted previously.

Excluding the following non-recurring or unusual item: foreign exchange loss on US dollar cash proceeds from the sale of investment properties in January 2018 of \$1.9 million (\$0.04 per unit), AFFO would have been \$31.3 million (\$0.68 per unit) in the three month period ended June 30, 2018. In comparison, excluding the proxy contest expense of \$5.9 million (\$0.12 per unit), AFFO would have been \$38.4 million (\$0.81 per unit) in the prior year period.

AFFO for the six months ended June 30, 2018 was \$60.5 million (\$1.32 per unit) compared to \$72.8 million (\$1.54 per unit) in the prior year period. The net \$12.3 million (\$0.22 per unit) decrease in AFFO is summarized below:



Additional details pertaining to the components of the change in AFFO are as follows:

- a \$14.2 million increase in capital expenditures paid largely relating to improvement projects at properties in Novi, Michigan and Olive Branch, Mississippi as noted above;
- a \$3.9 million increase in leasing commissions paid relating to the re-leasing of the property in Olive Branch, Mississippi, the developed property in Poland, the leased-up property in Novi, Michigan, as well as lease renewals and extensions for two properties in the United States and Germany;
- an \$8.7 million increase in tenant incentives paid largely relating to a tenant allowance for a 2014 lease extension at the Eurostar facility in Graz, Austria; and
- a \$3.0 million decrease in straight-line rent amortization, primarily due to the rent-free periods associated with the lease-up of vacant space in Novi, Michigan as well as the early renewals and extensions of two leases in Germany and the United States, partially offset by;
- the \$17.5 million increase in FFO, as noted above.

Excluding the following non-recurring or unusual items: lease termination and close-out fee of \$1.0 million (\$0.02 per unit) recognized in revenue, the net foreign exchange gain on US dollar cash proceeds from the sale of investment properties in January 2018 of \$8.5 million (\$0.19 per unit) and the payment of the tenant incentive allowance made in connection with a 2014 lease extension at the Eurostar facility in Graz, Austria of \$9.1 million (\$0.19 per unit), AFFO would have been \$60.1 million (\$1.30 per unit) in the six month period ended June 30, 2018. In comparison, excluding the proxy contest expense of \$5.9 million (\$0.12 per unit), AFFO would have been \$78.7 million (\$1.66 per unit) in the prior year period.

INVESTMENT PROPERTIES

Granite's investment properties consist of income-producing properties, properties and land under development ("properties under development") and land held for development. The income-producing properties are substantially for industrial use and can be categorized as (i) modern logistics/distribution warehouse facilities ("modern warehouse facilities"), which were recently acquired or newly developed/

redeveloped within the last five years, (ii) multi-purpose facilities, which are tenantable by a wide variety of potential users or (iii) special purpose properties designed and built with specialized features and leased to Magna. The attributes of the income-producing properties are versatile and are based on the needs of the tenant such that an industrial property used by a certain tenant for light or heavy manufacturing can be used by another tenant for other industrial uses after some retrofitting if necessary. Accordingly, the investment property portfolio is substantially for industrial use and, as such, Granite determined that its asset class comprises industrial properties for purposes of financial reporting. The fair value of the industrial properties, as noted below, is based upon the current tenanting, existing use and attributes of such properties.

Land held for development includes a 16 acre parcel of land located in Wroclaw, Poland that could provide for approximately 0.3 million square feet of logistics-warehouse space. Construction is expected to commence once Granite's pre-leasing objectives are achieved. Land held for development also includes a nine acre parcel of land located in Ontario, Canada which is being held for future development or disposition and a 29 acre site located in Indiana, United States that Granite is planning to develop into a 0.5 million square foot logistics-industrial property over the next twelve months.

Summary attributes of the investment properties at June 30, 2018 and December 31, 2017 were as follows:

Investment Properties Summary⁽¹⁾		
As at June 30, 2018 and December 31, 2017	2018	2017
<i>(in millions, except as noted)</i>		
Investment properties — fair value	\$3,031.2	\$2,733.6
Income-producing properties	3,012.2	2,714.7
Land held for development	19.0	18.9
Overall capitalization rate	7.0%	7.6%
Number of investment properties	87	87
Income-producing properties	84	84
Land held for development	3	3
Property metrics		
GLA, square feet	31.8	29.1
Occupancy, by GLA	97.3%	98.4%
Weighted average lease term, in years by square footage	5.9	5.9
Total number of tenants	46	40
Magna as a percentage of annualized revenue ⁽²⁾	62%	71%
Magna as a percentage of GLA	50%	61%

Assets Held for Sale⁽¹⁾

As at June 30, 2018 and December 31, 2017

2018 2017

(in millions, except as noted)

Properties held for sale

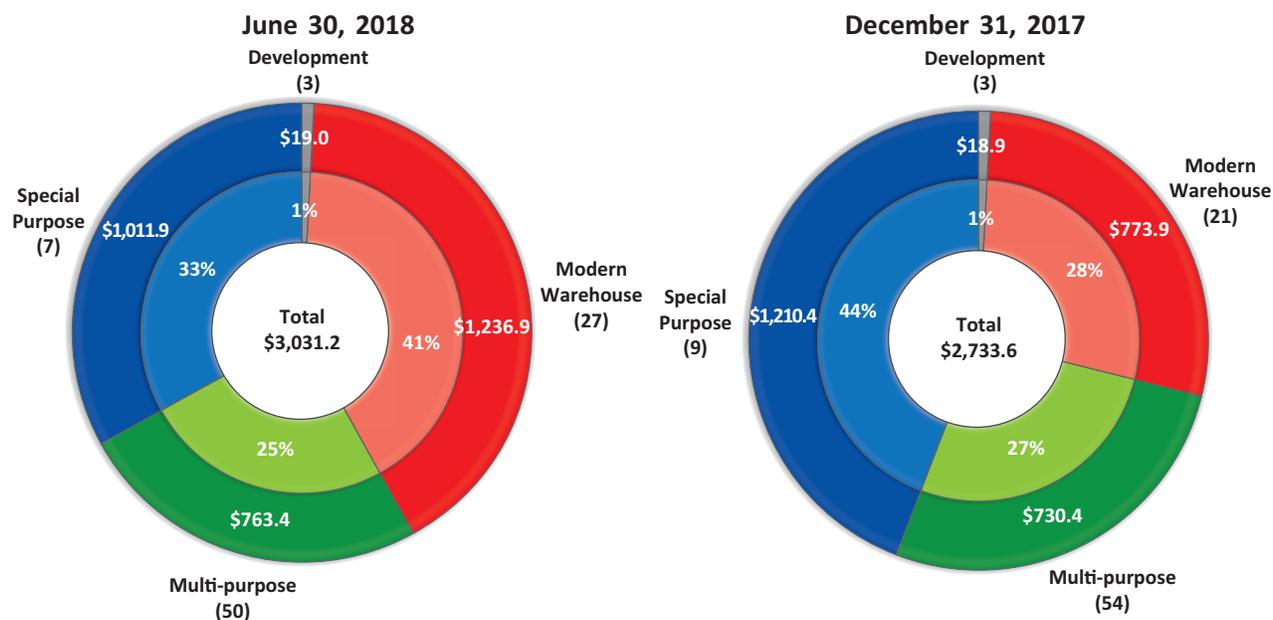
Fair value	\$341.4	\$391.4
Number of properties	6	10
GLA, square feet	2.1	3.2
Magna as a percentage of GLA	88%	95%
Annualized revenue ⁽²⁾	\$ 23.0	\$ 25.6

⁽¹⁾ At June 30, 2018, six investment properties located in Canada, the United States and Germany were classified as assets held for sale on the combined financial statements. Ten investment properties located in Canada and the United States were classified as assets held for sale on the combined financial statements at December 31, 2017 and were subsequently sold in January 2018. Accordingly, in this MD&A, references to investment properties and related property metrics exclude these properties that were classified as assets held for sale.

⁽²⁾ Annualized revenue is calculated as rental revenue excluding tenant recoveries, recognized in accordance with IFRS, in the reported quarter multiplied by four quarters.

The fair value of the investment properties (excluding properties held for sale) by asset category as at June 30, 2018 and December 31, 2017 was as follows:

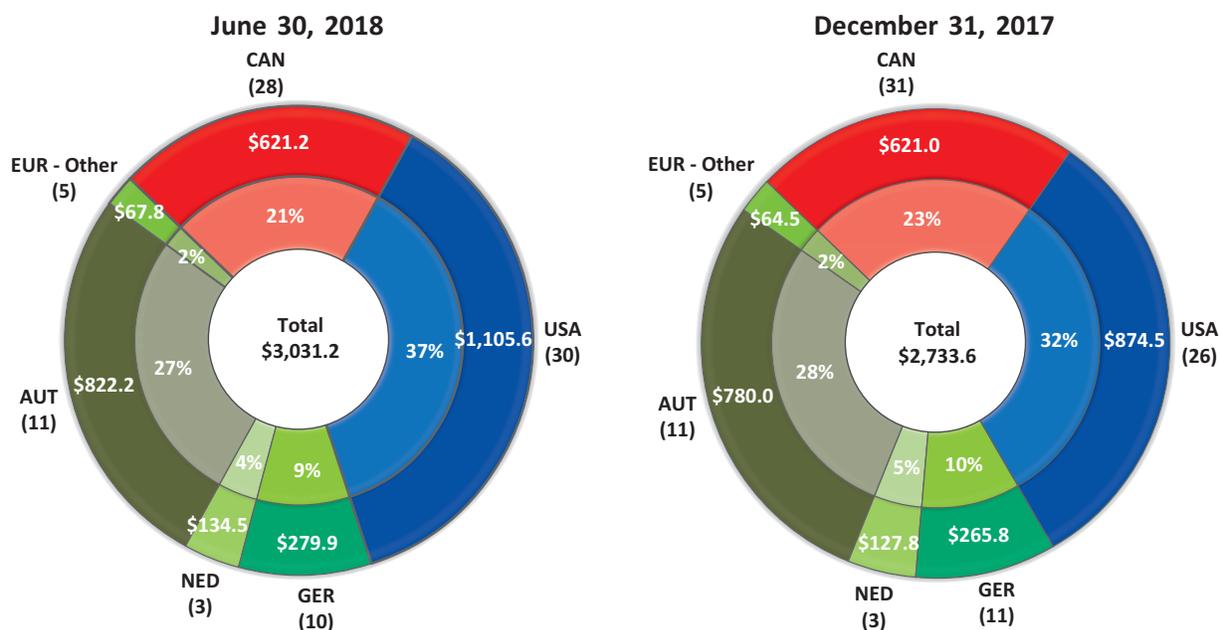
Fair Value of Investment Properties by Asset Category



Note — number of properties denoted in parentheses

Granite has a specialized and high quality global portfolio of large scale properties strategically located in Canada, the United States and Europe. The fair value of the investment properties (excluding properties held for sale) by country as at June 30, 2018 and December 31, 2017 was as follows:

Fair Value of Investment Properties by Geography



Note — number of properties denoted in parentheses

The change in the fair value of investment properties by asset category during the six months ended June 30, 2018 was as follows:

Change in Fair Value of Investment Properties by Asset Category

	January 1, 2018	Fair value gains	Acquisitions	Capital expenditures	Foreign exchange gains	Other changes	Classified as assets held for sale	June 30, 2018
Modern warehouse facilities	\$ 773.9	22.8	394.5	3.5	37.8	4.4	—	\$1,236.9
Multi-purpose facilities	730.4	92.0	—	1.7	10.4	(0.2)	(70.9)	763.4
Special purpose properties	1,210.4	48.1	—	—	26.3	(2.4)	(270.5)	1,011.9
Income-Producing Properties	2,714.7	162.9	394.5	5.2	74.5	1.8	(341.4)	3,012.2
Land Held For Development	18.9	—	—	—	0.1	—	—	19.0
	\$2,733.6	\$162.9	\$394.5	\$5.2	\$74.6	\$1.8	\$(341.4)	\$3,031.2

During the six months ended June 30, 2018, the fair value of investment properties increased by \$297.6 million, primarily due to:

- net fair value gains of \$162.9 million which were primarily attributable to i) the increase in fair value to the expected sale price of the six multi-purpose and special purpose properties classified as assets held for sale in the second quarter of 2018 and ii) for certain properties across Granite's portfolio, positive changes in leasing assumptions primarily from contractual and fair market rent increases as well as lease renewals and a compression in discount and terminal capitalization rates resulting from market demand;
- the acquisitions of six income-producing properties in the United States for \$394.5 million consisting of a portfolio of four properties near Columbus, Ohio for \$299.4 million, one property in Greencastle, Pennsylvania for \$44.3 million and one property in Plainfield, Indiana for \$50.8 million (see "*SIGNIFICANT MATTERS*");
- maintenance and improvement capital expenditures of \$5.2 million, of which \$3.5 million related to a modern warehouse property located in Mississippi, United States, which was acquired in October 2017 and re-leased to a non-Magna tenant, and \$1.4 million related to a multi-purpose property located in Michigan, United States, which was leased to a non-Magna tenant during the third quarter of 2017. Capital expenditures can include expansion or development expenditures and maintenance or improvement expenditures. Expansion or development capital expenditures are discretionary in nature and are incurred to generate new revenue streams and/or increase the productivity of a property. Maintenance or improvement capital expenditures relate to sustaining the existing earnings capacity of a property; and
- foreign exchange gains of \$74.6 million, which primarily included foreign exchange gains of \$52.5 million and \$22.8 million resulting from the relative weakening of the Canadian dollar against the US dollar and euro, respectively, partially offset by;
- the classification of six properties valued at \$341.4 million as assets held for sale. These properties are classified as assets held for sale on the combined balance sheet and excluded from the investment properties categorization (see "*SIGNIFICANT MATTERS*").

Fair values were primarily determined by discounting the expected future cash flows, generally over a term of 10 years, plus a terminal value based on the application of a capitalization rate to estimated year 11 cash flows. Granite measures its investment properties using valuations prepared by management. Granite does not measure its investment properties based on valuations prepared by external appraisers but uses such external appraisals as data points, together with other external market information accumulated by management, in arriving at its own conclusions on values. Management uses valuation assumptions such as discount rates, terminal capitalization rates and market rental rates applied in external appraisals or sourced from valuation experts; however, the Trust also uses its historical renewal experience with tenants, its direct knowledge of the specialized nature of Granite's portfolio and tenant profile and its knowledge of the actual condition of the properties in making business judgments about lease renewal probabilities, renewal rents and capital expenditures. There has been no change in the valuation methodology used during the six month period ended June 30, 2018. The key valuation metrics for Granite's investment properties including the discount and terminal capitalization rates by jurisdiction are summarized in note 4 to the unaudited condensed combined financial statements for the three and six month periods ended June 30, 2018. In

addition, valuation metrics for Granite's investment properties (excluding properties held for sale) by asset category as at June 30, 2018 and December 31, 2017 were as follows:

Valuation Metrics by Investment Property Asset Category

Weighted Average ⁽¹⁾ As at June 30, 2018 and December 31, 2017	Modern warehouse facilities		Multi-purpose facilities		Special purpose properties		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
	Overall capitalization rate ⁽²⁾	5.90%	6.18%	7.84%	8.84%	7.83%	7.77%	7.03%
Terminal capitalization rate	6.39%	6.49%	7.31%	7.49%	7.51%	8.11%	7.00%	7.48%
Discount rate	6.63%	6.98%	7.92%	8.04%	7.88%	7.72%	7.37%	7.59%

⁽¹⁾ Weighted based on investment property fair value.

⁽²⁾ Overall capitalization rate is calculated as stabilized net operating income (property revenue less property expenses) divided by the fair value of the property.

A sensitivity analysis of the fair value of investment properties to changes in the overall capitalization rate, terminal capitalization rate and discount rate at June 30, 2018 is presented below:

Sensitivity Analysis of Fair Value of Investment Properties

Rate sensitivity	Overall capitalization rate	Terminal capitalization rate	Discount rate
+50 bps	2,831.0	2,909.2	2,924.7
+25 bps	2,931.4	2,968.4	2,978.7
Base rate	\$3,031.2	\$3,031.2	\$3,031.2
-25 bps	3,157.9	3,099.9	3,090.7
-50 bps	3,286.8	3,171.3	3,148.7

Leasing Profile

Magna, Granite's Largest Tenant

At June 30, 2018, Magna International Inc. or one of its operating subsidiaries was the tenant at 46 (December 31, 2017 — 52) of Granite's income-producing properties and comprised 62% (December 31, 2017 — 71%) of Granite's annualized revenue and 50% (December 31, 2017 — 61%) of Granite's GLA. According to its public disclosure, Magna International Inc. has a credit rating of A3 with a stable outlook by Moody's Investor Service, A- with a stable outlook by Standard & Poor's and A(low) with a stable outlook by DBRS Limited. Magna International Inc. is a technology company and one of the world's largest automotive suppliers with international manufacturing operations and product development, engineering and sales centres. Its capabilities include body exteriors and structures, power and vision technologies, seating systems and complete vehicle solutions.

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

tenant under certain of Granite's leases. The terms of the lease arrangements with Magna generally provide for the following:

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

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

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

Other Tenants

In addition to Magna, at June 30, 2018, Granite had 45 other tenants from various industries which in aggregate comprised 38% of the Trust's annualized revenue. Of these tenants, each individually made up less than 3% of the Trust's annualized revenue as at June 30, 2018.

Leasing Activity

Lease Expiration

As at June 30, 2018, Granite's portfolio had a weighted average lease term by square footage of 5.9 years (December 31, 2017 — 5.9 years) with lease expiries by GLA (in thousands of square feet), lease count and annualized revenue (calculated as rental revenue excluding tenant recoveries, recognized in accordance with IFRS, in the second quarter of 2018 multiplied by four quarters, in millions) as set out in the table below:

Lease Maturity Summary																			
	Total		Total Annualized Revenue \$	Vacancies		2018		2019		2020		2021		2022		2023		2024 and Beyond	
	Total GLA	Lease Count		Sq Ft	Sq Ft	Annualized Revenue \$	Sq Ft	Annualized Revenue \$	Sq Ft	Annualized Revenue \$	Sq Ft	Annualized Revenue \$	Sq Ft	Annualized Revenue \$	Sq Ft	Annualized Revenue \$	Sq Ft	Annualized Revenue \$	Sq Ft
Canada	5,656	28	43.9	145	383	1.5	292	1.6	1,033	7.0	316	2.9	490	6.6	594	2.9	2,403	21.4	
United States	14,846	42	76.1	90	103	0.9	817	4.2	312	1.9	87	0.7	2,903	9.7	2,010	9.4	8,524	49.3	
Austria	8,101	12	64.4	—	112	0.2	392	3.9	—	—	806	3.9	802	9.8	125	1.9	5,864	44.7	
Germany	3,151	10	21.2	300	228	1.8	—	—	195	1.5	308	2.5	283	2.2	1,470	11.2	367	2.0	
Netherlands	1,441	2	8.0	314	—	—	500	3.3	627	4.7	—	—	—	—	—	—	—	—	
Other	751	8	5.4	—	—	—	136	0.7	133	0.5	336	3.1	56	0.3	90	0.8	—	—	
	33,946	102	219.0	849	826	4.4	2,137	13.7	2,300	15.6	1,853	13.1	4,534	28.6	4,289	26.2	17,158	117.4	
Less: Properties classified as assets held for sale																			
Canada	(396)	(2)	(4.3)	—	(253)	(0.6)	—	—	—	—	—	—	(143)	(3.7)	—	—	—	—	
United States	(1,660)	(2)	(18.3)	—	—	—	—	—	—	—	—	—	—	—	—	—	(1,660)	(18.3)	
Germany	(64)	(1)	(0.4)	—	—	—	—	—	—	—	—	—	—	—	—	—	(64)	(0.4)	
As at June 30, 2018	31,826	97	196.0	849	573	3.8	2,137	13.7	2,300	15.6	1,853	13.1	4,391	24.9	4,289	26.2	15,434	98.7	
% of portfolio as at June 30, 2018:																			
* by sq ft	100%			2.7%	1.8%		6.7%		7.2%		5.8%		13.8%		13.5%		48.5%		
* by Annualized Revenue		100%				1.9%	7.0%		7.2%		8.0%		6.7%		12.7%		13.3%		50.4%
Leasing and acquisition activities between July 1, 2018 and July 31, 2018:																			
As at June 30, 2018	31,826	97	196.0	849	573	3.8	2,137	13.7	2,300	15.6	1,853	13.1	4,391	24.9	4,289	26.2	15,434	98.7	
Acquisition of Erfurt, Germany property⁽¹⁾ (acquired July 12, 2018)																			
— Germany	717	2	4.5	—	—	—	—	—	—	—	120	0.7	—	—	597	3.8	—	—	
Renewals or Extensions																			
— Canada	—	—	—	—	—	—	(292)	(1.6)	—	—	—	—	292	1.6	—	—	—	—	
— Netherlands	—	—	—	—	—	—	(500)	(3.3)	(627)	(4.7)	—	—	—	—	—	—	1,127	8.0	
Total	32,543	99	200.5	849	573	3.8	1,345	8.8	1,673	10.9	1,973	13.8	4,683	26.5	4,886	30.0	16,561	106.7	

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

Leasing Costs and Lease Incentives

Direct leasing costs include broker commissions incurred in negotiating and arranging tenant leases. Lease incentives include the cost of leasehold improvements to tenant spaces and/or cash allowances provided to tenants for leasehold improvement costs. For the three and six month periods ended June 30, 2018, the Trust incurred leasing costs and lease incentives of \$0.4 million and \$3.0 million, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Granite has various sources of available liquidity including cash, cash equivalents and the unused portion of its unsecured credit facility that aggregated to \$457.0 million as at June 30, 2018 compared to \$286.2 million at December 31, 2017, as summarized below:

Sources of Available Liquidity		
As at June 30, 2018 and December 31, 2017	2018	2017
Cash and cash equivalents	\$ 50.1	\$ 69.0
Unused portion of credit facility ⁽¹⁾	406.9	217.2
Available liquidity	\$ 457.0	\$ 286.2
Assets held for sale ⁽²⁾	\$ 341.4	\$ 391.4
Unencumbered assets ⁽³⁾	\$3,031.2	\$2,733.6

⁽¹⁾ In February 2018, Granite entered into a new five-year \$500.0 million credit facility thereby increasing its borrowing capacity by \$250.0 million. See "Debt Structure — Credit Facility".

⁽²⁾ Six investment properties located in Canada, the United States and Germany were classified as assets held for sale on the combined financial statements at June 30, 2018. Ten investment properties located in Canada and the United States were classified as assets held for sale at December 31, 2017 and were subsequently sold in January 2018.

⁽³⁾ Unencumbered assets represent the carrying value of investment properties (excluding any properties held for sale) that are not encumbered by secured debt. Granite can seek to obtain secured financing against its unencumbered assets subject to certain restrictions and financial covenant limitations in its credit facility and trust indenture.

Additional sources of liquidity available to Granite include cash flow generated from operations, asset sales and, if necessary, financing that may be obtained on its unencumbered assets.

Management believes that the Trust's cash resources, cash flow from operations and available third-party borrowings will be sufficient to finance its operations and capital expenditures program over the next year as well as to pay distributions. Granite expects to fund its ongoing operations and future growth through the use of (i) existing cash and cash equivalents, (ii) cash flow from operating activities, (iii) cash flows from asset sales, (iv) short-term financing available from the credit facility and/or (v) the issuance of unsecured debentures or equity, subject to market conditions.

Cash Flow Components

Components of the Trust's cash flows were as follows:

Cash Flow Components Summary						
	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	\$ change	2018	2017	\$ change
Cash and cash equivalents, beginning of period	\$ 273.8	\$189.7	84.1	\$ 69.0	\$246.2	(177.2)
Cash provided by operating activities	45.0	33.8	11.2	82.5	80.0	2.5
Cash used in investing activities . .	(312.0)	(0.7)	(311.3)	(37.2)	(72.4)	35.2
Cash provided by (used in) financing activities	49.1	(30.7)	79.8	(67.8)	(62.4)	(5.4)
Effect of exchange rate changes on cash and cash equivalents . .	(5.8)	4.4	(10.2)	3.6	5.1	(1.5)
Cash and cash equivalents, end of period	\$ 50.1	\$196.5	(146.4)	\$ 50.1	\$196.5	(146.4)

Operating Activities

In the three month period ended June 30, 2018, operating activities generated cash of \$45.0 million compared to \$33.8 million in the prior year period. The increase of \$11.2 million was due to various factors including the following:

- an increase resulting from proxy contest expenses of \$5.9 million incurred in the second quarter of 2017 as noted previously;
- an increase in cash provided by working capital changes of \$7.9 million due to unit-based compensation payments made to former directors/trustees in the second quarter of 2017 and a decrease in accounts receivable in the current year period relating to the reimbursement of construction costs received from a non-Magna tenant at a property in Novi, Michigan; and
- an increase in net realized foreign exchange gains of \$4.6 million resulting from the US dollar proceeds received from the sale of investment properties in January 2018, partially offset by;
- an increase in leasing commissions paid of \$2.3 million; and
- an increase in income taxes paid of \$4.4 million primarily relating to a property disposition in 2016 and the receipt of an income tax refund in the second quarter of 2017.

In the six month period ended June 30, 2018, operating activities generated cash of \$82.5 million compared to \$80.0 million in the prior year period. The increase of \$2.5 million was primarily related to the following:

- an increase in net realized foreign exchange gains of \$9.9 million primarily due to the US dollar proceeds received from the sale of investment properties in January 2018; and
- the prior year period included proxy contest expenses of \$5.9 million, partially offset by;
- an increase in tenant incentives paid of \$8.8 million which related to a \$9.1 million payment in February 2018 associated with a 2014 lease extension at the Eurostar facility in Graz, Austria; and
- an increase in leasing commissions paid of \$3.9 million.

Investing Activities

Investing activities for the three month period ended June 30, 2018 used cash of \$312.0 million and primarily related to the following:

- the acquisitions of five income-producing properties in the United States for \$327.3 million consisting of a \$304.2 million portfolio of four properties in West Jefferson, Ohio and \$23.1 million related to the remaining balance paid for a property in Greencastle, Pennsylvania;
- an \$8.3 million deposit for an income-producing industrial property in Erfurt, Germany acquired in July 2018; and
- investment property maintenance and improvement capital expenditures of \$6.2 million relating to improvement projects at a property in Novi, Michigan which was occupied by a non-Magna tenant starting January 2018 as well as a modern warehouse property located in Olive Branch, Mississippi which was acquired in October 2017 and re-leased to a non-Magna tenant, partially offset by;
- the receipt of a \$30.0 million vendor take-back mortgage resulting from the sale of seven properties in Newmarket, Ontario in January 2018.

Investing activities for the three month period ended June 30, 2017 used cash of \$0.7 million and comprised the purchase of investment property capital expenditures and fixed asset additions.

Investing activities for the six month period ended June 30, 2018 used cash of \$37.2 million and primarily related to the following:

- the acquisitions of six income-producing properties in the United States for \$399.4 million consisting of a \$304.2 million portfolio of four properties in West Jefferson, Ohio, \$50.8 million for a property in Plainfield, Indiana and \$44.4 million for a property in Greencastle, Pennsylvania;
- investment property maintenance and improvement capital expenditures of \$15.0 million relating to improvement projects in Novi, Michigan and Olive Branch, Mississippi as noted above; and
- an \$8.3 million deposit for a property in Erfurt, Germany acquired in July 2018, partially offset by;
- net proceeds of \$356.5 million received from the disposition of 10 income-producing properties in Canada and the United States; and
- the receipt of a \$30.0 million vendor take-back mortgage as noted above.

Investing activities for the six month period ended June 30, 2017 used cash of \$72.4 million of which \$70.8 million related to the purchase of expansion capital expenditures at two special purpose properties in the United States, one of which was sold in January 2018 and the other was reclassified as asset held for sale in the second quarter of 2018.

Financing Activities

Cash provided by financing activities for the three month period ended June 30, 2018 of \$49.1 million comprised net \$90.2 million of bank indebtedness proceeds, partially offset by \$31.2 million of distribution payments and \$9.9 million to repurchase the Trust's stapled units under the normal course issuer bid.

Cash used in financing activities for the three month period ended June 30, 2017 of \$30.7 million related to distribution payments.

Cash used in financing activities for the six month period ended June 30, 2018 of \$67.8 million comprised distribution payments of \$62.8 million and repurchases of the Trust's stapled units under the normal course issuer bid of \$60.9 million, partially offset by a net \$57.4 million of bank indebtedness proceeds.

Cash used in financing activities for the six month period ended June 30, 2017 of \$62.4 million comprised distribution payments of \$61.4 million and \$1.0 million of financing costs paid largely in connection with the debenture issuance in December 2016.

Debt Structure

Granite's debt structure and key debt metrics as at June 30, 2018 and December 31, 2017 were as follows:

Summary Debt Structure and Debt Metrics					
As at June 30, 2018 and December 31, 2017		2018	2018 Adjusted⁽²⁾	2017	2017 Adjusted⁽²⁾
Unsecured debentures, net		\$ 647.6	\$ 647.6	\$ 647.3	\$ 647.3
Cross currency interest rate swaps, net		77.1	77.1	61.5	61.5
Bank indebtedness		92.9	92.9	32.6	32.6
Total debt	[A]	\$ 817.6	\$ 817.6	\$ 741.4	\$ 741.4
Less: cash and cash equivalents		50.1	391.6	69.0	460.4
Net debt	[B]	\$ 767.5	\$ 426.0	\$ 672.4	\$ 281.0
Investment properties, all unencumbered by secured debt	[C]	\$3,031.2	\$3,031.2	\$2,733.6	\$2,733.6
Adjusted EBITDA⁽¹⁾	[D]	\$ 187.4	\$ 164.4	\$ 185.0	\$ 159.4
Trailing 12-month interest expense		\$ 21.3	\$ 21.3	\$ 20.0	\$ 20.0
Trailing 12-month interest income		(2.0)	(2.0)	(0.5)	(0.5)
Trailing 12-month interest expense, net	[E]	\$ 19.3	\$ 19.3	\$ 19.5	\$ 19.5
Debt metrics					
Leverage ratio ⁽¹⁾	[A]/[C]	27%	27%	27%	27%
Net leverage ratio ⁽¹⁾	[B]/[C]	25%	14%	25%	10%
Interest coverage ratio ⁽¹⁾	[D]/[E]	9.7x	8.5x	9.5x	8.2x
Unencumbered asset coverage ratio ⁽¹⁾	[C]/[A]	3.7x	3.7x	3.7x	3.7x
Indebtedness ratio ⁽¹⁾	[A]/[D]	4.4x	5.0x	4.0x	4.7x
Weighted average cost of debt		2.65%	2.65%	2.54%	2.54%
Weighted average debt term-to-maturity, in years		4.0	4.0	4.8	4.8
Ratings and outlook					
DBRS		BBB stable	BBB stable	BBB stable	BBB stable
Moody's		Baa2 stable	Baa2 stable	Baa2 stable	Baa2 stable

⁽¹⁾ Represents a non-IFRS measure. For definitions of Granite's non-IFRS measures, refer to the section "NON-IFRS MEASURES".

⁽²⁾ The 2018 Adjusted column represents the summary of debt structure and debt metrics at June 30, 2018 after adjusting for the expected cash proceeds from the planned dispositions of the six properties held for sale and the corresponding reduction in Adjusted EBITDA of \$23.0 million for the trailing 12-months ended June 30, 2018 associated with the revenue reduction from the sale of the six properties. The 2017 Adjusted column is as at December 31, 2017 and adjusts for the cash proceeds from the sale of the 10 properties in January 2018 as well as the corresponding reduction in Adjusted EBITDA of \$25.6 million for the 2017 year associated with the revenue reduction from the sale of the 10 properties.

Unsecured Debentures and Cross Currency Interest Rate Swaps

On December 20, 2016, the Trust issued \$400.0 million aggregate principal amount of 3.873% Series 3 senior debentures due November 30, 2023 (the “2023 Debentures”). Interest on the 2023 Debentures is payable semi-annually in arrears on May 30 and November 30 of each year. The 2023 Debentures rank equally with all of the Trust’s existing and future unsubordinated and unsecured indebtedness and are guaranteed by Granite REIT and Granite GP. At June 30, 2018, all of the 2023 Debentures remained outstanding and the balance net of issuance costs was \$398.3 million.

Also on December 20, 2016, the Trust entered into a cross currency interest rate swap to exchange the 3.873% interest payments from the 2023 Debentures for euro denominated payments at a 2.43% interest rate. Under the terms of the swap, the Trust will pay principal proceeds of €281.1 million in exchange for which it will receive \$400.0 million on November 30, 2023. As at June 30, 2018, the fair value of the cross currency interest rate swap was a net financial liability of \$52.5 million. The fair value of the cross currency interest rate swap is dependent upon a number of assumptions including the euro exchange rate against the Canadian dollar and the euro and Canadian government benchmark interest rates.

In July 2014, the Trust issued \$250.0 million aggregate principal amount of 3.788% Series 2 senior debentures due July 5, 2021 (the “2021 Debentures”). Interest on the 2021 Debentures is payable semi-annually in arrears on January 5 and July 5 of each year. The 2021 Debentures rank equally with all of the Trust’s existing and future unsubordinated and unsecured indebtedness and are guaranteed by Granite REIT and Granite GP. At June 30, 2018, all of the 2021 Debentures remained outstanding and the balance net of issuance costs was \$249.3 million.

Also in July 2014, the Trust entered into a cross currency interest rate swap to exchange the 3.788% interest payments from the 2021 Debentures to euro denominated payments at 2.68%. Under the terms of the swap, the Trust will pay principal proceeds of €171.9 million in exchange for which it will receive \$250.0 million on July 5, 2021. As at June 30, 2018, the fair value of the cross currency interest rate swap was a net financial liability of \$24.6 million. The fair value of the cross currency interest rate swap is dependent upon a number of assumptions including the euro exchange rate against the Canadian dollar and the euro and Canadian government benchmark interest rates.

Credit Facility

On February 1, 2018, the Trust entered into a new unsecured revolving credit facility in the amount of \$500.0 million that is available by way of Canadian dollar, US dollar or euro denominated loans or letters of credit and matures on February 1, 2023. The Trust has the option to extend the maturity date by one year to February 1, 2024 subject to the agreement of lenders in respect of a minimum of 66⅔% of the aggregate amount committed under the new facility. The credit facility provides the Trust with the ability to increase the amount of the commitment by an additional aggregate principal amount of up to \$100.0 million with the consent of the participating lenders. Interest on drawn amounts is calculated based on an applicable margin determined by reference to the external credit rating of Granite REIT and Granite GP, as is a commitment fee in respect of undrawn amounts. As at June 30, 2018, the Trust had \$92.9 million drawn from the credit facility and \$0.2 million in letters of credit issued against the facility.

Debt Metrics and Financial Covenants

Granite uses the debt metrics noted above to assess its borrowing capacity and the ability to meet its current and future financing obligations. At June 30, 2018, there were no significant changes in the debt ratios, which remain relatively favourable, providing financial flexibility for future growth.

Granite’s unsecured debentures and credit facility agreements contain financial and non-financial covenants that include maintaining certain leverage and debt service ratios. As at June 30, 2018, Granite was in compliance with all of these covenants.

Credit Ratings

On April 12, 2018, Moody's Investors Service, Inc. ("Moody's") confirmed its credit rating on the 2021 Debentures and 2023 Debentures of Baa2 with a stable outlook. On March 19, 2018, DBRS confirmed the BBB rating on the 2021 Debentures and the 2023 Debentures with a stable trend. Credit ratings are intended to provide investors with an independent measure of credit quality of an issue of securities. A rating accorded to any security is not a recommendation to buy, sell or hold such securities and may be subject to revision or withdrawal at any time by the rating organization which granted such ratings.

Unitholders' Equity

Outstanding Stapled Units

As at July 31, 2018, the Trust had 45,733,941 stapled units issued and outstanding.

Distributions

Granite REIT's monthly distribution to unitholders is currently 22.7 cents per stapled unit. For 2018, based on this current monthly rate and excluding any special distribution, Granite expects to make total annual distributions of \$2.72 per stapled unit. As a result of the increase in taxable income generated by the transactions completed in the 2018 year-to-date and those anticipated to be completed during the remainder of 2018, Granite expects to make a special distribution to unitholders in accordance with its Declaration of Trust. The amount and form of consideration of such special distribution will be determined later in the year and will be dependent upon, among other, the actual taxable income generated for the entire current year. Granite anticipates declaring any such special distribution on or before December 31, 2018.

Distributions declared to stapled unitholders in the three month periods ended June 30, 2018 and 2017 were \$31.1 million or 68.1 cents per stapled unit and \$30.7 million or 65.1 cents per stapled unit, respectively. Total distributions declared to stapled unitholders in the six month period ended June 30, 2018 and 2017 were \$62.6 million or \$1.36 per stapled unit and \$61.4 million or \$1.30 per stapled unit, respectively. On July 17, 2018, a monthly distribution of \$10.4 million or 22.7 cents per stapled unit was declared and will be paid on August 15, 2018.

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

Cash Flows from Operating Activities in Excess of Distributions Paid and Payable

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	\$149.2	\$ 42.8	\$221.6	\$ 73.1
Cash flows provided by operating activities	45.0	33.8	82.5	80.0
Distributions paid and payable	(31.1)	(30.7)	(62.6)	(61.4)
Cash flows from operating activities in excess of distributions paid and payable	\$ 13.9	\$ 3.1	\$ 19.9	\$ 18.6

Distributions for the three and six month periods ended June 30, 2018 and 2017 were funded with cash flows from operating activities.

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

Normal Course Issuer Bid

On May 16, 2018, Granite announced the acceptance by the Toronto Stock Exchange (“TSX”) of Granite’s Notice of Intention to Make a Normal Course Issuer Bid (“NCIB”). Pursuant to the NCIB, Granite proposes to purchase through the facilities of the TSX and any alternative trading system in Canada, from time to time and if considered advisable, up to an aggregate of 3,939,255 of Granite’s issued and outstanding stapled units. The NCIB commenced on May 18, 2018 and will conclude on the earlier of the date on which purchases under the bid have been completed and May 17, 2019. Pursuant to the policies of the TSX, daily purchases made by Granite through the TSX may not exceed 16,546 stapled units, subject to certain exceptions. Granite entered into an automatic securities purchase plan with a broker in order to facilitate repurchases of the stapled units under the NCIB during specified blackout periods.

Pursuant to a previous notice of intention to conduct a NCIB, under which Granite received approval from the TSX to purchase stapled units for the period May 16, 2017 to May 15, 2018, Granite repurchased an aggregate of 1,474,493 stapled units for total consideration of \$73.0 million. These repurchases were made at an average trading price per unit of \$49.50. During the six month period ended June 30, 2018, Granite repurchased 1,233,459 stapled units for consideration of \$60.9 million.

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

The Trust is subject to various legal proceedings and claims that arise in the ordinary course of business. Management believes that the final outcome of such matters will not have a material adverse effect on the financial position, results of operations or liquidity of the Trust. However, actual outcomes may differ from management’s expectations.

Off-balance sheet arrangements consist of outstanding letters of credit to support certain contractual obligations, construction and development project commitments and certain operating agreements. At June 30, 2018, the Trust had \$0.2 million in letters of credit outstanding and contractual commitments related to construction and development projects amounting to approximately \$21.4 million. The construction and development projects are expected to be completed by January 2019 and are expected to be funded by cash from operations. At June 30, 2018, the Trust also had commitments on non-cancellable operating leases requiring future minimum annual rental payments as follows:

Not later than 1 year	\$0.5
Later than 1 year and not later than 5 years	1.3
Later than 5 years	<u>—</u>
	<u>\$1.8</u>

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

For further discussion of commitments, contractual obligations, contingencies and off-balance sheet arrangements, refer to notes 8, 9, 15, 17 and 18 to the unaudited condensed combined financial statements for the three and six month periods ended June 30, 2018.

NON-IFRS MEASURES

Funds from operations

FFO is a non-IFRS performance measure that is widely used by the real estate industry in evaluating the operating performance of real estate entities. Granite calculates FFO as net income attributable to stapled unitholders excluding fair value gains (losses) on investment properties and financial instruments, gains (losses) on sale of investment properties including the associated current income tax, acquisition transaction costs, deferred income taxes and certain other items, net of non-controlling interests in such items. The Trust's determination of FFO follows the definition prescribed by the Real Estate Property Association of Canada ("REALPAC") White Paper on Funds From Operations & Adjusted Funds From Operations for IFRS dated February 2018 and as subsequently amended ("White Paper"). Granite considers FFO to be a meaningful supplemental measure that can be used to determine the Trust's ability to service debt, fund capital expenditures and provide distributions to stapled unitholders. FFO is reconciled to net income, which is the most directly comparable IFRS measure (see "*RESULTS OF OPERATIONS — Funds From Operations and Adjusted Funds From Operations*"). FFO should not be construed as an alternative to net income or cash flow generated from operating activities determined in accordance with IFRS.

Adjusted funds from operations

AFFO is a non-IFRS performance measure that is widely used by the real estate industry in evaluating the recurring economic earnings performance of real estate entities after considering certain costs associated with sustaining such earnings. Granite calculates AFFO as net income attributable to stapled unitholders including all adjustments used to calculate FFO and further adjusts for actual maintenance capital expenditures that are required to sustain Granite's productive capacity, leasing costs such as leasing commissions and tenant allowances paid, tenant improvements and non-cash straight-line rent and tenant incentive amortization, net of non-controlling interests in such items. The Trust's determination of AFFO follows the definition prescribed by REALPAC's White Paper. Granite considers AFFO to be a meaningful supplemental measure that can be used to determine the Trust's ability to service debt, fund expansion capital expenditures, fund property development and provide distributions to stapled unitholders after considering costs associated with sustaining operating earnings. AFFO is also reconciled to net income, which is the most directly comparable IFRS measure (see "*RESULTS OF OPERATIONS — Funds From Operations and Adjusted Funds From Operations*"). AFFO should not be construed as an alternative to net income or cash flow generated from operating activities determined in accordance with IFRS.

FFO and AFFO payout ratios

The FFO and AFFO payout ratios are calculated as distributions declared to unitholders divided by FFO and AFFO, respectively, in a period. FFO payout ratio and AFFO payout ratio may exclude revenue or expenses incurred during a period that are non-recurring or unusual and can be a source of variance between periods. The FFO payout ratio and AFFO payout ratio are supplemental measures widely used by analysts and investors in evaluating the sustainability of the Trust's distributions to stapled unitholders.

FFO and AFFO Payout Ratios

<i>(in millions, except as noted)</i>		Three Months Ended June 30,		Six Months Ended June 30,	
		2018	2017	2018	2017
Distributions declared to unitholders	[A]	\$31.1	\$30.7	\$ 62.6	\$61.4
FFO		37.6	31.6	88.7	71.2
Add (deduct):					
Proxy contest expenses		—	5.9	—	5.9
Foreign exchange loss (gain) on cash proceeds from sale of investment properties		1.9	—	(8.5)	—
Lease termination and close-out fee		—	—	(1.0)	—
FFO adjusted for the above	[B]	\$39.5	\$37.5	\$ 79.2	\$77.1
AFFO		29.4	32.5	60.5	72.8
Add (deduct):					
Proxy contest expenses		—	5.9	—	5.9
Tenant allowance payment made in connection with a 2014 lease extension at the Eurostar facility in Austria		—	—	9.1	—
Foreign exchange loss (gain) on cash proceeds from sale of investment properties		1.9	—	(8.5)	—
Lease termination and close-out fee		—	—	(1.0)	—
AFFO adjusted for the above	[C]	\$31.3	\$38.4	\$ 60.1	\$78.7
FFO payout ratio	[A]/[B]	79%	82%	79%	80%
AFFO payout ratio	[A]/[C]	99%	80%	104%	78%

Net operating income

NOI is defined as rental revenue and tenant recoveries less property operating costs. Granite also uses NOI on a cash basis, which adjusts NOI for straight-line rent and tenant incentive amortization recognized during the period (see “RESULTS OF OPERATIONS — Net Operating Income”). These are widely used measures by the real estate industry and Granite believes that NOI and NOI — cash basis are useful supplementary measures of the income generated by and operating performance of income-producing properties in addition to the most comparable IFRS measure, which Granite believes is revenue. Such measures are also key inputs in Granite’s determination of the fair value of its investment property portfolio.

Adjusted earnings before interest, income taxes, depreciation and amortization (“Adjusted EBITDA”)

Adjusted EBITDA is calculated as net income before lease termination and close-out fees, interest expense, interest income, income tax expense, depreciation and amortization expense, foreign exchange gains (losses) on proceeds from the sale of investment properties, proxy contest expenses, fair value gains (losses) on investment properties and financial instruments, acquisition transaction costs, other income relating to a settlement award and gains (losses) on the sale of investment properties. Adjusted EBITDA represents an operating cash flow measure that Granite uses in calculating the interest coverage ratio and indebtedness ratio noted below. This measure is also defined in Granite’s debt agreements and used in calculating the Trust’s debt covenants.

Adjusted EBITDA Reconciliation

For the 12-months ended June 30, 2018 and December 31, 2017	2018	2017
Net income	\$ 506.3	\$ 357.7
Add (deduct):		
Lease termination and close-out fees	(2.6)	(1.6)
Interest expense and other financing costs	21.3	20.0
Interest income	(2.0)	(0.5)
Income tax expense	33.2	13.4
Depreciation and amortization	0.3	0.3
Foreign exchange gain on cash proceeds from sale of investment properties	(8.5)	—
Fair value gains on investment properties, net	(362.5)	(212.1)
Fair value losses on financial instruments	—	0.8
Loss on sale of investment properties	1.7	0.4
Acquisition transaction costs	2.5	0.7
Other income — settlement award	(2.3)	—
Proxy contest expenses	—	5.9
Adjusted EBITDA	\$ 187.4	\$ 185.0

Interest coverage ratio

The interest coverage ratio is calculated on a 12-month trailing basis using Adjusted EBITDA divided by net interest expense. Granite believes the interest coverage ratio is useful in evaluating the Trust's ability to meet its interest expense obligations (see *"LIQUIDITY AND CAPITAL RESOURCES — Debt Structure"*).

Indebtedness ratio

The indebtedness ratio is calculated as total debt divided by Adjusted EBITDA and Granite believes it is useful in evaluating the Trust's ability to repay outstanding debt using its operating cash flows (see *"LIQUIDITY AND CAPITAL RESOURCES — Debt Structure"*).

Leverage and net leverage ratios

The leverage ratio is calculated as the carrying value of total debt divided by the fair value of investment properties while the net leverage ratio subtracts cash and cash equivalents from total debt. The leverage ratio and net leverage ratio are supplemental measures that Granite believes are useful in evaluating the Trust's degree of financial leverage, borrowing capacity and the relative strength of its balance sheet (see *"LIQUIDITY AND CAPITAL RESOURCES — Debt Structure"*).

Unencumbered asset coverage ratio

The unencumbered asset coverage ratio is calculated as the carrying value of investment properties (excluding properties held for sale) that are not encumbered by secured debt divided by the carrying value of total unsecured debt and is a supplemental measure that Granite believes is useful in evaluating the Trust's degree of asset coverage provided by its unencumbered investment properties to total unsecured debt (see *"LIQUIDITY AND CAPITAL RESOURCES — Debt Structure"*).

SIGNIFICANT ACCOUNTING ESTIMATES

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

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

Judgments

Leases

The Trust's policy for revenue recognition is described in note 2(k) of the audited combined financial statements for the year ended December 31, 2017. The Trust makes judgments in determining whether certain leases are operating or finance leases, in particular tenant leases with long contractual terms, leases where the property is a large square-footage and/or architecturally specialized and long-term ground leases where the Trust is the lessee.

Investment properties

The Trust's policy relating to investment properties is described in note 2(d) of the audited combined financial statements for the year ended December 31, 2017. In applying this policy, judgment is used in determining whether certain costs incurred for tenant improvements are additions to the carrying amount of the property or represent incentives, identifying the point at which practical completion of properties under development occurs and determining borrowing costs to be capitalized to the carrying value of properties under development. Judgment is also applied in determining the use, extent and frequency of independent appraisals.

Income taxes

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

Estimates and Assumptions

Valuation of investment properties

The fair value of investment properties is determined by management using primarily the discounted cash flow method in which the income and expenses are projected over the anticipated term of the investment plus a terminal value discounted using an appropriate discount rate. The Trust obtains, from time to time, appraisals from independent qualified real estate valuation experts. 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. Management uses valuation assumptions such as discount rates, terminal capitalization rates and market rental rates applied in external appraisals or sourced from valuation experts; however, the Trust also uses its historical renewal experience with tenants, its direct knowledge of the specialized nature of Granite's portfolio and tenant profile and its knowledge of the actual condition of the properties in making business judgments about lease renewal probabilities, renewal rents and capital expenditures. There has been no change in the valuation methodology used during the six month period ended June 30, 2018. The

critical assumptions relating to the Trust's estimates of fair values of investment properties include the receipt of contractual rents, contractual renewal terms, expected future market rental rates, discount rates that reflect current market uncertainties, capitalization rates and recent investment property prices. If there is any change in these assumptions or regional, national or international economic conditions, the fair value of investment properties may change materially. Refer to the "Investment Properties" section and note 4 of the unaudited condensed combined financial statements for the three and six month periods ended June 30, 2018 for further information on the estimates and assumptions made by management in connection with the fair values of investment properties.

Fair value of financial instruments

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

Income taxes

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

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

NEW ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS

New Standards Adopted

The accounting policies adopted in the preparation of the condensed combined financial statements are consistent with those followed in the preparation of the Trust's annual combined financial statements for the year ended December 31, 2017, except for the adoption of new standards and interpretations effective January 1, 2018. The Trust applied for the first time certain standards and amendments that require restatement of previous financial statements. As required by International Accounting Standard ("IAS") 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB"), the nature and effect of these changes are disclosed below.

IFRS 15, Revenue from Contracts with Customers

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

As the Trust's most material revenue stream of rental revenue is outside the scope of the new standard, the adoption of the new standard did not have a material impact on the combined statements of income and comprehensive income. The recovery of costs related to common area maintenance services is considered within the scope of IFRS 15 and the Trust has concluded that the pattern of revenue recognition remains unchanged. As a result of the adoption of IFRS 15, the Trust discloses revenue recognized from contracts with customers related to common area maintenance recoveries separately from other sources of revenue. In addition, the Trust assessed that it is a principal in relation to property taxes and insurance that are paid directly by the tenants under certain net leases as the Trust is primarily responsible for fulfilling the promise to satisfy its obligations and is a beneficiary as it relates to potential property insurance claims. Therefore, the Trust recognizes the gross amount of consideration for property taxes and insurance paid directly by tenants. As a result of the retrospective adoption of IFRS 15, in the three month periods ended June 30, 2018 and 2017, tenant recoveries revenue and property operating costs each increased \$4.3 million and \$5.5 million, respectively. For the six month periods ended June 30, 2018 and 2017, tenant recoveries revenue and property operating costs each increased \$9.1 million and \$11.2 million, respectively. There was no impact to net income, unitholders' equity or cash flows from the adoption of this standard and also no adjustment to opening retained earnings on the date of adoption of this standard. Refer to note 12(a) to the unaudited condensed combined financial statements for the incremental disclosures required under IFRS 15.

IFRS 9, Financial Instruments

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

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

Classification and measurement:

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

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

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

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

Refer to notes 2(c) and 15 to the unaudited condensed combined financial statements for the classification and measurement basis of financial assets and liabilities under IFRS 9.

Impairment:

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

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

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

Hedge accounting:

IFRS 9 also introduces a new hedge accounting model that expands the scope of hedge items and risks eligible for hedge accounting and aligns hedge accounting more closely with risk management. This new standard did not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; however, it provides for more hedging strategies that are used for risk management to qualify for hedge accounting and introduces more judgment to assess the effectiveness of a hedging relationship.

Financial liabilities:

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

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

IFRS 2, Share-based Payment

In June 2016, the IASB issued amendments to IFRS 2, *Share-based Payment* clarifying how to account for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature and a modification to the terms and conditions that change the classification of the transactions. These amendments are effective for annual periods beginning on January 1, 2018. The adoption of this amendment did not have an impact on the combined financial statements.

IAS 40, Investment Properties

On December 8, 2016, the IASB issued an amendment to IAS 40, *Investment Properties* that requires an asset to be transferred to or from investment property only when there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is

evidence of the change in use. The amendments are effective for years beginning on January 1, 2018. The adoption of these amendments and clarifications did not have an impact to the combined financial statements.

Future Accounting Policy Changes

New accounting standards issued but not yet applicable to the condensed combined financial statements for the three and six months ended June 30, 2018 are described below. Granite intends to adopt these standards when they become effective.

IFRS 16, Leases

In January 2016, the IASB issued IFRS 16, *Leases* (“IFRS 16”) which replaces IAS 17, *Leases* and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a non-lease component on the basis of whether the customer controls the specified asset. For those contracts that are or contain a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains largely unchanged as the distinction between operating and finance leases is retained. The standard is effective for annual periods beginning on or after January 1, 2019. The Trust does not expect this standard to have a significant impact on its combined financial statements as leases with tenants are expected to be accounted for as operating leases in the same manner they are currently being reported. The Trust has two investment properties located on land that is leased. Currently, the ground rent payments are expensed. It is expected that under IFRS 16, a right-of-use asset addition to investment properties and a lease obligation liability will be recorded with associated financing charges. The Trust also has rent expense associated with office space in Toronto, Canada and Vienna, Austria. It is expected that under IFRS 16, a right-of-use asset addition and obligation liability will be recorded for these lease obligations. The Trust is continuing to assess the impact of the adoption of IFRS 16 on its combined financial statements.

IFRIC 23, Uncertainty over Income Tax Treatments

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the second quarter of 2018, there were no changes in the Trust’s internal controls over financial reporting that had materially affected or are reasonably likely to materially affect the internal controls over financial reporting.

RISKS AND UNCERTAINTIES

Investing in the Trust’s stapled units involves a high degree of risk. There are a number of risk factors that could have a material adverse effect on Granite’s business, financial condition, operating results and prospects. These risks and uncertainties are discussed in Granite’s AIF filed with securities regulators in Canada and available online at www.sedar.com and Annual Report on Form 40-F filed with the SEC and available online on EDGAR at www.sec.gov, each in respect of the year ended December 31, 2017, and remain substantially unchanged in respect of the three and six month periods ended June 30, 2018.

QUARTERLY FINANCIAL DATA (UNAUDITED)

<i>(in millions, except as noted)</i>	Q2'18	Q1'18	Q4'17	Q3'17	Q2'17	Q1'17	Q4'16	Q3'16
Operating highlights⁽¹⁾⁽²⁾								
Revenue ⁽³⁾	\$ 62.1	\$ 61.7	\$ 62.6	\$ 60.8	\$ 60.5	\$ 60.8	\$ 59.7	\$ 61.7
NOI — cash basis ⁽⁴⁾	\$ 55.2	\$ 52.3	\$ 56.2	\$ 53.4	\$ 54.2	\$ 54.4	\$ 55.0	\$ 55.0
Fair value gain (loss) on investment properties, net	\$ 127.9	\$ 32.3	\$ 185.2	\$ 17.0	\$ 17.2	\$ (7.3)	\$ 6.2	\$ 135.0
Net income attributable to stapled unitholders	\$ 149.2	\$ 72.4	\$ 233.6	\$ 51.0	\$ 42.9	\$ 30.3	\$ 29.4	\$ 150.3
Cash provided by operating activities	\$ 45.0	\$ 37.6	\$ 38.2	\$ 40.5	\$ 33.8	\$ 46.2	\$ 30.0	\$ 40.7
FFO ⁽¹⁾	\$ 37.6	\$ 51.3	\$ 41.6	\$ 40.5	\$ 31.6	\$ 39.6	\$ 26.2	\$ 42.2
AFFO ⁽¹⁾	\$ 29.4	\$ 31.1	\$ 32.6	\$ 40.1	\$ 32.5	\$ 40.3	\$ 27.8	\$ 41.7
FFO payout ratio ⁽¹⁾	79%	79%	75%	79%	82%	78%	77%	68%
AFFO payout ratio ⁽¹⁾	99%	109%	95%	80%	80%	76%	74%	69%
Per unit amounts								
Diluted FFO ⁽¹⁾	\$ 0.82	\$ 1.11	\$ 0.89	\$ 0.86	\$ 0.67	\$ 0.84	\$ 0.56	\$ 0.90
Diluted AFFO ⁽¹⁾	\$ 0.64	\$ 0.67	\$ 0.69	\$ 0.85	\$ 0.69	\$ 0.86	\$ 0.59	\$ 0.88
Cash distributions paid	\$ 0.681	\$ 0.681	\$ 0.651	\$ 0.651	\$ 0.651	\$ 0.651	\$ 0.609	\$ 0.609
Financial highlights								
Investment properties ⁽⁴⁾	\$3,031.2	\$2,916.1	\$2,733.6	\$2,749.0	\$2,758.0	\$2,717.6	\$2,653.1	\$2,674.5
Assets held for sale	\$ 341.4	—	\$ 391.4	—	—	—	—	—
Cash and cash equivalents	\$ 50.1	\$ 273.8	\$ 69.0	\$ 190.9	\$ 196.5	\$ 189.7	\$ 246.2	\$ 175.2
Total debt	\$ 817.6	\$ 745.7	\$ 741.4	\$ 691.5	\$ 682.7	\$ 650.5	\$ 657.4	\$ 572.0
Diluted weighted average number of units	45.8	46.3	47.0	47.2	47.2	47.1	47.1	47.1
Property metrics⁽⁴⁾								
Number of income-producing properties	84	85	84	92	92	92	92	92
GLA, square feet	31.8	29.7	29.1	30.2	30.2	30.1	29.6	29.5
Occupancy, by GLA	97.3%	98.7%	98.4%	98.4%	98.1%	98.4%	99.4%	99.1%
Weighted average lease term, years	5.9	6.0	5.9	6.6	6.7	6.9	7.0	7.2

⁽¹⁾ For definitions of Granite's non-IFRS measures, refer to the section "NON-IFRS MEASURES".

⁽²⁾ The quarterly financial data reflects fluctuations in revenue, FFO, investment properties and total debt primarily from the timing of leasing and development activities, property sales, acquisitions and foreign exchange. Investment properties also fluctuate from the effect of measuring properties at fair value under IFRS. Net income attributable to unitholders primarily fluctuates from fair value gains/losses on investment properties. Explanations for specific changes in the quarterly financial data table above are as follows:

- **Q2'18** — Net income attributable to unitholders, cash provided by operating activities and FFO included a \$1.9 million foreign exchange loss on US dollar proceeds from the sale of investment properties in January 2018. FFO used to calculate FFO payout ratio and AFFO payout ratio excludes the \$1.9 million foreign exchange loss on US dollar proceeds from the sale of investment properties as this item is unusual and can be a source of variance between periods. Fair value gain on investment properties of \$127.9 million included the increase in fair value to the expected sale price of the six multi-purpose and special purpose properties classified as assets held for sale in the second quarter of 2018.
- **Q1'18** — Revenue, net income attributable to unitholders, cash provided by operating activities and FFO included \$1.0 million of lease termination and close-out fee in revenue in connection with a tenant having vacated a property and a \$10.4 million foreign exchange gain on US dollar proceeds from the sale of investment properties in January 2018. FFO used to calculate FFO payout ratio and AFFO payout ratio excludes the \$1.0 million lease termination and close-out fee and the \$10.4 million foreign exchange gain on US dollar proceeds from the sale of investment properties as these items are non-recurring or unusual and can be a source of variance between periods. AFFO included \$9.1 million relating to the payment of a tenant incentive

allowance made in connection with a 2014 lease extension at the Eurostar facility in Graz, Austria. AFFO used to calculate AFFO payout ratio excludes the \$9.1 million tenant incentive payment as this cost is unusual and can be a source of variance between periods.

- **Q4'17** — Fair value gain on investment properties of \$185.2 million included the increase in fair value to the sale price for 10 properties, including three special purpose properties, sold in January 2018 and the higher valuation implied on certain remaining special purpose properties from the pricing realized and the liquidity potential demonstrated from the sale.
- **Q3'17** — Revenue, net income attributable to unitholders, cash provided by operating activities and FFO included \$1.6 million of lease termination and close-out fees in revenue in connection with tenants having vacated or expecting to vacate properties. FFO used to calculate FFO payout ratio and AFFO payout ratio excludes the \$1.6 million lease termination and close-out fees as this revenue is unusual and can be a source of variance between periods.
- **Q2'17** — Net income attributable to unitholders, cash provided by operating activities and FFO included \$5.9 million of expenses in connection with the proxy contest leading up to Granite's June 2017 annual general meeting. FFO used to calculate FFO payout ratio and AFFO payout ratio excludes the \$5.9 million proxy contest expenses as this cost is non-recurring and can be a source of variance between periods.
- **Q4'16** — Net income attributable to unitholders, cash provided by operating activities and FFO included \$11.9 million of redemption costs associated with the early redemption of debentures that were due to mature in October 2018. FFO used to calculate FFO payout ratio and AFFO payout ratio excludes the \$11.9 million early redemption expense as this cost is unusual and can be a source of variance between periods.
- **Q3'16** — Fair value gain on investment properties of \$135.0 million included the positive changes to leasing assumptions, which generally resulted in increased certainty and the extension of contractual cash flows, relating to lease extensions or renewals and extensions associated with 15 properties, including seven special purpose properties, concluded with Magna.

⁽³⁾ The Trust has retrospectively applied IFRS 15, *Revenue from Contracts with Customers* (see "*NEW ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS*").

⁽⁴⁾ Excludes properties held for sale which are classified as assets held for sale on the combined balance sheet as at June 30, 2018 and December 31, 2017.

FORWARD-LOOKING STATEMENTS

This MD&A may contain statements that, to the extent they are not recitations of historical fact, constitute "forward-looking statements" or "forward-looking information" within the meaning of applicable securities legislation, including the United States Securities Act of 1933, as amended, the United States Securities Exchange Act of 1934, as amended, and applicable Canadian securities legislation. Forward-looking statements and forward-looking information may include, among others, statements regarding Granite's future plans, goals, strategies, intentions, beliefs, estimates, costs, objectives, capital structure, cost of capital, tenant base, tax consequences, economic performance or expectations, or the assumptions underlying any of the foregoing. Words such as "outlook", "may", "would", "could", "should", "will", "likely", "expect", "anticipate", "believe", "intend", "plan", "forecast", "project", "estimate", "seek" and similar expressions are used to identify forward-looking statements and forward-looking information. Forward-looking statements and forward-looking information should not be read as guarantees of future events, performance or results and will not necessarily be accurate indications of whether or the times at or by which such future performance will be achieved. Undue reliance should not be placed on such statements. There can also be no assurance that: the expansion and diversification of Granite's real estate portfolio and the reduction in Granite's exposure to Magna and the special purpose properties; the ability of Granite to find satisfactory acquisition, joint venture and development opportunities and to replace the revenue from recently sold properties; Granite's ability to dispose of any non-core assets on satisfactory terms; Granite's ability to meet its target occupancy goals; the payment of and form of consideration of the expected special distribution; and the expected amount of any distributions, can be achieved in a timely manner, with the expected impact or at all. Forward-looking statements and forward-looking information are based on information available at the time and/or management's good faith assumptions and analyses made in light of Granite's perception of historical trends, current conditions and expected future developments, as well as other factors Granite believes are

appropriate in the circumstances, and are subject to known and unknown risks, uncertainties and other unpredictable factors, many of which are beyond Granite's control, that could cause actual events or results to differ materially from such forward-looking statements and forward-looking information. Important factors that could cause such differences include, but are not limited to, the risk of changes to tax or other laws and treaties that may adversely affect Granite REIT's mutual fund trust status under the Income Tax Act (Canada) or the effective tax rate in other jurisdictions in which Granite operates; economic, market and competitive conditions and other risks that may adversely affect Granite's ability to expand and diversify its real estate portfolio and dispose of any non-core assets on satisfactory terms; and the risks set forth in the "Risk Factors" section in Granite's AIF for 2017 dated March 1, 2018, 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, 2017 filed with the SEC and available online on EDGAR at www.sec.gov, all of which investors are strongly advised to review. The "Risk Factors" section also contains information about the material factors or assumptions underlying such forward-looking statements and forward-looking information. Forward-looking statements and forward-looking information speak only as of the date the statements and information were made and unless otherwise required by applicable securities laws, Granite expressly disclaims any intention and undertakes no obligation to update or revise any forward-looking statements or forward-looking information contained in this MD&A to reflect subsequent information, events or circumstances or otherwise.

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

For the three and six months ended June 30, 2018 and 2017

Condensed Combined Balance Sheets

(Canadian dollars in thousands)

(Unaudited)

As at	Note	June 30, 2018	December 31, 2017
ASSETS			
Non-current assets:			
Investment properties	4	\$3,031,235	\$2,733,568
Acquisition deposit	18	8,317	—
Deferred tax assets		3,098	5,742
Fixed assets, net		843	951
Other assets	6	1,783	666
		3,045,276	2,740,927
Current assets:			
Assets held for sale	5	341,433	391,453
Accounts receivable		4,329	2,310
Income taxes receivable		319	180
Prepaid expenses and other	7	6,825	2,029
Restricted cash		809	515
Cash and cash equivalents	14(d)	50,143	69,019
Total assets		\$3,449,134	\$3,206,433
LIABILITIES AND EQUITY			
Non-current liabilities:			
Unsecured debentures, net	8(a)	\$ 647,577	\$ 647,306
Cross currency interest rate swaps	8(b)	77,084	61,466
Deferred tax liabilities		274,876	244,052
		999,537	952,824
Current liabilities:			
Other liability	9	—	8,968
Deferred revenue	9	9,023	3,965
Bank indebtedness	9	92,937	32,552
Accounts payable and accrued liabilities	9	30,222	43,342
Distributions payable	10	10,382	10,647
Income taxes payable		17,529	16,273
Total liabilities		1,159,630	1,068,571
Equity:			
Stapled unitholders' equity	11	2,288,193	2,136,614
Non-controlling interests		1,311	1,248
Total equity		2,289,504	2,137,862
Total liabilities and equity		\$3,449,134	\$3,206,433

Commitments and contingencies (note 17)

See accompanying notes

Condensed Combined Statements of Income

(Canadian dollars in thousands)

(Unaudited)

	Note	Three Months Ended June 30,		Six Months Ended June 30,	
		2018	2017 ⁽¹⁾	2018	2017 ⁽¹⁾
Rental revenue		\$ 55,366	\$ 53,896	\$ 109,251	\$107,799
Tenant recoveries	12(a)	6,774	6,633	13,548	13,512
Lease termination and close-out fee		—	—	996	—
Revenue		62,140	60,529	123,795	121,311
Property operating costs	12(b)	7,430	7,808	15,310	15,680
General and administrative expenses	12(c)	7,147	7,587	14,635	13,741
Proxy contest expenses	12(d)	—	5,866	—	5,866
Depreciation and amortization		79	77	158	244
Interest income		(567)	(126)	(1,711)	(279)
Interest expense and other financing costs	12(e)	5,449	4,861	10,969	9,658
Foreign exchange losses (gains), net	12(f)	2,336	566	(9,119)	746
Fair value gains on investment properties, net	4, 5	(127,918)	(17,191)	(160,228)	(9,875)
Fair value losses (gains) on financial instruments	12(g)	(1,438)	715	530	1,365
Acquisition transaction costs	3, 18	1,581	—	1,739	—
Loss on sale of investment properties	5	147	—	1,234	—
Other income	12(h)	(2,250)	—	(2,250)	—
Income before income taxes		170,144	50,366	252,528	84,165
Income tax expense	13	20,935	7,540	30,916	11,057
Net income		\$ 149,209	\$ 42,826	\$ 221,612	\$ 73,108

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

Net income attributable to:

Stapled unitholders	\$ 149,167	\$ 42,862	\$ 221,540	\$ 73,124
Non-controlling interests	42	(36)	72	(16)
	\$ 149,209	\$ 42,826	\$ 221,612	\$ 73,108

See accompanying notes

Condensed Combined Statements of Comprehensive Income

(Canadian dollars in thousands)

(Unaudited)

	Note	Three Months Ended June 30,		Six Months Ended June 30,	
		2018	2017	2018	2017
Net income		\$149,209	\$ 42,826	\$221,612	\$ 73,108
Other comprehensive income (loss):					
Foreign currency translation adjustment ⁽¹⁾		(13,032)	24,758	68,689	27,277
Fair value gain (loss) on cross currency interest rate swaps ⁽¹⁾	8(b)	21,940	(31,839)	(15,385)	(25,403)
Net foreign exchange loss on net investment hedge, includes income taxes of nil ⁽¹⁾		(2,761)	—	(2,972)	—
Total other comprehensive income (loss)		6,147	(7,081)	50,332	1,874
Comprehensive income		\$155,356	\$ 35,745	\$271,944	\$ 74,982
⁽¹⁾ Items that may be reclassified subsequently to net income if a foreign subsidiary is disposed of or hedges are terminated or no longer assessed as effective.					
Comprehensive income attributable to:					
Stapled unitholders		\$155,380	\$ 35,676	\$271,871	\$ 74,876
Non-controlling interests		(24)	69	73	106
Comprehensive income		\$155,356	\$ 35,745	\$271,944	\$ 74,982

See accompanying notes

Condensed Combined Statements of Unitholders' Equity

(Canadian dollars in thousands)

(Unaudited)

Six Months Ended June 30, 2018

	Number of units (000s)	Stapled units	Contributed surplus	Deficit	Accumulated other comprehensive income	Stapled unitholders' equity	Non- controlling interests	Equity
As at January 1, 2018 . . .	46,903	\$2,118,460	\$60,274	\$(160,686)	\$118,566	\$2,136,614	\$1,248	\$2,137,862
Net income	—	—	—	221,540	—	221,540	72	221,612
Other comprehensive income	—	—	—	—	50,331	50,331	1	50,332
Distributions (note 10) . .	—	—	—	(62,576)	—	(62,576)	—	(62,576)
Units issued under the stapled unit plan (note 11(a))	64	3,233	—	—	—	3,233	—	3,233
Units repurchased for cancellation (note 11(b))	(1,233)	(55,714)	(5,235)	—	—	(60,949)	(10)	(60,959)
As at June 30, 2018 . . .	45,734	\$2,065,979	\$55,039	\$ (1,722)	\$168,897	\$2,288,193	\$1,311	\$2,289,504

Six Months Ended June 30, 2017

	Number of units (000s)	Stapled units	Contributed surplus	Deficit	Accumulated other comprehensive income	Stapled unitholders' equity	Non- controlling interests	Equity
As at January 1, 2017 . . .	47,123	\$2,128,378	\$61,425	\$(395,330)	\$153,734	\$1,948,207	\$1,529	\$1,949,736
Net income	—	—	—	73,124	—	73,124	(16)	73,108
Other comprehensive income	—	—	—	—	1,752	1,752	122	1,874
Distributions (note 10) . .	—	—	—	(61,373)	—	(61,373)	(10)	(61,383)
Units issued under the stapled unit plan (note 11(a))	22	977	—	—	—	977	—	977
Units repurchased for cancellation	(1)	(9)	—	—	—	(9)	—	(9)
As at June 30, 2017 . . .	47,144	\$2,129,346	\$61,425	\$(383,579)	\$155,486	\$1,962,678	\$1,625	\$1,964,303

See accompanying notes

Condensed Combined Statements of Cash Flows

(Canadian dollars in thousands)

(Unaudited)

	Note	Three Months Ended June 30,		Six Months Ended June 30,	
		2018	2017	2018	2017
OPERATING ACTIVITIES					
Net income		\$ 149,209	\$ 42,826	\$ 221,612	\$ 73,108
Items not involving current cash flows	14(a)	(104,385)	(7,545)	(128,352)	4,743
Leasing commissions paid		(2,259)	—	(3,991)	(83)
Tenant incentives paid		(162)	(343)	(9,259)	(506)
Current income tax expense	13(a)	2,839	2,297	4,832	4,450
Income taxes recovered (paid)		(3,058)	1,353	(3,968)	(1,783)
Interest expense		5,103	4,443	10,088	8,703
Interest paid		(5,654)	(4,738)	(9,510)	(8,162)
Changes in working capital balances	14(b)	3,379	(4,508)	1,101	(521)
Cash provided by operating activities		45,012	33,785	82,553	79,949
INVESTING ACTIVITIES					
Investment properties:					
Business acquisitions	3	(327,256)	—	(399,352)	—
Proceeds from disposals, net	4, 5	—	—	356,479	—
Mortgage receivable proceeds	5	30,000	—	30,000	—
Capital expenditures					
— Maintenance or improvements		(6,197)	(267)	(15,000)	(831)
— Developments or expansions		(55)	(239)	(860)	(71,247)
Acquisition deposit	18	(8,308)	—	(8,308)	—
Fixed asset additions		(26)	(186)	(53)	(307)
Decrease in other assets		(145)	—	(145)	—
Cash used in investing activities		(311,987)	(692)	(37,239)	(72,385)
FINANCING ACTIVITIES					
Distributions paid		(31,181)	(30,691)	(62,841)	(61,368)
Proceeds from bank indebtedness		98,833	—	127,833	—
Repayments of bank indebtedness		(8,657)	—	(70,420)	—
Financing costs paid		—	—	(1,456)	(1,000)
Distributions to non-controlling interests		(10)	(10)	(10)	(10)
Repurchase of stapled units	11(b)	(9,856)	—	(60,949)	(9)
Cash provided by (used in) financing activities		49,129	(30,701)	(67,843)	(62,387)
Effect of exchange rate changes on cash and cash equivalents		(5,781)	4,399	3,653	5,080
Net increase (decrease) in cash and cash equivalents during the period		(223,627)	6,791	(18,876)	(49,743)
Cash and cash equivalents, beginning of period		273,770	189,681	69,019	246,215
Cash and cash equivalents, end of period		\$ 50,143	\$196,472	\$ 50,143	\$196,472

See accompanying notes

Notes to Condensed Combined Financial Statements

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

(Unaudited)

1. NATURE AND DESCRIPTION OF THE TRUST

Effective January 3, 2013, Granite Real Estate Inc. (“Granite Co.”) completed its conversion from a corporate structure to a stapled unit real estate investment trust (“REIT”) structure. All of the common shares of Granite Co. were exchanged, on a one-for-one basis, for stapled units, each of which consists of one unit of Granite Real Estate Investment Trust (“Granite REIT”) and one common share of Granite REIT Inc. (“Granite GP”). Granite REIT is an unincorporated, open-ended, limited purpose trust established under and governed by the laws of the province of Ontario and created pursuant to a Declaration of Trust dated September 28, 2012 and as subsequently amended on January 3, 2013 and December 20, 2017. Granite GP was incorporated on September 28, 2012 under the *Business Corporations Act* (British Columbia). Granite REIT, Granite GP and their subsidiaries (together “Granite” or the “Trust”) are carrying on the business previously conducted by Granite Co.

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

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

These condensed combined financial statements were approved by the Board of Trustees of Granite REIT and Board of Directors of Granite GP on July 31, 2018.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation and Statement of Compliance

The condensed combined financial statements for the three and six month periods ended June 30, 2018 have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”). These interim condensed combined financial statements do not include all the information and disclosures required in the annual financial statements, prepared in accordance with International Financial Reporting Standards (“IFRS”), and should be read in conjunction with the Trust’s annual financial statements as at and for the year ended December 31, 2017.

(b) Combined Financial Statements and Basis of Consolidation

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

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

(c) Accounting Policies and New Standards Adopted

The accounting policies adopted in the preparation of the condensed combined financial statements are consistent with those followed in the preparation of the Trust's annual combined financial statements for the year ended December 31, 2017, except for the adoption of new standards and interpretations effective January 1, 2018. The Trust applied for the first time certain standards and amendments that require restatement of previous financial statements. As required by IAS 34, the nature and effect of these changes are disclosed below.

IFRS 15, Revenue from Contracts with Customers

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

As the Trust's most material revenue stream of rental revenue is outside the scope of the new standard, the adoption of the new standard did not have a material impact on the combined statements of income and comprehensive income. The recovery of costs related to common area maintenance services is considered within the scope of IFRS 15 and the Trust has concluded that the pattern of revenue recognition remains unchanged. As a result of the adoption of IFRS 15, the Trust discloses revenue recognized from contracts with customers related to common area maintenance recoveries separately from other sources of revenue. In addition, the Trust assessed that it is a principal in relation to property taxes and insurance that are paid directly by the tenants under certain net leases as the Trust is primarily responsible for fulfilling the promise to satisfy its obligations and is a beneficiary as it relates to potential property insurance claims. Therefore, the Trust recognizes the gross amount of consideration for property taxes and insurance paid directly by tenants. As a result of the retrospective adoption of IFRS 15, in the three month periods ended June 30, 2018 and 2017, tenant recoveries revenue and property operating costs each increased \$4.3 million and \$5.5 million, respectively. For the six month periods ended June 30, 2018 and 2017, tenant recoveries revenue and property operating costs each increased \$9.1 million and \$11.2 million, respectively. There was no impact to net income, unitholders' equity or cash flows from the adoption of this standard as at June 30, 2018, December 31, 2017, and June 30, 2017 and for each of the periods then ended, and accordingly an opening balance sheet for the earliest period related to the adoption of the standard is not presented. There was no adjustment to opening retained earnings on the date of adoption of this standard. Refer to note 12(a) for the incremental disclosures required under IFRS 15.

IFRS 9, Financial Instruments

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

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

Classification and measurement:

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

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

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

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

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

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

Refer to note 15 for the measurement basis of financial assets and liabilities under IFRS 9.

Impairment:

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

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

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

Hedge accounting:

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

Financial liabilities:

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

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

IFRS 2, *Share-based Payment*

In June 2016, the IASB issued amendments to IFRS 2, *Share-based Payment* clarifying how to account for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature and a modification to the terms and conditions that change the classification of the transactions. These amendments are effective for annual periods beginning on January 1, 2018. The adoption of this amendment did not have an impact on the combined financial statements.

IAS 40, *Investment Properties*

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

(d) Future Accounting Policy Changes

IFRS 16, Leases

In January 2016, the IASB issued IFRS 16, *Leases* (“IFRS 16”) which replaces IAS 17, *Leases* and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a non-lease component on the basis of whether the customer controls the specified asset. For those contracts that are or contain a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains largely unchanged as the distinction between operating and finance leases is retained. The standard is effective for annual periods beginning on or after January 1, 2019. The Trust does not expect this standard to have a significant impact on its combined financial statements as leases with tenants are expected to be accounted for as operating leases in the same manner they are currently being reported. The Trust has two investment properties located on land that is leased. Currently, the ground rent payments are expensed. It is expected that under IFRS 16, a right-of-use asset addition to investment properties and a lease obligation liability will be recorded with associated financing charges. The Trust also has rent expense associated with office space in Toronto, Canada and Vienna, Austria. It is expected that under IFRS 16, a right-of-use asset addition and obligation liability will be recorded for these lease obligations as well. The Trust is continuing to assess the impact of the adoption of IFRS 16 on its combined financial statements.

IFRIC 23, Uncertainty over Income Tax Treatments

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

3. ACQUISITIONS

During the six month period ended June 30, 2018, the Trust acquired six income-producing multi-purpose industrial properties in the United States consisting of the following:

Property	Location	Date acquired	Property purchase price
3870 Ronald Reagan Parkway	Plainfield, Indiana	March 23, 2018	\$ 50,835
181 Antrim Commons Drive	Greencastle, Pennsylvania	April 4, 2018	44,323
Ohio portfolio (four properties):			
10, 100 and 115 Enterprise Parkway and 15 Commerce Parkway	West Jefferson, Ohio	May 23, 2018	299,297
Total purchase price			\$394,455

The following table summarizes the total consideration paid for the acquisitions and the fair value of the assets acquired and liabilities assumed at the acquisition dates:

Purchase consideration:	
Cash on hand	\$306,023
Cash sourced from credit facility	93,329
Total cash consideration paid	\$399,352
Recognized amounts of identifiable assets acquired and liabilities assumed measured at their respective fair values:	
Investment properties	\$394,455
Working capital	4,897
Total identifiable net assets	\$399,352

During the three and six month periods ended June 30, 2018, the Trust recognized \$3.9 million and \$4.0 million of revenue and \$3.3 million and \$3.4 million of net income, respectively, related to the aforementioned acquisitions. Had these acquisitions occurred on January 1, 2018, the Trust would have recognized proforma revenue and net income of approximately \$13.5 million and \$11.8 million, respectively, during the six month period ended June 30, 2018.

The Trust incurred legal and advisory costs of \$1.5 million associated with the aforementioned acquisitions, which are included in acquisition transaction costs in the condensed combined statements of income. The Trust incurred an additional \$0.2 million of costs related to pursuing other acquisition opportunities. These costs are also included in acquisition transaction costs in the condensed combined statements of income.

4. INVESTMENT PROPERTIES

As at	June 30, 2018	December 31, 2017
Income-Producing Properties	\$3,012,215	\$2,714,684
Land Held For Development	19,020	18,884
	\$3,031,235	\$2,733,568

Changes in investment properties are shown in the following table:

	Six Months Ended June 30, 2018		Year Ended December 31, 2017	
	Income- Producing Properties	Land Held For Development	Income- Producing Properties	Land Held For Development
Balance, beginning of period	\$2,714,684	\$18,884	\$2,646,292	\$ 6,803
Additions				
— Capital expenditures:				
Maintenance or improvements	5,169	—	21,065	—
Developments or expansions	72	—	72,774	—
— Acquisitions (note 3)	394,455	—	154,726	—
— Transfer to land held for development . . .	—	—	(12,076)	12,076
— Leasing commissions	2,882	—	3,573	—
— Tenant incentives	160	—	803	—
Fair value gains, net	162,878	—	212,106	—
Foreign currency translation, net	74,515	136	12,800	5
Amortization of straight-line rent	2,729	—	(1,101)	—
Amortization of tenant incentives	(2,717)	—	(5,410)	—
Other changes	(1,179)	—	585	—
Classified as assets held for sale (note 5) . . .	(341,433)	—	(391,453)	—
Balance, end of period	\$3,012,215	\$19,020	\$2,714,684	\$18,884

During the six month period ended June 30, 2018, the Trust disposed of 10 investment properties classified as assets held for sale as at December 31, 2017 for aggregate gross proceeds of \$387.6 million (note 5). The fair value gains during the six month period ended June 30, 2018, excluding the 10 properties sold in the period, was \$162.9 million. During the three month period ended June 30, 2018, six investment properties with an aggregate fair value of \$341.4 million, were classified as assets held for sale (note 5).

The Trust determines the fair value of an income-producing property based upon, among other things, rental income from current leases and assumptions about rental income from future leases reflecting market conditions and lease renewals at the applicable balance sheet dates, less future cash outflows in respect of such leases. Fair values are primarily determined by discounting the expected future cash flows, generally over a term of 10 years, plus a terminal value based on the application of a capitalization rate to estimated year 11 cash flows. The fair values of properties under development are measured using a discounted cash flow model, net of costs to complete, as of the balance sheet date. The Trust measures its investment properties using valuations prepared by management. The Trust does not measure its investment properties based on valuations prepared by external appraisers but uses such external appraisals as data points, together with other external market information accumulated by management, in arriving at its own conclusions on values. Management uses valuation assumptions such as discount rates, terminal capitalization rates and market rental rates applied in external appraisals or sourced from valuation experts; however, the Trust also uses its historical renewal experience with tenants, its direct knowledge of the specialized nature of Granite's portfolio and tenant profile and its knowledge of the actual condition of the properties in making business judgments about lease renewal probabilities, renewal rents and capital expenditures. There has been no change in the valuation methodology during the period.

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

As at	June 30, 2018 ⁽¹⁾			December 31, 2017 ⁽¹⁾		
	Maximum	Minimum	Weighted average ⁽²⁾	Maximum	Minimum	Weighted average ⁽²⁾
Canada						
Discount rate	8.00%	5.25%	6.80%	8.25%	6.50%	6.84%
Terminal capitalization rate	7.50%	4.75%	6.14%	8.00%	5.75%	6.17%
United States						
Discount rate	11.00%	5.70%	6.95%	11.00%	6.25%	7.68%
Terminal capitalization rate	10.75%	5.50%	6.56%	10.75%	5.75%	7.30%
Germany						
Discount rate	8.50%	6.50%	7.67%	9.00%	6.50%	7.89%
Terminal capitalization rate	9.00%	5.75%	7.54%	9.50%	5.75%	7.91%
Austria						
Discount rate	10.00%	7.75%	8.35%	10.00%	7.75%	8.05%
Terminal capitalization rate	9.50%	7.00%	7.86%	9.50%	8.25%	8.53%
Netherlands						
Discount rate	7.00%	6.10%	6.49%	7.00%	6.25%	6.62%
Terminal capitalization rate	7.70%	7.05%	7.25%	7.30%	7.05%	7.17%
Other						
Discount rate	9.50%	6.75%	8.20%	9.85%	7.25%	8.62%
Terminal capitalization rate	10.00%	6.75%	8.45%	10.00%	6.75%	8.39%
Total						
Discount rate	11.00%	5.25%	7.37%	11.00%	6.25%	7.59%
Terminal capitalization rate	10.75%	4.75%	7.00%	10.75%	5.75%	7.48%

⁽¹⁾ Excludes properties held for sale (note 5).

⁽²⁾ Weighted based on income-producing property fair value.

Included in investment properties is \$12.8 million (December 31, 2017 — \$9.8 million) of net straight-line rent receivable arising from the recognition of rental revenue on a straight-line basis over the lease term.

Details about contractual obligations to purchase, construct and develop properties can be found in the commitments and contingencies note (note 17) and the subsequent event note (note 18).

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

Not later than 1 year	\$ 205,920
Later than 1 year and not later than 5 years	683,240
Later than 5 years	491,568
	<u>\$1,380,728</u>

5. ASSETS HELD FOR SALE AND DISPOSITIONS

At June 30, 2018, six investment properties located in Canada, the United States and Germany are classified as assets held for sale. The six properties, having an aggregate fair value of \$341.4 million, consist of the following:

Property	Location	Fair value
337 and 375 Magna Drive	Aurora, Ontario	\$ 60,000
1 Clearview Drive	Tillsonburg, Ontario	7,200
Industriestrasse 11	Schleiz, Germany	3,683
1000 JD Yarnell Industrial Parkway	Clinton, Tennessee	54,828
120 Moon Acres Road	Piedmont, South Carolina	215,722
		\$341,433

The property in Tillsonburg, Ontario was sold on July 18, 2018 for \$7.2 million and the remaining properties are expected to be sold during the third quarter of 2018 (note 18).

At December 31, 2017, 10 investment properties located in Canada and the United States were classified as assets held for sale and were subsequently sold in January 2018. The investment properties consisted of the following:

Property	Location	Date disposed	Sale price
111 Cosma Drive	Bowling Green, Kentucky	January 30, 2018	\$169,998
1 Cosma Court and 170 Edward Street	St. Thomas, Ontario	January 30, 2018	154,568
Newpark campus (seven properties):			
521, 550, 561, 564, 581, 594 and 630 Newpark Boulevard	Newmarket, Ontario	January 31, 2018	63,000
			\$387,566

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

The following table summarizes the fair value changes in investment properties classified as assets held for sale:

	Six Months Ended June 30, 2018	Year Ended December 31, 2017
Balance, beginning of period	\$ 391,453	\$ —
Fair value losses, net	(2,650)	—
Foreign currency translation, net	(1,231)	—
Disposals	(387,566)	—
Classified as assets held for sale	341,433	391,453
Other	(6)	—
Balance, end of period	\$ 341,433	\$391,453

During the six month period ended June 30, 2018, Granite incurred \$1.2 million of commission, legal and advisory costs associated with the disposal or planned disposal of the investment properties held for sale which is included in loss on sale of investment properties on the condensed combined statements of income.

6. OTHER ASSETS

Other assets consist of:

As at	June 30, 2018	December 31, 2017
Deferred financing costs	\$1,328	\$211
Long-term receivables	455	455
	\$1,783	\$666

7. CURRENT ASSETS

Prepaid Expenses and Other

As at June 30, 2018, prepaid expenses primarily includes a \$5.6 million (US\$ 4.3 million) construction deposit associated with an expansion project at a property acquired in the United States in May 2018.

8. UNSECURED DEBENTURES, NET AND CROSS CURRENCY INTEREST RATE SWAPS

(a) Unsecured Debentures, Net

As at		June 30, 2018	December 31, 2017
	Maturity Date	Amortized Cost	Principal issued and outstanding
3.788% Debentures	July 5, 2021	\$249,313	\$250,000
3.873% Debentures	November 30, 2023	398,264	400,000
		\$647,577	\$650,000

(b) Cross Currency Interest Rate Swaps

As at	June 30, 2018	December 31, 2017
Financial liability		
2021 Cross Currency Interest Rate Swap — fair value	\$24,641	\$19,429
2023 Cross Currency Interest Rate Swap — fair value	52,443	42,037
	\$77,084	\$61,466

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

On December 20, 2016, the Trust entered into a cross currency interest rate swap (the “2023 Cross Currency Interest Rate Swap”) to exchange the 3.873% interest payments from the debentures that mature in 2023 for euro denominated payments at a 2.43% interest rate. In addition, under the terms of the swap, the Trust will pay principal proceeds of €281.1 million for \$400.0 million on November 30, 2023.

The cross currency interest rate swaps are designated as net investment hedges of the Trust’s investment in foreign operations. The effectiveness of the hedges are assessed quarterly. For the three and six month periods ended June 30, 2018, the Trust has assessed that the hedges continued to be effective. As an effective hedge, the fair value gains or losses on the cross currency interest rate swaps 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.

9. CURRENT LIABILITIES

Other Liability

As at December 31, 2017, the other liability consisted of a tenant allowance payable of \$9.0 million (€6.0 million). This tenant allowance was paid to a tenant on February 2, 2018 and related to a 2014 lease extension at the Eurostar facility in Graz, Austria. The €6.0 million allowance was discounted and was accreted to its face value through a charge to interest expense. During the six month period ended June 30, 2018, accretion of \$0.1 million (2017 — \$0.3 million) was charged to interest expense.

Deferred Revenue

Deferred revenue relates to prepaid and unearned revenue received from tenants and fluctuates with the timing of rental receipts.

Bank Indebtedness

On February 1, 2018, the Trust entered into a new unsecured revolving credit facility in the amount of \$500.0 million that is available by way of Canadian dollar, US dollar or euro denominated loans or letters of credit and matures on February 1, 2023. The Trust has the option to extend the maturity date by one year to February 1, 2024 subject to the agreement of lenders in respect of a minimum of 66⅔% of the aggregate amount committed under the new facility. The credit facility provides the Trust with the ability to increase the amount of the commitment by an additional aggregate principal amount of up to \$100.0 million with the consent of the participating lenders. As at June 30, 2018, the Trust had \$92.9 million (December 31, 2017 — \$32.6 million) drawn from the credit facility and \$0.2 million (December 31, 2017 — \$0.2 million) in letters of credit issued against the facility.

Accounts Payable and Accrued Liabilities

As at	June 30, 2018	December 31, 2017
Accounts payable	\$ 6,510	\$ 5,676
Accrued salaries, incentives and benefits	3,158	4,304
Accrued interest payable	6,303	6,016
Accrued construction payable	2,002	12,622
Accrued professional fees	3,004	2,434
Accrued employee unit-based compensation	1,654	3,416
Accrued trustee/director unit-based compensation	1,944	1,367
Accrued property operating costs	1,540	3,110
Accrued leasing commissions	182	1,291
Other accrued liabilities	3,925	3,106
	\$30,222	\$43,342

10. DISTRIBUTIONS TO STAPLED UNITHOLDERS

Total distributions declared to stapled unitholders in the three month period ended June 30, 2018 were \$31.1 million (2017 — \$30.7 million) or 68.1 cents per stapled unit (2017 — 65.1 cents per stapled unit). Total distributions declared to stapled unitholders in the six month period ended June 30, 2018 were \$62.6 million (2017 — \$61.4 million) or \$1.36 per stapled unit (2017 — \$1.30 per stapled unit). Distributions payable at June 30, 2018 of \$10.4 million, representing the June 2018 distribution, were paid on July 16, 2018. On July 17, 2018, distributions of \$10.4 million or 22.7 cents per stapled unit were declared and will be paid on August 15, 2018.

11. STAPLED UNITHOLDERS' EQUITY

(a) Unit-Based Compensation

Incentive Stock Option Plan

The Incentive Stock Option Plan allows for the grant of stock options or appreciation rights to directors, officers, employees and consultants. As at June 30, 2018 and December 31, 2017, there were no options outstanding under this plan.

Director/Trustee Deferred Share Unit Plan

The Trust has two Non-Employee Director Share-Based Compensation Plans (the “DSPs”) which provide for a deferral of up to 100% of each non-employee director’s total annual remuneration, at

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

	2018		2017	
	Number (000s)	Weighted Average Grant Date Fair Value	Number (000s)	Weighted Average Grant Date Fair Value
DSUs outstanding, January 1	28	\$41.88	147	\$35.43
Granted	8	51.69	12	48.02
Settled	—	—	(142)	50.81
DSUs outstanding, June 30	36	\$44.14	17	\$37.21

Executive Deferred Stapled Unit Plan

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

	2018		2017	
	Number (000s)	Weighted Average Grant Date Fair Value	Number (000s)	Weighted Average Grant Date Fair Value
Stapled units outstanding, January 1	106	\$43.32	82	\$42.34
New grants	23	50.19	46	45.54
Forfeited	—	—	(3)	45.23
Settled	(64)	42.14	(22)	45.36
Stapled units outstanding, June 30	65	\$46.91	103	\$43.11

The Trust’s unit-based compensation expense recognized in general and administrative expenses was:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
DSPs for trustees/directors	\$311	\$1,022	\$ 563	\$1,532
Stapled Unit Plan for employees	502	939	1,460	1,451
Unit-based compensation expense	\$813	\$1,961	\$2,023	\$2,983
Fair value remeasurement expense included in the above	\$237	\$ 982	\$ 454	\$1,234

(b) Normal Course Issuer Bid

On May 16, 2018, Granite announced the acceptance by the Toronto Stock Exchange (“TSX”) of Granite’s Notice of Intention to Make a Normal Course Issuer Bid (“NCIB”). Pursuant to the NCIB, Granite proposes to purchase through the facilities of the TSX and any alternative trading system in Canada, from time to time and if considered advisable, up to an aggregate of 3,939,255 of Granite’s

issued and outstanding stapled units. The NCIB commenced on May 18, 2018 and will conclude on the earlier of the date on which purchases under the bid have been completed and May 17, 2019. Pursuant to the policies of the TSX, daily purchases made by Granite through the TSX may not exceed 16,546 stapled units, subject to certain exceptions. Granite entered into an automatic securities purchase plan with a broker in order to facilitate repurchases of the stapled units under the NCIB during specified blackout periods.

Pursuant to a previous notice of intention to conduct a NCIB, under which Granite received approval from the TSX to purchase stapled units for the period May 16, 2017 to May 15, 2018, Granite repurchased an aggregate of 1,474,493 stapled units for total consideration of \$73.0 million. During the six month period ended June 30, 2018, 1,233,459 stapled units were repurchased for consideration of \$60.9 million. The \$5.2 million difference between the repurchase price and the average cost of the stapled units was charged to contributed surplus.

(c) Accumulated Other Comprehensive Income

Accumulated other comprehensive income consists of the following:

As at June 30,	2018	2017
Foreign currency translation gains on investments in subsidiaries, net of related hedging activities and non-controlling interests ⁽¹⁾	\$249,445	\$194,839
Fair value losses on derivatives designated as net investment hedges	(80,548)	(39,353)
	\$168,897	\$155,486

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

12. RECOVERIES, COSTS AND EXPENSES

(a) Tenant recoveries revenue consist of:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Property taxes	\$4,819	\$5,525	\$10,036	\$11,290
Property Insurance	510	476	1,046	942
Operating costs	1,445	632	2,466	1,280
	\$6,774	\$6,633	\$13,548	\$13,512

(b) Property operating costs consist of:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Non-recoverable from tenants:				
Property taxes and utilities	\$ 236	\$ 349	\$ 399	\$ 500
Legal	77	92	259	169
Consulting	28	67	40	267
Environmental and appraisals	110	269	297	347
Repairs and maintenance	155	125	255	371
Ground rents	167	158	335	309
Other	189	160	345	277
	962	1,220	1,930	2,240
Recoverable from tenants:				
Property taxes and utilities	5,102	5,743	10,624	11,592
Property insurance	535	490	1,056	955
Repairs and maintenance	428	150	711	306
Property management fees	337	175	572	335
Other	66	30	417	252
	6,468	6,588	13,380	13,440
Property operating costs	\$7,430	\$7,808	\$15,310	\$15,680

(c) General and administrative expenses consist of:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Salaries and benefits	\$3,622	\$3,130	\$ 8,064	\$ 6,182
Audit, legal and consulting	1,090	959	1,890	1,737
Trustee/director fees and related expenses . . .	270	368	573	748
Unit-based compensation including distributions and revaluations	632	1,784	1,644	2,584
Other public entity costs	546	550	946	914
Office rents	231	228	455	449
Other	756	568	1,063	1,127
	\$7,147	\$7,587	\$14,635	\$13,741

(d) Proxy contest expenses

In connection with the proxy contest that preceded the June 2017 annual general meeting (“AGM”), Granite incurred \$5.9 million of expenses in the three month period ended June 30, 2017. Included in the proxy contest expenses are legal, advisory and proxy solicitation costs incurred directly by Granite and a \$2.0 million reimbursement of out-of-pocket fees and expenses incurred by Front Four Capital Group and Sandpiper Group regarding matters relating to the AGM. Sandpiper Group received

\$0.7 million of the reimbursement. An individual affiliated with Sandpiper Group is a related party of Granite by virtue of becoming a director of Granite GP and a trustee of Granite REIT.

- (e) Interest expense and other financing costs consist of:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Interest and amortized issuance costs relating to debentures	\$4,534	\$4,398	\$ 9,122	\$8,613
Amortization of deferred financing costs	78	55	341	110
Other interest and accretion charges	837	408	1,506	935
	\$5,449	\$4,861	\$10,969	\$9,658

- (f) For the six month period ended June 30, 2018, foreign exchange gains (losses) includes a \$8.5 million foreign exchange gain due to the remeasurement of the US dollar proceeds from the sale of three investment properties in January 2018 (note 5).

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Foreign exchange forward contracts, net	\$ (1,438)	\$715	\$530	\$1,365
	\$ (1,438)	\$715	\$530	\$1,365

- (h) During the three and six month periods ended June 30, 2018, Granite entered into a settlement agreement related to a land use matter for a property in Ontario, Canada. Granite was awarded a settlement amount of \$2.3 million of which \$1.4 million was received and the remaining balance is to be collected in the first quarter of 2019.

13. INCOME TAXES

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Current income tax expense	\$ 2,839	\$2,297	\$ 4,832	\$ 4,450
Deferred income tax expense	18,096	5,243	26,084	6,607
Income tax expense	\$20,935	\$7,540	\$30,916	\$11,057

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Income before income taxes	\$170,144	\$50,366	\$252,528	\$ 84,165
Expected income taxes at the Canadian statutory tax rate of 26.5% (2017 — 26.5%)	\$ 45,088	\$13,347	\$ 66,920	\$ 22,304
Income distributed and taxable to unitholders	(24,678)	(6,108)	(36,598)	(11,647)
Net foreign rate differentials	(1,638)	(235)	(3,025)	(348)
Net change in provisions for uncertain tax positions	483	464	923	934
Net permanent differences	2,226	(335)	2,184	(111)
Withholding taxes and other	(546)	407	512	(75)
Income tax expense	\$ 20,935	\$ 7,540	\$ 30,916	\$ 11,057

14. DETAILS OF CASH FLOWS

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Straight-line rent amortization	\$ (814)	\$ 77	\$ (2,729)	\$ 326
Tenant incentive amortization	1,325	1,359	2,717	2,674
Unit-based compensation expense (note 11(a))	813	1,961	2,023	2,983
Fair value gains on investment properties	(127,918)	(17,191)	(160,228)	(9,875)
Foreign exchange gain/loss	6,406	—	—	—
Depreciation and amortization	79	77	158	244
Fair value losses (gains) on financial instruments	(1,438)	715	530	1,365
Loss on sale of investment properties . .	147	—	1,234	—
Amortization of issuance costs relating to debentures	135	136	270	271
Amortization of deferred financing costs	78	55	341	110
Deferred income taxes	18,096	5,243	26,084	6,607
Other	(1,294)	23	1,248	38
	\$(104,385)	\$ (7,545)	\$(128,352)	\$ 4,743

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Accounts receivable	\$ 3,604	\$ 137	\$(1,897)	\$ (364)
Prepaid expenses and other	532	377	538	270
Accounts payable and accrued liabilities	701	(3,415)	(2,180)	(4,383)
Deferred revenue	(1,456)	(1,607)	4,644	3,956
Restricted cash	(2)	—	(4)	—
	\$ 3,379	\$(4,508)	\$ 1,101	\$ (521)

(c) Non-cash investing and financing activities

During the six month period ended June 30, 2018, 64 thousand stapled units (2017 — 22 thousand stapled units) with a value of \$3.2 million (2017 — \$1.0 million) were issued under the Stapled Unit Plan (note 11(a)).

(d) Cash and cash equivalents consist of:

As at	June 30, 2018	December 31, 2017
Cash	\$47,479	\$55,608
Short-term deposits	2,664	13,411
	\$50,143	\$69,019

15. FAIR VALUE AND RISK MANAGEMENT

(a) Fair Value of Financial Instruments

The following table provides the measurement basis of financial assets and liabilities as at June 30, 2018 and December 31, 2017:

As at	June 30, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Other assets	\$ 455 ⁽¹⁾	\$ 455	\$ 455 ⁽¹⁾	\$ 455
Accounts receivable	4,329	4,329	2,310	2,310
Prepaid expenses and other	312 ⁽²⁾	312	705 ⁽²⁾	705
Restricted cash	809	809	515	515
Cash and cash equivalents	50,143	50,143	69,019	69,019
	\$ 56,048	\$ 56,048	\$ 73,004	\$ 73,004
Financial liabilities				
Unsecured debentures, net	\$647,577	\$655,195	\$647,306	\$655,035
Cross currency interest rate swaps	77,084	77,084	61,466	61,466
Other liability	—	—	8,968	8,968
Bank indebtedness	92,937	92,937	32,552	32,552
Accounts payable and accrued liabilities	30,043	30,043	43,300	43,300
Accounts payable and accrued liabilities	179 ⁽³⁾	179	42 ⁽³⁾	42
Distributions payable	10,382	10,382	10,647	10,647
	\$858,202	\$865,820	\$804,281	\$812,010

⁽¹⁾ Long-term receivables included in other assets.

⁽²⁾ Foreign exchange forward contracts included in prepaid expenses.

⁽³⁾ Foreign exchange forward contracts included in accounts payable and accrued liabilities.

The fair values of the Trust's accounts receivable, cash and cash equivalents, restricted cash, bank indebtedness, accounts payable and accrued liabilities and distributions payable approximate their carrying amounts due to the relatively short periods to maturity of these financial instruments. The fair value of the long-term receivable approximates its carrying amount as it bears interest at rates comparable to current market rates. The fair value of the foreign exchange forward contracts approximate their carrying value as the asset or liability is revalued at the reporting date. The fair value of the other liability approximated its carrying value as the liability was revalued at each reporting date. The fair values of the unsecured debentures are determined using quoted market prices. The fair values of the cross currency interest rate swaps are determined using market inputs quoted by their counterparties.

The Trust periodically purchases foreign exchange forward contracts to hedge specific anticipated foreign currency transactions and to mitigate its foreign exchange exposure on its net cash flows. At June 30, 2018, the Trust held 11 outstanding foreign exchange forward contracts (December 31, 2017 — 18 contracts outstanding). The foreign exchange contracts are comprised of contracts to purchase \$37.0 million and sell €24.0 million. For the three and six month periods ended June 30, 2018, the Trust recorded a net fair value gain of \$1.4 million (2017 — loss of \$0.7 million) and a fair value loss of \$0.5 million (2017 — \$1.4 million), respectively, on these outstanding foreign exchange forward contracts (note 12(g)).

(b) Fair Value Hierarchy

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

- Level 1: Fair value determined using quoted prices in active markets for identical assets or liabilities.
- Level 2: Fair value determined using significant observable inputs, generally either quoted prices in active markets for similar assets or liabilities or quoted prices in markets that are not active.
- Level 3: Fair value determined using significant unobservable inputs, such as pricing models, discounted cash flows or similar techniques.

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

As at June 30, 2018	Level 1	Level 2	Level 3
ASSETS AND LIABILITIES MEASURED OR DISCLOSED AT FAIR VALUE			
Assets measured at fair value			
Investment properties	\$ —	\$ —	\$3,031,235
Assets held for sale	—	—	341,433
Foreign exchange forward contracts included in prepaid expenses and other	—	312	—
Liabilities measured or disclosed at fair value			
Unsecured debentures, net	655,195	—	—
Cross currency interest rate swaps	—	77,084	—
Bank indebtedness	—	92,937	—
Foreign exchange forward contracts included in accounts payable and accrued liabilities	—	179	—
Net assets (liabilities) measured or disclosed at fair value . .	\$(655,195)	\$(169,888)	\$3,372,668

As at December 31, 2017	Level 1	Level 2	Level 3
ASSETS AND LIABILITIES MEASURED OR DISCLOSED AT FAIR VALUE			
Assets measured at fair value			
Investment properties	\$ —	\$ —	\$2,733,568
Assets held for sale	—	—	391,453
Foreign exchange forward contracts included in prepaid expenses and other	—	705	—
Liabilities measured or disclosed at fair value			
Unsecured debentures, net	655,035	—	—
Cross currency interest rate swaps	—	61,466	—
Other liability	—	—	8,968
Bank indebtedness	—	32,552	—
Foreign exchange forward contracts included in accounts payable and accrued liabilities	—	42	—
Net assets (liabilities) measured or disclosed at fair value . .	\$(655,035)	\$(93,355)	\$3,116,053

For assets and liabilities that are measured at fair value on a recurring basis, the Trust determines whether transfers between the levels of the fair value hierarchy have occurred by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. For the three and six month periods ended June 30, 2018 and the year ended December 31, 2017, there were no transfers between the levels.

(c) Risk Management

Foreign exchange risk

As at June 30, 2018, the Trust is exposed to foreign exchange risk primarily in respect of movements in the euro and the US dollar. The Trust is structured such that its foreign operations are primarily conducted by entities with a functional currency which is the same as the economic environment in which the operations take place. As a result, the net income impact of currency risk associated with financial instruments is limited as its financial assets and liabilities are generally denominated in the functional currency of the subsidiary that holds the financial instrument. However, the Trust is exposed to foreign currency risk on its net investment in its foreign currency denominated operations and certain Trust level foreign currency denominated assets and liabilities. At June 30, 2018, the Trust's foreign currency denominated net assets were \$2.2 billion primarily in US dollars and euros. A 1% change in the US dollar and euro exchange rates relative to the Canadian dollar would result in a gain or loss of approximately \$12.7 million and \$10.1 million, respectively, to comprehensive income.

16. COMBINED FINANCIAL INFORMATION

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

Balance Sheet	As at June 30, 2018			
	Granite REIT	Granite GP	Eliminations/ Adjustments	Granite REIT and Granite GP Combined
ASSETS				
Non-current assets:				
Investment properties	\$3,031,235			\$3,031,235
Investment in Granite LP ⁽¹⁾	—	14	(14)	—
Other non-current assets	14,041			14,041
	3,045,276	14	(14)	3,045,276
Current assets:				
Assets held for sale	341,433			341,433
Other current assets	12,282			12,282
Intercompany receivable ⁽²⁾	—	4,401	(4,401)	—
Cash and cash equivalents	49,869	274		50,143
Total assets	\$3,448,860	4,689	(4,415)	\$3,449,134
LIABILITIES AND EQUITY				
Non-current liabilities:				
Unsecured debentures, net	\$ 647,577			\$ 647,577
Other non-current liabilities	351,960			351,960
	999,537			999,537
Current liabilities:				
Bank indebtedness	92,937			92,937
Intercompany payable ⁽²⁾	4,401		(4,401)	—
Other current liabilities	62,481	4,675		67,156
Total liabilities	1,159,356	4,675	(4,401)	1,159,630
Equity:				
Stapled unitholders' equity	2,288,179	14		2,288,193
Non-controlling interests	1,325		(14)	1,311
Total liabilities and equity	\$3,448,860	4,689	(4,415)	\$3,449,134

⁽¹⁾ Granite LP is 100% owned by Granite REIT and Granite GP.

⁽²⁾ Represents employee and trustee/director compensation related amounts which will be reimbursed by Granite LP.

Balance Sheet
As at December 31, 2017

	Granite REIT	Granite GP	Eliminations/ Adjustments	Granite REIT and Granite GP Combined
ASSETS				
Non-current assets:				
Investment properties	\$2,733,568			\$2,733,568
Investment in Granite LP ⁽¹⁾	—	12	(12)	—
Other non-current assets	7,359			7,359
	2,740,927	12	(12)	2,740,927
Current assets:				
Assets held for sale	391,453			391,453
Other current assets	4,988	46		5,034
Intercompany receivable ⁽²⁾	—	6,331	(6,331)	—
Cash and cash equivalents	68,572	447		69,019
Total assets	\$3,205,940	6,836	(6,343)	\$3,206,433
LIABILITIES AND EQUITY				
Non-current liabilities:				
Unsecured debentures, net	\$ 647,306			\$ 647,306
Other non-current liabilities	305,518			305,518
	952,824			952,824
Current liabilities:				
Bank indebtedness	32,552			32,552
Intercompany payable ⁽²⁾	6,331		(6,331)	—
Other current liabilities	76,371	6,824		83,195
Total liabilities	1,068,078	6,824	(6,331)	1,068,571
Equity:				
Stapled unitholders' equity	2,136,602	12		2,136,614
Non-controlling interests	1,260		(12)	1,248
Total liabilities and equity	\$3,205,940	6,836	(6,343)	\$3,206,433

⁽¹⁾ Granite LP is 100% owned by Granite REIT and Granite GP.

⁽²⁾ Represents employee and trustee/director compensation related amounts which will be reimbursed by Granite LP.

Income Statement	Three Months Ended June 30, 2018			
	Granite REIT	Granite GP	Eliminations/ Adjustments	Granite REIT and Granite GP Combined
Revenue	\$ 62,140			\$ 62,140
General and administrative expenses . .	7,147			7,147
Interest expense and other financing costs	5,449			5,449
Other costs and expenses, net	7,028			7,028
Share of (income) loss of Granite LP . .	—	(1)	1	—
Fair value gains on investment properties, net	(127,918)			(127,918)
Fair value gains on financial instruments	(1,438)			(1,438)
Acquisition transaction costs	1,581			1,581
Loss on sale of investment properties . .	147			147
Income before income taxes	170,144	1	(1)	170,144
Income tax expense	20,935			20,935
Net income	149,209	1	(1)	149,209
Less net income attributable to non-controlling interests	43		(1)	42
Net income attributable to stapled unitholders	\$ 149,166	1	—	\$ 149,167

Income Statement	Three Months Ended June 30, 2017			
	Granite REIT	Granite GP	Eliminations/ Adjustments	Granite REIT and Granite GP Combined
Revenue	\$ 60,529			\$ 60,529
General and administrative expenses . .	7,587			7,587
Proxy contest expenses	5,866			5,866
Interest expense and other financing costs	4,861			4,861
Other costs and expenses, net	8,325			8,325
Share of (income) loss of Granite LP . .	—	(1)	1	—
Fair value gains on investment properties, net	(17,191)			(17,191)
Fair value losses on financial instruments	715			715
Acquisition transaction costs	—			—
Loss on sale of investment properties . .	—			—
Income before income taxes	50,366	1	(1)	50,366
Income tax expense	7,540			7,540
Net income	42,826	1	(1)	42,826
Less net loss attributable to non-controlling interests	(35)		(1)	(36)
Net income attributable to stapled unitholders	\$ 42,861	1	—	\$ 42,862

Income Statement	Six Months Ended June 30, 2018			
	Granite REIT	Granite GP	Eliminations/ Adjustments	Granite REIT and Granite GP Combined
Revenue	\$ 123,795			\$ 123,795
General and administrative expenses . .	14,635			14,635
Interest expense and other financing costs	10,969			10,969
Other costs and expenses, net	2,388			2,388
Share of (income) loss of Granite LP . .	—	(2)	2	—
Fair value gains on investment properties, net	(160,228)			(160,228)
Fair value losses on financial instruments	530			530
Acquisition transaction costs	1,739			1,739
Loss on sale of investment properties . .	1,234			1,234
Income before income taxes	252,528	2	(2)	252,528
Income tax expense	30,916			30,916
Net income	221,612	2	(2)	221,612
Less net income attributable to non-controlling interests	74		(2)	72
Net income attributable to stapled unitholders	\$ 221,538	2	—	\$ 221,540

Income Statement	Six Months Ended June 30, 2017			
	Granite REIT	Granite GP	Eliminations/ Adjustments	Granite REIT and Granite GP Combined
Revenue	\$121,311			\$121,311
General and administrative expenses . .	13,741			13,741
Proxy contest expenses	5,866			5,866
Interest expense and other financing costs	9,658			9,658
Other costs and expenses, net	16,391			16,391
Share of (income) loss of Granite LP . .	—	(1)	1	—
Fair value gains on investment properties, net	(9,875)			(9,875)
Fair value losses on financial instruments	1,365			1,365
Income before income taxes	84,165	1	(1)	84,165
Income tax expense	11,057			11,057
Net income	73,108	1	(1)	73,108
Less net loss attributable to non-controlling interests	(15)		(1)	(16)
Net income attributable to stapled unitholders	\$ 73,123	1	—	\$ 73,124

Statement of Cash Flows	Three Months Ended June 30, 2018			
	Granite REIT	Granite GP	Eliminations/ Adjustments	Granite REIT and Granite GP Combined
OPERATING ACTIVITIES				
Net income	\$ 149,209	1	(1)	\$ 149,209
Items not involving current cash flows	(104,385)	(1)	1	(104,385)
Changes in working capital balances	3,549	(170)		3,379
Other operating activities	(3,191)			(3,191)
Cash provided by (used in) operating activities .	45,182	(170)	—	45,012
INVESTING ACTIVITIES				
Business acquisitions	(327,256)			(327,256)
Investment property capital additions				
— Maintenance or improvements	(6,197)			(6,197)
— Developments or expansions	(55)			(55)
Acquisition deposit	(8,308)			(8,308)
Other investing activities	29,829			29,829
Cash used in investing activities	(311,987)	—	—	(311,987)
FINANCING ACTIVITIES				
Distributions paid	(31,181)			(31,181)
Other financing activities	80,310			80,310
Cash provided by financing activities	49,129	—	—	49,129
Effect of exchange rate changes	(5,781)			(5,781)
Net decrease in cash and cash equivalents during the period	\$(223,457)	(170)	—	\$(223,627)

Statement of Cash Flows	Three Months Ended June 30, 2017			
	Granite REIT	Granite GP	Eliminations/ Adjustments	Granite REIT and Granite GP Combined
OPERATING ACTIVITIES				
Net income	\$ 42,826	1	(1)	\$ 42,826
Items not involving current cash flows	(7,545)	(1)	1	(7,545)
Changes in working capital balances	(4,232)	(276)		(4,508)
Other operating activities	3,012			3,012
Cash provided by (used in) operating activities .	34,061	(276)	—	33,785
INVESTING ACTIVITIES				
Investment property capital additions				
— Maintenance or improvements	(267)			(267)
— Developments or expansions	(239)			(239)
Other investing activities	(186)			(186)
Cash used in investing activities	(692)	—	—	(692)
FINANCING ACTIVITIES				
Distributions paid	(30,691)			(30,691)
Other financing activities	(10)			(10)
Cash used in financing activities	(30,701)	—	—	(30,701)
Effect of exchange rate changes	4,399			4,399
Net increase (decrease) in cash and cash equivalents during the period	\$ 7,067	(276)	—	\$ 6,791

Statement of Cash Flows	Six Months Ended June 30, 2018			
	Granite REIT	Granite GP	Eliminations/ Adjustments	Granite REIT and Granite GP Combined
OPERATING ACTIVITIES				
Net income	\$ 221,612	2	(2)	\$ 221,612
Items not involving current cash flows	(128,352)	(2)	2	(128,352)
Changes in working capital balances	1,274	(173)		1,101
Other operating activities	(11,808)			(11,808)
Cash provided by (used in) operating activities	82,726	(173)	—	82,553
INVESTING ACTIVITIES				
Business acquisitions	(399,352)			(399,352)
Proceeds from disposals, net	356,479			356,479
Investment property capital additions				
— Maintenance or improvements	(15,000)			(15,000)
— Developments or expansions	(860)			(860)
Acquisition deposit	(8,308)			(8,308)
Other investing activities	29,802			29,802
Cash used in investing activities	(37,239)	—	—	(37,239)
FINANCING ACTIVITIES				
Distributions paid	(62,841)			(62,841)
Other financing activities	(5,002)			(5,002)
Cash used in financing activities	(67,843)	—	—	(67,843)
Effect of exchange rate changes	3,653			3,653
Net decrease in cash and cash equivalents during the period	\$ (18,703)	(173)	—	\$ (18,876)

Statement of Cash Flows	Six Months Ended June 30, 2017			
	Granite REIT	Granite GP	Eliminations/ Adjustments	Granite REIT and Granite GP Combined
OPERATING ACTIVITIES				
Net income	\$ 73,108	1	(1)	\$ 73,108
Items not involving current cash flows	4,743	(1)	1	4,743
Changes in working capital balances	(521)			(521)
Other operating activities	2,619			2,619
Cash provided by operating activities	79,949	—	—	79,949
INVESTING ACTIVITIES				
Investment property capital additions				
— Maintenance or improvements	(831)			(831)
— Developments or expansions	(71,247)			(71,247)
Other investing activities	(307)			(307)
Cash used in investing activities	(72,385)	—	—	(72,385)
FINANCING ACTIVITIES				
Distributions paid	(61,368)			(61,368)
Other financing activities	(1,019)			(1,019)
Cash used in financing activities	(62,387)	—	—	(62,387)
Effect of exchange rate changes	5,080			5,080
Net decrease in cash and cash equivalents during the period	\$ (49,743)	—	—	\$ (49,743)

17. COMMITMENTS AND CONTINGENCIES

- (a) The Trust is subject to various legal proceedings and claims that arise in the ordinary course of business. Management believes that the final outcome of such matters will not have a material adverse effect on the financial position, results of operations or liquidity of the Trust. However, actual outcomes may differ from management's expectations.
- (b) At June 30, 2018, the Trust's contractual commitments related to construction and development projects amounted to approximately \$21.4 million.
- (c) At June 30, 2018, the Trust had commitments on non-cancellable operating leases requiring future minimum annual rental payments as follows:

Not later than 1 year	\$ 458
Later than 1 year and not later than 5 years	1,347
Later than 5 years	<u>—</u>
	<u>\$1,805</u>

In addition, the Trust is committed to making annual payments under two ground leases for the land upon which two income-producing properties are situated of \$0.5 million and \$0.1 million to the years 2049 and 2096, respectively. As at June 30, 2018, the fair value of the investment properties situated on the land under ground leases is \$54.8 million.

18. SUBSEQUENT EVENTS

On July 12, 2018, the Trust acquired an income-producing industrial property in Erfurt, Germany for \$82.7 million (€53.9 million), excluding acquisition costs and \$5.4 million (€3.5 million) of land transfer tax. The acquisition was funded with cash on hand and a draw from the credit facility. During the three month period ended June 30, 2018, a deposit of \$8.3 million (€5.4 million) was made and Granite incurred \$0.1 million of advisory costs associated with the acquisition.

On July 18, 2018, the property in Tillsonburg, Ontario that was classified as asset held for sale as at June 30, 2018 was sold for \$7.2 million. On July 27, 2018, Magna exercised its rights of first refusal in response to a third party offer to acquire two properties in Piedmont, South Carolina and Clinton, Tennessee for a total purchase price of approximately \$270 million (US\$ 207 million). The properties were classified as assets held for sale as at June 30, 2018. Completion of the transactions is subject to customary closing conditions and is expected to occur later in the third quarter of 2018 (note 5).



REIT Information

Board of Trustees

Kelly Marshall

Chairman

Peter Aghar

Trustee

Donald Clow

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Trustee

Kevan Gorrie

Trustee

Samir Manji

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Trustee

Gerald Miller

Trustee

Jennifer Warren

Trustee

Officers

Kevan Gorrie

Chief Executive Officer

Ilias Konstantopoulos

Chief Financial Officer

Lorne Kumer

*Executive Vice President,
Head of Global Real Estate*

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462 S. 4th Street
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Exchange Listings

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

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

Publicly Available Documents

Copies of the financial statements for the year ended December 31, 2017 are available through the Internet on the Electronic Data Gathering Analysis and Retrieval System (EDGAR), which can be accessed at www.sec.gov, and on the System for Electronic Document Analysis and Retrieval (SEDAR), which can be accessed at www.sedar.com. Other required securities filings can also be found on EDGAR and SEDAR.

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