GRANITE
REIT

First Quarter Report
2021

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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 months ended March 31, 2021. 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 months ended March 31, 2021 prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The MD&A was prepared as at May 5, 2021 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 2020 and dated March 3, 2021, can be obtained from the Trust's website at www.graniteréit.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 amounts is helpful to investors in assessing the overall performance of Granite's business. These non-IFRS measures include net operating income before lease termination and close-out fees, straight-line rent and tenant incentive amortization ("NOI — cash basis"), same property NOI — cash basis, constant currency same property NOI, 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, adjusted earnings before interest, income taxes, depreciation and amortization ("Adjusted EBITDA"), unencumbered asset coverage ratio and any related per unit amounts. Readers are cautioned that these measures do not have standardized meanings prescribed under IFRS and, therefore, should not be construed as alternatives to net income, cash provided by operating activities or any other measure calculated in accordance with IFRS. Additionally, because these terms do not have standardized meanings prescribed by IFRS, they may not be comparable to similarly titled measures presented by other reporting issuers. Refer to "*NON-IFRS PERFORMANCE MEASURES*" for definitions and reconciliations of non-IFRS measures to IFRS financial measures.

FINANCIAL AND OPERATING HIGHLIGHTS

For the three months ended March 31,	2021	2020
(in millions, except as noted)		
Operating highlights		
Revenue	**$ 95.9**	$78.1
NOI	**81.5**	67.9
NOI — cash basis[1]	**79.8**	67.8
Net income attributable to stapled unitholders	**230.1**	81.3
FFO[1]	**57.1**	56.8
AFFO[1]	**54.7**	55.6
Cash flows provided from operating activities	**64.3**	54.9
Monthly distributions paid	**46.3**	39.3
FFO payout ratio[1][2]	**75%**	69%
AFFO payout ratio[1][2]	**78%**	70%
Per unit amounts		
Diluted FFO[1]	**$0.93**	$1.05
Diluted AFFO[1]	**$0.89**	$1.03
Monthly distributions paid	**$0.75**	$0.73
Diluted weighted average number of units	**61.7**	54.1

As at March 31, 2021 and December 31, 2020	2021	2020
Financial highlights		
Investment properties — fair value	**$6,003.7**	$5,855.6
Cash and cash equivalents	**480.7**	831.3
Total debt[3]	**1,959.5**	2,297.5
Trading price per unit (TSX: GRT.UN)	**$ 76.40**	$ 77.90
Debt metrics, ratings and outlook		
Net leverage ratio[1]	**25%**	25%
Interest coverage ratio[1]	**6.5x**	7.9x
Indebtedness ratio (total debt to adjusted EBITDA)[1]	**7.2x**	8.7x
Weighted average cost of debt[4]	**1.74%**	1.91%
Weighted average debt term-to-maturity, in years[4]	**6.0**	5.6
DBRS rating and outlook	**BBB (high) stable**	BBB stable
Moody's rating and outlook	**Baa2 stable**	Baa2 stable
Property metrics		
Number of investment properties	**115**	115
Income-producing properties	**108**	108
Properties under development	**4**	3
Land held for development	**3**	4
Gross leasable area ("GLA"), square feet	**50.4**	49.5
Occupancy, by GLA	**99.1%**	99.6%
Magna as a percentage of annualized revenue[5]	**35%**	36%
Magna as a percentage of GLA	**27%**	27%
Weighted average lease term in years, by GLA	**6.1**	6.3
Overall capitalization rate[6]	**5.4%**	6.1%

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

(2) The FFO and AFFO payout ratios are calculated as monthly distributions, divided by FFO and AFFO, respectively, in a period.

(3) Total debt includes lease obligations recognized under IFRS 16, *Leases*.
(4) Excludes lease obligations recognized under IFRS 16, *Leases* noted above.
(5) Annualized revenue for each period presented is calculated as rental revenue excluding tenant recoveries, recognized in accordance with IFRS, in the reported month multiplied by 12 months.
(6) Refer to "Valuation Metrics by Investment Property Asset Category" in the *"Investment Properties"* section.

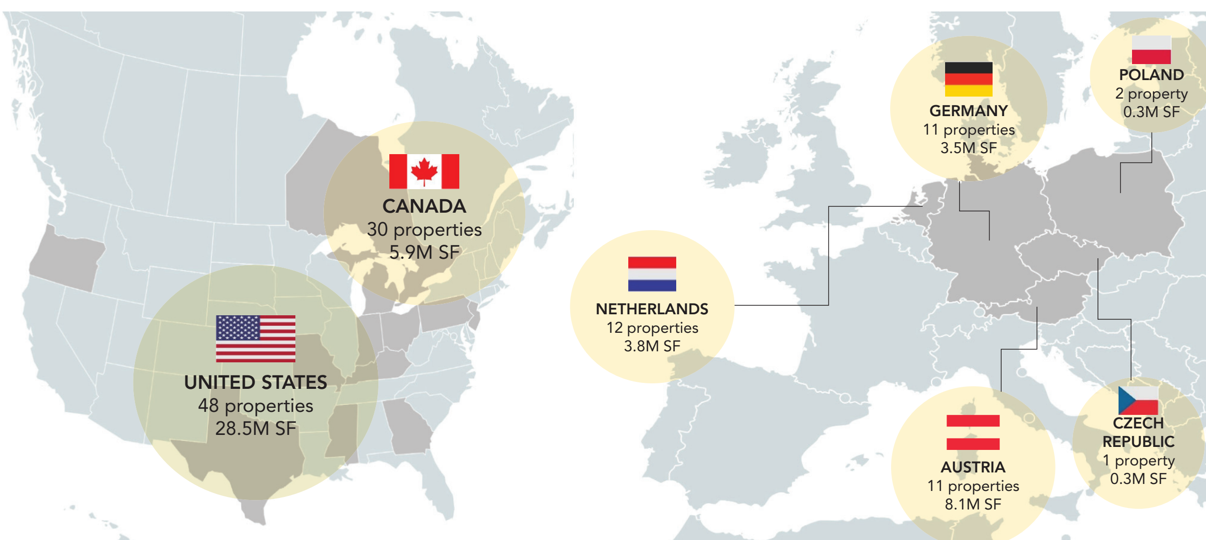
BUSINESS OVERVIEW AND STRATEGIC OUTLOOK

Business Overview

Granite is a Canadian-based real estate investment trust ("REIT") engaged in the acquisition, development, ownership and management of logistics, warehouse and industrial properties in North America and Europe. As at May 5, 2021, Granite owns 115 investment properties in seven countries having approximately 50.4 million square feet of gross leasable area. Granite has a highly-integrated team of real estate professionals with extensive experience in operations, leasing, development, investment and asset management located at its head office in Toronto, Canada and regional offices in Dallas, U.S.A; Vienna, Austria; and Amsterdam, Netherlands.

Granite's investment properties consist of income-producing properties, properties under development and land held for development (see *"INVESTMENT PROPERTIES")*. The income-producing properties consist primarily of logistics, e-commerce and distribution warehouse, light industrial and heavy industrial manufacturing properties. Lease payments are primarily denominated in three currencies: the Canadian dollar ("$"), the Euro ("€") and the US dollar ("US$"). Granite's investment properties by geographic location, property count and square footage as at May 5, 2021 are summarized below:

Investment Properties Summary
Seven countries/115 properties/50.4 million square feet



Strategic Outlook

Management continues to identify and pursue value creation and investment opportunities that management believes will generate superior long-term total returns for unitholders.

Granite's long-term strategy is to continue to build an institutional quality and globally diversified industrial real estate business; to grow and diversify its asset base through acquisitions, development, re-development and dispositions; to maintain a conservative balance sheet; and to reduce its exposure to its largest tenant, Magna International Inc. and its operating subsidiaries (collectively, "Magna") and the special purpose properties (see *"INVESTMENT PROPERTIES"*).

Granite has positioned itself financially to execute on its strategic plan including to capitalize on a strong pipeline of acquisition and development opportunities within its targeted geographic footprint.

As Granite looks to the remainder of 2021, its priorities are set out below:

- Continue to grow in its target markets in North America and Europe primarily through property and portfolio acquisitions as well as through the development of modern logistics and e-commerce assets and selective joint venture arrangements;
- Grow net asset value as well as FFO and AFFO per unit through active asset management;
- Pursue development and expansion opportunities within the existing portfolio;
- Maintain conservative capital ratios providing balance sheet flexibility and liquidity;
- Continue to expand and enhance Granite's global platform;
- Further integrate Granite's Environmental, Social and Governance principles into investment and management processes and publish Granite's inaugural annual Corporate Responsibility Report; and
- Implement a safe return-to-workplace protocol for employees when permitted by local public health authorities in our office jurisdictions.

SIGNIFICANT MATTERS

COVID-19 Pandemic

Granite's portfolio is well positioned to deliver both cash flow stability and growth as well as long-term value for unitholders. Throughout 2020 and 2021 thus far, amidst the novel coronavirus ("COVID-19") pandemic, Granite has continued to achieve net asset value appreciation and stable net operating income growth, while executing on its strategic initiatives. Although the full impact of the COVID-19 pandemic continues to be difficult to predict, Granite believes that its portfolio and strong liquidity position will allow it to weather the on-going impact of COVID-19.

Granite's tenant base is comprised of generally high-quality credit companies with 57% of total annualized revenue represented by Granite's top ten tenants (see "INVESTMENT PROPERTIES — Leasing Profile-Other Tenants" for a summary of Granite's top ten tenants). COVID-19 has had, and will continue to have, a varied impact on Granite's tenants depending on their specific businesses. Certain tenants have seen increased activity during this COVID-19 period while other tenants slowed down or shut down operations temporarily in the earlier months of the COVID-19 pandemic. It is difficult to predict at this time what continued impact COVID-19, including further waves of new infections, targeted public health restrictions and reinstated emergency measures in the markets where Granite operates, will have on the businesses of Granite's tenants and the resulting direct impact on Granite's operations.

During the three months ended March 31, 2021, there has not been a significant impact on Granite's operations, assets or liabilities as a result of COVID-19. Granite has received 100% of Q1 2021 rents due, and 99.9% of April 2021 rents to date. Granite has not recognized any provisions for uncollected rent at this time as all outstanding rental income has been received. Granite reviewed its future cash flow projections and the valuation of its properties considering the impacts of the COVID-19 pandemic during the three months ended March 31, 2021 and Granite does not expect, at this time, that COVID-19 will have a significant negative impact to the fair value of its investment property portfolio. In addition, there have not been any significant fair value losses on investment properties recorded in the three months ended March 31, 2021.

To date in 2021, no deferral requests have been received from tenants. Granite will continue to monitor its portfolio and dialogue with its tenants, where applicable, to understand the ongoing impact of COVID-19 on its tenants' operations. The dynamic nature of the situation, which continues to evolve day-to-day, makes the longer-term financial impacts on Granite's operations difficult to predict.

From a liquidity perspective, as at the date of this MD&A, May 5, 2021, Granite has total liquidity of approximately $1.5 billion, including its fully undrawn operating facility which is sufficient to meet its current commitments, development and construction projects. On March 31, 2021, Granite amended its existing unsecured revolving credit facility agreement to extend the maturity date for a new five-year term to March 31, 2026 and increase the facility's limit from $0.5 billion to $1.0 billion. Granite's nearest debt maturity of $400.0 million does not occur until November 2023, and Granite's investment property portfolio of approximately $6.0 billion remains fully unencumbered. Granite believes it is well-positioned to weather any short-term negative impacts on its business; however, Granite will continue to evaluate and monitor its liquidity as the situation prolongs.

From a leasing perspective, as at the date of this MD&A, May 5, 2021, Granite has renewed 95% of its 2021 lease maturities and has 0.1 million square feet outstanding representing less than 1% of its total portfolio. Granite does not believe that the impacts of COVID-19 will materially affect overall leasing activity for 2021 and beyond, including its impact on market rents, tenant demand for space, tenant allowances or incentives and lease terms.

With respect to Granite's outstanding development projects, most have not been materially impacted by COVID-19. During the first quarter of 2021, Granite completed site servicing at its project in Houston, Texas and Granite expects to commence vertical construction in the second quarter of 2021. With respect to the development project of a distribution/light industrial facility in Altbach, Germany, construction has commenced and is expected to be completed in the first quarter of 2022. In regards to the land acquired in Fort Worth, Texas during 2020, during the three months ended March 31, 2021, Granite completed the planning, permitting and design phases of development and expects to commence vertical construction in the second quarter of 2021. Completion of the project is scheduled for the second quarter of 2022. Despite limited disruption thus far as a result of COVID-19, the active development projects in Altbach, Germany, Houston, Texas and Fort Worth, Texas may be impacted by temporary delays due to work suspensions, labour shortages and delays in supply chains, all of which may impact timing of construction spending and expected completion dates. Further, due to market demand and other macro-economic factors, Granite may also experience delays to the commencement of construction for new development projects including the next phase of the development in Houston, Texas. For more information on Granite's development projects, please see *"SIGNIFICANT MATTERS — Construction, Development and Property Commitments*".

Consistent with its usual practice, Granite continues to review the value of its investment properties. The COVID-19 pandemic has not had a significant negative impact on the valuation of Granite's investment properties. The duration of the COVID-19 pandemic, including further waves of new infections in the markets where Granite operates that have led to some targeted public health restrictions and additional emergency measures, cannot be predicted. As such, the length and full scope of the economic impact of COVID-19 and other consequential changes it will have on Granite's business and operations in the long-term cannot be forecasted with certainty at this time. Certain aspects of Granite's business and operations that could potentially be impacted include rental income, occupancy, capital expenditures, future demand for space and market rents, all of which ultimately impact the underlying valuation of investment properties.

Property Acquisition

During the three months ended March 31, 2021, Granite has acquired one income-producing industrial property in the United States.

Acquisition *(in millions, except as noted)* Property Address	Location	Sq ft[1]	Weighted Average Lease Term, in years by sq ft[1]	Date Acquired	Property Purchase Price[2]	Stabilized Yield[1]
Acquired during the three months ended March 31, 2021:						
Income-producing property:						
3090 Highway 42 [3]	Locust Grove, GA	1.0	7.6[4]	March 12, 2021	$ 85.5	5.0%
		1.0			**$85.5**	**5.0%**

(1) As at the date of acquisition except as noted in note 3 and 4 below.

(2) Purchase price does not include transaction costs associated with property acquisitions.

(3) To provide for a real estate tax abatement, the Trust acquired a leasehold interest in this property which resulted in the recognition of a right-of-use asset, including transaction costs of $85.9 million. The Trust will acquire freehold title to the property on December 1, 2028.

(4) Weighted average lease term applicable to the occupied space.

First Quarter 2021 Acquisition

On March 12, 2021, Granite acquired 3090 State Highway 42, a 1.0 million square foot, 40’ clear height modern warehouse distribution facility situated on 85.6 acres in the greater Atlanta region, for $85.5 million (US $68.6 million). The state-of-the-art facility was completed in 2020 and is 75% leased to Radial, Inc. for a remaining lease term of 7.6 years, subject to contractual annual rent escalations. The property was acquired at an in-going yield of 3.8% and estimated stabilized yield of 5.0% upon lease-up of the existing 250,000 square feet of vacant space. The site also contains excess land to accommodate an expansion of approximately 0.3 million square feet. The property is well positioned in Atlanta’s Henry County sub-market within Atlanta’s I-75 logistical thoroughfare, in close proximity to Hartsfield-Jackson Atlanta International Airport, the Norfolk Southern Intermodal Yard and direct access to the Port of Savannah.

Property Disposition

During the three months ended March 31, 2021, Granite disposed of one property for total proceeds of $10.6 million.

Disposition *(in millions, except as noted)* Property Address	Location	Sq ft	Date Disposed	Sale Price[1]	Annualized Revenue
Disposed during the three months ended March 31, 2021:					
Hedera Road, Ravensbank Business Park	Redditch, United Kingdom	0.1	January 28, 2021	$ 10.6	$ 0.8
		0.1		**$10.6**	**$0.8**

(1) Sale price does not include transaction costs of $0.2 million associated with the disposition.

Construction, Development and Property Commitments

Granite had the following construction and development commitments as at March 31, 2021:

Commitments *(in millions, except as noted)* Property Location	Additional sq ft	Accruals/ Payments/ Deposits Made	Future Commitments (1)	Total Cost	Year-One Stabilized Yield
As at March 31, 2021:					
Development, construction or expansion:					
Redevelopment in Altbach, Germany	0.3	$ 4.1	$ 28.4	**$ 32.5**	6.9%
Property under development in Houston, Texas	0.7	7.2	33.5	**40.7**	7.4%
Property under development in Fort Worth, Texas	0.6	1.0	42.6	**43.6**	5.7%
Expansion of 2095 Logistics Drive, Mississauga, ON	0.1	0.4	10.6	**11.0**	7.7%
Tenant improvement commitment at developed property in Plainfield, Indiana	—	—	2.6	**2.6**	—%
Other construction commitments	—	1.1	10.0	**11.1**	—%
	1.7	**$13.8**	**$127.7**	**$141.5**	**6.7%**

(1) Includes signed contracts and future budgeted expenditures not yet contracted.

The redevelopment of a distribution/light industrial facility on Granite's existing land in Altbach, Germany commenced construction in the first quarter of 2021 and is expected to be completed within 12 months. The property will be situated on approximately 13 acres and comprises a total leasable area of approximately 290,000 square feet. Granite is currently engaged in pre-leasing activity for this property.

At Granite's greenfield site in Houston, Texas, speculative construction of the initial phase, consisting of two state-of-the-art distribution/e-commerce buildings totaling 0.7 million square feet, commenced in the fourth quarter of 2019. Site servicing was completed during the three months ended March 31, 2021 and Granite will commence vertical construction in the second quarter of 2021, with completion expected in the second quarter of 2022.

During the first quarter of 2021, Granite reclassified the land acquired in Fort Worth, Texas during 2020, to properties under development as the planning, permitting and design phases of the speculative 605,441 square foot, 36' clear, state-of-the-art distribution/e-commerce facility were completed and vertical construction is expected to commence in the second quarter of 2021 with completion anticipated to occur in the second quarter of 2022. The development site is located at the major intersection of I-820 and SH-287 in close proximity to downtown Fort Worth and the Dallas-Fort Worth International Airport.

2021 Debenture Redemption

On January 4, 2021, Granite REIT Holdings Limited Partnership ("Granite LP") redeemed in full the outstanding $250.0 million aggregate principal amount of its 3.788% Series 2 senior debentures due July 5, 2021 (the "2021 Debentures") for a total redemption price of $254.0 million, including early redemption premium of $4.0 million. In conjunction with the redemption, Granite terminated the corresponding cross-currency interest rate swap (the "2021 Cross Currency Interest Rate Swap") on January 4, 2021, and the related mark to market liability of $18.8 million ($17.7 million, net of interest income accrued) was settled.

Credit Rating Upgrade

On March 22, 2021, DBRS Limited (DBRS Morningstar) ("DBRS") upgraded Granite LP's issuer rating and senior unsecured debentures rating to BBB (high) from BBB, both with stable trends. The credit rating upgrade reduces Granite's borrowing costs on its term loans and credit facility by 25 basis points.

Credit Facility Extension and Upsize

On March 31, 2021, Granite amended its existing unsecured revolving credit facility agreement to extend the maturity date for a new five-year term to March 31, 2026. In addition, the facility's limit increased from $0.5 billion to $1.0 billion. Draws on the facility are available by way of Canadian dollar, US dollar or Euro denominated loans or Canadian dollar or US dollar denominated letters of credit.

RESULTS OF OPERATIONS

Net Income

The following is a summary of financial information from the condensed combined statements of net income for the three months ended March 31, 2021 and 2020, respectively:

Net Income

	Three Months Ended March 31,		
(in millions, except as noted)	**2021**	**2020**	**$ change**
Rental revenue	$ 95.9	$ 78.1	17.8
Revenue	**95.9**	**78.1**	**17.8**
Property operating costs	14.4	10.2	4.2
Net operating income	**81.5**	**67.9**	**13.6**
General and administrative expenses	8.8	5.7	3.1
Depreciation and amortization	0.3	0.3	—
Interest income	(0.8)	(0.9)	0.1
Interest expense and other financing costs	14.8	6.6	8.2
Foreign exchange gains, net	(0.7)	(2.7)	2.0
Fair value gains on investment properties, net	(209.5)	(36.0)	(173.5)
Fair value losses on financial instruments, net	0.3	1.9	(1.6)
Loss on sale of investment properties, net	0.2	—	0.2
Income before income taxes	**268.1**	**93.0**	**175.1**
Income tax expense	37.9	11.6	26.3
Net income	**$ 230.2**	**$ 81.4**	**148.8**
Net income attributable to:			
Stapled unitholders	230.1	81.3	148.8
Non-controlling interests	0.1	0.1	—
	$ 230.2	**$ 81.4**	**148.8**

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 March 31,					
	2021	2020	Change	March 31, 2021	December 31, 2020	Change
$ per €1.00	**1.525**	1.481	3%	**1.476**	1.560	(5%)
$ per US$1.00	**1.266**	1.344	(6%)	**1.257**	1.275	(1%)

For the three months ended March 31, 2021 compared to the prior year period, the average exchange rates of the Canadian dollar relative to the Euro and the 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 US operations.

The period end exchange rates of the Canadian dollar relative to the Euro and the US dollar on March 31, 2021 were lower when compared to the December 31, 2020 exchange rates. As a result, the Canadian dollar equivalent of assets and liabilities from Granite's European and US operations were lower when compared to December 31, 2020.

On a net basis, the effect of the changes in exchange rates on Granite's operating results for the three month period ended March 31, 2021 was as follows:

Effects of Changes in Exchange Rates on Operating Results

	Three Months Ended March 31,
(in millions, except per unit information)	**2021 vs 2020**
Decrease in revenue	$(2.1)
Decrease in NOI — cash basis	(2.8)
Decrease in net income	(5.7)
Decrease in FFO	(1.6)
Decrease in AFFO	(1.4)
Decrease in FFO per unit	$(0.03)
Decrease in AFFO per unit	$(0.02)

Operating Results

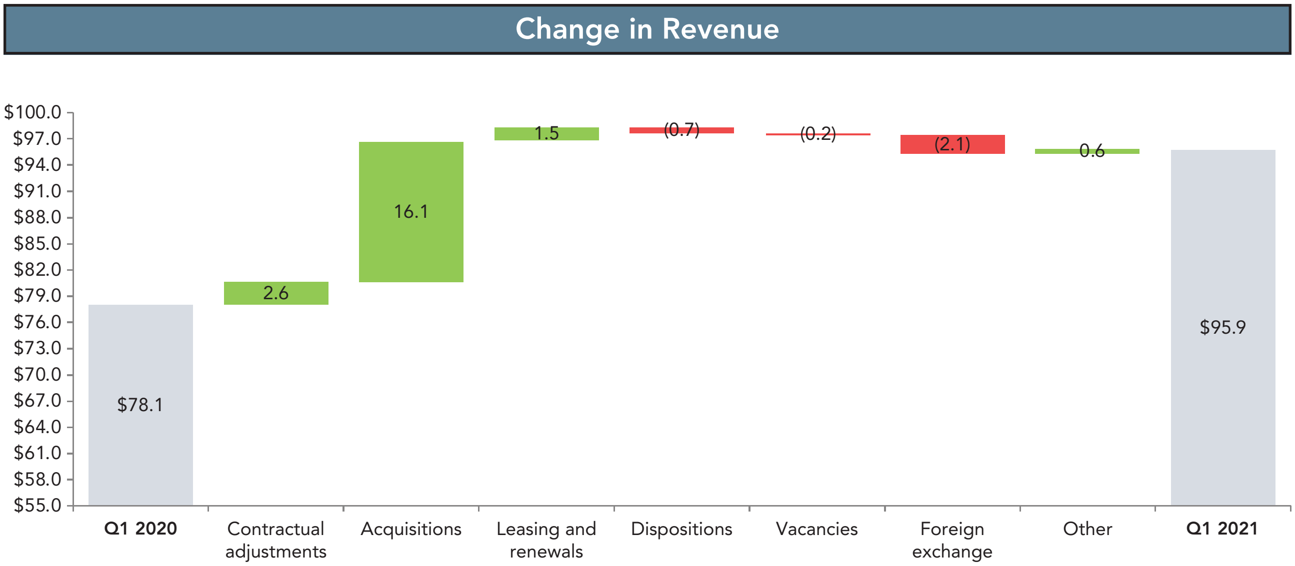
Revenue

Revenue

For the three months ended March 31,	2021	2020	$ change
Rental revenue and amortization[(1)]	**$82.0**	$68.6	13.4
Tenant recoveries	**13.9**	9.5	4.4
Revenue	**$95.9**	$78.1	17.8

(1) Rental revenue and amortization include base rent, straight-line rent amortization and tenant incentive amortization.

Revenue for the three month period ended March 31, 2021 increased by $17.8 million to $95.9 million from $78.1 million in the prior year period. The components contributing to the change in revenue are detailed below:

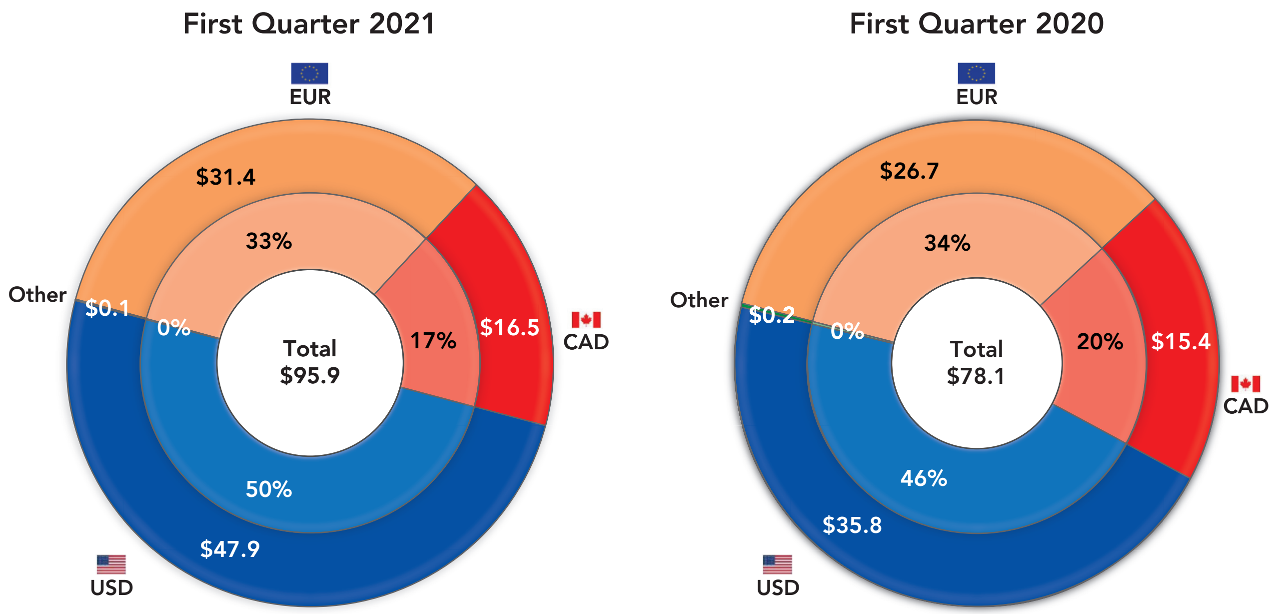


Additional details pertaining to the components of the change in revenue are as follows:

- contractual rent adjustments included $0.2 million from consumer price index based increases and $2.4 million from fixed contractual adjustments related to rent escalations;
- the acquisitions of properties located in the United States, Canada and the Netherlands beginning in the first quarter of 2020 increased revenue by $16.1 million, which included $2.9 million of tenant recoveries;
- revenue increased by $1.5 million due to various renewal and re-leasing activities for properties primarily in Canada and the United States;
- the sale of properties located in Canada, Spain and the United Kingdom during 2020 and the first quarter of 2021 decreased revenue by $0.7 million; and
- foreign exchange had a net $2.1 million negative impact as the relative weakening and strengthening of the Canadian dollar against the Euro and US dollar, respectively, increased revenue by $0.9 million and decreased revenue by $3.0 million, respectively.

Revenue by major currency for the three month periods ended March 31, 2021 and 2020 was as follows:

Revenue by Currency



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, forward currency contracts and foreign exchange collars, to partially hedge its exposure to foreign currencies and reduce the potential impact that foreign currency rate changes may have on Granite's operating results, cash flows and distributions (*see "LIQUIDITY AND CAPITAL RESOURCES — Debt Structure"*).

Net Operating Income

Net operating income ("NOI") in the three months ended March 31, 2021 was $81.5 million compared to $67.9 million during the three months ended March 31, 2020. NOI — cash basis excludes the impact of lease termination, close-out fees, straight-line rent and tenant incentive amortization and reflects the cash generated by the income-producing properties excluding lease termination and close-out fees on a period-over-period basis. NOI — cash basis was $79.8 million in the three months ended March 31, 2021 compared with $67.8 million in the prior year period, an increase of 17.7%.

Same property NOI — cash basis refers to the NOI — cash basis for those properties owned by Granite throughout the entire current and prior year periods under comparison. Same property NOI — cash basis excludes properties that were acquired, disposed of, classified as properties under or held for development or assets held for sale during the periods under comparison. Same property NOI — cash basis in the three months ended March 31, 2021 was $67.9 million, compared with $67.1 million in the prior year period. The changes in NOI, NOI — cash basis and same property NOI — cash basis are detailed below:

Changes in NOI, NOI — Cash Basis and Same Property NOI — Cash Basis

	Sq ft(1) (in millions)	Three Months Ended March 31, 2021	2020	$ change	% change
Revenue		**$ 95.9**	$ 78.1	17.8	
Less: Property operating costs		**(14.4)**	(10.2)	(4.2)	
NOI		**$ 81.5**	$ 67.9	13.6	20.0%
Add (deduct):					
Straight-line rent amortization		**(3.1)**	(1.4)	(1.7)	
Tenant incentive amortization		**1.4**	1.3	0.1	
NOI — cash basis	50.4	**$ 79.8**	$ 67.8	12.0	17.7%
Less NOI — cash basis for:					
Acquisitions	10.4	**(11.2)**	—	(11.2)	
Dispositions, assets held for sale and developments	0.5	**(0.7)**	(0.7)	—	
Same property NOI — cash basis	39.5	**$ 67.9**	$ 67.1	0.8	**1.2%**

(1) The square footage relating to the NOI — cash basis represents GLA of 50.4 million square feet as at March 31, 2021. The square footage relating to the same property NOI — cash basis represents the aforementioned GLA excluding the impact from the acquisitions, dispositions and developments during the relevant period.

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. Granite's employee compensation expenses are excluded in property operating costs.

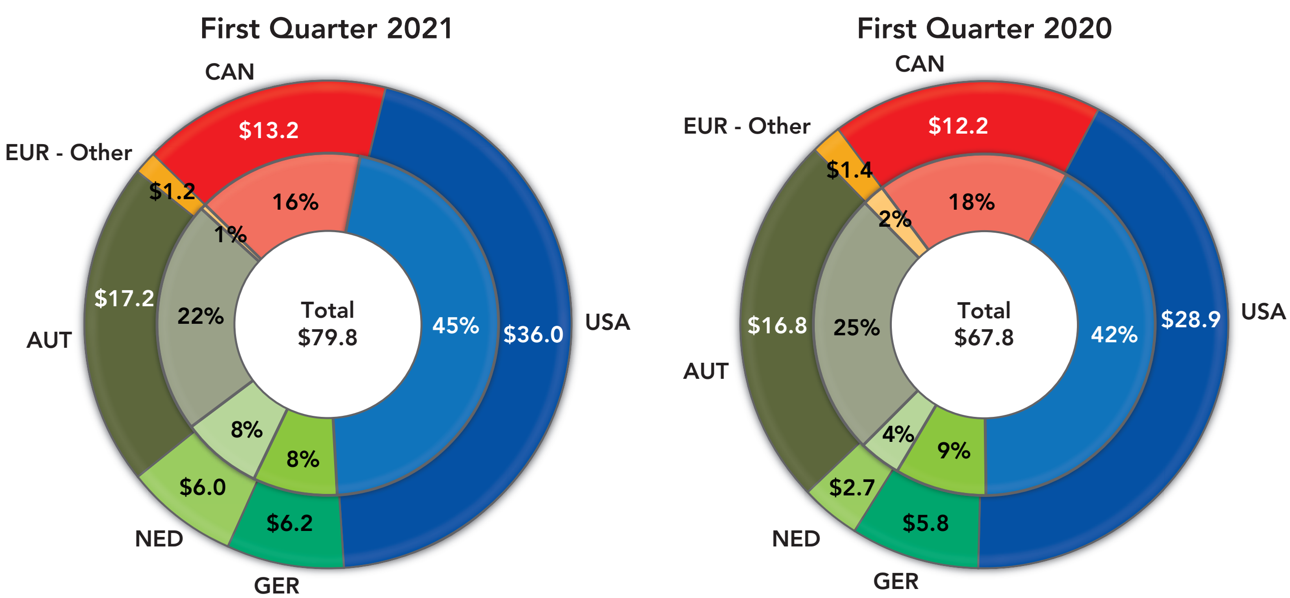
Straight-line rent amortization represents the scheduled fixed rent changes or rent-free periods in leases that are recognized in revenue evenly on a straight-line basis over the term of the lease. Tenant incentive amortization mainly represents allowances provided to tenants that are recognized in revenue evenly on a straight-line basis over the term of the lease and primarily comprises the amortization associated with the cash allowance incentives paid to Magna in respect of the 10-year lease extensions exercised during the 2014 year at the Thondorf and Eurostar properties in Graz, Austria.

NOI — cash basis for the three months ended March 31, 2021 increased $12.0 million to $79.8 million from $67.8 million in the prior year period, representing an increase of 17.7%. The increase in NOI — cash basis was largely a result of the increase in rental revenue as noted previously, partially offset by an increase in property operating costs primarily relating to the properties acquired in 2020 and 2021 to date.

Same property NOI — cash basis for the three months ended March 31, 2021 increased $0.8 million (1.2%) to $67.9 million primarily due to the increase in contractual rents arising from both consumer price index and fixed rent increases, re-leasing and renewals of various leases for properties primarily located in the United States, Canada and the Netherlands and the favourable foreign exchange impact from the weakening of the Canadian dollar against the Euro, partially offset by the strengthening of the Canadian dollar against the US dollar. Excluding the impact of foreign exchange, same property NOI — cash basis for the three month period ended March 31, 2021 would have increased by 2.6% relative to the prior year period.

NOI — cash basis for the three month periods ended March 31, 2021 and 2020 by geography was as follows:

NOI — Cash Basis by Geography



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

Same property NOI — cash basis for the three month periods ended March 31, 2021 and 2020 by geography was as follows:

Same Property NOI — Cash Basis by Geography

	Three Months Ended March 31,		
	2021	**2020**	**% change**
Canada	**$12.5**	$11.7	6.8%
United States	**28.0**	28.9	(3.1)%
Austria	**17.2**	16.8	2.4%
Germany	**6.2**	5.9	5.1%
Netherlands	**2.9**	2.7	7.4%
Europe — Other	**1.1**	1.1	—%
Same Property NOI — cash basis	**$67.9**	$67.1	1.2%

Constant currency same property NOI — cash basis for the three month periods ended March 31, 2021 and 2020 by geography was as follows, which is calculated by converting the comparative same property NOI — cash basis at current foreign exchange rates:

Constant Currency Same Property NOI — Cash Basis by Geography

	Three Months Ended March 31,		
	2021	**2020**	**% change**
Canada	**$12.5**	$11.7	6.8%
United States	**28.0**	27.2	2.9%
Austria	**17.2**	17.3	(0.6)%
Germany	**6.2**	6.1	1.6%
Netherlands	**2.9**	2.8	3.6%
Europe — Other	**1.1**	1.1	—%
Constant Currency Same Property NOI — cash basis[1]	**$67.9**	$66.2	2.6%

(1) Constant currency same property NOI — cash basis is calculated by converting the comparative same property NOI — cash basis at current foreign exchange rates.

General and Administrative Expenses

General and administrative expenses consisted of the following:

General and Administrative Expenses

For the three months ended March 31,	2021	2020	$ change
Salaries and benefits	**$ 5.0**	$ 3.8	1.2
Audit, legal and consulting	**0.8**	0.9	(0.1)
Trustee/director fees and related expenses	**0.4**	0.2	0.2
Executive unit-based compensation expense including distributions	**1.5**	1.0	0.5
Fair value remeasurement of trustee/director and executive unit-based compensation plans	**(0.1)**	(1.5)	1.4
Other public entity costs	**0.4**	0.4	—
Office rents including property taxes and common area maintenance costs	**0.1**	0.1	—
Capital tax	**0.1**	0.1	—
Information technology	**0.4**	0.3	0.1
Other	**0.2**	0.4	(0.2)
General and administrative expenses	**$ 8.8**	$ 5.7	3.1

General and administrative expenses were $8.8 million for the three month period ended March 31, 2021 and increased $3.1 million in comparison to the prior year period primarily as a result of the following:

- an increase in salaries and benefits expense primarily due to additional employees in the United States and Europe and an increase to incentive compensation paid in the current year period;
- an increase in executive unit-based compensation expense due to a greater number of awards outstanding under the plan; and

- a decrease in the fair value remeasurement recovery associated with the trustee/director and executive unit-based compensation plans resulting from a smaller decrease in the market price of the Trust's stapled units in the first quarter of 2021 relative to the first quarter of 2020.

Interest Income

Interest income for the three month period ended March 31, 2021 decreased \$0.1 million to \$0.8 million from \$0.9 million in the prior year period due to lower interest rates on invested cash.

Interest Expense and Other Financing Costs

Interest expense and other financing costs for the three month period ended March 31, 2021 increased \$8.2 million to \$14.8 million from \$6.6 million in the prior year period. The increase for this quarter includes the \$4.0 million of early redemption premium incurred for the 2021 Debentures and \$0.5 million of accelerated amortization of original financing costs related to the refinancing of Granite's credit facility. The increase was also related to increased interest costs resulting from the issuance of the 2027 Debentures in June 2020 and the 2030 Debentures in December 2020, partially offset by lower interest costs resulting from the redemption of the 2021 Debentures on January 4, 2021.

As at March 31, 2021, Granite's weighted average cost of interest-bearing debt was 1.74% (March 31, 2020 — 1.83%) and the weighted average debt term-to-maturity was 6.0 years (March 31, 2020 — 4.1 years).

Foreign Exchange Gains and Losses, Net

Granite recognized net foreign exchange gains of \$0.7 million and \$2.7 million in the three months ended March 31, 2021 and 2020, respectively. The \$2.0 million decrease in net foreign exchange gains is primarily due to the remeasurement of certain monetary assets and liabilities of the Trust that are denominated in US dollars and Euros as a result of the strengthening of the Canadian dollar against the US dollar and Euro, offset partially by foreign exchange gains realized on the settlement of foreign exchange collar contracts.

Fair Value Gains and Losses on Investment Properties, Net

Net fair value gains on investment properties were \$209.5 million and \$36.0 million in the three months ended March 31, 2021 and 2020, respectively. In the three months ended March 31, 2021, net fair value gains of \$209.5 million were primarily attributable to favourable changes in fair market rent assumptions as well as compression in discount and terminal capitalization rates for properties located in the Greater Toronto Area in Ontario, Canada (the "GTA") and across the United States as well as for certain of the Trust's modern warehouse properties in Europe.

Net fair value gains on investment properties in the three months ended March 31, 2020 of \$36.0 million were attributable to various factors including an increase in fair value for the acquired property in Dallas, Texas leased to Amazon, partially offset by an increase in discount rates for properties located in Austria and Germany due to market conditions and the nature of the tenants and properties across these jurisdictions.

Fair Value Gains and Losses on Financial Instruments, Net

Fair value losses on financial instruments for the three month periods ended March 31, 2021 and 2020 were \$0.3 million and \$1.9 million, respectively. The fair value losses on financial instruments for the three months ended March 31, 2021 are related to the fair value change of interest rate component of the 2024 Cross Currency Interest Rate Swap and the fair value change of the 2021

Cross Currency Interest Rate Swap, partially offset by fair value gains on foreign exchange collar contracts. These derivatives have not been designated in a hedging relationship and fair value changes are therefore recorded in the condensed combined statements of net income.

Loss on Sale of Investment Properties, Net

The loss on sale of investment properties for the three month period ended March 31, 2021 was $0.2 million and is primarily related to broker commissions and legal and advisory costs associated with the disposition of the property in Redditch, United Kingdom on January 28, 2021. No properties were disposed of during the three month period ended March 31, 2020.

Income Tax Expense

Income tax expense is comprised of the following:

Income Tax Expense

For the three months ended March 31,	**2021**	**2020**	**$ change**
Foreign operations	**$ 1.8**	$ 1.7	0.1
Other	**0.2**	(0.4)	0.6
Current tax expense	**2.0**	1.3	0.7
Deferred tax expense	**35.9**	10.3	25.6
Income tax expense	**$37.9**	$11.6	26.3

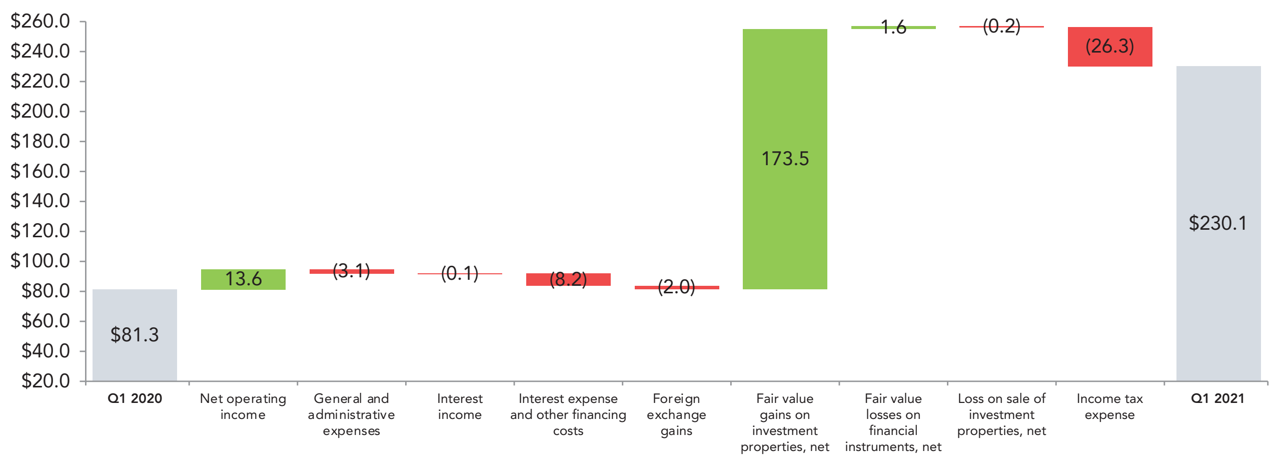
For the three months ended March 31, 2021, the current tax expense increased compared to the prior year period primarily due to the recognition of tax assets in Canada for taxation years that went statute barred during the first quarter of 2020 of $0.8 million and higher taxes in foreign jurisdictions for acquisitions completed in 2020; partially offset by the recognition of tax assets of $0.3 million in Germany for taxation years that went statute barred during the first quarter of 2021.

The increase in deferred tax expense for the three months ended March 31, 2021 compared to the prior year period was primarily due to an increase in fair value gains in jurisdictions in which deferred taxes are recorded.

Net Income Attributable to Stapled Unitholders

For the three month period ended March 31, 2021, net income attributable to stapled unitholders was $230.1 million compared to $81.3 million in the prior year period. The increase in net income attributable to stapled unitholders was primarily due to a $173.5 million increase in fair value gains on investment properties and a $13.6 million increase in net operating income, partially offset by a $26.3 million increase in income tax expense and a $8.2 million increase in interest expense and other financing costs. The period-over-period variance is further summarized below:

Change in Net Income Attributable to Stapled Unitholders



Funds From Operations and Adjusted Funds From Operations

The reconciliation of net income attributable to stapled unitholders to FFO and AFFO for the three months ended March 31, 2021 and 2020 is presented below:

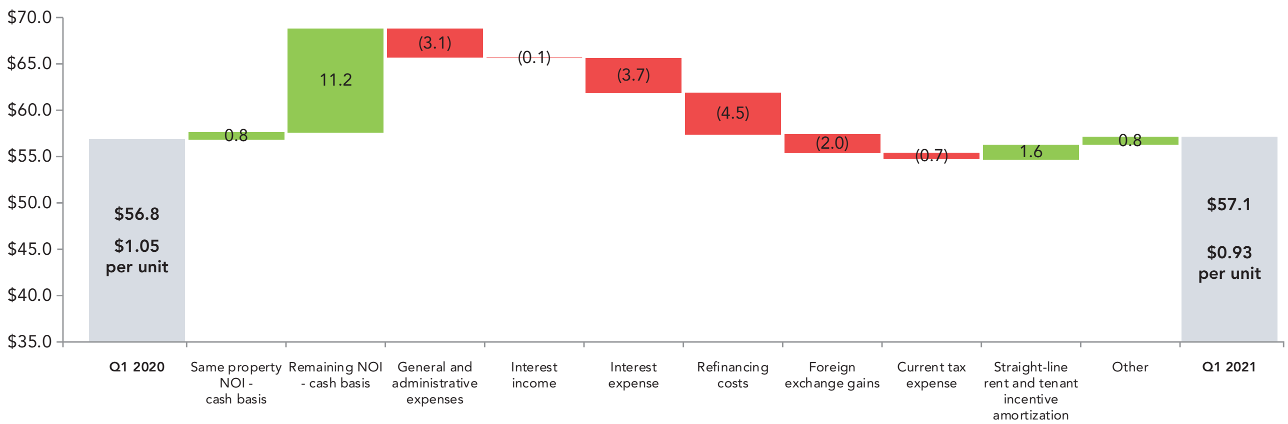
FFO AND AFFO RECONCILIATION

For the three months ended March 31,		**2021**	**2020**
(in millions, except per unit information)			
Net income attributable to stapled unitholders		**$ 230.1**	$ 81.3
Add (deduct):			
Fair value gains on investment properties, net		**(209.5)**	(36.0)
Fair value losses on financial instruments		**0.3**	1.9
Loss on sale of investment properties		**0.2**	—
Deferred income tax expense		**35.9**	10.3
Fair value remeasurement expense relating to the Executive Deferred Stapled Unit Plan		**—**	(0.8)
Non-controlling interests relating to the above		**0.1**	0.1
FFO	[A]	**$ 57.1**	$ 56.8
Add (deduct):			
Maintenance or improvement capital expenditures incurred		**(0.5)**	(1.1)
Leasing commissions incurred		**—**	—
Tenant allowances incurred		**(0.1)**	—
Tenant incentive amortization		**1.3**	1.3
Straight-line rent amortization		**(3.1)**	(1.4)
AFFO	[B]	**$ 54.7**	$ 55.6
Per unit amounts:			
Basic and diluted FFO per stapled unit	[A]/[C] and [A]/[D]	**$ 0.93**	$ 1.05
Basic and diluted AFFO per stapled unit	[B]/[C] and [B]/[D]	**$ 0.89**	$ 1.03
Basic weighted average number of stapled units	[C]	**61.7**	54.0
Diluted weighted average number of stapled units	[D]	**61.7**	54.1

Funds From Operations

FFO for the three month period ended March 31, 2021 was $57.1 million ($0.93 per unit) compared to $56.8 million ($1.05 per unit) in the prior year period. The changes in the FFO components is summarized below:

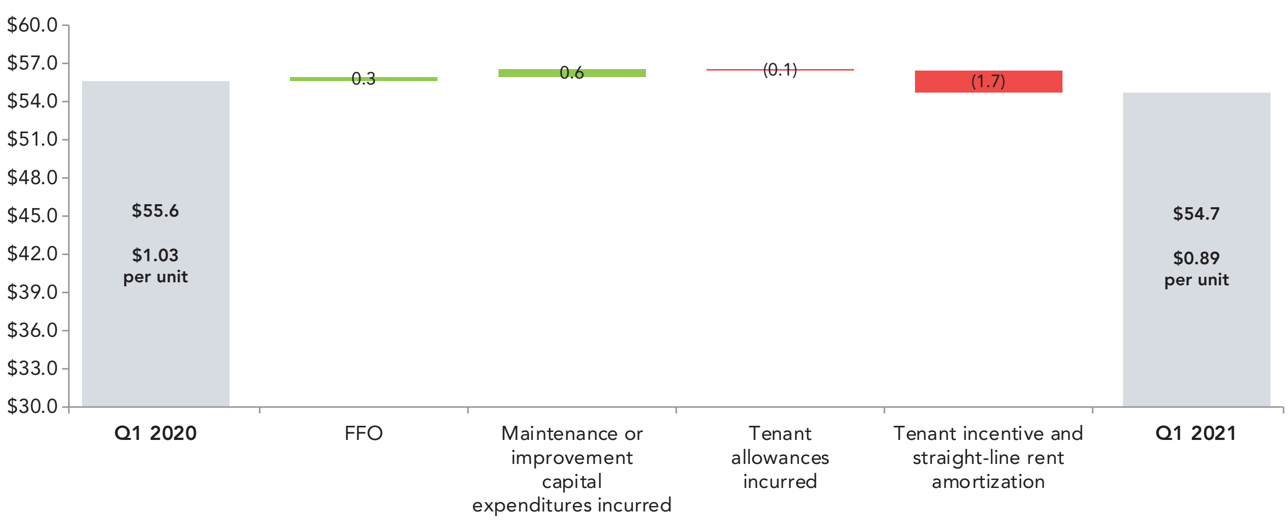
Change in FFO



Included in FFO for the three months ended March 31, 2021 are $4.0 million of early redemption premium related to the 2021 Debentures and $0.5 million of accelerated amortization of original financing costs related to the refinancing of Granite's credit facility. Excluding these refinancing costs, FFO would be $61.6 million ($1.00 per unit).

As previously detailed in the FFO and AFFO reconciliation table, AFFO for the three month period ended March 31, 2021 was $54.7 million ($0.89 per unit) compared to $55.6 million ($1.03 per unit) in the prior year period. The $0.9 million ($0.14 per unit) decrease in AFFO is summarized below:

Change in AFFO



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

- a $1.7 million decrease in AFFO from tenant incentive and straight-line rent amortization, primarily from re-leasing and renewal activities and property acquisitions in Canada, the United States and the Netherlands, partially offset by;
- a $0.6 million increase in AFFO from higher maintenance or improvement capital expenditures incurred in the prior year period relating to improvement projects in the GTA.

Excluding the aforementioned refinancing costs of $4.5 million recognized in the three month period ended March 31, 2021, AFFO would be $59.2 million ($0.96 per unit).

INVESTMENT PROPERTIES

Granite's investment properties consist of income-producing properties, properties under development and land held for development. Substantially all of the income-producing properties are for industrial use and can be categorized as (i) distribution/e-commerce (ii) industrial/warehouse (iii) flex/office or (iv) special purpose properties designed and built with specialized features and leased to Magna. Granite's categorization of income-producing properties has been updated in 2021 to reflect how management characterizes its properties in light of Granite's recent growth and transformation of its portfolio towards logistics, e-commerce and distribution/warehouse facilities.

The attributes of the income-producing properties are versatile and are based on the needs of the tenant such that an industrial property used by a certain tenant for light or heavy manufacturing can be used by another tenant for other industrial uses after some retrofitting if necessary. Accordingly, the investment property portfolio is substantially for industrial use and, as such, Granite determined that its asset class comprises industrial properties for purposes of financial reporting. The fair value of the industrial properties, as noted below, is based upon the current tenanting, existing use and attributes of such properties.

Properties under development are comprised of (i) 50.0 acre greenfield site in Houston, Texas for which speculative construction of the initial phase, consisting of two buildings totaling 0.7 million square feet, has begun and is expected to be completed in the second quarter of 2022, (ii) a site in Altbach, Germany where the demolition of the property is complete and the construction of a distribution/light industrial facility began during the first quarter of 2021 and is expected to be completed in the first quarter of 2022, and (iii) 36.0 acre site in Fort Worth, Texas transferred from land held for development to property under development during the first quarter of 2021 for the development of a 0.6 million square foot e-commerce and logistics warehouse and is expected to begin construction in the second quarter of 2021 with completion expected in the second quarter of 2022.

Land held for development comprises the remaining 141.0 acres of land in Houston, Texas held for the future development of up to a 2.5 million square foot multi-phased business park capable of accommodating buildings ranging from 0.3 million to 1.2 million square feet (of which 0.7 million square feet is planned in the initial phase of construction, as noted above), 12.9 acres of development land in West Jefferson, Ohio and a 16.0 acre parcel of land located in Wroclaw, Poland that could provide for approximately 0.3 million square feet of logistics-warehouse space.

Summary attributes of the investment properties as at March 31, 2021 and December 31, 2020 are as follows:

Investment Properties Summary

As at March 31, 2021 and December 31, 2020	2021	2020
(in millions, except as noted)		
Investment properties — fair value	**$6,003.7**	$5,855.6
Income-producing properties	**5,935.3**	5,786.3
Properties under development	**40.2**	31.5
Land held for development	**28.2**	37.8
Overall capitalization rate(1)	**5.40%**	5.61%
Number of investment properties	**115**	115
Income-producing properties	**108**	108
Properties under development	**4**	3
Land held for development	**3**	4
Property metrics		
GLA, square feet	**50.4**	49.5
Occupancy, by GLA	**99.1%**	99.6%
Weighted average lease term in years, by square footage	**6.1**	6.3
Total number of tenants	**86**	86
Magna as a percentage of annualized revenue(2)	**35%**	36%
Magna as a percentage of GLA	**27%**	27%

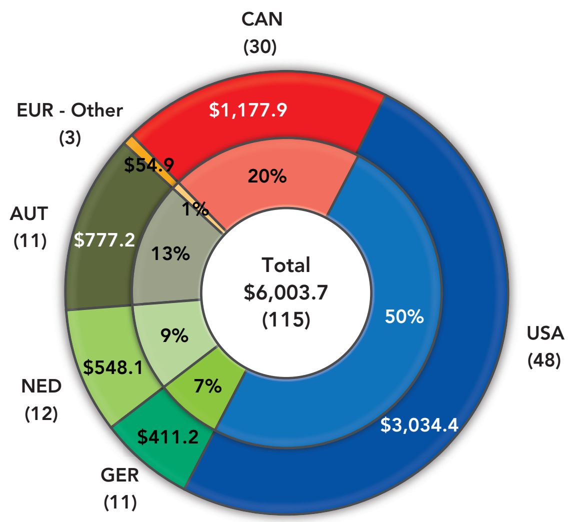
(1) Overall capitalization rate pertains only to income-producing properties.

(2) Annualized revenue for each period presented is calculated as rental revenue excluding tenant recoveries, recognized in accordance with IFRS, in the reported month multiplied by 12 months.

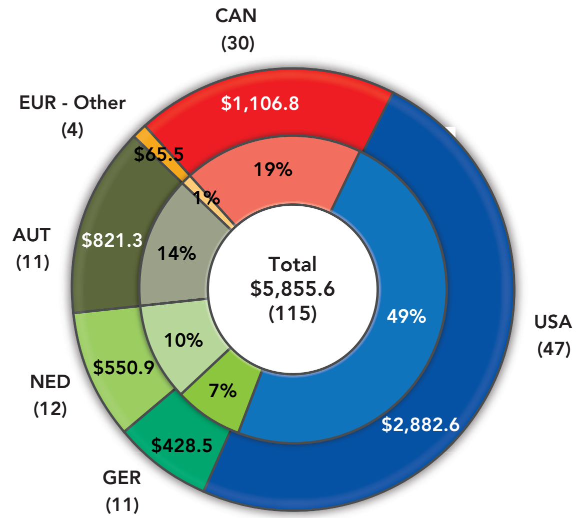
Granite has a high-quality global portfolio of large-scale properties strategically located in Canada, the United States and Europe. The fair value of the investment properties by country as at March 31, 2021 and December 31, 2020 was as follows:

Fair Value of Investment Properties by Geography[(1)]

March 31, 2021



December 31, 2020



(1) Number of properties denoted in parentheses.

The change in the fair value of investment properties by geography during the three months ended March 31, 2021 was as follows:

Change in Fair Value of Investment Properties by Geography

	January 1, 2021	Acquisitions	Dispositions	Capital and leasing expenditures	Developments and expansion	Transfers[(1)]	Other	Fair value gains	Foreign Exchange	March 31, 2021
Income-Producing Properties										
Canada	**$1,106.7**	$ —	$ —	$ 0.3	$0.1	$ —	$ 0.4	$ 70.4	$ —	**$1,177.9**
USA	**2,833.0**	85.9	—	(0.4)	—	—	2.9	103.2	(39.9)	**2,984.7**
Austria	**821.0**	—	—	—	—	—	(1.2)	1.0	(43.6)	**777.2**
Germany	**412.6**	—	—	—	—	—	—	5.6	(22.1)	**396.1**
Netherlands	**551.0**	—	—	0.1	0.4	—	0.3	26.1	(29.8)	**548.1**
Other Europe	**62.0**	—	(10.6)	—	—	—	(0.3)	3.2	(3.0)	**51.3**
	5,786.3	**85.9**	**(10.6)**	**—**	**0.5**	**—**	**2.1**	**209.5**	**(138.4)**	**5,935.3**
Properties Under Development										
USA	**15.6**	—	—	—	0.9	9.0	—	—	(0.4)	**25.1**
Germany	**15.9**	—	—	—	0.2	—	—	—	(1.0)	**15.1**
	31.5	**—**	**—**	**—**	**1.1**	**9.0**	**—**	**—**	**(1.4)**	**40.2**
Land Held for Development										
USA	**34.0**	—	—	—	—	(9.0)	—	—	(0.4)	**24.6**
Other Europe	**3.8**	—	—	—	—	—	—	—	(0.2)	**3.6**
	37.8	**—**	**—**	**—**	**—**	**(9.0)**	**—**	**—**	**(0.6)**	**28.2**
Total	**$5,855.6**	**$85.9**	**$(10.6)**	**$ —**	**$1.6**	**$ —**	**$ 2.1**	**$209.5**	**$(140.4)**	**$6,003.7**

(1) The transfer is related to the reclassification of a land held for development property in Fort Worth, Texas to property under development during the first quarter of 2021.

During the three months ended March 31, 2021, the fair value of investment properties increased by $148.1 million primarily due to:

- net fair value gains of $209.5 million which were attributable to various factors including fair market rent increases as well as compression in discount and terminal capitalization rates for properties located in the GTA and across the United States as well as for certain of the Trust's modern warehouse properties in Europe; and
- the acquisition of an income-producing property in the United States for $85.5 million in Locust Grove, GA (see "*SIGNIFICANT MATTERS — Property Acquisitions*"); partially offset by
- foreign exchange losses of $140.4 million resulting from the relative strengthening of the Canadian dollar against the US dollar and the Euro; and
- the disposition of an income-producing property in the United Kingdom for $10.6 million (see "*SIGNIFICANT MATTERS — Dispositions*").

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 three months ended March 31, 2021. 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 months ended March 31, 2021. In addition, valuation metrics for Granite's income-producing properties by asset category as at March 31, 2021 were as follows:

Valuation Metrics by Income-Producing Property Asset Category

As at March 31, 2021 and December 31, 2020	Distribution/ E-Commerce		Industrial/ Warehouse		Special purpose properties		Flex/ Office		Total	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Overall capitalization rate(1)(2)	**4.84%**	4.97%	**5.59%**	5.79%	**7.33%**	7.71%	**5.82%**	6.02%	**5.40%**	5.61%
Terminal capitalization rate(1)	**5.28%**	5.44%	**5.75%**	5.96%	**6.75%**	6.87%	**6.72%**	6.93%	**5.64%**	5.82%
Discount rate(1)	**5.73%**	5.89%	**6.51%**	6.69%	**7.61%**	7.77%	**7.31%**	7.30%	**6.20%**	6.38%

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

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

A sensitivity analysis of the fair value of income-producing properties to changes in the overall capitalization rate, terminal capitalization rate and discount rate at March 31, 2021 is presented below:

Sensitivity Analysis of Fair Value of Income-Producing Properties

Rate sensitivity	Overall capitalization rate	Terminal capitalization rate	Discount rate
+50 bps	5,401.6	5,630.4	5,713.5
+25 bps	5,655.2	5,776.1	5,823.2
Base rate	**$5,935.3**	**$5,935.3**	**$5,935.3**
-25 bps	6,246.5	6,110.9	6,050.7
-50 bps	6,594.7	6,304.5	6,168.7

Capital Expenditures and Leasing Costs

Capital expenditures relate to sustaining the existing earnings capacity of the property portfolio. 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. Leasing costs include direct leasing costs and lease incentives. Direct leasing costs include broker commissions incurred in negotiating and arranging tenant leases. Lease incentives include the cost of leasehold improvements to tenant spaces and/or cash allowances provided to tenants for leasehold improvement costs.

Included in total capital expenditure and leasing cost additions to investment properties are items which relate to the completion or lease up of recently acquired or developed properties. Such items are excluded from Granite's calculation of AFFO. A reconciliation of total capital and leasing cost additions to investment properties to those included in AFFO for the three months ended March 31, 2021 and 2020 is below:

Maintenance Capital Expenditures and Leasing Costs

	Three Months Ended March 31,	
	2021	**2020**
Additions to investment properties:		
Leasing costs	**$ —**	$ —
Tenant improvements[1]	**0.2**	—
Maintenance capital expenditures	**0.1**	1.1
Other capital expenditures	**0.4**	2.3
	$ 0.7	**$ 3.4**
Less:		
Leasing costs related to acquisition activities	**(0.1)**	—
Leasing costs related to development activities	**—**	—
Capital expenditures related to expansions	**(0.1)**	—
Capital expenditures related to property acquisitions	**0.1**	(2.3)
Capital expenditures and leasing costs included in AFFO	**$ 0.6**	**$ 1.1**

(1) Tenant improvements include tenant allowances and landlord's work.

The capital expenditures and leasing costs incurred by quarter for the trailing eight quarters were as follows:

Capital Expenditures and Leasing Costs — Trailing Eight Quarters

		Q1'21	Q4'20	Q3'20	Q2'20	Q1'20	Q4'19	Q3'19	Q2'19
Total capital expenditures incurred		$ 0.7	$ 13.3	$ 2.2	$ 6.2	$ 3.4	$ 1.0	$ 1.5	$ 0.6
Total leasing costs incurred		—	2.1	1.2	2.0	—	0.8	0.2	0.4
Total incurred	**[A]**	**$ 0.7**	**$15.4**	**$ 3.4**	**$ 8.2**	**$ 3.4**	**$ 1.8**	**$ 1.7**	**$ 1.0**
Less: Capital expenditures and leasing costs related to acquisitions and developments		(0.1)	(13.1)	(2.6)	(6.1)	(2.4)	(0.2)	(0.1)	(0.4)
Capital expenditures and leasing costs included in AFFO	**[B]**	**$ 0.6**	**$ 2.3**	**$ 0.8**	**$ 2.1**	**$ 1.0**	**$ 1.6**	**$ 1.6**	**$ 0.6**
GLA, square feet	**[C]**	50.4	49.5	45.4	44.3	40.0	40.0	34.9	34.5
$ total incurred per square feet	**[A]/[C]**	**$0.01**	**$0.31**	**$0.07**	**$0.19**	**$0.09**	**$0.05**	**$0.05**	**$0.03**
$ capital expenditures and leasing costs included in AFFO per square feet	**[B]/[C]**	**$0.01**	**$0.05**	**$0.02**	**$0.05**	**$0.03**	**$0.04**	**$0.05**	**$0.02**

Development and Expansion Projects

The attributes of Granite's properties under development and expansion projects as at March 31, 2021 were as follows:

Development and Expansion Projects

	Land acreage (in acres)	Expected sq ft of construction (in millions)	Target/ actual start date of construction	Target completion date	Actual construction costs as at March 31, 2021	Expected total construction cost(1)
As at March 31, 2021						
Properties under development						
Houston, Texas (Phase 1 only)	50.0	0.7	Q4 2019	Q2 2022	$ 7.2	$ 40.7
Fort Worth, Texas	36.0	0.6	Q2 2021	Q2 2022	1.0	43.6
Altbach, Germany	13.0	0.3	Q1 2021	Q1 2022	4.1	32.5
Expansion project						
2095 Logistics Drive, Mississauga, Ontario	9.0	0.1	Q4 2019	Q1 2022	0.4	11.0
	108.0	**1.7**			**$12.7**	**$127.8**

(1) Construction cost excludes cost of land.

During the three months ended March 31, 2021, the land held for development in Fort Worth, Texas was reclassified to properties under development as the planning and design phase of this project was completed, grading is now underway and vertical construction is expected to commence starting in the second quarter of 2021.

Leasing Profile

Magna, Granite's Largest Tenant

At March 31, 2021, Magna International Inc. or one of its operating subsidiaries was the tenant at 32 (December 31, 2020 — 32) of Granite's income-producing properties and comprised 35% (December 31, 2020 — 36%) of Granite's annualized revenue and 27% (December 31, 2020 — 27%) of Granite's GLA.

According to public disclosures, Magna International Inc. has a credit rating of A3 with a "Negative Outlook" by Moody's Investor Service, Inc. ("Moody's"), A- with a "Negative Outlook" by Standard & Poor's and A(low) with a "Negative Trend" by DBRS. As a result of the impact of COVID-19 on Magna's global operations and the general negative outlook for the automotive sector, Magna's credit ratings were amended by the rating agencies in June and July 2020 with negative outlooks. Magna is a global mobility technology company with complete vehicle engineering and contract manufacturing expertise. Magna's product capabilities include body, chassis, exteriors, seating, powertrain, active driver assistance, electronics, mechatronics, mirrors, lighting and roof systems.

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

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

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

According to its public disclosure, Magna's success is primarily dependent upon the levels of North American, European and Chinese car and light truck production by Magna's customers. 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 March 31, 2021, Granite had 85 other tenants from various industries that in aggregate comprised 65% of the Trust's annualized revenue. Each of these tenants accounted for less than 7% of the Trust's annualized revenue as at March 31, 2021.

Granite's top 10 tenants by annualized revenue at March 31, 2021 are summarized in the table below:

Top 10 Tenants Summary

Tenant	Annualized Revenue %	GLA %	WALT (years)	Credit Rating[(1)(2)]
Magna	35%	27%	4.4	A-
Amazon	6%	5%	17.9	AA-
ADESA	2%	—%	8.3	NR
Hanon Systems	2%	1%	8.4	BBB
Restoration Hardware	2%	2%	7.1	NR
Spreetail FTP	2%	2%	5.6	NR
Ingram Micro	2%	2%	3.8	BB-
Cornerstone Brands	2%	2%	3.5	B+
Mars Petcare	2%	3%	1.0	NR
Wayfair	2%	2%	4.5	NR
Top 10 Tenants	**57%**	**46%**	**6.1**	

(1) Credit rating is quoted on the Standard & Poor's equivalent rating scale where publicly available. NR refers to Not Rated.

(2) The credit rating indicated may, in some instances, apply to an affiliated company of Granite's tenant which may not be the guarantor of the lease.

Lease Expiration

As at March 31, 2021, Granite's portfolio had a weighted average lease term by square footage of 6.1 years (December 31, 2020 — 6.3 years) with lease expiries by GLA (in thousands of square feet) and any lease renewals committed adjusted accordingly, lease count and annualized revenue (calculated as rental revenue excluding tenant recoveries, recognized in accordance with IFRS, in March 2021 multiplied by 12 months, in millions) as set out in the table below:

Lease Maturity Summary

				Vacancies	2021		2022		2023		2024		2025		2026		2027 and Beyond	
Country	**Total GLA**	**Total Lease Count**	**Total Annualized Revenue $**	**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 $**
Canada	5,891	30	53.2	—	316	2.9	347	2.9	380	2.3	642	5.4	1,449	11.4	258	2.3	2,499	26.0
Canada-committed	—	—	—	—	(316)	(2.9)	—	—	—	—	—	—	—	—	316	2.9	—	—
Canada — net	**5,891**	**30**	**53.2**	**—**	**—**	**—**	**347**	**2.9**	**380**	**2.3**	**642**	**5.4**	**1,449**	**11.4**	**574**	**5.2**	**2,499**	**26.0**
United States	28,530	60	154.6	341	679	3.7	3,843	18.1	4,346	20.0	2,822	14.3	1,309	6.6	2,314	12.1	12,876	79.8
United States-committed	—	—	—	—	(679)	(3.7)	(346)	(1.7)	—	—	346	1.7	—	—	87	0.6	592	3.1
United States — net	**28,530**	**60**	**154.6**	**341**	**—**	**—**	**3,497**	**16.4**	**4,346**	**20.0**	**3,168**	**16.0**	**1,309**	**6.6**	**2,401**	**12.7**	**13,468**	**82.9**
Austria	8,101	11	63.0	101	389	2.8	802	10.2	125	1.2	5,349	38.2	111	0.7	—	—	1,224	9.9
Austria-committed	—	—	—	—	(389)	(2.8)	—	—	—	—	—	—	—	—	389	2.8	—	—
Austria-net	**8,101**	**11**	**63.0**	**101**	**—**	**—**	**802**	**10.2**	**125**	**1.2**	**5,349**	**38.2**	**111**	**0.7**	**389**	**2.8**	**1,224**	**9.9**
Germany	3,504	11	24.8	—	548	3.7	283	2.2	1,947	14.0	—	—	195	1.6	303	1.6	228	1.7
Germany-committed	—	—	—	—	(428)	(3.0)	—	—	120	0.7	308	2.3	—	—	—	—	—	—
Germany-net	**3,504**	**11**	**24.8**	**—**	**120**	**0.7**	**283**	**2.2**	**2,067**	**14.7**	**308**	**2.3**	**195**	**1.6**	**303**	**1.6**	**228**	**1.7**
Netherlands	**3,810**	**12**	**26.2**	**—**	**—**	**—**	**—**	**—**	**314**	**2.3**	**—**	**—**	**630**	**4.9**	**355**	**1.6**	**2,511**	**17.4**
Europe Other	572	5	4.3	30	337	3.1	101	0.6	104	0.6	—	—	—	—	—	—	—	—
Europe Other committed	—	—	—	—	(337)	(3.1)	—	—	37	0.3	—	—	—	—	300	2.8	—	—
Europe Other- net	**572**	**5**	**4.3**	**30**	**—**	**—**	**101**	**0.6**	**141**	**0.9**	**—**	**—**	**—**	**—**	**300**	**2.8**	**—**	**—**
Total	50,408	129	326.1	472	2,269	16.2	5,376	34.0	7,216	40.4	8,813	57.9	3,694	25.2	3,230	17.6	19,338	134.8
Total-committed	—	—	—	—	(2,149)	(15.5)	(346)	(1.7)	157	1.0	654	4.0	—	—	1,092	9.1	592	3.1
As at March 31, 2021	**50,408**	**129**	**326.1**	**472**	**120**	**0.7**	**5,030**	**32.3**	**7,373**	**41.4**	**9,467**	**61.9**	**3,694**	**25.2**	**4,322**	**26.7**	**19,930**	**137.9**
% of portfolio as at March 31, 2021:																		
*** by sq ft**	**100%**			**0.9%**	**0.3%**		**10.0%**		**14.6%**		**18.8%**		**7.3%**		**8.6%**		**39.5%**	
*** by Annualized Revenue**			**100%**			**0.2%**		**9.9%**		**12.7%**		**19.0%**		**7.7%**		**8.2%**		**42.3%**

Occupancy Roll Forward

The table below provides a summary of occupancy changes in the first quarter of 2021.

Occupancy Roll Forward for Q1 2021

	Three Months Ended March 31, 2021						
(in thousands, sq ft, except as noted)	Canada	USA	Austria	Germany	Netherlands	Europe - Other	Total
Total portfolio size, Jan 1, 2021	**5,891**	**27,521**	**8,101**	**3,504**	**3,805**	**662**	**49,484**
Vacancy, Jan 1, 2021	—	(90)	(100)	—	—	(29)	**(219)**
Occupancy, Jan 1, 2021	**5,891**	**27,431**	**8,001**	**3,504**	**3,805**	**633**	**49,265**
Occupancy %, Jan 1, 2021	**100.0%**	**99.7%**	**98.8%**	**100.0%**	**100.0%**	**95.6%**	**99.6%**
Acquired occupancy, net	—	761	—	—	—	—	**761**
Dispositions	—	—	—	—	—	(90)	**(90)**
Expiries	—	(229)	(301)	—	—	—	**(530)**
Renewals	—	229	301	—	—	—	**530**
Occupancy, March 31, 2021	**5,891**	**28,192**	**8,001**	**3,504**	**3,805**	**543**	**49,936**
Total portfolio size, March 31, 2021	**5,891**	**28,533**	**8,101**	**3,504**	**3,805**	**572**	**50,406**
Occupancy %, March 31, 2021	**100.0%**	**98.8%**	**98.8%**	**100.0%**	**100.0%**	**94.9%**	**99.1%**

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Granite has various sources of available liquidity including cash, cash equivalents and the unused portion of its unsecured credit facility that aggregated to $1,479.7 million as at March 31, 2021 compared to $1,330.3 million at December 31, 2020, as summarized below:

Sources of Available Liquidity

As at March 31, 2021 and December 31, 2020	**2021**	**2020**
Cash and cash equivalents	**$ 480.7**	$ 831.3
Unused portion of credit facility	**999.0**	499.0
Available liquidity	**$1,479.7**	$1,330.3
Additional sources of liquidity:		
Unencumbered assets[(1)]	**$6,003.7**	$5,855.6

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

The increase in liquidity is primarily due to the amendment made to the existing unsecured credit facility on March 31, 2021 resulting in an additional borrowing capacity of $0.5 billion, partially offset by the redemption of the 2021 Debentures of $254.0 million on January 4, 2021 as well as the settlement of the related 2021 Cross-Currency Interest Rate Swap of $18.8 million, and acquisition of the property at Locust Grove, GA. Granite intends to use and has partially used the net proceeds of debenture and equity offerings completed in 2020 to fund completed and potential acquisitions of properties, to repay debt and to finance or refinance expenditures associated with Eligible Green Projects (as described in the Granite Green Bond Framework, which is available on Granite's website), for commitments under existing development projects and for general trust purposes.

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 flows from operating activities, (iii) cash flows from asset sales, (iv) short-term financing available from the credit facility, (v) the issuance of unsecured debentures or equity, subject to market conditions and/or, if necessary, (vi) financing that may be obtained on its unencumbered assets. For information about the impact of COVID-19 on Granite's liquidity, please see *"SIGNIFICANT MATTERS — COVID-19 Pandemic"*.

Cash Flow Components

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

Cash Flow Components Summary

	Three Months Ended March 31,		
	2021	**2020**	**$ change**
Cash and cash equivalents, beginning of period	**$ 831.3**	$298.7	532.6
Cash provided by operating activities	**64.3**	54.9	9.4
Cash used in investing activities	**(88.6)**	(53.2)	(35.4)
Cash used in financing activities	**(322.1)**	(64.4)	(257.7)
Effect of exchange rate changes on cash and cash equivalents	**(4.2)**	6.1	(10.3)
Cash and cash equivalents, end of period	**$ 480.7**	$242.1	238.6

Operating Activities

During the three month period ended March 31, 2021, operating activities generated cash of $64.3 million compared to $54.9 million in the prior year period. The increase of $9.4 million was due to various factors as noted in the *"RESULTS OF OPERATIONS"* section including, among others, the following:

- an increase in net operating income of $13.6 million;
- an increase of $2.0 million from cash provided by working capital changes primarily due to an increase in accounts payable and decrease in accounts receivable due to timing of payments and receipts; partially offset by
- an increase in general and administrative expenses of $3.1 million;
- a decrease in foreign exchange gains of $2.0 million;
- an increase of $0.5 million of interest paid; and
- an increase of $1.4 million in income taxes paid.

Investing Activities

Investing activities for the three month period ended March 31, 2021 used cash of $88.6 million and primarily related to the following:

- the acquisitions of an income-producing property in the United States for $85.9 million including acquisition costs of $0.4 million (see *"SIGNIFICANT MATTERS — Property Acquisitions");* partially offset by
- net proceeds of $10.4 million received from the disposition of an income-producing property in the United Kingdom; and
- additions to properties under development of $12.4 million, primarily attributable to Granite's development in Altbach, Germany.

Investing activities for the three month period ended March 31, 2020 used cash of $53.2 million and primarily related to the following:

- the acquisition of a property under development in the Netherlands for $28.9 million including acquisition costs of $0.1 million;
- a $17.4 million cash deposit related to the acquisition of three properties in the Netherlands that is expected to close in the second quarter of 2020; and
- investment property development and expansion capital expenditures paid of $3.8 million relating to a property under development in Plainfield, Indiana and maintenance and improvement capital expenditures paid of $2.2 million largely relating to improvement projects at properties in Ontario, Canada.

Financing Activities

Cash used by financing activities for the three month period ended March 31, 2021 of $322.1 million largely comprised $254.0 million relating to the redemption of the 2021 Debentures, including early prepayment premium and settlement of the related 2021 Cross-Currency Interest Rate Swap of $18.8 million, financing fees paid for the renewal of Granite's credit facility of $2.9 million and $46.3 million of monthly distribution payments.

Cash used in financing activities for the three months ended March 31, 2020 of $64.4 million largely comprised $39.3 million of monthly distribution payments and $25.0 million relating to the repurchase of stapled units under the normal course issuer bid.

Debt Structure

Granite's debt structure and key debt metrics as at March 31, 2021 and December 31, 2020 were as follows:

Summary Debt Structure and Debt Metrics

As at March 31, 2021 and December 31, 2020		2021	2020
Unsecured debt, net		**$1,925.2**	$2,178.1
Cross currency interest rate swaps, net[3]		**1.4**	85.6
Lease obligations		**32.9**	33.8
Total debt	[A]	**$1,959.5**	$2,297.5
Less: cash and cash equivalents		**480.7**	831.3
Net debt	[B]	**$1,478.8**	$1,466.2
Investment properties, all unencumbered by secured debt	[C]	**$6,003.7**	$5,855.6
Trailing 12-month adjusted EBITDA[1]	[D]	**$ 273.0**	$ 264.5
Interest expense		**$ 44.0**	$ 35.8
Interest income		**(2.3)**	(2.4)
Trailing 12-month interest expense, net	[E]	**$ 41.7**	$ 33.4
Debt metrics			
Leverage ratio[1]	[A]/[C]	**33%**	39%
Net leverage ratio[1]	[B]/[C]	**25%**	25%
Interest coverage ratio[1]	[D]/[E]	**6.5x**	7.9x
Unencumbered asset coverage ratio[1]	[C]/[A]	**3.1x**	2.5x
Indebtedness ratio[1]	[A]/[D]	**7.2x**	8.7x
Weighted average cost of debt[2]		**1.74%**	1.91%
Weighted average debt term-to-maturity, in years[2]		**6.0**	5.6
Ratings and outlook			
DBRS		**BBB (high) stable**	BBB stable
Moody's		**Baa2 stable**	Baa2 stable

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

(2) Excludes lease obligations noted above.

(3) Balance is net of the cross currency interest rate swap asset.

Unsecured Debt and Cross Currency Interest Rate Swaps

2030 Debentures and Cross Currency Interest Rate Swap

On December 18, 2020, Granite LP issued $500.0 million aggregate principal amount of 2.378% Series 5 senior debentures due December 18, 2030 (the "2030 Debentures"). Interest on the 2030 Debentures is payable semi-annually in arrears on June 18 and December 18 of each year. At March 31, 2021, all of the 2030 Debentures remained outstanding and the balance, net of deferred financing costs, was $497.1 million.

On December 18, 2020, Granite entered into a cross currency interest rate swap (the "2030 Cross Currency Interest Rate Swap") to exchange the 2.378% semi-annual interest payments from the 2030 Debentures for Euro denominated interest payments at a 1.045% fixed interest rate. In addition, under the terms of the 2030 Cross Currency Interest Rate Swap, the Trust will pay principal proceeds of €319.4 million in exchange for which it will receive $500.0 million on December 18, 2030. As at March 31, 2021, the fair value of the 2030 Cross Currency Interest Rate Swap was a net financial liability of $5.2 million.

2027 Debentures and Cross Currency Interest Rate Swap

On June 4, 2020, Granite LP issued $500.0 million aggregate principal amount of 3.062% Series 4 senior debentures due June 4, 2027 (the "2027 Debentures"). Interest on the 2027 Debentures is payable semi-annually in arrears on June 4 and December 4 of each year. At March 31, 2021, all of the 2027 Debentures remained outstanding and the balance, net of deferred financing costs, was $497.3 million.

On June 4, 2020, Granite entered into a cross currency interest rate swap (the "2027 Cross Currency Interest Rate Swap") to exchange the $500.0 million proceeds and the 3.062% semi-annual interest payments from the 2027 Debentures for US$370.3 million and US dollar denominated interest payments at a 2.964% fixed interest rate. In addition, under the terms of the 2030 Cross Currency Interest Rate Swap, the Trust will pay principal proceeds of US$370.3 million in exchange for which it will receive $500.0 million on June 4, 2027. As at March 31, 2021, the fair value of the 2027 Cross Currency Interest Rate Swap was a net financial asset of $34.1 million.

2026 Term Loan and Cross Currency Interest Rate Swap

On December 12, 2018, Granite LP entered into and fully drew down a $300.0 million senior unsecured non-revolving term facility that originally matured on December 12, 2025. On November 27, 2019, Granite refinanced the $300.0 million term facility and extended the maturity date one year to December 11, 2026 (the "2026 Term Loan"). The 2026 Term Loan is fully prepayable without penalty. Any amount repaid may not be re-borrowed. Interest on drawn amounts is calculated based on the Canadian Dollar Offered Rate ("CDOR") plus an applicable margin determined by reference to the external credit rating of Granite LP and is payable monthly in advance. At March 31, 2021, the full $300.0 million remained outstanding and the balance, net of deferred financing costs and debt modification losses, was $299.5 million.

On December 12, 2018, Granite entered into a cross currency interest rate swap (the "2026 Cross Currency Interest Rate Swap") to exchange the CDOR plus margin interest payments from the term loan that originally matured in 2025 for Euro denominated payments at a 2.202% fixed interest rate. As a result of the term loan extension on November 27, 2019, the previously existing cross currency interest rate swap was settled for $6.8 million and a new cross currency interest rate swap was entered into. The 2026 Cross Currency Interest Rate Swap exchanges the CDOR plus margin monthly interest payments from the 2026 Term Loan for Euro denominated payments at a 1.355% fixed interest rate. In addition, under the terms of the swap, the Trust will pay principal proceeds of €205.5 million in exchange for which it will receive $300.0 million on December 11, 2026. As at March 31, 2021, the fair value of the 2026 Cross Currency Interest Rate Swap was a net financial liability of $4.3 million.

2024 Term Loan and Cross Currency Interest Rate Swap

On December 19, 2018, Granite LP entered into and fully drew down a US$185.0 million senior unsecured non-revolving term facility that originally matured on December 19, 2022. On October 10, 2019, Granite refinanced the US$185.0 million term facility and extended the maturity date two years to December 19, 2024 (the "2024 Term Loan"). The 2024 Term Loan is fully prepayable without penalty. Any amount repaid may not be re-borrowed. Interest on drawn amounts is calculated based on LIBOR plus an applicable margin determined by reference to the external credit rating of Granite LP and is payable monthly in arrears. At March 31, 2021, the full US$185.0 million remained outstanding and the balance, net of deferred financing costs and debt modification losses, was $232.1 million.

On December 19, 2018, Granite entered into a cross currency interest rate swap (the "2024 Cross Currency Interest Rate Swap") to exchange the LIBOR plus margin interest payments from the term loan that originally matured in 2022 for Euro denominated payments at a 1.225% fixed interest rate. On September 24, 2019, in conjunction with the term loan refinancing, the Trust entered into a new cross currency interest rate swap (the "2024 Cross Currency Interest Rate Swap"). The 2024 Cross Currency Interest Rate Swap exchanges the LIBOR plus margin monthly interest payments from the 2024 Term Loan for Euro denominated payments at a 0.522% fixed interest rate. In addition, under the terms of the 2024 Cross Currency Interest Rate Swap, Granite will pay principal proceeds of €168.2 million in exchange for which it will receive US$185.0 million on December 19, 2024. As at March 31, 2021, the fair value of the 2024 Cross Currency Interest Rate Swap was a net financial liability of $14.3 million.

2023 Debentures and Cross Currency Interest Rate Swap

On December 20, 2016, Granite LP issued $400.0 million aggregate principal amount of 3.873% Series 3 senior debentures due November 30, 2023 (the "2023 Debentures"). Interest on the 2023 Debentures is payable semi-annually in arrears on May 30 and November 30 of each year. At March 31, 2021, all of the 2023 Debentures remained outstanding and the balance, net of deferred financing costs, was $399.1 million.

On December 20, 2016, Granite entered into a cross currency interest rate swap (the "2023 Cross Currency Interest Rate Swap") to exchange the 3.873% interest payments from the 2023 Debentures for Euro denominated payments at a 2.43% fixed interest rate. Under the terms of the 2023 Cross Currency Interest Rate 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 March 31, 2021, the fair value of the 2023 Cross Currency Interest Rate Swap was a net financial liability of $11.8 million.

2021 Debentures and Cross Currency Interest Rate Swap

On January 4, 2021, Granite LP redeemed in full the outstanding $250.0 million aggregate principal amount of the 2021 Debentures for a total redemption price of $254.0 million, including early redemption premium. In conjunction with the redemption, the 2021 Cross Currency Interest Rate Swap was terminated on January 4, 2021 and the related mark to market liability of $18.8 million was settled.

The 2023 Debentures, the 2027 Debentures, the 2030 Debentures, the 2024 Term Loan and the 2026 Term Loan rank pari passu with all of the Trust's other existing and future senior unsecured indebtedness and are guaranteed by Granite REIT and Granite GP. The fair values of the cross currency interest rate swaps are dependent upon a number of assumptions including the Euro exchange rate against the Canadian or US dollars, the US dollar exchange rate against the Canadian dollar and the Euro, and Canadian and US government benchmark interest rates.

Credit Facility

On March 31, 2021, the Trust amended its existing unsecured revolving credit facility agreement to extend the existing maturity date of February 1, 2023 to March 31, 2026. In addition, the credit facility's limit increased from $0.5 billion to $1.0 billion. Draws on the credit facility are available by way of Canadian dollar, US dollar or Euro denominated loans or Canadian dollar or US dollar denominated letters of credit. Interest on drawn amounts is calculated based on an applicable margin determined by reference to the external credit rating of Granite REIT and Granite GP, as is a commitment fee in respect of undrawn amounts. As at March 31, 2021, the Trust had no amounts drawn from the credit facility and $1.0 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 March 31, 2021, there were no significant changes in the debt ratios other than the decrease in the leverage and indebtedness ratios as a result of the full redemption of the 2021 Debentures and termination of the 2021 Cross Currency Interest Rate Swap on January 4, 2021. The debt ratios remain relatively favourable and provide financial flexibility for future growth.

Granite's unsecured debentures, term loans and credit facility agreements contain financial and non-financial covenants that include maintaining certain leverage and debt service ratios. As at March 31, 2021, Granite was in compliance with all of these covenants.

Credit Ratings

On March 22, 2021, DBRS upgraded Granite LP's Issuer Rating and credit rating on the 2023 Debentures, 2027 Debentures and 2030 Debentures to BBB(high) from BBB with stable trends. On March 12, 2021, Moody's confirmed the Baa2 rating on the 2023 Debentures, 2027 Debentures and 2030 Debentures with a stable outlook. 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 rating.

Unitholders' Equity

Outstanding Stapled Units

As at May 5, 2021, the Trust had 61,705,484 stapled units issued and outstanding.

As at May 5, 2021, the Trust had 69,395 restricted stapled units (representing the right to receive 69,395 stapled units) and 76,365 performance stapled units (representing the right to receive a maximum of 152,730 stapled units) outstanding under the Trust's Executive Deferred Stapled Unit Plan. The Executive Deferred Stapled Unit Plan is designed to provide equity-based compensation to employees of Granite who are, by the nature of their position or job, in a position to contribute to the success of Granite.

Distributions

Granite REIT's monthly distribution to unitholders is currently 25.0 cents per stapled unit. For 2021, based on its current monthly rate, Granite expects to make total annual distributions of $3.00 per stapled unit. Monthly distributions declared to stapled unitholders in the three month periods ended March 31, 2021 and 2020 were $46.3 million or 75.0 cents per stapled unit and $39.1 million or 72.6 cents per stapled unit, respectively.

Distributions declared in April 2021 in the amount of $15.4 million or 25.0 cents per stapled unit will be paid on May 14, 2021.

Pursuant to the requirement of National Policy 41-201, *Income Trusts and Other Indirect Offerings* ("NP 41-201"), 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 under NP 41-201.

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

For the three months ended March 31,	2021	2020
Net income	**$230.3**	$ 81.4
Cash flows provided by operating activities	**64.3**	54.9
Monthly cash distributions paid and payable	**(46.3)**	(39.1)
Cash flows from operating activities in excess of distributions paid and payable	**$ 18.0**	$ 15.8

Monthly distributions for the three month periods ended March 31, 2021 and 2020 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 cash distributions.

Normal Course Issuer Bid

On May 19, 2020, 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 5,344,576 of Granite's issued and outstanding stapled units. The NCIB commenced on May 21, 2020 and will conclude on the earlier of the date on which purchases under the bid have been completed and May 20, 2021. Pursuant to the policies of the TSX, daily purchases made by Granite through the TSX may not exceed 58,842 stapled units, subject to certain exceptions. Granite had entered into an automatic securities purchase plan with a broker in order to facilitate repurchases of the stapled units under the NCIB during specified blackout periods. Pursuant to a previous notice of intention to conduct a NCIB, Granite received approval from the TSX to purchase stapled units for the period May 21, 2019 to May 20, 2020.

During the three months ended March 31, 2021, there were no stapled unit repurchases under the NCIB. During the three months ended March 31, 2020, Granite repurchased 490,952 stapled units at an average stapled unit cost of $50.95 for total consideration of $25.0 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, property purchase commitments, construction and development project commitments and certain operating agreements. As at March 31, 2021, the Trust had $1.0 million in letters of credit outstanding. Additionally, at March 31, 2021, the Trust's contractual commitments totaled $127.7 million comprised of construction and development projects. Granite expects to fund these commitments over the next year through the use of cash on hand, cash from operations and/or Granite's credit facility.

For further discussion of commitments, contractual obligations, contingencies and off-balance sheet arrangements, refer to notes 7, 9 and 17 to the unaudited condensed combined financial statements for the three months ended March 31, 2021.

NON-IFRS PERFORMANCE 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, 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 2019 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 incurred and non-cash straight-line rent and tenant incentive amortization, net of non-controlling interests in such items. The Trust's determination of AFFO follows the definition prescribed by REALPAC's White Paper. Granite considers AFFO to be a meaningful supplemental measure that can be used to determine the Trust's ability to service debt, fund expansion capital expenditures, fund property development and provide distributions to stapled unitholders after considering costs associated with sustaining operating earnings. AFFO is also reconciled to net income, which is the most directly comparable IFRS measure (see "*RESULTS OF OPERATIONS — Funds From Operations and Adjusted Funds From Operations*"). AFFO should not be construed as an alternative to net income or cash flow generated from operating activities determined in accordance with IFRS.

FFO and AFFO payout ratios

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

FFO and AFFO Payout Ratios

For the three months ended March 31,		2021	2020
(in millions, except as noted)			
Monthly distributions declared to unitholders	[A]	**$46.3**	$39.1
FFO		**57.1**	56.8
Add (deduct):			
Early redemption premium related to 2021 Debentures		**4.0**	—
Accelerated amortization of credit facility deferred finance fees		**0.5**	—
FFO adjusted for the above	[B]	**$61.6**	$56.8
AFFO		**54.7**	55.6
Add (deduct):			
Early redemption premium related to 2021 Debentures		**4.0**	—
Accelerated amortization of credit facility		**0.5**	—
AFFO adjusted for the above	[C]	**$59.2**	$55.6
FFO payout ratio	[A]/[B]	**75%**	69%
AFFO payout ratio	[A]/[C]	**78%**	70%

Net operating income — cash basis

Granite uses NOI on a cash basis, which adjusts NOI to exclude lease termination and close-out fees, and the non-cash impact from straight-line rent and tenant incentive amortization recognized during the period (see "*RESULTS OF OPERATIONS — Net Operating Income*"). NOI — cash basis is a commonly used measure by the real estate industry and Granite believes it is a useful supplementary measure of the income generated by and operating performance of income-producing properties in addition to the most comparable IFRS measure, which Granite believes is NOI. NOI — cash basis is also a key input in Granite's determination of the fair value of its investment property portfolio.

Same property net operating income — cash basis

Same property NOI — cash basis refers to the NOI — cash basis for those properties owned by Granite throughout the entire current and prior year periods under comparison. Same property NOI — cash basis excludes properties that were acquired, disposed of, classified as properties under or held for development or assets held for sale during the periods under comparison (see "*RESULTS OF OPERATIONS — Net Operating Income*"). Granite believes that same property NOI — cash basis is a useful supplementary measure in understanding period-over-period organic changes in NOI — cash basis from the same stock of properties owned.

Constant currency same property NOI

Constant currency same property NOI is a non-GAAP measure used by management in evaluating the performance of properties owned by Granite throughout the entire current and prior year periods on a constant currency basis. It is calculated by taking same property NOI as defined above and excluding the impact of foreign currency translation by converting the same property NOI denominated in foreign currency in the respective periods at the current period average exchange rates (see "*RESULTS OF OPERATIONS — Net Operating Income*").

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, fair value gains (losses) on investment properties and financial instruments, other expense relating to real estate transfer tax and loss on the sale of investment properties. Adjusted EBITDA, calculated on a 12-month trailing basis ("trailing 12-month adjusted EBITDA"), represents an operating cash flow measure that Granite uses in calculating the interest coverage ratio and indebtedness ratio noted below. Adjusted EBITDA is also defined in Granite's debt agreements and used in calculating the Trust's debt covenants.

Adjusted EBITDA Reconciliation

For the 12-months ended March 31, 2021 and December 31, 2020	2021	2020
Net income	**$ 578.9**	$ 429.9
Add (deduct):		
Interest expense and other financing costs	**44.0**	35.8
Interest income	**(2.3)**	(2.4)
Income tax expense	**95.4**	69.1
Depreciation and amortization	**1.2**	1.2
Fair value gains on investment properties, net	**(447.0)**	(273.4)
Fair value (gains) losses on financial instruments	**1.8**	3.4
Loss on sale of investment properties	**1.0**	0.9
Adjusted EBITDA	**$ 273.0**	$ 264.5

Interest coverage ratio

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

Indebtedness ratio

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

Leverage and net leverage ratios

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

Unencumbered asset coverage ratio

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

SIGNIFICANT ACCOUNTING ESTIMATES

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

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

Judgments

Leases

The Trust's policy for revenue recognition is described in note 2(l) of the audited combined financial statements for the year ended December 31, 2020. The Trust makes judgments in determining whether certain leases are operating or finance leases, in particular tenant leases with long contractual terms or leases where the property is a large square-footage and/or architecturally specialized. The Trust also makes judgments in determining the lease term for some lease contracts in which it is a lessee that include renewal or termination options. The assessment of whether the Trust is reasonably certain to exercise such options impacts the lease term which, in turn, significantly affects the amount of lease obligations and right-of-use assets recognized.

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, 2020. In applying this policy, judgment is used in determining whether certain costs incurred for tenant improvements are additions to the carrying amount of the property or represent incentives, identifying the point at which practical completion of properties under development occurs and determining borrowing costs to be capitalized to the carrying value of properties under development. Judgment is also applied in determining the use, extent and frequency of independent appraisals.

Income taxes

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

Estimates and Assumptions

Valuation of investment properties

The fair value of investment properties is determined by management using primarily the discounted cash flow method in which the income and expenses are projected over the anticipated term of the investment plus a terminal value discounted using an appropriate discount rate. The Trust obtains, from time to time, appraisals from independent qualified real estate valuation experts. However, the Trust does not measure its investment properties based on these appraisals but uses them as data points, together with other external market information accumulated by management, in arriving at its own conclusions on values. Management uses valuation assumptions such as discount rates, terminal capitalization rates and market rental rates applied in external appraisals or sourced from valuation experts; however, the Trust also uses its historical renewal experience with tenants, its direct knowledge of the specialized nature of certain 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 three months ended March 31, 2021. 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 months ended March 31, 2021 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 the provision for any exposure that may arise from tax positions that are under audit by relevant taxation authorities.

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

NEW ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS

Future Accounting Policy Changes

As at March 31, 2021, there are no new accounting standards issued but not yet applicable to the unaudited condensed combined financial statements.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the first quarter of 2021, 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, 2020 and remain substantially unchanged in respect of the three month period ended March 31, 2021.

QUARTERLY FINANCIAL DATA (UNAUDITED)

(in millions, except as noted)	Q1'21	Q4'20	Q3'20	Q2'20	Q1'20	Q4'19	Q3'19	Q2'19
Operating highlights[(1)(2)]								
Revenue . . . . **$**	**95.9** $	93.2 $	87.9 $	81.0 $	78.1 $	73.6 $	68.8 $	67.9
NOI — cash basis[(1)] . . . . **$**	**79.8** $	76.3 $	74.5 $	71.0 $	67.8 $	63.8 $	60.3 $	58.3
Fair value gain on investment properties, net . . . . **$**	**209.5** $	140.8 $	62.1 $	34.5 $	36.0 $	47.5 $	78.2 $	69.6
Net income attributable to stapled unitholders . . . . . . **$**	**230.2** $	167.6 $	105.2 $	75.7 $	81.3 $	90.6 $	114.5 $	98.7
Cash provided by operating activities . . . . **$**	**64.3** $	60.3 $	69.0 $	65.2 $	54.9 $	50.9 $	43.4 $	50.1
FFO[(1)] . . . . **$**	**57.1** $	59.6 $	55.5 $	53.5 $	56.8 $	47.9 $	45.8 $	43.1
AFFO[(1)] . . . . **$**	**54.7** $	56.1 $	52.7 $	51.3 $	55.6 $	46.2 $	44.4 $	42.3
FFO payout ratio[(1)]	**75%**	74%	76%	75%	69%	80%	76%	81%
AFFO payout ratio[(1)]	**78%**	79%	80%	78%	70%	83%	78%	83%
Per unit amounts								
Diluted FFO[(1)] . . . . **$**	**0.93** $	1.00 $	0.96 $	0.97 $	1.05 $	0.91 $	0.93 $	0.89
Diluted AFFO[(1)] . . . . **$**	**0.89** $	0.94 $	0.91 $	0.93 $	1.03 $	0.88 $	0.90 $	0.88
Monthly distributions paid . . . . **$**	**0.75** $	0.73 $	0.73 $	0.73 $	0.73 $	0.70 $	0.70 $	0.70
Diluted weighted average number of units	**61.7**	59.5	57.9	54.9	54.1	52.6	49.5	48.3
Financial highlights								
Investment properties[(3)]	**$6,003.7**	$5,855.6	$5,338.9	$5,097.3	$4,810.0	$4,457.9	$3,938.3	$3,799.1
Assets held for sale	**—**	—	—	—	—	— $	48.3 $	50.5
Cash and cash equivalents . . . . **$**	**480.7** $	831.3 $	539.7 $	617.2 $	242.1 $	298.7 $	455.4 $	496.9
Total debt[(4)]	**$1,959.5**	$2,297.5	$1,814.8	$1,800.5	$1,309.8	$1,250.3	$1,253.2	$1,285.6
Total capital expenditures incurred . . . . **$**	**0.7** $	13.3 $	2.2 $	6.2 $	3.4 $	1.0 $	1.5 $	0.6
Total leasing costs incurred	**—** $	2.1 $	1.2 $	2.0	— $	0.8 $	0.2 $	0.4
Property metrics[(3)]								
Number of income-producing properties	**108**	108	102	94	85	85	80	79
GLA, square feet	**50.4**	49.5	45.4	44.3	40.0	40.0	34.9	34.5
Occupancy, by GLA	**99.1%**	99.6%	98.9%	99.1%	99.0%	99.0%	99.7%	98.9%
Weighted average lease term, years	**6.1**	6.3	5.9	6.1	6.3	6.5	6.0	6.0

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

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

- **Q1'21** — Fair value gains on investment properties of $209.5 million were largely attributable to favourable changes fair market rent assumptions as well as compression in discount and terminal capitalization rates for properties located in the GTA and across the United States as well as for certain of the Trust's modern warehouse properties in Europe.
- **Q4'20** — Fair value gains on investment properties of $140.8 million were largely attributable to (i) favourable changes in leasing assumptions associated with fair market rent increases as well as compression in discount and terminal capitalization rates for properties across the United States and certain warehouse properties in Germany and the Netherlands resulted from a greater market demand for industrial real estate.
- **Q3'20** — Fair value gains on investment properties of $62.1 million were largely attributable to favourable changes in leasing assumptions associated with fair market rent increases as well as compression in discount

and terminal capitalization rates for properties located in the GTA and across the United States as well as compression in discount and terminal capitalization rates for certain of the Trust's modern warehouse properties in Germany and the Netherlands.

- **Q2'20** — Fair value gains on investment properties of $34.5 million were largely attributable to (i) the favourable changes in leasing assumptions associated with fair market rent increases for properties located in Canada and (ii) the increase in fair value of the recently developed property in Plainfield, Indiana as a result of executing a full building 10-year lease with a new tenant, marginally offset by an increase in discount rates for certain properties located in Austria due to market conditions and the nature of the tenants and properties in this jurisdiction.
- **Q1'20** — Fair value gains on investment properties of $36.0 million were attributable to various factors including an increase in fair value for the recently acquired property in Dallas, Texas as a result of market confirmation of capitalization rates favourable to initial acquisition metrics of the forward purchase for this modern e-commerce facility, partially offset by an increase in discount rates for properties located in Austria and Germany due to market conditions and the nature of the properties across these jurisdictions.
- **Q4'19** — Net income attributable to unitholders, cash provided by operating activities and FFO included a net $2.0 million ($0.04 per unit) real estate transfer tax ($2.7 million) and related tax recovery ($0.7 million) which resulted from an internal reorganization.
- **Q3'19** — Fair value gains on investment properties of $78.2 million were largely attributable to (i) a compression in discount or terminal capitalization rates for certain properties primarily located in Canada and the United States and, to a lesser extent, in Europe, which resulted from the continued market demand for industrial real estate and (ii) the favourable changes in leasing assumptions associated with fair market rent increases for certain properties located in North America.
- **Q2'19** — Revenue, net income attributable to unitholders, cash provided by operating activities and FFO included a $0.6 million lease termination and close-out fee in revenue in connection with a tenant having vacated a property. FFO used to calculate FFO payout ratio and AFFO payout ratio excludes the $0.6 million lease termination and close-out fee as this revenue can be a source of variance between periods.

(3) Excludes properties held for sale which are classified as assets held for sale on the combined balance sheet as at the respective quarter-end.

(4) Total debt includes lease obligations recognized under IFRS 16, *Leases*.

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: Granite's expectations regarding the impact of the COVID-19 pandemic and government measures to contain it, including with respect to Granite's ability to weather the impact of COVID-19, the effectiveness of measures intended to mitigate such impact, and Granite's ability to deliver cash flow stability and growth and create long-term value for unitholders; 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 accelerate growth and to grow its net asset value and FFO and AFFO per unit; the ability of Granite to find and integrate satisfactory acquisition, joint venture and development opportunities and to strategically deploy the proceeds from recently sold properties and financing initiatives; Granite's intended use of the net proceeds of its equity and debenture offerings to fund potential acquisitions and for the other purposes described previously; the potential for expansion and rental growth at the property in Mississauga, Ontario and the expected enhancement to the yields of such property from such potential expansion and rental growth; the expected construction on and development yield of the acquired greenfield site in Houston, Texas; the expected development and construction of an e-commerce and logistics warehouse on land in Fort Worth, Texas; the expected construction of the distribution/ light industrial facility on the 13-acre site in Altbach, Germany; the commencement of vertical construction at Granite's development project in Houston, Texas; the timing of payment of associated unpaid construction costs and holdbacks; Granite's ability to dispose of any non-core assets on satisfactory terms; Granite's ability to meet its target occupancy goals; Granite's ability to secure sustainability or other certifications for any of its properties; the expected impact of the refinancing of the term loans on Granite's returns and cash flow; and the expected amount of any distributions and distribution increase, 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. Given the impact of the COVID-19 pandemic and government measures to contain it, there is inherently more uncertainty associated with our assumptions as compared to prior periods. Forward-looking statements and forward-looking information 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 impact of the COVID-19 pandemic and government measures to contain it, and the resulting economic downturn, on Granite's business, operations and financial condition; the risk that the pandemic or such measures intensify; the duration of the pandemic and related impacts; 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 2020 dated March 3, 2021, 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, 2020 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.

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

For the three months ended March 31, 2021 and 2020

Condensed Combined Balance Sheets

(Canadian dollars in thousands)
(Unaudited)

As at	Note	March 31, 2021	December 31, 2020
ASSETS			
Non-current assets:			
Investment properties	**4**	**$6,003,703**	$5,855,583
Construction funds in escrow	**6**	**8,254**	8,402
Deferred tax assets		**4,565**	4,730
Fixed assets, net		**3,086**	3,290
Cross currency interest rate swap	**7(b)**	**34,106**	28,676
Other assets	**6**	**3,248**	948
		6,056,962	5,901,629
Current assets:			
Accounts receivable		**9,001**	6,746
Income taxes receivable		**1,055**	915
Prepaid expenses and other		**15,744**	6,902
Cash and cash equivalents	**14(d)**	**480,711**	831,280
Total assets		**$6,563,473**	$6,747,472
LIABILITIES AND EQUITY			
Non-current liabilities:			
Unsecured debt, net	**7(a)**	**$1,925,176**	$1,928,252
Cross currency interest rate swaps	**7(b)**	**35,538**	97,311
Long-term portion of lease obligations	**8**	**31,827**	32,944
Deferred tax liabilities		**415,004**	392,841
		2,407,545	2,451,348
Current liabilities:			
Unsecured debt, net	**7(a)**	**—**	249,870
Cross currency interest rate swaps	**7(b)**	**—**	16,953
Deferred revenue	**9**	**12,321**	11,276
Accounts payable and accrued liabilities	**9**	**63,805**	61,197
Distributions payable	**10**	**15,426**	15,422
Short-term portion of lease obligations	**8**	**1,116**	829
Income taxes payable		**18,720**	18,373
Total liabilities		**2,518,933**	2,825,268
Equity:			
Stapled unitholders' equity	**11**	**4,042,323**	3,920,069
Non-controlling interests		**2,217**	2,135
Total equity		**4,044,540**	3,922,204
Total liabilities and equity		**$6,563,473**	$6,747,472

Commitments and contingencies (note 17)
See accompanying notes

Condensed Combined Statements of Net Income

(Canadian dollars in thousands)
(Unaudited)

	Note	Three Months Ended March 31, 2021	2020
Rental revenue	12(a)	**$ 95,942**	$ 78,050
Property operating costs	12(b)	**14,396**	10,168
Net operating income		**81,546**	67,882
General and administrative expenses	12(c)	**8,821**	5,727
Depreciation and amortization		**331**	237
Interest income		**(816)**	(868)
Interest expense and other financing costs	12(d)	**14,794**	6,645
Foreign exchange gains, net		**(718)**	(2,760)
Fair value gains on investment properties, net	4	**(209,516)**	(35,993)
Fair value losses on financial instruments, net	12(e)	**339**	1,894
Loss on sale of investment properties	5	**155**	—
Income before income taxes		**268,156**	93,000
Income tax expense	13	**37,880**	11,588
Net income		**$ 230,276**	$ 81,412
Net income attributable to:			
Stapled unitholders		**$ 230,133**	$ 81,296
Non-controlling interests		**143**	116
		$ 230,276	$ 81,412

See accompanying notes

Condensed Combined Statements of Comprehensive Income

(Canadian dollars in thousands)
(Unaudited)

	Note	Three Months Ended March 31, 2021	2020
Net income		**$ 230,276**	$ 81,412
Other comprehensive (loss) income:			
Foreign currency translation adjustment[1]		**(129,962)**	259,639
Unrealized gain (loss) on net investment hedges, includes income taxes of nil[1]	**7(b)**	**66,967**	(56,779)
Total other comprehensive (loss) income		**(62,995)**	202,860
Comprehensive income		**$ 167,281**	$284,272

(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:	2021	2020
Stapled unitholders	**$ 167,207**	$284,134
Non-controlling interests	**74**	138
	$ 167,281	$284,272

See accompanying notes

Condensed Combined Statements of Unitholders' Equity

(Canadian dollars in thousands)
(Unaudited)

Three Months Ended March 31, 2021

	Number of units (000s)	Stapled units	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Stapled unitholders' equity	Non-controlling interests	Equity
As at January 1, 2021	**61,688**	**$3,139,194**	**$53,326**	**$631,649**	**$ 95,900**	**$3,920,069**	**$2,135**	**$3,922,204**
Net income	—	—	—	230,133	—	230,133	143	230,276
Other comprehensive loss	—	—	—	—	(62,926)	(62,926)	(69)	(62,995)
Distributions (note 10)	—	—	—	(46,270)	—	(46,270)	—	(46,270)
Contributions from non-controlling interests	—	—	—	—	—	—	8	8
Units issued under the stapled unit plan (note 11(a))	17	1,317	—	—	—	1,317	—	1,317
As at March 31, 2021	**61,705**	**$3,140,511**	**$53,326**	**$815,512**	**$ 32,974**	**$4,042,323**	**$2,217**	**$4,044,540**

Three Months Ended March 31, 2020

	Number of units (000s)	Stapled units	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Stapled unitholders' equity	Non-controlling interests	Equity
As at January 1, 2020	**54,052**	**$2,608,050**	**$54,654**	**$367,249**	**$116,190**	**$3,146,143**	**$1,967**	**$3,148,110**
Net income	—	—	—	81,296	—	81,296	116	81,412
Other comprehensive income	—	—	—	—	202,838	202,838	22	202,860
Distributions (note 10)	—	—	—	(39,128)	—	(39,128)	—	(39,128)
Units issued under the stapled unit plan (note 11(a))	22	1,278	—	—	—	1,278	—	1,278
Units repurchased for cancellation (note 11(b))	(491)	(23,689)	(1,328)	—	—	(25,017)	—	(25,017)
As at March 31, 2020	**53,583**	**$2,585,639**	**$53,326**	**$409,417**	**$319,028**	**$3,367,410**	**$2,105**	**$3,369,515**

See accompanying notes

Condensed Combined Statements of Cash Flows

(Canadian dollars in thousands)
(Unaudited)

	Note	Three Months Ended March 31, 2021	2020
OPERATING ACTIVITIES			
Net income		**$ 230,276**	$ 81,412
Items not involving operating cash flows	14(a)	**(167,899)**	(23,697)
Current income tax expense	13(a)	**2,002**	1,277
Income taxes (paid) recovered		**(968)**	420
Interest expense		**10,097**	6,219
Interest paid		**(5,809)**	(5,357)
Changes in working capital balances	14(b)	**(3,394)**	(5,412)
Cash provided by operating activities		**64,305**	54,862
INVESTING ACTIVITIES			
Investment properties:			
Property acquisitions	3	**(85,913)**	(28,949)
Proceeds from disposals, net	4, 5	**10,395**	—
Leasing commissions paid		**(490)**	—
Tenant allowances paid		**(157)**	(241)
Additions to income-producing properties		**—**	(2,235)
Additions to properties under development		**(12,421)**	(6,072)
Construction funds released from escrow	6	**28**	2,300
Acquisition deposits		**—**	(17,429)
Fixed asset additions		**(24)**	(578)
Cash used in investing activities		**(88,582)**	(53,204)
FINANCING ACTIVITIES			
Monthly distributions paid		**(46,263)**	(39,250)
Repayment of lease obligations	8	**(182)**	(78)
Repayment of unsecured debt, including early redemption premium	7(a)	**(253,963)**	—
Settlement of cross currency interest rate swap	7(a)	**(18,787)**	—
Financing costs paid	6	**(2,914)**	(30)
Repurchase of stapled units	11(b)	**—**	(25,017)
Cash used in financing activities		**(322,109)**	(64,375)
Effect of exchange rate changes on cash and cash equivalents		**(4,183)**	6,112
Net decrease in cash and cash equivalents during the period		**(350,569)**	(56,605)
Cash and cash equivalents, beginning of period		**831,280**	298,677
Cash and cash equivalents, end of period		**$ 480,711**	$242,072

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 acquisition, development, ownership and management of logistics, warehouse and industrial properties in North America and Europe.

These condensed combined financial statements were approved by the Board of Trustees of Granite REIT and Board of Directors of Granite GP on May 5, 2021.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation and Statement of Compliance

The condensed combined financial statements for the three month period ended March 31, 2021 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, which were 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, 2020.

(b) Combined Financial Statements and Basis of Consolidation

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

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

(c) Accounting policies

The condensed combined financial statements have been prepared using the same accounting policies as were used for the Trust’s annual combined financial statements and the notes thereto for the year ended December 31, 2020.

(d) Future Accounting Policy Changes

As at March 31, 2021, there are no new accounting standards issued but not yet applicable to the condensed combined financial statements.

(e) COVID-19 Pandemic

The coronavirus disease (“COVID-19”) pandemic has resulted in governments across Granite’s operating markets enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity and capital markets have also experienced significant volatility during this time. Governments across the globe have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. Granite is continuing to monitor the impact of the COVID-19 pandemic on its business, liquidity and results of operations.

During the three month period ended March 31, 2021, there has not been any significant impact on Granite’s operations, assets or liabilities as a result of COVID-19. Granite has received 100% of rents due in the first quarter of 2021, and 99.9% of April 2021 rents to date. Granite has not recognized any provisions for uncollected rent at this time as all outstanding rental income has been received. Granite reviewed its future cash flow projections and the valuation of its properties considering the impacts of the COVID-19 pandemic during the three month period ended March 31, 2021 and Granite does not expect, at this time, that COVID-19 will have a significant negative impact to the fair value of its investment property portfolio.

Granite continues to review its future cash flow projections and the valuation of its investment properties in light of the COVID-19 pandemic. The carrying value of Granite’s investment properties reflects its best estimate for the highest and best use as at March 31, 2021 (note 4). The duration of the COVID-19 pandemic, and the potential for further waves of new infections in the markets where Granite operates that could lead to additional emergency measures, cannot be predicted. As such, the length and full scope of the economic impact of COVID-19 and other consequential changes it will have on Granite’s business and operations in the long-term cannot be forecasted with certainty at this time. Certain aspects of Granite’s business and operations that could potentially be impacted include rental income, occupancy, capital expenditures, future demand for space and market rents, all of which ultimately impact the underlying valuation of investment properties.

3. ACQUISITIONS

During the three month period ended March 31, 2021 and 2020, Granite made the following property acquisitions:

Acquisition During The Three Months Ended March 31, 2021

Property	Location	Date acquired	Property purchase price	Transaction costs	Total acquisition cost
Income-producing property:					
3090 Highway 42 [(1)]	Locust Grove, GA	March 12, 2021	**$85,512**	**$401**	**$85,913**

(1) The Trust acquired the leasehold interest in the property which resulted in the recognition of a right-of-use asset, including transaction costs, of $85,913. The Trust will acquire freehold title to the property on December 1, 2028.

Acquisition During The Three Months Ended March 31, 2020

Property	Location	Date acquired	Property purchase price	Transaction costs	Total acquisition cost
Property under development:					
Aquamarijnweg 2	Bleiswijk, Netherlands	March 13, 2020	**$28,804**	**$145**	**$28,949**

During the three month period ended March 31, 2021, transaction costs of $0.4 million (2020 — $0.1 million), which included legal and advisory costs, were first capitalized to the cost of the respective properties and then subsequently expensed to net fair value gains on investment properties on the condensed combined statements of net income as a result of measuring the properties at fair value.

4. INVESTMENT PROPERTIES

As at	March 31, 2021	December 31, 2020
Income-producing properties	**$5,935,295**	$5,786,338
Properties under development	**40,179**	31,488
Land held for development	**28,229**	37,757
	$6,003,703	$5,855,583

Changes in investment properties are shown in the following table:

	Three months ended March 31, 2021			Year Ended December 31, 2020		
	Income-producing properties	**Properties under development**	**Land held for development**	**Income-producing properties**	**Properties under development**	**Land held for development**
Balance, beginning of period	**$5,786,338**	**$31,488**	**$37,757**	$4,377,623	$ 51,310	$28,966
Maintenance or improvements	**42**	**—**	**—**	3,997	—	—
Leasing commissions	**—**	**—**	**—**	3,449	—	—
Tenant allowances	**157**	**—**	**—**	1,784	—	—
Developments or expansions	**454**	**1,114**	**—**	12,582	39,083	458
Acquisitions (note 3)	**85,913**	**—**	**—**	1,000,618	35,777	9,264
Costs to complete acquired property (note 6)	**28**	**—**	**—**	8,622	—	—
Disposals (note 5)	**(10,550)**	**—**	**—**	(31,276)	—	—
Transfer to properties under development	**—**	**8,952**	**(8,952)**	—	—	—
Transfer to income-producing properties	**—**	**—**	**—**	97,733	(97,733)	—
Amortization of straight-line rent	**3,110**	**—**	**—**	8,842	—	—
Amortization of tenant allowances	**(1,314)**	**—**	**—**	(5,321)	—	—
Other changes	**87**	**—**	**—**	(16)	—	—
Fair value gains (losses), net	**209,516**	**—**	**—**	273,914	(145)	(332)
Foreign currency translation, net	**(138,486)**	**(1,375)**	**(576)**	33,787	3,196	(599)
Balance, end of period	**$5,935,295**	**$40,179**	**$28,229**	$5,786,338	$ 31,488	$37,757

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 certain 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.

Refer to note 2(e) for a discussion of the impact of the COVID-19 pandemic on the Trust's business and operations, including the valuation of investment properties.

Included in investment properties is $29.8 million (December 31, 2020 — $27.2 million) of net straight-line rent receivables 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).

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	March 31, 2021			December 31, 2020		
	Weighted average(1)	Maximum	Minimum	Weighted average(1)	Maximum	Minimum
Canada						
Discount rate	**5.50%**	**6.00%**	**4.75%**	5.71%	6.25%	5.25%
Terminal capitalization rate	**5.02%**	**5.50%**	**4.50%**	5.22%	5.50%	4.75%
United States						
Discount rate	**6.04%**	**9.25%**	**5.00%**	6.18%	9.25%	5.00%
Terminal capitalization rate	**5.44%**	**8.50%**	**4.75%**	5.58%	8.50%	4.75%
Germany						
Discount rate	**6.84%**	**9.50%**	**5.50%**	6.85%	9.00%	5.50%
Terminal capitalization rate	**5.73%**	**8.50%**	**4.50%**	5.83%	8.25%	4.50%
Austria						
Discount rate	**8.58%**	**10.50%**	**8.25%**	8.58%	10.50%	8.25%
Terminal capitalization rate	**7.47%**	**9.75%**	**7.00%**	7.47%	9.75%	7.00%
Netherlands						
Discount rate	**4.65%**	**6.25%**	**3.85%**	4.99%	6.25%	4.40%
Terminal capitalization rate	**5.32%**	**7.40%**	**4.25%**	5.58%	7.40%	4.80%
Other						
Discount rate	**6.85%**	**7.00%**	**6.75%**	7.32%	7.50%	7.00%
Terminal capitalization rate	**6.30%**	**6.50%**	**6.00%**	6.97%	9.75%	6.00%
Total						
Discount rate	**6.20%**	**10.50%**	**3.85%**	6.38%	10.50%	4.40%
Terminal capitalization rate	**5.64%**	**9.75%**	**4.25%**	5.82%	9.75%	4.50%

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

5. DISPOSITIONS

During the three month period ended March 31, 2021, Granite disposed of one property located in the United Kingdom. The details of the disposed property are as follows:

Property	Location	Date disposed	Sale price
Hedera Road, Ravensbank Business Park	Redditch, United Kingdom	January 28, 2021	**$10,550**

There were no property dispositions during the three month period ended March 31, 2020.

During the three month period ended March 31, 2021, Granite incurred $0.2 million (2020 — nil) of broker commissions and legal and advisory costs associated with the disposal which are included in loss on sale of investment properties on the condensed combined statement of net income.

6. NON-CURRENT ASSETS

Construction Funds In Escrow

On November 19, 2019, Granite acquired a developed property located at 1301 Chalk Hill Road, Dallas, Texas which had outstanding construction work. Consequently, $20.5 million (US$15.5 million) of the purchase price was placed in escrow to pay for the remaining construction costs. The funds are released from escrow as the construction is completed. As at March 31, 2021, $8.3 million (US$6.6 million) remained in escrow (December 31, 2020 — $8.4 million (US$6.6 million)). As construction is completed, the construction costs are capitalized to the cost of the investment property. During the three month period ended March 31, 2021, less than $0.1 million (less than US$0.1 million) was released from escrow and capitalized to the property (note 4) (2020 — $2.3 million (US$1.6 million)).

Other Assets

As at	March 31, 2021	December 31, 2020
Deferred financing costs associated with the revolving credit facility	**$2,914**	$599
Long-term receivables	**334**	349
	$3,248	$948

On March 31, 2021, the Trust amended its existing unsecured revolving credit facility agreement to extend the existing maturity date from February 1, 2023 to March 31, 2026 and increased its borrowing capacity under the credit facility from $0.5 billion to $1.0 billion (note 9), resulting in financing costs of $2.9 million being incurred. In addition, during the three month period ended March 31, 2021, Granite recorded an acceleration of $0.5 million amortization for its original credit facility's financing costs (note 12(d)) (2020 — nil).

7. UNSECURED DEBT AND CROSS CURRENCY INTEREST RATE SWAPS

(a) Unsecured Debentures and Term Loans, Net

As at		March 31, 2021		December 31, 2020	
	Maturity Date	Amortized Cost(1)	Principal issued and outstanding	Amortized Cost(1)	Principal issued and outstanding
2021 Debentures	July 5, 2021	**$ —**	**$ —**	$ 249,870	$ 250,000
2023 Debentures	November 30, 2023	**399,146**	**400,000**	399,066	400,000
2027 Debentures	June 4, 2027	**497,287**	**500,000**	497,179	500,000
2030 Debentures	December 18, 2030	**497,120**	**500,000**	497,060	500,000
2024 Term Loan	December 19, 2024	**232,076**	**232,573**	235,419	235,949
2026 Term Loan	December 11, 2026	**299,547**	**300,000**	299,528	300,000
		$1,925,176	**$1,932,573**	$2,178,122	$2,185,949

(1) The amounts outstanding are net of deferred financing costs and, in the case of the term loans, debt modification losses. The deferred financing costs and debt modification losses are amortized using the effective interest method and are recorded in interest expense.

As at	March 31, 2021	December 31, 2020
Unsecured Debentures and Term Loans, Net		
Non-current	**$1,925,176**	$1,928,252
Current	**—**	249,870
	$1,925,176	$2,178,122

On January 4, 2021, the Trust redeemed in full the outstanding $250.0 million aggregate principal amount of the 2021 Debentures. Granite incurred early redemption premium of $4.0 million, which have been recorded in interest expense and other financing costs in the condensed combined statement of net income (note 12(d)). In conjunction with the redemption, the 2021 Cross Currency Interest Rate Swap was terminated on January 4, 2021, and the related mark to market liability of $18.8 million was settled.

(b) Cross Currency Interest Rate Swaps

As at	March 31, 2021	December 31, 2020
Financial asset at fair value		
2027 Cross Currency Interest Rate Swap	**$34,106**	$ 28,676
Financial liabilities at fair value		
2021 Cross Currency Interest Rate Swap	**$ —**	$ 16,953
2023 Cross Currency Interest Rate Swap	**11,759**	36,540
2030 Cross Currency Interest Rate Swap	**5,159**	10,545
2024 Cross Currency Interest Rate Swap	**14,331**	25,370
2026 Cross Currency Interest Rate Swap	**4,289**	24,856
	$35,538	$114,264

As at	March 31, 2021	December 31, 2020
Financial liabilities at fair value		
Non-current	**$35,538**	$ 97,311
Current	**—**	16,953
	$35,538	$114,264

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% semi-annual interest payments from the 2021 Debentures for Euro denominated payments at a 2.68% fixed interest rate. In addition, under the terms of the swap, the Trust will pay principal proceeds of €171.9 million in exchange for which it will receive $250.0 million on July 5, 2021. On January 4, 2021, the 2021 Cross Currency Interest Rate Swap was terminated in conjunction with the redemption of the 2021 Debentures (note 7(a)).

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% semi-annual interest payments from the 2023 Debentures for Euro denominated payments at a 2.43% fixed interest rate. In addition, under the terms of the swap, the Trust will pay principal proceeds of €281.1 million in exchange for which it will receive $400.0 million on November 30, 2023.

On September 24, 2019, in conjunction with a refinancing, the Trust entered into a new cross currency interest rate swap (the "2024 Cross Currency Interest Rate Swap") to exchange the LIBOR plus margin monthly interest payments from the 2024 Term Loan for Euro denominated payments at a 0.522% fixed interest rate. In addition, under the terms of the 2024 Cross Currency Interest Rate Swap, Granite will pay principal proceeds of €168.2 million in exchange for which it will receive US$185.0 million on December 19, 2024.

On November 27, 2019, also in conjunction with a refinancing, the Trust entered into a new cross currency interest rate swap (the "2026 Cross Currency Interest Rate Swap") to exchange the CDOR plus margin monthly interest payments from the 2026 Term Loan for Euro denominated payments at a 1.355% fixed interest rate. In addition, under the terms of the swap, the Trust will pay principal proceeds of €205.5 million in exchange for which it will receive $300.0 million on December 11, 2026.

On June 4, 2020, the Trust entered into a cross currency interest rate swap (the "2027 Cross Currency Interest Rate Swap") to exchange the $500.0 million proceeds and the 3.062% semi-annual interest payments from the 2027 Debentures for US$370.3 million and US dollar denominated interest payments at a 2.964% fixed interest rate. In addition, under the terms of the swap, the Trust will pay principal proceeds of US$370.3 million in exchange for which it will receive $500.0 million on June 4, 2027.

On December 18, 2020, the Trust entered into a cross currency interest rate swap (the "2030 Cross Currency Interest Rate Swap") to exchange the 2.378% semi-annual interest payments from the 2030 Debentures for Euro denominated interest payments at a 1.045% fixed interest rate. In addition, under the terms of the swap, the Trust will pay principal proceeds of €319.4 million in exchange for which it will receive $500.0 million on December 18, 2030.

The cross currency interest rate swaps are designated as net investment hedges of the Trust's investments in foreign operations. The effectiveness of the hedges is assessed quarterly. Gains and losses associated with the effective portion of the hedges are recognized in other comprehensive income. For the three month period ended March 31, 2021, the Trust has assessed the net investment hedge associated with each cross currency interest rate swap, except for the 2021 Cross Currency Interest Rate Swap and a portion of the 2024 Cross Currency Interest Rate Swap, to be effective.

On December 18, 2020, as a result of the designation of the 2030 Cross Currency Interest Rate Swap, the Trust de-designated the 2021 Cross Currency Interest Rate Swap. Since the Trust did not employ hedge accounting for the 2021 Cross Currency Interest Rate Swap from the period January 1 to January 3, 2021, a fair value loss of $0.7 million is recognized in fair value losses on financial instruments, net (note 12(e)) in the condensed combined statement of net income.

With the refinancing of the 2024 Term Loan in 2019, the Trust has assessed only the foreign exchange movements associated with the fair value change of the 2024 Cross Currency Interest Rate Swap to be effective. Accordingly, the change in fair value relating to foreign exchange movements on the 2024 Cross Currency Interest Rate Swap is recorded in other comprehensive income. For the three month period ended March 31, 2021, since there is no effective hedge for the interest and other movements associated with the fair value change of the 2024 Cross Currency Interest Rate Swap, a fair value gain of $0.3 million is recognized in fair value losses on financial instruments, net (note 12(e)) in the condensed combined statement of net income.

The Trust has elected to record the differences resulting from the lower interest rates associated with the cross currency interest rate swaps in the condensed combined statements of net income.

8. LEASE OBLIGATIONS

As at March 31, 2021, the Trust had leases for the use of office space, office and other equipment, and ground leases for the land upon which four income-producing properties in Europe and Canada are situated. The Trust recognized these leases as right-of-use assets and recorded related lease liability obligations. During the three month period ended March 31, 2021, Granite did not recognize any additional lease obligations.

Future minimum lease payments relating to the right-of-use assets as at March 31, 2021 in aggregate for the next five years and thereafter are as follows:

Remainder of 2021	**$ 603**
2022	**524**
2023	**310**
2024	**283**
2025	**258**
2026 and thereafter	**30,965**
	$32,943

During the three month period ended March 31, 2021, the Trust recognized $0.5 million (2020 — $0.4 million) of interest expense, related to lease obligations (note 12(d)).

9. CURRENT LIABILITIES

Deferred Revenue

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

Bank Indebtedness

On March 31, 2021, the Trust amended its existing unsecured revolving credit facility agreement to extend the existing maturity date of February 1, 2023 to March 31, 2026. In addition, the credit facility's limit increased from $0.5 billion to $1.0 billion. Draws on the credit facility are available by way of Canadian dollar, US dollar or Euro denominated loans or Canadian dollar or US dollar denominated letters of credit. The credit facility provides Granite the ability to increase the amount of the commitment by an additional aggregate principal amount of up to $500.0 million with the consent of the participating lenders. As at March 31, 2021, the Trust had no amounts drawn (December 31, 2020 — nil) from the credit facility and $1.0 million (December 31, 2020 — $1.0 million) in letters of credit issued against the facility.

Accounts Payable and Accrued Liabilities

As at	March 31, 2021	December 31, 2020
Accounts payable	**$ 5,339**	$ 3,849
Commodity tax payable	**4,597**	4,337
Tenant security deposits	**6,181**	6,793
Employee unit-based compensation	**6,109**	7,118
Trustee/director unit-based compensation	**5,549**	5,219
Accrued salaries, incentives and benefits	**2,830**	5,783
Accrued interest payable	**13,669**	7,956
Accrued construction payable	**3,349**	6,285
Accrued professional fees	**1,309**	2,620
Accrued property operating costs	**9,597**	8,878
Other tenant related liabilities	**2,201**	1,690
Other accrued liabilities	**3,075**	669
	$63,805	$61,197

10. DISTRIBUTIONS TO STAPLED UNITHOLDERS

Total distributions declared to stapled unitholders in the three month period ended March 31, 2021 were $46.3 million (2020 — $39.1 million) or 75.0 cents per stapled unit (2020 — 72.6 cents per stapled unit).

Distributions payable at March 31, 2021 of $15.4 million (25.0 cents per stapled unit), representing the March 2021 monthly distribution, were paid on April 15, 2021. Distributions payable at December 31, 2020 of $15.4 million were paid on January 15, 2021 and represented the December 2020 monthly distribution.

Subsequent to March 31, 2021, the distributions declared in April 2021 in the amount of $15.4 million or 25.0 cents per stapled unit will be paid on May 14, 2021.

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 stock appreciation rights to directors, officers, employees and consultants. As at March 31, 2021 and December 31, 2020, 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. A reconciliation of the changes in the notional deferred share units ("DSUs") outstanding is presented below:

	2021		2020	
	Number (000s)	Weighted Average Grant Date Fair Value	Number (000s)	Weighted Average Grant Date Fair Value
DSUs outstanding, January 1	**67**	**$52.93**	50	$48.01
Granted	**5**	**77.99**	4	66.56
DSUs outstanding, March 31	**72**	**$54.79**	54	$49.47

Executive Deferred Stapled Unit Plan

The Executive Deferred Stapled Unit Plan (the "Restricted Stapled Unit Plan") of the Trust provides for the issuance of Restricted Share Units ("RSUs") and Performance Share Units ("PSUs") and is designed to provide equity-based compensation in the form of stapled units to executives and other employees (the "Participants"). A reconciliation of the changes in notional stapled units outstanding under the Restricted Stapled Unit Plan is presented below:

	2021		2020	
	Number (000s)	Weighted Average Grant Date Fair Value	Number (000s)	Weighted Average Grant Date Fair Value
RSUs and PSUs outstanding, January 1	**128**	**$59.83**	145	$55.93
New grants and distributions (1)	**47**	**78.18**	50	66.47
Settled in cash	**(13)**	**60.09**	(23)	55.35
Settled in stapled units	**(17)**	**60.09**	(22)	55.35
RSUs and PSUs outstanding, March 31(2)	**145**	**$65.44**	150	$59.56

(1) Includes 18.7 RSUs and 25.0 PSUs granted during the three month period ended March 31, 2021 (2020 — 20.8 RSUs and 26.5 PSUs).

(2) Total restricted stapled units outstanding at March 31, 2021 include a total of 68.9 RSUs and 76.1 PSUs granted (2020 — 93.4 RSUs and 56.1 PSUs).

The fair value of the outstanding RSUs was $3.5 million at March 31, 2021 and is based on the market price of the Trust's stapled unit. The fair value is adjusted for changes in the market price of the Trust's stapled unit and recorded as a liability in the employee unit-based compensation payables (note 9).

The fair value of the outstanding PSUs was $2.6 million at March 31, 2021 and is recorded as a liability in the employee unit-based compensation payables (note 9). The fair value is calculated using the Monte-Carlo simulation model based on the assumptions below as well as a market adjustment factor based on the total unitholder return of the Trust's stapled units relative to the S&P/TSX Capped REIT Index.

Grant Date	January 1, 2021, January 1, 2020, January 1, August 12 and September 24, 2019
PSUs granted	76,100
Term to expiry	2.8 years
Average volatility rate	35.9%
Weighted average risk free interest rate	0.2%

The Trust's unit-based compensation expense (recovery) recognized in general and administrative expenses was:

	Three Months Ended March 31,	
	2021	**2020**
DSPs for trustees/directors [1]	**$ 263**	$ (517)
Restricted Stapled Unit Plan for executives and employees	**1,500**	295
Unit-based compensation expense (recovery)	**$1,763**	$ (222)
Fair value remeasurement recovery included in the above:		
• DSPs for trustees/directors	**$ (110)**	$ (737)
• Restricted Stapled Unit Plan for executives and employees	**(3)**	(762)
Total fair value remeasurement recovery	**$ (113)**	$(1,499)

(1) In respect of fees mandated and elected to be taken as DSUs.

(b) Normal Course Issuer Bid

On May 19, 2020, 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 5,344,576 of Granite's issued and outstanding stapled units. The NCIB commenced on May 21, 2020 and will conclude on the earlier of the date on which purchases under the bid have been completed and May 20, 2021. Pursuant to the policies of the TSX, daily purchases made by Granite through the TSX may not exceed 58,842 stapled units, subject to certain exceptions. Granite had entered into an automatic securities purchase plan with a broker in order to facilitate repurchases of the stapled units under the NCIB during specified blackout periods. Pursuant to a previous notice of intention to conduct a NCIB, Granite received approval from the TSX to purchase stapled units for the period May 21, 2019 to May 20, 2020.

During the three month period ended March 31, 2021, there were no stapled unit repurchases under the NCIB. During the three month period ended March 31, 2020, Granite repurchased 490,952 stapled units at an average stapled unit cost of $50.95 for total consideration of $25.0 million. The difference between the repurchase price and the average cost of the stapled units of $1.3 million was recorded to contributed surplus.

(c) Accumulated Other Comprehensive Income

Accumulated other comprehensive income consists of the following:

As at March 31,	2021	2020
Foreign currency translation gains on investments in subsidiaries, net of related hedging activities and non-controlling interests[1]	**$ 61,652**	$397,711
Fair value losses on derivatives designated as net investment hedges	**(28,678)**	(78,683)
	$ 32,974	$319,028

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

12. RENTAL REVENUE, RECOVERIES, COSTS AND EXPENSES

(a) Rental revenue consists of:

	Three Months Ended March 31,	
	2021	2020
Base rent	**$80,293**	$68,390
Straight-line rent amortization	**3,110**	1,416
Tenant incentive amortization	**(1,314)**	(1,275)
Property tax recoveries	**8,208**	6,155
Property insurance recoveries	**754**	579
Operating cost recoveries	**4,891**	2,785
	$95,942	$78,050

(b) Property operating costs consist of:

	Three Months Ended March 31,	
	2021	2020
Non-recoverable from tenants:		
Property taxes and utilities	**$ 141**	$ 257
Professional fees	**77**	75
Environmental and appraisals	**67**	150
Repairs and maintenance	**63**	145
Other	**198**	177
	$ 546	$ 804
Recoverable from tenants:		
Property taxes and utilities	**$ 9,188**	$ 6,877
Property insurance	**906**	676
Repairs and maintenance	**1,882**	650
Property management fees	**678**	627
Other	**1,196**	534
	$13,850	$ 9,364
Property operating costs	**$14,396**	$10,168

(c) General and administrative expenses consist of:

	Three Months Ended March 31,	
	2021	**2020**
Salaries, incentives and benefits	**$4,965**	$3,810
Audit, legal and consulting	**777**	852
Trustee/director fees including distributions, revaluations and expenses [1]	**303**	(454)
RSU and PSU compensation expense including distributions and revaluations [1]	**1,500**	295
Other public entity costs	**424**	374
Office rents including property taxes and common area maintenance costs	**118**	99
Capital tax	**148**	83
Information technology costs	**436**	257
Other	**150**	411
	$8,821	$5,727

[1] For fair value remeasurement recovery amounts see note 11(a).

During the three month period ended March 31, 2021, Granite incurred less than $0.1 million of general and administrative expenses relating to COVID-19 (2020 — less than $0.1 million).

(d) Interest expense and other financing costs consist of:

	Three Months Ended March 31,	
	2021	**2020**
Interest and amortized issuance costs and modification losses relating to debentures and term loans	**$ 9,342**	$5,789
Early redemption premium relating to 2021 Debentures (note 7(a))	**3,963**	—
Amortization of deferred financing costs and other interest expense and charges (note 6)	**1,090**	587
Interest expense related to lease obligations (note 8)	**458**	393
	$14,853	$6,769
Less: Capitalized interest	**(59)**	(124)
	$14,794	$6,645

(e) Fair value losses (gains) on financial instruments, net, consist of:

	Three Months Ended March 31,	
	2021	**2020**
Foreign exchange forward contracts, net (note 15(a))	**$ —**	$ (384)
Foreign exchange collar contracts, net (note 15(a))	**(65)**	—
Cross currency interest rate swaps (note 7(b))	**404**	2,278
	$339	$1,894

For the three month period ended March 31, 2021, the fair value loss of $0.4 million is associated with the fair value movements of the 2021 Cross Currency Interest Rate Swap and 2024 Cross Currency Interest Rate Swap (note 7(b)). The Trust did not employ or partially employed hedge accounting for the derivatives and therefore the change in fair value is recognized in fair value losses on financial instruments, net, in the condensed combined statement of net income (note 7(b)).

For the three month period ended March 31, 2020, the fair value loss of $2.3 million was associated with the fair value movement of the 2024 Cross Currency Interest Rate Swap. The Trust did not employ or partially employed hedge accounting for the derivative and therefore the change in fair value was recognized in fair value losses on financial instruments, net, in the condensed combined statement of net income.

13. INCOME TAXES

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

	Three Months Ended March 31,	
	2021	**2020**
Current income tax expense	**$ 2,002**	$ 1,277
Deferred income tax expense	**35,878**	10,311
Income tax expense	**$37,880**	$11,588

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

	Three Months Ended March 31,	
	2021	**2020**
Income before income taxes	**$268,156**	$ 93,000
Expected income taxes at the Canadian statutory tax rate of 26.5% (2020 — 26.5%)	**$ 71,061**	$ 24,645
Income distributed and taxable to unitholders	**(29,489)**	(12,360)
Net foreign rate differentials	**(3,861)**	(2,354)
Net change in provisions for uncertain tax positions	**163**	(400)
Net permanent differences	**58**	39
Withholding taxes and other	**(52)**	2,018
Income tax expense	**$ 37,880**	$ 11,588

14. DETAILS OF CASH FLOWS

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

	Three Months Ended March 31,	
	2021	**2020**
Straight-line rent amortization	**$ (3,110)**	$ (1,416)
Tenant incentive amortization	**1,314**	1,275
Unit-based compensation expense (recovery) (note 11(a))	**1,763**	(222)
Fair value gains on investment properties	**(209,516)**	(35,993)
Depreciation and amortization	**331**	237
Fair value losses on financial instruments, net (note 12(e))	**339**	1,894
Loss on sale of investment properties	**155**	—
Amortization of issuance costs and modification losses relating to debentures and term loans	**428**	190
Amortization of deferred financing costs	**599**	78
Deferred income taxes (note 13(a))	**35,878**	10,311
Early redemption premium (note 7(a))	**3,963**	—
Other	**(43)**	(51)
	$(167,899)	$(23,697)

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

	Three Months Ended March 31,	
	2021	**2020**
Accounts receivable	**$(3,076)**	$ 2,477
Prepaid expenses and other	**(1,330)**	(1,334)
Accounts payable and accrued liabilities	**(254)**	(6,677)
Deferred revenue	**1,266**	122
	$(3,394)	$(5,412)

(c) Non-cash investing and financing activities

During the three month period ended March 31, 2021, 17 thousand stapled units (2020 — 22 thousand stapled units) with a value of $1.3 million (2020 — $1.3 million) were issued under the Restricted Stapled Unit Plan (note 11(a)) and are not recorded in the condensed combined statements of cash flows.

(d) Cash and cash equivalents consist of:

As at	March 31, 2021	December 31, 2020
Cash	**$430,311**	$780,979
Short-term deposits	**50,400**	50,301
	$480,711	$831,280

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 March 31, 2021 and December 31, 2020:

As at	March 31, 2021		December 31, 2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Construction funds in escrow	**$ 8,254**	**$ 8,254**	$ 8,402	$ 8,402
Other assets	**334**[(1)]	**334**	349[(1)]	349
Cross currency interest rate swap	**34,106**	**34,106**	28,676	28,676
Accounts receivable	**9,001**	**9,001**	6,746	6,746
Prepaid expenses and other	**2,692**[(2)]	**2,692**	2,627[(2)]	2,627
Cash and cash equivalents	**480,711**	**480,711**	831,280	831,280
	$ 535,098	**$ 535,098**	$ 878,080	$ 878,080
Financial liabilities				
Unsecured debentures, net	**$1,393,553**	**$1,430,070**	$1,643,175[(3)]	$1,737,185
Unsecured term loans, net	**531,623**	**531,623**	534,947	534,947
Cross currency interest rate swaps	**35,538**	**35,538**	114,264[(4)]	114,264
Accounts payable and accrued liabilities	**63,805**	**63,805**	61,197	61,197
Distributions payable	**15,426**	**15,426**	15,422	15,422
	$2,039,945	**$2,076,462**	$2,369,005	$2,463,015

(1) Long-term receivables included in other assets (note 6).
(2) Foreign exchange collars included in prepaid expenses.
(3) Balance includes current and non-current portions (note 7(a)).
(4) Balance includes current and non-current portions (note 7(b)).

The fair values of the Trust's construction funds in escrow, accounts receivable, cash and cash equivalents, 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 included in other assets approximates its carrying amount as the receivable bears interest at rates comparable to current market rates. The fair values of the unsecured debentures are determined using quoted market prices. The fair values of the term loans approximate their carrying amounts as the term loans bear interest at rates comparable to the current market rates. The fair values of the cross currency interest rate swaps and foreign exchange collars are determined using market inputs quoted by their counterparties. The fair value of the foreign exchange forward contracts approximate their carrying values as the asset or liability is revalued at the reporting date.

The Trust periodically purchases foreign exchange collars and forward contracts to hedge specific anticipated foreign currency transactions and to mitigate its foreign exchange exposure on its net cash flows. At March 31, 2021 and December 31, 2020, the Trust did not have any outstanding foreign exchange forward contracts. For the three month period ended March 31, 2020, the Trust recorded a net fair value gain of $0.4 million related to outstanding foreign exchange forward contracts (note 12(e)). At March 31, 2021, the Trust held nine outstanding foreign exchange collar contracts (December 31, 2020 — 12) with a notional value of US$45.0 million (December 31, 2020 — US$60.0 million) and contracts the Trust to sell US dollars and receive Canadian dollars if specific US dollar exchange rates relative to the Canadian dollar are met. The Trust also held nine outstanding foreign exchange collar contracts (December 31, 2020 — 12) with a notional value of €18.0 million (December 31, 2020 — €24.0 million) and contracts the Trust to sell Euros and receive Canadian dollars if specific Euro exchange rates relative to the Canadian dollar are met. For the three month period ended March 31, 2021, the Trust recorded a net fair value gain of $0.1 million (2020 — nil), related to the outstanding foreign exchange collar contracts (note 12(e)). The Trust did not employ hedge accounting for these financial instruments.

(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 March 31, 2021	Level 1	Level 2	Level 3
ASSETS AND LIABILITIES MEASURED OR DISCLOSED AT FAIR VALUE			
Assets measured at fair value			
Investment properties (note 4)	**$ —**	**$ —**	**$6,003,703**
Cross currency interest rate swap (note 7)	**—**	**34,106**	**—**
Foreign exchange collars included in prepaid expenses and other	**—**	**2,692**	**—**
Liabilities measured or disclosed at fair value			
Unsecured debentures, net (note 7)	**1,430,070**	**—**	**—**
Unsecured term loans, net (note 7)	**—**	**531,623**	**—**
Cross currency interest rate swaps (note 7)	**—**	**35,538**	**—**
Net (liabilities) assets measured or disclosed at fair value	**$(1,430,070)**	**$(530,363)**	**$6,003,703**

As at December 31, 2020	Level 1	Level 2	Level 3
ASSETS AND LIABILITIES MEASURED OR DISCLOSED AT FAIR VALUE			
Assets measured at fair value			
Investment properties (note 4)	$ —	$ —	$ 5,855,583
Cross currency interest rate swap (note 7)	—	28,676	—
Foreign exchange collars included in prepaid expenses and other	—	2,627	—
Liabilities measured or disclosed at fair value			
Unsecured debentures, net (note 7)	1,737,185	—	—
Unsecured term loans, net (note 7)	—	534,947	—
Cross currency interest rate swaps (note 7)	—	114,264	—
Net (liabilities) assets measured or disclosed at fair value	**$(1,737,185)**	**$(617,908)**	**$5,855,583**

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 month period ended March 31, 2021 and the year ended December 31, 2020, there were no transfers between the levels.

(c) Risk Management

Foreign exchange risk

As at March 31, 2021, 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 March 31, 2021, the Trust's foreign currency denominated net assets are $4.5 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 $28.6 million and $15.7 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 March 31, 2021**			
	Granite REIT	**Granite GP**	**Eliminations/ Adjustments**	**Granite REIT and Granite GP Combined**
ASSETS				
Non-current assets:				
Investment properties	$6,003,703			$6,003,703
Investment in Granite LP[1]	—	27	(27)	—
Other non-current assets	53,259			53,259
	6,056,962	27	(27)	6,056,962
Current assets:				
Other current assets	25,730	70		25,800
Intercompany receivable[2]	—	10,424	(10,424)	—
Cash and cash equivalents	479,581	1,130		480,711
Total assets	$6,562,273	11,651	(10,451)	$6,563,473
LIABILITIES AND EQUITY				
Non-current liabilities:				
Unsecured debt, net	$1,925,176			$1,925,176
Other non-current liabilities	482,369			482,369
	2,407,545			2,407,545
Current liabilities:				
Intercompany payable [2]	10,424		(10,424)	—
Other current liabilities	99,764	11,624		111,388
Total liabilities	2,517,733	11,624	(10,424)	2,518,933
Equity:				
Stapled unitholders' equity	4,042,296	27		4,042,323
Non-controlling interests	2,244		(27)	2,217
Total liabilities and equity	$6,562,273	11,651	(10,451)	$6,563,473

(1) Granite REIT Holdings Limited Partnership ("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, 2020			
	Granite REIT	Granite GP	Eliminations/ Adjustments	Granite REIT and Granite GP Combined
ASSETS				
Non-current assets:				
Investment properties	$ 5,855,583			$ 5,855,583
Investment in Granite LP[(1)]	—	25	(25)	—
Other non-current assets	46,046			46,046
	5,901,629	25	(25)	5,901,629
Current assets:				
Other current assets	14,546	17		14,563
Intercompany receivable[(2)]	—	13,792	(13,792)	—
Cash and cash equivalents	830,455	825		831,280
Total assets	**$6,746,630**	**14,659**	**(13,817)**	**$6,747,472**
LIABILITIES AND EQUITY				
Non-current liabilities:				
Unsecured debt, net	$ 1,928,252			$ 1,928,252
Other non-current liabilities	523,096			523,096
	2,451,348			2,451,348
Current liabilities:				
Unsecured debt, net	249,870			249,870
Intercompany payable[(2)]	13,792		(13,792)	—
Other current liabilities	109,416	14,634		124,050
Total liabilities	2,824,426	14,634	(13,792)	2,825,268
Equity:				
Stapled unitholders' equity	3,920,044	25		3,920,069
Non-controlling interests	2,160		(25)	2,135
Total liabilities and equity	**$6,746,630**	**14,659**	**(13,817)**	**$6,747,472**

(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 March 31, 2021			
	Granite REIT	Granite GP	Eliminations/ Adjustments	Granite REIT and Granite GP Combined
Revenue	$ 95,942			$ 95,942
General and administrative expenses	8,821			8,821
Interest expense and other financing costs	14,794			14,794
Other costs and expenses, net	13,193			13,193
Share of (income) loss of Granite LP	—	(2)	2	—
Fair value gains on investment properties, net	(209,516)			(209,516)
Fair value losses on financial instruments, net	339			339
Loss on sale of investment properties	155			155
Income before income taxes	268,156	2	(2)	268,156
Income tax expense	37,880			37,880
Net income	230,276	2	(2)	230,276
Less net income attributable to non-controlling interests	145		(2)	143
Net income attributable to stapled unitholders	$ 230,131	2	—	$ 230,133

Income Statement	Three Months Ended March 31, 2020			
	Granite REIT	Granite GP	Eliminations/ Adjustments	Granite REIT and Granite GP Combined
Revenue	$ 78,050			$ 78,050
General and administrative expenses	5,727			5,727
Interest expense and other financing costs	6,645			6,645
Other costs and expenses, net	6,777			6,777
Share of (income) loss of Granite LP	—	(1)	1	—
Fair value gains on investment properties, net	(35,993)			(35,993)
Fair value losses on financial instruments, net	1,894			1,894
Income before income taxes	93,000	1	(1)	93,000
Income tax expense	11,588			11,588
Net income	81,412	1	(1)	81,412
Less net income attributable to non-controlling interests	117		(1)	116
Net income attributable to stapled unitholders	$81,295	1	—	$81,296

Statement of Cash Flows	Three Months Ended March 31, 2021			
	Granite REIT	Granite GP	Eliminations/ Adjustments	Granite REIT and Granite GP Combined
OPERATING ACTIVITIES				
Net income	**$ 230,276**	**2**	**(2)**	**$ 230,276**
Items not involving operating cash flows	**(167,899)**	**(2)**	**2**	**(167,899)**
Changes in working capital balances	**(3,699)**	**305**		**(3,394)**
Other operating activities	**5,322**			**5,322**
Cash provided by operating activities	**64,000**	**305**	**—**	**64,305**
INVESTING ACTIVITIES				
Property acquisitions	**(85,913)**			**(85,913)**
Proceeds from disposals, net	**10,395**			**10,395**
Additions to properties under development	**(12,421)**			**(12,421)**
Construction funds released from escrow	**28**			**28**
Other investing activities	**(671)**			**(671)**
Cash used in investing activities	**(88,582)**	**—**	**—**	**(88,582)**
FINANCING ACTIVITIES				
Distributions paid	**(46,263)**			**(46,263)**
Other financing activities	**(275,846)**			**(275,846)**
Cash used in financing activities	**(322,109)**	**—**	**—**	**(322,109)**
Effect of exchange rate changes	**(4,183)**			**(4,183)**
Net (decrease) increase in cash and cash equivalents during the period	**$(350,874)**	**305**	**—**	**$(350,569)**

Statement of Cash Flows	Three Months Ended March 31, 2020			
	Granite REIT	Granite GP	Eliminations/ Adjustments	Granite REIT and Granite GP Combined
OPERATING ACTIVITIES				
Net income	$ 81,412	1	(1)	$ 81,412
Items not involving operating cash flows	(23,697)	(1)	1	(23,697)
Changes in working capital balances	(5,270)	(142)		(5,412)
Other operating activities	2,559			2,559
Cash provided by (used in) operating activities	55,004	(142)	—	54,862
INVESTING ACTIVITIES				
Property acquisitions	(28,949)			(28,949)
Additions to income-producing properties	(2,235)			(2,235)
Additions to properties under development	(6,072)			(6,072)
Construction funds released from escrow	2,300			2,300
Other investing activities	(18,248)			(18,248)
Cash used in investing activities	(53,204)	—	—	(53,204)
FINANCING ACTIVITIES				
Distributions paid	(39,250)			(39,250)
Other financing activities	(25,125)			(25,125)
Cash used in financing activities	(64,375)	—	—	(64,375)
Effect of exchange rate changes	6,112			6,112
Net decrease in cash and cash equivalents during the period	**$(56,463)**	**(142)**	**—**	**$(56,605)**

17. COMMITMENTS AND CONTINGENCIES

(a) The Trust is subject to various legal proceedings and claims that arise in the ordinary course of business. Management evaluates all claims with the advice of legal counsel. Management believes these claims are generally covered by Granite's insurance policies and that any liability from remaining claims is not probable to occur and would not have a material adverse effect on the condensed combined financial statements. However, actual outcomes may differ from management's expectations.

(b) As at March 31, 2021, the Trust's contractual commitments related to construction and development projects amounted to approximately $127.7 million.

(c) In connection with the acquisitions of investment properties located in Palmetto, Georgia on November 12, 2020 and in Locust Grove, Georgia on March 12, 2021, $122.1 million (US$97.1 million) of bonds were assumed. The authorized amount of the bonds is $130.7 million (US$104.0 million), of which $122.1 million (US$97.1 million) was outstanding as at March 31, 2021. The bonds provide for a real estate tax abatement for the acquired investment properties. Through a series of transactions, the Trust is both the bondholder and the obligor of the bonds. Therefore, in accordance with IAS 32, the bonds are not recorded in the condensed combined balance sheet.

The Trust is involved, in the normal course of business, in discussions, and has various letters of intent or conditional agreements, with respect to possible acquisitions of new properties and dispositions of existing properties in its portfolio. None of these commitments or contingencies, individually or in aggregate, would have a material impact on the condensed combined financial statements.

18. SUBSEQUENT EVENTS

(a) Subsequent to March 31, 2021, the Trust declared monthly distributions for April 2021 of $15.4 million (note 10).

GRANITE REIT

REIT Information

Officers

Kevan Gorrie
President and Chief Executive Officer

Teresa Neto
Chief Financial Officer

Lorne Kumer
Executive Vice President,
Head of Global Real Estate

Michael Ramparas
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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, 2020 are available through the Internet on the Electronic Data Gathering Analysis and Retrieval System (EDGAR), which can be accessed at www.sec.gov, and on the System for Electronic Document Analysis and Retrieval (SEDAR), which can be accessed at www.sedar.com. Other required securities filings can also be found on EDGAR and SEDAR.

GRANITE
REIT

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