UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 40-F

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

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

For the Fiscal Year Ended December 31, 2019

GRANITE REAL ESTATE INVESTMENT TRUST
(Commission File Number: 001-35771)
(Name of registrant)

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

GRANITE REIT INC.
(Commission File Number: 001-35772)
(Name of registrant)

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

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

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

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

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

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

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

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

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

☒ **Annual information form** ☒ **Audited annual financial statements**

Indicate the number of outstanding shares of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 54,052,212 Stapled Units outstanding as of December 31, 2019.

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

Yes ☐ No ☒

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

Yes ☒ No ☐

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

Yes ☒ No ☐

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

Emerging growth company ☐

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

EXPLANATORY NOTE

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

DESCRIPTION OF THE STAPLED UNITS

On January 3, 2013, Granite Real Estate Inc. ("Granite Co.") completed its conversion from a corporate structure to a stapled unit Real Estate Investment Trust structure. The conversion was implemented pursuant to a plan of arrangement under the *Business Corporations Act* (Québec) (the "2013 Arrangement"). Under the 2013 Arrangement, all of the common shares of Granite Co. were exchanged, on a one-for-one basis, for stapled units (the "Stapled Units"), each of which consists of one unit of Granite REIT and one common share of Granite GP. The Registrants, through Granite REIT Holdings Limited Partnership and its subsidiaries, continue to carry on the business previously conducted by Granite Co. and its subsidiaries. For more information regarding the Stapled Units and the 2013 Arrangement, see the Annual Information Form dated March 4, 2020, filed as Exhibit 1 to this annual report on Form 40-F.

CONTROLS AND PROCEDURES

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

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

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

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

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

Deloitte LLP, an independent registered public accounting firm, who audited and reported on the combined financial statements for the year ended December 31, 2019, which are filed as Exhibit 2 to this annual report, has also issued an attestation report under standards of the Public Company Accounting Oversight Board (United States) on the Registrants' internal control over financial reporting as of the Evaluation Date. The required attestation report is appended to the audited combined financial statements for the year ended December 31, 2019, filed as Exhibit 2 to this annual report.

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

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

AUDIT COMMITTEE AND AUDIT COMMITTEE FINANCIAL EXPERT

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

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

AUDIT COMMITTEE PRE-APPROVAL POLICIES AND PROCEDURES

Please refer to the section entitled "Audit Committee" in the Annual Information Form of Granite Real Estate Investment Trust, included as an Exhibit to this annual report, for details on policies relating to the pre-approval of all audit services and permitted non-audit services provided to the Registrants by Deloitte LLP. For the year ended December 31, 2019, none of the Registrants' audit-related fees made use of the *de minimis* exception to the pre-approval provisions contained in paragraph (c)(7)(i) of Rule 2-01 of Regulation S-X.

CODE OF ETHICS

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

PRINCIPAL ACCOUNTANT FEES AND SERVICES

Please refer to the section entitled "Audit Committee — Audit Fees" in the Annual Information Form of Granite Real Estate Investment Trust, included as an Exhibit to this annual report, for details on the fees billed to the Registrants by Deloitte LLP and its affiliates for professional services rendered in each of the fiscal years ended December 31, 2019 and December 31, 2018.

OFF-BALANCE SHEET ARRANGEMENTS

The Registrants' off-balance sheet arrangements consist of letters of credit to support certain contractual commitments, property purchase commitments, construction and development project commitments and certain operating agreements. For a discussion of these arrangements, please refer to notes 9 and 20 to the audited combined financial statements for the year ended December 31, 2019, included as Exhibit 2 to this annual report.

CONTRACTUAL OBLIGATIONS

Please refer to the section entitled "Commitments, Contractual Obligations, Contingencies and Off-Balance Sheet Arrangements" in the Management's Discussion and Analysis of Operations and Financial Position for the year ended December 31, 2019, included as Exhibit 3 to this annual report.

CORPORATE GOVERNANCE

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

UNDERTAKING AND CONSENT TO SERVICE OF PROCESS

A. Undertaking

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

B. Consent to Service of Process

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

EXHIBIT INDEX

1.	Annual Information Form dated as of March 4, 2020.
2.	Audited combined financial statements for the years ended December 31, 2019 and 2018, together with the auditors' report of the independent registered public accounting firm thereon and the effectiveness of the Registrants' internal control over financial reporting.
3.	Management's Discussion and Analysis of Operations and Financial Position for the three month period and year ended December 31, 2019.
4.	Consent of Deloitte LLP.
99.1	Certificate of the President and Chief Executive Officer of the Registrants pursuant to 18 U.S.C. Section 1350, as enacted pursuant to Section 906 of Sarbanes-Oxley Act of 2002.
99.2	Certificate of the President and Chief Executive Officer of the Registrants required by Rule 13a-14(a) or Rule 15d-14(a), pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
99.3	Certificate of the Chief Financial Officer of the Registrants required pursuant to 18 U.S.C. Section 1350, as enacted pursuant to Section 906 of Sarbanes-Oxley Act of 2002.
99.4	Certificate of the Chief Financial Officer of the Registrants by Rule 13a-14(a) or Rule 15d- 14(a), pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
101	Interactive Data Files.

SIGNATURES

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

Date: March 4, 2020	GRANITE REAL ESTATE INVESTMENT TRUST By: /s/ TERESA NETO Name: Teresa Neto Title: Chief Financial Officer
Date: March 4, 2020	GRANITE REIT INC. By: /s/ TERESA NETO Name: Teresa Neto Title: Chief Financial Officer

EXHIBIT 1

Granite Real Estate Investment Trust

Annual Information Form

March 4, 2020

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GENERAL MATTERS

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

Date of Information

Information in this AIF is dated as of December 31, 2019, unless otherwise indicated.

Note Regarding Financial Information

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

Financial data included in this Annual Information Form has been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. This Annual Information Form should be read in conjunction with the combined financial statements and management's discussion and analysis and appended notes, each of which appear in Granite's annual report for 2019. Granite refers to Canadian dollars as ''dollars'' or ''$'', United States dollars as ''USD'' and Euros as ''EUR''. Granite publishes its financial statements in Canadian dollars.

Non-IFRS Measures

In addition to using financial measures determined in accordance with IFRS, Granite also uses certain non-IFRS measures in managing its business to measure financial and operating performance as well as for capital allocation decisions and valuation purposes. Granite believes that providing these measures on a supplemental basis to the IFRS results is helpful to investors in assessing the overall performance of Granite's business. These non-IFRS measures include net leverage ratio. Readers are cautioned that this measure does not have a standardized meaning prescribed under IFRS and, therefore, should not be construed as an alternative to net income, cash provided by operating activities or any other measure calculated in accordance with IFRS. Additionally, because this term does not have a standardized meaning prescribed by IFRS, it may not be comparable to similarly titled measures presented by other reporting issuers. Refer to ''Glossary of Terms'' for a definition of net leverage ratio. Net leverage ratio is calculated from the audited combined financial statements as at and for the year ended December 31, 2019 as follows:

As at December 31, 2019		**(in millions)**
Unsecured debt, net		**$ 1,187.0**
Cross currency interest rate swaps, net		**30.3**
Less: cash and cash equivalents		**298.7**
Net debt	**[A]**	**$ 951.6**
Investment properties, all unencumbered by secured debt	**[B]**	**$ 4,457.9**
Net leverage ratio	**[A]/[B]**	**21%**

FORWARD-LOOKING STATEMENTS

This Annual Information Form and the documents incorporated by reference herein contain statements that, to the extent they are not recitations of historical fact, constitute ''forward-looking statements'' or ''forward looking information'' within the meaning of applicable securities legislation, including the United States Securities Act of 1933, as amended, the United States Securities Exchange Act of 1934, as amended, and applicable Canadian securities legislation. Forward-looking statements and forward-looking information may include, among others, statements regarding Granite's future plans, goals, strategies, intentions, beliefs, estimates, costs, objectives, capital structure, cost of capital, tenant base, tax consequences, economic performance or expectations, or the assumptions underlying any of the foregoing. Words such as ''outlook'', ''may'', ''would'', ''could'', ''should'', ''will'', ''likely'', ''expect'', ''anticipate'', ''believe'', ''intend'', ''plan'', ''forecast'', ''objective'', ''strategy'', ''project'', ''estimate'', ''seek'' and similar expressions are used to identify forward-looking statements and forward-looking information. Forward-looking statements and forward-looking information should not be read as guarantees of future events, performance or results and will not necessarily be accurate indications of whether or the times at or by which such future performance will be achieved. Undue reliance should not be placed on such statements. There can also be no assurance that: the expansion, diversification and development of Granite's real estate portfolio; the reduction in Granite's exposure to Magna and the special purpose properties; Granite's ability to strategically redeploy the proceeds from recently sold properties; the ability of Granite to find and integrate satisfactory acquisition, joint venture and development opportunities; Granite's ability to optimize its balance sheet and dispose of any non-core assets on satisfactory terms; Granite's ability to increase its leverage ratio; and the expected amount of any distributions, including any expected increases, can be achieved in a timely manner, with the expected impact or at all. Forward-looking statements and forward- looking information are based on information available at the time and/or management's good faith assumptions and analyses made in light of Granite's perception of historical trends, current conditions and expected future developments, as well as other factors management believes are appropriate in the circumstances, and are subject to known and unknown risks, uncertainties and other unpredictable factors, many of which are beyond Granite's control, that could cause actual events or results to differ materially from such forward-looking statements and forward-looking information. Important factors that could cause such differences include, but are not limited to: the risk of changes to tax or other laws and treaties that may adversely affect Granite REIT's mutual fund trust status under the Tax Act or the effective tax rate in other jurisdictions in which Granite operates; economic, market and competitive conditions and other risks that may adversely affect Granite's ability to expand and diversify its portfolio and pay the expected amount of any distributions; and the risks set forth in this Annual Information Form in the ''Risk Factors'' section, which investors are strongly advised to review. The ''Risk Factors'' section also contains information about the material factors or assumptions underlying such forward-looking statements and forward-looking information. Forward-looking statements and forward-looking information speak only as of the date the statements were made and unless otherwise required by applicable securities laws, Granite expressly disclaims any intention and undertakes no obligation to update or revise any forward-looking statements or forward-looking information contained in this Annual Information Form to reflect subsequent information, events or circumstances or otherwise.

GLOSSARY OF TERMS

"**0.522% Swap"** means the cross-currency interest rate swap entered into by Granite to exchange the USD 185 million principal and related variable rate interest payments from the 2024 Term Facility to EUR 168.2 million and Euro-denominated interest payments at a 0.522% interest rate.

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

"**2.68% Swap**" means the cross-currency interest rate swap entered into by Granite to exchange the $250 million principal and related 3.788% interest payments from the 2021 Debentures to EUR 171.9 million and Euro-denominated interest payments at a 2.68% interest rate.

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

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

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

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

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

"**2024 Term Facility**" means the new senior unsecured non-revolving term facility in the amount of USD 185 million entered into by Granite LP on December 19, 2018, as extended on October 21, 2019.

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

"**2026 Term Facility**" means the new senior unsecured non-revolving term facility in the amount of $300 million entered into by Granite LP On December 12, 2018, as extended on November 27, 2019.

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

"**annualized revenue**" means rental revenue excluding tenant recoveries, recognized in accordance with IFRS, in the month of December 2019 multiplied by twelve months.

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

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

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

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

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

"**DBRS**" means DBRS Limited.

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

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

"**Directors**" means the Board of Directors of Granite GP.

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

"**Event of Uncoupling**" has the meaning set out under the heading "*Description of Stapled Units*".

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

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

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

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

"**GLA**" means gross leasable area.

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

"**GP Share**" means the common shares of Granite GP.

"**Granite America**" means Granite REIT America Inc.

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

"**Granite GP**" means Granite REIT Inc.

"**Granite LP**" means Granite REIT Holdings Limited Partnership.

"**Granite REIT**" means Granite Real Estate Investment Trust.

"**IFRS"** means the International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

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

"**Moody's**" means Moody's Investor Service.

"**NCIB**" means normal course issuer bid.

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

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

“**NYSE**” means the New York Stock Exchange.

“PFIC” means a passive foreign investment company for U.S. federal income tax purposes.

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

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

“**REIT Unitholder**” means a holder of a REIT Unit or REIT Units.

“**REIT Unit**” means the trust units of Granite REIT.

“**Resident Canadian**” means a resident in Canada for purposes of the Tax Act.

“**SEC**” means the United States Securities and Exchange Commission.

“**SF**” means square feet.

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

“**Stapled Units**” has the meaning set out under the heading “*General Matters*”.

“**Stronach Shareholder**” means 445327 Ontario Limited.

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

“**Tax Act**” means the *Income Tax Act* (Canada).

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

“**TSX**” means the Toronto Stock Exchange.

“**Trustees**” means the board of trustees of Granite REIT.

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

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

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

CORPORATE STRUCTURE

Granite REIT

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

Granite GP

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

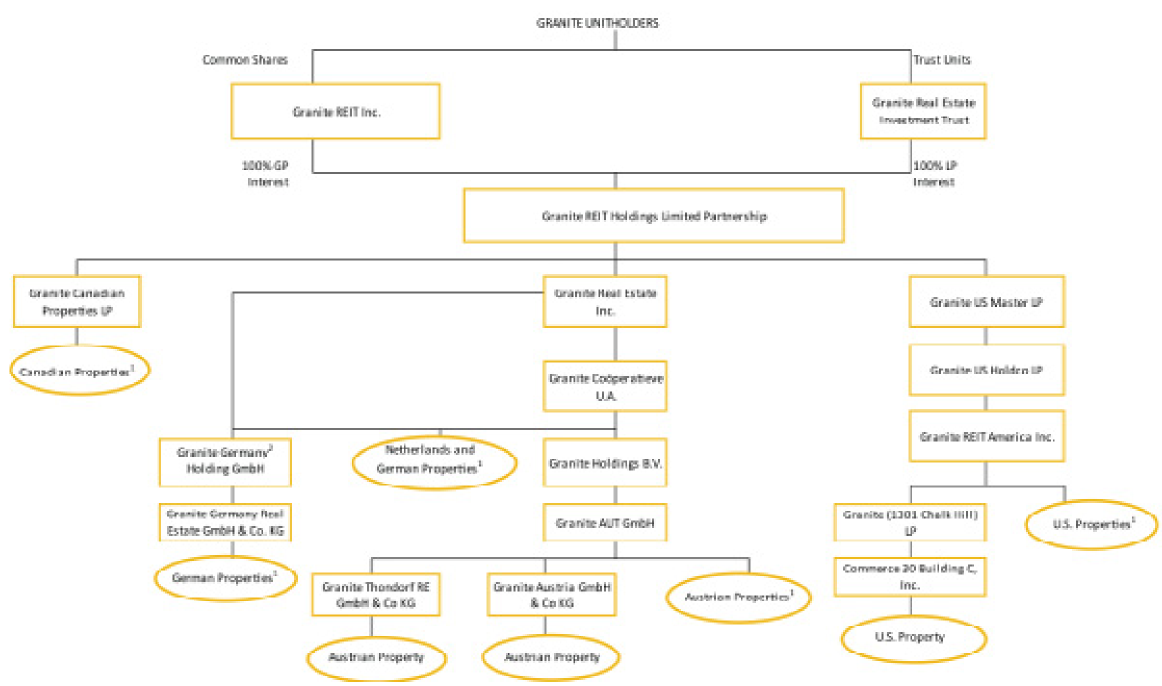
Granite LP

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

Organizational Structure and Subsidiaries

The following is a simplified illustration of Granite's organizational structure as at December 31, 2019:

Organizational Structure and Subsidiaries



1 Ownership of the properties is held directly or indirectly through wholly owned special purpose entities.
2 Granite Coǒperatieve U.A. and Granite Real Estate Inc. own 99.74%. The remaining 0.26% is owned by a third party shareholder.

Granite LP's material subsidiaries as at December 31, 2019 and their respective jurisdictions of incorporation or formation are listed below. Parent/subsidiary relationships are identified by indentation. The percentages of the votes attaching to all voting securities beneficially owned by Granite LP or over which Granite exercises control or direction, directly or indirectly, are also indicated. Granite LP's percentage voting interest is equivalent to Granite's economic interest in each subsidiary listed below. The voting securities of each subsidiary are held in the form of common shares or, in the case of limited partnerships and their foreign equivalents, share quotas or partnership interests.

List of Material Subsidiaries

	Ownership of Voting Securities	**Jurisdiction of Incorporation or Formation**
Granite Canadian Properties LP	100%	Ontario
Granite US Master LP	100%	Delaware
Granite US Holdco LP	100%	Delaware
Granite REIT America Inc.	100%	Delaware
Granite (1301 Chalk Hill) LP	100%	Delaware
Commerce 30 Building C, Inc.	100%	Delaware
Granite Real Estate Inc.	100%	Quebec
Granite Cooperatieve U.A	100%	Netherlands
Granite Holdings B.V.	100%	Netherlands
Granite AUT GmbH	100%	Austria
Granite Thondorf RE GmbH & Co KG	100%	Austria
Granite Austria GmbH & Co KG	100%	Austria
Granite Germany Holding GmbH	99.74%	Germany
Granite Germany Real Estate GmbH & Co KG	99.74%	Germany

GENERAL DEVELOPMENT OF THE BUSINESS

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

2017

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

On May 11, 2017, Granite announced that the TSX had accepted Granite's notice of intention to make a normal course issuer bid. Pursuant to the NCIB, Granite proposed to purchase up to an aggregate of 4,118,757 of its issued and outstanding Stapled Units. The NCIB commenced on May 16, 2017 and concluded on May 15, 2018. During 2017, Granite purchased 241,034 Stapled Units on the open market at a weighted average purchase price of $49.94 per Stapled Unit.

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

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

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

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

For the year ended December 31, 2017, Granite:

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

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

2018

Acquisitions

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

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

(1) As at the date of acquisition

Dispositions

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

2018 Dispositions *(in millions, except as noted)* Property Address	Location	Sq ft	Date Disposed	Sale Price	Annualized Revenue[1]
111 Cosma Drive	Bowling Green, KY	1.2	Jan 30, 2018	$ **170.0**	$ **12.0**
1 Cosma Court and 170 Edward Street	St. Thomas, ON	1.5	Jan 30, 2018	**154.6**	**10.8**
Newpark campus (seven properties):					
521, 550, 561, 564, 581, 594 and 630 Newpark Boulevard	Newmarket, ON	0.6	Jan 31, 2018	**63.0**	**2.**
1 Clearview Drive	Tillsonburg, ON	0.3	Jul 18, 2018	**7.2**	**0.6**
120 Moon Acres Road	Piedmont, SC	1.1	Sep 13, 2018	**216.4**	**14.2**
1000 JD Yarnell Industrial Parkway	Clinton, TN	0.5	Sep 13, 2018	**54.8**	**4.1**
337 and 375 Magna Drive	Aurora, ON	0.1	Sep 27, 2018	**60.0**	**3.7**
Industriestrasse 11	Schleiz, Germany	0.1	Oct 4, 2018	**3.6**	**0.4**
		5.4		**$ 729.6**	**$ 48.6**

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

Other

On February 1, 2018, Granite entered into the Credit Facility, which replaced Granite's existing $250 million credit facility.

On May 16, 2018, Granite announced that the TSX had accepted Granite's notice of intention to make an NCIB. Pursuant to the NCIB, Granite proposed to purchase up to an aggregate of 3,939,255 of its issued and outstanding Stapled Units. The NCIB commenced on May 18, 2018 and concluded on May 17, 2019. During 2018, Granite purchased 1,282,171 Stapled Units on the open market at a weighted average purchase price of $49.54 per Stapled Unit.

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

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

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

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

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

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

Acquisitions

2019

The following table provides a summary of Granite's acquisitions in 2019:

Acquisitions *(in millions, except as noted)* **Property Address**	**Location**	**Sq ft**(1)	**Weighted Average Lease Term, in years by sq ft**(1)	**Date Acquired**	**Property Purchase Price**(2)	**In-going Yield**(1)
Income-producing properties:						
201 Sunridge Boulevard	Wilmer, TX	0.8	9.5	Mar 1, 2019	$ **58.1**	5.1%
3501 North Lancaster Hutchins Road	Lancaster, TX	0.2	10.4	Mar 1, 2019	**106.1**	6.8%
Leasehold interest in two properties: 2020 and 2095 Logistics Drive	Mississauga, ON	0.9	8.7	Apr 9, 2019	**153.6**(3)	4.5%
1901 Beggrow Street	Columbus, OH	0.8	4.7	May 23, 2019	**71.6**	5.7%
Heirweg 3	Born, Netherlands	0.3	7.6	Jul 8, 2019	**25.7**	6.1%
1222 Commerce Parkway	Horn Lake, MS	0.3	4.8	Aug 1, 2019	**24.5**	5.7%
831 North Graham Road	Greenwood, IN	0.5	7.0	Oct 4, 2019	**39.6**	5.7%
100 Clyde Alexander Lane	Pooler, GA	0.7	3.1	Oct 18, 2019	**62.7**(4)	6.0%
1301 Chalk Hill Road	Dallas, TX	2.3	19.8	Nov 19, 2019	**269.8**(5)	5.5%
330-366 Stateline Road East	Southaven, MS	0.9	4.9	Dec 19, 2019	**63.7**	5.5%
440-480 Stateline Road East	Southaven, MS	0.8	4.1	Dec 19, 2019	**51.6**	5.1%
Development land:						
6701, 6702 Purple Sage Road	Houston, TX	N/A	N/A	Jul 1, 2019	**33.4**	N/A
		8.5			**$ 960.4**	**5.5%**

(1) As at the date of acquisition.
(2) Purchase price does not include transaction costs associated with property acquisitions.
(3) Excludes the right-of-use asset of $20.5 million associated with a ground lease.
(4) The Trust acquired the leasehold interest in this property which resulted in the recognition of a right-of-use asset of $62.7 million. The Trust will acquire freehold title to the property December 31, 2022.
(5) Purchase price does not include cash held in escrow at December 31, 2019 to complete construction.

At the acquisition date, the developed property located at 1301 Chalk Hill Road, Dallas, Texas had outstanding construction work which resulted in $20.5 million (US$15.5 million) of the purchase price being placed in escrow to pay for the remaining construction costs. The funds will be released from escrow as the construction is completed. As at December 31, 2019, $16.8 million (US$12.9 million) remained in escrow. The purchase price noted above does not include the cash held in escrow to complete the construction. As construction is completed, the construction costs will be capitalized to the cost of the investment property.

Dispositions

The following table provides a summary of Granite's dispositions in 2019:

Dispositions *(in millions, except as noted)* Property Address	Location	Sq ft	Date Disposed	Sale Price	Annualized Revenue[(1)]
3 Walker Drive (a nine-acre parcel of land)	Brampton, ON	N/A	Jan 15, 2019	**$ 13.4**	$ —
Iowa properties (four properties):					
403 S 8th Street	Montezuma, IA				
1951 A Avenue	Victor, IA				
408 N Maplewood Avenue	Williamsburg, IA				
411 N Maplewood Avenue	Williamsburg, IA	0.6	Feb 25, 2019	**22.3**	**2.2**
375 Edward Street	Richmond Hill, ON	0.1	Feb 27, 2019	**8.1**	—
330 Finchdene Square	Toronto, ON	0.1	Sept 20, 2019	**13.1**	—
200 Industrial Parkway	Aurora, ON	0.2	Nov 4, 2019	**10.0**	**0.8**
Michigan properties (five properties):					
1800 Hayes Street	Grand Haven, MI				
3501 John F Donnelly Drive	Holland, MI				
3601 John F Donnelly Drive	Holland, MI				
3575 128th Avenue North	Holland, MI				
6151 Bancroft Avenue	Alto, MI	0.7	Dec 4, 2019	**38.9**	**3.6**
		1.7		**$105.8**	**$ 6.6**

(1) Annualized revenue is calculated as rental revenue excluding tenant recoveries, recognized in accordance with IFRS, in the month the property was first classified as an asset held for sale multiplied by 12 months.

Other

On March 1, 2019, Granite appointed Witsard Schaper as Head of Europe.

On April 30, 2019, Granite completed a bought deal equity offering of 3,749,000 Stapled Units at a price of $61.50 per Stapled Unit for total gross proceeds of $230,563,500.

On May 14, 2019, Granite announced the renewal of its normal course issuer bid ("NCIB") and its intention to purchase for cancellation purposes up to an aggregate of 4,853,666 of its issued and outstanding Stapled Units, from time to time, if Granite's Stapled Units are trading at a price that Granite believes is materially below intrinsic value. The NCIB is for a 12 month period beginning on May 21, 2019 and will conclude on the earlier of the date on which purchases under the bid have been completed and May 20, 2020.

On June 3, 2019 Granite announced the departure of Ilias Konstantopoulos, its Chief Financial Officer.

On June 6, 2019, Granite announced the appointment of Teresa Neto as Chief Financial Officer effective July 8, 2019, replacing Ilias Konstantopoulos.

On June 13, 2019, at the annual general meetings of Granite GP and Granite REIT, Fern Grodner and Sheila Murray were elected as Trustees of Granite REIT and directors of Granite GP.

On October 21, 2019, Granite extended its USD 185 million term loan. The 2024 Term Facility had an original maturity date of December 19, 2022 and effective October 10, 2019, had been extended to December 19, 2024. The previously existing cross-currency interest rate swap relating to the 2024 Term Facility was terminated on September 24, 2019 and blended into a new five-year cross-currency interest rate swap commencing October 21, 2019 which exchanges the variable interest payments for EUR denominated payments at a 0.522% fixed interest rate.

On October 21, 2019, Granite announced the appointment of Jon Sorg as Head of U.S. effective October 14, 2019.

On October 31, 2019, Granite completed a bought deal equity offering of 4,600,000 Stapled Units at a price of $64.00 per Stapled Unit for total gross proceeds of $294,400,000.

On November 5, 2019, Granite announced that it had increased its targeted annualized distribution to $2.90 from $2.80 per Stapled Unit, to be effective upon the distribution payable in January 2020.

On December 20, 2019, Granite announced that it had extended its $300 million term loan by one year to December 11, 2026. On the same day, the related cross-currency interest rate swap was terminated and Granite entered into a new seven-year cross-currency interest rate swap resulting in Euro-denominated payments at a 1.355% fixed interest rate.

BUSINESS OVERVIEW

Granite is a Canadian-based real estate investment trust engaged in the acquisition, development, ownership and management of industrial, warehouse and logistics properties in North America and Europe. As at March 4, 2020, Granite owns 91 investment properties in nine countries having approximately 40 million square feet of gross leasable area.

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

A key component of Granite's strategy is to reduce the proportion of total capital invested in Magna-tenanted properties and thereby increase the percentage of lease revenue earned from non-Magna tenants. In 2019, Granite continued to execute on its diversification strategy through the acquisition of 12 income-producing properties, one development property and the disposition of nine Magna-tenanted properties.

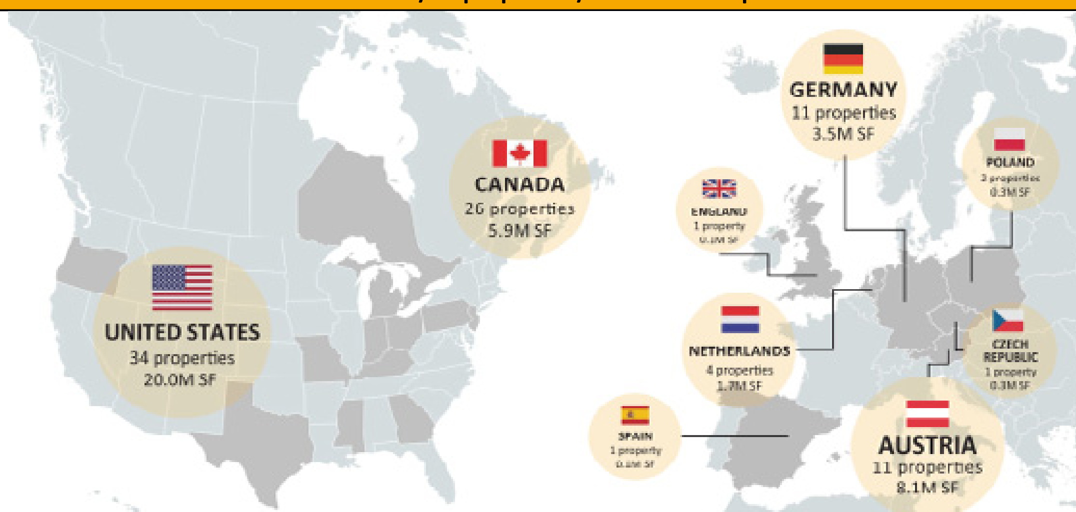
Granite has positioned itself to capitalize on market opportunities within its geographic footprint and execute on its strategy as well as benefit from a net leverage ratio of 21%, liquidity of approximately $797.7 million and a strong pipeline of acquisition and development opportunities. This favourable liquidity position and low leverage will facilitate Granite's near-term objectives to accelerate acquisition growth, effectively deploy Granite's balance sheet and execute on its long-term strategy of building an institutional quality and globally diversified industrial real estate business.

Investment Properties

Granite's investment properties consist of income-producing properties, properties under development and land held for development as set out in the audited combined financial statements as at December 31, 2019. Granite's investment properties as at March 4, 2020 are summarized below:

Investment Properties Summary

Nine countries/91 properties/40.0 million square feet



Income Producing Properties

Geographic Breakdown

Granite's income-producing properties are located in nine countries: Canada, the United States, Austria, Germany, the Netherlands, the Czech Republic, Poland, the United Kingdom and Spain. Lease payments are primarily denominated in three currencies: the Euro, the Canadian dollar and the United States dollar. Unless the context requires otherwise, references to income-producing properties do not include the properties currently classified by Granite as assets held for sale (nil properties), properties under development (3 properties), and land held for development (3 properties) as set out in the audited combined financial statements as at December 31, 2019.

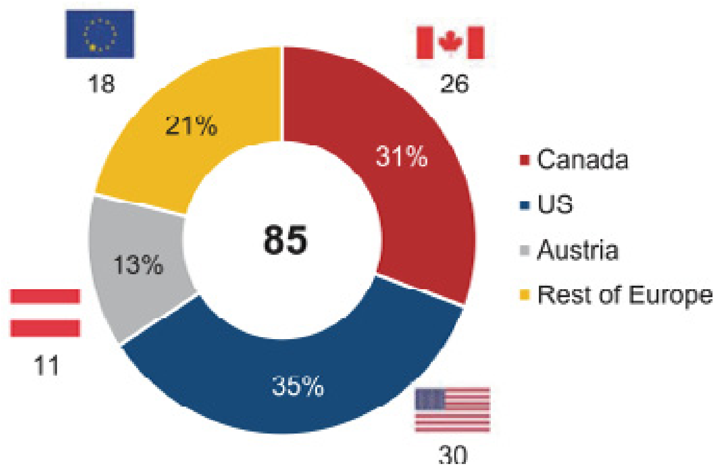
The following charts show the geographic breakdown of Granite's income-producing properties by number and approximate square footage:

INCOME-PRODUCING PROPERTIES

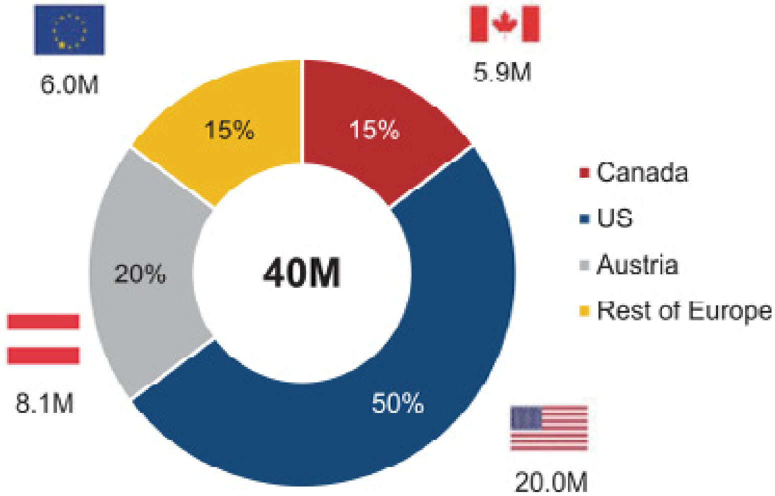
The following charts show the geographic breakdown of Granite's income-producing properties by number and approximate square footage:

Geographic Breakdown

Number of Income-Producing Properties



Square Feet



The following table shows the geographic breakdown of Granite's income-producing properties by fair value as at December 31, 2019:

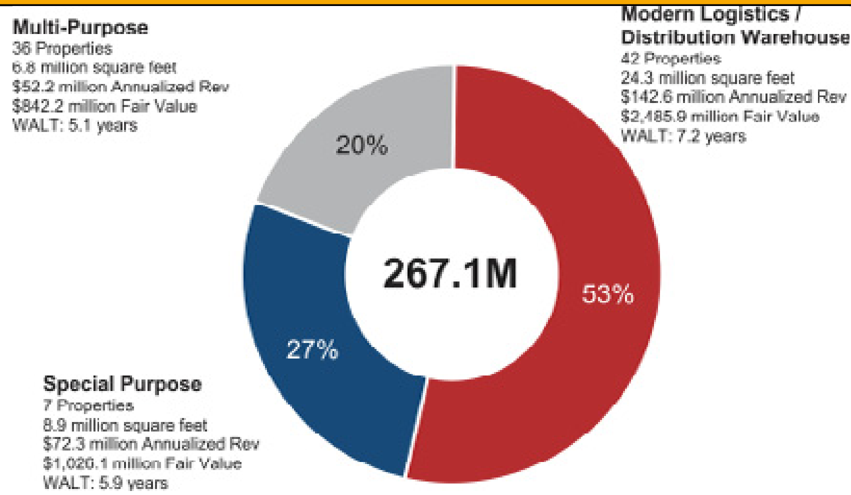
Real Estate Assets			
Location		**Income-Producing Property Portfolio Fair Value**	**Income-Producing Property Portfolio Fair Value**
		(in millions)	**(%)**
North America			
Canada	$	979.3	22.4
United States	$	1,951.3	44.5
Europe			
Austria	$	806.4	18.4
Germany	$	375.5	8.6
Netherlands	$	196.7	4.5
Other	$	68.4	1.6
Total	$	4,377.6	**100.0**

Property Types

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

The chart below illustrates the proportion of Granite's annualized revenue from income-producing properties that are modern logistics/distribution warehouse facilities, multi-purpose facilities and special purpose properties as at December 31, 2019.

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



(1) The chart does not include properties under development (three properties), and land held for development (three properties) in the combined financial statements as at December 31, 2019.

Tenant Overview

In addition to Magna, at December 31, 2019, Granite had 59 other tenants from various industries that in aggregate comprised 58% of the Trust's annualized revenue. These tenants each accounted for less than 9% of the Trust's annualized revenue as at December 31, 2019.

Granite's top 10 tenants by annualized revenue at December 31, 2019 are summarized in the table below:

Top 10 Tenants Summary

Tenant	Annualized Revenue %	GLA %	WALT (years)	Credit Rating(1)(2)
Magna	42%	35%	5.2	A(low)
Amazon	8%	6%	19.1	AA-
ADESA	3%	1%	9.6	NR
Restoration Hardware	3%	3%	8.3	NR
Ingram Micro	2%	3%	5.0	BBB(low)
Hanon Systems	2%	1%	10.9	AA
Mars Petcare	2%	3%	2.3	NR
Wayfair	2%	2%	5.8	NR
Ricoh	2%	2%	5.5	BBB(high)
Samsung	2%	2%	2.2	AA(low)
Top 10 Tenants	**68%**	**58%**	**6.1**	

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

As at December 31, 2019, Magna, a diversified global automotive supplier, was the tenant at 35 of Granite's income-producing properties and lease payments under those leases represented approximately 42% of Granite's annualized revenue. See ''— *Magna, Granite's Largest Tenant*''.

Granite believes that its existing portfolio of Magna-tenanted properties provides a level of stability for its business. Granite's seven special purpose properties are occupied exclusively by Magna in Canada, Austria and Germany. Magna has invested significant capital in these active production facilities making it expensive to relocate. The special purpose attributes of these properties may make it more difficult to lease to future tenants should Magna vacate (see ''Risk Factors''), but, currently with a weighted average remaining lease term of 5.2 years as at December 31, 2019, they also present the opportunity for a stable and, relative to modern logistics/distribution warehouse and multi-purpose properties, enhanced rental income stream. See ''— *Magna, Granite's Largest Tenant*''. On balance, the risk profile of the special purpose properties is substantially similar to that of Granite's multi-purpose properties and modern logistics/distribution warehouses.

Expansion and Improvement Projects

Capital expenditures can include expansion or development expenditures as well as maintenance or improvement capital expenditures. Expansion or development capital expenditures are discretionary in nature and are incurred to generate new revenue streams and/or increase the productivity of a property. Maintenance or improvement capital expenditures relate to sustaining the existing earnings capacity of a property. During the year ended December 31, 2019, Granite incurred $30.9 million of expansion or development capital expenditures and $3.3 million of maintenance or improvement capital expenditures.

Of the $30.9 million in expansion or development capital expenditures made by Granite during 2019, $27.2 million related to the developments in Indiana and Texas, United States as well as Altbach, Germany and $3.4 million related to the construction of a 0.3 million square foot recently completed expansion at a property near Columbus, Ohio.

The $3.3 million in maintenance or improvement capital expenditures made by Granite during 2019 related to small improvement projects at various properties.

As at December 31, 2019 Granite had three properties under development comprising (i) a site in Altbach, Germany where the demolition of the property is complete and the construction of a distribution/light industrial facility is anticipated to start in the second quarter of 2020, (ii) a parcel of development land in Plainfield, Indiana where construction of a class A distribution/warehouse facility is nearing completion, and (iii) 50 acres of a recently acquired greenfield site in Houston, Texas on which speculative construction of the initial phase, consisting of two buildings totaling 0.7 million square feet, began in the fourth quarter of 2019.

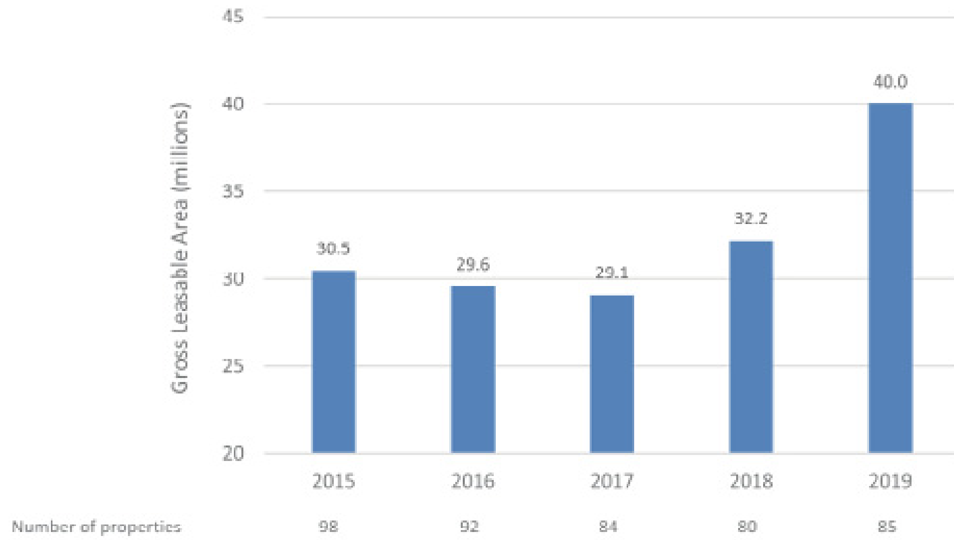
For most construction projects, Granite uses its experience and local expertise to construction-manage specific elements of a project to maximize returns and minimize construction costs. On the remainder of its projects, Granite outsources design and construction. Depending on the nature and location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

Profile of Granite's Real Estate Portfolio

Granite's Income-Producing Real Estate Portfolio

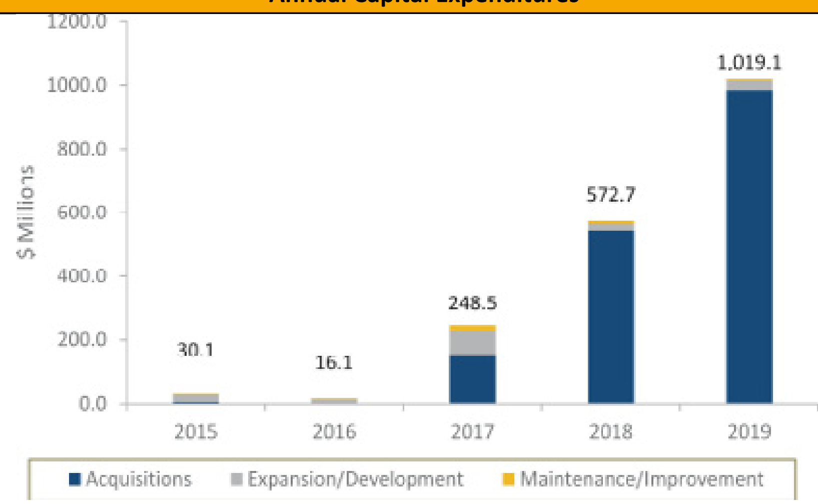
The following chart shows the total leasable area (net of dispositions) and number of properties within Granite's income-producing property portfolio in each of the last 5 years:

Total Leasable Area and Number of Properties



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

Annual Capital Expenditures



Schedule of Lease Expiries

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

December 31, 2019 — 6.5 years;
December 31, 2018 — 6.0 years;
December 31, 2017 — 5.9 years;
December 31, 2016 — 7.0 years; and
December 31, 2015 — 4.7 years.

Lease Expiration

As at December 31, 2019, Granite's portfolio had a weighted average lease term by square footage of 6.5 years (December 31, 2018 — 6.0 years) with lease expiries by GLA, net of any leases renewed (in thousands of square feet), lease count and annualized revenue (calculated as rental revenue excluding tenant recoveries, recognized in accordance with IFRS, in December 2019 multiplied by twelve months, in millions) as set out in the table below:

Lease Maturity Summary

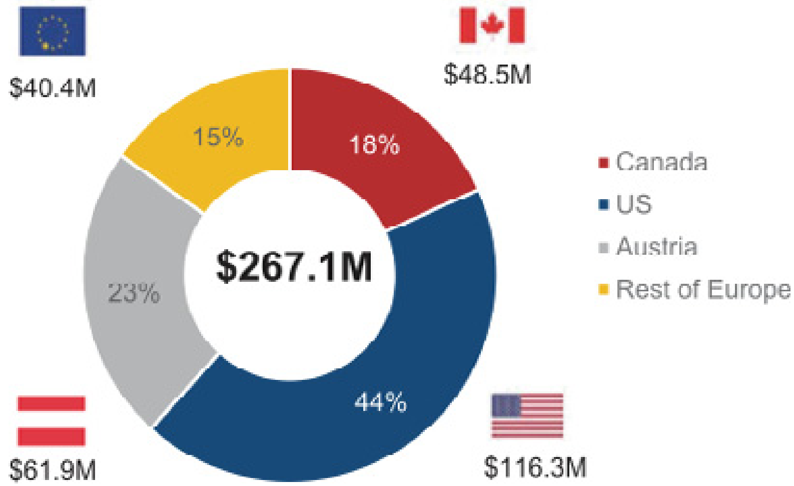
Country	Total GLA	Total Lease Count	Total Annualized Revenue $	Vacancies Sq Ft	2020 Sq Ft	2020 Annualized Revenue $	2021 Sq Ft	2021 Annualized Revenue $	2022 Sq Ft	2022 Annualized Revenue $	2023 Sq Ft	2023 Annualized Revenue $	2024 Sq Ft	2024 Annualized Revenue $	2025 Sq Ft	2025 Annualized Revenue $	20 Sq
Canada	**5,904**	**26**	**48.5**	—	214	1.3	316	2.9	347	2.9	380	2.3	934	6.9	981	6.7	2,7
United States	**20,057**	**42**	**116.3**	402	208	1.1	87	0.7	3,110	15.5	2,807	13.7	2,822	14.3	889	4.9	9,7
Austria	**8,101**	**12**	**61.9**	—	101	0.6	389	2.6	802	9.7	125	1.2	5,349	37.5	111	0.6	1,2
Germany	**3,504**	**11**	**24.0**	—	—	—	548	3.6	283	2.2	1,947	13.6	—	—	195	1.4	5
Netherlands	**1,700**	**4**	**10.9**	—	—	—	—	—	—	—	314	2.1	—	—	628	4.7	7
Europe — Other	**751**	**8**	**5.5**	—	133	0.6	336	3.1	101	0.5	90	0.7	—	—	—	—	
Total	**40,017**	**103**	**267.1**	**402**	**656**	**3.6**	**1,676**	**12.9**	**4,643**	**30.8**	**5,663**	**33.6**	**9,105**	**58.7**	**2,804**	**18.3**	**15,**
% of portfolio as at December 31, 2019:																	
* by sq ft	**100%**			**1.0%**	**1.6%**		**4.2%**		**11.6%**		**14.1%**		**22.8%**		**7.0%**		**3**
* by Annualized Revenue			**100%**			**1.3%**		**4.8%**		**11.5%**		**12.6%**		**22.0%**		**6.9%**	

Principal Markets in which Granite Operates

Geographic Diversification

The following chart shows a breakdown of Granite's $267.1 million of annualized revenue by country from income-producing properties as at December 31, 2019:

Income-Producing Property Portfolio Breakdown of Annualized Revenue by Country at December 31, 2019 (in millions of dollars)



The chart below shows the breakdown of Granite's income-producing property portfolio by country, category, fair value and number of properties as at December 31, 2019:

Income-Producing Property Portfolio Breakdown by Country, Category, Fair Value and Number Properties as at December 31, 2019 (in millions of dollars)

	Modern logistics/distribution warehouse facilities		Multi purpose facilities		Special purpose properties		Total	
	Fair Value	#	Fair Value	#	Fair Value	#	Fair Value	#
Canada	$ 216.5	4	$ 487.8	20	$ 275.0	2	$ 979.3	26
Austria	—	—	118.7	7	687.7	4	806.4	11
United States	1,852.3	27	99.0	3	—	—	1,951.3	30
Germany	219.4	6	92.7	3	63.4	1	375.5	10
Netherlands	196.7	4	—	—	—	—	196.7	4
Other	24.4	1	44.0	3	—	—	68.4	4
	$ 2,509.3	**42**	**$ 842.2**	**36**	**$ 1,026.1**	**7**	**$ 4,377.6**	**85**

Income-Producing Properties in Canada

Approximately 96% of the Canadian income-producing properties based on revenue as at December 31, 2019 are located in the Greater Toronto Area. The remaining two properties in the Canadian portfolio are located in Southwestern Ontario. The lease payments for properties in Canada are denominated in Canadian dollars.

Income-Producing Properties in the United States

Approximately 29% of the annualized revenue as at December 31, 2019 from Granite's income-producing properties in the United States is derived from properties located in Ohio, 26% is derived from properties located in Texas, 11% is derived from properties in Indiana and 7% is derived from properties located in Mississippi. The remainder of Granite's revenue from the United States is derived from properties located in Missouri, Michigan, New Jersey, Pennsylvania, Georgia, Oregon, and Kentucky. The lease payments for properties in the United States are denominated in USD.

Income-Producing Properties in Austria

Approximately 96% of the Austrian income-producing properties based on annualized revenue as at December 31, 2019 are located in the Province of Styria. Magna's Eurostar and Thondorf plants (Granite's two largest income- producing properties globally, accounting for approximately 12% of Granite's total annualized revenue) are located in the city of Graz, which is located in the Province of Styria approximately 170 kilometers south of Vienna. The lease payments for properties in Austria are denominated in EUR.

Income-Producing Properties in Germany

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

Income-Producing Properties in the Netherlands

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

Income-Producing Properties in Other European Locations

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

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

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

Development Lands in Poland and the United States

Granite currently holds three parcels of development land. Land held for development comprise (i) 12.9 acres of development land in Ohio, United States that was acquired in 2018, (ii) the remaining 141 acres of land in Houston, Texas acquired in 2019 and held for the future development of up to a 1.7 million square foot multi-phased business park capable of accommodating buildings ranging from 0.3 million to 1.2 million square feet, and (iii) a 16-acre parcel of land located in Wroclaw, Poland that could provide for approximately 0.3 million square feet of logistics-warehouse space.

Property Under Development in Germany and the United States

Granite currently has three properties under development in its real estate portfolio. Properties under development comprise (i) a site in Altbach, Germany where the demolition of the building is complete and construction of a distribution/light industrial facility is anticipated to start in the second quarter of 2020, (ii) a parcel of development land in Plainfield, Indiana where construction of a class A distribution/warehouse facility is nearing completion, and (iii) 50 acres of the recently acquired greenfield site in Houston, Texas on which speculative construction of the initial phase, consisting of two buildings totaling 0.7 million square feet, began in the fourth quarter of 2019.

Foreign Exchange

As at December 31, 2019, approximately 78% of Granite's revenue was denominated in foreign currencies. As Granite reports its financial results in Canadian dollars and does not currently hedge all of its non-Canadian dollar net operating income, foreign currency fluctuations can have a material impact on Granite's financial results.

Leasing Arrangements

Leases

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

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

Contractual Rental Escalations

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

Renewal Options

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

Surrender Obligations

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

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

Environmental Obligations

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

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

Restrictions on Sales and Tenant Rights of Refusal

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

Tenant Assignment Rights

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

Government Regulation

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

Employees

As at December 31, 2019, Granite employed 46 people, the majority of whom are based at its headquarters in Toronto, and the balance of whom are located in Austria, Netherlands and the United States. Granite is not party to any collective bargaining agreements with any of its employees.

Magna, Granite's Largest Tenant

At December 31, 2019, Magna International Inc. or one of its operating subsidiaries was the tenant at 35 of Granite's income-producing properties and comprised 42% of Granite's annualized revenue and 35% of Granite's gross leasable area. According to its public disclosure, Magna International Inc. has a credit rating of A3 with a stable outlook by Moody's, A- with a stable outlook by Standard & Poor's and A(low) with a stable outlook by DBRS. Magna is a mobility technology company with 346 manufacturing operations and 94 product development, engineering and sales centres in 27 countries. Magna has complete vehicle engineering and contract manufacturing expertise, as well as product capabilities that include body, chassis, exteriors, seating, powertrain, active driver assistance, electronics, mechatronics, mirrors, lighting and roof systems

For information on the conditions affecting the automotive industry and Magna's results of operations, Granite encourages investors to consult Magna's public disclosure, including its most recent Management's

Discussion and Analysis of Results of Operations and Financial Position and its annual information form. None of those documents or their contents, however, shall be deemed to be incorporated by reference into this Annual Information Form unless specifically otherwise noted in this Annual Information Form. According to its public disclosure, Magna's success is primarily dependent upon the levels of North American and European car and light truck production by Magna's customers and the relative amount of content Magna has in the various programs.

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

CORPORATE SUSTAINABILITY

Granite recognizes the important role building owners can play in fostering the efficient use of resources and respecting our environment. As a good steward for investors, we seek to practically incorporate sustainability in our actions and decision-making process, while generating returns for our unitholders. Consistent with this principle, we seek to apply the following practices and measures in our business:

- Promote energy efficiency and sustainable practices at our properties
- Exceed required standards where feasible in our developments and major replacement projects
- Reduce use of resources and increase waste diversion
- Promote volunteerism and community support
- Promote employee well-being

Transparency is a critical component of our commitment. As such, we will provide our unitholders with an annual report summarizing our progress on the principles and measures outlined herein, beginning in 2020. Additional information on Granite's Sustainability Plan can be found at Granite's website www.granitereit.com.

INVESTMENT GUIDELINES AND OPERATING POLICIES OF GRANITE

REIT Investment Guidelines

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

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

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

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

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

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

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

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

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

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

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

Operating Policies

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

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

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

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

(iv) Granite REIT shall not guarantee any liabilities of any person unless such guarantee: (i) is given in connection with an otherwise permitted investment; (ii) has been approved by the Trustees; and

(iii) (A) would not disqualify Granite REIT as a ''mutual fund trust'' within the meaning of the Tax Act, and (B) would not result in Granite REIT losing any other status under the Tax Act that is otherwise beneficial to Granite REIT and REIT Unitholders;

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

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

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

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

Amendments to Investment Guidelines and Operating Policies

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

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

RISK FACTORS

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

Risks Relating to Granite's Business

Tenant Concentration

Although one element of Granite's strategy is to diversify and reduce its exposure to Magna by increasing the proportion of lease revenue that it derives from other tenants, as at December 31, 2019, 35 of Granite's

85 income-producing properties were leased to Magna International Inc. or its operating subsidiaries. For the year ended December 31, 2019, payments under those leases represented approximately 42% of Granite's annualized revenue and approximately 35% based on gross leasable area.

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

Granite encourages investors to consult Magna's public disclosure for information on factors affecting the business of Magna, including the factors described in the section on industry trends and risks in Magna's Management's Discussion and Analysis of Results of Operations and Financial Position prepared as at November 7, 2019, which section, excluding any forward-looking information contained therein expressly referring to Magna's beliefs, is incorporated by reference into this AIF.

Automotive Industry

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

The global automotive industry is cyclical. Economic uncertainty or a deterioration of the global economy for an extended period of time may result in lower consumer confidence, which has a significant impact on consumer demand for vehicles, as vehicle production is closely related to consumer demand. In addition, the automotive industry is highly competitive and may be negatively impacted by restrictions on free trade or by trade disputes or tariffs. Further, the automotive sector may be impacted by regional production volume declines including as a result of a labour disputes or a global virus outbreak. Each of these risks could have a material adverse effect on Magna, its customers and suppliers and, in turn, on Granite's profitability and financial condition. A decrease in the long-term profitability or viability of the automotive industry and the automotive parts sector in particular would have a material adverse impact on Granite's properties and its operating results.

Credit Risk

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

Adverse Global Market, Economic and Political Conditions, Health Crises and Other Events Beyond Granite's Control

Adverse Canadian, U.S. and the global market, economic and political conditions, including dislocations and volatility in the credit markets and general global economic uncertainty, could have a material adverse effect on Granite's business, results of operations and financial condition with the potential to impact, among others; (i) the value of our properties; (ii) the availability or the terms of financing that Granite has or may anticipate utilizing; (iii) Granite's ability to make principal and interest payments on, or refinance any outstanding debt when due; and (iv) the ability of Granite's tenants to enter into new leasing transactions or to satisfy rental payments under existing leases.

Public health crises, pandemics and epidemics, such as those caused by new strains of viruses such as H5N1 (avian flu), severe acute respiratory syndrome (SARS) and, most recently, the novel coronavirus (COVID-19), could adversely impact Granite's and our tenants' businesses, and thereby our tenants' ability to meet their payment obligations, by disrupting supply chains and transactional activities, and negatively impacting local, national or global economies.

Geographic Exposure

During 2019, 22% of Granite's revenue was generated in Canada, 23% in Austria, 39% in the United States, 10% in Germany, 4% in the Netherlands, and the remainder in four other European countries. Operating in different regions and countries exposes Granite to political, economic and other risks as well as multiple foreign regulatory requirements that are subject to change, including:

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

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

Foreign Currency

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

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

Environmental Matters

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

Capital and operating expenditures necessary to comply with environmental laws and regulations, to defend against claims and to remediate contaminated property may have a material adverse effect on

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

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

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

Competition

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

If competing properties of a similar type are built in the area where one of Granite's properties is located, or similar properties located in the vicinity of one of Granite's properties are substantially refurbished, the net operating income derived from, and the value of, such property could be reduced as a result of Granite's potential inability to lease space or to charge rent at same or better rates.

Lease Renewals and Occupancy

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

Market rates may be lower at the time renewal options are exercised, and accordingly, leases may be renewed at lower levels of rent than are currently in place. Granite may incur significant costs in making property modifications, improvements or repairs required by a new tenant. The failure to maintain a significant number of Granite's income-producing properties under lease would have a material adverse effect on Granite's financial condition and operating results. As at December 31, 2019, Granite's occupancy rate was 99.0%.

Key Personnel

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

Cyber Security

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

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

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

General Risks Associated with Real Property Ownership

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

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

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

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

Development Risk

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

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

Granite's development projects may not be completed on time or within budget, and in cases of speculative development there may be difficulty in securing tenants for the development or leasing may not be executed in a timely manner or at expected lease rates, which could all adversely affect Granite's operating results.

Liquidity of Real Estate Investments

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

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

Inability to Execute Growth Strategy

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

Failure to Obtain Future Financing

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

Financing Risk

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

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

The documents governing the 2021 Debentures, the 2023 Debentures, the Credit Facility, the 2024 Term Facility and the 2026 Term Facility contain various financial covenants which are measured on the basis of the combined financial statements of Granite REIT and Granite GP. Failure to comply with obligations under the documents governing such indebtedness may adversely impact cash distributions on the Stapled Units.

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

Acquisitions

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

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

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

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

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

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

Capital Expenditures

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

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

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

Uninsured Losses

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

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

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

Litigation Risk

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

Regulatory Risk

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

Financial Reporting

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

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

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

Increased Financial Leverage

One of Granite's strategic objectives is to increase its leverage to a range of 30% to 35%. As at December 31, 2019, Granite's net leverage ratio was 21%.

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

Risks Relating to Taxation

Canada

Mutual Fund Trust Status

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

Real Estate Investment Trust Status

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

Changes to Tax Laws

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

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

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

United States

Granite's U.S. Private REITs' Status as a U.S. REIT

As of January 1, 2013, Granite America, and as of November 18, 2019, Commerce 30 Building C. Inc., (together "U.S. Private REITs") qualified as REITs for United States federal income tax purposes. REITs are subject to numerous requirements, including requirements relating to the character of their income and assets. If either U.S. Private REIT fails to qualify as a REIT for U.S. federal income tax purposes, it would be subject to U.S. federal income tax as a corporation, and distributions to Granite REIT (and ultimately to REIT Unitholders) could be reduced.

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

Granite REIT's Status as a Partnership

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

Risks Related to PFIC Status

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

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

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

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

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

Risks Relating to the Stapled Units

Distributions

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

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

Holders of GP Shares have no contractual or legal right to dividends, and the declaration of dividends is in the discretion of the Directors of Granite GP. Payment of dividends will depend on, among other things, the earnings, financial condition, level of indebtedness and financial commitments of Granite GP, statutory solvency tests applicable to the declaration and payment of dividends and other factors considered relevant by the directors of Granite GP. In the current Stapled Unit structure, Granite GP would be entirely dependent on its relatively nominal general partner interest in Granite LP in order to receive funds from which to pay dividends. In light of its nominal earnings (if any), Granite GP did not pay dividends in 2018 or 2019 and does not expect to pay dividends in 2020.

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

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

Subordination of REIT Units and GP Shares

In the event of a bankruptcy, liquidation or reorganization of Granite LP or its subsidiaries, holders of certain of their indebtedness and certain trade creditors will generally be entitled to payment of their claims from the assets from such entities before any assets are made available for upstream distribution, eventually to Granite REIT or Granite GP. GP Shares and REIT Units will be effectively subordinated to the Credit Facility, the 2021 Debentures, the 2023 Debentures, the 2024 Term Facility and the 2026 Term Facility and most of the other indebtedness and liabilities of Granite LP and its subsidiaries. None of Granite LP or its subsidiaries will be limited (other than pursuant to their credit facilities or other debt instruments, including the Credit Facility, the 2024 Term Facility, the 2026 Term Facility, the 2014 Indenture and 2016 Indenture) in their respective ability to incur secured or unsecured indebtedness.

Non-Resident Ownership

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

Currency Risk Associated with Granite's Distributions.

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

Dependence on Granite LP

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

Market Price of Stapled Units

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

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

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

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

Non-Direct Investment

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

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

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

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

Redemptions of Stapled Units

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

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

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

Dilution of Stapled Units

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

Liability of REIT Unitholders

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

Uncoupling of Stapled Units — Significant Expenditures

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

Uncoupling of Stapled Units — De-listing of REIT Units

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

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

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

Risks Relating to the Debentures

Credit Ratings and Credit Risk

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

Repayment Risk

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

Structural Subordinate of Debentures

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

Fluctuations in Market Price and Value of the Debentures

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

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

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

Liquidity of Debentures

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

Change of Control

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

Early Redemption of Debentures

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

DESCRIPTION OF STAPLED UNITS

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

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

Support Agreement

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

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

Among other things, the Support Agreement provides for:

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

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

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

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

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

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

DECLARATION OF TRUST AND DESCRIPTION OF REIT UNITS

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

REIT Units

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

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

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

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

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

Allotment and Issue of REIT Units

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

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

Transferability and Stapling of REIT Units

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

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

Purchases of REIT Units

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

Trustees

Number of Trustees and Quorum

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

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

Trustee Power and Authority

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

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

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

Term of Trustees

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

Residency of Trustees and Quorum

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

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

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

Resignation and Removal of Trustees

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

Vacancies

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

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

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

Standard of Care of Trustees, Indemnification and Limitations of Liability

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

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

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

The Declaration of Trust also provides that the foregoing matters in this paragraph will apply mutatis mutandis to each individual who: (i) is or was an officer of Granite REIT; (ii) was a Trustee; (iii) is or was, or holds or held a position equivalent to that of, a director or officer of Granite GP or of a person at a time when that person is or was an affiliate of Granite REIT or of Granite GP; (iv) at the request of Granite REIT or Granite GP, is or was, or holds or held a position equivalent to that of, a director or officer of a person; and the heirs and personal or other legal representatives of any of the foregoing individuals or an individual who is a Trustee. Granite REIT shall also indemnify any such persons in such other circumstances as the Declaration of Trust or law permits or requires.

REIT Unit Redemption Right

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

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

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

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

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

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

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

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

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

For the purposes of the foregoing,

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

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

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

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

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

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

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

Notwithstanding the foregoing, Granite GP has the right (the ''GP Redemption Right'') to require Granite REIT to redeem at any time or from time to time at the demand of Granite GP all or any part of the Units that Granite GP may acquire from time to time pursuant to any issuer bid for Stapled Units. Each redemption by Granite REIT pursuant to the GP Redemption Right of a Unit forming part of a Stapled Unit acquired by Granite GP pursuant to an issuer bid shall occur immediately and concurrently with the cancellation by Granite GP of the Granite GP Common Share forming part of such Stapled Unit.

Meetings of REIT Unitholders

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

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

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

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

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

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

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

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

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

Limitations on Non-Resident Ownership of REIT Units

At no time may more than 49% (on either a basic or fully-diluted basis) of the REIT Units be held for the benefit of any Non-Resident Beneficiaries. The Trustees may require declarations as to the jurisdictions in which beneficial owners of REIT Units are resident or declarations from holders of REIT Units as to whether such REIT Units are held for the benefit of Non-Resident Beneficiaries. If the Trustees become aware that more than 49% (on either a basic or fully-diluted basis) of the REIT Units then outstanding are, or may be, held for the benefit of Non-Resident Beneficiaries or that such a situation is imminent, the Trustees may cause Granite REIT to make a public announcement thereof and shall not accept a subscription for REIT Units from or issue or register a transfer of REIT Units to a person unless the person provides a declaration that the person is not a Non-Resident (or, in the discretion of the Trustees, that the person is not a Non-Resident Beneficiary) and does not hold its REIT Units for a Non-Resident Beneficiary. If, notwithstanding the foregoing, the Trustees determine that more than 49% of the REIT Units (on either a basic or fully-diluted basis) are held for the benefit of Non-Resident Beneficiaries, the Trustees may cause Granite REIT to send a notice to Non-Resident holders of REIT Units, chosen in inverse order to the order of acquisition or registration or in such manner as the Trustees may consider equitable and practicable, requiring them to sell their REIT Units or a portion thereof within a specified period of not more than 60 days. If the REIT Unitholders receiving such notice have not sold the specified number of REIT Units or provided the Trustees with satisfactory evidence that they are not Non-Residents and do not hold their REIT Units for the benefit of Non-Resident Beneficiaries within such period, the Trustees may cause Granite REIT to sell such REIT Units on behalf of such REIT Unitholders and, in the interim, the voting and distribution rights attached to such REIT Units shall be suspended. Upon such sale the affected holders shall cease to be holders of REIT Units and their rights shall be limited to receiving the net proceeds from such sale.

Amendments to the Declaration of Trust

Amendments by REIT Unitholders

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

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

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

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

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

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

(v) the termination of Granite REIT;

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

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

Amendments by Trustees

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

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

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

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

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

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

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

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

Written Resolutions of REIT Unitholders

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

Term of Granite REIT

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

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

Acquisition Offers

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

Information and Reports

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

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

Conflict of Interest Provisions

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

GRANITE GP CAPITAL STRUCTURE

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

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

Prior to the occurrence of an Event of Uncoupling, holders of GP Shares can require Granite GP to redeem their GP Shares provided that Stapled Units are in existence at the time at which redemption is sought, and that the holder simultaneously tenders to Granite REIT for redemption an equal number of REIT Units held by the holder. In order to exercise this right of retraction, a holder of GP Shares will have to give the required notice to Granite GP and will be entitled to receive a redemption price per share equal to 0.001%

of the lesser of 95% of the ''Market Price'' and ''Closing Market Price'' of the Stapled Units, as described above under ''Declaration of Trust and Description of REIT Units — REIT Unit Redemption Right''.

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

CREDIT FACILITY AND INDEBTEDNESS

Debentures, Term Loans and Credit Facility

Debt Instrument	Issue Date	Maturity Date	Principal O/S	
2021 Debentures	3-Jul-14	5-Jul-21	$	250M
2023 Debentures	20-Dec-16	30-Nov-23	$	400M
Credit Facility	1-Feb-18	1-Feb-23		N/A
2026 Term Loan	12-Dec-18	11-Dec-26	$	300M
2024 Term Loan	19-Dec-18	19-Dec-24	USD	185M

Credit Facility

As at December 31, 2019, Granite LP is the borrower under the Credit Facility in the amount of $500 million (which may be increased with the consent of lenders participating in such increase provided that no increase beyond $600 million is permitted without the consent of all of the lenders under the Credit Facility). The Credit Facility matures on February 1, 2023, although Granite LP has the option to extend the maturity date by one year to February 1, 2024, subject to the agreement of lenders in respect of a minimum of 662/3% of the aggregate amount committed under the new facility. Granite LP is permitted to borrow under the facility by way of Canadian dollar, U.S. dollar or Euro denominated loans or letters of credit. Interest on drawn amounts is calculated based on an applicable margin determined by reference to the external credit rating of Granite REIT and Granite GP, as is a commitment fee in respect of undrawn amounts. The Credit Facility is guaranteed by Granite REIT and Granite GP. Although Granite LP is the borrower under the Credit Facility, the financial covenants must be satisfied on the basis of the combined financial statements of Granite REIT and Granite GP.

As at December 31, 2019, Granite LP had no amounts drawn under the Credit Facility and $1.0 million in letters of credit issued against the Credit Facility. At December 31, 2019, Granite was in compliance with all of these covenants.

Term Facilities

On December 12, 2018, Granite LP entered into the 2026 Term Facility. The initial maturity date of the 2026 Term Facility was December 12, 2025. On November 27, 2019, Granite extended the 2026 Term Facility for one year, on the same terms, to mature on December 11, 2026. The 2026 Term Facility was available in Canadian dollar, U.S. dollar or Euro denominated funds in one drawdown and is fully pre payable without penalty. Any amount repaid may not be re-borrowed. Interest on drawn amounts is calculated based on CDOR plus an applicable margin determined by reference to the external credit rating of Granite LP. The 2026 Term Facility is guaranteed by Granite REIT and Granite GP. Although Granite LP is the borrower under the 2026 Term Facility, the financial covenants must be satisfied on the basis of the combined financial statements of Granite REIT and Granite GP. On December 12, 2018, Granite LP drew the full $300 million available under the 2026 Term Facility. As at December 31, 2019, the full $300 million remained outstanding under the 2026 Term Facility.

On November 27, 2019, Granite refinanced its existing 2.202% cross-currency interest rate swap by terminating it and entering into a new 1.355% swap, under which (i) Granite LP will pay principal of EUR 205.5 million, in exchange for which it will receive $300 million on December 11, 2026, and (ii) Granite LP will make Euro denominated fixed rate interest payments at 1.355% in exchange for which it will receive Canadian dollar denominated floating rate interest payments calculated based on CDOR plus the applicable margin (which will completely offset the interest payable under the 2026 Term Facility).

On December 19, 2018, Granite LP entered into the 2024 Term Facility. The initial maturity date of the 2024 Term Facility was December 19, 2022. On October 10, 2019, Granite extended the 2024 Term Facility for two years, on the same terms, to mature on December 19, 2024. The 2024 Term Facility was available in United States dollars in one drawdown and is fully pre payable without penalty. Any amount repaid may not be re-borrowed. Interest on drawn amounts is calculated based on LIBOR plus an applicable margin determined by reference to the external credit rating of Granite LP. The 2024 Term Facility is guaranteed by Granite REIT and Granite GP. Although Granite LP is the borrower under the 2024 Term Facility, the financial covenants must be satisfied on the basis of the combined financial statements of Granite REIT and Granite GP. On December 19, 2018, Granite LP drew the full USD 185 million available under the 2024 Term Facility. As at December 31, 2019, the full USD 185 million remained outstanding under the 2024 Term Facility.

Effective October 21, 2019, Granite amended the terms of its existing 1.225% cross-currency interest rate swap to extend it from December 19, 2020 to December 19, 2024 and reset the Euro fixed rate from 1.225% to 0.522%. Under the 0.522% Swap, Granite LP will pay principal of EUR 168.2 million in exchange for which it will receive USD 185 million on December 19, 2024. Pursuant to the 0.522% Swap, Granite LP will make Euro denominated fixed rate interest payments at 0.522% in exchange for which it will receive U.S. dollar denominated floating rate interest payments calculated based on LIBOR plus the applicable margin (which would completely offset the interest payable under the 2024 Term Facility).

Other Unsecured Indebtedness

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

On July 3, 2014, Granite LP entered into the 2.68% Swap, under which Granite LP will pay principal of EUR 171.9 million in exchange for which it will receive $250 million on July 5, 2021. Pursuant to the 2.68% Swap, Granite LP will make Euro denominated fixed rate interest payments at 2.68% in exchange for which it will receive Canadian dollar fixed rate interest payments at 3.788%.

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

On December 20, 2016, Granite LP entered into the 2.43% Swap, under which Granite LP will pay principal of EUR 281.1 million in exchange for which it will receive $400 million on November 30, 2023. Pursuant to the 2.43% Swap, Granite LP will make Euro denominated fixed rate interest payments at 2.43% in exchange for which it will receive Canadian dollar fixed rate interest payments at 3.873%.

As at December 31, 2019, all 2021 Debentures and 2023 Debentures remained outstanding. For further details relating to the attributes and characteristics of the 2021 Debentures and 2023 Debentures, including provisions relating to payments of interest and principal, redemption and purchase for cancellation, covenants, successor companies, defeasance, modification and waiver, please see the full text of the trust indenture entered into by Granite LP dated October 2, 2013, which provides for the issuance of one or more series of unsecured debt securities of Granite LP by way of supplemental indentures and the supplemental indentures thereto, including the supplemental indentures that form part of the 2014 Indenture and the 2016 Indenture, all of which are available on SEDAR at www.sedar.com.

Credit Ratings

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

Credit Ratings

	DBRS	Moody's
Senior Unsecured Debentures	BBB	Baa2
Outlook	Stable	Stable
Date of Latest Report	April 1, 2019	March 14, 2019

As of March 4, 2020, the 2021 Debentures and the 2023 Debentures each had investment grade ratings of ''BBB'' with a ''Stable'' trend from DBRS and ''Baa2'' with a ''Stable'' outlook from Moody's, each as of the date of their latest report. Ratings may be subject to revision or withdrawal at any time by the rating organization.

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

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

Credit ratings are intended to provide investors with an independent measure of credit quality of an issue of securities. A rating accorded to any securities is not a recommendation to buy, sell, or hold such securities and may be subject to revision or withdrawal at any time by the rating organization which granted such ratings. To Granite's knowledge, as of March 4, 2020, there was no announcement or proposed announcement that was to be made by a rating organization to the effect that the organization is reviewing or intends to revise or withdraw a rating previously assigned. There can be no assurance that a rating will remain in effect for any given period of time or that a rating will not be lowered, withdrawn or revised by the rating agency if in its judgment circumstances so warrant.

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

DISTRIBUTION AND DIVIDEND POLICY

Distribution Policy of Granite REIT and Granite GP

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

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

Currently, Granite REIT intends to make monthly distributions in the estimated amount of $0.242 per REIT Unit.

The portion of distributions by Granite REIT for 2020 which will be income for Canadian income tax purposes is estimated to be in the range of 85% to 100%. This estimate could change by the end of 2020. In light of its nominal anticipated earnings (if any), it is not expected that Granite GP will pay dividends in 2020.

Distributions of Granite REIT

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

Total Distributions by Year		
Year	**$(millions of CAD)**	**$/unit**
2017	122.7	2.60
2018	125.0	2.73
2019	139.3	2.81

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

Historical Monthly Distributions by Quarter

MARKET FOR SECURITIES

Trading Price and Volume

Granite's Stapled Units are listed for trading on the TSX under the symbol ''GRT.UN'' and on the NYSE under the symbol ''GRP.U''. The volume of trading and the high and low trading price of Granite's Stapled Units on the TSX for each month of the year ended December 31, 2019 are set forth in the following table:

Trading Price and Volume

	Stapled Units		
TSX 2019	**High ($)**	**Low ($)**	**Traded Volume**
January	59.68	52.85	4,520,621
February	62.22	59.20	3,596,537
March	64.66	61.02	4,390,044
April	64.44	60.91	3,529,639
May	63.23	60.26	3,502,579
June	62.63	59.50	2,600,556
July	62.27	60.30	2,104,890
August	64.43	60.79	2,719,689
September	65.33	62.50	1,970,702
October	67.35	63.27	3,756,892
November	68.98	63.60	3,965,691
December	69.12	65.48	2,841,596

Source: TSX Datalinx

TRUSTEES AND MANAGEMENT OF GRANITE

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

Name, Province/State and Country of Residence	Position and Office Held with each of Granite REIT and Granite GP (as applicable)	Present Principal Occupation (if not with Granite)	Trustee/Director/Officer Since
KELLY MARSHALL[(1)] Ontario, Canada	Trustee and Chairman Director and Chairman	Executive Vice President of Strategic Partnerships at Ontario Municipal Employee Retirement System	June 15, 2017
PETER AGHAR[(2)] Ontario, Canada	Trustee Director	Principal of Crux Capital Corporation	June 15, 2017
REMCO DAAL[(3)] British Columbia, Canada	Trustee Director	President of Canadian Real Estate for QuadReal Property Group	June 15, 2017
KEVAN GORRIE Ontario, Canada	President and Chief Executive Officer Trustee Director		August 1, 2018
FERN GRODNER[(1)] Washington State, U.S.	Trustee Director	Corporate Director	June 13, 2019
AL MAWANI[(3)(5)] Ontario, Canada	Trustee Director	Principal of Exponent Capital Partners Inc.	June 15, 2017
GERALD MILLER[(6)] British Columbia, Canada	Trustee Director	Corporate Director	June 30, 2011
SHEILA MURRAY[(4)] Ontario, Canada	Trustee Director	Corporate Director	June 13, 2019
JENNIFER WARREN[(4)] New York, New York	Trustee Director	CEO Issuer Services, North America at Computershare	June 14, 2018
Teresa Neto Ontario, Canada	Chief Financial Officer		July 8, 2019
LORNE KUMER Ontario, Canada	Executive Vice President, Head of Global Real Estate		February 13, 2010

Notes:

(1) Member of the Investment Committee of Granite GP.
(2) Chair of the Investment Committee of Granite GP.
(3) Member of the Audit Committee of each of Granite REIT and Granite GP.
(4) Member of the Compensation, Governance and Nominating Committee of Granite GP.
(5) Chair of the Compensation, Governance and Nominating Committee of Granite GP.
(6) Chair of the Audit Committee of each of Granite REIT and Granite GP.

As at December 31, 2019, the Trustees, Directors and executive officers of Granite, as a group, beneficially owned, directly or indirectly, or exercised control or direction over 104,424 Stapled Units of Granite, representing approximately 0.2% of the total number of Stapled Units outstanding.

The term of office of each Trustee and Director expires at the time of Granite REIT's and Granite GP's Joint Annual General Meeting, which for 2020 is expected to be held on June 4, 2020. In the event that successors are not elected, the Trustees and Directors will remain in office until their successors are elected or appointed in accordance with applicable law and the constating documents of Granite REIT and Granite GP.

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

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

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

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

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

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

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

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

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

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

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

Fern Grodner — Trustee of Granite REIT; Director of Granite GP

With over 25 years of corporate real estate experience, Ms. Grodner most recently served as Senior Manager, Global Real Estate and Facilities for Amazon.com from 2014 through 2019. At Amazon.com, Ms. Grodner was responsible for large, complex real estate transactions in the Americas in which she oversaw transactions totaling in excess of US$4 billion. Her expertise also extends to strategic planning, design, and construction of corporate space.

Prior to joining Amazon, Ms. Grodner spent seven years with JDS Uniphase Corporation overseeing all real estate aspects of an international portfolio of office and manufacturing sites. From 2002 to 2007, Ms. Grodner served as Vice President, Corporate Real Estate, at Wachovia Corporation, responsible for the growth of Wachovia Securities locations in the Western United States. During the early 2000 tech boom, Ms. Grodner served as Director of Real Estate for Relera, Inc. with a focus on co-location data centers. Ms. Grodner began her career with Bank of America Corporation, Corporate Real Estate, where during her seven-year tenure she was responsible for site selection, transactions, design, and construction for the bank's portfolio.

Ms. Grodner holds a Masters of Corporate Real Estate (MCR) and Senior Leader Corporate Real Estate (SLCR) designations from CoreNet Global, an international non-profit corporate real estate association for executives who manage the real estate assets of large corporations. She also served on the CoreNet Global Bay Area Chapter board for four years.

Ms. Grodner graduated from Indiana University with Honors with a degree in Psychology.

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

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

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

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

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

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

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

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

Sheila Murray – Trustee of Granite REIT; Director of Granite GP

Ms. Murray is the former President of CI Financial Corp., a position she held from 2016-2019. Previously, she had been Executive Vice-President, General Counsel and Secretary since 2008, following a 25-year career at Blake, Cassels & Graydon LLP, where she practised securities law with an emphasis on mergers and acquisitions, corporate finance and corporate reorganizations. Ms. Murray played a key role in directing the operations and setting corporate strategy for CI Financial Corp. and its operating companies, including CI Investments Inc. and Assante Wealth Management. Her role included leading CI's mentoring program, which fosters the advancement of high-potential female employees.

Ms. Murray is past Chair of the Dean's Council at Queen's University Law School, currently teaches Securities Regulation at Queen's University and has taught Securities Regulation and Corporate Finance at the University of Toronto's Global Professional Master of Laws in Business Law Program for several years.

Ms. Murray is Chair of the Board of Directors of Teck Resources Limited, a director of CI Financial Corp. and has been a director of the SickKids Foundation and a director of a number of other private and public companies.

Ms. Murray received her Bachelor of Commerce and Bachelor of Laws degrees from Queen's University.

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

Jennifer Warren is CEO Issuer Services, North America at Computershare, a global leader in diversified financial, corporate governance and stakeholder communication for public and private companies. Ms Warren joined Computershare in December 2018 as Head of U.S. Issuer Services. Prior this role, Ms Warren was with Canadian Imperial Bank of Commerce (from 2006 to 2017), first as General Counsel (Canada) and finally as Managing Director and Head, U.S. Region and President and CEO of CIBC World Markets Corp.

Ms Warren began her career as a business lawyer with Blake, Cassels & Graydon LLP and from there joined Rogers Communications Inc, where she worked for a decade in increasingly senior roles as a member of Rogers Cable management and the RCI deal team.

Ms Warren has been a director of a number of U.S. and Canadian private companies. Today, she sits on the board of Rogers Bank, a subsidiary of Rogers Communications Inc. and the board of United Way of New York City. She is also an Entrepreneur Mentor at the Fintech Innovation Lab at the Partnership for New York City.

Ms Warren received her Bachelor of Science and Bachelor of Laws from the University of Toronto.

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

Mr. Gorrie joined Granite as its President and Chief Executive Officer on August 1, 2018 and was appointed Trustee and a Director of Granite effective August 1, 2018. With over 20 years of corporate real estate experience in Canada, the United States and Germany, Mr. Gorrie most recently served as the President and Chief Executive Officer of Pure Industrial Real Estate Trust (''**PIRET**'') where he successfully grew and led the business until its strategic sale to Blackstone Property Partners and Ivanhoe´ Cambridge in May, 2018. Prior to joining PIRET, Mr. Gorrie led the industrial business for Oxford Properties Group, the real estate investment arm of a major Canadian pension fund, where he built a platform comprising 13 million square feet of income producing properties and development projects across major Canadian industrial markets, encompassing acquisition, asset management, leasing, operations and development.

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

Teresa Neto — Chief Financial Officer of Granite REIT; Chief Financial Officer of Granite GP

Ms. Neto joined Granite REIT as Chief Financial Officer on July 8, 2019 and is responsible for the REIT's financial planning, accounting and reporting, tax, treasury and corporate finance activities.

Ms. Neto has over thirty years of varied business experience, including thirteen years as a CFO for publicly-traded real estate investment trusts in Canada, most recently with Pure Industrial Real Estate Trust and prior to that at Northwest Healthcare Properties REIT.

Ms. Neto holds a Chartered Professional Accountant, CA designation and has a Bachelor of Arts from Laurentian University. Ms. Neto is a member of the Institute of Corporate Directors and holds the Institute of Corporate Directors designation (ICD.D).

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

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

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

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

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

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

- is, or within ten years prior to the date hereof has been, a director, chief executive officer or chief financial officer of any company (including Granite REIT or Granite GP) that was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days:
    - that was issued while the Director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or
    - that was issued after the Director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer;

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

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

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

(iii) been subject to:

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

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

Potential Conflicts of Interest

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

Jennifer Warren is the CEO Issuer Services, North America at Computershare. Computershare acts as Granite's transfer agent for its Stapled Units.

AUDIT COMMITTEE

Composition of the Audit Committee

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

Pre-Approval Policies and Procedures

Each Audit Committee is responsible for the appointment, compensation, retention and oversight of the work of the external auditor, Deloitte LLP for fiscal 2019. Each Audit Committee has established a policy to pre-approve all audit and permitted non-audit services provided to Granite by the external auditor, as well as the related fees to be paid to the external auditor.

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

Audit Committee's Charter

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

Audit Fees

The following table sets forth the fees billed to Granite by Deloitte LLP and its affiliates for professional services rendered for the fiscal years ended December 31, 2019 and 2018.

Audit Fees

Fees	**2019**	**2018**
Audit Fees[(1)]	**$1,296,845**	$859,250
Audit-Related Fees[(2)]	**$ 99,510**	$ 98,200
Tax Fees	**$ —**	$ —
All Other Fees[(3)]	**$ 3,606**	$ 3,540
Total	**$1,399,961**	$960,990

Notes:

(1) Audit Fees related to the annual audit and quarterly review of Granite's combined financial statements and services that are normally provided in connection with Granite's statutory and regulatory filings, including the auditor attestation requirements of the *Sarbanes-Oxley Act*. In 2019 this category also includes fees for comfort letters, consents and review of certain documents filed with securities regulatory authorities (2018 – N/A).

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

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

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

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

AUDITORS, REGISTRAR AND TRANSFER AGENT

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

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

LEGAL PROCEEDINGS

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

MATERIAL CONTRACTS

Agreements in Connection with the 2011 Arrangement

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

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

Other Material Contracts

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

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

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

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

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

ADDITIONAL INFORMATION

Additional information relating to Granite REIT and Granite GP may be found on SEDAR at www.sedar.com under their respective SEDAR profiles. Additional information, including Trustees', Directors' and executive officers' remuneration and indebtedness, principal holders of securities and securities authorized for issuance under the equity compensation plans is contained in the joint Management Information Circular/ Proxy Statement of Granite REIT and Granite GP dated May 7, 2019 for the annual general meetings of the unitholders of Granite REIT and shareholders of Granite GP held on June 13, 2019. Additional financial information is provided in the audited combined financial statements of Granite and related Management's Discussion and Analysis for the year ended December 31, 2019.

APPENDIX A

GRANITE REAL ESTATE INVESTMENT TRUST
AUDIT COMMITTEE CHARTER

As of March 4, 2020

I. Purpose and Scope

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

II. Membership

1. *Number of Members*

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

2. *Independence*

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

3. *Financial Literacy*

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

4. *Term*

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

5. *Chair*

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

III. Duties and Responsibilities

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

1. *Financial Reports*

(a) **General**

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

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

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

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

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

(d) **Financial Statement Review Considerations**

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

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

(ii) review the disclosures in the financial statements;

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

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

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

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

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

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

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

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

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

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

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

(f) Review of Forward-Looking Information

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

2. ***Auditors***

(a) **General**

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

(b) **Nomination and Compensation**

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

(c) **Resolution of Disagreements**

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

(d) **Discussions with External Auditor**

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

(e) **Audit Plan**

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

(f) **Independence of External Auditor**

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

(g) **Evaluation of Lead Partner**

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

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

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

(i) **Approval of Hiring Policies**

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

3. ***Internal Controls***

(a) **General**

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

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

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

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

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

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

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

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

4. *Internal Audit Function*

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

5. *Internal Reporting Procedures*

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

6. *Risk Management*

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

7. *Compliance with Legal and Regulatory Requirements*

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

8. *Audit Committee Disclosure*

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

9. *Financial Executives*

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

10. *Charter Review*

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

11. *Expenses*

The Chair of the Committee shall review and approve, as required, the expenses of the President and CEO and the Chairman of the Board.

IV. Meetings

1. *Procedure*

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

2. *Reporting to the Board*

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

3. *In Camera Sessions*

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

V. Delegation

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

VI. Outside Advisors

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

APPENDIX B
GRANITE REIT INC.
AUDIT COMMITTEE CHARTER

As of March 4, 2020

I. Purpose and Scope

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

II. Membership

1. *Number of Members*

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

2. *Independence*

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

3. *Financial Literacy*

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

4. *Term*

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

5. *Chair*

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

III. Duties and Responsibilities

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

1. *Financial Reports*

(a) General

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

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

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

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

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

(d) **Financial Statement Review Considerations**

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

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

(ii) review the disclosures in the financial statements;

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

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

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

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

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

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

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

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

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

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

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

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

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

2. *Auditors*

(a) **General**

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

(b) **Nomination and Compensation**

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

(c) **Resolution of Disagreements**

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

(d) **Discussions with External Auditor**

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

(e) **Audit Plan**

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

(f) **Independence of External Auditor**

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

(g) **Evaluation of Lead Partner**

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

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

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

(i) **Approval of Hiring Policies**

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

3. ***Internal Controls***

(a) **General**

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

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

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

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

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

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

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

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

4. ***Internal Audit Function***

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

5. ***Internal Reporting Procedures***

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

6. ***Risk Management***

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

7. ***Compliance with Legal and Regulatory Requirements***

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

8. ***Audit Committee Disclosure***

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

9. ***Financial Executives***

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

10. *Charter Review*

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

11. *Expenses*

The Chair of the Committee shall review and approve, as required, the expenses of the President and CEO and the Chairman of the Board.

IV. Meetings

1. *Procedure*

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

2. *Reporting to the Board*

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

3. *In Camera Sessions*

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

V. Delegation

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

VI. Outside Advisors

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

GRANITE REIT

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

For the years ended December 31, 2019 and 2018

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management of Granite Real Estate Investment Trust and Granite REIT Inc. (collectively the "Trust") is responsible for the preparation and presentation of the combined financial statements and all information included in the 2019 Annual Report. The combined financial statements were prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and where appropriate, reflect estimates based on management's best judgement in the circumstances. Financial information as presented elsewhere in the 2019 Annual Report has been prepared by management to ensure consistency with information contained in the combined financial statements. The combined financial statements have been audited by independent auditors and reviewed by the Audit Committees and approved by both the Board of Trustees of Granite Real Estate Investment Trust and the Board of Directors of Granite REIT Inc.

Management is responsible for the development and maintenance of systems of internal accounting and administrative controls of high quality. Such systems are designed to provide reasonable assurance that the financial information is accurate, relevant and reliable and that the Trust's assets are appropriately accounted for and adequately safeguarded. Management has determined that, as at December 31, 2019 and based on the framework set forth in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, internal control over financial reporting was effective. The Trust's President and Chief Executive Officer and Chief Financial Officer, in compliance with Section 302 of the U.S. Sarbanes-Oxley Act of 2002 ("SOX"), has provided a SOX-related certification in connection with the Trust's annual disclosure document in the U.S. (Form 40-F) to the U.S. Securities and Exchange Commission. In accordance with National Instrument 52-109, a similar certification has been provided to the Canadian Securities Administrators.

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

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

Kevan Gorrie
President and Chief Executive Officer

Teresa Neto
Chief Financial Officer

Toronto, Canada,
March 4, 2020

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying combined balance sheets of Granite Real Estate Investment Trust and subsidiaries and Granite REIT Inc. (collectively, the "Trust"), as of December 31, 2019 and December 31, 2018, the related combined statements of net income, comprehensive income, unitholders' equity and cash flows, for each of the two years in the period ended December 31, 2019, and the related notes, (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Trust as of December 31, 2019 and 2018, and its financial performance and its cash flows for each of the two years in the period ended December 31, 2019, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Trust's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 4, 2020 expressed an unqualified opinion on the Trust's internal control over financial reporting.

Basis for Opinion

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

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

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Fair Value of Investment Properties — Refer to Notes 2(d), 2(n) Estimates and Assumptions (i) and 4 of the Financial Statements

Critical Audit Matter Description

The Trust has elected the fair value model for all investment properties and, accordingly, measures all investment properties at fair value subsequent to initial recognition on the balance sheet. The Trust primarily uses a discounted cash flow model to estimate the fair value of investment properties. 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.

While there are several assumptions that are required to determine the fair value of all investment properties, the critical assumptions with the highest degree of subjectivity and impact on fair values are the expected future market rental rates, discount rates and capitalization rates, otherwise referred to herein as terminal capitalization rates. Auditing these critical assumptions required a high degree of auditor judgment as the estimations made by management contain significant measurement uncertainty. This resulted in an increased extent of audit effort, including the need to involve our fair value specialists.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the expected future market rental rates, discount rates and terminal capitalization rates used to determine the fair value of the investment properties included the following, among others:

- Evaluated the effectiveness of controls over determining investment properties' fair value, including those over the determination of the expected future market rental rates, the discount rates and terminal capitalization rates.
- Evaluated the reasonableness of management's forecast of expected future market rental rates by comparing management's forecasts with historical results, internal communications to management and the Board of Directors and contractual information, where applicable.
- With the assistance of our fair value specialists, evaluated the reasonableness of management's forecast of expected future market rental rates, discount rates and terminal capitalization rates by considering recent market transactions and industry surveys.

/s/ Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
Toronto, Canada
March 4, 2020

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Granite Real Estate Investment Trust and subsidiaries and Granite REIT Inc. (collectively, the "Trust") as of December 31, 2019, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Trust maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the combined financial statements as of and for the year ended December 31, 2019, of the Trust and our report dated March 4, 2020, expressed an unqualified opinion on those financial statements.

Basis for Opinion

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

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

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
Toronto, Canada
March 4, 2020

Combined Balance Sheets

(Canadian dollars in thousands)

As at December 31,	Note	2019	2018
ASSETS			
Non-current assets:			
Investment properties	2(o), 4	$ 4,457,899	$ 3,424,978
Construction funds in escrow	3	16,767	—
Acquisition deposits	3	—	34,288
Deferred tax assets	13(c)	4,057	5,301
Fixed assets, net	2(o)	2,119	771
Other assets	6	1,273	13,425
		4,482,115	3,478,763
Current assets:			
Assets held for sale	5	—	44,238
Other receivable	7	11,650	—
Accounts receivable		7,812	4,316
Income taxes receivable		315	212
Prepaid expenses and other		3,387	2,510
Restricted cash		—	470
Cash and cash equivalents	15(d)	298,677	658,246
Total assets		$ 4,803,956	$ 4,188,755
LIABILITIES AND EQUITY			
Non-current liabilities:			
Unsecured debt, net	8(a)	$ 1,186,994	$ 1,198,414
Cross currency interest rate swaps	8(b)	30,365	104,757
Long-term portion of lease obligations	2(o)	32,426	—
Deferred tax liabilities	13(c)	320,972	303,965
		1,570,757	1,607,136
Current liabilities:			
Deferred revenue	9	5,804	4,290
Accounts payable and accrued liabilities	9	50,183	41,967
Distributions payable	10	13,081	24,357
Short-term portion of lease obligations	2(o)	619	—
Income taxes payable		15,402	14,020
Total liabilities		1,655,846	1,691,770
Equity:			
Stapled unitholders' equity	11	3,146,143	2,495,518
Non-controlling interests		1,967	1,467
Total equity		3,148,110	2,496,985
Total liabilities and equity		$ 4,803,956	$ 4,188,755

Commitments and contingencies (note 20)
See accompanying notes

On behalf of the Boards:

/s/ Kelly Marshall
Director/Trustee

/s/ Gerald J. Miller
Director/Trustee

Combined Statements of Net Income

(Canadian dollars in thousands)

Years ended December 31,	Note	2019	2018
Rental revenue	12(a)	$ 272,823	$ 246,487
Lease termination and close-out fees		855	996
Revenue		273,678	247,483
Property operating costs	12(b)	35,364	30,942
Net operating income		238,314	216,541
General and administrative expenses	12(c)	31,419	29,404
Depreciation and amortization	2(o)	906	300
Interest income		(9,613)	(2,638)
Interest expense and other financing costs	12(d)	29,941	22,413
Foreign exchange losses (gains), net	12(e)	1,633	(9,390)
Fair value gains on investment properties, net	4, 5	(245,442)	(354,707)
Fair value (gains) losses on financial instruments	12(f)	(1,192)	562
Acquisition transaction costs	2(o), 3	—	7,968
Loss on sale of investment properties	5	3,045	6,871
Other expense (income)	12(g)	2,675	(2,250)
Income before income taxes		424,942	518,008
Income tax expense	13	42,667	52,651
Net income		$ 382,275	$ 465,357
Net income attributable to:			
Stapled unitholders		$ 382,079	$ 465,156
Non-controlling interests		196	201
		$ 382,275	$ 465,357

See accompanying notes

Combined Statements of Comprehensive Income

(Canadian dollars in thousands)

Years ended December 31,	Note	2019	2018
Net income		**$ 382,275**	$465,357
Other comprehensive (loss) income:			
Foreign currency translation adjustment[1]		**(173,341)**	141,355
Unrealized gain (loss) on net investment hedges, includes income taxes of nil[1]	**8(b)**	**77,996**	(48,431)
Total other comprehensive (loss) income		**(95,345)**	92,924
Comprehensive income		**$ 286,930**	$558,281

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

Comprehensive income attributable to:		
Stapled unitholders	**$ 286,817**	$558,042
Non-controlling interests	**113**	239
	$ 286,930	$558,281

See accompanying notes

Combined Statements of Unitholders' Equity

(Canadian dollars in thousands)

Year ended December 31, 2019

	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, 2019	**45,685**	**$2,063,778**	**$ 95,787**	**$ 124,501**	**$ 211,452**	**$ 2,495,518**	**$ 1,467**	**$2,496,985**
Net income	—	—	—	382,079	—	382,079	196	382,275
Other comprehensive loss	—	—	—	—	(95,262)	(95,262)	(83)	(95,345)
Stapled unit offerings, net of issuance costs (note 11(d))	8,349	502,003	—	—	—	502,003	—	502,003
Distributions (note 10)	—	—	—	(139,331)	—	(139,331)	(150)	(139,481)
Contributions from non-controlling interests	—	—	—	—	—	—	537	537
Special distribution paid in units and immediately consolidated (note 10)	—	41,128	(41,128)	—	—	—	—	—
Units issued under the stapled unit plan (note 11(b))	20	1,207	—	—	—	1,207	—	1,207
Units repurchased for cancellation (note 11(c))	(2)	(66)	(5)	—	—	(71)	—	(71)
As at December 31, 2019	**54,052**	**$2,608,050**	**$ 54,654**	**$ 367,249**	**$ 116,190**	**$ 3,146,143**	**$ 1,967**	**$3,148,110**

Year ended December 31, 2018

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

See accompanying notes

Combined Statements of Cash Flows

(Canadian dollars in thousands)

Years ended December 31,	Note	2019	2018
OPERATING ACTIVITIES			
Net income		**$ 382,275**	$ 465,357
Items not involving operating cash flows	**15(a)**	**(196,583)**	(294,790)
Leasing commissions paid		**(1,307)**	(4,225)
Tenant incentives paid		**(513)**	(9,913)
Current income tax expense	**13(a)**	**5,071**	7,631
Income taxes paid		**(3,009)**	(10,273)
Interest expense		**29,275**	21,440
Interest paid		**(28,833)**	(21,116)
Changes in working capital balances	**15(b)**	**(2,945)**	3,777
Cash provided by operating activities		**183,431**	157,888
INVESTING ACTIVITIES			
Investment properties:			
Property acquisitions	**3**	**(930,878)**	(549,120)
Proceeds from disposals of investment properties, net		**85,536**	681,319
Capital expenditures			
— Maintenance or improvements		**(2,889)**	(17,799)
— Developments or expansions		**(27,407)**	(15,378)
Construction funds in escrow	**3**	**(17,125)**	—
Mortgage receivable proceeds	**5**	**16,845**	30,000
Acquisition deposits		**—**	(33,086)
Fixed asset additions		**(176)**	(111)
Increase in other assets		**—**	36
Cash (used in) provided by investing activities		**(876,094)**	95,861
FINANCING ACTIVITIES			
Monthly distributions paid		**(136,897)**	(125,131)
Special distribution paid	**10**	**(13,710)**	—
Proceeds from unsecured term loans		**—**	548,677
Repayment of lease obligations	**2(o)**	**(598)**	—
Settlement of cross currency swap	**8(b)**	**(6,825)**	—
Proceeds from bank indebtedness		**—**	247,274
Repayments of bank indebtedness		**—**	(279,768)
Financing costs paid		**(452)**	(3,319)
Distributions to non-controlling interests		**(150)**	(20)
Contributions by non-controlling interests		**225**	—
Proceeds from stapled unit offerings, net of issuance costs	**11(d)**	**502,003**	—
Repurchase of stapled units	**11(c)**	**(71)**	(63,530)
Cash provided by financing activities		**343,525**	324,183
Effect of exchange rate changes on cash and cash equivalents		**(10,431)**	11,295
Net (decrease) increase in cash and cash equivalents during the year		**(359,569)**	589,227
Cash and cash equivalents, beginning of year		**658,246**	69,019
Cash and cash equivalents, end of year		**$ 298,677**	$ 658,246

See accompanying notes

1. NATURE AND DESCRIPTION OF THE TRUST

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

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

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

These combined financial statements were approved by the Board of Trustees of Granite REIT and Board of Directors of Granite GP on March 4, 2020.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies described below were applied consistently to all periods presented in these combined financial statements except for the new accounting standards and interpretations described in note 2(o) which were adopted effective January 1, 2019.

(a) Basis of Presentation and Statement of Compliance

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

(b) Combined Financial Statements and Basis of Consolidation

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

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

(c) Trust Units

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

(d) Investment Properties

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

Income-Producing Properties

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

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

Properties Under Development

The Trust's development properties are classified as such until the property is substantially completed and available for occupancy. The initial cost of properties under development includes the acquisition cost of the land and direct development or expansion costs, including construction costs, borrowing costs and indirect costs wholly attributable to development. Borrowing costs are capitalized to projects under development or construction based on the average accumulated expenditures outstanding during the period multiplied by the Trust's average borrowing rate on existing debt. Where borrowings are associated with specific developments, the amount capitalized is the gross borrowing cost incurred on such borrowings less any investment income arising on temporary investment of these borrowings. The capitalization of borrowing costs is suspended if there are prolonged periods that development activity is interrupted. The Trust capitalizes direct and indirect costs, including property taxes and insurance of the development property, if activities necessary to ready the development property for its intended use are in progress. Costs of internal personnel and other indirect costs that are wholly attributable to a project are capitalized as incurred.

If considered reliably measurable, properties under development are carried at fair value. Properties under development are measured at cost if fair value is not reliably measurable. In determining the fair value of properties under development consideration is given to, among other things, remaining construction costs, development risk, the stage of project completion and the reliability of cash inflows after project completion.

(e) Business Combinations

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

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

Acquisition related costs are expensed as incurred.

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

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

(f) Assets Held for Sale

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

(g) Foreign Currency Translation

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

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

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

(h) Financial Instruments and Hedging

Financial Assets and Financial Liabilities

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

	Classification and Measurement Basis
Financial assets	
Construction funds in escrow	Amortized Cost
Long-term receivables included in other assets	Amortized Cost
Other receivable (proceeds receivable associated with a property disposal)	Fair Value
Accounts receivable	Amortized Cost
Foreign exchange forward contracts included in prepaid expenses and other	Fair Value
Restricted cash	Amortized Cost
Cash and cash equivalents	Amortized Cost
Financial liabilities	
Unsecured debentures, net	Amortized Cost
Unsecured term loans, net	Amortized Cost
Cross currency interest rate swaps	Fair Value
Accounts payable and accrued liabilities	Amortized Cost
Foreign exchange forward contracts included in accounts payable and accrued liabilities	Fair Value
Distributions payable	Amortized Cost

The Trust recognizes an allowance for expected credit losses ("ECL") for financial assets measured at amortized cost. The impact of the credit loss modeling process is summarized as follow:

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

For financial liabilities measured at amortized cost, the liability is amortized using the effective interest rate method. Under the effective interest rate method, any transaction fees, costs, discounts and premiums directly related to the financial liabilities are recognized in net income over the expected life of the obligation.

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

Derivatives and Hedging

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

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

(i) Cash and Cash Equivalents and Restricted Cash

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

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

(j) Fixed Assets

Fixed assets include computer hardware and software, furniture and fixtures and leasehold improvements, which are recorded at cost less accumulated depreciation. Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the fixed assets, which typically range from 3 to 5 years for computer hardware and software and 5 to 7 years for other furniture and fixtures. Leasehold improvements are amortized over the term of the applicable lease. Fixed assets also include right-of-use assets identified in accordance with IFRS 16, *Leases*. Refer to note 2(o) for the measurement basis of right-of-use assets.

(k) Revenue Recognition

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

Revenue from investment properties include base rents earned from tenants under lease agreements, property tax and operating cost recoveries and other incidental income. Rents from tenants may contain rent escalation clauses or free rent periods which are recognized in revenue on a straight-line basis over the term of the lease. The difference between the revenue recognized and the contractual rent is included in investment properties as straight-line rents receivable. In addition, tenant incentives including cash allowances provided to tenants are recognized as a reduction in rental revenue on a straight-line basis over the term of the lease where it is determined that the tenant fixturing has no benefit to the property beyond the existing tenancy. Property tax and operating cost recoveries from tenants are recognized as revenue in the period in which applicable costs are incurred.

(l) Unit-Based Compensation Plans

Incentive Stock Option Plan

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

Executive Deferred Stapled Unit Plan

The executive deferred stapled unit plan is measured at fair value at the date of grant and amortized to compensation expense from the effective date of the grant to the final vesting date. Compensation expense is recognized on a proportionate basis consistent with the vesting features of each tranche of the grant. Compensation expense for executive deferred stapled units granted under the plan is recognized in general and administrative expenses with a corresponding liability recognized based upon the fair value of the Trust's stapled units as the Trust is an open-ended trust making its units redeemable. During the period in which the executive deferred stapled units are outstanding, for grants with no performance criteria, the liability is adjusted for changes in the market value of the Trust's stapled unit, and for grants with performance criteria the liability is measured at fair value using the Monte Carlo simulation model (note 11), with both such adjustments being recognized as compensation expense in general and administrative expenses in the period in which they occur. The liability balance is reduced as deferred stapled units are settled for stapled units and recorded in equity.

Director/Trustee Deferred Share Unit Plan

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

(m) Income Taxes

Operations in Canada

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

The Trust's qualification as a REIT results in no current or deferred income tax being recognized in the combined financial statements for income taxes related to the Canadian investment properties.

Operations in the United States

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

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

Operations in Europe

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

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

Current Income Tax

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

Deferred Income Tax

Deferred income tax is recorded, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and the amounts reported on the combined financial statements. Deferred income tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on the tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Deferred income tax assets are recognized to the extent that it is probable that deductions, tax credits or tax losses will be utilized.

Each of the current and deferred tax assets and liabilities are offset when they are levied by the same taxation authority in either the same taxable entity or different taxable entities within the same reporting group that settle on a net basis.

(n) Significant Accounting Judgments, Estimates and Assumptions

The preparation of the combined financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts and disclosures made in the financial statements and accompanying notes.

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

Judgments

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

(i) Leases

The Trust’s policy for revenue recognition is described in note 2(k). The Trust makes judgments in determining whether certain leases are operating or finance leases, in particular tenant leases with long contractual terms or leases where the property is a large square-footage and/or architecturally specialized.

(ii) Investment properties

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

(iii) Income taxes

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

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities include the following:

(i) 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 the actual condition of the properties in making business judgments about lease renewal probabilities, renewal rents and capital expenditures. The critical assumptions relating to the Trust's estimates of fair values of investment properties include the receipt of contractual rents, contractual renewal terms, expected future market rental rates, discount rates that reflect current market uncertainties, capitalization rates and recent investment property prices. If there is any change in these assumptions or regional, national or international economic conditions, the fair value of investment properties may change materially. Refer to note 4 for further information on the estimates and assumptions made by management.

(ii) Fair value of financial instruments

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

(iii) 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, the 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 estimate can result in changes in deferred tax assets or liabilities as reported in the combined balance sheets and also the deferred income tax expense in the combined statements of net income.

(o) Accounting Standards Adopted in 2019

The Trust applied new standards and interpretations in the annual combined financial statements for the year ended December 31, 2019. The nature and effect of the changes are disclosed below.

Amendments to IFRS 3, *Business Combinations*

The Trust adopted the amendments to IFRS 3, *Business Combinations* ("IFRS 3 Amendments") effective January 1, 2019 in advance of their mandatory effective date of January 1, 2020. The IFRS 3 Amendments were adopted prospectively and therefore the comparative information presented for 2018 has not been restated. The IFRS 3 Amendments clarify the definition of a business in determining whether an acquisition is a business combination or an asset acquisition. The IFRS 3 Amendments have removed the requirement for an assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; the reference to an ability to reduce costs; and require, at a minimum, the acquired set of activities and assets to include an input and a substantive process to meet the definition of a business. The IFRS 3 Amendments also provide for an optional concentration test to assess whether substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

Following the adoption of the IFRS 3 Amendments, the Trust continues to account for business combinations in which control is acquired under the acquisition method. When a property acquisition is made, the Trust considers the inputs, processes and outputs of the acquiree in assessing whether it meets the definition of a business. When the acquired set of activities and assets lack a substantive process in place and will be integrated into the Trust's existing operations, the acquisition does not meet the definition of a business and is accounted for as an asset acquisition. An asset acquisition is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition, including transaction costs, is allocated to the assets and liabilities acquired based on their relative fair values, and no goodwill or deferred tax is recognized. Subsequently, where the acquired asset represents an investment property, it is measured at fair value in accordance with IAS 40, *Investment Property* (note 2(d)).

As a result of the adoption of the IFRS 3 Amendments, Granite's income-producing property acquisitions are considered asset acquisitions rather than business combinations. Accordingly, for the year ended December 31, 2019, acquisition transaction costs of $3.6 million were first capitalized to the cost of the property and then expensed to net fair value gains/losses on investment properties as a result of measuring the property at fair value instead of directly expensing these amounts to acquisition transaction costs in the combined statements of net income. There was no significant impact to net income, unitholders' equity or cash flows from the adoption of the IFRS 3 Amendments as at December 31, 2019 and for the year then ended. For the year ended December 31, 2018, the income-producing properties acquired in the year were accounted as business combinations in accordance with the accounting policy followed by the Trust at that time and prior to the adoption and prospective application of the IFRS 3 Amendments effective January 1, 2019.

IFRS 16, *Leases*

In January 2016, the IASB issued IFRS 16, *Leases* (''IFRS 16'') which replaced IAS 17, *Leases* and its associated interpretative guidance. For contracts that are or contain a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains substantially unchanged as the distinction between operating and finance leases is retained.

The Trust has applied IFRS 16 using the modified retrospective approach, and therefore the cumulative effect of initial application is recognized in retained earnings at January 1, 2019. Accordingly, the comparative information presented for 2018 has not been restated.

As a lessee

Definition of a lease

Previously, the Trust determined at contract inception whether an arrangement was or contained a lease under IAS 17. The Trust now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Trust applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and associated interpretative guidance were not reassessed as the practical expedient offered under the standard was applied. Therefore, the new definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after January 1, 2019.

In accordance with IFRS 16, at inception or on modification of a contract that contains a lease component, the Trust allocates the consideration in the contract to each lease and non-lease component based on their relative stand-alone prices.

Accounting policy

The Trust recognizes a right-of-use asset and a lease obligation at the lease commencement date. The Trust presents right-of-use assets that do not meet the definition of investment property in “fixed assets” on the combined balance sheet, the same line item as it presents underlying assets of the same nature that it owns. The right-of-use asset is initially measured at cost and, subsequently, at cost less any accumulated depreciation and impairment, and adjusted for certain remeasurements of the lease obligation. When a right-of-use asset meets the definition of investment property, it is presented in “investment properties” on the combined balance sheet. The right-of-use asset is initially measured at cost and subsequently, it is measured at fair value in accordance with the Trust’s accounting policies.

The lease liability is initially measured at the present value of the lease payments at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, at the Trust’s incremental borrowing rate. Generally, the Trust uses its incremental borrowing rate as the discount rate. The Trust presents lease liabilities in “lease obligations” on the combined balance sheet.

The lease obligation is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee or, as appropriate, a change in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Trust has applied judgment to determine 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. The Trust also applies judgment in determining the discount rate used to present value the lease obligations.

Transition

In accordance with IFRS 16, the Trust recognized right-of-use assets and lease obligations for applicable leases except for leases of low-value assets for which the Trust has elected not to recognize right-of-use assets and lease liabilities. The Trust recognizes the lease payments associated with these low-value asset leases as an expense on a straight-line basis over the lease term.

The Trust leases assets related to ground leases, office space and equipment. Lease obligations were measured at the present value of the remaining lease payments, discounted at the Trust's incremental borrowing rate as at January 1, 2019.

Right-of-use assets are measured at either:

- Their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application; or
- An amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Trust recognized a right-of-use asset at a value equal to the lease obligation and, therefore, there was no impact to retained earnings as at January 1, 2019.

The Trust used the following additional practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied the exemption not to recognize right-of-use assets and obligations for leases with less than 12 months of lease term;
- Applied the exemption not to allocate the consideration in a contract to each lease and non-lease component;
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Impact on transition

As at December 31, 2019, 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. In accordance with IFRS 16, the Trust recognized these operating leases as right-of-use assets and recorded related lease liability obligations as follows:

	Fixed assets			**Investment properties**	**Lease obligations**
	Office space	**Equipment**	**Total**	**Ground leases**	
Balance at January 1, 2019	$1,780	$ 46	**$1,826**	**$ 11,801**	**$ 13,627**
Balance at December 31, 2019	$1,429	$ 102	**$1,531**	**$ 31,523**	**$ 33,045**

When measuring lease liabilities for leases that were classified as operating leases, the Trust discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted average rate applied is 4.4%.

During the year ended December 31, 2019, the Trust recorded an additional right-of-use asset and related lease obligation of $20.5 million for the ground lease associated with the acquisition of two income-producing properties in Mississauga, Ontario in April 2019. In addition, the Trust also recorded right-of-use assets and lease obligations of $74 thousand for equipment and $293 thousand for office space.

In accordance with IFRS 16, the Trust has recognized depreciation and interest costs, instead of operating lease expense. During the year ended December 31, 2019, the Trust recognized $0.6 million of depreciation and amortization expense, and $1.3 million of interest expense from these leases. No depreciation is recognized for the right-of-use asset that meets the definition of investment property.

Future minimum lease payments relating to the right-of-use assets as at December 31, 2019 in aggregate and for the next five years and thereafter are as follows:

2020	**$ 619**
2021	**719**
2022	**417**
2023	**137**
2024	**119**
2025 and thereafter	**31,034**
	$33,045

The lease commitments as at December 31, 2018 comprised $27.2 million related to two ground leases in Europe with annual payments of $0.5 million and $0.1 million expiring in 2049 and 2096, respectively, and $1.6 million related to certain other operating leases. On January 1, 2019, the Trust recognized lease obligations on the combined balance sheet of $13.6 million for these aforementioned lease commitments which include the impact from present value discounting of $15.4 million and certain other adjustments of $0.2 million.

As a lessor

In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged with the distinction between operating leases and finance leases being retained. The Trust leases its investment properties, including right-of-use assets, to tenants and has determined that the in-place leases as at December 31, 2019 are operating leases. The Trust is not required to make any adjustments on transition to IFRS 16 for leases in which it is a lessor.

IFRIC 23, *Uncertainty Over Income Tax Treatments*

In June 2017, the IFRS Interpretations Committee issued IFRIC 23, *Uncertainty Over Income Tax Treatments* ("IFRIC 23") which clarifies how the recognition and measurement requirements of IAS 12, *Income Taxes*, are applied where there is uncertainty over income tax treatments. This standard is effective for annual periods beginning on or after January 1, 2019. The adoption of this standard did not have an impact on the combined financial statements.

(p) Future Accounting Policy Changes

As at December 31, 2019, there are no new accounting standards issued but not yet applicable to the combined financial statements except for the following:

Agenda Decision — IFRS 16, *Leases*

In December 2019, the IFRS Interpretations Committee issued a final agenda decision in regards to the determination of the lease term for cancellable or renewable leases under IFRS 16, *Leases* and whether the useful life of any non-removable leasehold improvements is limited to the lease term of the related lease. The Trust is currently assessing the impact of this interpretation on its financial statements and the implementation of the decision is expected in fiscal 2020 with retrospective application.

3. ACQUISITIONS

During the years ended December 31, 2019 and 2018, Granite acquired income-producing properties and development land consisting of the following:

2019 Acquisitions

Property	Location	Date acquired	Property purchase price	Transaction costs	Total acquisition cost
Income-producing properties[1]:					
201 Sunridge Boulevard	Wilmer, TX	March 1, 2019	$ 58,087	$ 141	$ 58,228
3501 North Lancaster Hutchins Road	Lancaster, TX	March 1, 2019	106,120	168	106,288
2020 & 2095 Logistics Drive[2]	Mississauga, ON	April 9, 2019	174,106	146	174,252
1901 Beggrow Street	Columbus, OH	May 23, 2019	71,607	289	71,896
Heirweg 3	Born, Netherlands	July 8, 2019	25,704	1,640	27,344
1222 Commerce Parkway	Horn Lake, MS	August 1, 2019	24,492	231	24,723
831 North Graham Road	Greenwood, IN	October 4, 2019	39,581	40	39,621
100 Clyde Alexander Lane[3]	Pooler, GA	October 18, 2019	62,657	614	63,271
1301 Chalk Hill Road[4]	Dallas, TX	November 19, 2019	269,764	247	270,011
330-366 Stateline Road East	Southaven, MS	December 19, 2019	63,717	38	63,755
440-480 Stateline Road East	Southaven, MS	December 19, 2019	51,643	33	51,676
			$ 947,478	$ 3,587	$ 951,065
Development land:					
6701, 6702 Purple Sage Road	Houston, TX	July 1, 2019	33,361	510	33,871
			$ 980,839	$ 4,097	$ 984,936

(1) The income-producing properties acquired in 2019 have been accounted for as asset acquisitions reflecting the adoption of the IFRS 3 Amendments effective January 1, 2019 (note 2(o)).

(2) Includes a right-of-use asset related to the ground lease of $20.5 million (note 2(o)).

(3) The Trust acquired the leasehold interest in this property which resulted in the recognition of a right-of-use asset, including transaction costs, of $63,271. The Trust will acquire freehold title to the property on December 31, 2022.

(4) Excludes cash held in escrow at December 31, 2019 to complete construction.

At the acquisition date, the developed property located at 1301 Chalk Hill Road, Dallas, Texas had outstanding construction work which resulted in $20.5 million (US$15.5 million) of the purchase price being placed in escrow to pay for the remaining construction costs. The funds will be released from escrow as the construction is completed. As at December 31, 2019, $16.8 million (US$12.9 million) remained in escrow. The purchase price noted above does not include the cash held in escrow to complete the construction. As construction is completed, the construction costs will be capitalized to the cost of the investment property.

During the year ended December 31, 2019, the transaction costs of $4.1 million, which included land transfer tax, legal and advisory costs, were first capitalized to the cost of the respective property and then subsequently expensed to net fair value gains on investment properties on the combined statement of net income as a result of measuring the properties at fair value.

2018 Acquisitions

Property	**Location**	**Date acquired**	**Property purchase price**
Income-producing properties[(1)]:			
3870 Ronald Reagan Parkway	Plainfield, IN	March 23, 2018	$ 50,835
181 Antrim Commons Drive	Greencastle, PA	April 4, 2018	44,323
Ohio portfolio (four properties):			
10, 100 and 115 Enterprise Parkway and 15 Commerce Parkway	West Jefferson, OH	May 23, 2018	299,297
Joseph-Meyer-Straße 3	Erfurt, Germany	July 12, 2018	82,677
120 Velocity Way	Shepherdsville, KY	December 3, 2018	65,866
			542,998
Development land:			
Lot 18, Park 70	West Jefferson, OH	November 1, 2018	1,232
			$ 544,230

(1) The income-producing properties acquired in 2018 were accounted for as business combinations (note 2(o)) in accordance with the accounting policy followed by the Trust during the 2018 year and prior to the adoption and prospective application of the IFRS 3 Amendments effective January 1, 2019.

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

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

Acquisitions During the Year Ended December 31,	**2018**
Purchase consideration	
Cash on hand	$380,206
Cash sourced from credit facility	167,689
Total cash consideration paid	$547,895
Recognized amounts of identifiable net assets acquired measured at their respective fair values:	
Investment properties	$542,998
Working capital	4,897
Total identifiable net assets	$547,895

During the year ended December 31, 2018, the Trust incurred $7.4 million of land transfer tax, legal and advisory costs associated with the aforementioned completed acquisitions, of which $5.4 million related to the land transfer tax for the property acquired in Erfurt, Germany. The Trust incurred an additional $0.6 million of costs related to pursuing other acquisition opportunities. These costs are included in acquisition transaction costs in the combined statement of net income.

As at December 31, 2018, Granite had made deposits of $34.3 million relating to property acquisitions. A $7 million deposit was made to acquire the leasehold interest in two income-producing properties located in Mississauga, Ontario and a $27.3 million (US$20.0 million) deposit was made in connection with a contractual commitment to acquire a property under development in the state of Texas. The properties were acquired during the year ended December 31, 2019.

4. INVESTMENT PROPERTIES

As at December 31,	**2019**	**2018**
Income-producing properties	**$ 4,377,623**	$ 3,403,985
Properties under development	**51,310**	17,009
Land held for development	**28,966**	3,984
	$ 4,457,899	$ 3,424,978

Changes in investment properties are shown in the following table:

Years ended December 31,	**2019**			**2018**		
	Income-producing properties	**Properties under development**	**Land held for development**	**Income-producing properties**	**Properties under development**	**Land held for development**
Balance, beginning of year	**$3,403,985**	**$ 17,009**	**$ 3,984**	$2,714,684	$ —	$ 18,884
Ground leases[1] (note 2(o))	**11,801**	**—**	**—**	—	—	—
Adjusted balance, beginning of year	**$3,415,786**	**$ 17,009**	**$ 3,984**	$2,714,684	$ —	$ 18,884
Additions						
— Capital expenditures:						
Maintenance or improvements	**3,272**	**—**	**—**	8,164	—	—
Developments or expansions	**3,641**	**27,250**	**—**	19,986	287	66
— Acquisitions (note 3)	**951,065**	**8,932**	**24,939**	542,998	—	1,232
— Leasing commissions	**1,079**	**—**	**—**	3,340	—	—
— Tenant incentives	**515**	**—**	**—**	816	—	—
Transfers to properties under development	**—**	**—**	**—**	(12,206)	16,473	(4,267)
Fair value gains (losses), net	**243,351**	**(135)**	**557**	353,258	—	1,253
Foreign currency translation, net	**(180,107)**	**(1,746)**	**(514)**	147,336	249	196
Amortization of straight-line rent	**5,074**	**—**	**—**	4,274	—	—
Amortization of tenant incentives	**(5,122)**	**—**	**—**	(5,402)	—	—
Other changes	**189**	**—**	**—**	(972)	—	—
Classified as assets held for sale (note 5)	**(61,120)**	**—**	**—**	(372,291)	—	(13,380)
Balance, end of year	**$4,377,623**	**$ 51,310**	**$ 28,966**	$3,403,985	$ 17,009	$ 3,984

(1) Impact of adoption of IFRS 16, *Leases* effective January 1, 2019.

During the year ended December 31, 2019, the Trust disposed of 13 properties (2018 — 16 properties) previously classified as assets held for sale for aggregate gross proceeds of $105.8 million (note 5). The fair value gains during the year ended December 31, 2019, excluding the 13 properties sold in the year, were $243.8 million. As at December 31, 2019, there are no properties classified as assets held for sale (note 5).

The Trust determines the fair value of an income-producing property based upon, among other things, rental income from current leases and assumptions about rental income from future leases reflecting market conditions and lease renewals at the applicable balance sheet dates, less future cash outflows in respect of such leases. Fair values are primarily determined by discounting the expected future cash flows, generally over a term of 10 years, plus a terminal value based on the application of a capitalization rate to estimated year 11 cash flows. The fair values of properties under development are measured using a discounted cash flow model, net of costs to complete, as of the balance sheet date. The Trust measures its investment properties using valuations prepared by management. The Trust does not measure its investment properties based on valuations prepared by external appraisers but uses such external appraisals as data points, together with other external market information accumulated by management, in arriving at its own conclusions on values. Management uses valuation assumptions such as discount rates, terminal capitalization rates and market rental rates applied in external appraisals or sourced from valuation experts; however, the Trust also uses its historical renewal experience with tenants, its direct knowledge of the specialized nature of 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 year other than recognizing related ground lease obligations as part of the adoption of IFRS 16, *Leases*.

Included in investment properties is $18.9 million (2018 — $14.8 million) of net straight-line rent receivable arising from the recognition of rental revenue on a straight-line basis over the lease term.

Details about contractual obligations to purchase, construct and develop properties can be found in the commitments and contingencies note (note 20).

Tenant minimum rental commitments payable to Granite on non-cancellable operating leases as at December 31, 2019 are as follows:

2020	$ 267,967
2021	262,063
2022	247,796
2023	218,757
2024	148,423
2025 and thereafter	818,685
	$ 1,963,691

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

As at December 31,	2019			2018[1]		
	Weighted average[2]	Maximum	Minimum	Weighted average[2]	Maximum	Minimum
Canada						
Discount rate	**5.90%**	**8.75%**	**5.25%**	5.63%	7.75%	5.00%
Terminal capitalization rate	**5.55%**	**8.00%**	**5.00%**	6.01%	7.00%	5.00%
United States						
Discount rate	**6.41%**	**9.50%**	**5.00%**	6.68%	10.00%	5.75%
Terminal capitalization rate	**6.23%**	**8.75%**	**5.25%**	6.46%	9.75%	5.25%
Germany						
Discount rate	**6.83%**	**8.25%**	**5.70%**	6.89%	8.25%	5.70%
Terminal capitalization rate	**6.31%**	**8.75%**	**5.00%**	6.89%	8.75%	5.25%
Austria						
Discount rate	**7.96%**	**10.00%**	**7.00%**	8.37%	10.00%	8.00%
Terminal capitalization rate	**7.34%**	**9.75%**	**6.75%**	7.88%	10.00%	7.00%
Netherlands						
Discount rate	**5.24%**	**6.00%**	**4.70%**	5.93%	6.50%	5.70%
Terminal capitalization rate	**6.14%**	**7.55%**	**5.60%**	6.48%	7.45%	6.00%
Other						
Discount rate	**8.25%**	**10.00%**	**7.25%**	8.23%	9.50%	6.75%
Terminal capitalization rate	**8.20%**	**9.75%**	**6.25%**	8.48%	10.00%	6.75%
Total						
Discount rate	**6.60%**	**10.00%**	**4.70%**	6.90%	10.00%	5.00%
Terminal capitalization rate	**6.32%**	**9.75%**	**5.00%**	6.81%	10.00%	5.00%

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

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

	Discount Rate		Terminal Capitalization Rate	
Rate sensitivity	**Fair value**	**Change in fair value**	**Fair value**	**Change in fair value**
+50 basis points	$4,214,326	$ (163,297)	$4,183,724	$ (193,899)
+25 basis points	4,292,338	(85,285)	4,276,122	(101,501)
Base rate	**4,377,623**	**—**	**4,377,623**	**—**
-25 basis points	4,460,971	83,348	4,487,427	109,804
-50 basis points	$4,546,335	$ 168,712	$4,607,420	$ 229,797

5. ASSETS HELD FOR SALE AND DISPOSITIONS

Assets Held for Sale

At December 31, 2019, there are no investment properties classified as assets held for sale. At December 31, 2018, six investment properties having a fair value of $44.2 million were classified as assets held for sale and were disposed in January and February 2019.

Dispositions

During the year ended December 31, 2019, 13 properties located in Canada and the United States previously classified as assets held for sale were disposed. The properties consist of the following:

Property	Location	Date disposed	Sale price
3 Walker Drive	Brampton, ON	January 15, 2019	**$ 13,380**
Iowa properties (four properties):			
403 S 8th Street	Montezuma, IA		
1951 A Avenue	Victor, IA		
408 N Maplewood Avenue	Williamsburg, IA		
411 N Maplewood Avenue	Williamsburg, IA	February 25, 2019	**22,323**
375 Edward Street	Richmond Hill, ON	February 27, 2019	**8,050**
330 Finchdene Square	Toronto, ON	September 20, 2019	**13,150**
200 Industrial Parkway	Aurora, ON	November 4, 2019	**10,010**
Michigan properties (five properties):			
1800 Hayes Street	Grand Haven, MI		
3501 John F Donnelly Drive	Holland, MI		
3601 John F Donnelly Drive	Holland, MI		
3575 128th Avenue North	Holland, MI		
6151 Bancroft Avenue	Alto, MI	December 4, 2019	**38,852**
			$ 105,765

The gross proceeds of $22.3 million (US$16.9 million) for the four properties in Iowa included a vendor take-back mortgage of $16.8 million (US$12.7 million). The mortgage receivable bore interest at 5.25% per annum and was repaid on June 18, 2019.

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

Years ended December 31,	**2019**	**2018**
Balance, beginning of year	**$ 44,238**	$ 391,453
Fair value gains, net	**1,669**	196
Foreign currency translation, net	**(1,262)**	(3,466)
Disposals	**(105,765)**	(729,608)
Classified as assets held for sale from investment properties (note 4)	**61,120**	385,671
Other	**—**	(8)
Balance, end of year	**$ —**	$ 44,238

During the year ended December 31, 2019, Granite incurred $3.0 million (2018 — $6.9 million) of broker commissions and legal and advisory costs associated with the disposal or planned disposal of the assets held for sale which are included in loss on sale of investment properties on the combined statements of net income. The $3.0 million loss on sale of investment properties also includes a $0.4 million gain relating to the adjustment in proceeds receivable associated with the property disposal in South Carolina in 2018 (note 7). For the year ended December 31, 2018, the $6.9 million loss on sale of investment properties also included a $1.4 million loss relating to the adjustment in proceeds receivable from the disposal of two properties located in South Carolina and Tennessee in 2018.

6. OTHER ASSETS

Other assets consist of:

As at December 31,	2019	2018
Deferred financing costs associated with the revolving credit facility	**$ 885**	$ 1,172
Long-term receivables	**388**	448
Long-term proceeds receivable associated with a property disposal (note 7)	**—**	11,805
	$1,273	$13,425

7. CURRENT ASSETS

Other Receivable

As at December 31, 2019, other receivable includes $11.7 million (US$9.0 million) of proceeds receivable associated with the disposal of a property in South Carolina in September 2018 that is expected to be received in the first quarter of 2020. The estimated sale price for the property was determined using an income approach that assumed a forecast consumer price index inflation factor at the date of disposition. Accordingly, the proceeds receivable was subject to change and is dependent upon the actual consumer price index inflation factor as at December 31, 2019. At December 31, 2018, the proceeds receivable was $11.8 million (US$8.7 million) and was recorded in other assets (note 6).

During the year ended December 31, 2019, the changes in the proceeds receivable are shown in the following table:

Balance, December 31, 2018	**$11,805**
Change in consumer price index inflation factor	**441**
Foreign currency translation	**(596)**
Balance, December 31, 2019	**$11,650**

8. UNSECURED DEBT AND CROSS CURRENCY INTEREST RATE SWAPS

(a) Unsecured Debentures and Term Loans, Net

As at December 31,		2019		2018	
	Maturity Date	Amortized Cost[1]	Principal issued and outstanding	Amortized Cost[1]	Principal issued and outstanding
2021 Debentures	July 5, 2021	**$ 249,646**	**$ 250,000**	$ 249,424	$ 250,000
2023 Debentures	November 30, 2023	**398,746**	**400,000**	398,425	400,000
2024 Term Loan	December 19, 2024	**239,153**	**239,816**	251,853	252,414
2026 Term Loan	December 11, 2026	**299,449**	**300,000**	298,712	300,000
		$ 1,186,994	**$ 1,189,816**	$ 1,198,414	$ 1,202,414

(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.

2021 Debentures

On July 3, 2014, Granite REIT Holdings Limited Partnership ("Granite LP"), a wholly-owned subsidiary of Granite, issued at par $250.0 million aggregate principal amount of 3.788% Series 2 senior debentures due July 5, 2021 (the "2021 Debentures"). Interest on the 2021 Debentures is payable semi-annually in arrears on January 5 and July 5 of each year. Deferred financing costs of $1.6 million were incurred and recorded as a reduction against the principal owing.

The 2021 Debentures are redeemable, in whole or in part, at Granite's option at any time and from time to time, at a price equal to accrued and unpaid interest plus the greater of (a) 100% of the principal amount of the 2021 Debentures to be redeemed; and (b) the Canada Yield Price. The Canada Yield Price means, in respect of a 2021 Debenture, a price equal to which, if the 2021 Debenture were to be issued at such price on the redemption date, would provide a yield thereon from the redemption date to its maturity date equal to 46.0 basis points above the yield that a non-callable Government of Canada bond, trading at par, would carry if issued on the redemption date with a maturity date of July 5, 2021. Granite also has the option to redeem the 2021 Debentures at par plus any accrued and unpaid interest within 30 days of the maturity date of July 5, 2021.

2023 Debentures

On December 20, 2016, Granite LP issued $400.0 million aggregate principal amount of 3.873% Series 3 senior debentures due November 30, 2023 (the "2023 Debentures") at a nominal premium. Interest on the 2023 Debentures is payable semi-annually in arrears on May 30 and November 30 of each year. Deferred financing costs of $2.2 million were incurred and recorded as a reduction against the principal owing.

The 2023 Debentures are redeemable, in whole or in part, at Granite's option at any time and from time to time, at a price equal to accrued and unpaid interest plus the greater of (a) 100% of the principal amount of the 2023 Debentures to be redeemed; and (b) the Canada Yield Price. The Canada Yield Price means, in respect of a 2023 Debenture, a price equal to which, if the 2023 Debenture were to be issued at such price on the redemption date, would provide a yield thereon from the redemption date to its maturity date equal to 62.5 basis points above the yield that a non-callable Government of Canada bond, trading at par, would carry if issued on the redemption date with a maturity date of November 30, 2023. Granite also has the option to redeem the 2023 Debentures at par plus any accrued and unpaid interest within 30 days of the maturity date of November 30, 2023.

2024 Term Loan

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. Deferred financing costs of $0.8 million were incurred and are recorded as a reduction against the principal owing. In addition, as a result of the extension in the maturity date in October 2019, Granite recorded a nominal loss in fair value (gains) losses on financial instruments on the combined statement of net income as a result of the debt modification.

In conjunction with the extension, the previously existing cross currency interest rate swap associated with the term facility (the "2022 Cross Currency Interest Rate Swap") was terminated on September 24, 2019 and blended into a new cross currency interest rate swap (note 8(b)).

2026 Term Loan

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. Deferred financing costs of $1.5 million were incurred and are recorded as a reduction against the principal owing. In addition, as a result of the extension in the maturity date in November 2019, Granite recorded a loss of $0.7 million in fair value (gains) losses on financial instruments on the combined statement of net income as a result of the debt modification.

In conjunction with the extension, the previously existing cross currency interest rate swap associated with the term facility (the "2025 Cross Currency Interest Rate Swap") was settled on November 27, 2019 and a new cross currency interest rate swap was entered into (note 8(b)).

The 2021 Debentures, 2023 Debentures, 2024 Term Loan and 2026 Term Loan rank pari passu with all of Granite LP's other existing and future senior unsecured indebtedness and are guaranteed by Granite REIT and Granite GP.

(b) Cross Currency Interest Rate Swaps

As at December 31,	2019	2018
Financial liabilities at fair value		
2021 Cross Currency Interest Rate Swap	**$ 3,630**	$ 26,877
2023 Cross Currency Interest Rate Swap	**24,298**	56,922
2022 Cross Currency Interest Rate Swap	**—**	3,826
2024 Cross Currency Interest Rate Swap	**1,202**	—
2025 Cross Currency Interest Rate Swap	**—**	17,132
2026 Cross Currency Interest Rate Swap	**1,235**	—
	$30,365	$104,757

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 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 December 19, 2018, the Trust entered into the 2022 Cross Currency Interest Rate Swap to exchange the LIBOR plus margin monthly interest payments from the term loan that originally matured in 2022 for Euro denominated payments at a 1.225% fixed interest rate. In anticipation of the term loan extension on October 10, 2019, the 2022 Cross Currency Interest Rate Swap was terminated on September 24, 2019 and blended 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.

On December 12, 2018, the Trust entered into the 2025 Cross Currency Interest Rate Swap to exchange the CDOR plus margin monthly 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 2025 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"). 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.

The cross currency interest rate swaps are designated as net investment hedges of the Trust's investment in foreign operations. The effectiveness of the hedges are assessed quarterly. As an effective hedge, the fair value gains or losses on the cross currency interest rate swaps and the foreign exchange gains or losses on the 2024 Term Loan are recognized in other comprehensive income. For the year ended December 31, 2019, the Trust has assessed the net investment hedge associated with each cross currency swap, except for the 2024 Cross Currency Interest Rate Swap, to be effective. In the year ended December 31, 2019, as a result of the refinancing of the 2024 Term Loan, the Trust de-designated the 2022 Cross Currency Interest Rate Swap on September 24, 2019 as the terms of the swap did not match the terms of the loan. On October 10, 2019, the Trust designated the foreign exchange movements associated with the 2024 Cross Currency Interest Rate Swap with the terms of the 2024 Term Loan resulting in an effective hedge. Accordingly, the change in market value relating to foreign exchange movements is recorded in other comprehensive income. Since the Trust did not employ hedge accounting from September 24, 2019 to October 10, 2019 and there is no effective hedge for the interest and other movements associated with the market value changes of the 2024 Cross Currency Interest Rate Swap, a fair value gain of $2.0 million is recognized in fair value gains on financial instruments (note 12(f)) in the 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 combined statements of net income.

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 February 1, 2018, the Trust entered into an unsecured revolving credit facility in the amount of $500.0 million that is available by way of Canadian dollar, US dollar or Euro denominated loans or letters of credit and matures on February 1, 2023. The Trust has the option to extend the maturity date by one year to February 1, 2024 subject to the agreement of lenders in respect of a minimum of 66 2/3% of the aggregate amount committed under the facility. The credit facility provides the Trust with the ability to increase the amount of the commitment by an additional aggregate principal amount of up to $100.0 million with the consent of the participating lenders. As at December 31, 2019, the Trust had no amounts (2018 — nil) drawn from the credit facility and $1.0 million (2018 — $0.1 million) in letters of credit issued against the facility.

Accounts Payable and Accrued Liabilities

As at December 31,	2019	2018
Accounts payable	**$ 6,840**	$ 5,352
Accrued salaries, incentives and benefits	**5,416**	5,364
Accrued interest payable	**6,507**	6,606
Accrued construction payable	**5,933**	2,429
Accrued professional fees	**3,822**	2,910
Accrued employee unit-based compensation	**5,586**	3,193
Accrued trustee/director unit-based compensation	**3,301**	2,330
Accrued property operating costs	**6,376**	2,013
Accrued land transfer tax in connection with an acquisition	**—**	5,499
Accrued leasing commissions	**177**	407
Accrual associated with a property disposal (note 7)	**1,944**	2,047
Other accrued liabilities	**4,281**	3,817
	$50,183	$41,967

In connection with the disposal of a property in South Carolina in September 2018, Granite has retained an obligation to make certain repairs to the building. Accordingly, as at December 31, 2019, a liability of approximately $1.9 million (2018 — $2.0 million) is included in the accrual associated with a property disposal above. The estimated amount was determined using a third-party report and is expected to be settled in the first quarter of 2020 in conjunction with the proceeds receivable for this property disposal (note 7).

10. DISTRIBUTIONS TO STAPLED UNITHOLDERS

Total distributions declared to stapled unitholders in the years ended December 31, 2019 and 2018 were as follows:

Years ended December 31,	2019		2018	
	Total distributions	Distributions per unit	Total distributions	Distributions per unit
Monthly cash distributions declared	**$ 139,331**	**$ 2.81**	$ 125,131	$ 2.73
Special distribution payable in cash	**—**	**—**	13,710	$ 0.30
Special distribution payable in stapled units	**—**	**—**	41,128	$ 0.90
	$ 139,331		$ 179,969	

Distributions payable at December 31, 2019 of $13.1 million (24.2 cents per stapled unit), representing the December 2019 monthly distribution, were paid on January 15, 2020. Distributions payable at December 31, 2018 of $24.3 million were paid on January 15, 2019 and represented the December 2018 monthly distributions of $10.6 million and the cash portion of a special distribution of $13.7 million.

As a result of the increase in taxable income generated primarily as a result of the sale transactions in 2018, Granite's Board of Trustees declared a special distribution in December 2018 of $1.20 per stapled unit, which comprised of 30.0 cents per unit payable in cash and 90.0 cents per unit payable by the issuance of stapled units. On January 15, 2019, immediately following the issuance of the stapled units, the stapled units were consolidated such that each unitholder held the same number of stapled units after the consolidation as each unitholder held prior to the special distribution. The special distribution declared in stapled units of $41.1 million was recorded to contributed surplus in the year ended December 2018, in accordance with IAS 32, *Financial Instruments: Presentation,* as the Trust was settling the distribution with a fixed number of its own equity instruments. In January 2019, upon the issuance of the stapled units, the stapled units account increased and contributed surplus decreased by $41.1 million, respectively.

Subsequent to December 31, 2019, the distributions declared in January 2020 in the amount of $13.1 million or 24.2 cents per stapled unit were paid on February 14, 2020 and the distributions declared in February 2020 of $13.1 million or 24.2 cents per stapled unit will be paid on March 16, 2020.

11. STAPLED UNITHOLDERS' EQUITY

(a) Stapled Units

The stapled units consist of one unit of Granite REIT and one common share of Granite GP. Granite REIT is authorized to issue an unlimited number of units. Granite GP's authorized share capital consists of an unlimited number of common shares without par value. Each stapled unit is entitled to distributions and/or dividends in the case of Granite GP as and when declared and, in the event of termination of Granite REIT and Granite GP, to the net assets of Granite REIT and Granite GP remaining after satisfaction of all liabilities.

(b) Unit-Based Compensation

Incentive Stock Option Plan

The Incentive Stock Option Plan allows for the grant of stock options or stock appreciation rights to directors, officers, employees and consultants. As at December 31, 2019 and December 31, 2018, there were no options outstanding under this plan.

Director/Trustee Deferred Share Unit Plan

Granite established Non-Employee Director Share-Based Compensation Plans (the "DSPs") which provide for a deferral of up to 100% of each non-employee director's total annual remuneration, at specified levels elected by each director. The amounts deferred under the DSPs are reflected by notional deferred share units ("DSUs") whose value at the time that the particular payment to the director is determined reflects the fair market value of a stapled unit. The value of a DSU subsequently appreciates or depreciates with changes in the market price of the stapled units. The DSPs also provide for the accrual of notional distribution equivalents on any distributions paid on the stapled units. Under the DSPs, when a director leaves the Board, the director receives a cash payment at an elected date equal to the value of the accumulated DSUs at such date. There is no option under the DSPs for directors to receive stapled units in exchange for DSUs.

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

	2019		2018	
	Number (000s)	Weighted Average Grant Date Fair Value	Number (000s)	Weighted Average Grant Date Fair Value
DSUs outstanding, January 1	**44**	**$ 46.01**	28	$ 41.88
Granted	**17**	**55.59**	16	53.11
Settled	**(11)**	**51.57**	—	—
DSUs outstanding, December 31	**50**	**$ 48.01**	44	$ 46.01

Executive Deferred Stapled Unit Plan

The Executive Stapled Unit Plan (the "Restricted Stapled Unit Plan") provides for the issuance of Restricted Share Units ("RSU") and Performance Share Units ("PSU") and is designed to provide equity-based compensation in the form of stapled units to executives and other employees (the "Participants"). The maximum number of stapled units which may be issued pursuant to the Restricted Stapled Unit Plan is 1.0 million. The Restricted Stapled Unit Plan entitles a Participant to receive a stapled unit or a cash payment equal to the market value of the stapled unit, which on any date is the volume weighted average trading price of a stapled unit on the Toronto Stock Exchange or New York Stock Exchange over the preceding five trading days. The form of redemption of the stapled units is determined by the Compensation, Governance and Nominating Committee and is not at the option of the Participant. Vesting conditions in respect of a grant are determined by the Compensation, Governance and Nominating Committee at the time the grant is made and may result in the vesting of more or less than 100% of the number of stapled units. The Restricted Stapled Unit Plan also provides for the accrual of distribution equivalent amounts based on distributions paid on the stapled units. Stapled units are, unless otherwise agreed or otherwise required by the Restricted Stapled Unit Plan, settled within 60 days following vesting.

A reconciliation of the changes in stapled units outstanding under the Restricted Stapled Unit Plan is presented below:

	2019			**2018**		
	Number (000s)		**Weighted Average Grant Date Fair Value**	**Number (000s)**		**Weighted Average Grant Date Fair Value**
Restricted stapled units outstanding, January 1	**117**	**$**	**50.34**	106	$	43.32
New grants — RSUs and PSUs [(1)]	**85**		**61.90**	75		53.29
Forfeited	**(2)**		**64.16**	—		—
Settled in cash	**(35)**		**52.91**	—		—
Settled in stapled units	**(20)**		**52.91**	(64)		42.14
Restricted stapled units outstanding, December 31[(1)]	**145**	**$**	**55.93**	117	$	50.34

(1) New grants include 24,587 PSUs granted during the year ended December 31, 2019 (2018 — 3,730 PSUs). Total restricted stapled units outstanding at December 31, 2019 include a total of 28,317 PSUs granted (2018 — 3,730 PSUs).

The fair value of the outstanding PSUs was $1.9 million at December 31, 2019. 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, August 12, September 24, 2019 and November 16, 2018
PSUs granted	28,317
Term to expiry	2.0 years
Average volatility rate	15.1%
Risk free interest rate	1.72%

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

Years ended December 31,	2019	2018
DSPs for trustees/directors[1]	**$1,645**	$ 948
Restricted Stapled Unit Plan for executives and employees	**5,839**	2,996
Unit-based compensation expense	**$7,484**	$3,944
Fair value remeasurement expense included in the above:		
• DSPs for trustees/directors	**$ 568**	$ 122
• Restricted Stapled Unit Plan for executives and employees	**1,321**	378
Total fair value remeasurement expense	**$1,889**	$ 500

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

(c) Normal Course Issuer Bid

On May 14, 2019, 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 4,853,666 of Granite's issued and outstanding stapled units. The NCIB commenced on May 21, 2019 and will conclude on the earlier of the date on which purchases under the bid have been completed and May 20, 2020. Pursuant to the policies of the TSX, daily purchases made by Granite through the TSX may not exceed 41,484 stapled units, subject to certain exceptions. Granite entered into an automatic securities purchase plan with a broker in order to facilitate repurchases of the stapled units under the NCIB during specified blackout periods. Pursuant to a previous notice of intention to conduct a NCIB, Granite received approval from the TSX to purchase stapled units for the period May 18, 2018 to May 17, 2019.

During the year ended December 31, 2019, Granite repurchased 700 stapled units (2018 — 1,282,171 stapled units) for consideration of less than $0.1 million (2018 — $63.5 million). The difference between the repurchase price and the average cost of the stapled units of less than $0.1 million (2018 — $5.6 million) was recorded to contributed surplus.

(d) Stapled Unit Offerings

On April 30, 2019, Granite completed an offering of 3,749,000 stapled units at a price of $61.50 per unit for gross proceeds of $230.6 million, including 489,000 stapled units issued pursuant to the exercise of the over-allotment option granted to the underwriters. Total costs related to the offering totaled $10.2 million and were recorded directly to stapled unitholders' equity.

On October 31, 2019, Granite completed an offering of 4,600,000 stapled units at a price of $64.00 per unit for gross proceeds of $294.4 million, including 600,000 stapled units issued pursuant to the exercise of the over-allotment option granted to the underwriters. Total costs relating to the offering totaled $12.8 million and were recorded directly to stapled unitholders' equity.

(e) Accumulated Other Comprehensive Income

Accumulated other comprehensive income consists of the following:

As at December 31,	2019	2018
Foreign currency translation gains on investments in subsidiaries, net of related hedging activities and non-controlling interests(1)	**$159,499**	$ 320,158
Fair value losses on derivatives designated as net investment hedges	**(43,309)**	(108,706)
	$116,190	$ 211,452

(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:

Years ended December 31,	2019	2018
Base rent	**$240,345**	$221,114
Straight-line rent amortization	**5,074**	4,274
Tenant incentive amortization	**(5,122)**	(5,402)
Property tax recoveries	**22,280**	19,344
Property insurance recoveries	**2,161**	2,174
Operating cost recoveries	**8,085**	4,983
	$272,823	$246,487

(b) Property operating costs consist of:

Years ended December 31,	2019	2018
Non-recoverable from tenants:		
Property taxes and utilities	**$ 1,096**	$ 1,077
Legal	**189**	436
Consulting	**90**	123
Environmental and appraisals	**511**	702
Repairs and maintenance	**804**	725
Ground rents	**—**	664
Other	**558**	730
	$ 3,248	$ 4,457
Recoverable from tenants:		
Property taxes and utilities	**$23,784**	$20,127
Property insurance	**2,391**	2,138
Repairs and maintenance	**2,733**	2,069
Property management fees	**2,001**	1,470
Other	**1,207**	681
	$32,116	$26,485
Property operating costs	**$35,364**	$30,942

(c) General and administrative expenses consist of:

Years ended December 31,	2019	2018
Salaries, incentives and benefits	**$13,753**	$16,030
Audit, legal and consulting	**4,268**	3,972
Trustee/director fees including distributions and revaluations and expenses	**1,976**	1,285
RSU and PSU compensation expense including distributions and revaluations	**5,839**	2,996
Other public entity costs	**2,096**	1,651
Office rents including property taxes and common area maintenance costs	**379**	900
Other	**3,108**	2,570
	$31,419	$29,404

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

Years ended December 31,	2019	2018
Interest and amortized issuance costs relating to debentures and term loans	**$ 26,632**	$ 18,544
Amortization of deferred financing costs and other interest expense and charges	**2,169**	3,869
Interest expense related to lease obligations (note 2(o))	**1,300**	—
	$ 30,101	$ 22,413
Less: Capitalized interest	**(160)**	—
	$ 29,941	$ 22,413

(e) For the year ended December 31, 2018, foreign exchange gains of $9.4 million included, among other, an $8.5 million foreign exchange gain due to the remeasurement of the US dollar proceeds from the sale of three investment properties in January 2018 and a $1.4 million foreign exchange gain from the settlement of two cross currency swaps during the 2018 year for which the Trust did not employ hedge accounting.

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

Years ended December 31,	2019	2018
Foreign exchange forward contracts, net	**$ 8**	$562
Losses on term loan debt modifications (note 8(a))	**752**	—
Cross currency interest rate swap (note 8(b))	**(1,952)**	—
	$(1,192)	$562

For the year ended December 31, 2019, the fair value gain of $2.0 million is associated with the fair value movement of the new 2024 Cross Currency Interest Rate Swap (note 8(b)). The Trust did not employ or partially employed hedge accounting for the derivative and therefore the change in fair value is recognized in fair value (gains) losses on financial instruments in the combined statement of net income (note 8(b)).

(g) During the year ended December 31, 2019, Granite incurred $2.7 million of real estate land transfer tax associated with an internal reorganization. During the year ended December 31, 2018, Granite entered into a settlement agreement related to a land use matter for a property in Ontario, Canada and was awarded a settlement amount of $2.3 million.

13. INCOME TAXES

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

Years ended December 31,	2019	2018
Current income tax:		
Current taxes	**$ 6,069**	$ 7,902
Current taxes referring to previous periods	**(1,526)**	(973)
Withholding taxes and other	**528**	702
	$ 5,071	$ 7,631
Deferred income tax:		
Origination and reversal of temporary differences	**$41,140**	$56,423
Impact of changes in tax rates	**(1,678)**	(4,637)
Benefits arising from a previously unrecognized tax loss that reduced:		
— Current tax expense	**(12)**	(6,408)
— Deferred tax expense	**(285)**	(200)
Withholding taxes on profits of subsidiaries	**(388)**	85
Other	**(1,181)**	(243)
	$37,596	$45,020
Income tax expense	**$42,667**	$52,651

For the year ended December 31, 2019, there was no current tax expense associated with the disposition of properties. For the year ended December 31, 2018, $0.2 million of current tax expense related to the disposition of a property in Germany.

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

Years ended December 31,	2019	2018
Income before income taxes	**$424,942**	$518,008
Expected income taxes at the Canadian statutory tax rate of 26.5% (2018 — 26.5%)	**$112,610**	$137,272
Income distributed and taxable to unitholders	**(59,966)**	(81,272)
Net foreign rate differentials	**(7,526)**	(7,830)
Net change in provisions for uncertain tax positions	**72**	810
Net permanent differences	**519**	7,261
Net effect of change in tax rates	**(1,678)**	(4,637)
Withholding taxes and other	**(1,364)**	1,047
Income tax expense	**$ 42,667**	$ 52,651

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

As at December 31,	2019	2018
Deferred tax assets:		
Investment properties	**$ 83**	$ 769
Eligible capital expenditures	**2,270**	2,441
Other	**1,704**	2,091
Deferred tax assets	**$ 4,057**	**$ 5,301**
Deferred tax liabilities:		
Investment properties	**$ 323,385**	$ 304,593
Withholding tax on undistributed subsidiary profits	**134**	682
Other	**(2,547)**	(1,310)
Deferred tax liabilities	**$ 320,972**	$ 303,965

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

Years ended December 31,	2019	2018
Balance, beginning of year	**$298,664**	$238,310
Deferred tax expense recognized in net income	**37,596**	45,020
Foreign currency translation of deferred tax balances	**(19,345)**	15,334
Net deferred tax liabilities, end of year	**$316,915**	$298,664

(e) Net cash payments of income taxes amounted to $3.0 million for the year ended December 31, 2019 (2018 — $10.3 million) which included $0.4 million of withholding taxes paid (2018 — $0.7 million).

(f) The Trust conducts operations in a number of countries with varying statutory rates of taxation. Judgment is required in the estimation of income tax expense and deferred income tax assets and liabilities in each of the Trust's operating jurisdictions. This process involves estimating actual current tax exposure, assessing temporary differences that result from the different treatments of items for tax and accounting purposes, assessing whether it is more likely than not that deferred income tax assets will be realized and, based on all the available evidence, determining if a provision is required on all or a portion of such deferred income tax assets. The Trust reports a liability for uncertain tax positions ("unrecognized tax benefits") taken or expected to be taken in a tax return. The Trust recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense.

As at December 31, 2019, the Trust had $11.4 million (2018 — $13.2 million) of unrecognized income tax benefits, including $0.3 million (2018 — $0.3 million) related to accrued interest and penalties, all of which could ultimately reduce the Trust's effective tax rate should these tax benefits become recognized. The Trust believes that it has adequately provided for reasonably foreseeable outcomes related to tax examinations and that any resolution will not have a material effect on the combined financial position, results of operations or cash flows. However, the Trust cannot predict with any level of certainty the exact nature of any future possible outcome.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows:

As at December 31,	2019	2018
Unrecognized tax benefits balance, beginning of year	**$13,197**	$12,035
Decreases for tax positions of prior years	**(3,056)**	(1,183)
Increases for tax positions of current year	**2,090**	1,898
Foreign currency impact	**(809)**	447
Unrecognized tax benefits balance, end of year	**$11,422**	$13,197

It is reasonably possible that the gross unrecognized tax benefits, as of December 31, 2019, could decrease in the next 12 months. The quantum of the decrease could range between a nominal amount and $2.4 million (2018 — a nominal amount and $2.8 million) and relates primarily to tax years becoming statute barred for purposes of future tax examinations by local taxing authorities and the outcome of current tax examinations. For the year ended December 31, 2019, $0.1 million of interest and penalties was recorded (2018 — $0.1 million) in income tax expense in the combined statements of net income.

As at December 31, 2019, the following tax years remained subject to examination:

Major Jurisdictions	
Canada	2013 through 2019
United States	2016 through 2019
Austria	2014 through 2019
Germany	2014 through 2019
Netherlands	2014 through 2019

As at December 31, 2019, the Trust had approximately $280.0 million of Canadian capital loss carryforwards that do not expire and other losses and deductible temporary differences in various tax jurisdictions of approximately $36.7 million. The Trust believes it is not probable that these tax assets can be realized; and accordingly, no related deferred tax asset was recognized at December 31, 2019.

14. SEGMENTED DISCLOSURE INFORMATION

The Trust has one reportable segment — the ownership and rental of industrial real estate as determined by the information reviewed by the chief operating decision maker who is the President and Chief Executive Officer. The following tables present certain information with respect to geographic segmentation:

Revenue

Years ended December 31,	2019		2018	
Canada	**$ 58,952**	**22%**	$ 54,372	22%
United States	**108,065**	**39%**	88,006	36%
Austria	**63,724**	**23%**	65,523	26%
Germany	**26,455**	**10%**	24,735	10%
Netherlands	**10,250**	**4%**	8,621	3%
Other Europe	**6,232**	**2%**	6,226	3%
	$273,678	**100%**	$247,483	100%

For the year ended December 31, 2019, revenue from Magna comprised approximately 47% (2018 — 61%) of the Trust's total revenue.

Investment properties

As at December 31,	2019		2018	
Canada	**$ 979,290**	**22%**	$ 708,645	21%
United States	**2,014,489**	**45%**	1,261,183	37%
Austria	**806,355**	**18%**	840,803	24%
Germany	**389,077**	**9%**	385,703	11%
Netherlands	**196,701**	**4%**	155,778	5%
Other Europe	**71,987**	**2%**	72,866	2%
	$4,457,899	**100%**	$3,424,978	100%

15. DETAILS OF CASH FLOWS

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

Years ended December 31,	2019	2018
Straight-line rent amortization	**$ (5,074)**	$ (4,274)
Tenant incentive amortization	**5,122**	5,402
Unit-based compensation expense (note 11(b))	**7,484**	3,944
Fair value gains on investment properties	**(245,442)**	(354,707)
Depreciation and amortization	**906**	300
Fair value (gains) losses on financial instruments	**(1,192)**	562
Loss on sale of investment properties	**3,045**	6,871
Amortization of issuance costs relating to debentures and term loans	**855**	555
Amortization of deferred financing costs	**312**	497
Deferred income taxes	**37,596**	45,020
Other	**(195)**	1,040
	$(196,583)	$(294,790)

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

Years ended December 31,	2019	2018
Accounts receivable	**$(3,670)**	$(1,626)
Prepaid expenses and other	**(906)**	(475)
Accounts payable and accrued liabilities	**(639)**	5,788
Deferred revenue	**1,800**	(245)
Restricted cash	**470**	335
	$(2,945)	$ 3,777

(c) Non-cash investing and financing activities

The combined statement of cash flows for the year ended December 31, 2019 does not include the right-of-use asset and lease obligation of $20.5 million, respectively, associated with the acquisition of the leasehold interest in two Canadian properties (note 3), the $0.4 million capital contribution by a non-controlling interest holder and the issuance and consolidation of stapled units associated with the special distribution in the amount of $41.1 million (note 10). In addition, during the year ended

December 31, 2019, 20 thousand stapled units (2018 — 64 thousand stapled units) with a value of $1.2 million (2018 — $3.2 million) were issued under the Restricted Stapled Unit Plan (note 11(b)) and are not recorded in the combined statements of cash flows.

(d) Cash and cash equivalents consist of:

Years ended December 31,	2019	2018
Cash	**$248,499**	$534,975
Short-term deposits	**50,178**	123,271
	$298,677	$658,246

16. FAIR VALUE AND RISK MANAGEMENT

(a) Fair Value of Financial Instruments

The following table provides the measurement basis of financial assets and liabilities as at December 31, 2019 and 2018:

As at December 31,	2019 Carrying Value	2019 Fair Value	2018 Carrying Value	2018 Fair Value
Financial assets				
Construction funds in escrow	**$ 16,767**	**$ 16,767**	$ —	$ —
Other assets	**388(1)**	**388**	12,253(1)	12,253
Other receivable	**11,650**	**11,650**	—	—
Accounts receivable	**7,812**	**7,812**	4,316	4,316
Prepaid expenses and other	**120(2)**	**120**	111(2)	111
Restricted cash	**—**	**—**	470	470
Cash and cash equivalents	**298,677**	**298,677**	658,246	658,246
	$ 335,414	**$ 335,414**	$ 675,396	$ 675,396
Financial liabilities				
Unsecured debentures, net	**$ 648,392**	**$ 669,090**	$ 647,849	$ 654,365
Unsecured term loans, net	**538,602**	**538,602**	550,565	550,565
Cross currency interest rate swaps	**30,365**	**30,365**	104,757	104,757
Accounts payable and accrued liabilities	**50,156**	**50,156**	41,957	41,957
Accounts payable and accrued liabilities	**27(3)**	**27**	10(3)	10
Distributions payable	**13,081**	**13,081**	24,357	24,357
	$1,280,623	**$1,301,321**	$1,369,495	$1,376,011

(1) Long-term receivables included in other assets (note 6).
(2) Foreign exchange forward contracts included in prepaid expenses.
(3) Foreign exchange forward contracts included in accounts payable and accrued liabilities.

The fair values of the Trust's construction funds in escrow, accounts receivable, restricted cash, 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 value of the other receivable associated with proceeds from a 2018 property disposal approximates its carrying amount as the amount is revalued at each reporting period. 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 are determined using market inputs quoted by their counterparties. The fair value of the foreign exchange forward contracts approximate their carrying value as the asset or liability is revalued at the reporting date.

The Trust periodically purchases foreign exchange forward contracts to hedge specific anticipated foreign currency transactions and to mitigate its foreign exchange exposure on its net cash flows. At December 31, 2019, the Trust held seven outstanding foreign exchange forward contracts (2018 — three contracts outstanding). The foreign exchange contracts are comprised of contracts to purchase €4.0 million and sell $5.8 million and contracts to sell €12.0 million and purchase US$13.6 million. For the year ended December 31, 2019, the Trust recorded a net fair value loss of less than $0.1 million (2018 — $0.6 million) related to outstanding foreign exchange forward contracts (note 12(f)).

(b) Fair Value Hierarchy

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

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

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

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

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

As at December 31, 2019	Level 1	Level 2	Level 3
ASSETS AND LIABILITIES MEASURED OR DISCLOSED AT FAIR VALUE			
Assets measured at fair value			
Investment properties	$ —	$ —	$4,457,899
Short-term proceeds receivable associated with a property disposal included in other receivable (note 7)	—	—	11,650
Foreign exchange forward contracts included in prepaid expenses and other	—	120	—
Liabilities measured or disclosed at fair value			
Unsecured debentures, net	669,090	—	—
Unsecured term loans, net	—	538,602	—
Cross currency interest rate swaps	—	30,365	—
Foreign exchange forward contracts included in accounts payable and accrued liabilities	—	27	—
Net assets (liabilities) measured or disclosed at fair value	$(669,090)	$(568,874)	$4,469,549

As at December 31, 2018	Level 1	Level 2	Level 3
ASSETS AND LIABILITIES MEASURED OR DISCLOSED AT FAIR VALUE			
Assets measured at fair value			
Investment properties	$ —	$ —	$3,424,978
Assets held for sale	—	—	44,238
Long-term proceeds receivable associated with a property disposal included in other assets (note 6)	—	—	11,805
Short-term proceeds receivable associated with a property disposal included in accounts receivable	—	—	231
Foreign exchange forward contracts included in prepaid expenses and other	—	111	—
Liabilities measured or disclosed at fair value			
Unsecured debentures, net	654,365	—	—
Unsecured term loans, net	—	550,565	—
Cross currency interest rate swaps	—	104,757	—
Foreign exchange forward contracts included in accounts payable and accrued liabilities	—	10	—
Net assets (liabilities) measured or disclosed at fair value	**$(654,365)**	**$(655,221)**	**$3,481,252**

For assets and liabilities that are measured at fair value on a recurring basis, the Trust determines whether transfers between the levels of the fair value hierarchy have occurred by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. For the years ended December 31, 2019 and 2018, there were no transfers between the levels.

Refer to note 4, Investment Properties, note 5, Assets Held for Sale and Dispositions and note 7, Current Assets, for a description of the valuation technique and inputs used in the fair value measurement and for a reconciliation of the fair value measurements of investment properties, assets held for sale and proceeds receivable associated with a property disposal which are recognized in Level 3 of the fair value hierarchy.

(c) Risk Management

The main risks arising from the Trust's financial instruments are credit, interest rate, foreign exchange and liquidity risks. The Trust's approach to managing these risks is summarized below:

(i) Credit risk

The Trust's financial assets that are exposed to credit risk consist primarily of cash and cash equivalents and accounts receivable.

Cash and cash equivalents include short-term investments, such as term deposits, which are invested in governments and financial institutions with a minimum credit rating of BBB (based on Standard & Poor's ("S&P") rating scale) or Baa1 (based on Moody's Investor Services' ("Moody's") rating scale). Concentration of credit risk is further reduced by limiting the amount that is invested in any one government or financial institution according to its credit rating.

Magna accounts for approximately 47% of the Trust's rental revenue. Although its operating subsidiaries are not individually rated, Magna International Inc. has an investment grade credit rating from Moody's, S&P and Dominion Bond Rating Service which mitigates the Trust's credit risk. Substantially all of the Trust's accounts receivable are collected within 30 days. The balance of accounts receivable past due is not significant.

(ii) Interest rate risk

As at December 31, 2019, the Trust's exposure to interest rate risk is limited. Approximately 55% of the Trust's interest bearing debt consists of fixed rate debt in the form of the 2021 Debentures and the 2023 Debentures. After taking into account the related cross currency interest rate swaps, the 2021 Debentures and the 2023 Debentures have effective fixed interest rates of 2.68% and 2.43%, respectively. The remaining 45% of the Trust's interest bearing debt consists of variable rate debt in the form of the 2024 Term Loan and 2026 Term Loan. After taking into account the related cross currency interest rate swaps, the 2024 Term Loan and 2026 Term Loan have effective fixed interest rates of 0.522% and 1.355%, respectively.

(iii) Foreign exchange risk

As at December 31, 2019, the Trust is exposed to foreign exchange risk primarily in respect of movements in the Euro and the US dollar. The Trust is structured such that its foreign operations are primarily conducted by entities with a functional currency which is the same as the economic environment in which the operations take place. As a result, the net income impact of currency risk associated with financial instruments is limited as its financial assets and liabilities are generally denominated in the functional currency of the subsidiary that holds the financial instrument. However, the Trust is exposed to foreign currency risk on its net investment in its foreign currency denominated operations and certain Trust level foreign currency denominated assets and liabilities. At December 31, 2019, the Trust's foreign currency denominated net assets are $3.2 billion primarily in US dollars and Euros. A 1% change in the US dollar and Euro exchange rates relative to the Canadian dollar would result in a gain or loss of approximately $19.1 million and $12.7 million, respectively, to comprehensive income.

Granite generates rental income that is not all denominated in Canadian dollars. Since the financial results are reported in Canadian dollars, the Trust is subject to foreign currency fluctuations that could, from time to time, have an impact on the operating results. For the year ended December 31, 2019, a 1% change in the US dollar and Euro exchange rates relative to the Canadian dollar would have impacted revenue by approximately $1.1 million and $1.1 million, respectively.

For the year ended December 31, 2019, the Trust has designated its cross currency interest rate swaps relating to the $650.0 million of unsecured debentures and $539.8 million of unsecured term loans as hedges of its net investment in the European operations (note 8(b)). In addition, the Trust has on occasion designated its US dollar draws from the credit facility as hedges of its net investment in the US operations.

(iv) Liquidity risk

Liquidity risk is the risk the Trust will encounter difficulties in meeting its financial obligations as they become due. The Trust may also be subject to the risks associated with debt financing, including the risks that the unsecured debentures, term loans and credit facility may not be able to be refinanced. The Trust's objectives in minimizing liquidity risk are to maintain prudent levels of leverage on its investment properties, staggering its debt maturity profile and maintaining an investment grade credit rating. In addition, the Declaration of Trust establishes certain debt ratio limits.

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

		Payments due by year					
As at December 31, 2019	**Total**	**2020**	**2021**	**2022**	**2023**	**2024**	**Thereafter**
Unsecured debentures	**$ 650,000**	$ —	$250,000	$ —	$400,000	$ —	$ —
Unsecured term loans	**539,816**	—	—	—	—	239,816	300,000
Cross currency interest rate swaps	**30,365**	—	3,630	—	24,298	1,202	1,235
Interest payments[1]:							
Unsecured debentures, net of cross currency interest rate swap savings	**53,476**	16,741	16,741	9,997	9,997	—	—
Unsecured term loans, net of cross currency interest rate swap savings	**34,939**	5,360	5,360	5,360	5,360	5,360	8,139
Accounts payable and accrued liabilities	**50,183**	48,075	1,482	626	—	—	—
Distributions payable	**13,081**	13,081	—	—	—	—	—
	$1,371,860	**$83,257**	**$277,213**	**$15,983**	**$439,655**	**$246,378**	**$ 309,374**

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

17. CAPITAL MANAGEMENT

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

As at December 31,	**2019**	**2018**
Unsecured debentures, net	**$ 648,392**	$ 647,849
Unsecured term loans, net	**538,602**	550,565
Cross currency interest rate swaps	**30,365**	104,757
Total debt	**1,217,359**	1,303,171
Stapled unitholders' equity	**3,146,143**	2,495,518
Total managed capital	**$ 4,363,502**	$ 3,798,689

The Trust manages, monitors and adjusts its capital balances in response to the availability of capital, economic conditions and investment opportunities with the following objectives in mind:

- Compliance with investment and debt restrictions pursuant to the Amended and Restated Declaration of Trust;
- Compliance with existing debt covenants;
- Maintaining investment grade credit ratings;
- Supporting the Trust's business strategies including ongoing operations, property development and acquisitions;
- Generating stable and growing cash distributions; and
- Building long-term unitholder value.

The Amended and Restated Declaration of Trust contains certain provisions with respect to capital management which include:

- The Trust shall not incur or assume any indebtedness if, after giving effect to the incurring or assumption of the indebtedness, the total indebtedness of the Trust would be more than 65% of the Gross Book Value (as defined in the Amended and Restated Declaration of Trust); and
- The Trust shall not invest in raw land for development, except for (i) existing properties with additional development, (ii) the purpose of renovating or expanding existing properties or (iii) the development of new properties, provided that the aggregate cost of the investments of the Trust in raw land, after giving effect to the proposed investment, will not exceed 15% of Gross Book Value.

At December 31, 2019, the Trust's combined debt consists of the unsecured debentures, the term loans and the credit facility when drawn, each of which have various financial covenants. These covenants are defined within the trust indenture, the term loan agreements and the credit facility agreement and, depending on the debt instrument, include a total indebtedness ratio, a secured indebtedness ratio, an interest coverage ratio, an unencumbered asset ratio and a minimum equity threshold. The Trust monitors these provisions and covenants and was in compliance with their respective requirements as at December 31, 2019 and 2018.

Distributions are made at the discretion of the Board of Trustees (the "Board") and Granite REIT intends to distribute each year all of its taxable income pursuant to its Amended and Restated Declaration of Trust as calculated in accordance with the Income Tax Act. For fiscal year 2019, the Trust declared a monthly distribution of $0.233 per stapled unit from January to November and a monthly distribution of $0.242 per stapled unit for the month of December. The Board determines monthly distribution levels having considered, among other factors, estimated 2019 and 2020 cash generated from operations and capital requirements, the alignment of its current and targeted payout ratios with the Trust's strategic objectives and compliance with the above noted provisions and financial covenants.

18. RELATED PARTY TRANSACTIONS

For the year ended December 31, 2019, key management personnel include the Trustees/Directors, the President and Chief Executive Officer, the current Chief Financial Officer, the former Chief Financial Officer and the Executive Vice President, Head of Global Real Estate. For the year ended December 31, 2018, key management personnel included the Trustees/Directors, the current President and Chief Executive Officer, the former Chief Executive Officer, the former Chief Operating Officer, the former Chief Financial Officer and the Executive Vice President, Head of Global Real Estate. Information with respect to the Trustees'/Directors' fees is included in notes 11(b) and 12(c). The compensation expense associated with the Trust's key management personnel was as follows:

Years ended December 31,	**2019**	**2018**
Salaries, incentives and short-term benefits	**$5,553**	$6,057
Unit-based compensation expense including fair value adjustments	**3,980**	2,380
	$9,533	$8,437

Accounts payable and accrued liabilities at December 31, 2019 includes $1.1 million of compensation owing to the former Chief Financial Officer (2018 — $0.4 million of compensation owing to the former Chief Executive Officer).

19. COMBINED FINANCIAL INFORMATION

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

Balance Sheet	As at December 31, 2019			
	Granite REIT	Granite GP	Eliminations/ Adjustments	Granite REIT and Granite GP Combined
ASSETS				
Non-current assets:				
Investment properties	$ 4,457,899			$ 4,457,899
Investment in Granite LP[1]	—	21	(21)	—
Other non-current assets	24,216			24,216
	4,482,115	21	(21)	4,482,115
Current assets:				
Other current assets	23,144	20		23,164
Intercompany receivable[2]	—	11,828	(11,828)	—
Cash and cash equivalents	298,385	292		298,677
Total assets	$ 4,803,644	12,161	(11,849)	$ 4,803,956
LIABILITIES AND EQUITY				
Non-current liabilities:				
Unsecured debt, net	$ 1,186,994			$ 1,186,994
Other non-current liabilities	383,763			383,763
	1,570,757			1,570,757
Current liabilities:				
Intercompany payable[2]	11,828		(11,828)	—
Other current liabilities	72,949	12,140		85,089
Total liabilities	1,655,534	12,140	(11,828)	1,655,846
Equity:				
Stapled unitholders' equity	3,146,122	21		3,146,143
Non-controlling interests	1,988		(21)	1,967
Total liabilities and equity	$ 4,803,644	12,161	(11,849)	$ 4,803,956

(1) Granite LP is 100% owned by Granite REIT and Granite GP.
(2) Represents employee and trustee/director compensation related amounts which will be reimbursed by Granite LP.

Balance Sheet	As at December 31, 2018			
	Granite REIT	Granite GP	Eliminations/ Adjustments	Granite REIT and Granite GP Combined
ASSETS				
Non-current assets:				
Investment properties	$ 3,424,978			$ 3,424,978
Investment in Granite LP[(1)]	—	17	(17)	—
Other non-current assets	53,785			53,785
	3,478,763	17	(17)	3,478,763
Current assets:				
Assets held for sale	44,238			44,238
Other current assets	7,462	46		7,508
Intercompany receivable[(2)]	—	7,130	(7,130)	—
Cash and cash equivalents	657,432	814		658,246
Total assets	**$ 4,187,895**	**8,007**	**(7,147)**	**$ 4,188,755**
LIABILITIES AND EQUITY				
Non-current liabilities:				
Unsecured debt, net	$ 1,198,414			$ 1,198,414
Other non-current liabilities	408,722			408,722
	1,607,136			1,607,136
Current liabilities:				
Intercompany payable[(2)]	7,130		(7,130)	—
Other current liabilities	76,644	7,990		84,634
Total liabilities	1,690,910	7,990	(7,130)	1,691,770
Equity:				
Stapled unitholders' equity	2,495,501	17		2,495,518
Non-controlling interests	1,484		(17)	1,467
Total liabilities and equity	**$ 4,187,895**	**8,007**	**(7,147)**	**$ 4,188,755**

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

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

Income Statement	Year ended December 31, 2019			
	Granite REIT	Granite GP	Eliminations/ Adjustments	Granite REIT and Granite GP Combined
Revenue	**$ 273,678**			**$ 273,678**
General and administrative expenses	**31,419**			**31,419**
Interest expense and other financing costs	**29,941**			**29,941**
Other costs and expenses, net	**30,965**			**30,965**
Share of (income) loss of Granite LP	**—**	**(4)**	**4**	**—**
Fair value gains on investment properties, net	**(245,442)**			**(245,442)**
Fair value gains on financial instruments	**(1,192)**			**(1,192)**
Loss on sale of investment properties	**3,045**			**3,045**
Income before income taxes	**424,942**	**4**	**(4)**	**424,942**
Income tax expense	**42,667**			**42,667**
Net income	**382,275**	**4**	**(4)**	**382,275**
Less net income attributable to non-controlling interests	**200**		**(4)**	**196**
Net income attributable to stapled unitholders	**$ 382,075**	**4**	**—**	**$ 382,079**

Income Statement	Year ended December 31, 2018			
	Granite REIT	Granite GP	Eliminations/ Adjustments	Granite REIT and Granite GP Combined
Revenue	$ 247,483			$ 247,483
General and administrative expenses	29,404			29,404
Interest expense and other financing costs	22,413			22,413
Other costs and expenses, net	16,964			16,964
Share of (income) loss of Granite LP	—	(5)	5	—
Fair value gains on investment properties, net	(354,707)			(354,707)
Fair value loss on financial instruments	562			562
Acquisition transaction costs	7,968			7,968
Loss on sale of investment properties	6,871			6,871
Income before income taxes	518,008	5	(5)	518,008
Income tax expense	52,651			52,651
Net income	465,357	5	(5)	465,357
Less net income attributable to non-controlling interests	206		(5)	201
Net income attributable to stapled unitholders	**$ 465,151**	**5**	**—**	**$ 465,156**

Statement of Cash Flows	Year ended December 31, 2019			
	Granite REIT	Granite GP	Eliminations/ Adjustments	Granite REIT and Granite GP Combined
OPERATING ACTIVITIES				
Net income	$ 382,275	4	(4)	$ 382,275
Items not involving operating cash flows	(196,583)	(4)	4	(196,583)
Changes in working capital balances	(2,423)	(522)		(2,945)
Other operating activities	684			684
Cash provided by operating activities	183,953	(522)	—	183,431
INVESTING ACTIVITIES				
Property acquisitions	(930,878)			(930,878)
Proceeds from disposals, net	85,536			85,536
Investment property capital additions				
— Maintenance or improvements	(2,889)			(2,889)
— Developments or expansions	(27,407)			(27,407)
Other investing activities	(456)			(456)
Cash used in investing activities	(876,094)	—	—	(876,094)
FINANCING ACTIVITIES				
Distributions paid	(136,897)			(136,897)
Other financing activities	480,422			480,422
Cash provided by financing activities	343,525	—	—	343,525
Effect of exchange rate changes	(10,431)			(10,431)
Net decrease in cash and cash equivalents during the year	$ (359,047)	(522)	—	$ (359,569)

Statement of Cash Flows	Year ended December 31, 2018			
	Granite REIT	Granite GP	Eliminations/ Adjustments	Granite REIT and Granite GP Combined
OPERATING ACTIVITIES				
Net income	$ 465,357	5	(5)	$ 465,357
Items not involving operating cash flows	(294,790)	(5)	5	(294,790)
Changes in working capital balances	3,410	367		3,777
Other operating activities	(16,456)			(16,456)
Cash provided by operating activities	157,521	367	—	157,888
INVESTING ACTIVITIES				
Property acquisitions	(549,120)			(549,120)
Proceeds from disposals, net	681,319			681,319
Investment property capital additions				
— Maintenance or improvements	(17,799)			(17,799)
— Developments or expansions	(15,378)			(15,378)
Acquisition deposits	(33,086)			(33,086)
Other investing activities	29,925			29,925
Cash provided by investing activities	95,861	—	—	95,861
FINANCING ACTIVITIES				
Distributions paid	(125,131)			(125,131)
Other financing activities	449,314			449,314
Cash provided by financing activities	324,183	—	—	324,183
Effect of exchange rate changes	11,295			11,295
Net increase in cash and cash equivalents during the year	$ 588,860	367	—	$ 589,227

20. 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 combined financial statements. However, actual outcomes may differ from management's expectations.

(b) At December 31, 2019, the Trust's contractual commitments related to construction and development projects, amounted to approximately $63.8 million. In addition, Granite has agreed to acquire three state-of-the art facilities in the Netherlands for approximately $129.5 million (€89 million). Currently under construction, the three properties are anticipated to be purchased in the second quarter of 2020 and a 0.1 million square foot expansion at one of the facilities will be completed in the first quarter of 2021. The commitment to purchase the three properties in the Netherlands is subject to customary closing conditions.

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 combined financial statements.

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BASIS OF PRESENTATION

Management's Discussion and Analysis of Results of Operations and Financial Position ("MD&A") of Granite Real Estate Investment Trust ("Granite REIT") and Granite REIT Inc. ("Granite GP") summarizes the significant factors affecting the combined operating results, financial condition, liquidity and cash flows of Granite REIT, Granite GP and their subsidiaries (collectively "Granite" or the "Trust") for the three month period and year ended December 31, 2019. Unless otherwise noted, all amounts are in millions of Canadian dollars. This MD&A should be read in conjunction with the accompanying audited combined financial statements for the year ended December 31, 2019 prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The MD&A was prepared as at March 4, 2020 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 2019 Annual Information Form ("AIF") dated March 4, 2020, can be obtained from the Trust's website at www.granitereit.com, on SEDAR at www.sedar.com and on EDGAR at www.sec.gov.

In addition to using financial measures determined in accordance with IFRS, Granite also uses certain non-IFRS measures in managing its business to measure financial and operating performance as well as for capital allocation decisions and valuation purposes. Granite believes that providing these measures on a supplemental basis to the IFRS 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, 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 MEASURES*" for definitions and reconciliations of non-IFRS measures to IFRS financial measures.

FINANCIAL AND OPERATING HIGHLIGHTS

(in millions, except as noted)	Three Months Ended December 31, 2019	Three Months Ended December 31, 2018	Years Ended December 31, 2019	Years Ended December 31, 2018
Operating highlights				
Revenue	**$ 73.6**	$ 59.9	**$ 273.7**	$ 247.5
NOI — cash basis[1]	**63.8**	52.9	**237.4**	216.7
Net income attributable to stapled unitholders	**90.6**	85.9	**382.1**	465.2
FFO[1][2]	**47.9**	40.9	**177.5**	168.9
AFFO[1][2]	**46.7**	39.8	**172.8**	138.1
Cash flows provided from operating activities	**50.1**	34.7	**183.4**	157.9
Monthly distributions paid	**36.7**	31.1	**136.9**	125.1
Special distribution paid	**—**	—	**13.7**	—
FFO payout ratio[1][3]	**80%**	77%	**79%**	78%
AFFO payout ratio[1][3]	**82%**	79%	**81%**	91%
Per unit amounts				
Diluted FFO[1][2]	**$ 0.91**	$ 0.90	**$ 3.62**	$ 3.68
Diluted AFFO[1][2]	**$ 0.89**	$ 0.87	**$ 3.53**	$ 3.01
Monthly distributions paid	**$ 0.70**	$ 0.68	**$ 2.80**	$ 2.72
Special distribution paid	**—**	—	**$ 0.30**	—
Diluted weighted average number of units	**52.6**	45.7	**49.0**	45.9

As at December 31,	**2019**	**2018**
Financial highlights		
Investment properties — fair value[4]	**$ 4,457.9**	$ 3,425.0
Assets held for sale[4]	**—**	44.2
Cash and cash equivalents	**298.7**	658.2
Total debt[5]	**1,250.3**	1,303.2
Trading price per unit (TSX: GRT.UN)	**$ 65.98**	$ 53.21
Debt metrics, ratings and outlook		
Net leverage ratio[1]	**21%**	19%
Interest coverage ratio[1]	**10.1x**	9.4x
Indebtedness ratio (total debt to adjusted EBITDA)[1]	**6.1x**	7.0x
Weighted average cost of debt[6]	**1.83%**	2.17%
Weighted average debt term-to-maturity, in years[6]	**4.4**	4.7
DBRS rating and outlook	**BBB stable**	BBB stable
Moody's rating and outlook	**Baa2 stable**	Baa2 stable
Property metrics[4]		
Number of investment properties	**91**	84
Income-producing properties	**85**	80
Properties under development	**3**	2
Land held for development	**3**	2
Gross leasable area ("GLA"), square feet	**40.0**	32.2
Occupancy, by GLA	**99.0%**	99.1%
Magna as a percentage of annualized revenue[7]	**42%**	54%
Magna as a percentage of GLA	**35%**	47%
Weighted average lease term in years, by GLA	**6.5**	6.0
Overall capitalization rate[8]	**6.1%**	6.7%

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

(2) For the year ended December 31, 2019, Granite recognized $0.9 million ($0.02 per unit) in revenue related to lease termination and close-out fees and a net $2.0 million ($0.04 per unit) of real estate transfer tax ($2.7 million) and related tax recovery ($0.7 million) resulting from an internal reorganization. For the year ended December 31, 2018, Granite recognized $1.0 million ($0.02 per unit) in revenue related to a lease termination and close-out fee and a net $8.5 million ($0.19 per unit) realized foreign exchange gain during the period on the remeasurement of US dollar cash proceeds from the sale of investment properties in January 2018. FFO, AFFO and the per unit amounts include the aforementioned items. In the first quarter of 2018, Granite also paid $9.1 million ($0.19 per unit) related to a tenant incentive allowance for a 2014 lease extension at the Eurostar facility in Graz, Austria. AFFO and AFFO per unit amounts have been reduced by this $9.1 million tenant allowance payment.

(3) 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. For comparative purposes, the FFO payout ratio and AFFO payout ratio for the years ended December 31, 2019 and 2018 exclude the lease termination and close-out fees of $0.9 million and $1.0 million, respectively, as well as the net $8.5 million realized foreign exchange gain relating to the remeasurement of US dollar cash proceeds from the sale of properties during the year ended December 31, 2018. AFFO payout ratio further excludes the $9.1 million tenant incentive payment made in 2018 in connection with the 2014 lease extension at the Eurostar facility.

(4) Assets held for sale are excluded from investment properties and related property metrics. Accordingly, six such assets that were held for sale at December 31, 2018 were excluded from investment properties and related property metrics at December 31, 2018 throughout this MD&A. There are no properties classified as assets held for sale as at December 31, 2019.

(5) The Trust has adopted IFRS 16, *Leases* effective January 1, 2019 resulting in the recognition of lease obligations on the combined balance sheet and, thereby, included in total debt (see "*NEW ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS*").

(6) Excludes lease obligations noted above.

(7) 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.

(8) Refer to "Valuation Metrics by Investment Property Asset Category" in the *"Investment Properties"* section.

BUSINESS OVERVIEW AND STRATEGIC OUTLOOK

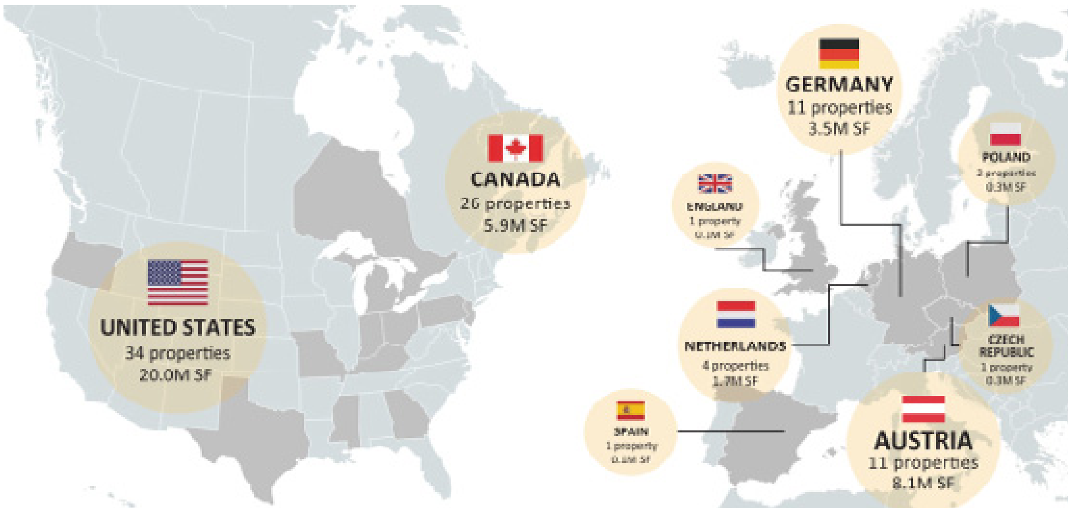
Business Overview

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 March 4, 2020, Granite owns 91 investment properties in nine countries having approximately 40.0 million square feet of gross leasable area. The tenant base includes Magna International Inc. and its operating subsidiaries (collectively, "Magna") as the largest tenant, in addition to tenants from various other industries. Properties leased to Magna are generally leased to operating subsidiaries of Magna International Inc. and the terms of the leases are not guaranteed by the parent company except for certain leases wherein the parent is the tenant.

Granite's investment properties consist of income-producing properties, properties under development and land held for development (see *"INVESTMENT PROPERTIES")*. The income-producing properties consist of logistics and distribution/warehouse properties, light industrial properties, heavy industrial manufacturing facilities, corporate offices, product development and engineering centres and test facilities. The lease payments are primarily denominated in three currencies: the Canadian dollar ("$"), the Euro ("€") and the US dollar ("US$"). Granite's investment properties by geographic location, property count and square footage as at March 4, 2020 are summarized below:

Investment Properties Summary

Nine countries/91 properties/40.0 million square feet



Strategic Outlook

Management continues to identify and pursue value creation and investment opportunities that will generate superior long-term total return 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 optimize its balance sheet; and to reduce its exposure to Magna and the special purpose properties (see *"INVESTMENT PROPERTIES")* over the long-term.

Following the sale of 29 non-core properties in 2018 and 2019 and the recent equity offerings, Granite has positioned itself financially to capitalize on a strong pipeline of acquisition and development opportunities within its geographic footprint and execute on its strategic plan.

As Granite looks to the remainder of 2020, its priorities are as follows:

- Accelerate growth 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 intensive asset management;
- Continue to enhance Granite's global platform;
- Maintain a target occupancy in excess of 98%;
- Maintain lower leverage providing balance sheet flexibility and liquidity;

- Pursue development and expansion opportunities within the existing portfolio; and
- Continue to dispose of select non-core assets.

SIGNIFICANT MATTERS

Property Acquisitions

During the year ended December 31, 2019, Granite acquired 12 income-producing modern industrial properties in Canada, the United States and the Netherlands and a parcel of development land in the United States. Property acquisitions consisted of the following:

Acquisitions *(in millions, except as noted)* **Property Address**	**Location**	**Sq ft[1]**	**Weighted Average Lease Term, in years by sq ft[1]**	**Date Acquired**	**Property Purchase Price[2]**	**In-going Yield[1]**
Income-producing properties:						
201 Sunridge Boulevard	Wilmer, TX	0.8	9.5	Mar 1, 2019	**$ 58.1**	5.1%
3501 North Lancaster Hutchins Road	Lancaster, TX	0.2	10.4	Mar 1, 2019	**106.1**	6.8%
Leasehold interest in two properties: 2020 and 2095 Logistics Drive	Mississauga, ON	0.9	8.7	Apr 9, 2019	**153.6[3]**	4.5%
1901 Beggrow Street	Columbus, OH	0.8	4.7	May 23, 2019	**71.6**	5.7%
Heirweg 3	Born, Netherlands	0.3	7.6	Jul 8, 2019	**25.7**	6.1%
1222 Commerce Parkway	Horn Lake, MS	0.3	4.8	Aug 1, 2019	**24.5**	5.7%
831 North Graham Road	Greenwood, IN	0.5	7.0	Oct 4, 2019	**39.6**	5.7%
100 Clyde Alexander Lane	Pooler, GA	0.7	3.1	Oct 18, 2019	**62.7[4]**	6.0%
1301 Chalk Hill Road	Dallas, TX	2.3	19.8	Nov 19, 2019	**269.8[5]**	5.5%
330-366 Stateline Road East	Southaven, MS	0.9	4.9	Dec 19, 2019	**63.7**	5.5%
440-480 Stateline Road East	Southaven, MS	0.8	4.1	Dec 19, 2019	**51.6**	5.1%
Development land:						
6701, 6702 Purple Sage Road	Houston, TX	N/A	N/A	Jul 1, 2019	**33.4**	N/A
		8.5			**$ 960.4**	**5.5%**

(1) As at the date of acquisition.
(2) Purchase price does not include transaction costs associated with property acquisitions.
(3) Excludes the right-of-use asset of $20.5 million associated with a ground lease (see "*NEW ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS*").
(4) The Trust acquired the leasehold interest in this property which resulted in the recognition of a right-of-use asset of $62.7 million. The Trust will acquire freehold title to the property on December 31, 2022.
(5) Purchase price does not include cash held in escrow at December 31, 2019 to complete construction.

At the acquisition date, the developed property located at 1301 Chalk Hill Road, Dallas, Texas had outstanding construction work which resulted in $20.5 million (US$15.5 million) of the purchase price being placed in escrow to pay for the remaining construction costs. The funds will be released from escrow as the construction is completed. As at December 31, 2019, $16.8 million (US$12.9 million) remained in escrow. The purchase price noted above does not include the cash held in escrow to complete the construction. As construction is completed, the construction costs will be capitalized to the cost of the investment property.

Acquisition, Construction and Development Commitments

Granite had the following property purchase and construction and development commitments:

Commitments *(in millions, except as noted)* **Property Location**	**Additional sq ft**	**Accruals/ Payments/ Deposits Made**[1]	**Future Commitments**	**Total Cost**	**Year-One Stabilized Yield**
As at December 31, 2019:					
Development, construction or expansion:					
Demolition phase of property under development in Altbach, Germany	—	$ 1.4	$ 0.7	**$ 2.1**	N/A
Expansion of 2095 Logistics Drive, Mississauga, ON	0.1	0.2	10.3	**10.5**	8.1%
Property under development in Plainfield, Indiana	0.5	22.8	8.0	**30.8**	6.8%
Development property in Houston, Texas as well as other construction commitments	0.7	5.4	44.8	**50.2**	7.4%
	1.3	**$ 29.8**	**$ 63.8**	**$ 93.6**	**5.7%**
Property purchases:					
Three development properties in the Netherlands	0.9	—	129.5	**129.5**	4.4%
	2.2	**$ 29.8**	**$ 193.3**	**$223.1**	**7.2%**

(1) As at December 31, 2019.

During 2019, Granite entered into an agreement for approximately $2.1 million (€1.5 million) to demolish an existing building on a 13-acre site in Altbach, Germany. As at March 4, 2020, the demolition of the property is complete and the construction of a 0.3 million square foot distribution/light industrial facility is expected to commence in the second quarter of 2020. The development is expected to receive a DGNB Gold Sustainability Certification.

The construction of a class A distribution/warehouse facility in Plainfield, Indianapolis is nearing completion. This speculative development contains features expected in a modern distribution building, including 36 foot clear height, significant auto and trailer parking, cross-dock layout and LED lighting throughout the facility. In addition, the property is strategically located to major highways I-70 and I-465, and is approximately 5.8 miles from the Indianapolis International Airport. The development is expected to receive "Two Green Globes" from the Green Building Initiative (Green Globes Sustainability Certification).

At Granite's recently acquired greenfield site in Houston, Texas speculative construction of the initial phase, consisting of two buildings totaling 0.7 million square feet, commenced in the fourth quarter of 2019. The properties are expected to be constructed by the first quarter of 2021.

Granite has agreed to acquire three state-of-the art facilities in the Netherlands for approximately $129.5 million (€89 million). Currently under construction, the three properties, representing an aggregate gross leasable area of 0.8 million square feet, are anticipated to be purchased in the second quarter of 2020 and a 0.1 million square foot expansion at one of the facilities will be completed in the first quarter of 2021. The acquisition includes approximately 1.8 acres of additional land for potential future expansion. The properties are 100% leased to three prominent European tenants for a weighted average lease term of approximately 11 years. The development is expected to receive a BREEAM "Very Good" sustainability certification at a minimum. The commitment to purchase the three properties in the Netherlands is subject to customary closing conditions.

Property Dispositions

During the year ended December 31, 2019, 13 properties previously classified as assets held for sale were disposed of for approximately $105.8 million. The properties consisted of the following:

Dispositions *(in millions, except as noted)* Property Address	Location	Sq ft	Date Disposed	Sale Price	Annualized Revenue[(1)]
3 Walker Drive (a nine-acre parcel of land)	Brampton, ON	N/A	Jan 15, 2019	$ 13.4	$ —
Iowa properties (four properties):					
403 S 8th Street	Montezuma, IA				
1951 A Avenue	Victor, IA				
408 N Maplewood Avenue	Williamsburg, IA				
411 N Maplewood Avenue	Williamsburg, IA	0.6	Feb 25, 2019	22.3	2.2
375 Edward Street	Richmond Hill, ON	0.1	Feb 27, 2019	8.1	—
330 Finchdene Square	Toronto, ON	0.1	Sept 20, 2019	13.1	—
200 Industrial Parkway	Aurora, ON	0.2	Nov 4, 2019	10.0	0.8
Michigan properties (five properties):					
1800 Hayes Street	Grand Haven, MI				
3501 John F Donnelly Drive	Holland, MI				
3601 John F Donnelly Drive	Holland, MI				
3575 128th Avenue North	Holland, MI				
6151 Bancroft Avenue	Alto, MI	0.7	Dec 4, 2019	38.9	3.6
		1.7		**$ 105.8**	**$ 6.6**

(1) Annualized revenue is calculated as rental revenue excluding tenant recoveries, recognized in accordance with IFRS, in the month the property was first classified as an asset held for sale multiplied by 12 months.

Refinancing and Extension of Term Loans

On November 27, 2019, Granite extended and refinanced its $300.0 million term loan. The term loan, which had an original maturity date of December 12, 2025, has been extended one year to December 11, 2026. Concurrently, the previously existing cross currency interest rate swap was terminated for $6.8 million and Granite entered into a new seven year cross currency interest rate swap resulting in Euro denominated payments at a 1.355% fixed interest rate, approximately 85 basis points lower than the previous rate. The refinancing is expected to result in interest expense savings of approximately $2.3 million or $0.04 per stapled unit of funds from operations, annually.

On October 10, 2019, Granite extended and refinanced its US$185.0 million term loan. The term loan, which had an original maturity date of December 19, 2022, has been extended two years to December 19, 2024. The previously existing cross currency interest rate swap relating to the term loan was terminated on September 24, 2019 and blended into a new cross currency interest rate swap resulting in Euro denominated payments at a 0.522% fixed interest rate, approximately 70 basis points lower than the previous rate. The refinancing is expected to result in interest expense savings of approximately $1.6 million or $0.03 per stapled unit of funds from operations, annually.

Bought Deal Equity Offerings

On October 31, 2019, Granite completed an offering of 4,600,000 stapled units at a price of $64.00 per unit for gross proceeds of $294.4 million, including 600,000 stapled units issued pursuant to the exercise of the over-allotment option granted to the underwriters. The net proceeds received by Granite after deducting the underwriters' fees and other expenses of the offering were $281.6 million.

On April 30, 2019, Granite completed an offering of 3,749,000 stapled units at a price of $61.50 per unit for gross proceeds of $230.6 million, including 489,000 stapled units issued pursuant to the exercise of the over-allotment option granted to the underwriters. The net proceeds received by Granite after deducting the underwriters' fees and other expenses of the offering were $220.4 million.

Granite has used a portion of the net proceeds from the offerings and intends to use the remaining proceeds to fund acquisitions, commitments under development projects, potential future acquisitions and for general trust purposes.

Increase in Monthly Distributions

The targeted annualized distribution increased by 3.6% to $2.90 (24.2 cents per month) per stapled unit from $2.80 per stapled unit commencing with the monthly distribution declared in December 2019 and paid in January 2020.

RESULTS OF OPERATIONS

Foreign Currency Translation

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

	Average Exchange Rates						Period End Exchange Rates		
	Three Months Ended December 31,			Years Ended December 31,					
	2019	2018	Change	2019	2018	Change	December 31, 2019	December 31, 2018	Change
$ per €1.00	**1.462**	1.508	(3%)	1.485	1.530	(3%)	**1.455**	1.563	(7%)
$ per US$1.00	**1.320**	1.322	—%	1.327	1.296	2%	**1.296**	1.364	(5%)

For the three months and year ended December 31, 2019 compared to the prior year periods, the average exchange rates of the Canadian dollar relative to the Euro were lower, which on a comparative basis, decreased the Canadian dollar equivalent of revenue and expenses from Granite's European operations.

The average exchange rates of the Canadian dollar relative to the US dollar for the three months and year ended December 31, 2019 compared to the prior year periods, were slightly lower and higher, respectively, which on a comparative basis, marginally decreased and increased the Canadian dollar equivalent of revenue and expenses from Granite's US operations, respectively.

The period end exchange rates of the Canadian dollar relative to the Euro and US dollar on December 31, 2019 were lower when compared to the December 31, 2018 exchange rates. As a result, the Canadian dollar equivalent of assets and liabilities from Granite's European and US subsidiaries were lower when compared to December 31, 2018.

On a net basis, the effect of the changes in exchange rates on Granite's operating results for the three months and year ended December 31, 2019 was as follows:

Effects of Changes in Exchange Rates on Operating Results

(in millions, except per unit information)	Three Months Ended December 31, 2019 vs 2018	Years Ended December 31, 2019 vs 2018
Decrease in revenue	$ (0.8)	$ (1.1)
Decrease in NOI — cash basis	(0.8)	(1.4)
Decrease in net income	(0.3)	—
(Decrease) increase in FFO	(0.1)	1.0
Increase in AFFO	—	0.8
Increase in FFO per unit	—	$ 0.02
Increase in AFFO per unit	—	$ 0.02

Operating Results

Revenue

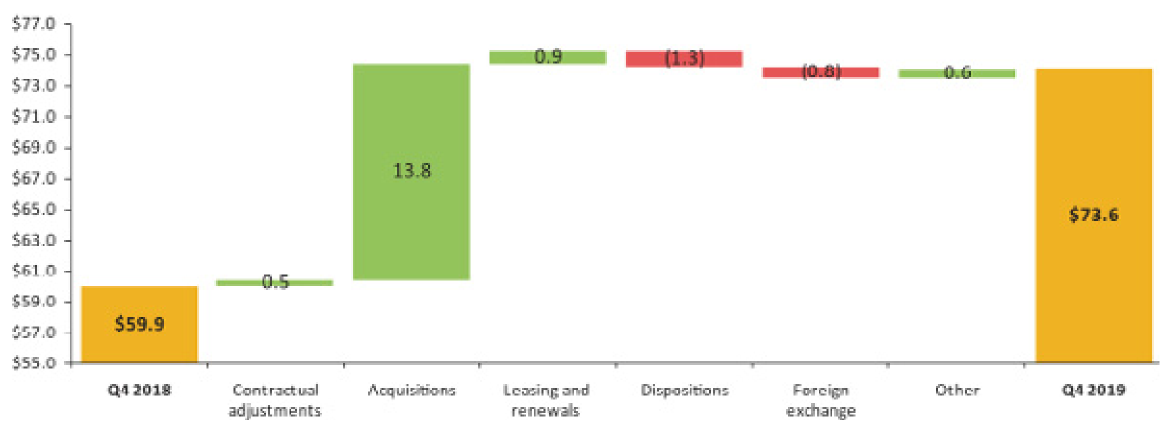
Revenue

	Three Months Ended December 31,			Years Ended December 31,		
	2019	2018	$ change	**2019**	2018	$ change
Rental revenue and amortization[1]	**$ 64.3**	$ 53.5	10.8	**$ 240.3**	$220.0	20.3
Tenant recoveries	**9.3**	6.4	2.9	**32.5**	26.5	6.0
Lease termination and close-out fees	**—**	—	—	**0.9**	1.0	(0.1)
Revenue	**$ 73.6**	$ 59.9	13.7	**$ 273.7**	$247.5	26.2

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

Revenue for the three month period ended December 31, 2019 increased $13.7 million to $73.6 million from $59.9 million in the prior year period. The components contributing to the change in revenue are detailed below:

Q4 2019 vs Q4 2018 Change in Revenue

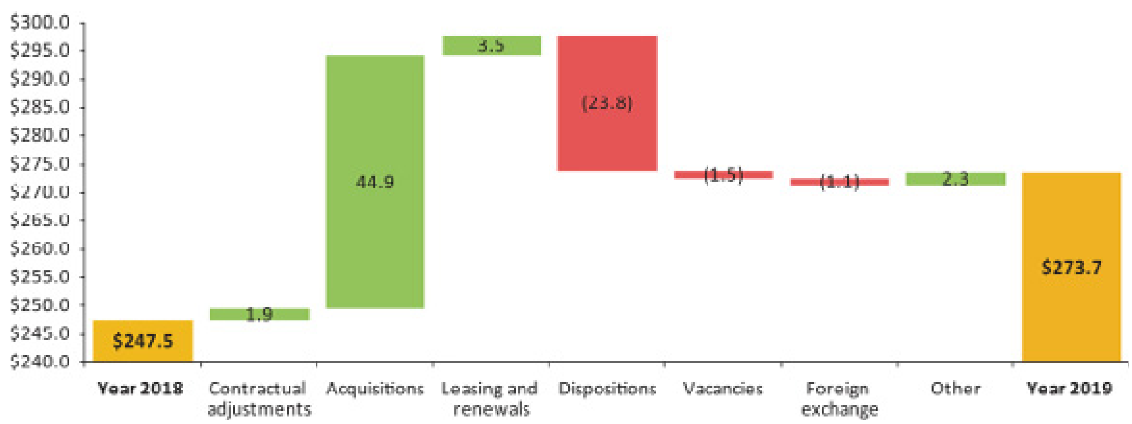


Additional details pertaining to the components of the change in revenue are as follows:

- contractual rent adjustments included $0.3 million from consumer price index based increases and $0.2 million from fixed contractual adjustments related to rent escalations;
- the acquisitions of properties located in the United States, Canada, Germany and the Netherlands beginning in the fourth quarter of 2018 increased revenue by $13.8 million, which included $2.8 million of tenant recoveries;
- revenue increased by $0.9 million due to various renewal and re-leasing activities for properties primarily in Canada and the Netherlands;
- the sale of properties in Canada, the United States and Germany during the fourth quarter of 2018 and the 2019 year decreased revenue by $1.3 million of which $0.2 million related to a reduction in property tax and insurance tenant recoveries; and
- foreign exchange had a $0.8 million negative impact largely from the relative strengthening of the Canadian dollar against the Euro.

Revenue for the year ended December 31, 2019 increased $26.2 million to $273.7 million from $247.5 million in the prior year. The components contributing to the change in revenue are detailed below:

Year 2019 vs Year 2018 Change in Revenue



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

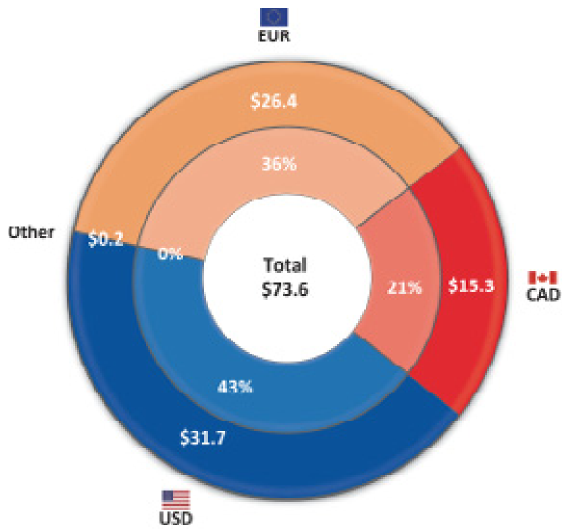
- contractual rent adjustments included $1.2 million from consumer price index based increases and $0.7 million from fixed contractual adjustments related to rent escalations;
- the acquisitions of properties located in the United States, Canada, Germany and the Netherlands during 2018 and 2019 increased revenue by $44.9 million, which included $7.1 million of tenant recoveries;
- revenue increased by $3.5 million due to various renewal and re-leasing activities for properties primarily in Canada, the United States and the Netherlands;
- the sale of 28 properties in Canada, the United States and Germany in 2018 and 2019 decreased revenue by $23.8 million of which $2.4 million related to a reduction in property tax and insurance tenant recoveries;
- three vacancies for properties in Canada and the United States decreased revenue by $0.7 million and $0.8 million, respectively. These three vacancies were leased up in the third quarter of 2019;
- foreign exchange had a net $1.1 million negative impact as the relative strengthening of the Canadian dollar against the Euro decreased revenue by $3.1 million while the weakening of the Canadian dollar against the US dollar increased revenue by $2.0 million; and

- other revenue increased by $2.3 million, largely relating to higher tenant recoveries and straight-line rent amortization primarily from rent-free periods associated with the building expansion completed in January 2019 at a West Jefferson, Ohio property.

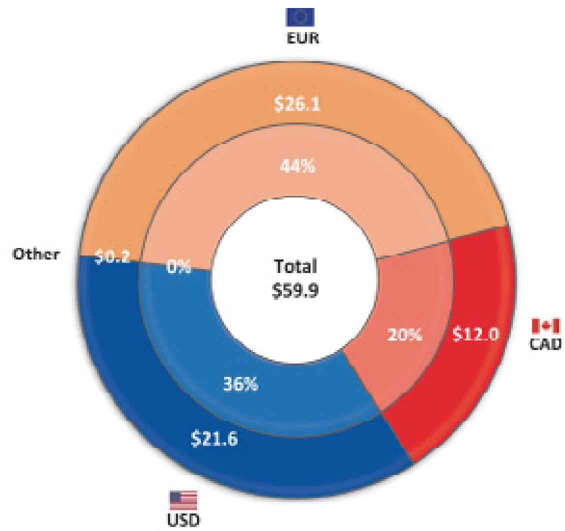
Revenue by major currency for the three month periods and years ended December 31, 2019 and 2018 was as follows:

Revenue by Currency

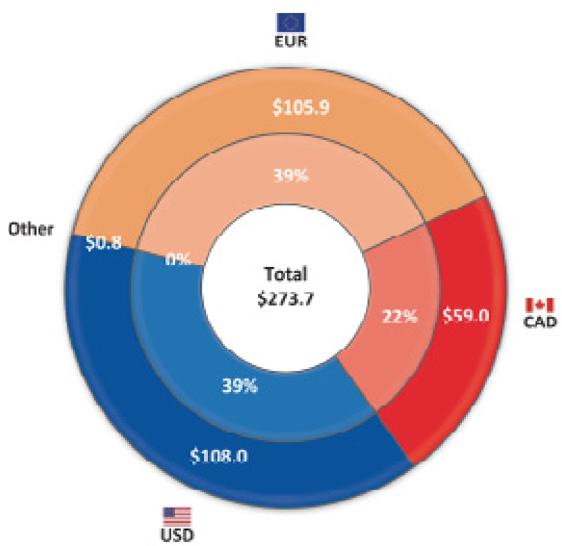
Fourth Quarter 2019



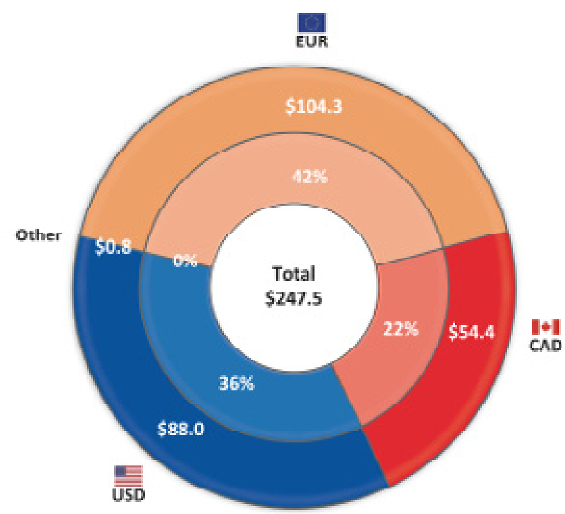
Fourth Quarter 2018



Year 2019



Year 2018



As a majority of the Trust's revenue is denominated in currencies other than the Canadian dollar, Granite uses derivative financial instruments, including cross currency interest rate swaps and forward currency contracts, to partially hedge its exposure to foreign currencies and reduce the potential impact that foreign currency rate changes may have on Granite's operating results, cash flows and distributions (see "*DEBT STRUCTURE*").

Net Operating Income

Net operating income ("NOI") in the three months ended December 31, 2019 was $63.9 million compared to $52.4 million in the three months ended December 31, 2018. NOI in the year ended December 31, 2019 was $238.3 million compared to $216.6 million in the year ended December 31, 2018. NOI — cash basis excludes the impact of lease termination and close-out fees, and straight-line rent and tenant incentive amortization and reflects the cash generated by the income-producing properties excluding lease termination and close-out fees on a period-over-period basis. NOI — cash basis was $63.8 million in the three months ended December 31, 2019 compared with $52.9 million in the prior year period. NOI — cash basis was $237.4 million in the year ended December 31, 2019 compared with $216.7 million in the year ended December 31, 2018.

Same property NOI — cash basis refers to the NOI — cash basis for those properties owned by Granite throughout the entire current and prior year periods under comparison. Same property NOI — cash basis excludes properties that were acquired, disposed of, classified as properties under or held for development or assets held for sale during the periods under comparison. Same property NOI — cash basis in the three months ended December 31, 2019 and 2018 were $52.4 million and $50.9 million, respectively. Same property NOI — cash basis in the year ended December 31, 2019 was $180.0 million compared to $174.4 million in the year ended December 31, 2018. 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 December 31, 2019	Three Months Ended December 31, 2018	$ change	Sq ft(1) (in millions)	Years Ended December 31, 2019	Years Ended December 31, 2018	$ change
Revenue		**$ 73.6**	$ 59.9	13.7		**$ 273.7**	$247.5	26.2
Less: Property operating costs		**(9.7)**	(7.5)	(2.2)		**(35.4)**	(30.9)	(4.5)
NOI(2)		**$ 63.9**	$ 52.4	11.5		**$ 238.3**	$216.6	21.7
Add (deduct):								
Lease termination and close-out fees		**—**	—	—		**(0.9)**	(1.0)	0.1
Straight-line rent amortization		**(1.4)**	(0.8)	(0.6)		**(5.1)**	(4.3)	(0.8)
Tenant incentive amortization		**1.3**	1.3	—		**5.1**	5.4	(0.3)
NOI — cash basis	40.0	**$ 63.8**	$ 52.9	10.9	40.0	**$ 237.4**	$216.7	20.7
Less NOI — cash basis for:								
Acquisitions	9.2	**(10.7)**	(0.3)	(10.4)	15.1	**(53.0)**	(17.5)	(35.5)
Dispositions, assets held for sale and developments	1.0	**(0.7)**	(1.7)	1.0	1.7	**(4.4)**	(24.8)	20.4
Same property NOI — cash basis	30.8	**$ 52.4**	$ 50.9	1.5	24.9	**$ 180.0**	$174.4	5.6

(1) The square footage relating to the NOI — cash basis represents GLA of 40.0 million square feet as at December 31, 2019. The square footage relating to the same property NOI — cash basis represents the aforementioned GLA excluding the impact from the acquisitions during the relevant periods.

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

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

NOI — cash basis for the three month period ended December 31, 2019 increased $10.9 million to $63.8 million from $52.9 million in the prior year period largely as a result of the increase in rental revenue as noted above and, partially offset by an increase in property operating costs primarily relating to the properties acquired in 2019 and a decrease from straight-line rent amortization, primarily from the recently acquired property in Dallas, Texas and rent-free periods associated with the building expansion completed in January 2019 at a West Jefferson, Ohio property.

NOI — cash basis for the year ended December 31, 2019 increased $20.7 million to $237.4 million from $216.7 million in the prior year largely as a result of the increase in rental revenue as noted previously, partially offset by an increase in property operating costs and a decrease from straight-line rent amortization, both primarily relating to the properties acquired in 2018 and 2019.

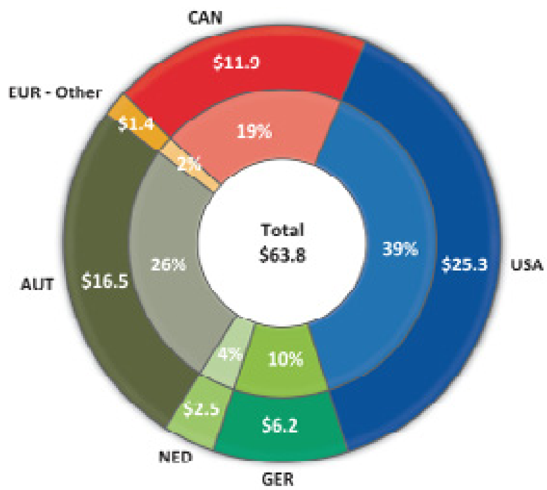
Same property NOI — cash basis for the three month periods ended December 31, 2019 and 2018 increased $1.5 million (2.9%) to $52.4 million primarily due to contractual rent adjustments and the re-leasing and renewals of various leases for properties located in the Netherlands, the United States and Canada. Excluding the impact of foreign exchange, same property NOI — cash basis for the three month period ended December 31, 2019 increased by 4.6% relative to the same quarter in the prior year.

Same property NOI — cash basis for the year ended December 31, 2019 increased $5.6 million (3.2%) to $180.0 million primarily due to the increase in contractual rents, re-leasing and renewals of various leases for properties located in the Netherlands, the United States, Germany and Canada and the favourable foreign exchange impact from the weakening of the Canadian dollar against the US dollar, partially offset by the unfavourable foreign exchange impact from the strengthening of the Canadian dollar against the Euro. Excluding the impact of foreign exchange, same property NOI — cash basis for the year ended December 31, 2019 would have increased by 4.5% relative to the prior year.

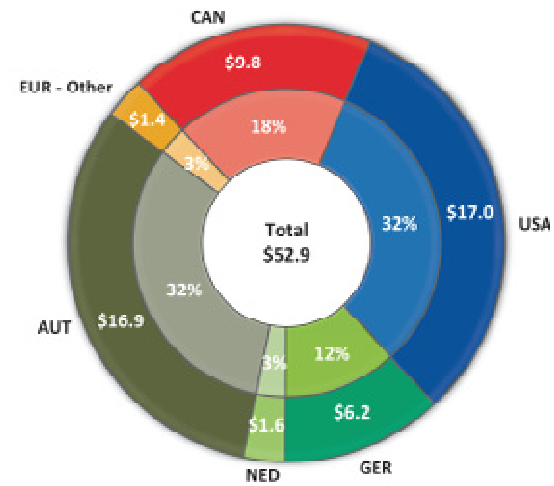
NOI — cash basis for the three month periods and years ended December 31, 2019 and 2018 by geography was as follows:

NOI — Cash Basis by Geography

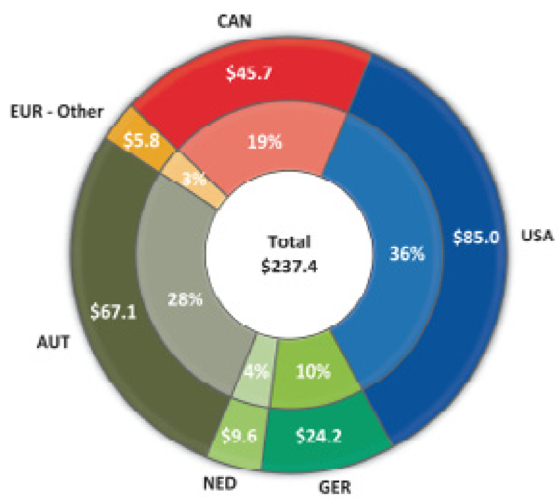
Fourth Quarter 2019



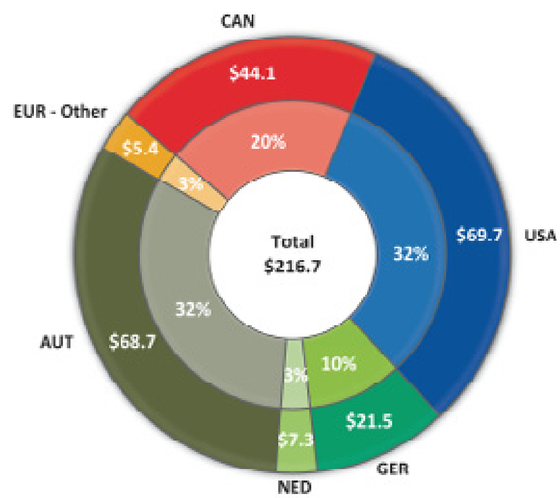
Fourth Quarter 2018



Year 2019



Year 2018



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 and years ended December 31, 2019 and 2018 by geography was as follows:

Same Property NOI — Cash Basis by Geography

	Three Months Ended December 31,			Years Ended December 31,		
	2019	**2018**	**% change**	**2019**	**2018**	**% change**
Canada	**$ 9.9**	$ 9.4	5.3 %	**$ 39.4**	$ 38.3	2.9 %
United States	**16.3**	15.4	5.8 %	**38.7**	35.2	9.9 %
Austria	**16.5**	16.9	(2.4)%	**67.1**	68.7	(2.3)%
Germany	**6.2**	6.2	— %	**20.1**	19.4	3.6 %
Netherlands	**2.1**	1.6	31.3 %	**8.9**	7.4	20.3 %
Europe — Other	**1.4**	1.4	— %	**5.8**	5.4	7.4 %
Same Property NOI — cash basis	**$ 52.4**	$ 50.9	2.9 %	**$ 180.0**	$ 174.4	3.2 %

Constant currency same property NOI — cash basis for the three month periods and years ended December 31, 2019 and 2018 by geography was as follows, which is calculated by converting the comparative same property NOI — cash basis at current exchange rates:

Constant Currency Same Property NOI — Cash Basis by Geography

	Three Months Ended December 31,			Years Ended December 31,		
	2019	**2018**	**% change**	**2019**	**2018**	**% change**
Canada	**$ 9.9**	$ 9.4	5.3%	**$ 39.4**	$ 38.3	2.9%
United States	**16.3**	15.4	5.8%	**38.7**	36.0	7.5%
Austria	**16.5**	16.3	1.2%	**67.1**	66.7	0.6%
Germany	**6.2**	6.0	3.3%	**20.1**	18.8	6.9%
Netherlands	**2.1**	1.6	31.3%	**8.9**	7.1	25.4%
Europe — Other	**1.4**	1.4	—%	**5.8**	5.3	9.4%
Constant Currency Same Property NOI — cash basis	**$ 52.4**	$ 50.1	4.6%	**$ 180.0**	$ 172.2	4.5%

General and Administrative Expenses

General and administrative expenses consisted of the following:

General and Administrative Expenses

	Three Months Ended December 31, 2019	Three Months Ended December 31, 2018	$ change	Years Ended December 31, 2019	Years Ended December 31, 2018	$ change
Salaries and benefits	**$ 3.6**	$ 4.2	(0.6)	**$ 13.8**	$16.0	(2.2)
Audit, legal and consulting	**0.8**	1.0	(0.2)	**4.3**	4.0	0.3
Trustee/director fees and related expenses	**0.3**	0.3	—	**1.4**	1.2	0.2
Executive unit-based compensation including distributions	**1.5**	0.7	0.8	**4.5**	2.6	1.9
Fair value remeasurement of trustee/director and executive unit-based compensation plans	**0.4**	(0.2)	0.6	**1.9**	0.5	1.4
Other public entity costs	**0.5**	0.4	0.1	**2.1**	1.6	0.5
Office rents including property taxes and common area maintenance costs	**0.1**	0.2	(0.1)	**0.4**	0.9	(0.5)
Other	**0.8**	0.6	0.2	**3.0**	2.6	0.4
General and administrative expenses	**$ 8.0**	$ 7.2	0.8	**$ 31.4**	$29.4	2.0

General and administrative expenses were $8.0 million for the three month period ended December 31, 2019 and increased $0.8 million in comparison to the prior year period primarily as a result of the following:

- an increase in executive unit-based compensation amortization expense due to an increase in the awards outstanding; and
- an increase in the fair value remeasurement expense associated with the trustee/director and executive unit-based compensation plans resulting from an increase in the market price of the Trust's stapled units, partially offset by:
- a decrease in salaries and benefits expense mainly due to the compensation costs associated with departed employees in the fourth quarter of 2018.

General and administrative expenses were $31.4 million for the year ended December 31, 2019 and increased $2.0 million in comparison to the prior year primarily as a result of the following:

- an increase in executive unit-based compensation costs due to a greater number of awards outstanding under the plan and the accelerated vesting of awards related to the former CFO of $0.5 million in 2019 in comparison to $0.2 million for departed executives in the prior year; and
- an increase in the fair value remeasurement expense of unit-based compensation plans as noted above, partially offset by;
- a decrease in salaries and benefits expense in the current year compared to the prior year primarily due to the decrease in compensation costs associated with departed executives and other employees.

Interest Income

Interest income for the three month periods ended December 31, 2019 and 2018 was $1.7 million and $0.8 million, respectively. The $0.9 million increase is primarily due to interest income earned from higher cash balances resulting from the net proceeds of the October 2019 equity offering.

Interest income for the years ended December 31, 2019 and 2018 was $9.6 million and $2.6 million, respectively. The $7.0 million increase was primarily due to interest income earned from higher cash balances resulting from the net proceeds of the April and October 2019 equity offerings and drawdowns from the term loans in December 2018.

Interest Expense and Other Financing Costs

Interest expense and other financing costs for the three month period ended December 31, 2019 increased $1.5 million to $7.0 million from $5.5 million in the prior year period. Interest expense and other financing costs for the years ended December 31, 2019 and 2018 were $29.9 million and $22.4 million, respectively. The $7.5 million increase is primarily related to:

- interest expense associated with the term loan drawdowns in December 2018; and
- the accretion of interest related to lease obligations as a result of the adoption of IFRS 16, *Leases* in 2019 (see *"NEW ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS"*). These increases were partially offset by;
- the higher interest expense associated with the credit facility draws in the prior year.

As at December 31, 2019, Granite's weighted average cost of interest-bearing debt was 1.83% (December 31, 2018 — 2.17%) and the weighted average debt term-to-maturity was 4.4 years (December 31, 2018 — 4.7 years).

Foreign Exchange Gains/Losses, Net

Granite recognized net foreign exchange losses of $0.4 million and foreign exchange gains of $1.4 million in the three month periods ended December 31, 2019 and 2018, respectively. The $1.8 million increase in net foreign exchange losses is primarily related to the $1.4 million foreign exchange gain in the prior year period relating to the settlement of two cross currency interest rate swaps entered into to fund a property acquisition.

Granite recognized net foreign exchange losses of $1.6 million and foreign exchange gains of $9.4 million in the years ended December 31, 2019 and 2018, respectively. The $11.0 million increase in net foreign exchange losses is substantially due to the realized net foreign exchange gain of $8.5 million in the prior year relating to the remeasurement of the US dollar cash proceeds from the sale of three investment properties in January 2018 and, to a lesser extent, the remeasurement of certain monetary assets and liabilities of the Trust that are denominated in US dollars or Euros.

Acquisition Transaction Costs

There were no amounts recorded in acquisition transaction costs for the three month period and year ended December 31, 2019 as Granite has early adopted, effective January 1, 2019, the amendments to IFRS 3, *Business Combinations* (see "*NEW ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS*"). Accordingly, transaction costs relating to asset acquisitions were first capitalized to the cost of the property and then expensed to net fair value gains/losses on investment properties as a result of measuring the property at fair value instead of directly expensing these amounts to acquisition transaction costs in the combined statements of net income. For the three month period and year ended December 31, 2019, transaction costs of $0.9 million and $4.1 million, respectively, were included in net fair value gains/losses on investment properties. Acquisition transaction costs for the three month period and year ended December 31, 2018 were $0.4 million and $8.0 million, respectively. Acquisition transaction costs primarily include land transfer tax and legal and advisory costs.

Fair Value Gains/Losses on Investment Properties, Net

Net fair value gains on investment properties were $47.5 million and $52.9 million in the three month periods ended December 31, 2019 and 2018, respectively. In the three month period ended December 31, 2019, net fair value gains of $47.5 million were primarily attributable to (i) a compression in discount or terminal capitalization rates for certain properties primarily located in Canada and, to a lesser extent, the United States, Germany and the Netherlands 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 Canada.

Net fair value gains on investment properties in the three month period ended December 31, 2018 of $52.9 million were largely attributable to a compression in discount and terminal capitalization rates for properties located in Canada, the United States and the Netherlands that resulted from a greater market demand for industrial real estate properties and, to a lesser extent, the increase in fair value of the expected sale price for the multi-purpose properties sold in the first quarter of 2019 and the positive changes in leasing assumptions associated with new leases and lease renewals.

Net fair value gains on investment properties were $245.4 million and $354.7 million in the years ended December 31, 2019 and 2018, respectively. In the year ended December 31, 2019, net fair value gains of $245.4 million were attributable to various factors including (i) the positive changes in leasing assumptions associated with lease renewals and fair market rent increases for certain properties located in Canada and the United States and (ii) a compression in discount and terminal capitalization rates for certain properties across Granite's portfolio resulting from the continued market demand for industrial real estate properties.

Net fair value gains on investment properties in the year ended December 31, 2018 of $354.7 million were largely attributable to (i) an increase in fair value to the sale price for the multi-purpose and special purpose properties sold in 2018 and 2019, (ii) a compression in discount and terminal capitalization rates and an increase in market rents for properties located in Canada, the United States, Germany and the Netherlands resulting from greater market demand for industrial real estate properties and, to a lesser extent, (iii) positive changes in leasing assumptions primarily from contractual rent increases, new leases and lease renewals.

Loss on Sale of Investment Properties

The loss on sale of investment properties for the three month period and year ended December 31, 2019 was $1.0 million and $3.0 million compared to $1.5 million and $6.9 million for the prior year periods, respectively. Loss on sale of investment properties is primarily related to broker commissions and legal and advisory costs associated with the dispositions or planned dispositions of assets held for sale.

Other Expense/Income

During the three month period and year ended December 31, 2019, Granite incurred $2.7 million of real estate land transfer tax which resulted from an internal reorganization. During the year ended December 31, 2018, other income of $2.3 million is attributable to a settlement amount related to a land use matter for a property in Ontario, Canada.

Income Tax Expense

Income tax expense comprised the following:

Income Tax Expense						
	Three Months Ended December 31,			Years Ended December 31,		
	2019	2018	$ change	2019	2018	$ change
Foreign operations	**$ 1.2**	$ 1.3	(0.1)	**$ 5.3**	$ 5.9	(0.6)
Withholding taxes	**0.4**	—	0.4	**0.4**	0.7	(0.3)
Related to sale of an investment property	**—**	—	—	**—**	0.2	(0.2)
Other	**(1.9)**	(0.5)	(1.4)	**(0.6)**	0.8	(1.4)
Current tax (recovery) expense	**(0.3)**	0.8	(1.1)	**5.1**	7.6	(2.5)
Deferred tax expense	**4.5**	4.6	(0.1)	**37.6**	45.0	(7.4)
Income tax expense	**$ 4.2**	$ 5.4	(1.2)	**$ 42.7**	$52.6	(9.9)

For the three months ended December 31, 2019, the current tax expense decreased compared to the prior year period primarily due to the reversal of tax provisions in Canada and Europe for taxation years that have become statute barred and reorganization expenses incurred in Austria in the current year that are deductible for tax purposes, partially offset by withholding taxes paid in the current year period on inter-company dividends.

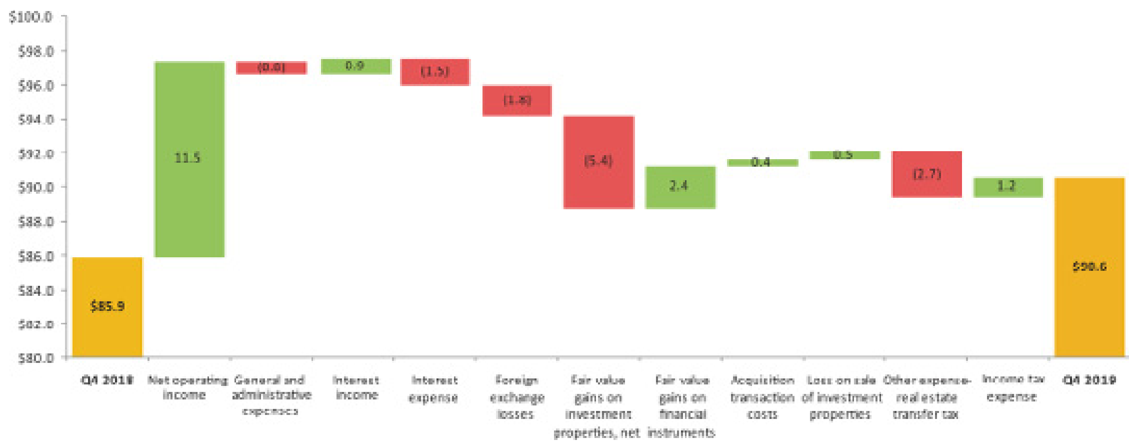
For the year ended December 31, 2019, the current tax expense decreased compared to the prior year primarily due to the reversal of tax provisions in Canada and Europe for taxation years that have become statute barred, reorganization expenses incurred in Austria in the current year that are deductible for tax purposes, higher withholding taxes on inter-company dividends paid in the prior year, the payment of taxes in the prior year periods on the disposition of a property located in Germany and the foreign exchange impact resulting from the relative strengthening of the Canadian dollar on Euro denominated tax expense.

The decrease in deferred tax expense for the three months and year ended December 31, 2019 compared to the prior year periods was primarily due to a decrease in fair value gains in jurisdictions in which deferred taxes are recorded and the reduction of deferred tax liabilities as a result of the reduction in tax rates in the current year.

Net Income Attributable to Stapled Unitholders

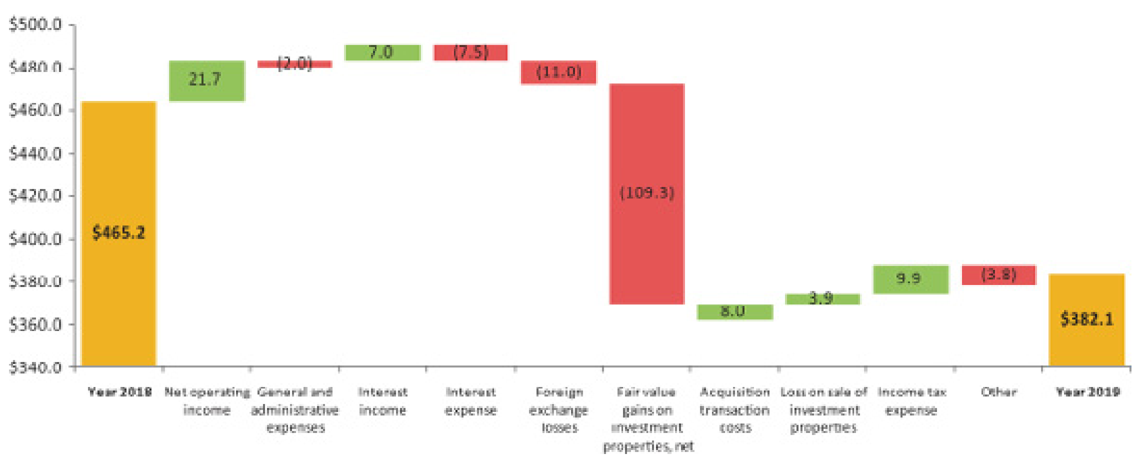
For the three month period ended December 31, 2019, net income attributable to stapled unitholders was $90.6 million compared to $85.9 million in the prior year period. The $4.7 million net increase was primarily due to an $11.5 million increase in net operating income, partially offset by a $5.4 million decrease in net fair value gains on investment properties and $2.7 million of real estate transfer tax which resulted from an internal reorganization. The $4.7 million increase in net income attributable to stapled unitholders is summarized below:

Q4 2019 vs Q4 2018 Change in Net Income Attributable to Stapled Unitholders



For the year ended December 31, 2019, net income attributable to stapled unitholders was $382.1 million compared to $465.2 million in the prior year. The $83.1 million net decrease was primarily due to a $109.3 million decrease in net fair value gains on investment properties, partially offset by a $21.7 million increase in net operating income. The $83.1 million decrease in net income attributable to stapled unitholders is summarized below:

Year 2019 vs Year 2018 Change in Net Income Attributable to Stapled Unitholders



Funds From Operations and Adjusted Funds From Operations

The reconciliation of net income attributable to stapled unitholders to FFO and AFFO for the three months and years ended December 31, 2019 and 2018 is presented below:

FFO AND AFFO RECONCILIATION

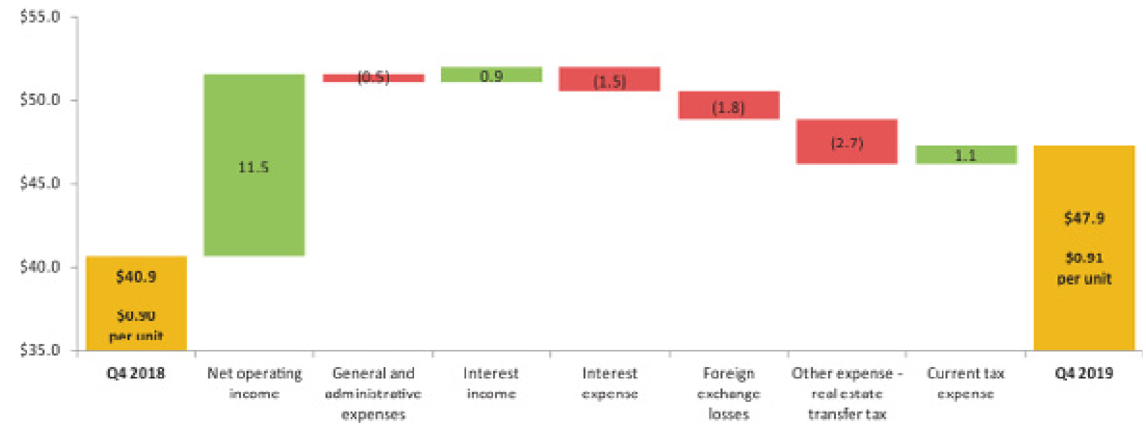
		Three Months Ended December 31,		Years Ended December 31,	
(in millions, except per unit information)		**2019**	**2018**	**2019**	**2018**
Net income attributable to stapled unitholders		**$ 90.6**	$ 85.9	**$ 382.1**	$ 465.2
Add (deduct):					
Fair value gains on investment properties, net		**(47.5)**	(52.9)	**(245.4)**	(354.7)
Fair value (gains) losses on financial instruments		**(1.0)**	1.4	**(1.2)**	0.5
Acquisition transaction costs		**—**	0.4	**—**	8.0
Loss on sale of investment properties		**1.0**	1.5	**3.0**	6.9
Other income — settlement award		**—**	—	**—**	(2.3)
Current income tax expense associated with the sale of an investment property		**—**	—	**—**	0.2
Deferred income tax expense		**4.5**	4.6	**37.6**	45.0
Fair value remeasurement expense relating to the Executive Deferred Stapled Unit Plan[1]		**0.3**	—	**1.3**	—
Non-controlling interests relating to the above		**—**	—	**0.1**	0.1
FFO	**[A]**	**$ 47.9**	$ 40.9	**$ 177.5**	$ 168.9
Add (deduct):					
Maintenance or improvement capital expenditures paid		**(0.3)**	(1.2)	**(2.9)**	(17.8)
Leasing commissions paid		**(0.5)**	(0.2)	**(1.3)**	(4.2)
Tenant incentives paid		**(0.3)**	(0.2)	**(0.5)**	(9.9)
Tenant incentive amortization		**1.3**	1.3	**5.1**	5.4
Straight-line rent amortization		**(1.4)**	(0.8)	**(5.1)**	(4.3)
AFFO	**[B]**	**$ 46.7**	$ 39.8	**$ 172.8**	$ 138.1
Per unit amounts:					
Basic and diluted FFO per stapled unit	**[A]/[C] and [A]/[D]**	**$ 0.91**	$ 0.90	**$ 3.62**	$ 3.68
Basic and diluted AFFO per stapled unit	**[B]/[C] and [B]/[D]**	**$ 0.89**	$ 0.87	**$ 3.53**	$ 3.01
Basic weighted average number of stapled units	**[C]**	**52.6**	45.7	**49.0**	45.9
Diluted weighted average number of stapled units	**[D]**	**52.6**	45.7	**49.0**	45.9

(1) The Executive Deferred Stapled Unit Plan provides equity-based compensation in the form of restricted stapled units to executives and other employees. It is anticipated that the fair value remeasurement relating to the Executive Deferred Stapled Unit Plan will fluctuate and have a greater impact on FFO and AFFO going forward and has, therefore, been adjusted in FFO and AFFO in accordance with the REALPAC White Paper. The comparative amount was not adjusted as it was not significant in the prior year periods and the year 2018.

Funds From Operations

FFO for the three month period ended December 31, 2019 was $47.9 million ($0.91 per unit) compared to $40.9 million ($0.90 per unit) in the prior year period. The $7.0 million ($0.01 per unit) increase in FFO is summarized below:

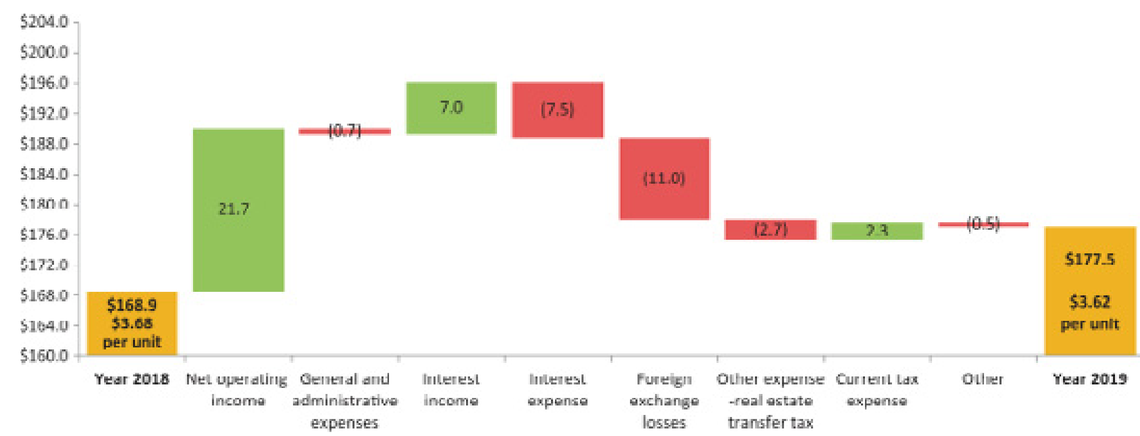
Q4 2019 vs Q4 2018 Change in FFO



Excluding the 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, FFO would have been $49.9 million ($0.95 per unit) for the three month period ended December 31, 2019 in comparison to FFO of $40.9 million ($0.90 per unit) in the three month period ended December 31, 2018.

FFO for the year ended December 31, 2019 was $177.5 million ($3.62 per unit) compared to $168.9 million ($3.68 per unit) in the prior year. The $8.6 million increase in FFO is summarized below:

Year 2019 vs Year 2018 Change in FFO



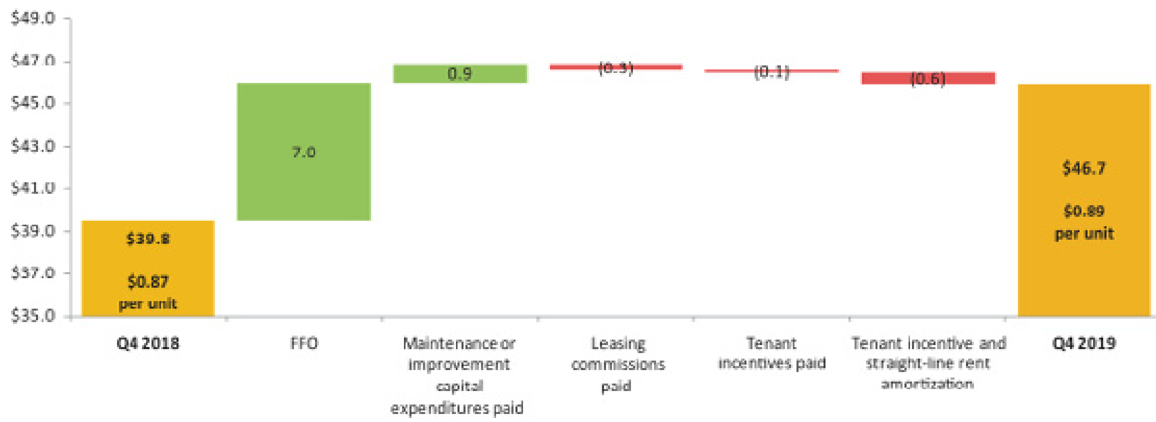
Excluding the net $2.0 million ($0.04 per unit) real estate transfer tax ($2.7 million) and related tax recovery ($0.7 million) which resulted from an internal reorganization and the compensation costs of $2.5 million ($0.05 per unit) associated with the departure of the former CFO, which includes the accelerated vesting of unit-based awards, FFO would have been $182.0 million ($3.71 per unit) for the year ended December 31, 2019. In comparison, excluding the net foreign exchange gain of $8.5 million ($0.19 per unit) realized during the period on the remeasurement of US dollar cash proceeds from the sale of investment properties in

January 2018 and the compensation costs associated with departed executives of $3.4 million ($0.07 per unit), FFO would have been $163.8 million ($3.56 per unit) in the prior year.

Adjusted Funds From Operations

As previously detailed in the FFO and AFFO reconciliation table, AFFO for the three month period ended December 31, 2019 was $46.7 million ($0.89 per unit) compared to $39.8 million ($0.87 per unit) in the prior year period. The $6.9 million ($0.02 per unit) increase in AFFO is summarized below:

Q4 2019 vs Q4 2018 Change in AFFO



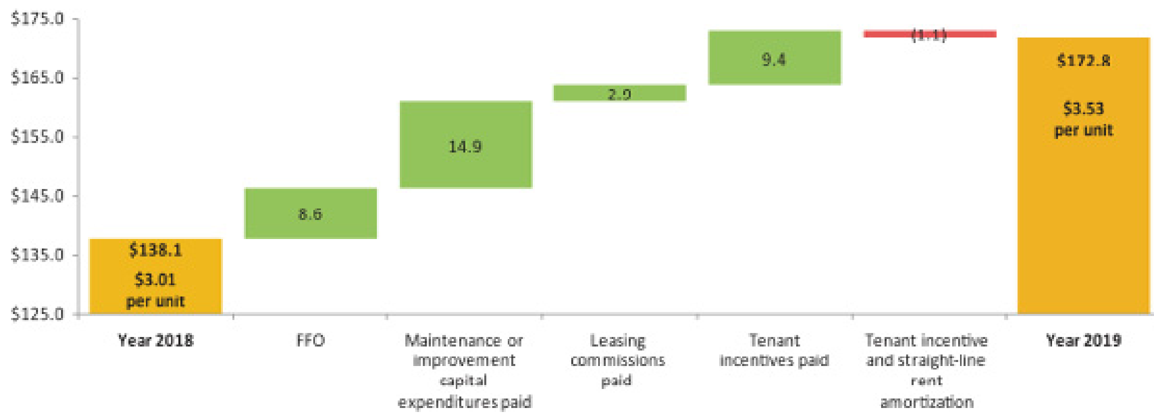
Additional details pertaining to the components of the change in AFFO are as follows:

- the $7.0 million increase in FFO, as noted previously;
- a $0.9 million decrease in capital expenditures paid largely relating to an improvement project in the prior year period at a property located in Olive Branch, Mississippi, which was acquired in 2017; and
- a $0.6 million decrease in AFFO from tenant incentive and straight-line rent amortization, primarily attributable to the recent acquisition in Dallas,Texas and rent-free periods associated with the building expansion completed in January 2019 at a West Jefferson, Ohio property.

Excluding the 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, AFFO would have been $48.7 million ($0.93 per unit) in the three month period ended December 31, 2019 in comparison to AFFO of $39.8 million ($0.87 per unit) in the prior year period.

AFFO for the year ended December 31, 2019 was $172.8 million ($3.53 per unit) compared to $138.1 million ($3.01 per unit) in the prior year. The $34.7 million ($0.52 per unit) increase in AFFO is summarized below:

Year 2019 vs Year 2018 Change in AFFO



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

- the $8.6 million increase in FFO, as noted previously;
- a $14.9 million decrease in capital expenditures paid largely due to higher payments made in the prior year relating to improvement projects arising from re-leasing activities at the properties in Novi, Michigan and Olive Branch, Mississippi;
- a $2.9 million decrease in leasing commissions paid primarily due to payments made in the prior year relating to the re-leasing of the property located in Olive Branch, Mississippi, the developed property in Poland, as well as lease renewals and extensions for two properties in the United States and Germany; and
- a $9.4 million decrease in tenant incentives paid largely due to a 2018 payment relating to a tenant allowance for a 2014 lease extension at the Eurostar facility in Graz, Austria, partially offset by;
- a $1.1 million decrease in AFFO from tenant incentive and straight-line rent amortization, primarily from rent-free periods and straight-line rent amortization related to the properties acquired in 2018 and 2019.

Excluding the 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 and the compensation costs of $2.5 million ($0.05 per unit) associated with the departure of the former CFO, which includes the accelerated vesting of unit-based awards, AFFO would have been $177.3 million ($3.62 per unit) for the year ended December 31, 2019. In comparison, excluding the net foreign exchange gain of $8.5 million ($0.19 per unit) realized during the period on the remeasurement of US dollar cash proceeds from the sale of investment properties in January 2018, compensation costs associated with departed executives of $3.4 million ($0.07 per unit) and the payment of the tenant incentive allowance made in connection with a 2014 lease extension at the Eurostar facility in Graz, Austria of $9.1 million ($0.19 per unit), AFFO would have been $142.1 million ($3.08 per unit) in the year ended December 31, 2018.

INVESTMENT PROPERTIES

Granite's investment properties consist of income-producing properties, properties under development and land held for development. Substantially all of the income-producing properties are for industrial use and can be categorized as (i) modern logistics/distribution warehouse facilities ("modern warehouse facilities"), which were recently acquired or newly developed/redeveloped, (ii) multi-purpose facilities, which are tenantable by a wide variety of potential users or (iii) special purpose properties designed and built with specialized features and leased to Magna. The attributes of the income-producing properties are versatile and are based on the needs of the tenant such that an industrial property used by a certain tenant for light or heavy manufacturing can be used by another tenant for other industrial uses after some retrofitting if necessary. Accordingly, the investment property portfolio is substantially for industrial use and, as such, Granite determined that its asset class comprises industrial properties for purposes of financial reporting. The fair value of the industrial properties, as noted below, is based upon the current tenanting, existing use and attributes of such properties.

Properties under development comprise (i) a site in Altbach, Germany where the demolition of the property is complete and the construction of a distribution/light industrial facility is anticipated to start in the second quarter of 2020, (ii) a parcel of development land in Plainfield, Indiana where construction of a class A distribution/warehouse facility is nearing completion and (iii) 50 acres of a recently acquired greenfield site in Houston, Texas for which speculative construction of the initial phase, consisting of two buildings totaling 0.7 million square feet, began in the fourth quarter of 2019.

Land held for development comprise 12.9 acres of development land in Ohio, United States that was acquired in 2018, the remaining 141 acres of land in Houston, Texas acquired in 2019 and 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) and a 16-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 December 31, 2019 and 2018 were as follows:

Investment Properties Summary(1)

As at December 31,	2019	2018
(in millions, except as noted)		
Investment properties — fair value	**$4,457.9**	$3,425.0
Income-producing properties	**4,377.6**	3,404.0
Properties under development	**51.3**	17.0
Land held for development	**29.0**	4.0
Overall capitalization rate(2)	**6.1%**	6.7%
Number of investment properties	**91**	84
Income-producing properties	**85**	80
Properties under development	**3**	2
Land held for development	**3**	2
Property metrics		
GLA, square feet	**40.0**	32.2
Occupancy, by GLA	**99.0%**	99.1%
Weighted average lease term in years, by square footage	**6.5**	6.0
Total number of tenants	**60**	48
Magna as a percentage of annualized revenue(3)	**42%**	54%
Magna as a percentage of GLA	**35%**	47%

Assets Held for Sale[1]

As at December 31,	2019	2018
(in millions, except as noted)		
Assets held for sale		
Fair value	—	$ 44.2
Number of properties	—	6
GLA, square feet	—	0.7
Magna as a percentage of GLA	—	94%
Annualized revenue[3]	—	$ 2.2

(1) Assets held for sale are excluded from investment properties and related property metrics. Accordingly, six such assets that were held for sale as at December 31, 2018 (subsequently sold in January and February 2019) were excluded from investment properties and related property metrics as at December 31, 2018 throughout this MD&A. There are no properties classified as assets held for sale as at December 31, 2019.

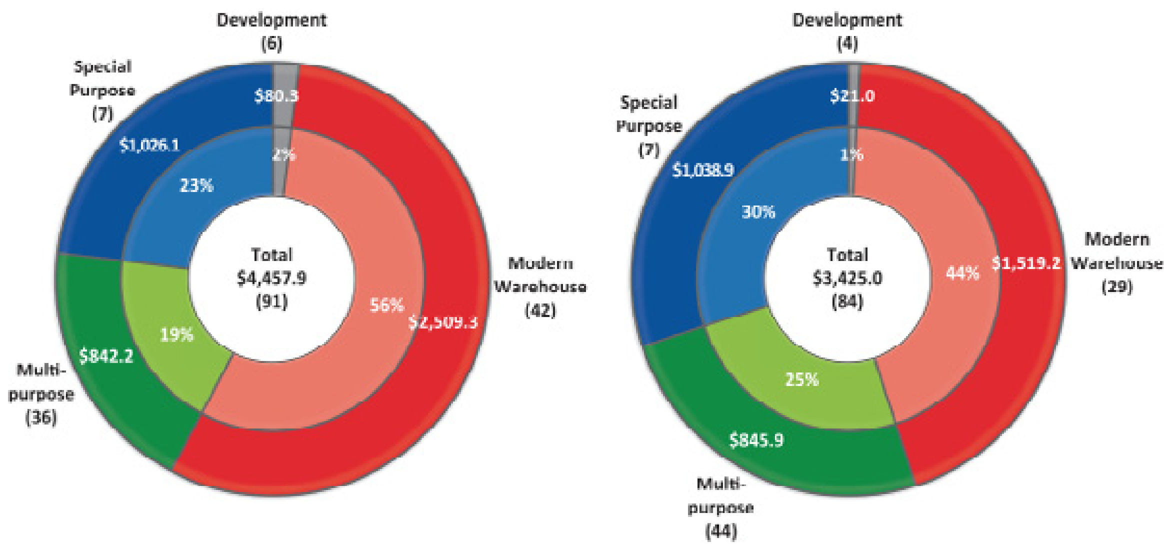
(2) Overall capitalization rate pertains only to income-producing properties.

(3) 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.

The fair value of the investment properties by asset category as at December 31, 2019 and 2018 was as follows:

Fair Value of Investment Properties by Asset Category[1]

December 31, 2019 **December 31, 2018**

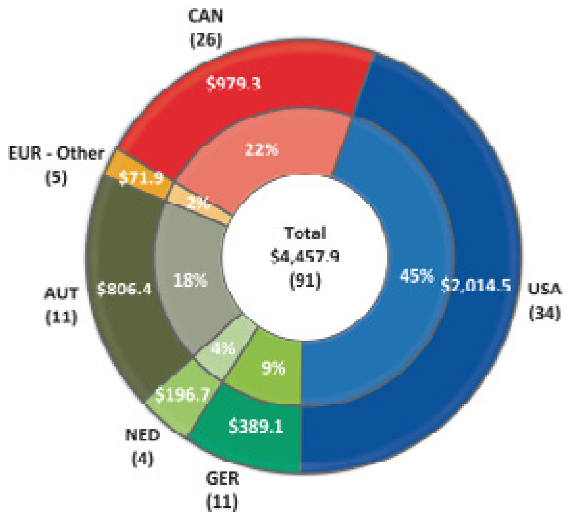


(1) Number of properties denoted in parentheses.

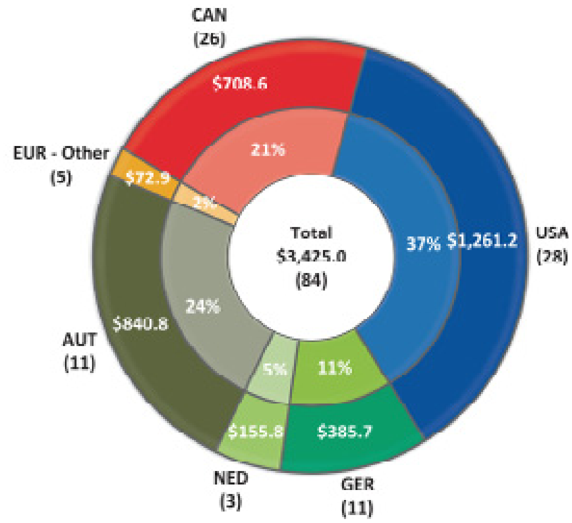
Granite has a high quality global portfolio of large scale properties strategically located in Canada, the United States and Europe. The fair value of the investment properties by country as at December 31, 2019 and 2018 was as follows:

Fair Value of Investment Properties by Geography[1]

December 31, 2019



December 31, 2018



(1) Number of properties denoted in parentheses.

The change in the fair value of investment properties by asset category during the year ended December 31, 2019 was as follows:

Change in Fair Value of Investment Properties by Asset Category

	January 1, 2019								December 31, 2019
	Investment properties	**Ground leases**	**Fair value gains (losses)**	**Acquisitions**	**Capital expenditures**	**Foreign exchange losses**	**Other changes**	**Transfers and classified as assets held for sale**	**Investment properties**
Modern warehouse facilities	$ **1,519.2**	11.8	95.3	951.1	4.8	(103.2)	6.0	24.3	$ **2,509.3**
Multi-purpose facilities	**845.9**	—	102.1	—	1.7	(22.2)	0.1	(85.4)	**842.2**
Special purpose properties	**1,038.9**	—	46.0	—	0.4	(54.8)	(4.4)	—	**1,026.1**
Income-Producing Properties	**3,404.0**	**11.8**	**243.4**	**951.1**	**6.9**	**(180.2)**	**1.7**	**(61.1)**	**4,377.6**
Properties Under Development	**17.0**	—	(0.1)	8.9	27.2	(1.7)	—	—	**51.3**
Land Held For Development	**4.0**	—	0.6	24.9	—	(0.5)	—	—	**29.0**
	$ **3,425.0**	$ **11.8**	$ **243.9**	$ **984.9**	$ **34.1**	$ **(182.4)**	$ **1.7**	$ **(61.1)**	$ **4,457.9**

During the year ended December 31, 2019, the fair value of investment properties increased by $1.0 billion, primarily due to:

- the recognition of ground leases effective January 1, 2019 under IFRS 16, *Leases* has increased the fair value of investment properties by $11.8 million, consisting of $9.1 million for the ground lease in Botlek, Netherlands and $2.7 million for the ground lease in Soest, Germany (see *"NEW ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS"*). The obligations for these two land leases have been recorded on the combined balance sheet with the right-of-use assets recorded in investment properties;
- net fair value gains of $243.9 million which were attributable to various factors including (i) the positive changes in leasing assumptions associated with lease renewals and fair market rent increases for certain properties located in Canada and the United States and (ii) a compression in discount and terminal capitalization rates for certain properties across Granite's portfolio resulting from the continued market demand for industrial real estate properties;
- the acquisitions of 10 income-producing properties in the United States and the Netherlands, the leasehold interest in two properties in Canada and a parcel of development land in the United States for $984.9 million consisting of (i) three properties in Texas for $433.9 million, (ii) one property in Columbus, Ohio for $71.6 million, (iii) the leasehold interest in two properties in Mississauga, Ontario for $174.1 million which includes the right-of-use asset of $20.5 million associated with the ground lease, (iv) one property in Born, Netherlands for $25.7 million, (v) three properties in Mississippi for $139.8 million, (vi) one property in Greenwood, Indiana for $39.6 million, (vii) one property in Pooler, Georgia for $62.7 million, (viii) development land in Texas for $33.4 million and (ix) the associated transaction costs of $4.1 million (see "*SIGNIFICANT MATTERS*"); and
- capital expenditures of $34.1 million, of which $27.2 million related to development capital expenditures for three properties under construction in Indiana and Texas, United States as well as Altbach, Germany and $3.4 million related to the construction of a 0.3 million square foot recently completed expansion at an acquired property near Columbus, Ohio. 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.

These increases are partially offset by:

- foreign exchange losses of $182.4 million, which primarily include foreign exchange losses of $98.7 million and $80.3 million resulting from the relative strengthening of the Canadian dollar against the Euro and the US dollar, respectively; and
- the classification of seven properties valued at $61.1 million as assets held for sale. These properties were classified as assets held for sale on the combined balance sheet and subsequently sold during the 2019 year.

Fair values were primarily determined by discounting the expected future cash flows, generally over a term of 10 years, plus a terminal value based on the application of a capitalization rate to estimated year 11 cash flows. Granite measures its investment properties using valuations prepared by management. Granite does not measure its investment properties based on valuations prepared by external appraisers but uses such external appraisals as data points, together with other external market information accumulated by management, in arriving at its own conclusions on values. Management uses valuation assumptions such as discount rates, terminal capitalization rates and market rental rates applied in external appraisals or sourced from valuation experts; however, the Trust also uses its historical renewal experience with tenants, its direct knowledge of the specialized nature of Granite's portfolio and tenant profile and its knowledge of the actual condition of the properties in making business judgments about lease renewal probabilities, renewal rents and capital expenditures. There has been no change in the valuation methodology used during the year ended December 31, 2019. The key valuation metrics for Granite's investment properties including the discount and terminal capitalization rates by jurisdiction are summarized in note 4 to the audited combined financial statements for the year ended December 31, 2019. In addition, valuation metrics for Granite's income-producing properties (excluding assets held for sale) by asset category as at December 31, 2019 and 2018 were as follows:

Valuation Metrics by Income-Producing Property Asset Category

	Modern warehouse facilities		Multi-purpose facilities		Special purpose properties		Total	
As at December 31,	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Overall capitalization rate[1][2]	**5.42%**	5.66%	**6.28%**	7.06%	**7.44%**	7.77%	**6.06%**	6.65%
Terminal capitalization rate[1]	**5.97%**	6.25%	**6.44%**	6.95%	**7.03%**	7.50%	**6.32%**	6.81%
Discount rate[1]	**6.17%**	6.34%	**6.91%**	7.02%	**7.38%**	7.63%	**6.60%**	6.90%

(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 December 31, 2019 is presented below:

Sensitivity Analysis of Fair Value of Income-Producing Properties

Rate sensitivity	Overall capitalization rate	Terminal capitalization rate	Discount rate
+50 bps	4,028.3	4,183.7	4,214.3
+25 bps	4,195.3	4,276.1	4,292.3
Base rate	**$4,377.6**	**$4,377.6**	**$4,377.6**
-25 bps	4,577.5	4,487.4	4,461.0
-50 bps	4,797.9	4,607.4	4,546.3

Maintenance or Improvement Capital Expenditures and Leasing Costs

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

Maintenance or Improvement Capital Expenditures and Leasing Costs Paid

The maintenance or improvement capital expenditures and leasing costs paid by quarter for the trailing eight quarters were as follows:

Maintenance or Improvement Capital Expenditures and Leasing Costs Paid

		Q4'19	Q3'19	Q2'19	Q1'19	2019 Total	Q4'18	Q3'18	Q2'18	Q1'18	2018 Total
Maintenance or improvement capital expenditures paid		$ 0.3	$ 0.8	$ 0.6	$ 1.2	$ 2.9	$ 1.2	$ 1.6	$ 6.2	$ 8.8	$17.8
Leasing costs paid		0.8	0.6	—	0.4	1.8	0.4	0.5	2.4	10.8	14.1
Total paid	**[A]**	**$ 1.1**	**$ 1.4**	**$ 0.6**	**$ 1.6**	**$ 4.7**	**$ 1.6**	**$ 2.1**	**$ 8.6**	**$ 19.6**	**$31.9**
GLA, square feet	**[B]**	40.0	34.9	34.5	32.8	N/A	32.2	32.5	31.8	29.7	N/A
$ paid per square feet	**[A]/ [B]**	**$ 0.03**	**$ 0.04**	**$ 0.02**	**$ 0.05**	**$0.14**	**$ 0.05**	**$ 0.06**	**$ 0.27**	**$ 0.66**	**$1.04**

In the first quarter of 2018, Granite paid $9.1 million related to a tenant incentive allowance for a 2014 lease extension at the 1.1 million square foot Eurostar facility in Graz, Austria.

Commencing with the third quarter of 2017, Granite undertook to re-develop its Novi, MI property, which was vacated by Magna in March 2017. Granite leased 71% of the space to Hanon Systems for a minimum lease term of 15 years commencing in January 2018. The 0.3 million square foot facility is one of the very few office properties in Granite's portfolio.

Granite has invested a total of $23.8 million in capital expenditures commencing in 2017 to reposition and lease the Novi, MI flex office property. The following is a summary of the capital expenditures and leasing costs paid by quarter in connection with the Novi, MI property:

Novi, MI Property: Maintenance or Improvement Capital Expenditures and Leasing Costs Paid

	Q4'19	Q3'19	Q2'19	Q1'19	2019 Total	Q4'18	Q3'18	Q2'18	Q1'18	2018 Total
Maintenance or improvement capital expenditures paid	$ 0.1	$ 0.1	$ 0.3	$ 0.6	$ 1.1	$ 0.5	$ 0.1	$ 3.2	$ 8.4	$12.2
Leasing costs paid	—	—	—	—	—	—	—	—	0.2	0.2
Total paid	**$ 0.1**	**$ 0.1**	**$ 0.3**	**$ 0.6**	**$ 1.1**	**$ 0.5**	**$ 0.1**	**$ 3.2**	**$ 8.6**	**$12.4**

Granite is actively marketing the remaining 0.1 million square feet of available space and anticipates incurring additional cash outflows totaling approximately $4.0 million in capital expenditures and leasing costs over the next year to complete the Novi, MI facility and lease-up of the remaining available space.

Excluding the non-recurring or unusual items noted above for the Graz, Austria and Novi, MI properties, the maintenance or improvement capital expenditures and leasing costs paid by quarter for the trailing eight quarters were as follows:

Maintenance or Improvement Capital Expenditures and Leasing Costs Paid — Excluding Novi, MI and Graz, Austria

		Q4'19	Q3'19	Q2'19	Q1'19	2019 Total	Q4'18	Q3'18	Q2'18	Q1'18	2018 Total
Maintenance or improvement capital expenditures paid		$ 0.2	$ 0.7	$ 0.3	$ 0.6	$ 1.8	$ 0.7	$ 1.5	$ 3.0	$ 0.4	$ 5.6
Leasing costs paid		0.8	0.6	—	0.4	1.8	0.4	0.5	2.4	1.5	4.8
Total paid	**[C]**	**$ 1.0**	**$ 1.3**	**$ 0.3**	**$ 1.0**	**$ 3.6**	**$ 1.1**	**$ 2.0**	**$ 5.4**	**$ 1.9**	**$10.4**
GLA, square feet	**[D]**	39.7	34.6	34.2	32.5	N/A	31.9	32.2	31.5	29.4	N/A
$ paid per square feet	**[C]/[D]**	**$ 0.03**	**$ 0.04**	**$ 0.01**	**$ 0.03**	**$0.11**	**$ 0.03**	**$ 0.06**	**$ 0.17**	**$ 0.06**	**$0.32**

Development and Expansion Projects

The attributes of Granite's properties under development and expansion projects as at December 31, 2019 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 Dec. 31 2019	Expected total construction cost(1)
As at December 31, 2019						
Properties under development						
Plainfield, Indiana	30	0.5	Q2 2019	Q1 2020	$ 22.8	$30.8
Altbach, Germany	13	0.3	Q2 2020	Q1 2021	2.2	33.8
Houston, Texas (Phase 1 only)	50	0.7	Q4 2019	Q1 2021	1.9	42.0
Expansion project						
2095 Logistics Drive, Mississauga, Ontario	9	0.1	Q4 2019	Q2 2021	0.2	10.5
	102	**1.6**			**$ 27.1**	**$117.1**

(1) Construction cost excludes cost of land.

Leasing Profile

Magna, Granite's Largest Tenant

At December 31, 2019, Magna International Inc. or one of its operating subsidiaries was the tenant at 35 (December 31, 2018 — 41) of Granite's income-producing properties and comprised 42% (December 31, 2018 — 54%) of Granite's annualized revenue and 35% (December 31, 2018 — 47%) of Granite's GLA. According to its public disclosure, Magna International Inc. has a credit rating of A3 with a stable outlook by Moody's Investor Service, A- with a stable outlook by Standard & Poor's and A(low) with a stable outlook by DBRS Limited. Magna International Inc. is a technology company and a global automotive supplier with international manufacturing operations and product development, engineering and sales centres. Its capabilities include body exteriors and structures, power and vision technologies, seating systems and complete vehicle solutions.

Granite's relationship with Magna is an arm's length landlord and tenant relationship governed by the terms of Granite's leases. Granite's properties are generally leased to operating subsidiaries of Magna

International Inc. and are not guaranteed by the parent company; however, Magna International Inc. is the tenant under certain of Granite's leases. The terms of the lease arrangements with Magna generally provide for the following:

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

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

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

Other Tenants

In addition to Magna, at December 31, 2019, Granite had 59 other tenants from various industries that in aggregate comprised 58% of the Trust's annualized revenue. Each of these tenants accounted for less than 9% of the Trust's annualized revenue as at December 31, 2019.

Granite's top 10 tenants by annualized revenue at December 31, 2019 are summarized in the table below:

Top 10 Tenants Summary

Tenant	Annualized Revenue %	GLA %	WALT (years)	Credit Rating(1)(2)
Magna	42%	35%	5.2	A(low)
Amazon	8%	6%	19.1	AA-
ADESA	3%	1%	9.6	NR
Restoration Hardware	3%	3%	8.3	NR
Ingram Micro	2%	3%	5.0	BBB(low)
Hanon Systems	2%	1%	10.9	AA
Mars Petcare	2%	3%	2.3	NR
Wayfair	2%	2%	5.8	NR
Ricoh	2%	2%	5.5	BBB(high)
Samsung	2%	2%	2.2	AA(low)
Top 10 Tenants	**68%**	**58%**	**6.8**	

(1) Credit rating is quoted on the DBRS 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 December 31, 2019, Granite's portfolio had a weighted average lease term by square footage of 6.5 years (December 31, 2018 — 6.0 years) with lease expiries by GLA, net of any leases renewed (in thousands of square feet), lease count and annualized revenue (calculated as rental revenue excluding tenant recoveries, recognized in accordance with IFRS, in December 2019 multiplied by 12 months, in millions) as set out in the table below:

Lease Maturity Summary

				Vacancies	2020		2021		2022		2023		2024		2025		2026 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	**5,904**	**26**	**48.5**	—	214	1.3	316	2.9	347	2.9	380	2.3	934	6.9	981	6.7	2,732	25.5
United States	**20,057**	**42**	**116.3**	402	208	1.1	87	0.7	3,110	15.5	2,807	13.7	2,822	14.3	889	4.9	9,732	66.1
Austria	**8,101**	**12**	**61.9**	—	101	0.6	389	2.6	802	9.7	125	1.2	5,349	37.5	111	0.6	1,224	9.7
Germany	**3,504**	**11**	**24.0**	—	—	—	548	3.6	283	2.2	1,947	13.6	—	—	195	1.4	531	3.2
Netherlands	**1,700**	**4**	**10.9**	—	—	—	—	—	—	—	314	2.1	—	—	628	4.7	758	4.1
Europe — Other	**751**	**8**	**5.5**	—	133	0.6	336	3.1	101	0.5	90	0.7	—	—	—	—	91	0.6
Total	**40,017**	**103**	**267.1**	**402**	**656**	**3.6**	**1,676**	**12.9**	**4,643**	**30.8**	**5,663**	**33.6**	**9,105**	**58.7**	**2,804**	**18.3**	**15,068**	**109.2**
% of portfolio as at December 31, 2019:																		
* by sq ft	**100%**			**1.0%**	**1.6%**		**4.2%**		**11.6%**		**14.1%**		**22.8%**		**7.0%**		**37.7%**	
* by Annualized Revenue			**100%**			**1.3%**		**4.8%**		**11.5%**		**12.6%**		**22.0%**		**6.9%**		**40.9%**

Occupancy Roll Forward

The following tables provide a roll forward of the occupancy of Granite for the three months and year ended December 31, 2019:

Occupancy Roll Forward for Q4 2019

	Three Months Ended December 31, 2019						
(in thousands, sq ft, except as noted)	**Canada**	**USA**	**Austria**	**Germany**	**Netherlands**	**Europe - Other**	**Total**
Total portfolio size, Oct 1, 2019[(1)]	**5,904**	**14,907**	**8,101**	**3,504**	**1,700**	**751**	**34,867**
Vacancy, Oct 1, 2019	—	(90)	—	—	—	—	**(90)**
Occupancy, Oct 1, 2019	**5,904**	**14,817**	**8,101**	**3,504**	**1,700**	**751**	**34,777**
Occupancy %, Oct 1, 2019	**100.0%**	**99.4%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**99.7%**
Acquired occupancy	—	5,150	—	—	—	—	**5,150**
Acquired vacancy	—	(312)	—	—	—	—	**(312)**
Expiries	—	(652)	—	—	—	(45)	**(697)**
Renewals	—	652	—	—	—	45	**697**
Occupancy, Dec 31, 2019	**5,904**	**19,655**	**8,101**	**3,504**	**1,700**	**751**	**39,615**
Total portfolio size, Dec 31, 2019	**5,904**	**20,057**	**8,101**	**3,504**	**1,700**	**751**	**40,017**
Occupancy %, Dec 31, 2019	**100.0%**	**98.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**99.0%**

(1) Total portfolio size, Oct 1, 2019 is exclusive of assets held for sale.

Occupancy Roll Forward for Year 2019

	Year Ended December 31, 2019						
(in thousands, sq ft, except as noted)	**Canada**	**USA**	**Austria**	**Germany**	**Netherlands**	**Europe - Other**	**Total**
Total portfolio size, Jan 1, 2019[(1)]	**4,961**	**12,477**	**8,101**	**3,504**	**1,441**	**751**	**31,235**
Vacancy, Jan 1, 2019	(145)	(135)	—	—	—	—	**(280)**
Occupancy, Jan 1, 2019	**4,816**	**12,342**	**8,101**	**3,504**	**1,441**	**751**	**30,955**
Occupancy %, Jan 1, 2019	**97.1%**	**98.9%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**99.1%**
Acquired occupancy	943	7,272	—	—	259	—	**8,474**
Acquired vacancy	—	(312)	—	—	—	—	**(312)**
Expansion	—	309	—	—	—	—	**309**
Expiries	(435)	(921)	(392)	—	(500)	(128)	**(2,376)**
Renewals	435	814	392	—	500	128	**2,269**
New Leases	145	151	—	—	—	—	**296**
Occupancy, Dec 31, 2019	**5,904**	**19,655**	**8,101**	**3,504**	**1,700**	**751**	**39,615**
Total portfolio size, Dec 31, 2019	**5,904**	**20,057**	**8,101**	**3,504**	**1,700**	**751**	**40,017**
Occupancy %, Dec 31, 2019	**100.0%**	**98.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**99.0%**

(1) Total portfolio size, Jan 1, 2019 is exclusive of assets held for sale during 2019.

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 $797.7 million as at December 31, 2019 compared to $1,158.1 million at December 31, 2018, as summarized below:

Sources of Available Liquidity

As at December 31,	2019	2018
Cash and cash equivalents	**$ 298.7**	$ 658.2
Unused portion of credit facility	**499.0**	499.9
Available liquidity	**$ 797.7**	$1,158.1
Additional sources of liquidity:		
Assets held for sale(1)	**—**	$ 44.2
Unencumbered assets(2)	**$4,457.9**	$3,425.0

(1) No properties were classified as assets held for sale on the combined financial statements at December 31, 2019. Six properties located in Canada and the United States were classified as assets held for sale on the combined financial statements at December 31, 2018 and were subsequently sold during January and February 2019.

(2) 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 available liquidity is primarily due to net cash proceeds realized from the equity offering in October 2019. Granite intends to use and has partially used the net proceeds of the equity offering to fund completed and potential acquisitions of properties, development and expansion 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 flow 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.

Cash Flow Components

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

Cash Flow Components Summary

	Three Months Ended December 31, 2019	Three Months Ended December 31, 2018	$ change	Years Ended December 31, 2019	Years Ended December 31, 2018	$ change
Cash and cash equivalents, beginning of period	**$ 455.4**	$ 192.7	262.7	**$ 658.2**	$ 69.0	589.2
Cash provided by operating activities	**50.1**	34.7	15.4	**183.4**	157.9	25.5
Cash (used in) provided by investing activities	**(446.0)**	(86.3)	(359.7)	**(876.1)**	95.8	(971.9)
Cash provided by financing activities	**238.8**	506.8	(268.0)	**343.6**	324.2	19.4
Effect of exchange rate changes on cash and cash equivalents	**0.4**	10.3	(9.9)	**(10.4)**	11.3	(21.7)
Cash and cash equivalents, end of period	**$ 298.7**	$ 658.2	(359.5)	**$ 298.7**	$ 658.2	(359.5)

Operating Activities

In the three month period ended December 31, 2019, operating activities generated cash of $50.1 million compared to $34.7 million in the prior year period. The increase of $15.4 million was due to various factors including, among others, an $11.5 million increase in net operating income and a $5.4 million decrease in income taxes paid primarily due to a refund in the fourth quarter of 2019 of tax instalments made in prior periods.

In the year ended December 31, 2019, operating activities generated cash of $183.4 million compared to $157.9 million in the prior year. The increase of $25.5 million was due to various factors including, among others, the following:

- a $21.7 million increase in net operating income;
- a $7.3 million decrease in income taxes paid due to a reduction in tax instalments made;
- a decrease in tenant incentives paid of $9.4 million which mainly related to a payment in 2018 associated with a 2014 lease extension at the Eurostar facility in Graz, Austria; and
- a decrease in leasing commissions paid of $2.9 million, partially offset by;
- a decrease in cash provided by working capital changes of $6.7 million primarily due to a decrease in accounts payable and accrued liabilities largely related to the land transfer tax in the prior year for the property acquired in Germany; and
- an increase in interest paid of $7.7 million largely associated with the term loan drawdowns in December 2018.

Investing Activities

Investing activities for the three month period ended December 31, 2019 used cash of $446.0 million and primarily related to the following:

- the acquisitions of five income-producing properties for $460.4 million consisting of one property in Greenwood, Indiana for $39.6 million, one property in Pooler, Georgia for $61.3 million, one property in Dallas, Texas for $243.3 million, two properties in Southaven, Mississippi for $115.3 million and the associated transaction costs of $0.9 million;

- investment property development and expansion capital expenditures paid of $15.5 million primarily relating to the property under development in Plainfield, Indiana; and
- a $17.1 million cash deposit held in escrow to complete construction work at the Dallas, Texas property acquired in the fourth quarter of 2019. As construction is completed, the construction costs will be capitalized to the cost of the property. These cash outflows are partially offset by;
- net proceeds of $47.3 million received from the disposition of a property in Canada and five properties in the United States.

Investing activities for the three month period ended December 31, 2018 used cash of $86.3 million and primarily related to the following:

- the acquisition of an income-producing property in Shepherdsville, Kentucky for $65.9 million and the purchase of 12.9 acres of development land in West Jefferson, Ohio for $1.2 million;
- investment property expansion capital expenditures paid of $14.5 million substantially relating to the construction of a 0.3 million square foot expansion at an acquired property near Columbus, Ohio, and maintenance and improvement capital expenditures paid of $1.2 million largely relating to improvement projects at a property in Novi, Michigan and a multi-tenanted property in Pooler, Georgia; and
- a $7.0 million deposit to acquire the leasehold interest in two income-producing properties located in Mississauga, Ontario. These cash outflows are partially offset by;
- net proceeds of $3.5 million received from the disposition of a property in Germany.

Investing activities for the year ended December 31, 2019 used cash of $876.1 million and primarily related to the following:

- the acquisitions of 10 income-producing properties in the United States and the Netherlands, the leasehold interest in two properties in Canada, a parcel of development land in the United States and the associated transaction costs for $930.9 million (see "*SIGNIFICANT MATTERS*");
- investment property development and expansion capital expenditures paid of $27.4 million relating to properties under development in Altbach, Germany, Plainfield, Indiana and Houston, Texas and the completed expansion at the property near Columbus, Ohio, and maintenance and improvement capital expenditures paid of $2.9 million largely relating to improvement projects at a property in Novi, Michigan, a multi-tenanted property in Olive Branch, Mississippi and a property located in the Netherlands; and
- a $17.1 million cash deposit held in escrow to complete construction work at the recently acquired Dallas, Texas property as noted above. These cash outflows are partially offset by;
- net proceeds of $85.5 million received from the dispositions of 13 properties in Canada and the United States; and
- the receipt of a $16.8 million vendor take-back mortgage relating to the sale of four properties in Iowa in February 2019.

Investing activities for the year ended December 31, 2018 generated cash of $95.8 million and primarily related to the following:

- net proceeds of $681.3 million received from the disposition of 16 income-producing properties in Canada, the United States and Germany; and
- the receipt of a $30.0 million vendor take-back mortgage resulting from the sale of seven properties in Newmarket, Ontario in January 2018, partially offset by;

- the acquisitions of eight income-producing properties in the United States and Germany for $549.1 million consisting of a $304.2 million portfolio of four properties in West Jefferson, Ohio, $50.7 million for a property in Plainfield, Indiana, $44.4 million for a property in Greencastle, Pennsylvania, $82.7 million for a property in Erfurt, Germany, one property in Shepherdsville, Kentucky for $65.9 million and the purchase of 12.9 acres of development land in West Jefferson, Ohio for $1.2 million;
- investment property maintenance and improvement capital expenditures paid of $17.8 million largely relating to improvement projects at the property in Novi, Michigan as noted above and a modern warehouse property located in Olive Branch, Mississippi which was acquired in October 2017 and re-leased to another tenant, and development and expansion capital expenditures paid of $15.4 million largely relating to the 0.3 million square foot expansion at the property near Columbus, Ohio mentioned previously; and
- $33.1 million of deposits relating to property acquisitions which closed during 2019.

Financing Activities

Cash provided by financing activities for the three month period ended December 31, 2019 of $238.8 million comprised $281.6 million of proceeds from the stapled unit offering in October 2019, net of issuance costs, partially offset by $36.7 million of distribution payments and $6.8 million for the settlement of a cross currency interest rate swap.

Cash provided by financing activities for the three month period ended December 31, 2018 of $506.8 million largely comprised $548.7 million of proceeds from unsecured term loans, partially offset by $31.1 million of distribution payments and $6.3 million of bank indebtedness repayments.

Cash provided by financing activities for the year ended December 31, 2019 of $343.6 million comprised $502.0 million of proceeds from the stapled unit offerings completed in April and October 2019, net of issuance costs, partially offset by $136.9 million of monthly distribution payments, $13.7 million relating to a special distribution payment and $6.8 million for the settlement of a cross currency interest rate swap.

Cash provided by financing activities for the year ended December 31, 2018 of $324.2 million comprised $548.7 million of proceeds from unsecured term loans, partially offset by distribution payments of $125.1 million, repurchases of the Trust’s stapled units under the normal course issuer bid of $63.5 million and net $32.5 million of bank indebtedness repayments.

Debt Structure

Granite's debt structure and key debt metrics as at December 31, 2019 and 2018 were as follows:

Summary Debt Structure and Debt Metrics

As at December 31,			2019		2018
Unsecured debt, net		$	1,187.0	$	1,198.4
Cross currency interest rate swaps, net			30.3		104.8
Lease obligations[1]			33.0		—
Total debt	[A]	$	1,250.3	$	1,303.2
Less: cash and cash equivalents			298.7		658.2
Net debt	[B]	$	951.6	$	645.0
Investment properties, all unencumbered by secured debt	[C]	$	4,457.9	$	3,425.0
Adjusted EBITDA[2]	[D]	$	204.4	$	187.0
Interest expense		$	29.9	$	22.4
Interest income			(9.6)		(2.6)
Interest expense, net	[E]	$	20.3	$	19.8
Debt metrics					
Leverage ratio[2]	[A]/[C]		28%		38%
Net leverage ratio[2]	[B]/[C]		21%		19%
Interest coverage ratio[2]	[D]/[E]		10.1x		9.4x
Unencumbered asset coverage ratio[2]	[C]/[A]		3.6x		2.6x
Indebtedness ratio[2]	[A]/[D]		6.1x		7.0x
Weighted average cost of debt[3]			1.83%		2.17%
Weighted average debt term-to-maturity, in years[3]			4.4		4.7
Ratings and outlook					
DBRS			BBB stable		BBB stable
Moody's			Baa2 stable		Baa2 stable

(1) The Trust has adopted IFRS 16, *Leases* effective January 1, 2019 resulting in the recognition of lease obligations on the combined balance sheet (see "*NEW ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS"*).

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

(3) Excludes lease obligations noted above.

Unsecured Debt and Cross Currency Interest Rate Swaps

2026 Term Loan and Cross Currency Interest Rate Swap

On December 12, 2018, Granite REIT Holdings Limited Partnership ("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 December 31, 2019, 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, the Trust entered into a 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 new 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 December 31, 2019, the fair value of the cross currency interest rate swap was a net financial liability of $1.2 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 December 31, 2019, the full US$185.0 million remained outstanding and the balance, net of deferred financing costs and debt modification losses, was $239.2 million.

On December 19, 2018, the Trust entered into a cross currency interest rate swap to exchange the LIBOR plus margin interest payments from the term loan that originally matured in 2022 for Euro denominated payments at a 1.225% fixed interest rate. In anticipation of the term loan extension on October 10, 2019, the previously existing cross currency swap was terminated on September 24, 2019 and blended into a new cross currency interest rate swap. The new 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 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 December 31, 2019, the fair value of the cross currency interest rate swap was a net financial liability of $1.2 million.

2023 Debentures and Cross Currency Interest Rate Swap

On December 20, 2016, the Trust issued $400.0 million aggregate principal amount of 3.873% Series 3 senior debentures due November 30, 2023 (the “2023 Debentures”). Interest on the 2023 Debentures is payable semi-annually in arrears on May 30 and November 30 of each year. At December 31, 2019, all of the 2023 Debentures remained outstanding and the balance, net of deferred financing costs, was $398.7 million.

On December 20, 2016, the Trust entered into a cross currency interest rate swap to exchange the 3.873% interest payments from the 2023 Debentures for Euro denominated payments at a 2.43% fixed interest rate. Under the terms of the swap, the Trust will pay principal proceeds of €281.1 million in exchange for which it will receive $400.0 million on November 30, 2023. As at December 31, 2019, the fair value of the cross currency interest rate swap was a net financial liability of $24.3 million.

2021 Debentures and Cross Currency Interest Rate Swap

In July 2014, the Trust issued $250.0 million aggregate principal amount of 3.788% Series 2 senior debentures due July 5, 2021 (the “2021 Debentures”). Interest on the 2021 Debentures is payable semi-annually in arrears on January 5 and July 5 of each year. At December 31, 2019, all of the 2021 Debentures remained outstanding and the balance, net of deferred financing costs, was $249.6 million.

In July 2014, the Trust entered into a cross currency interest rate swap to exchange the 3.788% interest payments from the 2021 Debentures for Euro denominated payments at a 2.68% fixed interest rate. Under the terms of the swap, the Trust will pay principal proceeds of €171.9 million in exchange for which it will receive $250.0 million on July 5, 2021. As at December 31, 2019, the fair value of the cross currency interest rate swap was a net financial liability of $3.6 million.

The 2021 Debentures, 2023 Debentures, 2024 Term Loan and 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 and the Euro, Canadian and US government benchmark interest rates.

Credit Facility

On February 1, 2018, the Trust entered into an unsecured revolving credit facility in the amount of $500.0 million that is available by way of Canadian dollar, US dollar or Euro denominated loans or letters of credit and matures on February 1, 2023. The Trust has the option to extend the maturity date by one year to February 1, 2024 subject to the agreement of lenders in respect of a minimum of $66^2/_3$% of the aggregate amount committed under the facility. The credit facility provides the Trust with the ability to increase the amount of the commitment by an additional aggregate principal amount of up to $100.0 million with the consent of the participating lenders. Interest on drawn amounts is calculated based on an applicable margin determined by reference to the external credit rating of Granite REIT and Granite GP, as is a commitment fee in respect of undrawn amounts. As at December 31, 2019, 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 December 31, 2019, there were no significant changes in the debt ratios, which remain relatively favourable, providing financial flexibility for future growth.

Granite's unsecured debentures, term loans and credit facility agreements contain financial and non-financial covenants that include maintaining certain leverage and debt service ratios. As at December 31, 2019, Granite was in compliance with all of these covenants.

Credit Ratings

On March 14, 2019, Moody's Investors Service, Inc. ("Moody's") confirmed its credit rating on the 2021 Debentures and 2023 Debentures of Baa2 with a stable outlook. On April 1, 2019, DBRS confirmed the BBB rating on the 2021 Debentures and the 2023 Debentures with a stable trend. Credit ratings are intended to provide investors with an independent measure of credit quality of an issue of securities. A rating accorded to any security is not a recommendation to buy, sell or hold such securities and may be subject to revision or withdrawal at any time by the rating organization which granted such ratings.

Unitholders' Equity

Outstanding Stapled Units

As at March 4, 2020, the Trust had 54,052,212 stapled units issued and outstanding.

Distributions

On November 5, 2019, the Trust increased its targeted annualized distribution to $2.90 ($0.242 per month) per stapled unit from $2.80 per stapled unit commencing with the monthly distribution declared in December 2019 and paid in mid-January 2020.

Monthly distributions declared to stapled unitholders in the three month periods ended December 31, 2019 and 2018 were $38.3 million or 70.8 cents per stapled unit and $31.4 million or 68.7 cents per stapled unit, respectively. Total monthly distributions declared to stapled unitholders in the years ended December 31, 2019 and 2018 were $139.3 million or $2.81 per stapled unit and $125.1 million or $2.73 per stapled unit, respectively.

The distributions declared in January 2020 in the amount of $13.1 million or 24.2 cents per stapled unit were paid on February 14, 2020 and the distribution declared in February 2020 of $13.1 million or 24.2 cents per stapled unit will be paid on March 16, 2020.

As a result of the increase in taxable income generated primarily by the sale transactions in 2018, Granite's Board of Trustees declared a special distribution in December 2018 of $1.20 per stapled unit which comprised 30.0 cents per unit payable in cash and 90.0 cents per unit payable by the issuance of stapled units, both of which were paid on January 15, 2019. Immediately following the issuance of the stapled units, the stapled units were consolidated such that each unitholder held the same number of stapled units after the consolidation as each unitholder held prior to the special distribution.

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

	Three Months Ended December 31,		Years Ended December 31,	
	2019	**2018**	**2019**	**2018**
Net income	**$ 90.6**	$ 85.9	**$ 382.3**	$ 465.4
Cash flows provided by operating activities	**50.1**	34.7	**183.4**	157.9
Monthly cash distributions paid and payable	**(38.3)**	(31.4)	**(139.3)**	(125.1)
Special cash distribution paid and payable	**—**	(13.7)	**—**	(13.7)
Cash flows from operating activities in excess (shortfall) of distributions paid and payable	**$ 11.8**	**$ (10.4)**	**$ 44.1**	**$ 19.1**

Monthly distributions paid for the three month periods and years ended December 31, 2019 and 2018 were funded with cash flows from operating activities. The special distribution declared in December 2018 and paid in cash on January 15, 2019 was funded with available cash on hand.

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

Equity Offerings

On October 31, 2019, Granite completed an offering of 4,000,000 stapled units at a price of $64.00 per unit for gross proceeds of approximately $256.0 million. On October 28, 2019, the syndicate of underwriters elected, pursuant to the terms of the underwriting agreement in respect of the offering, to exercise its over-allotment option in full, resulting in the issuance of an additional 600,000 stapled units on October 31, 2019 for additional gross proceeds of $38.4 million. The aggregate gross proceeds raised pursuant to the offering, including the exercise of the over-allotment option, were $294.4 million. The net proceeds received by Granite after deducting the underwriters' fees and other expenses of the offering were approximately $281.6 million.

On April 30, 2019, Granite completed an offering of 3,260,000 stapled units at a price of $61.50 per unit for gross proceeds of $200.5 million. On April 26, 2019, the syndicate of underwriters elected, pursuant to the terms of the underwriting agreement in respect of the offering, to exercise its over-allotment option in full, resulting in the issuance of an additional 489,000 stapled units on April 30, 2019 for additional gross proceeds of $30.1 million. The aggregate gross proceeds raised pursuant to the offering, including the exercise of the over-allotment option, were $230.6 million. The net proceeds received by Granite after deducting the underwriters' fees and the expenses were $220.4 million.

Granite has used a portion of the net proceeds from the offerings and intends to use the remaining proceeds to fund acquisitions, commitments under development projects, potential future acquisitions and for general trust purposes.

Normal Course Issuer Bid

On May 14, 2019, 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 4,853,666 of Granite's issued and outstanding stapled units. The NCIB commenced on May 21, 2019 and will conclude on the earlier of the date on which purchases under the bid have been completed and May 20, 2020. Pursuant to the policies of the TSX, daily purchases made by Granite through the TSX may not exceed 41,484 stapled units, subject to certain exceptions. Granite entered into an automatic securities purchase plan with a broker in order to facilitate repurchases of the stapled units under the NCIB during specified blackout periods. Pursuant to a previous notice of intention to conduct a NCIB, Granite received approval from the TSX to purchase stapled units for the period May 18, 2018 to May 17, 2019.

During the year ended December 31, 2019, Granite repurchased 700 stapled units for consideration of less than $0.1 million at an aggregate average purchase price of $52.96 per unit. During the year ended December 31, 2018, Granite repurchased 1,282,171 stapled units for consideration of $63.5 million, representing an average purchase price of $49.55 per unit.

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

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

The Trust has made commitments for future payments of interest and principal on long-term debt, construction and development project costs and certain other costs. At December 31, 2019, these contractual obligations had the following maturities:

As at December 31, 2019	Total	2020	2021	2022	2023	2024	Thereafter
Unsecured debentures	**$ 650.0**	$ —	$250.0	$ —	$400.0	$ —	$ —
Unsecured term loans	**539.8**	—	—	—	—	239.8	300.0
Cross currency interest rate swaps	**30.3**	—	3.6	—	24.3	1.2	1.2
Interest payments:							
Unsecured debentures, net of cross currency interest rate swap savings	**53.4**	16.7	16.7	10.0	10.0	—	—
Unsecured term loans, net of cross currency interest rate swap savings	**35.1**	5.4	5.4	5.4	5.4	5.4	8.1
Construction and development purchase commitments	**63.8**	57.0	6.8	—	—	—	—
Three property purchases in the Netherlands	**129.5**	107.7	21.8	—	—	—	—
	$1,501.9	**$186.8**	**$304.3**	**$15.4**	**$439.7**	**$246.4**	**$ 309.3**

Off-balance sheet arrangements consist of outstanding letters of credit to support certain contractual obligations, property purchase commitments, construction and development project commitments and certain operating agreements. At December 31, 2019, the Trust had $1.0 million in letters of credit outstanding. Additionally, the Trust had contractual commitments related to construction and development projects of approximately $63.8 million at December 31, 2019. The construction and development projects are expected to be completed during 2020 and the first half of 2021. The commitment to purchase the three properties in the Netherlands is subject to customary closing conditions. The three properties, representing an aggregate gross leasable area of 0.8 million square feet, are anticipated to be purchased in the second quarter of 2020 and a 0.1 million square foot expansion at one of the facilities will be completed in the first quarter of 2021.

Commitments on non-cancellable operating leases that were previously disclosed are recorded as lease obligations on the combined financial statements under IFRS 16, *Leases* effective January 1, 2019 (see "*New Accounting Pronouncements and Developments*").

For further discussion of commitments, contractual obligations, contingencies and off-balance sheet arrangements, refer to notes 8, 9, 16 and 20 to the audited combined financial statements for the year ended December 31, 2019 and "*LIQUIDITY AND CAPITAL RESOURCES*".

RELATED PARTY TRANSACTIONS

For a discussion of the Trust's transactions with related parties, refer to note 18 of the audited combined financial statements for the year ended December 31, 2019.

NON-IFRS MEASURES

Funds from operations

FFO is a non-IFRS performance measure that is widely used by the real estate industry in evaluating the operating performance of real estate entities. Granite calculates FFO as net income attributable to stapled unitholders excluding fair value gains (losses) on investment properties and financial instruments, gains (losses) on sale of investment properties including the associated current income tax, acquisition transaction costs, deferred income taxes and certain other items, net of non-controlling interests in such items. The Trust's determination of FFO follows the definition prescribed by the Real Estate Property Association of Canada ("REALPAC") White Paper on Funds From Operations & Adjusted Funds From Operations for IFRS dated February 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 incentives paid 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

(in millions, except as noted)		Three Months Ended December 31, 2019	2018	Years Ended December 31, 2019	2018
Monthly distributions declared to unitholders	**[A]**	**$ 38.3**	$ 31.4	**$ 139.3**	$ 125.1
FFO		**47.9**	40.9	**177.5**	168.9
Add (deduct):					
Foreign exchange gain on the remeasurement of US cash proceeds from sale of properties		**—**	—	**—**	(8.5)
Lease termination and close-out fees		**—**	—	**(0.9)**	(1.0)
FFO adjusted for the above	**[B]**	**$ 47.9**	$ 40.9	**$ 176.6**	$ 159.4
AFFO		**46.7**	39.8	**172.8**	138.1
Add (deduct):					
Tenant allowance payment made in connection with a 2014 lease extension at the Eurostar facility in Austria		**—**	—	**—**	9.1
Foreign exchange gain on the remeasurement of US cash proceeds from sale of properties		**—**	—	**—**	(8.5)
Lease termination and close-out fees		**—**	—	**(0.9)**	(1.0)
AFFO adjusted for the above	**[C]**	**$ 46.7**	$ 39.8	**$ 171.9**	$ 137.7
FFO payout ratio	**[A]/[B]**	**80%**	77%	**79%**	78%
AFFO payout ratio	**[A]/[C]**	**82%**	79%	**81%**	91%

Excluding the net $2.0 million real estate transfer tax ($2.7 million) and related tax recovery ($0.7 million) which resulted from an internal reorganization, FFO payout ratio and AFFO payout ratio would be 77% and 79% in the three month period ended December 31, 2019 compared to 77% and 79% for the three month period ended December 31, 2018, respectively.

Net operating income — cash basis

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

Same property net operating income — cash basis

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

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

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

Adjusted EBITDA Reconciliation

For years ended December 31,	2019	2018
Net income	**$ 382.3**	$ 465.4
Add (deduct):		
Lease termination and close-out fees	**(0.9)**	(1.0)
Interest expense and other financing costs	**29.9**	22.4
Interest income	**(9.6)**	(2.6)
Income tax expense	**42.7**	52.6
Depreciation and amortization	**0.9**	0.3
Foreign exchange gain on the remeasurement of US cash proceeds from sale of properties	**—**	(8.5)
Fair value gains on investment properties, net	**(245.4)**	(354.7)
Fair value (gains) losses on financial instruments	**(1.2)**	0.5
Loss on sale of investment properties	**3.0**	6.9
Acquisition transaction costs	**—**	8.0
Other expense (income)	**2.7**	(2.3)
Adjusted EBITDA	**$ 204.4**	**$ 187.0**

Interest coverage ratio

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

Indebtedness ratio

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

Leverage and net leverage ratios

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

Unencumbered asset coverage ratio

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

SIGNIFICANT ACCOUNTING ESTIMATES

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

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

Judgments

Leases

The Trust's policy for revenue recognition is described in note 2(k) of the audited combined financial statements for the year ended December 31, 2019. The Trust makes judgments in determining whether certain leases are operating or finance leases, in particular tenant leases with long contractual terms and leases where the property is a large square-footage and/or architecturally specialized. Refer to the "*New Accounting Pronouncements and Developments*" section for information on the adoption of IFRS 16, *Leases* effective January 1, 2019.

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, 2019. 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 year ended December 31, 2019 other than recognizing related ground lease obligations as part of the adoption of IFRS 16, *Lease*s. The critical assumptions relating to the Trust's estimates of fair values of investment properties include the receipt of contractual rents, contractual renewal terms, expected future market rental rates, discount rates that reflect current market uncertainties, capitalization rates and recent investment property prices. If there is any change in these assumptions or regional, national or international economic conditions, the fair value of investment properties may change materially. Refer to the "*Investment Properties*" section and note 4 of the audited combined financial statements for the year ended December 31, 2019 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

New Standards Adopted

Effective January 1, 2019, the Trust applied for the first time certain standards and amendments. The nature and effect of the changes to the combined financial statements are disclosed below.

Amendments to IFRS 3, *Business Combinations*

The Trust adopted the amendments to IFRS 3, *Business Combinations* ("IFRS 3 Amendments") effective January 1, 2019 in advance of their mandatory effective date of January 1, 2020. The IFRS 3 Amendments were adopted prospectively and therefore the comparative information presented for 2018 has not been restated. The IFRS 3 Amendments clarify the definition of a business in determining whether an acquisition is a business combination or an asset acquisition. The IFRS 3 Amendments have removed the requirement for an assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; the reference to an ability to reduce costs; and require, at a minimum, the acquired set of activities and assets to include an input and a substantive process to meet the definition of a business. The IFRS 3 Amendments also provide for an optional concentration test to assess whether substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

Following the adoption of the IFRS 3 Amendments, the Trust continues to account for business combinations in which control is acquired under the acquisition method. When a property acquisition is made, the Trust considers the inputs, processes and outputs of the acquiree in assessing whether it meets the definition of a business. When the acquired set of activities and assets lack a substantive process in place and will be integrated into the Trust's existing operations, the acquisition does not meet the definition of a business and is accounted for as an asset acquisition. An asset acquisition is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition, including transaction costs, is allocated to the assets and liabilities acquired based on their relative fair values, and no goodwill or deferred tax is recognized. Subsequently, where the acquired asset represents an investment property, it is measured at fair value in accordance with IAS 40, *Investment Properties*.

As a result of the adoption of the IFRS 3 Amendments, Granite's income-producing property acquisitions are considered asset acquisitions rather than business combinations. Accordingly, for the three month period and year ended December 31, 2019, acquisition transaction costs of $0.7 million and $3.6 million, respectively, were first capitalized to the cost of the property and then expensed to net fair value gains/losses on investment properties as a result of measuring the property at fair value instead of directly expensing these amounts to acquisition transaction costs in the combined statements of net income. There was no significant impact to net income, unitholders' equity or cash flows from the adoption of the IFRS 3 Amendments as at December 31, 2019 and for the three month period and year then ended. For the year ended December 31, 2018, the income-producing properties acquired in the year were accounted as business combinations in accordance with the accounting policy followed by the Trust at that time and prior to the adoption and prospective application of the IFRS 3 Amendments effective January 1, 2019.

IFRS 16, *Leases*

In January 2016, the International Accounting Standards Board issued IFRS 16, *Leases* (''IFRS 16'') which replaced International Accounting Standard ("IAS") 17, *Leases* and its associated interpretative guidance. For contracts that are or contain a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains substantially unchanged as the distinction between operating and finance leases is retained.

The Trust has applied IFRS 16 using the modified retrospective approach and, therefore, the cumulative effect of initial application is recognized in retained earnings at January 1, 2019. Accordingly, the comparative information presented for 2018 has not been restated.

As a lessee

Definition of a lease

Previously, the Trust determined at contract inception whether an arrangement was or contained a lease under IAS 17. The Trust now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Trust applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and associated interpretative guidance were not reassessed as the practical expedient offered under the standard was applied. Therefore, the new definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after January 1, 2019.

In accordance with IFRS 16, at inception or on modification of a contract that contains a lease component, the Trust allocates the consideration in the contract to each lease and non-lease component based on their relative stand-alone prices.

Accounting policy

The Trust recognizes a right-of-use asset and a lease obligation at the lease commencement date. The Trust presents right-of-use assets that do not meet the definition of investment property in ‘‘fixed assets’’ on the combined balance sheet, the same line item as it presents underlying assets of the same nature that it owns. The right-of-use asset is initially measured at cost and, subsequently, at cost less any accumulated depreciation and impairment, and adjusted for certain remeasurements of the lease obligation. When a right-of-use asset meets the definition of investment property, it is presented in “investment properties” on the combined balance sheet. The right-of-use asset is initially measured at cost and subsequently, it is measured at fair value in accordance with the Trust’s accounting policies.

The lease liability is initially measured at the present value of the lease payments at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, at the Trust’s incremental borrowing rate. Generally, the Trust uses its incremental borrowing rate as the discount rate. The Trust presents lease liabilities in “lease obligations” on the combined balance sheet.

The lease obligation is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee or, as appropriate, a change in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Trust has applied judgment to determine 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. The Trust also applies judgment in determining the discount rate used to present value the lease obligations.

Transition

In accordance with IFRS 16, the Trust recognized right-of-use assets and lease obligations for applicable leases except for leases of low-value assets for which the Trust has elected not to recognize right-of-use assets and lease liabilities. The Trust recognizes the lease payments associated with these low-value asset leases as an expense on a straight-line basis over the lease term.

The Trust leases assets related to ground leases, office space and equipment. Lease obligations were measured at the present value of the remaining lease payments, discounted at the Trust’s incremental borrowing rate as at January 1, 2019.

Right-of-use assets are measured at either:

- Their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee’s incremental borrowing rate at the date of initial application; or

- An amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Trust recognized a right-of-use asset at a value equal to the lease obligation and, therefore, there was no impact to retained earnings as at January 1, 2019.

The Trust used the following additional practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied the exemption not to recognize right-of-use assets and obligations for leases with less than 12 months of lease term;
- Applied the exemption not to allocate the consideration in a contract to each lease and non-lease component;
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Impact on transition

As at December 31, 2019, 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. In accordance with IFRS 16, the Trust recognized these operating leases as right-of-use assets and recorded related lease liability obligations on the combined balance sheet as follows:

	Fixed assets			Investment properties	Lease obligations
	Office space	Equipment	Total	Ground leases	
Balance at January 1, 2019	$ 1.7	$ 0.1	$ 1.8	$ 11.8	$ 13.6
Balance at December 31, 2019	$ 1.4	$ 0.1	$ 1.5	$ 31.5	$ 33.0

When measuring lease liabilities for leases that were classified as operating leases, the Trust discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted average rate applied is 4.4%.

During the year ended December 31, 2019, the Trust recorded an additional right-of-use asset and related lease obligation of $20.5 million for the ground lease associated with the acquisition of two income-producing properties in Mississauga, Ontario in April 2019. In addition, the Trust also recorded right-of-use assets and lease obligations of $0.1 million for equipment and $0.3 million for office space.

In accordance with IFRS 16, the Trust has recognized depreciation and interest costs, instead of operating lease expense. During the three month period and year ended December 31, 2019, the Trust recognized $0.2 million and $0.6 million of depreciation and amortization expense, respectively, and $0.4 million and $1.3 million of interest expense from these leases, respectively. No depreciation is recognized for the right-of-use asset that meets the definition of investment property.

As a lessor

In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged with the distinction between operating leases and finance leases being retained. The Trust leases its investment properties, including right-of-use assets, to tenants and has determined that the in-place leases as at December 31, 2019 are operating leases. The Trust is not required to make any adjustments on transition to IFRS 16 for leases in which it is a lessor.

IFRIC 23, *Uncertainty Over Income Tax Treatments*

In June 2017, the IFRS Interpretations Committee issued IFRIC 23, *Uncertainty Over Income Tax Treatments* ("IFRIC 23") which clarifies how the recognition and measurement requirements of IAS 12, *Income Taxes*, are applied where there is uncertainty over income tax treatments. This standard is effective for annual periods beginning on or after January 1, 2019. The adoption of this standard did not have an impact on the combined financial statements.

Future Accounting Policy Changes

As at December 31, 2019, there are no new accounting standards issued but not yet applicable to the combined financial statements except for the following:

Agenda Decision — IFRS 16, *Leases*

In December 2019, the IFRS Interpretations Committee issued a final agenda decision in regards to the determination of the lease term for cancellable or renewable leases under IFRS 16, *Leases* and whether the useful life of any non-removable leasehold improvements is limited to the lease term of the related lease. The Trust is currently assessing the impact of this interpretation on its financial statements and the implementation of the decision is expected in fiscal 2020 with retrospective application.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure Controls and Procedures

The President and Chief Executive Officer and the Chief Financial Officer of Granite have evaluated the effectiveness of the Trust's disclosure controls and procedures as defined in National Instrument 52-109 —*Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109") and in Rules 13a-15(e) and 15d-15(e) under the United States Securities Exchange Act of 1934 as of December 31, 2019 (the "Evaluation Date"). They have concluded that, as of the Evaluation Date, the Trust's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Trust in the reports that they file or submit is (i) recorded, processed, summarized and reported within the time periods specified in the applicable rules and (ii) accumulated and communicated to the Trust's management, including their principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting

The Trust's management is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in NI 52-109 and Rules 13a-15(f) and 15d-15(f) under the United States Securities Exchange Act of 1934) for the Trust.

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

Under the supervision and with the participation of the Trust's President and Chief Executive Officer and Chief Financial Officer, management conducted an evaluation of the effectiveness of the Trust's internal control over financial reporting, as of the Evaluation Date, based on the framework set forth in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation under this framework, management concluded that the Trust's internal control over financial reporting was effective as of December 31, 2019.

Deloitte LLP, an independent registered public accounting firm, who audited and reported on the Trust's combined financial statements as at and for the year ended December 31, 2019 and whose report is included in the Trust's annual report for fiscal 2019, has also issued an attestation report under standards of the Public Company Accounting Oversight Board (United States) on the Trust's internal control over financial reporting as of December 31, 2019. The attestation report precedes the audited financial statements included in the Trust's annual report for fiscal 2019.

Changes in Internal Control Over Financial Reporting

As of the Evaluation Date, there were no changes in the Trust's internal control over financial reporting that occurred during the period beginning on the date immediately following the end of the period in respect of which Granite made its most recent previous interim filing and ended on December 31, 2019 that have materially affected, or that are reasonably likely to materially affect, the Trust's internal control over financial reporting.

Limitation on the Effectiveness of Controls and Procedures

Granite's management, including the President and Chief Executive Officer and the Chief Financial Officer, does not expect that the Trust's controls and procedures will prevent all potential error and fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

RISKS AND UNCERTAINTIES

Investing in the Trust's stapled units involves a high degree of risk. There are a number of risk factors that could have a material adverse effect on Granite's business, financial condition, operating results and prospects. These risks and uncertainties are discussed in Granite's AIF filed with securities regulators in Canada and available online at www.sedar.com and Annual Report on Form 40-F filed with the SEC and available online on EDGAR at www.sec.gov, each in respect of the year ended December 31, 2019.

SELECTED ANNUAL AND QUARTERLY DATA

The annual and quarterly financial data reflects fluctuations in revenue, FFO, AFFO, investment properties and total debt primarily from the timing of leasing and development activities, property sales, acquisitions and foreign exchange. Investment properties also fluctuate from the effect of measuring properties at fair value under IFRS. Net income attributable to unitholders primarily fluctuates from fair value gains/losses on investment properties.

Refer to note 2 of the audited combined financial statements for the year ended December 31, 2019 for a description of the accounting policies used in the determination of the financial data.

Annual Data

(in millions, except as noted)			
Years ended December 31,	**2019**	**2018**	**2017**
Operating highlights[1][2]			
Revenue	**$ 273.7**	$ 247.5	$ 244.7
NOI — cash basis[1]	**$ 237.4**	$ 216.7	$ 218.2
Fair value gain on investment properties, net	**$ 245.4**	$ 354.7	$ 212.1
Net income attributable to stapled unitholders	**$ 382.1**	$ 465.2	$ 357.7
Cash provided by operating activities	**$ 183.4**	$ 157.9	$ 158.7
FFO[1]	**$ 177.5**	$ 168.9	$ 153.2
AFFO[1]	**$ 172.8**	$ 138.1	$ 145.4
FFO payout ratio[1]	**79%**	78%	78%
AFFO payout ratio[1]	**81%**	91%	82%
Per unit amounts			
Diluted FFO[1]	**$ 3.62**	$ 3.68	$ 3.25
Diluted AFFO[1]	**$ 3.53**	$ 3.01	$ 3.09
Monthly distributions paid	**$ 2.80**	$ 2.72	$ 2.60
Diluted weighted average units outstanding	**49.0**	45.9	47.1
Financial highlights			
Investment properties[3]	**$4,457.9**	$3,425.0	$2,733.6
Assets held for sale	**—**	$ 44.2	$ 391.4
Cash and cash equivalents	**$ 298.7**	$ 658.2	$ 69.0
Total debt	**$1,250.3**	$1,303.2	$ 741.4
Maintenance or improvements capital expenditures paid[4]	**$ 1.8**	$ 5.6	$ 2.7
Leasing costs paid[4]	**$ 1.8**	$ 4.8	$ 1.4
Property metrics[3]			
Number of income-producing properties	**85**	80	84
GLA, square feet	**40.0**	32.2	29.1
Occupancy, by GLA	**99.0%**	99.1%	98.4%
Weighted average lease term, years	**6.5**	6.0	5.9

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

(2) Explanations for specific changes in the annual financial data table above are as follows:

- **2019** — Net income attributable to unitholders, cash provided by operating activities and FFO included $0.9 million ($0.02 per unit) in revenue related to lease termination and close-out fees and a net $2.0 million ($0.04 per unit) of real estate transfer tax ($2.7 million) and related tax recovery ($0.07 million) which resulted from an internal reorganization. FFO used to calculate FFO payout ratio and AFFO payout ratio excludes the $0.9 million lease termination and close out fees as they can be a source of variance between periods. The fair value gains on investment properties of $245.4 million were largely attributable to various factors including (i) the positive changes in leasing assumptions associated with lease renewals and fair market rent increases for certain properties located in Canada and the United States and (ii) a compression in discount and terminal capitalization rates for certain properties across Granite's portfolio resulting from the continued market demand for industrial real estate properties.
- **2018** — Net income attributable to unitholders, cash provided by operating activities and FFO included $1.0 million ($0.02 per unit) in revenue related to a lease termination and close-out fee and a net $8.5 million ($0.19 per unit) foreign exchange gain on the remeasurement of US dollar cash proceeds from the sale of investment properties in January 2018. FFO used to calculate FFO payout ratio and AFFO payout ratio excludes the aforementioned items as they can be a source of variance between periods. AFFO payout ratio further excludes a $9.1 million tenant incentive payment made in 2018 in connection with the 2014 lease extension at the Eurostar facility. The fair value gains on investment properties of $354.7 million were largely attributable to (i) an increase in fair value to the sale price for the multi-purpose and special purpose properties sold in 2018 or in 2019, (ii) a compression in discount and terminal capitalization rates and an increase in market rents for properties located in Canada, the United States, Germany and the Netherlands resulting from a greater market demand and, to a lesser extent, (iii) positive changes in leasing assumptions primarily from contractual rent increases, new leases and lease renewals.

- **2017** — Net income attributable to unitholders, cash provided by operating activities and FFO included $1.6 million of lease termination and close-out fees in revenue in connection with tenants having vacated properties and $5.9 million of expenses in connection with the proxy contest leading up to Granite's June 2017 annual general meeting. FFO used to calculate FFO payout ratio and AFFO payout ratio excludes the aforementioned items as they can be a source of variance between periods. The fair value gain on investment properties of $212.1 million was attributable to several factors, and, in particular, from (i) the increase in fair value to the sale price for 10 properties, including three special purpose properties, sold in January 2018 and the higher valuation implied on certain remaining special purpose properties from the pricing realized and the liquidity potential demonstrated from the sale, (ii) a compression in discount and terminal capitalization rates for certain modern warehouse and multi-purpose properties located in Canada, the United States and Europe and (iii) favourable changes in leasing assumptions from new leases or renewals executed during 2017.

(3) Excludes properties held for sale which are classified as assets held for sale on the combined balance sheet as at December 31, 2018. There were no properties classified as assets held for sale as at December 31, 2019.

(4) Excludes maintenance or improvement capital expenditures and leasing costs related to a $9.1 million tenant incentive allowance for a 2014 lease extension in Graz, Austria paid in 2018 and the partially re-leased flex office property in Novi, Michigan paid in 2017, 2018 and 2019 (see "*INVESTMENT PROPERTIES*").

Quarterly Data 2019

(in millions, except as noted)	**Mar 31, 2019**	**Jun 30, 2019**	**Sep 30, 2019**	**Dec 31, 2019**
***Operating highlights*[(1)(2)]**				
Revenue	**$ 63.4**	$ 67.9	$ 68.8	$ 73.6
NOI — cash basis[(1)]	**$ 55.1**	$ 58.3	$ 60.3	$ 63.8
Fair value gain on investment properties, net	**$ 50.1**	$ 69.6	$ 78.2	$ 47.5
Net income attributable to stapled unitholders	**$ 78.3**	$ 98.7	$ 114.5	$ 90.6
Cash provided by operating activities	**$ 40.4**	$ 50.1	$ 42.8	$ 50.1
FFO[(1)]	**$ 40.7**	$ 43.1	$ 45.8	$ 47.9
AFFO[(1)]	**$ 39.3**	$ 42.3	$ 44.6	$ 46.7
FFO payout ratio[(1)]	**79%**	81%	76%	80%
AFFO payout ratio[(1)]	**82%**	83%	78%	82%
Per unit amounts				
Diluted FFO[(1)]	**$ 0.89**	$ 0.89	$ 0.93	$ 0.91
Diluted AFFO[(1)]	**$ 0.86**	$ 0.88	$ 0.90	$ 0.89
Monthly distributions paid	**$ 0.70**	$ 0.70	$ 0.70	$ 0.70
Diluted weighted average units outstanding	**45.7**	48.3	49.5	52.6
Financial highlights				
Investment properties[(3)]	**$3,532.8**	$3,799.1	$3,938.3	$4,457.9
Assets held for sale	**$ 38.7**	$ 50.5	$ 48.3	—
Cash and cash equivalents	**$ 501.0**	$ 496.9	$ 455.4	$ 298.7
Total debt	**$1,261.6**	$1,285.6	$1,253.2	$1,250.3
Maintenance or improvements capital expenditures paid[(4)]	**$ 0.6**	$ 0.3	$ 0.7	$ 0.2
Leasing costs paid[(4)]	**$ 0.4**	—	$ 0.6	$ 0.8
***Property metrics*[(3)]**				
Number of income-producing properties	**77**	79	80	85
GLA, square feet	**32.8**	34.5	34.9	40.0
Occupancy, by GLA	**98.8%**	98.9%	99.7%	99.0%
Weighted average lease term, years	**6.1**	6.0	6.0	6.5

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

(2) Explanations for specific changes in the quarterly financial data table above are as follows:

- **Q1'19** — Revenue, net income attributable to unitholders, cash provided by operating activities and FFO included $0.3 million of 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 $0.3 million lease termination and close-out fee as this revenue can be a source of variance between periods.

- **Q2’19** — Revenue, net income attributable to unitholders, cash provided by operating activities and FFO included $0.6 million of 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.
- **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.
- **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.

(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) Excludes maintenance or improvement capital expenditures and leasing costs paid related to the partially re-leased flex office property in Novi, Michigan (see “*INVESTMENT PROPERTIES*”).

Quarterly Data 2018

(in millions, except as noted)	**Mar 31, 2018**	**Jun 30, 2018**	**Sep 30, 2018**	**Dec 31, 2018**
Operating highlights[(1)(2)]				
Revenue	**$ 61.7**	$ 62.1	$ 63.8	$ 59.9
NOI — cash basis[(1)]	**$ 52.2**	$ 55.2	$ 56.4	$ 52.9
Fair value gain on investment properties, net	**$ 32.3**	$ 127.9	$ 141.6	$ 52.9
Net income attributable to stapled unitholders	**$ 72.4**	$ 149.1	$ 157.8	$ 85.9
Cash provided by operating activities	**$ 37.6**	$ 45.0	$ 40.6	$ 34.7
FFO[(1)]	**$ 51.3**	$ 37.6	$ 39.1	$ 40.9
AFFO[(1)]	**$ 31.2**	$ 29.4	$ 37.7	$ 39.8
FFO payout ratio[(1)]	**79%**	79%	80%	77%
AFFO payout ratio[(1)]	**109%**	99%	82%	79%
Per unit amounts				
Diluted FFO[(1)]	**$ 1.11**	$ 0.82	$ 0.85	$ 0.90
Diluted AFFO[(1)]	**$ 0.67**	$ 0.64	$ 0.82	$ 0.87
Monthly distributions paid	**$ 0.68**	$ 0.68	$ 0.68	$ 0.68
Diluted weighted average units outstanding	**46.3**	45.8	45.8	45.7
Financial highlights				
Investment properties[(3)]	**$2,916.1**	$3,031.2	$3,198.0	$3,425.0
Assets held for sale	**—**	$ 341.4	$ 17.0	$ 44.2
Cash and cash equivalents	**$ 273.8**	$ 50.1	$ 192.7	$ 658.2
Total debt	**$ 745.7**	$ 817.6	$ 715.9	$1,303.2
Maintenance or improvements capital expenditures paid[(4)]	**$ 0.4**	$ 3.0	$ 1.5	$ 0.7
Leasing costs paid[(4)]	**$ 1.5**	$ 2.4	$ 0.5	$ 0.4
Property metrics[(3)]				
Number of income-producing properties	**85**	84	85	80
GLA, square feet	**29.7**	31.8	32.5	32.2
Occupancy, by GLA	**98.7%**	97.3%	97.3%	99.1%
Weighted average lease term, years	**6.0**	5.9	5.9	6.0

(1) For definitions of Granite’s non-IFRS measures, refer to the section “*NON-IFRS MEASURES*”.

(2) Explanations for specific changes in the quarterly financial data table above are as follows:

- **Q1’18** — Revenue, net income attributable to unitholders, cash provided by operating activities and FFO included $1.0 million of lease termination and close-out fee in revenue in connection with a tenant having vacated a property and a $10.4 million foreign exchange gain on the remeasurement of US dollar proceeds from the sale of investment properties in January 2018. FFO used to calculate FFO payout ratio and AFFO payout ratio excludes the aforementioned items as these items can be a source of variance between periods. AFFO included $9.1 million related to the payment of a tenant incentive allowance made in connection with a 2014 lease extension at the Eurostar facility in Graz, Austria. AFFO used to calculate AFFO payout ratio excludes the $9.1 million tenant incentive payment as this cost can be a source of variance between periods.

- **Q2'18** — Net income attributable to unitholders, cash provided by operating activities and FFO included a $1.9 million foreign exchange loss on the remeasurement of US dollar proceeds from the sale of investment properties in January 2018. FFO used to calculate FFO payout ratio and AFFO payout ratio excludes the $1.9 million foreign exchange loss on the remeasurement of US dollar proceeds from the sale of investment properties as this item can be a source of variance between periods. Fair value gain on investment properties of $127.9 million included the increase in fair value to the expected sale price of six multi-purpose and special purpose properties classified as assets held for sale in the second quarter of 2018.
- **Q3'18** — Fair value gains on investment properties of $141.6 million included a compression in discount and terminal capitalization rates and an increase in market rents for properties in Canada, the United States, Germany and the Netherlands resulting from the limited availability and greater market demand for industrial real estate properties.
- **Q4'18** — Fair value gains on investment properties of $52.9 million were largely attributable to a compression in discount and terminal capitalization rates for properties located in Canada, the United States and the Netherlands that resulted from a greater market demand for industrial real estate properties and, to a lesser extent, the increase in fair value to the expected sale price for the multi-purpose properties sold in 2019 and the positive changes in leasing assumptions associated with new leases and lease renewals.

(3) 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) Excludes maintenance or improvement capital expenditures and leasing costs paid related to a $9.1 million tenant incentive allowance for a 2014 lease extension in Graz, Austria and the partially re-leased flex office property in Novi, Michigan (see "*INVESTMENT PROPERTIES*").

FORWARD-LOOKING STATEMENTS

This MD&A and accompanying letter to unitholders may contain statements that, to the extent they are not recitations of historical fact, constitute "forward-looking statements" or "forward-looking information" within the meaning of applicable securities legislation, including the United States Securities Act of 1933, as amended, the United States Securities Exchange Act of 1934, as amended, and applicable Canadian securities legislation. Forward-looking statements and forward-looking information may include, among others, statements regarding Granite's future plans, goals, strategies, intentions, beliefs, estimates, costs, objectives, capital structure, cost of capital, tenant base, tax consequences, economic performance or expectations, or the assumptions underlying any of the foregoing. Words such as "outlook", "may", "would", "could", "should", "will", "likely", "expect", "anticipate", "believe", "intend", "plan", "forecast", "project", "estimate", "seek" and similar expressions are used to identify forward-looking statements and forward-looking information. Forward-looking statements and forward-looking information should not be read as guarantees of future events, performance or results and will not necessarily be accurate indications of whether or the times at or by which such future performance will be achieved. Undue reliance should not be placed on such statements. There can also be no assurance that: the expansion and diversification of Granite's real estate portfolio and the reduction in Granite's exposure to Magna and the special purpose properties; the ability of Granite to 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 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; the expected enhancement to the yield of such properties from such potential expansion and rental growth; the expected construction on and development yield of the acquired greenfield site in Houston, Texas; the expected construction of the distribution/light industrial facility on the 13-acre site in Altbach, Germany; the expected construction of the distribution/warehouse facility in Plainfield, Indiana; the completion of construction at the development property in Dallas, Texas; the anticipated acquisition, development and leasing of three facilities in the Netherlands; Granite's ability to dispose of any non-core assets on satisfactory terms; Granite's ability to meet its target occupancy goals; 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, and are subject to known and unknown risks, uncertainties and other unpredictable factors, many of which are beyond Granite's control, that could cause actual events or results to differ materially from such forward-looking statements and forward-looking information. Important factors that could cause such differences include, but are not limited to, the risk of changes to tax or other laws and treaties that may adversely affect Granite REIT's mutual fund trust status under the Income Tax Act (Canada) or the effective tax rate in other jurisdictions in which Granite operates; economic, market and competitive conditions and other risks that may adversely affect Granite's ability to expand and diversify its real estate portfolio and dispose of any non-core assets on satisfactory terms; and the risks set forth in the "Risk Factors" section in Granite's AIF for 2019 dated March 4, 2020, 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, 2019 filed with the SEC and available online on EDGAR at www.sec.gov, all of which investors are strongly advised to review. The "Risk Factors" section also contains information about the material factors or assumptions underlying such forward-looking statements and forward-looking information. Forward-looking statements and forward-looking information speak only as of the date the statements and information were made and unless otherwise required by applicable securities laws, Granite expressly disclaims any intention and undertakes no obligation to update or revise any forward-looking statements or forward-looking information contained in this MD&A to reflect subsequent information, events or circumstances or otherwise.

EXHIBIT 4

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333- 233725 and 333-233732 on Form F-10 and to the use of our reports dated March 4, 2020 relating to the combined financial statements of Granite Real Estate Investment Trust and Granite REIT Inc. (collectively, the “Trust”) and the effectiveness of the Trust’s internal control over financial reporting appearing in this Annual Report on Form 40-F for the year ended December 31, 2019.

/s/ Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
March 4, 2020

EXHIBIT 99.1

Certification Pursuant to 18 U.S.C. 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002
Granite Real Estate Investment Trust

In connection with the annual report of Granite Real Estate Investment Trust (the "Company") on Form 40-F for the fiscal year ended December 31, 2019 (the "Report") to which this certification is an exhibit, I, Kevan Gorrie, Trustee, President and Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 4, 2020

By: /s/ KEVAN GORRIE

Name: Kevan Gorrie
Title: Trustee, President and Chief Executive Officer

EXHIBIT 99.1

Certification Pursuant to 18 U.S.C. 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002
Granite REIT Inc.

In connection with the annual report of Granite REIT Inc. (the "Company") on Form 40-F for the fiscal year ended December 31, 2019 (the "Report") to which this certification is an exhibit, I, Kevan Gorrie, Director, President and Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 4, 2020

By: /s/ KEVAN GORRIE

Name: Kevan Gorrie
Title: Director, President and Chief Executive Officer

EXHIBIT 99.2

Certifications
Granite Real Estate Investment Trust

I, Kevan Gorrie, certify that:

1. I have reviewed this annual report on Form 40-F of Granite Real Estate Investment Trust;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 4, 2020

By: /s/ KEVAN GORRIE

Name: Kevan Gorrie
Title: Trustee, President and Chief Executive Officer

EXHIBIT 99.2

Certifications
Granite REIT Inc.

I, Kevan Gorrie, certify that:

1. I have reviewed this annual report on Form 40-F of Granite REIT Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 4, 2020

By: /s/ KEVAN GORRIE

Name: Kevan Gorrie
Title: Director, President and Chief Executive Officer

EXHIBIT 99.3

Certification Pursuant to 18 U.S.C. 1350,
As Adopted Pursuant to
<u>Section 906 of the Sarbanes-Oxley Act of 2002</u>
Granite Real Estate Investment Trust

In connection with the annual report of Granite Real Estate Investment Trust (the “Company”) on Form 40-F for the fiscal year ended December 31, 2019 (the “Report”) to which this certification is an exhibit, I, Teresa Neto, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 4, 2020

By: /s/ TERESA NETO

Name: Teresa Neto
Title: Chief Financial Officer

EXHIBIT 99.3

Certification Pursuant to 18 U.S.C. 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002
Granite REIT Inc.

In connection with the annual report of Granite REIT Inc. (the "Company") on Form 40-F for the fiscal year ended December 31, 2019 (the "Report") to which this certification is an exhibit, I, Teresa Neto, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 4, 2020

By: /s/ TERESA NETO

Name: Teresa Neto
Title: Chief Financial Officer

EXHIBIT 99.4

Certifications
Granite Real Estate Investment Trust

I, Teresa Neto, certify that:

1. I have reviewed this annual report on Form 40-F of Granite Real Estate Investment Trust;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the issuer’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the issuer’s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer’s internal control over financial reporting; and

5. The issuer’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer’s auditors and the audit committee of the issuer’s board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer’s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer’s internal control over financial reporting.

Date: March 4, 2020

By: /s/ TERESA NETO

Name: Teresa Neto
Title: Chief Financial Officer

EXHIBIT 99.4

Certifications
Granite REIT Inc.

I, Teresa Neto, certify that:

1. I have reviewed this annual report on Form 40-F of Granite REIT Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 4, 2020

By: /s/ TERESA NETO

Name: Teresa Neto
Title: Chief Financial Officer