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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 40-F

o STATEMENT PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

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

For the Fiscal Year Ended
December 31, 2012

GRANITE REAL ESTATE INVESTMENT TRUST

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

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

GRANITE REIT INC.

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

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

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

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

CT Corporation System
111 Eighth Avenue
New York, NY 10011
(212) 894-8700
(Name, address (including zip code) and telephone number (including area code) of agent for service in the United States)

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

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

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

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

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

ý Annual information form ý 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: **46,832,908 common shares of Granite Real Estate Inc. outstanding as of December 31, 2012; and 46,832,908 Stapled Units outstanding as of January 3, 2013**

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 o No ý

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

Yes ý No o

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 ý No o

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"). 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 "Arrangement"). Under the 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 Arrangement, see the Annual Information Form dated March 5, 2013, filed as Exhibit 1 to this annual report on Form 40-F.

CONTROLS AND PROCEDURES

A. *Disclosure controls and procedures*. The Chief Executive Officer and the Chief Financial Officer of the Registrants have evaluated the effectiveness of the Registrants' disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this annual report (the "Evaluation Date"). They have concluded that, as of the Evaluation Date, the Registrants' disclosure controls and procedures were effective to ensure that material information relating to the Registrants would be made known to them and would be disclosed on a timely basis.

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

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

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

Ernst & Young LLP, an independent licensed registered public accounting firm, who audited and reported on the financial statements for the year ended December 31, 2012, 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 included in the audited financial statements for the year ended December 31, 2012, filed as Exhibit 2 to this annual report.

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

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

AUDIT COMMITTEE AND AUDIT COMMITTEE FINANCIAL EXPERT

Each Registrant has a separately designated standing audit committee ("Audit Committee") established in accordance with section 3(a)(58)(A) of the Exchange Act. The members of the Audit Committee for each Registrant are Messrs. Gerald J. Miller, Barry Gilbertson and Scott I. Oran.

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

AUDIT COMMITTEE PRE-APPROVAL POLICIES AND PROCEDURES

Please refer to the section entitled "Audit Committee" in the Annual Information Form of Granite Real Estate Investment Trust, included as an Exhibit to this annual report, for details on policies relating to the pre-approval of all audit services and permitted non-audit services provided to the Registrants by Ernst & Young LLP. For the year ended December 31, 2012, 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 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 Ernst & Young LLP and its affiliates for professional services rendered in each of the fiscal years ended December 31, 2012 and December 31, 2011.

OFF-BALANCE SHEET ARRANGEMENTS

The Registrants' off-balance sheet arrangements consist of letters of credit, construction and development project commitments, foreign currency forward contracts and certain operating agreements. For a discussion of these arrangements, please refer to notes 9, 18 and 22 to the audited financial statements for the year ended December 31, 2012, 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, 2012, 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 Canadian National Policy 58-201 — Corporate Governance Guidelines. The information on the Registrants' website shall not be deemed to be incorporated by reference in this annual report.

UNDERTAKING AND CONSENT TO SERVICE OF PROCESS

A. Undertaking

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

B. Consent to Service of Process

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

SIGNATURES

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

GRANITE REAL ESTATE INVESTMENT TRUST

By: /s/ THOMAS HESLIP

Name: Thomas Heslip
Title: Trustee and Chief Executive Officer

Date: March 5, 2013

GRANITE REIT INC.

By: /s/ THOMAS HESLIP

Name: Thomas Heslip
Title: Director and Chief Executive Officer

Date: March 5, 2013

EXHIBIT INDEX

1.	Annual Information Form dated as of March 5, 2013.
2.	Consolidated financial statements for the year ended December 31, 2012, together with the auditors' report thereon and the auditors' report on internal controls, from the Annual Report to Shareholders for fiscal 2012.
3.	Management's Discussion and Analysis of Operations and Financial Position for the three-month period and year ended December 31, 2012, from the Annual Report to Shareholders for fiscal 2012.
4.	Consent of Ernst & Young LLP.
99.1	Certificate of the Chief Executive Officer of the Registrants pursuant to 18 U.S.C. Section 1350, as enacted pursuant to Section 906 of Sarbanes-Oxley Act of 2002.
99.2	Certificate of the Chief Executive Officer of the Registrants required by Rule 13a-14(a) or Rule 15d-14(a), pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
99.3	Certificate of the Chief Financial Officer of the Registrants required pursuant to 18 U.S.C. Section 1350, as enacted pursuant to Section 906 of Sarbanes-Oxley Act of 2002.
99.4	Certificate of the Chief Financial Officer of the Registrants by Rule 13a-14(a) or Rule 15d-14(a), pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
101	Interactive data files with respect to: (i) the Consolidated Balance Sheets as at December 31, 2012 and 2011; (ii) the Consolidated Statements of Income (Loss) for the years ended December 31, 2012, 2011 and 2010; (iii) the Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2012, 2011 and 2010; (iv) the Consolidated Statements of Changes in Deficit for the years ended December 31, 2012, 2011 and 2010; (v) the Consolidated Statements of Cash Flows for the years ended December 31, 2012, 2011 and 2010; and (vi) the Notes to the Consolidated Financial Statements.

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Exhibit 1



Granite Real Estate Investment Trust

Annual Information Form

March 5, 2013

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GENERAL MATTERS

On January 3, 2013, Granite Real Estate Inc. ("**Granite Co.**"), previously MI Developments Inc., Granite Real Estate Investment Trust ("**Granite REIT**") and Granite REIT Inc. ("**Granite GP**") completed a conversion (the "**2013 Arrangement**") of Granite Co. from a corporate structure to a "stapled unit" real estate investment trust structure pursuant to a plan of arrangement under the *Business Corporations Act* (Québec). Under the 2013 Arrangement, the holders of common shares of Granite Co. exchanged their common shares, in a series of steps, for stapled units ("**Stapled Units**"), each consisting of one trust unit of Granite REIT (each a "**REIT Unit**") and one common share of Granite GP (each a "**GP Share**"), on a one-for-one basis. The Stapled Units are listed on the Toronto Stock Exchange (the "**TSX**") under the symbol "GRT.UN" and on the New York Stock Exchange (the "**NYSE**") under the symbol "GRP.U." After completion of the 2013 Arrangement, Granite REIT and Granite GP, through Granite REIT Holdings Limited Partnership ("**Granite LP**") and its subsidiaries, own, directly and indirectly, all the shares of the (reorganized) Granite Co. and all of the subsidiaries, business and assets previously held by Granite Co.

Upon completion of the 2013 Arrangement, Granite REIT and Granite GP became successor reporting issuers to Granite Co. under the securities laws of each of the provinces and territories in Canada and in the United States. Granite REIT and Granite GP have obtained exemptions from applicable Canadian securities regulatory authorities for relief from the requirement for each of Granite REIT and Granite GP to file on a stand-alone basis, annual and interim financial statements along with the accompanying annual or interim management's discussion and analysis ("**MD&A**") and certifications by officers of each of Granite REIT and Granite GP, and instead have permission to file combined financial statements and MD&A for Granite REIT and Granite GP. Granite GP has also obtained relief from disclosure obligations of Granite GP relating to the filing of annual information forms and material change reports, the sending of management information circulars, and the disclosure of certain executive compensation and corporate governance matters, and has permission to rely on such disclosures by Granite REIT, so long as, among other things, certain disclosure about Granite GP is included. Granite Co. remains a reporting issuer under applicable Canadian securities legislation but has obtained an exemption from the applicable Canadian securities regulatory authorities from continuous disclosure obligations. Granite LP and Granite Europe Limited Partnership ("**Fin LP**"), a subsidiary of Granite LP, became reporting issuers under applicable Canadian securities legislation, and have also obtained an exemption from the applicable Canadian securities regulatory authorities from continuous disclosure obligations. Accordingly, throughout this annual information form ("**Annual Information Form**" or "**AIF**"), unless otherwise specified or the context otherwise indicates, "**we**", "**us**", "**our**" and "**Granite**" refer to the combined Granite REIT and Granite GP and their subsidiaries and investees and, for periods prior to implementation of the 2013 Arrangement on January 3, 2013, their predecessor Granite Co. and its predecessors and subsidiaries.

When we use the term "**Magna**", unless indicated otherwise, we are referring to Magna International Inc., its operating divisions and subsidiaries and other controlled entities. References herein to leases with Magna include leases with operating subsidiaries of Magna International Inc., and when we refer to the tenant at certain of our properties being Magna, we are referring to Magna International Inc. or one of its operating subsidiaries.

In this Annual Information Form, we refer to Canadian dollars as "**dollars**", "**$**" or "**Cdn.$**", United States dollars as "**U.S.$**" or "**U.S. dollars**" and euros as "**EUR**". As of January 1, 2012 we publish our financial statements in Canadian dollars.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Information Form and the documents incorporated by reference herein contain statements that, to the extent they are not recitations of historical fact, constitute "forward-looking statements" within the meaning of applicable securities legislation, including the *United States Securities Act of 1933*, as amended and the *United States Securities Exchange Act of 1934*, as amended. Forward-looking statements may include, among others, statements regarding Granite's future plans, goals, strategies, intentions, beliefs, estimates, costs, objectives, capital structure, cost of capital, tenant base, tax consequences, economic performance or expectations, or the assumptions underlying any of the foregoing. In particular, this Annual Information Form contains forward-looking statements regarding the proposed fortification and growth of our relationship with

Magna, the expansion and diversification of Granite's lease portfolio, expected increases in leverage and certain accounting policies expected to be adopted under International Financial Reporting Standards ("**IFRS**"). Words such as "may", "would", "could", "will", "likely", "expect", "anticipate", "believe", "intend", "plan", "forecast", "project", "estimate", "seek" and similar expressions are used to identify forward-looking statements. Forward-looking statements 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 fortification and growth of our relationship with Magna, the expansion and diversification of our lease portfolio, the expected increases in leverage and the application of certain IFRS accounting policies to transactions and circumstances can be achieved in a timely manner, with the expected impact or at all. Forward-looking statements are based on information available at the time and/or management's good faith assumptions and analyses made in light of our perception of historical trends, current conditions and expected future developments, as well as other factors we believe 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. Important factors that could cause such differences include, but are not limited to: the risk of changes to tax or other laws that may adversely affect Granite REIT's mutual fund trust status under the *Income Tax Act* (Canada) (the "**Tax Act**"); economic, market and competitive conditions and other risks that may adversely affect Granite's ability to fortify and grow its relationship with Magna, expand and diversify its lease portfolio and increase its leverage; and the risks set forth in this Annual Information Form in the "Risk Factors" section, which investors are strongly advised to review. The "Risk Factors" section also contains information about the material factors or assumptions underlying such forward-looking statements. Forward-looking statements 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 contained in this Annual Information Form to reflect subsequent information, events or circumstances or otherwise.

GRANITE

Granite is engaged principally in the ownership and management of predominantly industrial properties in North America and Europe. As of December 31, 2012, Granite owned and managed approximately 28 million square feet in 104 rental income properties.

Granite provides holders of REIT Units (" **REIT Unitholders**") with stable cash flow generated by revenue it derives from the ownership of and investment in income-producing real estate properties. It strives to maximize long term unit value through ongoing active management of its portfolio, the acquisition of additional income-producing properties and the development and construction of projects and properties which enhance the quality, diversification and value of its real estate portfolio.

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.

Granite REIT

Granite REIT is an unincorporated, open-ended, limited purpose trust established under and governed by the laws of the Province of Ontario pursuant to an amended and restated declaration of trust (the "**Declaration of Trust**") dated January 3, 2013. Although it is intended that Granite REIT qualify as a "mutual fund trust" pursuant to the Tax Act, Granite REIT is not a mutual fund under applicable securities laws. The head office of Granite REIT is located at 77 King Street West, Suite 4010, P.O. Box 159, Toronto-Dominion Centre, Toronto, Ontario, M5K 1H1.

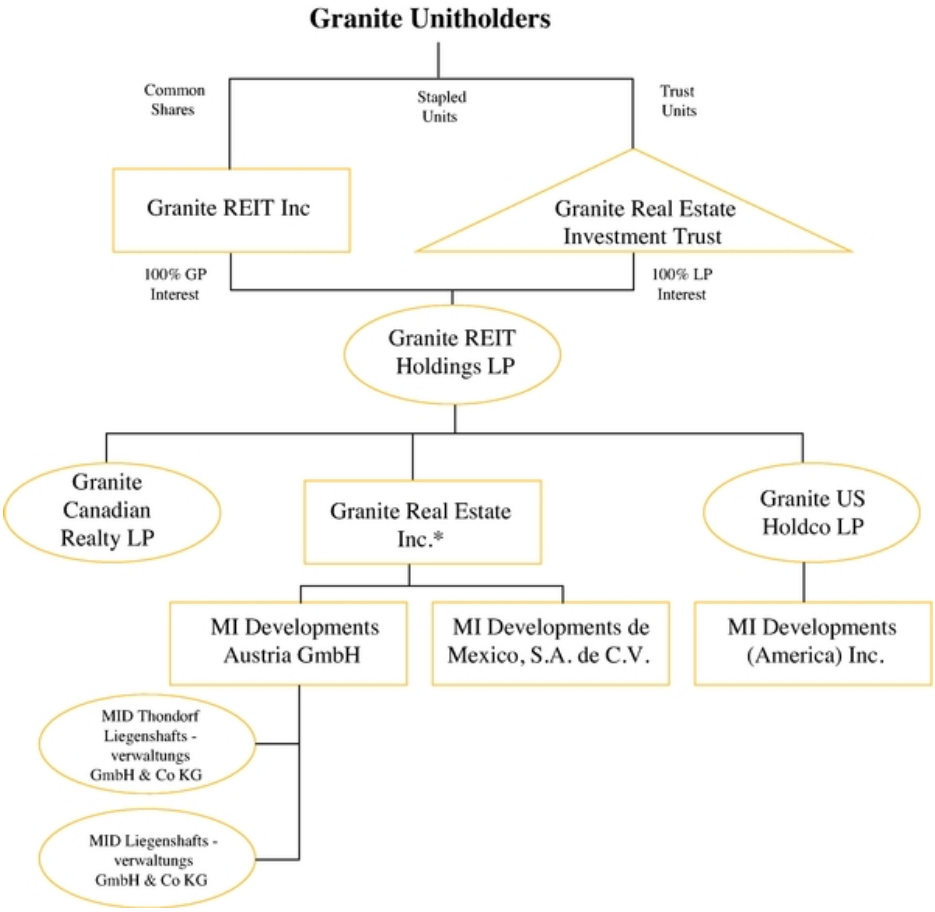
Granite GP

Granite GP was incorporated on September 28, 2012 under the *Business Corporations Act* (British Columbia) (the "**BCBCA**"). On January 4, 2013, the Articles of Granite GP were altered to remove a class of non-voting shares that had been used for certain steps of the 2013 Arrangement. The head and principal office

of Granite GP is located at 77 King Street West, Suite 4010, P.O. Box 159, Toronto-Dominion Centre, Toronto, Ontario, M5K 1H1 and the registered office of Granite GP is Suite 2600, Three Bentall Centre, 595 Burrard Street P.O. Box 49314, Vancouver, British Columbia V7X 1L3.

Organizational Structure and Subsidiaries

The following chart summarizes the structure of Granite REIT, Granite GP and material subsidiaries as of the date of this Annual Information Form.



* Former public company pre-2013 Arrangement.

The following is a list of material subsidiaries of Granite LP and their respective jurisdictions of incorporation or formation, as of the date of this Annual Information Form. Parent/subsidiary relationships are identified by indentation. The percentages of the votes attaching to all voting securities beneficially owned by us or over which control or direction is exercised by us, directly or indirectly, are also indicated. Subsidiaries not shown below or above individually each represent less than 10% of our total 2012 consolidated revenues and total consolidated assets as at December 31, 2012 and, in the aggregate, represent less than 20% of our total 2012 consolidated revenues and total consolidated assets as at December 31, 2012, determined on a pro forma basis as if Granite had completed the 2013 Arrangement on January 1, 2012. Our percentage voting interest is equivalent to our economic interest in each subsidiary listed below. The voting securities of each subsidiary are

held in the form of common shares or, in the case of limited partnerships and their foreign equivalents, share quotas or partnership interests.

	Ownership of Voting Securities	Jurisdiction of Incorporation or Formation
Granite Canadian Realty LP	100%	Ontario
Granite US Holdco LP	100%	Delaware
MI Developments (America) Inc.	100%	Delaware
Granite Real Estate Inc.	100%	Québec
MI Developments de Mexico, S.A. de C.V.	100%	Mexico
MI Developments Austria GmbH	100%	Austria
MID Thondorf Liegenshaftsverwaltungs GmbH & Co KG	100%	Austria
MID Liegenshaftsverwaltungs GmbH & Co KG	100%	Austria

GENERAL DEVELOPMENT OF THE BUSINESS

Three-Year History

2010 For the year ended December 31, 2010, we completed an expansion project in Mexico at a Magna-tenanted property, representing an aggregate of 122,000 square feet of leaseable area.

2011 On June 30, 2011, Granite Co., the predecessor of Granite REIT and Granite GP, completed a court-approved plan of arrangement (the "**2011 Arrangement**") under the *Business Corporations Act* (Ontario) which eliminated Granite Co.'s dual class share capital structure through which Mr. Frank Stronach and his family (the "**Stronach Shareholder**") had previously controlled Granite Co. Immediately following the completion of the 2011 Arrangement, an entirely new board of directors, elected as post-closing directors at Granite Co.'s annual general and special meeting of shareholders on March 29, 2011, commenced their term of office.

Definitive agreements with respect to the 2011 Arrangement were entered into by Granite Co. on January 31, 2011. The 2011 Arrangement eliminated Granite Co.'s dual class share capital structure through:

i) the purchase for cancellation of 363,414 Class B Shares of Granite Co. (" **Class B Shares**") held by the Stronach Shareholder upon the transfer to the Stronach Shareholder of Granite Co.'s former racing and gaming operations including U.S.$20 million of working capital at January 1, 2011, substantially all of Granite Co.'s lands held for development and associated assets and liabilities (Granite Co. was granted an option to purchase at fair value certain of these development lands if needed to expand Granite Co.'s income-producing properties), a property located in the United States, an income-producing property located in Canada, and cash in the amount of U.S.$8.5 million. In addition, the Stronach Shareholder received a 50% interest in the note receivable and cash proceeds from the sale of Lone Star LP, a 50% interest in any future payments under a holdback agreement relating to the prior sale by Magna Entertainment Corp. of The Meadows racetrack and a second right of refusal (behind Magna's first right of refusal) in respect of certain properties owned by Granite Co. and leased to Magna in Oberwaltersdorf, Austria and Aurora, Canada; and

ii) the purchase for cancellation by Granite Co. of each of the other 183,999 Class B Shares in consideration for 1.2 Class A subordinate voting shares of Granite Co. (the "**Class A Subordinate Voting Shares**") per Class B Share, which following cancellation of the Class B Shares and together with the then outstanding Class A Subordinate Voting Shares were renamed common shares.

Pursuant to the 2011 Arrangement, Granite Co. and a wholly-owned subsidiary thereof entered into a forbearance agreement (the "**Forbearance Agreement**"). Under the terms of the Forbearance Agreement, Granite is restricted from: (a) entering into the horseracing or gaming business; (b) making any debt or equity investment in, or otherwise giving financial assistance to, any entity primarily engaged in the horseracing or gaming business; or (c) entering into any transactions with, or providing any services or personnel to, any entity primarily engaged in the horseracing or gaming business.

On October 25, 2011, Granite Co. announced that it had completed its strategic review process and that the board of directors had unanimously approved a strategic plan that encompasses the following five major elements and objectives:

1. Convert Granite Co. from a Canadian corporation to a real estate investment trust.

2. Increase Granite Co.'s quarterly dividend to U.S.$0.50 per share to reflect a targeted annualized dividend of U.S.$2.00 per share.

3. Fortify Granite Co.'s relationship with Magna by selectively investing in Granite Co. properties and opportunistically growing with Magna in new strategic locations.

4. Diversify by significantly increasing the lease revenue derived from new industrial tenants and reducing the proportion of capital invested in Magna properties to less than 50% within approximately three years.

5. Increase leverage to 40% to 50% of total capital.

This strategic plan remains current and, as described below, certain elements have been completed with the remaining objectives in progress.

On October 25, 2011, Granite Co. increased its quarterly dividend to U.S.$0.50 per share.

For the year ended December 31, 2011, we completed 13 minor or expansion projects at Magna-tenanted properties (three in the U.S., one in Mexico, five in Austria, three in Germany and one in the Czech Republic) and partially completed one additional project at a non-Magna-tenanted property in Canada, representing an aggregate of approximately 722,000 square feet of leaseable area. In certain cases, these projects were coupled with lease extensions.

2012

On June 13, 2012, Granite Co. changed its name from MI Developments Inc. to Granite Real Estate Inc. On September 25, 2012, Granite Co. continued from Ontario to Québec, as previously approved by its shareholders.

The 2013 Arrangement was approved on November 15, 2012 by Granite Co.'s shareholders and on November 20, 2012, by the Superior Court of Québec.

For the year ended December 31, 2012, we renewed or extended 16 leases, representing an aggregate of approximately 2.4 million square feet. We completed expansions at three of our properties, representing a total aggregate of approximately 264,000 additional square feet of leaseable area.

2013 – Year to Date

On January 3, 2013, Granite Co., completed its conversion from a corporate structure to a stapled unit real estate investment trust structure pursuant to the 2013 Arrangement. All of the common shares of Granite Co. were exchanged, on a one-for-one basis, for Stapled Units, each consisting of one REIT Unit and one GP Share. On January 4, 2013, the Stapled Units began trading on the TSX under the symbol "GRT.UN" and on the NYSE under the symbol "GRP.U."

Upon completion of the 2013 Arrangement, the board of trustees (the "**Board of Trustees**" or the "**Trustees**") of Granite REIT and the board of directors (the "**Board of Directors**" or the "**Directors**") of Granite GP were composed of the seven individuals who comprised the board of directors of Granite Co. and the senior management of Granite REIT and Granite GP were composed of the members of Granite Co.'s senior management team.

On February 1, 2013, Granite established a new unsecured revolving credit facility in the amount of $175 million (which may be increased with the consent of lenders participating in such increase provided that no increase beyond $250 million is permitted without the consent of all of the lenders). See "Credit Facility and Indebtedness — Credit Facility".

On February 13, 2013, Granite completed the acquisition of a 90% interest in two income-producing multi purpose industrial properties, one located in Logan, New Jersey and the other in Savannah, Georgia. The buildings total 713,040 square feet and were acquired for a total purchase price (100% interest) of U.S.$39.8 million, excluding acquisition costs. Granite's investment was completed through a joint venture with the vendor, Dermody Properties, a U.S.-based national industrial real estate development group.

Significant Acquisitions

During the most recently completed financial year, we did not undertake any significant acquisition for which a business acquisition report was required to be filed pursuant to Canadian securities law.

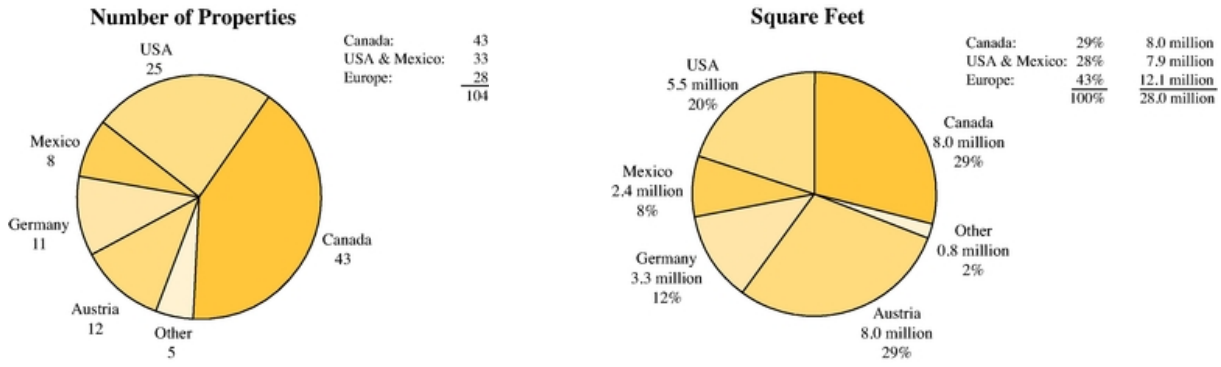
BUSINESS OVERVIEW

Geographic Breakdown

At December 31, 2012, our real estate portfolio consisted of 104 income-producing industrial and commercial properties located in nine countries: Canada, the United States, Mexico, Austria, Germany, the Czech Republic, the United Kingdom, Spain and Poland. This portfolio of income-producing properties represents approximately 28 million square feet of leaseable area with a gross book value of approximately $1.7 billion at December 31, 2012. The lease payments are primarily denominated in three currencies: the euro, the Canadian dollar and the U.S. dollar.

The following charts show the geographic breakdown of our properties by number and approximate square footage.

Geographic Breakdown



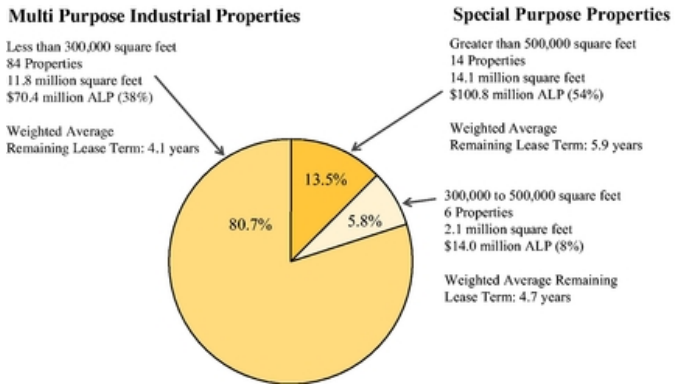
Property Types

Approximately 81% of our income-producing properties are industrial properties of less than 300,000 square feet, which we consider tenantable by a wide variety of potential users. As of December 31, 2012, these properties accounted for approximately 38% of our annualized lease payments. The remaining approximately 19% of our income-producing properties are large, special-purpose facilities. As of December 31, 2012, these larger, special purpose facilities accounted for approximately 62% of our annualized lease payments.

When we use the term "**annualized lease payments**" or "**ALP**" in this Annual Information Form, we mean, for any fiscal year, the total annual rent payable to Granite if the lease payments as at the last day of such fiscal year were in place for the entire fiscal year, with rents denominated in foreign currencies being converted to Canadian dollars based on exchange rates in effect as at the last day of the reporting period. These amounts do not conform to revenue recognition policies under generally accepted accounting principles.

The chart below illustrates the division of our properties between multi purpose industrial properties and special-purpose properties.

Multi Purpose vs. Special Purpose Facilities
by Number of Properties



Tenant Base

Magna, a diversified global automotive supplier, is the tenant of 89 of our 104 income-producing properties. As at December 31, 2012, lease payments under leases with Magna represented approximately 97% of our annualized lease payments. See "— Business and Operations of Magna, Our Principal Tenant".

We have a growing list of other tenants, that, as of the date of this Annual Information Form includes, among others: Bohler Uddeholm, Cardinal Health, Dole, HH Gregg, Peer 1 Networks, Sears, Siemens Canada and United Parcel Service.

One of our objectives is to increase the percentage of revenue from non-Magna tenants through new acquisitions, selected dispositions, partnerships/joint ventures and possibly asset exchanges. The planned diversification is international in nature, targeting favourable tax jurisdictions and focusing on acquiring industrial buildings in three target categories: (i) core stabilized, (ii) value add, and (iii) development. We expect the majority of our investment targets to be "core stabilized" industrial buildings with multi purpose designs, new age characteristics, primary or secondary market locations and single or multi-tenant leases. We also expect to target some "value add" industrial buildings in strong locations that can be acquired at a discount to replacement cost but may need capital for lease up and potential yield enhancement. Finally, in an environment of low capitalization rates on best-in-class product, we will consider undertaking some limited development of buildings in core markets that can become future core stabilized properties. We plan to be price-disciplined in our approach and intend to continue to explore and leverage strategic partnerships with counterparties that can provide local market intelligence and growth opportunities.

We believe that our existing portfolio of Magna-tenanted properties provides a level of stability for our business. We intend to continue to fortify our relationship with Magna, including selective investment in our Magna-tenanted properties. Our 21 largest properties (those greater than 300,000 square feet) are occupied exclusively by Magna in locations around the world. The special purpose attributes of these properties cause them to have a higher risk profile but they also present the opportunity for an enhanced and stable rental income stream. See "— Business and Operations of Magna, Our Principal Tenant". Granite is engaged in growth opportunities with Magna that include the improvement and expansion of certain facilities currently owned by Granite.

Improvement and Expansion Projects

For the year ended December 31, 2012, we completed eight improvement or expansion projects at Magna-tenanted facilities (four in Canada, two in the U.S., one in Austria and one in Germany), representing a total

cost of approximately $27.8 million and approximately 264,000 square feet of additional leaseable area. In the majority of cases, the projects were coupled with lease extensions.

As at December 31, 2012, we had six active expansion or improvement projects in Canada, the United States and the Czech Republic, with aggregate anticipated costs of approximately $11.8 million. We expect to complete each of these projects before the end of 2013.

For most construction projects, we use our experience and local expertise to construction-manage specific elements of a project to maximize returns and minimize construction costs. On the remainder of our projects, we outsource the design and construction of our projects to a qualified general contractor. Depending on the nature and location of the project, we either manage our construction with regular on-site supervisory employees, or remotely through cost, scope of work and other management control systems. We do not have long-term contractual commitments with our contractors, subcontractors, consultants or suppliers of materials, who are generally selected on a competitive bid basis.

Profile of Our Real Estate Portfolio

Our income-producing properties consist of industrial facilities, corporate offices, product development and engineering centres and test facilities. The following table sets out a summary profile of the aggregate gross book value of our real estate assets in millions of dollars as at December 31, 2012.

Real Estate Assets

Location	Income-Producing Property Portfolio Gross Book Value
North America	
Canada	$ 574.8
U.S.	$ 305.8
Mexico	$ 97.4
Europe	
Austria	$ 452.7
Germany	$ 182.9
Other	$ 45.7
Total in $	$ 1,659.3

At December 31, 2012, our annualized lease payments were $185.2 million, representing a return of 11.2% on the gross carrying value of our income-producing property portfolio.

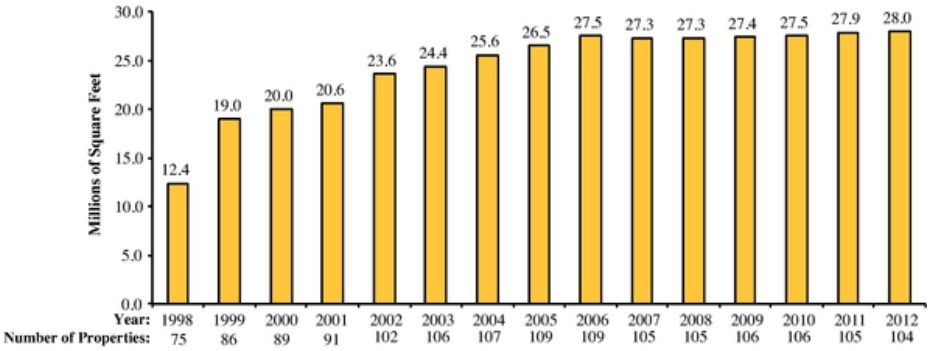
Historical Growth of Our Real Estate Portfolio

Our income-producing property portfolio has grown from 75 properties totalling approximately 12.4 million square feet in 1998 to 104 properties totalling approximately 28 million square feet of leaseable area as at December 31, 2012.

For the year ended December 31, 2012, we invested $31.4 million in income-producing properties occupied by Magna.

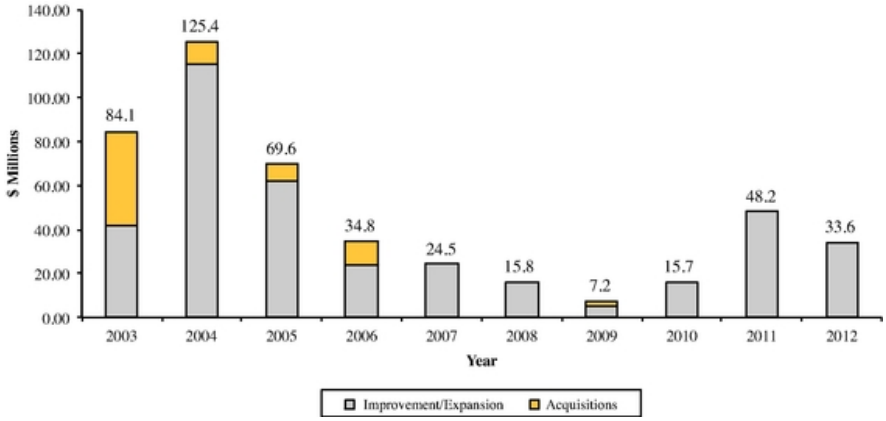
The following chart shows the historical growth in total leaseable area (net of dispositions) and number of properties within our income-producing property portfolio.

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



The following chart shows our historical capital expenditures, including acquisitions, expansions and improvements to our income-producing properties.

Annual Capital Expenditures



Schedule of Lease Expiries

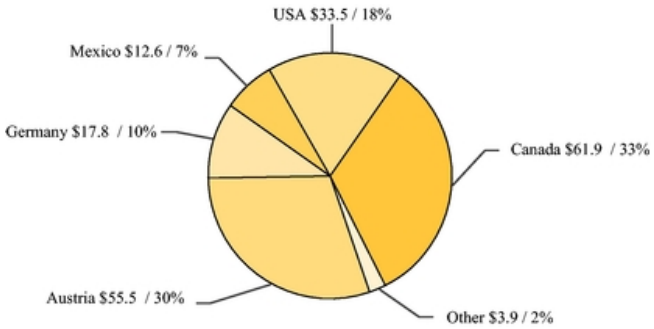
As of December 31, 2012, the weighted average remaining term to expiry based on leased area for our income-producing property portfolio was approximately 4.8 years (December 31, 2011 — 5.4 years; December 31, 2010 — 6.1 years; December 31, 2009 — 6.7 years; December 31, 2008 — 7.7 years; December 31, 2007 — 8.4 years).

Principal Markets in Which We Operate

Geographic Diversification

At December 31, 2012, approximately 67% of our annual lease payments were denominated in the euro and the U.S. dollar and, accordingly, foreign exchange can have a significant impact on our results. The following chart shows a breakdown of our $185.2 million of annualized lease payments by country at December 31, 2012.

Income-Producing Property Portfolio
Breakdown of Annualized Lease Payments at December 31, 2012 by Country
(in millions of Cdn. Dollars)



Income-Producing Properties Located in Canada

Our 43 Canadian income-producing properties are located in Ontario. 37 properties representing approximately 78% of the Canadian income-producing properties based on annualized lease payments at December 31, 2012 are located in the Greater Toronto Area. The remaining six properties in the Canadian portfolio are located in Southwestern Ontario. All the leases for properties in Canada are denominated in Canadian dollars.

Income-Producing Properties in the United States

Our income-producing property portfolio includes 25 properties in the United States. Approximately 32% of the annualized lease payments at December 31, 2012 from our income-producing properties in the United States is derived from properties located in Michigan, 21% is derived from a property in Kentucky, 23% is derived from a property in South Carolina and 7% is derived from properties located in Iowa. The remainder of our annualized lease payments from the United States are derived from properties located in Tennessee, Illinois, Indiana, Missouri and Maryland. All the leases for properties in the United States are denominated in U.S. dollars.

Income-Producing Properties in Mexico

Our income-producing property portfolio includes 8 properties in Mexico. Our Mexican income-producing properties are located in the states of Puebla, Coahuila and Nuevo Leon. All the leases for properties in Mexico are denominated in U.S. dollars.

Income-Producing Properties in Austria

Our income-producing property portfolio includes 12 properties in Austria. Approximately 94% of the Austrian income-producing properties based on annualized lease payments at December 31, 2012 are located in the Province of Styria. Magna's Eurostar and Thondorf plants (our two largest income-producing properties globally account for approximately 16% of our total annualized lease payments) are located in the city of Graz, which is located approximately 170 kilometres south of Vienna. All the lease payments for properties in Austria are denominated in euros.

Income-Producing Properties in Germany

Our income-producing property portfolio includes 11 properties in Germany. Our German income-producing properties are located in smaller communities in the south of Germany in close proximity to Frankfurt, in the Stuttgart region, and in northern Germany. The properties are primarily located in the states of Baden-Württemberg, Hessen, Bavaria, Thüringen/Thuringia, Saarland and Niedersachsen/Lower Saxony. All the leases for properties located in Germany are denominated in euros.

Income-Producing Properties in Other European Locations

Our income-producing property portfolio also includes two properties in the United Kingdom. United Kingdom leases are denominated in British pounds.

We also have one income-producing property in each of Spain, the Czech Republic and Poland. With the exception of Poland, which has lease payments denominated in zlotys, lease payments in respect of these properties are denominated in euros.

Leasing Arrangements

Leases

Our 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 and maintenance costs. The tenant is not responsible for income taxes or capital taxes charged to us.

We are responsible for structural repairs and replacements relating to the structural non-process related elements of our properties. For certain components of a property, such as the roof membrane, paved areas and non-process related HVAC systems, some of our leases provide that we pay for the costs of replacement as necessary and, in most cases, recover such costs, plus interest, from the tenant over the expected useful life of the item replaced, as additional rent during the course of the lease.

Contractual Step-Ups in Rental Rates

A majority of our existing leases provide for periodic rent escalations based either on fixed-rate step increases or on the basis of a consumer price index adjustment (generally limited to 10% over five years).

Renewal Options Tied to Market Rental Rates

A majority of our existing leases include built-in renewal options, generally tied to either market rental rates or to the existing rent plus inflation. In cases where the renewal is linked to market rates, the determination of market rent is, failing agreement, generally subject to arbitration.

Obligation to Restore Premises

Our leases generally provide that the tenant is obligated to restore the premises to a condition consistent with the condition on the commencement date of the lease, subject to reasonable wear and tear. The majority of our 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

Our leases also generally provide that the tenants must maintain the properties in accordance with applicable laws, including environmental laws, and that the tenant must remove all hazardous and toxic substances from the premises when and as required by applicable laws, regulations and ordinances and in any event prior to the termination of its occupation of the premises. The leases generally also contain indemnities in our favour with respect to environmental matters. Those indemnities expire after a specified number of years following the termination of the lease. The leases generally provide that we may conduct environmental assessments and audits from time to time at our sole expense. See "— Government Regulation".

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

Restrictions on Sales and Tenant Rights of Refusal

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

Tenant Assignment Rights

The leases contain a restriction on assignment by the tenant without our consent, other than to affiliates or associates of the tenant. Generally, the existing leases do not restrict a change of control of the tenant.

Statutory Rights

Due to certain local statutory requirements, our leases in Austria may be terminated by the tenant at any time upon 12 months' notice, unless the tenant has specifically waived the right to do so. In all but one of our Austrian leases, the tenant has provided us with such a waiver for various periods of time. All of our tenants in Austria have provided us with a guarantee from a non-Austrian affiliate with respect to their payment obligations under the lease. However, in the event the tenants terminate the leases in accordance with their termination rights, the guarantors are not obligated to pay rent beyond such termination date.

Our Business Strengths

We believe that we have a number of key strengths, including:

- a large, geographically diversified portfolio of properties that provides a stable income and opportunities for expansion growth;
- a strong balance sheet with comparatively low leverage, which provides us with the financial flexibility to pursue attractive growth opportunities;
- a strong track record of on-time and on-budget development and construction in all of our geographic markets;
- an experienced senior real estate management team and a construction group with extensive industrial building and infrastructure expertise that is familiar with the requirements of our tenants; and
- an entrepreneurial culture that drives our employees and management to grow our business.

Government Regulation

We are subject to a wide range of laws and regulations imposed by governmental authorities, including particular zoning, building and similar regulations that affect our real estate holdings.

As an owner and developer of real property, we are also subject to environmental laws and regulations relating to air emissions, soil and ground water quality, noise emissions, wastewater discharge, waste management and storage of hazardous substances. Our leases permit us to conduct environmental assessments and audits from time to time at our own expense. Such assessments and audits are in addition to the monitoring our tenants may undertake to meet their contractual environmental obligations for the properties they lease.

Substantially all of our leases also require the tenant to assume the costs of environmental compliance, including remediation or clean-up of any contamination that they have caused or contributed to on the leased

premises. Despite our tenants' obligation to indemnify us, we are also responsible under applicable law for ensuring that a particular property is in compliance with environmental laws. See "Risk Factors".

Employees

At December 31, 2012, we employed 64 people, the majority of whom are based at our headquarters in Toronto, and the balance of whom are located in the United States, Austria, Barbados, Iceland and Luxembourg. We are not party to any collective bargaining agreements with any of our employees.

Business and Operations of Magna, Our Principal Tenant

Magna is the tenant of 89 of our 104 income-producing properties. Magna is a diversified global automotive supplier. Magna designs, develops and manufactures technologically advanced automotive systems, assemblies, modules and components, and engineers and assembles complete vehicles, primarily for sale to original equipment manufacturers of cars and light trucks. Magna's product capabilities span a number of major automotive areas, including interior systems, seating systems, closure systems, body and chassis systems, vision systems, electronic systems, exterior systems, powertrain systems, roof systems, hybrid electric vehicles/systems and complete vehicle engineering and assembly. According to Magna's public disclosure, as at September 30, 2012, Magna had 305 manufacturing operations and 88 product development, engineering and sales centres, in 27 countries.

Magna is a public company, with its common shares listed for trading on the TSX and NYSE. For information on the conditions affecting the automotive industry and Magna's results of operations, we encourage you to consult Magna's public disclosure, including its Management's Discussion and Analysis of Results of Operations and Financial Position for the three months and year ended December 31, 2012, its Annual Information Form for 2011 and, when released by Magna, its Annual Information Form for 2012. 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.

Our Relationship with Magna

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

- 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
- right of first refusal in favour of Magna on sale of property.

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

Magna is Granite's largest and most significant tenant. Granite strives to seek opportunities to enhance our relationship with Magna and to make investments in properties that are beneficial to both Granite as landlord and to Magna as tenant.

Magna has a decentralized management style which generally leads to lease renewals and negotiations on a "lease by lease" basis, although when possible Granite works with Magna to deal with multiple lease renewals by operating group.

According to its public disclosure, Magna's success is primarily dependent upon the levels of North American and European car and light truck production by Magna's customers and the relative amount of content Magna has in the various programs. The ongoing challenge of the automotive industry, and other factors, have resulted in Magna seeking to take advantage of lower operating cost countries and consolidating,

moving, closing and/or selling operating facilities to align its capacity utilization and manufacturing footprint with vehicle production and consumer demand. Magna has disclosed that it has significant ongoing activities in its "Rest of World" segment, including a number of new facilities under construction or launching in Asia and South America, as well as the integration of recent acquisitions in South America. Granite management expects Magna to continuously seek to optimize its global manufacturing footprint and consequently, Magna may not renew leases for facilities currently under lease at their expiries.

INVESTMENT GUIDELINES AND OPERATING POLICIES OF GRANITE REIT

Investment Guidelines

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

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

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

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

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

  (iii) Granite REIT not qualifying as a "real estate investment trust", as defined in subsection 122.1(1) of the Tax Act if, as a consequence of Granite REIT not so qualifying, Granite REIT would be subject to tax on "taxable SIFT trust distributions" pursuant to section 122 of the Tax Act; or

  (iv) Granite REIT being liable to pay a tax imposed under Part XII.2 of the Tax Act;

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

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

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

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

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

Operating Policies

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

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

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

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

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

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

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

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

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

Amendments to Investment Guidelines and Operating Policies

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

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

RISK FACTORS

Investing in securities of Granite involves a high degree of risk. In addition to the other information contained in this Annual Information Form, you should carefully consider the following risk factors before investing in securities of Granite. The occurrence of the following risk factors could have a material adverse effect on our business, financial condition, operating results and prospects. In addition, other risks and uncertainties that are not known to us or that we currently believe are not material, may also have a material adverse effect on our business, financial condition, operating results and prospects.

Risks Relating to Granite's Business

Substantially all of our revenue comes from payments that we receive under leases with Magna, so factors affecting Magna's businesses will also affect us.

Although one element of our strategic plan is to diversify by increasing the lease revenue that we derive from new tenants, as of December 31, 2012, 89 of our 104 income-producing properties were leased to operating subsidiaries of Magna. For the year ended December 31, 2012, payments under leases with Magna represented approximately 97% of our annualized lease payments.

We encourage you to consult Magna's public disclosure for information on factors affecting the business of Magna, including the factors described in the section entitled "Industry Trends and Risks" in Magna's Management's Discussion and Analysis of Results of Operations and Financial Position for the three months and year ended December 31, 2012, which section, excluding any forward-looking information contained therein expressly referring to Magna's beliefs, is incorporated by reference into this AIF.

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

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

Although we intend to diversify by significantly increasing the lease revenue that we derive from new tenants, virtually all the historical growth of our rental portfolio has been dependent on our relationship with Magna as tenant of our income-producing properties and as the customer for our development projects.

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

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

In addition, we may not be able to renew an expiring lease or to find a new tenant for the property for which the lease has expired, in each case on terms at least as favourable as the expired lease or at all. Renewal options are generally based on changes in the consumer price index or prevailing market rates. Market rates may be lower at the time of the renewal options, and accordingly, leases may be renewed at lower levels of rent than are currently in place. Our tenants may fail to renew their leases if they need to relocate their operations as a result of changes in location of their customers' operations or if they choose to discontinue operations as a result of the loss of business.

Many factors will affect our ability to lease vacant properties, and we may incur significant costs in making property modifications, improvements or repairs required by a new tenant. In addition, we may incur substantial costs in protecting our investments in leased properties, particularly if we experience delays and limitations in enforcing our rights against defaulting tenants. Furthermore, if one of our tenants rejects or terminates a lease under the protection of bankruptcy, insolvency or similar laws, our cash flow could be materially adversely affected. The failure to maintain a significant number of our income-producing properties under lease would have a material adverse effect on our financial condition and operating results.

Our operating and net income and the value of our property portfolio depend on the credit and financial stability of our tenants.

We would be adversely affected if a significant number of tenants were to become unable to meet their obligations to us, or if we were unable to lease a significant amount of available space on economically favourable terms.

Additionally, the tenants for the majority of the properties in our rental portfolio are non-public subsidiaries of Magna International Inc., which does not guarantee the obligations of its subsidiaries under their leases with us. As a result, we may not have the contractual right to proceed directly against Magna International Inc. in the event that one of these subsidiaries defaulted on its lease with us. We 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.

The terms of our leases limit our ability to increase rents in response to market conditions, so we may receive rents at levels below current fair market values.

Leases representing 39% of our total leaseable area as at December 31, 2012 expire in 2017. Our leases generally provide for periodic rent escalations based on specified percentage increases or a consumer price index adjustment, subject in some cases to a cap. As a result, the long-term nature of these leases limits our ability to increase rents contemporaneously with increases in market rates and may therefore limit our revenue growth and the market value of our income-producing property portfolio.

Our international operations expose us to additional risks that may materially adversely affect our business.

During 2012, 34% of our revenue was generated in Canada, 30% of our revenue was generated in Austria, 17% of our revenue was generated in the United States, 10% of our revenue was generated in Germany, 7% of our revenue was generated in Mexico and our remaining revenue was generated in four other countries. Operating in different regions and countries exposes us to political, economic and other risks as well as multiple foreign regulatory requirements that are subject to change, including:

- economic downturns in countries or geographic regions where we have significant operations, particularly if the sovereign debt crisis that is currently affecting the European Union continues or intensifies over an extended period;
- economic tensions between governments and changes in international trade and investment policies;
- regulations restricting our ability to do business in certain countries;
- local regulatory compliance requirements;

- consequences from changes in tax laws including restrictions on the repatriation of funds; and
- political and economic instability, natural calamities, war, and terrorism.

The effects of these risks may, individually or in the aggregate, materially adversely affect our business.

Foreign currency fluctuations could reduce our revenues and increase our costs, and any future hedging transactions may limit our gains or result in losses for us.

A majority of our current property portfolio is located outside of Canada and generates lease payments that are not denominated in Canadian dollars (see the chart titled "Real Estate Assets" in "Business Overview — Profile of Our Real Estate Portfolio", above). Since we currently report our financial results in Canadian dollars and do not currently hedge all of our non-Cdn.$ rental revenues, we are subject to foreign currency fluctuations that could, from time to time, have an adverse impact on our financial position or operating results.

From time to time, we may attempt to minimize or hedge our exposure to the impact that changes in foreign currency rates or interest rates may have on our revenue and liabilities through the use of derivative financial instruments. The use of derivative financial instruments, including forwards, futures, swaps and options, in our risk management strategy carries certain risks, including the risk that losses on a hedge position will reduce our profits and the cash available for development projects or dividends. A hedge may not be effective in eliminating all the risks inherent in any particular position. Our profitability may be adversely affected during any period as a result of the use of derivatives.

We are subject to risks affecting the automotive parts industry.

Since Magna operates in the automotive parts industry, our business is, and for the foreseeable future will be, subject to conditions affecting the automotive industry generally. Although we intend to lease additional properties to tenants other than Magna, it is likely that our dependence on the automotive industry will continue to be significant.

The global automotive industry is cyclical. A worsening 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 and/or other factors, may result in lower consumer confidence, which has a significant impact on consumer demand for vehicles. Vehicle production is affected by consumer demand, particularly following the restructuring actions taken by some automobile manufacturers in recent years. The continuation of economic uncertainty or a deterioration of the global economy for an extended period of time could have a material adverse effect on the profitability and financial condition of participants in the automotive parts industry. While a number of regions appear to have recovered from the 2008-2009 global recession, uncertainty remains about the strength of the recovery in some regions such as North America, while other regions such as Europe are currently experiencing an economic downturn and face economic uncertainty. The continuation of economic uncertainty or deterioration of the global economy for an extended period of time could have a material adverse effect on our 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 the financial condition of our tenants and could therefore adversely impact the value of our properties and our operating results.

Environmental compliance costs and liabilities with respect to our real estate may adversely affect us.

Our tenants operate certain manufacturing facilities that use environmentally sensitive processes and hazardous materials. Under various federal, state, provincial and local environmental laws, ordinances and regulations, a current or previous owner or operator of real property may be liable for the costs of removal or remediation of hazardous or toxic substances on, under or in an affected property. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. In addition, the presence of hazardous or toxic substances, or the failure to remediate properly, may materially impair the value of our real property assets or adversely affect our ability to borrow by using such real property as collateral. Certain environmental laws and common law principles could be used to impose

liability for releases of hazardous materials, including asbestos-containing materials, into the environment, and third parties may seek recovery from owners or operators of real properties for personal injury associated with exposure to released asbestos-containing materials or other hazardous materials. As an owner of properties, we are subject to these potential liabilities.

Capital and operating expenditures necessary to comply with environmental laws and regulations, to defend against claims of liability or to remediate contaminated property may have a material adverse effect on our results of operations and financial condition. To date, environmental laws and regulations have not had a material adverse effect on our operations or financial condition. However, changes in these laws and regulations are ongoing and we may become subject to more stringent environmental standards as a result of changes to environmental laws and regulations, compliance with which may have a material adverse effect on our results of operations and financial condition. We cannot predict future costs that we may be required to incur to meet environmental obligations.

Moreover, environmental laws may impose restrictions on the manner in which a property may be used or transferred or in which businesses may be operated, limiting development or expansion of our property portfolio or requiring significant expenditures.

We are subject to competition for the acquisition of new properties and we may not compete successfully, which would limit our ability to invest in and develop new properties.

We compete 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 us. Some of our competitors may have greater financial and operational resources, or lower required return thresholds, than we do, or operate without our investment guidelines and operating policies. Accordingly, we may not be able to compete successfully for these investments. Increased competition for real estate investments resulting, for example, from increases in the availability of investment funds or reductions in financing costs would tend to increase purchase prices and reduce the yields from the investments.

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

Because we own, lease and develop real property in multiple jurisdictions, we are subject to the risks generally incident to investments in real property, which risk may vary by jurisdiction. The investment returns available from investments in real estate depend in large part on the amount of income earned and capital appreciation generated by the properties, as well as the expenses incurred. We may experience delays and incur substantial costs in enforcing our rights as lessor under defaulted leases, including costs associated with being unable to rent unleased properties to new tenants on a timely basis or with making improvements or repairs required by a new tenant.

In addition, a variety of other factors outside of our control affect income from properties and real estate values, including environmental laws and other governmental regulations, real estate, zoning, tax and eminent domain laws, interest rate levels and the availability of financing. For example, new or existing environmental, real estate, zoning or tax laws can make it more expensive or time consuming to develop real property or expand, modify or renovate existing structures. When interest rates increase, the cost of acquiring, developing, expanding or renovating real property increases and real property values may decrease as the number of potential buyers decreases. In addition, real estate investments are often difficult to sell quickly. Similarly, if financing becomes less available, it becomes more difficult both to acquire and to sell real property. Moreover, governments can, under eminent domain laws, take real property. Sometimes this taking is for less compensation than the owner believes the property is worth.

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

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

- the potential insolvency of a third party developer (where we are not the developer);
- a third party developer's failure to use advanced funds in payment of construction costs;
- construction delays or cost overruns that may increase project costs;
- failure to receive zoning, occupancy and other required governmental permits and authorizations;
- development costs incurred for projects that are not pursued to completion;
- natural disasters, such as earthquakes, hurricanes, floods or fires that could adversely impact a project;
- increases in interest rates during the period of the development;
- inability to raise capital; and
- governmental restrictions on the nature or size of a project.

Our development projects may not be completed on time or within budget, and there may be no market for the new use after we have completed development, either of which could adversely affect our operating results.

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

Real estate investments are relatively illiquid. This will tend to limit our ability to adjust or adapt our portfolio promptly in response to changing economic or investment conditions. If for whatever reason liquidation of assets is required, there is a significant risk that we would realize sale proceeds of less than the current book value of our real estate investments.

Additionally, many of our significant leases provide our tenants with rights of first refusal, which may adversely affect the marketability and market value of our 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 our properties in the event that we desire to sell those properties. Accordingly, these rights of first refusal may adversely affect our ability to sell our properties or the prices that we receive for them upon any sale. See "Business Overview — Leasing Arrangements — Restrictions on Sales and Tenant Rights of Refusal".

We may be unable to successfully implement our strategic plan, or may fail to realize benefits which are currently targeted to result from the implementation of that plan.

The objectives of the strategic plan are subject to known and unknown risks, uncertainties and other unpredictable factors which, in addition to those discussed in this document, include: adverse changes to foreign or domestic tax or other laws; changes in economic, market and competitive conditions and other risks that may adversely affect our ability to fortify and grow our relationship with Magna, expand and diversify our lease portfolio and increase our leverage.

We may be unable to obtain necessary future financing.

Our access to third-party financing will be subject to a number of factors, including general market conditions; our credit rating; the market's perception of our stability and growth potential; our current and future cash flow and earnings; our ability to renew certain long term leases and compliance with the Declaration of Trust. There is no assurance that capital will be available when needed or on favourable terms. Our failure to access required capital on acceptable terms could adversely affect our investments, cash flows, operating results or financial condition. Additionally, as a result of global economic volatility, we may have restricted access to

capital and increased borrowing costs. As future acquisitions and capital expenditures will be financed out of cash generated from operations, borrowings and possible future debt or equity security issuances, our ability to do so is dependent on, among other factors, the overall state of capital markets and investor appetite for investments in the real estate sector and automotive industry and in our securities in particular.

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

We may face unexpected risks relating to acquisitions.

In implementing our strategic plan, we expect to acquire new properties and may also acquire going-concern businesses. It is our operating policy to conduct such diligence as is commercially reasonable in the circumstances on each real property or business that we intend to acquire and obtain a report with respect to the physical condition of real properties from an independent and experienced consultant. Integrating acquired properties and businesses involves a number of risks that could materially and adversely affect our 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;
- the risk that acquisitions may require substantial financial resources that otherwise could be used in the development of other aspects of our business; and
- the risk that major tenants or clients of the acquired properties or businesses may not be retained following the acquisition of such properties or businesses.

Furthermore, the properties and businesses acquired may have undisclosed liabilities for which we 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 our cash flows, financial condition and results of operations.

We may incur significant capital expenditures and other fixed costs.

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

Maintaining a rental property in accordance with market standards over its useful life can entail costs, which we may not be able to recover from our tenants. Such costs may include a new roof, paved areas or structural repair. Numerous factors, including the age of the building structure, the material and substances used at the time of construction or currently unknown building code violations, could result in substantial unbudgeted costs for refurbishment or modernization. If the actual costs of maintaining or upgrading a property exceed our estimates, or if hidden defects are discovered during maintenance or upgrading, which are not covered by insurance or contractual warranties, or if we are not permitted to raise the rents due to legal constraints, we will incur additional and unexpected costs. If competing properties of a similar type are built in the area where one of our properties is located or similar properties located in the vicinity of one of our properties are substantially refurbished, the net operating income derived from, and the value of, such property could be reduced.

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

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

It is our policy to obtain and maintain, or cause to be obtained and maintained, at all times, insurance coverage in respect of our potential liabilities and the accidental loss of value of our 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.

We do not carry insurance for generally uninsured losses, such as losses from riots, war or terrorist attacks.

If we experience a loss which is uninsured or which exceeds our policy coverage limits, we could lose the capital invested in the damaged properties as well as the anticipated future cash flows from those properties. In addition, the recent disruption in the financial markets makes it more 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 us upon an event of loss covered by an insurance policy could have a material adverse effect on our business and financial condition.

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

We are sometimes the subject of complaints or litigation from tenants, employees or other third parties for various actions. The damages sought against us in these litigation claims can be substantial. If one or more valid and substantiated claims were to greatly exceed our liability insurance coverage limits or if our insurance policies do not cover such a claim, this could have a material adverse effect on our business, financial condition, results of operations and cash flows. Additionally, we are subject to numerous federal, provincial and local laws and governmental regulations relating to environmental protections, product quality standards, and building and zoning requirements. If we fail to comply with existing or future laws or regulations, we may be subject to governmental or judicial fines or sanctions, while incurring substantial legal fees and costs. In addition, our capital expenses could increase due to remediation measures that may be required if we are found to be noncompliant with any existing or future laws or regulations.

Controls over Financial Reporting

We maintain 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 GAAP.

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

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

Risks Relating to the Stapled Unit Real Estate Investment Trust Structure

Cash Distributions Are Not Guaranteed and will Fluctuate with the Performance of the Business

Although Granite intends to distribute the majority of the consolidated income earned by Granite, 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. We may also

determine to retain cash reserves in certain of our subsidiaries for the proper conduct of our 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.

Structural Subordination of the REIT Units

In the event of a bankruptcy, liquidation or reorganization of Granite LP or its subsidiaries, holders of certain of their indebtedness (including holders of Debentures) and certain trade creditors will generally be entitled to payment of their claims from the assets from such entities before any assets are made available for upstream distribution, eventually to Granite REIT or Granite GP. GP Shares and REIT Units will be effectively subordinated to the credit facilities 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 Indenture (as defined under "Credit Facility and Indebtedness — Other Unsecured Indebtedness)) in their respective ability to incur secured or unsecured indebtedness.

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

Non-Canadian Holders of Stapled Units will be subject to foreign currency risk associated with our 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 our distributions. Our distributions 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. Although Granite REIT intends to distribute the majority of the consolidated income earned by Granite REIT, less expenses and amounts, if any, paid by Granite REIT in connection with the redemption of REIT Units, there can be no assurance regarding Granite REIT's ability to make distributions, which remains dependent upon the ability of Granite LP to pay distributions or returns of capital in respect of the Granite LP Units, which ability, in turn, is dependent upon the operations and assets of Granite LP's subsidiaries.

Unpredictability and Volatility of Stapled Unit Price

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, after an Event of Uncoupling) will trade cannot be predicted. The market price of the Stapled Units (or REIT Units, after an Event of Uncoupling) could be subject to significant fluctuations in response to variations in quarterly operating results, distributions and other factors. The annual yield on the Stapled Units (or REIT Units, after an Event of Uncoupling) as compared to the annual yield on other financial instruments may also influence the price of Stapled Units (or REIT Units, after an Event of Uncoupling) in the public trading markets. In addition, the securities markets have experienced significant price and volume fluctuations from time to time in recent years

that often have been 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, after an Event of Uncoupling).

Nature of REIT Units

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 direct securities of Granite REIT'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 will not be a "mutual fund" as defined by applicable securities legislation.

Securities like the REIT Units are hybrids in that they share certain attributes common to both equity securities and debt instruments. 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 or which sets out the rights and entitlements of shareholders of corporations in various circumstances. As such, REIT Unitholders will 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.

Redemption Right

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.

Dilution

Granite may issue an unlimited number of Stapled Units for the consideration and on those 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.

Unitholder Liability

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, activities 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. 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

An "Event of Uncoupling" shall occur only: (a) 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 (b) 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 we may incur significant expenditures related to administrative expenses, 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.

Risks Relating to Taxation

Canada

Tax authorities may disagree with the positions taken by us in our tax filings

Tax provisions, including current and future tax assets and liabilities in our financial statements, and tax filing positions require estimates and interpretations of federal, provincial and foreign tax rules and regulations, and judgments as to their interpretation and application to our specific situation. In addition, there can be no assurance that federal, provincial or foreign tax agencies will agree with our tax filing positions or will not change its administrative practices to the detriment of us and our securityholders. Our multi-jurisdictional organizational structure is complex, including as a result of our recent conversion to a stapled unit real estate investment trust structure pursuant to the 2013 Arrangement. The computation of income and other taxes payable as a result of various transactions that we have completed involves many complex factors as well as our interpretation of and compliance with relevant tax legislation and regulations. While we believe that our 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 us, that the ultimate value of our tax assets and liabilities could change in the future and that such additional taxes and changes to such amounts could be materially adverse to us.

Mutual Fund Trust Status

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

Real Estate Investment Trust Status

Granite REIT would be subject to Canadian income tax (under the so-called "SIFT" tax rules) on a similar basis to a Canadian public corporation on its income for a year unless it qualifies in that year as a real estate investment trust for purposes of the Tax Act (the "**REIT Exception**"). The conditions for satisfying the REIT Exception are onerous, and include various numerical tests (including tests entailing valuations or measurement of various revenue streams) which must be satisfied throughout the year in question. Therefore, financial results for a year, or developments occurring during the year, that were not anticipated earlier in the year, or challenges by the Canada Revenue Agency (the "**CRA**") to valuations made by or on behalf of management, or to other calculations, that are relevant to the application of the REIT Exception, could result in the REIT Exception not being available for the year. Furthermore, the satisfaction by Granite REIT of the REIT Exception also depends on the provisions of a *Bill to amend the Tax Act* (Bill C-48) being passed in relevant part substantially its current form, and on there being no further amendments to the Tax Act which adversely affect the availability to Granite REIT of the REIT Exception.

Accordingly, there is a risk (for example, as a result of unanticipated developments) 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 after 2012. Were this to occur, the level of monthly cash distributions made on the REIT Units could be materially reduced.

Potential Foreign Accrual Property Income

In circumstances specified in the Tax Act, Granite Co., or Granite US Holdco LP, would be required to include in computing its income the amount of income of its non-resident subsidiaries considered under the Tax Act to be "foreign accrual property income," or "FAPI." Substantially all of the income of Granite US Holdco LP for purposes of the Tax Act, including any FAPI, must be included in computing the income of Granite REIT, as an indirect partner. Depending on the circumstances (including whether the level of activity in such foreign subsidiaries will be such as to avoid the recognition by Granite Co. or Granite U.S. Holdco LP of FAPI), significant asset dispositions by such foreign subsidiaries could result in the recognition of FAPI. This would result in an increase in the taxable income of Granite Co. or Granite REIT which, in turn, could result in a corresponding income tax liability of Granite Co. or an increase in the level of taxable income to be distributed and allocated to REIT Unitholders.

Potential Withholding Tax on Return-of-Capital Distributions

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

Uncertainty Regarding Withholding Tax Rate for U.S. Residents

In the case of distributions paid by Granite REIT to REIT Unitholders who otherwise would qualify for reduced rates of withholding under the Canada-United States Income Tax Convention (the "**U.S. Treaty**"), it is uncertain as to whether the rate of Canadian withholding tax imposed on such distributions is 25%, or whether such rate of withholding tax is reduced to 15% or 0% (based on the geographic source of the distribution) by virtue of the U.S. Treaty. Granite REIT currently anticipates that it will withhold on such distributions made by it from time to time at a rate of 25% unless it understands the current administrative practice of the CRA at the time of a distribution to be that the rate of withholding should be 15% or 0%.

Potential Assessments for Withholding Tax

As discussed in part above, there are potential legal and factual uncertainties as to the rate at which Granite REIT should withhold tax on distributions made by it to Non-Residents. If Granite REIT were to withhold at too low a rate and were later assessed for such failure by CRA, Granite REIT very well might not be able as a practical matter to recover most of the amount of such assessment from the non-residents to whom it had made

such distributions (and would not have even a legal right to so recover interest or penalties). In such event, the cash available for subsequent distributions to both resident and non-resident REIT Unitholders could be reduced.

United States

CIRCULAR 230 DISCLOSURE

In compliance with U.S. Treasury Department Circular 230, which provides rules governing certain conduct of U.S. tax advisors giving advice with respect to U.S. tax matters: (i) any U.S. federal tax advice contained in this AIF is not intended to be used and cannot be used by you or any other person for the purpose of avoiding penalties that may be imposed under the U.S. Internal Revenue Code (the "**Code**"); (ii) such advice was prepared in the expectation that it may be used in connection with the promotion or marketing (within the meaning of U.S. Treasury Department Circular 230) of Stapled Units; and (iii) Unitholders should seek advice based on their particular circumstances from an independent tax advisor.

Unitholders May Recognize Taxable Income Without Receiving Corresponding Cash Distributions

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

Granite REIT's Status as a Partnership

Granite REIT's status as a partnership for U.S. federal income tax purposes requires that 90% or more of Granite REIT's gross income for every taxable year consists of qualifying income, and that Granite REIT not be registered under the Investment Company Act. Qualifying income generally includes dividends, interest, capital gains from the sale or other disposition of stocks and securities and certain other forms of investment income. Granite REIT expects that it will be able to utilize the qualifying income exception in each taxable year, but Granite REIT could cease to be treated as a partnership for U.S. federal income tax purposes under certain circumstances, resulting in materially reduced distributions if Granite REIT is subject to U.S. corporate level income tax or increased U.S. withholding tax on dividend distributions from its US subsidiaries.

Risks Related to PFIC Status

Granite Co., certain of Granite Co.'s subsidiaries, Granite GP, or subsidiaries of Granite REIT may be considered a PFIC for U.S. federal income tax purposes. U.S. Unitholders directly or indirectly owning an interest in a PFIC may experience adverse U.S. tax consequences.

Granite REIT Could Potentially Cease to be Considered Regularly Traded

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

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

Granite REIT intends to manage its affairs so that REIT Unitholders do not recognize FIRPTA Gain. However, if Granite REIT recognizes FIRPTA Gain, Non-U.S. 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 FDAP payments are not available under the Treaty if REIT Unitholders are not considered the beneficial owners of the income earned by Granite REIT or are not considered to have derived such income within the meaning of the applicable Treasury Department regulations. Granite REIT believes that Unitholders will be treated as deriving the income earned by Granite REIT and as the beneficial owners of such income. If Unitholders were not considered the beneficial owners of Granite REIT's income for these purposes, distributions from MI Developments (America) Inc. ("**Granite America**"), an indirect Delaware subsidiary of Granite REIT that holds the U.S. assets of Granite REIT and that will elect to be treated as a REIT for U.S. federal income tax purposes, as of January 1, 2013, to Granite REIT would not be eligible for a reduced rate of withholding tax.

Potential Application of Stapled Entity Rules

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

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

Beginning in 2013, Granite America will seek to qualify as a REIT for U.S. federal income tax purposes. REITs are subject to numerous requirements, including requirements relating to the character of their income and assets. If Granite America fails to qualify as a REIT for U.S. federal income tax purposes in 2013 or in a future year, it would be subject to U.S. federal income tax as an entity, and distributions to Granite REIT (and ultimately to REIT Unitholders) would be reduced.

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: (a) 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 (b) at the sole discretion of the Trustees or the directors of Granite GP, but only in the event of the bankruptcy, insolvency, winding-up or reorganization (under an applicable law relating to insolvency) of Granite REIT or Granite GP or the taking of corporate action by Granite REIT or Granite GP in furtherance of any such action or the admitting in writing by Granite REIT or Granite GP of its inability to pay its debts generally as they become due.

Support Agreement

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

Pursuant to the Declaration of Trust and the Articles of Granite GP, at all times, each REIT Unit must be "stapled" to a GP Share unless there is an Event of Uncoupling. As part of the 2013 Arrangement, Granite

REIT and Granite GP entered into a support agreement dated as of January 3, 2013 (the " **Support Agreement**") which contains provisions that facilitate the Stapled Unit structure.

Among other things, the Support Agreement provides for:

(a) 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;

(b) 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;

(c) 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

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

Under the Support Agreement, the parties have agreed to keep each other informed of potential issues of securities, consult with each other and cooperate in connection with such an issue. The Support Agreement provides for coordination and cooperation of the parties in the event of any repurchase of or offer to repurchase Stapled Units, and prevents Granite GP from repurchasing, or offering to repurchase, GP Shares, and Granite REIT from repurchasing, or offering to repurchase, REIT Units, unless the other party simultaneously repurchases, or offers to repurchase, its component part of the applicable Stapled Units.

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

DECLARATION OF TRUST AND DESCRIPTION OF REIT UNITS

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

REIT Units

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

No REIT Unitholder is entitled to call for any partition or division of Granite REIT's property or for a distribution of any particular asset forming part of Granite REIT's property or of any particular monies or funds

received by the Trustees. The legal ownership of the property of Granite REIT and the right to conduct the activities and operations of Granite REIT are vested exclusively in the Trustees, and no REIT Unitholder has or is deemed to have any right of ownership in any of the property of Granite REIT, except as a beneficiary of Granite REIT and as specifically provided in the Declaration of Trust.

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

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

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

Allotment and Issue of REIT Units

The consideration for any REIT Unit must be paid in one or more of money, property or past services performed for or for the direct or indirect benefit of Granite REIT, the value of which consideration received by Granite REIT, as determined by the Trustees, equals or exceeds the issue price set for the REIT Unit. Subject to the foregoing and the restrictions noted at "— Limitations on Non-Resident Ownership of REIT Units", the Trustees may allot and issue REIT Units at such time or times and in such manner (including pursuant to any reinvestment plan relating to distributions of Granite REIT or dividends of Granite GP, equity-based compensation plans of Granite REIT, Granite GP or their respective affiliates or pursuant to a unitholder rights plan of Granite REIT and/or shareholder rights plan of Granite GP), and for such consideration and to such person, persons or class of persons as the Trustees in their sole discretion shall determine, provided that, if an Event of Uncoupling has not occurred, no REIT Unit may be issued to any person unless (a) a GP Share is simultaneously issued to such person or (b) 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 (a) subdivides, re-divides or changes the then outstanding GP Shares into a greater number of GP Shares, (b) reduces, combines, consolidates or changes the then outstanding GP Shares into a lesser number of GP Shares, or (c) 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 fifteen Trustees.

The number of Trustees may be fixed within such limits, from time to time, and increased or decreased with 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: (a) one-third of the number of Trustees in office upon completion of the 2013 Arrangement, if, at the time of the appointments, one or more of the Trustees in office upon completion of the 2013 Arrangement have not yet completed their first term of office; or (b) in any other case, one-third of the number of the current Trustees who were elected or appointed as Trustees other than pursuant to the foregoing.

Trustee Power and Authority

The Trustees, subject only to the specific limitations contained in the Declaration of Trust, including without limitation those described in "Investment Guidelines and Operating Policies of Granite REIT" and "— Amendments to the Declaration of Trust — Amendments by REIT Unitholders", shall have, without further or other authorization, action or consent and free from any control or direction on the part of REIT Unitholders, full, absolute and exclusive power, control and authority over the assets of Granite REIT and over the activities and operations of Granite REIT to the same extent as if the Trustees were the sole and absolute legal and beneficial owners of such assets in their own right, to do all such acts and things as in their sole judgment and discretion are necessary or incidental to, or desirable for, the carrying out of any of the purposes of Granite REIT or the conducting of the activities and operations of Granite REIT.

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

compromise, extend, consolidate or cancel, in whole or in part, any obligation to or of Granite REIT; (m) to the extent permitted by law, indemnify, or enter into agreements with respect to the indemnification of, the Trustees; (n) except as prohibited by law or the Declaration of Trust, delegate any of the powers and duties of the Trustees; and (o) do all such other acts and things as are incidental to the foregoing, and exercise all powers which are necessary or useful to carry on the activities and operations of Granite REIT, to promote any of the purposes for which Granite REIT is formed and to carry out the provisions of the Declaration of Trust.

Term of Trustees

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

Residency of Trustees and Quorum

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

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

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

Resignation, Removal and Death 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 (a) with or without cause by a majority of the votes cast at a meeting of REIT Unitholders or (b) 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: (a) 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; (b) 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 (c) 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 (a) any action taken in good faith in reliance on any documents that are, prima facie, properly executed, (b) any depreciation of, or loss to, Granite REIT incurred by reason of the sale of any security, (c) the loss or disposition of monies or securities, or (d) 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 (a) 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, (b) 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 (c) 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: (a) is or was an officer of Granite REIT; (b) was a Trustee; (c) 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; (d) 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 (e) the heirs and personal or other legal representatives of any of the foregoing individuals or an individual who is a Trustee. Granite REIT shall also indemnify any such persons in such other circumstances as the Declaration of Trust or law permits or requires.

REIT Unit Redemption Right

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

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

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

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

(i) 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

(ii) 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

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

(i) 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

(ii) 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,

(a) 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

(b) the "closing market price" of a Stapled Unit (or REIT Unit) for a particular date shall be an amount equal to: (i) 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; (ii) 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 (iii) 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:

(a) 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;

(b) 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

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

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

Meetings of REIT Unitholders

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

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

REIT Unitholders may attend and vote at all meetings of the REIT Unitholders either in person or by proxy and a proxyholder need not be a REIT Unitholder. The quorum of REIT Unitholders for the transaction

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

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

(a) subject to certain exceptions (see "— Trustees"), the appointment, election or removal of Trustees;

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

(c) 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

(d) the matters noted at "— Amendments to the Declaration of Trust — Amendments by REIT Unitholders".

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

Limitations on Non-Resident Ownership of REIT Units

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

Amendments to the Declaration of Trust

Amendments by REIT Unitholders

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

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

(a) 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;

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

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

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

(e) the termination of Granite REIT;

(f) 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

(g) 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:

(a) 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;

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

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

(d) 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;

(e) 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;

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

(g) 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

(h) 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: (a) 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 (b) 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 (a) is material to Granite REIT, (b) Granite REIT has entered, or proposes to enter, into, and (c) either: (i) the Trustee or officer of Granite REIT has a material interest in; or (ii) 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: (a) 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; (b) 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; (c) 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; (d) 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 (e) 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: (a) one vote per share at all meetings of shareholders (except for meetings of holders of another specified class or series of Granite GP shares); (b) receive pari passu with other holders of GP Shares, any dividends as and when declared by the directors of Granite GP; and (c) 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, (A) a GP Share may only be transferred together with a REIT Unit, and (B) no GP Share may be issued unless (x) it is issued in conjunction with the concurrent issue of a REIT Unit to form a Stapled Unit, or (y) Granite GP has arranged that the GP Shares will be consolidated (subject to any applicable regulatory approval) immediately after such issuance, such that each holder of a GP Share will hold an equal number of GP Shares and REIT Units immediately following such consolidation.

CREDIT FACILITY AND INDEBTEDNESS

Credit Facility

Granite LP is the borrower in respect of an unsecured revolving credit facility (the " **Facility**") in the amount of $175 million (which may be increased with the consent of lenders participating in such increase provided that no increase beyond $250 million is permitted without the consent of all of the lenders). The Facility has been guaranteed by each of Granite REIT, Granite GP, Granite Canadian Realty LP and Granite US Holdco LP and certain other affiliates of the borrower. The Facility was established on February 1, 2013, and matures on February 1, 2015, although Granite LP has the option to extend the maturity date by one year to February 1, 2016, subject to the agreement of lenders in respect of a minimum of $66^{2}/_{3}$% of the aggregate amount committed under the Facility. Granite LP is permitted to borrow under the Facility by way of Canadian dollar, U.S. dollar or euro denominated loans or letters of credit. Interest on drawn amounts is calculated based on an applicable margin determined by reference to the external credit rating of Granite REIT and Granite GP, as is a commitment fee in respect of undrawn amounts. Although Granite LP is the borrower under the Facility, the financial covenants which must be satisfied are tested on the basis of the combined and consolidated financial statements of Granite REIT and Granite GP, and for that reason Granite REIT and Granite GP are parties to the executed credit agreement under which the Facility has been established (the "**Credit Agreement**").

As at March 5, 2013, U.S.$15 million was drawn under the Facility. Granite LP, Granite REIT and Granite GP are in compliance with all of their covenants under the Facility.

Other Unsecured Indebtedness

Granite Co. issued $265 million outstanding principal amount of 6.05% senior unsecured debentures, series 1 due December 22, 2016 (the "**Debentures**") under an indenture dated as of December 22, 2004 (as amended, supplemented or otherwise modified from time to time, the "**Indenture**"). Pursuant to the terms of the Indenture, the aggregate principal amount of Granite Co.'s total funded debt cannot exceed 40% of its total capitalization as defined in the Indenture. As at December 31, 2012, all Debentures remained outstanding.

Under the 2013 Arrangement, the Debenture obligations were transferred to Granite LP and Granite LP and Fin LP agreed to be bound by the terms of the Indenture and of the Debentures as co-principal debtors, in place of Granite Co., Granite Co. is guaranteeing all amounts payable under the Debentures, Granite Co. agreed to remain bound as a co-principal debtor and Granite REIT and Granite GP guaranteed amounts payable under the Debentures. In connection with the foregoing, Granite Co., Granite REIT, Granite GP, Granite LP and Fin LP and BNY Trust Company of Canada, as trustee, entered into a supplemental indenture dated January 3, 2013 (the "**Supplemental Indenture**") to the Indenture to implement the foregoing.

For further details relating to the attributes and characteristics of the Debentures, including provisions relating to payments of interest and principal, redemption and purchase for cancellation, covenants, successor companies, defeasance, modification and wavier, please see the full text of the Indenture available on SEDAR at www.sedar.com.

Other Secured Indebtedness

In connection with the its acquisition on February 13, 2013 of a 90% interest in income-producing properties in Logan, New Jersey and Savannah, Georgia, a subsidiary of Granite obtained a term loan from Wells Fargo Bank, National Association, in the amount of U.S.$23.9 million, the proceeds of which were used to refinance an existing mortgage loan in favour of Wells Fargo Bank, National Association. The loan is secured by a first mortgage and deed of trust (and ancillary security) against each of the Savannah and Logan properties. The loan bears interest at a variable rate, adjusted monthly, calculated as 2.5% plus the one-month London InterBank Offered Rate ("**LIBOR**"), and is repayable by monthly payments of interest only commencing on March 10, 2013 and ending on February 10, 2015, and by monthly payments of interest and principal commencing on March 10, 2015 and ending June 10, 2017. To mitigate the interest rate risk associated with the loan, the subsidiary purchased an interest rate cap limiting its exposure to increases in LIBOR to a maximum of 1.50% over the term of the loan.

Credit Ratings

The Debentures currently have investment grade ratings of BBB with a stable trend, from DBRS Limited (" **DBRS**") and Baa3 with a stable outlook, from Moody's Investors Service, Inc. ("**Moody's**"). Ratings may be subject to revision or withdrawal at any time by the rating organization.

According to the DBRS rating system, long-term debt rated BBB is of adequate credit quality. The ability and capacity to meet the payment of financial obligations is considered acceptable though the organization may be vulnerable to future events. The DBRS long-term rating scale provides an opinion on the risk of default. That is, the risk that an issuer will fail to satisfy its financial obligations in accordance with the terms under which an obligation has been issued. Ratings are based on quantitative and qualitative considerations relevant to the issuer, and the relative ranking of claims. All rating categories other than AAA and D also contain subcategories "(high)" and "(low)". The absence of either a "(high)" or "(low)" designation indicates the rating is in the middle of the category.

According to Moody's rating system, debt securities rated Baa3 are subject to moderate credit risk and are considered medium grade and as such may possess certain speculative characteristics. Numerical modifiers 1, 2 and 3 are applied to each rating category, with 1 indicating that the obligation ranks in the higher end of the category, 2 indicating a mid-range ranking and 3 indicating a ranking in the lower end of the category. Moody's long-term ratings are opinions of the relative credit risk of financial obligations with an original maturity of one year or more. They address the possibility that a financial obligation will not be honoured as promised. Such ratings use Moody's Global Scale and reflect both the likelihood of default and any financial loss suffered in the event of default.

Credit ratings and stability ratings are intended to provide investors with an independent measure of credit quality of an issue of securities. A rating accorded to any securities is not a recommendation to buy, sell, or hold such securities and may be subject to revision or withdrawal at any time by the rating organization which granted such ratings. To our knowledge, as of March 5, 2013, there is no announcement or proposed announcement that is to be made by a rating organization to the effect that the organization is reviewing or intends to revise or withdraw a rating previously assigned.

Granite has made customary payments of rating fees to DBRS and Moody's in connection with the above-mentioned ratings assigned to the 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 $0.175 per REIT Unit.

The portion of distributions by Granite REIT for 2013 which will be income for Canadian income tax purposes is estimated to be in the range of 75% to 85%. This estimate could change by the end of 2013. In light of its nominal anticipated earnings (if any), it is not expected that Granite GP will pay dividends in 2013.

Dividends of Granite Co.

In 2010, Granite Co. paid two quarterly dividends of U.S.$0.15 per Class A Subordinate Voting Share and Class B Share and two quarterly dividends of U.S.$0.10 per Class A Subordinate Voting Share and Class B Share.

In 2011, Granite Co. paid one quarterly dividend of U.S.$0.10 per common share and Class B Share, two quarterly dividends of U.S.$0.10 per Class A Subordinate Voting Share and Class B Share and one quarterly dividend of U.S.$0.50 per common share.

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

MARKET FOR SECURITIES

Prior to the 2013 Arrangement, Granite Co.'s common shares traded on the TSX and on the NYSE.

The following tables outline the closing share price, trading range and volume of shares traded for each month of the year ended December 31, 2012 for common shares of our predecessor Granite Co. on the TSX.

	Common Shares		
TSX 2012	**High ($)**	**Low ($)**	**Traded Volume**
January	35.56	32.20	7,184,903
February	37.79	35.00	4,123,200
March	37.42	33.55	8,314,859
April	35.59	32.57	2,994,550
May	35.66	32.48	1,720,515
June	35.95	32.04	3,110,255
July	36.50	34.25	2,350,751
August	37.09	35.20	1,973,761
September	36.66	35.10	2,193,191
October	38.49	34.75	2,464,393
November	37.65	34.65	3,260,547
December	38.15	35.53	3,682,030

Source: TSX Market Data

TRUSTEES AND MANAGEMENT OF GRANITE REIT

The following tables provide the name, province or state and country of residence, the position and office held with us and Granite GP and the principal occupation (if not with us or Granite GP) of each of our trustees and officers and Granite GP's directors and officers, and the date since which such trustee/director has served on the board, or such individual was appointed as an officer, of the predecessor of Granite REIT and Granite GP, Granite Co.:

Name, Province/State and Country of Residence	Position and Office Held with each of Granite REIT and Granite GP (as applicable)	Present Principal Occupation (if not with Granite)	Trustee/Director/Officer Since
G. WESLEY VOORHEIS[1] Ontario, Canada	Trustee and Chairman Director and Chairman	Managing Director of VC & Co. Incorporated	June 30, 2011
MICHAEL BRODY[1][2][4] New Jersey, USA	Trustee Director	Senior Managing Director of Park Bridge Financial and Senior Advisor to The Blackstone Group L.P.	June 30, 2011
PETER DEY[1][2] Ontario, Canada	Trustee and Vice-Chairman Director and Vice Chairman	Chairman of Paradigm Capital Inc.	June 30, 2011
BARRY GILBERTSON[2][3][4] London, United Kingdom	Trustee Director	Real Estate Specialist Professional	June 30, 2011
THOMAS HESLIP Ontario, Canada	Trustee and Director Chief Executive Officer		December 1, 2011
GERALD J. MILLER[2][3] British Columbia, Canada	Trustee Director	Retired, Former Executive Vice President, Finance and Chief Financial Officer of West Fraser Timber Co. Ltd	June 30, 2011
SCOTT I. ORAN[1][3][4] Massachusetts, USA	Trustee Director	Managing Director of Dinosaur Capital Partners LLC	June 30, 2011
MICHAEL FORSAYETH Ontario, Canada	Chief Financial Officer		August 12, 2011
JENNIFER TINDALE Ontario, Canada	Executive Vice President, General Counsel and Secretary		June 30, 2011
JOHN DE ARAGON Ontario, Canada	Executive Vice President, Real Estate Investment		February 27, 2012
LORNE KUMER Ontario, Canada	Executive Vice President, Real Estate Portfolio and Asset Management		February 13, 2010
STEFAN WIERZBINSKI Austria	Executive Vice President Europe		February 6, 2013

Notes:

(1) Member of the Corporate Governance and Nominating Committee of Granite GP chaired by G. Wesley Voorheis

(2) Member of the Compensation Committee of Granite GP chaired by Peter Dey

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

(4) Member of the Real Estate Investment Committee of Granite GP chaired by Barry Gilbertson.

As at December 31, 2012, the directors and executive officers of Granite Co., the predecessor of Granite REIT and Granite GP, as a group, beneficially owned, directly or indirectly, or exercised control or direction

over 15,657 common shares of Granite Co., representing less than one percent of the total number of Common Shares outstanding before giving effect to the exercise of options or other convertible securities held by such directors and officers.

Trustees and directors are elected to serve until the next annual meeting of unitholders or shareholders as the case may be. The directors of Granite Co. were appointed trustees and directors of Granite REIT and Granite GP, respectively prior to the 2013 Arrangement. The term of office of each trustee and director expires at the time of Granite REIT's and Granite GP's Annual General Meeting, which for 2013 is expected to be held on June 12, 2013. 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 REIT and Granite GP, including their principal occupations over the last five years, is summarized below.

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

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

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

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

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

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

Mr. Brody received a B.A. degree from Cornell University and a M.B.A. in finance from Columbia University.

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

Mr. Dey has been the Chairman of Paradigm Capital Inc., an investment dealer, since November 2005. Until February 2012, he had been a director of Coventree Inc. since April 2008. He has been a director of Goldcorp Inc. since June 2006 and a director of Enablence Technologies Inc. since October 2011. Mr. Dey was a Partner of the Toronto law firm Osler, Hoskin & Harcourt LLP, where he specialized in corporate board issues and mergers and acquisitions, from 2001 to 2005, and prior to that from 1985 to 1994 and from 1973 to 1983.

From 1994 to 2001, Mr. Dey was Chairman of Morgan Stanley Canada Limited, where he helped develop the Canadian investment banking business and the overall strategic direction of Morgan Stanley in Canada. From 1993 to 1995, Mr. Dey chaired The Toronto Stock Exchange Committee on Corporate Governance in Canada that released the December 1994 report entitled "Where Were the Directors?", known as the Dey Report. Mr. Dey has also served as Chairman of the Ontario Securities Commission and was Canada's representative to the OECD Task Force that developed the OECD Principles of Corporate Governance released in May of 1999.

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

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

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

Mr. Gilbertson is a real estate specialist professional who has been Managing Director of Tigger Limited, trading as Barry Gilbertson Consultancy, since August 2010. He has been a director of RONA inc. since January 2013. Until March 2012, he served as a non-executive consultant at Knight Frank LLP, the international real estate advisory firm, and he was a partner at PricewaterhouseCoopers LLP ("**PwC**") from 1996 until 2011, where he focussed on business recovery, turnaround and corporate finance projects from international multi-bank work to single lender work in the United Kingdom. At PwC, Mr. Gilbertson led the work-out of the U.S.$8 billion real estate investment portfolio as well the corporate property occupied in the United Kingdom and Europe by Lehman Brothers (In Administration), together with other significant real estate or corporate turnaround projects, such as Rock, a real estate group in New York. Mr. Gilbertson has led or worked on projects, or spoken at conferences, in 34 countries.

Mr. Gilbertson was President of The Royal Institution of Chartered Surveyors (RICS) (from 2004 to 2005), a member of The Bank of England Property Forum (from 2003 to 2010), the founder Chairman of NARA (the Non-Administrative Receivers Association), the co-founder Vice Chair of WAVO (the World Association of Valuation Organisations), the Chair of Valuation for the United Nations Real Estate Advisory Group (as an individual member of UN REAG from 2000 to 2005), and has been a Counselor of Real Estate (CRE) since 1998. Mr. Gilbertson has been Visiting Professor at The University of Northumbria at Newcastle, United Kingdom (since 2003), a Visiting Lecturer at 17 other universities in China, Germany, Kenya, the United Kingdom and the United States, and has in excess of 100 published articles to his name.

Mr. Gilbertson has served as a Trustee and Board Director at the College of Estate Management since 2004, is a Founding Fellow of the Institute of Continuing Professional Development, a Freeman of the City of London, United Kingdom, and holds Honorary Membership designations from four professional bodies — in South Africa, in Romania and in the United Kingdom.

Gerald J. 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 Chartered Accountant and has been a member of the Institute of Chartered Accountants of British Columbia and the Canadian Institute of Chartered Accountants 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 Accounting firms.

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

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

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

Mr. Oran has 25 years of experience in the real estate industry. Earlier in his career, Mr. Oran was Partner and Regional Director of TA Associates Realty and Vice President of Fleet Bank in Boston. Mr. Oran has also acted as Director of Acquisitions for Unihab, a real estate developer. He began his career at Booz, Allen & Hamilton, a management consulting firm.

Mr. Oran graduated from Princeton University with a BSE in Civil Engineering and received an M.B.A. from Harvard Business School.

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

Mr. Heslip has been our CEO since December 1, 2011 and has had a 29-year career covering commercial property development, investment, management and operations in Canada, the United States, Asia and Europe. Mr. Heslip was most recently with GWL Realty Advisors in Toronto and prior to that served as President and CEO of Realex Properties Corporation until Realex's sale to Dundee Real Estate Investment Trust in February 2011. He has previously held senior Management positions with Fortress Canada, Goldman Sachs, CIBC Development Corp. and Cadillac Fairview Limited. For 12 years Mr. Heslip was an adjunct professor at McMaster University and the University of Toronto.

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

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

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

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

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

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

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

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

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

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

Mr. De Aragon has over 22 years of experience in the real estate industry, covering all aspects from finance and accounting to acquisitions, mergers and asset management. His experience covers a wide variety of real estate sectors (retail, office and industrial), markets, investors and operating companies. He has held senior positions in real estate and investment in Canada and worldwide. These include having been Managing Director of Fortress Investment Group (responsible for real estate portfolios in Canada, the U.S. and Europe) from 2005 to 2009, Vice President of Bentall Kennedy and Senior Director Investment and Development at CIBC Development Corp.

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

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

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

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

Mr. Kumer has over 21 years of experience in the real estate industry working for both public and private development companies. His experience includes acquisitions, due diligence, leasing, land use and development approvals, sales and construction. For the past 10 years, Mr. Kumer has worked for Granite in various roles including the management of the Granite's significant land development portfolio and leasing within the income producing properties portfolio. Prior to 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 hold a Bachelor of Arts (Honours), business administration, from the Richard Ivy School of Business at the University of Western Ontario.

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

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

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

Mr. Wierzbinski holds an M.B.A. from the University of Business Administration in Vienna, Austria.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

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

(a) 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:

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

(ii) 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;

(b) 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;

(c) has, within 10 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

(d) been subject to:

(i) 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

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

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

From on or about September 18, 2003 until June 24, 2004, Mr. Voorheis was a director of Atlas Cold Storage Holdings Inc. ("**Atlas**"), the entity through which Atlas Cold Storage Income Trust ("**Atlas Income Trust**") carried on its business. From on or about January 2004 to June 2004, Mr. Dey was a director of Atlas and a trustee of Atlas Income Trust. The Ontario Securities Commission (the "**OSC**") issued a management cease trade order relating to any trading in securities of Atlas Income Trust as a result of Atlas Income Trust not having filed its 2003 third quarter financial statements by the required deadline. The order was made against the trustees of Atlas Income Trust, certain members of the board of directors of Atlas and certain officers and former officers of Atlas. The cease trade order related to conduct that occurred before Mr. Dey became a trustee of Atlas Income Trust and Mr. Voorheis and Mr. Dey became members of the board of directors of Atlas. The cease trade order remained in effect until May 11, 2004, following the remediation of the filing default.

Mr. Voorheis was a director of Hollinger Inc. ("**Hollinger**") from May 2006 to June 2008 and its chief executive officer from April 2007 to June 2008. Mr. Voorheis agreed to join the Hollinger board at the request of

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

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

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

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

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

AUDIT COMMITTEE

Composition of the Audit Committee

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

Pre-Approval Policies and Procedures

Each Audit Committee is responsible for the appointment, compensation, retention and oversight of the work of the external auditor, Ernst & Young LLP for fiscal 2012 and Deloitte LLP for fiscal 2013. Each Audit Committee has established a policy to pre-approve all audit and permitted non-audit services provided to us 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 Co. by Ernst & Young LLP and its affiliates for professional services rendered in each of the fiscal years ended December 31, 2012 and December 31, 2011. During these years, Ernst & Young LLP was Granite Co.'s only external auditor.

Fees	2012	2011
Audit Fees[1]	$ 1,061,190	$ 1,369,625
Audit-Related Fees[2]	$ 178,840	$ 36,500
Tax Fees[3]	$ 336,738	$ 165,005
All Other Fees[4]	$ 6,125	$ 8,245
Total	$ 1,582,893	$ 1,579,375

Notes:

(1) Audit Fees consist of fees billed for the annual audit and quarterly review of our consolidated financial statements and services that are normally provided in connection with our statutory and regulatory filings, including the auditor attestation requirements of the *Sarbanes-Oxley Act*.

(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 our financial statements and that are not included in category (1) above. They include consultations concerning financial accounting and reporting standards, review of security controls and operational effectiveness of systems.

(3) Tax Fees include fees billed for tax compliance, tax advice and tax planning services, including the preparation and review of tax returns.

(4) 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 TRANSACTION

Except as otherwise disclosed herein, no trustee, director or executive officer of Granite REIT or Granite GP, nor any person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10 percent of any class or series of Granite REIT's or Granite GP'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 REIT or Granite GP.

In 2011, Granite agreed to pay reasonable legal and advisory fees of certain Class A Shareholders incurred in connection with the 2011 Arrangement, which closed on June 30, 2011. In this respect, a $2.1 million payment was made to a company owned by Mr. G. Wesley Voorheis, who became Chairman of the board of directors of Granite Co. following the completion of the 2011 Arrangement, for legal and advisory services relating to the 2011 Arrangement.

AUDITORS, REGISTRAR AND TRANSFER AGENT

The auditors of Granite Co. for fiscal 2012 are Ernst & Young LLP, located at 222 Bay Street, P.O. Box 251, Toronto, Ontario, M5K 1J7. For fiscal 2013, the auditors of Granite REIT and Granite GP will be Deloitte LLP, located at Brookfield Place, Suite 1400, 181 Bay Street, Toronto, Ontario, M5J 2V1. The registrar and transfer agent of Stapled Units is Computershare Investor Services Inc. at its principal offices in Toronto, Ontario. The co-transfer agent and co-registrar of Stapled Units in the United States is Computershare Trust Company, N.A. at its offices in Golden, Colorado.

Ernst & Young LLP has advised us that it is independent in accordance with the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario and has complied with the SEC's rules on auditor independence.

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. We believe 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 our financial condition or results of operations.

The Maryland Jockey Club Complaint

On February 15, 2011, Power Plant Entertainment Casino Resorts Indiana, LLC, PPE Casino Resorts Maryland, LLC and The Cordish Company (the "Plaintiffs") sued, among other defendants, Granite Co., a predecessor of Granite REIT and Granite GP, certain subsidiary entities and joint ventures, including The Maryland Jockey Club ("MJC") and certain of its subsidiaries (collectively, the "MJC Entities"), as well as Granite Co.'s former Chairman and Chief Executive Officer, Mr. Frank Stronach, in the Circuit Court for Baltimore City in Baltimore, Maryland. The claims asserted in the Plaintiffs' complaint against Granite Co., the MJC Entities and Mr. Stronach (the "Complaint") are alleged to have arisen from events that occurred in Maryland in connection with the referendum conducted in November 2010 concerning the award of a gaming license to one of the Plaintiffs to conduct alternative gaming at the Arundel Mills Mall. The Complaint asserts a number of claims against all the defendants including, among other allegations, that Granite Co. and Mr. Stronach, along with a number of other defendants, engaged in actions to defame the Plaintiffs by distributing allegedly false information concerning the Plaintiffs and their operations of a gaming facility in Indiana, Indianapolis Downs, LLC operating as Indiana Live. The specific claims asserted against Granite Co., the MJC Entities and Mr. Stronach are for alleged civil conspiracy, false light invasion of privacy and defamation. The Complaint seeks an award of damages against all defendants in the amount of U.S.$300 million in compensatory damages and U.S.$300 million in punitive damages. Granite believes this claim is without merit. On March 25, 2011, a number of defendants, including the MJC Entities and Granite, filed a motion in the Circuit Court for Baltimore City, seeking to have the action transferred to the Circuit Court for Anne Arundel County. On April 29, 2011, the Indiana-based defendants named in the Complaint filed a notice to remove the Plaintiffs' claims relating to the Indiana defendants to the U.S. District Court for the District of Maryland. The

Plaintiffs have sought to remand these claims to the Circuit Court for Baltimore City. The entire matter, in both the state and federal courts, was stayed by the United States Bankruptcy Court for the District of Delaware until it determined whether the claims were impacted by the bankruptcy of Indianapolis Downs, LLC. On September 6, 2011, the United States Bankruptcy Court for the District of Delaware entered an order denying the injunction motion and lifting the stay effective September 26, 2011. On December 21, 2011, the Circuit Court for Baltimore City issued an order staying the state court defendants' motions to transfer venue to the Circuit Court for Anne Arundel County pending resolution of whether the Maryland federal court action was remanded out of federal court. On September 26, 2012, the Maryland federal court issued an order remanding the Maryland federal court action to the Circuit Court for Baltimore City. On October 2, 2012, the parties filed a stipulation with the Circuit Court of Baltimore City proposing a further stay to allow certain of the defendants to engage plaintiffs in discussions that may potentially streamline the litigation. The stay was granted by the Circuit Court for Baltimore City on October 12, 2012. Under the terms of the 2011 Arrangement Granite received an indemnity from the Stronach Shareholder and certain related parties against all losses suffered by Granite in relation to the Racing & Gaming Business for the period prior to, on and after the effective date of the transfer of June 30, 2011. Accordingly, Granite has not recorded a liability related to this claim. Granite provided the Stronach Shareholder with the required disclosure notice listing the existing litigation with the Plaintiffs. Granite has retained independent counsel to monitor the litigation on its behalf.

MATERIAL CONTRACTS

Agreements in Connection with the 2011 Arrangement

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

Immediately prior to the implementation of the 2011 Arrangement, a transfer agreement between Granite Co., the Stronach Shareholder, certain subsidiaries of the Stronach Shareholder and the Stronach Trust (the "**Transfer Agreement**") providing for the transfer to that purchaser of certain assumed liabilities relating to the Assets, substantially in the form attached as Schedule C to the Arrangement Agreement was declared effective. In addition, also prior to the implementation of the 2011 Arrangement, Granite Co. entered into the 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:

(a) the Indenture (as more fully described under "Credit Facility and Indebtedness — Other Unsecured Indebtedness");

(b) the Supplemental Indenture (as more fully described under "Credit Facility and Indebtedness — Other Unsecured Indebtedness"); and

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

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

ADDITIONAL INFORMATION

Additional information relating to Granite REIT and Granite GP may be found on SEDAR at www.sedar.com under their respective SEDAR profiles. Additional information, including trustees', directors' and executive officers' remuneration and indebtedness, principal holders of securities and securities authorized for issuance under the equity compensation plans will be contained in the joint Management Information Circular/Proxy Statement of Granite REIT and Granite GP for the annual general meetings of the unitholders of Granite REIT and shareholders of Granite GP expected to be held on June 12, 2013. Additional financial information is provided in the Audited Financial Statements and related Management's Discussion and Analysis for the year ended December 31, 2012 of Granite Co.

APPENDIX A — GRANITE REIT AUDIT COMMITTEE CHARTER

GRANITE REAL ESTATE INVESTMENT TRUST
AUDIT COMMITTEE CHARTER

As of January 3, 2013

I. Purpose and Scope

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

II. Membership

1. Number of Members

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

2. Independence

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

3. Financial Literacy

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

4. Term

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

5. Chair

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

III. Duties and Responsibilities

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

1. Financial Reports

(a) General

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

(b) Review of Annual Financial Reports

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

(d) 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) Approval of Other Financial Disclosures

The Committee shall review and, if advisable, approve and recommend for Board approval financial disclosure in a prospectus or other securities offering document of the Trust, press releases disclosing, or based upon, financial results of the Trust and any other material financial disclosure, including financial guidance provided to analysts, rating agencies or otherwise publicly disseminated.

2. Auditors

(a) General

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

(b) Nomination and Compensation

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

(c) Resolution of Disagreements

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

(d) Discussions with External Auditor

At least annually, the Committee shall 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

At least annually, the Committee shall 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

At least annually, and 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

At least annually, the Committee shall 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.

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. At least annually, the Committee shall 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. The Internal Reporting Procedures shall also be available for reports of breaches of the Code of Conduct and Ethics. Any such complaints or concerns that are received shall be reviewed by the Committee and, if the Committee determines that the matter requires further investigation, it will direct the Chair of the Committee to engage outside advisors, as necessary or appropriate, to investigate the matter and will work with management and the General Counsel to reach a satisfactory conclusion. The Committee shall review investigations and any resolutions of complaints received and report to the Board thereon.

6. 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.

7. Audit Committee Disclosure

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

8. 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.

9. Charter Review

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

IV. Meetings

1. Procedure

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

2. Reporting to the Board

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

3. In Camera Sessions

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

V. Delegation

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

VI. Outside Advisors

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

APPENDIX B — GRANITE GP AUDIT COMMITTEE CHARTER

GRANITE REIT INC.
AUDIT COMMITTEE CHARTER

As of January 3, 2013

I. Purpose and Scope

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

II. Membership

1. Number of Members

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

2. Independence

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

3. Financial Literacy

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

4. Term

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

5. Chair

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

III. Duties and Responsibilities

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

1. Financial Reports

(a) General

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

(b) Review of Annual Financial Reports

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

(d) 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) Approval of Other Financial Disclosures

The Committee shall review and, if advisable, approve and recommend for Board approval financial disclosure in a prospectus or other securities offering document of the Company, press releases disclosing, or based upon, financial results of the Company and any other material financial disclosure, including financial guidance provided to analysts, rating agencies or otherwise publicly disseminated.

2. Auditors

(a) General

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

(b) Nomination and Compensation

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

(c) Resolution of Disagreements

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

(d) Discussions with External Auditor

At least annually, the Committee shall 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

At least annually, the Committee shall 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

At least annually, and 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

At least annually, the Committee shall 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.

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. At least annually, the Committee shall consider and review with management and the auditors:

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

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

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

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

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

4. Internal Audit Function

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

5. Internal Reporting Procedures

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

6. Compliance with Legal and Regulatory Requirements

The Committee shall review reports from the Company's Corporate Secretary and other 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.

7. Audit Committee Disclosure

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

8. 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.

9. Charter Review

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

IV. Meetings

1. Procedure

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

2. Reporting to the Board

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

3. In Camera Sessions

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

V. Delegation

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

VI. Outside Advisors

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

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Audited Consolidated Financial Statements and Notes

For the year ended December 31, 2012

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management of Granite Real Estate Inc. (the "Company") is responsible for the preparation and presentation of the consolidated financial statements and all the information in the 2012 Annual Report. The consolidated financial statements were prepared by management in accordance with United States generally accepted accounting principles ("U.S. GAAP").

Where alternative accounting methods exist, management has selected those it considered to be most appropriate in the circumstances. Financial statements include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis to ensure that the consolidated financial statements are presented fairly in all material respects. Financial information presented elsewhere in this Annual Report has been prepared by management to ensure consistency with information contained in the consolidated financial statements. The consolidated financial statements have been audited by the independent auditors, reviewed by the Audit Committee and approved by the Board of Directors of the Company.

Management is responsible for the development and maintenance of systems of internal accounting and administrative cost controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is accurate, relevant and reliable and that the Company's assets are appropriately accounted for and adequately safeguarded. Management has determined that, as at December 31, 2012 and based on the framework set forth in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, internal control over financial reporting is effective. The Company's Chief Executive Officer and Chief Financial Officer, in compliance with Section 302 of the U.S. Sarbanes-Oxley Act of 2002 ("SOX"), provide a SOX-related certification in connection with the Company's annual disclosure document in the U.S. (Form 40-F) to the U.S. Securities and Exchange Commission. According to National Instrument 52-109, a similar certification is provided to the Canadian Securities Administrators.

The Company's Audit Committee is appointed by its Board of Directors annually and is comprised solely of outside independent directors. The Audit Committee meets periodically with management, as well as with the independent auditors, to satisfy itself that each is properly discharging its responsibilities, to review the consolidated financial statements and the independent auditors' report and to discuss significant financial reporting issues and auditing matters. The Audit Committee reports its findings to the Board of Directors for consideration when approving the consolidated financial statements for issuance to the shareholders.

The consolidated financial statements have been audited by Ernst & Young LLP, the independent auditors, in accordance with United States generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States) on behalf of the shareholders. The Auditors' Report outlines the nature of their examination and their opinion on the consolidated financial statements of the Company. The independent auditors have full and unrestricted access to the Audit Committee.



THOMAS HESLIP
Chief Executive Officer



MICHAEL FORSAYETH
Chief Financial Officer

Toronto, Canada,
March 5, 2013.

INDEPENDENT AUDITORS' REPORT OF REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of **Granite Real Estate Inc.**

We have audited the accompanying consolidated financial statements of **Granite Real Estate Inc.** (the "Company"), which comprise the consolidated balance sheets as at December 31, 2012 and 2011, and the consolidated statements of income (loss), comprehensive income (loss), changes in deficit and cash flows for each of the years in the three-year period ended December 31, 2012, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with United States generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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

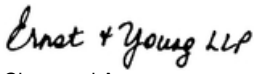
We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2012 and 2011, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2012 in accordance with United States generally accepted accounting principles.

Other matter

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2012, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 5, 2013 expressed an unqualified opinion on the Company's internal control over financial reporting.



Toronto, Canada
March 5, 2013

Chartered Accountants
Licensed Public Accountants

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROLS UNDER THE STANDARDS OF THE PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD (UNITED STATES)

The Board of Directors and Shareholders of
Granite Real Estate Inc.

We have audited Granite Real Estate Inc.'s internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). Granite Real Estate Inc.'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 Discussion and Analysis of Results of Operations and Financial Position, under the heading of "CONTROLS AND PROCEDURES — Report on Internal Control Over Financial Reporting". Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

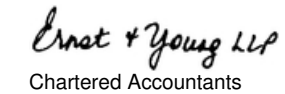
We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material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

A company's internal control over financial reporting is a process designed 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.

In our opinion, Granite Real Estate Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) and Canadian generally accepted auditing standards, the consolidated balance sheets as at December 31, 2012 and 2011, and the consolidated statements of income (loss), comprehensive income (loss), changes in deficit and cash flows for each of the years in the three-year period ended December 31, 2012, and a summary of significant accounting policies and other explanatory information of the Company and our report dated March 5, 2013 expressed an unqualified opinion thereon.



Toronto, Canada
March 5, 2013

Chartered Accountants
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Consolidated Balance Sheets
(Refer to note 1 — Basis of Presentation)
(Canadian dollars in thousands)

As at December 31	Note	2012	2011
			(previously in US dollars — note 1(c))
ASSETS			
Non-current assets:			
Real estate properties, net	2	**$ 1,136,158**	$ 1,154,780
Deferred rent receivable		**11,518**	12,704
Future tax assets	6	**3,924**	1,292
Note receivable	3	**—**	2,543
Fixed assets, net	4	**1,837**	36
Other assets	5	**3,532**	3,598
		1,156,969	1,174,953
Current assets:			
Current portion of note receivable	3	**2,612**	5,339
Accounts receivable		**3,662**	6,557
Income taxes receivable		**2,622**	1,012
Prepaid expenses and other		**745**	645
Cash and cash equivalents		**51,073**	56,908
Restricted cash		**522**	—
Total assets		**$ 1,218,205**	$ 1,245,414
LIABILITIES AND SHAREHOLDERS' EQUITY			
Non-current liabilities:			
Senior unsecured debentures, net	7	**$ 263,589**	$ 263,236
Future tax liabilities	6	**27,626**	30,224
Deferred revenue		**4,782**	3,989
		295,997	297,449
Current liabilities:			
Deferred revenue		**5,839**	3,599
Accounts payable and accrued liabilities	8	**26,464**	14,441
Income taxes payable		**12,904**	20,685
Total liabilities		**341,204**	336,174
Shareholders' equity:			
Common Shares (Shares issued — 46,833; December 31, 2011 — 46,871)	10	**2,117,256**	2,119,515
Contributed surplus	11	**63,055**	62,215
Deficit		**(898,526)**	(876,375)
Accumulated other comprehensive loss	12	**(404,784)**	(396,115)
Total shareholders' equity		**877,001**	909,240
Total liabilities and shareholders' equity		**$ 1,218,205**	$ 1,245,414
Commitments and contingencies	22		

See accompanying notes

On behalf of the Board:

/s/ G. WESLEY VOORHEIS
Director

/s/ GERALD J. MILLER
Director

Consolidated Statements of Income (Loss)
(Canadian dollars in thousands, except per share figures)

Years ended December 31,	Note	2012	2011	2010
			(previously in US dollars — note 1(c))	
Revenues				
Rental		**$ 181,115**	$ 180,937	$ 177,229
Interest and other income from MEC	19(a)	**—**	—	1,893
		181,115	180,937	179,122
Operating costs and expenses (income)				
Property operating costs		**5,694**	3,061	2,864
General and administrative		**30,930**	46,708	44,710
Depreciation and amortization		**42,773**	42,701	42,413
Interest expense and other financing costs, net	7(b)	**15,871**	15,749	18,753
Foreign exchange losses (gains), net		**44**	(218)	70
Write-down of long-lived assets	14	**—**	19,473	—
Impairment recovery related to loans receivable from MEC	19(a)	**—**	—	(10,037)
Operating income		**85,803**	53,463	80,349
Gain (loss) on disposal of real estate	2	**(21)**	91	—
Other gains, net	19(b)	**—**	—	2,049
Purchase price consideration adjustment	15	**—**	—	20,439
Income before income taxes		**85,782**	53,554	102,837
Income tax expense (recovery)	6	**14,445**	(4,388)	34,434
Income from continuing operations		**71,337**	57,942	68,403
Income (loss) from discontinued operations, net of income tax	21	**—**	94,449	(121,269)
Net income (loss)		**$ 71,337**	$ 152,391	$ (52,866)
Basic earnings (loss) per Common or Class B Share	16			
— continuing operations		**$ 1.52**	$ 1.24	$ 1.47
— discontinued operations		**—**	2.01	(2.60)
Total		**$ 1.52**	$ 3.25	$ (1.13)
Diluted earnings (loss) per Common or Class B Share	16			
— continuing operations		**$ 1.52**	$ 1.23	$ 1.47
— discontinued operations		**—**	2.01	(2.60)
Total		**$ 1.52**	$ 3.24	$ (1.13)
Weighted average number of Common and Class B Shares outstanding during the year (in thousands)				
— Basic		**46,855**	46,888	46,708
— Diluted		**46,876**	46,970	46,708

See accompanying notes

Consolidated Statements of Comprehensive Income (Loss)
(Canadian dollars in thousands)

Years ended December 31,	Note	2012	2011	2010
			(previously in US dollars — note 1(c))	
Net income (loss)		**$ 71,337**	$ 152,391	$ (52,866)
Other comprehensive income (loss):				
Foreign currency translation adjustment	12	**(8,669)**	1,076	(103,381)
Recognition of foreign currency translation gain in net income (loss)	12	**—**	—	(43)
Change in net unrecognized actuarial pension loss	12	**—**	—	(119)
Reclassification to net income (loss) of foreign currency translation gain of discontinued operations upon deconsolidation	12	**—**	(639)	—
Reclassification to net income (loss) of net unrecognized actuarial pension loss of discontinued operations upon deconsolidation	12	**—**	119	—
Comprehensive income (loss)		**$ 62,668**	$ 152,947	$ (156,409)

See accompanying notes

Consolidated Statements of Changes in Deficit
(Canadian dollars in thousands)

Years ended December 31,	Note	2012	2011	2010
			(previously in US dollars — note 1(c))	
Deficit, beginning of year		**$ (876,375)**	$ (310,593)	$ (233,689)
Net income (loss)		**71,337**	152,391	(52,866)
Dividends		**(93,488)**	(37,543)	(24,038)
Distribution under Plan of Arrangement	1, 21	**—**	(680,630)	—
Deficit, end of year		**$ (898,526)**	$ (876,375)	$ (310,593)

See accompanying notes

Consolidated Statements of Cash Flows
(Canadian dollars in thousands)

Years ended December 31,	Note	2012	2011	2010
			(previously in US dollars — note 1(c))	
OPERATING ACTIVITIES				
Income from continuing operations		**$ 71,337**	$ 57,942	$ 68,403
Items not involving current cash flows	17(a)	**42,342**	62,032	27,323
Changes in non-cash working capital balances	17(b)	**2,967**	(8,297)	(1,483)
Cash provided by operating activities		**116,646**	111,677	94,243
INVESTING ACTIVITIES				
Real estate property additions		**(29,808)**	(48,511)	(10,124)
Proceeds from note receivable		**4,973**	—	—
Fixed asset additions		**(1,841)**	(16)	(69)
Proceeds on disposal of real estate, net		**1,221**	133	—
Decrease (increase) in other assets		**(346)**	155	(2,717)
Loan repayments from MEC		**—**	—	62,099
Loan advances to MEC, net		**—**	—	(14,269)
Acquisition of MEC Transferred Assets, net of cash	15	**—**	—	(50,518)
Cash used in investing activities		**(25,801)**	(48,239)	(15,598)
FINANCING ACTIVITIES				
Dividends paid		**(93,822)**	(37,723)	(24,000)
Repurchase of Common Shares		**(2,694)**	—	—
Issuance of shares		**956**	7,023	—
Financing costs paid		**(410)**	—	—
Proceeds from bank indebtedness		**42,000**	36,500	79,000
Repayment of bank indebtedness		**(42,000)**	(49,500)	(66,000)
Repayment of long-term debt		**—**	(2,242)	(231)
Cash used in financing activities		**(95,970)**	(45,942)	(11,231)
Effect of exchange rate changes on cash and cash equivalents		**(710)**	2,118	(7,891)
Net cash flows provided by (used in) continuing operations		**(5,835)**	19,614	59,523
DISCONTINUED OPERATIONS				
Cash provided by (used in) operating activities		**—**	293	(2,166)
Cash provided by (used in) investing activities		**—**	(47,944)	5,963
Cash used in financing activities		**—**	—	(119,837)
Net cash flows used in discontinued operations		**—**	(47,651)	(116,040)
Net decrease in cash and cash equivalents during the year		**(5,835)**	(28,037)	(56,517)
Cash and cash equivalents, beginning of year		**56,908**	84,945	141,462
Cash and cash equivalents, end of year		**51,073**	56,908	84,945
Less: cash and cash equivalents of discontinued operations, end of year		**—**	—	(18,573)
Cash and cash equivalents of continuing operations, end of year		**$ 51,073**	$ 56,908	$ 66,372

See accompanying notes

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Organization, Segmented Information and Basis of Presentation

Organization

On June 13, 2012, Granite Real Estate Inc. ("Granite" or the "Company") changed its name from MI Developments Inc. following shareholder approval of the name change at its annual general and special meeting. The Company is the successor to Magna International Inc.'s ("Magna") real estate division, which prior to its spin-off from Magna on August 29, 2003 was organized as an autonomous business unit within Magna. The Company was formed as a result of four companies that amalgamated on August 29, 2003 under the *Business Corporations Act* (Ontario): 1305291 Ontario Inc., 1305272 Ontario Inc., 1276073 Ontario Inc. and the Company. These companies were wholly-owned subsidiaries of Magna and held Magna's real estate division and the controlling interest in Magna Entertainment Corp. ("MEC"). Class A Subordinate Voting Shares and Class B Shares were distributed to the shareholders of Magna of record on August 29, 2003 on the basis of one Class A Subordinate Voting Share for every two Class A Subordinate Voting Shares of Magna held, and one Class B Share for every two Class B Shares of Magna held. The Company also acquired Magna's controlling interest in MEC as a result of this spin-off transaction.

On March 5, 2009, MEC and certain of its subsidiaries filed voluntary petitions for reorganization under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the District of Delaware and were granted recognition of the Chapter 11 proceedings from the Ontario Superior Court of Justice under section 18.6 of the Companies' Creditors Arrangement Act in Canada. On February 18, 2010, the Company announced that MEC had filed the Joint Plan of Affiliated Debtors, an agreement amongst the Official Committee of Unsecured Creditors, the Company and MI Developments US Financing Inc. pursuant to the Bankruptcy Code (as amended, the "Plan") and related Disclosure Statement in connection with the MEC Chapter 11 proceedings. The Plan provided, among other things, that the assets of MEC remaining after certain asset sales were to be transferred to the Company, including, among other assets, Santa Anita Park, Golden Gate Fields, Gulfstream Park (including MEC's interest in The Village at Gulfstream Park™, a joint venture between MEC and Forest City Enterprises, Inc.), Portland Meadows, AmTote International, Inc. ("AmTote") and XpressBet, Inc. ("XpressBet®"). On March 23, 2010, the Plan was amended to include the transfer of The Maryland Jockey Club ("MJC") to the Company (together with the assets referred to in the preceding sentence, the "MEC Transferred Assets"). On April 30, 2010, the closing conditions of the Plan were satisfied or waived, and the Plan became effective following the close of business on April 30, 2010.

On June 30, 2011, the Company completed a court-approved plan of arrangement (the "Arrangement") under the *Business Corporations Act* (Ontario) which eliminated the Company's dual class share capital structure through which Mr. Frank Stronach and his family controlled the Company (the "Stronach Shareholder"). Definitive agreements with respect to the Arrangement were entered into by the Company on January 31, 2011. The Arrangement was approved on March 29, 2011 by 98.08% of the votes cast by shareholders at the annual general and special meeting and, on March 31, 2011, the Ontario Superior Court of Justice issued a final order approving the Arrangement. The Arrangement eliminated the Company's dual class share capital structure through:

i) the purchase for cancellation of 363,414 Class B Shares held by the Stronach Shareholder upon the transfer to the Stronach Shareholder of the Company's Racing & Gaming Business including U.S. $20 million of working capital at January 1, 2011, substantially all of the Company's lands held for development and associated assets and liabilities (the Company was granted an option to purchase at fair value certain of these development lands if needed to expand the Company's income-producing properties), a property located in the United States, an income-producing

property located in Canada and cash in the amount of U.S. $8.5 million. In addition, the Stronach Shareholder received a 50% interest in the note receivable and cash proceeds from the sale of Lone Star LP (note 3), a 50% interest in any future payments under a holdback agreement relating to MEC's prior sale of The Meadows racetrack (note 22(e)) and a second right of refusal (behind Magna's first right of refusal) in respect of certain properties owned by the Company and leased to Magna in Oberwaltersdorf, Austria and Aurora, Canada (the assets and liabilities transferred to the Stronach Shareholder pursuant to the Arrangement are collectively referred to as the "Arrangement Transferred Assets & Business"); and

ii) the purchase for cancellation by the Company of each of the other 183,999 Class B Shares in consideration for 1.2 Class A Subordinate Voting Shares per Class B Share, which following cancellation of the Class B Shares and together with the then outstanding Class A Subordinate Voting Shares were renamed Common Shares.

On January 3, 2013, Granite completed its conversion from a corporate structure to a stapled unit Real Estate Investment Trust ("REIT") structure (note 23(a)).

Segmented Information and Discontinued Operations

The Company's reportable segments reflect the manner in which the Company is organized and managed by its senior management. Subsequent to the effective date of the Plan on April 30, 2010 until the completion of the Arrangement on June 30, 2011, the Company's operations were segmented between the "Real Estate Business" and the "Racing & Gaming Business". The Company's reportable segments were determined based upon the distinct nature of their operations and that each segment offered different services and was managed separately. However, as a result of the Arrangement noted above, the financial position and results of operations of the Arrangement Transferred Assets & Business have been presented as discontinued operations (note 21) and, as such, have been excluded from continuing operations for all periods presented. Accordingly, the Company's single reportable segment pertains to the Real Estate Business' income-producing properties.

The Company's lands held for development and associated assets and liabilities, a property located in the United States and an income producing property located in Canada were previously presented in the Real Estate Business segment and have been presented as discontinued operations for the years ended December 31, 2011 and 2010.

Real Estate Business

Granite is a Canadian-based real estate company engaged in the ownership and management of predominantly industrial properties in North America and Europe. The Company owns and manages approximately 28 million square feet in 104 rental income properties. The Company's tenant base currently includes operating subsidiaries of Magna International Inc. (together "Magna") as its largest tenants, together with tenants from other industries.

Racing & Gaming Business

As a result of the Plan, following the close of business on April 30, 2010, the Company became the owner and operator of horse racetracks and a supplier, via simulcasting, of live horse racing content to the inter-track, off-track and account wagering markets.

As a result of the Arrangement, the Racing & Gaming Business is included in discontinued operations (note 21). The Racing & Gaming Business owned and operated four thoroughbred racetracks located in the United States, as well as the simulcast wagering venues at these tracks, including: Santa Anita Park, Golden Gate Fields, Gulfstream Park (which includes a casino with alternative gaming machines) and Portland Meadows; XpressBet®, a United States based national account wagering business; AmTote, a provider of totalisator services to the pari-mutuel industry; and a thoroughbred training centre in Palm Meadows, Florida. The Racing & Gaming Business also included: a 50% joint venture interest in The Village at Gulfstream Park™, an outdoor shopping and entertainment centre located adjacent to

Gulfstream Park; a 50% joint venture interest in HRTV, LLC, which owns Horse Racing TV®, a television network focused on horse racing; a 51% interest in Maryland RE & R LLC, a joint venture with real estate and racing operations in Maryland, including Pimlico Race Course, Laurel Park and a thoroughbred training centre and a 49% joint venture interest in Laurel Gaming LLC, a joint venture established to pursue gaming opportunities at the Maryland properties.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in Canadian dollars following United States generally accepted accounting principles ("U.S. GAAP").

(b) Consolidated Financial Statements

The accompanying consolidated financial statements include the accounts of Granite and its subsidiaries (references to "Granite" or the "Company" include Granite's subsidiaries). All significant intercompany balances and transactions have been eliminated on consolidation.

(c) Change in Reporting Currency

The consolidated financial statements for periods prior to January 1, 2012 were reported using the U.S. dollar. As a result of the Company's shareholder base becoming increasingly Canadian and the Company's stated intention of becoming a Canadian Real Estate Investment Trust, and to mitigate the impact of foreign exchange fluctuations on the Company's reported results, effective January 1, 2012, the Company's reporting currency was changed to the Canadian dollar. With the change in the reporting currency, all comparative financial information has been recast from U.S. dollars to Canadian dollars to reflect the Company's consolidated financial statements as if they had been historically reported in Canadian dollars. The consolidated U.S. dollar balance sheet at December 31, 2011 was translated into the Canadian dollar reporting currency by translating assets and liabilities at the end-of-period exchange rate and translating equity balances at historical exchange rates. The consolidated statements of income (loss) were translated into Canadian dollars using the weighted average exchange rate for the applicable period. The resulting foreign currency translation adjustment is reported as a component of other comprehensive income (loss) and accumulated other comprehensive loss. The impact of the change in reporting currency on the consolidated statements of income (loss) for the years ended December 31, 2011 and 2010 and the net assets/shareholders' equity as at December 31, 2011 on the Company's consolidated balance sheet is summarized in the tables below:

Year ended December 31, 2011	As Previously Reported	Foreign Exchange	As Recast
Consolidated statement of income	**USD**		**CDN**
Revenues	$ 182,949	$ (2,012)	$ 180,937
Income from continuing operations	59,196	(1,254)	57,942
Net income	155,797	(3,406)	152,391
Diluted earnings from continuing operations per Common or Class B Share	1.26	(0.03)	1.23

Year ended December 31, 2010	As Previously Reported	Foreign Exchange	As Recast
Consolidated statement of loss	**USD**		**CDN**
Revenues	$ 173,894	$ 5,228	$ 179,122
Income from continuing operations	66,541	1,862	68,403
Net loss	(52,704)	(162)	(52,866)
Diluted earnings from continuing operations per Common or Class B Share	1.42	0.05	1.47

As at December 31, 2011	As Previously Reported	Foreign Exchange	As Recast
Consolidated balance sheet	**USD**		**CDN**
Common Shares	$ 1,521,093	$ 598,422	$ 2,119,515
Contributed surplus	57,636	4,579	62,215
Deficit	(845,770)	(30,605)	(876,375)
Accumulated other comprehensive income (loss)	161,085	(557,200)	(396,115)
Total shareholders' equity	$ 894,044	$ 15,196	$ 909,240

The $598.4 million impact of the change in reporting currency on Common Shares is due to the effect of translating the consolidated balance at the historical exchange rate. The Canadian dollar has appreciated since the formation of the Company. The resulting impact of translating Common Shares, contributed surplus and deficit at historical exchange rates is recorded in accumulated other comprehensive loss.

(d) Foreign Currency Translation

The assets and liabilities of the Company's self-sustaining operations having a functional currency other than the Canadian dollar are translated into the Company's Canadian dollar reporting currency using the exchange rate in effect at the year-end and revenues and expenses are translated at the average rate during the year. Unrealized foreign exchange gains or losses on translation of the Company's net investment in these operations are recognized as a component of "other comprehensive income (loss)" and are included in the "accumulated other comprehensive loss" component of shareholders' equity.

The appropriate amounts of foreign currency translation adjustments in the "accumulated other comprehensive loss" component of shareholders' equity are released from "other comprehensive income (loss)" and included in the consolidated statements of income (loss) when there is a sale or partial sale of the Company's investment in a self-sustaining operation having a functional currency other than the Canadian dollar, or upon a complete or substantially complete liquidation of the investment.

Foreign exchange gains and losses on transactions occurring in a currency different from an operation's functional currency are reflected in income, except for gains and losses on foreign exchange forward contracts subject to hedge accounting in accordance with the Company's accounting policy for "Financial Instruments" as described below.

(e) Financial Instruments

All financial instruments, including derivative financial instruments, are included on the Company's consolidated balance sheets and measured either at their fair values or, under certain circumstances, at cost or amortized cost. Unrealized gains and losses resulting from changes in fair values are recognized in the consolidated statements of income (loss).

All of the Company's consolidated financial assets are classified as "held for trading", "held to maturity", "loans and receivables" or "available for sale" and all of the Company's consolidated financial liabilities are classified as "held for trading" or "other financial liabilities". All of the Company's consolidated financial instruments are initially measured at fair value, with subsequent measurements dependent on the classification of each financial instrument.

"Held for trading" financial assets, which include "cash and cash equivalents", are measured at fair value and all gains and losses are included in income in the period in which they arise. "Loans and receivables", which include certain "other assets", "note receivable" and "accounts receivable", are recorded at amortized cost. The Company does not currently have any consolidated financial assets classified as "held to maturity" or "available for sale".

"Other financial liabilities", which include "senior unsecured debentures, net" and "accounts payable and accrued liabilities" are recorded at amortized cost. The Company does not have any consolidated financial liabilities classified as "held for trading".

The Company's policy for the treatment of financing costs related to the issuance of debt is to present debt instruments on the consolidated balance sheets net of the related financing costs, with the net balance accreting to the face value of the debt over its term.

The Company may utilize derivative financial instruments from time to time in the management of its foreign currency and interest rate exposures. The Company's policy is not to utilize derivative financial instruments for trading or speculative purposes.

The Company from time to time uses hedge accounting, as described below, to ensure that counterbalancing gains, losses, revenues and expenses, including the effects of counterbalancing changes in cash flows, are recognized in income in the same period or periods. When hedge accounting is not employed, the Company measures and recognizes the fair value of the hedging instrument on the consolidated balance sheets with changes in such fair value being recognized in the consolidated statements of income (loss) in the period in which they occur.

Hedge Accounting

When hedge accounting is employed, the Company first formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking such hedge transactions. This process includes linking derivative financial hedging instruments to forecasted transactions. The Company also formally assesses both at the hedge's inception and on an ongoing basis, whether the derivative financial instruments used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items and whether the hedging relationship may be expected to remain highly effective in future periods. Any portion of the change in fair value of the hedging instrument that does not offset changes in the fair value of the hedged item (the ineffectiveness of the hedge) is recorded directly in the consolidated statements of income (loss). When it is determined that a hedging relationship is not, or has ceased to be, highly effective, the use of hedge accounting is discontinued on a prospective basis.

Unrecognized gains or losses associated with derivative financial instruments that have been terminated or cease to be effective as a hedging instrument prior to maturity are amortized in the consolidated statements of income (loss) over the remaining term of the original hedge. If the hedged item is sold or settled prior to the termination of the related derivative financial instrument, the entire unrecognized gain or loss, and any subsequent gain or loss on such derivative instrument, is recognized in the consolidated statements of income (loss).

Net cash flows arising from derivative financial instruments used to hedge anticipated foreign currency transactions and interest rate fluctuations are classified in the same manner as the cash flows from the hedged transactions on the consolidated statements of cash flows.

Foreign Exchange Forward Contracts

The Company, on occasion, purchases foreign exchange forward contracts to hedge specific anticipated foreign currency transactions. When hedge accounting is employed, the fair value of the hedging instrument is recognized on the consolidated balance sheets. Foreign exchange translation gains and losses, together with any premium or discount, on derivative financial instruments are recognized in "other comprehensive income (loss)" and included in the "accumulated other comprehensive loss" component of shareholders' equity until the hedged transaction is included in the consolidated statements of income (loss). At that time, the amount previously included in "accumulated other comprehensive loss" is released from "other comprehensive income (loss)" and included in the consolidated statements of income (loss).

(f) Cash and Cash Equivalents

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

(g) Restricted Cash

Restricted cash represents a segregated cash account associated with a construction holdback. These funds will be paid to the contractors upon satisfactory completion of the construction project.

(h) Real Estate Properties

In all cases below, "cost" represents acquisition and development costs, including direct construction costs, capitalized interest and indirect costs wholly attributable to development.

Revenue-Producing Properties

Revenue-producing properties are stated at cost less accumulated depreciation, reduced for impairment losses where appropriate.

Government grants and tax credits received for capital expenditures are reflected as a reduction of the cost of the related asset.

Depreciation is provided on a straight-line basis over the estimated useful lives of buildings (including buildings under capital leases), which typically range from 20 to 40 years.

Development Properties

The Company's development properties are stated at cost, reduced for impairment losses when appropriate. Properties under development are classified as such until the property is substantially completed and available for occupancy. Depreciation is not recorded for development properties.

The Company capitalizes acquisition, development and expansion costs, including direct construction costs, interest and indirect costs wholly attributable to development. Interest is capitalized to projects under development or construction based on the average accumulated expenditures outstanding during the period multiplied by the Company's average borrowing rate on existing debt. The Company capitalizes direct and indirect costs, including real estate taxes and certain operating expenses of the development property if activities necessary to ready the development property for its intended use are in progress. Costs of internal personnel and other indirect costs that are not wholly attributable to a project are expensed as incurred.

Properties Held for Sale

Properties held for sale are carried at the lower of (i) cost less accumulated depreciation and (ii) net realizable value. Depreciation ceases once a property is classified as held for sale.

(i) Fixed Assets

Fixed assets are recorded at cost less accumulated depreciation. Depreciation is provided 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.

Government grants and tax credits received for capital expenditures are reflected as a reduction of the cost of the related asset.

(j) Impairment of Long-lived Assets

For long-lived assets (including real estate properties and fixed assets) not held for sale, the Company assesses at least annually whether there are indicators of impairment. If such indicators are present, the Company completes a net recoverable amount analysis for the long-lived assets by determining whether the carrying value of such assets can be recovered through projected undiscounted cash flows. If the sum of expected future cash flows, undiscounted and without interest charges, is less than net book value, the excess of the net book value over the estimated fair value, based on discounted projected

future cash flows and, if appropriate, appraisals, is charged to operations in the period in which such impairment is determined by management.

When long-lived assets are classified by the Company as held for sale or discontinued operations, the carrying value is reduced, if necessary, to the estimated net realizable value. "Net realizable value" is determined based on discounted projected net cash flows of the assets and, if appropriate, appraisals and/or estimated net sales proceeds from pending offers.

Accounting estimates related to long-lived assets are subject to significant measurement uncertainty and are susceptible to changes as such estimates require management to make forward- looking assumptions regarding cash flows and business operations.

(k) Deferred Financing Costs

The costs of obtaining a revolving credit facility are capitalized and amortized over the term of the facility.

(l) Revenue Recognition

Where the Company 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 Company's rental properties have been transferred to its tenants, the Company's leases are accounted for as direct financing leases. For leases involving land and buildings, if the fair value of the land exceeds 25% of the consolidated fair value of the land and building at the inception of the lease, the Company evaluates the land and building separately in determining the appropriate lease treatment. In such circumstances, the land lease is typically accounted for as an operating lease, and the building is accounted for as either an operating lease or a direct financing lease, as appropriate.

The Company's leases (the "Leases") are net leases under which the lessee is responsible for the direct payment of all operating costs related to the properties, including property taxes, insurance, utilities and routine repairs and maintenance. Revenues and operating expenses do not include any amounts related to operating costs paid directly by the lessees.

The Leases may provide for either scheduled fixed rent increases or periodic rent increases based on increases in a local price index. Where periodic rent increases depend on increases in a local price index, such rent increases are accounted for as contingent rentals and recognized in income in applicable future years. Where scheduled fixed rent increases exist in operating leases, the total scheduled fixed lease payments of the lease are recognized in income evenly on a straight-line basis over the term of the lease. The amount by which the straight-line rental revenue differs from the rents collected in accordance with the lease agreements is recognized in "deferred rent receivable".

(m) Stock-Based Compensation Plans

Compensation expense for stock 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 and its exercisability does not depend on continued service by the option holder. Compensation expense is recognized as general and administrative expenses, with a corresponding amount included in equity as contributed surplus. The contributed surplus balance is reduced as options are exercised and the amount initially recorded for the options in contributed surplus is credited to Common Shares, along with the proceeds received on exercise. In the event that options are forfeited or cancelled prior to having vested, any previously recognized expense is reversed in the period of forfeiture or cancellation.

The Company's restricted share 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 in general and administrative expenses with a corresponding amount included in equity as contributed surplus. The contributed surplus balance is reduced and credited to Common Shares as shares are issued in satisfaction of the share units. Restricted share units granted under this plan may be subject to either cliff or graded vesting. Compensation expense for awards with cliff or

graded vesting is recognized on a straight-line basis over the period from the grant date to the final vesting date.

Compensation expense and a corresponding liability are recognized for deferred share units ("DSUs") based on the market value of the underlying shares. During the period in which the DSUs are outstanding, the liability is adjusted for changes in the market value of the underlying stock, with such adjustments being recognized as compensation expense in general and administrative expenses in the period in which they occur.

The stock-based compensation plans are described in note 13.

(n) Income Taxes

The Company uses the liability method of tax allocation for accounting for income taxes. Under the liability method of tax allocation, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is provided to the extent that it is more likely than not that future tax assets will not be realized. Management's estimates used in establishing the Company's tax provision are subject to uncertainty. Actual results may be materially different from such estimates.

The Company accounts for uncertain tax positions by evaluating if the available evidence indicates it is more likely than not, based on technical merits, that the position will be sustained on audit, including resolutions of related appeals or litigation processes, if any. The Company measures the appropriate amount of the benefit to recognize which is the maximum amount that is more likely than not to be realized. The tax position is reversed when it is no longer more likely than not capable of being sustained. The maximum amount which is more likely than not to be recognized at each reporting date will represent management's best estimate, given the information available at the reporting date, although the outcome of the tax position is not absolute or final.

(o) Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting periods. Management believes that the estimates utilized in preparing the consolidated financial statements are reasonable and prudent; however, actual results could differ from those estimates.

(p) Comparative Amounts

The Company has added separate line items for real estate and fixed asset additions on the consolidated statements of cash flows for the years ended December 31, 2011 and 2010 to conform to the current year's presentation.

(q) Revenue Recognition — Racing & Gaming Business

Racing revenues included pari-mutuel wagering revenues, gaming revenues and non-wagering revenues. Pari-mutuel wagering revenues associated with horseracing were recorded on a daily basis. Pari-mutuel wagering revenues were recognized gross of purses, stakes and awards and pari-mutuel wagering taxes. The costs relating to these amounts are included in "purses, awards and other" in discontinued operations (note 21).

Gaming revenues represented the net win earned on slot wagers. Net win is the difference between wagers placed and winning payouts to patrons, and was recorded at the time wagers were made. The costs associated with gaming revenues represented statutory required amounts distributed to the state as tax and to the horsemen to supplement purses and are included in "purses, awards and other" in discontinued operations (note 21).

Non-wagering revenues included totalisator equipment sales and service revenues from AmTote earned in the provision of totalisator services to racetracks, food and beverage sales, program sales, admissions, parking, sponsorship, rental fees and other revenues. Revenues derived principally from totalisator equipment sales were recognized upon shipment or acceptance of the equipment by the customer depending on the terms of the underlying contracts. Revenues generated from service contracts in the provision of totalisator services were recognized when earned based on the terms of the service contract. Revenues from food and beverage sales and program sales were recorded at the time of sale. Revenues from admissions and parking were recorded on a daily basis, except for seasonal amounts which were recorded rateably over the racing season. Revenues from sponsorship and rental fees were recorded rateably over the terms of the respective agreements or when the related event occurred.

(r) Advertising — Racing & Gaming Business

Costs incurred for producing advertising associated with horseracing and slot operations were generally expensed when the advertising program commenced. Costs incurred with respect to promotions for specific live race days were expensed on the applicable race day.

(s) Accounting Changes

Fair Value Measurement

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards ("IFRS")". The new guidance results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and IFRS. The amendments are applied prospectively and are effective for interim and annual periods beginning after December 15, 2011. The adoption of ASU 2011-04, effective January 1, 2012, did not have any impact on the Company's consolidated financial statements except for additional disclosure requirements when applicable particularly in relation to Level 3 fair value measurements.

Comprehensive Income

In June 2011, the FASB issued ASU 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income". ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of changes in shareholders' equity, and requires the presentation of components of net income and other comprehensive income either in a single continuous statement or in two separate but consecutive statements. ASU 2011-05 is effective, on a retrospective basis, for interim and annual periods beginning after December 15, 2011. The adoption of ASU 2011-05, effective January 1, 2012, did not have any impact on the Company's consolidated financial statements.

2. REAL ESTATE PROPERTIES, NET

(a) Real estate properties consist of:

As at December 31,	2012	2011
		(previously in US dollars — note 1(c))
Income-producing properties		
Land and improvements	**$ 202,196**	$ 202,753
Buildings, parking lots and roadways — cost	**1,457,122**	1,441,086
Buildings, parking lots and roadways — accumulated depreciation	**(527,577)**	(491,615)
	1,131,741	1,152,224
Development properties		
Properties under development	**4,417**	2,556
	$ 1,136,158	$ 1,154,780

During the year, the Company disposed of a 138 thousand square foot income-producing property for net proceeds of $1.2 million and recorded a nominal loss on disposal.

(b) Future minimum rental payments to be received under operating leases in effect at December 31, 2012, substantially all of which are with Magna, are shown in the following table. These amounts are determined using foreign exchange rates as at December 31, 2012, and include contracted fixed rent increases but exclude any future Consumer Price Index increases and rents from any renewals on lease expiry.

2013	$ 180,320
2014	159,729
2015	155,982
2016	152,218
2017	144,822
Thereafter	179,540
	$ 972,611

3. NOTE RECEIVABLE

On May 16, 2011, the sale of Lone Star LP was completed and the unsecured creditors of MEC received the first U.S. $20.0 million of the net proceeds from the sale and the Company received U.S. $25.8 million, net of a working capital adjustment and closing costs. The net proceeds received by the Company of U.S. $25.8 million consisted of U.S. $10.8 million in cash, U.S. $0.5 million of which was being held in escrow to cover any potential claims by the purchaser and a note receivable of U.S. $15.0 million. The note receivable bears interest at 5.0% per annum and was payable in three U.S. $5.0 million instalments plus accrued interest every nine months on February 15, 2012, November 15, 2012 and August 15, 2013. The note receivable is unsecured and has been guaranteed by the parent company of the purchaser. In connection with the Arrangement, the proceeds from the sale of Lone Star LP are shared equally between the Company and the Stronach Shareholder. Payments are made to the Stronach Shareholder who remits 50% of those payments to the Company pursuant to the terms of the Arrangement.

The Company received its portion of the first and second instalments of the note receivable of $2.5 million each plus accrued interest of $0.3 million and $0.2 million on February 21 and November 16, 2012 respectively. During the third quarter of 2012, the Company and the Stronach Shareholder agreed to forgive U.S. $250 thousand collectively of the amount being held in escrow as settlement of a claim by the purchaser.

4. FIXED ASSETS, NET

Fixed assets consist of:

As at December 31,	2012	2011
		(previously in US dollars — note 1(c))
Office equipment	**$ 1,246**	$ —
Leasehold improvements	**920**	—
Computer hardware and software	**648**	507
	2,814	507
Accumulated depreciation	**(977)**	(471)
	$ 1,837	$ 36

5. OTHER ASSETS

Other assets consist of:

As at December 31,	2012	2011
		(previously in US dollars — note 1(c))
Tenant inducements	**$ 2,171**	$ 1,976
Deferred leasing costs	**1,041**	1,195
Deferred financing costs	**222**	—
Long-term receivables	**98**	427
	$ 3,532	$ 3,598

6. INCOME TAXES

(a) The details of income (loss) before income taxes from continuing operations, by jurisdiction, are as follows:

Years ended December 31,	2012	2011	2010
		(previously in US dollars — note 1(c))	
Domestic	**$ 10,294**	$ (10,327)	$ (3,787)
Foreign	**75,488**	63,881	106,624
Income before income taxes	**$ 85,782**	$ 53,554	$ 102,837

(b) The provision for (recovery of) income taxes from continuing operations differs from the expense that would be obtained by applying Canadian statutory tax rates as a result of the following:

Years ended December 31,	2012	2011	2010
		(previously in US dollars — note 1(c))	
Expected income taxes at the Canadian statutory tax rate of 26.5% (2011 — 28.25%, 2010 — 31%)	**$ 22,732**	$ 15,129	$ 31,879
Foreign rate differentials	**(9,072)**	(9,261)	(11,491)
Change in provisions for uncertain tax positions and tax filings	**(996)**	(247)	—
Non-deductible expenses	**(374)**	1,606	1,496
Effect of change in tax rates	**546**	—	—
Impairment recovery relating to loans receivable from MEC	**—**	—	5,605
Purchase price consideration adjustment	**—**	—	(8,175)
Tax resulting from internal amalgamation (note 6(h))	**—**	(12,892)	12,892
Withholding taxes and other items	**1,609**	1,277	2,228
Income tax expense (recovery)	**$ 14,445**	$ (4,388)	$ 34,434

(c) The details of the income tax expense (recovery) from continuing operations are as follows:

Years ended December 31,	2012	2011	2010
		(previously in US dollars — note 1(c))	
Current income tax expense (recovery):			
Domestic	**$ 2,481**	$ (11,852)	$ 13,401
Foreign	**17,091**	10,991	10,379
	19,572	(861)	23,780
Future income tax expense (recovery):			
Domestic	**(700)**	805	(117)
Foreign	**(4,427)**	(4,332)	10,771
	(5,127)	(3,527)	10,654
Income tax expense (recovery)	**$ 14,445**	$(4,388)	$ 34,434

(d) A future income tax provision (recovery) from continuing operations has been recognized on temporary differences, which consist of the following:

Years ended December 31,	2012	2011	2010
		(previously in US dollars — note 1(c))	
Changes in tax value of assets from book value	**$ (4,205)**	$ (4,707)	$ 3,566
Impairment provision relating to loans receivable from MEC	**—**	—	5,605
Other	**(922)**	1,180	1,483
Total future tax expense (recovery)	**$ (5,127)**	$ (3,527)	$ 10,654

(e) Future tax assets consist of the following temporary differences:

As at December 31,	2012	2011
		(previously in US dollars — note 1(c))
Tax value of assets in excess of book value	**$ 3,924**	$ 1,292

(f) Future tax liabilities consist of the following temporary differences:

As at December 31,	2012	2011
		(previously in US dollars — note 1(c))
Book value of assets in excess of tax value	**$ 24,083**	$ 25,802
Other	**3,543**	4,422
Total future tax liabilities	**$ 27,626**	$ 30,224

(g) Net cash payments of income taxes amounted to $29.3 million for the year ended December 31, 2012 (2011 — $15.1 million; 2010 — $10.4 million).

(h) The Company conducts operations in a number of countries with varying statutory rates of taxation. Judgement is required in the estimation of income taxes and future income tax assets and liabilities, in each of the Company'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 future income tax assets will be realized and, based on all the available evidence, determining if a valuation allowance is required on all or a portion of such future income tax assets. The Company reports a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense.

During 2010, an internal amalgamation was undertaken with the unintended result of causing the Company to incur a $12.9 million tax liability which was recorded as a current tax expense during 2010. During the year ended December 31, 2011, the Ontario Superior Court of Justice accepted the Company's application to have the amalgamation set aside and cancelled with the result that a current income tax recovery of $12.9 million was recorded during the year ended December 31, 2011.

As at December 31, 2012, the Company had $13.2 million (2011 — $10.9 million) of unrecognized income tax benefits (including $0.9 million (2011 — $0.7 million) of related accrued interest and penalties), all of which could ultimately reduce the Company's effective tax rate. The Company is currently under audit in Canada, the United States, Germany and Mexico. The Company believes that it has adequately provided for reasonably foreseeable outcomes related to the tax examinations and that any settlement will not have a material adverse effect on our consolidated financial position or results from operations. However, the Company cannot predict with any level of certainty the exact nature of any future possible settlements.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows:

Years ended December 31,	2012	2011	2010
		(previously in US dollars — note 1(c))	
Unrecognized tax benefits balance, beginning of year	**$ 10,885**	$ 10,388	$ 8,704
Increases (decreases) for tax positions of prior years	**598**	(247)	—
Increases for tax positions of current year	**1,782**	826	2,081
Foreign currency impact	**(82)**	(82)	(397)
Unrecognized tax benefits balance, end of year	**$ 13,183**	$ 10,885	$ 10,388

It is reasonably possible that the gross unrecognized tax benefits, as of December 31, 2012, could decrease in the next 12 months by an estimated $3.6 million to $4.9 million (2011 — $0.3 million; 2010 — nil) relating primarily to tax years becoming statute barred for purposes of future tax examinations by local taxing authorities and the settlement of current tax examinations.

For the year ended December 31, 2012, $0.1 million of interest and penalties was recorded (2011 — nil; 2010 — nil) as part of the provision for income taxes in the consolidated statements of income (loss).

As at December 31, 2012, the following tax years remained subject to examination by the major tax jurisdictions:

Major Jurisdictions	
Canada	2007 through 2012
United States	2007 through 2012
Mexico	2007 through 2012
Austria	2009 through 2012

At December 31, 2012, the Company had capital loss carryforwards totalling approximately $594 million that do not expire. In addition, Granite has Foreign Investment in Real Property Tax Act losses of approximately $513.5 million that are available to offset any future U.S. capital gains and expire in 2015 and 2017. A full valuation allowance is required related to both of these losses as sufficient uncertainty exists regarding the realization of the future tax asset.

7. SENIOR UNSECURED DEBENTURES, NET

(a) Senior Unsecured Debentures

On December 22, 2004, Granite issued $265.0 million of 6.05% senior unsecured debentures (the "Debentures") due December 22, 2016, at a price of $995.70 per $1,000.00 of principal amount. The Debentures rank equally with all Granite's existing and future senior unsecured indebtedness.

The 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 Debentures to be redeemed; and (b) the Canada Yield Price. The Canada Yield Price means, in respect of a Debenture, a price equal to which, if the 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 42.5 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 December 22, 2016. At December 31, 2012, all of the Debentures remained outstanding.

Interest on the Debentures is payable on a semi-annual basis. The unamortized portion of the $3.1 million of expenses incurred in connection with the issuance of the Debentures is presented as a reduction of the carrying amount on the Company's consolidated balance sheets. These costs, together with the discount

in the issue price of the Debentures of $1.1 million, are being accreted into the carrying value of the Debentures over the term to maturity with a corresponding charge to interest expense.

(b) The Company's net interest expense, including interest expense and other financing costs on bank indebtedness (note 9) and the senior unsecured debentures, is comprised as follows:

Years ended December 31,	2012	2011	2010
		(previously in US dollars — note 1(c))	
Gross interest cost	**$ 16,882**	$ 17,647	$ 19,243
Less: interest capitalized	**(491)**	(1,193)	(183)
Interest expense	**16,391**	16,454	19,060
Interest income	**(520)**	(705)	(307)
Interest expense, net	**$ 15,871**	$ 15,749	$ 18,753

Interest capitalized relates to real estate properties under development.

Gross interest cost consists of the following:

Years ended December 31,	2012	2011	2010
		(previously in US dollars — note 1(c))	
Interest on indebtedness initially incurred for a term of more than one year	**$ 16,385**	$ 16,400	$ 16,572
Other interest	**497**	1,247	2,671
	$ 16,882	$ 17,647	$ 19,243

Consolidated interest paid in cash for the year ended December 31, 2012 was $16.7 million (2011 — $17.6 million; 2010 — $18.0 million).

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of:

As at December 31,	2012	2011
		(previously in US dollars — note 1(c))
Accounts payable	**$ 5,558**	$ 4,538
Accrued salaries and wages	**3,913**	1,549
Accrued interest payable	**387**	387
Accrued construction payable	**8,167**	4,233
Accrued director share-based compensation	**2,283**	986
Other accrued liabilities	**6,156**	2,748
	$ 26,464	$ 14,441

9. BANK INDEBTEDNESS

At December 31, 2012 the Company had an unsecured senior revolving credit facility in the amount of $50 million that was available by way of Canadian, U.S. dollar or euro denominated loans or letters of credit (the "2012 Granite Credit Facility") and was scheduled to mature on February 7, 2014. The 2012 Granite Credit Facility provided the Company with the ability to increase the amount of the commitment by an

additional aggregate principal amount of up to $25 million with the consent of the participating lenders. Interest on drawn amounts was calculated based on an applicable margin determined by the Company's external credit rating. During 2012, the Company was subject to interest at a rate per annum equal to the base rate (i.e. LIBOR, Canadian prime business rate or Canadian dollar bankers' acceptance rate) depending on the currency the Company borrowed in plus an applicable margin of up to 1.75%. No amounts were drawn under the Company's credit facility as at December 31, 2012. The Company did not have a credit facility as at December 31, 2011.

At December 31, 2012, the Company did not have any issued letters of credit outstanding (2011 — $0.1 million).

On February 1, 2013, the Company replaced the $50 million credit facility noted above and entered into an unsecured senior revolving credit facility in the amount of $175 million that is available by way of Canadian dollar, U.S. dollar or euro denominated loans or letters of credit (the "Granite Credit Facility") and matures on February 1, 2015. However, the Company has the option to extend the maturity date by one year to February 1, 2016, subject to the agreement of lenders in respect of a minimum of $66^{2}/_{3}\%$ of the aggregate amount committed under the Granite Credit Facility. The Granite Credit Facility provides the Company with the ability to increase the amount of the commitment by an additional aggregate principal amount of up to $75 million with the consent of the participating lenders.

Interest on drawn amounts will be calculated based on an applicable margin determined by the Company's external credit rating. Based on Granite's current credit rating, the Company would be subject to interest at a rate per annum equal to the base rate (i.e. LIBOR, Canadian prime business rate or Eurocurrency rate) depending on the currency the Company borrows in plus an applicable margin of up to 1.63%.

10. SHARE CAPITAL

Prior to June 30, 2011, the Company had two classes of outstanding share capital: Class A Subordinate Voting Shares and Class B Shares. In accordance with the Arrangement (note 1), on June 30, 2011 the Company's Articles were amended to delete the Class B Shares from the authorized capital of Granite and to make non-substantive consequential changes to its Articles including renaming the Class A Subordinate Voting Shares as Common Shares and eliminating provisions which no longer apply due to the elimination of the Class B Shares. On June 30, 2011, 363,414 Class B Shares held by the Stronach Shareholder were purchased for cancellation upon the transfer to the Stronach Shareholder of the Arrangement Transferred Assets & Business. The remaining 183,999 Class B Shares were purchased for cancellation in consideration for 1.2 Class A Subordinate Voting Shares per Class B Share which were renamed Common Shares.

Changes in the Company's share capital for the years ended December 31, 2012, 2011 and 2010 are shown in the following table:

	Common Shares		Class B Shares		Total	
	Number (000s)	Stated Value	Number (000s)	Stated Value	Number (000s)	Stated Value
		(previously in US dollars — note 1(c))				
Shares issued and outstanding, January 1 and December 31, 2010	46,161	$ 2,102,392	547	$ 24,957	46,708	$ 2,127,349
Issued on exercise of stock options	490	8,735	—	—	490	8,735
Purchase for cancellation:						
Stronach Shareholder	—	—	(363)	(16,569)	(363)	(16,569)
Non-Stronach Shareholders	220	8,388	(184)	(8,388)	36	—
Shares issued and outstanding, December 31, 2011	46,871	2,119,515	—	—	46,871	2,119,515
Issued on exercise of stock options	30	1,143	—	—	30	1,143
Issued on settlement of share units	15	350	—	—	15	350
Repurchase for cancellation	(83)	(3,752)	—	—	(83)	(3,752)
Shares issued and outstanding, December 31, 2012	**46,833**	**$ 2,117,256**	—	$ —	**46,833**	**$ 2,117,256**

On November 25, 2011, the Toronto Stock Exchange ("TSX") accepted the Company's Notice of Intention to Make a Normal Course Issuer Bid ("NCIB") to purchase up to 3,998,589 Common Shares, representing approximately 10% of the public float and 8.5% of the issued and outstanding Common Shares. The NCIB terminated on November 28, 2012. Purchases of Common Shares were made at the market price at the time of purchase and all Common Shares purchased were cancelled. As at December 31, 2012, the Company has repurchased 82,980 Common Shares for cash consideration of $2.7 million. The $1.1 million excess of the weighted average consideration originally received for the Common Shares repurchased over the cash paid was charged to contributed surplus (note 11).

11. CONTRIBUTED SURPLUS

Changes in the Company's contributed surplus are shown in the following table:

Years ended December 31,	2012	2011	2010
		(previously in US dollars — note 1(c))	
Contributed surplus, beginning of year	**$ 62,215**	$ 63,542	$ 63,083
Repurchase of Common Shares (note 10)	**1,058**	—	—
Transfer to share capital	**(537)**	(1,712)	—
Stock-based compensation	**319**	385	459
Contributed surplus, end of year	**$ 63,055**	$ 62,215	$ 63,542

12. ACCUMULATED OTHER COMPREHENSIVE LOSS

Changes in the Company's accumulated other comprehensive loss are shown in the following table:

Years ended December 31,	2012	2011	2010
		(previously in US dollars — note 1(c))	
Accumulated other comprehensive loss, beginning of year	**$ (396,115)**	$ (396,671)	$ (293,128)
Foreign currency translation adjustment [(i)]	**(8,669)**	1,076	(103,381)
Recognition of foreign currency translation gain in net income (loss) [(ii)]	**—**	—	(43)
Change in net unrecognized actuarial pension loss	**—**	—	(119)
Reclassification to net income (loss) of foreign currency translation gain of discontinued operations upon deconsolidation[(iii)]	**—**	(639)	—
Reclassification to net income (loss) of net unrecognized actuarial pension loss of discontinued operations upon deconsolidation[(iii)]	**—**	119	—
Accumulated other comprehensive loss, end of year [(iv)]	**$ (404,784)**	$ (396,115)	$ (396,671)

(i) The Company incurs unrealized foreign currency translation gains and losses related to its self-sustaining operations having functional currencies other than the Canadian dollar. The foreign currency translation losses for the years ended December 31, 2012 and 2010 are primarily due to the weakening of the euro and the U.S. dollar against the Canadian dollar. The foreign currency translation gain for the year ended December 31, 2011 is primarily due to the strengthening of the U.S. dollar against the Canadian dollar, partially offset by the weakening of the euro against the Canadian dollar.

(ii) For the year ended December 31, 2010, $0.1 million included in "other gains, net" represents the remaining foreign currency translation gain realized from the final liquidation of a foreign operation.

(iii) Included in "income (loss) from discontinued operations, net of income tax" on the consolidated statements of income (loss) for the year ended December 31, 2011 is the reclassification to net income (loss) of a $0.6 million foreign currency translation gain and a $0.1 million unrecognized actuarial pension loss associated with the Racing & Gaming Business upon deconsolidation.

(iv) Accumulated other comprehensive loss consists of:

As at December 31,	2012	2011
		(previously in US dollars — note 1(c))
Foreign currency translation adjustment	**$ (404,784)**	$ (396,115)

13. STOCK-BASED COMPENSATION

Stock Options

On August 29, 2003, the Board of Directors approved the Incentive Stock Option Plan (the "Granite Plan"), which allows for the grant of stock options or stock appreciation rights to directors, officers, employees and consultants. Amendments to the Granite Plan were approved by the Company's shareholders at the May 11, 2007 annual and special meeting, and became effective on June 6, 2007. At December 31, 2012, a maximum of 2.09 million Common Shares are available to be issued under the Granite Plan.

The Company historically granted stock options to certain directors and officers to purchase Common Shares. Options expire on the 10th anniversary of the date of grant, subject to earlier cancellation in the events specified in the stock option agreement entered into by the Company with each recipient of options. No stock options have been granted since August 2010.

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

	2012		2011		2010	
	Number (000s)	Weighted Average Exercise Price	Number (000s)	Weighted Average Exercise Price	Number (000s)	Weighted Average Exercise Price
Outstanding, beginning of year	**235**	**$ 31.99**	835	$ 22.66	882	$ 24.50
Granted	**—**	**—**	—	—	95	12.90
Exercised	**(30)**	**31.85**	(490)	14.22	—	—
Cancelled or forfeited	**—**	**—**	(110)	31.85	(142)	27.55
Outstanding, end of year	**205**	**$ 32.01**	235	$ 31.99	835	$ 22.66

The total intrinsic values of options exercised in 2012 and 2011 were $0.6 million and $6.4 million, respectively. On January 4, 2013, 50,000 stock options were exercised by a former officer of the Company.

The following table provides further detail with respect to options outstanding and exercisable at December 31, 2012:

Options Outstanding and Exercisable

Number (000s)	Exercise Price	Weighted Average Remaining Life in Years
95	$ 31.85	0.7
50	35.62	2.0
50	32.21	4.7
10	14.54	6.9
205	**$ 32.01**	**2.3**

The Company estimates the fair value of stock options at the date of grant using the Black-Scholes option valuation model. The Black-Scholes option valuation model was developed for use in estimating the fair value of freely traded options, which are fully transferable and have no vesting restrictions. In addition, this model requires the input of subjective assumptions, including expected dividend yields, future stock price volatility and expected time until exercise. Although the assumptions used reflect management's best estimates, they involve inherent uncertainties based on market conditions outside of the Company's control. Because the Company's outstanding stock options have characteristics that are significantly different from those of traded options, and because changes in any of the assumptions can materially affect the fair value estimate, in management's opinion, the existing model does not necessarily provide the only measure of the fair value of the Company's stock options.

The weighted average assumptions used in determining the fair value of the stock options granted are shown in the table below:

Years ended December 31,	2012	2011	2010
Risk-free interest rate	**—**	—	1.3%
Expected dividend yield	**—**	—	3.3%
Expected volatility of Common Shares	**—**	—	58.7%
Weighted average expected life (years)	**—**	—	2.0
Weighted average fair value per option granted	**—**	—	$ 3.50

Deferred Share Units

Effective November 3, 2003, Granite established a Non-Employee Director Share-Based Compensation Plan (the "DSP"), which provides for a deferral of up to 100% of each outside director's total annual remuneration from the Company, at specified levels elected by each director, until such director ceases to be a director of the Company. The amounts deferred are reflected by notional deferred share units ("DSUs") whose value reflects the market price of the Company's Common Shares at the time that the particular payment(s) to the director is determined. The value of a DSU will appreciate or depreciate with changes in the market price of the Common Shares. The DSP also takes into account any dividends paid on the Common Shares. Effective January 1, 2008, the DSP was amended such that directors were required to receive at least 50% of their Board retainer fees in DSUs. Under the DSP, when a director leaves the Board, the director receives a cash payment at an elected date equal to the value of the accrued DSUs at such date. There is no option under the DSP for directors to receive Common Shares in exchange for DSUs.

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

Years ended December 31,	**2012**	**2011**	**2010**
Outstanding, beginning of year	**31**	156	116
Granted	**30**	35	52
Redeemed	**—**	(160)	(12)
Outstanding, end of year	**61**	31	156

During the year ended December 31, 2011, 160,137 DSUs were redeemed by the former directors of the Company following completion of the Arrangement for cash proceeds of $4.7 million. During the year ended December 31, 2010, 11,640 DSUs were redeemed by a director, who left the Board in 2009, for cash proceeds of $0.1 million.

Restricted Share Units

Effective August 7, 2011, Granite established an Executive Share Unit Plan (the "Share Plan"). The Share Plan is designed to provide equity-based compensation in the form of share units to executives and other key employees (the "Participants"). The maximum number of Common Shares which may be issued pursuant to the Share Plan is 1.0 million. The Share Plan entitles a Participant to receive one Common Share for each share unit or a cash payment equal to the market value of the share unit, which on any date is the volume weighted average trading price of a Common Share on the TSX or New York Stock Exchange over the preceding five trading days. Vesting conditions in respect of a grant are determined by the Compensation Committee at the time the grant is made and may result in the vesting of more or less than 100% of the number of share units. The Share Plan also provides for the accrual of dividend equivalent amounts based on dividends paid on the Common Shares. Share units are, unless otherwise agreed, settled within 60 days following vesting. During the second quarter of 2012, the Company received shareholder approval of the Share Plan and the settlement of share units by the issuance of Common Shares.

A reconciliation of the changes in share units is presented below:

	2012		**2011**	
Years ended December 31,	**Number (000s)**	**Weighted Average Grant Date Fair Value**	**Number (000s)**	**Weighted Average Grant Date Fair Value**
Outstanding, beginning of year	**26**	**$ 25.42**	—	$ —
Granted	**40**	**35.61**	38	25.38
Settled	**(24)**	**25.69**	(12)	25.28
Forfeited	**(4)**	**25.42**	—	—
Outstanding, end of year	**38**	**$ 35.63**	26	$ 25.42

During the year ended December 31, 2012, 15 thousand share units, with a weighted average grant date fair value of $25.75, vested and were settled with the issuance of Common Shares. Also during the year ended December 31, 2012, prior to receiving shareholder approval of the settlement of share units by the issuance of Common Shares, nine thousand share units, with a weighted average grant date fair value of $25.59, were settled for cash in the amount of $0.3 million. During the year ended December 31, 2011, 12 thousand share units, with a weighted average grant date fair value of $25.28, were settled for cash in the amount of $0.4 million. At December 31, 2012, unrecognized compensation cost related to the Share Plan was $0.9 million, which will be amortized over the weighted average remaining requisite service period of approximately 2.0 years.

Stock-based compensation expense for the year ended December 31, 2012 was $1.8 million, which includes $1.3 million pertaining to DSUs and $0.5 million pertaining to share units. During the year ended December 31, 2011, the Company recognized stock-based compensation expense of $2.4 million which includes a $1.6 million pertaining to DSUs and $0.8 million pertaining to share units. During the year ended December 31, 2010, the Company recognized stock-based compensation expense of $3.5 million, which includes $3.0 million pertaining to DSUs and $0.5 million pertaining to stock options.

14. WRITE-DOWN OF LONG-LIVED ASSETS

Write-downs relating to long-lived assets have been recognized as follows:

Years ended December 31,	2012	2011	2010
		(previously in US dollars — note 1(c))	
Continuing operations			
Industrial properties — Europe[(i)]	**$ —**	$ 16,738	$ —
Commercial office — U.S.[(ii)]	**—**	2,735	—
	—	19,473	—
Discontinued operations — Arrangement Transferred Assets & Business			
Development properties — Land and improvements [(iii)]	**—**	—	40,959
XpressBet®[(iv)]	**—**	—	3,540
	—	—	44,499
	$ —	$ 19,473	$ 44,499

(i) During the fourth quarter of 2011, the Company recorded a $16.7 million write-down of two income producing properties in Austria and Germany. The Company obtained information related to the leasing of these properties that indicated the existence of potential impairments and the inability to recover their carrying values. The write-downs represent the excess of the carrying values of the assets over the estimated fair values determined by the present value of the expected future cash flows from the leased properties. The write-downs reduced the cost of each property's land and building values.

(ii) In the second quarter of 2011, the Company recorded a $2.7 million write-down of a revenue-producing commercial office building. The write-down represents the excess of the carrying value of the asset over the estimated fair value. Fair value was determined based on the present value of the estimated future cash flows from the leased property. The write-downs reduced the cost of the building.

(iii) During the year ended December 31, 2010, the Company recorded impairment charges of $41.0 million relating to parcels of land held for development located in California, Florida, Michigan and Ilz, Austria. In connection with the Arrangement, in the fourth quarter of 2010 (note 1), the Company obtained information related to the above noted properties that indicated the existence of potential impairments and inability to recover the carrying value. The write-down represents the excess of the carrying value of the assets over the estimated fair values based on external real estate appraisals. The write-down

reduced the cost of the land and was included in discontinued operations for the year ended December 31, 2010 (note 21).

(iv) During the year ended December 31, 2010, XpressBet®'s operations were adversely impacted by certain credit card companies choosing to block otherwise exempt internet gambling related transactions. As a result, the 2011 business plan reflected reductions in estimated future cash flows based on lower expectations for growth and profitability as it was anticipated that it would require additional time and investment to re-acquire customers that either reduced or ceased their account wagering activity. Accordingly, during the year ended December 31, 2010, XpressBet® recorded an impairment charge of $3.2 million relating to goodwill and $0.3 million relating to its trademark which is included in discontinued operations for the year ended December 31, 2010 (note 21).

During the year ended December 31, 2010, an unconsolidated joint venture of the Racing & Gaming Business recorded a write-down of goodwill in the amount of $29.4 million for which the Company's share of the write-down was $15.0 million which is included in discontinued operations on the consolidated statements of income (loss) (note 21).

15. ACQUISITION OF MEC TRANSFERRED ASSETS

The Company accounted for the transfer of the MEC Transferred Assets, in consideration for satisfying the Company's claims relating to the 2007 MEC Bridge Loan, the 2008 MEC Loan and the MEC Project Financing Facilities (all as defined in note 19(a)), with an estimated fair value of U.S. $346.4 million less U.S. $40.0 million of cash acquired at April 30, 2010 and the cash payment of U.S. $89.0 million to the unsecured creditors of MEC plus U.S. $1.5 million as a reimbursement for certain expenses incurred in connection with the action commenced by the Creditors' Committee, under the acquisition method of accounting. Accordingly, the fair value of the consideration was allocated to the net assets acquired and liabilities assumed based on the determination of fair values at April 30, 2010. Determination of fair value required the use of significant assumptions and estimates including future expectant cash flows and applicable discount rates and the use of third party valuations.

During the measurement period, the total purchase price consideration of U.S. $396.9 million was retrospectively adjusted by $20.4 million to the date of acquisition on April 30, 2010, due to additional information obtained relating to certain preliminary amounts previously recorded for the assets acquired and liabilities assumed. The total purchase price consideration adjustment of $20.4 million is comprised of the following items:

	2010 (previously in US dollars — note 1(c))
Directors' and officers' insurance proceeds[(i)]	$ 8,443
Bankruptcy claims[(ii)]	11,169
Proceeds from the sale of Lone Star LP [(iii)]	(578)
Changes in fair value of net assets retained under the Plan [(iv)]	1,405
Purchase price consideration adjustment	$ 20,439

(i) Directors' and officers' insurance proceeds

Under the Plan, rights of the Company and MEC against MEC's directors' and officers' insurers were preserved with regard to the settlement in order to seek appropriate compensation for the release of all current and former officers and directors of the Company and MEC and their respective affiliates. At April 30, 2010, the Company was in continued discussions with the insurers regarding its claim. Given the complex nature of the claim and related discussions, the expected proceeds could not be reasonably estimated. During the measurement period, settlement agreements were subsequently entered into in September 2010 and October 2010 with the insurers, resulting in the Company receiving compensation of $5.9 million and $2.5 million, respectively. Given that these events confirmed facts and circumstances that existed at April 30, 2010, the Company recognized a retrospective adjustment of $8.4 million to the purchase price consideration and related allocations to the MEC Transferred Assets on April 30, 2010.

(ii) Bankruptcy claims

At April 30, 2010, the settlement of allowed administrative, priority and other claims which the Company assumed under the Plan were ongoing and subject to court approval. Consequently, at each reporting date during the measurement period, the Company made estimates of such settlements based on claims that were resolved, continued to be objected to and/or negotiated and claims which were pending court approval. As a result, the Company revised the estimates related to expected allowed administrative, priority and other claims assumed by the Company under the Plan by approximately $11.2 million as a result of information received and/or the cash settlement of certain allowed administrative, priority and other claims previously outstanding. Accordingly, the Company recognized a retrospective adjustment of $11.2 million to the purchase price consideration and related allocations to the MEC Transferred Assets on April 30, 2010.

(iii) Proceeds from the sale of Lone Star LP

At April 30, 2010, the Company estimated the expected proceeds from the sale of Lone Star LP. During the measurement period, the Company revised its estimates relating to the expected proceeds as a result of information obtained relating to the estimated closing costs and Lone Star LP's anticipated working capital position. Accordingly, the Company recognized a retrospective adjustment of $0.6 million to the purchase price consideration and related allocations to the MEC Transferred Assets on April 30, 2010.

(iv) Changes in fair value of net assets retained under the Plan

At April 30, 2010, the Company estimated the working capital, including pre-petition accounts receivable on account of track wagering and litigation and other accruals, of the MEC Transferred Assets under the Plan. During the measurement period, the Company revised its estimates relating to pre-petition accounts receivable relating to track wagering and litigation accruals and other liabilities as a result of information obtained relating to the estimated and/or actual settlement of such amounts. As a result of changes in fair value of the MEC Transferred Assets, there was a corresponding change in the determination of future tax balances associated with differences between estimated fair value and the tax basis of assets acquired and liabilities assumed. Accordingly, the Company recognized a retrospective adjustment of $1.4 million to the purchase price consideration and related allocations to the MEC Transferred Assets on April 30, 2010.

16. EARNINGS (LOSS) PER SHARE

Basic and diluted earnings (loss) per share are computed as follows:

Years ended December 31,	2012	2011	2010
		(previously in US dollars — note 1(c))	
Income from continuing operations	**$ 71,337**	$ 57,942	$ 68,403
Income (loss) from discontinued operations	**—**	94,449	(121,269)
Net income (loss)	**$ 71,337**	$ 152,391	$ (52,866)
Weighted average number of Common and Class B Shares outstanding (in thousands)	**46,855**	46,888	46,708
Adjustment:			
Stock options and share units	**21**	82	—
	46,876	46,970	46,708
Basic earnings (loss) per Common or Class B Share			
— from continuing operations	**$ 1.52**	$ 1.24	$ 1.47
— from discontinued operations	**—**	2.01	(2.60)
	$ 1.52	$ 3.25	$ (1.13)
Diluted earnings (loss) per Common or Class B Share			
— from continuing operations	**$ 1.52**	$ 1.23	$ 1.47
— from discontinued operations	**—**	2.01	(2.60)
	$ 1.52	$ 3.24	$ (1.13)

The computation of diluted earnings (loss) per share for the year ended December 31, 2012 excludes the effect of the potential exercise of 50,000 (2011 — 225,000; 2010 — 881,544) options to acquire Common Shares of the Company because these options were not "in the money".

17. DETAILS OF CASH FROM OPERATING ACTIVITIES

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

Years ended December 31,	2012	2011	2010
		(previously in US dollars — note 1(c))	
Straight-line rent adjustment	**$ 1,526**	$ 1,353	$ 1,093
Stock-based compensation expense	**1,616**	1,994	3,459
Depreciation and amortization	**42,773**	42,701	42,413
Future income taxes	**(5,127)**	(3,527)	10,654
Foreign exchange forward contracts	**359**	—	(10)
Amortization of issuance costs and accretion of discount of Debentures	**353**	353	353
Amortization of deferred financing costs	**188**	—	—
Foreign exchange on note receivable	**174**	(409)	—
Write-down of long-lived assets	**—**	19,473	—
Purchase price consideration adjustment	**—**	—	(20,439)
Impairment recovery related to loans receivable from MEC	**—**	—	(10,037)
Other	**480**	94	(163)
	$ 42,342	$ 62,032	$ 27,323

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

Years ended December 31,	2012	2011	2010
		(previously in US dollars — note 1(c))	
Accounts receivable	**$ 2,945**	$ (3,912)	$ (1,067)
Prepaid expenses and other	**(100)**	5,673	(5,601)
Accounts payable and accrued liabilities	**6,515**	(9,530)	(5,601)
Income taxes	**(8,926)**	(5,347)	13,984
Deferred revenue	**3,055**	4,819	(2,583)
Restricted cash	**(522)**	—	—
Loans receivable from MEC, net	**—**	—	(615)
	$ 2,967	$ (8,297)	$ (1,483)

(c) Non-cash investing and financing activities

On April 30, 2010, the Company acquired the MEC Transferred Assets with the purchase price being settled by the outstanding MEC loans of U.S. $347.1 million and cash payments aggregating U.S. $90.5 million.

On June 30, 2011, the Company cancelled 363,414 Class B Shares upon the disposition of the Arrangement Transferred Assets & Business (note 1). In addition, the remaining 183,999 Class B Shares were purchased for cancellation for Class A Subordinate Voting Shares which were renamed Common Shares.

During 2012, 15 thousand Common Shares were issued under the Company's Share Plan (note 13).

18. DERIVATIVE FINANCIAL INSTRUMENTS AND FAIR VALUE INFORMATION

(a) Fair Value

The Company has determined the estimated fair values of its consolidated financial instruments using available market information and appropriate valuation methodologies. However, considerable judgment is required to develop these estimates. Accordingly, these estimated fair values are not necessarily indicative of the amounts the Company would realize in a current market exchange. The methods and assumptions used to estimate the fair value of financial instruments are described below:

Note receivable

The fair value of the note receivable approximates its carrying value as it bears interest at current market rates.

Accounts receivable, cash and cash equivalents, restricted cash, accounts payable and accrued liabilities

Due to the short period to maturity of these instruments, the carrying values as presented in the consolidated balance sheets are reasonable estimates of their fair value.

Senior unsecured debentures

The fair value of the senior unsecured debentures is determined using the quoted market price of the senior unsecured debentures. At December 31, 2012, the fair value of the senior unsecured debentures was approximately $294.2 million (2011 — $291.8 million).

(b) Credit Risk

The Company's consolidated financial assets that are exposed to credit risk consist primarily of cash and cash equivalents, accounts receivable and note receivable.

Cash and cash equivalents include short-term investments, such as commercial paper, which are only invested in governments and corporations with a minimum credit rating of A- (based on Standard & Poor's rating scale) or A3 (based on Moody's Investor Services' rating scale). Concentration of credit risk is further reduced by limiting the amount that is invested in any one government or corporation. The Company does not have investments in asset-backed commercial paper.

Magna contributed approximately 97% of the Company's rental revenue. As at December 31, 2012 and 2011, the Company's allowance for doubtful accounts in "accounts receivable" on the consolidated balance sheets was a nominal amount.

The credit risk associated with the note receivable is mitigated by the guarantee provided by the parent company of the note holder (note 3). Exposure to losses on the note receivable is dependent on the note holder's financial condition. The Company monitors its exposure throughout the year.

(c) Interest Rate Risk

The Company's consolidated results of operations are primarily exposed to interest rate risk on its credit facility. As there was no outstanding balance on this financial liability as at December 31, 2012, a 50 basis point change in annual interest rates, with all other variables held constant, would have no impact on the consolidated "interest expense and other financing costs, net" for the year ended December 31, 2012.

The Company is also exposed to interest rate risk on short-term investments with maturities of up to three months from the date of acquisition that are included in "cash and cash equivalents" on the Company's consolidated balance sheets. The balance of the Company's short-term investments fluctuates depending on the timing of the Company's operating cash flows, capital expenditures and other liquidity requirements. Assuming the balance of short-term investments at December 31, 2012 were outstanding throughout the entire year then ended, a 50 basis point change in annual interest rates, with all other variables held constant, would have impacted consolidated "interest expense and other financing costs, net" for the year ended December 31, 2012 by approximately $0.2 million.

(d) Currency Risk

The Company is structured such that its foreign operations are self-sustaining. As a result, the Company's 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.

The Company periodically purchases foreign exchange forward contracts to hedge specific anticipated foreign currency transactions. At December 31, 2012, the Company held two foreign exchange forward contracts to purchase $12.8 million and sell euro 10.0 million. One contract matures on January 15, 2013 and the other on March 14, 2013. These contracts were entered into by the Company to mitigate its foreign exchange exposure on its net cash flows. Based on the foreign exchange rates at December 31, 2012, the fair value of these foreign exchange forward contracts at December 31, 2012 was a liability of $0.4 million, which is included in "accounts payable and accrued liabilities" on the Company's consolidated balance sheets. At December 31, 2011, the Company did not have any foreign exchange forward contracts outstanding.

(e) Derivative Financial Instruments

The following tables summarize the impact of these derivative financial instruments on the Company's consolidated financial statements as at December 31, 2012 and 2011 and for the years ended December 31, 2012, 2011 and 2010:

At December 31,	2012	2011
Derivatives not designated as hedging instruments		
Foreign exchange forward contracts		
— included in accounts payable and accrued liabilities	$ 359	$ —

Years ended December 31,	Location of Gains Recognized in Income on Derivatives	Amount of Gains Recognized in Income on Derivatives		
		2012	2011	2010
			(previously in US dollars — note 1(c))	
Derivatives not designated as hedging instruments				
Foreign exchange forward contracts	Foreign Exchange Gains	$ 566	$ —	$ 10

(f) Fair Value Measurements

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. ASC 820, "Fair Value Measurements and Disclosures", establishes a fair value hierarchy which is summarized below:

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

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

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

The following tables represent information related to the Company's assets and liabilities measured 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, 2012	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
ASSETS AND LIABILITIES CARRIED AT FAIR VALUE ON A RECURRING BASIS			
Assets carried at fair value			
Cash and cash equivalents	**$ 51,073**	**$ —**	**$ —**
Restricted cash	**522**	**—**	**—**
Assets carried at fair value	**$ 51,595**	**$ —**	**$ —**
Liabilities carried at fair value			
Foreign exchange forward contracts[(i)]	**$ —**	**$ 359**	**$ —**

As at December 31, 2011	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(previously in US dollars — note 1(c))		
ASSETS CARRIED AT FAIR VALUE ON A RECURRING BASIS			
Cash and cash equivalents	$ 56,908	$ —	$ —
ASSETS CARRIED AT FAIR VALUE ON A NON-RECURRING BASIS			
Income-producing properties[(ii)]	$ —	$ —	$ 12,774

(i) Foreign exchange forward contracts are a Level 2 fair value measurement as the fair value of the contracts is determined based on foreign exchange rates in effect at December 31, 2012.

(ii) During the year ended December 31, 2011, two income-producing properties with an aggregate cost of $29.2 million were written down to an aggregate fair value of $12.8 million (note 14). This is a Level 3 fair value measurement as the fair value of the income-producing properties was determined based on the present value of estimated future cash flows from the leased property.

19. TRANSACTIONS WITH RELATED PARTIES

In 2011, the Company agreed to pay reasonable legal and advisory fees of certain Class A Shareholders incurred in connection with the Arrangement. In accordance with such agreement, a $2.1 million payment was made to a company owned by an individual who became Chairman of the Board of Directors following the completion of the Arrangement, for legal and advisory services relating to the Arrangement.

On July 1, 2011, following completion of the Arrangement, Mr. Frank Stronach no longer serves as the Chairman and Chief Executive Officer of the Company and the Stronach Shareholder no longer has a controlling interest in the Company. Consequently, Mr. Stronach and the Company ceased to be related parties for accounting purposes. Furthermore, effective July 1, 2011, the Company and Magna are no longer considered to be related parties for accounting purposes due to the factors noted above.

The transactions with Mr. Stronach, Magna and MEC that occurred while related with the Company prior to the completion of the Arrangement on June 30, 2011 are noted below.

(a) Loans to MEC

The outstanding balances of the loans receivable from MEC were settled on April 30, 2010 as part of the Plan and the acquisition of the MEC Transferred Assets (note 15). These loans were comprised of: a bridge loan of up to U.S.$80.0 million (subsequently increased to U.S.$125.0 million) through a non-revolving facility (the "2007 MEC Bridge Loan"); project financing facilities made available to Gulfstream Park Racing Association, Inc. and Remington Park, Inc., the wholly-owned subsidiaries of MEC that owned and/or operated Gulfstream Park and Remington Park, respectively, in the amounts of U.S.$162.3 million and U.S.$34.2 million, respectively, plus costs and capitalized interest (together, the "MEC Project Financing Facilities"); a loan of up to a maximum commitment, subject to certain conditions being met, of U.S.$125.0 million (plus costs and fees) (the "2008 MEC Loan"); and a debtor-in-possession loan extended to MEC in connection with MEC's Chapter 11 proceedings (the "DIP Loan"). For the years ended December 31, 2012 and 2011, the Company did not receive interest and other income from MEC as the loans were settled on April 30, 2010 (2010 — $1.9 million).

In connection with the development and completion of the Plan (note 1(a)), the Company estimated the values and resulting recoveries of loans receivable from MEC, net of any related obligations, pursuant to the terms of the Plan. As a result of such analysis, the Company estimated that it would be unable to

realize on all amounts due in accordance with the contractual terms of the MEC loans. Accordingly, for the year ended December 31, 2009, the Company recorded a $95.7 million impairment provision related to the loans receivable from MEC, which represented the excess of the carrying amounts of the loans receivable and the estimated recoverable value.

As a result of the transfer of the MEC Transferred Assets under the Plan effective April 30, 2010 (note 15), the Company reduced the impairment provision by $10.0 million in the three-month period ended June 30, 2010 as a result of assessing the fair value of the MEC Transferred Assets on April 30, 2010. Estimated recoverable value was determined based on the future cash flows from expected proceeds to be received from court-approved sales of MEC's assets, discounted at the loans' effective interest rate, and the fair value of the collateral based on third-party appraisals or other valuation techniques, such as discounted cash flows, for those MEC assets that were transferred to the Company under the Plan or for which the court had yet to approve for sale under the Plan, net of expected allowed administrative, priority and other claims to be paid by the Company under the Plan.

A reconciliation of the changes in the impairment recovery related to the loans receivable from MEC at the date the MEC Transferred Assets were acquired is presented below:

		2010
		(previously in US dollars — note 1(c))
Directors' and officers' insurance proceeds[(i)]	$	13,065
Sale proceeds from liquidated assets under the Plan [(ii)]		7,577
Bankruptcy claims[(iii)]		(15,988)
Changes in fair value of net assets retained under the Plan [(iv)]		5,383
Impairment recovery	$	10,037

The significant changes in facts or circumstances that resulted in the recognition of the $10.0 million reduction in the impairment provision in the year ended December 31, 2010 are primarily as a result of the following:

(i) Directors' and officers' insurance proceeds

Under the Plan, rights of the Company and MEC against MEC's directors' and officers' insurers were preserved with regard to the settlement in order to seek appropriate compensation for the release of all current and former officers and directors of the Company and MEC and their respective affiliates. At April 30, 2010, the Company was in discussions with the insurers regarding its claim. Given the complex nature of the claim and related discussions, the expected proceeds could not be reasonably estimated. A settlement agreement was subsequently entered into in July 2010 with one of the insurers, resulting in the Company receiving compensation of $13.1 million. Given that these events confirmed facts and circumstances that existed at April 30, 2010, the Company recognized an asset and reduced the impairment provision by $13.1 million related to the MEC Transferred Assets on April 30, 2010.

(ii) Sale proceeds from liquidated assets under the Plan

The estimates of sale proceeds from liquidated assets under the Plan increased by approximately $7.6 million primarily as a result of the sale of Thistledown. Thistledown was initially approved for sale in an auction on September 30, 2009; however, the purchaser had the right to terminate the agreement, which it exercised. The sale of Thistledown went back to auction on May 25, 2010 and the court approved the sale of Thistledown to a third party which subsequently closed on July 27, 2010. Given that the completion of the sale of Thistledown confirmed facts and circumstances that existed at April 30, 2010, the Company used such information to establish the fair value of Thistledown when assessing the fair value of the underlying collateral of the loans. Accordingly, the Company reduced the impairment provision by $7.6 million related to the MEC Transferred Assets on April 30, 2010.

(iii) Bankruptcy claims

The settlement of allowed administrative, priority and other claims which the Company assumed under the Plan were ongoing and subject to court approval. Consequently, the Company made estimates of such settlements based on claims that were resolved, continued to be objected to and/or negotiated and claims which were pending court approval. As a result, the Company revised the estimates related to expected allowed administrative, priority and other claims assumed by the Company under the Plan by approximately $16.0 million as a result of additional information received and/or the cash settlement of certain allowed administrative, priority and other claims previously outstanding. Accordingly, the Company increased the impairment provision by $16.0 million related to the MEC Transferred Assets on April 30, 2010.

(iv) Changes in fair value of net assets retained under the Plan

The Company estimated the working capital of the MEC Transferred Assets under the Plan based on available unaudited internally prepared results and operating projections. On the effective date of the Plan, the fair value of the working capital differed from the original estimates as a result of actual operating results and events related to the bankruptcy process. The Company also estimated the fair value of the real estate of the MEC Transferred Assets taking into consideration: (i) certain economic and industry information relevant to the MEC Transferred Assets' operating business; (ii) various indications of interest received by MEC in connection with the sales marketing efforts conducted by financial advisors of MEC during the Chapter 11 proceedings; and (iii) third party real estate appraisals. Throughout the bankruptcy process and to the effective date of the Plan, the Company continually updated such information related to market conditions and assumptions related to the real estate values based on the premise of highest and best use. The appraisals included additional information related to assumptions regarding potential uses, costs related to obtaining appropriate entitlements and demolition costs, and comparable sales data for real estate transactions in each jurisdiction. As a result of changes in fair value of the MEC Transferred Assets, there was a corresponding change in the determination of future tax balances associated with differences between estimated fair value and the tax basis of assets acquired and liabilities assumed. Accordingly, the Company reduced the impairment provision by $5.4 million related to the MEC Transferred Assets on April 30, 2010.

(b) Magna Lease Termination

During the year ended December 31, 2010, the Company and Magna agreed to terminate the lease on a property in the United States. In conjunction with the lease termination, Magna agreed to pay the Company a fee of $2.0 million, which amount will be collected based on a repayment schedule over the remaining term of the original lease which was scheduled to expire in September 2013. The amount has been recognized in "other gains, net" in the Company's consolidated statements of income (loss) for the year ended December 31, 2010.

(c) Expansion Costs Reimbursed to Magna

During the first half of 2011, the Company paid $3 (2010 — $0.5 million) to Magna as reimbursement for expenditures incurred by Magna in relation to expansions of income-producing properties.

(d) Revenue and Charges from Magna

Substantially all rental revenue relate to leases with Magna. Magna charged the Company for certain administrative and professional services and use of shared facilities. For the first half of 2011, these charges totaled $0.1 million (2010 — $2.4 million) and are included in "general and administrative" expenses in the Company's consolidated statements of income (loss).

(e) Legal, Consulting and Other Services

In conjunction with the Arrangement (note 1), during the first half of 2011, a U.S. $1.0 million payment was approved to an affiliate of Mr. Frank Stronach for services rendered as Chairman of the Company. In

December 2010, the Compensation Committee recommended to the Board and the Board subsequently approved a U.S. $2.0 million payment to an affiliate of Mr. Stronach, Chairman of the Company, for services rendered on behalf of the Company.

During the first half of 2011, the Company incurred $0.1 million (2010 — $0.1 million) for consulting services from a company affiliated with a former director of the Company.

These legal, consulting and other costs are included in "general and administrative" expenses in the Company's consolidated statements of income (loss).

20. SEGMENTED INFORMATION

The following tables present certain information with respect to geographic segmentation:

Revenues — years ended December 31,	**2012**	**2011**	**2010**
		(previously in US dollars — note 1(c))	
Europe	**$ 75,867**	$ 77,894	$ 75,631
Canada	**61,319**	60,146	58,983
United States	**31,632**	30,762	32,158
Mexico	**12,297**	12,135	12,350
	$ 181,115	$ 180,937	$ 179,122

Real estate properties, net — as at December 31,	**2012**	**2011**
		(previously in US dollars — note 1(c))
Europe	**$ 449,599**	$ 461,529
Canada	**404,336**	410,150
United States	**219,653**	215,167
Mexico	**62,570**	67,934
	$ 1,136,158	$ 1,154,780

Fixed assets, net — as at December 31,	**2012**	**2011**
		(previously in US dollars — note 1(c))
Europe	**$ 266**	$ 5
Canada	**1,571**	31
	$ 1,837	$ 36

21. DISCONTINUED OPERATIONS

As a result of the approval by the Company's shareholders and the Ontario Superior Court of Justice of the Arrangement (note 1), the Company has presented the Arrangement Transferred Assets & Business as discontinued operations in the accompanying consolidated financial statements.

The Company's results of operations related to discontinued operations are shown in the following table:

Years ended December 31,	2012	2011	2010
		(previously in US dollars — note 1(c))	
Revenues	**$ —**	$ 262,345	$ 189,876
Purses, awards and other	—	148,584	103,878
Operating costs	—	80,208	93,233
Property operating costs	—	933	1,770
General and administrative	—	21,759	27,853
Depreciation and amortization	—	3,445	9,526
Interest income	—	(310)	(422)
Foreign exchange gains	—	(51)	(101)
Equity loss	—	1,952	29,951
Write-down of long-lived and intangible assets	—	—	44,499
Operating income (loss)	—	5,825	(120,311)
Loss on disposal of real estate	—	—	(1,305)
Income (loss) before income taxes	—	5,825	(121,616)
Income tax recovery	—	(1,196)	(347)
Income (loss) from operations	—	7,021	(121,269)
Net gain on disposition of discontinued operations, net of income tax of $10.5 million	—	87,428	—
Income (loss) from discontinued operations, net of income tax	**$ —**	$ 94,449	$ (121,269)

The distribution of the assets and liabilities under the Arrangement is considered a non-pro-rata distribution and therefore has been recorded at fair value. Accordingly, the gain on disposition of discontinued operations was determined as the difference in the fair values and carrying values of the net assets disposed of, net of costs of disposal. The difference between the fair value of the net assets disposed of and the carrying value of the 363,414 Class B Shares cancelled in the amount of $680.6 million has been recorded in the consolidated statements of changes in deficit as "Distribution under Plan of Arrangement" for the year ended December 31, 2011. A summary of the fair values and carrying values of the Arrangement Transferred Assets & Business is as follows:

	Fair Value	Carrying Value	Gain	Fair Value Measurement[(i)]
		(previously in US dollars — note 1(c))		
Development Properties				
Current assets	$ 2,320	$ 2,320	$ —	Levels 1 and 2
Land held for development	218,039	132,257	85,782	Level 3
Current liabilities	(4,250)	(4,250)	—	Level 2
Future taxes	(1,395)	(1,395)	—	Level 3
Income-Producing Property and Property in United States				
Land and building	15,997	9,354	6,643	Level 3
Racing & Gaming Business				
Current assets	82,650	82,650	—	Levels 1 and 2
Fixed assets	6,935	6,935	—	Level 2
Racing lands and other long-term assets	392,471	384,754	7,717	Level 3
Technology companies	45,872	40,562	5,310	Level 3
Current liabilities	(37,698)	(37,698)	—	Level 2
Future taxes	(24,414)	(24,414)	—	Level 3
Other liabilities	(4,311)	(4,311)	—	Level 2
Gain on disposition before transaction costs and income taxes	692,216	586,764	105,452	
Transaction costs			(8,042)	
Net gain on disposition before undernoted			97,410	
Reclassification to net income of foreign currency translation gain and net unrecognized actuarial pension loss			520	
Income taxes			(10,502)	
Net gain on disposition of discontinued operations, net of income tax			$ 87,428	

(i) Refer to note 18(f) for the fair value hierarchy

The fair values of the racetrack assets of the Racing & Gaming Business were determined based on the underlying real estate as this was considered to be the highest and best use. The fair values of the real estate were primarily determined by external real estate appraisals reflecting estimated prices at which comparable assets could be purchased and adjusted for the estimated costs to convert the land for its appraised purpose.

The fair values of fixed assets, which include machinery and equipment and furniture and fixtures, were determined using a market approach based upon management's review of current prices at which comparable assets could be purchased under similar circumstances.

The fair values of the technology companies, which primarily included XpressBet® and AmTote, were determined in consultation with an external valuator using a discounted cash flow analysis under the income valuation methodology. The income approach required estimating a number of factors including projected revenue growth, customer attrition rates, profit margin and the discount rate. Projected revenue growth, customer attrition rates and profit margin were based upon past experience and management's best estimate of future operating results. The discount rate represents the respective entity's weighted average cost of capital including a risk premium where warranted.

The fair value of the 50% joint venture interest in The Village at Gulfstream Park™ was determined based on an external real estate appraisal using discounted cash flow analysis under the income valuation method. The fair value of the 51% joint venture interest in MJC was determined based on the underlying real estate determined by external real estate appraisals as this was considered to be the highest and best use.

The fair values of the lands held for development, a property located in the United States and an income-producing property located in Canada were determined by external real estate appraisals or broker opinions that reflected a market approach using estimated prices at which comparable assets could be purchased.

The remaining assets and liabilities of the Racing & Gaming Business, as well as the other assets and liabilities associated with the lands held for development, were primarily cash and cash equivalents, restricted cash, accounts receivable, income taxes receivable, other current assets, accounts payable and accrued liabilities, and deferred revenue, for which the carrying value approximated fair value. The current and long-term portions of the proceeds from the sale of Lone Star LP, representing 50% of the outstanding total proceeds from the sale, approximate fair value as the note receivable bears interest at current market rates negotiated between arm's-length parties.

22. COMMITMENTS AND CONTINGENCIES

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

(b) On February 15, 2011, Power Plant Entertainment Casino Resorts Indiana, LLC, PPE Casino Resorts Maryland, LLC and The Cordish Company (the "Plaintiffs") sued, among other defendants, the Company, certain subsidiary entities and joint ventures, including The Maryland Jockey Club and certain of its subsidiaries (collectively, the "MJC Entities"), as well as the Company's former Chairman and Chief Executive Officer, Mr. Frank Stronach, in the Circuit Court for Baltimore City in Baltimore, Maryland. The claims asserted in the Plaintiffs' complaint against the Company, the MJC Entities and Mr. Stronach (the "Complaint") are alleged to have arisen from events that occurred in Maryland in connection with the referendum conducted in November 2010 concerning the award of a gaming license to one of the Plaintiffs to conduct alternative gaming at the Arundel Mills Mall. The Complaint asserts a number of claims against all the defendants including, among other allegations, that the Company and Mr. Stronach, along with a number of other defendants, engaged in actions to defame the Plaintiffs by distributing allegedly false information concerning the Plaintiffs and their operations of a gaming facility in Indiana, Indianapolis Downs, LLC operating as Indiana Live. The specific claims asserted against the Company, the MJC Entities and Mr. Stronach are for alleged civil conspiracy, false light, invasion of privacy and defamation. The Complaint seeks an award of damages against all defendants in the amount of U.S.$300 million in compensatory damages and U.S.$300 million in punitive damages. Granite believes this claim is without merit. On March 25, 2011, a number of defendants, including the MJC Entities and the Company, filed a motion in the Circuit Court for Baltimore City, seeking to have the action transferred to the Circuit Court for Anne Arundel County. On April 29, 2011, the Indiana-based defendants named in the Complaint filed a notice to remove the Plaintiffs' claims relating to the Indiana defendants to the U.S. District Court for the District of Maryland. The Plaintiffs have sought to remand these claims to the Circuit Court for Baltimore City. The entire matter, in both the state and federal courts, was stayed by the United States Bankruptcy Court for the District of Delaware until it determined whether the claims were impacted by the bankruptcy of Indianapolis Downs, LLC. On September 6, 2011, the United States Bankruptcy Court for the District of Delaware entered an order denying the injunction motion and lifting the stay effective September 26, 2011. On December 21, 2011, the Circuit Court for Baltimore City issued an order staying the state court defendants' motions to transfer venue to the Circuit Court for Anne Arundel County pending resolution of whether the Maryland federal court action was remanded out of federal court. On September 26, 2012, the Maryland federal court issued an order remanding the Maryland federal court action to the Circuit Court for Baltimore City. On October 2, 2012, the parties filed a stipulation with the Circuit Court for Baltimore City proposing a further stay to allow certain of the defendants to engage plaintiffs in discussions that may potentially streamline the litigation. The stay was granted by the Circuit Court for Baltimore City on October 12, 2012. Under the terms of the Arrangement, the Company received an indemnity from the Stronach Shareholder and certain related parties against all

losses suffered by the Company in relation to the Racing & Gaming Business for the period prior to, on and after the effective date of the transfer of June 30, 2011. Accordingly, the Company has not recorded a liability related to this claim. Granite provided the Stronach Shareholder with the required disclosure notice listing the existing litigation with the Plaintiffs. The Company has retained independent counsel to monitor the litigation on its behalf.

(c) The Company had total letters of credit outstanding of $1.1 million issued with various financial institutions at December 31, 2012 to guarantee its performance under various construction projects. These letters of credit are secured by cash deposits of the Company.

(d) At December 31, 2012, the Company's contractual commitments related to construction and development projects as well as environmental reports amounted to approximately $9.1 million.

(e) On November 14, 2006, MEC completed the sale to PA Meadows, LLC of all the outstanding shares of Washington Trotting Association, Inc., Mountain Laurel Racing, Inc. and MEC Pennsylvania Racing, Inc. (collectively "The Meadows") through which MEC owned and operated The Meadows, a standardbred racetrack in Pennsylvania. On closing, MEC received cash consideration and a holdback agreement ("The Meadows Holdback Agreement"), under which U.S. $25.0 million was payable to MEC over a five-year period, subject to the offset for certain indemnification obligations as well as the purchaser having available excess cash flow. As part of the acquisition of the MEC Transferred Assets, the Company received the right to receive any payments under The Meadows Holdback Agreement. Payments from The Meadows Holdback Agreement may commence once the purchaser has available excess cash flow, if any. In connection with the Arrangement (note 1), any proceeds received from PA Meadows, LLC will be shared equally between the Company and the Stronach Shareholder.

(f) At December 31, 2012, the Company had commitments under operating leases requiring future minimum annual rental payments as follows:

2013	**$ 421**
2014	**421**
2015	**421**
2016	**421**
2017	**208**
Thereafter	**453**
	$ 2,345

23. SUBSEQUENT EVENTS

(a) Effective January 3, 2013, the Company completed its conversion to a REIT. The conversion was implemented pursuant to a court approved plan of arrangement whereby all of the Common Shares of Granite were exchanged, on a one-for-one basis, for stapled units, each of which consisted of one unit of Granite Real Estate Investment Trust and one common share of Granite REIT Inc. (together "Granite REIT"). A wholly owned subsidiary of Granite REIT will continue to carry on, directly and indirectly, the business previously conducted by the Company. Subsequent to the REIT conversion, distributions of $0.175 per stapled unit were declared on January 15 and February 14, 2013. The distribution declared in January 2013 in the amount of $8.2 million was paid on February 15, 2013 and the distribution declared in February 2013 of $8.2 million will be paid on March 15, 2013. In addition, the Company amended the equity-based compensation plans disclosed in note 13 to reflect the REIT structure. The option holders of the Granite Plan exchanged their existing options to acquire Common Shares for options to acquire stapled units on a one-for-one basis. The Share Plan was amended so that a right to acquire stapled units or receive a payment based on the fair value of the stapled units will be substituted for the holder's right to acquire Common Shares or a payment based on the value of such shares. The DSP was amended to provide that each DSU outstanding will entitle the holder thereof to receive a payment based on the fair value of a new class of preferred shares of Granite that are designed to be equal in value to a stapled unit and a new deferred share unit plan was created by Granite REIT Inc. whereby non-executive board

members will be entitled to receive a portion of their annual retainer as deferred share units which will entitle them to receive a payment based on the fair value of a preferred share of the Company that will be equal in value to a stapled unit.

(b) On February 13, 2013, Granite REIT acquired a 90% interest in two income-producing multi purpose industrial properties located in the United States for approximately U.S. $35.8 million, excluding acquisition costs. The acquisition was funded through a combination of U.S. $14.3 million which was substantially sourced from the Granite Credit Facility and first mortgage debt of U.S. $21.5 million, representing Granite REIT's proportionate share of the total first mortgage debt on the two properties.

(c) On February 28, 2013, the Company and the Stronach Shareholder entered into a settlement agreement with PA Meadows, LLC relating to The Meadows Holdback Agreement (note 22(e)). The Stronach Shareholder will receive proceeds of U.S.$10 million consisting of U.S.$3 million in cash and a promissory note of U.S.$7 million which will be shared equally with the Company. The promissory note is non-interest bearing and is to be paid in equal U.S.$1 million installments commencing March 31, 2013 to September 30, 2013.

QuickLinks

- Exhibit 2

QuickLinks -- Click here to rapidly navigate through this document

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

For the three month period and year ended December 31, 2012

Management's Discussion and Analysis of Results of Operations and Financial Position ("MD&A") of Granite Real Estate Inc. ("Granite" or the "Company") summarizes the significant factors affecting the consolidated operating results, financial condition, liquidity and cash flows of Granite for the three month period and year ended December 31, 2012. Unless otherwise noted, all amounts are in Canadian dollars ("Cdn. dollars") and all tabular amounts are in millions of Cdn. dollars. This MD&A should be read in conjunction with the accompanying audited consolidated financial statements for the year ended December 31, 2012, which are prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP"). This MD&A is prepared as at March 5, 2013. Additional information relating to Granite, including the Annual Information Form ("AIF") for fiscal 2012 can be obtained from the Company's website at www.granitereit.com, on SEDAR at www.sedar.com and on EDGAR at www.sec.gov.

In this MD&A, unless otherwise specified or the context otherwise indicates, "Granite", the "Company", "we", "us" and "our" refer to Granite Real Estate Inc. and its subsidiaries and, for periods subsequent to January 3, 2013, its successor entities Granite Real Estate Investment Trust ("Granite REIT") and Granite REIT Inc., combined and its subsidiaries.

OVERVIEW

Granite is a Canadian-based real estate company engaged in the ownership and management of predominantly industrial properties in North America and Europe (the "Real Estate Business" or the "Business"). As at December 31, 2012, the Company owned and managed approximately 28 million square feet in 104 rental income properties. Our tenant base currently includes Magna International Inc. and its operating subsidiaries (together "Magna") as our largest tenants, together with tenants from other industries.

Segmented Information and Discontinued Operations

The Company's reportable segments reflect the manner in which the Company is organized and managed by its senior management. The Company's operations have historically been segmented between the Business (continuing operations) and the Racing & Gaming Business (discontinued operations). Following the close of business on June 30, 2011, and as a result of a court-approved plan of arrangement (the "Arrangement"), the financial position and results of operations of the assets transferred to entities owned by Mr. Frank Stronach and his family (the "Stronach Shareholder") including the Racing & Gaming Business, as well as those related to lands held for development, a property located in the United States and an income-producing property located in Canada (the assets and business transferred to the Stronach Shareholder pursuant to the Arrangement are collectively referred to as the "Arrangement Transferred Assets & Business"), have been presented as discontinued operations and, as such, have been excluded from continuing operations. Accordingly, in the accompanying consolidated financial statements, the Company's single reportable segment pertains to the Company's income-producing properties.

REAL ESTATE BUSINESS — CONTINUING OPERATIONS

OVERVIEW

The real estate assets of our Business are comprised of income-producing properties and properties under development (see *"REAL ESTATE BUSINESS — RENTAL PORTFOLIO — Real Estate Properties")*. Our income-producing properties consist of light industrial properties, heavy industrial manufacturing facilities, corporate offices, product development and engineering centres and test facilities. The Company holds a global portfolio of 104 income-producing industrial and commercial properties located in nine countries: Canada, the United States, Mexico, Austria, Germany, the Czech Republic, the United Kingdom, Spain and

Poland. This portfolio represents approximately 28 million square feet of leaseable area with a gross book value of approximately $1.7 billion (net book value of $1.1 billion) at December 31, 2012. The lease payments are primarily denominated in three currencies: the euro, the Cdn. dollar and the U.S. dollar.

SIGNIFICANT MATTERS

Completion of REIT Conversion

Effective January 3, 2013, the Company completed its conversion from a corporate structure to a stapled unit Real Estate Investment Trust ("REIT") structure.

The Company's conversion to a REIT was implemented pursuant to a court approved plan of arrangement under the *Business Corporations Act* (Quebec). Under the plan of arrangement, all of the common shares of Granite Real Estate Inc. were exchanged, on a one-for-one basis, for stapled units, each of which consists of one unit of Granite REIT and one common share of Granite REIT Inc. Effective January 4, 2013, the stapled units started trading on the Toronto Stock Exchange under the symbol "GRT.UN" and on the New York Stock Exchange under the symbol "GRP.U". Granite REIT and Granite REIT Inc. are reporting issuers under Canadian provincial securities laws and file reports with the United States Securities & Exchange Commission (the "SEC") under U.S. securities laws and, through Granite REIT Holdings Limited Partnership and its subsidiaries, are carrying on the business previously conducted by Granite Real Estate Inc. The assets, liabilities and operations of the new combined stapled unit structure are comprised of all the assets, liabilities and operations of Granite Real Estate Inc.

Transition to International Financial Reporting Standards ("IFRS")

In connection with the REIT conversion, the Company will adopt IFRS in place of the current U.S. GAAP reporting standards effective for interim and annual periods commencing after December 31, 2012. Comparative IFRS information for the 2012 fiscal periods will also be reported. Granite is in the process of finalizing its evaluation of the impact of the conversion to IFRS on the consolidated financial statements (see *"FUTURE CHANGES IN SIGNIFICANT ACCOUNTING POLICIES"*).

Currency Change for Financial Reporting and Dividends

The consolidated financial statements for periods prior to January 1, 2012 were reported using the U.S. dollar. As a result of the Company's shareholder base becoming increasingly Canadian and the Company's stated intention of converting to a Canadian REIT and to mitigate the impact of foreign exchange fluctuations on our reported results, effective January 1, 2012, the Company's reporting currency was changed to the Cdn. dollar. All comparative financial information contained in this MD&A and the accompanying consolidated financial statements for the three month period and year ended December 31, 2012 has been recast to reflect the Company's results as if they had been historically reported in Cdn. dollars. The consolidated U.S. dollar balance sheet at December 31, 2011 was translated into the Cdn. dollar reporting currency by translating assets and liabilities at the end-of-period exchange rate and translating equity balances at historical exchange rates. The consolidated statements of income (loss) were translated into Cdn. dollars using the weighted average exchange rate for the applicable period. The resulting foreign currency translation adjustment is reported as a component of other comprehensive income (loss) and accumulated other comprehensive loss (see *"NEW ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS — Change in Reporting Currency")*. With the change in reporting currency, beginning May 9, 2012, dividends have been declared in Cdn. dollars and dividend payments have been made only in Cdn. dollars.

Acquisition of Two Properties in the United States

On February 13, 2013, a subsidiary of Granite REIT acquired a 90% interest in two income-producing multi purpose industrial properties located in the United States for approximately U.S. $35.8 million, excluding acquisition costs. The acquisition was funded through a combination of U.S. $14.3 million which was substantially sourced from Granite's credit facility and first mortgage debt of U.S. $21.5 million representing Granite REIT's proportionate share of the total first mortgage debt on the two properties.

FOREIGN CURRENCIES

Fluctuations in the Cdn. dollar's value relative to other currencies will result in fluctuations in the reported Cdn. dollar value of revenues, expenses, income, cash flows, assets and liabilities. At December 31, 2012, approximately 67% of the Business' rental revenues are denominated in currencies other than the Cdn. dollar (see *"REAL ESTATE BUSINESS — RENTAL PORTFOLIO — Annualized Lease Payments")*. As such, material changes in the value of the Cdn. dollar relative to these foreign currencies (primarily the euro and U.S. dollar) may have a significant impact on the Business' results.

The following table reflects the changes in the average exchange rates during the three month periods and years ended December 31, 2012 and 2011, as well as the exchange rates as at December 31, 2012, September 30, 2012 and December 31, 2011, between the most common currencies in which the Company conducts business and the Cdn. dollar.

	Average Exchange Rates Three Months Ended December 31,			Average Exchange Rates Year Ended December 31,		
	2012	**2011**	**Change**	**2012**	**2011**	**Change**
1 U.S. dollar equals Cdn. dollars	**0.991**	1.023	(3%)	**0.999**	0.989	1%
1 euro equals Cdn. dollars	**1.286**	1.379	(7%)	**1.285**	1.376	(7%)

	Exchange Rates as at				
	December 31, 2012	**September 30, 2012**	**December 31, 2011**	**Change from September 30, 2012**	**Change from December 31, 2011**
1 U.S. dollar equals Cdn. dollars	**0.995**	0.984	1.017	1%	(2%)
1 euro equals Cdn. dollars	**1.312**	1.265	1.319	4%	(1%)

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

RENTAL PORTFOLIO

Annualized Lease Payments

Annualized lease payments represent the total annual rent of the Business assuming the contractual lease payments as at the last day of the reporting period were in place for an entire year, with rents denominated in foreign currencies being converted to Cdn. dollars based on exchange rates in effect at the last day of the reporting period (see "*REAL ESTATE BUSINESS — FOREIGN CURRENCIES*"). The Company's annualized

lease payments as at December 31, 2012, including the change from September 30, 2012 or December 31, 2011, are as follows:

	Three Months Ended December 31, 2012	Year Ended December, 2012
Annualized lease payments, beginning of period	$ 181.1	$ 182.8
Contractual rent adjustments	0.4	2.3
Completed projects on-stream	1.6	3.0
Disposals and vacancies	(0.6)	(0.9)
Renewals and re-leasing of income-producing properties	(0.6)	(0.7)
Effect of changes in foreign currency exchange rates	3.3	(1.3)
Annualized lease payments, as at December 31, 2012	**$ 185.2**	**$ 185.2**

During the fourth quarter of 2012, annualized lease payments increased by $4.1 million from $181.1 million at September 30, 2012 to $185.2 million at December 31, 2012. The strengthening of the euro and the U.S. dollar against the Cdn. dollar increased annualized lease payments by $3.3 million. The completion of an expansion project and roof and pavement improvement projects in the United States and Canada increased annualized lease payments by $1.6 million. Contractual rent adjustments increased annualized lease payments by $0.4 million, including $0.3 million related to Consumer Price Index ("CPI") based increases on properties representing 1.4 million square feet of leaseable area in Austria and $0.1 million from fixed contractual adjustments on properties representing 0.3 million square feet of leaseable area in the United States and Canada. The vacancy of a 0.3 million square foot income-producing property in the United Kingdom reduced annualized lease payments by $0.6 million. Lease renewals of three properties in Canada, representing 0.5 million square feet of leaseable area, resulted in a net decrease in annualized lease payments by $0.6 million as two of these properties were re-leased at lower negotiated rental rates than the expiring lease rates.

On a year to date basis, annualized lease payments increased by $2.4 million from $182.8 million at December 31, 2011 to $185.2 million at December 31, 2012. Completed projects, related to expansion and roof and pavement improvement projects primarily in the United States, Germany and the Czech Republic, increased annual lease payments by $3.0 million. Contractual rent adjustments increased annualized lease payments by $2.3 million; including $1.6 million from CPI based contractual adjustments on properties representing 9.5 million square feet of leaseable area primarily in Canada, Austria and the United States and $0.7 million from fixed contractual adjustments on properties representing 0.9 million square feet of leaseable area. The weakening of the U.S. dollar and the euro against the Cdn. dollar reduced annualized lease payments by $1.3 million. Annualized lease payments were also negatively impacted by $0.6 million related to the vacancy of a property in the United Kingdom and by $0.3 million due to the disposal of an income-producing property in the United States. Renewals and re-leasing reduced annualized lease payments by a net $0.7 million due to lease renewals to five Magna tenants representing 0.7 million square feet of leaseable area.

The annualized lease payments by currency at December 31, 2012 and December 31, 2011 were as follows:

	December 31, 2012		December 31, 2011	
Euro	**$ 76.1**	**41%**	$ 74.6	41%
Canadian dollar	**61.9**	**33**	61.6	34
U.S. dollar	**46.0**	**25**	44.9	24
Other	**1.2**	**1**	1.7	1
	$ 185.2	**100%**	$ 182.8	100%

Lease Expiration

The following table sets out lease expiries, by square footage, for our portfolio at December 31, 2012.

(in thousands)	Vacant	2013	2014	2015	2016	2017	2018	2019 & Beyond	Total
Canada	392	1,174	—	586	368	3,583	913	951	7,967
U.S.	—	1,251	—	63	—	599	576	3,074	5,563
Mexico	143	714	—	68	—	1,097	75	307	2,404
Austria	—	447	—	81	299	5,702	1,129	379	8,037
Germany	—	1,835	—	—	29	—	389	1,084	3,337
Other	283	90	75	—	—	33	—	254	735
Total	**818**	**5,511**	**75**	**798**	**696**	**11,014**	**3,082**	**6,049**	**28,043**

Real Estate Properties

The Company's real estate assets are comprised of income-producing properties and properties under development. The net book values of the real estate assets are as follows:

	December 31, 2012	December 31, 2011
Income-producing real estate properties, net	**$ 1,131.8**	$ 1,152.2
Properties under development	**4.4**	2.6
Real estate properties, net	**$ 1,136.2**	$ 1,154.8

Income-Producing Properties:

At December 31, 2012, the Company had 104 income-producing properties, representing approximately 28 million square feet of rentable space. The income-producing properties are comprised predominantly of industrial buildings strategically located and leased primarily by Magna to provide automotive parts and modules to the world's manufacturers of cars and light trucks for their assembly plants throughout North America and Europe. The portfolio also includes several office buildings that comprise 3% of the total square footage of the Company's income-producing properties, including the head offices of Magna in Canada and Austria. The book value of the income-producing portfolio by country as at December 31, 2012 was as follows:

	Book Value	Percent of Total
Canada	$ 402.0	36%
Austria	293.9	26
U.S.	218.1	19
Germany	120.3	11
Mexico	62.6	5
Other countries	34.9	3
	$ 1,131.8	**100%**

During the third quarter of 2012, the Company disposed of a 0.1 million square foot income-producing property for net proceeds of $1.2 million and recorded a nominal loss on disposal.

Properties Under Development:

At December 31, 2012, the Company had five expansion and improvement projects in progress with the Magna group (two in Canada, two in the United States and one in the Czech Republic) and an improvement

project to a 0.3 million square foot facility with a non-Magna tenant in Canada. The total projected cost of these expansion or improvement projects is approximately $11.8 million, of which $4.4 million was spent at December 31, 2012, with the remainder expected to be funded during 2013 from cash from operations.

BUSINESS AND OPERATIONS OF MAGNA, OUR LARGEST TENANT

Magna is the tenant at 89 of the Company's income-producing properties. Magna is a diversified global automotive supplier. Magna designs, develops and manufactures technologically advanced automotive systems, assemblies, modules and components, and engineers and assembles complete vehicles, primarily for sale to original equipment manufacturers of cars and light trucks. Magna's product capabilities span a number of major automotive areas, including interior systems, seating systems, closure systems, body and chassis systems, vision systems, electronic systems, exterior systems, powertrain systems, roof systems, hybrid electric vehicles/systems and complete vehicle engineering and assembly.

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

- 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
- right of first refusal in favour of Magna on sale of property.

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

Magna And The Automotive Industry

According to its public disclosure, Magna's success is primarily dependent upon the levels of North American and European car and light truck production by Magna's customers and the relative amount of content Magna has in the various programs. The challenges of the automotive industry, and other factors, have resulted in Magna seeking to take advantage of lower operating cost countries and consolidating, moving, closing and/or selling operating facilities to align its capacity utilization and manufacturing footprint with vehicle production and consumer demand. Granite management expects Magna to continuously seek to optimize its global manufacturing footprint and consequently, Magna may not renew leases for facilities currently under lease at the end of their expiries.

For the 2012 fiscal year, there were seven leases expiring representing 0.7 million of square feet and annual lease payments of $3.5 million or 1.9% of Granite's annualized lease payments at December 31, 2011. The 2012 lease expiries were all renewed with a weighted average lease term of 4.3 years and annual lease payments of $3.0 million at December 31, 2012. Five leases relating to 2013 expiries were also renewed during 2012, representing 0.8 million square feet and annual lease payments of $2.8 million. In addition, during the fiscal 2012 year, the lease expiries on three properties occupied by Magna were extended in conjunction with expansion projects undertaken at these properties. The weighted average lease term of these lease extensions is 7.4 years at December 31, 2012.

For the 2013 fiscal year, there are 26 leases expiring, representing 5.0 million of square feet and annual lease payments of $25.0 million, or 13.5% of Granite's annualized lease payments at December 31, 2012. A majority of these leases expire towards the end of the 2013 year. Negotiations on many of these leases are in progress and will continue throughout the year.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED DECEMBER 31, 2012

Highlights

(in millions, except per share information)	Three Months Ended December 31, 2012	2011	Change
Statement of Income			
Rental revenue	**$ 45.3**	$ 46.4	(2%)
Property operating costs	**2.4**	0.6	300%
General and administrative	**10.3**	9.9	4%
Depreciation and amortization	**10.8**	11.0	(2%)
Interest expense and other financing costs, net	**4.1**	4.1	—
Foreign exchange losses (gains), net	**0.6**	(0.3)	300%
Write-down of long-lived assets	**—**	16.7	(100%)
Income before income taxes	**17.1**	4.4	289%
Income tax expense	**2.0**	0.8	150%
Income from continuing operations and net income	**$ 15.1**	$ 3.6	319%
Funds from Operations ("FFO")	**25.9**	14.6	78%
Diluted FFO per share	**$ 0.55**	$ 0.31	77%
Cash Flows			
Income from continuing operations	**$ 15.1**	$ 3.6	319%
Items not involving current cash flows	**7.0**	26.8	(74%)
Change in non-cash working capital	**2.8**	(8.6)	133%
Cash provided by operating activities	**$ 24.9**	$ 21.8	14%
Real estate properties and fixed asset additions	**(7.4)**	(11.1)	33%
Cash used in other investing activities	**2.0**	—	100%
Cash used in investing activities	**$ (5.4)**	$ (11.1)	51%
Dividends paid	**(23.4)**	(23.9)	(2%)
Cash used in other financing activities	**—**	0.3	(100%)
Cash used in financing activities	**$ (23.4)**	$ (23.6)	1%

Rental Revenue

Rental revenue for the three month period ended December 31, 2012 decreased $1.1 million to $45.3 million from $46.4 million in the prior year period. The change in rental revenues is discussed below:

Rental revenue, three months ended December 31, 2011	$ 46.4
Contractual rent adjustments	0.5
Completed projects on-stream	0.7
Renewals and re-leasing of income-producing properties	(0.4)
Vacancies of income-producing properties	(0.2)
Effect of changes in foreign currency exchange rates	(1.7)
Rental revenue, three months ended December 31, 2012	**$ 45.3**

The $0.5 million increase in revenue from contractual rent adjustments includes (i) $0.3 million from annual CPI based increases implemented in 2012 on properties representing 6.4 million square feet of leaseable area, (ii) $0.1 million from cumulative CPI based increases (being increases that occur every five years or once a specified cumulative increase in CPI has occurred) implemented in 2011 and 2012 on properties representing 4.2 million square feet of leaseable area and (iii) $0.1 million from fixed contract adjustments on properties representing 0.9 million square feet of leaseable area.

Completed projects on-stream contributed $0.7 million to rental revenue for the three month period ended December 31, 2012: (i) $0.2 million from the completion of seven Magna expansion projects in Austria, Germany, Mexico and the United States in 2011, which added a combined 0.4 million square feet of leaseable area, and (ii) $0.5 million from the completion of seven Magna expansion or improvement projects, such as roof and pavement replacements, in Austria, the Czech Republic, Germany, the United States and Canada in 2012, which added 0.3 million square feet of leaseable area.

Renewals and re-leasing had a $0.4 million negative impact on revenues compared to the prior year period. This decrease was primarily due to the renewal of a lease on a 0.3 million square foot facility to a Magna tenant in Canada, which was negotiated at a lower rental rate than the expiring lease rate.

Rental revenue for the three month period ended December 31, 2012 was also negatively impacted by $0.2 million due to a non-Magna tenant vacating a 0.3 million square foot facility in the United Kingdom.

Foreign exchange had a net $1.7 million negative impact on reported rental revenues. The strengthening of the Cdn. dollar against the average foreign exchange rates applied to our euro and U.S. dollar dominated rents resulted in a decrease in rental revenue of $1.3 million and $0.4 million, respectively.

Property Operating Costs

Property operating costs, which include real estate taxes, utilities, insurance, repairs and maintenance, legal and other property-related expenses, were $2.4 million for the three month period ended December 31, 2012 in comparison to $0.6 million in the prior year period. The $1.8 million increase was primarily due to a $1.6 million increase in land transfer taxes and related costs incurred with respect to internal reorganizations related to the REIT conversion and $0.3 million in appraisal, environmental and valuation costs associated with our income-producing properties. As part of the process of preparing for the REIT conversion and transition to IFRS, the Company undertook to appraise and fair value all properties during 2012. These increases were partially offset by a $0.3 million decrease in repairs and maintenance expenses not recoverable from tenants.

General and Administrative Expenses

General and administrative expenses increased by $0.4 million to $10.3 million in the fourth quarter of 2012 from $9.9 million in the prior year period. General and administrative expenses for the three month period ended December 31, 2012 include $3.8 million of advisory costs relating to the REIT conversion. General and administrative expenses for the three month period ended December 31, 2011 include $2.2 million of employee termination expense and recruiting costs, $1.9 million of legal, advisory and other costs pertaining to the strategic review process and $0.1 million of costs related to the REIT conversion. Excluding the employee termination expense, advisory and other costs mentioned above, general and administrative expenses increased by $0.8 million primarily due to higher compensation expense.

Depreciation and Amortization Expense

Depreciation and amortization expense was $10.8 million in the three month period ended December 31, 2012 compared to $11.0 million in the prior year period. The decrease of $0.2 million in depreciation expense was due to a $0.4 million reduction in foreign exchange fluctuations partially offset by $0.2 million of additional depreciation charges related to expansion and improvement projects that were completed in 2012.

Interest Expense and Other Financing Costs, Net

Net interest expense and other financing costs was $4.1 million in the three month periods ended December 31, 2012 and 2011. The impact of a $0.2 million decrease in interest expense in the fourth quarter of 2012 was offset by the impact of lower capitalized interest and interest income compared to the prior year period.

Foreign Exchange Losses (Gains), Net

The Company recognized net foreign exchange losses of $0.6 million in the three month period ended December 31, 2012 compared to net foreign exchange gains of $0.3 million in the prior year period. The

drivers of foreign exchange gains and losses are primarily the re-measurement of certain assets and liabilities of Granite and its subsidiaries that are denominated in a functional currency that is different from the entity's reporting currency for accounting purposes. The foreign exchange net loss in the fourth quarter of 2012 includes a $0.4 million net loss on derivative financial instruments such as foreign exchange forward contracts.

Write-down of Long-Lived Assets

In the fourth quarter of 2011, it was determined that an industrial income producing property in each of Germany and Austria had indications of impairment and the inability for the Company to recover their carrying values. Both properties were tenanted by Magna's European interiors division which, as disclosed in Magna's public disclosures, had operating challenges. Accordingly, the Business recorded an impairment charge of $8.8 million for the Germany property and $7.9 million for the Austrian property which represented the excess of the carrying values of the assets over the estimated fair values determined based on the present value of the future estimated cash flows from the leased properties.

Income Tax Expense

Income tax expense for the fourth quarter of 2012 was $2.0 million, representing an effective tax rate of 11.7% compared to $0.8 million in the prior year period, representing a tax rate of 18.2%. The effective tax rate is lower in the fourth quarter of 2012 largely due to the changes in the Company's position with respect to differences related to prior period provisions and tax filings, and changes in unrecognized tax benefits.

Income From Continuing Operations and Net Income

Income from continuing operations and net income was $15.1 million in the three month period ended December 31, 2012 in comparison to $3.6 million in the prior year period. The increase of $11.5 million was primarily due to a decrease in the 2011 write-down of long-lived assets of $16.7 million, partially offset by higher property operating costs of $1.8 million, lower rental revenue of $1.1 million, a decrease in net foreign exchange gains of $0.9 million and higher income tax expense of $1.2 million.

Funds From Operations

	Three Months Ended December 31,		
(in thousands, except per share information)	**2012**	**2011**	**Change**
Income from continuing operations and net income	**$ 15,148**	$ 3,614	319%
Add back depreciation and amortization	**10,757**	10,962	(2%)
Funds from Operations ("FFO")	**$ 25,905**	$ 14,576	78%
Basic and diluted FFO per share	**$ 0.55**	$ 0.31	77%
Basic number of shares outstanding	**46,833**	46,871	
Diluted number of shares outstanding	**46,866**	46,883	

The Company determines FFO using the definition prescribed in the U.S. by the National Association of Real Estate Investment Trusts ("NAREIT"). Under the definition of FFO prescribed by NAREIT, the impact of future income taxes and any asset impairments are included in the calculation of FFO and discontinued operations are excluded from the calculation of FFO. FFO and basic and diluted FFO per share are measures widely used by analysts and investors in evaluating the operating performance of real estate companies. However, FFO does not have a standardized meaning under U.S. GAAP and therefore may not be comparable to similar measures presented by other companies.

The $11.3 million increase in FFO compared to the prior year period is primarily due to higher income from continuing operations of $11.5 million, partially offset by decreased depreciation expense of $0.2 million (see *"RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED DECEMBER 31, 2012"*).

RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2012 — CONTINUING OPERATIONS

The results of operations of the Business for the years ended December 31, 2012 and 2011, as discussed in this MD&A, from continuing operations include those from the income-producing property portfolio.

Highlights

	Years ended December 31,		
(in millions, except per share information)	**2012**	**2011**	**Change**
Rental revenue	**$ 181.1**	$ 180.9	—
Income before income taxes	**85.8**	53.6	60%
Income from continuing operations	**71.3**	57.9	23%
Funds from Operations ("FFO")	**114.1**	100.6	14%
Diluted FFO per share	**$ 2.43**	$ 2.14	14%

(in millions, except number of properties)	**December 31, 2012**	**December 31, 2011**	**Change**
Number of income-producing properties	**104**	105	(1%)
Leaseable area (sq. ft.)	**28.0**	27.9	—
Annualized lease payments ("ALP")	**$ 185.2**	$ 182.8	1%
Income-producing properties, at cost ("IPP")	**$ 1,659.3**	$ 1,643.8	1%
ALP as percentage of IPP	**11.2%**	11.1%	1%

Rental Revenue

Rental revenue for the year ended December 31, 2012 increased $0.2 million to $181.1 million from $180.9 million in the prior year period. The change in rental revenue is discussed below:

Rental revenue, year ended December 31, 2011	$ 180.9
Contractual rent adjustments	2.0
Completed projects on-stream	3.6
Renewals and re-leasing of income-producing properties	0.4
Vacancies of income-producing properties	(0.2)
Effect of changes in foreign currency exchange rates	(4.6)
Other, including straight-line adjustments of rental revenue	(1.0)
Rental revenue, year ended December 31, 2012	**$ 181.1**

The $2.0 million increase in revenue from contractual rent adjustments includes (i) $1.2 million from annual CPI based increases implemented in 2012 on properties representing 6.4 million square feet of leaseable area, (ii) $0.4 million from cumulative CPI based increases (being increases that occur every five years or once a specified cumulative increase in CPI has occurred) implemented in 2011 and 2012 on properties representing 4.6 million square feet of leaseable area and (iii) $0.4 million from fixed contract adjustments on properties representing 0.9 million square feet of leaseable area.

Completed projects on-stream contributed $3.6 million to rental revenue for the year ended December 31, 2012: (i) $2.4 million primarily from the completion of 12 Magna expansion projects in Austria, Germany, Mexico and the United States in 2011, which added a combined 0.4 million square feet of leaseable area, and (ii) $1.2 million from the completion of seven Magna expansion or improvement projects, such as roof and pavement replacements, in Austria, Germany, the Czech Republic, the United States and Canada in 2012, which added 0.3 million square feet of leaseable area.

Renewals and re-leasing had a net $0.4 million positive impact on revenues compared to the prior year period. Increased revenue of $0.8 million due to the commencement of a lease on a 0.3 million square foot facility, previously vacant, to a non-Magna tenant in June 2011, was partially offset by a $0.4 million decrease related to the renewal of a lease on a 0.3 million square foot facility to a Magna tenant in Canada, which was negotiated at a lower rental rate than the expiring lease rate.

Foreign exchange had a net $4.6 million negative impact on reported rental revenue. Revenue declined by $5.0 million as the average foreign exchange rate applied to our euro denominated rents weakened against the Cdn. dollar as compared to the prior year period. This decrease was partially offset by a $0.4 million increase in U.S. dollar rents as the average foreign exchange rate applied to these rents strengthened against the Cdn. dollar compared to the prior year period.

Other revenue had a $1.0 million negative impact on reported revenues and includes $0.4 million of straight-line rental revenue adjustments and $0.2 million of decreased revenue associated with the disposition of a property in the third quarter of 2012.

Property Operating Costs

Property operating costs, which include real estate taxes, utilities, insurance, repairs and maintenance, legal and other property-related expenses were $5.7 million for the year ended December 31, 2012 in comparison to $3.1 million in the prior year period. The $2.6 million increase in property operating costs was primarily due to a $1.8 million increase in appraisal, environmental and valuation costs associated with our income-producing properties. As part of the process of preparing for the REIT conversion and transition to IFRS, the Company undertook to appraise and fair value all properties during 2012. As previously noted, property costs for the year ended December 31, 2012 also included $1.6 million in land transfer taxes and other related costs associated with internal reorganizations related to the REIT conversion. These increased costs were partially offset by a $0.9 million reduction in repair and maintenance expenses primarily related to costs incurred on a vacant property in the second quarter of 2011 in conjunction with the re-leasing of the property to a non-Magna tenant in June 2011 and a decrease in repair and maintenance costs not recoverable from tenants.

General and Administrative Expenses

General and administrative expenses decreased by $15.8 million to $30.9 million in the year ended December 31, 2012 from $46.7 million in the prior year period. General and administrative expenses for the year ended December 31, 2012 include $7.9 million of advisory costs relating to the REIT conversion and $0.3 million of employee termination costs. General and administrative expenses for the year ended December 31, 2011 include $9.1 million of advisory and other related costs primarily incurred in connection with the Arrangement (see *"ARRANGEMENT TRANSFERRED ASSETS & BUSINESS — SIGNIFICANT MATTERS — Plan of Arrangement*") and the settlement of an outstanding legal proceeding, $7.6 million in employee termination costs and recruiting costs and $2.9 million of legal, advisory and other costs related to the strategic plan. Excluding the advisory and other costs mentioned above, general and administrative expenses decreased by $4.4 million primarily due to (i) reduced insurance expense of $2.6 million primarily related to reduced premiums associated with the Company's Directors' and Officers' liability insurance and (ii) decreased compensation of $1.7 million primarily due to payments made to a former executive of the Company and higher director fees in the prior year period related to the Arrangement (see *"ARRANGEMENT TRANSFERRED ASSETS & BUSINESS — SIGNIFICANT MATTERS — Plan of Arrangement*").

Depreciation and Amortization Expense

Depreciation and amortization expense increased by $0.1 million to $42.8 million in the year ended December 31, 2012 compared to $42.7 million in the prior year period primarily due to additional depreciation charges related to various expansion and improvement projects that were completed in 2011 and 2012, partially offset by the impact of foreign exchange.

Interest Expense and Other Financing Costs, Net

Net interest expense and other financing costs was $15.9 million in the year ended December 31, 2012 compared to $15.7 million in the prior year period. The increase in net interest expense is due to the lower capitalized interest of $0.7 million and lower interest income of $0.2 million during 2012 partially offset by a net $0.7 million reduction in interest expense related to short-term borrowings under the unsecured senior revolving credit facility.

Foreign Exchange Losses (Gains), Net

The Company recognized net foreign exchange losses of less than $0.1 million in the year ended December 31, 2012 compared to $0.2 million in net foreign exchange gains in the prior year period. The drivers of foreign exchange gains or losses are primarily the re-measurement of certain assets and liabilities of Granite and its subsidiaries that are denominated in a functional currency that is different from the entity's reporting currency for accounting purposes. The net foreign exchange loss for the year ended December 31, 2012 includes a net gain of $0.6 million on derivative financial instruments such as foreign exchange forward contracts (see note 18(e) in the consolidated financial statements for the year ended December 31, 2012).

Write-down of Long-lived Assets

During the year ended December 31, 2011, the Company recorded write-downs totalling $19.5 million with respect to income-producing properties in Austria, Germany and the United States. In the second quarter of 2011, the Business recorded a $2.7 million write-down of an income-producing commercial office building in the United States. In the fourth quarter of 2011, the Business recorded an $8.8 million and a $7.9 million impairment charge with respect to income-producing properties in Germany and Austria respectively (see *"RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED DECEMBER 31, 2012"*). These write-downs represent the excess of the carrying value of the respective asset over the estimated fair value. Fair value was determined based on the present value of the estimated future cash flows from the leased property.

Income Tax Expense (Recovery)

Income tax expense for the year ended December 31, 2012 was $14.4 million compared to an income tax recovery of $4.4 million in the prior year period. The primary reason for the change is a result of the reversal in 2011 of the $12.9 million tax liability recorded in 2010 on an amalgamation that was set aside and cancelled by the Ontario Superior Court of Justice. Excluding the reversal of the liability relating to the internal amalgamation expense, the income tax expense for the year ended December 31, 2011 was $8.5 million representing an effective tax rate of 15.9% as compared to 16.8% in the current year period. Other factors influencing the current year's effective tax rate include changes in the mix of income earned in various countries in which the Company operates, an increase in the amount of unrecognized tax benefits, the revaluation of Canadian future tax liabilities related to the increase in the statutory Canadian income tax rate of 0.25% due to an enacted change to freeze the previously legislated Ontario tax rate reduction and decreases related to differences between prior period provisions and tax filings and lower non-deductible expenses.

Income From Continuing Operations

Income from continuing operations was $71.3 million in the year ended December 31, 2012 in comparison to $57.9 million in the prior year period. Excluding the recovery of income tax of $12.9 million noted above, income from continuing operations increased by $26.3 million primarily due to a decrease in the 2011 write-down of long-lived assets of $19.5 million and lower general and administrative expenses of $15.8 million. These decreases were partially offset by higher income tax expense of $5.9 million excluding the income tax recovery noted above, increased property operating costs of $2.6 million, higher net interest expense of $0.2 million and higher net foreign exchange losses of $0.3 million.

Funds From Operations

(in thousands, except per share information)	Year Ended December 31, 2012	2011	Change
Income from continuing operations	**$ 71,337**	$ 57,942	23%
Add back depreciation and amortization	**42,773**	42,701	—
Add back (deduct) loss (gain) on disposal of real estate	**21**	(91)	123%
Funds from Operations ("FFO")	**$ 114,131**	$ 100,552	14%
Basic FFO per share	**$ 2.44**	$ 2.14	14%
Diluted FFO per share	**$ 2.43**	$ 2.14	14%
Basic number of shares outstanding	**46,855**	46,888	
Diluted number of shares outstanding	**46,876**	46,970	

As noted above, the Company determines FFO using the definition prescribed in the U.S. by NAREIT.

The $13.5 million increase in FFO compared to the prior year period is primarily due to increased income from continuing operations of $13.4 million (see *"RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2012 — Income From Continuing Operations"*).

LIQUIDITY AND CAPITAL RESOURCES — CONTINUING OPERATIONS

The Company generated cash flows from operations of $24.9 million and $116.6 million in the three month period and year ended December 31, 2012, respectively. At December 31, 2012, the Company had cash and cash equivalents of $51.1 million and shareholders' equity of $877.0 million.

Cash Flows

Three Months Ended December 31, 2012

Operating Activities

The Company generated cash from operations before changes in non-cash working capital balances of $22.1 million in the fourth quarter of 2012 compared to $30.4 million in the prior year period. The $8.3 million decrease is due to a decrease in items not involving cash flows of $19.8 million, partially offset by an $11.5 million increase in income from continuing operations (see *"RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED DECEMBER 31, 2012"*).

The change in non-cash working capital balances provided cash of $2.8 million in the fourth quarter of 2012. The main drivers of the change in non-cash working capital for the three month period ended December 31, 2012 were:

- an increase in deferred revenue of $3.8 million primarily due to the timing of the receipt of rental payments and an ongoing capital project on behalf of non-Magna tenant. Under the terms of the lease agreement, the tenant is responsible for these costs. This reimbursement of costs will be recognized into revenue on a straight-line basis on the remaining lease term; and
- a $1.0 million increase in income taxes payable.

The increases in non-cash working capital balances are partially offset by:

- a $1.2 million increase in accounts receivable primarily due to the previously noted reimbursement of capital project costs from a non-Magna tenant; and
- a $1.2 million reduction in accounts payable and accruals.

In the fourth quarter of 2011, the change in non-cash working capital balances used cash of $8.6 million primarily due to a $5.7 million decrease in accounts payable and accrued liabilities and a $3.1 million decrease in deferred revenue due to the timing of the receipt of rental payments.

Investing Activities

Cash used in investing activities for the three month period ended December 31, 2012 was $5.4 million, which was a result of cash payments for real estate additions of $7.2 million, fixed asset additions of $0.2 million and a $0.5 million increase in other assets relating to a tenant inducement payment to a Magna tenant on renewal of their lease, partially offset by proceeds from the note receivable from the sale of Lone Star LP of $2.5 million. Cash used in investing activities for the fourth quarter of 2011 of $11.1 million was primarily due to capital expenditures on real estate properties.

Financing Activities

Cash used in financing activities for the three month period ended December 31, 2012 was related to dividend payments of $23.4 million. In the fourth quarter of 2012, the Company borrowed $42.0 million under its credit facility to facilitate corporate reorganizations in Europe. This amount was fully repaid during the quarter. In the fourth quarter of 2011, cash used in financing activities was $23.6 million, which included dividend payments of $23.9 million, partially offset by $0.3 million received from the exercise of stock options.

Year Ended December 31, 2012

Operating Activities

For the year ended December 31, 2012, the Company generated cash from operations before changes in non-cash working capital balances of $113.7 million compared to $120.0 million in the prior year period. The $6.3 million decrease is primarily due to a $19.7 million decrease in items not involving cash flows partially offset by a $13.4 million increase in income from continuing operations (see *"RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2012 — Income From Continuing Operations"*).

For the year ended December 31, 2012, the change in non-cash working capital balances was a source of cash of $3.0 million. The main drivers of the change in non-cash working capital for the year ended December 31, 2012 were:

- a $6.5 million increase in accounts payable primarily to due accruals related to advisory costs associated with the REIT conversion, higher compensation related accruals and an increase in the liability related to the deferred share units;
- a $3.1 million increase in deferred revenue primarily due to the timing of rental receipts and the previously noted deferral of the reimbursement of construction costs from a non-Magna tenant; and
- a $2.9 million decrease in accounts receivable primarily due to lower rent, process related costs and VAT receivables, partially offset by the capital project cost receivable as noted above.

These increases in non-cash working capital balances were partially offset by:

- a $8.9 million decrease in income taxes payable primarily due to the payment of taxes related to the 2011 reorganization; and
- a $0.5 million increase in restricted cash related to a segregated cash account associated with a construction holdback.

For the year ended December 31, 2011, the change in non-cash working capital balances used cash of $8.3 million which is comprised of:

- a $9.5 million decrease in accounts payable and accrued liabilities which includes a $3.0 million net reduction related to the redemption of deferred stock units by the Company's former directors following completion of the Arrangement;
- a $5.3 million decrease in income taxes payable; and
- a $3.9 million increase in accounts receivable due to process related costs receivable from tenants with respect to construction projects in Austria.

These uses of cash were partially offset by:

- a $5.7 million decrease in prepaid expenses and other due to the reduction in an amount related to the Company's Directors' and Officers' liability insurance; and
- a $4.8 million increase in deferred revenue primarily due to the receipt of a tenant payment with respect to a capital project. This amount is being amortized into revenue on a straight-line basis over the life of the lease.

Investing Activities

For the year ended December 31, 2012, investing activities used cash of $25.8 million which was comprised of $29.8 million of capital expenditures on real estate properties, $1.8 million of capital expenditures for fixed assets relating to our office moves and $0.3 million with respect to an increase in other assets. These uses of cash were partially offset by $5.0 million received as repayment of the note receivable from the sale of Lone Star LP and $1.2 million received with respect to the disposal of an income-producing property. For the year ended December 31, 2011, cash used in investing was $48.2 million which amount was primarily comprised of capital expenditures of $48.5 million for real estate additions. The decrease in capital expenditures on real estate properties in 2012 was a result of the reduction in expansion projects with Magna.

Financing Activities

Cash used in financing activities for the year ended December 31, 2012 was $96.0 million which included $93.8 million of dividend payments, $2.7 million related to the repurchase of common shares and $0.4 million in financing costs paid in respect to the credit facility that was entered into in February 2012, partially offset by $1.0 million in proceeds received on the issuance of shares from the exercise of stock options. Cash used in financing activities for the year ended December 31, 2011 of $45.9 million included $37.7 million of dividend payments, $13.0 million of net repayments of bank indebtedness under the unsecured senior revolving credit facility and a $2.2 million payment related to a mortgage on an income-producing property which matured in January 2011, partially offset by $7.0 million received from the exercise of stock options.

Bank and Debenture Financing

On February 7, 2012, the Company entered into an unsecured senior revolving credit facility in the amount of $50.0 million that was available by way of Cdn. dollar, U.S. dollar or euro denominated loans or letters of credit and was scheduled to mature on February 7, 2014. No amounts were drawn under the Company's credit facility as at December 31, 2012. The Company did not have a credit facility as at December 31, 2011.

On February 1, 2013, the Company replaced the above mentioned credit facility with an unsecured senior revolving credit facility in the amount of $175.0 million that is available by way of Cdn. dollar, U.S. dollar or euro denominated loans or letters of credit (the "Granite Credit Facility") and matures on February 1, 2015. However, the Company has the option to extend the maturity date by one year to February 1, 2016, subject to the agreement of lenders in respect of a minimum of $66^{2}/_{3}\%$ of the aggregate amount committed under the Granite Credit Facility. The Granite Credit Facility provides the Company with the ability to increase the amount of the commitment by an additional aggregate principal amount of up to $75.0 million with the consent of the participating lenders.

Interest on drawn amounts will be calculated based on an applicable margin determined by the Company's external credit rating. Based on Granite's current credit rating, the Company would be subject to interest rate margins of up to 1.63% depending on the currency and form of advance.

In December 2004, Granite issued $265.0 million of 6.05% senior unsecured debentures (the "Debentures"), which are due December 22, 2016, at a price of $995.70 per $1,000.00 of principal amount. The Debentures rank equally with all of Granite's existing and future unsecured indebtedness. At December 31, 2012, all of the Debentures remained outstanding. The total outstanding at December 31, 2012 was $263.6 million.

At December 31, 2012, the Company's debt to total capitalization ratio was 23%. Management believes that the Company'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. Additional acquisition and development activity will depend on the availability of suitable investment opportunities and related financing.

At December 31, 2012, the Company was in compliance with its debt agreements and related covenants.

Credit Ratings

On October 11, 2011, DBRS confirmed the BBB rating on the Company's senior unsecured debentures with a stable trend. On November 21, 2011, Moody's Investors Service announced that it had upgraded Granite's senior unsecured debenture ratings to Baa3, from Ba1 with a stable outlook.

ARRANGEMENT TRANSFERRED ASSETS & BUSINESS (INCLUDED IN DISCONTINUED OPERATIONS)

On June 30, 2011, the Company completed the Arrangement whereby the Arrangement Transferred Assets & Business were transferred to the Stronach Shareholder in consideration for the cancellation of the Company's dual class share structure through which the Stronach Shareholder controlled the Company. As a result of the Arrangement, the financial position and results of operations of the Racing & Gaming Business, as well as those related to lands held for development, a property located in the United States and an income-producing property located in Canada, have been presented as discontinued operations. For the three month period and year ended December 31, 2012, and for the six month period ended December 31, 2011, the Company's results of operations were not impacted by the Arrangement Transferred Assets & Business as they were transferred to the Stronach Shareholder effective June 30, 2011.

SIGNIFICANT MATTERS

Plan of Arrangement

On June 30, 2011, the Company completed the Arrangement under the *Business Corporations Act* (Ontario) which eliminated the Company's dual class share capital structure through which the Stronach Shareholder controlled the Company. Definitive agreements with respect to the Arrangement were entered into by the Company on January 31, 2011. The Arrangement was approved on March 29, 2011 by 98.08% of the votes cast by shareholders at the annual general and special meeting and on March 31, 2011, the Ontario Superior Court of Justice issued a final order approving the Arrangement. The Arrangement eliminated the Company's dual class capital structure through:

i) the purchase for cancellation of 363,414 Class B Shares held by the Stronach Shareholder upon the transfer to the Stronach Shareholder of the Company's Racing & Gaming Business including U.S. $20 million of working capital at January 1, 2011, substantially all of the Company's lands held for development and associated assets and liabilities (the Company was granted an option to purchase at fair value certain of these development lands if needed to expand the Company's income-producing properties), a property located in the United States, an income-producing property located in Canada and cash in the amount of U.S. $8.5 million. In addition, the Stronach Shareholder received a 50% interest in the note receivable and cash proceeds from the sale of Lone Star LP, a 50% interest in future payments, if any, under a holdback agreement relating to Magna Entertainment Corp.'s ("MEC's") prior sale of The Meadows racetrack and a second right of refusal (behind Magna's first right of refusal) in respect of certain properties owned by the Company and leased to Magna in Oberwaltersdorf, Austria and Aurora, Canada; and

ii) the purchase for cancellation by the Company of each of the other 183,999 Class B Shares in consideration for 1.2 Class A Subordinate Voting Shares per Class B Share, which following cancellation of the Class B Shares and together with the then outstanding Class A Subordinate Voting Shares were renamed Common Shares.

The Maryland Jockey Club Complaint

On February 15, 2011, Power Plant Entertainment Casino Resorts Indiana, LLC, PPE Casino Resorts Maryland, LLC and The Cordish Company (the "Plaintiffs") sued, among other defendants, the Company, certain subsidiary entities and joint ventures, including The Maryland Jockey Club and certain of its subsidiaries (collectively, the "MJC Entities"), as well as the Company's former Chairman and Chief Executive Officer, Mr. Frank Stronach, in the Circuit Court for Baltimore City in Baltimore, Maryland. The claims asserted in the Plaintiffs' complaint against the Company, the MJC Entities and Mr. Stronach (the "Complaint") are alleged to have arisen from events that occurred in Maryland in connection with the referendum conducted in November 2010 concerning the award of a gaming license to one of the Plaintiffs to conduct alternative gaming at the Arundel Mills Mall. The Complaint asserts a number of claims against all the defendants including, among other allegations, that the Company and Mr. Stronach, along with a number of other defendants, engaged in actions to defame the Plaintiffs by distributing allegedly false information concerning the Plaintiffs and their operations of a gaming facility in Indiana, Indianapolis Downs, LLC operating as Indiana Live. The specific claims asserted against the Company, the MJC Entities and Mr. Stronach are for alleged civil conspiracy, false light, invasion of privacy and defamation. The Complaint seeks an award of damages against all defendants in the amount of U.S. $300 million in compensatory damages and U.S. $300 million in punitive damages. Granite believes this claim is without merit. On March 25, 2011, a number of defendants, including the MJC Entities and the Company, filed a motion in the Circuit Court for Baltimore City, seeking to have the action transferred to the Circuit Court for Anne Arundel County. On April 29, 2011, the Indiana-based defendants named in the Complaint filed a notice to remove the Plaintiffs' claims relating to the Indiana defendants to the U.S. District Court for the District of Maryland. The Plaintiffs have sought to remand these claims to the Circuit Court for Baltimore City. The entire matter, in both the state and federal courts, was stayed by the United States Bankruptcy Court for the District of Delaware until it determined whether the claims were impacted by the bankruptcy of Indianapolis Downs, LLC. On September 6, 2011, the United States Bankruptcy Court for the District of Delaware entered an order denying the injunction motion and lifting the stay effective September 26, 2011. On December 21, 2011, the Circuit Court for Baltimore City issued an order staying the state court defendants' motions to transfer venue to the Circuit Court for Anne Arundel County pending resolution of whether the Maryland federal court action was remanded out of federal court. On September 26, 2012, the Maryland federal court issued an order remanding the Maryland federal court action to the Circuit Court for Baltimore City. On October 2, 2012, the parties filed a stipulation with the Circuit Court for Baltimore City proposing a further stay to allow certain of the defendants to engage plaintiffs in discussions that may potentially streamline the litigation. The stay was granted by the Circuit Court for Baltimore City on October 12, 2012. Under the terms of the Arrangement, the Company received an indemnity from the Stronach Shareholder and certain related parties against all losses suffered by the Company in relation to the Racing & Gaming Business for the period prior to, on and after the effective date of the transfer of June 30, 2011. Accordingly the Company has not recorded a liability related to this claim. Granite provided the Stronach Shareholder with the required disclosure notice listing the existing litigation with the Plaintiffs. The Company has retained independent counsel to monitor the litigation on its behalf.

MEC's Chapter 11 Filing and Plan of Reorganization

On March 5, 2009, MEC and certain of its subsidiaries filed voluntary petitions for reorganization under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the District of Delaware and were granted recognition of the Chapter 11 proceedings from the Ontario Superior Court of Justice under section 18.6 of the Companies' Creditors Arrangement Act in Canada. On February 18, 2010, the Company announced that MEC had filed the Joint Plan of Affiliated Debtors, an agreement amongst the Official Committee of Unsecured Creditors, the Company and MI Developments US Financing Inc. pursuant to the Bankruptcy Code (as amended, the "Plan") and related Disclosure Statement in connection with the MEC Chapter 11 proceedings. The Plan provided, among other things, that the assets of MEC remaining after certain asset sales were to be transferred to the Company, including, among other assets, Santa Anita Park, Golden Gate Fields, Gulfstream Park (including MEC's interest in The Village at Gulfstream Park™, a joint venture between MEC and Forest City Enterprises, Inc.), Portland Meadows, AmTote International, Inc. and XpressBet, Inc. On March 23, 2010, the Plan was amended to include the transfer of MJC to the Company (together with the assets referred to in the preceding sentence, the "MEC Transferred

Assets"). On April 30, 2010, the closing conditions of the Plan were satisfied or waived, and the Plan became effective following the close of business on April 30, 2010.

INCOME FROM DISCONTINUED OPERATIONS — YEAR ENDED DECEMBER 31, 2012

	Year Ended December 31,	
	2012	**2011**
Revenues	**$ —**	$ 262.3
Purses, awards and other	—	148.6
Operating costs	—	80.2
Property operating costs	—	0.9
General and administrative	—	21.8
Depreciation and amortization	—	3.4
Interest income	—	(0.3)
Foreign exchange gains	—	(0.1)
Equity loss	—	2.0
Income before income taxes	—	5.8
Income tax recovery	—	(1.2)
Income from operations	—	7.0
Net gain on disposition of discontinued operations, net of income taxes of $10.5 million	—	87.4
Income from discontinued operations	**$ —**	$ 94.4

Income from operations for the year ended December 31, 2011 amounts to $7.0 million and is comprised of net income from the Racing & Gaming Business of $9.8 million partially offset by net losses of $2.8 million from lands held for development, a property located in the United States and an income-producing property located in Canada. The Racing & Gaming Business net income included $2.0 million of its proportionate share of losses from joint venture investments. The remainder of the Racing & Gaming Business net income was generally reflective of the seasonality of when the racetracks hold live racing. The net loss of $2.8 million from the lands held for development primarily relates to carrying costs associated with these properties.

NET INCOME

Three months ended December 31, 2012

Net income for the fourth quarter of 2012 increased by $11.5 million to $15.1 million from $3.6 million in the prior year period. The increase was due to the reasons noted above (see *"RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED DECEMBER 31, 2012"*).

Year ended December 31, 2012

Net income for the year ended December 31, 2012 decreased by $81.1 million to $71.3 million from $152.4 million in the prior year period. The decrease was due to the decrease in income from discontinued operations of $94.4 million partially offset by an increase in income from continuing operations of $13.4 million (see *"RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2012 — Income From Continuing Operations"*).

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Report on Internal Control Over Financial Reporting

Granite's management is responsible for establishing and maintaining internal control over financial reporting (as such term is defined in NI 52-109 and Rules 13a-15(f) and 15d-15(f) under the United States Securities Exchange Act of 1934) for the Company. Under the supervision and with the participation of Granite's Chief Executive Officer and Chief Financial Officer, management conducted an evaluation of the effectiveness of Granite's internal control over financial reporting, as of the Evaluation Date, based on the framework set forth in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation under this framework, management concluded that Granite's internal control over financial reporting was effective as of the Evaluation Date.

Ernst & Young LLP, an independent licensed public accounting firm, who audited Granite's consolidated financial statements for the year ended December 31, 2012 and whose report is included in Granite's annual report for fiscal 2012, has also issued an attestation report under standards of the Public Company Accounting Oversight Board (United States) on Granite's internal control over financial reporting as of the Evaluation Date. The attestation report precedes the financial statements included in Granite's annual report for fiscal 2012.

Changes in Internal Control Over Financial Reporting

As of the Evaluation Date, there have been no changes in Granite'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, 2012 that have materially affected, or are reasonably likely to materially affect, Granite's internal control over financial reporting.

Limitation on the Effectiveness of Controls and Procedures

Granite's management, including the Chief Executive Officer and the Chief Financial Officer, does not expect that Granite's controls and procedures will prevent all potential error and fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

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

In the ordinary course of business activities, the Company may become subject to litigation and other claims brought by, among others, customers, suppliers and former employees. Management believes that adequate provisions have been recorded in the accounts where required. Although it is not possible to accurately estimate the extent of potential costs and losses, if any, management believes, but can provide no assurance,

that the ultimate resolution of such claims would not have a material adverse effect on the financial position of the Company.

The Company has made commitments for future payments of interest and principal on long-term debt and construction and development project costs. At December 31, 2012, future payments, including interest payments, under these contractual obligations were as follows:

(in thousands)	2013	2014	2015	2016	2017	Thereafter	Total
Debentures	$ 16,033	$ 16,033	$ 16,033	$ 281,033	$ —	$ —	$ 329,132
Operating leases	421	421	421	421	208	453	2,345
Construction and development project commitments	8,557	—	—	—	—	—	8,557
Other	500	—	—	—	—	—	500
Total	$ 25,511	$ 16,454	$ 16,454	$ 281,454	$ 208	$ 453	$ 340,534

At December 31, 2012, the Company had $1.1 million of letters of credit issued with various financial institutions to guarantee its performance under various construction projects. These letters of credit are secured by cash deposits of the Company.

Off-balance sheet arrangements consist of letters of credit, construction and development project commitments, foreign currency forward contacts and certain operating agreements.

For further discussion of commitments, contractual obligations, contingencies and off-balance sheet arrangements, refer to notes 7, 9, 18 and 22 to the consolidated financial statements and "*LIQUIDITY AND CAPITAL RESOURCES*".

RELATED PARTY TRANSACTIONS

For a discussion of the Company's transactions with related parties, please refer to notes 1, 15, 19 and 21 to the consolidated financial statements and the section in this MD&A entitled *"ARRANGEMENT TRANSFERRED ASSETS & BUSINESS — SIGNIFICANT MATTERS*".

NEW ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS

Information on new accounting standards and developments is detailed in note 1 of the Company's consolidated financial statements. The accounting standards adopted that impacted the Company's financial statements are as follows:

Fair Value Measurement

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS". The new guidance results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and IFRS. The amendments are applied prospectively and are effective for interim and annual periods beginning after December 15, 2011. The adoption of ASU 2011-04, effective January 1, 2012, did not have any impact on the Company's consolidated financial statements except for additional disclosure requirements when applicable particularly in relation to Level 3 fair value measurements.

Comprehensive Income

In June 2011, the FASB issued ASU 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income". ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of changes in shareholders' equity, and requires the presentation of components of net income and other comprehensive income either in a single continuous statement or in two

separate but consecutive statements. ASU 2011-05 is effective, on a retrospective basis, for interim and annual periods beginning after December 15, 2011. The adoption of ASU 2011-05, effective January 1, 2012, did not have any impact on the Company's consolidated financial statements.

Change in Reporting Currency

The consolidated financial statements for periods prior to January 1, 2012 were reported using the U.S. dollar. With the change in the reporting currency, all comparative financial information has been recast from U.S. dollars to Cdn. dollars to reflect our consolidated financial statements as if they had been historically reported in Cdn. dollars. The consolidated U.S. dollar balance sheet at December 31, 2011 was translated into the Cdn. dollar reporting currency by translating assets and liabilities at the end-of-period exchange rate and translating equity balances at historical exchange rates. The consolidated statements of income (loss) were translated into Cdn. dollars using the weighted average exchange rate for the applicable period. The resulting foreign currency translation adjustment is reported as a component of other comprehensive income (loss) and accumulated other comprehensive loss. The impact of the change in reporting currency on the consolidated statement of income (loss) for the three month period and year ended December 31, 2011, and the net assets/shareholders' equity as at December 31, 2011 on the Company's balance sheet, is summarized in the tables below:

Three month period ended December 31, 2011 (in millions, except per share information)	**As Previously Reported**	**Foreign Exchange**	**As Recast**
Consolidated statement of income	**USD**		**CDN**
Revenues	$ 45.3	$ 1.1	$ 46.4
Income from continuing operations and net income	3.5	0.1	3.6
Diluted earnings from continuing operations per Common or Class B Share	0.08	—	0.08

Year ended December 31, 2011 (in millions, except per share information)	**As Previously Reported**	**Foreign Exchange**	**As Recast**
Consolidated statement of income	**USD**		**CDN**
Revenues	$ 182.9	$ (2.0)	$ 180.9
Income from continuing operations	59.2	(1.3)	57.9
Net income	155.8	(3.4)	152.4
Diluted earnings from continuing operations per Common or Class B Share	1.26	(0.03)	1.23

As at December 31, 2011	**As Previously Reported**	**Foreign Exchange**	**As Recast**
Consolidated balance sheet	**USD**		**CDN**
Common Shares	$ 1,521.1	$ 598.4	$ 2,119.5
Contributed surplus	57.6	4.6	62.2
Deficit	(845.8)	(30.6)	(876.4)
Accumulated other comprehensive income (loss)	161.1	(557.2)	(396.1)
Total shareholders' equity	**$ 894.0**	**$ 15.2**	**$ 909.2**

The $598.4 million impact of the change in reporting currency on Common Shares is due to the effect of translating the consolidated balance at the historical exchange rate. The Cdn. dollar has appreciated since the formation of the Company. The resulting impact of translating Common Shares, contributed surplus and deficit at historical rates is recorded in accumulated other comprehensive loss.

FUTURE CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

IFRS Transition

Granite will adopt IFRS in place of U.S. GAAP reporting standards for interim and annual periods commencing after December 31, 2012. Comparative IFRS information for the previous fiscal year will also be provided, including the Company's IFRS transition balance sheet as at January 1, 2012.

The following discussion has been prepared using the standards and interpretations currently issued and expected to be effective at the end of the Company's first annual IFRS reporting period, which will be December 31, 2013. Certain accounting policies expected to be adopted under IFRS may not be adopted and the application of such policies to certain transactions or circumstances may be modified and, as a result, the impact of Granite's conversion to IFRS may be different than its current expectation.

Management does not expect that the adoption of IFRS will have any material impact on the Company's business activities or cash flows. However, it will impact certain aspects of Granite's reported financial results, the more significant of which relate to the accounting for investment properties, classification of leases, accounting for income taxes, classification of trust units, certain financial statement presentation and disclosure matters and the effects of transitional provisions of IFRS for first time adopters. The nature of the adjustments that are anticipated in our first quarter 2013 interim results are described below:

a) Real estate properties — The Company considers its real estate properties to be investment properties under International Accounting Standard 40, Investment Property ("IAS 40"). Similar to U.S. GAAP, investment property is initially recorded at cost, however, subsequent to initial recognition, IFRS requires that an entity choose either the cost or fair value model to account for its investment properties. Granite expects to use the fair value model when preparing its financial statements under IFRS. Using internal resources as well as independent appraisers, fair value will primarily be determined by discounting the expected future cash flow, generally over 10 years, and using a weighted average discount and terminal capitalization rate which takes into account several factors including the nature, jurisdiction and location of the property. Based on the preliminary work completed to date, the fair value of Granite's investment properties is estimated to be at least equal to gross book value. In connection with recording investment properties at fair value, deferred leasing commissions, tenant inducements and certain deferred rent receivable and deferred revenue balances will not be recognized. Recording investment properties at fair value will also result in adjustments to Granite's deferred tax balances. Depreciation and impairments are not recorded under the fair value model, however, the gains or losses arising from a change in the fair value of investment properties in a period will be recognized in income. The adjustments as a result of implementing the fair value model as at January 1, 2012 will be recorded to opening deficit.

b) Cumulative foreign currency translation differences — IAS 21, The Effects of Changes in Foreign Exchange Rates, requires an entity to determine the translation differences in accordance with IFRS from the date a subsidiary was formed. IFRS allows cumulative translation differences for all foreign operations to be deemed zero at the date of transition to IFRS. Granite expects to deem all cumulative translation differences to be zero on transition to IFRS by adjusting amounts through opening deficit.

c) Trust Units — In conjunction with the REIT conversion, Granite's Common Shares were exchanged for stapled units. Under IAS 32, Financial Instruments, equity instruments can be considered a liability if the holder has the right to put the instrument back to the issuer for cash or another financial asset unless certain conditions are met. Granite expects to meet the conditions that will result in the stapled units being presented as equity in its financial statements. Notwithstanding the presentation of these units as equity, the aforementioned exception provided for the presentation of the stapled units as equity does not extend to the accounting for share-based payments. Accordingly, Granite's stock option and share unit plans, as amended under the REIT conversion, will be recorded as liabilities upon conversion to a REIT and revalued at each interim period.

d) Income Taxes — Under both U.S. GAAP and IFRS, deferred income taxes are recorded for the temporary differences arising in respect of its assets and liabilities at the tax rates that are expected to apply to the period when the asset is realized or the liability settled, based on tax rates and laws that have been

enacted or substantively enacted by the reporting date. Primarily, as a result of the increase to the carrying value of investment properties from the fair value adjustment on transition, a deferred tax liability will be recorded at January 1, 2012. However, as a result of the REIT conversion effective January 3, 2013, it is anticipated that certain deferred tax amounts will be reversed as an adjustment to deferred tax expense. Additionally, Granite is continuing to evaluate the application of IAS 12, Income Taxes, to certain of its subsidiaries, particularly those qualifying as a REIT for tax purposes.

Management continues to evaluate the potential impact that IFRS will have on the Company's consolidated financial statements particularly as it relates to the REIT conversion. Granite also expects the transition to IFRS to impact internal controls, information technology systems and other procedures primarily as it relates to the real estate valuation process as well as new disclosures in the financial statements required under IFRS. Management has monitored new contractual agreements for IFRS impact and does not expect the adoption of IFRS to have an impact on compensation arrangements.

OUTSTANDING SHARES AND STAPLED UNITS

As part of the REIT conversion, effective January 3, 2013, Granite Real Estate Inc. acquired and cancelled 46,832,908 of its Common Shares, being 100% of its issued and outstanding Common Shares. Under the plan of arrangement all Common Shares of the Company were exchanged for stapled units, each of which consists of one unit of Granite REIT and one common share of Granite REIT Inc. (see *"SIGNFICANT MATTERS — Completion of REIT Conversion")*. As at the date of this MD&A, Granite REIT had 46,882,891 stapled units issued and outstanding. The increase of 49,983 stapled units results from 50,000 stock options exercised subsequent to the REIT conversion net of the repurchase for cash of 17 Common Shares from dissenting shareholders.

DIVIDENDS AND DISTRIBUTIONS

In March 2012, the Board of Directors (the "Board") declared a dividend of U.S. $0.50 in respect of the three month period ended December 31, 2011, which was paid on or about April 12, 2012 to shareholders of record at the close of business on March 23, 2012. In May, August and November 2012, the Board declared a quarterly dividend with respect to the three month periods ended March 31, June 30, and September 30, 2012, respectively. The dividends of Cdn. $0.50 per Common Share were paid on or about June 14, 2012, September 13, 2012 and December 13, 2012, to shareholders of record at the close of business on May 25, 2012, August 24, 2012 and November 23, 2012, respectively.

In conjunction with the REIT conversion, in January and February 2013, the Board of Trustees of Granite REIT declared monthly distributions with respect to the one month periods ended January 31, 2013 and February 28, 2013, respectively. The distribution of $0.175 per stapled unit declared in January 2013 was paid on February 15, 2013 to unitholders of record at the close of business on January 31, 2013 and the distribution declared in February 2013 will be paid on March 15, 2013 to unitholders of record at the close of business on February 28, 2013.

CRITICAL ACCOUNTING ESTIMATES

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates that affect the amounts reported and disclosed in the consolidated 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 carrying values of assets and liabilities. On an ongoing basis, management evaluates its estimates. However, actual results could differ from those estimates under different assumptions or conditions.

The Company's significant accounting policies are included in note 1 to the consolidated financial statements. Management believes the following critical accounting policies involve the most significant judgments and estimates used in the preparation of the Company's consolidated financial statements.

Principles Of Consolidation

We consolidate entities when we have the ability to control the operating and financial decisions and policies of that entity, including if the entity is determined to be a variable interest entity and we are the primary beneficiary. We apply the equity method of accounting where we can exert significant influence, but not control, over the operating and financial decisions and policies of the entity. We use the cost method of accounting where we are unable to exert significant influence over the entity.

Long-lived Assets

The Company's most significant asset is its net investment in real estate properties. Properties are stated at cost less accumulated depreciation, reduced for impairment losses where appropriate. The carrying values of the Company's long-lived assets (including real estate properties and fixed assets) not held for sale are evaluated at least annually or whenever events or changes in circumstances present indicators of impairment. If such indicators are present, the Company completes a net recoverable amount analysis for the long-lived assets by determining whether the carrying value of such assets can be recovered through projected undiscounted cash flows. If the sum of expected future cash flows, undiscounted and without interest charges, is less than net book value, the excess of the net book value over the estimated fair value, based on discounted future cash flows and, if appropriate, appraisals, is charged to operations in the period in which such impairment is determined by management.

When properties are classified by the Company as available for sale or discontinued operations, the carrying value is reduced, if necessary, to the estimated net realizable value. "Net realizable" value is determined based on discounted net cash flows of the assets and, if appropriate, appraisals and/or estimated net sales proceeds from pending offers.

For real estate properties, depreciation is provided on a straight-line basis over the estimated useful lives of buildings, which typically range from 20 to 40 years.

Accounting estimates related to long-lived assets and the impairment assessments thereof, are subject to significant measurement uncertainty and are susceptible to change as such estimates require management to make forward-looking assumptions regarding cash flows and business operations. Any resulting impairment charge could have a material impact on the Company's results of operations and financial position.

Cost Capitalization

The Company capitalizes acquisition, development and expansion costs, including direct construction costs, interest and indirect costs wholly attributable to development. Interest is capitalized to projects under development or construction based on the average accumulated expenditures outstanding during the period multiplied by the Company's average borrowing rate on existing debt. The Company capitalizes direct and indirect costs, including real estate taxes and certain operating expenses of the development property if activities necessary to ready the development property for its intended use is in progress. Costs of internal personnel and other indirect costs that are not wholly attributable to a project are expensed as incurred. Project related costs are capitalized until the project is substantially completed and the property is available for occupancy.

Stock-Based Compensation

Compensation expense for stock options 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 and its exercisability does not depend on continued service by the option holder. Compensation expense is recognized as general and administrative expenses, with a corresponding amount included in equity as contributed surplus. The contributed surplus balance is reduced as options are exercised and the amount initially recorded for the options in contributed surplus is credited to Common Shares, along with the proceeds received on exercise. In the event that options are forfeited or cancelled prior to having vested, any previously recognized expense is reversed in the period of forfeiture or cancellation.

The fair value of stock options is estimated at the date of grant using the Black-Scholes option valuation model. The Black-Scholes option valuation model was developed for use in estimating the fair value of freely traded options, which are fully transferable and have no vesting restrictions. In addition, this model requires the input of subjective assumptions, including expected dividend yields, future stock price volatility and expected time until exercise. Although the assumptions used reflect management's best estimates, they involve inherent uncertainties based on market conditions outside of the Company's control. Because the Company's outstanding stock options have characteristics that are significantly different from those of traded options, and because changes in any of the assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide the only measure of the fair value of the Company's stock options.

The Company's restricted share 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 in general and administrative expenses with a corresponding amount included in equity as contributed surplus. The contributed surplus balance is reduced and credited to Common Shares as shares are issued in satisfaction of the share units. Restricted share units granted under this plan may be subject to cliff or graded vesting. Compensation expense for awards with cliff or graded vesting is recognized on a straight-line basis over the period from grant date to the final vesting date.

For further details, refer to note 13 to the consolidated financial statements.

Revenue Recognition

Where the Company 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 Company's rental properties have been transferred to its tenants, the Company's leases are accounted for as direct financing leases. For leases involving land and buildings, if the fair value of the land exceeds 25% of the consolidated fair value of the land and building at the inception of the lease, the Company evaluates the land and building separately in determining the appropriate lease treatment. In such circumstances, the land lease is typically accounted for as an operating lease and the building is accounted for as either an operating lease or a direct financing lease, as appropriate.

Granite's leases (the "Leases") are net leases under which the lessee is responsible for the direct payment of all operating costs related to the properties, including property taxes, insurance, utilities and routine repairs and maintenance. Revenues and operating expenses do not include any amounts related to operating costs paid directly by the lessees.

The Leases may provide for either scheduled fixed rent increases or periodic rent increases based on increases in a local price index. Where periodic rent increases depend on increases in a local price index, such rent increases are accounted for as contingent rentals and recognized in income in applicable future years. Where scheduled fixed rent increases exist in operating leases, the total scheduled fixed lease payments of the lease are recognized in income evenly on a straight-line basis over the term of the lease. The amount by which the straight-line rental revenue differs from the rents collected in accordance with the lease agreements is recognized in deferred rent receivable.

Granite's classification of its leases as either operating leases or direct financing leases, and the resulting revenue recognition treatment, depends on estimates made by management. If these estimates are inaccurate, there is risk that revenues and income for a period may otherwise differ from reported amounts.

Income Taxes

The Company uses the liability method of tax allocation for accounting for income taxes. Under the liability method of tax allocation, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is provided to the extent that it is more likely than not that future tax assets will not be realized.

The Company accounts for uncertain tax positions by evaluating if the available evidence indicates it is more likely than not, based on technical merits, that the position will be sustained on audit, including resolutions of related appeals or litigation processes, if any. The Company measures the appropriate amount of the benefit to recognize which is the maximum amount that is more likely than not to be realized. The tax position is reversed when it is no longer more likely than not capable of being sustained. The maximum amount which is more likely than not to be recognized at each reporting date will represent the Company's best estimate, given the information available at the reporting date, although the outcome of the tax position is not absolute or final.

Granite conducts operations in a number of countries with varying statutory rates of taxation. Judgement is required in the estimation of income taxes, and future income tax assets and liabilities, in each of the Company'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 future income tax assets will be realized and, based on all the available evidence, determining if a valuation allowance is required on all or a portion of such future income tax assets. Granite's effective tax rate can vary significantly quarter to quarter due to changes in (i) the proportion of income earned in each tax jurisdiction, (ii) current and future statutory rates of taxation, (iii) estimates of tax exposures, (iv) the assessment of whether it is more likely than not that future income tax assets will be realized and (v) the valuation allowances recorded on future tax assets. Management's estimates used in establishing the Company's tax provision are subject to uncertainty. Actual results may be materially different from such estimates.

RISKS AND UNCERTAINTIES

Investing in our stapled units involves a high degree of risk. There are a number of risk factors that could have a material adverse effect on our business, financial condition, operating results and prospects. These risks and uncertainties are discussed in our AIF filed with securities regulators in Canada and available online at www.sedar.com and Annual Report on Form 40-F filed with the SEC and available online at www.sec.gov, each in respect of the year ended December 31, 2012.

SELECTED ANNUAL AND QUARTERLY DATA

Refer to note 1 of the consolidated financial statements for a description of the accounting policies used in the determination of the financial data.

(in thousands, except per share information)

Years ended December 31,	2012	2011[1]	2010[1]
Revenue:			
Rental Revenue	**$ 181,115**	$ 180,937	$ 177,229
Interest and other revenue from MEC	**—**	—	1,893
	$ 181,115	$ 180,937	$ 179,122
Income from continuing operations[2]	**$ 71,337**	$ 57,942	$ 68,403
Net income (loss):			
Continuing operations[2]	**$ 71,337**	$ 57,942	$ 68,403
Discontinued operations[2]	**—**	94,449	(121,269)
	$ 71,337	$ 152,391	$ (52,866)
Cash dividends declared per share	**$ 1.99**	$ 0.80	$ 0.55
Basic earnings per share from continuing operations[2]	**$ 1.52**	$ 1.24	$ 1.47
Diluted earnings per share from continuing operations[2]	**$ 1.52**	$ 1.23	$ 1.47
Basic earnings (loss) per share	**$ 1.52**	$ 3.25	$ (1.13)
Diluted earnings (loss) per share	**$ 1.52**	$ 3.24	$ (1.13)
Total Assets	**$ 1,218,205**	$ 1,245,414	$ 1,933,258
Total Debt	**$ 263,589**	$ 263,236	$ 262,884

Year ended December 31, 2012	Mar 31	Jun 30	Sep 30	Dec 31	Total
Revenue:					
Real Estate Business					
Rental revenue	$ 45,660	$ 45,455	$ 44,685	$ 45,315	$ 181,115
Income from continuing operations and net income[2]:					
Real Estate Business[3]	$ 18,563	$ 18,707	$ 18,919	$ 15,148	$ 71,337
Basic and diluted earnings per share:	$ 0.40	$ 0.40	$ 0.40	$ 0.32	$ 1.52
FFO:					
Real Estate Business[3]	$ 29,406	$ 29,374	$ 29,446	$ 25,905	$ 114,131
Diluted FFO per share:					
Real Estate Business[3]	$ 0.63	$ 0.63	$ 0.63	$ 0.55	$ 2.43
Diluted shares outstanding:					
Real Estate Business[3]	46,906	46,896	46,846	46,866	46,876

Year Ended December 31, 2011	Mar 31[1]	Jun 30[1]	Sep 30[1]	Dec 31[1]	Total[1]
Revenue:					
Real Estate Business					
Rental revenue	$ 44,231	$ 44,861	$ 45,485	$ 46,360	$ 180,937
Income from continuing operations[2]:					
Real Estate Business[3]	$ 12,689	$ 26,362	$ 15,277	$ 3,614	$ 57,942
Net income:					
Real Estate Business[3]	$ 12,689	$ 26,362	$ 15,277	$ 3,614	$ 57,942
Discontinued operations[2]	10,765	83,684	—	—	94,449
	$ 23,454	$ 110,046	$ 15,277	$ 3,614	$ 152,391
Basic and diluted earnings per share from continuing operations[2]:					
Real Estate Business[3]	$ 0.27	$ 0.56	$ 0.33	$ 0.08	$ 1.24
Basic earnings per share:	$ 0.50	$ 2.34	$ 0.33	$ 0.08	$ 3.25
Diluted earnings per share:	$ 0.50	$ 2.33	$ 0.33	$ 0.08	$ 3.24
FFO:					
Real Estate Business[3]	$ 23,136	$ 36,938	$ 25,902	$ 14,576	$ 100,552
Diluted FFO per share:					
Real Estate Business[3]	$ 0.49	$ 0.78	$ 0.55	$ 0.31	$ 2.14
Diluted shares outstanding:					
Real Estate Business	46,947	47,165	46,862	46,883	46,970

(1) Information was previously presented in U.S. dollars (see *"SIGNIFICANT MATTERS — Currency Change for Financing Reporting and Dividends"*).

(2) As a result of the Arrangement, the results of operations of the Arrangement Transferred Assets & Business have been presented as discontinued operations for all periods presented. The Racing & Gaming Business results of operations are included in the Company's consolidated results of operations subsequent to the effective date of the Plan of April 30, 2010 (see *"ARRANGEMENT TRANSFERRED ASSETS & BUSINESS — SIGNIFICANT MATTERS — MEC's Chapter 11 Filing and Plan of Reorganization")*. Subsequent to the second quarter of 2011, the Company's results of operations were not impacted by the Arrangement Transferred Assets & Business as they were transferred to the Stronach Shareholder effective June 30, 2011.

(3) The Real Estate Business' results for 2012 include (i) $0.3 million, $0.8 million, $0.3 million and $0.3 million ($0.2 million, $0.7 million, $0.2 million and $0.2 million net of income taxes) in the first, second, third and fourth quarters respectively, of appraisal, environmental and valuation costs related to income-producing properties, (ii) $1.6 million ($1.2 million net of income taxes) in the fourth quarter of land transfer taxes and associated costs related to the REIT conversion, (iii) $0.8 million, $0.7 million, $2.6 million and $3.8 million ($0.8 million, $0.7 million, $2.5 million and $2.8 million net of income taxes) in the first, second, third and fourth quarters respectively, of advisory costs related to the planned REIT Conversion and (iv) $0.3 million ($0.2 million net of income taxes) in the first quarter relating to employee terminations costs.

The Real Estate Business' results for 2011 include (i) $5.9 million, $2.3 million and $0.9 million ($5.9 million, $1.8 million and $0.7 million net of income taxes) in the first, second and third quarters respectively, of advisory and other costs primarily incurred in connection with the Arrangement (see *"ARRANGEMENT TRANSFERRED ASSETS & BUSINESS — SIGNIFICANT MATTERS — Plan of Arrangement"*) and the settlement of an outstanding legal proceeding, (ii) $2.7 million ($1.7 million net of income taxes) in the second quarter relating to a write-down of an income-producing commercial office building, (iii) $12.9 million in income tax recovery relating to an internal amalgamation completed in 2010 that was set aside and cancelled during the second quarter, (iv) $5.4 million ($3.8 million net of income taxes) and $1.6 million ($1.1 million net of income taxes) in the third and fourth quarters respectively relating to employee termination costs and (v) a write-down of $16.7 million ($13.5 million net of income taxes) relating to two income-producing properties in Austria and Germany in the fourth quarter.

FORWARD-LOOKING STATEMENTS

This MD&A may contain statements that, to the extent they are not recitations of historical fact, constitute "forward-looking statements" within the meaning of applicable securities legislation, including the United States Securities Act of 1933, as amended and the United States Securities Exchange Act of 1934, as amended. Forward-looking statements may include, among others, statements regarding the Company's future plans, goals, strategies, intentions, beliefs, estimates, costs, objectives, capital structure, cost of capital, tenant base, tax consequences, economic performance or expectations, or the assumptions underlying any of the foregoing. In particular, this MD&A contains forward-looking statements regarding the Company's expectations with respect to the REIT conversion as well as certain accounting policies expected to be adopted under IFRS. Words such as "may", "would", "could", "will", "likely", "expect", "anticipate", "believe", "intend", "plan", "forecast", "project", "estimate", "seek" and similar expressions are used to identify forward-looking statements. Forward-looking statements 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. In particular, Granite cautions that there can be no assurance that the anticipated reduction in cash income taxes payable following the REIT conversion will be realized or that the application of IFRS accounting policies expected to be adopted may not be adopted and the application of such policies to certain transactions or circumstances can be different than expected, or at all. Forward-looking statements are based on information available at the time and/or management's good faith assumptions and analyses made in light of our perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the circumstances, and are subject to known and unknown risks, uncertainties and other unpredictable factors, many of which are beyond the Company's control, that could cause actual events or results to differ materially from such forward-looking statements. Important factors that could cause such differences include, but are not limited to, the risk of changes to tax or other laws that may adversely affect the REIT; the ability to realize the anticipated reduction in cash income taxes payable following the REIT conversion and the risks set forth in the "Risk Factors" section in the Company's Annual Information Form for 2012, filed on SEDAR at sedar.com and attached as Exhibit 1 to the Company's Annual Report on Form 40-F for the year ended December 31, 2012 filed with the SEC and available online 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. Forward-looking statements speak only as of the date the statements were made and unless otherwise required by applicable securities laws, the Company expressly disclaims any intention and undertakes no obligation to update or revise any forward-looking statements contained in this MD&A to reflect subsequent information, events or circumstances or otherwise.

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- Exhibit 3

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EXHIBIT 4

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the use of our audit report dated March 5, 2013 on the consolidated financial statements of Granite Real Estate Inc. as at December 31, 2012 and 2011, and for each of the years in the three-year period ended December 31, 2012, and the effectiveness of internal controls over financial reporting of Granite Real Estate Inc. as at December 31, 2012, included as an exhibit in this Annual Report on Form 40-F for the year ended December 31, 2012.

Toronto, Canada
March 5, 2013

/s/ ERNST & YOUNG LLP

Ernst & Young LLP
Chartered Accountants
Licensed Public Accountants

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EXHIBIT 4

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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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, 2012 (the "Report") to which this certification is an exhibit, I, Thomas Heslip, Trustee and Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 5, 2013

/s/ THOMAS HESLIP

Name: Thomas Heslip
Title: Trustee and Chief Executive Officer

EXHIBIT 99.1

Certification Pursuant to 18 U.S.C. 1350,

As Adopted Pursuant to

Section 906 of the Sarbanes-Oxley Act of 2002

Granite REIT Inc.

In connection with the annual report of Granite REIT Inc. (the "Company") on Form 40-F for the fiscal year ended December 31, 2012 (the "Report") to which this certification is an exhibit, I, Thomas Heslip, Director and Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 5, 2013

/s/ THOMAS HESLIP

Name: Thomas Heslip
Title: Director and Chief Executive Officer

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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

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.

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EXHIBIT 99.2

Certifications
Granite Real Estate Investment Trust

I, Thomas Heslip, certify that:

1. I have reviewed this annual report on Form 40-F of Granite Real Estate Investment Trust;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 5, 2013

/s/ THOMAS HESLIP

Name: Thomas Heslip
Title: Trustee and Chief Executive Officer

EXHIBIT 99.2

Certifications
Granite REIT Inc.

I, Thomas Heslip, certify that:

1. I have reviewed this annual report on Form 40-F of Granite REIT Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 5, 2013

/s/ THOMAS HESLIP

Name: Thomas Heslip
Title: Director and Chief Executive Officer

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EXHIBIT 99.2

Certifications Granite Real Estate Investment Trust

EXHIBIT 99.2

Certifications Granite REIT Inc.

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EXHIBIT 99.3

Certification Pursuant to 18 U.S.C. 1350,

As Adopted Pursuant to

Section 906 of the Sarbanes-Oxley Act of 2002

Granite Real Estate Investment Trust

In connection with the annual report of Granite Real Estate Investment Trust (the "Company") on Form 40-F for the fiscal year ended December 31, 2012 (the "Report") to which this certification is an exhibit, I, Michael Forsayeth, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 5, 2013

/s/ MICHAEL FORSAYETH

Name: Michael Forsayeth
Title: Chief Financial Officer

EXHIBIT 99.3

Certification Pursuant to 18 U.S.C. 1350,

As Adopted Pursuant to

Section 906 of the Sarbanes-Oxley Act of 2002

Granite REIT Inc.

In connection with the annual report of Granite REIT Inc. (the "Company") on Form 40-F for the fiscal year ended December 31, 2012 (the "Report") to which this certification is an exhibit, I, Michael Forsayeth, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 5, 2013

/s/ MICHAEL FORSAYETH

Name: Michael Forsayeth
Title: Chief Financial Officer

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EXHIBIT 99.3

Certification Pursuant to 18 U.S.C. 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 Granite Real Estate Investment Trust

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.

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EXHIBIT 99.4

Certifications
Granite Real Estate Investment Trust

I, Michael Forsayeth, certify that:

1. I have reviewed this annual report on Form 40-F of Granite Real Estate Investment Trust;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 5, 2013

/s/ MICHAEL FORSAYETH

Name: Michael Forsayeth
Title: Chief Financial Officer

EXHIBIT 99.4

Certifications
Granite REIT Inc.

I, Michael Forsayeth, certify that:

1. I have reviewed this annual report on Form 40-F of Granite REIT Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 5, 2013

/s/ MICHAEL FORSAYETH

Name: Michael Forsayeth
Title: Chief Financial Officer

QuickLinks

EXHIBIT 99.4

Certifications Granite Real Estate Investment Trust

EXHIBIT 99.4

Certifications Granite REIT Inc.