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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, 2013

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: **46,944,821 Stapled Units outstanding as of December 31, 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"). The Annual Information Form, Management's Discussion and Analysis of Operations and Financial Position and audited financial statements filed as Exhibits to this annual report relate to the combined operations and activities of the Registrants. For more information regarding the Registrants and the Stapled Units, see "Description of the Stapled Units" below.

DESCRIPTION OF THE STAPLED UNITS

On January 3, 2013, Granite Real Estate Inc. ("Granite Co.") completed its conversion from a corporate structure to a stapled unit Real Estate Investment Trust structure. The conversion was implemented pursuant to a plan of arrangement under the *Business Corporations Act* (Québec) (the "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, 2014, 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 (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on its evaluation under this framework, management concluded that the Registrants' internal control over financial reporting was effective as of the Evaluation Date.

Deloitte LLP, an independent registered public accounting firm, who audited and reported on the financial statements for the year ended December 31, 2013, 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, 2013, 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, except as described below.

During the three month period ended March 31, 2013, there were changes in the Registrants' internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Registrants' internal controls over financial reporting:

Conversion to IFRS

The conversion to International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS") from U.S. GAAP impacts the way the financial results of the Registrants are presented along with the accompanying disclosures. Management has evaluated the impact of the conversion on procedures for recording, processing and summarizing material information as well as disclosure. The most significant change has been the recording of investment properties at fair value and any related deferred taxes. This change has required the design and implementation of new procedures surrounding the determination of fair values which includes, but is not limited to, rental revenue from current leases and reasonable and supportable assumptions about rental income from future leases reflecting market conditions at period end, less future cash outflows from such leases. It also includes estimates of discount rates, terminal capitalization rates, market rents and the engagement of external specialists to determine fair value.

Conversion to a REIT

Processes to monitor and maintain Granite REIT's status as a qualifying REIT in Canada and the United States were implemented effective January 1, 2013.

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

AUDIT COMMITTEE AND AUDIT COMMITTEE FINANCIAL EXPERT

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

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

AUDIT COMMITTEE PRE-APPROVAL POLICIES AND PROCEDURES

Please refer to the section entitled "Audit Committee" in the Annual Information Form of Granite Real Estate Investment Trust, included as an Exhibit to this annual report, for details on policies relating to the pre-approval of all audit services and permitted non-audit services provided to the Registrants by Deloitte LLP. For the year ended December 31, 2013, none of the Registrants' audit-related fees made use of the *de minimis* exception to the pre-approval provisions contained in paragraph (c)(7)(i) of Rule 2-01 of Regulation S-X.

CODE OF ETHICS

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

PRINCIPAL ACCOUNTANT FEES AND SERVICES

Please refer to the section entitled "Audit Committee — Audit Fees" in the Annual Information Form of Granite Real Estate Investment Trust, included as an Exhibit to this annual report, for details on the fees billed to the Registrants by Deloitte LLP and its affiliates for professional services rendered in each of the fiscal years ended December 31, 2013. Prior to January 1, 2013, Ernst & Young LLP billed fees to Granite Co. for the fiscal years ended December 31, 2012.

OFF-BALANCE SHEET ARRANGEMENTS

The Registrants' off-balance sheet arrangements consist of letters of credit, construction and development project commitments and certain operating agreements. For a discussion of these arrangements, please refer to notes 10 and 23 to the audited combined financial statements for the year ended December 31, 2013, 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, 2013, included as Exhibit 3 to this annual report.

CORPORATE GOVERNANCE

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

UNDERTAKING AND CONSENT TO SERVICE OF PROCESS

A. Undertaking

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

B. Consent to Service of Process

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

SIGNATURES

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

Date: March 5, 2014

GRANITE REAL ESTATE INVESTMENT TRUST

By: /s/ THOMAS HESLIP

Name: Thomas Heslip
Title: Trustee and Chief Executive Officer

Date: March 5, 2014

GRANITE REIT INC.

By: /s/ THOMAS HESLIP

Name: Thomas Heslip
Title: Director and Chief Executive Officer

EXHIBIT INDEX

1.	Annual Information Form dated as of March 5, 2014.
2.	Audited combined financial statements for the year ended December 31, 2013, together with the auditors' report thereon and the auditors' report on internal controls, from the Annual Report to Stapled Unitholders for fiscal 2013.
3.	Management's Discussion and Analysis of Operations and Financial Position for the three-month period and year ended December 31, 2013, from the Annual Report to Stapled Unitholders for fiscal 2013.
4.	Consent of Deloitte LLP.
99.1	Certificate of the Chief Executive Officer of the Registrants pursuant to 18 U.S.C. Section 1350, as enacted pursuant to Section 906 of Sarbanes-Oxley Act of 2002.
99.2	Certificate of the Chief Executive Officer of the Registrants required by Rule 13a-14(a) or Rule 15d-14(a), pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
99.3	Certificate of the Chief Financial Officer of the Registrants required pursuant to 18 U.S.C. Section 1350, as enacted pursuant to Section 906 of Sarbanes-Oxley Act of 2002.
99.4	Certificate of the Chief Financial Officer of the Registrants by Rule 13a-14(a) or Rule 15d-14(a), pursuant to Section 302 of Sarbanes-Oxley Act of 2002.

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Granite Real Estate Investment Trust

Annual Information Form

March 5, 2014

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GENERAL MATTERS

Granite Real Estate Investment Trust ("**Granite REIT**") and Granite REIT Inc. ("**Granite GP**") are the reporting issuer successors to Granite Real Estate Inc. ("**Granite Co.**"), which completed a conversion from a corporate structure to a "stapled unit" real estate investment trust structure pursuant to a plan of arrangement under the *Business Corporations Act* (Québec) on January 3, 2013 (the "**2013 Arrangement**"). 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." Immediately after completion of the 2013 Arrangement, Granite REIT and Granite GP, through Granite REIT Holdings Limited Partnership ("**Granite LP**") and its subsidiaries, owned, directly and indirectly, all the shares of the (reorganized) Granite Co. and all of the subsidiaries, business and assets previously held by Granite Co.

This annual information form ("**Annual Information Form**" or "**AIF**") contains information about both Granite REIT and Granite GP, and financial information of Granite REIT and Granite GP is presented on a combined bases as permitted under exemptions granted by applicable Canadian securities regulatory authorities. Accordingly, throughout this Annual Information Form, unless otherwise specified or the context otherwise indicates, "**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 "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 or for a period which is less than a year if non-renewal or termination notices have been provided or the disposal of a property is anticipated. Accordingly, any revenue changes from future contractual rent adjustments, renewal and re-leasing activities or expansion and improvement projects to be completed are not reflected in annualized lease payments as at December 31, 2013. In determining ALP, rents denominated in foreign currencies are converted to Canadian dollars based on exchange rates in effect as at the last day of the reporting period. These amounts do not conform to revenue recognition policies under International Financial Reporting Standards.

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**". We publish our financial statements in Canadian dollars.

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.

When we use the term "**capital**" in the context of the proportionate amount invested in Magna or in the calculation of a leverage ratio, we define capital as the carrying value of Granite's investment properties as reported on its combined balance sheet.

When we use the term "**leverage**", unless otherwise noted, we define leverage as total debt divided by total capital as defined above.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

assumptions underlying any of the foregoing. In particular, this Annual Information Form contains forward-looking statements and forward-looking information regarding Granite's relationships with its tenants, the expansion and diversification of Granite's real estate portfolio and expected increases in leverage. Words such as "may", "would", "could", "will", "likely", "expect", "anticipate", "believe", "intend", "plan", "forecast", "project", "estimate", "seek" and similar expressions are used to identify forward-looking statements and forward-looking information. Forward-looking statements and forward-looking information should not be read as guarantees of future events, performance or results and will not necessarily be accurate indications of whether or the times at or by which such future performance will be achieved. Undue reliance should not be placed on such statements. There can also be no assurance that intended developments in Granite's relationships with its tenants, the expansion and diversification of Granite's real estate portfolio and the expected increases in leverage can be achieved in a timely manner, with the expected impact or at all. Forward-looking statements and forward-looking information are based on information available at the time and/or management's good faith assumptions and analyses made in light of 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 and forward-looking information. Important factors that could cause such differences include, but are not limited to: the risk of changes to tax or other laws that may adversely affect Granite REIT's mutual fund trust status under the *Income Tax Act* (Canada) (the "**Tax Act**") or the effective tax rate in other jurisdictions in which Granite operates; economic, market and competitive conditions and other risks that may adversely affect Granite's ability to achieve desired developments in its relationships with its tenants, expand and diversify its real estate portfolio and increase its leverage; and the risks set forth in this Annual Information Form in the "Risk Factors" section, which investors are strongly advised to review. The "Risk Factors" section also contains information about the material factors or assumptions underlying such forward-looking statements and forward-looking information. Forward-looking statements and forward-looking information speak only as of the date the statements were made and unless otherwise required by applicable securities laws, Granite expressly disclaims any intention and undertakes no obligation to update or revise any forward-looking statements contained in this Annual Information Form to reflect subsequent information, events or circumstances or otherwise.

GRANITE — CORPORATE STRUCTURE

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

Granite REIT

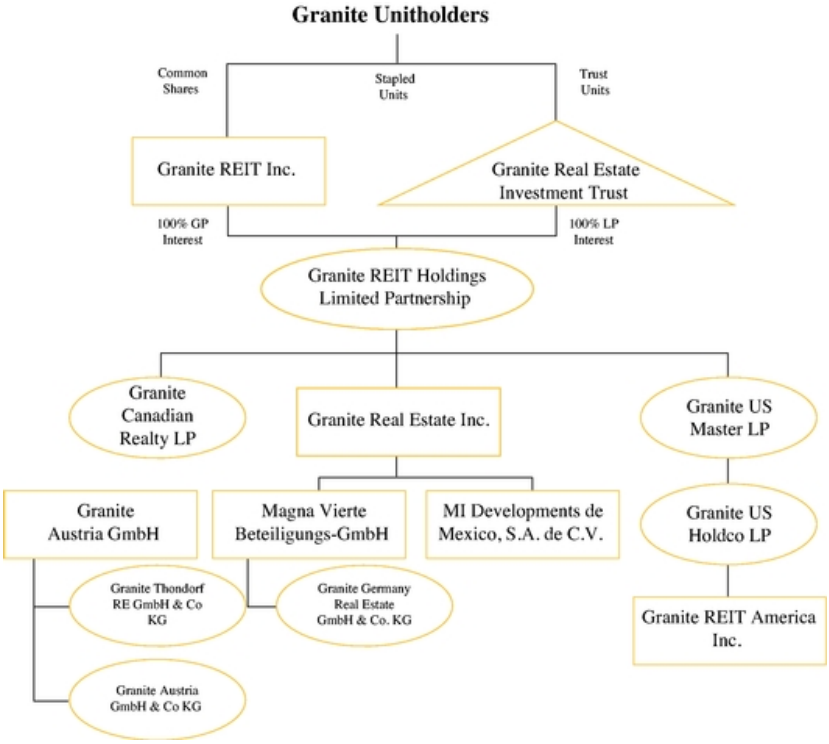
Granite REIT is an unincorporated, open-ended, limited purpose trust established under and governed by the laws of the Province of Ontario pursuant to an amended and restated declaration of trust (the "**Declaration of Trust**") dated January 3, 2013. Although it is intended that Granite REIT qualify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

Granite GP

Granite GP was incorporated on September 28, 2012 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 office of Granite GP is located at 77 King Street West, Suite 4010, P.O. Box 159, Toronto-Dominion Centre, Toronto, Ontario, M5K 1H1 and the registered office of Granite GP is Suite 2600, Three Bentall Centre, 595 Burrard Street P.O. Box 49314, Vancouver, British Columbia, V7X 1L3.

Organizational Structure and Subsidiaries

The following chart summarizes Granite's structure.



Granite LP's material subsidiaries and their respective jurisdictions of incorporation or formation are listed below. Parent/subsidiary relationships are identified by indentation. The percentages of the votes attaching to all voting securities beneficially owned by Granite LP or over which Granite exercises control or direction, directly or indirectly, are also indicated. Subsidiaries not listed individually each represent less than 10% of Granite's total 2013 combined revenues and total combined assets as at December 31, 2013 and, in the aggregate, represent less than 20% of Granite's total 2013 combined revenues and total combined assets as at December 31, 2013. Granite LP's percentage voting interest is equivalent to its economic interest in each subsidiary listed below. The voting securities of each subsidiary are held in the form of common shares or, in the case of limited partnerships and their foreign equivalents, share quotas or partnership interests.

	Ownership of Voting Securities	Jurisdiction of Incorporation or Formation
Granite Canadian Realty LP	100%	Ontario
Granite US Master LP	100%	Delaware
Granite US Holdco LP	100%	Delaware
Granite REIT America Inc.	100%	Delaware
Granite Real Estate Inc.	100%	Quebec
MI Developments de Mexico, S.A. de C.V.	100%	Mexico
Granite Austria GmbH	100%	Austria
Granite Thondorf RE GmbH & Co KG	100%	Austria
Granite Austria GmbH & Co KG	100%	Austria
Magna Vierte Beteiligungs-GmbH	99.74%	Germany
Granite Germany Real Estate GmbH & Co. KG	99.74%	Germany

GENERAL DEVELOPMENT OF THE BUSINESS

Three-Year History

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.

On October 25, 2011, Granite Co. announced that it had completed a strategic review process and that the board of directors had unanimously approved a strategic plan encompassing 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.

Co-incident with the October 25, 2011 strategic plan announcement, the Board implemented the second component of the plan, increasing Granite Co.'s quarterly dividend to U.S.$0.50 per share.

For the year ended December 31, 2011, Granite:

(i) renewed or extended 5 leases, representing an aggregate of approximately 370,000 square feet, with annualized lease payments of approximately $1.9 million; and

(ii) incurred capital expenditures totalling $48.2 million in the completion of ten expansion projects for a total of $38.8 million and one improvement project for a total of $0.2 million, and the partial completion of three additional projects. The ten expansion projects contributed an aggregate of approximately 469,000 square feet of leasable area.

2012

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

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

For the year ended December 31, 2012, Granite:

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

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

2013

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

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

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

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

For the year ended December 31, 2013, Granite:

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

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

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

See "Business Overview — Property Types".

On December 17, 2013, Granite REIT announced an increase to its monthly distribution policy to $0.183 per Stapled Unit, up from $0.175 per Stapled Unit, to reflect a targeted annualized distribution of Cdn.$2.20 per Stapled Unit. This reflected an increase from the previously targeted annualized distribution of $2.10 per Stapled Unit.

BUSINESS OVERVIEW

Granite is engaged in the ownership and management of predominantly industrial, warehouse and logistics properties in North America and Europe. As at December 31, 2013, Granite's real estate portfolio includes 112 income-producing properties representing approximately 32 million square feet of leasable area with a fair value of approximately $2.3 billion.

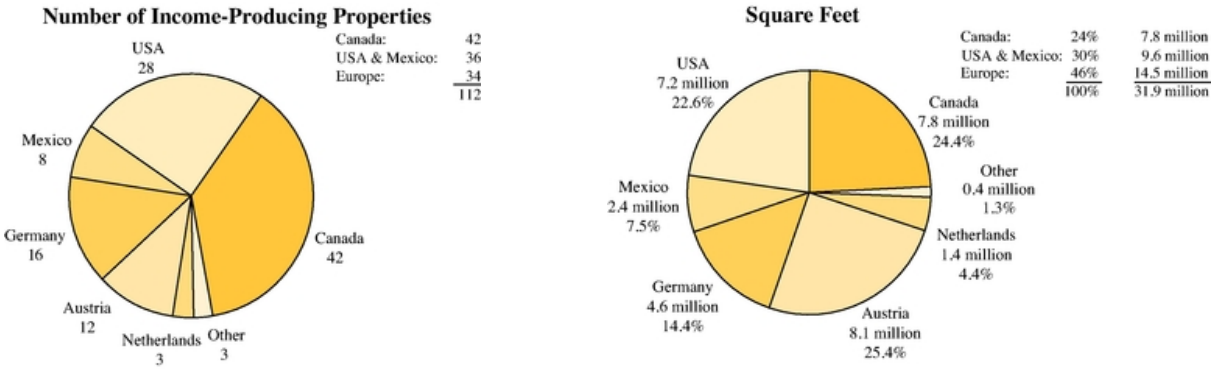
Granite provides holders of REIT Units (" **REIT Unitholders**") with stable cash flow generated by revenue it derives from the ownership of and investment in income-producing real estate properties. It strives to maximize long term unit value through active management of its portfolio, the acquisition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

One of Granite's three remaining objectives from its 2011 strategic plan is to reduce the proportion of total capital invested in Magna-tenanted properties to less than 50% and thereby increase the percentage of lease revenue earned from non-Magna tenants. In 2013, Granite successfully executed key components of its diversification strategy: new acquisitions, selected dispositions, asset repositioning and selected development. While realization of the targeted diversification outcome may take longer than the originally estimated three years, Granite continues to pursue that outcome. It has reduced the proportion of total capital invested in Magna-tenanted properties from 95% on December 31, 2011 to 82% and the Magna tenant concentration from 97% on December 31, 2011 to 85%, based on annualized lease payments. See "Profile of Our Real Estate Portfolio — Historical Growth of Our Real Estate Portfolio". As discussed under "— Improvement and Expansion Projects", Granite is also selectively investing in Magna properties, which is another of the remaining objectives from the 2011 strategic plan. The third of Granite's remaining objectives from the 2011 strategic plan is to increase its leverage to a range of 40% to 50% of Granite's total capital. As at December 31, 2013, Granite's leverage was 24% of total capital, up from 14% of total capital as at January 1, 2012.

Geographic Breakdown

Granite's properties are located in nine countries: Canada, the United States, Mexico, Austria, Germany, the Netherlands, the Czech Republic, the United Kingdom and Spain. 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 Granite's income-producing properties by number and approximate square footage.

Geographic Breakdown



The following table shows the geographic breakdown of Granite's income-producing properties by fair value as at December 31, 2013.

Real Estate Assets

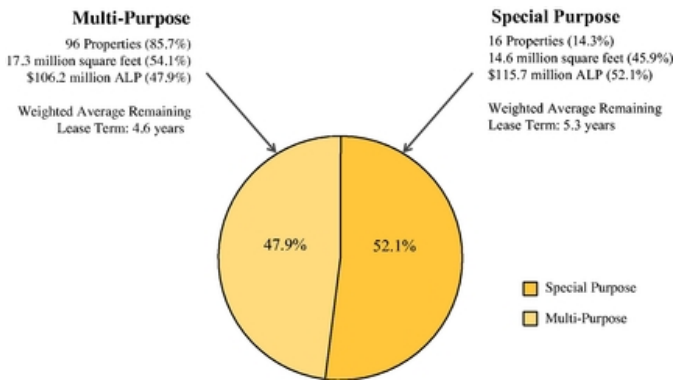
Location	Income-Producing Property Portfolio Fair Value (in millions)
North America	
Canada	$ 701.1
U.S.	$ 425.2
Mexico	$ 111.7
Europe	
Austria	$ 674.6
Germany	$ 276.2
The Netherlands	$ 101.5
Other	$ 35.3
Total	$ 2,325.6

Property Types

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

The chart below illustrates the division of Granite's income-producing properties between multi-purpose facilities and special purpose facilities as at December 31, 2013.

Multi-Purpose vs. Special Purpose Income-Producing Facilities by Annualized Lease Payments (ALP)



Tenant Base

As at December 31, 2013, Magna, a diversified global automotive supplier, was the tenant at 82 of Granite's 112 income-producing properties and lease payments under those leases represented approximately 85% of Granite's annualized lease payments. See "— Business and Operations of Magna, Our Principal Tenant".

As a result of its acquisition strategy, Granite has a growing list of other tenants that currently includes: ALSO Actebis, Cardinal Health, DB Schenker, Dole, HH Gregg, Kate Spade and Company (formerly known as Fifth & Pacific Companies Inc.), Kuhne + Nagel, Meyer & Meyer, Peer 1 Networks, Ricoh, Sears, Siemens Canada, Tchibo and Van Uden Logistic.

Granite believes that its existing portfolio of Magna-tenanted properties provides a level of stability for its business. Granite's 16 special purpose properties 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".

Improvement and Expansion Projects

For the year ended December 31, 2013, Granite completed four improvement or expansion projects at Magna-tenanted facilities, two in the U.S., one in Germany and one in the Czech Republic, representing a total cost of approximately $10.1 million and approximately 0.2 million square feet of additional leasable area at two of the facilities. These improvement or expansion projects did not attract additional leasing commission costs. Certain of these expansion or improvement projects increased annualized lease payments by $1.1 million. Granite also completed three improvement projects at non-Magna-tenanted facilities for the year ended December 31, 2013, two in Canada and one in the U.S, representing a total cost of approximately $5.6 million. One of these improvement projects attracted additional leasing commission costs of $0.2 million and two of these projects increased annualized lease payments by $1.7 million.

As at December 31, 2013, Granite had seven active expansion or improvement projects in Canada, U.S. and Austria, with aggregate anticipated costs of approximately $10.3 million. Granite expects to complete each of these projects before the end of 2014.

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

Development Projects

For the year ended December 31, 2013, Granite incurred $10.3 million of capital expenditures (excluding the cost of acquisition) pertaining to two development properties in the United States.

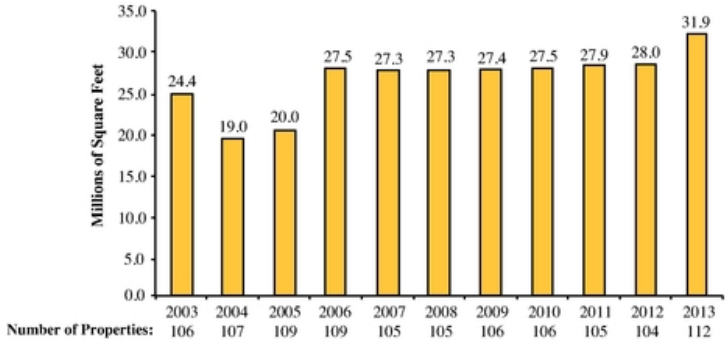
Profile of Our Real Estate Portfolio

Historical Growth of Our Real Estate Portfolio

Granite's income-producing property portfolio has grown from 106 properties totalling approximately 24 million square feet of leasable area in 2003 to 112 properties totalling approximately 32 million square feet of leasable area as at December 31, 2013.

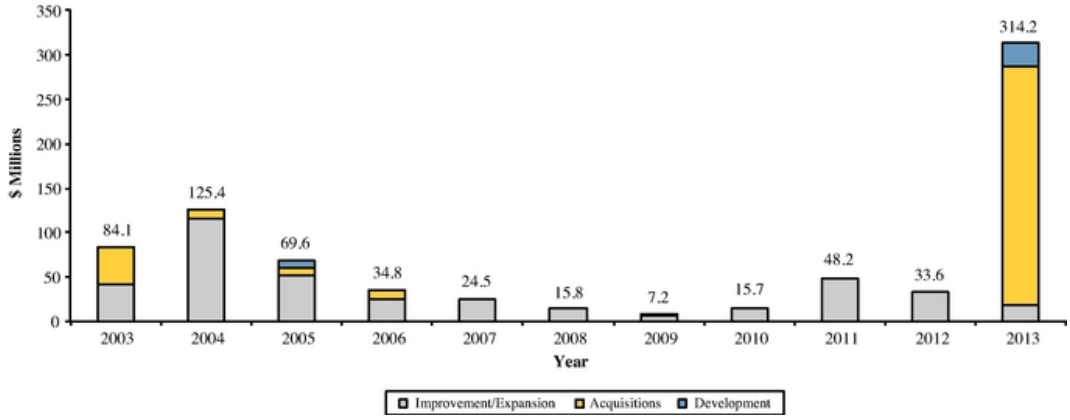
The following chart shows the historical growth in total leasable area (net of dispositions) and number of properties within Granite's income-producing property portfolio.

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



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

Annual Capital Expenditures



Schedule of Lease Expiries

The weighted average remaining term to expiry based on leased area for income-producing properties was as follows for the following years ended December 31:

December 31, 2013 — 4.8 years;

December 31, 2012 — 4.8 years;

December 31, 2011 — 5.4 years;

December 31, 2010 — 6.1 years;

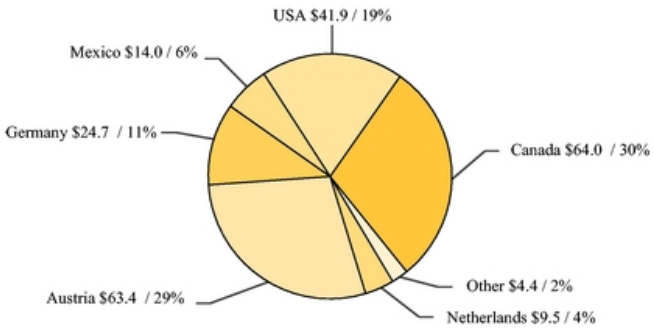
December 31, 2009 — 6.7 years.

Principal Markets in Which We Operate

Geographic Diversification

The following chart shows a breakdown of Granite's $221.9 million of annualized lease payments by country as at December 31, 2013.

Income-Producing Property Portfolio
Breakdown of Annualized Lease Payments at December 31, 2013 by Country
(in millions of Cdn. Dollars)



Income-Producing Properties in Canada

Granite's 42 Canadian income-producing properties are located in Ontario. 36 properties representing approximately 76% of the Canadian income-producing properties based on annualized lease payments as at December 31, 2013 are located in the Greater Toronto Area. The remaining six properties in the Canadian portfolio are located in Southwestern Ontario. The lease payments for properties in Canada are denominated in Canadian dollars.

Income-Producing Properties in the United States

Granite's income-producing property portfolio includes 28 properties in the United States. Approximately 26% of the annualized lease payments as at December 31, 2013 from Granite's income-producing properties in the United States is derived from properties located in Michigan, 18% is derived from a property in Kentucky, 20% is derived from a property in South Carolina and 6% is derived from properties located in Iowa. The remainder of Granite's annualized lease payments from the United States are derived from properties located in Tennessee, Illinois, Indiana, Missouri, New Jersey, Georgia, Ohio, Oregon and Maryland. The lease payments for properties in the United States are denominated in U.S. dollars.

Development Properties in the United States

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

Income-Producing Properties in Mexico

Granite's income-producing property portfolio includes eight properties in Mexico, which are located in the states of Puebla, Coahuila and Nuevo Leon. The lease payments for properties in Mexico are denominated in U.S. dollars.

On March 5, 2014, Granite entered into an asset purchase agreement with Magna for the sale to Magna of Granite's portfolio of Mexican properties for a purchase price of U.S.$105 million. The sale is subject to the satisfaction of several closing conditions, some of which involve action by governmental entities in Mexico.

Income-Producing Properties in Austria

Granite's income-producing property portfolio includes 12 properties in Austria. Approximately 97% of the Austrian income-producing properties based on annualized lease payments as at December 31, 2013 are located in the Province of Styria. Magna's Eurostar and Thondorf plants (Granite's two largest income-producing properties globally, accounting for approximately 17% of Granite's total annualized lease payments) are located in the city of Graz, which is located approximately 170 kilometres south of Vienna. The lease payments for properties in Austria are denominated in euros.

Income-Producing Properties in Germany

Granite's income-producing property portfolio includes 16 properties in Germany. The properties are primarily located in the states of Baden-Württemberg, Hessen, Bavaria, Thüringen/Thuringia, Saarland, Nordrhein-Westfalen and Niedersachsen/Lower Saxony. The lease payments for properties located in Germany are denominated in euros.

Income-Producing Properties in the Netherlands

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

Income-Producing Properties in Other European Locations

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

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

Foreign Exchange

As at December 31, 2013, approximately 71% of Granite's annual lease payments were denominated in the euro and the U.S. dollar and, accordingly, foreign exchange can have a significant impact on results.

Leasing Arrangements

Leases

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

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

Contractual Step-Ups in Rental Rates

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

Renewal Options

A majority of Granite's existing leases include built-in renewal options, generally tied to either market rental rates or to the existing rent plus an increase based upon a consumer price index adjustment (generally limited to 10% over five years), with the latter generally pertaining to Granite's special purpose properties. In cases where the renewal is linked to market rates, the determination of market rent is, failing agreement, generally subject to arbitration.

Obligation to Restore Premises

Granite's leases generally provide that the tenant is obligated to restore the premises to a condition consistent with the condition on the commencement date of the lease, subject to reasonable wear and tear. The majority of Granite's leases provide that, if requested by the landlord, the tenant is obligated to remove any alterations to the premises carried out over the term of the lease.

Environmental Obligations

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

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

Restrictions on Sales and Tenant Rights of Refusal

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

Tenant Assignment Rights

Granite's leases generally include a restriction on assignment by the tenant without Granite's consent, other than to affiliates or associates of the tenant. Granite's leases do not generally restrict a change of control of the tenant.

Our Business Strengths

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

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

Government Regulation

Granite is subject to a wide range of laws and regulations imposed by governmental authorities, including zoning, building and similar regulations that affect our real estate holdings and tax laws and regulations in the various jurisdictions in which Granite operates. See "Risk Factors — Risks Relating to Taxation."

As an owner and developer of real property, Granite is also subject to environmental laws and regulations relating to air emissions, soil and ground water quality, noise emissions, wastewater discharge, waste management and storage of hazardous substances. Granite's leases permit it to conduct environmental assessments and audits from time to time at its own expense. Substantially all of Granite's leases also require the tenant to assume the costs of environmental compliance, including remediation or clean-up of any contamination that they have caused or contributed to on the leased premises. Despite the tenants' obligation to indemnify Granite, Granite is also responsible under applicable law for ensuring that its properties are in compliance with environmental laws. See "Risk Factors".

Employees

As at December 31, 2013, Granite employed 58 people, the majority of whom are based at its headquarters in Toronto, and the balance of whom are located in the United States, Austria, the Netherlands, Iceland and Luxembourg. Granite is not party to any collective bargaining agreements with any of its employees.

Business and Operations of Magna, Our Principal Tenant

As at December 31, 2013 Magna is the tenant of 82 of Granite's 112 income-producing properties. Magna is a diversified global automotive supplier. Magna designs, develops and manufactures technologically advanced automotive systems, assemblies, modules and components, and engineers and assembles complete vehicles,

primarily for sale to original equipment manufacturers of cars and light trucks. Magna's product capabilities span a number of major automotive areas, including interior systems, seating systems, closure systems, body and chassis systems, vision systems, electronic systems, exterior systems, powertrain systems, roof systems, hybrid electric vehicles/systems and complete vehicle engineering and assembly. According to Magna's public disclosure, as at December 31, 2013, Magna had 316 manufacturing operations and 84 product development, engineering and sales centres, in 29 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 most recent Management's Discussion and Analysis of Results of Operations and Financial Position and Annual Information Form. None of those documents or their contents, however, shall be deemed to be incorporated by reference into this Annual Information Form unless specifically otherwise noted in this Annual Information Form.

According to its public disclosure, Magna's success is primarily dependent upon the levels of North American and European car and light truck production by Magna's customers and the relative amount of content Magna has in the various programs. The ongoing challenge of the automotive industry, and other factors, have resulted in Magna seeking to take advantage of growing markets and consolidating, moving, closing and/or selling operating facilities to align its capacity utilization and manufacturing footprint with vehicle production and consumer demand. Magna has disclosed that it has significant ongoing activities in its "Rest of World" segment, including a number of facilities in Asia and South America. Granite management expects Magna to continuously seek to optimize its global manufacturing footprint and consequently, Magna may not renew leases for facilities currently under lease at their expiries.

INVESTMENT GUIDELINES AND OPERATING POLICIES OF GRANITE REIT

Investment Guidelines

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

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

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

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

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

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

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

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

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

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

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

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

Operating Policies

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

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

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

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

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

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

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

(g) Granite REIT shall either (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

A large majority 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 at December 31, 2013, 82 of our 112 income-producing properties were leased to operating subsidiaries of Magna. For the year ended December 31, 2013, payments under leases with Magna represented approximately 85% 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, 2013, 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 continue to diversify by significantly increasing the lease revenue that we derive from new tenants, most of 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.

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. 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 significant 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.

Additionally, the tenants for the majority of our properties 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.

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

During 2013, 31% of our revenue was generated in Canada, 30% of our revenue was generated in Austria, 20% 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 five 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:

- consequences from changes in tax laws including restrictions on the repatriation of funds;
- economic downturns in countries or geographic regions where we have significant operations;
- 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; 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. Since we currently report our financial results in Canadian dollars and do not currently hedge all of our non-Canadian dollar 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 continue to increase the lease revenue we derive from 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, sovereign debt concerns, an increase in protectionist measures and/or other factors, may result in lower consumer confidence, which has a significant impact on consumer demand for vehicles. Vehicle production is closely related to consumer demand. 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 the North American automotive industry appears to have stabilized following the 2008-2009 recession, there is no certainty regarding the long-term financial health of Magna's customers and suppliers. The bankruptcy or insolvency of a major customer or supplier of Magna could have a material adverse effect on our profitability and financial position. A decrease in the long-term profitability or viability of the automotive industry and the automotive parts sector in particular would have a material adverse impact on the financial condition of 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.

In each of the real estate markets in which we operate, 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 resources, or lower required return thresholds than we do, or operate with different 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 vacant properties to new tenants on a timely basis or with making improvements or repairs required by a new tenant.

In addition, a variety of other factors outside of 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 difficulty in securing tenants for the development, 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 may 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 fair 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 remaining objectives from our strategic plan, or may fail to realize benefits which are currently targeted to result from the implementation of that plan.

The remaining objectives from our 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 optimize 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.

We expect to continue 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; and
- the risk that major tenants or clients of the acquired properties or businesses may not be retained following the expiry of their leases.

Furthermore, the properties and businesses acquired may have undisclosed liabilities for which 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 repairs. 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, certain environmental hazards, 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, it is difficult to evaluate the stability and net assets or capitalization of insurance companies and any insurer's ability to meet its claim payment obligations. A failure of an insurance company to make payments to 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, state 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 IFRS.

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

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

Risks Relating to Taxation

Changes to tax laws

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

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

Tax provisions, including current and deferred 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 their administrative practices to the detriment of us and our securityholders. Our multi-jurisdictional organizational structure is complex, including as a result of our 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.

Canada

Mutual Fund Trust Status

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

Real Estate Investment Trust Status

Granite REIT would be subject to Canadian income tax (under the so-called "SIFT" tax rules) on a similar basis to a Canadian public corporation on its income for a year unless it qualifies in that year as a real estate investment trust for purposes of the Tax Act (the "**REIT Exception**"). The conditions for satisfying the REIT Exception are onerous, and include various numerical tests (including tests entailing valuations or measurement of various revenue streams) which must be satisfied throughout the year in question. Therefore, financial results for a year, or developments occurring during the year, that were not anticipated earlier in the year, amendments to the Tax Act which adversely affect the availability to Granite REIT of the REIT Exception or challenges by the Canada Revenue Agency (the "**CRA**") to valuations made by or on behalf of management to interpretations adopted in applying the REIT Exception, or to other calculations, that are relevant to the application of the REIT Exception, could result in the REIT Exception not being available for the year.

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

Potential Withholding Tax on Return-of-Capital Distributions

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

Uncertainty Regarding Withholding Tax Rate for U.S. Residents

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

Potential Assessments for Withholding Tax

As discussed in part above, there are potential legal and factual uncertainties as to the rate at which Granite REIT should withhold tax on distributions made by it to Non-Residents. If Granite REIT were to withhold at too low a rate and were later assessed for such failure by CRA, Granite REIT 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 Taxation

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) REIT Unitholders should seek advice based on their particular circumstances from an independent tax advisor.

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

Granite REIT's Status as a Partnership

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

Risks Related to Passive Foreign Investment Company (PFIC) Status

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

Granite REIT Could Potentially Cease to be Considered Regularly Traded

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

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

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

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

Treaty-reduced rates of withholding tax on Fixed, Determinable, Annual, Periodical (FDAP) payments are not available under the Treaty if REIT Unitholders are not considered the beneficial owners of the income earned by Granite REIT or are not considered to have derived such income within the meaning of the applicable Treasury Department regulations. Granite REIT believes that REIT Unitholders will be treated as deriving the income earned by Granite REIT and as the beneficial owners of such income. If REIT Unitholders were not considered the beneficial owners of Granite REIT's income for these purposes, distributions from Granite REIT America Inc. ("**Granite America**"), an indirect Delaware subsidiary of Granite REIT that holds the U.S. assets of Granite REIT and that 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

As of January 1, 2013, Granite America qualified as a REIT for U.S. federal income tax purposes. REITs are subject to numerous requirements, including requirements relating to the character of their income and assets. If Granite America fails to qualify as a REIT for U.S. federal income tax purposes 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) could be reduced.

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 it earns, less expenses and amounts, if any, paid by Granite REIT in connection with the redemption of REIT Units, the actual amount of distributions paid in respect of the REIT Units will depend upon numerous factors, all of which are susceptible to a number of risks and uncertainties beyond the control of Granite. 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 financial institutions and holders of 2016 Debentures and 2018 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 Credit Facilities (as defined under "Credit Facility and Indebtedness — Credit Facility"), the 2004 Indenture and 2013 Indenture (each 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, which are denominated in Canadian dollars.

Dependence on Granite LP

Granite REIT is an open-ended, limited purpose trust which is, for purposes of its income, entirely dependent on Granite LP, and in turn on its subsidiaries. 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 in the past experienced and may in the future experience significant price and volume fluctuations from time to time unrelated or disproportionate to the operating performance of particular issuers.

These broad fluctuations may adversely affect the market price of the Stapled Units (or REIT Units, 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.

REIT 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 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.

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) 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 within such limits, from time to time, by resolution of the Trustees. If the number of Trustees so fixed is increased, the Trustees may, from time to time appoint one or more additional Trustees to fill such a vacancy, provided that the number of additional Trustees so appointed must not at any time exceed: (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 senior 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 under the Facility). The Facility has been guaranteed by Granite REIT, Granite GP, Granite Canadian Realty LP, Granite US Holdco LP and certain other affiliates of Granite LP. 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 on the basis of the combined and consolidated financial statements of Granite REIT and Granite GP.

As at December 31, 2013, U.S.$50 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 "**2016 Debentures**") under an indenture dated as of December 22, 2004 (as amended, supplemented or otherwise modified from time to time, the "**2004 Indenture**"). Under the 2013 Arrangement, (i) the 2016 Debenture obligations were transferred to Granite LP, and Granite LP and Granite Europe Limited Partnership ("**Fin LP**") agreed to be bound by the terms of the 2004 Indenture and of the 2016 Debentures as co-principal debtors, in place of Granite Co., (ii) Granite Co. guaranteed all amounts payable under the 2016 Debentures, (iii) Granite Co. agreed to remain bound as a co-principal debtor, and (iv) Granite REIT and Granite GP guaranteed amounts payable under the 2016 Debentures. Pursuant to the terms of the 2004 Indenture, there are various financial covenants which must be satisfied, which are tested on the basis of the consolidated financial statements of Granite Co. 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 2004 Indenture to implement the foregoing.

On October 2, 2013, Granite LP issued $200 million of 4.613% Series 1 senior unsecured debentures due October 2, 2018 (the " **2018 Debentures**") under a trust indenture as supplemented by a supplemental indenture providing for, among other things, the creation and issue of the 2018 Debentures (together, the "**2013 Indenture**"). The 2018 Debentures rank equally with all of Granite REIT's and Granite GP's existing and future unsubordinated and unsecured indebtedness and are fully and unconditionally guaranteed by Granite REIT, Granite GP and certain subsidiaries of Granite LP as to the payment of principal, premium (if any) and interest thereon and certain other amounts when and as the same become due and payable pursuant to the 2013 Indenture. Pursuant to the terms of the 2013 Indenture, there are various financial covenants which must be satisfied, which are tested on the basis of the combined and consolidated financial statements of Granite REIT and Granite GP. BNY Trust Company is the trustee for the 2018 Debentures.

On October 7, 2013, Granite LP entered into a cross currency interest rate swap to exchange the $200 million proceeds and 4.613% interest payments from the 2018 Debentures to euro 142 million at 3.56%. Under the terms of the swap, Granite LP will repay the principal proceeds received of euro 142 million for $200 million on October 2, 2018. The proceeds from the 2018 Debentures and corresponding cross currency interest rate swap were used to finance the European acquisitions.

As at December 31, 2013, all 2018 Debentures and 2016 Debentures remained outstanding. For further details relating to the attributes and characteristics of the 2018 Debentures and 2016 Debentures, including provisions relating to payments of interest and principal, redemption and purchase for cancellation, covenants, successor companies, defeasance, modification and waiver, please see the full text of the 2013 Indenture and the 2004 Indenture available on SEDAR at www.sedar.com.

Other Secured Indebtedness

In connection with the acquisition on February 13, 2013 of a 90% interest in two income-producing properties in Logan, New Jersey and Savannah, Georgia, Granite obtained a first mortgage loan from Wells Fargo Bank, National Association, in the amount of U.S.$23.9 million (100% interest). The loan is secured by 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 which commenced on March 10, 2013 and end on February 10, 2015, and by monthly payments of interest and principal which commence on March 10, 2015 and end on June 10, 2017. To mitigate the interest rate risk associated with the loan, the subsidiary purchased an interest rate cap relating to 100% of the amount of the loan limiting its

exposure to increases in LIBOR to a maximum of 1.50% over the term of the loan. The loan matures on June 10, 2017.

In connection with the acquisition on May 10, 2013 of a 95% interest in an income-producing property in Portland, Oregon, Granite obtained a first mortgage loan from Wells Fargo Bank, National Association, in the amount of U.S.$12.6 million (100% interest). The loan is secured by a first mortgage and deed of trust (and ancillary security) against the acquired property. The loan bears interest at a variable rate, adjusted monthly, calculated as 2.5% plus LIBOR and is repayable by monthly payments of interest only which commenced on June 10, 2013 and end on May 10, 2018, and by monthly payments of interest and principal commencing on May 10, 2014. To mitigate the interest rate risk associated with the loan, Granite purchased an interest rate cap relating to 100% of the amount of the loan limiting its exposure to increases in LIBOR to a maximum of 1.50% over the term of the loan. The loan matures on May 10, 2018.

In connection with the acquisition on May 8, 2013 of a 90% interest in development land in Shepherdsville, Kentucky, Granite obtained a construction loan on July 25, 2013 from U.S. Bank National Association in the amount of U.S.$17 million (100% interest). The loan is secured by the acquired property. The proceeds of the loan are intended to be used to pay costs associated with the construction of a building at the property. The maximum amount available under the construction loan may be increased to U.S.$19 million, subject to satisfaction of certain terms and conditions. The construction loan bears interest at a variable rate, adjusted monthly, calculated as 2.25% plus LIBOR. Prior to maturity, interest on the loan will be funded out of loan proceeds. The entire principal of the construction loan matures on July 25, 2016 but there is an option to extend the maturity date for two successive periods to July 25, 2017 and 2018, subject to certain terms and conditions. As at December 31, 2013, U.S.$3.1 million was drawn under the construction loan.

Credit Ratings

As of March 5, 2014, the 2016 Debentures and the 2018 Debentures each have investment grade ratings of "BBB" with a "Stable" trend, from DBRS Limited ("**DBRS**") and "Baa3" with a "Positive" 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 the 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, 2014, 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 2016 Debentures and 2018 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 $0.183 per REIT Unit.

The portion of distributions by Granite REIT for 2014 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 2014. In light of its nominal anticipated earnings (if any), it is not expected that Granite GP will pay dividends in 2014.

Distributions of Granite REIT

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

Dividends of Granite Co.

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

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

MARKET FOR SECURITIES

Trading Price and Volume

Granite's Stapled Units are listed for trading on the TSX under the symbol "GRT.UN" and on the NYSE under the symbol "GRP.U". The volume of trading and the high and low trading price of Granite's Stapled Units on the TSX for each month of the year ended December 31, 2013 are set forth in the following table:

	Stapled Units		
TSX 2013	High ($)	Low ($)	Traded Volume
January	39.67	37.31	7,604,351
February	39.89	38.58	2,467,976
March	40.00	38.27	2,064,711
April	39.99	37.86	1,447,361
May	40.22	37.82	1,867,710
June	38.26	34.74	3,486,191
July	37.31	34.08	1,420,825
August	37.02	33.89	1,439,508
September	37.75	35.10	1,109,274
October	37.51	35.80	1,190,189
November	36.93	35.00	1,521,111
December	38.66	34.46	1,859,962

Source: TSX Market Data

Prior Sales

On October 2, 2013, Granite LP issued the 2018 Debentures at a price of $100.00 per $100.00 principal amount of 2018 Debentures. See "Credit Facility and Indebtedness — Other Unsecured Indebtedness".

TRUSTEES AND MANAGEMENT OF GRANITE REIT

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

Name, Province/State and Country of Residence	Position and Office Held with each of Granite REIT and Granite GP (as applicable)	Present Principal Occupation (if not with Granite)	Trustee/Director/Officer Since
G. WESLEY VOORHEIS[1] Ontario, Canada	Trustee and Chairman Director and Chairman	Managing Director of VC & Co. Incorporated	June 30, 2011
MICHAEL BRODY[1][2][4] New Jersey, USA	Trustee Director	Consultant	June 30, 2011
PETER DEY[1][2] Ontario, Canada	Trustee and Vice-Chairman Director and Vice-Chairman	Chairman of Paradigm Capital Inc.	June 30, 2011
BARRY GILBERTSON[2][3][4] Bath, Somerset, United Kingdom	Trustee Director	Real Estate Specialist Professional	June 30, 2011
THOMAS HESLIP Ontario, Canada	Trustee and Director Chief Executive Officer		December 1, 2011
GERALD MILLER[2][3] British Columbia, Canada	Trustee Director	Corporate Director	June 30, 2011
SCOTT ORAN[1][3][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 Vienna, 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 Miller

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

As at December 31, 2013, the trustees, directors and executive officers of Granite, as a group, beneficially owned, directly or indirectly, or exercised control or direction over 23,129 stapled units of Granite, representing less than one percent of the total number of Stapled Units outstanding before giving effect to the exercise of options or other convertible securities held by such trustees and officers.

The term of office of each trustee and director expires at the time of Granite REIT's and Granite GP's Joint Annual General Meeting, which for 2014 is expected to be held on June 11, 2014. 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 and a director of RONA inc. since January 2013. He was a director and member of the Audit Committee of Coventree Inc. from April 2008 to February 2012 and a director of Easyhome Ltd. from April 2010 to December 2011. Mr. Voorheis has acted as the Chief Executive Officer and a director of Hollinger Inc. and as the Chairman of the Board of YBM Magnex International Inc., following the reconstitutions of the boards of these companies. He has also served as Chairman of a number of special board committees and as a director of various other Canadian publicly traded companies.

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

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

Mr. Brody has 30 years of experience in commercial real estate, evenly divided between the capital markets and property sectors. Mr. Brody is a senior advisor providing non-executive consulting services to The Blackstone Group L.P., a NYSE-listed 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 and as a Vice President of Goldfarb Properties.

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

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

Mr. Dey has been the Chairman of Paradigm Capital Inc., an investment dealer, since November 2005. 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, a director of Enablence Technologies Inc. from October 2011 to October 2013, and a director of Caracal Energy Inc. since March 2013. 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 owned (as well as the corporate property occupied in the United Kingdom and Europe) by Lehman Brothers (In Administration), together with other significant turnaround projects, such as Rock, a real estate group in New York. Mr. Gilbertson has led or worked on projects, or spoken at conferences, in 34 countries.

Mr. Gilbertson was global President of The Royal Institution of Chartered Surveyors (RICS) (from 2004 to 2005), a member of The Bank of England Property Forum (from 2003 to 2010), the founder Chairman of NARA (the Non-Administrative Receivers Association), 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 Miller — Trustee of Granite REIT; Director of Granite GP

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

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

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

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

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

Mr. Oran has 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 Bachelor of Science in Engineering degree in civil engineering and received his Masters in Business Administration from Harvard Business School.

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

Mr. Heslip has been our CEO since December 1, 2011 and has had a 30-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 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 CPA, CA 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 ("**Biovail**"). In this role, Ms. Tindale managed the company's legal matters and was a member of its executive management team. Over her four years at Biovail, Ms. Tindale provided leadership on numerous corporate acquisitions, licensing transactions, two proxy contests and a merger transaction.

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

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

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

Mr. De Aragon oversees Granite's investment activities (acquisitions and dispositions) in connection with its real estate diversification strategy. As a member of 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 23 years of experience in the real estate industry, covering all aspects from finance and accounting to acquisitions, mergers and asset management. His experience covers a wide variety of real estate sectors (retail, office and industrial), markets, investors and operating companies. He has held senior positions in real estate and investment in Canada and worldwide. These include having been Managing Director of a New York private equity firm (responsible for real estate portfolios in Canada, the U.S. and Europe) from 2005 to 2009, Vice President of Bentall Kennedy and Senior Director Investment and Development at CIBC Development Corp.

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

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

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

Mr. Kumer also plays a key role in providing direction and support to the overall investment activities (acquisitions and dispositions) of Granite. As a member of 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 22 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:

(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;

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:

(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 (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. On March 19, 2013, the decision of the OSC was upheld by the Ontario Divisional Court. On September 17, 2013, leave to appeal to the Court of Appeal for Ontario was denied.

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

AUDIT COMMITTEE

Composition of the Audit Committee

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

Pre-Approval Policies and Procedures

Each Audit Committee is responsible for the appointment, compensation, retention and oversight of the work of the external auditor, Deloitte LLP for fiscal 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 by Deloitte LLP and its affiliates for professional services rendered for the fiscal year ended December 31, 2013. Prior to January 1, 2013, Ernst & Young LLP billed fees to Granite Co. for the fiscal years ended December 31, 2012.

Fees	2013	2012
Audit Fees[1]	$ 828,400	$ 929,990
Audit-Related Fees[2]	$ 150,000	$ 310,040
Tax Fees[3]	$ —	$ 336,738
All Other Fees[4]	$ 2,300	$ 6,125
Total	$ 980,700	$ 1,582,893

Notes:

(1) Audit Fees consist of fees billed for the annual audit and quarterly review of our combined or 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, audit of subsidiary financial statements, 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 TRANSACTIONS

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 REIT and Granite GP are Deloitte LLP, located at Brookfield Place, Suite 1400, 181 Bay Street, Toronto, Ontario, M5J 2V1. The registrar and transfer agent of Stapled Units is Computershare Investor Services Inc. at its principal offices in Toronto, Ontario. The co-transfer agent and co-registrar of Stapled Units in the United States is Computershare Trust Company, N.A. at its offices in Golden, Colorado.

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

LEGAL PROCEEDINGS

Granite is party to various legal actions and claims arising in the ordinary course of its business, such as litigation with contractors, suppliers, governmental authorities, sellers and purchasers. 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

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 claims pertaining to Granite's former racing and gaming business for the period prior to, on and after the effective date of the transfer of June 30, 2011. Accordingly, Granite provided the Stronach Shareholder with the required disclosure notice under that indemnity referencing the racing and gaming-related litigation described below. Granite retained independent counsel to monitor this litigation on its behalf.

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, certain subsidiary entities and joint ventures of Granite Co., including The Maryland Jockey Club 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 asserted a number of claims against all defendants including, among other allegations, that Granite Co. and Mr. Stronach, along with 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. Plaintiffs' claims against Granite Co., the MJC Entities and Mr. Stronach were for alleged civil conspiracy, false light, invasion of privacy and defamation. The Complaint sought 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.

Effective January 8, 2014, Granite entered into a Confidential Settlement Agreement and Mutual Release (the " **Settlement**") that resolved all claims and potential claims by the Plaintiffs. In accordance with the above-referenced indemnity, the Settlement did not require any payment from Granite.

MATERIAL CONTRACTS

Agreements in Connection with the 2011 Arrangement

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

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

Other Material Contracts

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

(a) the 2004 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");

(c) the 2013 Indenture (as more fully described under "Credit Facility and Indebtedness — Other Unsecured Indebtedness"); and

(d) 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 11, 2014. Additional financial information is provided in the Audited Combined Financial Statements and related Management's Discussion and Analysis for the year ended December 31, 2013 of Granite.

APPENDIX A — GRANITE REIT AUDIT COMMITTEE CHARTER

GRANITE REAL ESTATE INVESTMENT TRUST
AUDIT COMMITTEE CHARTER

As of May 8, 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 recommend for Board approval such annual financial statements and the related MD&A.

(c) Review of Interim Financial Reports

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

(d) Financial Statement Review Considerations

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

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

(ii) review the disclosures in the financial statements;

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

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

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

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

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

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

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

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

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

(e) Review of Other Financial Disclosures

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

(f) Review of Forward-Looking Information

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

2. ***Auditors***

(a) General

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

(b) Nomination and Compensation

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

(c) Resolution of Disagreements

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

(d) Discussions with External Auditor

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

(e) Audit Plan

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

(f) Independence of External Auditor

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

(g) Evaluation of Lead Partner

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

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

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

(i) Approval of Hiring Policies

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

3. ***Internal Controls***

(a) General

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

(b) Establishment, Review and Approval

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

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

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

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

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

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

4. ***Internal Audit Function***

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

5. ***Internal Reporting Procedures***

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

6. ***Risk Management***

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

7. *Compliance with Legal and Regulatory Requirements*

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

8. *Audit Committee Disclosure*

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

9. *Financial Executives*

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

10. *Charter Review*

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

IV. Meetings

1. *Procedure*

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

2. *Reporting to the Board*

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

3. *In Camera Sessions*

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

V. Delegation

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

VI. Outside Advisors

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

APPENDIX B — GRANITE GP AUDIT COMMITTEE CHARTER

GRANITE REIT INC.
AUDIT COMMITTEE CHARTER

As of May 8, 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 recommend for Board approval such annual financial statements and the related MD&A.

(c) Review of Interim Financial Reports

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

(d) Financial Statement Review Considerations

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

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

(ii) review the disclosures in the financial statements;

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

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

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

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

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

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

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

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

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

(e) Review of Other Financial Disclosures

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

(f) Review of Forward-Looking Information

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

2. ***Auditors***

(a) General

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

(b) Nomination and Compensation

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

(c) Resolution of Disagreements

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

(d) Discussions with External Auditor

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

(e) Audit Plan

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

(f) Independence of External Auditor

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

(g) Evaluation of Lead Partner

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

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

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

(i) Approval of Hiring Policies

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

3. *Internal Controls*

(a) General

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

(b) Establishment, Review and Approval

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

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

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

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

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

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

4. *Internal Audit Function*

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

5. *Internal Reporting Procedures*

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

6. *Risk Management*

The Committee shall be responsible for overseeing the identification and assessment of the principal risks to the operations of the Company and the establishment and management of appropriate systems to manage such risks with a view to achieving a proper balance between risks incurred and potential return to holders of

securities of the Company and to the long-term viability of the Company. In this regard, the Committee shall require management to report periodically to the Committee, and the Committee shall report periodically to the Board, on the principal risks faced by the Company and the steps implemented by management to manage these risks.

7. *Compliance with Legal and Regulatory Requirements*

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

8. *Audit Committee Disclosure*

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

9. *Financial Executives*

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

10. *Charter Review*

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

IV. Meetings

1. *Procedure*

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

2. *Reporting to the Board*

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

3. *In Camera Sessions*

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

V. Delegation

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

VI. Outside Advisors

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

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

For the year ended December 31, 2013

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management of Granite Real Estate Investment Trust and Granite REIT Inc. (collectively, the "Trust") is responsible for the preparation and presentation of the combined financial statements and all information included in the 2013 Annual Report. The combined financial statements were prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and where appropriate, reflect estimates based on management's best judgement in the circumstances. Financial information as presented elsewhere in the 2013 Annual Report has been prepared by management to ensure consistency with information contained in the combined financial statements. The combined financial statements have been audited by independent auditors and reviewed by the Audit Committees and approved by both the Board of Trustees of Granite Real Estate Investment Trust and the Board of Directors of Granite REIT Inc.

Management is responsible for the development and maintenance of systems of internal accounting and administrative cost controls of high quality, within reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is accurate, relevant and reliable and that the Trust's assets are appropriately accounted for and adequately safeguarded. Management has determined that, as at December 31, 2013 and based on the framework set forth in *Internal Control — Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, internal control over financial reporting was effective. The Trust's Chief Executive Officer and Chief Financial Officer, in compliance with Section 302 of the U.S. Sarbanes-Oxley Act of 2002 ("SOX"), have provided a SOX-related certification in connection with the Trust's annual disclosure document in the U.S. (Form 40-F) to the U.S. Securities and Exchange Commission. In accordance with Multilateral Instrument 52-109, a similar certification has been provided to the Canadian Securities Administrators.

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

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



THOMAS HESLIP
Chief Executive Officer



MICHAEL FORSAYETH
Chief Financial Officer

Toronto, Canada,
March 5, 2014

INDEPENDENT AUDITORS' REPORT OF REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying combined financial statements of Granite Real Estate Investment Trust and Granite REIT Inc. (collectively, the "Trust"), which comprise the combined balance sheets as at December 31, 2013, December 31, 2012, and January 1, 2012, and the combined statements of income, combined statements of comprehensive income, combined statements of unitholders' or shareholders' equity and combined statements of cash flows for the years ended December 31, 2013 and December 31, 2012, and the notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the combined financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2013, December 31, 2012 and January 1, 2012 and its financial performance and its cash flows for the years ended December 31, 2013 and December 31, 2012 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Other Matter

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Trust's internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control — Integrated Framework (1992*) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 5, 2014 expressed an unqualified opinion on the Trust's internal control over financial reporting.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
March 5, 2014
Toronto, Canada

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

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

We have audited the internal control over financial reporting of Granite Real Estate Investment Trust and Granite REIT Inc. (collectively, the "Trust") as of December 31, 2013, based on the criteria established in *Internal Control — Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Trust's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Trust's internal control over financial reporting based on our audit.

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

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

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. In our opinion, the Trust maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control — Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the combined financial statements of the Trust as of and for the year ended December 31, 2013 of the Trust and our report dated March 5, 2014 expressed an unqualified opinion on those financial statements.



Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
March 5, 2014
Toronto, Canada

Combined Balance Sheets
(Canadian dollars in thousands)

As at	Note	December 31, 2013	December 31, 2012	January 1, 2012
			(Note 3)	*(Note 3)*
ASSETS				
Non-current assets:				
Investment properties	5	**$ 2,351,897**	$ 1,943,697	$ 1,891,851
Deferred tax assets	12	**8,173**	—	—
Note receivable	6	**—**	—	2,543
Fixed assets, net		**1,938**	1,837	36
Other assets	7	**1,958**	320	427
		2,363,966	1,945,854	1,894,857
Current assets:				
Current portion of notes receivable	6	**—**	2,612	5,339
Accounts receivable		**2,491**	3,662	6,557
Income taxes receivable	12	**930**	2,622	1,012
Prepaid expenses and other		**1,366**	745	645
Restricted cash	4	**4,360**	522	—
Cash and cash equivalents		**95,520**	51,073	56,908
Total assets		**$ 2,468,633**	$ 2,007,090	$ 1,965,318
LIABILITIES AND STAPLED UNITHOLDERS' OR SHAREHOLDERS' EQUITY				
Non-current liabilities:				
Unsecured debentures, net	8	**$ 462,070**	$ 263,589	$ 263,236
Cross Currency Interest Rate Swap	8	**11,003**	—	—
Secured long-term debt	9	**41,856**	—	—
Deferred tax liabilities	12	**166,622**	185,215	193,373
Contingent consideration	4	**3,777**	—	—
		685,328	448,804	456,609
Current liabilities:				
Deferred revenue		**5,194**	4,494	2,519
Bank indebtedness	10	**53,180**	—	—
Accounts payable and accrued liabilities	11	**33,178**	25,955	13,957
Distributions payable	14	**8,591**	—	—
Income taxes payable	12	**6,652**	11,984	20,685
Total liabilities		**792,123**	491,237	493,770
Equity:				
Stapled unitholders' or shareholders' equity		**1,671,227**	1,514,812	1,470,634
Non-controlling interests		**5,283**	1,041	914
Total equity		**1,676,510**	1,515,853	1,471,548
Total liabilities and stapled unitholders' or shareholders' equity		**$ 2,468,633**	$ 2,007,090	$ 1,965,318

Commitments and contingencies (note 23)
See accompanying notes

On behalf of the Boards:

/s/ G. WESLEY VOORHEIS
Director/Trustee

/s/ GERALD J. MILLER
Director/Trustee

Combined Statements of Income

(Canadian dollars in thousands, except per unit/share figures)

Years ended December 31,	Note	2013	2012
			(Note 3)
Revenues			
Rental revenue and tenant recoveries		**$ 203,247**	$ 181,115
Operating costs and expenses (income)			
Property operating costs			
Non-recoverable from tenants	15(a)	**4,427**	5,582
Recoverable from tenants	15(a)	**1,147**	—
General and administrative	15(b)	**27,313**	31,011
Depreciation and amortization		**454**	244
Interest expense and other financing costs, net	15(c)	**20,585**	15,871
Foreign exchange losses (gains), net		**13**	(186)
Income before fair value changes, acquisition transaction costs, gain on Meadows holdback, loss on sale of investment properties and income taxes		**149,308**	128,593
Fair value gains (losses) on investment properties, net	5	**(25,224)**	33,343
Fair value gains (losses) on financial instruments	15(d)	**72**	(359)
Acquisition transaction costs	4(c)	**(14,246)**	—
Gain on Meadows holdback	6	**5,143**	—
Loss on sale of investment properties	5	**(1,122)**	(21)
Income before income taxes		**113,931**	161,556
Income tax expense (recovery)	12	**(31,335)**	11,729
Net income		**$ 145,266**	$ 149,827
Net income attributable to:			
Stapled unitholders or common shareholders		**$ 145,031**	$ 149,756
Non-controlling interests		**235**	71
		$ 145,266	$ 149,827
Net income per unit or share attributable to stapled unitholders			
Basic and diluted	17	**$ 3.09**	$ 3.20

See accompanying notes

Combined Statements of Comprehensive Income
(Canadian dollars in thousands)

Years ended December 31,	Note	2013	2012
			(Note 3)
Net income		**$ 145,266**	$ 149,827
Other comprehensive income (loss):			
Foreign currency translation adjustment		**126,527**	(10,728)
Unrealized loss on Cross Currency Interest Rate Swap	8(c)	**(11,490)**	—
Net foreign exchange loss on net investment hedge, includes income taxes of $0.2 million (2012 — nil)		**(6,992)**	—
Total other comprehensive income (loss)		**108,045**	(10,728)
Comprehensive income		**$ 253,311**	$ 139,099
Comprehensive income attributable to:			
Stapled unitholders or common shareholders		**$ 252,876**	$ 138,972
Non-controlling interests		**435**	127
Comprehensive income		**$ 253,311**	$ 139,099

See accompanying notes

Combined Statements of Unitholders' or Shareholders' Equity

(Canadian dollars in thousands)

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

Year Ended December 31, 2012	Number of Shares	Shareholders' equity	Contributed surplus	Deficit	Accumulated other comprehensive loss	Total	Non-controlling interests	Total
Equity at January 1, 2012	**46,871**	**$ 2,119,515**	**$ 62,215**	**$ (711,096)**	**$ —**	**$ 1,470,634**	**$ 914**	**$ 1,471,548**
Net income	—	—	—	149,756	—	149,756	71	149,827
Other comprehensive income (loss)	—	—	—	—	(10,784)	(10,784)	56	(10,728)
Dividends	—	—	—	(93,488)	—	(93,488)	—	(93,488)
Common shares issued on exercise of stock options	30	1,143	(187)	—	—	956	—	956
Common shares issued on settlement of share units	15	350	(350)	—	—	—	—	—
Stock-based compensation	—	—	432	—	—	432	—	432
Repurchase of common shares for cancellation	(83)	(3,752)	1,058	—	—	(2,694)	—	(2,694)
Equity at December 31, 2012	**46,833**	**$ 2,117,256**	**$ 63,168**	**$ (654,828)**	**$ (10,784)**	**$ 1,514,812**	**$ 1,041**	**$ 1,515,853**

See accompanying notes

Combined Statements of Cash Flows
(Canadian dollars in thousands)

Years ended December 31,	Note	2013	2012
			(Note 3)
OPERATING ACTIVITIES			
Net income		**$ 145,266**	$ 149,827
Items not involving current cash flows	18(a)	**(16,516)**	(34,754)
Current income tax expense		**10,490**	18,652
Income taxes paid		**(14,525)**	(28,635)
Interest expense		**19,945**	16,342
Interest paid		**(17,059)**	(16,146)
Changes in working capital balances	18(b)	**293**	10,751
Cash provided by operating activities		**127,894**	116,037
INVESTING ACTIVITIES			
Investment properties:			
Business acquisitions (net of cash acquired of $375)	4	**(233,363)**	—
Acquisition of development lands	4	**(14,204)**	—
Capital expenditures		**(28,853)**	(29,808)
Proceeds on disposal, net	5	**16,843**	1,221
Fixed asset additions		**(673)**	(1,841)
Proceeds from notes receivable	6	**7,870**	4,973
(Increase) decrease in other assets		**(1,209)**	154
Cash used in investing activities		**(253,589)**	(25,301)
FINANCING ACTIVITIES			
Distributions or dividends paid		**(90,331)**	(93,822)
Proceeds from units or shares issued		**3,116**	956
Proceeds from unsecured debentures issued		**200,000**	—
Proceeds from bank indebtedness		**129,095**	42,000
Repayments of bank indebtedness		**(78,692)**	(42,000)
Financing costs paid		**(2,765)**	(410)
Contributions from non-controlling interests		**1,921**	—
Distributions to non-controlling interests		**(215)**	—
Repurchase of common shares		**—**	(2,694)
Cash provided by (used in) financing activities		**162,129**	(95,970)
Effect of exchange rate changes on cash and cash equivalents		**8,013**	(601)
Net increase (decrease) in cash and cash equivalents during the year		**44,447**	(5,835)
Cash and cash equivalents, beginning of year		**51,073**	56,908
Cash and cash equivalents, end of year		**$ 95,520**	$ 51,073

See accompanying notes

Notes to Combined Financial Statements

(All amounts in Canadian dollars and all tabular amounts in thousands unless otherwise noted)

1. NATURE AND DESCRIPTION OF THE TRUST

Effective January 3, 2013, Granite Real Estate Inc. ("Granite Co.") completed its conversion from a corporate structure to a stapled unit real estate investment trust ("REIT") structure. The conversion to a REIT was implemented pursuant to a court approved plan of arrangement (the "Arrangement") under the *Business Corporations Act* (Quebec). Through a series of steps and reorganizations Granite Real Estate Investment Trust ("Granite REIT") and Granite REIT Inc. ("Granite GP"), in addition to other entities, were formed. Granite REIT is an unincorporated, open ended, limited purpose trust established under and governed by the laws of the province of Ontario and created pursuant to a Declaration of Trust dated September 28, 2012 and recently amended on January 3, 2013. Granite GP was incorporated on September 28, 2012 under the *Business Corporations Act* (British Columbia).

Under the Arrangement, all of the common shares of Granite Co. were exchanged, on a one-for-one basis, for stapled units, each of which consists of one unit of Granite REIT and one common share of Granite GP. Granite REIT, Granite GP and their subsidiaries (together "Granite" or the "Trust") are carrying on the business previously conducted by Granite Co. The assets, liabilities and operations of the new combined stapled unit structure comprise all the assets, liabilities and operations of Granite Co. (note 2(c)). The stapled units trade on the Toronto Stock Exchange ("TSX") and on the New York Stock Exchange ("NYSE"). The principal office of Granite REIT is 77 King Street West, Suite 4010, P.O. Box 159, Toronto-Dominion Centre, Toronto, Ontario, M5K 1H1, Canada. The registered office of Granite GP is Suite 2600, Three Bentall Centre, 595 Burrard Street P.O. Box 49314, Vancouver, British Columbia, V7X 1L3, Canada.

The Trust is a Canadian-based REIT engaged in the ownership and management of predominantly industrial, warehouse and logistics properties in North America and Europe. The Trust owns approximately 32.0 million square feet in over 100 rental income properties. The Trust's tenant base currently includes Magna International Inc. and its operating subsidiaries (together "Magna") as its largest tenants, together with tenants from other industries.

These combined financial statements were approved by the Board of Trustees of Granite REIT and Board of Directors of Granite GP on March 5, 2014.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies described below have been applied consistently to all periods presented in these combined financial statements and in preparing the opening International Financial Reporting Standards ("IFRS") balance sheet as at January 1, 2012 for the purposes of the transition to IFRS. Standards and guidelines not effective for the current period are described in note 2(o) below.

These combined financial statements contain disclosures that explain accounting policy differences between IFRS and United States generally accepted accounting principles ("U.S. GAAP") that are significant to the understanding of the changes in financial position and performance of the Trust since the annual financial statements for the year ended December 31, 2012, which were prepared in accordance with U.S. GAAP.

(a) Statement of Compliance

The combined financial statements represent the first annual financial statements of the Trust prepared in accordance with IFRS as issued by the International Accounting Standards Board. The Trust adopted IFRS in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards ("IFRS 1"). The Trust's date of transition to IFRS is January 1, 2012. Further information on the impact of the transition to IFRS is provided in note 3.

(b) Combined Financial Statements and Basis of Consolidation

As a result of the REIT conversion and the steps and reorganizations described in note 1, the Trust does not have a single parent; however, each unit of Granite REIT and each share of Granite GP trade as a single stapled unit and accordingly, Granite REIT and Granite GP have identical ownership. Therefore, these financial statements have been prepared on a combined basis whereby the assets, liabilities and results of Granite GP and Granite REIT have been combined. The combined financial statements include the subsidiaries of Granite GP and Granite REIT. Subsidiaries are fully consolidated by Granite GP or Granite REIT from the date of acquisition, being the date on which control is obtained. The subsidiaries continue to be consolidated until the date that such control ceases. Control exists when Granite GP or Granite REIT have power, exposure, or rights to variable returns and the ability to use their power over the entity to affect the amount of returns it generates. Prior to the REIT conversion, Granite Co. prepared consolidated financial statements. Accordingly, the consolidated financial statements of Granite Co., as previously reported, are presented as the comparative financial statements for the dates and periods prior to January 3, 2013.

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

(c) Common Control Transactions

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

(d) Investment Properties

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

Income-Producing Properties

In order to avoid double counting, the carrying value of income-producing properties includes the impact of straight-line rental revenue (note 2(j)), tenant inducements and deferred leasing costs since these amounts are incorporated in the determination of the fair value of income-producing properties.

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

Properties Under Development

The Trust's development properties are classified as such until the property is substantially completed and available for occupancy. The Trust capitalizes acquisition, development and expansion costs, including direct construction costs, borrowing costs and indirect costs wholly attributable to development. Borrowing costs are capitalized to projects under development or construction based on the average accumulated expenditures outstanding during the period multiplied by the Trust's average borrowing rate on existing debt. Where borrowings are associated with specific developments, the

amount capitalized is the gross borrowing cost incurred on such borrowings less any investment income arising on temporary investment of these borrowings. The capitalization of borrowing costs is suspended if there are prolonged periods that development activity is interrupted. The Trust capitalizes direct and indirect costs, including real estate taxes and insurance of the development property if activities necessary to ready the development property for its intended use are in progress. Costs of internal personnel and other indirect costs that are not wholly attributable to a project are expensed as incurred.

Properties under development are measured at fair value as stated above, however, where fair value is not reliably determinable, the property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably determinable.

(e) Business Combinations

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

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

Acquisition related costs are expensed as incurred.

Any contingent consideration is recognized at fair value at the acquisition date. Subsequent changes to the fair value of contingent consideration that is recorded as an asset or liability is recognized in accordance with IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39") primarily in net income or, in certain circumstances, as a change to other comprehensive income. Contingent consideration that is recorded as equity is not re-measured, and its subsequent settlement is accounted for within equity.

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

(f) Foreign Currency Translation

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

In preparing the financial statements of each entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the average rates of exchange prevailing in the period. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency

are not retranslated. Exchange differences on monetary items are recognized in net income in the period in which they arise except for:

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

(g) Financial Instruments and Hedging

Financial assets

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

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

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

Financial liabilities

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

Derivatives and Hedging

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

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

income. The amounts recorded in accumulated other comprehensive income are recognized in net income when there is a disposition or partial disposition of the foreign subsidiary.

(h) Cash and Cash Equivalents and Restricted Cash

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

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

(i) Fixed Assets

Fixed assets are recorded at cost less accumulated depreciation. Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the fixed assets, which typically range from 3 to 5 years for computer hardware and software and 5 to 7 years for other furniture and fixtures. Leasehold improvements are amortized over the term of the applicable lease.

(j) Revenue Recognition

Where Granite has retained substantially all the benefits and risks of ownership of its rental properties, leases with its tenants are accounted for as operating leases. Where substantially all the benefits and risks of ownership of the Trust's rental properties have been transferred to its tenants, the Trust's leases are accounted for as finance leases. For leases involving land and buildings, the Trust evaluates the land and building separately in determining the appropriate lease treatment, unless the fair value of the land at the inception of the lease is considered to be immaterial. All of the Trust's current leases (the "Leases") are operating leases.

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

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

(k) Unit-Based Compensation Plans

Incentive Stock Option Plan

Compensation expense for option grants is based on the fair value of the options at the grant date and is recognized over the period from the grant date to the date the award is vested. Prior to the REIT conversion, compensation expense for stock option grants was recognized as general and administrative expenses, with a corresponding amount included in equity as contributed surplus. The contributed surplus balance was reduced as options were exercised and the amount initially recorded for the options in contributed surplus was credited to common shares, along with the proceeds received on exercise. On conversion to a REIT, a liability was recognized for outstanding options based upon the fair value as the Trust is an open ended trust making its units redeemable and therefore effectively cash settled. During the period in which options are outstanding, the liability is adjusted for changes in the fair value with such adjustments being recognized as compensation expense in general and administrative expenses in the period in which they occur. The liability balance is reduced as options are exercised and recorded in equity as stapled units along with the proceeds received on exercise.

Executive Deferred Stapled Unit Plan

The executive deferred stapled unit plan is measured at fair value at the date of grant and amortized to compensation expense from the effective date of the grant to the final vesting date. Compensation expense is recognized on a proportionate basis consistent with the vesting features of each tranche of the grant. Prior to the REIT conversion, compensation expense for the executive deferred share unit plan was recognized in general and administrative expenses with a corresponding amount included in equity as contributed surplus. The contributed surplus balance was reduced and credited to common shares as shares were issued under the plan. On conversion to a REIT, compensation expense for deferred stapled units granted under the plan continues to be recognized as general and administrative expenses with a corresponding liability recognized based on the fair value of the Trust's stapled units as the Trust is an open ended trust making its units redeemable and therefore effectively cash settled. During the period in which the deferred stapled units are outstanding, the liability is adjusted for changes in the market value of the Trust's stapled unit, with such adjustments being recognized as compensation expense in general and administrative expenses in the period in which they occur. The liability balance is reduced as deferred stapled units are settled for stapled units and recorded in equity.

Director/Trustee Deferred Share Unit Plan

The compensation expense and a corresponding liability associated with the director/trustee deferred share unit plan is measured based on the market value of the underlying stapled units (or previously common shares). During the period in which the awards are outstanding, the liability is adjusted for changes in the market value of the underlying stapled unit, with such positive or negative adjustments being recognized in general and administrative expenses in the period in which they occur.

(l) Income Taxes

Operations in Canada

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

The Trust's qualification as a REIT results in no current or deferred income tax being recognized in the combined financial statements for income taxes related to the Canadian investment properties. Further, as a result of converting to a REIT, certain deferred income taxes reported prior to January 3, 2013 were reversed through deferred income tax expense. Current income tax related to certain taxable Canadian entities will be determined on the basis of enacted or substantively enacted tax rates and laws at each balance sheet date.

Operations in the United States

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

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

Operations in Europe and Mexico

The Trust consolidates certain entities that continue to be subject to income tax. Income taxes for these taxable entities are recorded as follows:

Current Income Tax

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

Deferred Income Tax

Deferred income tax is recorded, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and the amounts reported in the combined financial statements. Deferred income tax is measured using tax rates and laws that are enacted and substantively enacted as at each balance sheet date and are expected to apply when the temporary differences are expected to reverse. Deferred income tax assets are recognized only to the extent that it is probable that sufficient future taxable profit will be available against which the deductible temporary difference can be utilized.

Each of current and deferred tax assets and liabilities are offset when they are levied by the same taxation authorities on either the same taxable entities, or different taxable entities with the same reporting group that settle on a net basis, and when there is a legal right to offset.

(m) Trust Units

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

(n) Significant Accounting Judgments, Estimates and Assumptions

The preparation of these combined financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the combined financial statements, and the reported amounts of revenue and expenses during the reporting periods.

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

Judgments

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

Leases

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

Investment properties

The Trust's policy relating to investment properties is described in note 2(d). In applying this policy, judgment is applied in determining whether certain costs incurred for tenant improvements are

additions to the carrying amount of the property or represent incentives, identifying the point at which practical completion of properties under development occurs and determining borrowing costs to be capitalized to the carrying value of properties under development. Judgment is also applied in determining the extent and frequency of independent appraisals.

Income taxes

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

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include the following:

Valuation of investment properties

The fair value of investment properties is determined by management using primarily the discounted cash flow method in which the income and expenses are projected over the anticipated term of the investment plus a terminal value discounted using an appropriate discount rate. Management also takes into consideration appraisals obtained from time to time from independent qualified real estate valuation experts in order to arrive at its own conclusions on value. The Trust's critical assumptions relating to the estimates of fair values of investment properties include the receipt of contractual rents, contractual renewal terms, expected future market rental rates, discount rates that reflect current market uncertainties, capitalization rates and recent property investment prices. If there is any change in these assumptions or regional, national or international economic conditions, the fair value of investment properties may change materially. Refer to note 5 for further information on the estimates and assumptions made by management.

Fair value of financial instruments

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

Income taxes

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

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

(o) Future Accounting Policy Changes

The following accounting standards have been issued but are not yet effective:

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

In May 2013, IFRIC Interpretation 21 — Levies ("IFRIC 21") was issued which is an interpretation of IAS 37 — Provisions, Contingent Liabilities and Contingent Assets. IFRIC 21 clarifies what the obligating event is that gives rise to a levy and when a liability should be recognized. IFRIC 21 is effective for years beginning on or after January 1, 2014 and must be applied retrospectively. Realty taxes payable by the Trust are considered levies and the Trust is currently assessing the potential impact of this standard on its combined financial statements.

IFRS 9 Financial Instruments ("IFRS 9") will eventually replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39") in its entirety. IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The most significant change is, in cases where the fair value option is taken for financial liabilities, that the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement. The effective date for implementation of this standard has not been determined. The Trust has not yet determined the impact of IFRS 9 on its combined financial statements.

3. TRANSITION TO IFRS

Reconciliation of Equity as Reported Under U.S. GAAP and IFRS

The Trust has adopted IFRS as its basis of financial reporting effective for the year ended December 31, 2013. An opening IFRS balance sheet has been presented using a transition date of January 1, 2012 and comparative figures have also been conformed to comply with IFRS. Prior to the adoption of IFRS, the Trust prepared its financial statements in accordance with U.S. GAAP.

(a) Elected exemption from full retrospective application

In preparing these combined financial statements in accordance with IFRS 1, the Trust has applied certain optional exemptions from full retrospective application of IFRS. The optional exemptions applied are described below:

i) Business combinations

The Trust has applied the business combinations exemption in IFRS 1 to not apply IFRS 3, Business Combinations retrospectively to past business combinations completed prior to January 1, 2012.

ii) Cumulative foreign currency translation differences

The Trust has elected to set the accumulated foreign currency translation account under U.S. GAAP, which is included in accumulated other comprehensive loss at December 31, 2011, to zero at January 1, 2012.

(b) Mandatory exceptions to retrospective application

In preparing these combined financial statements in accordance with IFRS 1 the Trust has applied the mandatory exception from full retrospective application under IFRS relating to estimates. Hindsight was not used to create or revise estimates and accordingly the estimates previously made by the Trust under U.S. GAAP are consistent with their application under IFRS. None of the other mandatory exceptions apply to the Trust.

The following is a reconciliation of the Trust's balance sheet reported in accordance with U.S. GAAP to IFRS at January 1, 2012:

	Note	December 31, 2011 U.S. GAAP	Effect of transition to IFRS	January 1, 2012 IFRS
ASSETS				
Non-current assets:				
Real estate properties, net/Investment properties	(i)	$ 1,154,780	$ 737,071	$ 1,891,851
Deferred rent receivable	(ii)	12,704	(12,704)	—
Deferred tax assets	(iii)	1,292	(1,292)	—
Other non-current assets	(ii)	6,177	(3,171)	3,006
		1,174,953	719,904	1,894,857
Current assets:				
Other current assets		13,553	—	13,553
Cash and cash equivalents		56,908	—	56,908
Total assets		$ 1,245,414	$ 719,904	$ 1,965,318
LIABILITIES AND SHAREHOLDERS' EQUITY				
Non-current liabilities:				
Unsecured debentures, net		$ 263,236	$ —	$ 263,236
Deferred tax liabilities	(iii)	30,224	163,149	193,373
Deferred revenue	(ii)	3,989	(3,989)	—
		297,449	159,160	456,609
Current liabilities:				
Deferred revenue	(ii)	3,599	(1,080)	2,519
Other current liabilities	(v)	35,126	(484)	34,642
Total liabilities		336,174	157,596	493,770
Shareholders' equity	(iv)	909,240	561,394	1,470,634
Non-controlling interests	(v)	—	914	914
Total liabilities and shareholders' equity		$ 1,245,414	$ 719,904	$ 1,965,318

The following is a reconciliation of the Trust's balance sheet reported in accordance with U.S. GAAP to IFRS at December 31, 2012:

	Note	U.S. GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Non-current assets:				
Real estate properties, net/Investment properties	(i)	$ 1,136,158	$ 807,539	$ 1,943,697
Deferred rent receivable	(ii)	11,518	(11,518)	—
Deferred tax assets	(iii)	3,924	(3,924)	—
Other non-current assets	(ii)	5,369	(3,212)	2,157
		1,156,969	788,885	1,945,854
Current assets:				
Other current assets		10,163	—	10,163
Cash and cash equivalents		51,073	—	51,073
Total assets		$ 1,218,205	$ 788,885	$ 2,007,090
LIABILITIES AND SHAREHOLDERS' EQUITY				
Non-current liabilities:				
Unsecured debentures, net		$ 263,589	$ —	$ 263,589
Deferred tax liabilities	(iii)	27,626	157,589	185,215
Deferred revenue	(ii)	4,782	(4,782)	—
		295,997	152,807	448,804
Current liabilities:				
Deferred revenue	(ii)	5,839	(1,345)	4,494
Other current liabilities	(iii),(v)	39,368	(1,429)	37,939
Total liabilities		341,204	150,033	491,237
Shareholders' equity	(iv)	877,001	637,811	1,514,812
Non-controlling interests	(v)	—	1,041	1,041
Total liabilities and shareholders' equity		$ 1,218,205	$ 788,885	$ 2,007,090

(i) Investment properties

The Trust considers its income-producing properties and properties under development to be investment properties under IAS 40. The Trust has elected to use the fair value model for the valuation of its investment properties. The adjustment represents the cumulative unrealized gain in respect of the fair value of the Trust's investment properties, net of related intangible assets and liabilities which are inherently reflected in the fair value of investment properties and the reclassification of straight-line rental revenue (deferred rent receivable) to investment properties.

(ii) Deferred rent receivable, other assets and certain deferred revenue

This adjustment represents the reclassification to investment properties of deferred rent receivable, other assets and certain deferred revenue relating to upfront lease payments not reflected in the discounted cash flow analysis to determine fair value for an investment property.

(iii) Current and deferred income taxes

Current income tax payable decreased by $0.9 million at December 31, 2012 due to the measurement of current taxes using enacted and substantively enacted rates and legislation as at each balance sheet date as required under IFRS.

Under IFRS, deferred income taxes are recorded for temporary differences arising in respect of 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, an adjustment to the deferred tax liability has been recorded at January 1, 2012. However, as a result of the REIT conversion which was effective January 3, 2013, deferred income tax amounts related to Canadian investment properties have been reversed as an adjustment to deferred income tax expense (note 12). The conversion to a REIT did not impact the deferred income tax balances in any other jurisdiction.

(iv) Cumulative foreign currency translation adjustments

IAS 21, The Effects of Changes in Foreign Exchange Rates, ("IAS 21") requires an entity to determine the translation differences in accordance with IFRS from the date a subsidiary was formed. In accordance with IFRS 1, the Trust has elected to reset all cumulative translation differences to zero on the date of transition to IFRS.

(v) Non-controlling interest

The Trust reclassified an amount previously included in accounts payable and accrued liabilities to non-controlling interest in the combined balance sheet.

All the above adjustments have been recorded to opening deficit unless otherwise indicated.

Reconciliation of Net Income and Comprehensive Income as Reported under U.S. GAAP and IFRS

The following is a reconciliation of the Trust's net income and comprehensive income reported in accordance with U.S. GAAP to IFRS for the year ended December 31, 2012.

Year ended December 31,	**Note**	**2012**
Net income as reported under U.S. GAAP		$ 71,337
Differences increasing (decreasing) the reported amounts:		
Fair value gains recorded under IFRS	(i)	33,343
Depreciation and amortization recorded under U.S. GAAP	(ii)	42,529
Deferred tax expense	(iii)	1,796
Current tax expense	(iii)	920
Other	(iv)	(98)
Net income as reported under IFRS		$ 149,827
Other comprehensive loss reported under U.S. GAAP		$ (8,669)
Change in foreign currency translation of foreign operations	(v)	(2,059)
Other comprehensive loss reported under IFRS		(10,728)
Comprehensive income as reported under IFRS		$ 139,099

(i) Fair value gains recorded under IFRS

In accordance with IFRS and the Trust's policy, the Trust measures investment properties at fair value and records changes in fair value in net income during the period of change.

(ii) Depreciation and amortization under U.S. GAAP

Under U.S. GAAP, investment properties were recorded at cost and depreciated over their estimated lives.

(iii) Deferred and current tax expense.

IFRS transition adjustments have been tax affected.

(iv) Other

Certain intangible assets recognized under U.S. GAAP are no longer recognized under IFRS as these values are considered and included in the determination of the fair value of the investment property. Accordingly, the amortization expense associated with these intangibles was reversed. In addition, under IFRS compensation expense is recognized on a proportionate basis consistent with the vesting features of each tranche of the grant whereas under U.S. GAAP compensation expense was recognized on a straight-line basis.

(v) Change in foreign currency translation of foreign operations

The changes in foreign currency translation of foreign operations are primarily due to the impact of fluctuations in the foreign exchange rates applied to the fair value gains on the Trust's U.S. dollar and euro investment properties. In addition, 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. In accordance with IFRS 1, the Trust has elected to deem all cumulative translation differences to be zero on transition to IFRS.

Adjustments to the Statements of Cash Flows

There were no material adjustments to the operating, investing or financing activity subtotals in the 2012 statements of cash flows as a result of the conversion to IFRS.

4. ACQUISITIONS

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

(a) Business combinations — Income-producing properties

Income-producing Properties located in the United States

On February 13, 2013, the Trust, through a 90% owned subsidiary, DGI LS, LLC, acquired two income-producing multipurpose industrial properties. On May 10, 2013, the Trust, through a 95% owned subsidiary, DGI Portland, LLC, acquired an income-producing multipurpose industrial property. On August 9, 2013, the Trust acquired a single-tenant incoming-producing logistics-distribution property.

Income-producing Properties located in Europe

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

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

	U.S. Properties	European Properties	Total
Purchase consideration:			
Cash sourced from Credit Facility (note 10) or issuance of 2018 Debentures (note 8(b))	$ 44,076	$ 188,737	**$ 232,813**
Cash on hand	925	—	**925**
Contingent consideration	688	—	**688**
Total consideration paid	$ 45,689	$ 188,737	**$ 234,426**
Recognized amounts of identifiable assets acquired and liabilities assumed measured at their respective fair values:			
Investment properties	$ 83,450	$ 185,704	**$ 269,154**
Working capital	777	(1,155)	**(378)**
Restricted cash[(1)]	—	4,188	**4,188**
Mortgages payable	(36,437)	—	**(36,437)**
Identifiable net assets	47,790	188,737	**236,527**
Non-controlling interests	(2,101)	—	**(2,101)**
Total	$ 45,689	$ 188,737	**$ 234,426**

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

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

(b) Asset purchases — Development lands

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

(c) Transaction costs and contingent consideration

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

The contingent consideration recognized in connection with the aforementioned transactions is estimated to be $3.8 million and is expected to be settled in 2018. The fair value of the contingent consideration was estimated using an income approach and is dependent upon achieving certain predetermined returns over a five year period. This estimate is dependent upon a number of assumptions which are subject to change over the period to the date of payment. The non-controlling interest in each partnership was determined using the purchase price paid for the Trust's percentage share interest of the respective partnership.

5. INVESTMENT PROPERTIES

As at	December 31, 2013	December 31, 2012	January 1, 2012
Income-Producing Properties	**$ 2,325,583**	$ 1,941,936	$ 1,891,851
Properties and Land Under Development	**18,108**	1,761	—
Land Held For Development	**8,206**	—	—
	$ 2,351,897	$ 1,943,697	$ 1,891,851

Changes in investment properties are shown in the following table:

	December 31, 2013			December 31, 2012	
As at	**Income Producing Properties**	**Properties and Land Under Development**	**Land Held For Development**	**Income Producing Properties**	**Properties Under Development**
Balance, beginning of year	**$ 1,941,936**	**$ 1,761**	**$ —**	$ 1,891,851	$ —
Additions					
— Capital expenditures	**13,152**	**14,584**	**278**	14,256	19,295
— Acquisitions	**269,154**	**7,461**	**9,508**	—	—
— Completed projects	**6,364**	**(6,364)**	**—**	17,499	(17,499)
Fair value gains (losses), net	**(23,297)**	**—**	**(1,927)**	33,133	210
Foreign currency translation, net	**135,428**	**666**	**347**	(11,700)	(245)
Disposals	**(17,447)**	**—**	**—**	(1,221)	—
Other changes	**293**	**—**	**—**	(1,882)	—
Balance, end of year	**$ 2,325,583**	**$ 18,108**	**$ 8,206**	$ 1,941,936	$ 1,761

During the year ended December 31, 2013, the Trust disposed of four income-producing properties located in Canada, the United States, the United Kingdom and Poland, for aggregate net proceeds of $16.8 million and incurred a $0.6 million loss on disposal due to the associated selling costs. The fair value loss during the year ended December 31, 2013 excluding properties sold in the year was $28.5 million. During the year ended December 31, 2012, the Trust disposed of an income-producing property for net proceeds of $1.2 million and recorded a nominal loss on disposal. The fair value gain during the year ended December 31, 2012 excluding the property sold in the year was $33.3 million.

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

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

Valuations are most sensitive to changes in discount rates and terminal capitalization rates. The table below summarizes the sensitivity of the fair value of investment properties to changes in either the discount rate or terminal capitalization rate:

	Discount Rate		Terminal Capitalization Rate	
Rate sensitivity	**Fair value**	**Change in fair value**	**Fair value**	**Change in fair value**
+ 50 basis points	$ 2,278,985	$ (72,912)	$ 2,292,334	$ (59,563)
+ 25 basis points	2,314,150	(37,747)	2,321,176	(30,721)
Base rate	2,351,897	—	2,351,897	—
- 25 basis points	2,390,580	38,683	2,384,474	32,577
- 50 basis points	2,430,100	78,203	2,419,258	67,361

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

As at	**December 31, 2013**			**December 31, 2012**			**January 1, 2012**		
	Maximum	**Minimum**	**Weighted average**	**Maximum**	**Minimum**	**Weighted average**	**Maximum**	**Minimum**	**Weighted average**
Canada									
Discount rate	**8.50%**	**6.50%**	**7.76%**	8.75%	6.50%	7.87%	8.75%	6.50%	8.11%
Terminal cap rate	**8.50%**	**5.75%**	**7.26%**	8.75%	5.75%	7.36%	9.00%	5.75%	7.61%
United States									
Discount rate	**14.00%**	**7.30%**	**9.35%**	14.00%	8.45%	10.07%	14.00%	8.45%	10.18%
Terminal cap rate	**13.00%**	**7.25%**	**9.24%**	13.00%	9.00%	9.92%	13.00%	9.25%	10.04%
Mexico									
Discount rate	**13.25%**	**11.75%**	**12.91%**	12.50%	11.25%	11.99%	12.75%	11.50%	12.16%
Terminal cap rate	**13.75%**	**10.75%**	**12.89%**	12.75%	10.25%	11.87%	12.75%	10.50%	11.99%
Germany									
Discount rate	**9.25%**	**6.20%**	**8.15%**	9.25%	8.25%	8.37%	9.50%	8.50%	8.63%
Terminal cap rate	**9.25%**	**7.50%**	**8.37%**	9.25%	8.75%	8.87%	9.50%	9.00%	9.13%
Austria									
Discount rate	**8.75%**	**8.25%**	**8.38%**	9.00%	8.25%	8.36%	9.00%	8.50%	8.60%
Terminal cap rate	**9.25%**	**8.75%**	**8.87%**	9.50%	8.75%	8.88%	9.50%	9.00%	9.10%
Other									
Discount rate	**11.00%**	**6.84%**	**8.81%**	11.50%	9.50%	9.78%	11.75%	9.50%	9.75%
Terminal cap rate	**10.50%**	**7.50%**	**8.17%**	11.75%	8.50%	10.22%	12.00%	8.50%	10.16%

On September 20, 2013, Granite entered into a non-binding letter of intent (the "LOI") for the sale to Magna of Granite's portfolio of Mexican properties currently leased to Magna and representing an aggregate of approximately 2.4 million square feet. On March 5, 2014, Granite entered into an asset purchase agreement with Magna for the sale of the Mexican portfolio at a purchase price of U.S. $105.0 million (note 24(d)). During the year ended December 31, 2013, the Trust incurred costs of $0.3 million related to this transaction, which are included in loss on sale of investment properties on the combined statements of income.

Included in investment properties is $11.2 million (December 31, 2012 — $11.5 million; January 1, 2012 — $12.7 million) of net straight-line rent receivable arising from the recognition of rental revenue on a straight-line basis over the lease term.

Details about contractual obligations to purchase, construct and develop properties can be found in the commitments and contingencies note (note 23).

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

Not later than 1 year	$ 214,787
Later than 1 year and not later than 5 years	765,081
Later than 5 years	144,122
	$ 1,123,990

6. NOTES RECEIVABLE

On February 28, 2013, the Trust entered into a settlement agreement for U.S. $5.0 million relating to a holdback receivable ("Meadows note") of a former subsidiary's sale of a property in 2006. The note was payable in U.S. $0.5 million monthly instalments (the Trust's share), commencing March 31, 2013. The final instalment was received on October 4, 2013.

During 2013, the Trust received U.S. $2.5 million relating to the final instalment of an unsecured note, which bore interest at 5.0% per annum.

7. OTHER ASSETS

Other assets consist of:

As at	December 31, 2013	December 31, 2012	January 1, 2012
Deferred financing costs	**$ 433**	$ 222	$ —
Long-term receivables	**525**	98	427
Interest rate caps (note 9)	**678**	—	—
Deposits	**322**	—	—
	$ 1,958	$ 320	$ 427

8. UNSECURED DEBENTURES, NET

Unsecured debentures, net, consist of:

Carrying value

As at	December 31, 2013	December 31, 2012	January 1, 2012
6.05% Debentures, at amortized cost	**$ 263,941**	$ 263,589	$ 263,236
4.613% Debentures, at amortized cost	**198,129**	—	—
	$ 462,070	$ 263,589	$ 263,236

Principal issued and outstanding

As at	Date Issued	Maturity Date	December 31, 2013	December 31, 2012	January 1, 2012
6.05% Debentures	December 22, 2004	December 22, 2016	**$ 265,000**	$ 265,000	$ 265,000
4.613% Debentures	October 2, 2013	October 2, 2018	**200,000**	—	—
			$ 465,000	$ 265,000	$ 265,000

(a) 6.05% Debentures

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

The 2016 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 2016 Debentures to be redeemed; and (b) the Canada Yield Price. The Canada Yield Price means, in respect of a 2016 Debenture, a price equal to which, if the 2016 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.

Interest on the 2016 Debentures is payable on a semi-annual basis on June 22 and December 22 of each year. The unamortized portion of the $3.1 million of expenses incurred in connection with the issuance of the 2016 Debentures is presented as a reduction of the carrying amount of the 2016 Debentures.

(b) 4.613% Debentures

Granite REIT Holdings Limited Partnership, a wholly owned subsidiary of Granite, issued at par the 4.613% Series 1 senior debentures (the "2018 Debentures"). The 2018 Debentures rank equally with all of the Trust's existing and future unsubordinated and unsecured indebtedness and are guaranteed by Granite and certain of its subsidiaries.

The 2018 Debentures are redeemable, in whole or in part, at Granite's option at any time and from time to time, at a price equal to accrued and unpaid interest plus the greater of (a) 100% of the principal amount of the 2018 Debentures to be redeemed; and (b) the Canada Yield Price. The Canada Yield Price means, in respect of a 2018 Debenture, a price equal to which, if the 2018 Debenture were to be issued at such price on the redemption date, would provide a yield thereon from the redemption date to its maturity date equal to 67.5 basis points above the yield that a non-callable Government of Canada bond, trading at par, would carry if issued on the redemption date with a maturity date of October 2, 2018.

Interest on the 2018 Debentures is payable semi-annually in arrears on April 2 and October 2 of each year, commencing on April 2, 2014. The unamortized portion of the $2.0 million of expenses incurred in connection with the issuance of the 2018 Debentures is presented as a reduction of the carrying amount of the 2018 Debentures.

(c) Cross Currency Interest Rate Swap

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

As at December 31, 2013, the fair value of the Cross Currency Interest Rate Swap was a net financial liability of $11.0 million, which includes an $11.5 million loss related to the strengthening of the euro against the Canadian dollar. The Cross Currency Interest Rate Swap is designated as a net investment hedge of the Trust's investment in foreign operations. The effectiveness of the hedge is assessed quarterly. For the year ended December 31, 2013, the Trust has assessed that there is no ineffectiveness in this hedge. As an effective hedge, the unrealized gains or losses on the Cross Currency Interest Rate Swap that are related to foreign currency movements are recognized in other comprehensive income. The Trust has elected to record the interest settlements of the Cross Currency Interest Rate Swap in the statement of income.

The net proceeds from the 2018 Debentures and Cross Currency Interest Rate Swap were used to finance the European acquisitions made in 2013.

9. SECURED LONG-TERM DEBT

(a) Mortgages payable

The Trust has two mortgages payable totaling $38.8 million (U.S. $36.5 million) relating to the two business acquisitions completed on February 13 and May 10, 2013 (note 4(a)). The mortgages mature on June 10, 2017 and May 10, 2018 respectively and both bear interest at LIBOR plus 2.5%. As a condition of the mortgage agreements, the Trust was required to hedge its interest rate exposure. Accordingly, it purchased interest rate caps for 100% of the mortgage amounts and for the duration of the mortgages thereby limiting its exposure to interest rate fluctuations to a maximum of 4%. The mortgages payable balance is net of deferred financing costs of $0.2 million. Principal mortgage repayments are as follows:

2014	$ 217
2015	819
2016	918
2017	24,604
2018	12,211
	$ 38,769

The mortgages are recourse to the properties acquired, having a carrying value of $65.4 million at December 31, 2013, which are pledged as collateral.

(b) Construction loan

On July 25, 2013, DGI Shepherdsville entered into a construction loan (the "Construction Loan") for U.S. $17.0 million relating to the development land purchased in the United States (note 4(b)). The Construction Loan bears interest at LIBOR plus 2.25% and matures on July 25, 2016. Proceeds from the Construction Loan may only be used to pay for the construction cost of improvements on the property and other related costs, and loan advances will be made based on the value of the work completed. The maximum amount available under the Construction Loan may be increased to U.S. $19.0 million, subject

to certain terms and conditions being met. DGI Shepherdsville also has the option to extend the maturity date for two successive periods to July 25, 2017 and 2018, subject to certain terms and conditions. The Construction Loan is secured by a first mortgage lien on the property. At December 31, 2013, $3.3 million (U.S. $3.1 million) had been drawn under the Construction Loan.

10. BANK INDEBTEDNESS

Effective February 1, 2013, the Trust entered into an unsecured senior revolving credit facility in the amount of $175.0 million that is available by way of Canadian dollar, U.S. dollar or euro denominated loans or letters of credit (the "Credit Facility") and matures on February 1, 2015. However, the Trust 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 Credit Facility. The Credit Facility provides the Trust with the ability to increase the amount of the commitment by an additional aggregate principal amount of up to $75.0 million with the consent of the participating lenders. Interest on drawn amounts is calculated based on an applicable margin determined by the Trust's external credit rating. Based on the current credit rating, the Trust 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 Trust borrows in plus an applicable margin of up to 1.63%. At December 31, 2013, the Trust had $53.2 million (U.S. $50.0 million) drawn under the Credit Facility and $1.2 million in letters of credit issued against the Credit Facility.

The Trust previously had an unsecured senior revolving credit facility in the amount of $50.0 million that was replaced by the above mentioned Credit Facility and was available by way of Canadian dollar, U.S. dollar or euro denominated loans or letters of credit (the "2012 Granite Credit Facility"). The 2012 Granite Credit Facility was entered into February 7, 2012 and was scheduled to mature on February 7, 2014. Interest on drawn amounts was calculated based on an applicable margin determined by the Trust's external credit rating. During 2012, the Trust 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 borrowed in plus an applicable margin of up to 1.75%. No amounts were drawn under the 2012 Granite Credit Facility as at December 31, 2012. The Trust did not have a credit facility as at January 1, 2012.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of:

As at	December 31, 2013	December 31, 2012	January 1, 2012
Accounts payable	**$ 5,828**	$ 5,558	$ 4,538
Accrued salaries and wages	**4,771**	3,913	1,549
Accrued interest payable	**2,708**	387	387
Accrued construction payable	**7,141**	8,167	4,233
Accrued acquisition costs	**1,733**	—	—
Accrued stapled unit options	**356**	—	—
Accrued executive deferred stapled units	**1,395**	—	—
Accrued trustee/director unit-based compensation	**3,291**	2,283	986
Other accrued liabilities	**5,955**	5,647	2,264
	$ 33,178	$ 25,955	$ 13,957

12. INCOME TAXES

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

Years ended December 31,	2013	2012
Current income tax:		
Current taxes	**$ 6,000**	$ 15,987
Withholding taxes and other	**4,490**	2,665
	10,490	18,652
Deferred income tax:		
Origination and reversal of temporary differences	**4,555**	17,948
Impact of changes in tax rates	**699**	4,095
Reversal of withholding taxes on profits of subsidiaries	**(4,430)**	(2,665)
Reversal of deferred tax liability upon REIT conversion and related reorganizations	**(41,950)**	(22,859)
Other	**(699)**	(3,442)
	(41,825)	(6,923)
Income tax expense (recovery)	**$ (31,335)**	$ 11,729

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

Years ended December 31,	2013	2012
Income before income taxes	**$ 113,931**	$ 161,556
Expected income taxes at the Canadian statutory tax rate of 26.5% (2012 — 26.5%)	**$ 30,192**	$ 42,812
Income distributed and taxable to unitholders	**(23,735)**	—
Reversal of deferred tax liability upon REIT conversion and related reorganizations	**(41,950)**	(22,859)
Net foreign rate differentials	**2,698**	(12,553)
Net change in provisions for uncertain tax positions	**(194)**	1,568
Net permanent differences	**(873)**	(374)
Net effect of change in tax rates	**699**	4,095
Withholding taxes and other items	**1,828**	(960)
Income tax expense (recovery)	**$ (31,335)**	$ 11,729

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

As at	December 31, 2013	December 31, 2012	January 1, 2012
Deferred tax assets:			
Investment properties	**$ 2,447**	$ —	$ —
Eligible capital expenditures	**3,509**	—	—
Other	**2,217**	—	—
Total deferred tax assets	**8,173**	—	—
Deferred tax liabilities:			
Investment properties	**165,362**	185,249	190,492
Eligible capital expenditures	**—**	(4,635)	(3,604)
Withholding tax on undistributed subsidiary profits	**1,014**	4,741	5,645
Other	**246**	(140)	840
Total deferred tax liabilities	**166,622**	185,215	193,373
Net deferred tax liabilities	**$ 158,449**	$ 185,215	$ 193,373

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

Years ended December 31,	2013	2012
Balance, beginning of year	**$ 185,215**	$ 193,373
Deferred tax recovery recognized in net income	**(41,825)**	(6,923)
Foreign currency translation of deferred tax balances	**15,059**	(1,235)
	$ 158,449	$ 185,215

(e) Net cash payments of income taxes amounted to $14.5 million for the year ended December 31, 2013 which includes $4.2 million of withholding taxes (2012 — $28.6 million).

(f) The Trust conducts operations in a number of countries with varying statutory rates of taxation. Judgment is required in the estimation of income taxes and deferred income tax assets and liabilities, in each of the Trust's operating jurisdictions. This process involves estimating actual current tax exposure, assessing temporary differences that result from the different treatments of items for tax and accounting purposes, assessing whether it is more likely than not that deferred income tax assets will be realized and, based on all the available evidence, determining if a valuation allowance is required on all or a portion of such deferred income tax assets. The Trust reports a liability for uncertain tax positions ("unrecognized tax benefits") taken or expected to be taken in a tax return. The Trust recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense.

As at December 31, 2013, the Trust had $14.2 million (2012 — $12.3 million) of unrecognized income tax benefits (including $0.3 million (2012 — $0.9 million) of related accrued interest and penalties), all of which could ultimately reduce the Trust's effective tax rate. The Trust is currently under audit in Canada for the 2004 through 2006 taxation years for specific open issues, the United States and Germany. The Trust believes that it has adequately provided for reasonably foreseeable outcomes related to the tax examinations and that any resolution will not have a material adverse effect on the combined financial position or results from operations. However, the Trust cannot predict with any level of certainty the exact nature of any future possible outcome.

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

As at	December 31, 2013	December 31, 2012
Unrecognized tax benefits balance, beginning of year	**$ 12,263**	$ 10,885
Increases (decreases) for tax positions of prior years	**(510)**	598
Increases for tax positions of current year	**1,749**	862
Foreign currency impact	**663**	(82)
Unrecognized tax benefits balance, end of year	**$ 14,165**	$ 12,263

It is reasonably possible that the gross unrecognized tax benefits, as of December 31, 2013, could decrease in the next 12 months by an estimated range of a nominal amount to $5.5 million (2012 — $3.6 million to $4.9 million) relating primarily to tax years becoming statute barred for purposes of future tax examinations by local taxing authorities and the outcome of current tax examinations.

For the year ended December 31, 2013, $0.1 million of interest and penalties was recorded (2012 — $0.1 million) as part of the provision for income taxes in the combined statements of income.

As at December 31, 2013, the following tax years remained subject to examination by the major tax jurisdictions:

Major Jurisdictions	
Canada	2004 through 2006 and 2008 through 2013
United States	2011 through 2013
Mexico	2009 through 2013
Austria	2009 through 2013
Germany	2008 through 2011

As at December 31, 2013, the Trust had approximately $420.0 million of Canadian capital loss carryforwards that do not expire, approximately $540.0 million of Foreign Investment in Real Property Tax Act losses that will expire in 2015 and 2017, and other losses and deductible temporary differences in various tax jurisdictions of approximately $12.0 million. The Trust believes it is not probable that these tax assets can be realized; and accordingly, no deferred tax asset was recognized at December 31, 2013.

13. STAPLED UNITHOLDERS' AND SHAREHOLDERS' EQUITY

(a) Stapled Units and Common Shares

In accordance with the Arrangement (note 1), effective January 3, 2013, all the common shares of Granite Co. were exchanged, on a one-for-one basis, for stapled units, each of which consists of one unit of Granite REIT and one common share of Granite GP. Granite REIT is authorized to issue an unlimited number of units. Granite GP's authorized share capital consists of an unlimited number of common shares without par value. Each stapled unit is entitled to distributions and/or dividends in the case of Granite GP as and when declared and, in the event of termination of Granite REIT and Granite GP, to the net assets of Granite REIT and Granite GP remaining after satisfaction of all liabilities.

(b) Unit-based Compensation

Incentive Stock Option Plan

On August 29, 2003, Granite Co.'s Board of Directors approved the Incentive Stock Option Plan (the "Option Plan"), which allows for the grant of stock options or stock appreciation rights to directors, officers, employees and consultants. As a result of the Arrangement, option holders exchanged their existing options to acquire Granite Co. common shares for options to acquire stapled units on a

one-for-one basis. The Option Plan was also amended in connection with the Arrangement to make other changes required to conform to the REIT structure. At December 31, 2013, a maximum of 2.0 million stapled units are available to be issued under the Option Plan. Options expire on the 10th anniversary of the date of grant, subject to earlier cancellation from events specified in each recipient's option agreement. No options have been granted since August 2010.

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

	2013		2012	
	Number (000s)	Weighted Average Exercise Price	Number (000s)	Weighted Average Exercise Price
Options outstanding, January 1	**205**	**$ 32.01**	235	$ 31.99
Exercised	**(105)**	**30.20**	(30)	31.85
Options outstanding and exercisable, December 31	**100**	**$ 33.92**	205	$ 32.01

Options Outstanding and Exercisable

Year of Issuance	Number (000s)	Exercise Price	Weighted Average Remaining Life in Years
2004	50	$ 35.62	1.0
2007	50	32.21	3.7
	100	**$ 33.92**	**2.3**

Director/Trustee Deferred Share Unit Plan

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

The amounts deferred under the DSP and new DSP plans are reflected by notional deferred share units ("DSUs") whose value at the time that the particular payment to the director is determined reflects the fair market value of the Granite Co. preferred shares. The value of a DSU thus appreciates or depreciates with changes in the market price of the stapled units. The DSP and new DSP also provide for the accrual of notional distribution equivalents on any distributions paid on the stapled units. Under the DSP and new DSP, when a director or trustee leaves the Board, the director or trustee receives a cash payment at an elected date equal to the value of the accrued DSUs at such date. There is no option under the DSP and new DSP for directors or trustees to receive stapled units in exchange for DSUs.

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

	2013		2012	
	Number (000s)	Weighted Average Grant Date Fair Value	Number (000s)	Weighted Average Grant Date Fair Value
DSUs outstanding, January 1	**61**	**$ 30.95**	31	$ 26.73
Granted	**26**	**37.62**	30	35.18
DSUs outstanding, December 31	**87**	**$ 32.92**	61	$ 30.95

Executive Deferred Stapled Unit Plan

Effective August 7, 2011, Granite Co. established an Executive Share Unit Plan which was amended, effective January 3, 2013, as a result of the Arrangement to conform to the REIT structure (the "Stapled Unit Plan"). The Stapled Unit Plan is designed to provide equity-based compensation in the form of stapled units to executives and other employees (the "Participants"). The maximum number of stapled units which may be issued pursuant to the Stapled Unit Plan is 1.0 million. The Stapled Unit Plan entitles a Participant to receive a stapled unit or a cash payment equal to the market value of the stapled unit, which on any date is the volume weighted average trading price of a stapled unit on the TSX or NYSE over the preceding five trading days. The form of redemption of the stapled units is determined by the Compensation Committee and is not at the option of the Participant. Vesting conditions in respect of a grant are determined by the Compensation Committee at the time the grant is made and may result in the vesting of more or less than 100% of the number of stapled units. The Stapled Unit Plan also provides for the accrual of distribution equivalent amounts based on distributions paid on the stapled units. Stapled units are, unless otherwise agreed, settled within 60 days following vesting.

A reconciliation of the changes in stapled units outstanding is presented below:

	2013		2012	
	Number (000s)	Weighted Average Grant Date Fair Value	Number (000s)	Weighted Average Grant Date Fair Value
Stapled units outstanding, January 1	**38**	**$ 35.63**	26	$ 25.42
Granted	**31**	**39.03**	40	35.61
Settled	**(7)**	**35.41**	(24)	25.69
Forfeited	**—**	**—**	(4)	25.42
Stapled units outstanding, December 31	**62**	**$ 37.42**	38	$ 35.63

At December 31, 2013, unrecognized compensation cost related to the Stapled Unit Plan was $1.0 million, which will be amortized over the weighted average remaining requisite service period of approximately 1.2 years.

During the year, the Trust recognized unit-based compensation expense of $2.1 million (2012 — $1.9 million), which includes a $1.0 million expense (2012 — $1.4 million) pertaining to the DSP and new DSP, a $1.1 million expense (2012 — $0.5 million) pertaining to the Stapled Unit Plan and a net expense of nil (2012 — nil) related to the re-measurement of the Option Plan liability in the period.

(c) Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) consists of the following:

As at	December 31, 2013	December 31, 2012
Foreign currency translation gains (losses) on investments in subsidiaries, net of related hedging activities and non-controlling interests	**$ 108,551**	$ (10,784)
Losses on derivatives designated as net investment hedges	**(11,490)**	—
	$ 97,061	$ (10,784)

14. DISTRIBUTIONS TO STAPLED UNITHOLDERS

Total distributions declared to stapled unitholders in the year ended December 31, 2013 were $98.9 million (2012 — $93.5 million) or $2.11 per stapled unit (2012 — $1.99 per common share). At December 31, 2013, $8.6 million, representing the December 2013 distribution, remained unpaid. Subsequent to December 31, 2013, distributions of 18.3 cents per stapled unit were declared on January 17 and February 18, 2014. The distribution declared in January 2014 in the amount of $8.6 million was paid on February 14, 2014 and the distribution declared in February 2014 of $8.6 million will be paid on March 14, 2014.

15. OPERATING COSTS AND EXPENSES (INCOME)

(a) Property operating costs consist of:

Years ended December 31,	2013	2012
Non-recoverable from tenants		
Property taxes and utilities	**$ 1,162**	$ 2,457
Legal	**1,161**	759
Environmental and appraisals	**772**	1,753
Repairs and maintenance	**617**	205
Other	**715**	408
	$ 4,427	$ 5,582

Years ended December 31,	2013	2012
Recoverable from tenants		
Property taxes and utilities	**$ 692**	$ —
Repairs and maintenance	**182**	—
Other	**273**	—
	$ 1,147	$ —

(b) General and administrative expenses consist of:

Years ended December 31,	2013	2012
Salaries and benefits	**$ 14,045**	$ 12,491
Audit, legal and consulting	**4,159**	3,725
REIT conversion and reorganization related costs	**2,479**	7,914
Trustee/director fees and related expenses	**1,970**	1,794
Other	**4,660**	5,087
	$ 27,313	$ 31,011

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

Years ended December 31,	2013	2012
Interest, accretion and costs on debentures	**$ 18,250**	$ 16,385
Interest on mortgages payable	**877**	—
Amortization of deferred financing costs	**589**	188
Other interest	**1,310**	309
	21,026	16,882
Capitalized interest	**(119)**	(491)
Interest income	**(322)**	(520)
	$ 20,585	$ 15,871

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

Years ended December 31,	2013	2012
Foreign exchange forward contracts	**$ —**	$ (359)
Interest rate caps	**72**	—
	$ 72	$ (359)

16. SEGMENTED DISCLOSURE INFORMATION

The Trust has one reportable segment — the ownership and rental of industrial real estate as determined by the information reviewed by the chief operating decision maker who is the chief executive officer. The following tables present certain information with respect to geographic segmentation:

Revenues

Years ended December 31,	2013	2012
Canada	**$ 62,762**	$ 61,319
United States	**39,865**	31,632
Mexico	**13,347**	12,297
Austria	**60,782**	54,185
Germany	**20,535**	17,224
Netherlands	**1,762**	—
Other Europe	**4,194**	4,458
	$ 203,247	$ 181,115

For the year ended December 31, 2013, revenues from Magna were approximately 92% (2012 — 97%) of the Trust's total revenues.

Investment properties

As at	December 31, 2013	December 31, 2012	January 1, 2012
Canada	**$ 701,130**	$ 707,526	$ 687,218
United States	**451,431**	309,100	296,161
Mexico	**111,678**	113,017	112,772
Austria	**674,610**	603,976	590,603
Germany	**276,228**	173,474	168,583
Netherlands	**101,522**	—	—
Other Europe	**35,298**	36,604	36,514
	$ 2,351,897	$ 1,943,697	$ 1,891,851

17. EARNINGS PER STAPLED UNIT OR COMMON SHARE

Basic and diluted earnings per stapled unit or common share are computed using the following inputs:

Years ended December 31,	2013	2012
Net income attributable to stapled unitholders' or common shareholders'	**$ 145,031**	$ 149,756
Weighted average number of stapled units or common shares outstanding during the year — basic (in thousands)	**46,925**	46,855
Adjustment:		
Options and stapled/share units	**24**	21
Weighted average number of stapled units or common shares outstanding during the year — diluted (in thousands)	**46,949**	46,876

The computation of diluted earnings per stapled unit or share for the year ended December 31, 2013 excludes the effect of the potential exercise of nil options (2012 — 50,000) to acquire stapled units or common shares because these options were anti-dilutive.

18. DETAILS OF CASH FROM OPERATING ACTIVITIES

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

Years ended December 31,	2013	2012
Straight-line rent adjustment	**$ 1,248**	$ 1,105
Unit-based compensation expense	**2,105**	1,729
Fair value losses (gains) on investment properties	**25,224**	(33,343)
Depreciation and amortization	**454**	244
Fair value losses (gains) on financial instruments	**(72)**	359
Gain on settlement of Meadows note	**(5,143)**	—
Loss on sale of investment properties	**1,122**	21
Amortization of issuance costs and accretion of discount of debentures	**494**	353
Amortization of deferred financing costs	**589**	188
Foreign exchange on note receivable	**(115)**	174
Deferred income taxes	**(41,825)**	(6,923)
Other	**(597)**	1,339
	$ (16,516)	$ (34,754)

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

Years ended December 31,	2013	2012
Accounts receivable	**$ 1,304**	$ 2,945
Prepaid expenses and other	**(222)**	(100)
Accounts payable and accrued liabilities	**(256)**	6,431
Deferred revenue	**(1,055)**	1,997
Restricted cash	**522**	(522)
	$ 293	$ 10,751

(c) Non-cash financing activities

During the year ended December 31, 2013, 7 thousand stapled units with a value of $0.3 million were issued under the Trust's executive deferred stapled unit plan.

During the year ended December 31, 2012, 15 thousand common shares with a value of $0.4 million were issued under the Trust's executive deferred stapled unit plan.

19. FAIR VALUE AND RISK MANAGEMENT

(a) Fair Value of Financial Instruments

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

	Fair value through profit or loss	Loans and receivables/ other financial liabilities		Total	Total
Measurement basis	**(Fair value)**	**(Amortized cost)**	**(Fair value)**	**(Carrying Value)**	**(Fair Value)**
Financial assets					
Interest rate caps included in other assets	$ 678	$ —	$ —	$ 678	$ 678
Accounts receivable	—	2,491	2,491	2,491	2,491
Restricted cash	—	4,360	4,360	4,360	4,360
Cash and cash equivalents	—	95,520	95,520	95,520	95,520
	$ 678	**$ 102,371**	**$ 102,371**	**$ 103,049**	**$ 103,049**
Financial liabilities					
Unsecured debentures, net	$ —	$ 462,070	$ 485,558	$ 462,070	$ 485,558
Cross Currency Interest Rate Swap	11,003	—	—	11,003	11,003
Secured long-term debt	—	41,856	41,856	41,856	41,856
Contingent consideration	—	3,777	3,777	3,777	3,777
Bank indebtedness	—	53,180	53,180	53,180	53,180
Accounts payable and accrued liabilities	—	33,178	33,178	33,178	33,178
Distributions payable	—	8,591	8,591	8,591	8,591
	$ 11,003	**$ 602,652**	**$ 626,140**	**$ 613,655**	**$ 637,143**

The following table provides the classification and measurement of financial assets and liabilities as at December 31, 2012:

	Fair value through profit or loss	Loans and receivables/ other financial liabilities		Total	Total
Measurement basis	**(Fair value)**	**(Amortized cost)**	**(Fair value)**	**(Carrying Value)**	**(Fair Value)**
Financial assets					
Note receivable	$ —	$ 2,612	$ 2,612	$ 2,612	$ 2,612
Accounts receivable	—	3,662	3,662	3,662	3,662
Restricted cash	—	522	522	522	522
Cash and cash equivalents	—	51,073	51,073	51,073	51,073
	$ —	**$ 57,869**	**$ 57,869**	**$ 57,869**	**$ 57,869**
Financial liabilities					
Unsecured debentures, net	$ —	$ 263,589	$ 294,161	$ 263,589	$ 294,161
Accounts payable and accrued liabilities	359(1)	25,596	25,596	25,955	25,955
	$ 359	**$ 289,185**	**$ 319,757**	**$ 289,544**	**$ 320,116**

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

The following table provides the classification and measurement of financial assets and liabilities as at January 1, 2012:

	Fair value through profit or loss	Loans and receivables/ other financial liabilities		Total	Total
Measurement basis	**(Fair value)**	**(Amortized cost)**	**(Fair value)**	**(Carrying Value)**	**(Fair Value)**
Financial assets					
Note receivable	$ —	$ 7,882	$ 7,882	$ 7,882	$ 7,882
Accounts receivable	—	6,557	6,557	6,557	6,557
Cash and cash equivalents	—	56,908	56,908	56,908	56,908
	$ —	**$ 71,347**	**$ 71,347**	**$ 71,347**	**$ 71,347**
Financial liabilities					
Unsecured debentures, net	$ —	$ 263,236	$ 291,781	$ 263,236	$ 291,781
Accounts payable and accrued liabilities	—	13,957	13,957	13,957	13,957
	$ —	**$ 277,193**	**$ 305,738**	**$ 277,193**	**$ 305,738**

The fair value of the Trust's accounts receivable, cash and cash equivalents, restricted cash, bank indebtedness, accounts payable and accrued liabilities and distributions payable approximate their carrying amounts due to the relatively short periods to maturity of these financial instruments. The fair value of contingent consideration approximates the carrying value as it is revalued at each reporting date. The fair value of the unsecured debentures is determined using quoted market prices. The fair value of

the Cross Currency Interest Rate Swap is determined using market inputs quoted by its counterparties. The fair value of the mortgages and construction loan payable approximate their carrying amount as they were drawn recently and bear interest at rates comparable to current market rates that would be used to calculate fair value.

The Trust periodically purchases foreign exchange forward contracts to hedge specific anticipated foreign currency transactions and mitigate its foreign exchange exposure on its net cash flows. At December 31, 2013, the Trust held no foreign exchange forward contracts (December 31, 2012 — liability of $0.4 million on two contacts outstanding; January 1, 2012 — no contracts outstanding). For the year ended December 31, 2013, the Trust incurred no unrealized fair value gains or losses with respect to foreign exchange forward contracts (2012 — $0.4 million fair value loss).

As disclosed in note 9, the Trust entered into two interest rate caps to hedge the interest rate risk associated with the mortgages payable. The interest rate caps have not been designated and the Trust is not employing hedge accounting for these instruments. The fair value of the interest rate caps at December 31, 2013 was $0.7 million. During the year, the Trust recorded an unrealized net fair value gain of $0.1 million (2012 — nil).

(b) Fair Value Hierarchy

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

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

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

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

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

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

(1) Refer to note 4, Acquisitions, for a description of the valuation technique used in the fair value measurement of contingent consideration.

As at December 31, 2012	Level 1	Level 2	Level 3
ASSETS AND LIABILITIES MEASURED OR DISCLOSED AT FAIR VALUE			
Assets measured at fair value			
Investment properties	$ —	$ —	$ 1,943,697
Liabilities measured or disclosed at fair value			
Unsecured debentures, net	294,161	—	—
Foreign exchange forward contracts included in accounts payable and accrued liabilities	—	359	—
Net Assets (Liabilities) measured at fair value	$ (294,161)	$ (359)	$ 1,943,697

As at January 1, 2012	Level 1	Level 2	Level 3
ASSETS AND LIABILITIES MEASURED OR DISCLOSED AT FAIR VALUE			
Assets measured at fair value			
Investment properties	$ —	$ —	$ 1,891,851
Liabilities measured or disclosed at fair value			
Unsecured debentures, net	291,781	—	—
Net Assets (Liabilities) measured at fair value	$ (291,781)	$ —	$ 1,891,851

For assets and liabilities that are measured at fair value on a recurring basis, the Trust determines whether transfers between the levels of the fair value hierarchy have occurred by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. For the years ended December 31, 2013 and 2012, there were no transfers between the levels.

Refer to note 5, Investment Properties, for a description of the valuation techniques and inputs used in the fair value measurement and for a reconciliation of the fair value measurements of investment properties in Level 3.

(c) Risk Management

The main risks arising from the Trust's financial instruments are credit, interest rate, foreign exchange and liquidity risks. The Trust's approach to managing these risks is summarized below:

(i) Credit risk

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

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

Magna accounts for approximately 92% of the Trust's rental revenue. Although its operating subsidiaries are not individually rated, Magna International Inc. has an investment grade credit rating from S&P and Dominion Bond Rating Service which mitigates the Trust's credit risk. Substantially all of the Trust's accounts receivable are collected within 30 days. The balance of accounts receivable past due is not significant.

(ii) Interest rate risk

As at December 31, 2013, the Trust's exposure to interest rate risk is not significant. Approximately 83% of the Trust's debt consists of fixed rate debt; $263.9 million for the 2016 Debentures that have a fixed interest rate of 6.05% and mature in December 2016 and $209.1 million for the 2018 Debentures that have an effective fixed interest rate of 3.56% after taking into account its Cross Currency Interest Rate Swap and mature October 2018. The interest rate on the $38.6 million mortgage debt, maturing in June 2017 and May 2018, is capped at 4.0% as a result of the interest rate caps that were entered into. As a result, only 10% or $56.5 million of the Trust's debt is exposed to variable interest rate risk.

(iii) Foreign exchange risk

As at December 31, 2013, the Trust is exposed to foreign exchange risk primarily in respect of movements in the euro and the U.S. dollar. The Trust is structured such that its foreign operations are primarily conducted by entities with a functional currency which is the same as the economic environment in which the operations take place. As a result, the net income impact of currency risk associated with financial instruments is limited as its financial assets and liabilities are generally denominated in the functional currency of the subsidiary that holds the financial instrument. However, the Trust is exposed to foreign currency risk on its net investment in its foreign currency denominated operations and certain Trust level foreign currency denominated assets and liabilities. At December 31, 2013, the Trust's foreign currency denominated net assets are $1.1 billion primarily in U.S. dollars and euros. A 1% change in the U.S. dollar and euro exchange rates relative to the Canadian dollar will result in a gain or loss of approximately $2.1 million and $8.4 million, respectively, to comprehensive income.

Granite generates rental income that is not all denominated in Canadian dollars. Since the financial results are reported in Canadian dollars, the Trust is subject to foreign currency fluctuations that could, from time to time, have an impact on the operating results. For the year ended December 31, 2013, a 1% change in the U.S. dollar and euro exchange rates relative to the Canadian dollar would have impacted rental income and tenant recoveries by approximately $0.5 million and $0.9 million respectively.

For the year ended December 31, 2013, the Trust designated its U.S. dollar borrowings of $50.0 million under the Credit Facility as a hedge of its net investment in the U.S. operations. In addition, the Trust has designated its Cross Currency Interest Rate Swap as a hedge of its net investment in the European operations (note 8(c)).

(iv) Liquidity risk

Liquidity risk is the risk the Trust will encounter difficulties in meeting its financial obligations. The Trust will be subject to the risks associated with debt financing, including the risk that it's Credit Facility, mortgages payable and the Construction Loan will not be able to be refinanced. The Trust's objectives in minimizing liquidity risk are to maintain prudent levels of leverage on its investment properties and stagger its debt maturity profile. In addition, the Declaration of Trust establishes certain debt ratio limits.

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

As at December 31, 2013	Total	Payments due by year 2014	2015	2016	2017	2018	Thereafter
Unsecured debentures	**$ 465,000**	$ —	$ —	$ 265,000	$ —	$ 200,000	$ —
Cross Currency Interest Rate Swap	**11,003**	—	—	—	—	11,003	—
Secured long-term debt[1]	**42,065**	217	819	4,214	24,604	12,211	—
Bank indebtedness[1]	**53,180**	—	53,180	—	—	—	—
Interest expense[2]							
Unsecured debentures, net of Cross Currency Interest Rate Swap	**83,726**	23,180	23,153	23,153	7,120	7,120	—
Secured long-term debt	**3,554**	1,046	1,034	1,011	361	102	—
Bank indebtedness	**1,037**	957	80	—	—	—	—
Contingent consideration	**3,777**	—	—	—	—	3,777	—
Accounts payable and accrued liabilities	**33,178**	32,083	985	110	—	—	—
Distribution payable	**8,591**	8,591	—	—	—	—	—
	$ 705,111	$ 66,074	$ 79,251	$ 293,488	$ 32,085	$ 234,213	$ —

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

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

20. CAPITAL MANAGEMENT

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

As at	December 31, 2013	December 31, 2012	January 1, 2012
Unsecured debentures, net	**$ 462,070**	$ 263,589	$ 263,236
Cross Currency Interest Rate Swap	**11,003**	—	—
Secured long-term debt	**41,856**	—	—
Bank indebtedness	**53,180**	—	—
Total debt	**568,109**	263,589	263,236
Stapled unitholders' or shareholders' equity	**1,671,227**	1,514,812	1,470,634
Total managed capital	**$ 2,239,336**	$ 1,778,401	$ 1,733,870

The Trust manages, monitors and adjusts its capital balances in response to the availability of capital, economic conditions and investment opportunities with the following objectives in mind:

- Compliance with investment and debt restrictions pursuant to the Declaration of Trust;
- Compliance with existing debt covenants;
- Maintaining investment grade credit ratings;
- Supporting the Trust's business strategies including: ongoing operations, property development and acquisitions;
- Generating stable and growing cash distributions; and
- Building long-term unitholder value.

The Declaration of Trust contains certain provisions with respect to capital management which include:

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

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

Currently, the Trust's consolidated debt consists of the Credit Facility, the 2016 Debentures, the 2018 Debentures, property specific mortgage financing and the Construction Loan and each of these components has various financial covenants. These covenants are defined within the relevant document and, depending on the debt instrument, include a total indebtedness ratio, a secured indebtedness ratio, interest and asset coverage ratio, unencumbered asset ratio and maximum payout ratio. The Trust monitors these provisions and covenants and was in compliance with their respective requirements at December 31, 2013.

Distributions are made at the discretion of the Board of Trustees (the "Board"). However, Granite REIT intends to distribute each year all of its taxable income as calculated in accordance with the Income Tax Act. For the fiscal year 2013, the Trust provided to its unitholders a monthly distribution of $0.175 per stapled unit which was increased to $0.183 per stapled unit for December's distribution. The Board determined this distribution level having considered, among other factors, estimated 2013 and 2014 funds from operations and capital requirements, the alignment of its current and targeted payout ratios with the Trust's strategic objectives and compliance with the above noted provisions and financial covenants.

21. RELATED PARTY TRANSACTIONS

Key management personnel include the Trustees/Directors, the Chief Executive Officer and the Chief Financial Officer. Information with respect to the Trustees/Directors fees is included in note 15(b). The compensation paid or payable to the Trust's key management personnel for services was as follows:

Years ended December 31,	**2013**	**2012**
Salaries, incentives and short-term benefits	**$ 2,404**	$ 2,112
Unit-based compensation	**716**	438
	$ 3,120	$ 2,550

22. COMBINED FINANCIAL INFORMATION

The combined financial statements include the financial position and results of operations and cash flows of each of Granite REIT and Granite GP. Prior to January 3, 2013, the operating results were consolidated by Granite Co. and therefore there is no comparative financial information presented. Below is a summary of the financial information for each entity along with the elimination entries and other adjustments that aggregate to the combined financial statements:

Balance Sheet	As at December 31, 2013			
	Granite REIT	Granite GP	Eliminations/ Adjustments	Granite REIT and Granite GP Combined
ASSETS				
Non-current assets:				
Investment properties	$ 2,351,897			$ 2,351,897
Deferred tax assets	8,173			8,173
Investment in Granite LP	—	2	(2)	—
Other non-current assets	3,896			3,896
	2,363,966	2	(2)	2,363,966
Current assets:				
Other current assets	9,147			9,147
Intercompany receivable	—	850	(850)	—
Cash and cash equivalents	95,520			95,520
Total assets	$ 2,468,633	852	(852)	$ 2,468,633
LIABILITIES AND STAPLED UNITHOLDERS' EQUITY				
Non-current liabilities:				
Unsecured debentures, net	$ 462,070			$ 462,070
Cross Currency Interest Rate Swap	11,003			11,003
Deferred tax liabilities	166,622			166,622
Other non-current liabilities	45,633			45,633
	685,328			685,328
Current liabilities:				
Bank indebtedness	53,180			53,180
Intercompany payable	850		(850)	—
Other current liabilities	52,765	850		53,615
Total liabilities	792,123	850	(850)	792,123
Equity:				
Stapled unitholders' equity	1,671,225	2		1,671,227
Non-controlling interests	5,285		(2)	5,283
Total liabilities and stapled unitholders' equity	$ 2,468,633	852	(852)	$ 2,468,633

Income Statement	Year ended December 31, 2013			
	Granite REIT	Granite GP	Eliminations/ Adjustments	Granite REIT and Granite GP Combined
Revenues	**$ 203,247**			**$ 203,247**
Operating costs and expenses (income)				
General and administrative	**27,313**			**27,313**
Interest expense and other financing costs, net	**20,585**			**20,585**
Other costs and expenses	**6,041**			**6,041**
Share of (income) loss of Granite LP	**—**	**(2)**	**2**	**—**
Income before fair value changes, acquisition transaction costs, gain on Meadows holdback, loss on sale of investment properties and income taxes	**149,308**	**2**	**(2)**	**149,308**
Fair value losses on investment properties, net	**(25,224)**			**(25,224)**
Fair value gains on financial instruments	**72**			**72**
Acquisition transaction costs	**(14,246)**			**(14,246)**
Gain on Meadows holdback	**5,143**			**5,143**
Loss on sale of investment properties	**(1,122)**			**(1,122)**
Income before income taxes	**113,931**	**2**	**(2)**	**113,931**
Income tax recovery	**(31,335)**			**(31,335)**
Net Income	**145,266**	**2**	**(2)**	**145,266**
Less net income attributable to non-controlling interests	**233**		**2**	**235**
Net income attributable to stapled unitholders	**$ 145,033**	**2**	**(4)**	**$ 145,031**

Statement of Cash Flows	Year ended December 31, 2013			
	Granite REIT	Granite GP	Eliminations/ Adjustments	Granite REIT and Granite GP Combined
OPERATING ACTIVITIES				
Net income	$ 145,266	2	(2)	$ 145,266
Items not involving current cash flows	(16,516)	(2)	2	(16,516)
Current income tax expense	10,490			10,490
Income taxes paid	(14,525)			(14,525)
Interest expense	19,945			19,945
Interest paid	(17,059)			(17,059)
Changes in working capital balances	293			293
Cash provided by operating activities	127,894			127,894
INVESTING ACTIVITIES				
Business acquisitions (net of cash acquired of $375)	(233,363)			(233,363)
Investment property capital additions	(28,853)			(28,853)
Other investing activities	8,627			8,627
Cash used in investing activities	(253,589)			(253,589)
FINANCING ACTIVITIES				
Distributions paid	(90,331)			(90,331)
Other financing activities	252,460			252,460
Cash provided by financing activities	162,129			162,129
Effect of exchange rate changes	8,013			8,013
Net increase in cash and cash equivalents during the year	$ 44,447			$ 44,447

23. COMMITMENTS AND CONTINGENCIES

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

(b) Under the terms of the plan of arrangement completed June 30, 2011 which eliminated Granite Co.'s dual class share structure, the Trust received an indemnity from Mr. Frank Stronach and his family (the "Stronach Shareholder") and certain related parties against all losses suffered by the Trust in relation to claims pertaining to the Trust's former racing and gaming business for the period prior to, on and after the effective date of the transfer of June 30, 2011. Accordingly, the Trust provided the Stronach Shareholder with the required disclosure notice under that indemnity referencing the racing and gaming-related litigation described below. Effective January 8, 2014, the Trust entered into a Confidential Settlement Agreement and Mutual Release (the "Settlement") that resolved all claims and potential

claims against Granite relating to this litigation. In accordance with the above-referenced indemnity, the Settlement did not require any payment from Granite.

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, certain subsidiary entities and joint ventures of Granite Co., including The Maryland Jockey Club 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 asserted a number of claims against all defendants including, among other allegations, that Granite Co. and Mr. Stronach, along with 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. Plaintiffs' claims against Granite Co., the MJC Entities and Mr. Stronach were for alleged civil conspiracy, false light, invasion of privacy and defamation. The Complaint sought an award of damages against all defendants in the amount of U.S.$300.0 million in compensatory damages and U.S.$300.0 million in punitive damages.

(c) At December 31, 2013, the Trust's contractual commitments related to construction and development projects amounted to approximately $8.2 million.

(d) At December 31, 2013, the Trust had commitments on non-cancellable operating leases requiring future minimum annual rental payments as follows:

Not later than 1 year	$ 433
Later than 1 year and not later than 5 years	1,197
Later than 5 years	394
	$ 2,024

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

24. SUBSEQUENT EVENTS

(a) On January 2, 2014, the Trust sold an income-producing property located in Germany for gross proceeds of approximately $10.6 million. During the year ended December 31, 2013, the Trust incurred $0.2 million of costs related to this transaction, which are included in loss on sale of investment properties on the combined income statements.

(b) On January 30, 2014, a subsidiary of Magna International Inc., agreed to a lease extension at its Thondorf facility in Graz, Austria. The lease expiry has been extended from December 31, 2017 to January 31, 2024. Thondorf is the Trust's largest property and for the year ended December 31, 2013, revenues associated with this property were approximately 10% of the Trust's total revenues. In connection with the extension the current rental rate will remain fixed for the balance of the term and Granite will pay a one-time tenant allowance in the amount of euro 25.0 million.

(c) On February 28, 2014, the Trust sold an income-producing property located in the United States for gross proceeds of approximately $9.8 million.

(d) On March 5, 2014, Granite entered into an asset purchase agreement with Magna for the sale to Magna of Granite's portfolio of Mexican properties for a purchase price of U.S. $105.0 million (note 5). The sale is subject to the satisfaction of several closing conditions, some of which involve action by government entities in Mexico.

QuickLinks

EXHIBIT 2

QuickLinks -- Click here to rapidly navigate through this document

EXHIBIT 3

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

For the three month period and year ended December 31, 2013

Management's Discussion and Analysis of Results of Operations and Financial Position ("MD&A") of Granite Real Estate Investment Trust ("Granite REIT") and Granite REIT Inc. (collectively "Granite" or the "Trust") summarizes the significant factors affecting the combined operating results, financial condition, liquidity and cash flows of the Trust for the three month period and year ended December 31, 2013. Unless otherwise noted, all amounts are in Canadian dollars ("Cdn. dollars") and all tabular amounts are in millions of Cdn. dollars. This MD&A should be read in conjunction with the accompanying audited combined financial statements for the year ended December 31, 2013. This MD&A is prepared as at March 5, 2014. Additional information relating to Granite, including the Annual Information Form ("AIF") for fiscal 2013 can be obtained from the Trust's website at www.granitereit.com, on SEDAR at www.sedar.com and on EDGAR at www.sec.gov.

Effective January 1, 2013, Granite adopted International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board as the basis of financial reporting commencing with our interim financial statements for the three month period ended March 31, 2013 and using January 1, 2012 as our transition date. Accordingly, financial data provided in this MD&A for the three month period and year ended December 31, 2013 has been prepared in accordance with IFRS. Fiscal 2012 comparative results have also been reported under IFRS.

In this MD&A, unless otherwise specified or the context otherwise indicates, "Granite", the "Trust", "we", "us" and "our" refer to Granite REIT and Granite REIT Inc. combined and their subsidiaries, for periods subsequent to January 3, 2013 and to Granite Real Estate Inc. and its subsidiaries, as predecessor entities, for periods on or prior to January 3, 2013.

OVERVIEW

Granite is a Canadian-based real estate investment trust ("REIT") engaged in the ownership and management of predominantly industrial, warehouse and logistics properties in North America and Europe. Granite owns approximately 32.0 million square feet in over 100 rental income properties. Our tenant base currently includes Magna International Inc. and its operating subsidiaries (together "Magna") as our largest tenant, together with tenants from other industries.

Granite's investment properties consist of income-producing properties, properties and land under development as well as land held for development (see *"INVESTMENT PROPERTIES")*. Our income-producing properties consist of light industrial properties, heavy industrial manufacturing facilities, corporate offices, warehouse and logistics properties, product development and engineering centres and test facilities in 9 countries: Canada, the United States, Mexico, Austria, Germany, the Netherlands, the Czech Republic, the United Kingdom and Spain. The lease payments are primarily denominated in three currencies: the Cdn. dollar, the U.S. dollar and the euro.

SIGNIFICANT MATTERS

Acquisitions

The Trust completed the following acquisitions during the year ended December 31, 2013:

On February 13, 2013, the Trust acquired a 90% interest in two income-producing multipurpose industrial properties located in Logan, New Jersey and Savannah, Georgia consisting of 0.7 million square feet for approximately $36.6 million. The acquisition was funded through a combination of cash of $14.8 million, which was substantially sourced from Granite's credit facility, and first mortgage debt of $21.4 million representing Granite's proportionate share of the total first mortgage debt on the two properties. The purchase price includes a future contingent consideration payment estimated at $0.4 million which is expected to be settled in cash on or about February 13, 2018. The remaining 10% interest is owned by

Dermody Properties LLC ("Dermody"). The annualized lease payments for the two properties are $3.4 million at December 31, 2013 (see *"LEASING PROFILE — Annualized Lease Payments").*

On April 15, 2013, the Trust acquired a 90% interest in development lands located in Bethel Township, Berks County, Pennsylvania for approximately $8.9 million. The purchase price includes $7.2 million funded from cash on hand and a future contingent consideration payment estimated at $1.7 million which is expected to be settled in cash on or about April 15, 2018. The lands, consisting of approximately 89.2 acres, are located within a high quality new business park and are fully improved, entitled and zoned for 0.8 million square feet of industrial, warehouse and distribution use. The lands may be developed on a speculative basis by Granite and Dermody who owns the remaining 10% interest.

On May 8, 2013, the Trust acquired a 90% interest in a 35.9 acre land site located in Shepherdsville, Kentucky for approximately $7.3 million. The purchase price includes $6.1 million paid in cash, which was funded using Granite's credit facility and a future contingent consideration payment estimated at $1.2 million which is expected to be settled in cash on or about May 8, 2018. The site is being developed into a 0.6 million square foot multipurpose facility on a speculative basis by Granite and Dermody who owns the remaining 10% interest (see "*INVESTMENT PROPERTIES — Properties and Land Under Development*").

On May 10, 2013, the Trust acquired a 95% interest in a 0.3 million square foot income-producing multipurpose industrial property located in Portland, Oregon for approximately $21.1 million. The acquisition was funded through a combination of cash of $8.7 million, which was drawn from Granite's credit facility, and first mortgage debt of $12.1 million representing Granite's proportionate share of the total first mortgage debt on the property. The purchase price includes a future contingent consideration payment estimated at $0.3 million which is expected to be settled in cash on or about May 10, 2018. The remaining 5% interest is owned by Dermody. The annualized lease payments for this acquisition are $1.7 million at December 31, 2013.

On August 9, 2013, the Trust purchased a 0.6 million square foot logistics-distribution facility in West Chester, Ohio for a purchase price of $21.5 million. The acquisition was funded through a combination of a draw from Granite's credit facility and cash on hand. The property includes 11.0 acres of expansion/development land. The annualized lease payment for this property is $1.8 million at December 31, 2013.

During the fourth quarter of 2013, the Trust acquired a European portfolio consisting of 2.5 million square feet in four logistics-distribution income-producing properties located in Germany and three logistics-distribution income-producing properties located in the Netherlands. The Trust acquired six of the properties on October 16, 2013 and the remaining property was acquired on November 1, 2013. The aggregate purchase price of $179.2 million, excluding acquisition costs, was primarily funded using proceeds from the issuance of debentures and a corresponding cross currency interest rate swap (see "*SIGNIFICANT MATTERS — Series 1 Senior Debentures")*. All of the properties are fully occupied and annualized lease payments for the German and Netherlands portfolios are $16.6 million at December 31, 2013.

On November 27, 2013, the Trust acquired a 0.1 million square foot logistics-distribution facility in Germany for $9.5 million, excluding acquisition costs. The acquisition was funded with proceeds from the issuance of debentures and a corresponding cross currency interest rate swap (see "*SIGNIFICANT MATTERS — Series 1 Senior Debentures*"). The annualized lease payment for this property is $0.8 million at December 31, 2013.

Series 1 Senior Debentures

On October 2, 2013, Granite REIT Holdings Limited Partnership, a wholly owned subsidiary of Granite, issued at par $200.0 million of 4.613% Series 1 senior debentures ("2018 Debentures") due October 2, 2018. Interest on the 2018 Debentures is payable semi-annually in arrears on April 2 and October 2 of each year, commencing on April 2, 2014. The 2018 Debentures rank equally with all of the Trust's existing and future unsubordinated and unsecured indebtedness and are guaranteed by Granite and certain of its subsidiaries.

On October 7, 2013, the Trust entered into a cross currency interest rate swap to exchange the $200.0 million proceeds and 4.613% interest payments from the 2018 Debentures to euro 142.3 million at 3.56%. Under the terms of the swap, the Trust will repay the principal proceeds received of euro 142.3 million for $200.0 million

on October 2, 2018. The proceeds from the 2018 Debentures and corresponding cross currency interest rate swap were used to finance the European acquisitions.

Completion of REIT Conversion

Effective January 3, 2013, Granite completed its conversion from a corporate structure to a stapled unit REIT structure.

The 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 and territorial 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

The Trust adopted IFRS as its basis of financial reporting effective for the first quarter of 2013. The Trust's reporting under the IFRS accounting framework has had a significant impact on the combined financial statements. IFRS is premised on a conceptual framework similar to United States generally accepted accounting principles ("U.S. GAAP"); however, significant differences exist in certain areas of recognition, measurement and disclosure. While adoption of IFRS has not had an impact on the Trust's reported net cash flows, there have been material impacts on the combined balance sheets and statements of income, which are discussed further in *"TRANSITION TO IFRS — KEY CHANGES"*. In particular, Granite's balance sheets reflect the revaluation of all of its investment properties to fair value.

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, 2013, approximately 71% of Granite's rental revenues are denominated in currencies other than the Cdn. dollar (see "*LEASING PROFILE — 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 financial results.

The following table reflects the changes in the average exchange rates during the three month periods and years ended December 31, 2013 and 2012, as well as the exchange rates as at December 31, 2013, September 30, 2013 and December 31, 2012, between the most common currencies in which the Trust conducts business and the Cdn. dollar.

	Average Exchange Rates					
	Three Months Ended December 31,			**Year Ended December 31,**		
	2013	**2012**	**Change**	**2013**	**2012**	**Change**
1 U.S. dollar equals Cdn. dollars	**1.050**	0.991	6%	**1.030**	0.999	3%
1 euro equals Cdn. dollars	**1.430**	1.286	11%	**1.369**	1.285	7%

	Exchange Rates as at				
	December 31, 2013	**September 30, 2013**	**Change from September 30, 2013**	**December 31, 2012**	**Change from December 31, 2012**
1 U.S. dollar equals Cdn. dollars	**1.064**	1.029	3%	0.995	7%
1 euro equals Cdn. dollars	**1.466**	1.392	5%	1.312	12%

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

INVESTMENT PROPERTIES

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

	December 31, 2013	**December 31, 2012**
Income-producing properties	**$ 2,325.6**	$ 1,941.9
Properties and land under development	**18.1**	1.8
Land held for development	**8.2**	—
Investment properties	**$ 2,351.9**	$ 1,943.7

During the year ended December 31, 2013, investment properties increased by $408.2 million primarily as a result of (i) an increase of $286.1 million due to the acquisition of properties, (ii) an increase of $136.4 million due to foreign exchange movements which included $102.0 million from the strengthening of the euro against the Cdn. dollar and $34.4 million from the strengthening of the U.S. dollar against the Cdn. dollar and (iii) capital expenditures totalling $28.0 million. These increases were partially offset by (i) net fair value losses of $25.2 million which resulted from changes described below and (ii) as part of a strategic repositioning of our property portfolio, the disposal of four properties located in Canada, the United States, the United Kingdom and Poland for gross proceeds of $17.4 million.

During the year ended December 31, 2013, net fair value losses totalled $25.2 million and consisted primarily of (i) changes in leasing assumptions and in the amount or timing of cash flows and (ii) a loss attributed to the Mexican property portfolio partially offset by discount and terminal capitalization rate compression relating to properties in Canada and the United States. During the third quarter of 2013, Granite entered into a non-binding letter of intent (the "LOI") for the sale to Magna of Granite's portfolio of Mexican properties currently leased to Magna for a purchase price of U.S. $105.0 million. This information, together with management's reassessment of the Mexican real estate market for industrial properties using current market data and assumptions, resulted in the recording of a fair value loss.

On March 5, 2014, Granite entered into an asset purchase agreement with Magna for the sale to Magna of Granite's portfolio of Mexican properties for a purchase price of U.S. $105.0 million. The sale is subject to the satisfaction of several closing conditions, some of which involve action by government entities in Mexico. The Mexican portfolio represents approximately 2.4 million square feet and annualized lease payments of $14.0 million at December 31, 2013.

Income-Producing Properties

At December 31, 2013, Granite had over 100 income-producing properties representing approximately 32.0 million square feet of rentable space. The portfolio also includes some office buildings that comprise 1% of the total square footage of the income-producing properties.

The fair value of the income-producing portfolio by country as at December 31, 2013 and December 31, 2012 was as follows:

	December 31, 2013		December 31, 2012	
	Fair Value	**Percent of Total**	**Fair Value**	**Percent of Total**
Canada	**$ 701.1**	30%	$ 707.5	36%
Austria	**674.6**	29	604.0	31
U.S.	**425.2**	18	307.3	16
Germany	**276.2**	12	173.5	9
Mexico	**111.7**	5	113.0	6
Netherlands	**101.5**	4	—	—
Other countries	**35.3**	2	36.6	2
	$ 2,325.6	100%	$ 1,941.9	100%

Fair values were primarily determined by discounting the expected future cash flows, generally over a term of 10 years, including a terminal value based on the application of a capitalization rate to estimated year 11 cash flows. In accordance with its policy, the Trust measures its income-producing properties and properties under development using valuations prepared by management. The Trust does not measure its investment properties based on valuations prepared by external appraisers but considers the results of such appraisals in arriving at its own conclusions on values. The key valuation metrics for Granite's investment properties are summarized in note 5 to the audited combined financial statements for the year ended December 31, 2013.

On January 2, 2014, the Trust sold an income-producing property located in Germany for gross proceeds of approximately $10.6 million. On February 28, 2014, the Trust sold a 0.1 million square foot income-producing property located in the United States for gross proceeds of approximately $9.8 million to the tenant who began leasing the property in the fourth quarter of 2013.

At December 31, 2013, Granite had six active improvement projects primarily for roof and pavement replacements and one expansion project at its income-producing properties. The total estimated cost of these projects is approximately $10.3 million of which, as at December 31, 2013, $2.1 million had been spent with the remaining cost of the projects expected to be funded during 2014 from cash from operations.

Properties and Land Under Development

At December 31, 2013, the Trust had one property under development: a 35.9 acre land site located at Settlers Point Business Park in Shepherdsville, Kentucky (see "*SIGNIFICANT MATTERS — Acquisitions*") that is being developed into a 0.6 million square foot multipurpose facility with an estimated cost of construction of approximately $21.9 million, of which $10.0 million had been spent at December 31, 2013. The development is expected to be completed in the second quarter of 2014. On July 25, 2013, the Trust entered into a construction loan for U.S. $17.0 million relating to this project (see *"LIQUIDITY AND CAPITAL RESOURCES — Bank and Debentures Financing"*). As at December 31, 2013, $3.3 million has been drawn under this construction loan.

Land Held For Development

In April 2013, Granite acquired an 89.2 acre site located in Bethel Township, Pennsylvania (see " *SIGNIFICANT MATTERS — Acquisitions*") which is being held for future development.

LEASING PROFILE

Magna, Our Largest Tenant

At December 31, 2013, Magna is the tenant at 82 (2012 — 89) of Granite's income-producing properties comprising 85% (2012 — 97%) of Granite's annualized lease payments. Magna is a diversified global automotive supplier that designs, develops and manufactures technologically advanced automotive systems, assemblies, modules and components, and engineers and assembles complete vehicles, primarily for sale to original equipment manufacturers of cars and light trucks. Magna's product capabilities span a number of major automotive areas, including interior systems, seating systems, closure systems, body and chassis systems, vision systems, electronic systems, exterior systems, powertrain systems, roof systems, hybrid electric vehicles/systems and complete vehicle engineering and assembly.

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

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

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

According to its public disclosure, Magna's success is primarily dependent upon the levels of car and light truck production by Magna's customers, the relative amount of content Magna has in the various programs and its operating costs in the various countries in which it operates. Granite 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.

Annualized Lease Payments[(1)]

(1) Annualized lease payments does not have a standardized meaning under IFRS and may not be comparable to similar measures reported by other entities. Granite considers annualized lease payments to be a useful indicator of rental revenue (excluding tenant recoveries) anticipated in the upcoming year.

Annualized lease payments represent Granite's total annual rent assuming the contractual lease payments as at the last day of the reporting period were in place for an entire year or less than a year if non-renewal or termination notices have been provided. Accordingly, any revenue changes from future contractual rent adjustments, renewal and re-leasing activities or expansion and improvement projects to be completed are not reflected in annualized lease payments as at December 31, 2013. In addition, rents denominated in foreign currencies are converted to Cdn. dollars based on exchange rates in effect at the last day of the reporting

period (see "*SIGNIFICANT MATTERS — Foreign Currencies*"). Granite's annualized lease payments as at December 31, 2013 including the change from September 30, 2013 and December 31, 2012 are as follows:

	Three Months Ended December 31, 2013	Year Ended December 31, 2013
Annualized lease payments, beginning of period	$ 199.6	$ 185.2
Acquisitions	16.9	23.4
Contractual rent adjustments	0.5	7.2
Completed projects on-stream	—	2.4
Re-leasing	2.8	2.8
Vacancies	(2.4)	(8.5)
Renewals	(1.7)	(3.2)
Disposals	(0.2)	(0.2)
Effect of changes in foreign currency exchange rates	6.4	12.8
Annualized lease payments, as at December 31, 2013	$ 221.9	$ 221.9

During the fourth quarter of 2013, annualized lease payments increased by $22.3 million from $199.6 million at September 30, 2013 to $221.9 million at December 31, 2013. The acquisition of the eight income-producing properties in Europe increased annualized lease payments by $16.9 million (see "*SIGNIFICANT MATTERS — Acquisitions*"). Contractual rent adjustments increased annualized lease payments by $0.5 million including $0.3 million from fixed contractual adjustments on properties representing 0.6 million square feet of leaseable area in Canada and the United States and $0.2 million from Consumer Price Index ("CPI") based increases on properties representing 6.0 million square feet of leaseable area in Germany, Austria and the Czech Republic. The commencement of three new leases to non-Magna tenants for 0.8 million square feet of previously vacated leaseable area in Germany, Canada and the United States increased annualized lease payments by $2.8 million. The strengthening of the euro and U.S. dollar against the Canadian dollar resulted in increases in annualized lease payments of $4.6 million and $1.8 million, respectively.

These increases were partially offset by a $2.4 million decrease related to vacancies; $1.3 million of which reflects the impact of the expected disposal of a 0.2 million square foot property in Germany and $1.1 million due to the non-renewal of three expired leases for properties in the United States, Germany and Austria which have a combined 0.9 million square feet of leaseable area (see "*LEASING PROFILE — Leasing Activity*"). Annualized lease payments were also negatively impacted by a net $1.7 million due to the renewal of five leases representing 2.2 million square feet of leasable area in North America and Europe at market rates which were lower than the expiring lease rates in place and by $0.2 million due to the disposal of a property in Poland.

On a year to date basis, annualized lease payments increased by $36.7 million from $185.2 million at December 31, 2012 to $221.9 million at December 31, 2013. Acquisitions increased annualized lease payments by $23.4 million which includes $16.9 million related to the acquired European portfolio of properties noted above and $6.5 million related to the acquisition of four income-producing properties in the United States (see "*SIGNIFICANT MATTERS — Acquisitions*"). Contractual rent adjustments increased annualized payments by $7.2 million including CPI based increases totaling $6.3 million on properties representing 17.0 million square feet of leaseable area in North America and Europe and $0.9 million from fixed contractual adjustments on properties representing 2.3 million of leaseable area in Canada, the United States and Mexico. Annualized lease payments were also positively impacted by $2.4 million due to the completion of expansion and improvement projects in Germany, Canada, the Czech Republic and the United States, which added 0.4 million square feet of leaseable area and by $2.8 million due to the commencement of the three new leases of previously vacated space as noted above. Movements in foreign exchange rates resulted in an increase in annualized lease payments of $12.8 million as a result of increases of $9.4 million and $3.4 million due to the strengthening of the euro and U.S. dollar against the Cdn. dollar, respectively.

These increases in annualized lease payments were partially offset by a decrease of $8.5 million related to vacancies, which includes $7.2 million due to the non-renewal of eight leases for 1.3 million square feet of leaseable area in Germany, Austria, Canada and the United States (see "*LEASING PROFILE — Leasing Activity*") and $1.3 million which reflects the impact of the previously noted disposal in Germany. Renewals negatively impacted annualized lease payments by a net $3.2 million due to the renewal of 10 leases representing 3.0 million square feet of leaseable area in North America and Europe at market rates which were lower than the expiring lease rates in place. As noted above, annualized lease payments for the year ended December 31, 2013 were also negatively impacted by $0.2 million due to the disposal of a property in Poland.

The annualized lease payments by currency at December 31, 2013 and December 31, 2012 were as follows:

	December 31, 2013		**December 31, 2012**	
Euro	**$ 100.9**	**45%**	$ 76.1	41%
Cdn. dollar	**64.0**	**29**	61.9	33
U.S. dollar	**55.9**	**25**	46.0	25
Other	**1.1**	**1**	1.2	1
	$ 221.9	**100%**	$ 185.2	100%

Leasing Activity

2013 Lease Expiries

For the 2013 fiscal year, there were 28 leases expiring including two leases associated with properties acquired during the year. These lease expiries represent 5.1 million square feet of leaseable area. Eighteen of the expiring leases, representing 2.8 million square feet and annual lease payments of $12.9 million at December 31, 2013 were renewed. Six of the properties with a total square footage of 1.1 million square feet of leaseable area were vacated, subsequently however, three of these properties, representing 0.9 million square feet, were re-leased to new tenants during the year and one property, representing 0.1 million square feet, was sold in the fourth quarter of 2013. In addition, a property representing an aggregate of 0.5 million square feet in Germany was partially disposed of in January 2014 and the remainder will be vacated in mid-2014. Lease renewal negotiations are in progress for the remaining three properties, representing 0.7 million square feet, which continue to be occupied by the respective tenants.

Other Lease Extensions and Renewals

During the year ended December 31, 2013, the lease expiry on a property leased to Magna in Germany was extended from August 28, 2018 to April 30, 2023 in conjunction with an expansion project undertaken to bring the total leaseable area to 0.3 million square feet. In addition, a lease on a property leased to Magna in Austria was extended from December 31, 2017 to December 31, 2022 in conjunction with an upcoming expansion project which will bring the total leaseable area to approximately 0.8 million square feet. On January 30, 2014, a subsidiary of Magna International Inc. agreed to a lease extension at its Thondorf facility in Graz, Austria. The lease expiry for the approximately 3.85 million square foot facility has been extended from December 31, 2017 to January 31, 2024. In connection with the extension, the current rental rate will remain fixed for the balance of the term and Granite will pay a one-time tenant allowance in the amount of euro 25.0 million. In addition, a binding LOI to lease has been signed with respect to a vacant property in Canada representing 0.2 million square feet. The tenant will occupy the property once renovations are complete which is expected to be in the third quarter of 2014.

Lease Expiration

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

		Vacant	2014		2015		2016		2017		2018		2019		2020 and Beyond	
	Total Rental Area	Sq Ft	Sq Ft	ALP $	Sq Ft	ALP $	Sq Ft	ALP $	Sq Ft	ALP $	Sq Ft	ALP $	Sq Ft	ALP $	Sq Ft	ALP $
Canada	7,826	253	705	3.4	631	5.1	368	3.4	3,583	37.4	1,243	6.5	143	0.9	900	7.2
U.S.	7,146	407	482	1.8	316	1.2	365	1.2	643	7.3	931	4.2	1,389	10.6	2,613	15.7
Mexico	2,404	143	—	—	68	0.3	—	—	1,097	8.4	589	3.1	—	—	507	2.2
Austria	8,085	88	—	—	81	0.8	299	1.9	4,957	37.1	1,497	11.5	379	3.5	784	8.6
Germany	4,601	62	941	2.5	—	—	965	3.6	—	—	596	4.3	303	1.7	1,734	12.6
Netherlands	1,441	—	—	—	314	2.1	—	—	—	—	—	—	500	3.0	627	4.4
Other	419	—	75	0.7	—	—	—	—	—	—	90	1.1	—	—	254	2.6
Total	**31,922**	**953**	**2,203**	**8.4**	**1,410**	**9.5**	**1,997**	**10.1**	**10,280**	**90.2**	**4,946**	**30.7**	**2,714**	**19.7**	**7,419**	**53.3**

Leasing Costs and Lease Incentives

Direct leasing costs include broker commissions incurred in negotiating and arranging tenant leases. Lease incentives include the cost of leasehold improvements to tenant spaces or cash allowances provided to tenants for leasehold improvement costs. For the three month period and year ended December 31, 2013, the Trust incurred leasing costs and lease incentives of $1.6 million and $2.2 million, respectively.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED DECEMBER 31, 2013

Highlights

	Three Months Ended December 31,		
(in millions, except per unit/share information)	**2013**	**2012**	**Change**
Statements of Income			
Rental revenue and tenant recoveries	**$ 54.7**	$ 45.3	21%
Property operating costs	**1.7**	2.4	(29%)
General and administrative	**8.2**	10.4	(21%)
Depreciation and amortization	**0.1**	0.1	—
Interest expense and other financing costs, net	**6.7**	4.1	63%
Foreign exchange losses (gains), net	**0.2**	—	N/A
Income before fair value changes, acquisition transaction costs, gain on Meadows holdback, loss on sale of investment properties and income taxes[(i)]	**37.8**	28.3	34%
Fair value losses on investments properties, net	**(29.8)**	(41.6)	(28%)
Fair value gains (losses) on financial instruments	**0.2**	(0.6)	133%
Acquisition transaction costs	**(7.7)**	—	N/A
Loss on sale of investment properties	**(0.8)**	—	N/A
Loss before income taxes	**(0.3)**	(13.9)	98%
Income tax expense (recovery)	**2.1**	(28.4)	NM
Net income (loss)	**$ (2.4)**	$ 14.5	(117%)
Funds from Operations ("FFO")[(ii)]	**36.5**	22.1	65%
Diluted FFO per stapled unit or share[(ii)]	**$ 0.78**	$ 0.47	66%

NM — not meaningful
N/A — not applicable

(i) Income before fair value changes, acquisition transaction costs, gain on the Meadows holdback, loss on sale of investment properties and income taxes is an additional IFRS measure and is referenced as such in the audited combined statements of income for the year ended December 31, 2013. Granite considers income before fair value changes, acquisition transaction costs, gain on Meadows holdback, loss on sale of investment properties and income taxes to be a useful measure to evaluate operating performance. This is not a standardized measure under IFRS and accordingly may not be comparable to similar measures reported by other entities.

(ii) FFO and diluted FFO per stapled unit or share do not have a standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. See "Results of Operations for the Three Months Ended December 31, 2013 — Funds from Operations".

	Three Months Ended December 31,		
(in millions)	**2013**	**2012**	**Change**
Cash Flows			
Net income (loss)	**$ (2.4)**	$ 14.5	(117%)
Items not involving current cash flows	**30.3**	9.9	206%
Current income tax expense	**2.5**	6.2	(60%)
Income taxes paid	**(0.4)**	(6.1)	93%
Interest expense	**6.5**	4.1	59%
Interest paid	**(7.6)**	(7.9)	4%
Change in working capital balances	**(0.8)**	3.6	(122%)
Cash provided by operating activities	**$ 28.1**	$ 24.3	16%
Acquisitions	**$ (179.8)**	$ —	N/A
Real estate properties and fixed asset additions	**(6.4)**	(7.4)	14%
Cash provided by other investing activities	**6.6**	2.5	164%
Cash used in investing activities	**$ (179.6)**	$ (4.9)	NM
Distributions or dividends paid	**$ (24.6)**	$ (23.4)	5%
Net proceeds from the issuance of debentures and bank indebtedness	**190.2**	—	N/A
Cash used in other financing activities	**(1.5)**	—	N/A
Cash provided by (used in) financing activities	**$ 164.1**	$ (23.4)	NM

NM — not meaningful
N/A — not applicable

Rental Revenue and Tenant Recoveries

Rental revenue for the three month period ended December 31, 2013 increased $9.4 million to $54.7 million from $45.3 million in the prior year period. The change in rental revenue is discussed below:

Rental revenue, three months ended December 31, 2012	$ 45.3
Contractual rent adjustments	1.9
Completed projects on-stream	0.7
Acquisitions	5.1
Renewals and re-leasing of income-producing properties	(0.6)
Vacancies of income-producing properties	(0.5)
Effect of changes in foreign currency exchange rates	2.7
Other, including straight-line adjustments to rental revenue	0.1
Rental revenue, three months ended December 31, 2013	$ 54.7

The $1.9 million increase in revenue from contractual rent adjustments includes (i) $0.4 million from annual CPI based increases implemented in 2013 on properties representing 7.5 million square feet of leaseable area, (ii) $1.3 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 2012 and 2013 on properties representing 10.6 million square feet of leaseable area, and (iii) $0.2 million from fixed contract adjustments on properties representing 1.8 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, 2013 primarily from the completion of five Magna expansion or improvement projects in Germany, the Czech Republic, Canada and the United States in 2012 and 2013, which added a combined 0.3 million square feet of leaseable area and the completion of an improvement project for a non-Magna tenant in Canada in 2013.

The acquisition of 12 income-producing properties in 2013, representing 4.2 million square feet of leaseable area, contributed $5.1 million to rental revenue for the three month period ended December 31, 2013 (see "*SIGNIFICANT MATTERS — Acquisitions*").

Renewals and re-leasing had a net $0.6 million negative impact on revenues compared to the prior year period. This decrease was primarily due to the renewal of four leases representing 2.5 million square feet of leaseable area in Germany and Austria, which were negotiated at rental rates lower than the expiring lease rates in place.

Rental revenue for the three month period ended December 31, 2013 was also negatively impacted by $0.5 million due to vacancies resulting from the non-renewal of five expired leases with Magna representing 0.6 million square feet of leaseable area in the United States.

Foreign exchange had a $2.7 million positive impact on reported rental revenue as the weakening of the Cdn. dollar against the euro and U.S. dollar denominated rents resulted in an increase in rental revenue of $2.1 million and $0.6 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 $1.7 million for the three month period ended December 31, 2013 in comparison to $2.4 million in the prior year period. Property costs in the prior year period include $1.6 million in land transfer taxes and related costs incurred with respect to internal reorganizations related to the REIT conversion. Excluding the impact related to the land transfer tax and related costs, property costs increased by $0.9 million due to (i) $0.3 million in property costs recoverable from tenants, which are attributable to properties acquired during 2013, (ii) $0.3 million of professional fees related to lease renewals and re-leasing of properties and (iii) $0.3 million in property related costs associated with the acquired properties in the Netherlands as these costs are not directly recoverable from the tenant but rather are factored into the base rental charge. These increases were partially offset by a $0.2 million decrease in appraisal, environmental and valuation costs associated with our income-producing properties. In 2012, as part of the process of preparing for the REIT conversion, the Trust undertook to appraise and fair value all properties.

General and Administrative Expenses

General and administrative expenses for the three month periods ended December 31, 2013 and 2012 were $8.2 million and $10.4 million respectively. The $2.2 million decrease is primarily due to a $3.7 million decrease in advisory costs associated with the REIT conversion and related internal reorganizations, partially offset by $0.7 million in higher compensation expense and increased professional fees of $0.5 million.

Depreciation and Amortization

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

Interest Expense and Other Financing Costs, Net

Net interest expense and other financing costs were $6.7 million in the three month period ended December 31, 2013 compared to $4.1 million in the prior year period. The increase of $2.6 million is primarily related to $1.9 million of interest and associated costs related to the issuance of the 2018 Debentures (see "*SIGNIFICANT MATTERS — Series 1 Senior Debentures*") and $0.6 million of additional interest costs

related to outstanding mortgage debts and draws on the revolving credit facility with respect to the acquisitions that occurred in 2013.

Foreign Exchange Losses (Gains), Net

Granite recognized net foreign exchange losses of $0.2 million in the three month period ended December 31, 2013 compared to net foreign exchange losses of less than $0.1 million in the prior year period. The net foreign exchange losses in the fourth quarter of 2013 primarily consist of net realized losses of $0.8 million on derivative financial instruments such as foreign exchange contracts (see note 19 to the audited combined financial statements for the year ended December 31, 2013) partially offset by foreign exchange gains of $0.6 million on certain assets and liabilities denominated in U.S. dollar and euro balances. The net foreign exchange losses in the three month period ended December 31, 2012, are primarily due to $0.3 million of net foreign exchange losses on the re-measurement of certain assets and liabilities of Granite and its subsidiaries that are denominated in U.S. dollars and euros offset by a $0.3 million net realized gain on derivative financial instruments such as foreign exchange forward contracts.

Fair Value Losses on Investment Properties, Net

Net fair value losses on investment properties were $29.8 million and $41.6 million in the three month periods ended December 31, 2013 and 2012, respectively. The net fair value losses in the fourth quarter of 2013 virtually all relate to the Canadian and Austrian portfolios. The declines are primarily attributable to changes in leasing assumptions such as reductions in market rent values used in the discounted cash flow models with the balance relating to the amount or timing of cash flows primarily resulting from capital expenditure projects. There were no significant changes in discount and termination capitalization rates in any of our operating jurisdictions in the fourth quarter of 2013.

The fair value losses in the fourth quarter of 2012 relate primarily to the changes in leasing assumptions such as reductions in market rent values used in the discounted cash flow models and the increase in discount and terminal capitalization rates relating to our properties located in Austria and Germany.

Fair Value Gains (Losses) on Financial Instruments

Granite recognized net fair value gains on financial instruments of $0.2 million in the three month period ended December 31, 2013 compared to net fair value losses of $0.6 million in the prior year period. Net fair value gains for the fourth quarter of 2013 are primarily related to $0.2 million of fair value gains recognized with respect to foreign exchange forward contracts outstanding at the beginning of the period. For the three month period ended December 31, 2012, the net fair value losses were related primarily to foreign exchange forward contracts outstanding at the end of the period (see note 19 to the audited combined financial statements for the year ended December 31, 2013).

Acquisition Transaction Costs

In the fourth quarter of 2013, Granite incurred $7.7 million in acquisition transaction costs. These costs included $6.7 million of land transfer taxes and $1.0 million of legal and administrative costs related to the acquisitions of the European properties that were completed in the fourth quarter of 2013 (see "*SIGNIFICANT MATTERS — Acquisitions*").

Loss on Sale of Investment Properties

During the three month period ended December 31, 2013, the Trust disposed of an income-producing property located in Poland and two vacant properties located in the United States and the United Kingdom for combined gross proceeds of $6.8 million, and incurred a $0.3 million loss on disposal due to the associated selling costs. In the fourth quarter of 2013, the Trust also incurred $0.5 million in costs related to the sale of an investment property in Germany, which closed in January 2014 and the potential sale of its portfolio of Mexican properties.

Income Tax Expense (Recovery)

The income tax expense for the fourth quarter of 2013 was $2.1 million. This includes (i) a net current tax expense of $1.3 million which relates to foreign operations; and (ii) the recording of $1.2 million of reserves for certain income tax positions taken, partially offset by (i) a deferred tax recovery of $0.4 million that relates to the net changes in the fair values of investment properties, foreign operations, the impact of income tax rate changes and the movement of foreign exchange.

The combined current and deferred effective income tax rate for the fourth quarter of 2013 reflects a $2.1 million provision on a pre-tax loss of $0.3 million which is largely driven by no deferred tax recovery being recorded on the fair value losses attributable to the Canadian properties and the proportion of income attributable to foreign taxable jurisdictions. This compares with an effective income tax rate in the fourth quarter of 2012 of a recovery of $28.4 million on a pre-tax loss of $13.9 million largely driven by the deferred tax recovery recorded in Canada of approximately $22.9 million related to a REIT reorganization step taken in that quarter. Also, relative to 2012 when Granite was a corporation, the effective tax rate for the three months ended December 31, 2013 is favourably impacted due to the REIT conversion, which results in a significantly lower income tax expense in Canada and marginal state current income tax being recorded in the United States.

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

Net Income (Loss)

Net loss was $2.4 million in the three month period ended December 31, 2013 in comparison to net income of $14.5 million in the prior year period. The decrease in net income of $16.9 million was primarily due to a decrease in deferred tax recovery of $34.2 million and $7.7 million in acquisition transaction costs, partially offset by an $11.8 million decrease in the fair value loss on investment properties, a $9.4 million increase in rental revenue and a $3.7 million decrease in current tax expense.

Funds From Operations

	Three Months Ended December 31,		
(in thousands, except per unit/share information)	**2013**	**2012**	**Change**
Net income (loss) attributable to stapled unitholders or common shareholders	**$ (2,599)**	$ 14,466	(118%)
Add (deduct):			
Fair value losses on investment properties	**29,820**	41,565	(28%)
Fair value losses (gains) on financial instruments	**(216)**	585	(137%)
Acquisition transaction costs	**7,751**	—	N/A
Loss on sale of investment properties	**794**	—	N/A
Deferred income taxes	**813**	(34,545)	NM
Non-controlling interests relating to the above	**107**	—	N/A
Funds from Operations ("FFO")	**$ 36,470**	$ 22,071	65%
Basic and diluted FFO per stapled unit or share	**$ 0.78**	$ 0.47	66%
Basic number of stapled units or common shares outstanding	**46,942**	46,833	
Diluted number of stapled units or common shares outstanding	**46,957**	46,866	

Granite determines FFO using the definition prescribed by the Real Estate Property Association of Canada ("REALPAC"). Granite considers FFO to be a meaningful supplemental measure of operating performance. However, FFO should not be construed as an alternative to net income or cash flows provided by operating

activities determined in accordance with IFRS. FFO and basic and diluted FFO per stapled unit or share are measures widely used by analysts and investors in evaluating the operating performance of real estate entities. However, FFO does not have a standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities.

The $14.4 million increase in FFO compared to the prior year period is primarily due to increased rental revenue of $9.4 million and lower current tax expense of $3.7 million.

RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2013

Highlights

	Years Ended December 31,		
(in millions, except per unit/share information)	**2013**	**2012**	**Change**
Rental revenue and tenant recoveries	**$ 203.2**	$ 181.1	12%
Income before fair value changes, acquisition transaction costs, gain on Meadows holdback, loss on sale of investment properties and income taxes[(i)]	**149.3**	128.6	16%
Net income attributable to stapled unitholders or common shareholders	**145.0**	149.8	(3%)
Funds from Operations ("FFO")[(ii)]	**138.3**	109.9	26%
Comparable FFO[(iii)]	**142.5**	109.9	30%
Diluted FFO per stapled unit or share[(ii)]	**$ 2.95**	$ 2.34	26%
Diluted comparable FFO per stapled unit or share[(iii)]	**$ 3.04**	$ 2.34	30%

(i) Income before fair value changes, acquisition transaction costs, gain on Meadows holdback, loss on sale of investment properties and income taxes is an additional IFRS measure and is referenced as such in the audited combined statements of income for the year ended December 31, 2013. Granite considers income before fair value changes, acquisition transaction costs, gain on Meadows holdback, loss on sale of investment properties and income taxes to be a useful measure to evaluate operating performance. This is not a standardized measure under IFRS and accordingly may not be comparable to similar measures reported by other entities.

(ii) FFO and diluted FFO per stapled unit or share do not have a standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. See "Results of Operations for the Year Ended December 31, 2013 — Funds from Operations".

(iii) Excludes $4.2 million ($0.09 per stapled unit) of net withholding taxes paid in the second quarter of 2013 related to the repatriation of prior years' earnings from foreign jurisdictions. See "Results of Operations for the Year Ended December 31, 2013 — Funds from Operations".

(in millions, except number of properties)	**December 31, 2013**	**December 31, 2012**	**Change**
Number of income-producing properties	**112**	104	8%
Leaseable area (sq. ft.)	**31.9**	28.0	14%
Annualized lease payments ("ALP")	**$ 221.9**	$ 185.2	20%
Investment properties, fair value	**$ 2,351.9**	$ 1,943.7	21%

Rental Revenue and Tenant Recoveries

Rental revenue for the year ended December 31, 2013 increased $22.1 million to $203.2 million from $181.1 million in the prior year period. The change in rental revenue is discussed below:

Rental revenue, year ended December 31, 2012	$ 181.1
Contractual rent adjustments	6.6
Completed projects on-stream	3.0
Acquisitions	8.6
Renewals and re-leasing of income-producing properties	(1.3)
Vacancies and disposals of income-producing properties	(1.3)
Effect of changes in foreign currency exchange rates	6.2
Other, including straight-line adjustments to rental revenue	0.3
Rental revenue, year ended December 31, 2013	**$ 203.2**

The $6.6 million increase in revenue from contractual rent adjustments includes (i) $1.7 million from annual CPI based increases implemented in 2013 on properties representing 7.5 million square feet of leaseable area, (ii) $4.4 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 2012 and 2013 on properties representing 11.3 million square feet of leaseable area, and (iii) $0.5 million from fixed contract adjustments on properties representing 2.3 million square feet of leaseable area.

The completion of eight Magna expansion or improvement projects in Austria, Germany, the Czech Republic, Canada and the United States in 2012 and 2013, and one non-Magna improvement project in Canada, which added a combined 0.6 million square feet of leaseable area, contributed $3.0 million to rental revenue for the year ended December 31, 2013.

The acquisition of 12 income-producing properties in 2013, representing 4.2 million square feet of leaseable area, contributed $8.6 million to rental revenue for the year ended December 31, 2013 (see "*SIGNIFICANT MATTERS — Acquisitions*").

Renewals and re-leasing had a $1.3 million net negative impact on revenues compared to the prior year period. This decrease was primarily due to the renewal of nine leases representing 3.5 million square feet of leaseable area in Canada, the United States, Mexico, Germany and Austria, which were negotiated at rental rates lower than the expiring lease rates in place.

Rental revenue for the year ended December 31, 2013 was also negatively impacted by $1.3 million primarily due to a non-Magna tenant vacating a 0.3 million square foot facility in the United Kingdom and vacancies resulting from the non-renewal by Magna of five expired leases representing 0.6 million square feet of leaseable area in the United States.

Foreign exchange had a $6.2 million positive impact on reported rental revenues as the weakening of the Cdn. dollar against the euro and U.S. dollar denominated rents resulted in an increase in rental revenue of $4.8 million and $1.4 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 $5.6 million for both of the years ended December 31, 2013 and 2012. As previously noted, property costs for the prior year period include $1.6 million of land transfer taxes and other related costs associated with internal reorganizations related to the REIT conversion. Excluding the impact of these costs, property costs increased by $1.6 million primarily due to (i) $1.1 million in property costs recoverable from tenants, which are attributable to three of the properties acquired during 2013, (ii) $0.7 million of professional fees related to lease renewals and re-leasing of properties and (iii) $0.7 million related to higher repairs and maintenance costs and realty taxes incurred with respect to vacant and acquired properties in the Netherlands. These increases were partially offset by a $1.0 million decrease in appraisal, environmental and valuation costs compared to the prior year period. In 2012, as part of the process of preparing for the REIT conversion, the Trust undertook to appraise and fair value all properties.

General and Administrative Expenses

General and administrative expenses decreased by $3.7 million to $27.3 million in the year ended December 31, 2013 from $31.0 million in the prior year period. General and administrative expenses for the year ended December 31, 2013 include $2.5 million of advisory costs relating to the REIT conversion and related internal reorganizations. General and administrative expenses for the year ended December 31, 2012 include $7.9 million of advisory costs related to the REIT conversion and $0.3 million of employee termination expense. Excluding the impact of the advisory costs and the employee termination expense, general and administrative expenses increased by $2.0 million primarily due to higher compensation expense and professional fees.

Depreciation and Amortization

Depreciation and amortization expense increased by $0.2 million and resulted from the amortization of fixed assets relating to our offices in Toronto, Canada and Vienna, Austria.

Interest Expense and Other Financing Costs, Net

Net interest expense and other financing costs were $20.6 million in the year ended December 31, 2013 compared to $15.9 million in the prior year period. The increase of $4.7 million is comprised of the previously noted $1.9 million of interest and associated costs related to the issuance of the 2018 Debentures (see "*SIGNIFICANT MATTERS — Series 1 Senior Debentures*"), $1.9 million of additional interest costs related to the outstanding mortgage debts and draws on the revolving credit facility with respect to the acquisitions that occurred in 2013, $0.2 million in amortization of deferred financing costs related to a credit facility which was replaced in February 2013, a $0.4 million decrease in capitalized interest due to fewer capital projects in 2013 and a $0.2 million decrease in interest income.

Foreign Exchange Losses (Gains), Net

Granite recognized net foreign exchange losses of less than $0.1 million in the year ended December 31, 2013 compared to net foreign exchange gains of $0.2 million in the prior year period. Net foreign exchange losses for the year ended December 31, 2013 included a $1.2 million realized foreign exchange loss on derivative financial instruments such as foreign exchange forward contracts, offset by $1.2 million in net foreign exchange gains primarily related to the weakening of the Cdn. dollar on the re-measurement of certain assets and liabilities of Granite and its subsidiaries that are denominated in U.S. dollars and euros. The net foreign exchange gains in the year ended December 31, 2012 are primarily due to a $0.9 million net realized gain on derivative financial instruments such as foreign exchange forward contracts, partially offset by $0.7 million of net foreign exchange losses on the re-measurement of certain assets and liabilities of Granite and its subsidiaries that are denominated in U.S. dollars and euros.

Fair Value Losses (Gains) on Investment Properties, Net

Net fair value losses on investment properties were $25.2 million in the year ended December 31, 2013 compared to net fair value gains on investment properties of $33.3 million in the prior year period. The net fair value losses in the year ended December 31, 2013 primarily resulted from (i) changes in leasing assumptions relating to market rent values used in the discounted cash flow models, recent lease renewals and the amount or timing of cash flows primarily attributable to capital expenditures and (ii) a net fair value loss attributed to the Mexican portfolio (see "*INVESTMENT PROPERTIES*") partially offset with discount and terminal capitalization rate compression in Canada and the United States.

The fair value gains in the year ended December 31, 2012 primarily resulted from the compression in discount and terminal capitalization rates across the entire portfolio with the most significant gains occuring in Canada and Europe. The fair value of investment properties at January 1, 2012 and December 31, 2012 represent a weighted average terminal capitalization rate (defined as terminal capitalization rate weighted on investment property fair value) of 8.87% and 8.66%, respectively, and a weighted average discount rate (defined as discount rate weighted on investment property fair value) of 8.91% and 8.70%, respectively.

Fair Value Gains (Losses) on Financial Instruments

Granite recognized net fair value gains on financial instruments of $0.1 million in the year ended December 31, 2013 compared to fair value losses of $0.4 million in the prior year period. Net fair value gains for the year ended December 31, 2013 related to the increase in fair value of the interest rate caps associated with the mortgages payable. Net fair value losses for the year ended December 31, 2012 were related to foreign exchange forward contracts outstanding at the end of the period (see note 19 to the audited combined financial statements for the year ended December 31, 2013).

Acquisition Transaction Costs

In the year ended December 31, 2013, Granite incurred $14.2 million in acquisition transaction costs. These costs included $12.1 million of land transfer taxes and $2.1 million for legal and other administrative costs related to the acquisitions made in Europe and the United States that were all accounted for as business combinations (see "*SIGNIFICANT MATTERS — Acquisitions*").

Gain on Meadows Holdback

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

Loss on Sale of Investment Properties

In 2013, the Trust disposed of an income-producing property located in Poland and three vacant properties located in Canada, the United States and the United Kingdom for combined gross proceeds of $17.4 million, and incurred a $0.6 million loss on disposal due to the associated selling costs. The Trust also incurred $0.5 million in costs related to the sale of an investment property in Germany, which closed in January 2014 and the potential sale of its portfolio of Mexican properties.

Income Tax Expense (Recovery)

The net income tax recovery for the year ended December 31, 2013 was $31.3 million and primarily comprised of (i) a reversal of $41.9 million of the Canadian deferred tax liabilities recorded prior to the January 3, 2013 REIT conversion; and (ii) a net $0.2 million recovery of other items including the change in previously unrecognized tax benefits, the settlement of tax examinations in Canada, Germany and the United States which were recorded in the first and third quarters of 2013 and the recording of reserves for certain income tax positions taken in the fourth quarter. These recoveries were partially offset by (i) $3.2 million of net deferred tax expense related to the net changes in the fair values of investment properties, foreign operations, the impact of income tax rate changes, and the movement of foreign exchange; and (ii) $6.5 million of current tax expense related to foreign operations.

Significantly impacting the current tax expense and deferred tax recovery was a $4.2 million net withholding tax payment made in the second quarter primarily related to a large repatriation of tax paid earnings of prior years from foreign operations that was offset by the reversal of the deferred tax expense recorded in prior periods resulting in no impact to total tax expense for the year ended December 31, 2013. A repatriation of tax paid earnings from foreign operations of this magnitude is not expected to recur.

Excluding the deferred tax reversals of $41.9 million noted above and $22.9 million in the fourth quarter of 2012, the combined current and deferred income tax expense for the years ended December 31, 2013 and 2012 was $10.6 million, representing an effective tax rate of 9% and $34.6 million, representing an effective tax rate of 21%, respectively. The effective tax rate is lower for the year ended December 31, 2013 primarily due to the REIT conversion, which results in a significantly lower income tax expense in Canada and only some state current income tax being recorded in the United States.

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

Net Income

Net income was $145.3 million in the year ended December 31, 2013 in comparison to $149.8 million in the prior year period. The decrease of $4.5 million was primarily due to the net fair value losses on investment properties of $25.2 million compared to a $33.3 million net fair value gain in the prior year period, $14.2 million

in acquisition transaction costs, $4.7 million in additional net interest expense and a $1.1 million loss on sale of investment properties, partially offset by a decrease in deferred income taxes of $34.9 million which includes the reversal of $41.9 million in Canadian deferred income tax liabilities as a result of converting to a REIT on January 3, 2013, a $22.1 million increase in rental revenue, a $8.2 million decrease in current income taxes, a $5.1 million gain on the settlement of the Meadows holdback and a $3.7 million decrease in general and administrative expenses.

Funds From Operations

	Years Ended December 31,		
(in thousands, except per unit/share information)	**2013**	**2012**	**Change**
Net income attributable to stapled unitholders or common shareholders	**$ 145,031**	$ 149,756	(3%)
Add (deduct):			
Fair value losses (gains) on investment properties	**25,224**	(33,343)	176%
Fair value losses (gains) on financial instruments	**(72)**	359	(120%)
Gain on Meadows holdback	**(5,143)**	—	N/A
Acquisition transaction costs	**14,246**	—	N/A
Loss on sale of investment properties	**1,122**	21	NM
Deferred income taxes	**(42,018)**	(6,923)	NM
Non-controlling interests relating to the above	**(105)**	(15)	NM
Funds from Operations ("FFO")	**$ 138,285**	$ 109,855	26%
Net withholding tax payment	**4,220**	—	N/A
Comparable FFO	**$ 142,505**	$ 109,855	30%
Basic and diluted FFO per stapled unit or share	**$ 2.95**	$ 2.34	26%
Basic and diluted comparable FFO per stapled unit or share	**$ 3.04**	$ 2.34	30%
Basic number of stapled units or common shares outstanding	**46,925**	46,855	
Diluted number of stapled units or common shares outstanding	**46,949**	46,876	

NM — not meaningful
N/A — not applicable

As noted earlier in this MD&A, Granite determines FFO using the definition prescribed by REALPAC (see — " *RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED DECEMBER 31, 2013 — Funds from Operations*").

Comparable FFO for the year ended December 31, 2013 excludes $4.2 million of current tax expense associated with net withholding taxes paid in the second quarter of 2013 largely related to the repatriation of prior years' earnings from foreign jurisdictions primarily associated with certain planned internal reorganizations undertaken post REIT conversion. These withholding taxes were accounted for as a deferred tax expense in prior years, the vast majority of which pertain to periods prior to 2012, and therefore the impact to the current tax expense was offset by the reversal of the prior year deferred tax accrual resulting in no impact to total tax expense. As the net $4.2 million withholding tax payment is a result of a significant repatriation that is not expected to recur at a similar level of magnitude, it has been added to FFO to arrive at a comparable FFO amount to prior periods. Comparable FFO increased $32.6 million compared to the prior year period primarily due to increased rental revenue of $22.1 million, a reduction in general and administrative expense of $3.7 million and lower current income tax expense of $12.2 million partially offset by a $4.7 million increase in net interest expense.

LIQUIDITY AND CAPITAL RESOURCES

Granite generated cash flows from operations of $28.1 million and $127.9 million in the three month period and year ended December 31, 2013, respectively. At December 31, 2013, the Trust had cash and cash equivalents of $95.5 million and unitholders' equity of $1.7 billion.

Cash Flows

Three Months Ended December 31, 2013

Operating Activities

	Three Months Ended December 31,		
(in millions)	**2013**	**2012**	**Change**
Cash Flows			
Net income (loss)	**$ (2.4)**	$ 14.5	(117%)
Items not involving current cash flows	**30.3**	9.9	206%
Current income tax expense	**2.5**	6.2	(60%)
Income taxes paid	**(0.4)**	(6.1)	93%
Interest expense	**6.5**	4.1	59%
Interest paid	**(7.6)**	(7.9)	4%
Cash from operations before changes in working capital balances	**28.9**	20.7	40%
Change in working capital balances	**(0.8)**	3.6	(122%)
Cash provided by operating activities	**$ 28.1**	$ 24.3	16%

Cash generated from operations before changes in working capital balances increased $8.2 million to $28.9 million in the fourth quarter of 2013 compared to $20.7 million in the prior year period. The increase is primarily due to increased rental revenue of $9.4 million and lower income taxes paid of $5.7 million partially offset by $7.7 million in acquisition transaction costs.

The change in working capital balances resulted in a use of cash of $0.8 million in the fourth quarter of 2013. The change in working capital for the three month period ended December 31, 2013 comprised a decrease in accounts payable and other accrued liabilities of $1.6 million, primarily due to the payment of acquisition costs partially offset by a $0.8 million decrease in accounts receivable primarily due to the receipt of VAT receivable related to a completed expansion project in Germany.

In the fourth quarter of 2012, the change in working capital balances generated cash of $3.6 million primarily due to a $2.6 million increase in accounts payable and other accrued liabilities primarily related to professional fee accruals relating to the REIT conversion and a $2.0 million increase in deferred revenue due to timing of rental receipts partially offset by a $1.2 million increase in accounts receivable primarily due to funds receivable from a non-Magna tenant with respect to a capital project.

Investing Activities

Investing activities for the three month period ended December 31, 2013 used cash of $179.6 million, which was primarily a result of $179.8 million of cash payments related to acquisitions and investment property additions of $6.1 million partially offset by net proceeds of $6.6 million on the disposal of investment properties. Cash used in investing activities for the fourth quarter of 2012 of $4.9 million was primarily due to investment property additions of $7.2 million and fixed asset additions of $0.2 million, partially offset by proceeds from an unsecured note receivable of $2.5 million.

Financing Activities

Cash generated by financing activities for the three month period ended December 31, 2013 of $164.1 million was primarily related to $200.0 million of proceeds received from the issuance of the 2018 Debentures partially offset by distribution payments of $24.6 million, repayment of bank indebtedness of $9.8 million and $1.7 million of financing costs paid with respect to the 2018 Debentures. Cash used in financing activities for the three month period ended December 31, 2012 related to dividend payments of $23.4 million.

Year Ended December 31, 2013

Operating Activities

(in millions)	Years Ended December 31, 2013	2012	Change
Cash Flows			
Net income	**$ 145.3**	$ 149.8	(3%)
Items not involving current cash flows	**(16.5)**	(34.8)	53%
Current income tax expense	**10.5**	18.7	(44%)
Income taxes paid	**(14.5)**	(28.6)	49%
Interest expense	**19.9**	16.3	22%
Interest paid	**(17.1)**	(16.1)	(6%)
Cash from operations before changes in working capital balances	**127.6**	105.3	21%
Change in working capital balances	**0.3**	10.7	(97%)
Cash provided by operating activities	**$ 127.9**	$ 116.0	10%

For the year ended December 31, 2013, Granite generated cash from operations before changes in working capital balances of $127.6 million compared to $105.3 million in the prior year period. The $22.3 million increase is primarily due to the increase in rental revenue of $22.1 million, lower income taxes paid of $14.1 million and a $3.7 million decrease in general and administrative expenses partially offset by $14.2 million of acquisition transaction costs.

The change in working capital balances generated cash of $0.3 million in the year ended December 31, 2013. The main drivers of the change in working capital for the period were a $1.3 million decrease in accounts receivable primarily due to the collection of a receivable related to a completed capital project for a non-Magna tenant partially offset by a $1.1 million decrease in deferred revenue due to timing of rental receipts.

For the year ended December 31, 2012, the change in working capital balances generated cash of $10.7 million primarily due to a $6.4 million increase in accounts payable and other accrued liabilities, primarily related to professional fee accruals related to the REIT conversion and higher incentive pay accruals due to the introduction of an incentive plan in 2012, 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 noted above, and a $2.0 million increase in deferred revenue due to timing of rental receipts. These increases were partially offset by a $0.5 million transfer of funds to restricted cash with respect to a construction project.

Investing Activities

Cash used in investing activities for the year ended December 31, 2013 was $253.6 million, which was primarily a result of $247.6 million of cash payments related to acquisitions, investment property additions of $28.9 million and fixed asset additions of $0.7 million partially offset by net proceeds from the disposal of income-producing properties of $16.8 million, proceeds from the Meadows holdback of $5.3 million and $2.6 million in proceeds from an unsecured note receivable. Cash used in investing activities for the year ended December 31, 2012 of $25.3 million was primarily due to investment property additions of $29.8 million and fixed asset additions of $1.8 million, partially offset by proceeds from an unsecured note receivable of $5.0 million and net proceeds of $1.2 million from the disposition of an income-producing property.

Financing Activities

For the year ended December 31, 2013, cash generated by financing activities of $162.1 million was primarily related to $200.0 million of proceeds received on the issuance of the 2018 Debentures, $50.4 million of net borrowings from bank indebtedness, $3.1 million received upon the exercise of stock options and $1.9 million

received from non-controlling interests, partially offset by distribution payments of $90.3 million and $2.8 million of financing costs paid. For the year ended December 31, 2012, net cash outflows from financing activities were $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, partially offset by $1.0 million in proceeds received on the issuance of shares from the exercise of stock options.

Bank and Debenture Financing

Effective on February 1, 2013, the Trust entered into 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 Trust 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 Granite 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 Trust's external credit rating. Based on Granite's current credit rating, the Trust would be subject to interest rate margins of up to 1.63% depending on the currency and form of advance. At December 31, 2013, the Trust had $53.2 million (U.S. $50.0 million) drawn under the Granite Credit Facility and $1.2 million in letters of credit issued against the Granite Credit Facility.

In December 2004, Granite issued $265.0 million of 6.05% senior unsecured debentures (the "2016 Debentures"), which are due December 22, 2016, at a price of $995.70 per $1,000.00 of principal amount and are guaranteed by Granite and certain of its subsidiaries. The 2016 Debentures rank equally with all of Granite's existing and future unsecured indebtedness. The total outstanding at December 31, 2013 was $263.9 million.

In October 2013, Granite issued at par $200.0 million of the 2018 Debentures which are due October 2, 2018 (see " *SIGNIFICANT MATTERS — Series 1 Senior Debentures*"). The 2018 Debentures rank equally with all of the Trust's existing and future unsubordinated and unsecured indebtedness and are guaranteed by Granite and certain of its subsidiaries. The total outstanding at December 31, 2013 was $198.1 million. At December 31, 2013, all of the 2016 Debentures and the 2018 Debentures remained outstanding.

Also in October 2013, the Trust entered into a cross currency interest rate swap (the "Cross Currency Interest Rate Swap") to exchange the $200.0 million proceeds and related 4.613% interest payments from the 2018 Debentures to euro 142.3 million and euro denominated interest payments at a 3.56% interest rate. Under the terms of the swap, on October 2, 2018, the Trust will repay the principal proceeds received of euro 142.3 million for $200.0 million. As at December 31, 2013, the fair value of the Cross Currency Interest Rate Swap was a net financial liability of $11.0 million.

In connection with the acquisitions of income-producing properties that were completed in February and May 2013, the Trust has two mortgages outstanding totaling $38.8 million (U.S. $36.5 million). The mortgages mature on June 10, 2017 and May 10, 2018, respectively and both bear interest at LIBOR plus 2.5%. Interest rate caps were entered into for 100% of the mortgage amounts and for the duration of the mortgages thereby limiting the exposure to interest rate fluctuations to a maximum of 4.0%. The mortgages are recourse to the three investment properties acquired which are pledged as collateral.

In July 2013, the Trust entered into a construction loan (the "Construction Loan") for U.S. $17.0 million relating to the development land purchased in the United States (see "*INVESTMENT PROPERTIES*"). The Construction Loan bears interest at LIBOR plus 2.25% and matures on July 25, 2016. Proceeds from the Construction Loan may only be used to pay for the construction cost of improvements on the property and other related costs, and loan advances will be made based on the value of the work completed. The maximum amount available under the Construction Loan may be increased to U.S. $19.0 million, subject to certain terms and conditions being met. The Trust has the option to extend the maturity date for two successive periods to July 25, 2017 and 2018, subject to certain terms and conditions. The Construction Loan is secured by a first mortgage lien on the property. At December 31, 2013, $3.3 million (U.S. $3.1 million) had been drawn under the Construction Loan.

At December 31, 2013, the Trust's debt to total equity ratio was 25%. Management believes that the Trust's cash resources, cash flow from operations and available third-party borrowings will be sufficient to finance its operations and capital expenditures program over the next year as well as pay distributions. Additional acquisition and development activity will depend on the availability of suitable investment opportunities and related financing.

At December 31, 2013, the Trust was in compliance with its debt agreements and related covenants.

Credit Ratings

On October 30, 2013, Moody's assigned a rating to the 2016 Debentures, 2018 Debentures as well as the Trust of Baa3 with a positive outlook. On October 1, 2013, DBRS confirmed the BBB rating on the 2016 Debentures and 2018 Debentures with a stable trend. Credit ratings are intended to provide investors with an independent measure of credit quality of an issue of securities. A rating accorded to any security is not a recommendation to buy, sell or hold such securities and may be subject to revision or withdrawal at any time by the rating organization which granted such ratings.

Distributions

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

(in thousands)	Three Months Ended December 31, 2013	Year Ended December 31, 2013
Net income (loss)	$ (2,391)	$ 145,266
Cash flows from operating activities	$ 28,069	$ 127,894
Distributions paid and payable	(25,021)	(98,922)
Cash flows from operating activities over distributions paid and payable	$ 3,048	$ 28,972

Distributions declared to stapled unitholders in the three month period ended December 31, 2013 were $25.0 million or 53 cents per stapled unit. Total distributions declared to stapled unitholders in the year ended December 31, 2013 were $98.9 million or $2.11 per stapled unit. Distributions to stapled unitholders were funded from cash from operations.

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

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Management's Report on Internal Control Over Financial Reporting

The Trust's management is responsible for establishing and maintaining internal control over financial reporting (as such term is defined in NI 52-109 and Rules 13a-15(f) and 15d-15(f) under the United States Securities Exchange Act of 1934) for the Trust. Under the supervision and with the participation of Granite's Chief Executive Officer and Chief Financial Officer, management conducted an evaluation of the effectiveness of Granite's internal control over financial reporting, as of the Evaluation Date, based on the framework set forth in *Internal Control-Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation under this framework, management concluded that Granite's internal control over financial reporting was effective as of December 31, 2013.

Deloitte LLP, an independent registered public accounting firm, who audited the Trust's combined financial statements as at and for the year ended December 31, 2013 and whose report is included in the Trust's annual report for fiscal 2013, has also issued an attestation report under standards of the Public Company Accounting Oversight Board (United States) on Granite's internal control over financial reporting as of December 31, 2013. The attestation report precedes the financial statements included in the Trust's annual report for fiscal 2013.

Changes in Internal Control Over Financial Reporting

As of the Evaluation Date, there have been no changes in the Trust's internal control over financial reporting that occurred during the period beginning on the date immediately following the end of the period in respect of which Granite made its most recent previous interim filing and ended on December 31, 2013 that have materially affected, or are reasonably likely to materially affect, the Trust's internal control over financial reporting.

Limitation on the Effectiveness of Controls and Procedures

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

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

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

The Trust has made commitments for future payments of interest and principal on long-term debt, construction and development project costs and certain other costs. At December 31, 2013, future payments, including interest payments, under these contractual obligations were as follows:

(in thousands) As at December 31, 2013	Total	Payments due by year 2014	2015	2016	2017	2018	Thereafter
Unsecured debentures	**$ 465,000**	$ —	$ —	$ 265,000	$ —	$ 200,000	$ —
Cross Currency Interest Rate Swap	**11,003**	—	—	—	—	11,003	—
Secured long-term debt	**42,065**	217	819	4,214	24,604	12,211	—
Bank indebtedness	**53,180**	—	53,180	—	—	—	—
Interest expense:							
Unsecured debentures, net of Cross Currency Interest Rate Swap	**83,726**	23,180	23,153	23,153	7,120	7,120	—
Secured long-term debt	**3,554**	1,046	1,034	1,011	361	102	—
Bank indebtedness	**1,037**	957	80	—	—	—	—
Operating leases	**2,024**	433	433	433	219	112	394
Contingent consideration	**3,777**	—	—	—	—	3,777	—
Construction and development project commitments	**8,204**	8,204	—	—	—	—	—
	$ 673,570	$ 34,037	$ 78,699	$ 293,811	$ 32,304	$ 234,325	$ 394

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

Off-balance sheet arrangements consist of letters of credit, construction and development project commitments and certain operating agreements.

For further discussion of commitments, contractual obligations, contingencies and off-balance sheet arrangements, refer to notes 8, 9, 10 and 23 to the audited combined financial statements and "***LIQUIDITY AND CAPITAL RESOURCES***".

RELATED PARTY TRANSACTIONS

For a discussion of the Trust's transactions with related parties, please refer to note 21 to the audited combined financial statements for the year ended December 31, 2013.

OUTSTANDING STAPLED UNITS

As at the date of this MD&A, the Trust had 46,944,792 stapled units issued and outstanding. The decrease from the issued and outstanding stapled units of 46,944,821 at December 31, 2013 results from the redemption of 29 stapled units in February 2014.

DISTRIBUTIONS

Granite REIT's monthly distribution to unitholders is currently 18.3 cents per stapled unit, representing, on an annualized basis, $2.20 per stapled unit. Total distributions declared in the year ended December 31, 2013 were $98.9 million. In January and February 2014, Granite REIT declared monthly distributions of 18.3 cents per stapled unit, or $8.6 million, with respect to the one month periods ended January 31, 2014 and February 28, 2014, respectively. The distribution declared in January 2014 was paid on February 14, 2014 and the distribution declared in February 2014 will be paid on March 14, 2014.

TRANSITION TO IFRS — KEY CHANGES

Granite has adopted IFRS effective January 1, 2012, the transition date, and has prepared its opening IFRS balance sheet as at that date. Prior to the adoption of IFRS, the Trust prepared its financial statements in accordance with U.S. GAAP. The nature of the adjustments is described below:

a) Investment properties — Under U.S. GAAP, investment properties were recorded at cost and depreciated over their estimated useful lives. Under International Accounting Standard 40, Investment Property ("IAS 40"), Granite has elected to measure investment properties at fair value and records changes in fair value in net income during the period of change. In connection with recording investment properties at fair value, deferred leasing commissions, tenant inducements, deferred rent receivable and certain deferred revenue balances are no longer separately recognized under IFRS. The recording of real estate properties at fair value also resulted in adjustments to Granite's deferred tax balances. The adjustments, as a result of implementing the fair value model as at January 1, 2012, were 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. In accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards, Granite elected to reset all cumulative translation differences to zero on transition to IFRS by adjusting amounts through opening deficit.

c) Trust Units — In conjunction with the REIT conversion, Granite Real Estate Inc.'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. The attributes of the stapled units meet the exemption conditions set out in IAS 32 and are therefore presented as equity. 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 unit-based payments. Accordingly, Granite's incentive stock option and executive deferred stapled unit plans, as amended under the REIT conversion, were recorded as liabilities upon conversion to a REIT and are revalued at each interim period.

d) Income Taxes — Under IFRS, deferred income taxes are recorded for temporary differences arising in respect of 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, an adjustment to the deferred tax liability has been recorded at January 1, 2012. However, as a result of the REIT conversion which was effective January 3, 2013, deferred income tax amounts related to Canadian investment properties have been reversed as an adjustment to deferred income tax expense. The conversion to the REIT did not impact the deferred income tax balances in any other jurisdiction.

As at January 1, 2012, unitholders' equity increased primarily from the fair value increase in investment properties partially offset by the corresponding deferred tax adjustment. In preparing the combined financial statements in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards, the Trust has applied the mandatory exception from full retrospective application under IFRS relating to estimates. Hindsight was not used to create or revise estimates and accordingly the estimates previously made by the Trust under U.S. GAAP are consistent with their application under IFRS.

CRITICAL ACCOUNTING ESTIMATES

The preparation of combined financial statements in conformity with IFRS requires management to apply judgment and make estimates that affect the amounts reported and disclosed in the combined financial statements. Management bases estimates on historical experience and various other assumptions that are believed to be reasonable in the circumstances, the results of which form the basis for making judgments

about the values of assets and liabilities. On an ongoing basis, management evaluates its estimates. However, actual results could differ from those estimates under different assumptions or conditions.

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

Judgments

Leases

The Trust's policy for revenue recognition is described in note 2(j) of the audited combined financial statements for the year ended December 31, 2013. The Trust makes judgments in determining whether certain leases are operating or finance leases, in particular tenant leases with long contractual terms or leases where the property is a large square-footage and/or architecturally unique and ground leases where the Trust is the lessee.

Investment properties

The Trust's policy relating to investment properties is described in note 2(d) of the audited combined financial statements for the year ended December 31, 2013. In applying this policy, judgment is applied in determining whether certain costs incurred for tenant improvements are additions to the carrying amount of the property or represent incentives, identifying the point at which practical completion of properties under development occurs and determining borrowing costs to be capitalized to the carrying value of properties under development. Judgment is also applied in determining the extent and frequency of independent appraisals.

Income taxes

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

Estimates and Assumptions

Valuation of investment properties

The fair value of investment properties is determined by management using primarily the discounted cash flow method in which the income and expenses are projected over the anticipated term of the investment plus a terminal value discounted using an appropriate discount rate. Management also takes into consideration appraisals obtained from time to time from independent qualified real estate valuation experts in order to arrive at its own conclusions on value. The Trust's critical assumptions relating to the estimates of fair values of investment properties include the receipt of contractual rents, contractual renewal terms, expected future market rental rates, discount rates that reflect current market uncertainties, capitalization rates and recent property investment prices. If there is any change in these assumptions or regional, national or international economic conditions, the fair value of investment properties may change materially. Refer to note 5 of the audited combined financial statements for the year ended December 31, 2013 for further information on the estimates and assumptions made by management in connection with the fair values of investment properties.

Fair value of financial instruments

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

Income taxes

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

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

NEW ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS

New accounting standards issued but not yet applicable to the combined financial statements for the year ended December 31, 2013 are described below. Granite intends to adopt these standards when they become effective.

Financial Instruments: Presentation IAS 32

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

Levies

In May 2013, IFRIC Interpretation 21 — Levies ("IFRIC 21") was issued which is an interpretation of IAS 37 — Provisions, Contingent Liabilities and Contingent Assets. IFRIC 21 clarifies what the obligating event is that gives rise to a levy and when a liability should be recognized. IFRIC 21 is effective for years beginning on or after January 1, 2014 and must be applied retrospectively. Realty taxes payable by the Trust are considered levies and the Trust is currently assessing the potential impact of this standard on its combined financial statements.

Financial Instruments IFRS 9

IFRS 9 Financial Instruments ("IFRS 9") will eventually replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39") in its entirety. IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The most significant change is, in cases where the fair value option is taken for financial liabilities, that the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement. The effective date for implementation of this standard has not been determined. The Trust has not yet determined the impact of IFRS 9 on its audited combined financial statements.

RISKS AND UNCERTAINTIES

Investing in our stapled units involves a high degree of risk. There are a number of risk factors that could have a material adverse effect on our business, financial condition, operating results and prospects. These risks and uncertainties are discussed in our AIF filed with securities regulators in Canada and available online at www.sedar.com and Annual Report on Form 40-F filed with the SEC and available online at www.sec.gov, each in respect of the year ended December 31, 2013.

SELECTED ANNUAL AND QUARTERLY DATA

Refer to note 1 of the audited combined financial statements for a description of the accounting policies used in the determination of the financial data.

(in thousands, except for per unit/share information) Years ended December 31,	2013	2012[1]	2011[2]
Rental revenue and tenant recoveries	**$ 203,247**	$ 181,115	$ 180,937
Net income:			
Continuing operations	**$ 145,266**	$ 149,827	$ 57,942
Discontinued operations	**—**	—	94,449
	$ 145,266	$ 149,827	$ 152,391
Income from continuing operations attributable to stapled unitholders or common shareholders	**$ 145,031**	$ 149,756	$ 57,942
Add (deduct):			
Fair value losses (gains) on investment properties	**25,224**	(33,343)	—
Fair value losses (gains) on financial instruments	**(72)**	359	—
Gain on Meadows holdback	**(5,143)**	—	—
Acquisition transaction costs	**14,246**	—	—
Loss (gain) on sale of investment properties/real estate properties	**1,122**	21	(91)
Deferred income taxes	**(42,018)**	(6,923)	—
Non-controlling interests relating to the above	**(105)**	(15)	—
Depreciation and amortization	**—**	—	42,701
FFO	**$ 138,285**	$ 109,855	$ 100,552
Comparable FFO	**$ 142,505**	$ 109,855	$ 100,552
Basic income from continuing operations per unit or share attributable to stapled unitholders or common shareholders	**$ 3.09**	$ 3.20	$ 1.24
Diluted income from continuing operations per unit or share attributable to stapled unitholders or common shareholders	**$ 3.09**	$ 3.20	$ 1.23
Basic net income per unit or share attributable to stapled unitholders or common shareholders	**$ 3.09**	$ 3.20	$ 3.25
Diluted net income per unit or share attributable to stapled unitholders or common shareholders	**$ 3.09**	$ 3.20	$ 3.24
Diluted FFO per stapled unit or share	**$ 2.95**	$ 2.34	$ 2.14
Diluted comparable FFO per stapled unit or share	**$ 3.04**	$ 2.34	$ 2.14
Cash distributions or dividends declared	**$ 2.11**	$ 1.99	$ 0.80
Basic shares outstanding	**46,925**	46,855	46,888
Diluted shares outstanding	**46,949**	46,876	46,970
Total Assets	**$ 2,468,633**	$ 2,007,090	$ 1,245,414
Total Debt	**$ 568,109**	$ 263,589	$ 263,236

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

(2) The amounts for 2011 are reported under U.S. GAAP. As a result of the differing reporting principles used, the data between fiscal years may not be comparable.

Quarter ended	Mar 31, 2013	Jun 30, 2013	Sep 30, 2013	Dec 31, 2013	Total 2013
Rental revenue and tenant recoveries	$ 48,124	$ 49,476	$ 50,969	$ 54,678	$ 203,247
Net income (loss)[1]	$ 94,394	$ 43,394	$ 9,869	$ (2,391)	$ 145,266
Net income (loss) attributable to stapled unitholders or common shareholders	$ 94,291	$ 43,548	$ 9,791	$ (2,599)	$ 145,031
Add (deduct):					
Fair value losses (gains) on investment properties	(18,734)	(10,927)	25,065	29,820	25,224
Fair value losses (gains) on financial instruments	(495)	643	(4)	(216)	(72)
Gain on Meadows holdback	(5,143)	—	—	—	(5,143)
Acquisition transaction costs	411	382	5,702	7,751	14,246
Loss on sale of investment properties/real estate properties	—	328	—	794	1,122
Deferred income taxes	(36,378)	(2,456)	(3,997)	813	(42,018)
Non-controlling interests relating to the above	54	(260)	(6)	107	(105)
FFO	$ 34,006	$ 31,258	$ 36,551	$ 36,470	$ 138,285
Comparable FFO[2]	$ 34,006	$ 35,478	$ 36,551	$ 36,470	$ 142,505
Basic and diluted net income (loss) per unit or share attributable to stapled unitholders or common shareholders[1]	$ 2.01	$ 0.93	$ 0.21	$ (0.06)	$ 3.09
Diluted FFO per stapled unit or share	$ 0.73	$ 0.67	$ 0.78	$ 0.78	$ 2.95
Diluted comparable FFO per stapled unit or share[2]	$ 0.73	$ 0.76	$ 0.78	$ 0.78	$ 3.04
Cash distributions or dividends declared	$ 0.52	$ 0.53	$ 0.53	$ 0.53	$ 2.11
Basic shares outstanding	46,882	46,932	46,942	46,942	46,925
Diluted shares outstanding	46,910	46,948	46,948	46,957	46,949

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

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

Quarter ended	Mar 31, 2012[1]	Jun 30, 2012[1]	Sep 30, 2012[1]	Dec 31, 2012[1]	Total 2012[1]
Rental revenue and tenant recoveries	$ 45,660	$ 45,455	$ 44,685	$ 45,315	$ 181,115
Net income[2]	$ 28,259	$ 41,243	$ 65,837	$ 14,488	$ 149,827
Net income attributable to stapled unitholders or common shareholders	$ 28,262	$ 41,204	$ 65,824	$ 14,466	$ 149,756
Add (deduct):					
Fair value losses (gains) on investment properties	(1,556)	(22,909)	(50,443)	41,565	(33,343)
Fair value losses (gains) on financial instruments	161	(162)	(225)	585	359
Loss on sale of investment properties/real estate properties	—	—	21	—	21
Deferred income taxes	2,704	10,954	13,964	(34,545)	(6,923)
Non-controlling interests relating to the above	(27)	24	(12)	—	(15)
FFO	$ 29,544	$ 29,111	$ 29,129	$ 22,071	$ 109,855
Comparable FFO	$ 29,544	$ 29,111	$ 29,129	$ 22,071	$ 109,855
Basic and diluted net income per unit or share attributable to stapled unitholders or common shareholders[2]	$ 0.60	$ 0.88	$ 1.41	$ 0.31	$ 3.20
Diluted FFO per stapled unit or share	$ 0.63	$ 0.62	$ 0.62	$ 0.47	$ 2.34
Diluted comparable FFO per stapled unit or share	$ 0.63	$ 0.62	$ 0.62	$ 0.47	$ 2.34
Cash distributions or dividends declared	$ 0.49	$ 0.50	$ 0.50	$ 0.50	$ 1.99
Basic shares outstanding	46,884	46,880	46,824	46,833	46,855
Diluted shares outstanding	46,906	46,896	46,846	46,866	46,876

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

(2) The 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 assessment 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 and related corporate reorganizations, (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 REIT conversion and related corporate reorganizations and (iv) $0.3 million ($0.2 million net of income taxes) in the first quarter relating to employee termination costs.

FORWARD-LOOKING STATEMENTS

This MD&A may contain statements that, to the extent they are not recitations of historical fact, constitute "forward-looking statements" or "forward-looking information" within the meaning of applicable securities legislation, including the United States Securities Act of 1933, as amended and the United States Securities Exchange Act of 1934, as amended, and applicable Canadian securities legislation. Forward-looking statements and forward-looking information may include, among others, statements regarding the Trust's future plans, goals, strategies, intentions, beliefs, estimates, costs, objectives, capital structure, cost of capital, tenant base, tax consequences, economic performance or expectations, or the assumptions underlying any of the foregoing. Words such as "may", "would", "could", "will", "likely", "expect", "anticipate", "believe", "intend", "plan", "forecast", "project", "estimate", "seek" and similar expressions are used to identify forward-looking statements and forward-looking information. Forward-looking statements and forward-looking information should not be read as guarantees of future events, performance or results and will not necessarily be accurate indications of whether or the times at or by which such future performance

will be achieved. Undue reliance should not be placed on such statements. There can be no assurance that the intended developments in Granite's relationships with its tenants, the expansion and diversification of Granite's real estate portfolio and the expected increases in leverage can be achieved in a timely manner, with the expected impact or at all. Forward-looking statements and forward-looking information are based on information available at the time and/or management's good faith assumptions and analyses made in light of 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 Trust's control, that could cause actual events or results to differ materially from such forward-looking statements and forward-looking information. Important factors that could cause such differences include, but are not limited to, the risk of changes to tax or other laws that may adversely affect Granite Real Estate Investment Trust's mutual fund trust status under the *Income Tax Act* (Canada) or the effective tax rate in other jurisdictions in which Granite operates; economic, market and competitive conditions and other risks that may adversely affect Granite's ability to achieve desired developments in its relationships with its tenants, expand and diversify its real estate portfolio and increase its leverage and the risks set forth in the "Risk Factors" section in Granite's Annual Information Form for 2013, filed on SEDAR at www.sedar.com and attached as Exhibit 1 to the Trust's Annual Report on Form 40-F for the year ended December 31, 2013 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 and forward-looking information. Forward-looking statements and forward-looking information speak only as of the date the statements were made and unless otherwise required by applicable securities laws, the Trust expressly disclaims any intention and undertakes no obligation to update or revise any forward-looking statements and forward-looking information 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 reports dated March 5, 2014 relating to the combined financial statements of Granite Real Estate Investment Trust and Granite REIT Inc. (collectively, the "Trust") and the effectiveness of the Trust's internal control over financial reporting appearing in this Annual Report on Form 40-F for the year ended December 31, 2013.

Toronto, Canada
March 5, 2014

/s/ DELOITTE LLP

Deloitte LLP
Chartered Professional Accountants, 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, 2013 (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, 2014

By: /s/ THOMAS HESLIP

Name: Thomas Heslip
Title: Trustee and Chief Executive Officer

EXHIBIT 99.1

Certification Pursuant to 18 U.S.C. 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002
Granite REIT Inc.

In connection with the annual report of Granite REIT Inc. (the "Company") on Form 40-F for the fiscal year ended December 31, 2013 (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, 2014

By: /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, 2014

By: /s/ THOMAS HESLIP

Name: Thomas Heslip
Title: Trustee and Chief Executive Officer

EXHIBIT 99.2

Certifications
Granite REIT Inc.

I, Thomas Heslip, certify that:

1. I have reviewed this annual report on Form 40-F of Granite REIT Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 5, 2014

By: /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, 2013 (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, 2014

By: /s/ MICHAEL FORSAYETH

Name: Michael Forsayeth
Title: Chief Financial Officer

EXHIBIT 99.3

Certification Pursuant to 18 U.S.C. 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002
Granite REIT Inc.

In connection with the annual report of Granite REIT Inc. (the "Company") on Form 40-F for the fiscal year ended December 31, 2013 (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, 2014

By: /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, 2014

By: /s/ MICHAEL FORSAYETH

Name: Michael Forsayeth
Title: Chief Financial Officer

EXHIBIT 99.4

Certifications
Granite REIT Inc.

I, Michael Forsayeth, certify that:

1. I have reviewed this annual report on Form 40-F of Granite REIT Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 5, 2014

By: /s/ MICHAEL FORSAYETH

Name: Michael Forsayeth
Title: Chief Financial Officer

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EXHIBIT 99.4

Certifications Granite Real Estate Investment Trust

EXHIBIT 99.4

Certifications Granite REIT Inc.