open

Annual Report 2010

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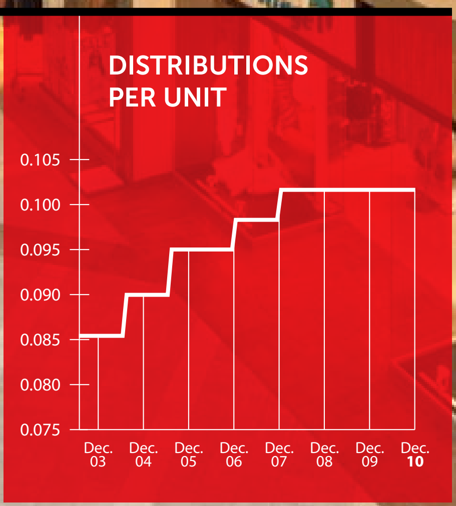
FINANCIAL HIGHLIGHTS

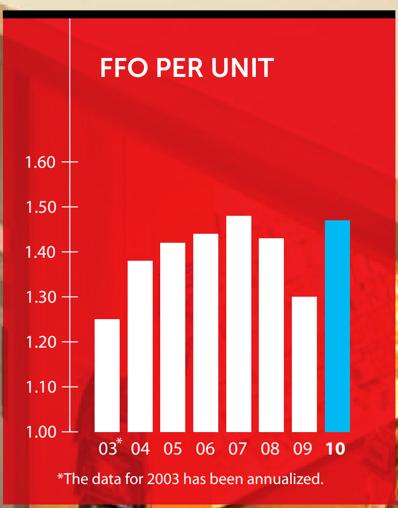
INCOME STATEMENT (000s except per unit amounts)
Years ended December 31, 2010 and 2009

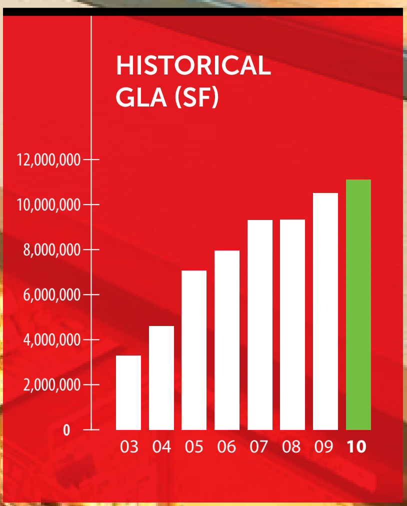
	2010	2009
Revenue	**322,987**	274,398
Expenses	**257,527**	267,732
Net income	**$ 65,460**	$ 6,666
FFO per unit diluted	**1.465**	1.297
Basic and diluted net income per unit	**0.99**	$ 0.107

In 2010, Primaris returned 29% to investors through capital appreciation and monthly distributions. Primaris offers the economic benefits of real estate ownership with the investment benefits of the public markets.

inviting







LETTER FROM THE CEO

We are focused on our long-term strategy of owning and managing Canadian regional enclosed shopping centres that are dominant in their primary trade areas.

John Morrison
President and Chief Executive Officer

January 1, 2010 marked the beginning of a new era for Primaris as we launched our internally managed organization with over 450 dedicated employees focused on delivering results. Primaris performed well in 2010 despite continued economic uncertainty. By remaining focused on our strategy of owning and managing enclosed shopping centres that are dominant in their primary trade areas across Canada, we have delivered on the value proposition that our investors expect – providing stable and attractive returns. Our disciplined approach to acquisition, redevelopment and management has brought about positive results.

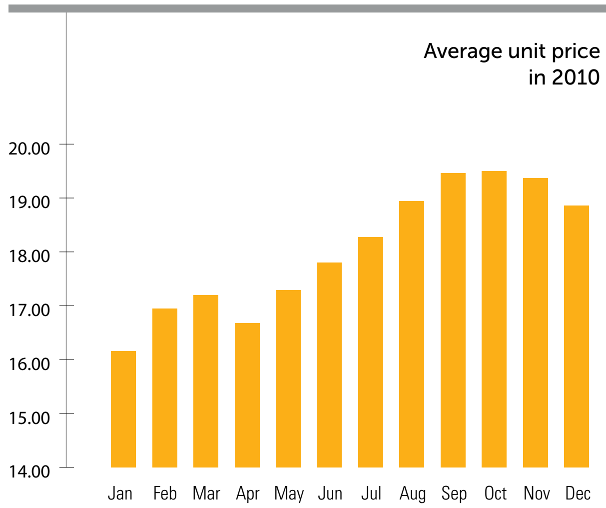
In 2010, Funds from Operations (FFO) per unit (diluted) increased by 13% over the previous year. This $0.17 per unit increase is accounted for primarily by a decrease in the general and administrative expenses associated with the transition to the internalized management platform as well as positive same store net operating income across the portfolio.

Our FFO payout ratio was 83.2% for the year ended 2010 compared to 94.0% for the year ended 2009. Net operating income (NOI) for 2010 was $184 million, an increase of $31.3 million or 20% over the previous year. This increase in NOI reflects the increase in our scale of operations and adds to our stability. Our liquidity position is solid and we are well positioned for continued growth.

Tenant retail sales began to trend positively in parts of the country in 2010. We know by the demand for space in our shopping centres as well as by rent increases that the retail sector has confidence in the markets in which we invest and as importantly in the enclosed shopping centre format. Primaris generated an average 6.8% increase in renewal rents (excluding anchors and majors) and occupancy across the portfolio was 97.1% as of December 31, 2010. The strength of these fundamentals place us in a strong position for the coming year.

We are satisfied with Primaris' price performance in 2010. Our unit price closed at $19.54 and the increase in unit price over the year together with monthly distributions of just over $0.10/unit provided a total return to unitholders of 29% for the twelve months ended December 31, 2010. We take pride in these results. In June we completed a fully subscribed public offering for $97.9 million in Primaris units and some of the proceeds were used to fund the acquisition of Cataraqui Town Centre located in Kingston, Ontario. Over half of Primaris units are held by money managers such as pension funds and mutual funds which we feel is an expression of confidence in our performance.

Primaris completed necessary restructuring to qualify under the new Specified Investment Flow Through (SIFT) rules for income trusts beginning January 1, 2011. As well, work continues on adopting International Financial Reporting Standards (IFRS) following the implementation of IFRS in January 2011. Primaris completed its portfolio valuation as at January 1, 2010. Valuing the portfolio underpins the most substantive change to Primaris' financial statements beginning in the Q1 2011 reporting period. The appraisals indicate an unaudited value of Investment Properties of $2,542 million , which represents a $731 million increment over the reported December 31, 2009 values. The appraisal increment of Investment Properties represents a 155% increase in the previously disclosed book value of unitholders' equity and a 39% increase in total assets.



growing

We will always take a long term view of our business and 2011 has already begun with promise. We have plans to redevelop some of our properties, to continue remerchandising, bring exciting new retailers to our shopping centres and change the way that we communicate with customers through the use of social media. In taking these and other innovative steps, we are fulfilling our vision of being the leading enclosed shopping centre REIT in Canada.

John Morrison
President and Chief Executive Officer


Midtown Plaza
Saskatoon, SK


Cataraqui Town Centre
Kingston, ON


SportChek
Walmart
Supercentre
Loblaws
Hbc
Bath & Body Works
H&M
THE CHILDREN'S
PLACE

selection

RETAIL PORTFOLIO

Surveyed customers report that 63% of their shopping trips are made to a Primaris shopping centre in their community. 94% of surveyed customers are satisfied or very satisfied with their experience.

Top to bottom:
Dufferin Mall, Toronto, ON
Cornwall Centre, Regina, SK
Stone Road Mall, Guelph, ON

Primaris completed the acquisition of Cataraqui Town Centre mid-year and our operations, IT, finance, legal and human resources teams ensured a smooth transition to our management platform. This shopping centre is strategically positioned in Kingston, Ontario, halfway between Toronto and Ottawa and enjoys a very wide and growing primary and secondary trade area. Growth is essential to our vision for Primaris and we continue to explore the major and secondary markets across Canada to look for the right investment opportunities.

The recent announcement that the U.S. chain Target is converting some Zellers stores to its banner represents a significant change in the Canadian retail landscape. Primaris is actively in discussion with Target regarding their Canadian expansion plans, in addition to ongoing dialogue with other domestic and international retailers. Remerchandising on a regular basis is at the core of our operations strategy and essential when fashion comprises over half of our retailers' product offerings.

Throughout 2010, our development team criss-crossed the country to evaluate the redevelopment potential for each of our 29 shopping centres. Strategic reinvestment in our properties is a core initiative in driving growth. Redevelopment creates increased demand for space by retailers which in turn generates stronger retail sales and upward pressure on rents.

Annually we reach out through an independent poll to the consumers in our markets seeking their opinions about what our retailers are offering and what we can do to enhance their shopping experience. In 2010, over 94% of customers who responded to the survey indicated that they are satisfied or very satisfied with our centres. This is important information for us and for our retail partners. These same customers told us that 63% of their shopping trips were to our centres.

Customer engagement is our focus at the properties and increasingly, social networking is an important part of this relationship. In support of our tenants and customers, we are implementing mobile "apps", rolling out free WiFi access and installing a digital presence that will feature advertising, news, weather and sports in some locations, all of which are designed to engage customers and generate revenue opportunities.

Dedicated specialty leasing resources at each property, supported by our national team, promote the properties as a way for retailers to market their products through advertising, sponsorship and partnership by rental of common area space. In 2010, incremental revenue achieved from specialty leasing sources accounted for $1.5 million.

During 2010, Primaris introduced gift cards across the portfolio as a more efficient marketing tool than the previous gift certificates. Property marketing is essential to driving retail sales and gift cards are important to attracting existing and new customers to the shopping centres.

Primaris gives me the opportunity to broaden my knowledge of both the real estate and financial accounting sides of the business. This experience is important for my career development. – Carmen Cheng, Property Accountant

Primaris' mission is to work as a dedicated team to increase the value of Primaris, exceed stakeholders expectations and be an organization where individuals want to work.

Managing shopping centres is very much a people business. Our relationships with national, regional and local retailers and the customers who shop in our centres are essential to our success. We are focused on engaging our workforce across the country to meet and exceed expectations. Ours is a high performance culture. It is particularly satisfying to see our property management teams taking accountability for their properties as if they were their own. This decentralized management model is very empowering for our shopping centre managers and inspires pride in their properties; it also brings about improved performance. Our governance model balances delegated authority with a level of oversight which fosters accountability and is highly motivational.

Our employees help build and strengthen the communities we serve by treating the shopping centre as the "main street". At Place d'Orleans in Ottawa, Marketing Manager Caroline Joanisse organized an event in support of the Children's Aid Society of Ottawa, a charitable organization important to that community. In response to an appeal, over 620 people came to the shopping centre and sang "Lean On Me", setting a Guinness World Record for having the highest number of people singing in a live radio broadcast. The event raised tremendous public awareness for the Children's Aid Society, created an unprecedented sense of community togetherness and generated wonderful publicity for the shopping centre. Our management teams organize fashion shows, host children's choirs and raise funds for local charities with their Christmas gift-wrapping programs and other events which occur throughout the calendar year. Being both a focal point and meeting place for a community is just one of many advantages of an enclosed shopping centre; there are all the amenities in a comfortable, secure, climate controlled environment.

Developing leadership capacity at Primaris was a key initiative in 2010. We welcomed Anne Morash to head our new development team in anticipation of our 2011 property redevelopment plans. Ms. Morash has an extensive career in the shopping centre industry and has been involved in property development, acquisitions, dispositions, project management and leasing.

Senior management worked together on the strategic plan, setting long term goals for Primaris and defining the strategy that will deliver on these goals. Monitoring our key performance indicators has kept the team focused on priorities and the results were evident in our financial reports.

John Morrison, President and Chief Executive Officer, met with all employees in local meetings held across the country over the summer and fall to explain the objectives under Primaris' strategic plan and to relate these objectives to each employee's role in the organization. We believe that everyone at Primaris contributes to our success. To meet and exceed expectations, individuals must understand the goals and the impact of their respective contributions.

Although there can be challenges in managing a workforce across a country as broad as Canada, the people who work at Primaris share a unique culture that values "getting the job done". Employee engagement is so important to Primaris that an engagement strategy is being planned in 2011. The findings from an all staff opinion survey will form the basis for this strategy.



strategic

"Primaris' work culture is one of our most important assets. It is a big part of the attraction of working here and it's what motivates employees to do their best."

Darren Milne, General Manager, Northland Village

Great brands want to be located where their customers live and work. Providing these locations to retailers is a source of sustainable value creation for Primaris. We acquire and manage dominant enclosed shopping centres in primary trade areas across Canada. That's why we attract great brands.

shopping



Enclosed centres as of December 31, 2010

PROPERTY	TENANT/RETAILER (>50,000 SF)	APPROX. GLA	OCCUPANCY %[1]	TENANTS SALES[2]
Aberdeen Mall Kamloops, BC	Sears, the Bay	461,000	98.9%	$384
Cataraqui Town Centre Kingston, ON	Sears, Zellers, the Bay	595,000	99.9%	$456
Cornwall Centre Regina, SK	Sears, the Bay, Startek[3]	567,000	98.8%	$523
Dufferin Mall Toronto, ON	Walmart, No Frills	567,000	97.8%	$511
Eglinton Square Toronto, ON	the Bay, Metro*	283,000	95.4%	$348
Grant Park Winnipeg, MB	Zellers, Safeway	391,000	99.8%	$431
Heritage Place Shopping Centre Owen Sound, ON	Sears, Zellers	315,000	97.9%	$319
Lambton Mall Sarnia, ON	Sears, Canadian Tire	618,000	83.6%	$351
Midtown Plaza Shopping Centre Saskatoon, SK	Sears, the Bay	734,000	98.3%	$561
Northland Village Mall Calgary, AB	Walmart	503,000	99.7%	$441
Orchard Park Shopping Centre Kelowna, BC	the Bay, Sears	684,000	100.0%	$473
Park Place Shopping Centre Lethbridge, AB	Sears	470,000	96.5%	$478
Place d'Orleans Orleans, ON	Zellers, the Bay, SportChek, Federal Government	742,000	97.5%	$435
Place du Royaume Saguenay, QC	Walmart, Canadian Tire*	592,000	98.8%	$393
Place Fleur de Lys Québec City, QC	Zellers, the Bay, Maxi, Sears*	672,000	95.5%	$305
Stone Road Mall Guelph, ON	Sears	513,000	99.3%	$503
Sunridge Mall Calgary, AB	the Bay, Zellers	809,000	99.9%	$468
Woodgrove Centre Nanaimo, BC	the Bay, Walmart	723,000[4]	99.8%	$479
TOTAL FOR ENCLOSED PROPERTIES				**$445**[5]

Other properties less than 200,000 SF as of December 31, 2010

PROPERTY	TENANT/RETAILER (>50,000 SF)	APPROX. GLA	OCCUPANCY %
Alliston Mills New Tecumseth, ON	Zellers, Canadian Tire*, Zehrs*	191,000	94.8%
Edinburgh Market Place Guelph, ON	Metro	113,000	100.0%
Forest Glen Kitchener, ON	N/A	127,000	67.2%
Garden City Winnipeg, MB	Home Depot*	160,000	92.2%
Northland Professional Centre Calgary, AB	N/A	50,000	86.2%
Northland Village Shoppes Calgary, AB	N/A	7,000	100.0%
South Cambridge Centre Cambridge, ON	Zehrs	190,000	99.4%
Sugarloaf Mall Atholville, NB	Zellers, Canadian Tire*	195,000	93.9%
Tillsonburg Gateway Centre Tillsonburg, ON	N/A	47,000	92.3%
Toronto properties Toronto, ON	N/A	74,000	99.5%[6]
Westbank Shopping Centre West Kelowna, BC	Zellers*	74,000	98.7%
TOTAL FOR ENCLOSED CENTRES & OTHER PROPERTIES		11,467,000	97.1%[7]

* Shadow Anchor

(1) Occupied and committed space as of December 31, 2010

(2) CRU All store sales per square foot ("psf"). For all reporting CRU tenants in enclosed centres for the year ended December 31, 2010.

(3) Startek – Vacant but paying rent

(4) Woodgrove Centre GLA at 100%: Note that Primaris owns 50% of Woodgrove Centre.

(5) Tenant Sales Total reflects a weighted average for enclosed centres only.

(6) Weighted average for multiple properties.

(7) Occupancy total reflects a weighted average for other properties only.

Each of our Trustees has a deep commitment to ensuring that the effect of the Board's stewardship will be a strength to Primaris in the years to come.

Roland A. Cardy
Chair

It gives me great pleasure to report that John Morrison, President and Chief Executive Officer and his team have successfully completed the first year of managing Primaris internally. The transition was exceptionally smooth despite the complexities of bringing over 400 people onto the payroll, implementing a new financial reporting system, establishing policies and focusing on the culture of the new management team. Primaris is already experiencing the anticipated benefits of this new management platform.

Greater management accountability and transparency is one of the principal benefits of the move to an internalized management model. We have had the opportunity to enhance our executive compensation programs and related disclosure. This includes the design of programs for salaries, bonuses, benefits, pensions, termination provisions and other employment contract terms for our Chief Executive Officer, Chief Financial Officer and other executive officers. We can now ensure stronger linkages between performance and compensation. The Compensation Committee of the Board put performance metrics in place for the CEO which are entirely related to Primaris' performance, something that was difficult to accomplish under our previous outsourced management structure. These days investors want to know that executive compensation has a relationship to financial results and investor returns which is fair and appropriate. We believe in the value of Unitholder engagement and we are committed to meeting investors' expectations.

In 2010, Mr. Morrison put in place a five year strategic plan that clearly outlined for the Board, Primaris' short and long term strategic objectives and mapped out the plan to attain them. An important decision arising from this process was for Primaris to remain focused primarily on the enclosed shopping centre business in Canada, putting to rest distractions about other sectors and markets. We are satisfied that there are many untapped opportunities for Primaris to acquire regional enclosed shopping centres that are dominant in their primary trade centres across this country and we will be pursuing growth in this sector .

In September, the Board of Trustees and senior management toured Primaris' shopping centres in Calgary, Kelowna and Kamloops. Understanding our properties is best done in person and our Board members visit Primaris properties from time to time to meet with local management and to get to know the centres and their markets. Connie Nesbitt, General Manager for Sunridge Mall in Calgary impressed the Board with her knowledge of the competitive retail environment in the greater Calgary area. At Orchard Park, in Kelowna we toured one of our most successful shopping centres and heard from General Manager Norbert Gelowitz on the exciting plans already underway for 2011. Donna Markin, General Manager of Aberdeen Mall provided a tour of her property with obvious pride. It was apparent to us that Primaris has great bench strength at the property level.

In 2011, the Board will continue to concentrate on governance matters as well as Trustee education and development to meet the evolving needs of a growing organization.

Lastly, I wish to express my confidence in my fellow Trustees. My colleagues on the Board demonstrated tremendous commitment to the task of steering Primaris through our transitional phase. Its success is very much related to their vision and steadfastness.

BOARD OF TRUSTEES

Roland A. Cardy *Independent, Chair of the Board* [1,4]

Mr. Cardy is Managing Partner and a director of Gorbay Company Limited, a private real estate investment company. Prior to this role, Mr. Cardy was a Senior Managing Director at Raymond James Ltd. He also held a number of positions at The Toronto-Dominion Bank including Vice-Chair, Investment Banking and served on the Executive Committee and the Board of Directors of TD Securities Inc.

Kerry D. Adams *Independent, Chair of the Governance and Nominating Committee* [1,2,4]

Ms. Adams is President of K. Adams & Associates Limited providing wealth management services for trusts and private corporations. Prior roles include Commissioner and Director of the Ontario Securities Commission, President of Widcor Limited and Widcor Financial, project leader on the Bank of Nova Scotia's acquisition of McLeod, Young, Weir and Partner with KPMG Peat Marwick.

William J. Biggar *Independent, Chair of the Audit Committee* [1,2,3]

Mr. Biggar is President and Chief Executive Officer of North American Palladium Ltd. Prior roles include Managing Director of Richardson Capital Limited, President and Chief Executive Officer of MI Developments Inc., Executive Vice President of Magna International Inc. and Executive Vice President and Chief Financial Officer of Cambridge Shopping Centres Limited.

Ian Collier *Independent, Chair of the Distributions Committee* [2,3]

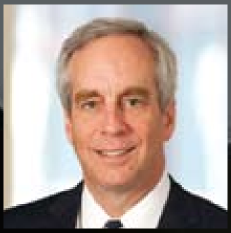
Mr. Collier is Chief Executive Officer and Partner of Perseis Partners Inc., a manager of private equity investments for institutional investors. Formerly, Mr. Collier was President and CEO of Borealis Private Equity and President and CEO of OMERS Capital Partners and CEO of Borealis Capital Corporation.

Kenneth A. Field *Independent, Chair of the Compensation Committee* [1,2,4]

Mr. Field is a retired investment banker. Prior to retirement, Mr. Field was Senior Vice President, Head of Real Estate Investment Banking with Midland Walwyn Inc. / Merrill Lynch Canada Inc. He is a former member of the Board of Governors of the Toronto Stock Exchange and a former Chair of the Board of Governors of the Toronto Futures Exchange.

Brent Hollister *Independent* [3,4]

Mr. Hollister is the former Chief Executive Officer of Sears Canada Inc., one of Canada's leading retailers. Prior to his role as Chief Executive Officer, Mr. Hollister held a number of executive roles at Sears including President & Chief Operating Officer, Executive Vice President / President of Sales & Service, Vice President of Catalogue & Internet and Executive General Manager of Distribution and Planning.



John Morrison *Non-Independent* [3]

Mr. Morrison is President and Chief Executive Officer of Primaris Retail REIT. Prior to his appointment as CEO of Primaris, Mr. Morrison was President, Real Estate Management at Oxford Properties Group, where he was responsible for the performance of Oxford's $10 billion domestic portfolio of office, industrial, multi-family residential and shopping centre properties. Mr. Morrison was also responsible for the operations of Primaris' shopping centres under management by Oxford.

1. Member of Audit Committee
2. Member of Governance and Nominating Committee
3. Member of Distributions Committee
4. Member of Compensation Committee


THE CANADIAN BANK OF COMMERCE
Bentley
Metalsmiths
RED HAUTE
claire

leadership

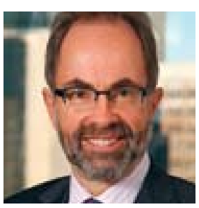
Our leadership is our strength. Collectively, our management team holds significant depth and breadth of experience in real estate operations, leasing, development, investments, finance, leadership and corporate governance.

John Morrison
President and Chief Executive Officer

Mr. Morrison is President and Chief Executive Officer of Primaris Retail REIT. Prior to his appointment as CEO of Primaris, Mr. Morrison was President, Real Estate Management at Oxford Properties Group, where he was responsible for the performance of Oxford's $10 billion domestic portfolio of office, industrial, multi-family residential and shopping centre properties.

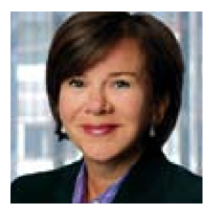
Devon Jones
Vice President, Legal & Secretary

Ms. Jones is Vice President, Legal and Secretary of Primaris. Ms. Jones is responsible for overseeing all of Primaris' legal activities. Prior to her current role, Ms. Jones oversaw general legal services for retail and other asset classes at Oxford Properties Group, which included legal services provided to the Primaris portfolio.



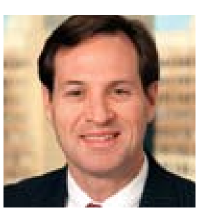
Louis M. Forbes
Executive Vice President & Chief Financial Officer

Louis Forbes is Executive Vice President & Chief Financial Officer with Primaris Retail REIT. Mr. Forbes was a founding officer of Primaris and formerly worked as an equity analyst with Merrill Lynch, where he specialized in real estate equity securities.



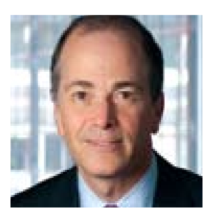
Anne Morash
Vice President, Development

As Vice President, Development, Ms. Morash is responsible for leading all of Primaris' development initiatives and activities. Previously, Ms. Morash was with Cadillac Fairview where she was responsible for a number of marquis projects and with Ivanhoe Cambridge where she held development and leasing positions.



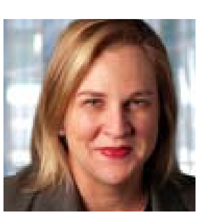
Tom Falls
Vice President, Real Estate Management

Mr. Falls is Vice President of Real Estate Management with responsibility for operations and leasing of Primaris' properties in Ontario, Quebec and New Brunswick. Prior to his current role, Mr. Falls was Vice President of Real Estate Management Oxford Properties where he was responsible for the retail group which included management of the Primaris portfolio of assets.



Ron Perlmutter
Vice President, Investments

Ron Perlmutter is Vice President responsible for Primaris investments. Prior to joining Primaris, Mr. Perlmutter was with Oxford Properties Group and Borealis Capital Corporation where his responsibilities included Primaris' investments activities.



Lesley Gibson
Vice President, Finance

Lesley Gibson is Vice President, Finance for Primaris Retail REIT and has been with Primaris since prior to its IPO. She oversees corporate finance, accounting and public reporting responsibilities for Primaris. Before joining Primaris, Ms. Gibson worked at Borealis Capital Corporation as Director, Client Reporting and at KPMG LLP as a Senior Manager in the Real Estate Group.

Patrick Sullivan
Vice President, Real Estate Management

Patrick Sullivan has overall responsibility for operations and leasing of Primaris' portfolio of properties in western Canada. Prior to joining Primaris, Mr. Sullivan served as director of leasing with Oxford Properties Group where he was responsible for its portfolio of shopping centres in western Canada.

sustainable

Primaris

Recycling: Scrap metal from a Primaris tenant demolition in Lethbridge, Alberta was made into a unique and creatively designed seating area at Park Place Shopping Centre.

At one property alone, 266 tons of metal, plastic and cardboard were diverted from landfill in 2010 – almost 3/4 of a ton per day. Initiatives such as this are taking place at our properties across the country.

At Primaris we understand the need for socially responsible behavior from a corporate perspective. Millions of customers walk through our shopping centres annually and they have come to expect reduced impacts on the environment and that businesses give back to the community. Investors, banks and insurers are also asking for information on Primaris' environmental policies on what they see as potential risks for businesses.

When Primaris founded its in-house "Green Team" during 2010 CEO John Morrison invited representatives from across the properties to exercise their passion for the environment by becoming a member of this national committee.

Through the efforts of the Green Team, mandatory and consistent construction guidelines are being established for base building and common areas. These guidelines mean that a simple thing, like using a reusable hoarding system, will help achieve less landfill and reduce tipping fees. Property managers now follow an environmental purchasing policy which provides direction on the use of eco-friendly cleaning materials among other matters.

In daily operations, water conservation is key to our environmental sustainability efforts. Dual flush toilets, waterless urinals, rainwater harvesting and faucets with flow controls have significantly reduced water consumption in many properties.

Recycling and waste reduction efforts include the recycling of used cooking oils from food court tenants for conversion into biodiesel fuel. Heritage Place in Owen Sound, Ontario is one of many of our shopping centres that has executed a number of environmental initiatives including a lamp recycling program started in 2008, whereby tenants are offered full service pick-up and disposal of all light bulbs. The operations team also offers storefront pick-up of scrap metal for delivery to a local metal recycler and all polystyrene foam products and packaging are taken to a local depot for transport to a recycling facility. A food court recycling program has also been created, where plastic cutlery and expanded polystyrene foam products such as disposable coffee cups, coolers, or cushioning material in packaging are recycled along with paper, cans, plastic bottles and glass. The City of Owen Sound established a mandatory recycling by-law for the industrial, commercial and institutional sectors after being inspired by the inventiveness of this project.

$12,000 raised by Primaris employees for a United Way agency

Energy conservation is also a focus. A goal at Stone Road Mall in Guelph, Ontario is to become less dependent on the hydro grid. The mall has installed a solar thermal hot water system for use in the food court to preheat water so that less energy is required.

We are proud of these and other initiatives and we are committed to environmental stewardship in all our locations.

In 2011 we will examine the task of setting targets for waste reduction and recycling, our next step in accountability. One of our properties, Park Place in Lethbridge, has had a mandatory tenant construction waste management system in place since 2008, targeting 80% diversion of construction waste through recycling, salvaging and re-use. In addition, 266 tons of non-construction waste items such as metal, plastic and cardboard was diverted from landfill in 2010. That's almost 3/4 ton per day. We continually heighten employee and tenant awareness about our commitments and expectations and we are heartened by the response.

Our corporate office employees at Primaris created a Dare to Care Committee and our teams at our Calgary and Montreal offices together with our shopping centres across the country formed their own groups in response to workforce demand for opportunities to give back to the community. Primaris employees participated in fundraising activities for donations for Haiti, the Daily Bread Food Bank, Heart and Stroke Foundation, Children's Aid Society and Prostate Cancer Canada. Everyone felt positive about the funds that were raised and enormous awareness was generated among our staff.

CORPORATE AND UNITHOLDER INFORMATION

OFFICERS

John Morrison
President and
Chief Executive Officer

Louis M. Forbes
Executive Vice President and
Chief Financial Officer

Leslie Buist
Vice President, Finance

Tom Falls
Vice President, Real Estate
Management, East

Lesley Gibson
Vice President, Finance

Oliver Hobday
Assistant Secretary

Devon Jones
Vice President, Legal
and Secretary

Anne Morash
Vice President, Development

Ron Perlmutter
Vice President, Investments

Patrick Sullivan
Vice President, Real Estate
Management, West

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Chartered Accountants

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STOCK EXCHANGE LISTING

Toronto Stock Exchange
(TMX) symbols
PMZ.UN
PMZ.DB
PMZ.DB.A
PMZ.DB.B

ANNUAL GENERAL MEETING

May 17, 2011 at 10:00 am EST
The Design Exchange
234 Bay Street, Toronto, ON

Financial Review 2010

Primaris

Retail Real Estate Investment Trust

Financial Review | Table of Contents

Primaris

Retail Real Estate Investment Trust

Management's discussion and analysis of financial condition and results of operations

(in thousands of dollars, except per unit and square foot amounts)
For the year ended December 31, 2010

Primaris Retail Real Estate Investment Trust ("Primaris") has prepared the following discussion and analysis of financial condition and results of operations ("MD&A"), which should be read in conjunction with the audited financial statements and the accompanying notes prepared for the years ended December 31, 2010 and 2009.

The MD&A is dated March 9, 2010. Disclosure contained in this document is current to that date, unless otherwise noted.

Primaris owns, manages, leases and develops retail properties, primarily in Canada. These properties are typically mid-market retail centres in major cities or major retail centres in secondary cities. The portfolio's focus to date has been predominantly enclosed shopping centres. Primaris also acquires complementary real estate in its target markets.

FORWARD-LOOKING INFORMATION

The MD&A contains forward-looking information based on management's best estimates and the current operating environment. These forward-looking statements are related to, but not limited to, Primaris' operations, anticipated financial performance, business prospects and strategies. Forward-looking information typically contains statements with words such as "anticipate," "believe," "expect," "plan" or similar words suggesting future outcomes. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from future results expressed, projected or implied by such forward-looking statements.

In particular, certain statements in this document discuss Primaris' anticipated outlook of future events. These statements include, but are not limited to:

(i) the accretive acquisition of properties and the anticipated extent of the accretion of any acquisitions, which could be impacted by demand for properties and the effect that demand has on acquisition capitalization rates and changes in the cost of capital;

(ii) reinvesting to make improvements and maintenance to existing properties, which could be impacted by the availability of labour and capital resource allocation decisions;

(iii) generating improved rental income and occupancy levels, which could be impacted by changes in demand for Primaris' properties, tenant bankruptcies, the effects of general economic conditions and supply of competitive locations in proximity to Primaris locations;

(iv) overall indebtedness levels, which could be impacted by the level of acquisition activity Primaris is able to achieve and future financing opportunities;

(v) tax exempt status, which can be impacted by regulatory changes enacted by governmental authorities;

(vi) anticipated distributions and payout ratios, which could be impacted by seasonality of capital expenditures, results of operations and capital resource allocation decisions;

(vii) the effect that any contingencies would have on Primaris' financial statements;

(viii) the continued investment in training and resources throughout the International Financial Reporting Standards ("IFRS") transition and the effect the adoption of IFRS may have on Primaris' future financial statements;

(ix) anticipated replacement of expiring tenancies, which could be impacted by the effects of general economic conditions and the supply of competitive locations; and

(x) the development of properties, which could be impacted by real estate market cycles, the availability of labour and general economic conditions.

Although the forward-looking statements contained in this document are based on what management of Primaris believes are reasonable assumptions, forward-looking statements involve significant risks and uncertainties. They should not be read as guarantees of future performance or results and will not necessarily be an accurate indicator of whether or not such results will be achieved. Readers are cautioned not to place undue reliance on forward-looking statements as a number of factors could cause actual future results to differ from targets, expectations or estimates expressed in the forward-looking statements. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking information may include: a less robust retail environment than has been seen for the last several years; relatively stable interest costs; access to equity and debt capital markets to fund, at acceptable costs, the future growth program and to enable Primaris to refinance debts as they mature, and the availability of purchase opportunities for growth.

Except as required by applicable law, Primaris undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

NON-GAAP MEASURES

Funds from operations ("FFO"), net operating income ("NOI") and earnings before interest, taxes, depreciation and amortization ("EBITDA") are widely used supplemental measures of a Canadian real estate investment trust's performance and are not defined under Canadian generally accepted accounting principles ("GAAP"). Management uses these measures when comparing itself to industry data or to others in the marketplace. The MD&A describes FFO, NOI and EBITDA and provides reconciliations to net income as defined under GAAP. FFO, NOI and EBITDA should not be considered alternatives to net income or other measures that have been calculated in accordance with GAAP and may not be comparable to measures presented by other issuers.

BUSINESS OBJECTIVES AND OVERVIEW

Primaris is an unincorporated, open-ended real estate investment trust created in 2003 pursuant to its Declaration of Trust, as amended and restated. Primaris is governed by the laws of Ontario. The units and three series of convertible debentures of Primaris trade on the Toronto Stock Exchange under the symbols PMZ.UN, PMZ.DB, PMZ.DB.A and PMZ.DB.B, respectively.

Primaris' vision is to be the leading enclosed shopping centre REIT in Canada. The objectives of Primaris are:

- to generate stable and growing cash distributions;
- to enhance the value of Primaris' assets and maximize long-term unit value; and
- to expand the asset base of Primaris and increase its funds from operations through an accretive acquisition program.

Primaris' results have been consistent with these objectives. Key performance indicators for Primaris include operational results both at the properties themselves as well as of Primaris in aggregate.

	Unaudited Q4 2010	Unaudited Q3 2010	Unaudited Q2 2010	Unaudited Q1 2010
Unit price at period end	**$ 19.54**	$ 19.52	$ 17.46	$ 16.80
Distributions	**$ 20,821**	$ 21,499	$ 19,124	$ 19,099
Funds from operations[1]	**$ 30,062**	$ 24,158	$ 23,256	$ 22,539
Funds from operations per unit diluted[1]	**0.419**	0.344	0.351	$ 0.350
Income-producing properties net book value	**$1,882,421**	$1,894,587	$1,733,554	$1,746,766
Occupancy (including committed space)	**97.1%**	97.0%	96.6%	96.7%
Tenant sales per square foot – same-property sales[2]	**$ 443**	$ 442	$ 445	$ 446
Debt to Gross Book Value	**53.3%**	53.5%	51.1%	53.5%
Interest Coverage (EBITDA)	**2.5**	2.3	2.2	2.2
Mortgages – weighted average term to maturity	**6.0 Years**	6.2 Years	6.1 Years	6.3 Years
Mortgages – weighted average interest rate	**5.7%**	5.7%	5.7%	5.7%
Indebtedness – % at fixed interest rates	**99.3%**	98.9%	100.0%	99.6%

[1] *The reconciliation of FFO to cash flow from operating activities is contained in the Consolidated Statements of Cash Flows in the financial statements.*

[2] *Tenant sales are reported on a one-month time lag during interim quarters; Q4 is the 12 months to December 31, 2010, Q3 is 12 months to August 2010, Q2 is 12 months to May 2010, and Q1 is 12 months to February 2010.*

Primaris completed its Initial Public Offering ("IPO") on July 17, 2003, and acquired an initial portfolio of six retail properties comprising 2,761,000 square feet of space. Primaris has since acquired a further 23 properties with some 8,300,000 square feet of space at an aggregate cost of $1,683 million and undertaken capital improvements representing a further $109 million investment. In order to finance this growth in assets, Primaris has raised capital through several equity offerings, the issuance of exchangeable units, convertible unsecured debenture offerings and the use of secured mortgages.

Primaris' business currently depends materially on two types of contracts:

1. lease agreements, which generate the revenues and put substantially all of the risk of variable operating expenses with the tenants; and
2. loan agreements, which determine both interest expense, using fixed or variable rates, and loan principal repayments.

The portfolio occupancy rate remained stable during the fourth quarter. It was 97.1% at December 31, 2010, slightly ahead of the 97.0% at September 30, 2010, and slightly down from 97.2% at December 31, 2009.

For the 15 reporting properties owned throughout both the years ended December 31, 2010 and 2009, sales per square foot, on a same-tenant basis, have decreased to $443 from $447 per square foot. For the same 15 properties the total tenant sales volume has decreased 0.6%.

	Same Tenant Sales per Square Foot		Variance		All Tenant Total Sales Volume		Variance	
	2010	2009	$	%	**2010**	2009	$	%
Dufferin Mall	**533**	524	9	1.7%	**90,459**	85,768	4,691	5.5%
Eglinton Square	**325**	311	14	4.4%	**27,637**	27,898	(261)	−0.9%
Heritage Place	**295**	299	(4)	−1.5%	**25,609**	25,752	(143)	−0.6%
Lambton Mall	**357**	356	1	0.2%	**47,929**	48,404	(475)	−1.0%
Place d'Orleans	**450**	447	3	0.6%	**108,552**	107,864	688	0.6%
Place Du Royaume	**401**	391	10	2.6%	**113,152**	107,301	5,851	5.5%
Place Fleur De Lys	**318**	322	(4)	−1.1%	**71,940**	74,260	(2,320)	−3.1%
Stone Road Mall	**506**	516	(10)	−1.9%	**112,198**	113,654	(1,456)	−1.3%
Aberdeen Mall	**364**	375	(11)	−2.9%	**47,836**	48,136	(300)	−0.6%
Cornwall Centre	**539**	531	8	1.4%	**80,961**	78,048	2,913	3.7%
Grant Park	**437**	452	(15)	−3.4%	**26,548**	27,951	(1,403)	−5.0%
Midtown Plaza	**550**	564	(14)	−2.5%	**131,747**	135,316	(3,569)	−2.6%
Northland Village	**449**	461	(12)	−2.6%	**44,465**	46,478	(2,013)	−4.3%
Orchard Park	**457**	469	(12)	−2.6%	**130,025**	139,733	(9,708)	−6.9%
Park Place Mall	**505**	519	(14)	−2.7%	**76,712**	76,081	631	0.8%
	443	447	(4)	−0.8%	**1,135,770**	1,142,644	(6,874)	−0.6%

The same tenants' sales decreased 0.8% per square foot, while the national average tenant sales as reported by the International Council of Shopping Centers ("ICSC") for the 12 month period ended December 31, 2010, increased 3.9%. Primaris' sales productivity of $443 is lower than the ICSC average of $563, largely because the ICSC includes sales from super regional malls that have the highest sales per square foot in the country.

COMPARISON OF THE THREE MONTHS ENDED DECEMBER 31, 2010, TO THE THREE MONTHS ENDED DECEMBER 31, 2009

Primaris' financial results, for the three months ended December 31, 2010 compared to the three month period ended December 31, 2009, are summarized below.

	Unaudited Three Months Ended December 31, 2010	Unaudited Three Months Ended December 31, 2009	Comparative Period Favourable/ (Unfavourable)
Revenue			
Minimum rent	**$ 53,266**	$ 43,838	$ 9,428
Recoveries from tenants	**30,977**	25,650	5,327
Percent rent	**918**	1,038	(120)
Parking	**1,920**	1,873	47
Interest & other income	**445**	157	288
	87,526	72,556	14,970
Expenses			
Property operating	**22,241**	18,846	(3,395)
Property tax	**14,698**	12,603	(2,095)
Depreciation & amortization	**20,514**	15,337	(5,177)
Interest	**20,252**	16,529	(3,723)
Ground rent	**312**	312	–
	78,017	63,627	(14,390)
Income from operations	**9,509**	8,929	580
General & administrative	**(192)**	(4,892)	4,700
Future income taxes	**45,100**	2,400	42,700
Gain on sale of land	**–**	–	–
Net income	**$ 54,417**	$ 6,437	$ 47,980
Depreciation of income-producing properties	**17,342**	13,301	4,041
Amortization of leasing costs	**2,889**	1,712	1,177
Accretion of convertible debentures	**514**	555	(41)
Future income taxes	**(45,100)**	(2,400)	(42,700)
Funds from operations	**$ 30,062**	$ 19,605	$ 10,457
Funds from operations per unit – basic	**$ 0.437**	$ 0.314	$ 0.123
Funds from operations per unit – diluted	**$ 0.419**	$ 0.310	$ 0.109
Funds from operations – payout ratio	**72.7%**	98.2%	−25.5%
Distributions per unit	**$ 0.305**	$ 0.305	$ –
Weighted average units outstanding – basic	**68,720,843**	62,507,282	6,213,561
Weighted average units outstanding – diluted	**78,316,679**	72,042,469	6,274,210
Units outstanding, end of period	**68,794,679**	62,534,594	6,260,085

Primaris acquired Cataraqui Town Centre in Kingston, Ontario in August 2010 (the "2010 Acquisition"). Primaris also acquired Sunridge Mall in Calgary, Alberta and a 50% interest in Woodgrove Centre, in Nanaimo, British Columbia in December 2009 as well as a property in Toronto, Ontario, in April 2009 (collectively the "2009 Acquisitions"). The total purchase price for the 2010 Acquisition, including acquisition costs, was $169,322, and for the 2009 Acquisitions was $366,935.

Revenue

Revenue for Primaris is comprised primarily of minimum rent and operating expense and tax recoveries collected from tenants and percentage rent generated through tenant sales, as well as interest, parking revenue, specialty leasing and lease-surrender revenue.

Current three month revenue of $87,526 is $14,970 greater than the comparative three month period. The 2009 and 2010 Acquisitions ("Total Acquisitions") contributed $14,158 to this positive variance and same properties were also up $747. Same properties showed revenue increases for minimum rent and recoveries. Percentage rent revenue in same properties declined year over year. The revenue variance over 2009 also includes a small increase of $65 in corporate interest income.

Certain non-cash amounts are included in revenue. Primaris' accounting policy, to record revenue on a straight-line basis over the full term of a lease, results in non-cash revenue. Also, the purchase of income producing properties may result in non-cash revenues to recognize in-place rents that are higher or lower than market rents estimated at the time of purchase. In the three months ended December 31, 2010 non-cash revenues totaled $937 which is $318 higher than the comparative three month period.

Lease-surrender revenue varies from quarter to quarter. In the three months ended December 31, 2010 lease-surrender revenues totaled $81 which is $39 higher than the comparative three month period.

Operating Expenses

Operating expenses of $36,939, before ground rent, are $5,490 greater than in the comparative three month period. The total Acquisitions account for $5,411 of the increase. The remaining properties had an increase of $79.

Included in operating expense is $240 of leasing costs charged internally from general and administrative expenses.

Net Operating Income – All Properties

	Unaudited Three months ended December 31, 2010	Unaudited Three months ended December 31, 2009	Variance to Comparative Period Favourable/ (Unfavourable)
Operating revenue	**$ 87,508**	$ 72,603	$ 14,905
Operating expenses	**37,251**	31,761	(5,490)
Net operating income	**$ 50,257**	$ 40,842	$ 9,415

Operating revenue from properties includes all revenue except corporate interest and other income, and operating expenses include operating expenses from properties, property taxes and ground rent. Net operating income of $50,257 is $9,415 greater than in the comparative three month period. The Total Acquisitions generated an increase of $8,747. The balance is an increase of $668, generated by the remainder of the properties in the portfolio.

Net Operating Income – Same Properties

	Unaudited Three months ended December 31, 2010	Unaudited Three months ended December 31, 2009	Variance to Comparative Period Favourable/ (Unfavourable)
Operating revenue	**$ 71,797**	$ 71,050	$ 747
Operating expenses	**31,305**	31,226	(79)
Net operating income	**$ 40,492**	$ 39,824	$ 668

The same-property comparison consists of the 26 properties that were owned throughout both the current and comparative three month periods. Net operating income, on a same-property basis, was $668 or 1.7% higher than the comparative period.

The $747 increase in same property revenues results from a $576 increase in recoveries, a $368 increase in minimum rent and a net of $10 increase in parking and other revenues. Percentage rents declined $207 from the comparative period, partially offsetting the increases mentioned.

On a same-property basis, operating expenses were $79 higher than in the comparative period as a result of a $208 increase in recoverable expenses, a $155 increase in property taxes, and a $284 decrease in non-recoverable expenses. The increase in recoverable expenses is comprised of small increases in multiple accounts.

Interest Expense

	Unaudited Three Months Ended December 31, 2010	Unaudited Three Months Ended December 31, 2009	Variance to Comparative Period Favourable/ (Unfavourable)
Mortgages payable	**$ 16,077**	$ 12,544	$ (3,533)
Amortization of net loss on cash flow hedges	**58**	60	2
Convertible debentures	**3,268**	3,316	48
Bank indebtedness	**230**	170	(60)
Amortization of financing costs	**619**	439	(180)
Capitalized interest	**–**	–	–
	$ 20,252	$ 16,529	$ (3,723)

Interest expense of $20,252 is $3,723 higher than the comparative three month period. Mortgage interest increased $3,871 due to the mortgages secured by the Total Acquisitions. Mortgage interest from the existing properties declined $338.

Depreciation and Amortization

Depreciation and amortization increased by $5,177. The Total Acquisitions contributed an increase of $4,941. The remaining properties had an increase of $236. This increase was the net of a large charge to accelerate amortization of tenant allowances at one property and decreases related to in-place leasing costs which came to the end of their amortization period in 2009, resulting in either lower amortization or no amortization being recorded in the quarter for 2010 compared to 2009 at several properties.

Ground Rent

Ground rent expense amounted to $312, which is the same as in the comparative period.

General and Administrative Expenses

General and administrative expenses decreased by $4,700, primarily due to the change during the fourth quarter to accruals made in prior quarters and the reduction of transition expenses over the prior year. Prior to January 1, 2010 Primaris retained Oxford Properties Group to provide property and asset management, leasing and development services.

	Unaudited Three Months Ended December 31, 2010	Unaudited Three Months Ended December 31, 2009
Corporate expenses	**$ (186)**	$ 1,357
Asset management fee	**–**	$ 1,077
Transition costs	**378**	$ 2,458
General & administrative	**$ 192**	$ 4,892 [1]
Property management charges	**2,622**	2,499 [2]
Leasing charges	**240**	– [2]
Development fees	**–**	14 [3]
Leasing fees	**132**	247 [4]
Total Costs	**$ 3,186**	$ 7,652

[1] *Reported on Income Statement*
[2] *Reported on Income Statement as part of Operating Expenses*
[3] *Capitalized to Income Producing Properties (2010 will have charges here only with reference to the 50% interest in Woodgrove Centre)*
[4] *Capitalized to Leasing Costs*

Future Tax Expense

During the current period all previously recorded non-cash future tax expenses were reversed. As of December 31, 2010, Primaris completed the necessary restructuring to meet the prescribed REIT Conditions under the SIFT Rules relating to the nature of its income and investments on January 1, 2011. As a result, management believes Primaris is no longer subject to the new taxation regime under the SIFT Rules. The reversal has no impact on Primaris' cash flows or distributions.

COMPARISON OF THE YEAR ENDED DECEMBER 31, 2010, TO THE YEAR ENDED DECEMBER 31, 2009

Primaris' financial results, for the year ended December 31, 2010, compared to the year ended December 31, 2009, are summarized below.

	Twelve Months Ended December 31, 2010	Twelve Months Ended December 31, 2009	Comparative Period Favourable/ (Unfavourable)
Revenue			
Minimum rent	**$ 198,057**	$ 166,284	$ 31,773
Recoveries from tenants	**114,607**	97,083	17,524
Percent rent	**2,658**	2,966	(308)
Parking	**6,308**	6,267	41
Interest & other income	**1,357**	1,798	(441)
	322,987	274,398	48,589
Expenses			
Property operating	**80,727**	68,647	(12,080)
Property tax	**56,469**	50,046	(6,423)
Depreciation & amortization	**76,260**	71,795	(4,465)
Interest	**77,898**	60,244	(17,654)
Ground rent	**1,247**	1,241	(6)
	292,601	251,973	(40,628)
Income from Operations	**30,386**	22,425	7,961
General & administrative	**(7,100)**	(13,559)	6,459
Future income taxes	**42,100**	(2,200)	44,300
Gain on sale of land	**74**	–	74
Net Income	**$ 65,460**	$ 6,666	$ 58,794
Depreciation of income producing properties	**66,820**	64,259	2,561
Amortization of leasing costs	**8,007**	6,898	1,109
Accretion of convertible debentures	**1,902**	1,376	526
Future income taxes	**(42,100)**	2,200	(44,300)
Gain on sale of land	**(74)**	–	(74)
Funds from operations	**$ 100,015**	$ 81,399	$ 18,616
Funds from operations per unit – basic	**$ 1.513**	$ 1.304	$ 0.209
Funds from operations per unit – diluted	**$ 1.465**	$ 1.297	$ 0.168
Funds from operations – payout ratio	**83.2%**	94.0%	−10.8%
Distributions per unit	**$ 1.219**	$ 1.219	$ –
Weighted average units outstanding – basic	**66,099,273**	62,411,033	3,688,240
Weighted average units outstanding – diluted	**75,862,618**	68,389,818	7,472,800
Units outstanding, end of period	**68,794,679**	62,534,594	6,260,085

Primaris acquired Cataraqui Town Centre in Kingston, Ontario in August 2010 (the "2010 Acquisition"). Primaris also acquired Sunridge Mall in Calgary, Alberta and a 50% interest in Woodgrove Centre, in Nanaimo, British Columbia in December 2009 as well as a property in Toronto, Ontario, in April 2009 (collectively the "2009 Acquisitions"). The total purchase price for the 2010 Acquisition, including acquisition costs, was $169,322, and for the 2009 Acquisitions was $366,935.

Revenue

Revenue for Primaris is comprised primarily of minimum rent and operating expense and tax recoveries collected from tenants and percentage rent generated through tenant sales, as well as interest, parking revenue, specialty leasing and lease-surrender revenue.

Current year revenue of $322,987 is $48,589 higher than the comparative year. The Total Acquisitions contributed $46,143 to this positive variance and same properties contributed $3,685. Partially offsetting these positive operating revenue results was a $1,239 reduction in corporate interest earned as Primaris had lower cash balances during 2010. In addition, the prior year included a $727 gain on the redemption of convertible debentures under Primaris' normal course issuer bid where no such gains were recorded to corporate revenues in 2010.

Certain non-cash amounts are included in revenue. Primaris' accounting policy, to record revenue on a straight-line basis over the full term of a lease, results in non-cash revenue. Also, the purchase of income producing properties may result in non-cash revenues to recognize in-place rents that are higher or lower than market rents estimated at the time of purchase. In the year ended December 31, 2010 non-cash revenues totaled $4,387 which is $1,246 higher than the comparative year.

Lease-surrender revenue varies over the course of the year. In the year ended December 31, 2010, lease-surrender revenues totaled $315 which is $145 higher than the comparative year.

Operating Expenses

Operating expenses of $137,196, before ground rent, are $18,503 higher than in the comparative year. The total Acquisitions account for $17,267 of the increase. The remaining properties had an increase of $1,236.

Included in operating expense is $1,126 of leasing costs charged internally from general and administrative expenses.

Net Operating Income – All Properties

	Twelve Months Ended December 31, 2010	Twelve Months Ended December 31, 2009	Variance to Comparative Period Favourable/ (Unfavourable)
Operating revenue	**$ 322,927**	$ 273,099	$ 49,828
Operating expenses	**138,443**	119,934	(18,509)
Net operating income	**$ 184,484**	$ 153,165	$ 31,319

Operating revenue from properties includes all revenue except corporate interest and other income, and operating expenses include operating expenses from properties, property taxes and ground rent. Net operating income of $184,484 is $31,319 greater than in the comparative year. The Total Acquisitions generated an increase of $28,876. The balance, an increase of $2,443, was generated by the remainder of the properties in the portfolio.

Net Operating Income – Same Properties

	Twelve Months Ended December 31, 2010	Twelve Months Ended December 31, 2009	Variance to Comparative Period Favourable/ (Unfavourable)
Operating revenue	**$ 274,964**	$ 271,279	$ 3,685
Operating expenses	**120,522**	119,280	(1,242)
Net operating income	**$ 154,442**	$ 151,999	$ 2,443

The same-property comparison consists of the 26 properties that were owned throughout both the current and comparative years. Net operating income, on a same-property basis, was $2,443 or 1.6% higher than the comparative period.

The $3,685 increase in same property revenues is the result of a $2,243 increase in minimum rent, a $1,952 increase in recoveries, and a net $56 increase in parking and other revenues. A $566 decrease in percentage rent partially offsets the increases.

On a same-property basis, operating expenses were $1,242 higher than in the comparative period as a result of a $804 increase in recoverable expenses, a $701 increase in property taxes, a $6 increase in ground rent expense, all partially offset by a $269 decrease in non-recoverable expenses.

Interest Expense

	Twelve Months Ended December 31, 2010	Twelve Months Ended December 31, 2009	Variance to Comparative Period Favourable/ (Unfavourable)
Mortgages payable	**$ 61,353**	$ 49,122	$ (12,231)
Amortization of net loss on cash flow hedges	**236**	243	7
Convertible debentures	**13,061**	8,661	(4,400)
Bank indebtedness	**897**	553	(344)
Amortization of financing costs	**2,351**	1,665	(686)
Capitalized interest	**–**	–	–
	$ 77,898	$ 60,244	$ (17,654)

Interest expense of $77,898 is $17,654 greater than the comparative year. Convertible debenture interest expense increased $4,400 due to the issuance of a third series of convertible debentures in October 2009 and mortgage interest increased $13,549 due to the mortgages secured by the Total Acquisitions. Mortgage interest from the existing properties declined $1,318.

Depreciation and Amortization

Depreciation and amortization increased by $4,465. The Total Acquisitions added $15,195; whereas a decline of $10,730 was recorded for the remainder of the properties. The decreases are primarily related to in-place leasing costs, some of which came to the end of their amortization period, resulting in either a partial period of amortization or no amortization being recorded in the year of 2010 compared to 2009.

Ground Rent

Ground rent expense amounted to $1,247, which is $6 more than in the comparative period.

General and Administrative Expenses

General and administrative expenses decreased by $6,459, primarily due to the reduction of transition expenses partially offset by consulting costs and new trustee compensation costs. Prior to January 1, 2010 Primaris retained Oxford Properties Group to provide property and asset management, leasing and development services. The internalization of management resulted in a similar total cost for the year ended December 31, 2010 when compared to the previous management model (with the exception of the transition costs). However, many of the costs moved from a lump sum fee to direct corporate expenses and some amounts are expensed in the current platform that were previously capitalized.

	Twelve Months Ended December 31, 2010	Twelve Months Ended December 31, 2009
Corporate expenses	**$ 6,850**	$ 3,580
Asset management fee	**–**	4,014
Transition costs	**250**	5,965
General & administrative	**$ 7,100**	$ 13,559 [1]
Property management charges	**9,698**	9,371 [2]
Leasing charges	**1,126**	– [2]
Development fees	**–**	213 [3]
Leasing fees	**519**	978 [4]
Total costs	**18,443**	24,121
Less one time transition costs	**(250)**	(5,965)
Total on-going costs	**18,193**	18,156

[1] *Reported on Income Statement*
[2] *Reported on Income Statement as part of Operating Expenses*
[3] *Capitalized to Income-Producing Properties (2010 will have charges here only with reference to the 50% interest in Woodgrove Centre)*
[4] *Capitalized to Leasing Costs*

Future Tax Expense

As of December 31, 2010 Primaris completed the necessary restructuring to meet the prescribed REIT Conditions under the SIFT Rules relating to the nature of its income and investments on January 1, 2011. As a result, management believes Primaris is no longer subject to the new taxation regime under the SIFT Rules. Therefore, all previously recorded non-cash future tax expenses were reversed. The reversal had no impact on Primaris' cash flows or distributions.

NON-GAAP FINANCIAL MEASURES

Funds from Operations

Primaris calculates its FFO in accordance with the Real Property Association of Canada ("REALpac") White Paper on Funds from Operations issued in 2004. The purpose of the White Paper was to provide reporting issuers and investors with greater guidance on the definition of FFO and to help promote more consistent disclosure from reporting issuers.

	Unaudited Three Months Ended December 31, 2010	Unaudited Three Months Ended December 31, 2009	**Twelve Months Ended December 31, 2010**	Twelve Months Ended December 31, 2009
Net Income	**$ 54,417**	$ 6,437	**$ 65,460**	$ 6,666
Depreciation of Income Producing Properties	**17,342**	13,301	**66,820**	64,259
Amortization of leasing costs	**2,889**	1,712	**8,007**	6,898
Accretion of convertible debentures	**514**	555	**1,902**	1,376
Gain on sale of land	**–**	–	**(74)**	–
Future income taxes	**(45,100)**	(2,400)	**(42,100)**	2,200
Funds from operations	**$ 30,062**	$ 19,605	**$ 100,015**	$ 81,399
Funds from operations per unit – basic	**$ 0.437**	$ 0.314	**$ 1.513**	$ 1.304
Funds from operations per unit – diluted	**$ 0.419**	$ 0.310	**$ 1.465**	$ 1.297
Funds from operations – payout ratio	**72.7%**	98.2%	**83.2%**	94.0%
Distributions per unit	**$ 0.305**	$ 0.305	**$ 1.219**	$ 1.219
Weighted average units outstanding – basic	**68,720,843**	62,507,282	**66,099,273**	62,411,033
Weighted average units outstanding – diluted	**78,316,679**	72,042,469	**75,862,618**	68,389,818
Units outstanding, end of period	**68,794,679**	62,534,594	**68,794,679**	62,534,594

An advantage of the FFO measure is improved comparability between Canadian and foreign Real Estate Investment Trusts ("REITs"). A disadvantage is that FFO is not a perfect measure of cash flow. FFO adds back, to net income, depreciation and amortization of assets purchased, amortization of leasing costs and accretion of convertible debentures. It includes non-cash revenues related to accounting for straight-line rent and it makes no deduction for the recurring capital expenditures necessary to maintain the existing earnings stream. The research analyst community adjusts FFO for certain items in an attempt to develop another measure of economic profitability and to allow for the differences between REITs in relation to their capital expenditure programs. Our disclosure of capital expenditures may assist readers in making such adjustments.

FFO for the three month period ended December 31, 2010, increased $10,457. The FFO increase is due to $4,877 contributed by the Acquisitions, $1,267 contributed from same properties and $4,313 contributed by reduced corporate charges. The change in corporate charges includes the $4,700 decline in general and administrative expenses previously discussed. This favourable decline is offset by other small negative variances like corporate interest income and depreciation.

FFO per unit for the fourth quarter of 2010 had a favourable variance of $0.109 per unit on a diluted basis compared to the prior period.

The diluted weighted average number of units outstanding increased from the comparative quarter because of four factors: the issuance of new trust units, the issuance of convertible debentures, the issuance of units pursuant to Primaris' Distribution Reinvestment Program ("DRIP"), and the dilutive impact of the equity incentive plan.

The reconciliation of FFO to cash flow from operating activities is contained in the Consolidated Statements of Cash Flows in the financial statements. The reconciliation of net income to EBITDA, a non-GAAP measure, is on page 12.

QUARTERLY TRENDS

Selected Quarterly Information

	2010				2009			
Unaudited	**Q4**	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Revenue	**$ 87,526**	**$ 80,640**	**$ 76,425**	**$ 78,396**	$ 72,556	$ 66,071	$ 66,753	$ 69,018
Seasonal revenue	**5,316**	**3,313**	**3,158**	**2,983**	4,700	2,551	2,499	2,551
Net operating income	**50,257**	**45,941**	**44,451**	**43,835**	40,842	37,138	37,693	37,492
Net income (Loss)	**54,417**	**3,325**	**4,798**	**2,920**	6,437	(986)	691	524
Total assets	**1,967,834**	**1,987,899**	**1,883,162**	**1,828,736**	1,856,017	1,543,168	1,568,718	1,580,720
Indebtedness	**1,350,702**	**1,364,981**	**1,251,997**	**1,278,517**	1,282,470	977,595	982,526	986,636
Debt to Gross Book Value	**53.3%**	**53.5%**	**51.1%**	**53.5%**	53.4%	49.4%	49.4%	49.3%
Diluted net income (loss) per unit	**$ 0.792**	**$ 0.049**	**$ 0.074**	**$ 0.047**	$ 0.103	$ (0.016)	$ 0.009	$ 0.008
Diluted funds from operations	**$ 0.419**	**$ 0.344**	**$ 0.351**	**$ 0.350**	$ 0.310	$ 0.304	$ 0.337	$ 0.347
Distributions per unit	**$ 0.305**	**$ 0.305**	**$ 0.305**	**$ 0.305**	$ 0.305	$ 0.305	$ 0.305	$ 0.305
Units outstanding, end of period	**68,794,679**	**68,565,353**	**68,430,386**	**62,651,506**	62,534,594	62,477,749	62,413,012	62,348,408

Note: As at February 28, 2011, there were 69,032,670 units outstanding.

Primaris' quarterly results for the last eight quarters have been primarily affected by six factors: four property acquisitions, issuances of convertible debentures and new trust units, seasonality of revenues, the timing of incurrence of operating expenses and the recovery of these operating expenses from tenants. In addition, redevelopment activities have had an impact on revenue, net operating income and net income.

The Total Acquisitions have resulted in increased revenues and net operating income. However, on a per unit basis these increases are substantially offset by interest expense for an issuance of convertible debentures, for new mortgages payable, and by the issuance of equity.

Primaris experiences seasonality in earnings, with stronger results in the fourth quarter of each year due to increased temporary seasonal leasing and stronger percentage rent revenues, as a significant number of tenants have calendar lease years. As a result of these factors, revenues, net income and funds from operations in the fourth quarter should be stronger than in other quarters.

LIQUIDITY AND CAPITAL RESOURCES

Primaris expects to be able to meet all of its current obligations. Management expects to finance future growth through the use of (i) cash, (ii) conventional mortgage debt secured by income-producing properties, (iii) secured short-term financing through its $65,000 revolving credit facility, (iv) cash flow from operations, and (v) the issuance of equity and convertible debentures.

Management continues to take steps to maintain a strong balance sheet position. There is a cash balance of $6,500 at December 31, 2010. During the second quarter of 2010, Primaris amended the terms of its line of credit. The term of the line was extended two years to July, 2012. The amount of the facility was reduced from $120.0 million to $65.0 million in response to increased costs of unutilized credit.

There is one mortgage of $37,039 maturing in March of 2011. Primaris has entered into a commitment to refinance this property for $110,000. The proceeds of the new mortgage will be used to repay the existing loan and for general trust purposes. The new loan matures in April 2021 and will have a fixed interest rate of 5.01%.

At December 31, 2010, Primaris' cash position has increased, when compared to September 30, 2010, due to the timing of expenses and in particular property taxes. As at December 31, 2010 the balance drawn on the revolving credit facility was $10,000. There was $15,000 drawn as at September 30, 2010.

Interest Coverage expressed as EBITDA divided by net interest expense was 2.5 times for the current quarter. Primaris defines EBITDA as net income increased by interest expense, depreciation, amortization and income tax expense. EBITDA is a non-GAAP measure and may not be comparable to similar measures used by other entities.

	Unaudited Three Months Ended December 31, 2010	Unaudited Three Months Ended December 31, 2009	Twelve Months Ended December 31, 2010	Twelve Months Ended December 31, 2009
Net income	**$ 54,417**	$ 6,437	**$ 65,460**	$ 6,666
Interest	**20,252**	16,529	**77,898**	60,244
Depreciation	**17,625**	13,625	**68,253**	64,897
Amortization	**2,889**	1,712	**8,007**	6,898
Future income taxes	**(45,100)**	(2,400)	**(42,100)**	2,200
EBITDA	**$ 50,083**	$ 35,903	**$ 177,518**	$ 140,905
EBITDA/Interest	**2.5**	2.2	**2.3**	2.3

The Debt to Gross Book Value Ratio was 53.3% as at December 31, 2010, which is significantly below the 60.0% maximum as mandated by Primaris' Declaration of Trust. For the purposes of calculating the numerator in the Debt to Gross Book Value Ratio, the convertible debentures are excluded from debt in accordance with Primaris' Declaration of Trust. If the convertible debentures were included, the Debt to Gross Book Value Ratio would be 60.8%.

During the year ended December 31, 2010, $1,903 of face value of the 6.75% series of convertible debentures and $4,322 of face value of the 6.30% series of convertible debentures were converted into equity. During the same period, there have been no conversions of the 5.85% series of convertible debentures. The remaining outstanding balance at face value, as at December 31, 2010, of the 6.75% series is $3,848, of the 5.85% series is $93,476 and of the 6.30% series is $81,928.

During the current quarter, Primaris made $6,238 of scheduled principal payments on its mortgages ($22,748 during the current year).

Primaris paid $20,821 in distributions to Unitholders during the fourth quarter of 2010. Primaris instituted a Dividend Reinvestment Plan (DRIP) in October 2003. Currently, Unitholders representing approximately 4.2% of units outstanding have elected to participate in the DRIP. This represents approximately $3,434 per annum of additional capital to treasury, based on current distribution rates and units outstanding.

CAPITAL EXPENDITURES

In accordance with its objectives, Primaris distributes a high percentage of its FFO to Unitholders. As such it does not retain a material amount of operating cash flow. Primaris has a number of capital requirements including loan principal payments, acquisitions, developments, recoverable improvements and maintenance capital. Capital requirements for loan principal payments, acquisitions and development are generally sourced by financing for each project. Expenditures for acquisitions, developments and expansions are classified in the statement of cash flows as "investing activities." Over the longer term, with a stabilized receivable pool from tenants, the capital required for recoverable improvements is derived primarily from the ongoing collection of the receivable balance from tenants. Capital expenditures of a maintenance nature are classified as "operating activities" using such captions as "leasing costs" or as "investing activities" in the case of non-recoverable capital expenditures, or "recoverable improvements".

Leasing costs may include leasing commissions, tenant improvement allowances, tenant inducements and expenditures by Primaris to prepare space for occupancy by a tenant. Primaris incurred $8,527 of leasing costs in 2010, which is comprised of $7,008 in tenant improvement allowances, $1,000 in tenant inducements and $519 in leasing commissions. The timing of such expenditures is irregular and depends more on the satisfaction of contractual obligations in a lease rather than on the timing of the leasing process. Leasing costs are amortized on a straight-line basis over the term of the related lease.

Recoverable improvements include expenditures of a capital nature that are generally recoverable from tenants under the terms of their leases. They may include, but are not limited to, items such as parking lot resurfacing and common area roof replacement. These items are recorded as recoverable improvements and depreciated over their useful lives; the revenue from tenants is recorded as recoveries from tenants. Primaris had a net balance of $21,514 recorded as recoverable improvements at the beginning of 2010, $6,248 recorded as additional expenditures during the year and $4,034 recovered from tenants. This resulted in a $23,728 recoverable improvements cost balance as at December 31, 2010, net of amortization.

Maintenance of Productive Capacity

The primary focus in an analysis of capital expenditures should be a differentiation between those costs incurred to maintain the enterprise versus those costs incurred to achieve a long-term improvement in the enterprise's ability to generate incremental cash flow.

Acquisitions and the expansion of existing assets are two areas of capital expenditures that should normally be considered as increasing the productive capacity of the enterprise. Capital expenditures incurred on existing space would usually be costs of maintaining productive capacity. However, there are many examples of capital projects that fundamentally change the nature of existing space so that the productive capacity of the space is permanently changed. In the case of Primaris, the conversion of anchor stores to smaller stores usually represents a permanent increase in the productive capacity of the asset. This is because anchor tenants generally pay lower rents per square foot than the smaller replacement stores. While this conversion of space occurs less frequently than the usual capital maintenance projects, conversions tend to be larger in scale than day-to-day activity.

The analysis of historical capital expenditures (which includes leasing capital) that follows starts by including all non-acquisition capital expenditures and then deducts those determined by management to be increases in productive capacity. The remaining net figure is a measure of maintenance capital.

Primaris endeavours to fund maintenance capital from cash flow from ongoing operations in order to manage Primaris on a sustainable basis. Leasing capital varies with tenant demand and merchandising mix strategies of a property. Primaris actively manages its merchandising mix and activities to achieve a balance of new and renewal leasing. This enables management to increase retail sales and grow rental income. Maintenance capital also captures other productive capacity capital that is not chargeable to tenants, such as that related to mall entrances or mechanical equipment. Primaris' experience with these is that they are incurred in irregular amounts over a longer time period, which means that Primaris needs to find financial resources for their incurrence. A review of a time series of historical data is required to develop a normalized view of these. The following table summarizes the historic maintenance capital of Primaris for the six properties owned throughout the last ten complete years:

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Leasing capital	**$ 2,806**	$ 2,223	$ 2,872	$ 4,664	$ 10,743	$ 3,695	$ 2,253	$ 1,157	$ 5,716	$ 7,920
Other capital	**3,481**	5,782	3,223	9,984	35,043	14,857	8,925	318	2,426	13,632
Less: additions to productive capacity	**(1,167)**	(4,109)	(1,077)	(12,612)	(35,775)	(16,335)	(8,023)	(212)	(3,012)	(17,064)
	$ 5,120	$ 3,896	$ 5,018	$ 2,036	$ 10,011	$ 2,217	$ 3,155	$ 1,263	$ 5,130	$ 4,488

These six properties have a rentable area of approximately 2.85 million square feet. The average maintenance capital cost per square foot over the ten-year period was $1.40. These historical costs may not be indicative of future costs for Primaris' 11.1 million square foot portfolio. However, an extrapolation of these costs generates an amount of $0.20 per diluted unit per annum as maintenance capital.

Leasing capital includes amounts paid as tenant inducements, tenant allowances, and as leasing commissions paid to external leasing agents. Primaris completed the internalization of management at the beginning of 2010. Prior thereto it was managed by an external manager and paid leasing fees to that manager. These fees were capitalized and treated as leasing capital. In the new internal management model, Primaris' leasing team is comprised of its own employees. Costs relating to these employees are expensed as incurred and classified on the income statement as operating expenses (see the table on page 9). Primaris continues to pay some leasing commissions to external brokers and continues to treat them as leasing capital. However, as a result of the change to internal management, leasing commissions decreased to $519 in 2010 as compared to $978 in the prior year, despite a significant increase in portfolio size year over year. Leasing capital costs should continue to be lower under the internal management model than the externally managed model.

An amount for maintenance capital is typically deducted from FFO in order to estimate a sustainable and recurring amount that can be distributed to Unitholders. Primaris currently has adequate financial resources to fund its capital expenditure program without anticipating any disruption to its distributions.

Current Redevelopment Projects

During 2009 Primaris completed phase one of a three phased redevelopment at Lambton Mall in Sarnia, Ontario. Although this first phase created a vacant anchor store location, it provided an opportunity not only to add a food court where none existed previously, but also to backfill the anchor store with a new large tenant.

With an anticipated construction commencement of spring 2011, a second phase will introduce a food court to improve the centre's amenities. This improvement will significantly reinforce the Mall's market presence. The food court is expected to cost approximately $4.75 million and be completed by fall 2011. Discussions continue with regard to a replacement anchor tenant.

A second development project at Orchard Park Shopping Centre in Kelowna, British Columbia started in summer 2010 for completion by November of 2011. This project includes the construction of approximately 25,000 square feet of new retail space and redevelopment of about 10,000 square feet of existing area to bring Best Buy, a dynamic first-to-market tenant, to the centre and allow for the relocation of the undersized mall administration offices. The project is on budget and is forecast to cost $7.7 million and is expected to increase the centre's market share.

Redevelopment projects will be funded through a combination of cash, draws on the operating line and mortgage refinancing.

DISTRIBUTIONS

In determining the amount of distributions to be made to Unitholders, Primaris considers many factors, including provisions in its Declaration of Trust, overall health of the business, its expected need for capital, covenants in debt agreements and taxable income.

At Primaris' Annual and Special meeting in June 2009, the Unitholders approved elimination of the requirement that Primaris distribute all of its taxable income each year. There are financial covenants in loan agreements with Primaris and its subsidiaries that require that various conditions be met before funds can be distributed to Unitholders.

The Distributions Committee of the Board regularly reviews Primaris' rate of distributions. In its deliberations, the committee has considered the following items:

- the expectation of a continuing uncertain economic environment;
- Primaris' Operating Plan;
- availability of cash resources, including a $65,000 line of credit;
- the outlook for loan maturities in 2011;
- conservative leverage measured on both a balance sheet and operating basis; and
- leasing and development capital requirements.

At its most recent meeting on December 9, 2010, the Distributions Committee recommended that the current rate of distributions of $1.22 per unit per annum be maintained.

Corporate Structure and Debt Covenants

Primaris is an unincorporated, open-ended Real Estate Investment Trust ("REIT"). It owns a subsidiary trust, PRR Trust, which in turn owns a number of subsidiary trusts, partnerships and corporations. All of Primaris' operating assets, including real property, are owned by either PRR Trust or its subsidiary entities.

Primaris is a borrower pursuant to many third-party loan agreements. Subsidiary entities are typically the borrower where secured debt is used. PRR Trust is the borrower under Primaris' operating credit agreement. In some instances, including the operating credit agreement, lenders have guarantees and/or loan covenants from an entity other than the borrower under the loan agreement.

No loan agreement directly limits or restricts Primaris' ability to declare and pay distributions to Unitholders, so long as payments are current under the loan. Certain secured loan agreements restrict Primaris' ability to move cash from a borrowing entity to another Primaris entity if the borrower is in default of the loan agreement. However, as a practical point, if Primaris were ever in material default of a loan agreement, it might otherwise become difficult to continue paying distributions at the then current rate.

Primaris' operating credit agreement contains four financial covenants Primaris must maintain, as defined in the agreement:

1. a Debt to Gross Book Value Ratio of not more than 60%;
2. an Interest Coverage Ratio of greater than 1.75;
3. a Debt Service Coverage Ratio of greater than 1.50; and
4. a minimum Unitholders' Equity of $700,000.

Primaris is in compliance with these covenants (refer to note 18 of the Consolidated Financial Statements) and has no defaults under any of its loan agreements.

On January 1, 2011 Primaris will change its basis of accounting from Canadian GAAP to IFRS. The impacts of this change in accounting policy to Primaris' financial results and financial covenants are being quantified. Agreements will be amended where necessary.

Tax

There are income tax implications on our distribution policy. The table below indicates the level of historic taxable income on the "Income" line. It is possible that a gain on a sale of a REIT asset could be individually significant such that selling one asset could generate a sufficient taxable gain to erase the entire tax-deferred component of Primaris' annual distributions.

Primaris' historic trend in the split of distributions between return of capital and other income has been as follows :

	2010	2009	2008	2007	2006	2005	2004	2003
Return of capital	**59.0%**	76.6%	63.6%	80.0%	77.6%	56.4%	65.6%	74.4%
Income	**40.9%**	21.6%	36.0%	20.0%	22.4%	43.6%	34.4%	25.6%
Capital gain	**0.1%**	1.8%	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

This historical trend is not necessarily indicative of future tax treatment.

During the fourth quarter of 2010 Primaris completed the necessary restructuring to continue to qualify for the REIT Exemption commencing January 1, 2011. Accordingly, management believes Primaris will not be subject to the SIFT rules, that lead to taxation of distributions at a rate substantially equivalent to the general tax rate applicable to a Canadian corporation, provided that Primaris qualifies for the REIT Exemption at all times after 2010 (see the "Tax-Related Risks" in the Risks and Uncertainties section for further discussion). Consequently the net future income tax liability of $45,000 recorded as at September 30, 2010, was reversed at December 31, 2010.

Prior to the SIFT Rules, income earned by Primaris and distributed annually to Unitholders was not, and would not be, subject to taxation in Primaris, but was taxed at the Unitholder level. For financial statement reporting purposes, the tax deductibility of Primaris' distributions was treated as an exemption from taxation as Primaris distributed and intended to continue distributing all of its income to Unitholders. Accordingly, prior to the SIFT Rules, Primaris did not provide a provision for income tax assets or liabilities, in respect of Primaris or its investments in its subsidiary trusts.

Future income taxes are recognized where applicable for the temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws that are expected to apply to taxable income in the years in which those temporary differences are expected to be reversed or settled. The effect on future income tax assets or liabilities from a change in tax rate is recognized in income in the period that includes the date of enactment or substantive enactment.

FINANCIAL CONDITION

Cash

Cash and cash equivalents of $6,500 are invested in deposit notes issued by Canadian Schedule I banks.

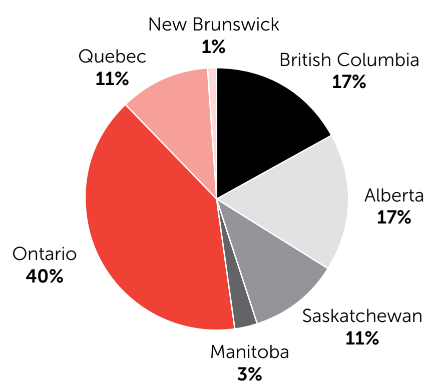
Income-Producing Properties

Income-producing properties represent 95.7% of total assets as at December 31, 2010. The property portfolio comprises 29 retail properties of various sizes and, as such, represents a moderate degree of market diversification. However, as revenues are earned from individual tenants and not properties as a whole, one should consider that these assets include over 950 different tenants, which represents a significant diversification of revenues. In addition, the 29 properties have good geographic diversification.

The future financial performance of income-producing properties is a function of a number of factors. The principal factors include occupancy rates, trends in rental rates achieved on leasing or renewing space currently leased, retail sales performance and the contractual increases in rent that are programmed to occur mid-lease.

Primaris leased 331,150 square feet of space during the fourth quarter of 2010. This represented 99 leases of generally smaller stores and 4 major tenants. Approximately 70.5% of the space leased during the current quarter of 2010 resulted from the renewal of existing tenants (62.2% if the majors are excluded). The weighted average new rent for renewals of existing tenants in the current quarter, on a cash basis, represented a 6.1% increase over the previous rent (9.0% increase if the majors are excluded).

Primaris leased 1,541,200 square feet of space during the year. This represented 409 leases of generally smaller stores and 19 major tenants. Approximately 74.6% of the space leased during the year resulted from the renewal of existing tenants (61.2% if the majors are excluded). The weighted average new rent for renewals of existing tenants in the year, on a cash basis, represented a 3.3% increase over the previous rent (6.8% increase if the majors are excluded).

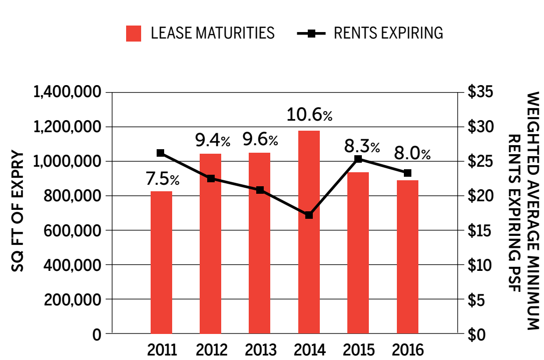


Geographic Diversification

The income-producing properties are located in seven provinces. As at December 31, 2010, the portfolio distribution based on annualized minimum rent is as follows:

Total portfolio lease maturities and weighted average minimum rents PSF expiring

(As at December 31, 2010)



Lease and Rent Expiries

Lease maturities are no greater than 10.6% of the portfolio in any year between 2011 and 2016.

Largest Tenants

The following table illustrates the 10 largest tenants by related group in Primaris' portfolio of income-producing properties as measured by their percentage contribution to total annual minimum rent, as at December 31, 2010.

Tenant Groups	Percentage of Total Annual Minimum Rent	Area (Sq. ft.)	Weighted Average Lease Term to Maturity (years)
HBC	6.9%	2,278,448	7.4
YM	3.0%	217,743	4.0
Sears	2.6%	1,104,169	8.1
Forzani	2.6%	382,902	4.9
Reitmans	2.4%	150,102	4.1
Shoppers Drug Mart	2.3%	167,414	6.6
Loblaws	1.8%	323,613	5.7
Best Buy	1.6%	181,668	3.8
Bell Canada	1.5%	71,097	4.8
Canadian Tire	1.5%	220,194	9.9
Total	**26.2%**		

Note: The tenant groups shown above represent different corporate covenants that fall within a given tenant group.

Target Corporation recently announced an agreement to purchase up to 220 leased Zellers locations from HBC. Target has said it intends to open between 100 and 150 Target stores in some of these acquired locations starting in the year 2013. According to Target's press releases, they intend to complete the acquisition of these leases in two phases, the first phase is expected in May 2011 and the second phase in August 2011. Primaris has eight retail spaces leased to Zellers included in the Tenant Group indentified as HBC in the above table. These eight locations comprise 866,720 square feet of gross leasable area having an average base rent of $5.50 per square foot.

Indebtedness and Other Obligations

Year	Mortgages	Convertible Unsecured Debebtures	Ground Leases	Operating Leases	Total
2011	$ 62,161	$ –	$ 1,248	$ 1,436	$ 64,845
2012	48,153	–	1,375	1,436	50,964
2013	239,029	–	1,400	1,469	241,898
2014	120,490	97,324	1,400	1,440	220,654
2015	118,071	81,928	1,400	1,319	202,718
Thereafter	580,683	–	41,125	5,313	627,121
	$ 1,168,587	$ 179,252	$ 47,948	$ 12,413	$ 1,408,200

Note: Of the total mortgages balance, $119,193 is recourse only to the underlying property.

Primaris had $1,168,587 of mortgages payable, excluding debt premiums of $3,686 and financing fees of $5,047, as at December 31, 2010, bearing a weighted average interest rate of 5.7%. This rate reflects the marking-to-market of interest rates for all debts assumed in conjunction with property acquisitions. The mortgages payable have a weighted average term to maturity of 6.0 years.

The Indebtedness and Other Obligations table above includes ground rent, on a cash basis, pursuant to leases at Park Place Shopping Centre and Orchard Park Shopping Centre. The amounts in the table reflect the assumption that Primaris exercises its renewal options in the respective ground leases. This assumption is consistent with the depreciation estimates for these properties.

It is expected that principal payments, ground rent and operating leases will be funded from operations and from draws on the revolving credit facility.

ACCOUNTING ESTIMATES

The financial statements include accounting estimates and assumptions with respect to the allocation of purchase price on acquisitions, the recovery revenue accruals, fair value of mortgages and debentures payable, the reversal of temporary tax differences and the useful lives used to calculate depreciation and amortization. These estimates and assumptions could affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses and cash flows during the period. These estimates are made by management and discussed with the Audit Committee and Board of Trustees.

FUTURE CHANGES IN ACCOUNTING POLICIES

In February 2008, the Canadian Accounting Standards Board confirmed that International Financial Reporting Standards ("IFRS") will, for Canadian publicly accountable profit-oriented enterprises, replace Canadian GAAP effective for fiscal periods beginning on or after January 1, 2011, with comparative figures presented on the same basis. The Canadian Securities Administrators have provided issuers with the option of early adopting IFRS for Canadian reporting purposes. Senior management did not choose this option and therefore, these new standards will be effective for Primaris on January 1, 2011.

IFRS reporting will commence with the March 31, 2011 interim statements. These statements will include 2010 comparative results restated to IFRS and a reconciliation to the previously reported Canadian GAAP statements. To this end, Primaris continues to execute its plan to convert its Consolidated Financial Statements to IFRS by that date and senior management is a committed part of the conversion team. The IFRS Steering Committee provides periodic updates of the status and effectiveness of the IFRS conversion plan to Primaris' senior executives, Audit Committee and Board of Trustees. To date, the implementation underway is progressing in accordance with the plan such that all the financial reporting requirements will be met and Primaris will be IFRS compliant for the 2011 first quarter reporting deadline.

The plan was designed in three phases. The first phase involved completing a detailed review of the differences between IFRS and Canadian GAAP as they apply to our business. This analysis identified the accounting policy decisions that need to be made in order to report under IFRS. Based on the current state of IFRS, this phase has been completed; however, the International Accounting Standards Board has projects underway which may change IFRS standards. Management will assess the impact of any changes in the standards as part of an ongoing process.

The second phase involves detailed impact analysis for each point of difference between IFRS and Canadian GAAP. The impacts affect various functional areas of Primaris:

- Financial Reporting and Accounting Policies
  - Based on the identified differences between IFRS and Canadian GAAP, new accounting policies were assessed and selected. This process is complete.
  - The effects of the policies selected on the financial results are currently being quantified.
  - Preparation of opening balances, quarterly financial statements and their related note disclosures are being drafted based on the policies selected.
- Business Processes
  - Management designed and implemented a process for determining the fair value of Investment Property.
    - > The valuation of investment properties as at January 1, 2010 is complete and was based on external appraisals prepared on 100% of the investment properties.
    - > Management is in the process of determining the fair value of investment properties as at December 31, 2010 and the 2010 interim quarters. This process will be completed for disclosure in the March 31, 2011 interim statements. The valuations will be a combination of external appraisals and internal cash flow modeling.
  - The impacts of accounting policy changes on contractual agreements and financial covenants are being quantified.
  - Agreements will be amended where necessary.

- Information Systems
  - Accumulation of data required to restate 2010 reports to IFRS is virtually complete. Upon completion, this information will be recorded separately from Primaris' 2010 Canadian GAAP results within the accounting system.
  - Impacts to the financial reporting system and data collection have been determined based on the new accounting policies and business procedures, and changes to the information system have been implemented.
  - IFRS based accounting data relating to 2011 transactions is being recorded in Primaris' information systems.
- Internal Control over Financial Reporting and Disclosure
  - Controls over the transition to IFRS and the restatement of 2010 reporting have been identified, and the documentation and implementation is ongoing.
  - The design and documentation of new processes or changes to existing processes (such as real estate valuation) are virtually complete. Risks and controls associated with the new processes have been assessed.
  - The transition controls and controls associated with the new processes will be tested prior to reporting the March 31, 2011 results.
  - As part of the preparation of opening balances and 2010 restated quarterly reports, management is researching any additional disclosures required under IFRS.
- Training and Communication
  - Members of the Board of Trustees and Audit Committee have received regular updates on the plan's progress and have been educated in order that they could make informed decisions regarding the approval of management's selected IFRS policies. Further updates are planned before the release of the 2011 first quarter results.
  - Formal technical training for accounting staff was completed, and further updates are ongoing.
  - Education and awareness sessions were conducted for related departments within Primaris such as leasing and operations.
  - Primaris will continue to communicate to users of financial reporting by way of MD&A updates.

The final stage includes execution of the required design changes identified in the second phase and evaluation of the results. The changes have been formally approved and adopted and rolled out by Primaris. The successful implementation of the project plan will result in a system that will effectively deliver IFRS compliant financial reporting.

IMPACT OF ADOPTION OF IFRS

IFRS is based on a conceptual framework similar to Canadian GAAP; however, significant differences exist in the recognition, measurement, presentation and disclosure for certain accounting areas. Primaris will present comparative information for 2010 beginning with an opening Statement of Financial Position as at January 1, 2010. Adoption of the new IFRS based accounting policies will have a material impact on this opening balance sheet (Statement of Financial Position).

Management is not yet in a position to quantify all the potential impacts on Primaris' financial statements, but has disclosed below the impacts known at this time. The significant IFRS differences that are expected to have an impact on Primaris' Consolidated Financial Statements include the following:

Investment Property

IFRS defines investment property as property held by the owner, or by the lessee under a finance lease, to earn rental income, capital appreciation or both, but not property held for use in the production or supply of goods or services, for administrative purposes, or for sale in the ordinary course of business. Assets which Primaris has classified as income-producing properties under Canadian GAAP will qualify for inclusion as investment property under IFRS.

Under IFRS, Primaris has a choice of measuring properties using the historical cost model or the fair value model. The cost model is generally consistent with Canadian GAAP and would require that the fair value of the investment properties be disclosed in the Notes to the Consolidated Financial Statements. Under the fair value model, investment properties are measured at their fair values, and changes in fair value are recorded to the Consolidated Statement of Income each reporting period. Other components, such as above or below market rents, which are currently reported as other assets under Canadian GAAP, will be reclassified as investment property under IFRS. There are no charges for depreciation or amortization as seen in the cost model.

Primaris has elected to use the fair value model for its investment property as part of the first time adoption of IFRS and as part of its ongoing regular reporting when preparing its Consolidated Financial Statements under IFRS. Primaris has completed the design of its investment property valuation process and has commenced implementation. As part of the transition plan, 100% of the investment properties have been externally appraised as at January 1, 2010. The appraisals indicate an unaudited value of investment properties of $2,542,000 as at January 1, 2010, which represents a $731,000 increment over the reported December 31, 2009 values. The valuations are underway for the investment properties as at December 31, 2010 and the 2010 interim quarters.

Primaris has chosen the Fair Value approach for investment properties for its going-forward IFRS financial statements in order to be most readily comparable with its peer group of public reporting real estate entities. In addition, the magnitude of the fair value adjustment highlights the diminished meaning of the previously disclosed net book values prepared using the historical cost basis.

This accounting policy choice means that starting in 2011 assets will be recorded at fair value on the Statement of Financial Position. Periodic changes in fair value will be recorded in the Statement of Earnings. This could lead to increased volatility in reported net income and income per unit but should not impact Funds from Operations ("FFO").

Under the fair value model, net income on the 2010 comparative Statement of Earnings will increase by approximately $66,820 for the reversal of depreciation and amortization on investment property. EBITDA and FFO non-GAAP measures should not be affected by this adjustment.

Primaris' portfolio was appraised in its entirety by external appraisers as at January 1, 2010. Altus Group appraised approximately 96% of the portfolio while Cushman Wakefield appraised one asset representing the remaining 4% of the portfolio. The portfolio includes two large assets acquired in December 2009. The valuation disclosed above includes these recent acquisitions at purchase price, which amount was very similar to the then appraised value. The external appraisers used a range of capitalization rates on the overall portfolio from a low of 6.5% to a high of 8.5%. The portfolio weighted average capitalization rate (weighted by property value) was 7.0% as at January 1, 2010. Primaris' Yonge Street assets, which represent less than 2% of the portfolio value, were appraised at a capitalization rate lower than this range reflecting, in part, the redevelopment potential of these locations. The portfolio valuation does not include Cataraqui Town Centre, a property acquired in August 2010.

Fair valuing the investment properties will underpin the most substantive change to Primaris' financial statements upon its adoption of IFRS. The effects of the changes to the borrowing provisions in the Declaration of Trust are being reviewed to determine what amendments will be required.

Leases

Canadian GAAP requires that tenant incentives be recorded as a reduction to rental revenue over the term of the lease, while tenant improvements are capitalized and amortized through amortization expense. Under IFRS tenant improvements continue to be capitalized however the amortization will be recorded as a reduction to rental revenue like tenant incentives. The total reduction of rental revenue in the 2010 comparative Statement of Earnings will be approximately $6,931. However, the amortization of tenant improvements will be an add-back to the FFO non-GAAP measure and therefore there should be no change to FFO.

Certain other leasing costs will continue to be capitalized under IFRS but will no longer be amortized to the Statement of Earnings. Leasing costs will form part of the investment property. Net income on the 2010 comparative Statement of Earnings will increase by approximately $1,076 for the reversal of depreciation and amortization on other leasing costs. EBITDA and FFO non-GAAP measures should not be affected by this adjustment.

Under IFRS, two existing land leases meet the definition of a capital lease and will be restated to investment property on the balance sheet. These land leases will be included in the appraisal process and will be recorded at their fair value. Valuations are underway for the land leases as at January 1, 2010, December 31, 2010 and the 2010 interim quarters.

IFRS requires rental revenue to be recognized on a straight-line basis over the term of the lease since inception, whereas Canadian GAAP only required rental revenue to be recognized on a straight-line basis on a prospective basis commencing January 1, 2004. The effect of the change in application was quantified. However, as Primaris was formed in July 2003, approximately five months prior to this accounting change, the quantum is immaterial and no adjustment will be made.

Business Combinations

Under IFRS property acquisitions may be classified as business combinations. While both Canadian GAAP and IFRS require the acquisition method of accounting for business combinations, IFRS prohibits the capitalization of transactions costs (including commissions, land transfer tax, appraisals, and legal fees associated with a purchase) for business combinations.

IFRS requires that the standards for business combinations be applied from inception. Rather than apply the standard retrospectively to all acquisitions, Primaris will elect the IFRS 1 exemption to restate its acquisitions that qualify as business combinations from the transition date, January 1, 2010, only. However, transaction costs from business combinations will be an add-back to the FFO non-GAAP measure and therefore there should be no change to FFO.

Joint Ventures

Under IFRS, there is an option to proportionately consolidate or equity account for jointly controlled entities. Primaris proportionately consolidates its joint venture to better represent the nature of the investment. The International Accounting Standards Board ("IASB") has indicated that it may issue a new standard eliminating the choice. Primaris will continue to proportionately consolidate until a new standard is issued. The effect of moving to equity accounting for the joint venture has not been determined.

Trust Units

Under Canadian GAAP, trust units are classified and presented as equity. Under IFRS trust units are classified as liabilities; however, there is an opportunity to present the units as equity. To be presented as equity, trust units must be the most subordinated class of instruments, and there must be no contractual obligation to deliver cash or another financial asset to another entity. Primaris has taken steps to meet these requirements and will present trust units as equity on IFRS prepared Financial Statements.

Within Primaris, there also exist exchangeable units which are economically equivalent to trust units and are entitled only to receive distributions equal to those provided to holders of trust units. These units, 2,307,261 or $34,804 as at January 1, 2010 and 2,217,261 or $32,820 as at December 31, 2010, will be classified as long term liabilities on the comparative Statement of Financial Position under IFRS. The distributions associated with these units will accordingly be reclassified as interest expense. Net Income will be reduced by approximately $2,736 on the 2010 comparative Statement of Earnings.

Convertible Debentures

Under GAAP, convertible debentures are recorded in two components; debt and equity. Each quarter, accretion is booked to interest expense to represent the change in the debt value as the debenture approaches maturity. Under IFRS the entire instrument is recorded as debt since trust units are classified as liabilities not equity. Therefore, no accretion expense would be charged to the Statement of Earnings.

Convertible debentures will be shown at their fair market value on the 2010 comparative Statement of Financial Position, $189,847 as at January 1, 2010 and $196,703 as at December 31, 2010 (values unaudited). Interest expense on the 2010 comparative Statement of Earnings will be reduced by $9,982 due to the change to fair value presentation (unaudited).

Income Taxes

Primaris recorded deferred taxes, which recognize the temporary timing differences between assets and liabilities measured for the Financial Statements and measured for tax purposes, prior to December 31, 2010. At this time, Primaris completed the necessary restructuring to meet the prescribed REIT Conditions under the SIFT Rules relating to the nature of its income and investments. Deferred taxes for the comparative reporting periods up to December 31, 2010 are being recalculated using the Financial Statement measures for assets and liabilities as determined under the IFRS accounting standards.

Presentation of Financial Statements

Primaris currently presents its balance sheet using the liquidity method under current Canadian GAAP. The IFRS standard recommends that the Statement of Financial Position be classified between current and non-current assets and liabilities. Primaris will adopt this presentation.

RISKS AND UNCERTAINTIES

Real Property Ownership

Primaris owns 29 principal properties and is expected in the future to directly or indirectly acquire interests in other real property. All real property investments are subject to elements of risk. Such investments are affected by general economic conditions, local real estate markets, changing demographics, supply and demand for leased premises, competition from other available premises, and various other factors.

Tenant Risks

The value of real property and any improvements thereto depends on the credit and financial stability of the tenants. Primaris' FFO may be adversely affected if tenants become unable to meet their obligations under their leases or if a significant amount of available space in the properties in which Primaris has an interest becomes vacant and is not able to be leased on economically favourable lease terms. Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced. The terms of any subsequent lease may be less favourable to Primaris than the existing lease. In the event of default by a tenant, delays or limitations in enforcing rights as lessor may be experienced and substantial costs in protecting Primaris' investment may be incurred. Furthermore, at any time, a tenant of any of the properties in which Primaris has an interest may seek the protection of bankruptcy, insolvency or similar laws that could result in the rejection and termination of such tenant's lease and thereby cause a reduction in the cash flow available to Primaris. The ability to rent unleased space in the properties in which Primaris has an interest will be affected by many factors. Costs may be incurred in making improvements or repairs to the property required by a new tenant.

Certain of the major tenants are permitted to cease operating from their leased premises at any time at their option. Other major tenants are permitted to cease operating from their leased premises or to terminate their leases if certain events occur. Some Commercial Retail Units ("CRU") tenants have a right to cease operating from their premises if certain major tenants cease operating from their premises. The exercise of such rights by a tenant may have a negative effect on a property. There can be no assurance that such rights will not be exercised in the future.

Fixed Costs

Certain significant expenditures, including property taxes, ground rent, 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 any income. If Primaris is unable to meet mortgage payments or ground rent payments on any property, losses could be sustained as a result of the mortgagee's exercise of its rights of foreclosure or sale or the landlord's exercise of remedies.

Asset Liquidity

Real property investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to demand for, and the perceived desirability of, such investments. Such illiquidity may tend to limit Primaris' ability to vary its portfolio promptly in response to changing economic or investment conditions. If Primaris were to be required to liquidate its real property investments, the proceeds to Primaris might be significantly less than the aggregate carrying value of its properties.

Capital Expenditures and Distributions

Leasing capital and maintenance capital are incurred in irregular amounts and may exceed actual cash available from operations during certain periods. Primaris may be required to use part of its debt capacity or reduce distributions in order to accommodate such items. Capital for recoverable improvements may exceed recovery of amounts from tenants. Primaris is subject to provisions in its Declaration of Trust as well as to debt agreements that may impact the quantum of distributions. The sale of income-producing properties with inherent taxable gains could materially change Primaris' level of distributions.

Retail Concentration

Primaris' portfolio is limited to Canadian retail properties. Consequently, the market value of the properties and the income generated from them could be negatively affected by changes in the domestic retail environment.

Reliance on Anchor Tenants

Retail shopping centres have traditionally relied on there being a number of anchor tenants (department stores, discount department stores and grocery stores) in the centre, and therefore they are subject to the risk of such anchor tenants either moving out of the property or going out of business. A property could be negatively affected by such a loss.

Land Leases

To the extent that the properties in which Primaris has or will have an interest are located on leased land, the land leases may be subject to periodic rate resets that may fluctuate. This may result in significant rental rate adjustments and therefore have a potential negative effect on the cash flow of Primaris.

Environmental Matters

As an owner of interests in real property in Canada, Primaris is subject to various Canadian federal, provincial and municipal laws relating to environmental matters. Such laws provide that Primaris could be liable for the costs of removal of certain hazardous substances and remediation of certain hazardous locations. The failure to remove or remediate such substances or locations, if any, could adversely affect Primaris' ability to sell such real estate or to borrow using such real estate as collateral and could potentially also result in claims against the owner by private plaintiffs.

Primaris will make the necessary capital and operating expenditures to ensure compliance with environmental laws and regulations. Although there can be no assurances, Primaris does not believe that costs relating to environmental matters will have a material adverse effect on Primaris' business, financial condition or results of operations. However, environmental laws and regulations can change and Primaris or its subsidiaries may become subject to more stringent environmental laws and regulations in the future. Compliance with more stringent environmental laws and regulations could have an adverse effect on Primaris' business, financial condition or results of operations and distributions.

Competition

The real estate business is competitive. Numerous other developers, managers and owners of retail properties compete with Primaris in seeking tenants. Some of the properties of Primaris' competitors are newer or better located or less levered than the properties in which Primaris has an interest. Some of Primaris' competitors are stronger financially and hence better able to withstand an economic downturn. The existence of competing developers, managers and owners and competition for Primaris' tenants could have an adverse effect on Primaris' ability to lease space in its properties and on the rents charged or concessions granted, and could adversely affect Primaris' revenues and its ability to meet its debt obligations.

Competition for acquisitions of real properties is intense, and some competitors may have the ability or inclination to acquire properties at a higher price or on terms less favourable than those that Primaris is prepared to accept. An increase in the availability of investment funds and an increase in interest in real property investments may tend to increase competition for real property investments, thereby increasing purchase prices and reducing the yield on them.

Financing Risks

Primaris has indebtedness outstanding of approximately $1,350,702 as at December 31, 2010. A portion of the cash flow generated by the existing properties and any future acquired properties will be devoted to servicing such debt, and there can be no assurance that Primaris will continue to generate sufficient cash flow from operations to meet required interest and principal payments. If Primaris is unable to meet interest or principal payments, it could be required to seek renegotiation of such payments or obtain additional equity, debt or other financing. Primaris is subject to the risks associated with debt financing, including the risk that the mortgages and banking facilities secured by Primaris' properties will not be able to be refinanced or that the terms of such refinancing will not be as favourable as the terms of existing indebtedness.

Primaris has stated that one of its objectives is to grow through acquisitions. While Primaris has financial resources on hand to complete some acquisitions, the longer-term ability of Primaris to fund acquisitions is dependent on both equity and debt capital markets. There are risks that, from time to time, such capital may not be available or may not be available on favourable terms.

Valuations

Valuations reflect an assessment of value based on the facts and circumstances as of the date the valuations were made. Such valuations may not have incorporated all relevant facts or may have relied on incorrect assumptions which may have been too optimistic or not sufficiently optimistic. Furthermore, valuations conducted at one point in time may not be reflective of value at another point in time, nor may the valuation be reflective of the value that could be obtained on a sale or other transaction. The valuations, discussed under "Impact of Adoption of IFRS", were conducted in connection with the IFRS conversion process and may not be suitable for other purposes.

Interest Rate Fluctuations

From time to time, Primaris' financing includes indebtedness with interest payments based on variable lending rates that will result in fluctuations in Primaris' cost of borrowing. Changes in interest rates may also affect Primaris in many other ways, due to factors including the impact on the economy, the value of real estate, the value of Primaris' units, the economics of acquisition activity and the availability of capital.

Reliance on Key Personnel

The management of Primaris depends on the services of certain key personnel. The loss of the services of any key personnel could have an adverse effect on Primaris.

Tax-Related Risks

Legislation (the "SIFT Rules") relating to the federal income taxation of publicly listed or traded trusts (such as income trusts and Real Estate Investment Trusts) and partnerships changes the manner in which certain flow-through entities and the distributions from such entities are taxed. Under the SIFT Rules, certain publicly listed or traded flow-through trusts and partnerships referred to as "specified investment flow-through" or "SIFT" trusts and partnerships will be taxed in a manner similar to the taxation of corporations, and investors in SIFTs will be taxed in a manner similar to shareholders of a corporation. Amendments to the SIFT Rules were enacted on March 12, 2009.

The new taxation regime introduced by the SIFT Rules is not applicable to funds that qualify for the exemption under the SIFT Rules applicable to certain Real Estate Investment Trusts (the "REIT Exemption"). The stated intention of the Minister of Finance (Canada) in introducing the REIT Exemption is to exempt certain Real Estate Investment Trusts from taxation as SIFTs in recognition of "the unique history and role of collective real estate investment vehicles". If Primaris fails to qualify for the REIT Exemption, Primaris will be subject to certain tax consequences including taxation of Primaris in a manner similar to corporations and taxation of certain distributions in a manner similar to taxable dividends from a taxable Canadian corporation.

The SIFT Rules generally do not apply to a fund that was publicly listed before November 1, 2006 (an "Existing Fund"), until the 2011 taxation year of the fund, subject to acceleration in certain circumstances where the "normal growth" of the fund exceeds certain permitted limits (the "Undue Expansion Rules"). There can be no assurance that any additions to the capital or assets of Primaris will not, alone or in combination with each other, constitute an "undue expansion" under the Undue Expansion Rules. The Undue Expansion Rules would only be relevant to Primaris if it has not at all times since October 31, 2006, qualified for the REIT Exemption.

To qualify for the REIT Exemption in a particular taxation year (i) the Real Estate Investment Trust must, at no time in the taxation year, hold "non-portfolio property" other than "qualified REIT properties"; (ii) not less than 95% of the Real Estate Investment Trust's revenues for the taxation year must be derived from one or more of the following: (a) rent from "real or immovable properties," (b) interest, (c) capital gains from dispositions of real or immovable properties, (d) dividends, and (e) royalties; (iii) not less than 75% of the Real Estate Investment Trust's revenues for the taxation year must be derived from one or more of the following: (a) rent from "real or immovable properties," (b) interest from mortgages, or hypothecs, on real or immovable property, and (c) capital gains from dispositions of real or immovable properties; and (iv) at no time in the taxation year may the total fair market value of all properties held by the Real Estate Investment Trust, each of which is a real or immovable property, indebtedness of a Canadian corporation represented by bankers' acceptance, money, a deposit with a credit union, or, generally, a debt obligation of a government in Canada or certain other public bodies, be less than 75% of the equity value of the Real Estate Investment Trust at that time.

As mentioned above, the SIFT Rules will apply to an Existing Fund (other than a Real Estate Investment Trust that qualifies for the REIT Exemption) commencing with taxation years ending in or after 2011 or earlier if there is "undue expansion" under the Undue Expansion Rules. Accordingly, unless the REIT Exemption is applicable to Primaris, the SIFT Rules could, commencing in 2011 or earlier if there is "undue expansion" under the Undue Expansion Rules, impact the level of cash distributions which would otherwise be made by Primaris and the taxation of such distributions to Unitholders.

During the fourth quarter of 2010 Primaris completed the necessary restructuring to qualify for the REIT Exemption commencing January 1, 2011. Accordingly management believes Primaris will not be subject to the SIFT rules provided Primaris qualifies for the REIT Exemption at all times after 2010.

Management of the REIT intends to conduct the affairs of the REIT so that it qualifies for the REIT Exemption at all times after 2010; however, as the requirements of the REIT Exemption include complex revenue and asset tests, no assurances can be provided that the REIT will in fact so qualify at any time.

CONTROLS AND PROCEDURES

Primaris' management, with participation of the President and Chief Executive Officer, and the Executive Vice President and Chief Financial Officer, is responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting as defined in the Canadian Securities Administrators' National Instrument 52-109.

Management has evaluated the effectiveness of Primaris' disclosure controls and procedures as of December 31, 2010, and concluded that such disclosure controls and procedures are effective. Primaris' disclosure controls and procedures include Primaris' Disclosure policy, Disclosure Committee and a cascading sub-certification process. The consolidated financial statements and MD&A were reviewed and approved by the Disclosure Committee and the Board of Trustees prior to their publication.

As at the year ended December 31, 2010, management has evaluated the design and operation of internal controls over financial reporting. Based on that evaluation, management has concluded that the design and operation of internal controls over financial reporting were effective as of December 31, 2010 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

There were no changes in internal control over financial reporting during the fourth quarter of 2010 that have materially affected or are reasonably likely to materially affect Primaris' internal control over financial reporting.

Primaris' management, including the President and Chief Executive Officer, and the Executive Vice President and Chief Financial Officer, does not expect its disclosure controls and procedures or internal control over financial reporting to prevent or detect all misstatements due to error or fraud. Due to the inherent limitations in all control systems, an evaluation of controls and their design provides only reasonable and not absolute assurance that all control issues and instances of fraud or error have been detected. Primaris is continually evolving and enhancing its systems of controls and procedures.

OUTLOOK

Many economic indicators suggest a general improvement in the business environment. Management of Primaris continues to have a cautiously optimistic view of the short term opportunities for Primaris. Occupancy rates remain solid, and Primaris is achieving rent increases on average when renewing leases. The recent decline in tenant sales appears to have troughed in our eastern Canadian properties but our western Canadian properties continue to generate mixed tenant sales results.

There appears to be a consensus that interest rates will increase at some point but there appears to be less conviction as to when this trend may emerge. Since inception Primaris has favoured long term fixed rate debt and Primaris has little debt maturing in the near term. Therefore, higher rates would not directly affect Primaris' income statement or cash flows immediately. However, the impact of higher rates could be quickly felt by tenants and their customers, the Canadian consumer.

Management is pleased by Primaris' improved financial results and the continued decrease in its payout ratio. This was expected as the past elevated payout ratio related in large part to the expensing of one-time transition costs as well as the earnings drag in 2009 that resulted from holding large cash balances. These issues are largely behind Primaris. In addition, our properties produced improved results during 2010. Capital markets have been much more favourable in recent quarters with both the availability and cost of capital to the real property industry continuing to improve early in this new year.

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Primaris Retail Real Estate Investment Trust were prepared by management, which is responsible for the integrity and fairness of the information presented, including the amounts that are based on estimates and judgments. These consolidated financial statements were prepared in accordance with the recommendations of the Canadian Institute of Chartered Accountants. Financial information appearing throughout this annual report is consistent with these consolidated financial statements.

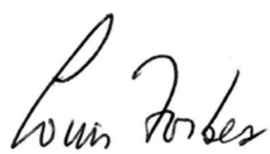
In discharging its responsibility for the integrity and fairness of the consolidated financial statements and for the accounting systems from which they are derived, management maintains the necessary system of internal controls designed to ensure that transactions are authorized, assets are safe-guarded and proper records are maintained.

The Board of Trustees oversees management's responsibility for financial reporting through an Audit Committee, which is composed entirely of independent Trustees. This committee reviews the consolidated financial statements of Primaris and recommends them to the Board for approval. Other key responsibilities of the Audit Committee include monitoring the Trust's existing internal control procedures and advising the Trustees on auditing matters and financial reporting issues.

KPMG LLP, the independent auditors, have performed an independent audit of the consolidated financial statements and their report follows. The Unitholders' auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings.

John R. Morrison
President and Chief Executive Officer

Toronto, Ontario, Canada
March 9, 2011



Louis M. Forbes
Executive Vice President and Chief Financial Officer

Toronto, Ontario, Canada
March 9, 2011

Independent Auditors' Report

To the Unitholders of Primaris Retail Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of Primaris Retail Real Estate Investment Trust, which comprise the consolidated balance sheets as at December 31, 2010 and 2009, the consolidated statements of income, comprehensive income, unitholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Primaris Retail Real Estate Investment Trust as at December 31, 2010 and 2009, and its consolidated results of operations and its consolidated cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

March 9, 2011
Toronto, Canada

Consolidated Balance Sheets

(In thousands of dollars)

December 31, 2010 and 2009	**2010**	2009
Assets		
Income-producing properties (note 3)	**$ 1,882,421**	$ 1,763,426
Leasing costs (note 4)	**41,494**	41,209
Rents receivable (note 5)	**6,096**	4,907
Other assets and receivables (note 6)	**31,323**	31,023
Cash and cash equivalents	**6,500**	15,452
	$ 1,967,834	$ 1,856,017
Liabilities and Unitholders' Equity		
Liabilities:		
Mortgages payable (note 8)	**$ 1,167,226**	$ 1,089,966
Convertible debentures (note 9)	**163,899**	166,461
Bank indebtedness (note 10)	**10,000**	15,000
Accounts payable and other liabilities (note 11)	**59,093**	63,815
Distribution payable	**6,809**	6,358
Future income taxes (note 17)	**–**	43,000
	1,407,027	1,384,600
Unitholders' equity	**560,807**	471,417
Commitments and contingencies (notes 20 and 21)		
Subsequent events (note 22)		
	$ 1,967,834	$ 1,856,017

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Roland A. Cardy
Trustee

William J. Biggar
Trustee

Consolidated Statements of Income

(In thousands of dollars, except per unit amounts)

Years ended December 31, 2010 and 2009	**2010**	2009
Revenue:		
Minimum rent	**$ 198,057**	$ 166,284
Recoveries from tenants	**114,607**	97,083
Percentage rent	**2,658**	2,966
Parking	**6,308**	6,267
Interest and other	**1,357**	1,798
	322,987	274,398
Expenses:		
Property operating	**80,727**	68,647
Property taxes	**56,469**	50,046
Depreciation	**68,253**	64,897
Amortization	**8,007**	6,898
Interest (note 14)	**77,898**	60,244
Ground rent	**1,247**	1,241
General and administrative	**7,100**	13,559
	299,701	265,532
Income before gain on sale of land and income taxes	**23,286**	8,866
Gain on sale of land	**74**	–
Income before income taxes	**23,360**	8,866
Future income tax recovery (expense) (note 17)	**42,100**	(2,200)
Net income	**$ 65,460**	$ 6,666
Basic and diluted net income per unit (note 12(d))	**$ 0.990**	$ 0.107

Consolidated Statements of Comprehensive Income

(In thousands of dollars)

Years ended December 31, 2010 and 2009	**2010**	2009
Net income	**$ 65,460**	$ 6,666
Amortization of deferred net loss on cash flow hedges	**236**	243
Reversing tax effect on deferred loss on cash flow hedge	**900**	–
Comprehensive income	**$ 66,596**	$ 6,909

See accompanying notes to consolidated financial statements.

Consolidated Statements of Unitholders' Equity

(In thousands of dollars)

Years ended December 31, 2010 and 2009

2010	Amount of units issued	Contributed surplus	Net income	Distributions	Equity component of convertible debentures	Accumulated other comprehensive income (loss)	Total
Unitholders' equity, beginning of year	$ 775,827	$ 618	$ 49,849	$(367,938)	$ 15,241	$ (2,180)	$ 471,417
Net income	–	–	65,460	–	–	–	65,460
Distributions	–	–	–	(80,543)	–	–	(80,543)
Amortization of deferred loss on cash flow hedges	–	–	–	–	–	236	236
Reversing tax effect on deferred loss on cash flow hedge	–	–	–	–	–	900	900
Equity incentive plan (note 12(e))	714	1,056	–	–	–	–	1,770
Issuance of units under distribution reinvestment plan	3,525	–	–	–	–	–	3,525
Issuance of units, net of costs	93,511	–	–	–	–	–	93,511
Conversion of convertible debentures to units, net of costs	6,089	–	–	–	(428)	–	5,661
Purchase of units under normal course issuer bid	(1,130)	–	–	–	–	–	(1,130)
Unitholders' equity, end of year	$ 878,536	$ 1,674	$ 115,309	$(448,481)	$ 14,813	$ (1,044)	$ 560,807

Consolidated Statements of Unitholders' Equity (cont'd)

(In thousands of dollars)

Years ended December 31, 2010 and 2009

2009	Amount of units issued	Contributed surplus	Net income	Distributions	Equity component of convertible debentures	Accumulated other comprehensive income (loss)	Total
Unitholders' equity, beginning of year	$ 772,686	$ –	$ 43,183	$ (291,756)	$ 8,530	$ (2,423)	$ 530,220
Net income	–	–	6,666	–	–	–	6,666
Distributions	–	–	–	(76,182)	–	–	(76,182)
Amortization of deferred loss on cash flow hedges	–	–	–	–	–	243	243
Equity incentive plan (note 12(e))	–	75	–	–	–	–	75
Issuance of units under distribution reinvestment plan	2,739	–	–	–	–	–	2,739
Issuance of units under asset management agreement (note 20(a))	57	–	–	–	–	–	57
Issuance of convertible debentures, net of costs	–	–	–	–	7,285	–	7,285
Conversion of convertible debentures to units, net of costs	345	–	–	–	(9)	–	336
Purchase of convertible debentures under normal course issuer bid	–	543	–	–	(565)	–	(22)
Unitholders' equity, end of year	$ 775,827	$ 618	$ 49,849	$ (367,938)	$ 15,241	$ (2,180)	$ 471,417

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(In thousands of dollars)

Years ended December 31, 2010 and 2009	2010	2009
Cash provided by (used in):		
Operating:		
Net income	**$ 65,460**	$ 6,666
Items not involving cash:		
Depreciation of income-producing properties	**62,786**	60,827
Amortization of recoverable improvements	**4,034**	3,432
Amortization of leasing commissions and tenant improvements	**8,007**	6,898
Accretion of convertible debentures	**1,902**	1,376
Future income taxes	**(42,100)**	2,200
Gain on sale of land	**(74)**	–
	100,015	81,399
Change in non-cash operating items:		
Gain on purchase of convertible debentures under normal course issuer bid	**–**	(727)
Depreciation of fixtures and equipment	**1,433**	638
Amortization of above- and below-market leases	**(2,422)**	(1,918)
Amortization of tenant inducements	**235**	146
Amortization of financing costs	**2,351**	1,665
Other (note 15)	**(7,059)**	12,914
Leasing commissions	**(519)**	(978)
Tenant inducements	**(1,000)**	(53)
	93,034	93,086
Financing:		
Mortgage principal repayments	**(22,748)**	(18,622)
Proceeds of new financing	**105,000**	153,000
Repayment of financing	**(3,685)**	–
Bank indebtedness	**(5,000)**	15,000
Financing costs	**(1,021)**	(1,011)
Distributions to Unitholders	**(80,092)**	(76,158)
Issuance of units	**101,722**	2,739
Unit issue costs	**(4,472)**	–
Issuance of convertible debentures	**–**	86,250
Convertible debenture issue costs	**–**	(3,799)
Purchase of convertible debentures under normal course issuer bid	**–**	(5,127)
Purchase of units under normal course issuer bid	**(1,130)**	–
	88,574	152,272
Investing:		
Acquisition of income-producing properties (note 2)	**(169,322)**	(300,135)
Additions to buildings and building improvements	**(7,936)**	(6,117)
Additions to tenant improvements	**(7,008)**	(9,022)
Additions to recoverable improvements	**(6,248)**	(5,620)
Additions to fixtures and equipment	**(134)**	(6,436)
Proceeds on sale of land	**88**	–
	(190,560)	(327,330)
Decrease in cash and cash equivalents	**(8,952)**	(81,972)
Cash and cash equivalents, beginning of year	**15,452**	97,424
Cash and cash equivalents, end of year	**$ 6,500**	$ 15,452
Supplemental cash flow information:		
Interest paid	**$ (76,683)**	$ (58,470)
Supplemental disclosure of non-cash operating, financing and investing activities:		
Value of units issued under asset management agreement	**–**	57
Value of units issued under equity incentive plan	**1,556**	75
Value of units issued from conversion of convertible debentures	**6,225**	353
Financing costs transferred to equity upon conversion of convertible debentures	**(253)**	(15)
Financing accumulated amortization transferred to equity upon conversion of convertible debentures	**117**	7
Mortgages payable, issued on acquisition of income-producing properties	**–**	66,800
Impact of reversing future tax liability on deferred cash flow hedge	**900**	–

See accompanying notes to consolidated financial statements.

Notes to consolidated financial statements

(in thousands of dollars, except per unit amounts)
For the years ended December 31, 2010

Primaris Retail Real Estate Investment Trust ("Primaris") is an unincorporated open-ended real estate investment trust created pursuant to the Declaration of Trust dated March 28, 2003 as amended and restated.

1. SIGNIFICANT ACCOUNTING POLICIES:

(a) Basis of presentation:

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The consolidated financial statements include the accounts of Primaris and its wholly owned subsidiaries.

(b) Income-producing properties:

Income-producing properties include land, buildings and building improvements, in-place leasing costs and recoverable improvements.

Income-producing properties are carried at cost less accumulated depreciation and amortization. If events or circumstances indicate that the carrying value of an income-producing property may be impaired, a recoverability analysis is performed based upon estimated undiscounted cash flows to be generated from the income-producing property. If the analysis indicates that the carrying value is not recoverable from future cash flows, the income-producing property is written down to estimated fair value and an impairment loss is recognized.

Buildings under development, when applicable, consist mainly of costs incurred for redevelopment or expansion of properties. Costs capitalized include construction costs, development fees and interest costs. Net operating income of a development project is capitalized to the property until it is substantially complete.

Depreciation of buildings is determined on a straight-line basis over the estimated useful lives of the assets, but not exceeding 40 years, from the time of acquisition.

Building improvements and recoverable improvements are depreciated on a straight-line basis over the term of their estimated useful lives of up to 10 years.

(c) Leasing costs:

Leasing commissions are amortized on a straight-line basis over the term of the related lease.

Payments to tenants under lease obligations are characterized either as tenant improvements owned by the landlord or as tenant inducements. When the obligation is determined to be a tenant improvement owned by Primaris, Primaris is considered to have acquired an asset. If Primaris determines that for accounting purposes it is not the owner of the tenant improvements, then the obligations under the lease are treated as tenant inducements. Tenant improvements and tenant inducements are amortized on a straight-line basis over the term of the lease. The amortization of tenant improvements is recorded as amortization expense and the amortization of tenant inducements is treated as a reduction of revenue.

(d) Intangible assets and liabilities:

Acquired intangible assets and liabilities are initially recognized and measured at cost. The cost of the intangible assets is allocated to the individual assets acquired based on management's estimates.

Intangible assets and liabilities are amortized using the straight-line method over the term and non-cancellable renewal periods of the related underlying lease, where applicable. Amortization of in-place leasing costs is classified as depreciation expense. Amortization of above- and below-market leases is classified as minimum rent.

Intangible assets and liabilities are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Any impairment loss recognized is recorded to the related amortization accounts.

(e) Cash and cash equivalents:

Cash and cash equivalents include cash and short-term investments, such as bankers' acceptances and treasury bills, with initial maturity dates of less than 90 days.

(f) Fixtures and equipment:

Fixtures and equipment, including leasehold improvements, computer hardware and software, are recorded at cost less accumulated depreciation. Depreciation expense is recorded on a straight-line basis over the estimated useful life of each asset.

(g) Financing costs:

Financing costs are presented with the related debt and amortized using the effective interest rate over the anticipated life of the related debt.

(h) Revenue recognition:

Revenue from income-producing properties includes rent earned from tenants under lease agreements, percentage rent, property tax and operating cost recoveries and other incidental income, and is recognized as revenue over the term of the underlying leases. All predetermined rent adjustments in lease agreements are accounted for on a straight-line basis over the term of the respective leases. Percentage rent is not recognized until a tenant's actual sales reach the sales threshold as set out in the tenant's lease.

(i) Unit-based compensation:

Primaris uses the fair value based method of accounting for its equity awards, under which compensation expense is measured at the grant date and recognized over the vesting period. Unit based compensation is classified as equity unless the holder has the option to settle in cash in which case the award is classified as a liability.

(j) Financial instruments:

Financial instruments are classified as one of the following: (i) held-to-maturity, (ii) loans and receivables, (iii) held-for-trading, (iv) available-for-sale, or (v) other liabilities. Financial assets and liabilities classified as held-for-trading are measured at fair value with gains and losses recognized in the consolidated statements of income. Financial instruments classified as held-to-maturity, loans and receivables or other liabilities are measured at amortized cost. Available-for-sale financial instruments are measured at fair value, with unrealized gains and losses recognized in the consolidated statements of comprehensive income.

Primaris designated its cash and cash equivalents as held for trading; rents receivable, loan payment subsidy and other receivables as loans and receivables; and mortgages payable, convertible debentures, bank indebtedness, accounts payable and other liabilities and distribution payable as other liabilities. Primaris has neither available for sale nor held-to-maturity instruments.

Transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities are accounted for as part of the respective asset's or liability's carrying value at inception.

All derivative instruments, including embedded derivatives, are recorded in the consolidated statements of income at fair value, except for embedded derivatives exempted from derivative treatment.

(k) Hedging:

Primaris formally documents relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking hedge transactions. This includes linking instruments to specific assets and liabilities on the consolidated balance sheets or to specific firm commitments or anticipated transactions.

The instruments that are used in hedging transactions are formally assessed both at the inception of a transaction and on an ongoing basis as to whether the instruments that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

In a fair value hedge, the change in fair value of the hedging derivative is offset in the consolidated statements of income against the change in the fair value of the hedged item relating to the hedged risk. In a cash flow hedge, the change in fair value of the derivative, to the extent effective, is recorded in other comprehensive income until the asset or liability being hedged affects the consolidated statements of income, at which time the related change in fair value of the derivative is recorded in the consolidated statements of income. Any hedge ineffectiveness is recorded in the consolidated statements of income.

(l) Income taxes:

Primaris uses the asset and liability method of accounting for income taxes. Where applicable, future income taxes are recognized for the temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws that are expected to apply to taxable income in the years in which those temporary differences are expected to be reversed or settled. The effect on future income tax assets and liabilities of a change in tax rate is recognized in income in the year that includes the date of enactment or substantive enactment (note 17).

(m) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the years. Actual results could differ from those estimates. Significant areas of estimation include: allocation of purchase price on property acquisitions, recovery revenue accruals, fair value of mortgages and debentures payable, future income tax timing reversals and useful lives used to calculate depreciation and amortization.

2. ACQUISITIONS:

During the year ended December 31, 2010, Primaris purchased Cataraqui Town Centre located in Kingston, Ontario.

During the year ended December 31, 2009, Primaris completed the purchase of three properties: a property on Yonge Street, Toronto, Ontario; Sunridge Mall, Calgary, Alberta; and a 50% interest in Woodgrove Centre, Nanaimo, British Columbia.

The acquisitions have been accounted for by the purchase method with the results of operations included in these consolidated financial statements from the date of acquisition. The purchase price allocation to net assets was as follows:

	2010	2009
Land	**$ 16,441**	$ 78,275
Buildings	**139,949**	264,835
Recoverable improvements	**–**	1,565
In-place leasing costs	**15,255**	27,315
Above market rent	**483**	495
Other assets	**1,552**	647
Below market rent	**(2,290)**	(4,378)
Other liabilities	**(2,068)**	(1,819)
	169,322	366,935
Less mortgages payable	**–**	(66,800)
Purchase price paid in cash, including acquisition costs of $3,264 (2009 – $3,732)	**$ 169,322**	$ 300,135

Primaris received third-party mortgage funding of $105,000 with respect to the purchase price of Cataraqui Town Centre. The loan has a term of 10 years and bears interest at 5.3%.

3. INCOME-PRODUCING PROPERTIES:

2010	**Cost**	**Accumulated depreciation and amortization**	**Net book value**
Land	**$ 387,392**	**$ –**	**$ 387,392**
Buildings	**1,516,924**	**169,234**	**1,347,690**
Building improvements	**53,761**	**19,327**	**34,434**
In-place leasing costs	**145,464**	**56,287**	**89,177**
Recoverable improvements	**35,766**	**12,038**	**23,728**
	$ 2,139,307	**$ 256,886**	**$ 1,882,421**

2009	Cost	Accumulated depreciation and amortization	Net book value
Land	$ 370,891	$ –	$ 370,891
Buildings	1,376,717	132,583	1,244,134
Building improvements	46,456	15,233	31,223
In-place leasing costs	160,700	65,036	95,664
Recoverable improvements	32,487	10,973	21,514
	$ 1,987,251	$ 223,825	$ 1,763,426

The income-producing properties have been pledged as security for Primaris' mortgages payable and bank indebtedness. In addition, Primaris' interest in one property remains pledged as security for $22,013 (2009 – $24,336) of obligations of its joint venture partner which mature no later than March 31, 2013. Primaris has been indemnified and has implemented appropriate additional protective measures to minimize the risk of any loss.

4. LEASING COSTS:

2010	**Cost**	**Accumulated amortization**	**Net book value**
Leasing commissions	**$ 6,405**	**$ 2,561**	**$ 3,844**
Tenant improvements	**52,402**	**16,893**	**35,509**
Tenant inducements	**2,776**	**635**	**2,141**
	$ 61,583	**$ 20,089**	**$ 41,494**

2009	Cost	Accumulated amortization	Net book value
Leasing commissions	$ 6,556	$ 2,155	$ 4,401
Tenant improvements	48,299	12,867	35,432
Tenant inducements	1,776	400	1,376
	$ 56,631	$ 15,422	$ 41,209

5. RENTS RECEIVABLE:

	2010	2009
Rents receivable, net of allowance of $1,129 (2009 – $1,168)	**$ 3,706**	$ 1,772
Accrued recovery revenue	**757**	733
Accrued percentage rent	**717**	1,092
Other amounts receivable	**916**	1,310
	$ 6,096	$ 4,907

6. OTHER ASSETS AND RECEIVABLES:

	2010	2009
Loan payment subsidy (note 8)	**$ –**	$ 1,360
Straight-line rents	**11,023**	9,073
Above-market rent leases, net of accumulated amortization of $6,120 (2009 – $5,560)	**1,272**	1,349
Prepaid realty taxes	**3,067**	1,303
Prepaid ground rent	**5,806**	5,875
Fixtures and equipment, net of accumulated depreciation of $2,120 (2009 – $687)	**4,964**	6,263
Other assets	**5,191**	5,800
	$ 31,323	$ 31,023

7. INTANGIBLE ASSETS AND LIABILITIES:

The following intangible assets and liabilities have been included in these consolidated financial statements as indicated below:

	Net book value		Depreciation and amortization expense	
	2010	2009	**2010**	2009
In-place leasing costs (note 3)	**$ 89,177**	$ 95,664	**$ 21,760**	$ 27,326
Above-market rent leases (note 6)	**1,272**	1,349	**560**	538
Below-market rent leases (note 11)	**(9,306)**	(9,998)	**(2,982)**	(2,456)

8. MORTGAGES PAYABLE:

Mortgages payable are secured by income-producing properties and, in many cases, by corporate guarantees and bear interest at fixed rates ranging between 4.75% and 7.45% (2009 – 4.75% and 7.45%). In 2003, Primaris assumed a mortgage payable as part of an acquisition and obtained a loan payment subsidy from the vendor as the assumed mortgage bore interest at above-market rates. The loan payment subsidy was fully repaid in January 2010 (note 20). The weighted average interest rate for the mortgages payable, excluding the financing costs, is 5.65% (2009 – 5.66%). Mortgages payable mature at various dates between 2010 and 2022.

	2010	2009
Mortgages payable	**$ 1,168,587**	$ 1,090,020
Mark-to-market adjustment	**3,686**	5,126
Financing costs, net of accumulated amortization of $3,046 (2009 – $2,691)	**(5,047)**	(5,180)
	$ 1,167,226	$ 1,089,966

Future principal payments on the mortgages payable are as follows:

	Payments on maturity	Total annual payments	Total
2011	$ 37,039	$ 25,122	$ 62,161
2012	21,226	26,927	48,153
2013	213,917	25,112	239,029
2014	97,546	22,944	120,490
2015	96,920	21,151	118,071
Thereafter	510,250	70,433	580,683
	$ 976,898	$ 191,689	$ 1,168,587

9. CONVERTIBLE DEBENTURES:

	2010				2009
	6.75% convertible debentures	**5.85% convertible debentures**	**6.30% convertible debentures**	**Total**	Total
Principal balance, beginning of year	**$ 5,751**	**$ 93,476**	**$ 86,250**	**$ 185,477**	$ 106,058
Issued	**–**	**–**	**–**	**–**	86,250
Conversions	**(1,903)**	**–**	**(4,322)**	**(6,225)**	(353)
Repurchases	**–**	**–**	**–**	**–**	(6,478)
Principal balance, end of year	**$ 3,848**	**$ 93,476**	**$ 81,928**	**$ 179,252**	$ 185,477
Debt component	**$ 3,807**	**$ 88,690**	**$ 75,932**	**$ 168,429**	$ 172,324
Less financing costs	**(160)**	**(3,623)**	**(3,289)**	**(7,072)**	(7,325)
Accumulated amortization	**102**	**1,760**	**680**	**2,542**	1,462
	$ 3,749	**$ 86,827**	**$ 73,323**	**$ 163,899**	$ 166,461

The full terms of the convertible debentures are contained in the public offering documents and the following table summarizes some of the terms:

Debenture series	2010 year end principal balance	Maturity	Interest rate	Conversion price	Redemption date after
6.75%	$ 3,848	June 30, 2014	6.75%	$ 12.25	June 30, 2010
5.85%	93,476	August 1, 2014	5.85%	22.55	August 1, 2012
6.30%	81,928	September 30, 2015	6.30%	16.70	October 1, 2014

In certain circumstances, redemption of the convertible debentures may occur sooner than the redemption date.

(a) 6.75% convertible debentures:

During the year, holders of $1,903 (2009 – $353) of convertible debentures at face value exercised their option to convert to units. Of the $1,903 (2009 – $353), $46 (2009 – $9) was recorded as a reduction of the original equity component and $1,857 (2009 – $344) was recorded as a reduction of the debt component. This ratio is consistent with the original equity and debt ratio. A total of 155,335 units (2009 – 28,814) were issued on conversion. As at December 31, 2010, the face value of this series of debentures outstanding was $3,848 (2009 – $5,751).

(b) 5.85% convertible debentures:

During the years ended December 31, 2010 and 2009, there were no conversions of this series of convertible debentures.

During the year, no convertible debentures were repurchased under Primaris' normal course issuer bid (2009 – $6,478). Of the $6,478 repurchased in 2009, $565 was recorded as a reduction of the original equity component and $5,913 was recorded as a reduction of the debt component. As at December 31, 2010, the face value of this series of debentures outstanding was $93,476 (2009 – $93,476).

(c) 6.30% convertible debentures:

On October 6, 2009, Primaris issued $86,250 of 6.30% convertible debentures. During the year, holders of $4,322 (2009 – nil) of convertible debentures at face value exercised their option to convert to units. Of the $4,322, $382 was recorded as a reduction of the original equity component and $3,940 was recorded as a reduction of the debt component. This ratio is consistent with the original equity and debt ratio. A total of 258,799 units (2009 – nil) were issued on conversion. As at December 31, 2010, the face value of this series of debentures outstanding was $81,928 (2009 – $86,250).

10. BANK INDEBTEDNESS:

Primaris has an operating line of $65,000 that expires on July 31, 2012. The operating line is secured by fixed charges on certain income-producing properties and a corporate guarantee. Draws on the operating line are subject to certain conditions; interest is at prime plus applicable premiums or, at the option of Primaris, at bankers' acceptance rates, plus applicable premiums. As at December 31, 2010, $10,000 has been drawn on the operating line (2009 – $15,000).

11. ACCOUNTS PAYABLE AND OTHER LIABILITIES:

	2010	2009
Accounts payable and accrued liabilities	$ 44,703	$ 50,239
Tenant deposits	4,626	2,957
Deferred revenue	458	621
Below-market rent leases, net of accumulated amortization of $13,954 (2009 – $10,972)	9,306	9,998
	$ 59,093	$ 63,815

12. UNITHOLDERS' EQUITY:

Primaris is authorized to issue an unlimited number of units. Each unit represents a single vote at any meeting of Unitholders and entitles the Unitholder to receive a pro rata share of all distributions. The Unitholders have the right to require Primaris to redeem their units on demand. Upon receipt of the redemption notice by Primaris, all rights to and under the units tendered for redemption shall be surrendered and the holder thereof shall be entitled to receive a price per unit ("Redemption Price"), as determined by a market formula. The Redemption Price will be paid in accordance with the conditions provided for in the Declaration of Trust.

Primaris' Unitholders' Equity is represented by two categories of equity: trust units of Primaris and exchangeable units of subsidiaries of Primaris. As at December 31, 2010, there were 2,217,261 exchangeable units issued and outstanding by subsidiaries of Primaris with a stated value of $32,820 (2009 – 2,307,261 units with a stated value of $34,084). These exchangeable units are economically equivalent to trust units and are entitled only to receive distributions equal to those provided to holders of trust units. As a result, the Unitholders' Equity includes the issued and outstanding units of Primaris and the exchangeable units of subsidiaries of Primaris.

Primaris' Trustees have discretion in declaring distributions (note 18).

(a) Units outstanding:

	2010		2009	
	Units	Amount	Units	Amount
Balance, beginning of year	62,534,594	$ 775,827	62,269,712	$ 772,686
Issuance of units under the distribution reinvestment plan	193,208	3,525	230,387	2,739
Other (note 20(a))	–	–	5,681	57
Conversion of debentures (note 9)	414,134	6,089	28,814	345
Purchase of units under normal course issuer bid	(60,000)	(1,130)	–	–
Units issued under equity compensation arrangement	48,993	714	–	–
Units issued, net of costs	5,663,750	93,511	–	–
Balance, end of year	68,794,679	$ 878,536	62,534,594	$ 775,827

(b) Distribution reinvestment plan:

Primaris has a distribution reinvestment plan that allows Unitholders to use the monthly cash distributions paid on their existing units to purchase additional units directly from Primaris. Unitholders who elect to participate in the distribution reinvestment plan will receive a further distribution, payable in units, equal in value to 3% of each cash distribution.

(c) Normal course issuer bid:

Pursuant to its issuer bid (note 18), Primaris repurchased 60,000 units for $1,130 during the year. No units were repurchased in 2009. No convertible debentures were repurchased during the year. In 2009, Primaris repurchased convertible debentures with a face value of $6,478 for consideration of $5,127. In December 2010, Primaris renewed its normal course issuer bid (note 18).

(d) Per unit calculations:

Per unit information is calculated based on the weighted average number of units outstanding (including the exchangeable units) for the year ended December 31, 2010 of 66,099,273 units (2009 – 62,411,033). The weighted average number of diluted units for the year ended December 31, 2010 is 75,862,618 units (2009 – 68,389,818). The convertible debentures and options granted but not yet exercised have been excluded from the calculation of diluted net income per unit, as they are currently anti-dilutive to net income.

(e) Equity incentive plan:

In order to provide long-term compensation to certain officers, employees and Trustees of Primaris and certain designated service providers to Primaris, there may be grants of restricted units or options, which are subject to certain restrictions. Under Primaris' equity incentive plan, the maximum number of total units available for grant is limited to 7% of the then issued and outstanding units at any given time.

On January 1, 2010, 11,208 restricted share units were granted to Primaris Trustees. The units vest at the earlier of two events: (i) four years from the grant date; and (ii) Trustee departure. As the Trustees can control when the restricted share units vest, they were considered fully vested when issued. Upon exchange of the restricted share units, the Trustees have the option to settle in cash instead of units issued from treasury. The restricted share units accrue distributions in the form of additional grants of restricted share units with all the same terms. These restricted share units are classified as a liability, which will be indexed to changes in fair value of Primaris units.

An award valued at $1,000 was made in 2009 to the President and Chief Executive Officer of Primaris in order to compensate him for lost deferred compensation at his previous employer. This expense was recorded in general and administrative expenses for 2009. On February 26, 2010, the award was delivered in a combination of 28,993 restricted units and 203,216 options to purchase units of Primaris with an exercise price of $17.25 per unit. On March 19, 2010, an additional 3,878 options were granted with an exercise price of $17.17 per unit. The restricted units and all the options are fully vested. All options expire on February 25, 2017 and the exercise prices were calculated as the volume of weighted average trading price during the five days preceding the grant.

On March 9, 2010, 36,360 restricted share units were granted to Primaris employees and will be satisfied by units issued from treasury. The award was valued at $611. The restricted share units vest on December 31, 2013. The restricted share units are subject to vesting conditions and are subject to forfeiture until the employees have been employed by Primaris for a specified period of time. The restricted share units accrue cash distributions during the vesting period and accrued distributions will be paid when the restricted share units are exchanged for regular units.

On March 9, 2010, options to acquire 283,038 units were granted to employees of Primaris at an option price of $16.81 per unit, which equals the volume weighted average trading price during the five days preceding the grant. This award was valued at $611. The options expire December 31, 2016. The options vest at 25% per annum, with the first 25% vesting on December 31, 2010 and 25% at the end of each of the following three years, becoming fully vested on December 31, 2013.

On June 17, 2010, 1,190 restricted share units and options to acquire 6,945 units, that were originally granted on March 9, 2010, were cancelled.

On January 1, 2009, 6,659 restricted share units were granted to an employee and will be satisfied by units issued from treasury. This award was valued at $71. The restricted share units vest on December 31, 2012. The restricted share units are subject to vesting conditions and are subject to forfeiture until the employee has been employed by Primaris for a specified period of time. The restricted share units accrue cash distributions during the vesting period and accrued distributions will be paid when the restricted share units are exchanged for regular units.

On January 1, 2009, options to acquire 111,588 units were granted to an employee of Primaris at an option price of $10.70 per unit. This award was valued at $71. The options expire December 31, 2015. The exercise price of each option equals the closing market price of Primaris' units on the day prior to the grant. The options vest at 25% per annum commencing on the first anniversary of the grant, becoming fully vested after four years.

On August 13, 2009, options to acquire 90,000 units were granted to the Chief Financial Officer in conjunction with promoting him to the position of Executive Vice President; the award was valued at $125. The options have an exercise price of $14.06 per unit, which equals the volume weighted average trading price of the units during the five days preceding the grant. These options expire August 12, 2016. The options vest at 25% per annum commencing on the first anniversary of the grant, becoming fully vested after four years.

Primaris accounts for its unit-based compensation using the fair value method, under which compensation expense is measured at the grant date and recognized over the vesting period. Unit-based compensation expense and assumptions used in the calculation thereof using the Black-Scholes model for option valuation are as follows:

	2010	2009
Unit-based compensation expense[1]	**$ 840**	$ 75
Unit options granted	**490,132**	201,588
Unit option holding period (years)	**7**	7
Volatility rate	**22.0%**	22.0%
Distribution yield	**7.2%**	10.1%
Risk-free interest rate	**3.1%**	2.5%
Weighted average fair value per unit, at grant date:		
Options	**$ 2.29**	$ 0.97
Restricted share units	**16.87**	10.70

(1) Of the equity awards granted in 2010, $1,000 was classified as transition expense in 2009 and not included in the above compensation expense.

The movements in options during the year December 31, 2010 were:

	Number of options	Weighted average exercise price	Expiry date
Balance, December 31, 2009	201,588	$ 12.20	December 2015 to August 2016
Granted	490,132	17.00	December 2016 to February 2017
Exercised	(20,000)	10.70	December 31, 2015
Cancelled	(6,945)	16.81	December 31, 2016
Balance, December 31, 2010	664,775	15.73	December 2015 to February 2017

Of the options granted, 308,251 was exercisable as at December 31, 2010 (2009 – nil).

As at December 31, 2010, the following options were outstanding:

Exercise price	Number of options	Remaining weighted average life (in years)
$10.70	91,588	5.1
$14.06	90,000	5.7
$16.81	276,093	6.1
$17.17	3,878	6.2
$17.25	203,216	6.2
$10.70 – $17.25	664,775	5.9

13. INVESTMENT IN JOINT VENTURE:

During 2009, Primaris entered into an agreement to establish a joint venture, of which Primaris has a 50% interest. The joint venture became effective on December 17, 2009 with contributions of cash and fixed assets by the venturers which were recorded at their fair values.

The consolidated financial statements include Primaris' proportionate share of the assets, liabilities, revenue and expenses of the joint venture.

	2010	2009
Assets	**$ 104,812**	$ 107,747
Liabilities	**6,061**	525
Revenue	**$ 12,182**	$ 497
Expenses	**8,531**	376
Cash provided by:		
Operations	**$ 426**	$ 156
Financing	**–**	–
Investments	**(129)**	–

In addition to the above, Primaris' liabilities include a $63,000 (2009 – $63,000) mortgage secured by its interest in the joint venture. Primaris' interest in the joint venture has also been pledged as security for $22,013 (2009 – $24,336) of obligations of its joint venture partner which mature no later than March 31, 2013. The joint venture partner is the manager of the property.

14. INTEREST EXPENSE:

	2010	2009
Mortgages payable	**$ 61,353**	$ 49,122
Amortization of net deferred loss on cash flow hedges	**236**	243
Convertible debentures	**13,061**	8,661
Bank indebtedness	**897**	553
Amortization of financing costs	**2,351**	1,665
	$ 77,898	$ 60,244

15. CHANGE IN OTHER NON-CASH OPERATING ITEMS:

	2010	2009
Rents receivable	**$ (1,189)**	$ (95)
Other assets and receivables, excluding above-market rent leases and fixtures and equipment	**(124)**	(182)
Accounts payable and other liabilities, excluding below-market leases	**(4,306)**	14,666
Mortgage premium	**(1,440)**	(1,475)
	$ (7,059)	$ 12,914

16. SEGMENT DISCLOSURE:

Substantially all of Primaris' assets are in and its revenue is derived from the Canadian real estate industry segment. No single tenant accounts for more than 6.9% (2009 – 6.5%) of Primaris' minimum rent.

17. INCOME TAXES:

Primaris currently qualifies as a mutual fund trust for Canadian income tax purposes. No provision for current income taxes is required at December 31, 2010 since Primaris has distributed all of its taxable income to its Unitholders.

Legislation relating to the federal income taxation of a specified investment flow-through ("SIFT") trust was enacted on June 22, 2007 (the "SIFT Rules"). A SIFT includes a publicly-traded trust other than a real estate investment trust. A publicly-traded trust is a real estate investment trust if it meets prescribed conditions relating to the nature of its assets and revenues (the "REIT Conditions"). Under the SIFT Rules, following a transition period for qualifying SIFTs, certain distributions from a SIFT are not deductible in computing the SIFT's taxable income, and the SIFT is subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations. Distributions paid by a SIFT as returns of capital are not subject to such tax.

A SIFT that was publicly listed before November 1, 2006 (an "Existing Trust") will become subject to tax on certain distributions commencing with the 2011 taxation year end. However, an Existing Trust may become subject to tax prior to the 2011 taxation year end if its equity capital increases beyond certain limits measured against the market capitalization of the Existing Trust at the close of trading on October 31, 2006. As at December 31, 2010, Primaris had not exceeded these limits.

Due to the SIFT Rules, Primaris commenced recognizing future income tax assets and liabilities on June 22, 2007 with respect to the temporary differences between the carrying amounts and tax bases of its assets and liabilities, and those of its subsidiary trust, that are expected to reverse in or after 2011. Future income tax assets or liabilities were recorded using substantively enacted tax rates and laws expected to apply when the temporary differences were expected to reverse.

As of December 31, 2010, Primaris completed the necessary restructuring to meet the REIT Conditions on January 1, 2011. As a result, management believes Primaris will not be subject to the SIFT Rules and has, therefore, reversed the future tax assets and liabilities previously recognized.

As at December 31, 2010, the carrying amount of assets and liabilities exceed their tax bases by approximately $220 million.

The tax effects of temporary differences that give rise to significant portions of the future tax liability as at December 31, 2009 are as follows:

Income-producing properties	$ 31,000
Leasing costs	9,000
Other assets and receivables	2,700
Other	300
	$ 43,000

18. CAPITAL MANAGEMENT:

Primaris manages its capital structure in order to support ongoing property operations, developments and acquisitions, as well as to generate stable and growing cash distributions to Unitholders – one of Primaris' primary objectives. Primaris defines its capital structure to include: mortgages payable, bank indebtedness, acquisition facilities, convertible debentures and trust units. There were no changes to Primaris' approach to capital management during the year ended December 31, 2010.

Primaris reviews its capital structure on an ongoing basis. Primaris adjusts its capital structure in response to investment opportunities, the availability of capital and anticipated changes in economic conditions and their impact on Primaris' portfolio. Primaris also adjusts its capital structure for budgeted development projects and distributions.

Primaris' strategy is driven in part by external requirements from certain of its lenders and by policies as set out under the Declaration of Trust. Primaris' Declaration of Trust requires that Primaris:

(a) will not incur any new indebtedness on its properties in excess of 75% of the property's market value;

(b) will not incur any indebtedness that would cause the Debt to Gross Book Value Ratio (as defined in the Declaration of Trust) to exceed 60%; and

(c) will not incur floating rate indebtedness aggregating more than 15% of Gross Book Value.

In addition, Primaris is required by its lenders under the operating line to meet four financial covenants, as defined in the agreement:

(a) a Debt to Gross Book Value Ratio of not more than 60%;

(b) an Interest Coverage Ratio of greater than 1.75;

(c) a Debt Service Coverage Ratio of greater than 1.5; and

(d) a minimum Unitholders' Equity of $700,000.

Those amounts as at December 31, 2010 and 2009 were as follows:

	2010	2009	Change
Debt to Gross Book Value	**53.3%**	53.4%	(0.1)
Interest Coverage (rolling four quarters)	**2.3 x**	2.3 x	–
Debt Service Coverage (rolling four quarters)	**1.8 x**	1.8 x	–
Unitholders' Equity	**$ 817,693**	$ 738,242	$ 79,451

For the year ended December 31, 2010, Primaris met all externally imposed requirements.

Primaris' mortgage lenders require security for their loans. The security can include: a mortgage, assignment of the leases and rents receivable, corporate guarantees and assignment of insurance policies.

In December 2010, Primaris renewed its normal course issuer bid, which entitles Primaris to acquire up to 3,000,000 units, $392 of the 6.75% convertible debentures, $9,347 of the 5.85% convertible debentures and $8,264 of the 6.30% convertible debentures. Purchases under the bid could commence on December 6, 2010 and must terminate on the earlier of: (i) December 5, 2011; (ii) the date on which Primaris completes its purchases of units and convertible debentures; or (iii) the date of notice by Primaris of termination of the bid. Purchases, if completed, will be made on the open market by Primaris. Securities purchased under this bid will be cancelled. The price Primaris will pay for any such units or debentures will be the market price at the time of acquisition. Primaris believes that the market price of its units or debentures at certain times may be attractive and that purchases of units or debentures from time to time would be an appropriate use of funds in light of potential benefits to Unitholders.

19. RISK MANAGEMENT AND FAIR VALUES:

(a) Risk management:

In the normal course of business, Primaris is exposed to a number of risks that can affect its operating performance. These risks, and the actions taken to manage them, are as follows:

(i) Credit risk:

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to pay the rents due under their lease commitments. Primaris attempts to mitigate the risk of credit loss by ensuring that its tenant mix is diversified and by limiting its exposure to any one tenant. Thorough credit assessments are conducted in respect of new leasing, and tenant deposits are obtained when warranted.

Primaris' exposure to credit risk is based on business risks associated with the retail sector of the economy. Primaris measures this risk-by-tenant concentration across the portfolio. Primaris has over 950 different tenants across the portfolio.

Primaris establishes an allowance for doubtful accounts that represents the estimated losses with respect to rents receivable. The amounts that comprise the allowance are determined on a tenant-by-tenant basis based on the specific factors related to the tenant.

Primaris places its cash investments with high-quality Canadian financial institutions.

(ii) Liquidity risk:

Liquidity risk is the risk that Primaris will not have sufficient access to cash, lines of credit and new debt and equity to fund its financial obligations as they fall due.

Primaris manages cash from operations and capital structure to ensure there are sufficient resources to operate the income-producing properties, fund anticipated leasing, make capital and development expenditures, meet its debt servicing obligations, fund general administrative costs, and make Unitholder distributions. Primaris monitors compliance with debt covenants, estimating lease renewals and property acquisitions and dispositions. Staggering loan maturity dates mitigates Primaris' exposure to large amounts maturing in any one year and the risk that lenders will not refinance.

Primaris' exposure to refinancing risk arises from maturing mortgages payable, convertible debentures and the operating line. Maturing debt funding requirements are typically sourced from new capital from external sources. The ability to obtain funding, or favourable funding, depends on several factors including current economic climate and quality of the underlying assets being refinanced.

A schedule of mortgage principal repayment obligations is provided in note 8. Maturities of the convertible debentures which, under certain circumstances, may be repaid through the issuance of units, are provided in note 9. Details on Primaris' operating line, on which $10,000 has been drawn on December 31, 2010 are in note 10.

(iii) Market risk:

All of Primaris' income-producing properties are focused on the Canadian retail sector. Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect Primaris' financial instruments. All of Primaris' operations are denominated in Canadian dollars, resulting in no direct foreign exchange risk. Primaris' existing debts are all at fixed interest rates. Primaris staggers the maturities of its mortgages payable in order to minimize the exposure to future interest rate fluctuation.

(b) Fair values:

The fair values of Primaris' financial assets and financial liabilities, together with the carrying amounts shown in the consolidated balance sheets, are as follows:

	2010		2009	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Mortgages payable	**$ 1,167,226**	**$ 1,217,140**	$ 1,089,966	$ 1,055,199
Convertible debentures	**163,899**	**196,703**	166,461	189,967

The following summarizes the significant methods and assumptions used in estimating fair values of financial instruments reflected in the above table:

(i) Mortgages payable:

The fair value of Primaris' mortgages payable is estimated based on the present value of future payments, discounted at the yield on a Government of Canada bond with the nearest maturity date to the underlying mortgage, plus an estimated credit spread at the reporting date for a comparable mortgage.

(ii) Convertible debentures:

The fair value of the convertible debentures is estimated based on the market trading prices of the convertible debentures.

(iii) Other financial assets and liabilities:

The carrying values of cash and cash equivalents, rents receivable, loan payment subsidy, bank indebtedness, accounts payable and other liabilities and distribution payable approximate their fair values due to their short-term nature.

20. RELATED PARTY TRANSACTIONS:

(a) In prior years, Primaris contracted Oxford Properties Group to provide advisory, asset management, development and administration services to Primaris. This contract expired December 31, 2009 and was not extended.

	2010	2009
Asset management fees:		
Basic fees	**$ –**	$ 4,014
Development fees	**–**	213
	$ –	$ 4,227

Asset management fees were included in general and administrative expenses and development fees were capitalized to income-producing properties. Primaris also reimbursed the asset manager for $119 of general and administrative costs during 2009.

Of these fees, $993 was included in accounts payable and other liabilities at December 31, 2009. During the year ended December 31, 2009, Primaris issued $57 of units in partial payment of asset management fees.

(b) In prior years, Primaris contracted Oxford Properties Group to provide property management and leasing services to Primaris. This contract expired December 31, 2009 and was not extended.

	2010	2009
Property management fees	**$ –**	$ 9,354
Leasing fees	**–**	714
	$ –	$ 10,068

Property management fees were included in property operating expenses and leasing fees were included in leasing costs.

Of these fees, $1,814 was included in accounts payable and other liabilities at December 31, 2009. Primaris also reimbursed the property manager for certain property operating costs.

(c) Primaris had one loan payment subsidy at December 31, 2009, with Oxford Properties Group. The loan payment subsidy was fully repaid in January 2010 (note 6).

	2010	2009
Loan interest payment subsidy received	**$ 7**	$ 91

The loan interest payment subsidy was offset against interest expense.

(d) In 2008, Primaris engaged a broker to source a new mortgage. This broker conducted a fulsome marketed process, which resulted in the most competitive bid from OMERS Administration Corporation.

In August 2008, Primaris borrowed $110,000 from OMERS Administration Corporation, an entity that is related to both the then external asset and property manager of Primaris. The new mortgage bears interest at 5.49% and matures in July 2013.

During the year, Primaris expensed interest of $5,753 (2009 – $5,874) on this mortgage. The balance outstanding as at December 31, 2010 was $104,845 (2009 – $107,134).

(e) Primaris entered into a lease for office space with an entity related to the then asset and property manager of Primaris. The lease commenced on December 1, 2009 for a period of 10 years. The estimated average annual rental payment under the lease is $1,275.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

21. COMMITMENTS AND CONTINGENCIES:

(a) Under the terms of a memorandum of agreement dated June 7, 1971 between The City of Calgary and Oxford Properties Group Inc. ("OPGI") as assumed, assigned and amended from time to time, including without limiting the generality of the foregoing, by a development amending agreement between The City of Calgary, Marathon Realty Company Limited and The Cadillac Fairview Corporation Limited, OPGI is obligated to pay for certain roadway construction near Northland Village and such roadway construction obligation remains registered on title for this property. OPGI has indemnified Primaris for up to $30 million in respect of this obligation. These obligations were assumed by an affiliate of OPGI.

(b) Primaris has certain income-producing properties situated on leased land. Minimum lease payments are as follows:

2011	$ 1,248
2012	1,375
2013	1,400
2014	1,400
2015	1,400
Thereafter	41,125
	$ 47,948

(c) Under the terms of one of the ground leases that expires in 2056, Primaris may be required to restore the site to the state at the commencement of the ground lease. Primaris has recorded a potential discounted liability of $239 (2009 – $229) for these potential restoration costs.

(d) Primaris has issued letters of credit in the amount of $1,685 (2009 - $1,822).

(e) Primaris is involved in litigation and claims in relation to the income-producing properties that arise from time to time in the normal course of business. In the opinion of management, any liability that may arise from such contingencies would not have a significant adverse effect on the consolidated financial statements.

(f) Primaris has entered into contracts for property redevelopment and is obligated for $2,120 of future payments.

22. SUBSEQUENT EVENTS:

On February 22, 2011, Primaris entered into a firm commitment to borrow $110,000, to be secured by Dufferin Mall. Funding of the new loan is scheduled for March 30, 2011. Proceeds will be used on March 30, 2011 to repay the existing loan in the amount of $37,039 and for general trust purposes.

The new loan matures in April 2021. Monthly payments will be blended payments of principal and interest, based on a 25-year amortization period. The fixed interest rate on the new loan is 5.01%.

23. FUTURE ACCOUNTING CHANGES:

International Financial Reporting Standards ("IFRS"):

The Canadian Accounting Standards Board confirmed in February 2008 plans to converge Canadian GAAP with IFRS, for public entities, for interim and annual reporting periods commencing January 1, 2011. Primaris' first annual IFRS consolidated financial statements will be for the year ended December 31, 2011, and will include the comparative period from the year ended December 31, 2010. Starting with the first quarter of 2011, Primaris will provide unaudited consolidated financial statements in accordance with IFRS, including comparative figures for 2010.

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STOCK EXCHANGE LISTING

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ANNUAL GENERAL MEETING

May 17, 2011 at 10:00 am EST
The Design Exchange
234 Bay Street, Toronto, ON

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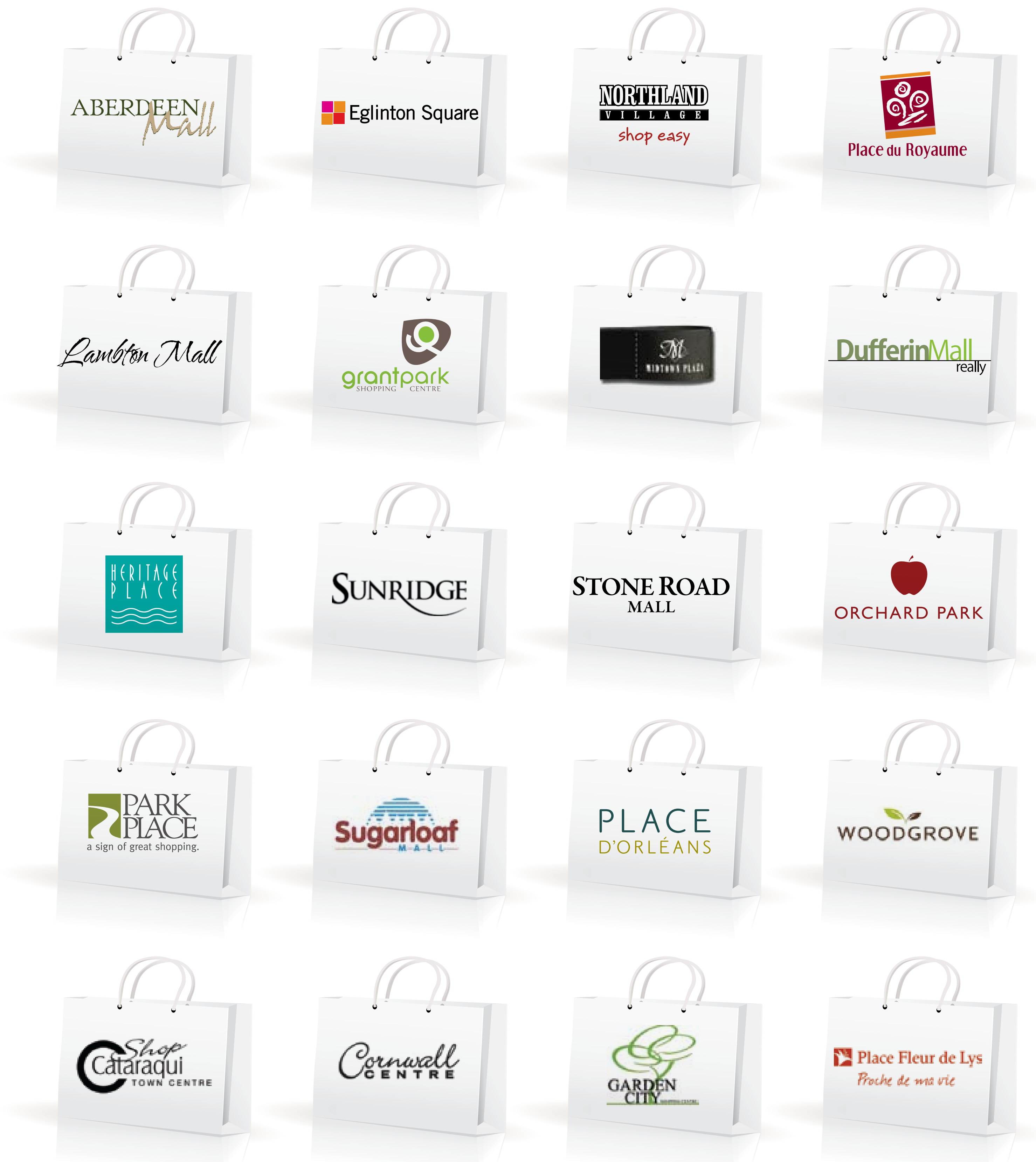

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