THE DIFFERENCE IS IN primaris

Q3

PRIMARIS RETAIL
REAL ESTATE
INVESTMENT TRUST

THIRD QUARTER REPORT 2010

Corporate Profile

Our shared vision for Primaris is to be the leading enclosed shopping centre REIT in Canada. We are accomplishing this by working as a dedicated team to grow the value of Primaris, exceeding stakeholders' expectations and striving to be the employer where people want to work.

That's the Primaris difference.

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John R. Morrison President and Chief Executive Officer

THE DIFFERENCE IS... IN OUR **BUSINESS MODEL**

I am pleased to report on Primaris' Q3 results which underscore strong fundamentals. Funds from Operations (FFO) per unit (diluted) increased by $0.04 per unit over the same period last year, a 13% increase. Our FFO payout ratio was a conservative 88.5% for the quarter compared to 100.3% from Q3 2009. Net operating income for the third quarter ended September 30, 2010 was $45.9 million, an increase of $8.8 million from the $37.1 million recorded in the third quarter of 2009. Although some of these results may be attributed to the reduction in general and administrative expenses associated with the internalization of management of Primaris, we are performing well this year and it is reflected at the bottom line. Our liquidity remains in good stead and we are well positioned for growth when the right opportunities arise.

Our retailers' sales remained softer this past quarter including the "back to school" sales results in August. However, we did observe improved sales results in September and we are hopeful that this positive trend will continue into the important holiday season and 2011.

Primaris completed the acquisition of Cataraqui Town Centre on August 19 and our operations, IT, finance, legal and human resources teams ensured a smooth transition to our management platform.

Our annual customer satisfaction survey results are now in. Customers at a number of Primaris shopping centres were independently polled earlier this year and 94.2% of those who participated in the survey indicated that they are satisfied or very satisfied with our centres. This is important information for us and for our tenants. Satisfied consumers are important to our business.

In late September, the Board of Trustees and senior management toured Primaris' shopping centres in Calgary and Kelowna. Understanding our properties is best done in person and our Board members visit Primaris' properties from time to time to meet local management and get to know the centres and their markets.

Work continues on preparation of International Financial Reporting Standards (IFRS) information in advance of the adoption of IFRS in January 2011. Primaris has completed the valuation of its portfolio as at December 31, 2009. Valuing the portfolio will underpin the most substantive change to Primaris' financial statements upon its adoption of IFRS.

The appraisals indicate an unaudited fair 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.

Primaris continues on the path toward SIFT compliance. Although we do not currently meet the requirements of qualifying for the REIT Exemption in the SIFT legislation, management has initiated and intends to complete the required steps to qualify for the REIT Exemption by the end of 2010.

Our outlook for Q4 is solid, steady and focused. We are nearing the completion of our first year as an internally managed company. We are proud of our accomplishments and as always we are committed to delivering results.

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

(In thousands of dollars, except per unit amounts)
For the three and nine month periods ended September 30, 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 unaudited financial statements and the accompanying notes prepared for the three and nine month periods ended September 30, 2010 and 2009.

The MD&A is dated November 4, 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 dominant in their primary trade areas. 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;

(vii) 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.

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 were conducted in connection with the IFRS conversion process and may not be suitable for other purposes.

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.

	Q3 2010	Q2 2010	Q1 2010	Q4 2009
Unit price at period end	**$ 19.52**	$ 17.46	$ 16.80	$ 16.14
Distributions	**$ 21,499**	$ 19,124	$ 19,099	$ 19,075
Funds from operations[1]	**$ 24,158**	$ 23,256	$ 22,539	$ 19,605
Funds from operations per unit diluted[1]	**0.344**	0.351	$ 0.350	$ 0.310
Income-producing properties net book value	**$ 1,894,587**	$ 1,733,554	$ 1,746,766	$ 1,762,211
Occupancy (including committed space)	**97.0%**	96.6%	96.7%	97.2%
Tenant sales per square foot – same-property sales[2]	**$ 442**	$ 445	$ 446	$ 449
Debt to Gross Book Value	**53.5%**	51.1%	53.5%	53.4%
Interest Coverage (EBITDA)	**2.3**	2.2	2.2	2.2
Mortgages – weighted average term to maturity	**6.2 Years**	6.1 Years	6.3 Years	6.6 Years
Mortgages – weighted average interest rate	**5.7%**	5.7%	5.7%	5.7%
Indebtedness – % at fixed interest rates	**98.9%**	100.0%	99.6%	98.8%

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; Q3 is 12 months to August 2010, Q2 is 12 months to May 2010, Q1 2010 is 12 months to February 2010, and Q4 2009 is the 12 months to December 31, 2009.*

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 $106 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 increased slightly during the third quarter. It was 97.0% at September 30, 2010, up from 96.6% at June 30, 2010, and up from 96.4% at September 30, 2009.

For the 15 reporting properties owned throughout both the years ended August 31, 2010 and 2009, sales per square foot, on a same-tenant basis, have decreased to $442 from $451 per square foot. For the same 15 properties the total tenant sales volume has decreased 1.7%.

	Same Tenant Sales per Square Foot		Variance		All Tenant Total Sales Volume		Variance	
	2010	2009	$	%	**2010**	2009	$	%
Dufferin Mall	**539**	534	5	0.9%	**89,759,447**	86,075,978	3,683,469	4.3%
Eglinton Square	**314**	315	(1)	-0.5%	**26,464,557**	28,986,978	(2,522,421)	-8.7%
Heritage Place	**292**	300	(8)	-2.8%	**25,043,526**	27,203,481	(2,159,955)	-7.9%
Lambton Mall	**357**	356	1	0.4%	**47,887,769**	49,439,806	(1,552,037)	-3.1%
Place d'Orleans	**447**	445	2	0.5%	**108,478,802**	107,664,418	814,384	0.8%
Place Du Royaume	**384**	381	3	0.9%	**110,969,859**	106,248,684	4,721,175	4.4%
Place Fleur De Lys	**322**	326	(4)	-1.2%	**72,364,712**	74,044,554	(1,679,842)	-2.3%
Stone Road Mall	**501**	523	(22)	-4.3%	**112,319,589**	116,744,166	(4,424,577)	-3.8%
Aberdeen Mall	**364**	378	(14)	-4.0%	**47,633,199**	49,104,234	(1,471,035)	-3.0%
Cornwall Centre	**531**	540	(9)	-1.8%	**79,720,458**	78,766,478	953,980	1.2%
Grant Park	**469**	475	(6)	-1.4%	**27,292,969**	28,176,044	(883,075)	-3.1%
Midtown Plaza	**550**	567	(17)	-3.0%	**133,069,077**	136,129,506	(3,060,429)	-2.2%
Northland Village	**447**	467	(20)	-4.4%	**44,730,534**	48,085,443	(3,354,909)	-7.0%
Orchard Park	**461**	470	(9)	-2.0%	**133,923,077**	139,768,566	(5,845,489)	-4.2%
Park Place Mall	**505**	533	(28)	-5.6%	**75,760,214**	78,726,978	(2,966,764)	-3.8%
	442	451	(9)	-2.1%	**1,135,417,789**	1,155,165,314	(19,747,525)	-1.7%

The same tenants' sales decreased 2.1% 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 August 31, 2010, increased 3.2%. Primaris' sales productivity of $442 is lower than the ICSC average of $560, 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 SEPTEMBER 30, 2010, TO THE THREE MONTHS ENDED SEPTEMBER 30, 2009

Primaris' financial results, for the three months ended September 30, 2010 compared to the three month period ended September 30, 2009, are summarized below.

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Comparative Period Favourable/ (Unfavourable)
Revenue			
Minimum rent	**$ 49,382**	$ 40,917	$ 8,465
Recoveries from tenants	**28,725**	22,893	5,832
Percent rent	**885**	644	241
Parking	**1,404**	1,317	87
Interest & other income	**244**	300	(56)
Total revenue	**80,640**	66,071	14,569
Expenses			
Property operating	**20,217**	16,204	(4,013)
Property tax	**14,159**	12,259	(1,900)
Depreciation & amortization	**18,262**	18,472	210
Interest	**19,328**	14,569	(4,759)
Ground rent	**311**	305	(6)
	72,277	61,809	(10,468)
Income from operations	**8,363**	4,262	4,101
General & administrative	**(2,438)**	(3,948)	1,510
Future income taxes	**(2,600)**	(1,300)	(1,300)
Gain on sale of land	**–**	–	–
Net income	**$ 3,325**	$ (986)	$ 4,311
Depreciation of income producing properties	**16,156**	16,152	4
Amortization of leasing costs	**1,775**	2,101	(326)
Accretion of convertible debentures	**302**	283	19
Future income taxes	**2,600**	1,300	1,300
Gain on sale of land	**–**	–	–
Funds from operations	**$ 24,158**	$ 18,850	$ 5,308
Funds from operations per unit – basic	**$ 0.353**	$ 0.302	$ 0.051
Funds from operations per unit – diluted	**$ 0.344**	$ 0.304	$ 0.040
Funds from operations – payout ratio	**88.5%**	100.3%	-11.8%
Distributions per unit	**$ 0.305**	$ 0.305	$ –
Weighted average units outstanding – basic	**68,506,099**	62,442,592	6,063,507
Weighted average units outstanding – diluted	**78,285,284**	67,115,054	11,170,230
Units outstanding, end of period	**68,565,353**	62,477,749	6,087,604

Primaris acquired Cataraqui Town Centre in Kingston, Ontario in August 2010. 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 $80,640 is $14,569 greater than the comparative three month period. The total Acquisitions contributed $12,054 to this positive variance and same properties were also up $2,668. These positive operating revenue results were partially offset by a $153 reduction in corporate interest income due to lower cash balances.

Included in total revenue are non-cash amounts from straight-line rent and above & below market leases. In the three months ended September 30, 2010 non-cash revenues totalled $1,144 which is $366 higher than the comparative three month period.

Operating Expenses

Operating expenses of $34,376, before ground rent, are $5,913 greater than in the comparative three month period. The total Acquisitions account for $4,368 of the increase. The remaining properties had an increase of $1,545 due to increases in revenues.

Net Operating Income – All Properties

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Variance to Comparative Period Favourable/ (Unfavourable)
Operating revenue	**$ 80,628**	$ 65,906	$ 14,722
Operating expenses	**34,687**	28,768	(5,919)
Net operating income	**$ 45,941**	$ 37,138	$ 8,803

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 $45,941 is $8,803 greater than in the comparative three month period. The Acquisitions generated an increase of $7,686. The balance is an increase of $1,117, generated by the remainder of the properties in the portfolio.

Net Operating Income – Same Properties

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Variance to Comparative Period Favourable/ (Unfavourable)
Operating revenue	**$ 68,574**	$ 65,906	$ 2,668
Operating expenses	**30,319**	28,768	(1,551)
Net operating income	**$ 38,255**	$ 37,138	$ 1,117

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 $1,117 or 3.0% higher than the comparative period.

The $2,668 increase in same property revenues results from a $1,746 increase in recoveries, a $686 increase in minimum rent and smaller increases in percentage rent, parking and other revenues including a $28 increase in lease surrender revenues.

On a same-property basis, operating expenses were $1,551 higher than in the comparative period as a result of a $1,374 increase in recoverable expenses, a $345 increase in property taxes, a $174 decrease in non-recoverable expenses, and a $6 increase in ground rent expense. The increase in recoverable expenses is comprised of increases in many different accounts, with the largest contributor to the variance being $368 from utility expenses.

Interest Expense

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Variance to Comparative Period Favourable/ (Unfavourable)
Mortgages payable	**$ 15,493**	$ 12,147	$ (3,346)
Amortization of net loss on cash flow hedges	**59**	60	1
Convertible debentures	**3,101**	1,768	(1,333)
Bank indebtedness	**238**	133	(105)
Amortization of financing costs	**437**	461	24
Capitalized interest	**–**	–	–
	$ 19,328	$ 14,569	$ (4,759)

Interest expense of $19,328 is $4,759 higher than the comparative three month period. Convertible debenture interest expense increased $1,333 due to the issuance of a third series of convertible debentures in October 2009 and mortgage interest increased $3,649 due to the mortgages secured by the Acquisitions. Mortgage interest from the existing properties declined $303.

Depreciation and Amortization

Depreciation and amortization decreased by $210. Although the 2009 Acquisitions contributed an increase of $3,708 to this charge, the lower charges in the remainder of the properties contributed greater offsetting decreases. 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 third quarter of 2010 compared to the third quarter of 2009.

Ground Rent

Ground rent expense amounted to $311, which is $6 more than in the comparative period.

General and Administrative Expenses

General and administrative expenses decreased by $1,510, primarily due to the reduction of transition expenses. 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 quarter when compared to the previous management model. 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.

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009
Corporate expenses	**$ 2,516**	$ 296
Asset management fee	**–**	1,347
Transition costs	**(78)**	2,305
General & administrative	**$ 2,438**	$ 3,948 [1]
Property management charges	**2,432**	2,257 [2]
Leasing charges	**488**	– [2]
Development fees	**–**	13 [3]
Leasing fees	**135**	219 [4]
Total Costs	**$ 5,493**	$ 6,437

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 the non-cash expense to account for future income taxes was $2,600. The expense is a result of changes in the temporary differences between amounts recorded for accounting purposes and for tax purposes. The expense has no impact on Primaris' cash flows or distributions.

COMPARISON OF THE NINE MONTHS ENDED SEPTEMBER 30, 2010, TO THE NINE MONTHS ENDED SEPTEMBER 30, 2009

Primaris' financial results, for the nine months ended September 30, 2010 compared to the nine month period ended September 30, 2009, are summarized below.

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009	Comparative Period Favourable/ (Unfavourable)
Revenue			
Minimum Rent	**$ 144,791**	$ 122,446	$ 22,345
Recoveries from Tenants	**83,630**	71,433	12,197
Percent Rent	**1,740**	1,928	(188)
Parking	**4,388**	4,394	(6)
Interest & Other Income	**912**	1,641	(729)
Total Revenue	**235,461**	201,842	33,619
Expenses			
Property Operating	**58,486**	49,801	(8,685)
Property Tax	**41,771**	37,443	(4,328)
Depreciation & Amortization	**55,746**	56,458	712
Interest	**57,646**	43,715	(13,931)
Ground Rent	**935**	929	(6)
	214,584	188,346	(26,238)
Income from Operations	**20,877**	13,496	7,381
General & Administrative	**(6,908)**	(8,667)	1,759
Future Income Taxes	**(3,000)**	(4,600)	1,600
Gain on Sale of Land	**74**	–	74
Net Income	**$ 11,043**	$ 229	$ 10,814
Depreciation of Income Producing Properties	**49,478**	50,958	(1,480)
Amortization of leasing costs	**5,118**	5,186	(68)
Accretion of convertible debentures	**1,388**	821	567
Future income taxes	**3,000**	4,600	(1,600)
Gain on sale of land	**(74)**	–	(74)
Funds from Operations	**$ 69,953**	$ 61,794	$ 8,159
Funds from operations per unit – basic	**$ 1.073**	$ 0.991	$ 0.082
Funds from operations per unit – diluted	**$ 1.044**	$ 0.988	$ 0.056
Funds from operations – payout ratio	**87.6%**	92.6%	-5.0%
Distributions per unit	**$ 0.914**	$ 0.914	$ –
Weighted average units outstanding – basic	**65,215,815**	62,378,598	2,837,217
Weighted average units outstanding – diluted	**75,037,109**	67,152,379	7,884,730
Units outstanding, end of period	**68,565,353**	62,477,749	6,087,604

Primaris acquired Cataraqui Town Centre in Kingston, Ontario in August 2010. 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 nine month revenue of $235,461 is $33,619 higher than the comparative nine month period. The total Acquisitions contributed $31,987 to this positive variance and same properties contributed $2,936. Partially offsetting these positive operating revenue results was a $1,304 reduction in corporate interest earned as Primaris had lower cash balances during the first nine months of 2010. In addition, the prior nine month period included an $826 gain on the redemption of convertible debentures under Primaris' normal course issuer bid. No such gains were earned in 2010.

Included in total revenue are non-cash amounts from straight-line rent and above and below market leases. In the nine months ended September 30, 2010 non-cash revenues totalled $3,449 which is $927 higher than the comparative nine month period.

Operating Expenses

Operating expenses of $100,257, before ground rent, are $13,013 higher than in the comparative nine month period. The total Acquisitions account for $11,858 of the increase. The remaining properties had an increase of $1,155.

Net Operating Income – All Properties

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009	Variance to Comparative Period Favourable/ (Unfavourable)
Operating revenue	**$ 235,419**	$ 200,496	$ 34,923
Operating expenses	**101,192**	88,173	(13,019)
Net operating income	**$ 134,227**	$ 112,323	$ 21,904

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 $134,227 is $21,904 greater than in the comparative nine month period. The total Acquisitions generated an increase of $20,129. The balance, an increase of $1,775, was generated by the remainder of the properties in the portfolio.

Net Operating Income – Same Properties

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009	Variance to Comparative Period Favourable/ (Unfavourable)
Operating revenue	**$ 203,258**	$ 200,322	$ 2,936
Operating expenses	**89,258**	88,097	(1,161)
Net operating income	**$ 114,000**	$ 112,225	$ 1,775

The same-property comparison consists of the 26 properties that were owned throughout both the current and comparative nine month periods. Net operating income, on a same-property basis, was $1,775 or 1.6% higher than the comparative period.

The $2,936 increase in same property revenues is the result of a $1,873 increase in minimum rent, a $1,177 increase in recoveries, and a $142 increase in other revenues, which includes a $106 increase in lease surrender revenues. Decreases in percentage rent and parking revenue partially offset the increases.

On a same-property basis, operating expenses were $1,161 higher than in the comparative period as a result of a $591 increase in recoverable expenses, a $547 increase in property taxes, a $17 increase in non-recoverable expenses, and a $6 increase in ground rent expense.

Interest Expense

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009	Variance to Comparative Period Favourable/ (Unfavourable)
Mortgages payable	$ 45,574	$ 36,578	$ (8,996)
Amortization of net loss on cash flow hedges	178	183	5
Convertible debentures	9,792	5,345	(4,447)
Bank indebtedness	667	383	(285)
Amortization of financing costs	1,435	1,226	(208)
Capitalized interest	–	–	–
	$ 57,646	$ 43,715	$ (13,931)

Interest expense of $57,646 is $13,931 greater than the comparative nine month period. Convertible debenture interest expense increased $4,447 due to the issuance of a third series of convertible debentures in October 2009 and mortgage interest increased $9,678 due to the mortgages secured by the Acquisitions. Mortgage interest from the existing properties declined $682.

Depreciation and Amortization

Depreciation and amortization decreased by $712. The total Acquisitions added $10,254; however lower charges in the remainder of the properties more than offset this increase. 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 nine month period of 2010 compared to 2009.

Ground Rent

Ground rent expense amounted to $935, which is $6 more than in the comparative period.

General and Administrative Expenses

General and administrative expenses decreased by $1,759, 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 nine months ended September 30, 2010 when compared to the previous management model. 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.

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Corporate expenses	$ 7,036	$ 2,223
Asset management fee	–	2,937
Transition costs	(128)	3,507
General & administrative	$ 6,908	$ 8,667 [1]
Property management charges	7,076	6,872 [2]
Leasing charges	886	– [2]
Development fees	–	199 [3]
Leasing fees	387	731 [4]
Total Costs	$ 15,257	$ 16,469

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

Year to date Primaris has recorded a non-cash expense of $3,000 to account for future income taxes. The expense is a result of changes in the temporary differences between amounts recorded for accounting purposes and for tax purposes. The expense has 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.

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	**Nine Months Ended September 30, 2010**	Nine Months Ended September 30, 2009
Net Income	**$ 3,325**	$ (986)	**$ 11,043**	$ 229
Depreciation of Income Producing Properties	**16,156**	16,152	**49,478**	50,958
Amortization of leasing costs	**1,775**	2,101	**5,118**	5,186
Accretion of convertible debentures	**302**	283	**1,388**	821
Gain on sale of land	**–**	–	**(74)**	–
Future income taxes	**2,600**	1,300	**3,000**	4,600
Funds from operations	**$ 24,158**	$ 18,850	**$ 69,953**	$ 61,794
Funds from operations per unit – basic	**$ 0.353**	$ 0.302	**$ 1.073**	$ 0.991
Funds from operations per unit – diluted	**$ 0.344**	$ 0.304	**$ 1.044**	$ 0.988
Funds from operations – payout ratio	**88.5%**	100.3%	**87.6%**	92.6%
Distributions per unit	**$ 0.305**	$ 0.305	**$ 0.914**	$ 0.914
Weighted average units outstanding – basic	**68,506,099**	62,442,592	**65,215,815**	62,378,598
Weighted average units outstanding – diluted	**78,285,284**	67,115,054	**75,037,109**	67,152,379
Units outstanding, end of period	**68,565,353**	62,477,749	**68,565,353**	62,477,749

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. Primaris' disclosure of capital expenditures may assist readers in making such adjustments.

FFO for the three month period ended September 30, 2010, increased $5,308. The FFO increase is due to $4,038 contributed by the Acquisitions, $1,482 contributed from same properties and a $212 reduction due to increased corporate charges. The change in corporate charges includes the $1,510 decline in general and administrative expenses previously discussed. This favourable decline is offset by the $1,333 increase to interest expense due to the issuance of a third series of convertible debentures in October of 2009, and other small negative variances like corporate interest income and depreciation.

FFO per unit for the third quarter of 2010 had a favourable variance of $0.040 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 14.

QUARTERLY TRENDS

Selected Quarterly Information

	2010			2009				2008
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	**$ 80,640**	$ 76,425	$ 78,396	$ 72,556	$ 66,071	$ 66,753	$ 69,018	$ 71,783
Seasonal revenue	**3,313**	3,158	2,983	4,700	2,551	2,499	2,551	4,513
Net operating income	**45,941**	44,451	43,835	40,842	37,138	37,693	37,492	40,344
Net income (Loss)	**3,325**	4,798	2,920	6,437	(986)	691	524	5,149
Total assets	**1,987,899**	1,883,162	1,828,736	1,856,017	1,543,168	1,568,718	1,580,720	1,608,832
Indebtedness	**1,364,981**	1,251,997	1,278,517	1,282,470	977,595	982,526	986,636	994,130
Debt to Gross Book Value	**53.5%**	51.1%	53.5%	53.4%	49.4%	49.4%	49.3%	48.9%
Diluted net income (loss) per unit	**$ 0.049**	$ 0.074	$ 0.047	$ 0.103	$ (0.016)	$ 0.009	$ 0.008	$ 0.083
Diluted funds from operations	**$ 0.344**	$ 0.351	$ 0.350	$ 0.310	$ 0.304	$ 0.337	$ 0.347	$ 0.371
Distributions per unit	**$ 0.305**	$ 0.305	$ 0.305	$ 0.305	$ 0.305	$ 0.305	$ 0.305	$ 0.305
Units outstanding, end of period	**68,565,353**	68,430,386	62,651,506	62,534,594	62,477,749	62,413,012	62,348,408	62,269,712

Note: As at October 31, 2010, there were 68,742,314 units outstanding.

Primaris' quarterly results for the last eight quarters have been primarily affected by six factors: six 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 2009 and 2010 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 $5,668 at September 30, 2010. There are no outstanding mortgages payable that mature until 2011.

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.

At September 30, 2010, Primaris' cash position has decreased, when compared to June 30, 2010, due to the purchase of Cataraqui Town Centre. As at September 30, 2010 the balance drawn on the revolving credit facility was $15,000. There was no balance drawn as at June 30, 2010.

Interest Coverage expressed as EBITDA divided by net interest expense was 2.3 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.

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	**Nine Months Ended September 30, 2010**	Nine Months Ended September 30, 2009
Net income	**$ 3,325**	$ (986)	**$ 11,043**	$ 229
Interest	**19,328**	14,569	**57,646**	43,715
Depreciation	**16,487**	16,371	**50,628**	51,272
Amortization	**1,775**	2,101	**5,118**	5,186
Future income taxes	**2,600**	1,300	**3,000**	4,600
EBITDA	**$ 43,515**	$ 33,355	**$ 127,435**	$ 105,002
EBITDA/Interest	**2.3**	2.3	**2.2**	2.4

The Debt to Gross Book Value Ratio was 53.5% as at September 30, 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 and the remaining debt premiums of $94 associated with the IPO are included. If the convertible debentures are included, the Debt to Gross Book Value Ratio would be 60.9%.

During the three month period ended September 30, 2010, $564 of face value of the 6.75% series of convertible debentures and $841 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 September 30, 2010, of the 6.75% series is $4,023, the 5.85% series is $93,476 and the 6.30% series is $85,248.

During the current quarter, Primaris made $5,643 of scheduled principal payments on its mortgages.

Primaris paid $21,499 in distributions to Unitholders during the third quarter of 2010. Primaris instituted a Dividend Reinvestment Plan (DRIP) in October 2003. Currently, Unitholders representing approximately 3.4% of units outstanding have elected to participate in the DRIP. This represents approximately $2,681 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 $6,216 of leasing costs to date in 2010, which is comprised of $4,829 in tenant improvement allowances, $1,000 in tenant inducements and $387 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, $3,197 recorded as additional expenditures during the first three quarters and $2,988 recovered from tenants year to date. This resulted in a $21,723 recoverable improvements cost balance as at September 30, 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:

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Leasing capital	**$ 2,223**	$ 2,872	$ 4,664	$ 10,743	$ 3,695	$ 2,253	$ 1,157	$ 5,716	$ 7,920	$ 1,627
Other capital	**5,782**	3,223	9,984	35,043	14,857	8,925	318	2,426	13,632	2,462
Less: additions to productive capacity	**(4,109)**	(1,077)	(12,612)	(35,775)	(16,335)	(8,023)	(212)	(3,012)	(17,064)	(2,337)
	$ 3,896	$ 5,018	$ 2,036	$ 10,011	$ 2,217	$ 3,155	$ 1,263	$ 5,130	$ 4,488	$ 1,752

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 $1.37. 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.

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 two 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 winter 2011, the second phase will introduce a food court to improve the centre's amenities as well as replace the vacant anchor. Both changes will significantly reinforce the Mall's market presence. The project is expected to cost approximately $13.0 million and be completed by back-to-school 2011.

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 expected to cost $7.7 million and will increase the centre's market dominance to create additional consumer draw.

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;
- no remaining loan maturities in 2010;
- conservative leverage measured on both a balance sheet and operating basis; and
- leasing and development capital requirements.

At its most recent meeting on August 4, 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.

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:

	2009	2008	2007	2006	2005	2004	2003
Return of capital	**76.6%**	63.6%	80.0%	77.6%	56.4%	65.6%	74.4%
Income	**21.6%**	36.0%	20.0%	22.4%	43.6%	34.4%	25.6%
Capital gain	**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%

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

FINANCIAL CONDITION

Cash

Cash and cash equivalents of $5,668 are invested in deposit notes issued by Canadian Schedule I banks.

Income-Producing Properties

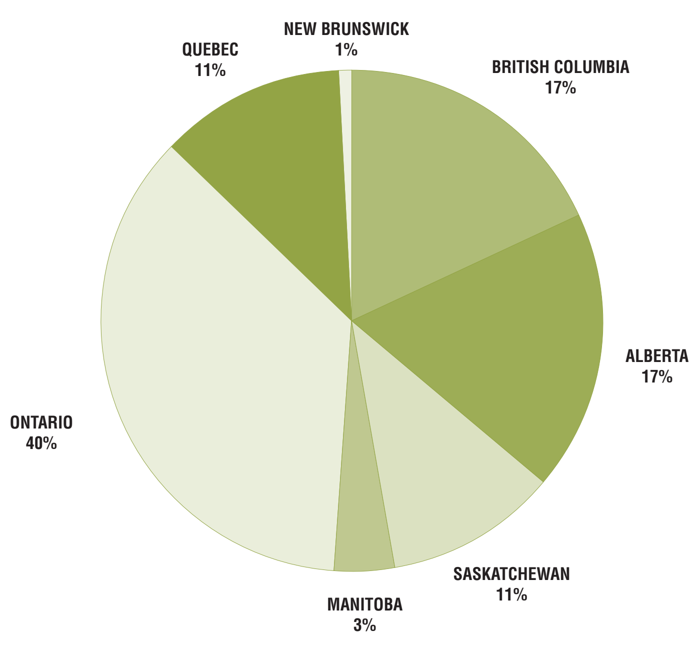
Income-producing properties represent 95.3% of total assets as at September 30, 2010. The property portfolio comprises 29 retail properties of various sizes and, as such, represents a moderate degree of market diversification. However, as revenues are earned from individual tenants and not properties 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.

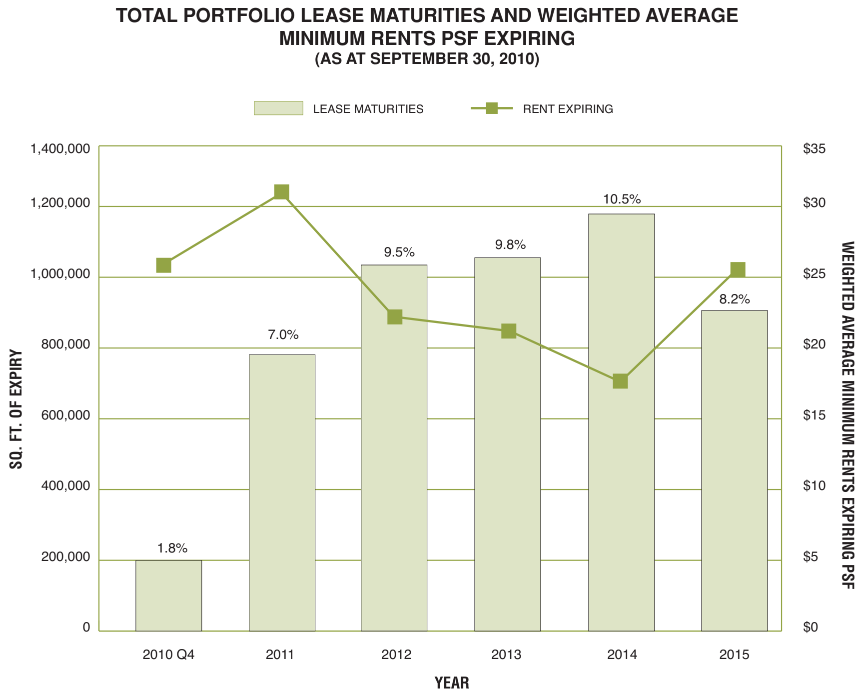
Primaris leased 625,792 square feet of space during the third quarter of 2010. This represented 98 leases of generally smaller stores and 8 major tenants. Approximately 79.8% of the space leased during the current quarter of 2010 resulted from the renewal of existing tenants (52.6% if the majors are excluded). The weighted average new rent for renewals of existing tenants in the current quarter, on a cash basis, represented a 1.9% decrease over the previous rent (5.2% increase if the majors are excluded).

Geographic Diversification

The income-producing properties are located in seven provinces. As at September 30, 2010, the portfolio distribution based on annualized minimum rent is as follows:



Lease and Rent Expiries



Lease maturities are no greater than 10.5% of the portfolio in any year between 2010 and 2015.

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 September 30, 2010.

	Tenant Groups	Percentage of Total Annual Minimum Rent	Area (Sq. Ft.)	Weighted Average Lease Term to Maturity (Years)
1	HBC	6.9%	2,278,448	7.6
2	YM	3.0%	217,547	4.2
3	Sears	2.7%	1,104,169	8.3
4	Forzani	2.6%	382,902	4.3
5	Reitmans	2.4%	150,102	3.8
6	Shoppers Drug Mart	2.4%	166,225	5.6
7	Loblaws	1.8%	323,613	5.1
8	Best Buy	1.6%	181,668	3.5
9	Canadian Tire	1.5%	220,194	10.2
10	Bell Canada	1.5%	71,922	4.1
		26.4%		

Indebtedness and Other Obligations

Year	Mortgages	Convertible Unsecured Debentures	Ground Leases	Operating Leases	Total
2010 remainder	$ 6,243		$ 294	$ 359	$ 6,896
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	120,489	97,499	1,400	1,440	220,828
Thereafter	698,750	85,248	42,525	6,631	833,154
	$ 1,174,825	$ 182,747	$ 48,242	$ 12,771	$ 1,418,585

Note: Of the total mortgages balance, $120,197 is recourse only to the underlying property.

Primaris had $1,174,825 of mortgages payable, excluding debt premiums of $4,043 and financing fees of $5,269, as at September 30, 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 6.2 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.

As a result, Primaris has developed a 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.

The plan will be implemented through 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 on-going 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 will be assessed and selected. This process is virtually 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 has completed the valuation of the investment properties. The valuation was determined by our initial portfolio valuation exercise which was based on external appraisals prepared on 100% of the investment properties.
  - The impact of accounting policy changes on contractual agreements and financial covenants is being quantified.
  - Agreements will be amended where necessary.
- Information Systems
  - Accumulation of data required to restate 2010 reports to IFRS is ongoing.
  - As new accounting policies and business procedures are identified, any impacts to the financial reporting system and data collection will be assessed.
  - Changes to the information system will be completed by the transition date.
- Internal Control over Financial Reporting and Disclosure
  - Controls over the transition to IFRS and the restatement of 2010 reporting are being identified.
  - New processes or changes to existing processes will be designed and documented (such as real estate valuation). Risks and controls associated with the new processes will be assessed.
  - 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
  - In addition to regular updates on the plan's progress, senior management will continue to provide further education to members of the Board of Trustees and Audit Committee so they can make informed decisions regarding the approval of management's selected IFRS policies.
  - Technical training for accounting staff has commenced and will be completed in the fourth quarter of 2010.
  - Education and awareness sessions will be conducted by the fourth quarter of 2010 for related departments within Primaris such as leasing.
  - Primaris will continue to communicate to users of financial reporting via 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 will be formally approved and adopted by Primaris, and rolled out with training programs. The successful implementation of the project plan will result in a system that effectively delivers IFRS compliant financial reporting.

There are some industry issues that have not yet been resolved, including the treatment of Class B units, convertible debentures and taxation. The IFRS transition project continues and is progressing in accordance with the plan to be compliant by March 31, 2011, Primaris' first IFRS reporting date.

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. Management is not yet in a position to comment on the potential impacts on Primaris' financial statements, some of which may be material. 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 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 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 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. As part of the transition plan, 100% of the investment properties were 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.

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 Operations. This could lead to increased volatility in reported net income and income per unit but should not impact Funds from Operations ("FFO").

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 cap rate (weighted by property value) was 7.0% as at January 1, 2010. Primairs' Yonge Street assets, which represent less than 2% of the portfolio value, were appraised at a cap 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 Primairs' financial statements upon its adoption of IFRS.

Leases

GAAP requires that tenant incentives be recorded as a reduction to rental revenue over the term of the lease; while tenant improvements and certain other leasing costs are capitalized and amortized through amortization expense. The interpretation of IFRS may result in funds advanced to tenants being classified as tenant incentives more often than under GAAP. This would have a negative impact on the Statement of Earnings and might necessitate a change in approach to the structure of new leases.

Under IFRS, certain land leases may meet the definition of a capital lease and require restatement of the balance sheet. The determination of the classification has begun and is expected to be complete in the fourth quarter of 2010.

IFRS requires rental revenue to be recognized on a straight-line basis over the term of the lease since inception, whereas 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 timing is being quantified. However, as Primaris was formed in July 2003, approximately five months prior to this accounting change, the quantum is not anticipated to be material.

Business Combinations

Under IFRS property acquisitions may be classified as business combinations. While both 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). This may have a material negative impact on the Statement of Earnings in the year of acquisition.

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 business combinations from the transition date only. Any assets and liabilities that no longer meet the definition under IFRS that were previously recognized on acquisition will be derecognized and reallocated to other components of the purchase price equation.

Trust Units

Under GAAP, trust units are presented as equity. The interpretation of IFRS may lead to trust units being classified as a liability rather than equity. To be classified 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 expects to present trust units as equity on IFRS prepared Financial Statements. Within Primaris, there also exist exchangeable units which may be converted to trust units without the payment of additional consideration. Industry discussion continues around whether these types of units would be recorded as debt or equity.

Income Taxes

There remains an industry-wide ongoing discussion as to whether or not the IFRS standards for income tax will require the recognition of future income taxes for entities such as Primaris which expect to meet the REIT Exception under the SIFT rules by the transition date. If required, a deferred tax asset or liability would be recognized for the temporary timing differences between assets and liabilities measured for the Financial Statements and measured for tax purposes.

RISKS AND UNCERTAINTIES

Real Property Ownership

Primaris owns 29 properties and several smaller 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 existing 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 intends to make the necessary capital and operating expenditures to ensure to the extent possible 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.

Financing Risks

Primaris has indebtedness outstanding of approximately $1,364,981 as at September 30, 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 re-financed or that the terms of such re-financing 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.

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 exception under the SIFT Rules applicable to certain Real Estate Investment Trusts (the "REIT Exception"). The stated intention of the Minister of Finance (Canada) in introducing the REIT Exception 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 Exception, 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 Exception.

To qualify for the REIT Exception 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 Exception) 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 Exception 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.

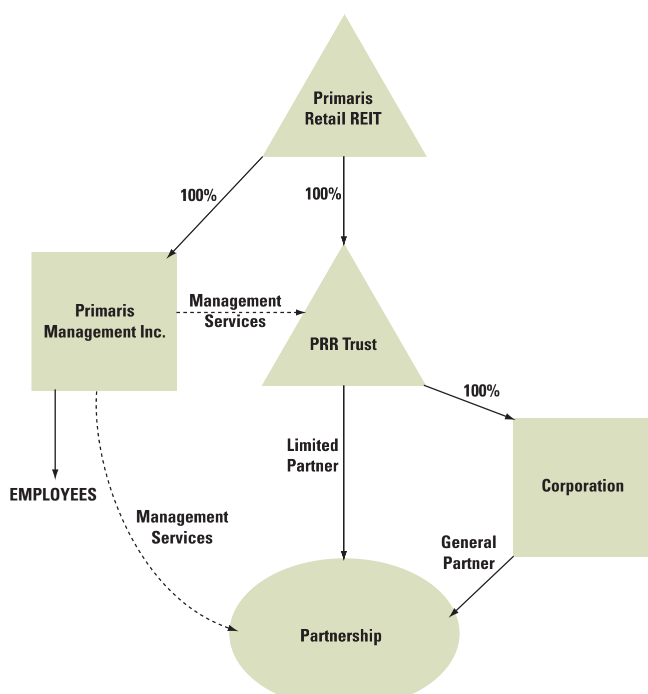
The REIT Exception is applied on an annual basis. Even with the recent amendments to the SIFT legislation, there remain certain issues with Primaris' ability to qualify for the REIT Exception. Management of Primaris intends to review alternative measures that may be available in order to qualify for the REIT Exception. These measures include certain internal restructuring of assets held by certain entities owned by Primaris and certain securities issued by such entities. Any such restructuring will be undertaken only if it is in the best interests of Primaris' Unitholders. Based on Primaris' interpretation of the REIT Exception, management expects to be able to undertake restructurings so that Primaris should qualify for the REIT Exception. No assurance can be given that Primaris will qualify for the REIT Exception.

Primaris does not currently meet the requirements of qualifying for the REIT Exemption in the SIFT legislation. Management and its advisors have performed a review of Primaris' business and have determined that there are three areas, and perhaps a fourth area, of non-compliance. Management intends to take the required steps to qualify for the REIT Exemption by the end of 2010. All of these issues fall within the category of what is described as "bad revenues" and the second issue also falls within the "bad property" category.

1. **Land Rent.** Primaris has an internal land lease that is generating bad revenues to Primaris. Primaris plans to unwind the land lease, thereby eliminating the bad revenue. If this transaction is required, Primaris expects this transaction will increase the taxable portion of its distribution in the year of the unwinding of the lease.
2. **Primaris Units.** In the past, Primaris made two separate acquisitions using partnership structures. Units of Primaris were issued at the time and placed in the respective acquiring partnership. The monthly distributions on the Primaris units represent bad revenue to the partnerships and hence to Primaris. As well, the Primaris units represent a bad asset to the partnership.

   Primaris is proceeding with obtaining the necessary approvals to reorganize the partnerships to remove this bad revenue and bad asset.
3. **Management Fees.** Primaris owns a management company, Primaris Management Inc. ("PMI"), which is the employer of Primaris' employees. PMI manages all of Primaris' assets and charges a management fee to the properties. Management fees are bad revenue if they are earned from real estate not directly owned by Primaris or an entity in which Primaris has an interest.

   Management intends to have PMI purchase a part interest in partnerships currently owned by PRR Trust to resolve this issue.



4. **Capital Gains.** The fourth issue relates to potential future capital gains earned by Primaris on asset dispositions. Primaris is in discussions with the tax authorities to clarify the interpretation of some of the REIT rules as to whether capital gains on the disposition of real estate flow through the existing structure as "good" or "qualifying" revenue under the REIT rules. If the interpretation received is not favourable, the subtrust (or one layer) will have to be eliminated through a complex restructuring.

   Whatever the outcome, this issue is not a problem until Primaris earns a capital gain after January 1, 2011. However, management is of the view that the flexibility of selling assets is important. Therefore, in the event of an unfavourable interpretation by the tax authorities on this issue, Primaris is likely to undergo the required reorganization.

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.

There were no changes in internal control over financial reporting during the third 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 during the quarter but management will need a few months of positive data to confirm a change in this trendline. A return to normal higher rent growth will generally lag a general economic recovery.

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 and management therefore expects the payout ratio to remain at these lower levels. 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 this year.

Interim Consolidated Balance Sheets

(In thousands of dollars)

	September 30, 2010	December 31, 2009
	(Unaudited)	
Assets		
Income-producing properties (note 3)	**$ 1,894,587**	$ 1,763,426
Leasing costs (note 4)	**42,196**	41,209
Rents receivable (note 5)	**4,243**	4,907
Other assets and receivables (note 6)	**41,205**	31,023
Cash and cash equivalents	**5,668**	15,452
	$ 1,987,899	$ 1,856,017
Liabilities and Unitholders' Equity		
Liabilities:		
Mortgages payable (note 8)	**$ 1,173,599**	$ 1,089,966
Convertible debentures (note 9)	**166,140**	166,461
Bank indebtedness (note 10)	**15,000**	15,000
Accounts payable and other liabilities (note 11)	**57,525**	63,815
Distribution payable	**6,973**	6,358
Future income taxes (note 17)	**45,000**	43,000
	1,464,237	1,384,600
Unitholders' equity	**523,662**	471,417
	$ 1,987,899	$ 1,856,017

See accompanying notes to interim consolidated financial statements.

Interim Consolidated Statements of Income

(In thousands of dollars, except per unit amounts)

(Unaudited)

	Three months ended September 30, 2010	2009	Nine months ended September 30, 2010	2009
Revenue:				
Minimum rent	**$ 49,382**	$ 40,917	**$ 144,791**	$ 122,446
Recoveries from tenants	**28,725**	22,893	**83,630**	71,433
Percentage rent	**885**	644	**1,740**	1,928
Parking	**1,404**	1,317	**4,388**	4,394
Interest and other	**244**	300	**912**	1,641
	80,640	66,071	**235,461**	201,842
Expenses:				
Property operating	**20,217**	16,204	**58,486**	49,801
Property taxes	**14,159**	12,259	**41,771**	37,443
Depreciation	**16,487**	16,371	**50,628**	51,272
Amortization	**1,775**	2,101	**5,118**	5,186
Interest (note 14)	**19,328**	14,569	**57,646**	43,715
Ground rent	**311**	305	**935**	929
General and administrative	**2,438**	3,948	**6,908**	8,667
	74,715	65,757	**221,492**	197,013
Income before gain on sale of land and income taxes	**5,925**	314	**13,969**	4,829
Gain on sale of land	**–**	–	**74**	–
Income before income taxes	**5,925**	314	**14,043**	4,829
Future income taxes (note 17)	**2,600**	1,300	**3,000**	4,600
Net income (loss)	**$ 3,325**	$ (986)	**$ 11,043**	$ 229
Basic and diluted net income (loss) per unit (note 12(d))	**$ 0.05**	$ (0.02)	**$ 0.17**	$ 0.00

Interim Consolidated Statements of Comprehensive Income

(In thousands of dollars)

(Unaudited)

	Three months ended September 30, 2010	2009	Nine months ended September 30, 2010	2009
Net income (loss)	**$ 3,325**	$ (986)	**$ 11,043**	$ 229
Amortization of deferred net loss on cash flow hedges	**59**	60	**178**	183
Comprehensive income (loss)	**$ 3,384**	$ (926)	**$ 11,221**	$ 412

See accompanying notes to interim consolidated financial statements.

Interim Consolidated Statements of Unitholders' Equity

(In thousands of dollars)

(Unaudited)

Nine months ended September 30, 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 period	**$ 775,827**	**$ 618**	**$ 49,849**	**$ (367,938)**	**$ 15,241**	**$ (2,180)**	**$ 471,417**
Net income	**–**	**–**	**11,043**	**–**	**–**	**–**	**11,043**
Distributions	**–**	**–**	**–**	**(59,722)**	**–**	**–**	**(59,722)**
Amortization of deferred loss on cash flow hedges	**–**	**–**	**–**	**–**	**–**	**178**	**178**
Equity incentive plan (note 12(e))	**736**	**903**	**–**	**–**	**–**	**–**	**1,639**
Issuance of units under distribution reinvestment plan	**2,044**	**–**	**–**	**–**	**–**	**–**	**2,044**
Issuance of units, net	**94,523**	**–**	**–**	**–**	**–**	**–**	**94,523**
Conversion of convertible debentures to units, net of costs	**2,671**	**–**	**–**	**–**	**(131)**	**–**	**2,540**
Unitholders' equity, end of period	**$ 875,801**	**$ 1,521**	**$ 60,892**	**$ (427,660)**	**$ 15,110**	**$ (2,002)**	**$ 523,662**

Nine months ended September 30, 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 period	$ 772,686	$ –	$ 43,183	$ (291,756)	$ 8,530	$ (2,423)	$ 530,220
Net income	–	–	229	–	–	–	229
Distributions	–	–	–	(57,107)	–	–	(57,107)
Amortization of deferred loss on cash flow hedges	–	–	–	–	–	183	183
Equity incentive plan (note 12(e))	–	54	–	–	–	–	54
Issuance of units under distribution reinvestment plan	2,089	–	–	–	–	–	2,089
Issuance of units under asset management agreement	57	–	–	–	–	–	57
Conversion of convertible debentures to units, net of costs	162	–	–	–	(4)	–	158
Purchase of convertible debentures under normal course issuer bid	–	543	–	–	(565)	–	(22)
Unitholders' equity, end of period	$ 774,994	$ 597	$ 43,412	$ (348,863)	$ 7,961	$ (2,240)	$ 475,861

See accompanying notes to interim consolidated financial statements.

Interim Consolidated Statements of Cash Flows

(in thousands of dollars)

	Three months ended September 30, 2010	2009	Nine months ended September 30, 2010	2009
Cash provided by (used in):				
Operations:				
Net income (loss)	**$ 3,325**	$ (986)	**$ 11,043**	$ 229
Items not involving cash:				
Depreciation of income-producing properties	**15,151**	15,276	**46,490**	48,441
Amortization of recoverable improvements	**1,005**	876	**2,988**	2,517
Amortization of leasing commissions and tenant improvements	**1,775**	2,101	**5,118**	5,186
Accretion of convertible debentures	**302**	283	**1,388**	821
Future income taxes	**2,600**	1,300	**3,000**	4,600
Gain on sale of land	**–**	–	**(74)**	–
	24,158	18,850	**69,953**	61,794
Change in non-cash operating items:				
Gain on purchase of convertible debentures under normal course issuer bid	**–**	–	**–**	(727)
Depreciation of fixtures and equipment	**331**	214	**1,150**	309
Amortization of above- and below-market leases	**(593)**	(420)	**(1,812)**	(1,483)
Amortization of tenant inducements	**37**	36	**111**	109
Amortization of financing costs	**523**	359	**1,730**	1,124
Other (note 15)	**4,718**	(873)	**(17,869)**	(10,319)
Leasing commissions	**(135)**	(219)	**(387)**	(731)
Tenant inducements	**(1,000)**	–	**(1,000)**	(53)
	28,039	17,947	**51,876**	50,023
Financing:				
Mortgage principal repayments	**(5,643)**	(4,689)	**(16,510)**	(13,865)
Financing costs	**(630)**	–	**(988)**	(14)
Proceeds of new financing	**105,000**	–	**105,000**	–
Bank indebtedness	**15,000**	–	**–**	–
Repayment of financing	**–**	–	**(3,685)**	–
Distributions to Unitholders	**(20,896)**	(19,049)	**(59,107)**	(57,089)
Issuance of units, net of costs	**765**	678	**95,803**	2,093
Purchase of convertible debentures under normal course issuer bid	**–**	–	**–**	(5,127)
	93,596	(23,060)	**120,513**	(74,002)
Investments:				
Acquisition of income-producing properties (note 2)	**(169,322)**	–	**(169,322)**	(3,594)
Additions to land, buildings and building improvements	**(2,970)**	(800)	**(4,785)**	(4,972)
Additions to tenant improvements	**(2,444)**	(1,954)	**(4,829)**	(7,697)
Additions to recoverable improvements	**(1,548)**	(1,027)	**(3,197)**	(4,321)
Additions to fixtures and equipment	**–**	(1,807)	**(128)**	(4,893)
Proceeds from sale of land	**–**	–	**88**	–
	(176,284)	(5,588)	**(182,173)**	(25,477)
Decrease in cash and cash equivalents	**(54,649)**	(10,701)	**(9,784)**	(49,456)
Cash and cash equivalents, beginning of period	**60,317**	58,669	**15,452**	97,424
Cash and cash equivalents, end of period	**$ 5,668**	$ 47,968	**$ 5,668**	$ 47,968
Supplemental cash flow information:				
Interest paid	**$ (21,803)**	$ (14,446)	**$ (60,278)**	$ (43,550)
Supplemental disclosure of non-cash operating and financing activities:				
Value of units issued under asset management agreement	**–**	–	**–**	57
Value of units issued under incentive plan	**135**	25	**1,403**	54
Value of units issued from conversion of convertible debentures	**1,405**	162	**2,730**	162
Financing costs transferred to equity upon conversion of convertible debentures	**(50)**	(7)	**(99)**	(7)
Financing accumulated amortization transferred to equity upon conversion of convertible debentures	**13**	3	**40**	3
Impact on the future tax liability arising from the cost of issuing units	**–**	–	**1,000**	–

See accompanying notes to interim consolidated financial statements.

Notes to Interim Consolidated Financial Statements

(In thousands of dollars, except per unit amounts)

Three months and nine months ended September 30, 2010 and 2009
(Unaudited)

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) *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.

(c) *Income-producing properties:*

Income-producing properties include land, buildings and building improvements, acquired 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 typically up to 10 years.

1. Significant accounting policies (cont'd)

(d) 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 original 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.

(e) 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 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.

(f) 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.

(g) 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.

(h) 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.

(i) 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.

(j) 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 of the award has the option to settle in cash in which case the award is classified as a liability.

(k) 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 and bank indebtedness as held for trading; rents receivable, loan payment subsidy and other receivables as loans and receivables; and mortgages payable, convertible debentures, 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.

(l) 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.

1. Significant accounting policies (cont'd)

(m) Income taxes:

Primaris uses the asset and liability method of accounting for income taxes. 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 periods 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 period that includes the date of enactment or substantive enactment (note 17).

(n) 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, expenses and cash flows during the periods. 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. ACQUISITION:

During the nine months ended September 30, 2010, Primaris completed the purchase of Cataraqui Town Centre located in Kingston, Ontario. During the nine months ended September 30, 2009, Primaris completed the purchase of a property on Yonge Street, Toronto, Ontario. 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 preliminary purchase price allocations to net assets were as follows:

	2010	2009
	(Unaudited)	
Land	**$ 16,441**	$ 5,623
Buildings	**140,975**	1,791
In-place leasing costs	**15,255**	10
Above-market rent leases	**483**	4
Below-market rent leases	**(2,290)**	(34)
Other assets	**1,552**	–
Other liabilities	**(3,094)**	–
	169,322	7,394
Less vendor take-back mortgage	**–**	(3,800)
Purchase price paid in cash, including acquisition costs of $3,264 (2009 – $444)	**$ 169,322**	$ 3,594

Primaris received mortgage funding of $105,000 of the purchase price. The loan has a term of ten years and bears interest at 5.3%.

3. INCOME-PRODUCING PROPERTIES:

September 30, 2010 (Unaudited)	Cost	Accumulated depreciation and amortization	Net book value
Land	$ 387,389	$ –	$ 387,389
Buildings	1,517,926	159,498	1,358,428
Building improvements	50,868	18,437	32,431
In-place leasing costs	153,611	58,995	94,616
Recoverable improvements	33,988	12,265	21,723
	$ 2,143,782	$ 249,195	$ 1,894,587

December 31, 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 $22,614 (December 31, 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:

September 30, 2010 (Unaudited)	Cost	Accumulated amortization	Net book value
Leasing commissions	$ 6,554	$ 2,594	$ 3,960
Tenant improvements	52,212	16,241	35,971
Tenant inducements	2,776	511	2,265
	$ 61,542	$ 19,346	$ 42,196

December 31, 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:

	September 30, 2010 (Unaudited)	December 31, 2009
Rents receivable, net of allowance of $1,087 (December 31, 2009 – $1,168)	**$ 1,609**	$ 1,772
Accrued recovery revenue	**1,175**	733
Accrued percentage rent	**650**	1,092
Other amounts receivable	**809**	1,310
	$ 4,243	$ 4,907

6. OTHER ASSETS AND RECEIVABLES:

	September 30, 2010 (Unaudited)	December 31, 2009
Loan payment subsidy (note 8)	**$ –**	$ 1,360
Straight-line rents	**10,695**	9,073
Above-market rent leases, net of accumulated amortization of $5,920 (December 31, 2009 – $5,560)	**1,472**	1,349
Prepaid realty taxes	**11,639**	1,303
Prepaid ground rent	**5,966**	5,875
Fixtures and equipment, net of accumulated depreciation of $1,837 (December 31, 2009 – $687)	**5,241**	6,263
Other assets	**6,192**	5,800
	$ 41,205	$ 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 Nine months ended September	
	September 30, 2010 (Unaudited)	December 31, 2009	2010 (Unaudited)	2009
In-place leasing costs (note 3)	**$ 94,616**	$ 95,664	**$ 16,321**	$ 23,743
Above-market rent leases (note 6)	**1,472**	1,349	**360**	439
Below-market rent leases (note 11)	**(10,116)**	(9,998)	**(2,172)**	(1,992)

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% (December 31, 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% (September 30, 2009 – 5.68%). Mortgages payable mature at various dates between 2011 and 2022.

	September 30, 2010	December 31, 2009
	(Unaudited)	
Mortgages payable	$ 1,174,825	$ 1,090,020
Mark-to-market adjustment	4,043	5,126
Financing costs, net of accumulated amortization of $2,835 (December 31, 2009 – $2,691)	(5,269)	(5,180)
	$ 1,173,599	$ 1,089,966

Future principal payments on the mortgages payable at September 30, 2010 are as follows:

	Payments on maturity	Total annual payments	Total
			(Unaudited)
2010	$ –	$ 6,243	$ 6,243
2011	37,456	24,705	62,161
2012	21,454	26,699	48,153
2013	215,444	23,585	239,029
2014	99,105	21,384	120,489
Thereafter	619,555	79,195	698,750
	$ 993,014	$ 181,811	$ 1,174,825

9. CONVERTIBLE DEBENTURES:

	September 30, 2010				December 31, 2009
	6.75% convertible debentures	5.85% convertible debentures	6.30% convertible debentures	Total	Total
				(Unaudited)	
Principal balance, beginning of year	$ 5,751	$ 93,476	$ 86,250	$ 185,477	$ 106,058
Issued	–	–	–	–	86,250
Conversions	(1,728)	–	(1,002)	(2,730)	(353)
Repurchases	–	–	–	–	(6,478)
Principal balance, end of period	$ 4,023	$ 93,476	$ 85,248	$ 182,747	$ 185,477
Debt component	$ 3,978	$ 88,402	$ 78,733	$ 171,113	$ 172,324
Financing costs	(175)	(3,623)	(3,428)	(7,226)	(7,325)
Accumulated amortization	106	1,628	519	2,253	1,462
	$ 3,909	$ 86,407	$ 75,824	$ 166,140	$ 166,461

9. Convertible debentures (cont'd)

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	September 30, 2010 principal balance	Maturity	Interest rate	Conversion price	Redemption date after
6.75%	$ 4,023	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%	85,248	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 nine months ended September 30, 2010, holders of $1,728 (September 30, 2009 – $162) of convertible debentures at face value exercised their option to convert to units. Of the $1,728, $42 was recorded as a reduction of the original equity component and $1,686 was recorded as a reduction of the debt component. This ratio is consistent with the original equity and debt ratio. A total of 141,052 units were issued on conversion. As at September 30, 2010, the outstanding face value of this series of debentures was $4,023 (December 31, 2009 – $5,751).

(b) 5.85% convertible debentures:

During the nine months ended September 30, 2010, no (September 30, 2009 – nil) convertible debentures were repurchased under Primaris' normal course issuer bid. 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 September 30, 2010, the outstanding face value of this series of debentures was $93,476 (December 31, 2009 – $93,476).

(c) 6.30% convertible debentures:

On October 6, 2009, Primaris issued $86,250 of 6.30% convertible debentures. During the nine months ended September 30, 2010, holders of $1,002 of convertible debentures at face value exercised their option to convert to units. Of the $1,002, $89 was recorded as a reduction of the original equity component and $913 was recorded as a reduction of the debt component. As at September 30, 2010, the outstanding face value of this series of debentures was $85,248 (December 31, 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 both September 30, 2010 and December 31, 2009, $15,000 was drawn on the operating line.

11. ACCOUNTS PAYABLE AND OTHER LIABILITIES:

	September 30, 2010	December 31, 2009
	(Unaudited)	
Accounts payable and accrued liabilities	$ 43,877	$ 50,239
Tenant deposits	3,049	2,957
Deferred revenue	483	621
Below-market rent leases, net of accumulated amortization of $13,144 (December 31, 2009 – $10,972)	10,116	9,998
	$ 57,525	$ 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 September 30, 2010, there were 2,217,261 exchangeable units issued and outstanding by subsidiaries of Primaris with a stated value of $32,821 (December 31, 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:

	Nine months ended September 30, 2010		2009	
	Units	Amount	Units	Amount
	(Unaudited)			
Balance, beginning of period	62,534,594	$ 775,827	62,269,712	$ 772,686
Issuance of units under the distribution reinvestment plan	116,966	2,044	189,132	2,089
Other (note 20(a))	–	–	5,681	57
Conversion of debentures (note 9)	201,050	2,671	13,224	162
Units issued under equity compensation arrangement	48,993	736	–	–
Units issued, net of costs	5,663,750	94,523	–	–
Balance, end of period	68,565,353	$ 875,801	62,477,749	$ 774,994

12. Unitholders' equity (cont'd)

(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:

During the nine months ended September 30, 2009, pursuant to the issuer bid initiated in November 2008, which expired on November 30, 2009, Primaris repurchased convertible debentures with a face value of $6,478 for consideration of $5,127. No units were repurchased in 2009. In December 2009, Primaris renewed its normal course issuer bid (note 18); however, no convertible debentures or units were repurchased during the nine month period ended September 30, 2010.

(d) Per unit calculations:

Per unit information is calculated based on the weighted average number of units outstanding (including the exchangeable units) for the three months ended September 30, 2010 of 68,506,099 units (September 30, 2009 – 62,442,592) and for the nine months ended September 30, 2010 of 65,215,815 units (September 30, 2009 – 62,378,598). The weighted average number of diluted units for the three months ended September 30, 2010 is 78,285,284 units (September 30, 2009 – 67,115,054) and for the nine months ended September 30, 2010 is 75,037,109 units (September 30, 2009 – 67,152,379). 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 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. This award was made on February 26, 2010 with a supplement grant on March 19, 2010 to amend the options granted. 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 the options expire February 25, 2017 and the exercise prices were calculated as the volume 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.

12. Unitholders' equity (cont'd)

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:

	September 30, 2010	September 30, 2009
	(Unaudited)	
Unit-based compensation expense	**$ 692**	$ 54
Unit options granted	**483,187**	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

The movements in options during the nine months ended September 30, 2010 and year ended December 31, 2009 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, September 30, 2010	664,775	15.73	December 2015 to February 2017

Of the options issued, 237,491 were exercisable at September 30, 2010 (December 31, 2009 – nil).

As at September 30, 2010, the following options were outstanding:

Exercise price	Number of options	Remaining weighted average life (in months)
$10.70	91,588	63.9
$14.06	90,000	71.4
$16.81	276,093	76.1
$17.17	3,878	78.0
$17.25	203,216	78.0
$10.70 – $17.25	664,775	

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.

	September 30, 2010	December 31, 2009
	(Unaudited)	
Assets	$ 107,958	$ 107,747
Liabilities	2,026	525

	Three months ended September 30, 2010	2009	Nine months ended September 30, 2010	2009
	(Unaudited)		(Unaudited)	
Revenue	$ 2,970	$ –	$ 8,743	$ –
Expenses	1,964	–	5,981	–
Cash provided by (used in):				
Operations	$ 150	$ –	$ 2,001	$ –
Financing	–	–	–	–
Investments	–	–	(18)	–

In addition to the above, Primaris' liabilities include a $63,000 (December 31, 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 $22,614 (December 31, 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:

	Three months ended September 30, 2010	2009	Nine months ended September 30, 2010	2009
	(Unaudited)		(Unaudited)	
Mortgages payable	$ 15,493	$ 12,147	$ 45,574	$ 36,578
Amortization of net deferred loss on cash flow hedges	59	60	178	183
Convertible debentures	3,101	1,768	9,792	5,345
Bank indebtedness	238	133	667	383
Amortization of financing costs	437	461	1,435	1,226
	$ 19,328	$ 14,569	$ 57,646	$ 43,715

15. CHANGE IN OTHER NON-CASH OPERATING ITEMS:

	Three months ended September 30, 2010	2009	Nine months ended September 30, 2010	2009
	(Unaudited)		(Unaudited)	
Rents receivable	$ 587	$ 1,720	$ 664	$ 705
Other assets and receivables, excluding above-market rent leases and acquisitions	4,411	303	(9,529)	(11,403)
Accounts payable and other liabilities, excluding below-market leases and acquisitions	(115)	(2,614)	(9,502)	1,194
Deferred net loss on cash flow hedges	59	60	178	183
Value of units issued under incentive plan	135	25	1,403	54
Value of units issued under asset management agreement	–	–	–	57
Mortgage premium	(359)	(367)	(1,083)	(1,109)
	$ 4,718	$ (873)	$ (17,869)	$ (10,319)

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% (December 31, 2009 – 6.5%) of Primaris' minimum rent.

17. INCOME TAXES:

Primaris currently qualifies as a Mutual Fund Trust for Canadian income tax purposes. Prior to new legislation relating to the federal income taxation of publicly listed or traded trusts, as discussed below, 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 individual Unitholder level. For financial statement reporting purposes, the tax deductibility of Primaris' distributions was treated as an exemption from taxation as Primaris distributed all of its taxable income to its Unitholders. Accordingly, prior to the new legislation, Primaris did not record a provision for income taxes, or future income tax assets or liabilities, in respect of Primaris or its wholly owned subsidiary trust.

On June 22, 2007, legislation relating to the federal income taxation of a "specified investment flow-through" trust or partnership (a "SIFT") received Royal Assent (the "SIFT Rules"). A SIFT includes a publicly listed or traded trust, such as an income trust and a real estate investment trust. Primaris is a SIFT, as discussed below.

Under the SIFT Rules, following a transition period for qualifying SIFTs, certain distributions from a SIFT will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. Distributions paid by a SIFT as returns of capital will not be subject to 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 September 30, 2010, Primaris had not exceeded this limit.

Under the SIFT Rules, the new taxation regime will not apply to a trust that meets prescribed conditions relating to the nature of its income and investments (the "REIT Conditions"). As currently structured, Primaris does not meet the REIT Conditions and, therefore, is a SIFT. Accordingly, Primaris intends to restructure to meet the REIT Conditions prior to 2011.

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 are recorded using substantively enacted tax rates and laws expected to apply when the temporary differences are expected to reverse.

Temporary differences expected to reverse in years 2011, 2012 and 2013 have been measured using tax rates of 28.25%, 26.25% and 25.50%, respectively. Temporary differences expected to reverse in or after 2014 have been measured using a tax rate of 25.00%. Between December 31, 2009 and September 30, 2010, Primaris has recorded a non cash future tax expense of $3,000. The future income tax expense is primarily a result of certain costs deducted for tax purposes.

The tax effects of temporary differences that give rise to significant portions of the future income tax liability are as follows:

	September 30, 2010	December 31, 2009
	(Unaudited)	
Future income tax liabilities:		
Income-producing properties	$ 31,400	$ 31,000
Leasing costs	10,500	9,000
Other assets and receivables	4,400	2,700
Other	(1,300)	300
Future income taxes	$ 45,000	$ 43,000

No provision for current income taxes is required at September 30, 2010 since Primaris expects to distribute all of its taxable income to its Unitholders.

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 nine months ended September 30, 2010.

18. Capital management (cont'd)

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 September 30, 2010 and December 31, 2009 were as follows:

	September 30, 2010	December 31, 2009	Change
	(Unaudited)		
Debt to Gross Book Value	**53.5%**	53.4%	0.1%
Interest Coverage (rolling four quarters)	**2.2x**	2.3x	(0.1)x
Debt Service Coverage (rolling four quarters)	**1.7x**	1.8x	(0.1)x
Unitholders' equity	**$ 817,857**	$ 738,242	$ 79,615

For the nine months ended September 30, 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 2009, Primaris renewed its normal course issuer bid, which entitles Primaris to acquire up to 3,000,000 units, $582 of the 6.75% convertible debentures, $9,347 of the 5.85% convertible debentures and $8,625 of the 6.30% convertible debentures. Purchases under the bid were authorized to commence on December 4, 2009 and must terminate on the earlier of: (i) December 4, 2010; (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 in 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 of Primaris' operating line, on which $15,000 has been drawn at September 30, 2010, are in note 10.

19. Risk management and fair values (cont'd)

(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 with the exception of bank indebtedness (note 10). 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:

	September 30, 2010		December 31, 2009	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	(Unaudited)			
Mortgages payable	**$ 1,173,599**	**$ 1,226,610**	$ 1,089,966	$ 1,055,199
Convertible debentures	**166,140**	**201,172**	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.

	Three months ended September 30, 2010	2009	Nine months ended September 30, 2010	2009
	(Unaudited)		(Unaudited)	
Asset management fees	$ –	$ 1,034	$ –	$ 2,937
Development fees	–	13	–	199
	$ –	$ 1,047	$ –	$ 3,136

Asset management fees were included in general and administrative expenses and development fees were capitalized to income-producing properties. Primaris has also reimbursed the asset manager for $110 of general and administrative costs during the nine months ended September 30, 2009.

Of these fees, $1,058 was included in accounts payable and other liabilities at September 30, 2009. During the nine months ended September 30, 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.

	Three months ended September 30, 2010	2009	Nine months ended September 30, 2010	2009
	(Unaudited)		(Unaudited)	
Property management fees	$ –	$ 2,257	$ –	$ 6,872
Leasing fees	–	147	–	544
	$ –	$ 2,404	$ –	$ 7,416

Of these fees, $407 was included in accounts payable and other liabilities at September 30, 2009. Primaris also reimbursed the property manager for certain property operating costs.

(c) Primaris had one loan payment subsidy at September 30, 2009, with Oxford Properties Group. The loan payment subsidy was fully repaid in January 2010 (note 6).

	Three months ended September 30, 2010	2009	Nine months ended September 30, 2010	2009
	(Unaudited)		(Unaudited)	
Loan interest payment subsidy received	$ –	$ 22	$ 7	$ 70

The loan 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 nine months ended September 30, 2009, Primaris expensed interest of $4,449 on this mortgage. The balance outstanding as at December 31, 2009 was $107,134.

20. Related Party Transactions (cont'd)

(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 were in the normal course of operations and were measured at the exchange amount, which was 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 fully indemnified Primaris 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:

2010 (remainder)	$	294
2011		1,248
2012		1,375
2013		1,400
2014		1,400
Thereafter		42,525
	$	48,242

(c) Primaris entered into operating leases for office space with lease payments as follows:

2010 (remainder)	$	359
2011		1,436
2012		1,436
2013		1,469
2014		1,440
Thereafter		6,631
	$	12,771

(d) 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 $223 (December 31, 2009 – $229) for these potential restoration costs.

(e) Primaris has issued letters of credit in the amount of $1,592 (December 31, 2009 – $1,822).

(f) 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.

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