THE DIFFERENCE IS IN primaris

PRIMARIS RETAIL
REAL ESTATE
INVESTMENT TRUST

ANNUAL REPORT 2009

We enhance the value of our business through our expertise in owning, managing and investing in retail properties that deliver superior performance to our Unitholders.

We foster an empowering work environment, emphasizing accountability and results. We distinguish ourselves by creating positive experiences for customers and retailers.

That's the Primaris difference.

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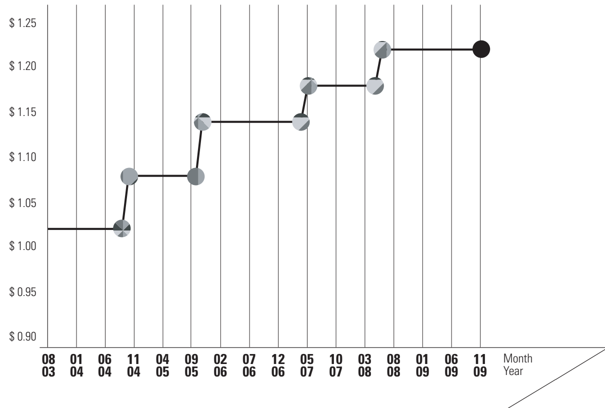
Financial Highlights

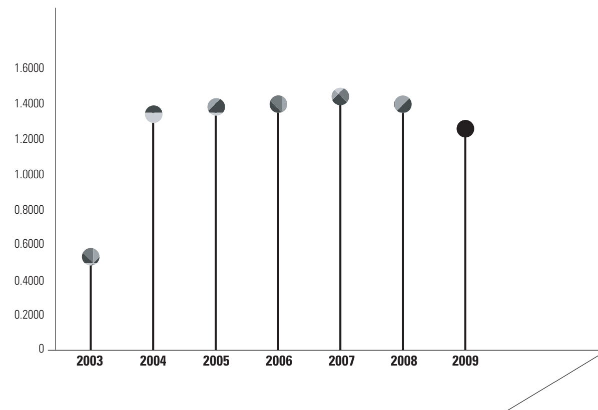
Income Statement (000's)

Years ended December 31, 2009 and 2008

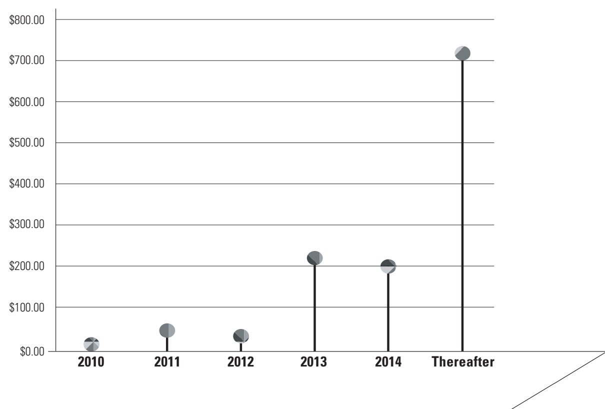
		2009		2008
Revenue		274,398		269,733
Expenses		265,532		259,454
Net income	$	6,666	$	9,777
FFO per unit diluted		1.297		1.435
Basic and diluted net income per unit	**$**	**0.107**	**$**	**0.157**



Distributions per unit



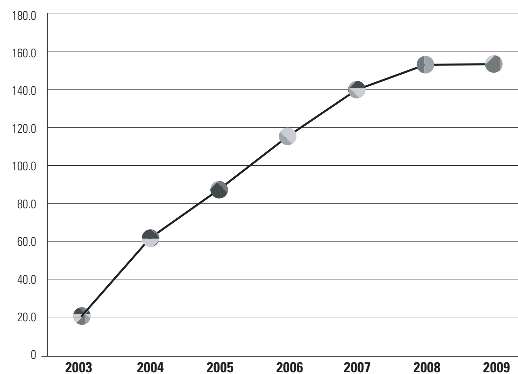
FFO per unit Diluted



Debt Maturity (Millions)

Roland A. Cardy Chairman of the Board

THE DIFFERENCE IS... IN OUR **SENIOR MANAGEMENT**



Net Operating Income – all properties

The year 2010 marks the beginning of a new era for Primaris, primarily due to the move to an internalized management structure. Our contractual relationship with our external property and asset managers ended as planned on December 31, 2009.

Just about two years ago, the Board recognized that the time was right to internalize management at Primaris and so the preparation began. Since that time, we hired a seasoned real estate executive to take the role of Chief Executive Officer, John R. Morrison, who has been in place since August 2009. John and Chief Financial Officer Louis Forbes successfully steered the transition of Primaris to its new management platform, overseeing the establishment of a new head office in downtown

The continuity of a strong management team has made the transition to an internally managed operation successful. This significantly reduced the risk that is inherent in such undertakings.

Toronto, executing job offers for over four hundred management and staff and implementing a new enterprise resource management system. The transition was successfully completed and the new structure has been operating smoothly since January 2010.

The internalized management structure enhances accountability between the Board and management. It will also provide for greater transparency on a number of important governance matters such as disclosure about executive compensation and related performance metrics. We believe that this is important to our Unitholders. At Primaris we intend to continue to build on the governance practices that have characterized our stewardship to date. A new compensation philosophy is being developed to ensure the appropriate alignment of management interests with those of the Unitholders. Performance measures are being put in place that incent, reward and retain our best employees and bring about the continued stable growth that is so important for generating returns to our Unitholders.

The past year was a period of economic uncertainty and volatility which left investors feeling insecure about their investments. Investors expect real estate investment trusts to be reliable in their rate of distributions and that is what we have been. Primaris has maintained its rate of distributions which provides a current yield of 7% to investors. We intend to continue delivering strong returns in the coming years as Primaris proposes to continue to qualify as a real estate investment trust once the federal SIFT rules (Specified Investment Flow-Through rules) are implemented in January 2011.

Primaris has grown significantly in the past seven years. The addition of over 22 properties since the initial public offering brings our asset size to 28 principal properties valued at $1.86 billion. Balanced with this rate of growth is a responsible approach to risk management and operational excellence. The management team that has been formed to lead Primaris going forward is comprised of people with strong leadership skills and the Board shares my complete confidence in their abilities to advance Primaris on the path of success.

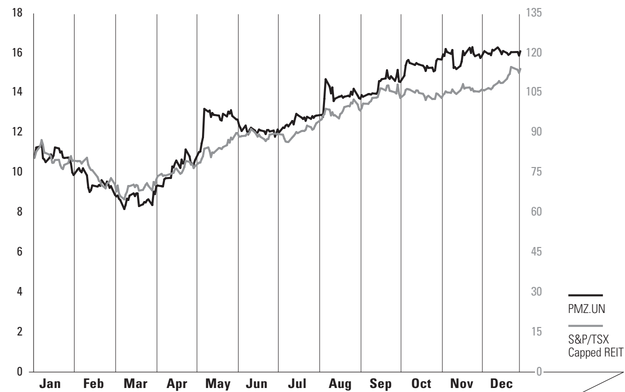
In 2009 we also welcomed a new Trustee, Mr. Brent Hollister. Brent brings to the Board deep retail knowledge and experience as former CEO of a national multi-channel retailer. He is already making a great contribution to Primaris.

I feel confident that 2010 will be a year of accomplishment for Primaris and am looking forward to delivering these results.

Roland A. Cardy
Chairman of the Board

John R. Morrison President and Chief Executive Officer

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



PMZ.UN

I am honoured to have the opportunity to address our Unitholders for the first time in my new role at Primaris. I am pleased to report that the transition from the external asset and property manager has been completed and our management team is focused on continuing to deliver results.

One of our greatest strengths is our management team. We have the right balance of experience and an entrepreneurial approach. This is important when a company is in growth mode. The ability of a management team to create change or react to opportunity is what makes the difference in a competitive environment.

We have recently enhanced our team by adding to our leasing, development and research capabilities. Primaris is well positioned when it comes

Primaris' strategy of owning dominant shopping centres in secondary markets is successful because these properties are the "main street" of these communities. Owning mid-market retail centres in major cities draws on larger trade areas and expands our nationwide footprint which is very attractive to national brand retailers.

A strong leasing team is a key driver in the real estate business. In 2009, Primaris leased over one million square feet of retail space and achieved a 6.2% average incremental rent increase for renewals.

Unitholders who invested at the time of IPO have been rewarded with a cumulative total return of 177%. Institutional investors like the returns and stability that are offered by the Primaris business model.

to finding and acquiring quality assets, incorporating them into our portfolio and enhancing their performance.

In recent months, the management team and I have focused on a strategic plan for Primaris. The research that we have done indicates that we are able to continue to grow in the enclosed shopping centre format for years to come. There are exciting opportunities for us to continue to acquire successful mid-market retail centres in major cities and dominant shopping malls in secondary cities. We have a great business model and we will continue to leverage our strengths.

The fact that we have good quality, well located properties in our portfolio has held us in good stead. We continue to maintain high occupancy and low tenant turnover. Our strategic approach to the conservative use of debt, conserving cash and maintaining access to credit has been rewarded. To position ourselves for future investment opportunities, Primaris successfully raised $86.25 million in a public offering of convertible debentures when it was issued in the fall. We view that as a great indicator of confidence in the way that Primaris is being managed.

In addition to having strong liquidity during a period when credit markets were tight, we were well positioned to acquire Sunridge Mall in Calgary and 50% of Woodgrove Centre in Nanaimo when the opportunity was presented. We effectively increased the asset size of Primaris by 13% at a time when there was very little activity in the real estate market.

This year we will continue to focus our efforts on enhancing our revenue stream, maintaining high occupancy with desirable tenants, reducing our costs and managing risk.

The relationship between a Board and management is very important, more so when an organization is going through tremendous change as we have done recently with the internalization of management. In 2009 our Board of Trustees made an extraordinary contribution of time and attention to these changes. I am grateful for their enduring commitment to ensuring the seamless transition and maintaining our strong relationship.

John R. Morrison
President and Chief Executive Officer

CHEK

THE DIFFERENCE IS... IN OUR **RESULTS**

Results for 2009. This was a year of change at Primaris, and change had its price. We reported diluted Funds From Operations for 2009 of $1.30 per unit as compared to $1.44 for 2008. The large majority of this decrease is the result of incurring and expensing approximately $6.0 million dollars (9 cents per unit) of transition costs. Notwithstanding the cost, this change is for the better.

More importantly, Primaris' shopping centres performed well in a year in which consumers were worried about spending money. In challenging times, the key to success in real estate is a strong leasing team, maintaining strong tenant relationships, generating revenue and managing costs. These are our core strengths. In 2009, occupancy for Primaris shopping centres remained very strong at 97.2% and there was little tenant turnover other than planned remerchandising. Demand for space in Primaris centres was evident in our ability to generate average rent increases of 6.2% on over 300 renewal leases negotiated during the year. Our revenue stream remains secure as we have only 6.3% of our leases scheduled to mature in 2010.

Primaris entered 2009 in a very liquid position. This was a benefit at times, but hurt our financial results. Historically low rates of return earned on cash balances as well as an increase in commitment fees paid to lenders on unused credit had a negative impact on results.

The up side was that our liquidity enabled us to complete the largest acquisition in our history coming at a time of huge capital constraints. After these new investments Primaris still has a very strong balance sheet.

According to industry reports we continue to have a lower debt ratio than our peers, even after these acquisitions. This affords us a greater ability to grow, should we see further opportunity. We have one of the longer average term to maturities with our mortgages payable compared to our peers. This reduces our refinancing risk and decreases our exposure to rising interest rates. That's the difference.

Our fundamentals are strong which has held us in good stead in an otherwise challenging year. Building capital reserves put us in a great position to make two strategic investments when the time was right.

Louis M. Forbes
Executive Vice President
& Chief Financial Officer

THE DIFFERENCE IS... IN OUR **PEOPLE**

Imagine the challenge of transitioning and hiring over 400 people with strong retail real estate investment trust experience to start on the same day. That's what we did. When the Board of Trustees decided to internalize management of Primaris over a year and a half ago, they noted that one of the most important success factors for this transition was getting experienced people in place and in time for the January 1, 2010 changeover date. They said "If we get the right people, they will make this happen".

The relationship between the Board and the external manager was significant in opening up discussions about bringing the people who worked on Primaris business at the external manager over to the new independently managed enterprise. Continuity was key. The negotiations had a positive outcome and consequently, Primaris' head office and property staff are, for the most part, the same people who were managing the Trust a year ago. There were also some new hires.

Entire departments for human resources management and information technology were needed. These were staffed months in advance to undertake some of the most important work of the transition. An organizational structure was to be designed, roles and responsibilities were to be

Brenda Huggins Director, Human Resources

The move to an internalized management model was like starting a new company. This gave us the opportunity to develop a human resources strategy that is aligned with the Primaris business model and the interests of Unitholders.

The Primaris culture is one of commitment to excellence and an entrepreneurial spirit. The teams who manage our properties are encouraged to "act like owners" and they do.

Devon Jones
Vice President, Legal and Secretary

defined, benefit and pension plans were to be established, a payroll was to be set up, new computer systems were being implemented and internal controls had to be tested. It was an extraordinary year of challenges and in many ways, it was like starting a new company. Our very dedicated human resources and information technology groups were joined by our accounting and legal teams to ensure that appropriate systems and processes would be in place and working on time.

All of these efforts ensured a seamless transition and Primaris felt the benefit when the changeover occurred on January 1, 2010. It was business as usual.

The Primaris culture is one of commitment to excellence and an entrepreneurial spirit. The teams who manage our properties are encouraged to "act like owners" and they do. This includes our leasing team members who take a long term view on the best interests of our properties and existing tenants when leasing space, and the customer service representatives who take extra measures to ensure that customers enjoy their shopping experiences in our centres. As an organization that has people working independently across seven provinces, we foster a sense of responsibility in everyone to see what has to be done and to do it.

One of our competitive advantages is that we believe we have a happy and motivated workforce. In a recent all staff survey, we were told that there is a strong sense of engagement among our employees and they want to contribute to our success. In 2010, we are focusing on the development of programs that are designed to motivate and reward our employees and to build on the Primaris culture that has already been established.

Everyone who joined Primaris this past year, either from the external manager or elsewhere, has made a conscious commitment to join our team. They want to be here. That's the difference.

THE DIFFERENCE IS... IN OUR **SHOPPING EXPERIENCE**

Our tenants appreciate the close relationships that we establish with them. We have a mutual interest in the success of their business and by sharing our retail expertise, we make a difference.

Patrick Sullivan
Vice President, Real Estate Management, West

Tom Falls Vice President, Real Estate Management, East

Customers return to our centres over and over because they enjoy their shopping experiences. We ask customers what they want and then we give it to them. It's that simple.

We know shopping centres. That's what we do and we do it well. We talk to the people who shop in our centres, we take notes and we give them what they want. That keeps consumers coming back to our shopping centres time and again.

We give consumers a great shopping experience by putting in stores that have the merchandise that they want to buy, by having convenient food courts and rest areas in comfortable surroundings, by providing in-door parking in some of the coldest areas of the country and by offering services such as stroller and wheelchair rentals, information booths, clean and accessible washrooms with lots of space for looking after little ones, security, seasonal gift-wrapping services and gift certificates.

Our leasing team is constantly on the lookout for the store brands that customers want and leverage their relationships and leasing savvy to attract them to our shopping centres; stores like H & M, Children's Place, Bath & Body Works, Aéropostale, Best Buy and others. Our property management team builds relationships with existing tenants to provide advice on how to merchandise stores and enhance product offerings. They specialize in keeping our properties in great condition so that people want to come back.

Primaris' enclosed shopping centres are often the heart of their communities. They host special events, displays, public education campaigns, blood donor clinics, fundraisers and more. They are the "main street" of these communities and we are proud they have this role. People come to our centres to shop but also to spend time together with friends, have a meal, enjoy a movie, see the dentist or just get out for a walk.

We think that if you want to be good at this business, there should be no distractions. There is no other publicly owned company or income trust in Canada that is doing what we are. We focus our attention on enclosed shopping centres. That's the difference.

THE
DIFFERENCE IS...
IN OUR
ACQUISITIONS

John Morrison President and Chief Executive Officer

Growth and change have been the Primaris hallmark since the IPO. 2009 was no exception as Primaris completed the largest real estate transaction in Canada.

Primaris uses a targeted approach to acquiring properties. We buy Canadian mid-market retail centres in major cities and dominant shopping malls in secondary cities. Within this niche, our investment team seeks out those properties that have great locations, quality leases and desirable tenants and will be accretive to our portfolio. The fact that a property "needs work" is not a deterrent to us if we can see where capital investment will bring returns to our Unitholders. Our investment and development teams have deep experience in making these assessments.

In seven years, we have used the same successful strategy to grow our portfolio from six properties in three provinces to 28 properties in seven provinces. This past year alone, we increased our asset size by 13% when we bought Sunridge Mall in Calgary, Alberta and a 50% joint venture interest in Woodgrove Centre in Nanaimo, British Columbia.

These acquisitions were the biggest real estate transaction in Canada in 2009. Using a combination of cash, debt and funds raised in a public offering, we put together a financing arrangement that yields positive returns for our investors. This acquisition could not have been achieved without the coordinated efforts of our internal disciplines.

Bringing a deal to closure is not the only measure of our skill in successfully acquiring properties. Primaris is skilled in integrating the property and its team with our operations efficiently. We ensure that employees are orientated to the organization, that reporting and internal control mechanisms are implemented and that other accounting requirements are met without interruption to the operations of the property. Excelling at all these things with our new properties is what makes Primaris the great brand in shopping centres that it is today. That's the difference.

Ron Perlmutter Vice President, Investments

Joint ventures offer an opportunity to get into a marketplace that might otherwise have been closed to real estate investors.

A successful investor in the retail marketplace, Primaris has leveraged its expertise, relationships, and experience to create opportunities where none otherwise existed.

Our ability to recognize hidden potential in properties and communities allows us to leverage our development capabilities. This advantage is an alternative means of growing Unitholder wealth.

THE
DIFFERENCE IS...
IN OUR
ASSETS

ENCLOSED CENTRES AS OF DECEMBER 31, 2009

Property	Tenant/Retailer (>50,000 SF)	Approx GLA	Occupancy % Dec. 31, 2009 (1)	Tenants Sales (2)
Aberdeen Mall **Kamloops, BC**	Sears, the Bay	461,000	99.3%	$ 384
Cornwall Centre **Regina, SK**	Sears, the Bay, Startek (3)	567,000	99.8%	$ 537
Dufferin Mall **Toronto, ON**	Wal-Mart, No Frills	567,000	99.3%	$ 481
Eglinton Square **Toronto, ON**	the Bay, Metro*	279,000	98.3%	$ 313
Grant Park **Winnipeg, MB**	Zellers, Safeway	391,000	99.0%	$ 444
Heritage Place Shopping Centre **Owen Sound, ON**	Sears, Zellers	315,000	92.5%	$ 329
Lambton Mall **Sarnia, ON**	Sears, Canadian Tire	618,000	84.3%	$ 342
Midtown Plaza Shopping Centre **Saskatoon, SK**	Sears, the Bay	734,000	98.4%	$ 565

1 Occupied and committed space as of December 31, 2009.

2 CRU All store sales per square foot ("psf"). For all reporting CRU tenants in enclosed centres for the year ended December 31, 2009.

3 Startek – Vacant but paying rent.

Property	Tenant/Retailer (>50,000 SF)	Approx GLA	Occupancy % Dec. 31, 2009 [1]	Tenants Sales [2]
Northland Village Mall Calgary, AB [4]	Wal-Mart	503,000	99.6%	$ 437
Orchard Park Shopping Centre Kelowna, BC	the Bay, Sears	683,000	98.8%	$ 483
Park Place Shopping Centre Lethbridge, AB	Sears	471,000	99.2%	$ 484
Place d'Orleans Orleans, ON	Zellers, the Bay, Sport Chek, Federal Government	742,000	97.4%	$ 436
Place du Royaume Saguenay, QC	Wal-Mart, Canadian Tire*	594,000	97.8%	$ 385
Place Fleur de Lys Québec City, QC	Zellers, the Bay, Maxi, Sears*	673,000	97.6%	$ 305
Stone Road Mall Guelph, ON	Sears	513,000	96.6%	$ 511
Sunridge Mall Calgary, AB	the Bay, Zellers	809,000	100.0%	$ 490
Woodgrove Centre Nanaimo, BC [5]	the Bay, Wal-Mart	362,000	100.0%	$ 472

OTHER PROPERTIES AS OF DECEMBER 31, 2009

Property	Tenant/Retailer (>50,000 SF)	Approx GLA	Occupancy % Dec. 31, 2009 [1]	Tenants Sales [2]
Alliston Mills New Tecumseth, ON	Zellers, Canadian Tire*, Zehrs*	191,000	92.7%	n/a
Edinburgh Market Place Guelph, ON	Metro	113,000	100.0%	n/a
Forest Glen Kitchener, ON	n/a	127,000	88.5%	n/a
Garden City Winnipeg, MB	Home Depot*	160,000	92.2%	n/a
Northland Professional Centre Calgary, AB	n/a	50,000	93.4%	n/a
Northland Village Shoppes Calgary, AB [4]	n/a	7,000	100.0%	n/a
South Cambridge Centre Cambridge, ON	Zehrs	190,000	100.0%	n/a
Sugarloaf Mall Atholville, NB	Zellers, Canadian Tire*	195,000	91.5%	n/a
Tillsonburg Gateway Centre Tillsonburg, ON	n/a	47,000	100.0%	n/a
Toronto properties, ON	n/a	74,000	100.0%	n/a
Westbank Shopping Centre West Kelowna, BC	Extra Foods*, Zellers*	74,000	98.7%	n/a
Total for Enclosed Centres and other Properties		**10,510,000**	**97.2%** [6]	**$445** [7]

** Shadow Anchor*

1 Occupied and committed space as of December 31, 2009.

2 CRU All store sales per square foot ("psf"). For all reporting CRU tenants in enclosed centres for the year ended December 31, 2009.

3 Startek – Vacant but paying rent.

4 Northland Village Mall and Northland Village Shoppes have been combined in the property description section. Total GLA is 510,000 SF.

5 Woodgrove Centre GLA at 50%.

6 Occupancy Total reflects a weighted average for all properties.

7 CRU Sales Total reflects a weighted average for enclosed centres only.

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

(in thousands of dollars, except per unit amounts)
For the year ended December 31, 2009

Primaris Retail Real Estate Investment Trust ("Primaris") has prepared the following discussion and analysis of financial condition and results of operations ("MD&A"), which should be read in conjunction with the audited financial statements and the accompanying notes prepared for the years ended December 31, 2009 and 2008.

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

Primaris was formed to own, manage, lease and develop retail properties, primarily in Canada. These properties are typically mid-market retail centres in major cities or major retail centres in secondary cities. The portfolio's focus to date has been predominantly enclosed malls. While this will remain the primary focus, acquisitions have included other formats of real estate.

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.

Examples of such information include, but are not limited to, factors relating to the business, taxation, financial position of Primaris, operations and redevelopments including volatility of capital markets, legislative change, consumer spending, retail leasing demand, strength of the retail sector, price volatility of construction costs, availability of construction labour and timing of regulatory and contractual approvals for developments.

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. Factors that could cause actual results to differ materially include, but are not limited to, economic, competitive and commercial real estate conditions, unplanned compliance-related expenses, uninsured property losses and tenant-related risks.

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 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.

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 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.

The financial results for all periods throughout this MD&A have been restated as a result of the adoption of a new accounting policy related to recoverable improvements. See Adoption of New Accounting Policies on page 40. The impact of this new accounting policy has resulted in an increase in reported FFO of just over $0.01 per unit for both the current and each comparative quarter. This new policy has resulted in a decrease in operating expenses and an increase in depreciation expense with no change to the reported net income.

	Q4 2009	Q3 2009	Q2 2009	Q1 2009
Unit price at period end	**$ 16.14**	$ 15.20	$ 11.84	$ 9.08
Distributions	**$ 19,075**	$ 19,036	$ 19,055	$ 19,016
Funds from operations[1]	**$ 19,605**	$ 18,850	$ 21,149	$ 21,795
Funds from operations per unit diluted[1]	**$ 0.310**	$ 0.304	$ 0.337	$ 0.347
Income-producing properties net book value	**$ 1,762,211**	$ 1,409,717	$ 1,424,042	$ 1,428,848
Occupancy (including committed space)	**97.2%**	96.4%	96.4%	97.3%
Tenant sales per square foot – same-property sales[2]	**$ 442**	$ 456	$ 461	$ 465
Debt to Gross Book Value	**53.4%**	49.4%	49.4%	49.3%
Interest Coverage (EBITDA)	**2.2**	2.3	2.5	2.5
Mortgages – weighted average term to maturity	**6.6 years**	7.0 years	7.2 years	7.5 years
Mortgages – weighted average interest rate	**5.7%**	5.7%	5.7%	5.7%
Indebtedness – % at fixed interest rates	**100%**	100%	100%	100%

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

2 Tenant sales are reported on a one-month time lag during interim quarters; Q4 2009 is the 12 months to December 31, 2009, Q3 2009 is 12 months to August 2009, Q2 2009 is 12 months to May 2009 and Q1 2009 is 12 months to February 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 22 principal properties with some 7,700,000 square feet of space at an aggregate cost of $1,513 and undertaken capital improvements representing a further $101 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 three types of contracts:

1. lease agreements, which generate the revenues and put substantially all of the risk of variable operating expenses with the tenants;
2. loan agreements, which determine both interest expense, using fixed or variable rates, and loan principal repayments; and
3. management agreements, which determine certain operating expenses and general and administrative expenses. The external property management and asset management contacts terminated at the end of 2009. Going forward, management expenses may be more variable.

The portfolio occupancy rate increased during the fourth quarter and was 97.2% at December 31, 2009, up from 96.4% at September 30, 2009, and down from 98.2% at December 31, 2008.

For the 15 reporting properties owned throughout both the years ended December 31, 2009 and 2008 (same properties), sales per square foot, on a same-tenant basis, have decreased to $449 from $465 per square foot. For the same 15 properties the total tenant sales volume has decreased 3.4%.

	Same Tenant Sales per Square Foot		Variance		All Tenant Total Sales Volume		Variance	
	2009	2008	$	%	2009	2008	$	%
Dufferin Mall	**531**	565	(34)	-6.1%	**85,187,698**	90,172,219	(4,984,521)	-5.5%
Eglinton Square	**358**	373	(15)	-3.9%	**28,436,990**	35,516,731	(7,079,741)	-19.9%
Heritage Place	**305**	317	(12)	-3.8%	**26,067,435**	29,013,041	(2,945,606)	-10.2%
Lambton Mall	**352**	367	(15)	-4.1%	**48,556,289**	52,296,581	(3,740,292)	-7.2%
Place d'Orleans	**459**	464	(5)	-1.0%	**107,595,206**	105,170,770	2,424,436	2.3%
Place Du Royaume	**385**	389	(4)	-1.1%	**107,171,410**	104,713,073	2,458,337	2.3%
Place Fleur De Lys	**318**	322	(4)	-1.4%	**72,228,388**	73,256,840	(1,028,452)	-1.4%
Stone Road Mall	**513**	534	(21)	-4.0%	**113,351,590**	118,594,448	(5,242,858)	-4.4%
Aberdeen Mall	**380**	413	(33)	-8.1%	**47,720,749**	52,077,777	(4,357,028)	-8.4%
Cornwall Centre	**532**	537	(5)	-0.9%	**78,574,269**	76,966,196	1,608,073	2.1%
Grant Park	**504**	502	2	0.3%	**28,505,331**	29,868,605	(1,363,274)	-4.6%
Midtown Plaza	**570**	579	(9)	-1.6%	**134,751,523**	134,286,195	465,328	0.3%
Northland Village	**461**	470	(9)	-1.9%	**46,664,172**	47,260,709	(596,537)	-1.3%
Orchard Park Shopping Centre	**467**	495	(28)	-5.6%	**137,851,045**	148,037,425	(10,186,380)	-6.9%
Park Place Mall	**492**	523	(31)	-5.9%	**76,177,354**	81,474,358	(5,297,004)	-6.5%
	449	**465**	**(16)**	**-3.4%**	**1,138,841,459**	**1,178,706,978**	**(39,865,519)**	**-3.4%**

The tenants' sales decreased 3.4% per square foot, while the national average tenant sales as reported by the International Council of Shopping Centers ("ICSC") for the 12-month period ended December 31, 2009, decreased 1.7%. Primaris' sales productivity of $449 is lower than the ICSC average of $539, largely because the ICSC includes sales from super regional malls that have the highest sales per square foot in the country.

COMPARISON OF THE THREE MONTHS ENDED DECEMBER 31, 2009, TO THE THREE MONTHS ENDED DECEMBER 31, 2008

Primaris' financial results for the three months ended December 31, 2009, compared to the three-month period ended December 31, 2008, are summarized below.

	Three Months Ended December 31, 2009	Three Months Ended December 31, 2008	Comparative Period Favourable/ (Unfavourable)
Revenue			
Minimum rent	**$ 43,838**	$ 41,992	$ 1,846
Recoveries from tenants	**25,650**	25,750	(100)
Percent rent	**1,038**	1,331	(293)
Parking	**1,873**	1,935	(62)
Interest & other income	**157**	775	(618)
Total revenue	**72,556**	71,783	773
Expenses			
Property operating	**18,846**	18,477	(369)
Property tax	**12,603**	12,198	(405)
Depreciation & amortization	**15,337**	19,327	3,990
Interest	**16,529**	14,667	(1,862)
Ground rent	**312**	292	(20)
	63,627	64,961	1,334
Income from operations	**8,929**	6,822	2,107
General & administrative	**(4,892)**	(3,053)	(1,839)
Future income taxes	**2,400**	1,380	1,020
Gain on sale of land	**–**	–	–
Net income	**$ 6,437**	$ 5,149	$ 1,288
Depreciation of income producing properties	**13,301**	17,570	(4,269)
Amortization of leasing costs	**1,712**	1,708	4
Accretion of convertible debentures	**555**	270	285
Future income taxes	**(2,400)**	(1,380)	(1,020)
Gain on sale of land	**–**	–	–
Funds from operations	**$ 19,605**	$ 23,317	$ (3,712)
Funds from operations per unit – basic	**$ 0.314**	$ 0.375	$ (0.061)
Funds from operations per unit – diluted	**$ 0.310**	$ 0.371	$ (0.061)
Funds from operations – payout ratio	**98.2%**	82.2%	16.0%
Distributions per unit	**$ 0.305**	$ 0.305	$ –
Weighted average units outstanding – basic	**62,507,282**	62,255,812	251,470
Weighted average units outstanding – diluted	**72,042,469**	67,186,648	4,855,821
Units outstanding, end of period	**62,534,594**	62,269,712	264,882

Primaris acquired Sunridge Mall in Calgary, Alberta, and a 50% interest in Woodgrove Centre, Nanaimo, British Columbia, in December 2009 as well as a property in Toronto, Ontario, in April 2009 (collectively the "2009 Acquisitions"). Primaris also acquired a property in Toronto, Ontario, in February 2008; a property in Kelowna, British Columbia, in October 2008; and a further property in Toronto, Ontario, in November 2008 (collectively the "2008 Acquisitions"). The total purchase price for the 2009 Acquisitions, including acquisition costs, was $366,935, and for the 2008 Acquisitions was $14,597.

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, specialty leasing and lease-surrender revenue.

Current three-month revenue of $72,556 is $773 greater than the comparative three-month period for several reasons. The 2009 Acquisitions and 2008 Acquisitions contributed $1,666 to this positive variance. Partially offsetting this was a $374 decrease in the results from the remaining properties. In addition, there was a $519 reduction in corporate interest due primarily to a decrease in the rate of interest being earned by cash invested, as well as lower cash balances during the current period compared to the same period in 2008.

Current three-month results include $3,256 of seasonal revenue, which was $1,257 lower than in the comparative period. Included in minimum rent in the current quarter is $203 of rental revenue for leases with pre-determined rent adjustments during the lease term, which are accounted for on a straight-line basis. This straight-line rent adjustment is $158 lower than in the comparative quarter.

Recoveries of operating expenses from tenants, which are recorded as revenues, are impacted by both operating expenses and occupancy level. The decrease in recovery revenue was a result of higher property operating costs slightly offset by lower average occupancy in the current quarter compared to the fourth quarter of 2008.

Percentage rent has decreased by $293, due to reduced tenant sales at some properties.

Operating Expenses

Operating expenses of $31,449 are $774 greater than in the comparative three-month period. The 2009 Acquisitions and 2008 Acquisitions account for $588 of the increase. The balance of the increase is due to a $208 increase in property taxes, partially offset by a decrease of $22 in operating expenses. Recoverable operating expenses decreased $483 and non-recoverable operating expenses were up $461 due to non-recurring costs including a lease buyout fee and a provincial sales tax audit assessment.

Net Operating Income – All Properties

	Three Months Ended December 31, 2009	Three Months Ended December 31, 2008	Variance to Comparative Period Favourable/ (Unfavourable)
Operating revenue	**$ 72,603**	$ 71,311	$ 1,292
Operating expenses	**31,761**	30,968	(793)
Net operating income	**$ 40,842**	$ 40,343	$ 499

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 $40,842 is $499 greater than the comparative period. The 2009 Acquisitions and the 2008 Acquisitions generated an increase of $1,074. The balance is a decrease of $575 generated by the remainder of the properties in the portfolio.

Net Operating Income – Same Properties

	Three Months Ended December 31, 2009	Three Months Ended December 31, 2008	Variance to Comparative Period Favourable/ (Unfavourable)
Operating revenue	**$ 70,780**	$ 71,154	$ (374)
Operating expenses	**31,126**	30,925	(201)
Net operating income	**$ 39,654**	$ 40,229	$ (575)

The same-property comparison consists of the 26 principal properties that were owned throughout both the current and comparative three-month periods. Net operating income, on a same-property basis, was $39,654 which is 1.4% lower than in the prior period.

The decrease in same-property revenues of $374 includes a $766 increase to base rent, offset by a $600 decrease in recoveries, a $294 decrease in percentage rent, a $184 decrease in lease-surrender revenue, and a further $62 decline in the various remaining income categories.

On a same-property basis, operating expenses were $201 more than in the comparative period as a result of a $486 decrease in recoverable operating expenses, a $460 increase in non-recoverable operating expenses, a $207 increase in property taxes, and a $20 increase in ground rent.

Net operating income, on a same-property basis, would be 1.0% lower than the prior period excluding the $184 decrease in lease-surrender revenue.

Interest Expense

	Three Months Ended December 31, 2009	Three Months Ended December 31, 2008	Variance to Comparative Period Favourable/ (Unfavourable)
Mortgages payable	**$ 12,544**	$ 12,308	$ (236)
Amortization of net loss on cash flow hedges	**60**	61	1
Convertible debentures	**3,316**	1,850	(1,466)
Bank indebtedness	**170**	74	(96)
Amortization of financing costs	**439**	374	(65)
	$ 16,529	$ 14,667	$ (1,862)

Interest expense of $16,529 is $1,862 more than in the comparative three-month period primarily due to an increase of $1,466 in convertible debenture interest expense due to the issuance of a third series during the fourth quarter of 2009.

Depreciation and Amortization

Depreciation and amortization decreased by $3,990. The decrease is primarily related to in-place leasing costs, some of which have come to the end of their amortization period in 2009, resulting in either a partial period of depreciation or no depreciation being recorded in the fourth quarter of 2009 compared to the fourth quarter of 2008.

Ground Rent

Ground rent expense amounted to $312, which is $20 more than in the comparative period.

General and Administrative Expenses

General and administrative expenses increased by $1,839, principally due to an increase of $1,954 in costs related to the internalization of management. This increase is partially offset by a reduction in asset management fees.

The aggregate fees paid to the asset and property manager during the current quarter amounted to $3,743.

Future Tax Expense

During the current period Primaris has recorded a non-cash recovery of $2,400 to account for future income taxes. The recovery is a result of changes in both the future tax rate and temporary differences between amounts recorded for accounting purposes and for tax purposes. The recovery has no impact on Primaris' cash flows or distributions.

COMPARISON OF THE TWELVE MONTHS ENDED DECEMBER 31, 2009, TO THE TWELVE MONTHS ENDED DECEMBER 31, 2008

Primaris' financial results for the twelve months ended December 31, 2009, compared to the twelve-month period ended December 31, 2008, are summarized below.

	Year Ended December 31, 2009	Year Ended December 31, 2008	Comparative Period Favourable/ (Unfavourable)
Revenue			
Minimum rent	**$ 166,284**	$ 160,934	$ 5,350
Recoveries from tenants	**97,083**	94,562	2,521
Percent rent	**2,966**	3,687	(721)
Parking	**6,267**	6,384	(117)
Interest & other income	**1,798**	4,166	(2,368)
Total revenue	**274,398**	269,733	4,665
Expenses			
Property operating	**68,647**	64,263	(4,384)
Property tax	**50,046**	48,617	(1,429)
Depreciation & amortization	**71,795**	78,694	6,899
Interest	**60,244**	57,497	(2,747)
Ground rent	**1,241**	1,313	72
	251,973	250,384	(1,589)
Income from operations	**22,425**	19,349	3,076
General & administrative	**(13,559)**	(9,070)	(4,489)
Future income taxes	**(2,200)**	(800)	(1,400)
Gain on sale of land	**–**	298	(298)
Net income	**$ 6,666**	$ 9,777	$ (3,111)
Depreciation of income producing properties	**64,259**	72,935	(8,676)
Amortization of leasing costs	**6,898**	5,710	1,188
Accretion of convertible debentures	**1,376**	1,027	349
Future income taxes	**2,200**	800	1,400
Gain on sale of land	**–**	(298)	298
Funds from operations	**$ 81,399**	$ 89,951	$ (8,552)
Funds from operations per unit – basic	**$ 1.304**	$ 1.448	$ (0.144)
Funds from operations per unit – diluted	**$ 1.297**	$ 1.435	$ (0.138)
Funds from operations – payout ratio	**94.0%**	85.0%	9.0%
Distributions per unit	**$ 1.219**	$ 1.2195	$ –
Weighted average units outstanding – basic	**62,411,033**	62,134,047	276,986
Weighted average units outstanding – diluted	**68,389,818**	67,087,859	1,301,959
Units outstanding, end of period	**62,534,594**	62,269,712	264,882

Primaris acquired Sunridge Mall in Calgary, Alberta, and a 50% interest in Woodgrove Centre, Nanaimo, British Columbia, in December 2009 as well as a property in Toronto, Ontario, in April 2009 (collectively the "2009 Acquisitions"). Primaris also acquired a property in Toronto, Ontario, in February 2008; a property in Kelowna, British Columbia, in October 2008; and a further property in Toronto, Ontario, in November 2008 (collectively the "2008 Acquisitions"). The total purchase price for the 2009 Acquisitions, including acquisition costs, was $366,935, and for the 2008 Acquisitions was $14,597.

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, specialty leasing and lease-surrender revenue.

Current year revenue of $274,398 is $4,665 greater than in the comparative year for several reasons. The largest contributor to the increase was the $4,026 increase from the same-property revenues, driven by increases in minimum rent and recoveries from tenants. The 2009 Acquisitions and 2008 Acquisitions contributed a further $2,005 to the favourable variance.

Interest income from corporate investments decreased $2,093 due to both a lower rate of interest being earned on cash balances invested, as well as lower cash balances during the current year compared to 2008. Primaris also recorded a $727 gain in the first two quarters of 2009 on the repurchase of convertible debentures under the normal course issuer bid.

Although minimum rents have increased overall for the current year, minimum rent results includes $10,857 of seasonal revenue, which was $1,124 lower than in the comparative year. Also included is $1,206 of rental revenue for leases with pre-determined rent adjustments during the lease term, which are accounted for on a straight-line basis. This straight-line rent adjustment is $30 higher than in the comparative year.

Recoveries of operating expenses from tenants, which are recorded as revenues, are impacted by both operating expenses and occupancy level. The increase in recovery revenue was a result of higher property operating costs in the current year compared to 2008. The decrease in the ratio of recoveries revenue to operating expenses in 2009 compared to 2008 is primarily due to the increase in mid-2008 in the property management fee, a non-recoverable expense.

Percentage rent has decreased by $721, due to decreased tenant sales at some properties.

Interest and other income decreased $2,368 in total during 2009 compared to 2008, with net $1,366 of the decline coming from corporate investments. In addition, lease-surrender fees accounted for $1,002 of the negative variance.

Operating Expenses

Operating expenses of $118,693 are $5,813 greater than in the comparative year. This is primarily due to an increase in property operating expenses of $4,384 and an increase in property taxes of $1,429. The changes in the property management contract accounted for approximately $1,787 of the $4,384 increase in property operating expenses.

Net Operating Income – All Properties

	Year Ended December 31, 2009	Year Ended December 31, 2008	Variance to Comparative Period Favourable/ (Unfavourable)
Operating revenue	**$ 273,099**	$ 267,068	$ 6,031
Operating expenses	**119,934**	114,193	(5,741)
Net operating income	**$ 153,165**	$ 152,875	$ 290

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 $153,165 is $290 more than in the comparative period. The 2009 Acquisitions and the 2008 Acquisitions generated an increase of $1,275. The offsetting decrease of $985 is generated by the remainder of the properties in the portfolio.

Net Operating Income – Same Properties

	Year Ended December 31, 2009	Year Ended December 31, 2008	Variance to Comparative Period Favourable/ (Unfavourable)
Operating revenue	**$ 270,558**	$ 266,532	$ 4,026
Operating expenses	**119,054**	114,043	(5,011)
Net operating income	**$ 151,504**	$ 152,489	$ (985)

The same-property comparison consists of the 26 principal properties that were owned throughout both the current and comparative year. Net operating income, on a same-property basis, was $985 or 0.6% lower than in the prior year.

The increase in same-property revenues is primarily attributable to increases in minimum rents and recoveries from tenants. However, this increase was partially offset by a $1,002 decrease in lease-surrender revenue and a $721 decrease in percentage rent.

On a same-property basis, operating expenses were $5,011 more than in the comparative year as a result of a $1,287 increase in non-recoverable operating expenses, a $2,660 increase in recoverable property operating expenses, a $1,136 increase in property taxes, and a $72 decrease in ground rent.

Net operating income, on a same-property basis, would have increased 1.2% excluding the $1,787 increase for the new property management fee structure and $1,002 for the decrease in lease-surrender revenue.

Interest Expense

	Year Ended December 31, 2009	Year Ended December 31, 2008	Variance to Comparative Period Favourable/ (Unfavourable)
Mortgages payable	**$ 49,122**	$ 48,182	$ (940)
Amortization of net loss on cash flow hedges	**243**	249	6
Convertible debentures	**8,661**	7,328	(1,333)
Bank indebtedness	**553**	395	(158)
Amortization of financing costs	**1,665**	1,522	(143)
	–	(179)	(179)
Capitalized interest	**$ 60,244**	$ 57,498	$ (2,747)

Interest expense of $60,244 is $2,747 greater than in the comparative year primarily due to an increase of $940 in mortgage interest expense and an increase of $1,333 in convertible debenture interest due to the issuance of a third series of convertible debentures in the fourth quarter of 2009. The financing of Stone Road Mall in August 2008 generated a $1,444 increase of interest expense on mortgages payable, which is partially offset by reduced interest expense on the remaining mortgages.

Depreciation and Amortization

Depreciation and amortization decreased by $6,899. The decrease is primarily related to in-place leasing costs, some of which have come to the end of their amortization period in 2009, resulting in either a partial period of depreciation or no depreciation being recorded in 2009 compared to 2008.

Ground Rent

Ground rent expense amounted to $1,241, which is $72 less than in the comparative period.

General and Administrative Expenses

General and administrative expenses increased by $4,489, principally due to $5,138 of costs related to the internalization of management. This increase is partially offset by a reduction in due diligence costs for acquisitions not completed, and consulting and other professional fees.

In 2010 and in future periods, Primaris will have leasing and development resources on its staff and therefore will incur costs directly as opposed to the previous external fee structure. Such costs will be included 100% as expenses on the income statement. A portion of such expenses will be charged to general and administrative expenses and certain costs will be classified as property operating expenses. Under the previous external structure, most costs were expensed to the income statement, but a portion of the costs were also capitalized to the balance sheet. Both components of the external fee structure will be considered when analyzing cash flow variances from fees in future periods. The following chart summarizes total costs under both the external and new internal structures:[1]

	Year Ended December 31, 2009	Year Ended December 31, 2008	Estimate for Year Ended December 31, 2010
Corporate expenses	**$ 3,580**	$ 3,666	$ 11,115
Asset management fee	**4,014**	4,577	–
Transition costs	**5,965**	827	250
General & administrative	**$ 13,559**	$ 9,070	$ 11,365 [A]
Property management charges	**9,354**	7,567	9,450 [B]
Development fees	**213**	531	– [C]
Leasing fees	**714**	1,220	– [D]
Transition costs	**5,110**	514	– [E]
Total Costs	**$ 28,950**	$ 18,902	$ 20,815

A Reported on Income Statement.

B Reported on Income Statement as part of Operating Expenses.

C Capitalized to Income Producing Properties (2010 will have charges here only with reference to the 50% interest in Woodgrove Centre).

D Capitalized to Leasing Costs (2010 will have charges here only with reference to the 50% interest in Woodgrove Centre).

E Capitalized to Other Assets (2009 is shown net of $1,326 Tenant Allowance received).

Future Tax Expense

During the current year, Primaris has recorded a non-cash expense of $2,200 to account for future income taxes. The expense is a result of changes in both the future tax rate and temporary differences between amounts recorded for accounting purposes and for tax purposes. The expense has no impact on Primaris' cash flows or distributions.

1 These comments are based on various assumptions and are subject to various risks. See Forward-Looking Information on page 1.

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 December 31, 2009	Three Months Ended December 31, 2008	Year Ended December 31, 2009	Year Ended December 31, 2008
Net income	**$ 6,437**	$ 5,149	**$ 6,666**	$ 9,777
Depreciation of income producing properties	**13,301**	17,570	**64,259**	72,935
Amortization of leasing costs	**1,712**	1,708	**6,898**	5,710
Accretion of convertible debentures	**555**	270	**1,376**	1,027
Gain on sale of land	**–**	–	**–**	(298)
Future income taxes	**(2,400)**	(1,380)	**2,200**	800
Funds from operations	**$ 19,605**	$ 23,317	**$ 81,399**	$ 89,951
Funds from operations per unit – basic	**$ 0.314**	$ 0.375	**$ 1.304**	$ 1.448
Funds from operations per unit – diluted	**$ 0.310**	$ 0.371	**$ 1.297**	$ 1.435
Funds from operations – payout ratio	**98.2%**	82.2%	**94.0%**	85.0%
Distributions per unit	**$ 0.305**	$ 0.305	**$ 1.219**	$ 1.219
Weighted average units outstanding – basic	**62,507,282**	62,255,812	**62,411,033**	62,134,047
Weighted average units outstanding – diluted	**72,042,469**	67,186,648	**68,389,818**	67,087,859
Units outstanding, end of period	**62,534,594**	62,269,712	**62,534,594**	62,269,712

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

FFO for the three-month period ended December 31, 2009, decreased $3,712. The decrease is primarily due to a $1,839 increase in general and administrative expense which includes one-time internalization costs, and a $1,862 increase in interest expense primarily due to the issuance, during the fourth quarter of 2009, of a third series of convertible debentures. Little income was earned on this new capital during the current quarter. The positive variance in net income of $1,288, which impacts FFO, was discussed previously. The depreciation of fixtures and equipment is not added back to net income. This represents a $275 reduction in FFO in the current quarter compared to the fourth quarter of 2008.

FFO per unit for the fourth quarter of 2009 had an unfavourable variance of $0.061 per unit on a diluted basis compared to the prior period. $0.021 of this decline is due to the interest expense on the third series of convertible debentures.

The diluted weighted average number of units outstanding increased from the comparative quarter because of four factors: the issuance of convertible debentures, the issuance of units pursuant to Primaris' Distribution Reinvestment Program ("DRIP"), the payment of a portion of the asset management fees in units and the dilutive impact of the equity incentive plan, partially offset by the repurchase of units and convertible debentures under Primaris' normal course issuer bid.

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 31.

QUARTERLY TRENDS

Selected Quarterly Information

	2009				2008			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	**$ 72,556**	**$ 66,071**	**$ 66,753**	**$ 69,018**	$ 71,783	$ 66,510	$ 64,718	$ 66,722
Seasonal revenue	**4,700**	**2,551**	**2,499**	**2,551**	4,513	2,740	2,464	2,264
Net operating income	**40,842**	**37,138**	**37,693**	**37,492**	40,344	37,759	37,208	37,567
Net income (loss)	**6,437**	**(986)**	**691**	**524**	5,149	1,237	1,035	2,356
Total assets	**1,856,017**	**1,543,168**	**1,568,718**	**1,580,720**	1,608,832	1,624,247	1,601,800	1,619,785
Indebtedness	**1,282,470**	**977,595**	**982,526**	**986,636**	994,130	998,724	955,697	960,453
Debt to Gross Book Value	**53.4%**	**49.4%**	**49.4%**	**49.3%**	48.9%	49.0%	47.7%	47.4%
Diluted net income (loss) per unit	**$ 0.113**	**$ (0.016)**	**$ 0.009**	**$ 0.008**	$ 0.083	$ 0.020	$ 0.017	$ 0.038
Diluted funds from operations	**$ 0.310**	**$ 0.304**	**$ 0.337**	**$ 0.347**	$ 0.371	$ 0.350	$ 0.351	$ 0.363
Distributions per unit	**$ 0.305**	**$ 0.305**	**$ 0.305**	**$ 0.305**	$ 0.305	$ 0.305	$ 0.305	$ 0.305
Units outstanding, end of period	**62,534,594**	**62,477,749**	**62,413,012**	**62,348,408**	62,269,712	62,239,176	62,179,175	62,039,190

Note: As at February 28, 2010, there were 62,596,174 units outstanding.

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

The 2009 Acquisitions and the 2008 Acquisitions have resulted in increased revenues and net operating income. However, on a per unit basis these increases have been offset by an issuance of convertible debentures and internalization costs.

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 $120,000 revolving credit facility, (iv) cash flow from operations, and (v) the issuance of equity and convertible debentures[1].

Management continues to take steps to maintain a strong balance sheet position. There is a cash balance of $15,452 at December 31, 2009. With the exception of a small $3,717 mortgage maturing in the first quarter of 2010, there are no mortgages payable outstanding that mature until 2011. In early October, Primaris completed the issuance of convertible debentures raising additional $82,466 net cash to treasury.

At December 31, 2009, Primaris' cash position has decreased compared to December 31, 2008, due to property acquisitions, distributions to Unitholders, scheduled mortgage repayments, repurchase of convertible debentures and capital expenditures on properties, building improvements, tenant improvements and recoverable improvements, partially offset by property operations. As at December 31, 2009 Primaris had drawn $15,000 on its revolving credit facility.

Interest Coverage expressed as EBITDA divided by net interest expense was 2.2 times for the current quarter. Primaris defines EBITDA as net income increased by depreciation, amortization, interest expense 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 December 31, 2009	Three Months Ended December 31, 2008	**Year Ended December 31, 2009**	Year Ended December 31, 2008
Net income	**$ 6,437**	$ 5,149	**$ 6,666**	$ 9,777
Interest	**16,529**	14,667	**60,244**	57,497
Depreciation	**13,625**	17,619	**64,897**	72,984
Amortization	**1,712**	1,708	**6,898**	5,710
Future income taxes	**(2,400)**	(1,380)	**2,200**	800
EBITDA	**$ 35,903**	$ 37,763	**$ 140,905**	$ 146,768
EBITDA/Interest	**2.2**	2.6	**2.3**	2.6

1 These comments are based on various assumptions and are subject to various risks. See Forward-Looking Information on page 1.

The Debt to Gross Book Value Ratio was 53.4% as at December 31, 2009, 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 $407 associated with the IPO are included. If the convertible debentures are included, the Debt to Gross Book Value Ratio would be 60.2%. The Debt to Gross Book Value Ratio increased during the current quarter due to two acquisitions, related secured debt financings and the issuance of the third series of convertible debentures.

During the year ended December 31, 2009, $353 of face value of the 6.75% series of convertible debentures was converted into equity. During the same period, there have been no conversions of the 5.85% or 6.30% series of convertible debentures. Primaris has, under its normal course issuer bid, repurchased and cancelled $6,478 of face value of the 5.85% convertible debentures at a net cost of $5,127. The remaining outstanding balance as at December 31, 2009, of the 6.75% series is $5,751, the 5.85% series is $93,476 and the 6.30% series $86,250.

During the current quarter, Primaris made $4,757 of scheduled principal payments on its mortgages ($18,622 during the current year).

Primaris paid $19,075 of distributions to Unitholders during the fourth quarter of 2009. Primaris instituted a DRIP in October 2003. Currently, Unitholders representing approximately 3.3% of units outstanding have elected to participate in the DRIP. This represents approximately $2,500 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 $10,053 of leasing costs during 2009, which is comprised of $9,022 of tenant improvement allowances, $53 in tenant inducements and $978 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 includes 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 $17,761 recorded as recoverable improvements at the beginning of 2009, recorded $7,185 as additional expenditures during the year and recovered $3,432 from tenants during the year. This resulted in a recoverable improvements cost balance as at December 31, 2009, net of amortization, of $21,514.

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. For Primaris, more subtle distinctions exist in the area of capital expenditures incurred on existing space. These 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' 10.5 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

At Lambton Mall in Sarnia, Ontario, Canadian Tire leased a 139,000 square foot store, previously occupied by Wal-Mart. Canadian Tire began work on the premises in October 2008, and opened on April 15, 2009. The former 106,331 square foot Canadian Tire store remained in operation until the new store opened. Primaris' budget for this phase of the project was approximately $3,500, and Canadian Tire spent additional funds in completing their store and executing their move. The scope of work included a small expansion as well as constructing a connection between the new store and the interior of the mall, something that did not exist with the previous tenant. Now that the former Canadian Tire store has been vacated, a second phase of the project will be planned, with Lambton Mall modifying and re-leasing the vacated space. Plans for this second phase are not yet finalized; however, discussions are underway with a number of retailers to participate in this second phase.

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' last Annual and Special meeting in June 2009, the Unitholders approved eliminating the requirement to distribute Primaris' taxable income. There are financial covenants in loan agreements in 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 weaker economic environment;
- Primaris' Operating Plan;
- Primaris' strong cash position;
- availability of cash resources, including a $120,000 line of credit;
- minimal loan maturities in 2010;
- conservative leverage measured on both a balance sheet and operating basis; and
- leasing and development capital requirements.

The current rate of distributions is slightly in excess of 2009 FFO less ongoing capital expenditures. However, the two major reasons are the one-time transition costs in 2009 related to the internalization of Primaris, and the drag on FFO resulting from the strong cash position which existed throughout most of 2009 and a low interest rate environment. The Distributions Committee believes that these are temporary in nature and should not affect a long-term policy decision such as distributions.

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 1.5; and
4. a minimum Unitholders' Equity of $700,000.

Primaris is in compliance with these covenants 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%

FINANCIAL CONDITION

Cash

Cash and cash equivalents of $15,452 are invested in deposit notes issued by Canadian, Schedule I banks.

Income-Producing Properties

Income-producing properties represent 95% of total assets as at December 31, 2009. The property portfolio comprises 28 principal properties and several smaller properties 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 28 principal 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.

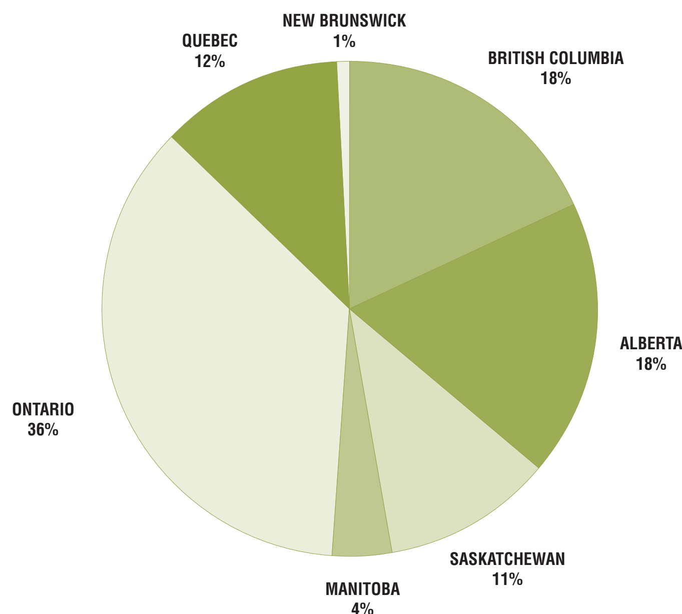
Primaris leased 202,847 square feet of space during the fourth quarter of 2009. This represented 93 leases of generally smaller stores. Approximately 75% of the leased space during the current quarter of 2009 resulted from the renewal of existing tenants. The weighted average new rent for renewals of existing tenants in the current quarter, on a cash basis, represented a 10.3% increase over the previous cash rent for all transactions.

Primaris leased 1,109,980 square feet of space during the year. This represented 314 leases of generally smaller stores. Approximately 80% of the leased space for the year resulted from the renewal of existing tenants. The weighted average new rent for renewals of existing tenants in the year, on a cash basis, represented a 6.2% increase over the previous cash rent for all transactions.

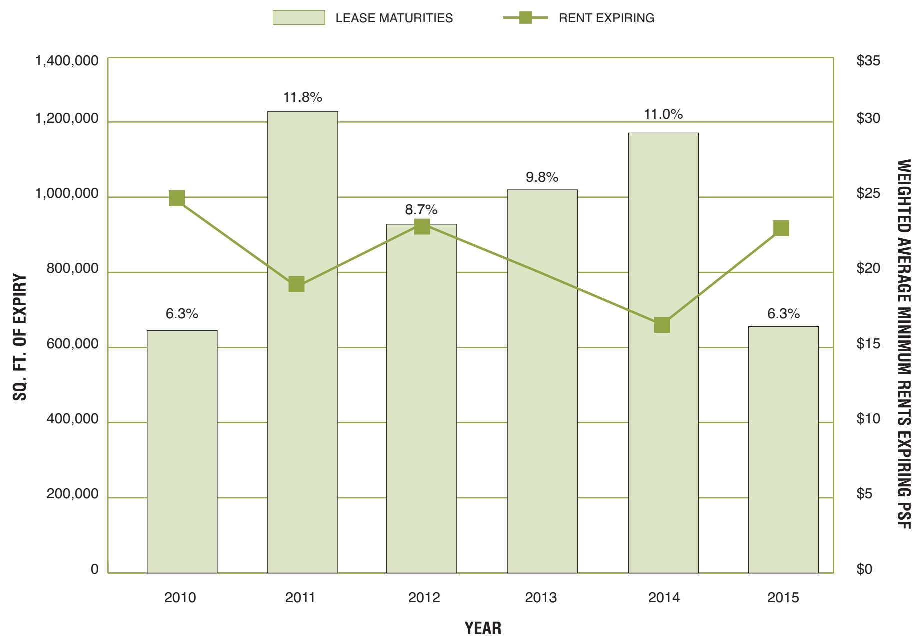
Geographic Diversification

The income-producing properties are located in seven provinces. As at December 31, 2009, the portfolio distribution is as follows:

(BASED ON ANNUALIZED MINIMUM RENT AS OF DECEMBER 31, 2009)



Lease and Rent Expiries



Lease maturities are no greater than 11.8% of the portfolio in any year between 2010 and 2015.

Largest Tenants

The following table illustrates the 10 largest grouped tenants in Primaris' portfolio of income-producing properties as measured by their percentage contribution to total annual minimum rent, as at December 31, 2009.

Tenant Groups	Percentage of Total Annual Minimum Rent	Area (sq. ft.)	Weighted Average Lease Term to Maturity (Years)
HBC	6.5%	2,050,087	7.4
YM	3.1%	215,024	4.7
Forzani	2.5%	357,837	4.3
Sears	2.4%	979,436	7.6
Shoppers Drug Mart	2.4%	156,425	6.4
Reitmans	2.2%	138,578	3.1
Loblaws	1.9%	323,613	5.8
Best Buy	1.7%	180,416	4.2
Canadian Tire	1.6%	220,194	10.8
Comark	1.4%	83,101	4.1
	25.7%		

Indebtedness and Other Obligations

Year	Mortgages	Convertible Unsecured Debentures	Ground Leases	Operating Leases	Total
2010	$ 25,919		$ 1,175	$ 1,436	$ 28,530
2011	60,043		1,248	1,436	62,727
2012	45,922		1,375	1,436	48,733
2013	236,678		1,400	1,469	239,547
2014	118,014	99,227	1,400	1,440	220,081
Thereafter	603,444	86,250	42,525	6,631	738,850
	$ 1,090,020	$ 185,477	$ 49,123	$ 13,848	$ 1,338,468

Note: Of the total mortgages balance, $123,132 is recourse only to the underlying property.

Primaris had $1,090,020 of mortgages payable, excluding debt premiums of $5,126 and financing fees of $5,180, as at December 31, 2009, 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 6.6 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, and ground rent will be funded from operations and from draws on the revolving credit facility.

RELATED PARTY TRANSACTIONS

Primaris had retained Oxford Properties Group ("OPGI") to provide advisory, asset management and development services. This contract expired December 31, 2009 and was not extended.

	Year Ended December 31, 2009	Year Ended December 31, 2008
Asset management fees	**$ 4,014**	$ 4,577
Development fees	**213**	531
	$ 4,227	$ 5,108

Primaris also reimbursed the asset manager for certain general and administrative costs. Of the fees incurred, $993 is included in accounts payable and other liabilities as at December 31, 2009 (December 31, 2008 – $1,370). During 2009, Primaris issued $57 of units in partial payment of asset management fees (2008 – $1,881). Primaris has also reimbursed the asset manager $119 of general and administrative costs in 2009 (2008 – $350).

Primaris had also retained Oxford Properties Group to provide property management and leasing services to Primaris. This contract expired December 31, 2009 and was not extended.

	Year Ended December 31, 2009	Year Ended December 31, 2008
Property management fees	**$ 9,354**	$ 7,567
Leasing fees	**714**	1,220
	$ 10,068	$ 8,787

Of the fees incurred, $90 is included in accounts payable and other liabilities (December 31, 2008 – $331). Primaris has also reimbursed the property manager for certain direct property operating costs.

Primaris had one loan payment subsidy as at December 31, 2009 (December 31, 2008 – one), with Oxford Properties Group. The loan payment subsidy was fully-repaid in January 2010.

	Year Ended December 31, 2009	Year Ended December 31, 2008
Loan interest payment subsidy received	**$ 91**	$ 109

During 2008, Primaris extended the term of its two external management contracts by 18 months, from July 17, 2008 to December 31, 2009. A number of changes were made to the fee structure during the extended term of the agreements.

The property management fee increased to 3.5% from 3% of Gross Revenue. In the past, the manager charged a platform management fee. The fee rate increased during the extended term.

The base asset management fee was unchanged and was at the lower end of comparable fees for such services in the marketplace at 25 basis points of Gross Asset Value. The incentive fee component of the asset management fee changed. The hurdle rate was equal to FFO for the 12 months ending June 30, 2008. This change in hurdle rate represented a decrease in the incentive fee that would have been otherwise payable.

During the year 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 are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

MANAGEMENT TRANSITION

Primaris was managed by OPGI Management Limited Partnership or affiliates thereof (collectively "OPGI") pursuant to two management contracts. As discussed above, these contracts expired at the end of 2009. Primaris announced in early 2008 that it would internalize the management of Primaris at the end of 2009.

People

OPGI had approximately 275 full-time employees and 100 part-time employees located at Primaris assets and at the head office, performing duties under the asset and property management agreements. Primaris has now hired these employees directly effective January 1, 2010, performing functions such as financial reporting, leasing, legal, investments and asset management.

John R. Morrison, formerly employed by OPGI, was appointed President and Chief Executive Officer of Primaris effective August 1, 2009. Louis M. Forbes, formerly employed by OPGI, became a Primaris employee effective January 1, 2009, and continues as Primaris' Executive Vice-President and Chief Financial Officer.

Space

Primaris leased space in downtown Toronto and head office staff moved into the new premises during the third quarter.

Systems

The conversion to the new information system is complete and Primaris is using the new information system at its new premises.

Economics

Primaris does not expect the future costs of the internal management model to differ materially from the costs incurred under the expired external contracts. Primaris expects the transition will cost $12,665. The main expenses related to information technology, occupancy costs and people costs including temporary help, outside consultants and recruiting costs. These costs, as per below, will be incurred over the 2008–2010 period.[1]

	Expense	Capital	Tenant Allowance	Total Net Spend	
2008	827	513	–	1,340	
2009	5,965	6,436	(1,326)	11,075	
2010	250	–	–	250	estimated
Total	7,042	6,949	(1,326)	12,665	

Risks

There is a discussion of general risks beginning on page 43. The internalized management model introduces some new risks to Primaris. There is the risk that the new internal management structure could cost more than the previous external structure.

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.

ADOPTION OF NEW ACCOUNTING POLICIES

In February 2008, the Canadian Institute of Chartered Accountants ("CICA") issued a new accounting standard, Handbook Section 3064 – *Goodwill and Intangible Assets*, which replaces existing guidance on the accounting for intangible assets. The new standard provided guidance on the definition of an intangible asset and the recognition of internally generated intangible assets. Handbook Section 1000 – *Financial Statement Concepts*, was also amended to provide consistency with this new standard. This new standard was adopted by Primaris on January 1, 2009, with retrospective adjustments made to the comparative period. The impact of the adoption of this new standard was (i) to reclassify recoverable improvements previously described as recoverable operating costs from a component within deferred costs to a component within income producing-properties and (ii) to reclassify the related amortization of the recoverable improvements from property operating expenses to depreciation expense.

1 *These comments are based on various assumptions and are subject to various risks. See Forward-Looking Information on page 1.*

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 plan will be implemented through three phases. The first phase involves completing a detailed review of the differences between IFRS and Canadian GAAP as they apply to our business. This analysis identifies 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.

During the second phase of the conversion plan the decisions for accounting policies will be made. Management will assess the impact of these new policies and evaluate the design changes necessary for the following elements:

- financial reporting and accounting policies;
- information technology and data systems;
- internal control over financial reporting and disclosure controls;
- operations processes;
- employee training;
- certain debt agreements and the Declaration of Trust;
- communication with users of our financial reporting; and
- general and administrative costs.

This assessment is underway and is being monitored by senior management to ensure that the Consolidated Financial Statements are presented in accordance with IFRS standards by the January 1, 2011 transition date.

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, then rolled out with effective training programs.

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. In particular, the opening Consolidated Balance Sheet will reflect the revaluation of income producing properties to fair market. 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 leasee 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 Primaris has classified for 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 reports 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 expects to use the fair value model when preparing its Consolidated Financial Statements under IFRS. Primaris has substantially completed the design of its investment property valuation process and has commenced implementation. The magnitude of the impact to the Consolidated Balance Sheet cannot be quantified at this time.

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 more tenant allowances being treated as incentives than under GAAP.

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 in a prospective basis commencing January 1, 2004.

The effects to the Income Statement from these potential changes cannot be determined at this time.

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 transaction 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 expects to elect the IFRS 1 exemption to restate its business combinations at the transition date only.

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

Financing Risks

Primaris has indebtedness outstanding of approximately $1,282,470 as at December 31, 2009. 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, equity 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 change 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 the tax consequences as set out in "Certain Canadian Federal Income Tax Considerations".

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.

CONTROLS AND PROCEDURES

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

Management has evaluated the effectiveness of Primaris' disclosure controls and procedures as of December 31, 2009, and concluded that such disclosure controls and procedures are effective. Primaris' disclosure controls and procedures include Primaris' Disclosure Policy, Disclosure Committee and a cascading sub-certification process. The consolidated financial statements and MD&A were reviewed and approved by the Disclosure Committee and the Board of Trustees prior to their publication.

As at the year ended December 31, 2009, management has evaluated the design and operation of internal controls over financial reporting. Based on that evaluation, management has concluded that the design and operation of internal controls over financial reporting were effective as of December 31, 2009 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

There were no changes in internal controls over financial reporting during the fourth quarter of 2009 that have materially affected or are reasonably likely to materially affect Primaris' internals controls over financial reporting.

Primaris' management, including the Chief Executive Officer and Chief Financial Officer, does not expect its disclosure controls and procedures or internal control over financial reporting will 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

The past 12 months have been challenging for the Canadian economy. Employment levels and consumer confidence in Canada, two key drivers of consumer spending, remain weak. This is negative for our customer base, and the Canadian retail industry. Since the fourth quarter of 2008, tenant sales trends, on a same-tenant basis, have been negative when compared to the prior period. We expect this decline to diminish. Throughout this difficult period, Primaris' portfolio occupancy rate has remained virtually constant. We continue to achieve rent increases on lease renewals and expect this to continue. However, a return to normal higher rent growth rates will lag a general economic recovery.

At an operating level, occupancy rates remain high, lease maturities are long, and tenant sales are good compared to longer-term historical trends. There is, however, more down-time when re-leasing units and the depth of demand for space from retailers has decreased. Primaris' properties generally have strong market positions.

Capital markets have been much more favourable in recent months with both the availability and cost of capital to our industry much improved since the first half of the year. Indications suggest that this improved environment could continue.

Management's Responsibility for Financial Reporting

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

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

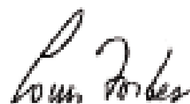
The Board of Trustees oversees management's responsibility for financial reporting through an Audit Committee, which is composed entirely of independent Trustees. This committee reviews the consolidated financial statements of Primaris and recommends them to the Board for approval. Other key responsibilities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

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

signed

John R. Morrison
President and Chief Executive Officer

Toronto, Ontario, Canada
March 9, 2010



signed

Louis M. Forbes
Executive Vice President and Chief Financial Officer

Toronto, Ontario, Canada
March 9, 2010

Auditors' Report

To the Unitholders of Primaris Retail Real Estate Investment Trust

We have audited the consolidated balance sheets of Primaris Retail Real Estate Investment Trust ("Primaris") as at December 31, 2009 and 2008 and the consolidated statements of income, comprehensive income, Unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of Primaris' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Primaris as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

KPMG LLP

Toronto, Canada

March 9, 2010

Consolidated Balance Sheets

(in thousands of dollars)

December 31, 2009 and 2008	2009	2008
Assets		
Income-producing properties (note 3)	**$ 1,763,426**	$ 1,443,958
Leasing costs (note 4)	**41,209**	38,200
Rents receivable (note 5)	**4,907**	4,812
Other assets and receivables (note 6)	**31,023**	24,438
Cash and cash equivalents	**15,452**	97,424
	$ 1,856,017	$ 1,608,832
Liabilities and Unitholders' Equity		
Liabilities:		
Mortgages payable (note 8)	**$ 1,089,966**	$ 890,258
Convertible debentures (note 9)	**166,461**	95,438
Bank indebtedness (note 10)	**15,000**	–
Accounts payable and other liabilities (note 11)	**63,815**	45,782
Distribution payable	**6,358**	6,334
Future income taxes (note 17)	**43,000**	40,800
	1,384,600	1,078,612
Unitholders' equity	**471,417**	530,220
Commitments and contingencies (note 21)		
	$ 1,856,017	$ 1,608,832

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Roland A. Cardy, Trustee

William J. Biggar, Trustee

Consolidated Statements of Income

(in thousands of dollars, except per unit amounts)

Years ended December 31, 2009 and 2008	2009	2008
Revenue:		
Minimum rent	**$ 166,284**	$ 160,934
Recoveries from tenants	**97,083**	94,562
Percentage rent	**2,966**	3,687
Parking	**6,267**	6,384
Interest and other	**1,798**	4,166
	274,398	269,733
Expenses:		
Property operating	**68,647**	64,263
Property taxes	**50,046**	48,617
Depreciation	**64,897**	72,984
Amortization	**6,898**	5,710
Interest (note 14)	**60,244**	57,497
Ground rent	**1,241**	1,313
General and administrative	**13,559**	9,070
	265,532	259,454
Income before gain on sale of land and income taxes	**8,866**	10,279
Gain on sale of land	**–**	298
Income before income taxes	**8,866**	10,577
Future income taxes (note 17)	**2,200**	800
Net income	**$ 6,666**	$ 9,777
Basic and diluted net income per unit (note 12(d))	**$ 0.107**	$ 0.157

Consolidated Statements of Comprehensive Income

(in thousands of dollars)

Year ended December 31, 2009 and 2008	2009	2008
Net income	**$ 6,666**	$ 9,777
Amortization of deferred net loss on cash flow hedges	**243**	249
Comprehensive income	**$ 6,909**	$ 10,026

See accompanying notes to consolidated financial statements.

Consolidated Statements of Unitholders' Equity

(in thousands of dollars)

Year ended December 31, 2009	Amount of units issued	Contributed surplus	Net income	Distributions	Equity component of convertible debentures	Accumulated other comprehensive income (loss)	Total
Unitholders' equity, beginning of year	$ 772,686	$ –	$ 43,183	$ (291,756)	$ 8,530	$ (2,423)	$ 530,220
Net income	–	–	6,666	–	–	–	6,666
Distributions	–	–	–	(76,182)	–	–	(76,182)
Amortization of deferred loss on cash flow hedges	–	–	–	–	–	243	243
Equity incentive plan (note 12(e))	–	75	–	–	–	–	75
Issuance of units under distribution reinvestment plan	2,739	–	–	–	–	–	2,739
Issuance of units under asset management agreement	57	–	–	–	–	–	57
Issuance of convertible debentures, net or costs	–	–	–	–	7,285	–	7,285
Conversion of convertible debentures to units, net of costs	345	–	–	–	(9)	–	336
Purchase of convertible debentures under normal course issuer bid	–	543	–	–	(565)	–	(22)
Unitholders' equity, end of year	**$ 775,827**	**$ 618**	**$ 49,849**	**$ (367,938)**	**$ 15,241**	**$ (2,180)**	**$ 471,417**

Year ended December 31, 2008	Amount of units issued	Net income	Distributions	Equity component of convertible debentures	Accumulated other comprehensive income (loss)	Total
Unitholders' equity, beginning of year	$ 767,511	$ 33,406	$ (215,904)	$ 8,551	$ (2,672)	$ 590,892
Net income	–	9,777	–	–	–	9,777
Distributions	–	–	(75,852)	–	–	(75,852)
Amortization of deferred loss on cash flow hedges	–	–	–	–	249	249
Issuance of units under distribution reinvestment plan	2,895	–	–	–	–	2,895
Issuance of units under asset management agreement	1,881	–	–	–	–	1,881
Conversion of convertible debentures to units, net of costs	737	–	–	(21)	–	716
Purchase of units under normal course issuer bid	(338)	–	–	–	–	(338)
Unitholders' equity, end of year	$ 772,686	$ 43,183	$ (291,756)	$ 8,530	$ (2,423)	$ 530,220

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(in thousands of dollars)

Years ended December 31, 2009 and 2008	2009	2008
Cash provided by (used in):		
Operations:		
Net income	$ 6,666	$ 9,777
Items not involving cash:		
Depreciation of income-producing properties	60,827	69,045
Amortization of recoverable improvements	3,432	3,890
Amortization of leasing commissions and tenant improvements	6,898	5,710
Accretion of convertible debentures	1,376	1,027
Future income taxes	2,200	800
Gain on sale of land	–	(298)
	81,399	89,951
Change in non-cash operating items:		
Gain on purchase of convertible debentures under normal course issuer bid	(727)	–
Depreciation of fixtures and equipment	638	49
Amortization of above- and below-market leases	(1,918)	(1,758)
Amortization of tenant inducements	146	124
Amortization of financing costs	1,665	1,522
Other (note 14)	12,914	191
Leasing commissions	(978)	(1,649)
Tenant inducements	(53)	(282)
	93,086	88,148
Financing:		
Mortgage principal repayments	(18,622)	(17,087)
Proceeds of new financing	153,000	110,000
Repayment of financing	–	(62,454)
Bank indebtedness	15,000	–
Financing costs	(1,011)	(1,258)
Distributions to Unitholders	(76,158)	(75,817)
Issuance of units, net of costs	2,739	2,895
Issuance of convertible debentures, net of costs	82,451	–
Purchase of convertible debentures under normal course issuer bid	(5,127)	–
Purchase of units under normal course issuer bid	–	(338)
	152,272	(44,059)
Investments:		
Acquisition of income-producing properties (note 2)	(300,135)	(14,597)
Additions to buildings and building improvements	(6,117)	(8,669)
Additions to tenant improvements	(9,022)	(12,043)
Additions to recoverable improvements	(5,620)	(5,469)
Additions to fixtures and equipment	(6,436)	(514)
Proceeds on sale of land	–	425
	(327,330)	(40,867)
Increase (decrease) in cash and cash equivalents	(81,972)	3,222
Cash and cash equivalents, beginning of year	97,424	94,202
Cash and cash equivalents, end of year	$ 15,452	$ 97,424
Supplemental cash flow information:		
Interest paid	$ 58,470	$ 53,921
Supplemental disclosure of non-cash operating, financing and investing activities:		
Value of units issued under asset management agreement	57	1,881
Value of units issued under equity incentive plan	75	–
Value of units issued from conversion of convertible debentures	353	758
Financing costs transferred to equity upon conversion of convertible debentures	15	33
Financing accumulated amortization transferred to equity upon conversion of convertible debentures	(7)	(12)
Mortgages payable, issued on acquisition of income-producing properties	66,800	–

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(In thousands of dollars, except per unit amounts)
Years ended December 31, 2009 and 2008

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) Adoption of new accounting policies:

In February 2008, The Canadian Institute of Chartered Accountants ("CICA") issued a new accounting standard, Handbook Section 3064, *Goodwill and Intangible Assets*, which replaces existing guidance on the accounting for intangible assets. The new standard provides guidance on the definition of an intangible asset and the recognition of internally generated intangible assets. Handbook Section 1000, *Financial Statement Concepts*, was also amended to provide consistency with this new standard. This new standard was adopted by Primaris on January 1, 2009, with retrospective adjustments made to the comparative year. The impact of the adoption of this new standard was (i) to reclassify recoverable improvements previously described as recoverable operating costs from a component within leasing costs to a component within income-producing properties and (ii) to reclassify the related amortization of the recoverable improvements from property operating expenses to depreciation expense.

As at January 1, 2009, the net book value of recoverable operating costs of $17,761 was reclassified to a component of income-producing properties. For the year ended December 31, 2008, operating expenses have been reduced by $3,890, and depreciation expense has been increased by the same amount with no resultant change to Primaris' net income.

The CICA issued amendments to Handbook Section 3862, *Financial Instruments – Disclosures*, which was applied to Primaris' 2009 year-end consolidated financial statements. The amendments expand the disclosure requirements about fair value measurements of financial instruments. Fair values are now classified based on three levels of fair value hierarchy: Level 1 – quoted prices in active markets for identical assets or liabilities; Level 2 – quoted prices in active markets for similar assets or liabilities or valuation techniques when significant inputs are based on observable market data; and Level 3 – valuation techniques for which any significant input is not based on observable market data. These amendments had no impact on the consolidated financial statements of Primaris.

(c) Income-producing properties:

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

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

1. Significant accounting policies (cont'd)

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

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

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

(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 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.

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

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

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

(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.

(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 years in which those temporary differences are expected to be reversed or settled. The effect on future income tax assets and liabilities of a change in tax rate is recognized in income in the year that includes the date of enactment or substantive enactment (note 17).

1. Significant accounting policies (cont'd)

(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 and expenses during the years. Actual results could differ from those estimates. Significant areas of estimation include: allocation of purchase price on property acquisitions, recovery revenue accruals, fair value of mortgages and debentures payable, future income tax timing reversals and useful lives used to calculate depreciation and amortization.

2. ACQUISITIONS:

During the year ended December 31, 2009, Primaris completed the purchase of three properties: a property on Yonge Street, Toronto, Ontario; Sunridge Mall, Calgary, Alberta; and a 50% interest in Woodgrove Centre, Nanaimo, British Columbia. During the year ended December 31, 2008, Primaris completed the purchase of properties on Yonge Street, Toronto, Ontario and in Kelowna, British Columbia. The acquisitions have been accounted for by the purchase method with the results of operations included in these consolidated financial statements from the date of acquisition. The purchase price allocation to net assets was as follows:

	2009	2008
Land	$ 78,275	$ 5,868
Buildings	264,835	9,144
Recoverable improvements	1,565	–
In-place leasing costs	27,315	51
Above market rent	495	–
Other assets	647	–
Below market rent	(4,378)	(288)
Other liabilities	(1,819)	(178)
	366,935	14,597
Less mortgages payable	(66,800)	–
Purchase price paid in cash, including acquisition costs of $3,732 (2008 – $625)	$ 300,135	$ 14,597

3. INCOME-PRODUCING PROPERTIES:

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

2008	Cost	Accumulated depreciation and amortization	Net book value
Land	$ 292,620	$ –	$ 292,620
Buildings	1,111,820	103,348	1,008,472
Building improvements	42,537	13,107	29,430
In-place leasing costs	178,518	82,843	95,675
Recoverable improvements	25,785	8,024	17,761
	$ 1,651,280	$ 207,322	$ 1,443,958

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 $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:

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**

2008	Cost	Accumulated amortization	Net book value
Leasing commissions	$ 6,088	$ 1,678	$ 4,410
Tenant improvements	41,514	9,193	32,321
Tenant inducements	1,723	254	1,469
	$ 49,325	$ 11,125	$ 38,200

5. RENTS RECEIVABLE:

	2009	2008
Rents receivable, net of allowance of $1,168 (2008 – $1,234)	**$ 1,772**	$ 1,002
Accrued recovery revenue	**733**	1,833
Accrued percentage rent	**1,092**	1,169
Other amounts receivable	**1,310**	808
	$ 4,907	$ 4,812

6. OTHER ASSETS AND RECEIVABLES:

	2009	2008
Loan payment subsidy (note 8)	**$ 1,360**	$ 1,664
Straight-line rents	**9,073**	7,835
Above-market rent leases, net of accumulated amortization of $5,560 (2008 – $5,022)	**1,349**	1,391
Prepaid realty taxes	**1,303**	1,579
Prepaid ground rent	**5,875**	5,944
Fixtures and equipment, net of accumulated depreciation of $687 (2008 – $49)	**6,263**	465
Other assets	**5,800**	5,560
	$ 31,023	$ 24,438

The loan payment subsidy was fully repaid in January 2010.

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	
	2009	2008	**2009**	2008
In-place leasing costs (note 3)	**$ 95,664**	$ 95,675	**$ 27,326**	$ 36,622
Above-market rent leases (note 6)	**1,349**	1,391	**538**	894
Below-market rent leases (note 11)	**(9,998)**	(8,075)	**(2,456)**	(2,652)

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% (2008 – 5.08% 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 weighted average interest rate for the mortgages payable, excluding the financing costs, is 5.66% (2008 – 5.68%). Mortgages payable mature at various dates between 2010 and 2022.

	2009	2008
Mortgages payable	**$ 1,090,020**	$ 888,842
Mark-to-market adjustment	**5,126**	6,601
Financing costs, net of accumulated amortization of $ 2,691 (2008 – $1,677)	**(5,180)**	(5,185)
	$ 1,089,966	$ 890,258

Future principal payments on the mortgages payable are as follows:

	Payments on maturity	Total annual payments	Total
2010	$ 3,717	$ 22,202	$ 25,919
2011	36,828	23,215	60,043
2012	21,226	24,696	45,922
2013	213,917	22,761	236,678
2014	97,251	20,763	118,014
Thereafter	528,503	74,941	603,444
	$ 901,442	$ 188,578	$ 1,090,020

9. CONVERTIBLE DEBENTURES:

	2009				2008
	6.75% convertible debentures	**5.85% convertible debentures**	**6.30% convertible debentures**	**Total**	Total
Principal balance, beginning of year	**$ 6,104**	**$ 99,954**	**$ –**	**$ 106,058**	$ 106,816
Issued	**–**	**–**	**86,250**	**86,250**	–
Conversions	**(353)**	**–**	**–**	**(353)**	(758)
Repurchases	**–**	**(6,478)**	**–**	**(6,478)**	–
Principal balance, end of year	**$ 5,751**	**$ 93,476**	**$ 86,250**	**$ 185,477**	$ 106,058
Debt component	**$ 5,679**	**$ 87,759**	**$ 78,886**	**$ 172,324**	$ 98,687
Less financing costs	**(240)**	**(3,623)**	**(3,462)**	**(7,325)**	(4,132)
Accumulated amortization	**129**	**1,196**	**137**	**1,462**	883
	$ 5,568	**$ 85,332**	**$ 75,561**	**$ 166,461**	$ 95,438

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	2009 year-end principal balance	Maturity	Interest rate	Conversion price	Redemption date after
6.75%	$ 5,751	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%	86,250	September 30, 2015	6.30%	16.70	October 1, 2014

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

(a) 6.75% convertible debentures:

During the year, holders of $353 (2008 – $712) of convertible debentures at face value exercised their option to convert to units. Of the $353 (2008 – $712), $9 (2008 – $17) was recorded as a reduction of the original equity component and $344 (2008 – $695) was recorded as a reduction of the debt component. This ratio is consistent with the original equity and debt ratio. A total of 28,814 units (2008 – 58,114) were issued on conversion. As at December 31, 2009, the face value of this series of debentures outstanding was $5,751 (2008 – $6,104).

(b) 5.85% convertible debentures:

During the year, there were no conversions of convertible debentures. During the year ended December 31, 2008, holders of $46 of convertible debentures at face value exercised their option to convert to units. Of the $46, $4 was recorded as a reduction of the original equity component and $42 was recorded as a reduction of the debt component. A total of 2,039 units were issued on conversion.

During the year, $6,478 (2008 – nil) of convertible debentures were repurchased under Primaris' normal course issuer bid. Of the $6,478, $565 was recorded as a reduction of the original equity component and $5,913 was recorded as a reduction of the debt component. As at December 31, 2009, the face value of this series of debentures outstanding was $93,476 (2008 – $99,954).

(c) 6.30% convertible debentures:

On October 6, 2009, Primaris issued $86,250 of 6.30% convertible debentures at terms similar to past issuances. As at December 31, 2009, the face value of this series of debentures outstanding remained at $86,250. Of the $86,250 issued, $7,622 was recorded to equity and $78,628 was recorded to debt.

10. BANK INDEBTEDNESS:

Primaris has an operating line of $120,000 that expires on July 31, 2010. The operating line is secured by fixed charges on certain income-producing properties and a corporate guarantee. Draws on the operating line are subject to certain conditions; interest is at prime plus applicable premiums or, at the option of Primaris, at bankers' acceptance rates, plus applicable premiums. As at December 31, 2009, $15,000 has been drawn on the operating line (2008 – nil).

11. ACCOUNTS PAYABLE AND OTHER LIABILITIES:

	2009	2008
Accounts payable and accrued liabilities	**$ 50,239**	$ 34,909
Tenant deposits	**2,957**	2,256
Deferred revenue	**621**	542
Below-market rent leases, net of accumulated amortization of $10,972 (2008 – $8,516)	**9,998**	8,075
	$ 63,815	$ 45,782

12. UNITHOLDERS' EQUITY:

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

Primaris' Unitholders' Equity is represented by two categories of equity: trust units of Primaris and exchangeable units of subsidiaries of Primaris. As at December 31, 2009, there were 2,307,261 exchangeable units issued and outstanding by subsidiaries of Primaris with a stated value of $34,084 (2008 – 2,420,261 units with a stated value of $35,671). 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:

	2009		2008	
	Units	Amount	Units	Amount
Balance, beginning of year	**62,269,712**	**$ 772,686**	61,937,650	$ 767,511
Issuance of units under the distribution reinvestment plan	**230,387**	**2,739**	188,182	2,895
Other (note 19(a))	**5,681**	**57**	113,727	1,881
Conversion of debentures (note 9)	**28,814**	**345**	60,153	737
Purchase of units under normal course issuer bid	**–**	**–**	(30,000)	(338)
Balance, end of year	**62,534,594**	**$ 775,827**	62,269,712	$ 772,686

(b) Distribution reinvestment plan:

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

(c) Normal course issuer bid:

Pursuant to the issuer bid initiated in November 2008, which expired on November 30, 2009, Primaris repurchased convertible debentures with a face value of $6,478 (2008 – nil) for consideration of $5,127 (2008 – nil) during the year. During the year ended December 31, 2008, Primaris repurchased a total of 30,000 units for consideration of $338. No units were repurchased in the current year. In December 2009, Primaris renewed its normal course issuer bid (note 18).

(d) Per unit calculations:

Per unit information is calculated based on the weighted average number of units outstanding (including the exchangeable units) for the year ended December 31, 2009 of 62,411,033 units (2008 – 62,134,047). The weighted average number of diluted units for the year ended December 31, 2009 is 68,389,818 units (2008 – 67,087,859). The convertible debentures have been excluded from the calculation of diluted net income per unit, as they are currently anti-dilutive to net income; therefore, diluted net income per unit is the same as basic net income per unit.

(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 issuable is limited to 7% of the then issued and outstanding units at any given time. As at April 30, 2008, 4,345,973 units were reserved for issuance under the equity incentive plan. As at December 31, 2008, no grants had been made under the equity incentive plan.

There were four equity awards made during the year ended December 31, 2009.

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.

An award valued at $1,000 was made to the President and Chief Executive Officer of Primaris in order to induce him to accept the position and to compensate him for lost deferred compensation at his previous employer. This expense has been recorded in general and administrative expenses for 2009. This award will not be made until the first quarter of 2010. The award will be delivered in a combination of restricted units and options to purchase units of Primaris, and the amounts of such securities and terms of the options will be determined at the time of payment. These restricted units and options will be fully vested in 2010.

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 $14.05 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:

	2009
Unit-based compensation expense	$ 75
Unit options granted	201,588
Unit option holding period (years)	7
Volatility rate	22.0%
Distribution yield	10.1%
Risk-free interest rate	2.5%
Weighted average fair value per unit, at grant date:	
Options	$ 0.97
Restricted share units	10.70

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 ventures which were recorded at their fair values.

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

Assets	$ 107,747
Liabilities	63,525
Revenue	497
Expenses	376
Cash provided by:	
Operations	156
Financing	–
Investing	–

Primaris' interest in the joint venture is pledged as security for a $63,000 mortgage and as security for $24,336 of obligations of its joint venture partner. The joint venture partner is the manager of the property.

14. INTEREST EXPENSE:

	2009	2008
Mortgages payable	$ 49,122	$ 48,182
Amortization of net deferred loss on cash flow hedges	243	249
Convertible debentures	8,661	7,328
Bank indebtedness	553	395
Amortization of financing costs	1,665	1,522
Capitalized interest	–	(179)
	$ 60,244	$ 57,497

15. CHANGE IN OTHER NON-CASH OPERATING ITEMS:

		2009		2008
Rents receivable	$	**(95)**	$	1,554
Other assets and receivables, excluding above-market rent leases and fixtures and equipment		**(182)**		(279)
Accounts payable and other liabilities, excluding below-market leases		**14,666**		420
Mortgage premium		**(1,475)**		(1,504)
	$	**12,914**	$	191

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 6.5% (2008 – 5.9%) 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 and was committed to continue distributing 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 December 31, 2009, 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%. During 2009, Primaris recorded a non-cash future income tax expense of $2,200 (2008 – $800). The future income tax expense is primarily a result of a change in the future tax rates and certain costs deducted for tax purposes.

17. Income taxes (cont'd)

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

	2009	2008
Future income tax liabilities:		
Income-producing properties	$ 31,000	$ 29,800
Leasing costs	9,000	7,000
Other assets and receivables	2,700	3,400
Other	300	600
Future income taxes	$ 43,000	$ 40,800

No provision for current income taxes is required at December 31, 2009 since Primaris has distributed 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 year ended December 31, 2009.

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) Debt Service Coverage Ratio of greater than 1.5; and

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

Those amounts as at December 31, 2009 and 2008 were as follows:

	2009	2008	Change
Debt to Gross Book Value	53.4%	49.2%	(4.2)%
Interest Coverage (rolling four quarters)	2.3 x	2.5 x	(0.2 x)
Debt Service Coverage (rolling four quarters)	1.8 x	1.9 x	(0.1 x)
Unitholders' Equity	$ 738,242	$ 770,318	$ (32,076)

For the year ended December 31, 2009, 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 could 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 850 different tenants across the portfolio.

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

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

(ii) Liquidity risk:

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

Primaris manages cash from operations and capital structure to ensure there are sufficient resources to operate the income-producing properties, fund anticipated leasing, make capital and development expenditures, meet its debt servicing obligations, fund general administrative costs, and make Unitholder distributions. Primaris monitors compliance with debt covenants, estimating lease renewals and property acquisitions and dispositions. Staggering loan maturity dates mitigate 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 repayments 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. It is Primaris' intention to seek renewal of its $120,000 operating line, on which $15,000 has been drawn on December 31, 2009, before it matures on July 31, 2010.

(iii) Market risk:

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

(b) Fair values:

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

	2009		2008	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Mortgages payable	**$ 1,089,966**	**$ 1,055,199**	$ 890,258	$ 861,505
Convertible debentures	**166,461**	**189,967**	95,438	71,473

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) Primaris retained Oxford Properties Group to provide advisory, asset management, development and administration services to Primaris. This contract expired December 31, 2009 and was not extended.

	2009	2008
Asset management fees:		
Basic fees	**$ 4,014**	$ 4,511
Incentive fees	**–**	66
Development fees	**213**	531
	$ 4,227	$ 5,108

Asset management fees are included in general and administrative expenses and development fees are capitalized to income-producing properties. Primaris has also reimbursed the asset manager for $119 of general and administrative costs during 2009 (2008 – $350).

Of these fees, $993 is included in accounts payable and other liabilities at December 31, 2009 (2008 – $1,370). During the year, Primaris issued $57 of units in partial payment of asset management fees (2008 – $1,881).

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

		2009		2008
Property management fees	$	9,354	$	7,567
Leasing fees		714		1,220
	$	10,068	$	8,787

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

Of these fees, $1,814 is included in accounts payable and other liabilities at December 31, 2009 (2008 – $331). Primaris has also reimbursed the property manager for certain property operating costs.

(c) Primaris had one loan payment subsidy at December 31, 2009 (2008 – one), with Oxford Properties Group. The loan payment subsidy was fully repaid in January 2010.

		2009		2008
Loan interest payment subsidy received	$	91	$	109

The loan interest payment subsidy is offset against interest expense.

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

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

During the year, Primaris expensed interest of $5,874 on this mortgage. The balance outstanding as at December 31, 2009 was $107,134.

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

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

21. COMMITMENTS AND CONTINGENCIES:

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

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

2010	$ 1,175
2011	1,248
2012	1,375
2013	1,400
2014	1,400
Thereafter	42,525
	$ 49,123

(c) Under the terms of one of the ground leases that expires in 2056, Primaris may be required to restore the site to the state at the commencement of the ground lease. Primaris has recorded a potential discounted liability of $229 (2008 – $221) for these potential restoration costs.

(d) Primaris has issued letters of credit in the amount of $1,822 (2008 – $1,815).

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

22. FUTURE CHANGES IN ACCOUNTING POLICIES:

The Canadian Accounting Standards Board has confirmed that International Financial Reporting Standards ("IFRS") will, for public entities, 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. Primaris does not intend to prematurely adopt IFRS at this time. Primaris is currently evaluating the impact of adopting IFRS and its primary accounting principles and developing its changeover plan.

23. COMPARATIVE FIGURES:

Certain 2008 figures have been reclassified to conform to the financial statement presentation adopted in 2009.

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Vice President, Legal and Secretary

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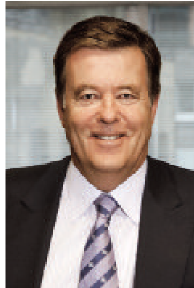
STOCK EXCHANGE LISTING
Toronto Stock Exchange
(TMX), symbols
PMZ.UN
PMZ.DB
PMZ.DB.A
PMZ.DB.B

ANNUAL GENERAL MEETING
May 19, 2010
at 10:00 am EST
The Design Exchange
234 Bay Street
Toronto, ON

THE DIFFERENCE IS IN primaris

Board of Trustees



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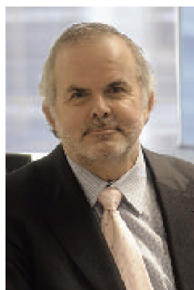

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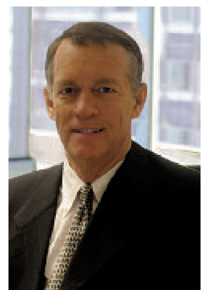

Brent Hollister

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