

3RD QUARTER REPORT

Primaris Retail Real Estate Investment Trust

2009

Primaris Retail REIT is an open-ended Real Estate Investment Trust that owns dominant malls in mid-size Canadian cities and major shopping centres in sub-markets of metropolitan areas.

Dear Unitholder

Primaris continues to pay out stable distributions, underscoring a strong balance sheet and improving consumer confidence.

We are reflecting on how different the economic outlook is this fall compared to the same period last year. The past 12 months have been a time of great economic uncertainty. In such times, we believe that it is prudent to stick to what we know best. We have done so and it has paid off.

The enclosed shopping centre business remained steady this year despite Canadian job losses and an overall decline in consumption. These factors can generally lead to a tough retail environment. Yet, at the end of the third quarter, Primaris has held steady occupancy rates and achieved rent growth on lease renewal activity, and the decline in tenant sales is diminishing.

Our focus on liquidity remains undiminished. We believe that this leaves us well positioned to achieve growth opportunities as they arise. At the end of October, we had \$131 million in cash on our balance sheet. Approximately \$82 million of this is the result of a successful issuance of convertible debentures in October. Capital markets are experiencing greater liquidity and the availability of debt has increased in recent months.

Since taking on my role as Chief Executive Officer in August, I have spent a lot of time reaching out to investors and analysts to talk about our business. Our message is that we are confident about the enclosed shopping centre business, that we are very successful in this line of business and that our results show this. We have some one-time costs associated with the transition and these will affect our bottom line this year. Notwithstanding these costs, the move to an internalized management structure comprised of most of the same high-performing management team was the right thing to do. It is providing Primaris with a terrific platform from which to grow in the years ahead.

These financial statements are the first to be generated by Primaris' new accounting system. We are very pleased with the smooth implementation and acknowledge the tremendous contribution made by our accounting and information technology staff to make this a success.

The property transaction market was relatively quiet during the first two quarters of 2009; however, we have a sense of confidence about future growth opportunities.

We continue to be cautious in our outlook as we approach the most important shopping season of the year. I look forward to providing you with year-end results in the not too distant future.



John R. Morrison
President and Chief Executive Officer

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

(in thousands of dollars, except per unit amounts)

For the three- and nine-month periods ended September 30, 2009

Primaris Retail Real Estate Investment Trust (the "REIT" or "Primaris") has prepared the following discussion and analysis of financial condition and results of operations ("MD&A"), which should be read in conjunction with the unaudited interim financial statements and the accompanying notes prepared for the three- and nine-month periods ended September 30, 2009 and 2008.

The MD&A is dated November 10, 2009. Disclosure contained in this document is current to that date, unless otherwise noted.

The REIT 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, the REIT's 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 the REIT, 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 the REIT 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

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

The objectives of the REIT are:

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

The REIT's results have been consistent with these objectives. Key performance indicators for the REIT include operational results both at the properties themselves as well as of the REIT 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 21. 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.

	Q3 2009	Q2 2009	Q1 2009	Q4 2008
Unit price at period end	\$ 15.20	\$ 11.84	\$ 9.08	\$ 10.70
Distributions	\$ 19,036	\$ 19,055	\$ 19,016	\$ 18,998
Funds from operations ¹	\$ 18,850	\$ 21,149	\$ 21,795	\$ 23,317
Funds from operations per unit diluted ¹	\$ 0.304	\$ 0.337	\$ 0.347	\$ 0.371
Income-producing properties net book value	\$ 1,409,717	\$ 1,424,042	\$ 1,428,848	\$ 1,443,958
Occupancy (including committed space)	96.4%	96.4%	97.3%	98.2%
Tenant sales per square foot – same-property sales ²	\$ 456	\$ 461	\$ 465	\$ 461
Debt to Gross Book Value	49.1%	49.1%	49.1%	48.9%
Interest Coverage (EBITDA)	2.3	2.5	2.5	2.5
Mortgages – weighted average term to maturity	7.0 Years	7.2 years	7.5 years	7.7 years
Mortgages – weighted average interest rate	5.7%	5.7%	5.7%	5.7%
Indebtedness – % at fixed interest rates	100%	100%	100%	100%

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

²Tenant sales are reported on a one-month time lag during interim quarters; therefore, Q3 2009 is 12 months to August 2009, Q2 2009 is 12 months to May 2009, Q1 2009 is 12 months to February 2009 and Q4 2008 is 12 months to December 2008.

The REIT 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. The REIT has since acquired a further 20 principal properties with some 6,500,000 square feet of space at an aggregate cost of \$1,153,910 and undertaken capital improvements representing a further \$99,722 investment. In order to finance this growth in assets, the REIT has raised capital through several equity offerings, the issuance of exchangeable units, convertible unsecured debenture offerings and the use of secured mortgages.

The REIT's 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 contracts terminate at the end of 2009. Thereafter, management expenses may be more variable.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The portfolio occupancy rate remained constant during the third quarter and was 96.4% at September 30, 2009, the same as at June 30, 2009, and down from 97.7% at September 30, 2008.

For the 15 reporting properties owned throughout both the years ended August 31, 2009 and 2008 (same properties), sales per square foot, on a same-tenant basis, have decreased to \$456 from \$469 per square foot. For the same 15 properties the total tenant sales volume has decreased 2.3%.

	Same-Tenant Sales per Square Foot				All-Tenant Total Sales Volume			
	2009	2008	Variance		2009	2008	Variance	
	\$	\$	\$	%	\$	\$	\$	%
Dufferin Mall	\$ 523	\$ 553	\$ (30)	(5.5%)	\$ 86,083,014	\$ 90,297,960	\$ (4,214,946)	(4.7%)
Eglinton Square	363	379	(16)	(4.3%)	28,786,668	38,858,103	(10,071,435)	(25.9%)
Heritage Place	304	320	(16)	(5.1%)	27,479,412	29,975,921	(2,496,510)	(8.3%)
Lambton Mall	351	378	(27)	(7.3%)	49,782,738	53,327,541	(3,544,803)	(6.6%)
Place d'Orleans	449	459	(10)	(2.2%)	107,165,037	104,061,500	3,103,537	3.0%
Place du Royaume	385	385	0	0.0%	105,950,401	102,770,248	3,180,153	3.1%
Place Fleur de Lys	306	312	(6)	(1.9%)	72,748,203	73,287,241	(539,039)	(0.7%)
Stone Road Mall	540	554	(14)	(2.5%)	116,240,438	117,227,298	(986,860)	(0.8%)
Aberdeen Mall	382	422	(40)	(9.4%)	49,242,180	53,469,750	(4,227,570)	(7.9%)
Cornwall Centre	586	565	21	3.7%	78,785,332	75,423,008	3,362,324	4.5%
Grant Park								
Shopping Centre	504	507	(3)	(0.5%)	29,112,581	29,869,161	(756,580)	(2.5%)
Midtown Plaza	572	570	2	0.3%	135,862,658	132,464,118	3,398,540	2.6%
Northland Village	464	460	4	0.9%	48,290,826	46,769,153	1,521,674	3.3%
Orchard Park								
Shopping Centre	490	534	(44)	(8.2%)	140,587,298	152,348,711	(11,761,413)	(7.7%)
Park Place								
Shopping Centre	509	529	(20)	(3.8%)	78,529,282	82,150,030	(3,620,748)	(4.4%)
	\$ 456	\$ 469	\$ (14)	(2.9%)	\$ 1,154,646,068	\$ 1,182,299,743	\$ (27,653,676)	(2.3%)

The REIT's sales decreased 2.9% per square foot, while the national average tenant sales as reported by the International Council of Shopping Centers ("ICSC") for the 12-month period ended August 31, 2009, decreased 5.1%. The REIT's sales productivity of \$456 is lower than the ICSC average of \$541, largely because the ICSC includes sales from super regional malls that have the highest sales per square foot in the country. However, the ICSC data point is for all-tenant sales per square foot. The REIT's all-tenant sales decrease per square foot was 2.3% for the same period, which is less than the ICSC decrease of 5.1%.

MANAGEMENT'S DISCUSSION AND ANALYSIS

**COMPARISON OF THE THREE MONTHS ENDED SEPTEMBER 30, 2009,
TO THE THREE MONTHS ENDED SEPTEMBER 30, 2008**

The REIT's financial results for the three months ended September 30, 2009, compared to the three-month period ended September 30, 2008, are summarized below.

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Variance to Comparative Period Favourable/ (Unfavourable)
Revenue			
Minimum rent	\$ 40,917	\$ 39,992	\$ 925
Recoveries from tenants	22,893	22,615	278
Percentage rent	644	995	(351)
Parking	1,317	1,330	(13)
Interest and other income	300	1,578	(1,278)
	\$ 66,071	\$ 66,510	\$ (439)
Expenses			
Operating	16,204	15,558	(646)
Property tax	12,259	12,147	(112)
Depreciation and amortization	18,472	19,746	1,274
Interest	14,569	14,616	47
Ground rent	305	404	99
	\$ 61,809	\$ 62,471	\$ 662
Income from operations	4,262	4,039	223
General and administrative	(3,948)	(2,092)	(1,856)
Future income taxes	(1,300)	(710)	(590)
Net income (loss)	\$ (986)	\$ 1,237	\$ (2,223)
Depreciation of income-producing properties	16,152	18,247	(2,095)
Amortization of leasing costs	2,101	1,499	602
Accretion of convertible debentures	283	261	22
Future income taxes	1,300	710	590
Funds from operations	\$ 18,850	\$ 21,954	\$ (3,104)
Funds from operations per unit – basic	\$ 0.302	\$ 0.353	\$ (0.051)
Funds from operations per unit – diluted	\$ 0.304	\$ 0.350	\$ (0.047)
Funds from operations – payout ratio	100.3%	87.0%	13.3%
Distributions per unit	\$ 0.305	\$ 0.305	\$ –
Weighted average units outstanding – basic	62,442,592	62,209,426	233,166
Weighted average units outstanding – diluted	67,115,054	67,147,564	(32,510)
Units outstanding, end of period	62,477,749	62,239,176	238,573

The REIT acquired a property in Toronto, Ontario, in April 2009 (the "2009 Acquisition"). The REIT also acquired a property in Toronto, Ontario, in February 2008; a property in Kelowna, British Columbia, adjacent to an existing property, in October 2008; and a further property in Toronto, Ontario, in November 2008 (collectively the "2008 Acquisitions"). The total purchase price for the 2009 Acquisition, including acquisition costs, was \$7,394, and for the 2008 Acquisitions was \$14,597.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Revenue

Revenue for the REIT 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 \$66,071 is \$439 less than in the comparative three-month period for several reasons. The largest contributor to the decrease in revenue was a \$1,278 decrease in interest and other income, principally due to a \$785 decrease in lease-surrender revenues and a \$478 decrease in corporate interest revenue. The decrease in corporate revenue was due to both 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. The 2009 Acquisition and 2008 Acquisitions generated a \$139 positive variance. Offsetting this were the results from the remaining properties which accounted for \$100 of the decrease, driven by decreases in lease-surrender revenue and lower percentage rent revenue.

Current three-month results include \$2,551 of seasonal revenue, which was \$189 lower than in the comparative period. Included in minimum rent in the current quarter is \$323 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 \$56 higher than in the comparative quarter.

Percentage rent has decreased by \$351, due to reduced tenant sales at some properties.

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 slightly offset by lower average occupancy in the current quarter compared to the third quarter of 2008.

Operating Expenses

Operating expenses of \$28,463 are \$758 greater than in the comparative three-month period. This is primarily due to an increase in property operating expenses of \$646 and an increase in property taxes of \$112. The changes in the property management contract accounted for approximately \$149 of the \$646 increase in property operating expenses.

Net Operating Income – All Properties

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Variance to Comparative Period Favourable/ (Unfavourable)
Operating revenue	\$ 65,906	\$ 65,867	\$ 39
Operating expenses	28,768	28,109	(659)
Net operating income	\$ 37,138	\$ 37,758	\$ (620)

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 \$37,139 is \$620 less than in the comparative period. The 2009 Acquisition and the 2008 Acquisitions generated an increase of \$62. The balance of the decrease of \$682 is generated by the remainder of the properties in the portfolio.

Net Operating Income – Same Properties

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Variance to Comparative Period Favourable/ (Unfavourable)
Operating revenue	\$ 65,637	\$ 65,737	\$ (100)
Operating expenses	28,666	28,084	(583)
Net operating income	\$ 36,971	\$ 37,653	\$ (682)

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 \$36,971 or 1.8% lower than in the prior period.

The decrease in same-property revenues is primarily attributable to a \$785 decrease in surrender fees in the current quarter of 2009 compared to the same quarter in 2008. In addition, percentage rents were also \$351 lower when comparing the same periods. Partially offsetting these variances, minimum rent was \$646 higher and recoveries from tenants was \$245 higher.

On a same-property basis, operating expenses were \$583 more than in the comparative period as a result of a \$435 increase in non-recoverable operating expenses, a \$69 increase in property taxes, a \$178 increase in recoverable property operating expenses, and a \$99 decrease in ground rent.

Net operating income, on a same-property basis, would have increased 0.6% excluding the \$149 increase for the new property management fee structure and \$785 for the decrease in lease-surrender revenue.

Interest Expense

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Variance to Comparative Period Favourable/ (Unfavourable)
Mortgages payable	\$ 12,147	\$ 12,151	\$ 4
Amortization of net loss on cash flow hedges	60	62	2
Convertible debentures	1,768	1,842	74
Bank indebtedness	133	93	(40)
Amortization of financing costs	461	468	7
	\$ 14,569	\$ 14,616	\$ 47

Interest expense of \$14,569 is \$47 less than in the comparative three-month period primarily due to a decrease of \$74 in convertible debenture interest expense.

Depreciation and Amortization

Depreciation and amortization decreased by \$1,274. 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 third quarter of 2009 compared to the third quarter of 2008.

Ground Rent

Ground rent expense amounted to \$305, which is \$99 less than in the comparative period.

General and Administrative Expenses

General and administrative expenses increased by \$1,856, principally due to an increase of \$2,305 in costs related to the internalization of management. This increase is partially offset by a reduction in consulting and other professional fees.

Future Tax Expense

During the current period the REIT has recorded a non-cash expense of \$1,300 to account for future income taxes. The expense is a result of changes in the temporary differences between amounts recorded for accounting purposes and for tax purposes. The expense has no impact on the REIT's cash flows or distributions.

MANAGEMENT'S DISCUSSION AND ANALYSIS

**COMPARISON OF THE NINE MONTHS ENDED SEPTEMBER 30, 2009,
TO THE NINE MONTHS ENDED SEPTEMBER 30, 2008**

The REIT's financial results for the nine months ended September 30, 2009, compared to the nine-month period ended September 30, 2008, are summarized below.

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008	Variance to Comparative Period Favourable/ (Unfavourable)
Revenue			
Minimum rent	\$ 122,446	\$ 118,942	\$ 3,504
Recoveries from tenants	71,433	68,812	2,621
Percentage rent	1,928	2,356	(428)
Parking	4,394	4,449	(55)
Interest and other income	1,641	3,391	(1,750)
	\$ 201,842	\$ 197,950	\$ 3,892
Expenses			
Operating	49,801	45,786	(4,015)
Property tax	37,443	36,418	(1,025)
Depreciation and amortization	56,458	59,368	2,910
Interest	43,715	42,830	(885)
Ground rent	929	1,021	92
	\$ 188,346	\$ 185,423	\$ (2,923)
Income from operations	13,496	12,527	969
General and administrative	(8,667)	(6,017)	(2,650)
Future income taxes	(4,600)	(2,180)	(2,420)
Gain on sale of land	–	298	(298)
Net income	\$ 229	\$ 4,628	\$ (4,399)
Depreciation of income-producing properties	50,958	55,365	(4,407)
Amortization of leasing costs	5,186	4,002	1,184
Accretion of convertible debentures	821	757	64
Future income taxes	4,600	2,180	2,420
Gain on sale of land	–	(298)	298
Funds from operations	\$ 61,794	\$ 66,634	\$ (4,840)
Funds from operations per unit – basic	\$ 0.991	\$ 1.073	\$ (0.083)
Funds from operations per unit – diluted	\$ 0.988	\$ 1.064	\$ (0.077)
Funds from operations – payout ratio	92.6%	85.9%	6.7%
Distributions per unit	\$ 0.914	\$ 0.914	\$ –
Weighted average units outstanding – basic	62,378,598	62,093,163	285,435
Weighted average units outstanding – diluted	67,152,379	67,054,688	97,691
Units outstanding, end of period	62,477,749	62,239,176	238,573

The REIT acquired a property in Toronto, Ontario, in April 2009 (the “2009 Acquisition”). The REIT also acquired a property in Toronto, Ontario, in February 2008; a property in Kelowna, British Columbia, adjacent to an existing property, in October 2008; and a further property in Toronto, Ontario, in November 2008 (collectively the “2008 Acquisitions”). The total purchase price for the 2009 Acquisition, including acquisition costs, was \$7,394, and for the 2008 Acquisitions was \$14,597.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Revenue

Revenue for the REIT 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 nine-month revenue of \$201,842 is \$3,892 greater than in the comparative nine-month period for several reasons. The largest contributor to the increase was the \$4,401 increase from the same-property revenues, driven by increases in minimum rent and recoveries from tenants. The 2009 Acquisition and 2008 Acquisitions contributed a further \$339 to the favourable variance. Partially offsetting these positive variances was the decrease in interest and other revenue of \$1,750, of which \$846 was a reduction in corporate interest revenue due to both 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. In addition, lease-surrender fees accounted for \$818 of the negative variance in interest and other income.

Current nine-month results include \$7,601 of seasonal revenue, which was \$133 higher than in the comparative period. Included in minimum rent in the current nine-month period is \$1,003 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 \$234 higher than in the comparative period.

Percentage rent has decreased by \$428, due to decreased tenant sales at some properties.

Interest and other income decreased during the first three quarters of 2009 compared to the comparative period of 2008 due to a lower rate of interest being earned on cash balances invested, partially offset by a \$727 gain in the first two quarters of 2009 on the repurchase of convertible debentures under the normal course issuer bid.

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 nine-month period compared to the comparative period of 2008. The decrease in the ratio of recoveries revenue to operating expenses in the first three quarters of 2009 compared to the first three quarters of 2008 is primarily due to the increase in mid-2008 in the property management fee, a non-recoverable expense.

Operating Expenses

Operating expenses of \$87,244 are \$5,040 greater than in the comparative nine-month period. This is primarily due to an increase in property operating expenses of \$4,015 and an increase in property taxes of \$1,025. The changes in the property management contract accounted for approximately \$1,832 of the \$4,015 increase in property operating expenses.

Net Operating Income – All Properties

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008	Variance to Comparative Period Favourable/ (Unfavourable)
Operating revenue	\$ 200,496	\$ 195,757	\$ 4,739
Operating expenses	88,173	83,225	(4,948)
Net operating income	\$ 112,323	\$ 112,532	\$ (209)

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 \$112,323 is \$209 less than in the comparative period. The 2009 Acquisition and the 2008 Acquisitions generated an increase of \$201. The offsetting decrease of \$410 is generated by the remainder of the properties in the portfolio.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Net Operating Income – Same Properties

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008	Variance to Comparative Period Favourable/ (Unfavourable)
Operating revenue	\$ 199,778	\$ 195,378	\$ 4,400
Operating expenses	87,928	83,118	(4,810)
Net operating income	\$ 111,850	\$ 112,260	\$ (410)

The same-property comparison consists of the 26 principal properties that were owned throughout both the current and comparative nine-month periods. Net operating income, on a same-property basis, was \$111,850 or 0.4% lower than in the prior period.

The increase in same-property revenues is primarily attributable to increases in minimum rents and recoveries from tenants. However, partially offsetting this increase were increases in the property management fee of \$1,820, an \$818 decrease in lease-surrender revenues, and a \$428 decrease in percentage rent.

On a same-property basis, operating expenses were \$4,810 more than in the comparative period as a result of a \$2,200 increase in non-recoverable operating expenses, a \$1,773 increase in recoverable property operating expenses, a \$929 increase in property taxes, and a \$92 decrease in ground rent.

Net operating income, on a same-property basis, would have increased 2.0% excluding the \$1,820 increase for the new property management fee structure and \$818 for the decrease in lease-surrender revenue.

Interest Expense

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008	Variance to Comparative Period Favourable/ (Unfavourable)
Mortgages payable	\$ 36,578	\$ 35,695	\$ (883)
Amortization of net loss on cash flow hedges	183	188	5
Convertible debentures	5,345	5,478	133
Bank indebtedness	383	321	(62)
Amortization of financing costs	1,226	1,148	(78)
	\$ 43,715	\$ 42,830	\$ (885)

Interest expense of \$43,715 is \$885 greater than in the comparative nine-month period primarily due to an increase of \$883 in mortgage interest expense. Of the total increase in mortgages payable, the financing of Stone Road Mall in August 2008 generated a \$1,469 increase, which is partially offset by reduced interest expense on the remaining mortgages.

Depreciation and Amortization

Depreciation and amortization decreased by \$2,910. 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 first three quarters of 2009 compared to the comparative period in 2008.

Ground Rent

Ground rent expense amounted to \$929, which is \$92 less than in the comparative period.

General and Administrative Expenses

General and administrative expenses increased by \$2,650, principally due to \$3,507 of costs related to the internalization of management. This increase is partially offset by a reduction in, and change in timing of occurrence of, consulting and other professional fees.

Future Tax Expense

During the current nine-month period, the REIT has recorded a non-cash expense of \$4,600 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 the REIT's cash flows or distributions.

NON-GAAP FINANCIAL MEASURES

Funds from Operations

The REIT 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 is to provide reporting issuers and investors with greater guidance on the definition of FFO and to help promote more consistent disclosure from reporting issuers.

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Net income (loss)	\$ (986)	\$ 1,237	\$ 229	\$ 4,628
Depreciation of income-producing properties	16,152	18,247	50,958	55,365
Amortization of leasing costs	2,101	1,499	5,186	4,002
Accretion of convertible debentures	283	261	821	757
Future income taxes	1,300	710	4,600	2,180
Gain on sale of land	-	-	-	(298)
Funds from operations	\$ 18,850	\$ 21,954	\$ 61,794	\$ 66,634
Funds from operations per unit – basic	\$ 0.302	\$ 0.353	\$ 0.991	\$ 1.073
Funds from operations per unit – diluted	\$ 0.304	\$ 0.350	\$ 0.988	\$ 1.064
Funds from operations – payout ratio	100.3%	87.0%	92.6%	85.9%
Distributions per unit	\$ 0.305	\$ 0.305	\$ 0.914	\$ 0.914
Weighted average units outstanding – basic	62,442,592	62,209,426	62,378,598	62,093,163
Weighted average units outstanding – diluted	67,115,054	67,147,564	67,152,379	67,054,688
Units outstanding, end of period	62,477,749	62,239,176	62,477,749	62,239,176

An advantage of the FFO measure is improved comparability between Canadian and foreign 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, including the purchased deferred recoverable balances, 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 September 30, 2009, decreased \$3,104. The decrease is primarily due to a \$1,856 increase in general and administrative expense which includes one-off internalization costs and a further \$1,278 decrease in interest and other income, due to a reduction in lease-surrender fees and interest revenue achieved on cash balances invested. The negative variance in net income of \$2,223, which impacts FFO, was discussed previously. The depreciation of fixtures and equipment is not added back to net income. This represents a \$219 reduction in FFO in the current quarter compared to the third quarter of 2008.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FFO per unit for the third quarter of 2009 had an unfavourable variance of \$0.047 per unit on a diluted basis compared to the prior period.

The diluted weighted average number of units outstanding increased from the comparative quarter because of three factors: the issuance of units pursuant to the REIT's 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 the REIT's 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 13.

QUARTERLY TRENDS

Selected Quarterly Information

	2009				2008			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	\$ 66,071	\$ 66,753	\$ 69,018	\$ 71,783	\$ 66,510	\$ 64,718	\$ 66,722	\$ 69,596
Seasonal revenue	2,551	2,499	2,551	4,513	2,740	2,464	2,264	4,135
Net operating income	37,138	37,693	37,492	40,344	37,759	37,208	37,567	40,183
Net income (loss)	(986)	691	524	5,149	1,237	1,035	2,356	7,833
Total assets	1,543,168	1,568,718	1,580,720	1,608,832	1,624,247	1,601,800	1,619,785	1,643,035
Indebtedness	977,595	982,526	986,636	994,130	998,724	955,697	960,453	964,884
Debt to Gross Book Value	49.1%	49.1%	49.1%	48.9%	49.0%	47.7%	47.4%	47.4%
Diluted net income (loss)								
per unit	\$ (0.016)	\$ 0.009	\$ 0.008	\$ 0.083	\$ 0.020	\$ 0.017	\$ 0.038	\$ 0.127
Diluted funds								
from operations	\$ 0.304	\$ 0.337	\$ 0.347	\$ 0.371	\$ 0.350	\$ 0.351	\$ 0.363	\$ 0.403
Distributions per unit	\$ 0.305	\$ 0.305	\$ 0.305	\$ 0.305	\$ 0.305	\$ 0.305	\$ 0.305	\$ 0.298
Units outstanding, end of period	62,477,749	62,413,012	62,348,408	62,269,712	62,239,176	62,179,175	62,039,190	61,937,650

Note: As at October 31, 2009, there were 62,498,120 units outstanding.

The REIT's quarterly results for the last eight quarters have been primarily affected by five factors: five property acquisitions, issuances of equity and 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 Acquisition and the 2008 Acquisitions and two properties acquired in the second half of 2007 have resulted in increased revenues and net operating income. However, on a per unit basis these increases have been offset by an issuance of equity and convertible debentures.

The REIT 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

The REIT 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 the strong balance sheet position. There is cash of \$47,968 at September 30, 2009. With the exception of a small \$3,748 mortgage maturing in the fourth quarter of 2009, there are no mortgages payable outstanding that mature until 2011. In early October, the REIT completed the issuance of convertible debentures raising an additional \$82,466 cash to treasury.

At September 30, 2009, the REIT's cash position has decreased compared to December 31, 2008, due to distributions to Unitholders, scheduled mortgage repayments, repurchase of convertible debentures and capital expenditures on properties, including acquisitions, building improvements, tenant improvements and recoverable improvements, partially offset by property operations.

Interest Coverage expressed as EBITDA divided by net interest expense was 2.3 times for the current quarter. The REIT 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 September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Net income (loss)	\$ (986)	\$ 1,237	\$ 229	\$ 4,628
Interest	14,569	14,616	43,715	42,830
Depreciation	16,199	18,247	51,053	55,366
Amortization	2,273	1,499	5,405	4,002
Future income taxes	1,300	710	4,600	2,180
EBITDA	\$ 33,355	\$ 36,309	\$ 105,002	\$ 109,006
EBITDA/Interest	2.3	2.5	2.4	2.5

The Debt to Gross Book Value Ratio was 49.1% as at September 30, 2009, which is significantly below the 60.0% maximum as mandated by the REIT's 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 the REIT's Declaration of Trust and the remaining debt premiums of \$511 associated with the IPO are included. If the convertible debentures are included, the Debt to Gross Book Value Ratio would be 54.2%. The Debt to Gross Book Value Ratio has remained virtually constant during the current quarter.

During the nine-month period ended September 30, 2009, \$162 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% series of convertible debentures. The REIT 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 September 30, 2009, of the 6.75% series is \$5,942 and in the 5.85% series is \$93,476.

During the current quarter, the REIT made \$4,869 of scheduled principal payments on its mortgages.

The REIT paid \$19,049 of distributions to Unitholders during the third quarter of 2009. The REIT 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.

¹These comments are based on various assumptions and are subject to various risks. See Forward-Looking Information on page 2.

CAPITAL EXPENDITURES

In accordance with its objectives, the REIT distributes a high percentage of its FFO to Unitholders. As such it does not retain a material amount of operating cash flow. The REIT 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 the REIT to prepare space for occupancy by a tenant. The REIT incurred \$2,173 of leasing costs during the current quarter of 2009, which is comprised of \$1,954 of tenant improvement allowances and \$219 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. The REIT had a net balance of \$17,761 recorded as recoverable improvements at the beginning of 2009, recorded \$4,321 as additional expenditures during the first three quarters and recovered \$2,517 from tenants during the first three quarters. This resulted in a recoverable improvements cost balance as at September 30, 2009, net of amortization, of \$19,565.

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 REITs, 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.

The REIT endeavours to fund maintenance capital from cash flow from ongoing operations in order to manage the REIT on a sustainable basis. Leasing capital varies with tenant demand and merchandising mix strategies of a property. The REIT 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. The REIT's experience with these is that they are incurred in irregular amounts over a longer time period, which means that the REIT 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 the REIT for the six properties owned throughout the last nine complete years:

MANAGEMENT'S DISCUSSION AND ANALYSIS

	2008	2007	2006	2005	2004	2003	2002	2001	2000
Leasing capital	\$ 2,872	\$ 4,664	\$ 10,743	\$ 3,695	\$ 2,253	\$ 1,157	\$ 5,716	\$ 7,920	\$ 1,627
Other capital	3,223	9,984	35,043	14,857	8,925	318	2,426	13,632	2,462
Less: additions to productive capacity	(1,077)	(12,612)	(35,775)	(16,335)	(8,023)	(212)	(3,012)	(17,064)	(2,337)
	\$ 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 nine-year period was \$1.37. These historical costs may not be indicative of future costs for the REIT's 9.3 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. The REIT 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. The REIT's 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, the REIT 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 the REIT's 2009 Annual and Special meeting in June, the Unitholders approved eliminating the requirement to distribute the REIT's taxable income. There are financial covenants in loan agreements in the REIT 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 the REIT's rate of distributions. In its deliberations, the committee has considered the following items:

- the expectation of a weaker economic environment in 2009;
- Primaris' Operating Plan for 2009;
- Primaris' strong cash position;
- availability of cash resources for 2009, including an undrawn \$120,000 line of credit;
- minimal loan maturities in 2009 and 2010;
- conservative leverage measured on both a balance sheet and operating basis; and
- leasing and development capital requirements for 2009.

The current rate of distributions is slightly in excess of expected FFO less ongoing capital expenditures. However, the two major reasons are the one-time transition costs in 2009 related to the internalization of the REIT, and the drag on FFO resulting from a strong cash position in 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

The REIT is an unincorporated, open-ended real estate investment trust. It owns a subsidiary trust, PRR Trust, which in turn owns a number of subsidiary trusts, partnerships and corporations. All of the REIT's operating assets, including real property, are owned by either PRR Trust or its subsidiary entities.

The REIT 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 the REIT's 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 the REIT's ability to declare and pay distributions to Unitholders, so long as payments are current under the loan. Certain secured loan agreements restrict the REIT's ability to move cash from a borrowing REIT entity to another REIT entity if the borrower is in default of the loan agreement. However, as a practical point, if the REIT were ever in material default of a loan agreement, it might otherwise become difficult to continue paying distributions at the then-current rate.

The REIT's operating credit agreement contains four financial covenants the REIT 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.

The REIT 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 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 the REIT's annual distributions.

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

	2008	2007	2006	2005	2004	2003
Return of capital	63.6%	80.0%	77.6%	56.4%	65.6%	74.4%
Income	36.0%	20.0%	22.4%	43.6%	34.4%	25.6%
Capital gain	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

FINANCIAL CONDITION

Cash

Cash and cash equivalents of \$47,968 represents 3% of the total assets as at September 30, 2009. The cash is invested in Government of Canada Treasury Bills, instruments guaranteed by the provincial governments and bankers' acceptances and bearer deposit notes issued by Canadian, Schedule I banks. In early October 2009, the REIT issued \$86,250 of convertible debentures for net proceeds after fees and costs of \$82,466.

Income-Producing Properties

Income-producing properties represent 91% of total assets as at September 30, 2009. The property portfolio comprises 26 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 850 different tenants, which represents a significant diversification of revenues. In addition, the 26 principal properties have good geographic diversification.

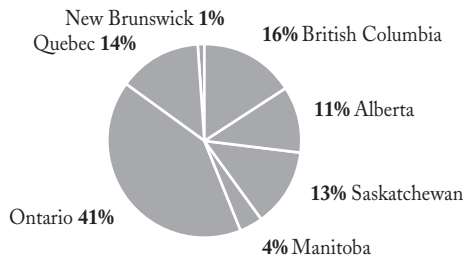
MANAGEMENT'S DISCUSSION AND ANALYSIS

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 re-leasing or renewing space currently leased, retail sales performance and the contractual increases in rent that are programmed to occur mid-lease.

The REIT leased 182,158 square feet of space during the third quarter of 2009. This represented 54 leases of generally smaller stores. Approximately 78% 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 4.6% increase over the previous cash rent for all transactions.

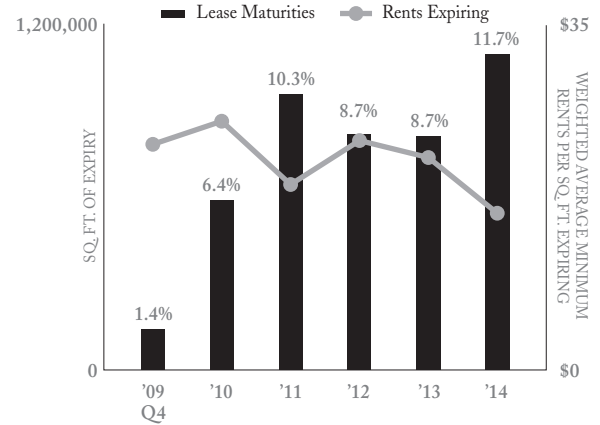
Geographic Diversification

The income-producing properties are located in seven provinces. As at September 30, 2009, the portfolio distribution based on annualized minimum rent is as follows:



Lease and Rent Expiries

Lease maturities are no greater than 11.7% of the portfolio in any year between 2009 and 2014.



Largest Tenants

The following table illustrates the 10 largest grouped tenants in the REIT's portfolio of income-producing properties as measured by their percentage contribution to total annual minimum rent, as at September 30, 2009.

Tenant Groups	Percentage of Total Annual Minimum Rent	Area (Sq. Ft.)	Weighted Average Lease Term to Maturity (Years)
HBC	5.9%	1,671,521	8.4
YM	3.3%	191,638	4.8
Sears	2.8%	979,436	7.8
Forzani	2.5%	303,611	4.8
Shoppers Drug Mart	2.4%	128,514	6.8
Loblaws	2.2%	321,621	6.1
Reitmans	2.1%	111,392	3.1
Canadian Tire	1.8%	220,194	11.1
Best Buy	1.6%	144,407	3.8
Dynamite	1.5%	62,166	2.6
	26.1%		

MANAGEMENT'S DISCUSSION AND ANALYSIS

Indebtedness and Other Obligations

Year	Mortgages	Convertible Unsecured Debentures	Asset Management Fees	Ground Leases	Total
2009 Q4	\$ 8,488	\$ –	\$ 1,125	\$ 294	\$ 9,907
2010	19,631	–	–	1,175	20,806
2011	57,093	–	–	1,248	58,341
2012	42,796	–	–	1,375	44,171
2013	170,364	–	–	1,400	171,764
Thereafter	580,405	99,418	–	43,925	723,748
	\$ 878,777	\$ 99,418	\$ 1,125	\$ 49,417	\$ 1,028,737

Note: Of the total mortgages balance, \$125,026 is recourse only to the underlying property.

The REIT had \$878,777 of mortgages payable, excluding debt premiums of \$5,492 and net financing fees of \$4,449, as at September 30, 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 7.0 years.

In February 2008, the REIT extended the term of the existing asset management agreement until December 31, 2009 (see discussion under Related Party Transactions). The table above includes the base asset management fees that would be due pursuant to this contract, assuming the balance sheet in place at June 30, 2008, continues unchanged. There is no incentive fee included in the table since any incentive fee is contingent on future operating results.

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 the REIT 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, asset management fees and ground rent will be funded from operations and from draws on the revolving credit facility.

RELATED PARTY TRANSACTIONS

The REIT has retained Oxford Properties Group to provide advisory, asset management and development services.

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Asset management fees	\$ 1,034	\$ 1,071	\$ 2,937	\$ 3,369
Development fees	13	106	199	411
	\$ 1,047	\$ 1,177	\$ 3,136	\$ 3,780

The REIT also reimbursed the asset manager for certain general and administrative costs. Of the fees incurred, \$1,058 is included in accounts payable and other liabilities as at September 30, 2009 (December 31, 2008 – \$1,370). During the first three quarters of 2009, the REIT issued \$57 of units in partial payment of asset management fees (2008 – \$1,881). The REIT has also reimbursed the asset manager \$110 of general and administrative costs in 2009 (2008 – \$142).

MANAGEMENT'S DISCUSSION AND ANALYSIS

The REIT has also retained Oxford Properties Group to provide property management and leasing services to the REIT.

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Property management fees	\$ 2,257	\$ 2,117	\$ 6,872	\$ 5,118
Leasing fees	147	490	544	905
	\$ 2,404	\$ 2,607	\$ 7,416	\$ 6,023

Of the fees incurred, \$407 is included in accounts payable and other liabilities (December 31, 2008 – \$331). The REIT has also reimbursed the property manager for certain direct property operating costs.

The REIT has one loan payment subsidy as at September 30, 2009 (September 30, 2008 – one), with Oxford Properties Group.

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Loan interest payment subsidy received	\$ 22	\$ 26	\$ 70	\$ 83

During 2008, the REIT extended the term of its two external management contracts by 18 months, from July 17, 2008, to December 31, 2009. A number of changes have been 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 is unchanged and is 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. Going forward, the hurdle rate is equal to FFO for the 12 months ending June 30, 2008. This change in hurdle rate should represent a decrease in the incentive fee that would have been otherwise payable.

In addition, acquisition fees and disposition fees were introduced to the contracts.

The original fee structure was established in 2003 and there had been no changes since. Under the new terms of the contracts, the annual gross fees payable to the external manager commencing in July 2008 on the REIT's current portfolio are expected to increase by approximately \$3,200. The exact amount of fees will depend on acquisitions, dispositions and future operating results.

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.

MANAGEMENT TRANSITION

Primaris is currently managed by OPGI Management Limited Partnership or affiliates thereof (collectively "OPGI") pursuant to two management contracts. As discussed above, these contracts are scheduled to expire at the end of 2009. The REIT announced in early 2008 that it would internalize the management of the REIT at the end of 2009. No termination payment is due to OPGI unless the contracts are terminated early.

People

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

The REIT will need approximately 10 additional employees. John R. Morrison, formerly employed by OPGI, was appointed President and Chief Executive Officer of the REIT at the beginning of the third quarter. Louis M. Forbes, formerly employed by OPGI, became a REIT employee effective January 1, 2009, and continues as the REIT's Chief Financial Officer. The remaining needs are in areas such as human resources, information technology, and other support services that the REIT and OPGI's other assets had shared. Much progress has been made in obtaining an experienced, cohesive team of employees, motivated to work for Primaris.

Space

The REIT leased space in downtown Toronto and head office staff moved into the new premises at the beginning of the third quarter.

Systems

The conversion to the new information system is complete and the REIT has started to use the new information system on its new premises.

Economics

The REIT does not expect the future costs of the internal management model to differ materially from the costs incurred under the existing external contracts. The REIT expects the transition will cost \$12,200. The main expenses will relate to information technology, occupancy costs and people costs including temporary help, outside consultants and recruiting costs. These costs will be incurred over the 2008–2009 period. Of this total, the REIT expects \$7,000 will be expensed as general and administrative expenditures and the remainder will be capitalized.

In the first three quarters of 2009, the REIT has expensed \$3,506 of transition costs. This amount, when combined with the \$827 that was expensed in 2008, leaves a further \$2,667 to be expensed over the remainder of 2009. The REIT has also incurred \$4,894 of capital costs in 2009. Cumulative capitalized transition costs amount to \$5,407 when offset by the \$1,326 tenant allowance to be received in the fourth quarter of 2009, which leaves a further \$1,119 to be spent and capitalized in the remainder of 2009.

Risks

There is a discussion of general risks beginning on page 22. The transition introduces some new risks to the REIT. These risks are mitigated to a certain degree by the presence and involvement of the external manager, OPGI, one of Canada's largest owners and operators of real estate.

It is possible that the costs of transition will differ from expectations. In addition, 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 the REIT 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.

FUTURE CHANGES IN ACCOUNTING POLICIES

The CICA issued amendments to Handbook Section 3862 – Financial Instruments – Disclosures, which is effective for the REIT's 2009 year-end financial statements. The amendments expand the disclosure requirements about fair value measurements of financial instruments. Fair values are to be 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 will result in additional disclosures for the REIT.

In February 2008, the Canadian Accounting Standards Board 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. The REIT does not intend to prematurely adopt IFRS at this time.

The REIT has developed a conversion plan to manage this change. Primaris has now completed a detailed review of the differences between IFRS and Canadian GAAP as they apply to our business. This analysis has identified the accounting policy decisions that need to be made in order to report under IFRS and the impact of the resultant changes for financial reporting and the broader organization. Once the accounting policy decisions have been made, the REIT will then design the required changes, implement them and review the success of such implementation.

Following the detailed assessment, the REIT is also assessing the impact that IFRS will have on the following:

- accounting policies;
- information technology and data systems;
- internal control over financial reporting;
- disclosure controls;
- employee training;
- certain debt agreements and the Declaration of Trust;
- communication with users of our financial reporting; and
- general and administrative costs, both for the conversion and on an ongoing basis.

The results of this assessment have been incorporated into the REIT's conversion plan.

RISKS AND UNCERTAINTIES

Real Property Ownership

The REIT owns 26 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. The REIT's 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 the REIT 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 the REIT 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 the REIT's investment may be incurred. Furthermore, at any time, a tenant of any of the properties in which the REIT 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 the REIT. The ability to rent unleased space in the properties in which the REIT 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 the REIT 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 the REIT's ability to vary its portfolio promptly in response to changing economic or investment conditions. If the REIT were to be required to liquidate its real property investments, the proceeds to the REIT 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. The REIT 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. The REIT 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 the REIT's level of distributions.

Retail Concentration

The REIT's 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 the REIT 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 the REIT.

Environmental Matters

As an owner of interests in real property in Canada, the REIT is subject to various Canadian federal, provincial and municipal laws relating to environmental matters. Such laws provide that the REIT 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 the REIT's 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.

The REIT is not aware of any material non-compliance with environmental laws at any of the properties and is also not aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with any of the properties. The REIT is also not aware of any pending or threatened claims relating to environmental conditions at the properties.

The REIT will make the necessary capital and operating expenditures to ensure compliance with environmental laws and regulations. Although there can be no assurances, the REIT does not believe that costs relating to environmental matters will have a material adverse effect on the REIT's business, financial condition or results of operations. However, environmental laws and regulations can change and the REIT 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 the REIT's business, financial condition or results of operations and distributions.

Financing Risks

The REIT has indebtedness outstanding of approximately \$977,595 as at September 30, 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 the REIT will continue to generate sufficient cash flow from operations to meet required interest and principal payments. If the REIT 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. The REIT is subject to the risks associated with debt financing, including the risk that the mortgages and banking facilities secured by the REIT's 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.

The REIT has stated that one of its objectives is to grow through acquisitions. While the REIT has financial resources on hand to complete some acquisitions, the longer-term ability of the REIT 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.

Interest Rate Fluctuations

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

Reliance on the Asset Manager, Property Manager and Related Personnel

The management of the REIT depends on the services of certain key personnel. The loss of the services of any key personnel could have an adverse effect on the REIT. The management of the REIT is also dependent upon the asset manager with respect to the administration of the REIT and the asset management of the properties of the REIT, as well as upon the property manager with respect to the property management of the properties of the REIT. If the asset manager or the property manager ceases to act in these capacities, the REIT could be negatively impacted. The REIT is well along the way to completing its transition to an internal management structure, including securing the employment of many key personnel.

Potential Conflicts of Interest

The Trustees will, from time to time, in their individual capacities, deal with parties with whom the REIT may be dealing, or who may be seeking investments similar to those desired by the REIT. The Declaration of Trust contains conflict of interest provisions requiring the Trustees to disclose material interests in material contracts and transactions and to refrain from voting thereon.

Conflicts will exist due to the fact that certain Trustees and/or senior officers of the REIT are Unitholders, associates of Unitholders, directors and/or senior officers of the asset and property managers. The interest of these persons could conflict with those of the REIT.

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 the REIT fails to qualify for the REIT Exception, the REIT 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 the REIT 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 the REIT 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' acceptances, 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 previously, 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 the REIT, 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 the REIT 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 the REIT's ability to qualify for the REIT Exception. Management of the REIT 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 the REIT and certain securities issued by such entities. Any such restructuring will be undertaken only if it is in the best interests of the REIT's Unitholders. Based on the REIT's interpretation of the REIT Exception, management expects to be able to undertake restructurings so that the REIT should qualify for the REIT Exception. No assurance can be given that the REIT will qualify for the REIT Exception.

CONTROLS AND PROCEDURES

The REIT's 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.

A new financial reporting system was implemented during the quarter, but the system changes did not materially affect internal control over financial reporting.

There were no changes in internal control over financial reporting during the third quarter of 2009 that have materially affected or are reasonably likely to materially affect the REIT's internal control over financial reporting.

The REIT's 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. The REIT 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, 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, the REIT's 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. The REIT's 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.

Interim Consolidated Balance Sheets

(In thousands of dollars)

	September 30, 2009	December 31, 2008
Assets	(Unaudited)	
Income-producing properties (note 3)	\$ 1,409,717	\$ 1,443,958
Leasing costs (note 4)	41,386	38,200
Rents receivable (note 5)	4,107	4,812
Other assets and receivables (note 6)	39,990	24,438
Cash and cash equivalents	47,968	97,424
	\$ 1,543,168	\$ 1,608,832
Liabilities and Unitholders' Equity		
Liabilities:		
Mortgages payable (note 8)	\$ 879,820	\$ 890,258
Convertible debentures (note 9)	90,647	95,438
Accounts payable and other liabilities (note 11)	45,088	45,782
Distribution payable	6,352	6,334
Future income taxes (note 16)	45,400	40,800
	1,067,307	1,078,612
Unitholders' Equity	475,861	530,220
Commitments and contingencies (note 20)		
	\$ 1,543,168	\$ 1,608,832

See accompanying notes to interim consolidated financial statements.

Interim Consolidated Statements of Income

(In thousands of dollars, except per unit amounts)

(Unaudited)

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Revenue:				
Minimum rent	\$ 40,917	\$ 39,992	\$ 122,446	\$ 118,942
Recoveries from tenants	22,893	22,615	71,433	68,812
Percentage rent	644	995	1,928	2,356
Parking	1,317	1,330	4,394	4,449
Interest and other	300	1,578	1,641	3,391
	66,071	66,510	201,842	197,950
Expenses:				
Property operating	16,204	15,558	49,801	45,786
Property taxes	12,259	12,147	37,443	36,419
Depreciation	16,371	18,247	51,272	55,365
Amortization	2,101	1,499	5,186	4,002
Interest (note 13)	14,569	14,616	43,715	42,830
Ground rent	305	404	929	1,021
General and administrative	3,948	2,092	8,667	6,017
	65,757	64,563	197,013	191,440
Income before gain on sale of land and income taxes	314	1,947	4,829	6,510
Gain on sale of land	–	–	–	298
Income before income taxes	314	1,947	4,829	6,808
Future income taxes (note 16)	1,300	710	4,600	2,180
Net income (loss)	\$ (986)	\$ 1,237	\$ 229	\$ 4,628
Basic and diluted net income (loss) per unit (note 12(d))	\$ (0.02)	\$ 0.02	\$ 0.00	\$ 0.07

Interim Consolidated Statements of Comprehensive Income

(In thousands of dollars)

(Unaudited)

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Net income (loss)	\$ (986)	\$ 1,237	\$ 229	\$ 4,628
Amortization of deferred net loss on cash flow hedges	60	62	183	188
Comprehensive income (loss)	\$ (926)	\$ 1,299	\$ 412	\$ 4,816

See accompanying notes to interim consolidated financial statements.

Interim Consolidated Statements of Unitholders' Equity

(In thousands of dollars)

(Unaudited)

Nine Months Ended September 30, 2009	Amount of Units Issued	Contributed Surplus	Net Income	Distributions	Equity Component of Convertible Debentures	Accumulated Other Comprehensive Income (Loss)	Total
Unitholders' Equity, beginning of period	\$ 772,686	\$ —	\$ 43,183	\$ (291,756)	\$ 8,530	\$ (2,423)	\$ 530,220
Net income	—	—	229	—	—	—	229
Distributions	—	—	—	(57,107)	—	—	(57,107)
Amortization of deferred loss on cash flow hedges	—	—	—	—	—	183	183
Equity incentive plan (note 12(e))	—	54	—	—	—	—	54
Issuance of units under distribution reinvestment plan	2,089	—	—	—	—	—	2,089
Issuance of units under asset management agreement	57	—	—	—	—	—	57
Conversion of convertible debentures to units, net of costs	162	—	—	—	(4)	—	158
Purchase of convertible debentures under normal course issuer bid	—	543	—	—	(565)	—	(22)
Unitholders' Equity, end of period	\$ 774,994	\$ 597	\$ 43,412	\$ (348,863)	\$ 7,961	\$ (2,240)	\$ 475,861

Nine Months Ended September 30, 2008	Amount of Units Issued	Contributed Surplus	Net Income	Distributions	Equity Component of Convertible Debentures	Accumulated Other Comprehensive Income (Loss)	Total
Unitholders' Equity, beginning of period	\$ 767,511	\$ —	\$ 33,406	\$ (215,904)	\$ 8,551	\$ (2,672)	\$ 590,892
Net income	—	—	4,628	—	—	—	4,628
Distributions	—	—	—	(56,854)	—	—	(56,854)
Amortization of deferred loss on cash flow hedges	—	—	—	—	—	188	188
Issuance of units under distribution reinvestment plan	2,156	—	—	—	—	—	2,156
Issuance of units under asset management agreement	1,881	—	—	—	—	—	1,881
Conversion of convertible debentures to units, net of costs	737	—	—	—	(21)	—	716
Unitholders' Equity, end of period	\$ 772,285	\$ —	\$ 38,034	\$ (272,758)	\$ 8,530	\$ (2,484)	\$ 543,607

See accompanying notes to interim consolidated financial statements.

Interim Consolidated Statements of Cash Flows

(In thousands of dollars)

(Unaudited)

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Cash provided by (used in):				
Operations:				
Net income (loss)	\$ (986)	\$ 1,237	\$ 229	\$ 4,628
Items not involving cash:				
Depreciation of income-producing properties	15,276	17,360	48,441	52,851
Amortization of recoverable improvements	876	887	2,517	2,514
Amortization of leasing commissions and tenant improvements	2,101	1,499	5,186	4,002
Accretion of convertible debentures	283	261	821	757
Future income taxes	1,300	710	4,600	2,180
Gain on sale of land	—	—	—	(298)
	18,850	21,954	61,794	66,634
Change in non-cash operating items:				
Gain on purchase of convertible debentures under normal course issuer bid	—	—	(727)	—
Depreciation of fixtures and equipment	214	—	309	—
Amortization of above- and below-market leases	(420)	(462)	(1,483)	(1,353)
Amortization of tenant inducements	36	32	109	87
Amortization of financing costs	359	470	1,124	1,148
Other (note 14)	(873)	(2,658)	(10,319)	(14,659)
Leasing commissions	(219)	(612)	(731)	(1,206)
Tenant inducements	—	—	(53)	(282)
	17,947	18,724	50,023	50,369
Financing:				
Mortgage principal repayments	(4,689)	(4,229)	(13,865)	(12,597)
Financing costs	—	(824)	(14)	(862)
Proceeds of new financing	—	110,000	—	110,000
Repayment of financing	—	(62,454)	—	(62,454)
Distributions to Unitholders	(19,049)	(18,982)	(57,089)	(56,822)
Issuance of units, net of costs	678	782	2,093	2,156
Purchase of convertible debentures under normal course issuer bid	—	—	(5,127)	—
	(23,060)	24,293	(74,002)	(20,579)
Investments:				
Acquisition of income-producing properties (note 2)	—	—	(3,594)	(7,074)
Additions to buildings and building improvements	(800)	(1,804)	(4,972)	(6,993)
Additions to tenant improvements	(1,954)	(2,172)	(7,697)	(8,639)
Additions to recoverable improvements	(1,027)	(1,690)	(4,321)	(4,816)
Additions to fixtures and equipment	(1,807)	(237)	(4,983)	(237)
Proceeds from sale of land	—	—	—	425
	(5,588)	(5,903)	(25,477)	(27,334)
Increase (decrease) in cash and cash equivalents	(10,701)	37,114	(49,456)	2,456
Cash and cash equivalents, beginning of period	58,669	59,544	97,424	94,202
Cash and cash equivalents, end of period	\$ 47,968	\$ 96,658	\$ 47,968	\$ 96,658

Interim Consolidated Statements of Cash Flows (continued)

(In thousands of dollars)

(Unaudited)

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Supplemental cash flow information:				
Interest paid	\$ 14,446	\$ 11,863	\$ 43,550	\$ 40,054
Supplemental disclosure of non-cash operating and financing activities:				
Value of units issued under asset management agreement	–	–	57	1,881
Value of units issued under incentive plan	25	–	54	–
Value of units issued from conversion of convertible debentures	162	181	162	758
Financing costs transferred to equity upon conversion of convertible debentures	7	9	7	33
Financing accumulated amortization transferred to equity upon conversion of convertible debentures	(3)	(6)	(3)	(12)

See accompanying notes to interim consolidated financial statements.

Notes to Interim Consolidated Financial Statements

(In thousands of dollars, except per unit amounts)

Three months and nine months ended September 30, 2009 and 2008

(Unaudited)

Primaris Retail Real Estate Investment Trust (the “REIT”) 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 the REIT 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 the REIT 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 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 three and nine months ended September 30, 2008, operating expenses have been reduced by \$887 and \$2,514 respectively, and depreciation expense has been increased by the same amounts with no resultant change to the REIT’s net income (loss).

(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.

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 the REIT, the REIT is considered to have acquired an asset. If the REIT 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:

The REIT 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.

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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:

The REIT 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:

The REIT uses the asset and liability method of accounting for income taxes. Future income taxes are recognized for the temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws that are expected to apply to taxable income in the periods in which those temporary differences are expected to be reversed or settled. The effect on future income tax assets and liabilities of a change in tax rate is recognized in income in the period that includes the date of enactment or substantive enactment (note 16).

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

2. ACQUISITION:

During the nine months ended September 30, 2009, the REIT completed the purchase of a property on Yonge Street, Toronto, Ontario. The acquisition has 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
	(Unaudited)
Land	\$ 5,623
Buildings	1,791
In-place leasing costs	10
Other assets	4
Other liabilities	(34)
	7,394
Less vendor take-back mortgage	(3,800)
Purchase price paid in cash, including acquisition costs of \$444	\$ 3,594

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

3. INCOME-PRODUCING PROPERTIES:

September 30, 2009 (Unaudited)	Cost	Accumulated Depreciation and Amortization	Net Book Value
Land	\$ 298,248	\$ –	\$ 298,248
Buildings	1,113,669	124,882	988,787
Building improvements	47,414	16,238	31,176
In-place leasing costs	167,238	95,297	71,941
Recoverable improvements	29,866	10,301	19,565
	\$ 1,656,435	\$ 246,718	\$ 1,409,717

December 31, 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

4. LEASING COSTS:

September 30, 2009 (Unaudited)	Cost	Accumulated Amortization	Net Book Value
Leasing commissions	\$ 6,491	\$ 2,071	\$ 4,420
Tenant improvements	48,015	12,462	35,553
Tenant inducements	1,776	363	1,413
	\$ 56,282	\$ 14,896	\$ 41,386

December 31, 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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

5. RENTS RECEIVABLE:

	September 30, 2009	December 31, 2008
	(Unaudited)	
Rents receivable, net of allowance of \$1,525 (December 31, 2008 – \$1,234)	\$ 709	\$ 1,002
Accrued recovery revenue	1,404	1,833
Accrued percentage rent	795	1,169
Other amounts receivable	1,199	808
	\$ 4,107	\$ 4,812

6. OTHER ASSETS AND RECEIVABLES:

	September 30, 2009	December 31, 2008
	(Unaudited)	
Loan payment subsidy (note 8)	\$ 1,437	\$ 1,664
Straight-line rents	8,839	7,835
Above-market rent leases, net of accumulated amortization of \$5,461 (December 31, 2008 – \$5,022)	952	1,391
Prepaid realty taxes	8,376	1,579
Prepaid ground rent	6,036	5,944
Fixtures and equipment, net of accumulated depreciation of \$358 (December 31, 2008 – \$49)	5,049	465
Other assets	9,301	5,560
	\$ 39,990	\$ 24,438

The loan payment subsidy is receivable as follows:

	(Unaudited)
2009 remainder	\$ 77
2010	324
2011	1,036
	\$ 1,437

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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	
	September 30, 2009	December 31, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
	(Unaudited)		(Unaudited)	(Unaudited)
In-place leasing costs (note 3)	\$ 71,941	\$ 95,675	\$ 23,743	\$ 28,588
Above-market rent leases (note 6)	952	1,391	439	678
Below-market rent leases (note 11)	(6,153)	(8,075)	(1,992)	(2,031)

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 5.00% and 7.45% (December 31, 2008 – 5.08% and 7.45%). In 2003, the REIT 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 5.68% (2008 – 5.68%). Mortgages payable mature at various dates between 2009 and 2022.

	September 30, 2009	December 31, 2008
	(Unaudited)	
Mortgages payable	\$ 878,777	\$ 888,842
Mark-to-market adjustment	5,492	6,601
Financing costs, net of accumulated amortization of \$2,425 (December 31, 2008 – \$1,677)	(4,449)	(5,185)
	\$ 879,820	\$ 890,258

Future principal payments on the mortgages payable are as follows:

(Unaudited)	Payments on Maturity	Total Annual Payments	Total
2009 remainder	\$ 3,748	\$ 4,740	\$ 8,488
2010	–	19,631	19,631
2011	36,828	20,265	57,093
2012	21,226	21,570	42,796
2013	150,917	19,447	170,364
Thereafter	496,217	84,188	580,405
	\$ 708,936	\$ 169,841	\$ 878,777

9. CONVERTIBLE DEBENTURES:

	September 30, 2009			December 31, 2008
	6.75% Convertible Debentures	5.85% Convertible Debentures	Total	Total
			(Unaudited)	
Principal balance, beginning of period	\$ 6,104	\$ 99,954	\$ 106,058	\$ 106,816
Conversions	(162)	–	(162)	(758)
Repurchases	–	(6,478)	(6,478)	–
Principal balance, end of period	\$ 5,942	\$ 93,476	\$ 99,418	\$ 106,058
Debt component	\$ 5,862	\$ 87,464	\$ 93,326	\$ 98,687
Less financing costs	(248)	(3,624)	(3,872)	(4,132)
Accumulated amortization	127	1,066	1,193	883
	\$ 5,741	\$ 84,906	\$ 90,647	\$ 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	September 30, 2009 Principal Balance	Maturity	Interest Rate	Conversion Price	Redemption Date, After
5.85%	\$ 93,476	August 1, 2014	5.85%	\$ 22.55	August 1, 2012
6.75%	5,942	June 30, 2014	6.75%	12.25	June 30, 2010

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

(a) 5.85% Convertible Debentures:

During the nine months ended September 30, 2009, there were no conversions of convertible debentures. During the nine months ended September 30, 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 this same period, \$6,478 (September 30, 2008 – nil) of convertible debentures were repurchased under the REIT's normal course issuer bid. As at September 30, 2009, the face value of this series of debentures outstanding was \$93,476 (December 31, 2008 – \$99,954).

(b) 6.75% Convertible Debentures:

During the nine months ended September 30, 2009, holders of \$162 (2008 – \$712) of convertible debentures at face value exercised their option to convert to units. Of the \$162 (2008 – \$712), \$4 (2008 – \$17) was recorded as a reduction of the original equity component and \$158 (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 13,224 units (2008 – 58,411) were issued on conversion. As at September 30, 2009, the face value of this series of debentures outstanding was \$5,942 (December 31, 2008 – \$6,104).

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

10. BANK INDEBTEDNESS:

The REIT 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 the REIT, at bankers' acceptance rates, plus applicable premiums. As at September 30, 2009, and December 31, 2008, no amount has been drawn on the operating line.

11. ACCOUNTS PAYABLE AND OTHER LIABILITIES:

	September 30, 2009	December 31, 2008
	(Unaudited)	
Accounts payable and accrued liabilities	\$ 36,226	\$ 34,909
Tenant deposits	2,121	2,256
Deferred revenue	588	542
Below-market rent leases, net of accumulated amortization of \$10,438 (December 31, 2008 – \$8,516)	6,153	8,075
	\$ 45,088	\$ 45,782

12. UNITHOLDERS' EQUITY:

The REIT 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 the REIT to redeem their units on demand. Upon receipt of the redemption notice by the REIT, 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.

The REIT's Unitholders' Equity is represented by two categories of equity: trust units of the REIT and exchangeable units of subsidiaries of the REIT. As at September 30, 2009, there were 2,380,261 exchangeable units issued and outstanding by subsidiaries of the REIT with a stated value of \$35,109 (December 31, 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 the REIT and the exchangeable units of subsidiaries of the REIT.

The REIT's Trustees have discretion in declaring distributions (note 17).

(a) Units Outstanding:

(Unaudited)	Nine Months Ended September 30, 2009		Nine Months Ended September 30, 2008	
	Units	Amount	Units	Amount
Balance, beginning of period	62,269,712	\$ 772,686	61,937,650	\$ 767,511
Issuance of units under the distribution reinvestment plan	189,132	2,089	127,646	2,156
Other (note 19(a))	5,681	57	113,727	1,881
Conversion of debentures (note 9)	13,224	162	60,153	737
Balance, end of period	62,477,749	\$ 774,994	62,239,176	\$ 772,285

(b) Distribution Reinvestment Plan:

The REIT 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 the REIT. 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 terminates on November 30, 2009, the REIT repurchased convertible debentures with a face value of \$6,478 (September 30, 2008 – nil) for consideration of \$5,127 (September 30, 2008 – nil) during the nine months ended September 30, 2009. During the three months ended September 30, 2009, there were no repurchases of convertible debentures (September 30, 2008 – nil).

(d) Per Unit Calculations:

Per unit information is calculated based on the weighted average number of units outstanding (including the exchangeable units) for the three months ended September 30, 2009, of 62,442,592 units (September 30, 2008 – 62,209,426) and for the nine months ended September 30, 2009, of 62,378,598 units (September 30, 2008 – 62,093,163). The weighted average number of diluted units for the three months ended September 30, 2009, is 67,115,054 units (September 30, 2008 – 67,147,564) and for the nine months ended September 30, 2009, is 67,152,379 units (September 30, 2008 – 67,054,688). The convertible debentures have been excluded from the calculation of diluted net income (loss) per unit, as they are currently anti-dilutive to net income (loss); therefore, diluted net income (loss) per unit is the same as basic net income (loss) per unit.

(e) Equity Incentive Plan:

In order to provide long-term compensation to certain officers, employees and Trustees of the REIT and certain designated service providers to the REIT, there may be grants of restricted units or options, which are subject to certain restrictions. Under the REIT's 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.

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 the REIT 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 the REIT 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 the REIT's 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.

There were two equity awards made during the quarter ended September 30, 2009.

An award valued at \$1,000 was made to the President and Chief Executive Officer of the REIT 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 in the current quarter. This award will not be paid until the first quarter of 2010. The award will be delivered in a combination of restricted units and options to purchase units of the REIT, 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 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.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The REIT 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:

(Unaudited)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Unit-based compensation expense	\$ 25	\$ –	\$ 54	\$ –
Unit options granted	90,000	–	201,588	–
Unit option holding period (years)	7	–	7	–
Volatility rate	22.0%	–	22.0%	–
Distribution yield	8.6%	–	10.1%	–
Risk-free interest rate	3.0%	–	2.5%	–
Weighted average fair value per unit, at grant date:				
Options	\$ 1.39	\$ –	\$ 0.97	\$ –
Restricted share units	–	–	10.70	–

13. INTEREST EXPENSE:

(Unaudited)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Mortgages payable	\$ 12,147	\$ 12,151	\$ 36,578	\$ 35,874
Amortization of net deferred loss on cash flow hedges	60	62	183	188
Convertible debentures	1,768	1,842	5,345	5,478
Bank indebtedness	133	93	383	321
Amortization of financing costs	461	468	1,226	1,148
Capitalized interest	–	–	–	(179)
	\$ 14,569	\$ 14,616	\$ 43,715	\$ 42,830

14. CHANGE IN OTHER NON-CASH OPERATING ITEMS:

(Unaudited)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Rents receivable	\$ 1,720	\$ 141	\$ 705	\$ (410)
Other assets and receivables, excluding above-market rent leases	1,586	845	(11,399)	(9,503)
Accounts payable and other liabilities, excluding below-market leases	(2,529)	(3,506)	1,488	(3,852)
Mortgage premium	(367)	(375)	(1,109)	(1,131)
	\$ 410	\$ (2,895)	\$ (10,315)	\$ (14,896)

15. SEGMENT DISCLOSURE:

Substantially all of the REIT's assets are in and its revenue is derived from the Canadian real estate industry segment. No single tenant accounts for more than 5.9% (December 31, 2008 – 5.8%) of the REIT's minimum rent.

16. INCOME TAXES:

The REIT 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 the REIT and distributed annually to Unitholders was not, and would not be, subject to taxation in the REIT, but was taxed at the individual Unitholder level. For financial statement reporting purposes, the tax deductibility of the REIT's distributions was treated as an exemption from taxation as the REIT distributed and was committed to continue distributing all of its taxable income to its Unitholders. Accordingly, prior to the new legislation, the REIT did not record a provision for income taxes, or future income tax assets or liabilities, in respect of the REIT 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 partnership and trust, such as an income trust and a real estate investment trust. The REIT is a SIFT, as discussed below.

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

A SIFT that was publicly listed before November 1, 2006 (an "Existing Trust"), will become subject to tax on certain distributions commencing with the 2011 taxation year-end. However, an Existing Trust may become subject to tax prior to the 2011 taxation year-end if its equity capital increases beyond certain limits measured against the market capitalization of the Existing Trust at the close of trading on October 31, 2006. As at September 30, 2009, the REIT 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, the REIT does not meet the REIT Conditions and, therefore, is a SIFT.

Accordingly, commencing in 2011, the REIT will become subject to tax on distributions of certain income.

Due to the SIFT Rules, the REIT 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 that are expected to reverse in 2011 have been measured using a tax rate of 30.5%. Temporary differences expected to reverse in or after 2012 have been measured using a tax rate of 29.0%. Between December 31, 2008, and September 30, 2009, the REIT recorded a non-cash future tax expense of \$4,600. The future income tax expense is primarily a result of a change in the future tax rates and certain costs deducted for tax.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

	September 30, 2009	December 31, 2008
	(Unaudited)	
Future income tax liabilities:		
Income-producing properties	\$ 31,800	\$ 29,800
Leasing costs	9,900	7,000
Other assets and receivables	3,300	3,400
Other	400	600
Future income taxes	\$ 45,400	\$ 40,800

No provision for current income taxes is required at September 30, 2009, since the REIT expects to distribute all of its taxable income to its Unitholders.

17. CAPITAL MANAGEMENT:

The REIT 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 the REIT’s primary objectives. The REIT defines its capital structure to include: mortgages payable, bank indebtedness, acquisition facilities, convertible debentures and trust units. There were no changes to the REIT’s approach to capital management during the nine months ended September 30, 2009.

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

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

- (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, the REIT is required by its lenders under the operating line to meet four financial covenants, as defined in the agreement:

- (a) a Debt to Gross Book Value Ratio of not more than 60%;
- (b) an Interest Coverage Ratio of greater than 1.75;
- (c) a Debt Service Coverage Ratio of greater than 1.5; and
- (d) a minimum Unitholders’ Equity of \$700,000.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Those amounts as at September 30, 2009, and December 31, 2008, were as follows:

	September 30, 2009	December 31, 2008	Change
	(Unaudited)		
Debt to Gross Book Value	49.1%	49.2%	-0.1%
Interest Coverage (rolling four quarters)	2.4x	2.5x	-0.1x
Debt Service Coverage (rolling four quarters)	1.8x	1.9x	-0.1x
Unitholders' Equity	\$ 767,979	\$ 770,318	\$ 2,339

For the nine months ended September 30, 2009, the REIT met all externally imposed requirements.

The REIT's 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 November 2008, the REIT renewed its normal course issuer bid, which entitles the REIT to acquire up to 3,000,000 units, \$610 of the 6.75% convertible debentures and \$9,995 of the 5.85% convertible debentures. Purchases under the bid could commence on December 1, 2008, and must terminate on the earlier of: (i) November 30, 2009; (ii) the date on which the REIT completes its purchases of units and convertible debentures; or (iii) the date of notice by the REIT of termination of the bid. Purchases, if completed, will be made on the open market by the REIT. Securities purchased under this bid will be cancelled. The price the REIT will pay for any such units or debentures will be the market price at the time of acquisition. The REIT 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.

18. RISK MANAGEMENT AND FAIR VALUES:

(a) Risk Management:

In the normal course of business, the REIT 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. The REIT 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.

The REIT's exposure to credit risk is based on business risks associated with the retail sector of the economy. The REIT measures this risk-by-tenant concentration across the portfolio. The REIT has over 850 different tenants across the portfolio.

The REIT 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.

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(ii) Liquidity Risk:

Liquidity risk is the risk that the REIT will not be able to meet its financial obligations as they fall due. The REIT's approach to managing its obligations is to maintain sufficient resources to meet its obligations when due without undue risk to the REIT.

The REIT monitors its cash requirements on an ongoing basis to ensure there are sufficient resources to operate the properties, as well as fund anticipated leasing, capital and development expenditures. In addition, the REIT manages cash to meet its debt obligations, fund general and administrative costs and to make Unitholder distributions. Liquidity management includes monitoring compliance with debt covenants, staggering loan maturities, estimating lease renewals and property acquisitions and dispositions. Under certain circumstances, the REIT has the ability to settle the redemption and maturity of the convertible debentures in units. A schedule of mortgage principal repayments is provided in note 8.

As at September 30, 2009, the REIT had cash and cash equivalents of \$47,968 and a line of credit of \$120,000 on which no amount has been drawn (note 10).

(iii) Market Risk:

All of the REIT's 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 the REIT's financial instruments. All of the REIT's operations are denominated in Canadian dollars, resulting in no direct foreign exchange risk. The REIT's existing debts are all at fixed interest rates. The REIT 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 the REIT's financial assets and financial liabilities, together with the carrying amounts shown in the consolidated balance sheets, are as follows:

	September 30, 2009		December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
		(Unaudited)		
Mortgages payable	\$ 879,820	\$ 844,933	\$ 890,258	\$ 861,505
Convertible debentures	90,647	93,934	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 the REIT's 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, accounts payable and other liabilities and distribution payable approximate their fair values due to their short-term nature.

19. RELATED PARTY TRANSACTIONS:

- (a) The REIT has retained Oxford Properties Group to provide advisory, asset management, development and administration services to the REIT.

(Unaudited)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Asset management fees	\$ 1,034	\$ 1,071	\$ 2,937	\$ 3,369
Development fees	13	106	199	411
	\$ 1,047	\$ 1,177	\$ 3,136	\$ 3,780

Asset management fees are included in general and administrative expenses and development fees are capitalized to income-producing properties. The REIT has also reimbursed the asset manager for \$110 of general and administrative costs during the nine months ended September 30, 2009 (September 30, 2008 – \$185).

Of these fees, \$1,058 is included in accounts payable and other liabilities at September 30, 2009 (December 31, 2008 – \$1,370). During the nine months ended September 30, 2009, the REIT issued \$57 of units in partial payment of asset management fees (September 30, 2008 – \$1,881).

- (b) The REIT has retained Oxford Properties Group to provide property management and leasing services to the REIT.

(Unaudited)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Property management fees	\$ 2,257	\$ 2,117	\$ 6,872	\$ 5,118
Leasing fees	147	490	544	905
	\$ 2,404	\$ 2,607	\$ 7,416	\$ 6,023

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

Of these fees, \$407 is included in accounts payable and other liabilities at September 30, 2009 (December 31, 2008 – \$331). The REIT has also reimbursed the property manager for certain property operating costs.

- (c) The REIT has one loan payment subsidy at September 30, 2009 (September 30, 2008 – one), with Oxford Properties Group.

(Unaudited)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Loan interest payment subsidy received	\$ 22	\$ 26	\$ 70	\$ 83

The loan payment subsidy is offset against interest expense.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

- (d) Early in 2008, the REIT 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, the REIT borrowed \$110,000 from OMERS Administration Corporation, an entity that is related to both the external asset and property manager of the REIT. The new mortgage bears interest at 5.49% and matures in July 2013.

During the nine months ended September 30, 2009, the REIT expensed interest of \$4,417 on this mortgage. The balance outstanding as at September 30, 2009, was \$107,688.

- (e) The REIT entered into a lease for office space with an entity related to the asset and property manager of the REIT. The lease commences on December 1, 2009, for a period of 10 years. The estimated average annual rental payment under the lease is \$1,320.

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.

20. COMMITMENTS AND CONTINGENCIES:

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

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

2009 remainder	\$ 294
2010	1,175
2011	1,248
2012	1,375
2013	1,400
Thereafter	43,925
	<u>\$ 49,417</u>

- (c) Under the terms of one of the ground leases that expires in 2056, the REIT may be required to restore the site to the state at the commencement of the ground lease. The REIT has recorded a potential discounted liability of \$227 (December 31, 2008 – \$221) for these potential restoration costs.

- (d) The REIT has issued letters of credit in the amount of \$1,815 (December 31, 2008 – \$1,815).

- (e) The REIT has entered into contracts for asset management and property management services (note 19(a) and (b)), which terminate on December 31, 2009.

- (f) The REIT 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.

21. 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. The REIT does not intend to prematurely adopt IFRS at this time. The REIT is currently evaluating the impact of adopting IFRS and its primary accounting principles and developing its changeover plan.

The CICA issued amendments to Handbook Section 3862 – Financial Instruments – Disclosures, which is effective for the REIT’s 2009 year-end consolidated financial statements. The amendments expand the disclosure requirements about fair value measurements of financial instruments. Fair values are to be 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 will result in additional disclosures for the REIT.

22. SUBSEQUENT EVENT:

On October 6, 2009, the REIT issued \$86,250 of convertible debentures for net proceeds of \$82,466, after fees and costs. The debentures bear interest at 6.30%, mature on September 30, 2015, and are convertible into units of the REIT at a conversion price of \$16.70 per unit.

23. COMPARATIVE FIGURES:

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

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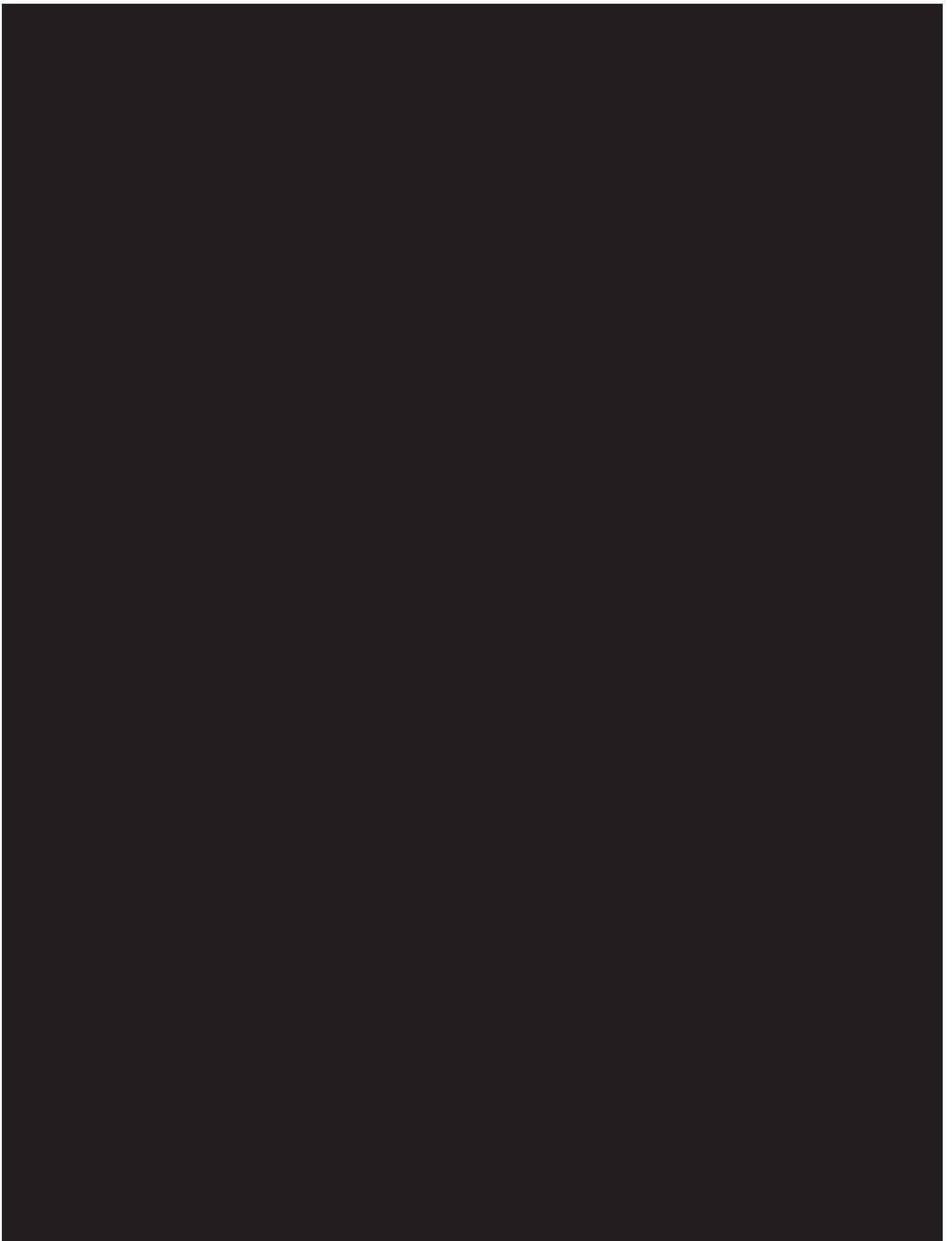
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