

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

*(in thousands of dollars, except per unit and square foot amounts)*

For the year ended December 31, 2012

## Explanatory Note

The amended and restated management's discussion and analysis of financial conditions and results of operations ("MD&A") of Primaris Retail Real Estate Investment Trust ("Primaris") supersedes the MD&A and analysis filed on March 7, 2013. The MD&A reflects a correction to our weighted average basic and diluted units outstanding for the three months ended December 31, 2012 and all calculations based upon those amounts. No other substantive amendments have been made.

## Introduction

Primaris Retail Real Estate Investment Trust ("Primaris") has prepared the following MD&A, which should be read in conjunction with the consolidated financial statements and the accompanying notes prepared for the years ended December 31, 2012 and 2011.

The MD&A is dated March 7, 2013. Disclosure contained in this document is current to that date, unless otherwise noted. Additional information relating to Primaris, including the Annual Information Form, is on SEDAR at [www.sedar.com](http://www.sedar.com).

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

## Forward-Looking Information

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

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

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

- (ii) reinvesting to make improvements and maintenance to existing properties, which could be impacted by the availability of labour and capital resource allocation decisions;
- (iii) generating improved rental income and occupancy levels, which could be impacted by changes in demand for Primaris' properties, tenant bankruptcies, the effects of general economic conditions and supply of competitive locations in proximity to Primaris locations;
- (iv) overall indebtedness levels, which could be impacted by the level of acquisition activity Primaris is able to achieve and future financing opportunities;
- (v) tax exempt status, which can be impacted by regulatory changes enacted by governmental authorities;
- (vi) anticipated distributions and payout ratios, which could be impacted by capital expenditures, results of operations and capital resource allocation decisions;
- (vii) the effect that any contingencies could have on Primaris' financial statements;
- (viii) anticipated replacement of expiring tenancies, which could be impacted by the effects of general economic conditions and the supply of competitive locations;
- (ix) the development of properties which could be impacted by real estate market cycles, the availability of labour and general economic conditions; and
- (x) the anticipated outcome of the Primaris Unitholder vote on the amended and restated Arrangement Agreement with H&R Real Estate Investment Trust and H&R Finance Trust and an asset purchase agreement with members of the KingSett Capital-led Consortium.

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

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

## **Basis of Presentation**

Canadian generally accepted accounting principles (“GAAP”) for Canadian publically accountable profit-oriented enterprises, is International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. Financial data provided in the MD&A, for the years ended December 31, 2012 and 2011, has been prepared in accordance with IFRS.

## **Non-IFRS Financial 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 IFRS. Management uses these measures when comparing itself to industry data or to others in the marketplace. The MD&A describes FFO, NOI and EBITDA and provides reconciliations to net income as defined under IFRS. FFO, NOI and EBITDA should not be considered alternatives to net income or other measures that have been calculated in accordance with IFRS and may not be comparable to measures presented by other issuers. Primaris’ MD&A describes FFO, NOI and EBITDA. Reconciliations to net income, as defined under IFRS, for FFO and EBITDA are presented, as well as the calculation of NOI.

## **Business Objectives and Overview**

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

Primaris’ vision is to be the leading enclosed shopping centre real estate investment trust (“REIT”) in Canada. The objectives of Primaris are:

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

Primaris’ results have been consistent with these objectives. Key performance indicators for Primaris include operational results both at the properties and for Primaris in the aggregate.

(Unaudited)	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Unit price at period end	<b>\$26.90</b>	\$24.38	\$23.56	\$21.64
Distributions	<b>\$30,112</b>	\$28,769	\$27,053	\$25,576
Funds from operations <sup>1</sup>	<b>\$29,725</b>	\$36,232	\$33,425	\$32,713
Funds from operations per unit diluted <sup>1</sup>	<b>\$0.301</b>	\$0.383	\$0.376	\$0.382
Operating FFO <sup>1,2</sup>	<b>\$40,275</b>	\$36,232	\$33,425	\$32,713
Operating FFO per unit diluted <sup>1,2</sup>	<b>\$0.407</b>	\$0.383	\$0.376	\$0.382
Occupancy (including committed space)	<b>97.7%</b>	97.5%	97.4%	96.7%
Tenant sales per square foot – same-property sales <sup>3</sup>	<b>\$475</b>	\$470	\$468	\$466
Interest Coverage <sup>4</sup>	<b>2.4</b>	2.7	2.5	2.4
Mortgages – weighted average term to maturity	<b>6.0 years</b>	5.1 years	5.3 years	5.5 years
Mortgages – weighted average interest rate	<b>5.1%</b>	5.4%	5.4%	5.4%
Indebtedness – % at fixed interest rates	<b>97.3%</b>	99.9%	100.0%	98.4%

<sup>1</sup> FFO is not a term defined under IFRS. The reconciliation of FFO to net income is disclosed on page 14.

<sup>2</sup> Operating FFO includes adjustments for one-time expenses.

<sup>3</sup> Tenant sales are reported on a one-month time lag during interim quarters; Q4 is the 12 months to December 31, 2012, Q3 is 12 months to August 2012, Q2 2012 is 12 months to May 31, 2012, and Q1 2012 is 12 months to February 2012.

<sup>4</sup> A calculation of interest coverage is included in "Liquidity and Capital Resources". This measure is not defined under IFRS.

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

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

The portfolio occupancy rate improved through 2012. It was 97.7% at December 31, 2012, compared to 97.5% at September 30, 2012, and 97.1% at December 31, 2011. These percentages include space for which signed leases are in place but where the tenant may not yet be in occupancy.

For the 18 reporting properties owned throughout both twelve month periods ended December 31, 2012 and 2011, sales per square foot, on a same-tenant basis, have increased to \$475 per square foot, from \$471 in the prior year. For the same 18 properties the all-tenant total sales volume has increased 2.1%.

(Unaudited)	Same Tenant Sales per Square Foot				All Tenant Total Sales Volume			
	2012	2011	Variance \$	%	2012	2011	Variance \$	%
Cataraqui	\$ 527	\$ 527	\$ -	0.0%	87,601	86,092	1,509	1.8%
Dufferin Mall	517	515	2	0.3%	95,590	91,655	3,935	4.3%
Eglinton Square	402	391	11	3.0%	31,416	30,591	825	2.7%
Heritage Place	306	305	1	0.5%	26,474	25,689	785	3.1%
Lambton Mall	324	323	1	0.1%	44,193	45,865	(1,672)	-3.6%
Place d'Orleans	442	453	(11)	-2.6%	97,693	99,890	(2,197)	-2.2%
Place Du Royaume	439	438	1	0.3%	113,341	114,445	(1,104)	-1.0%
Place Fleur De Lys	330	331	(1)	-0.4%	67,835	69,384	(1,549)	-2.2%
Stone Road Mall	535	528	7	1.3%	114,895	116,142	(1,247)	-1.1%
Aberdeen Mall	387	377	10	2.5%	49,830	48,815	1,015	2.1%
Cornwall Centre	583	569	14	2.6%	91,589	85,590	5,999	7.0%
Grant Park	655	650	5	0.7%	26,388	26,560	(172)	-0.6%
Midtown Plaza	638	614	24	3.8%	144,704	134,108	10,596	7.9%
Northland Village	488	493	(5)	-1.2%	41,881	43,680	(1,799)	-4.1%
Orchard Park	490	490	-	0.1%	133,838	131,656	2,182	1.7%
Park Place Mall	474	477	(3)	-0.6%	78,564	75,463	3,101	4.1%
Sunridge Mall	526	499	27	5.4%	101,525	91,732	9,793	10.7%
Woodgrove Centre	478	476	2	0.3%	91,269	92,283	(1,014)	-1.1%
	<b>\$ 475</b>	<b>\$ 471</b>	<b>\$ 4</b>	<b>0.9%</b>	<b>\$ 1,438,626</b>	<b>\$ 1,409,640</b>	<b>\$ 28,986</b>	<b>2.1%</b>

The same tenants' sales increased 0.9% 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 December 31, 2012, increased 2.0%. Primaris' sales

productivity of \$475 is lower than the ICSC average of \$596, largely because the ICSC includes sales from super regional malls that have the highest sales per square foot in the country.

## **Corporate Developments**

On December 10, 2012, KS Acquisition II LP (“the KingSett Capital-led consortium”) made an unsolicited offer to purchase all of the outstanding units of Primaris. This offer was scheduled to expire on January 17, 2013 and was subsequently extended to expire on February 4, 2013. An Independent Committee of the Primaris’ board of trustees was formed to review the offer and to consider strategic alternatives. The committee engaged financial, legal, and other advisors to assist in this exercise. A trustee’s circular dated December 19, 2012 was issued in response to the offer. The financial statements for 2012 include \$10,550 of costs related to the takeover, as part of general and administrative expenses on the consolidated statements of income and comprehensive income. This amount includes costs incurred by year end as well as minimum amounts that could be due under certain advisory agreements.

On January 16, 2013 Primaris announced that it had entered into an Arrangement Agreement with H&R REIT whereby H&R REIT would acquire all of the issued and outstanding units of Primaris.

On February 4, 2013, Primaris, PRR Investments Inc., H&R REIT, and H&R Finance Trust entered into an amended and restated Arrangement Agreement and Primaris entered into various conditional sales contracts with members of the KingSett Capital-led consortium. Pursuant to these transactions, the KingSett Capital-led consortium would acquire 18 properties from Primaris for cash and the assumption of debt. As part of the transactions, H&R REIT would then acquire substantially all of the remaining assets of Primaris and Primaris would become a wholly-owned subsidiary of H&R REIT. Holders (“Primaris Unitholders”) of units (“Primaris Units”) of Primaris will be entitled to receive, in exchange for each Primaris Unit held, at their election: (i) \$28.00 in cash, subject to an aggregate cash amount of \$1,278,443,575 (the “Actual Cash Consideration”), or (ii) 1.166 H&R stapled units (each H&R stapled unit consisting of one H&R REIT unit and one H&R Finance Trust unit), (the “Non-Cash Consideration”). In the event Primaris Unitholders elect less or more cash than the Actual Cash Consideration, the Actual Cash Consideration and Non-Cash Consideration will be prorated among Primaris Unitholders so that the Actual Cash Consideration is paid.

These proposed transactions are subject to the approval of both 66 2/3 of the voting Unitholders of Primaris who vote at a Special Meeting to be held on March 22, 2013 as well as the majority of Unitholders of H&R REIT who vote at their Special Meeting to be held on March 22, 2013. The transactions are also subject to certain other approvals, consents, and customary conditions. If all approvals and consents are received, these transactions are expected to be completed in early April 2013. As part of this Arrangement Agreement, Primaris has agreed to pay a \$100,000 cash break fee under certain conditions, including the acceptance by Primaris of an unsolicited superior proposal from a third party.

## Comparison of the Unaudited Three Months Ended December 31, 2012, to the Unaudited Three Months Ended December 31, 2011

Primaris' unaudited financial results, for the three months ended December 31, 2012 compared to the unaudited financial results for the three month period ended December 31, 2011, are summarized below.

(Unaudited)	Three Months Ended December 31,		Favourable /
	<b>2012</b>	2011	(Unfavourable)
<b>Revenue</b>			
Minimum rent	\$ 64,345	\$ 61,833	\$ 2,512
Recoveries from tenants	41,362	38,620	2,742
Percent rent	1,022	893	129
Parking	2,161	1,998	163
Other income	556	719	(163)
	<b>109,446</b>	104,063	5,383
<b>Expenses</b>			
Property operating	28,215	27,382	(833)
Property tax	19,285	18,597	(688)
Ground rent	359	332	(27)
General & administrative	15,950	2,110	(13,840)
Depreciation	207	282	75
	<b>64,016</b>	48,703	(15,313)
<b>Income from operations</b>	<b>\$ 45,430</b>	\$ 55,360	\$ (9,930)
Finance income	22	72	(50)
Finance costs	(28,340)	(32,951)	4,611
Fair value adjustment on investment properties	43,997	133,956	(89,959)
<b>Net income</b>	<b>\$ 61,109</b>	\$ 156,437	\$ (95,328)
Fair value adjustment on investment properties	(43,997)	(133,956)	89,959
Fair value adjustment on convertible debentures	936	9,000	(8,064)
Fair value adjustment on exchangeable units	5,348	240	5,108
Fair value adjustment on unit-based compensation	2,873	108	2,765
Distributions on exchangeable units	647	667	(20)
Amortization of tenant improvement allowances	2,809	2,176	633
<b>Funds from operations<sup>(1)</sup></b>	<b>\$ 29,725</b>	\$ 34,672	\$ (4,947)
Add back one-time expenses	10,550	-	10,550
<b>Operating FFO<sup>(1)</sup></b>	<b>\$ 40,275</b>	\$ 34,672	\$ 5,603
Funds from operations per unit - basic	\$ 0.303	\$ 0.420	\$ (0.117)
Funds from operations per unit - diluted	\$ 0.301	\$ 0.407	\$ (0.106)
Operating FFO per unit - diluted	\$ 0.407	\$ 0.407	\$ 0.000
Operating FFO - payout ratio	74.9%	74.9%	0.0%
Distributions per unit	\$ 0.305	\$ 0.305	-
Weighted average units outstanding - basic	97,963,800	82,641,329	15,322,471
Weighted average units outstanding - diluted	99,759,474	93,987,252	5,772,222
Units outstanding, end of period (including exchangeable units)	100,346,768	82,740,232	17,606,536

<sup>(1)</sup> FFO is not a term defined under IFRS

Primaris acquired Driftwood Mall in Courtenay, British Columbia on May 2, 2012. In September of 2012, Primaris purchased a property adjacent to Eglinton Square Shopping Centre. Also, in November of 2012, Primaris acquired Regent Mall in Fredericton, New Brunswick and McAllister Place in Saint John, New Brunswick (collectively the "2012 Acquisitions"). Primaris acquired Oakville Place in Oakville, Ontario, Burlington Mall in Burlington, Ontario, Place Vertu in Saint-Laurent, Quebec, St. Albert Centre in St. Albert, Alberta and Tecumseh Mall in Windsor, Ontario on June 22, 2011. Also, in November of 2011, Primaris purchased a property adjacent to Northland Village Shopping Centre (collectively the "2011 Acquisitions"). The total purchase price for the 2012 Acquisitions, including acquisition costs, was \$365,897, and for the 2011 Acquisitions was \$585,388 (together the "Acquisitions").

During 2011 Primaris sold two small properties: Forest Glen in Kitchener, Ontario; and Tillsonburg Gateway Centre in Tillsonburg, Ontario (together the "Dispositions"). At the time of the sale, the fair value of the properties was equivalent to the selling price.

## Revenue

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

Current three month revenue of \$109,446 is \$5,383 greater than the comparative three month period. The Acquisitions contributed \$3,741 to this positive variance and same properties were also up \$1,642. Same properties showed revenue increases for minimum rent, recoveries, parking and other revenues.

Certain non-cash amounts are included in revenue. Primaris records revenue on a straight-line basis over the full term of a lease which results in non-cash revenue. In addition, the amortization of tenant improvement allowances and tenant inducements is offset against revenue. In the three months ended December 31, 2012, the net of these items decreased revenue by \$2,286 which is \$709 more than the \$1,577 net reduction in the comparative three month period.

Lease-surrender revenue is unpredictable and varies from quarter to quarter. In the three months ended December 31, 2012, lease-surrender revenues totaled \$108 which is \$293 lower than the \$401 in the comparative three month period.

## Operating Expenses

Operating expenses, being the sum of property operating costs, property taxes and ground rent, of \$47,859 are \$1,548 greater than in the comparative three month period. The Acquisitions account for \$1,462 of the increase and the remaining properties had an increase of \$86.

## Net Operating Income – All Properties

(Unaudited)	Three Months Ended December 31,		Favourable /
	2012	2011	(Unfavourable)
Revenue	\$ 109,446	\$ 104,063	\$ 5,383
Reverse: Non-cash revenue	2,286	1,577	709
Operating revenue <sup>(1)</sup>	<u>111,732</u>	<u>105,640</u>	6,092
Less: Property operating	(28,215)	(27,382)	(833)
Property tax	(19,285)	(18,597)	(688)
Ground rent	(359)	(332)	(27)
<b>Net operating income<sup>(1)</sup></b>	<b><u>\$ 63,873</u></b>	<b><u>\$ 59,329</u></b>	<b><u>\$ 4,544</u></b>

<sup>(1)</sup> Not a term defined under IFRS

NOI is not a term defined under IFRS and may not be comparable to similar measures used by other Trusts. Operating revenue from properties includes an adjustment for amortization of tenant improvement allowances, tenant inducements and straight-line rent to remove non-cash transactions from revenue for the calculation of net operating income. Operating expenses include operating expenses from properties, property taxes and ground rent.

Net operating income of \$63,873 is \$4,544 greater than in the comparative three month period. The Acquisitions generated an increase of \$2,199 and the balance is an increase of \$2,345, generated by the remainder of the properties in the portfolio.



## Net Operating Income – Same Properties

(Unaudited)	Three Months Ended December 31,		Favourable / (Unfavourable)
	2012	2011	
Operating revenue <sup>(1)</sup>	\$ 108,071	\$ 105,640	\$ 2,431
Less operating expenses	(46,397)	(46,311)	(86)
<b>Net operating income<sup>(1)</sup></b>	<b>\$ 61,674</b>	<b>\$ 59,329</b>	<b>\$ 2,345</b>

<sup>(1)</sup> Not a term defined under IFRS

Operating revenue from properties is adjusted for amortization of tenant improvement allowances, tenant inducements and straight-line rent to remove non-cash transactions for the calculation of net operating income. Operating expenses include operating expenses from properties, property taxes and ground rent. The same-property comparison consists of the 32 properties that were owned throughout both the current and comparative three month periods. Net operating income, on a same-property basis, was \$2,345 or 4.0% higher than the comparative period.

The \$2,431 increase in same property revenues results from a \$1,454 increase in recoveries, an \$856 increase in minimum rent adjusted for non-cash amounts, a \$163 increase in parking revenues, a \$122 increase in percentage rent and a \$164 decrease in other revenues, primarily due to lease surrenders.

On a same-property basis, operating expenses were \$86 higher than in the comparative period as a result of a \$265 increase in recoverable expenses, and a \$29 increase in ground rent, which are partially offset by a \$204 decrease to property taxes and a \$4 decrease to non-recoverable expenses.

## General and Administrative Expenses

General and administrative expenses increased by \$13,840 primarily due to non-recurring takeover charges and the fluctuations in the recording of unit-based compensation expense at fair value. The chart below compares the quarter-over-quarter charges to total overhead costs that are recorded to various accounts including general and administrative expenses.

(Unaudited)	Three Months Ended December 31,	
	2012	2011
Salaries, wages and benefits	\$ 6,257	\$ 4,569
Fair value adjustment on unit-based compensation	2,873	108
Occupancy costs	485	439
Professional fees	10,581	414
Information systems	318	420
Public company costs	108	18
Abandoned transaction costs	11	102
Third party leasing fees	346	408
Other general and administrative costs	119	231
<b>Total Costs</b>	<b>21,098</b>	<b>6,709</b>
Property management fees <sup>(1)</sup>	(3,174)	(3,023)
Other charges to properties <sup>(1)</sup>	(1,628)	(1,168)
Amounts capitalized	(346)	(408)
<b>General and administrative expense</b>	<b>15,950</b>	<b>2,110</b>
Fair value adjustment on unit-based compensation	(2,873)	(108)
Non-recurring expenses	(10,550)	-
<b>General and administrative, net</b>	<b>\$ 2,527</b>	<b>\$ 2,002</b>
As a percentage of total revenue	2.3%	1.9%



## Finance Costs

(Unaudited)	Three Months Ended December 31,		Favourable / (Unfavourable)
	2012	2011	
Interest expense on mortgage financing	\$ 19,504	\$ 18,816	\$ (688)
Interest expense on convertible debentures	1,349	3,563	2,214
Interest expense on bank indebtedness	29	241	212
Amortization of net loss on cash flow hedges	56	57	1
Amortization of debt placement costs	471	367	(104)
<b>Interest expensed</b>	<b>21,409</b>	<b>23,044</b>	<b>1,635</b>
Distributions paid on exchangeable units	647	667	20
Convertible debenture issuance costs	-	-	-
Capitalized interest	-	-	-
Fair value adjustment on convertible debentures	936	9,000	8,064
Fair value adjustment on exchangeable units	5,348	240	(5,108)
<b>Other items</b>	<b>6,931</b>	<b>9,907</b>	<b>2,976</b>
<b>Total finance costs</b>	<b>\$ 28,340</b>	<b>\$ 32,951</b>	<b>\$ 4,611</b>

Finance costs of \$28,340 are \$4,611 lower than the comparative three month period. Finance costs include interest expensed as well as other items. The other items include fair value adjustments that increase the variability in finance costs between comparable periods. During the quarter, mortgage interest increased \$647 due to the 2012 Acquisitions, increased \$871 due to a penalty upon the early refinancing of Stone Road Mall. These increases were partially offset by a \$394 decrease due to the repayment of the mortgage on Eglinton Square and declining mortgage balances. Interest on convertible debentures is declining due to conversions and redemptions.

### Fair Value Adjustment on Investment Properties

The appraisal process resulted in a value of investment properties for December 31, 2012 of \$4,145,400 (\$3,557,900 as at December 31, 2011). During the fourth quarter, investment properties with an aggregate fair value of \$1,002,300 at December 31, 2012 (\$1,884,900 for the year) were valued by external appraisers and the balance was valued by management using a discounted future cash flow model. The appraisals used a range of discount rates and terminal capitalization rates on the overall portfolio:

- Discount rates from 6.3% to 10.0%, weighted average 7.0% (weighted by property value) (December 31, 2011 – 6.5% to 10.7%, average 7.3%)
- Terminal cap rates from 5.5% to 9.0%, weighted average 6.1% (weighted by property value) (December 31, 2011 – 5.5% to 9.5%, average 6.3%)

Primaris' Yonge Street assets, which represent less than 1% of the portfolio value, were appraised at a capitalization rate lower than this range reflecting, in part, the redevelopment potential of these locations. As at December 31, 2012, the fair value of the 2012 Acquisitions were determined to be equal to their purchase price, net of acquisition costs.

The effect to net income of the fair value adjustment on investment properties for the three months ended December 31, 2012 was a gain of \$43,997, a change of \$89,959 from the gain of \$133,956 recorded for the comparable period.

## Comparison of the Year Ended December 31, 2012, to the Year Ended December 31, 2011

Primaris' financial results, for the year ended December 31, 2012 compared to the financial results for the year ended December 31, 2011, are summarized below.

	Year Ended December 31,		Favourable /
	2012	2011	(Unfavourable)
<b>Revenue</b>			
Minimum rent	\$ 242,516	\$ 219,113	\$ 23,403
Recoveries from tenants	154,235	135,464	18,771
Percent rent	2,707	2,652	55
Parking	7,220	6,556	664
Other income	4,353	1,568	2,785
	<b>411,031</b>	<b>365,353</b>	<b>45,678</b>
<b>Expenses</b>			
Property operating	103,297	92,745	(10,552)
Property tax	76,467	68,569	(7,898)
Ground rent	1,353	1,246	(107)
General & administrative	25,483	9,840	(15,643)
Depreciation	1,207	1,039	(168)
	<b>207,807</b>	<b>173,439</b>	<b>(34,368)</b>
<b>Income from operations</b>	<b>\$ 203,224</b>	<b>\$ 191,914</b>	<b>\$ 11,310</b>
Finance income	90	168	(78)
Finance costs	(115,648)	(109,396)	(6,252)
Fair value adjustment on investment properties	178,690	149,113	29,577
<b>Net income</b>	<b>\$ 266,356</b>	<b>\$ 231,799</b>	<b>\$ 34,557</b>
Fair value adjustment on investment properties	(178,690)	(149,113)	(29,577)
Fair value adjustment on convertible debentures	12,756	14,989	(2,233)
Fair value adjustment on exchangeable units	13,418	2,351	11,067
Fair value adjustment on unit-based compensation	5,890	665	5,225
Distributions on exchangeable units	2,597	2,673	(76)
Amortization of tenant improvement allowances	9,768	7,419	2,349
<b>Funds from operations</b> <sup>(1)</sup>	<b>\$ 132,095</b>	<b>\$ 110,783</b>	<b>\$ 21,312</b>
Add back one-time expenses	10,550	3,029	7,521
<b>Operating FFO</b> <sup>(1)</sup>	<b>\$ 142,645</b>	<b>\$ 113,812</b>	<b>\$ 28,833</b>
Funds from operations per unit - basic	\$ 1.462	\$ 1.447	\$ 0.015
Funds from operations per unit - diluted	\$ 1.439	\$ 1.415	\$ 0.024
Operating FFO per unit - diluted	\$ 1.549	\$ 1.451	\$ 0.098
Operating FFO - payout ratio	78.7%	84.0%	-5.3%
Distributions per unit	\$ 1.219	\$ 1.219	\$ -
Weighted average units outstanding - basic	90,373,110	76,534,760	13,838,350
Weighted average units outstanding - diluted	95,617,087	85,547,484	10,069,603
Units outstanding, end of period (including exchangeable units)	100,346,768	82,740,232	17,606,536

<sup>(1)</sup> FFO is not a term defined under IFRS

Primaris acquired Driftwood Mall in Courtenay, British Columbia on May 2, 2012. In September of 2012, Primaris purchased a property adjacent to Eglinton Square Shopping Centre. Also, in November of 2012, Primaris acquired Regent Mall in Fredericton, New Brunswick and McAllister Place in Saint John, New Brunswick (collectively the "2012 Acquisitions"). Primaris acquired Oakville Place in Oakville, Ontario, Burlington Mall in Burlington, Ontario, Place Vertu in Saint-Laurent, Quebec, St. Albert Centre in St. Albert, Alberta and Tecumseh Mall in Windsor, Ontario on June 22, 2011. Also, in November of 2011, Primaris purchased a property adjacent to Northland Village Shopping Centre (collectively the "2011 Acquisitions"). The total purchase price for the 2012 Acquisitions, including acquisition costs, was \$365,897, and for the 2011 Acquisitions was \$585,388 (together the "Acquisitions").

During 2011 Primaris sold two small properties: Forest Glen in Kitchener, Ontario; and Tillsonburg Gateway Centre in Tillsonburg, Ontario (together the "Dispositions"). At the time of the sale, the fair value of the properties was equivalent to the selling price.

## Revenue

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

Current year revenue of \$411,031 is \$45,678 greater than the comparative year. The Acquisitions contributed \$39,920 to this positive variance and same properties were also up \$7,469. The Dispositions decreased revenues by \$1,711. Same properties showed revenue increases for minimum rent, recoveries, parking and other revenues, particularly lease-surrender revenue.

Certain non-cash amounts are included in revenue. Primaris records revenue on a straight-line basis over the full term of a lease which results in non-cash revenue. In addition, the net of tenant improvement allowances and tenant inducements is offset against revenue. In the year ended December 31, 2012, the amortization of these items decreased revenue by \$7,892 which is \$2,335 more than the \$5,557 net reduction in the comparative year.

Lease-surrender revenue is unpredictable and varies from quarter to quarter. In the year ended December, 2012, lease-surrender revenues totaled \$3,277 which is \$2,669 higher than the \$608 in the comparative year.

## Operating Expenses

Operating expenses, being the sum of property operating costs, property taxes and ground rent, of \$181,117 are \$18,557 greater than in the comparative year. The Acquisitions account for \$17,021 of the increase and the Dispositions account for an \$884 decrease. The remaining properties had an increase of \$2,420.

## Net Operating Income – All Properties

	Year Ended December 31,		Favourable /
	2012	2011	(Unfavourable)
Revenue	\$ 411,031	\$ 365,353	\$ 45,678
Reverse: Non-cash revenue	7,892	5,557	2,335
Operating revenue <sup>(1)</sup>	418,923	370,910	48,013
Less: Property operating	(103,297)	(92,745)	(10,552)
Property tax	(76,467)	(68,569)	(7,898)
Ground rent	(1,353)	(1,246)	(107)
<b>Net operating income<sup>(1)</sup></b>	<b>\$ 237,806</b>	<b>\$ 208,350</b>	<b>\$ 29,457</b>

<sup>(1)</sup> Not a term defined under IFRS

NOI is not a term defined under IFRS and may not be comparable to similar measures used by other Trusts. Operating revenue from properties includes an adjustment for amortization of tenant improvement allowances, tenant inducements and straight-line rent to remove non-cash transactions from revenue for the calculation of net operating income. Operating expenses include operating expenses from properties, property taxes and ground rent.

Net operating income of \$237,806 is \$29,456 greater than in the comparative year. The Acquisitions generated an increase of \$22,502 and the Dispositions account for an \$842 decrease. The balance is an increase of \$7,796, generated by the remainder of the properties in the portfolio.

## Net Operating Income – Same Properties

	Year Ended December 31,		Favourable / (Unfavourable)
	2012	2011	
Operating revenue <sup>(1)</sup>	\$ 344,165	\$ 333,949	\$ 10,216
Less operating expenses	(148,587)	(146,167)	(2,420)
<b>Net operating income<sup>(1)</sup></b>	<b>\$ 195,578</b>	<b>\$ 187,782</b>	<b>\$ 7,796</b>

<sup>(1)</sup> Not a term defined under IFRS

Operating revenue from properties is adjusted for amortization of tenant improvement allowances, tenant inducements and straight-line rent to remove non-cash transactions for the calculation of net operating income. Operating expenses include operating expenses from properties, property taxes and ground rent. The same-property comparison consists of the 27 properties that were owned throughout both the current and comparative year. Net operating income, on a same-property basis, was \$7,796 or 4.2% higher than the comparative period. Removing the effects of lease-surrender revenue, net operating income, on a same-property basis, would be \$5,794 or 3.1% higher than the comparative period.

The \$10,216 increase in same property revenues results from a \$3,448 increase in minimum rent adjusted for non-cash amounts, a \$3,988 increase in recoveries, a \$2,109 increase in other revenues, due to lease-surrenders, a \$665 increase in parking revenues and a \$6 increase in percentage rent.

On a same-property basis, operating expenses were \$2,420 higher than in the comparative period as a result of a \$1,335 increase in property taxes, a \$1,334 increase in recoverable expenses, and a \$46 increase in ground rent. The increases are partially offset by a \$295 decrease in non-recoverable expenses.

## General and Administrative Expenses

General and administrative expenses increased by \$15,643 primarily due to non-recurring takeover expenses and the fluctuations in the recording of unit-based compensation expense at fair value. The chart below compares the year-to-date over prior year-to-date charges to total overhead costs that are recorded to various accounts including general and administrative expenses.

	Year Ended December 31,	
	2012	2011
Salaries, wages and benefits	\$ 21,078	\$ 17,880
Fair value adjustment on unit-based compensation	5,890	665
Occupancy costs	2,011	1,639
Professional fees	12,132	2,256
Information systems	1,198	1,207
Public company costs	515	492
Abandoned transaction costs	44	215
Third party leasing fees	990	773
Other general and administrative costs	689	624
<b>Total Costs</b>	<b>44,547</b>	<b>25,751</b>
Property management fees <sup>(1)</sup>	(11,961)	(10,600)
Other charges to properties <sup>(1)</sup>	(6,113)	(4,538)
Amounts capitalized	(990)	(773)
<b>General and administrative expense</b>	<b>25,483</b>	<b>9,840</b>
Fair value adjustment on unit-based compensation	(5,890)	(665)
Non-recurring expenses	(10,550)	-
<b>General and administrative, net</b>	<b>\$ 9,043</b>	<b>\$ 9,175</b>
As a percentage of total revenue	2.2%	2.5%
As a percentage of total assets	0.2%	0.3%

<sup>(1)</sup> Reported on the statement of income and comprehensive income as part of property operating expenses

## Finance Costs

	Year Ended December 31,		Favourable /
	2012	2011	(Unfavourable)
Interest expense on mortgage financing	\$ 75,010	\$ 70,819	\$ (4,191)
Interest expense on convertible debentures	9,541	12,535	2,994
Interest expense on bank indebtedness	529	1,385	856
Amortization of net loss on cash flow hedges	226	230	4
Amortization of debt placement costs	1,571	1,385	(186)
<b>Interest expensed</b>	<b>86,877</b>	<b>86,354</b>	<b>(523)</b>
Distributions paid on exchangeable units	2,597	2,673	76
Convertible debenture issuance costs	-	3,029	3,029
Capitalized interest	-	-	-
Fair value increment on convertible debentures	12,756	14,989	2,233
Fair value adjustment on exchangeable units	13,418	2,351	(11,067)
<b>Other items</b>	<b>28,771</b>	<b>23,042</b>	<b>(5,729)</b>
<b>Total finance costs</b>	<b>\$ 115,648</b>	<b>\$ 109,396</b>	<b>\$ (6,252)</b>

Finance costs of \$115,648 are \$6,252 higher than the comparative year. Finance costs include interest expensed as well as other items. The other items include fair value adjustments that increase the variability in finance costs between comparable periods. Mortgage interest increased \$5,118 due to the additional mortgages secured by the Acquisitions, \$1,209 due to additional debt obtained on the 2011 refinancing of Dufferin Mall, and \$871 due to a penalty on the 2012 fourth quarter early refinancing of Stone Road Mall. These increases were partially offset by decreases in interest expensed at other properties, including \$806 due to the mortgage repayment for Eglinton Square Mall. Interest on convertible debentures increased \$1,820 as a result of the new series of debentures issued in June 2011. This increase is more than offset by interest reductions on other series of debentures which experienced conversions to equity and redemptions.

### Fair Value Adjustment on Investment Properties

The effect to net income of the fair value adjustment on investment properties for the year ended December 31, 2012 was a gain of \$178,690, a change of \$29,577 from the gain of \$149,113 recorded for the comparable period.

## Non-IFRS Financial Measures

### Funds from Operations

FFO is not a term defined under IFRS and may not be comparable to similar measures used by other Trusts. Primaris calculates its FFO in accordance with the Real Property Association of Canada ("REALpac") White Paper on Funds from Operations issued in 2004 and revised in 2010 for the impact of IFRS. The purpose of the White Paper was to provide reporting issuers and investors with greater guidance on the definition of FFO and to help promote more consistent disclosure from reporting issuers.

	(Unaudited) Three Months Ended December 31,		(Unaudited) Year Ended December 31,	
	2012	2011	2012	2011
<b>Net Income</b>	<b>\$ 61,109</b>	<b>\$ 156,437</b>	<b>\$ 266,356</b>	<b>\$ 231,799</b>
Fair value adjustment on investment properties	(43,997)	(133,956)	(178,690)	(149,113)
Fair value adjustment on convertible debentures	936	9,000	12,756	14,989
Fair value adjustment on exchangeable units	5,348	240	13,418	2,351
Fair value adjustment on unit-based compensation	2,873	108	5,890	665
Distributions on exchangeable units	647	667	2,597	2,673
Amortization of tenant improvement allowances	2,809	2,176	9,768	7,419
<b>Funds from operations<sup>(1)</sup></b>	<b>\$ 29,725</b>	<b>\$ 34,672</b>	<b>\$ 132,095</b>	<b>\$ 110,783</b>
Add back one-time expenses	10,550	-	10,550	3,029
<b>Operating FFO<sup>(1)</sup></b>	<b>\$ 40,275</b>	<b>\$ 34,672</b>	<b>\$ 142,645</b>	<b>\$ 113,812</b>
Funds from operations per unit - basic	\$ 0.303	\$ 0.420	\$ 1.462	\$ 1.447
Funds from operations per unit - diluted	\$ 0.301	\$ 0.407	\$ 1.439	\$ 1.415
Operating FFO per unit - diluted	\$ 0.407	\$ 0.407	\$ 1.549	\$ 1.451
Operating FFO - payout ratio	74.9%	74.9%	78.7%	84.0%
Distributions per unit	\$ 0.305	\$ 0.305	\$ 1.219	\$ 1.219
Weighted average units outstanding - basic	97,963,800	82,641,329	90,373,110	76,534,760
Weighted average units outstanding - diluted	99,759,474	93,987,252	95,617,087	85,547,484
Units outstanding, end of period (including exchangeable units)	100,346,768	82,740,232	100,346,768	82,740,232

<sup>(1)</sup> FFO is not a term defined under IFRS

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 items that do not arise from operating activities, such as amortization of tenant improvement allowances, deferred income taxes, and fair value adjustments. However, it includes non-cash revenues related to accounting for straight-line rent and it makes no deduction for the recurring capital expenditures necessary to maintain the existing earnings stream. The research analyst community adjusts FFO for certain items in an attempt to develop another measure of economic profitability and to allow for the differences between REITs in relation to their capital expenditure programs. Primaris' disclosure of capital expenditures may assist readers in making such adjustments.

FFO, for the three month period ended December 31, 2012, decreased by \$4,947. FFO per unit for the fourth quarter of 2012 had an unfavourable variance of \$0.106 per unit on a diluted basis compared to the prior period. The fourth quarter includes one-time bid defense costs of \$10,550. Excluding these costs, Operating FFO would be \$40,275 or \$0.407 per unit on a diluted basis.

Operating FFO for the three months and year ended December 31, 2012 includes a charge for early debt repayment of \$871. There was no similar charge in the prior periods.

The diluted weighted average number of units outstanding increased from the comparative quarter because of three factors: the June 2011, May 2012 and November 2012 equity offerings; the issuance of units pursuant to Primaris' Distribution Reinvestment Program; and the dilutive impact of the unit-based compensation plan.

### Quarterly Trends

## Selected Quarterly Information

(Unaudited)	2012				2011			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	
Revenue	\$ 109,446	\$ 102,266	\$ 98,881	\$ 100,438	\$ 104,063	\$ 96,589	\$ 82,752	
Seasonal revenue	7,496	4,087	4,310	4,153	6,821	3,689	3,297	
Net operating income <sup>(1)</sup>	63,873	58,896	57,662	57,375	59,329	55,278	47,449	
Net income	61,109	139,172	39,201	26,874	156,437	29,223	41,150	
Total assets	4,218,060	3,797,931	3,709,948	3,600,836	3,590,297	3,443,772	3,457,947	
Indebtedness	1,727,484	1,485,887	1,621,395	1,661,863	1,677,475	1,689,107	1,706,940	
Diluted funds from operations <sup>(1)</sup>	\$ 0.301	\$ 0.383	\$ 0.376	\$ 0.382	\$ 0.407	\$ 0.349	\$ 0.285	
Diluted Operating FFO <sup>(1)</sup>	\$ 0.407	\$ 0.383	\$ 0.376	\$ 0.382	\$ 0.407	\$ 0.349	\$ 0.340	
Distributions per unit	\$ 0.305	\$ 0.305	\$ 0.305	\$ 0.305	\$ 0.305	\$ 0.305	\$ 0.305	
Units outstanding, end of period	100,346,768	95,021,808	90,197,295	84,697,928	82,740,232	82,543,264	82,342,138	

<sup>(1)</sup> Not a term defined by IFRS

*Note: As at February 28, 2013, there were 100,743,915 units outstanding (including 2,122,261 exchangeable units).*

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

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

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

## Liquidity and Capital Resources

Primaris expects to be able to meet all of its current obligations. Management expects to finance future growth through the use of (i) cash, (ii) conventional mortgage debt secured by investment properties, (iii) secured short-term financing through its \$100,000 revolving credit facility, (iv) cash flow from operations, and (v) subject to market conditions, the issuance of equity and convertible debentures.

Subsequent to year end Primaris increased its operating line of credit to \$138,000.

On November 15, 2012, Dominion Bond Rating Service upgraded Primaris' issuer rating to BBB(low) from BB(high) with a Stable trend.

Management continues to take steps to maintain a strong financial position. At December 31, 2012 there was a cash balance of \$45,622 and \$45,000 drawn on the



operating line of credit to have cash on hand to repay mortgages maturing January 1, 2013. As at September 30, 2012, \$910 was drawn on the operating line.

Interest Coverage, expressed as EBITDA divided by interest expense (defined as the sum of interest on mortgages, convertible debentures and bank indebtedness plus amortization included in finance costs), was 2.4 times for the current quarter. This coverage ratio would have been 2.9 times if not for the takeover costs incurred during the fourth quarter of 2012. Primaris defines EBITDA as net income increased by finance costs, depreciation, income tax expense and amortization of leasing costs and straight-line rent. EBITDA is not an IFRS defined measure and may not be comparable to similar measures used by other entities.

	(Unaudited) Three Months Ended December 31,		(Unaudited) Year Ended December 31,	
	2012	2011	2012	2011
<b>Net income</b>	\$ 61,109	\$ 156,437	\$ 266,356	\$ 231,799
Depreciation	207	282	1,207	1,039
Finance costs	28,340	32,951	115,648	109,396
Fair value adjustment on investment properties	(43,997)	(133,956)	(178,690)	(149,113)
Fair value adjustment on unit-based compensation	2,873	108	5,890	665
Amortization of leasing costs and straight-line rent	2,286	1,577	7,892	5,557
<b>EBITDA</b>	<b>\$ 50,818</b>	<b>\$ 57,399</b>	<b>\$ 218,303</b>	<b>\$ 199,343</b>
EBITDA / Interest expense	2.4	2.5	2.5	2.3

The Debt to Total Asset Ratio was 40.8% which is significantly below the 65% maximum as mandated by Primaris' Declaration of Trust or the 60% covenant in Primaris' operating credit agreement.

During the year ended December 31, 2012, \$922 of face value of the 6.75% series of convertible debentures, \$84,018 of face value of the 5.85% series of convertible debentures, and \$52,560 of face value of the 6.30% series of convertible debentures were converted into equity. During the same period, there were no conversions of the 5.40% series of convertible debentures.

On July 18, 2012, Primaris called the 5.85% series of convertible debentures for redemption. Prior to redemption, holders of \$84,018 of convertible debentures at face value exercised their option to convert to units. The redemption of the debentures was effective on August 17, 2012 when Primaris redeemed the remaining debentures at a face value of \$9,458.

The remaining outstanding balance, at face value, as at December 31, 2012, of the 6.75% series is \$1,867, of the 5.85% series is nil, of the 6.30% series is \$16,377 and of the 5.40% series is \$75,000.

During the current year, Primaris made \$33,000 of scheduled principal payments on its mortgages (\$8,380 during the current quarter).

On June 15, 2012, Primaris entered into a hedge agreement that was scheduled to mature February 1, 2013. The hedge was made to mitigate the risk of interest rate volatility in anticipation of \$125,000 of new debt to be placed for a 5 year term, principally to repay loans maturing during the first quarter of 2013. Primaris achieved an effective hedge on the five year Government of Canada bond yield of 1.448%, including the cost of the hedge. Subsequent to December 31, 2012, the hedge was terminated for a gain of \$157.

During the current quarter, Primaris refinanced an existing mortgage with a balance of \$100,095 set to mature on July 1, 2013 with a fixed interest rate of 5.494%. There was a repayment penalty of \$871 expensed as part of this transaction. The new mortgage was for \$120,000 for a term of ten years at a fixed interest rate of 4.132%. The loan commenced in November 2012 and matures October 31, 2022.

Also, during the quarter, Primaris borrowed \$114,000 through a mortgage on Regent Mall for a term of 10 years at a fixed interest rate of 4.034% and a \$76,000 mortgage on McAllister Place for a term of 7 years at a fixed interest rate of 3.682%.

In addition, during the quarter, Primaris issued approximately \$115,016 of units, before issuance costs. The issuance closed on November 9, 2012.

Primaris declared \$30,112 in distributions to Unitholders during the fourth quarter of 2012 (\$111,510 during the current year), including distributions to holders of exchangeable units. During 2012, \$ 16,133 additional capital was issued under Primaris' Distribution Reinvestment Plan ("DRIP"). On February 4, 2013, Primaris indefinitely suspended its DRIP.

## **Capital Expenditures**

In accordance with its objectives, Primaris distributes a high percentage of its FFO to Unitholders. As such it does not retain a material amount of operating cash flow. Primaris has a number of capital requirements including loan principal payments, acquisitions, developments, recoverable improvements and maintenance capital. Capital requirements for loan principal payments, acquisitions and development are generally sourced by financing for each project. Expenditures for acquisitions, developments, expansions and maintenance of productive capacity 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 relating to securing new tenants are classified as "operating activities" using such captions as "leasing costs" or as "tenant improvements".

Leasing costs are a component of investment properties and may include leasing commissions, tenant improvement allowances, tenant inducements and expenditures by Primaris to prepare space for occupancy by a tenant. Primaris incurred \$18,455 of leasing costs in 2012 (and \$18,866 in the prior year), which is comprised of \$17,440 in tenant improvement allowances, \$990 in leasing commissions, and \$25 of tenant inducements. \$2,964 of the tenant improvement allowances to date was incurred as part of development projects. 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, other than leasing commissions, are amortized on a straight-line basis over the term of the related lease.

Recoverable improvements, also a component of investment properties, include expenditures of a capital nature that are generally recoverable from tenants under the terms of their leases. They may include, but are not limited to, items such as parking lot resurfacing and common area roof replacement. These items are recorded as part of investment properties; the revenue from tenants is recorded as recoveries from tenants. Primaris had a recoverable improvements balance of \$33,983 at the beginning of 2012, \$9,498 recorded as additional expenditures during the year, and \$5,558 recovered from tenants. This resulted in a balance of \$37,923 yet to be recovered as at December 31, 2012.

## Maintenance of Productive Capacity

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

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

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

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

	2012	2011	2010	2009	2008	2007
Leasing capital	\$ 7,166	\$ 6,148	\$ 3,561	\$ 4,266	\$ 4,493	\$ 8,321
Other capital	1,802	4,038	4,281	6,269	3,779	12,189
Less: additions to productive capacity	-	(2,560)	(1,167)	(4,109)	(1,077)	(12,612)
	<u>\$ 8,968</u>	<u>\$ 7,626</u>	<u>\$ 6,675</u>	<u>\$ 6,426</u>	<u>\$ 7,195</u>	<u>\$ 7,898</u>

These nine properties have a rentable area of approximately 4.7 million square feet. The average maintenance capital cost per square foot over the five-year period was \$1.78, before considering the impact of recoverable improvement expenditures. These historical costs may not be indicative of future costs for Primaris' 14.7 million square foot portfolio. However, an extrapolation of these costs generates an amount of \$0.26 per diluted unit per annum as maintenance capital.

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

### **Current Redevelopment Projects**

During 2009 and 2011, Primaris completed phases one and two of a three phase redevelopment at Lambton Mall in Sarnia, Ontario.

Work is well underway on the third phase of the Lambton Mall redevelopment. The project involves the redevelopment of the vacant anchor space (approximately 92,000 square feet), formerly occupied by Canadian Tire. Part of the existing building was demolished and will be replaced with a new Galaxy Theatre building comprising approximately 32,000 square feet, a Sport Chek which will occupy approximately 31,000 square feet and 1,000 square feet of commercial retail space. The plan also creates a new mall entrance next to H&M. The project includes the acquisition of the existing 5.9 acre Cineplex property located at 1450 London Road, adjacent to Lambton Mall. With the opening of the new Galaxy Theatre at Lambton Mall, Cineplex will close its existing theatre. This phase will cost approximately \$16,000, including the purchase of 1450 London Road. A spring 2013 opening of both the Galaxy Theatre and the Sport Chek is expected.

The second phase of a redevelopment at Grant Park comprises a 5,000 square foot expansion of the shopping centre, re-leasing and remerchandising of approximately 23,000 square feet of other retail area, renovation and expansion of washrooms, and upgrade of an additional 5,000 square feet of common area. Landlord pre-construction activities commenced in September 2012. Common area improvements and washroom renovations are expected to be completed by spring 2013, and the expansion is expected to open in July 2013. This second phase has a \$5,400 budget.

A 12,000 square foot freestanding pad development at Tecumseh Mall, in Windsor, Ontario, was turned over to the LCBO for fixturing on October 31, 2012, on time and under budget. The LCBO plans to open in spring 2013. Primaris invested \$3.3 million in this project.

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

### **Distributions**

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

There are financial covenants in loan agreements requiring that various conditions be met before funds can be distributed to Unitholders.

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

- the current economic environment;
- Primaris' annual Operating Plan;
- availability of cash resources, including credit lines;
- the outlook for loan maturities;
- Primaris' leverage measured on both a balance sheet and operating basis;
- and
- leasing and development capital requirements.

At its most recent meeting on December 19, 2012, the Distributions Committee reviewed the current rate of distributions of \$1.22 per unit per annum and resolved to increase the annual distribution to \$1.27 effective January 2013.

### Corporate Structure and Debt Covenants

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

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

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

Primaris' operating credit agreement contains four financial covenants Primaris must maintain, as defined in the agreement, which are based on IFRS:

1. a Debt to Total Assets Ratio of not more than 60%;
2. an Interest Coverage Ratio of greater than 1.75;
3. a Debt Service Coverage Ratio of greater than 1.50; and
4. a minimum Unitholders' Equity of \$800,000.

As at December 31, 2012, Primaris was in compliance with these covenants (refer to note 21 of the consolidated financial statements) and had no defaults under any of its loan agreements.

### Tax

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

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

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Return of capital	64.9%	61.1%	59.0%	76.6%	63.6%	80.0%	77.6%	56.4%	65.6%	74.4%
Income	35.1%	34.1%	40.9%	21.6%	36.0%	20.0%	22.4%	43.6%	34.4%	25.6%
Capital gain	0.0%	4.8%	0.1%	1.8%	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

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

Primaris qualified for the "REIT Exemption" commencing December 31, 2010. Accordingly, Primaris will not be subject to the SIFT rules, that lead to taxation of distributions at a rate substantially equivalent to the general tax rate applicable to a Canadian corporation, as long as Primaris continues to qualify for the REIT

Exemption at all times (see the "Tax-Related Risks" in the Risks and Uncertainties section for further discussion).

## **Financial Condition**

### **Investment Properties**

Investment properties represent 98.3% of total assets as at December 31, 2012. The property portfolio comprises 35 retail properties of various sizes and, as such, represents a good 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 1,100 different tenants, which represents a significant diversification of revenues. In addition, the 35 properties have good geographic diversification.

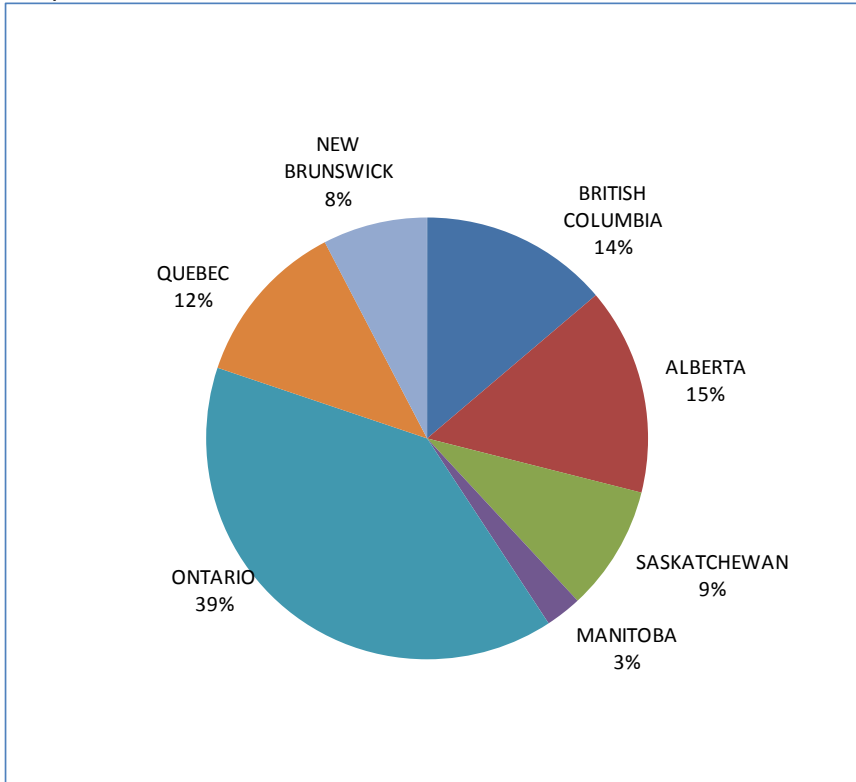
The future financial performance of investment properties is a function of a number of factors. The principal factors include occupancy rates, trends in rental rates achieved on leasing or renewing space currently leased, retail sales performance and the contractual increases in rent that are programmed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

During the fourth quarter of 2012, Primaris leased 340,492 square feet comprised of 240,347 square feet to 112 smaller tenants and the remainder to three major and anchor tenants. Approximately 53.6% of the space leased during the current quarter of 2012 resulted from the renewal of existing tenants (53.5% if the major tenants are excluded). The weighted average new rent for renewals of existing tenants in the current quarter, on a cash basis, represented an 11.1% increase over the previous rent (9.3% if the major tenants are excluded).

Primaris leased 1,828,283 square feet during 2012 comprised of 895,460 square feet to 514 smaller tenants and the remainder to 17 major and anchor tenants. Approximately 67.8% of the space leased during 2012 resulted from the renewal of existing tenants (65.5% if the major tenants are excluded). The weighted average new rent for renewals of existing tenants in 2012, on a cash basis, represented a 6.0% increase over the previous rent (7.8% if the major tenants are excluded).

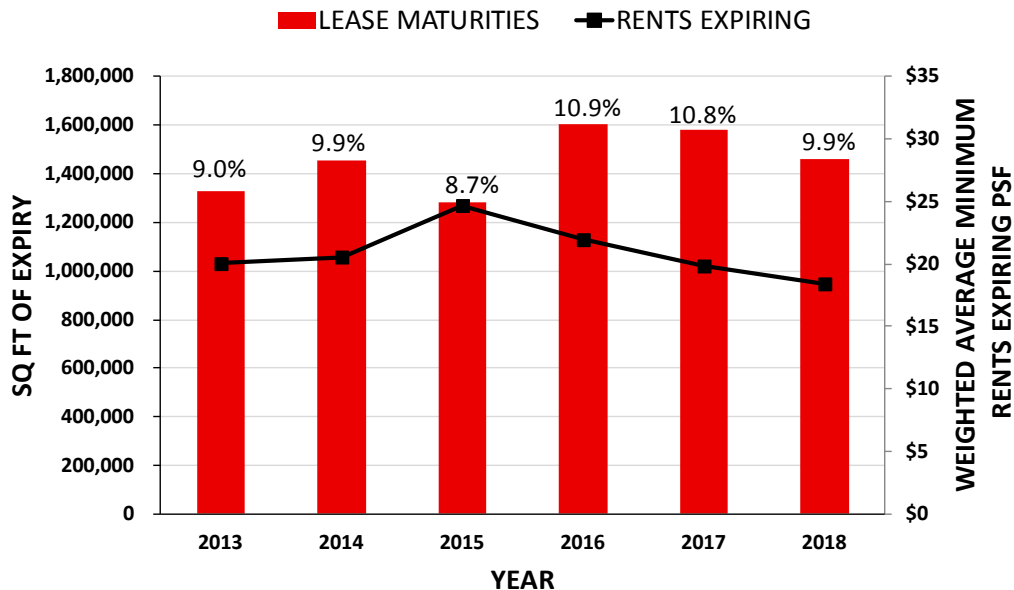
### Geographic Diversification

The investment properties are located in seven provinces. As at December 31, 2012, the portfolio distribution based on annualized minimum rent is as follows:



### Lease and Rent Expiries

Lease maturities are no greater than 10.9% of the portfolio in any year between 2013 and 2018.





## Largest Tenants

The following table illustrates the 10 largest tenants by related group in Primaris' portfolio of investment properties as measured by their percentage contribution to total annual gross rent, as at December 31, 2012.

Tenant Groups	Percentage of Total Annual Gross Rent	Area (Sq. ft.)	Weighted Average Lease Term to Maturity (Years)
1 HBC	3.8%	1,993,118	5.1
2 Canadian Tire	3.7%	940,452	4.8
3 Reitmans	2.6%	207,611	4.1
4 Sears	2.6%	1,424,926	6.3
5 Target	2.5%	1,140,381	8.0
6 YM	2.3%	242,023	2.8
7 Shoppers Drug Mart	2.0%	182,673	5.3
8 Bell Canada	1.8%	103,185	4.3
9 Comark	1.7%	122,525	4.0
10 Best Buy	1.5%	222,976	4.3
	<u>24.5%</u>	<u>6,579,869</u>	

*Note: The tenant groups shown above represent different corporate covenants that fall within a given tenant group. Included in the HBC group are four Zellers locations representing 0.6% of total annual gross rent and 368,910 square feet.*

With respect to the four remaining Zellers' leases in Primaris' portfolio, two now terminate on April 30, 2013, the third terminates June 30, 2013 and the fourth expires naturally on March 31, 2013. Our leasing and development teams are already at work on plans to make the most of the opportunity to bring new brands to the properties.

## Indebtedness and Other Obligations

Year	Principal on Mortgages	Convertible Unsecured Debentures	Ground Rent	Operating Leases	Total
2013	152,974	-	1,422	1,811	156,207
2014	136,403	1,867	1,422	1,811	141,503
2015	133,024	16,377	1,422	1,763	152,586
2016	163,545	-	1,422	1,791	166,758
2017	158,768	-	1,497	1,831	162,096
Thereafter	844,234	75,000	32,595	3,425	955,254
	<u>\$ 1,588,948</u>	<u>\$ 93,244</u>	<u>\$ 39,780</u>	<u>\$ 12,432</u>	<u>\$ 1,734,404</u>

*Note: Of the total mortgages balance, \$106,059 is recourse only to the underlying property.*

*Note: \$315,650 of investment properties is unencumbered by debt.*

As at December 31, 2012, Primaris had \$1,588,948 of mortgages payable, bearing a weighted average interest rate of 5.1%. This rate reflects the marking-to-market of interest rates for all debts assumed in conjunction with property acquisitions. This debt amount excludes net debt premiums of \$292 and debt placement costs of \$6,306. The mortgages payable have a weighted average term to maturity of 6.0 years.

The Indebtedness and Other Obligations table above includes ground rent, on a cash basis, pursuant to operating leases at Park Place Shopping Centre, Orchard Park Shopping Centre and Burlington Mall. The amounts in the table reflect the

assumption that Primaris exercises its renewal options in the respective ground leases.

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

## Accounting Estimates

The financial statements include accounting estimates and assumptions with respect to the fair value of investment property, recovery revenue accruals, fair value of mortgages, fair value of convertible debentures, fair value of exchangeable units, fair value of unit-based compensation and useful lives used to calculate depreciation. 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 the Board of Trustees.

### Property Valuations

Investment properties included land and buildings held primarily to earn rental income or for capital appreciation or for both. Investment properties, which are carried on the consolidated statements of financial position at fair value, are valued by either qualified external valuation professionals or by management. The valuations are based on a number of assumptions, such as appropriate discount rates and capitalization rates and estimates of future rental income, operating expenses and capital expenditures. Valuations are most sensitive to changes in discount rates and capitalization rates. The following table summarizes the rate sensitivity:

Capitalization rate sensitivity Increase (decrease)	Weighted Average		Fair Value of Investment Property	Fair Value Variance	% Change	Debt to Total Assets
	Discount rate	Terminal cap rate				
-0.75%	6.3%	5.4%	\$4,742,400	\$597,000	14.4%	35.7%
-0.50%	6.5%	5.6%	\$4,525,600	\$380,200	9.2%	37.4%
-0.25%	6.8%	5.9%	\$4,327,300	\$181,900	4.4%	39.1%
September 30, 2012	7.0%	6.1%	\$4,145,400	\$0	0.0%	40.8%
0.25%	7.3%	6.4%	\$3,977,800	(\$167,600)	-4.0%	42.5%
0.50%	7.5%	6.6%	\$3,823,100	(\$322,300)	-7.8%	44.2%
0.75%	7.8%	6.9%	\$3,679,600	(\$465,800)	-11.2%	45.9%

### Fair Value of Mortgages

Primaris discloses the fair value of mortgages in the notes to the consolidated financial statements. In determining the market rates, management adds a credit spread to the quoted yields on Canadian government bonds with similar maturity dates to Primaris' mortgages. The credit spread is estimated based upon experience in obtaining similar financing and market conditions.

### Future Changes in Accounting Policies

Primaris monitors new IFRS accounting pronouncements to assess the applicability and impact, if any; these new pronouncements may have on the consolidated financial statements and note disclosures. The following IFRS standards have been

issued but are not yet effective. Primaris intends to adopt these standards when they become effective.

IAS 1 – Presentation of Financial Statements (“IAS 1”) includes amendments to the presentation of other comprehensive income. Primaris intends to adopt the amendments to IAS 1 in its financial statements for the annual period beginning on January 1, 2013. Primaris does not expect IAS 1 to have a significant impact on its consolidated financial statements.

IFRS 9 – Financial Instruments (“IFRS 9”) was issued to replace IAS 39 – Financial instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of its financial assets. The standard is effective for annual periods beginning on or after January 1, 2015, with early adoption permitted. Primaris does not expect IFRS 9 to have a significant impact on its consolidated financial statements and will not early adopt the new standard.

IFRS 11 – Joint Arrangements (“IFRS 11”) replaces IAS 31- Interest in Joint Ventures. The new standard redefines joint operations and joint ventures and requires joint operations to be proportionately consolidated and joint ventures to be equity accounted. Primaris has one investment that is currently proportionately consolidated. Under IFRS 11, this investment will be classified as a joint operation, and therefore, will continue to be proportionately consolidated. This standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. Primaris does not expect any impact on the consolidated statements from this standard.

IFRS 12 – Disclosure of Interests in Other Entities (“IFRS 12”) outlines the disclosures for interests in subsidiaries, joint ventures and associates. The standard requires Primaris to disclose information that enables users of financial statements to evaluate the nature, risks and financial effects associated with its interests in other entities. This standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. Primaris does not expect IFRS 12 to have a significant impact on its consolidated financial statements and did not early adopt the new disclosures.

IFRS 13 – Fair Value Measurements (“IFRS 13”) provides a single source of guidance on how to measure fair value where fair value is already required or permitted by other IFRS standards (except IFRS 2 – Share Based payment and IAS 17 – Leases). The standard also enhances disclosure requirements for information about fair value measurements and the use of managements’ judgment. This standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. Primaris does not expect IFRS 13 to have a significant impact on its consolidated financial statements and did not early adopt the new disclosures.

## **Risks and Uncertainties**

### **Amended Transaction**

Risks and uncertainties related to the amended and restated Arrangement Agreement with H&R REIT and the KingSett Capital-led consortium are contained in the management information circular dated February 19, 2013 for a special meeting of the Unitholders to be held March 22, 2013.

### **Real Property Ownership**

Primaris owns 35 Canadian retail 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.

Certain significant expenditures, including fixed expenditures, property taxes, maintenance costs, ground rent, mortgage payments, insurance costs and related charges must be made throughout the period of ownership of real property regardless of whether the property is producing any income. If Primaris is unable to meet mortgage payments or ground rent payments on any property, losses could be sustained as a result of the mortgagee's exercise of its rights of foreclosure or sale or the landlord's exercise of remedies.

### **Tenant Risks**

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

Certain of the major tenants are permitted to cease operating from their leased premises at any time at their option. Other major tenants are permitted to cease operating from their leased premises or to terminate their leases if certain events occur. Some Commercial Retail Unit ("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.

### **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.

### **Interest Rate Fluctuations**

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

### **Retail Concentration**

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

### **Competition**

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

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

### **Financing Risks**

Primaris has indebtedness outstanding of approximately \$1,727,484 as at December 31, 2012. A portion of the cash flow generated by the existing properties and any future acquired properties will be devoted to servicing such debt, and there can be no assurance that Primaris will continue to generate sufficient cash flow from operations to meet required interest and principal payments. If Primaris is unable to meet interest or principal payments, it could be required to seek renegotiation of such payments or obtain additional equity, debt or other financing. Primaris is subject to the risks associated with debt financing, including the risk that the mortgages and banking facilities secured by Primaris' properties will not be able to be re-financed or that the terms of such re-financing will not be as favourable as the terms of existing indebtedness.

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

**Valuations**

Valuations reflect an assessment of value based on the facts and circumstances as of the date the valuations were made. Such valuations may not have incorporated all relevant facts or may have relied on incorrect assumptions which may have been too optimistic or not sufficiently optimistic. Furthermore, valuations conducted at one point in time may not be reflective of value at another point in time, nor may the valuation be reflective of the value that could be obtained on a sale or other transaction.

**Asset Liquidity**

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

**Capital Expenditures**

Leasing capital and maintenance capital are incurred in irregular amounts and may exceed actual cash available from operations during certain periods. Primaris may be required to use part of its debt capacity or reduce distributions in order to accommodate such items. Capital for recoverable improvements may exceed recovery of amounts from tenants.

**Distributions**

Primaris is subject to provisions in its Declaration of Trust as well as to debt agreements that may impact the quantum of distributions. The sale of investment properties with inherent taxable gains could materially change Primaris' level of distributions.

**Land Leases**

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

**Environmental Matters**

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

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

laws and regulations could have an adverse effect on Primaris' business, financial condition or results of operations and distributions.

### **Reliance on Key Personnel**

The management of Primaris depends on the services of certain key personnel. The loss of the services of any key personnel could have an adverse effect on Primaris subject to Primaris appropriately developing and planning for succession.

### **Tax-Related Risks**

The specified investment flow-through rules ("SIFT Rules"), federal income tax legislation that result in a tax on certain flow-through entities, are not applicable to funds that qualify for an exemption available to certain Real Estate Investment Trusts (the "REIT Exemption"). The stated intention of the Minister of Finance (Canada) in introducing the REIT Exemption is to exempt certain Real Estate Investment Trusts from taxation as SIFTs in recognition of "the unique history and role of collective real estate investment vehicles". If Primaris fails to qualify for the REIT Exemption, Primaris will be subject to certain tax consequences including taxation of Primaris in a manner similar to corporations.

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

### **Controls and Procedures**

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

Management has evaluated the effectiveness of Primaris' disclosure controls and procedures as of December 31, 2012 and concluded that such controls and procedures are effective. Primaris' disclosure controls and procedures include Primaris' disclosure policy, Disclosure Committee and a cascading sub-certification process. The consolidated financial statements and MD&A were reviewed and approved by the Disclosure Committee and the Board of Trustees prior to their publication.

As at the year ended December 31, 2012, management has evaluated the design and operation of internal controls over financial reporting. Based on that evaluation, management has concluded that the design and operation of internal controls over financial reporting were effective as of December 31, 2012 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

There were no changes in internal control over financial reporting during the fourth quarter of 2012 that have materially affected or are reasonably likely to materially affect Primaris' internal control over financial reporting.

Primaris' management, including the President and Chief Executive Officer, and the Executive Vice President and Chief Financial Officer, does not expect its disclosure controls and procedures or internal control over financial reporting to prevent or detect all misstatements due to error or fraud. Due to the inherent limitations in all



control systems, an evaluation of controls and their design provides only reasonable and not absolute assurance that all control issues and instances of fraud or error have been detected. Primaris is continually evolving and enhancing its systems of controls and procedures.

## **Outlook**

Primaris' business is operating in a stable fashion and has a number of potential strategic redevelopment opportunities under consideration. Our tenant sales productivity is trending more positively as we enter 2013. The Canadian retail environment is expected to experience one of its most dynamic periods of change with the opening of Target stores, starting in 2013. We believe the Primaris portfolio is well positioned for this change. Growth expectations for the Canadian economy are muted, with expectations possibly improving in 2013.

Interest rates are at historically low levels and the prospect of a long period of slow economic growth is likely to keep rates low for a while. Equity markets remain healthy. Canadian REITs have demonstrated continued access to additional equity when required for positive developments. Investors' preference for income returns and the relative stability of the Canadian REIT sector may be reasons for this access to additional equity.

Primaris has entered into an amended and restated Arrangement Agreement with H&R Real Estate Investment Trust and H&R Finance Trust (collectively "H&R REIT") and an asset purchase agreement with members of the KingSett Capital-led consortium. Certain assets of Primaris, comprising approximately 40% of its business, will be sold to the KingSett Capital-led consortium. Thereafter, Primaris will sell substantially all of its remaining assets to H&R REIT and Primaris will become a wholly owned subsidiary of H&R REIT. These transactions are subject to conditions, but could be completed in early April 2013.