Condensed Consolidated Interim Financial Statements of

PRIMARIS RETAIL REAL ESTATE INVESTMENT TRUST

Three months and six months ended
June 30, 2012 and 2011
(Unaudited)

PRIMARIS RETAIL REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statements of Financial Position
(In thousands of dollars)
(Unaudited)

	June 30, 2012	December 31, 2011
Assets		
Non-current assets:		
Investment properties (note 4)	$ 3,637,750	$ 3,557,900
Current assets:		
Rents receivable (note 5)	6,139	7,387
Other assets and receivables (note 6)	31,301	25,010
Cash and cash equivalents	34,758	–
	72,198	32,397
	$ 3,709,948	$ 3,590,297
Liabilities and Equity		
Non-current liabilities:		
Mortgages payable (note 7)	$ 1,249,817	$ 1,372,871
Convertible debentures (note 8)	232,685	268,766
Exchangeable units (note 11)	50,000	45,079
Accounts payable and other liabilities (note 10)	3,089	1,205
	1,535,591	1,687,921
Current liabilities:		
Current portion of mortgages payable (note 7)	159,840	53,004
Bank indebtedness (note 9)	–	6,779
Accounts payable and other liabilities (note 10)	51,632	61,744
Distribution payable	9,026	8,251
	220,498	129,778
	1,756,089	1,817,699
Equity (note 11)	1,953,859	1,772,598
Subsequent events (note 22)		
	$ 3,709,948	$ 3,590,297

See accompanying notes to condensed consolidated interim financial statements.

PRIMARIS RETAIL REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statements of Income and Comprehensive Income
(In thousands of dollars)

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
	(Unaudited)		(Unaudited)	
Revenue:				
Minimum rent	$ 59,385	$ 49,817	$ 118,408	$ 98,706
Recoveries from tenants	36,132	30,415	74,272	61,286
Percentage rent	609	632	1,174	1,048
Parking	1,742	1,596	3,435	3,075
Other income	1,013	292	2,030	586
	98,881	82,752	199,319	164,701
Expenses:				
Property operating	23,901	20,188	49,323	41,481
Property taxes	18,794	16,202	38,073	31,681
Ground rent	331	295	662	589
General and administrative	3,773	2,523	6,202	5,650
Depreciation	362	284	743	471
	47,161	39,492	95,003	79,872
Income from operations	51,720	43,260	104,316	84,829
Finance income	54	73	59	83
Finance costs (note 13)	(36,902)	(20,787)	(63,114)	(56,927)
Fair value adjustment on investment properties (note 4)	24,329	18,604	24,814	18,154
Net income	39,201	41,150	66,075	46,139
Other comprehensive income:				
Deferred gain on cash flow hedge	35	–	35	–
Amortization of deferred net loss on cash flow hedges	56	57	113	115
	91	57	148	115
Comprehensive income	$ 39,292	$ 41,207	$ 66,223	$ 46,254

See accompanying notes to condensed consolidated interim financial statements.

PRIMARIS RETAIL REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statements of Changes in Equity
(In thousands of dollars)

Six months ended June 30, 2012 and 2011
(Unaudited)

2012	Amount of units issued	Contributed surplus	Cumulative net income	Distributions	Accumulated other comprehensive income (loss)	Total
Equity, beginning of period	$ 1,124,856	$ 543	$ 1,171,792	$ (523,779)	$ (814)	$ 1,772,598
Net income for the period	–	–	66,075	–	–	66,075
Distributions	–	–	–	(51,326)	–	(51,326)
Deferred gain on cash flow hedge	–	–	–	–	35	35
Amortization of deferred net loss on cash flow hedges	–	–	–	–	113	113
Unit-based compensation plan (note 11(d))	1,310	–	–	–	–	1,310
Issuance of units under distribution reinvestment plan	7,155	–	–	–	–	7,155
Issuance of units, net of costs	109,802	–	–	–	–	109,802
Conversion of convertible debentures to units	46,688	–	–	–	–	46,688
Conversion of exchangeable units	1,409	–	–	–	–	1,409
Equity, end of period	$ 1,291,220	$ 543	$ 1,237,867	$ (575,105)	$ (666)	$ 1,953,859

PRIMARIS RETAIL REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statements of Changes in Equity (continued)
(In thousands of dollars)

Six months ended June 30, 2012 and 2011
(Unaudited)

2011	Amount of units issued	Contributed surplus	Cumulative net income	Distributions	Accumulated other comprehensive income (loss)	Total
Equity, beginning of period	$ 847,827	$ 543	$ 939,993	$ (432,280)	$ (1,044)	$ 1,355,039
Net income for the period	–	–	46,139	–	–	46,139
Distributions	–	–	–	(42,348)	–	(42,348)
Amortization of deferred net loss on cash flow hedges	–	–	–	–	115	115
Unit-based compensation plan (note 11(d))	740	–	–	–	–	740
Issuance of units under distribution reinvestment plan	4,155	–	–	–	–	4,155
Issuance of units, net of costs	249,514	–	–	–	–	249,514
Conversion of convertible debentures to units	13,751	–	–	–	–	13,751
Conversion of exchangeable units	597	–	–	–	–	597
Equity, end of period	$ 1,116,584	$ 543	$ 986,132	$ (474,628)	$ (929)	$ 1,627,702

See accompanying notes to condensed consolidated interim financial statements.

PRIMARIS RETAIL REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statements of Cash Flows
(In thousands of dollars)

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
	(Unaudited)		(Unaudited)	
Cash flows from operating activities:				
Net income	$ 39,201	$ 41,150	$ 66,075	$ 46,139
Adjustments for:				
Amortization of tenant improvement allowances	2,340	1,679	4,615	3,460
Amortization of tenant inducements	55	31	110	60
Amortization of straight-line rent	(588)	(328)	(949)	(727)
Value of units and options granted under unit-based compensation plan	1,931	352	2,936	1,724
Depreciation of fixtures and equipment	362	284	743	471
Net finance costs	36,848	20,714	63,055	56,844
Fair value adjustment on investment properties	(24,329)	(18,604)	(24,814)	(18,154)
	55,820	45,278	111,771	89,817
Change in other non-cash operating working capital (note 14)	5,420	(6,531)	(14,830)	(18,891)
Leasing commissions	(231)	(104)	(457)	(150)
Tenant improvements	(3,604)	(3,488)	(6,540)	(4,046)
Net cash generated from operating activities	57,405	35,155	89,944	66,730
Interest received	54	73	59	83
Cash flows from operating activities	57,459	35,228	90,003	66,813
Cash flows from financing activities:				
Mortgage principal repayments	(8,245)	(6,351)	(16,381)	(12,468)
Proceeds of new mortgage financing	–	223,600	–	333,600
Repayment of financing	–	–	–	(37,039)
Advance (repayment) of bank indebtedness, net	(27,000)	10,000	(6,779)	–
Interest paid	(26,017)	(19,987)	(44,672)	(38,597)
Capitalized debt placement costs	(21)	(1,877)	(295)	(2,752)
Cash received on exercise of options	257	161	829	356
Issuance of units	115,058	260,590	115,058	260,590
Unit issue costs	(5,256)	(11,076)	(5,256)	(11,076)
Issuance of convertible debentures	–	75,000	–	75,000
Convertible debenture issue costs	–	(3,029)	–	(3,029)
Distributions to Unitholders	(22,613)	(18,905)	(44,699)	(38,138)
Cash flows from (used in) financing activities	26,163	508,126	(2,195)	526,447
Cash flows from investing activities:				
Acquisitions of investment properties	(44,694)	(582,383)	(44,694)	(582,383)
Additions to buildings and building improvements	(4,159)	(2,670)	(4,256)	(4,834)
Additions to recoverable improvements	(2,314)	(1,175)	(2,739)	(1,268)
Additions to fixtures and equipment	(823)	(39)	(1,361)	(42)
Cash flows used in investing activities	(51,990)	(586,267)	(53,050)	(588,527)
Increase (decrease) in cash and cash equivalents	31,632	(42,913)	34,758	4,733
Cash and cash equivalents, beginning of period	3,126	54,146	–	6,500
Cash and cash equivalents, end of period	$ 34,758	$ 11,233	$ 34,758	$ 11,233
Supplemental disclosure of non-cash operating, financing and investing activities:				
Value of units issued from conversion of convertible debentures	$ 7,233	$ 6,467	$ 46,688	$ 13,751
Value of units issued upon exchange	–	–	1,409	597
Value of units issued under distribution reinvestment plan	3,875	2,327	7,155	4,155
Value of units issued under unit-based compensation plan	38	381	481	384
Deferred gain on cash flow hedge	35	–	35	–

See accompanying notes to condensed consolidated interim financial statements.

Primaris Retail Real Estate Investment Trust ("Primaris") is an unincorporated open-ended real estate investment trust ("REIT") created pursuant to the Declaration of Trust dated March 28, 2003 as amended and restated, and is governed by the laws of the Province of Ontario. Primaris' units and debentures are listed on the Toronto Stock Exchange and are traded under the symbol "PMZ". The registered office of Primaris is: 1 Adelaide Street East, Suite 900, Toronto, Ontario, M5C 2V9.

1. Basis of preparation:

(a) Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with international Financial Reporting Standards ("IFRS"), including International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB") and using accounting policies described herein.

These condensed consolidated interim financial statements were approved by the Board of Trustees on August 7, 2012.

(b) Basis of measurement:

These condensed consolidated interim financial statements have been prepared on a historical cost basis, except for the following material items in the condensed consolidated interim statements of financial position:

- Convertible debentures measured at fair value;
- Investment properties measured at fair value;
- Exchangeable units measured at fair value;
- Liabilities for unit-based payment arrangements measured at fair value; and
- Cash flow hedges measured at fair value.

These condensed consolidated interim financial statements are presented in Canadian dollars, which is Primaris' functional currency.

1. Basis of preparation (continued):

(c) Use of estimates and judgments:

The preparation of these condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates.

Significant judgments and key estimates:

The following are significant judgments and key estimates that affect the reported amounts of assets and liabilities at the date of the condensed consolidated interim financial statements and the reported amounts of revenue and expenses during the period.

(i) Property valuations:

Investment properties, which are carried on the condensed consolidated interim statements of financial position at fair value, are valued by either qualified external valuation professionals or by management. Each property is subject to an external appraisal at least once in every three years. 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. The valuation of investment properties is one of the principal estimates and uncertainties of these condensed consolidated interim financial statements. Refer to note 4 for further information on estimates and assumptions made in the determination of the fair value of investment properties.

(ii) Income taxes:

Primaris is a mutual fund trust and a REIT pursuant to the Income Tax Act (Canada). Under current tax legislation, Primaris is not liable to pay Canadian income taxes provided that its taxable income is fully distributed to Unitholders each year. Primaris is a REIT if it meets prescribed conditions under the Income Tax Act (Canada) relating to the nature of its assets and revenue (the "REIT Conditions"). Primaris has reviewed the REIT Conditions and has assessed their interpretation and application to Primaris' assets and revenue, and it has determined that it qualifies as a REIT for the period.

1. Basis of preparation (continued):

Primaris expects to continue to qualify as a REIT under the Income Tax Act (Canada), however, should it no longer qualify it would not be able to flow through its taxable income to Unitholders and Primaris would therefore be subject to tax.

2. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements, and the most recent consolidated annual financial statements.

(a) Principles of consolidation:

These condensed consolidated interim financial statements include the accounts of all entities in which Primaris has a controlling interest. All intercompany transactions and balances have been eliminated upon consolidation.

(b) Investment properties:

Investment properties include land and buildings held primarily to earn rental income or for capital appreciation or for both, rather than for use in the production for supply of goods or services or for sale in the ordinary course of business.

On acquisition, investment properties are initially recorded at cost. Subsequent to initial recognition, Primaris uses the fair value model to account for investment properties. Under the fair value model, investment properties are recorded at fair value, determined based on available market evidence, at the condensed consolidated interim statements of financial position dates. Related fair value gains and losses are recognized in net income in the period in which they arise.

Subsequent capital expenditures are recorded to investment properties only when it is probable that future economic benefits of the expenditure will flow to Primaris and the cost can be measured reliably.

Gains or losses from the disposal of investment properties are determined as the difference between the net disposal proceeds and the carrying amount and are recognized in net income in the period of disposal.

2. Significant accounting policies (continued):

(c) Leasing costs:

Leasing costs include commissions paid to external leasing agents and payments to tenants. Leasing costs are included as components of the fair value of investment properties.

Payments to tenants under lease obligations are characterized either as tenant improvements or as tenant inducements. The obligation is determined to be a tenant improvement when the payment to the tenant was spent on leasehold improvements. Otherwise, the obligations under the lease are treated as tenant inducements. Both tenant improvements and tenant inducements are amortized on a straight-line basis over the term of the lease as a reduction of revenue.

(d) 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.

(e) Fixtures and equipment:

Fixtures and equipment, including leasehold improvements and computer hardware, are recorded at cost less accumulated depreciation and net accumulated impairment losses. Depreciation expense is recorded on a straight-line basis over the estimated useful life of each asset. The depreciation method and useful lives are reviewed at each annual reporting date and adjusted if appropriate. Gains or losses arising from the derecognition of fixtures and equipment are determined as the difference between the net disposal proceeds and the carrying amount.

(f) Convertible debentures:

The convertible debentures are convertible into trust units of Primaris. As Primaris' trust units are redeemable at the option of the holder and are, therefore, considered puttable instruments in accordance with IAS 32, *Financial Instruments: Presentation* ("IAS 32"), the convertible debentures are considered a liability containing liability-classified embedded derivatives. Primaris has elected to record the full outstanding amount of each convertible debenture at its fair value with the changes being recognized in net income.

2. Significant accounting policies (continued):

(g) Exchangeable units:

The exchangeable units of subsidiaries of Primaris are exchangeable into trust units at the option of the holder. The exchangeable units are considered puttable instruments and are required to be classified as financial liabilities. Further, the exchangeable units are classified as fair value through profit or loss financial liabilities and are, therefore, measured at fair value at each reporting period with any changes in fair value recognized in net income. The distributions paid on the exchangeable units are accounted for as finance costs (note 13).

(h) Trust units:

Primaris' trust units are redeemable at the option of the holder and, therefore, are considered puttable instruments. Puttable instruments are required to be accounted for as financial liabilities, except where certain conditions are met in accordance with IAS 32, in which case, the puttable instruments may be presented as equity. Primaris' trust units meet the conditions of IAS 32 and are, therefore, classified and presented as equity.

(i) Finance income and finance costs:

Finance income comprises interest income on funds invested and the amortization of gains on hedging instruments that are recognized in net income. Interest income is recognized as it accrues in net income, using the effective interest method.

Finance costs comprise interest expensed on borrowings, distributions on exchangeable units classified as liabilities, fair value changes recognized on financial assets and liabilities, the amortization of losses on hedging instruments that are recognized in net income, and debt placement costs.

Debt placement costs associated with financial liabilities, measured at amortized cost, are presented with the related debt instrument and amortized using the effective interest rate over the anticipated life of the related debt.

Debt placement costs associated with the issuance of convertible debentures, which are recorded at market value, are expensed as incurred.

2. Significant accounting policies (continued):

(j) Revenue recognition:

Revenue from investment properties includes minimum 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 minimum 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.

(k) Lease payments:

Payments made under operating leases are recognized in net income on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense over the term of the lease.

(l) Employee benefits:

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in net income in the years during which services are rendered by employees.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount estimated to be paid under short-term cash bonus or profit-sharing plans.

(m) Unit-based compensation:

Primaris has a unit option plan, which provides holders with the right to receive trust units, which are puttable. Primaris measures these amounts at fair value at the grant date and compensation expense is recognized over the vesting period. The amounts are fair valued at each reporting period and the change in fair value is recognized as compensation expense. The unit-based compensation is presented as a liability.

2. Significant accounting policies (continued):

(n) Financial instruments:

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

Primaris designates its cash and cash equivalents, rents receivable and other receivables as loans and receivables; mortgages payable, bank indebtedness, accounts payable and other liabilities, and distribution payable as other liabilities; and exchangeable units and convertible debentures as financial liabilities at fair value through profit or loss. Primaris has neither available-for-sale nor held-to-maturity instruments.

Where financial instruments are reported at their amortized cost, transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities are accounted for as part of the carrying amount of the respective asset or liability at inception.

All derivative instruments, including embedded derivatives, are recorded at fair value and any changes in fair value are recognized in net income.

(o) Hedging:

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.

2. Significant accounting policies (continued):

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 condensed consolidated interim statements of income and comprehensive income, at which time, the related change in fair value of the derivative is recognized in net income. Hedge ineffectiveness, if any, is recognized in net income immediately.

(p) Income taxes:

Primaris is a mutual fund trust and a REIT pursuant to the Income Tax Act (Canada). Under current tax legislation, a REIT is entitled to deduct distributions of taxable income such that it is not liable to pay income taxes provided that its taxable income is fully distributed to Unitholders. Primaris intends to continue to qualify as a REIT and to make distributions not less than the amount necessary to ensure that Primaris will not be liable to pay income taxes. Accordingly, no current or deferred income taxes have been recorded in the condensed consolidated interim financial statements.

(q) Future accounting changes:

(i) IAS 1, *Presentation of Financial Statements* ("IAS 1"):

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 condensed consolidated interim financial statements and will not early adopt the new standard.

2. Significant accounting policies (continued):

(ii) IFRS 9, *Financial Instruments* ("IFRS 9"):

IFRS 9 was issued to replace IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). 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 condensed consolidated interim financial statements and will not early adopt the new standard.

(iii) IFRS 11, *Joint Arrangements* ("IFRS 11"):

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 its condensed consolidated interim financial statements from this standard.

(iv) IFRS 12, *Disclosure of Interests in Other Entities* ("IFRS 12"):

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 condensed consolidated interim financial statements and will not early adopt the new disclosures.

(In thousands of dollars)

2. Significant accounting policies (continued):

(v) IFRS 13, *Fair Value Measurement* ("IFRS 13"):

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 management's 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 condensed consolidated interim financial statements and will not early adopt the new standard.

3. Acquisitions:

During the quarter ended June 30, 2012, Primaris completed the purchase of Driftwood Mall in Courtenay, British Columbia.

During the year ended December 31, 2011, Primaris completed the purchase of five new properties: Burlington Mall in Burlington, Ontario; Oakville Place in Oakville, Ontario; Place Vertu in Saint-Laurent, Quebec; St. Albert Centre in St. Albert, Alberta; and Tecumseh Mall in Windsor, Ontario. Also, during the fourth quarter, Primaris purchased a property adjacent to an existing shopping centre.

The purchases have been accounted for as asset acquisitions with the results of operations included in these condensed consolidated interim financial statements. The purchase price allocation to net assets was as follows:

	June 30, 2012	December 31, 2011
Investment properties	$ 44,820	$ 584,546
Other assets	1,317	3,534
Other liabilities	(1,443)	(2,692)
Purchase price paid in cash, including acquisition costs of $152 (2011 - $9,546)	$ 44,694	$ 585,388

Primaris arranged third-party mortgage funding of $108,600 and $115,000 with respect to the acquisitions of Burlington Mall and Oakville Place, respectively. The respective loans have terms of 5 years and 10 years and bear interest at fixed rates of 3.83% and 4.74%.

(In thousands of dollars)

4. Investment properties:

	Six months ended June 30, 2012	Year ended December 31, 2011
Balance, beginning of period	$ 3,557,900	$ 2,804,900
Acquisitions of investment properties, including acquisition costs of $152 (December 31, 2011 - $9,546)	44,820	584,546
Additions:		
Capital expenditures	6,995	25,064
Direct leasing costs	6,997	19,667
Dispositions	–	(19,833)
Fair value adjustment on investment properties	24,814	149,113
Amortization of leasing costs and straight-line rents included in revenue	(3,776)	(5,557)
Balance, end of period	$ 3,637,750	$ 3,557,900

Investment properties are stated at fair value. The fair value was determined by a combination of valuations made by independent external appraisers having appropriate professional qualifications and internal management valuations primarily using a discounted cash flow model.

(a) External appraisals:

Each property is subject to an external appraisal at least once in every three years.

Aggregate fair value of properties externally appraised for the quarter ending:

	2012	2011
March 31	$ 210,800	$ 21,900
June 30	236,250 [(1)]	1,028,900 [(1)]
September 30	N/A	297,600
December 31	N/A	348,000
Year-to-date total	$ 447,050	$ 1,696,400

[(1)] Includes properties acquired during the quarter at their fair values.

(In thousands of dollars)

4. Investment properties (continued):

(b) Internal appraisals:

Fair values were primarily determined by using a discounted cash flow model. Using this model, discount rates were applied to the projected annual operating cash flows, generally over a term of 10 years, including a terminal value based on a capitalization rate to estimated year 11 cash flows. As at June 30, 2012 and December 31, 2011, the fair values of investment properties purchased during the previous 12 months were determined to be equal to the purchase price, net of acquisition costs.

Valuations are most sensitive to changes in discount rates and capitalization rates. Primaris received quarterly capitalization rate reports from independent external appraisers and these reports support management's view on the investment metrics used. Below are the key rates used in the modeling process for both internal and external appraisals:

	June 30, 2012			December 31, 2011		
	Maximum	Minimum	Weighted average	Maximum	Minimum	Weighted average
Discount rate	10.0%	6.5%	7.2%	10.7%	6.5%	7.3%
Terminal cap rate	9.0%	5.5%	6.2%	9.5%	5.5%	6.3%
Investment horizon (years)	10	10	10	10	10	10

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.

(In thousands of dollars)

4. Investment properties (continued):

(c) Fair value sensitivity:

Valuations are most sensitive to change in discount rates and capitalization rates. The following table summarizes the rate sensitivity:

Capitalization rate sensitivity increase (decrease)	Weighted average Discount rate	Weighted average Terminal cap rate	Fair value of investment properties	Fair value variance	% change	Debt to total assets
(0.75)%	6.4%	5.5%	$ 4,147,370	$ 509,620	14.0 %	38.3%
(0.50)%	6.7%	5.8%	3,962,630	324,880	8.9 %	40.0%
(0.25)%	6.9%	6.0%	3,793,370	155,620	4.3 %	41.8%
June 30, 2012	7.2%	6.2%	3,637,750	–	–	43.5%
0.25%	7.4%	6.5%	3,494,190	(143,560)	(3.9)%	45.3%
0.50%	7.7%	6.8%	3,361,340	(276,410)	(7.6)%	47.0%
0.75%	7.9%	7.0%	3,238,060	(399,690)	(11.0)%	48.8%

Two land leases meet the definition of a finance lease and are included in the fair value of investment properties.

Included in investment properties is $33,564 (December 31, 2011 - $34,010) of net improvements to be recovered from tenants.

The investment properties have been pledged as security for Primaris' mortgages payable and bank indebtedness. In addition, Primaris' interest in one property remains pledged as security for $5,521 (December 31, 2011 - $19,466) of obligations of its joint venture partner, which matures on April 1, 2013. Primaris has been indemnified and has implemented appropriate additional protective measures to minimize the risk of any loss.

(In thousands of dollars)

5. Rents receivable:

	June 30, 2012	December 31, 2011
Rents receivable, net of allowance of $1,216 (December 31, 2011 - $1,167)	$ 985	$ 2,159
Accrued recovery revenue	3,633	2,739
Accrued percentage rent	436	724
Other amounts receivable	1,085	1,765
	$ 6,139	$ 7,387

6. Other assets and receivables:

	June 30, 2012	December 31, 2011
Prepaid realty taxes	$ 19,679	$ 4,207
Prepaid ground rent	600	318
Fixtures and equipment, net of accumulated depreciation of $3,188 (December 31, 2011 - $2,445)	4,933	4,315
Other assets	6,089	3,143
Escrow funds	–	13,027
	$ 31,301	$ 25,010

A portion of the proceeds of a sale of a property were released from escrow upon registration of a mortgage secured by a different shopping centre in the Primaris portfolio.

(In thousands of dollars)

7. Mortgages payable:

Mortgages payable are secured by investment properties and, in many cases, by corporate guarantees, and bear interest at fixed rates ranging between 3.83% and 7.45% (December 31, 2011 - 3.83% and 7.45%). The weighted average interest rate for the mortgages payable, excluding the finance costs, is 5.41% (December 31, 2011 - 5.41%). This rate reflects the marking-to-market of interest rates for all debts assumed in conjunction with property acquisitions. Mortgages payable mature at various dates between 2012 and 2022.

	June 30, 2012	December 31, 2011
Mortgages payable	$ 1,415,227	$ 1,431,608
Mark-to-market adjustment, net	381	665
Debt placement costs, net of accumulated amortization of $4,823 (December 31, 2011 - $4,198)	(5,951)	(6,398)
	1,409,657	1,425,875
Less current portion	(159,840)	(53,004)
	$ 1,249,817	$ 1,372,871

Future principal payments on the mortgages payable are as follows:

	Payments on maturity	Total annual payments	Total
2012 remainder	$ 21,227	$ 16,590	$ 37,817
2013	213,917	31,433	245,350
2014	97,546	29,554	127,100
2015	96,920	28,065	124,985
2016	130,239	24,944	155,183
Thereafter	648,021	76,771	724,792
	$ 1,207,870	$ 207,357	$ 1,415,227

(In thousands of dollars)

8. Convertible debentures:

	6.75% convertible debentures	5.85% convertible debentures	6.30% convertible debentures	5.40% convertible debentures	Six months ended June 30, 2012 Total	Year ended December 31, 2011 Total
Principal balance, beginning of period	$ 2,789	$ 93,476	$ 68,937	$ 75,000	$ 240,202	$ 179,252
Issued	–	–	–	–	–	75,000
Conversions	(444)	–	(33,971)	–	(34,415)	(14,050)
Principal balance, end of period	2,345	93,476	34,966	75,000	205,787	240,202
Fair value adjustment	2,136	4,487	17,133	3,142	26,898	28,564
	$ 4,481	$ 97,963	$ 52,099	$ 78,142	$ 232,685	$ 268,766

Fair value is calculated using the quoted market price on June 30, 2012 and December 31, 2011.

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	Principal balance, June 30, 2012	Maturity	Interest rate	Conversion price	Redemption date after
6.75%	$ 2,345	June 30, 2014	6.75%	$ 12.25	June 30, 2010
5.85%	93,476	August 1, 2014	5.85%	22.55	August 1, 2012
6.30%	34,966	September 30, 2015	6.30%	16.70	October 1, 2014
5.40%	75,000	November 30, 2018	5.40%	28.84	December 1, 2016

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

(a) 6.75% convertible debentures:

During the six months ended June 30, 2012, holders of $444 (June 30, 2011 - $507) of convertible debentures at face value exercised their option to convert to units. A total of 36,240 units (June 30, 2011 - 41,386 units) were issued on conversion. As at June 30, 2012, the face value of this series of debentures was $2,345 (December 31, 2011 - $2,789).

8. Convertible debentures (continued):

(b) 5.85% convertible debentures:

During the six months ended June 30, 2012 and 2011, there were no conversions and no repurchases under Primaris' normal course issuer bid of this series of convertible debentures. As at June 30, 2012, the face value of this series of debentures was $93,476 (December 31, 2011 - $93,476).

(c) 6.30% convertible debentures:

During the six months ended June 30, 2012, holders of $33,971 (June 30, 2011 - $10,431) of convertible debentures at face value exercised their option to convert to units. A total of 2,034,183 units (June 30, 2011 - 624,600 units) were issued on conversion. As at June 30, 2012, the face value of this series of debentures was $34,966 (December 31, 2011 - $68,937).

(d) 5.40% convertible debentures:

During the six months ended June 30, 2012 and 2011, there were no conversions and no repurchases under Primaris' normal course issuer bid of this series of convertible debentures. As at June 30, 2012, the face value of this series of debentures was $75,000 (December 31, 2011 - $75,000).

9. Bank indebtedness:

Primaris has an operating line of $100,000 that expires on July 31, 2013. The operating line is secured by fixed charges on certain investment properties and a corporate guarantee. Draws on the operating line are subject to certain conditions; interest is at prime plus applicable premiums or, at the option of Primaris, at bankers' acceptance rates, plus applicable premiums. As at June 30, 2012, no amount of the operating line was in use (December 31, 2011 - $6,779).

(In thousands of dollars)

10. Accounts payable and other liabilities:

	June 30, 2012	December 31, 2011
Accounts payable and accrued liabilities	$ 47,549	$ 57,073
Tenant deposits	6,712	5,573
Deferred revenue	460	303
	54,721	62,949
Less non-current portion of accounts payable and other liabilities	(3,089)	(1,205)
	$ 51,632	$ 61,744

11. Equity:

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

Primaris' trust units are liability instruments because the trust units are redeemable at the option of the holder. Primaris' trust units meet the conditions of IAS 32 and are, therefore, classified and presented as equity.

Primaris has also issued exchangeable units. As at June 30, 2012, there were 2,122,261 exchangeable units issued and outstanding by subsidiaries of Primaris with a carrying value of $50,000 (December 31, 2011 - 2,187,261 units with a carrying value of $45,079). These exchangeable units are economically equivalent to trust units and are entitled to receive distributions equal to those provided to holders of trust units. However, these units are not the class of instruments subordinate to all other classes of instruments. As a result, they are not eligible for equity presentation and are presented as liabilities. Exchangeable units are recognized at fair value, which is calculated using the quoted market price of Primaris' trust units at the end of each reporting period.

(In thousands of dollars)

11. Equity (continued):

Since the exchangeable units are presented as liabilities, the distributions on these units are recognized as part of finance costs (note 13).

Primaris' Trustees have discretion in declaring distributions.

(a) Units outstanding:

	Six months ended June 30, 2012			Year ended December 31, 2011		
	Units		Amount	Units		Amount
Trust units, beginning of period	80,552,971	$	1,124,856	66,577,418	$	847,827
Issuance of units under the distribution reinvestment plan	324,017		7,155	422,088		8,714
Conversion of debentures (note 8)	2,070,423		46,688	864,335		17,926
Purchase of units under normal course issuer bid	–		–	(31,000)		(589)
Units issued under equity compensation arrangement	60,123		1,310	40,130		935
Units issued, net of costs	5,002,500		109,802	12,650,000		249,446
Conversion of exchangeable units	65,000		1,409	30,000		597
Trust units, end of period	88,075,034	$	1,291,220	80,552,971	$	1,124,856
Exchangeable units, beginning of period	2,187,261	$	45,079	2,217,261	$	43,325
Conversion to trust units	(65,000)		(1,409)	(30,000)		(597)
Fair value adjustment	–		6,330	–		2,351
Exchangeable units, end of period	2,122,261	$	50,000	2,187,261	$	45,079
Total trust units and exchangeable units, end of period	90,197,295			82,740,232		

Primaris issued 5,002,500 units on May 22, 2012, 11,000,000 units on June 13, 2011 and 1,650,000 units on June 20, 2011.

(b) Distribution reinvestment plan:

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

11. Equity (continued):

(c) Normal course issuer bid:

No units were repurchased pursuant to the issuer bid (note 16) during the six months ended June 30, 2012 (June 30, 2011 - nil). No convertible debentures were repurchased in the six months ended June 30, 2012 (June 30, 2011 - nil).

(d) Unit-based compensation plan:

In order to provide long-term compensation to certain officers, employees and Trustees of Primaris, there may be grants of restricted units or options, which are subject to certain restrictions. Under Primaris' unit-based compensation plan, the maximum number of total units available for grant is limited to 7% of the issued and outstanding units at the time the plan was approved.

For restricted units granted to Trustees, the units vest at the earlier of two events: (i) four years from the grant date; and (ii) Trustee departure. As the Trustees can control when the restricted share units vest, they were considered fully vested when issued. Upon exchange of the restricted share units, the Trustees have the option to settle in cash instead of units issued from treasury and, therefore, the awards are classified as cash-settled unit-based payments and presented as liabilities. The restricted share units accrue distributions in the form of additional grants of restricted share units with all the same terms. These restricted share units are recognized as liabilities, which are indexed to changes in fair value of Primaris units.

Restricted units granted to employees are recognized based on the grant date fair value. The awards will be satisfied by trust units issued from treasury. Since trust units are redeemable at the option of the holder, the restricted share units are classified as cash-settled unit-based payments and presented as liabilities. The restricted units are subject to vesting conditions and are subject to forfeiture until the employees have been employed by Primaris for a specified period of time. The restricted share units accrue cash distributions during the vesting period and accrued distributions will be paid when the restricted units vest. These restricted share units are recognized as liabilities, which are indexed to changes in fair value of Primaris units.

(In thousands of dollars)

11. Equity (continued):

Option values are initially calculated based on the grant date fair value. Typically, options vest 25% at the end of the year the award was granted, and a further 25% at the end of each of the following three years. Since trust units are redeemable at the option of the Unitholder, the options are classified as cash-settled unit-based payments and are recognized as liabilities, which are to be indexed to changes in fair value of the options.

Primaris accounts for its unit-based compensation using the fair value method, under which compensation expense is recognized over the vesting period. Unit-based compensation expense and assumptions used in the calculation thereof are as follows:

	June 30, 2012	December 31, 2011
Unit-based compensation:		
Compensation expense	$ 914	$ 1,292
Fair value adjustments	2,022	665
Unit options granted	466,647	308,148
Unit option holding period (years)	7	7
Volatility rate	18.25%	20.0%
Distribution yield	5.6%	6.1%
Risk-free interest rate	1.7%	3.1%
Weighted average fair value, at grant date:		
Options	$ 1.80	$ 2.37
Restricted share units	21.38	20.14

(In thousands of dollars)

11. Equity (continued):

The number of options outstanding changed as follows:

	Six months ended June 30, 2012		Year ended December 31, 2011	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of period	932,793	$ 17.43	664,775	$ 15.73
Granted	466,647	$ 21.54	308,148	$ 20.32
Exercised	(56,863)	$ 14.58	(40,130)	$ 11.40
Expired/forfeited	(2,637)	$ 20.32	–	$ –
Balance, end of period	1,339,940	$ 19.06	932,793	$ 17.43
Exercisable, end of period	448,834		508,334	

As at June 30, 2012, the following options were outstanding:

Exercise price	Number of options	Remaining weighted average life (in years)
$10.70	28,088	3.5
$14.06	90,000	4.1
$16.81	255,258	4.5
$17.17	3,878	4.6
$17.25	203,216	4.6
$20.32	292,853	5.5
$21.54	466,647	6.5
$10.70 - $21.54	1,339,940	5.4

(In thousands of dollars)

11. Equity (continued):

The number of restricted share units outstanding changed as follows:

	Six months ended June 30, 2012	Year ended December 31, 2011
Balance, beginning of period	103,190	53,037
Granted	47,715	50,153
Exercised	(3,260)	–
Cancelled/forfeited	(615)	–
Balance, end of period	147,030	103,190
Exercisable, end of period	29,154	23,696

As at June 30, 2012, the carrying value of total unit-based compensation liability was $6,540 (December 31, 2011 - $4,091).

12. Investment in joint venture:

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

(In thousands of dollars)

12. Investment in joint venture (continued):

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

	June 30, 2012	December 31, 2011
Assets:		
Non-current	$ 113,234	$ 113,185
Current	20,179	17,346
Liabilities:		
Non-current	–	–
Current	(140)	247

	Six months ended June 30, 2012	Year ended December 31, 2011
Revenue	$ 5,608	$ 11,992
Expenses	2,240	4,803
Cash provided by (used in):		
Operations	$ 327	$ (99)
Investments	(434)	(220)

In addition to the above, Primaris' liabilities include a $63,000 (December 31, 2011 - $63,000) mortgage secured by its interest in the joint venture. Primaris' interest in the joint venture has also been pledged as security for $5,521 (December 31, 2011 - $19,466) of obligations of its joint venture partner, which matures on April 1, 2013. The joint venture partner is the manager of the property.

(In thousands of dollars)

13. Finance costs:

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Mortgages payable	$ 18,601	$ 16,553	$ 37,303	$ 32,782
Convertible debentures	2,990	2,776	6,311	5,405
Distributions on exchangeable units	644	666	1,303	1,339
Bank indebtedness	227	569	405	664
Interest incurred	22,462	20,564	45,322	40,190
Convertible debenture issuance costs	–	3,029	–	3,029
Fair value adjustment on convertible debentures	9,936	(2,626)	10,607	9,710
Fair value adjustment for exchangeable units	4,075	(547)	6,330	3,314
Amortization of deferred net loss on cash flow hedges	56	57	113	115
Amortization of debt placement costs	373	310	742	569
	$ 36,902	$ 20,787	$ 63,114	$ 56,927

14. Change in other non-cash operating working capital:

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Rents receivable	$ 857	$ (2,106)	$ 1,248	$ (1,023)
Other assets and receivables, excluding fixtures and equipment and escrow funds	1,091	(8,561)	(4,356)	(13,384)
Accounts payable and other liabilities	3,614	4,282	(11,438)	(4,202)
Mortgage mark-to-market adjustment, net	(142)	(146)	(284)	(282)
	$ 5,420	$ (6,531)	$ (14,830)	$ (18,891)

15. Segment disclosure:

Substantially all of Primaris' assets are in and its revenue is derived from the Canadian real estate industry segment. No single tenant accounts for more than 4.3% (December 31, 2011 - 4.1%) of Primaris' gross rent.

16. Capital management:

Primaris manages its capital structure in order to support ongoing property operations, developments and acquisitions, as well as to generate stable and growing cash distributions to Unitholders - one of Primaris' primary objectives. Primaris defines its capital structure to include: mortgages payable, bank indebtedness, acquisition facilities, convertible debentures, exchangeable units and trust units. There were no changes to Primaris' approach to capital management for the six months ended June 30, 2012.

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

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

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

(b) will not incur any indebtedness that would cause the Debt to Total Assets Ratio (as defined in the Declaration of Trust) to exceed 65%; and

(c) will not incur floating rate indebtedness aggregating more than 15% of Total Assets.

(In thousands of dollars)

16. Capital management (continued):

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

(a) a Debt to Total Assets 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 equity of $800,000.

Those amounts as at June 30, 2012 and December 31, 2011 were as follows:

	June 30, 2012	December 31, 2011
Debt to Total Assets	43.5%	46.6%
Interest Coverage (rolling four quarters)	2.5x	2.3x
Debt Service Coverage (rolling four quarters)	1.8x	1.7x
Equity	$2,003,859	$1,817,677

For the six months ended June 30, 2012, Primaris met all externally imposed requirements.

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

16. Capital management (continued):

In December 2011, Primaris renewed its normal course issuer bid, which entitles Primaris to acquire up to 3,000,000 units, $283 of the 6.75% convertible debentures, $9,347 of the 5.85% convertible debentures, $6,894 of the 6.30% convertible debentures, and $7,500 of the 5.40% convertible debentures. Purchases under the bid could commence on December 23, 2011 and must terminate on the earlier of: (a) December 22, 2012; (b) the date on which Primaris completes its purchases of units and convertible debentures; or (c) the date of notice by Primaris of termination of the bid. Purchases, if completed, will be made on the open market by Primaris. Securities purchased under this bid will be cancelled. The price Primaris will pay for any such units or debentures will be the market price at the time of acquisition. Primaris believes that the market price of its units or debentures at certain times may be attractive and that purchases of units or debentures from time to time would be an appropriate use of funds in light of potential benefits to Unitholders.

17. Financial risk management:

In the normal course of business, Primaris is exposed to a number of risks that can affect its operating performance. Risk management policies and processes are reviewed regularly to reflect changes in market conditions and Primaris' own activities. These risks, and the actions taken to manage them, are as follows:

(a) Credit risk:

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

Primaris' exposure to credit risk is based on business risks associated with the retail sector of the economy. Primaris measures this risk-by-tenant concentration across the portfolio. Primaris has over 1,100 different tenants across the portfolio.

17. Financial risk management (continued):

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

Primaris places its cash and cash equivalent investments with Canadian financial institutions with high credit ratings. Credit ratings are actively monitored and these financial institutions are expected to meet their obligation.

(b) Liquidity risk:

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

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

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

(In thousands of dollars)

17. Financial risk management (continued):

The contractual future principal and interest payments on Primaris' mortgages payable are as follows:

2012 remainder	$ 74,382
2013	310,199
2014	182,846
2015	174,525
2016	197,413
Thereafter	832,108
	$ 1,771,473

A schedule of mortgage principal repayment obligations is provided in note 7. Maturities of the convertible debentures, which under certain circumstances may be repaid through the issuance of units, are provided in note 8. Details on Primaris' operating line, on which no amount was utilized on June 30, 2012, are disclosed in note 9.

(c) Market risk:

All of Primaris' investment properties are focused on the Canadian retail sector. Market risk is the risk that changes in market prices, such as interest rates and equity prices, will affect Primaris' financial instruments. All of Primaris' operations are denominated in Canadian dollars, resulting in no direct foreign exchange risk.

Primaris' existing mortgages payable are all at fixed interest rates. Primaris staggers the maturities of its mortgages payable in order to minimize the exposure to future interest rate fluctuation.

(In thousands of dollars)

17. Financial risk management (continued):

Convertible debentures, exchangeable units and unit-based compensation liabilities are recorded at their fair value based on market trading prices. An increase of $1.00 in the underlying price of Primaris' trust units would result in an increase to liabilities, and decrease in net income and equity as follows:

- Convertible debentures $2,058;
- Exchangeable units $2,122; and
- Unit-based compensation $810.

Fair values:

In addition to those financial instruments carried at fair values, the fair values of Primaris' financial assets and financial liabilities, together with the contractual carrying amounts shown in the condensed consolidated interim statements of financial position, are as follows:

	June 30, 2012		December 31, 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Mortgages payable	$ 1,415,227	$ 1,507,317	$ 1,431,608	$ 1,529,032

Primaris uses various methods in estimating the fair values recognized in the financial statements. The fair value hierarchy reflects the significance of inputs used in determining the fair values.

- Level 1 - quoted prices in active markets;
- Level 2 - inputs other than quoted prices in active markets or valuation techniques where significant inputs are based on observable market data; and
- Level 3 - valuation technique for which significant inputs are not based on observable market data.

17. Financial risk management (continued):

The following summarizes the significant methods and assumptions used in estimating fair values of Primaris' financial instruments:

(a) Mortgages payable:

The fair value of Primaris' mortgages payable is estimated based on the present value of future payments, discounted at the yield on a Government of Canada bond with the nearest maturity date to the underlying mortgage, plus an estimated credit spread at the reporting date for a comparable mortgage (Level 2).

(b) Convertible debentures:

The fair value of the convertible debentures is estimated based on the market trading prices of the convertible debentures (Level 2).

(c) Exchangeable units:

The fair value of the exchangeable units is estimated based on the market trading prices of Primaris' units (Level 1).

(d) Unit-based compensation:

The fair value of unit options granted is estimated using a binomial model for option valuation (Level 2).

The fair value of the restricted share units granted is estimated based on the market trading prices of Primaris' trust units (Level 1).

(e) Other financial assets and liabilities:

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

(f) Cash flow hedge:

The fair value of the cash flow hedge is estimated based on market trading prices of the underlying bonds (Level 2).

(In thousands of dollars)

18. Hedge:

In June 2012, Primaris entered into hedge contracts with a Schedule I Canadian chartered bank that are scheduled to mature February 1, 2013. This hedge was completed to mitigate the risk of interest rate volatility in anticipation of the placement of $125,000 new fixed-rate, five-year debt, 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. The credit spread on this anticipated loan is unknown as of June 30, 2012.

At June 30, 2012, the notional amount of the contracts was $103,821, and the fair value was $35. The fair value, as at June 30, 2012, of the contracts was recorded in other assets and receivables. In addition, during the three months ended June 30, 2012, a $35 gain on the cash flow hedge was recognized in other comprehensive income.

19. Minimum rent revenue:

Primaris enters into long-term lease contracts with tenants for space in its properties. Initial lease terms are generally between 3 and 10 years, with longer terms for anchor tenants at Primaris' retail properties. Leases generally provide for the tenant to pay Primaris base rent, with provisions for contractual increases in base rent over the term of the lease, plus operating cost and realty tax recoveries.

Future minimum rental revenue is as follows:

2012 remainder	$ 110,294
2013	208,866
2014	187,374
2015	160,944
2016	131,513
Thereafter	368,894
	$ 1,167,885

(In thousands of dollars)

20. Operating leases:

Future minimum operating lease payments are as follows:

	Operating leases	Ground rent	Total
2012 remainder	$ 881	$ 711	$ 1,592
2013	1,811	1,422	3,233
2014	1,811	1,422	3,233
2015	1,763	1,422	3,185
2016	1,791	1,422	3,213
Thereafter	5,256	34,092	39,348
	$ 13,313	$ 40,491	$ 53,804

During the three months and six months ended June 30, 2012, Primaris recognized operating lease payments, net of incentives, totalling $424 and $854 (June 30, 2011 - $341 and $693), respectively.

21. Commitments and contingencies:

(a) Under the terms of a memorandum of agreement dated June 7, 1971 between The City of Calgary and Oxford Properties Group Inc. ("OPGI") as assumed, assigned and amended from time to time, including without limiting the generality of the foregoing, by a development amending agreement between The City of Calgary, Marathon Realty Company Limited and The Cadillac Fairview Corporation Limited, OPGI is obligated to pay for certain roadway construction near Northland Village and such roadway construction obligation remains registered on title for this property. OPGI has indemnified Primaris for up to $30,000 in respect of this obligation. These obligations were assumed by an affiliate of OPGI.

(b) Primaris is involved in litigation and claims in relation to the investment 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 condensed consolidated interim financial statements.

(c) At June 30, 2012, Primaris has issued letters of credit in the amount of $2,522 (December 31, 2011 - $2,386).

22. Subsequent events:

(a) On July 18, 2012, Primaris exercised its right to redeem its 5.85% series of convertible debentures. The redemption of the debentures will be effective on August 17, 2012. Primaris intends to use cash on hand and to draw on funds from its existing revolving line of credit to pay the redemption price of the redeemed debentures.

(b) In July 2012, $13,654 of the 6.30% convertible debentures was converted into equity at their conversion price of $16.70 per unit, resulting in the issuance of 817,603 units.

(c) A mortgage that matured on July 1, 2012 for $21,227 was repaid.

(d) Subsequent to June 30, 2012, Primaris waived conditions on the purchase of a property adjacent to an existing shopping centre for $6,950. The purchase will be funded through either cash on hand, or draws on the operating line and an assumed mortgage of $1,690 with a fixed interest rate of 3.78% which matures December 1, 2014.