

FINANCIAL REVIEW **Q1** 2012

more
INSIDE...



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REVIEW Q1 2012

Letter from the President and CEO	01
Management's Discussion and Analysis	02
Condensed Consolidated Interim Statements of Financial Position	18
Condensed Consolidated Interim Statements of income and Comprehensive Income	19
Condensed Consolidated Interim Statements of Changes in Equity	20
Condensed Consolidated Interim Statements of Cash Flows	21
Notes to Condensed Consolidated Interim Financial Statements	22



LETTER FROM THE CEO

We are focused on our long-term strategy of owning and managing Canadian regional enclosed shopping centres that are dominant in their primary trade areas.



John Morrison
President and Chief Executive Officer

I am pleased to report Primaris' Q1 results which underscore the strength of our business. It has been a great start to the year. Funds from operations per unit (diluted) were \$0.382, up 8.5% over Q1 last year. Primaris' FFO payout ratio further improved to 79.7% in Q1 2012 and same property net operating income is 2.8% higher than the same period last year. Occupancy was 96.7% at the end of Q1, up from 96.3% from Q1 2011. All store sales for the quarter were positive with particularly strong gains in western Canada.

Our operational focus continues to be on obtaining value out of our shopping centres. We are doing this by taking advantage of redevelopment and re-merchandising opportunities that allow us to make better use of space, attract stronger tenant brands and increase new and renewal rents.

Our leasing team has been driving growth at the centres by attracting new retail concepts that consumers want. Thirty-three retailers have opened new stores or undertaken major renovations at Sunridge Mall in Calgary since we bought it in 2009 and 15 new stores opened at Midtown Plaza in Saskatoon in the past year with three more to come in the next few months. This same leasing momentum is bringing a new H&M store to Stone Road Mall in Guelph later this year. Consumers expect fresh exciting brands like Sephora, Bath and Body Works, H&M and Best Buy and our leasing team is making it happen. In Q1 we renewed or leased almost 520,000 square feet of space; three quarters of this was renewals. The weighted average rent in these new leases represents a 6.5% increase over the previous rent.

When we conclude our redevelopment projects at Grant Park Shopping Centre and Lambton Mall we expect a further boost to occupancy and rents. At Grant Park Mall we are excited about the expansion of the flagship Manitoba Liquor Control Commission store and resetting the mall for a more varied tenant mix. Other changes will provide better access for tenants, improved washrooms as well as renovations and upgrades to the common areas. At Lambton Mall where we put in a new 360 seat food court last year, we are starting

phase 3 of the project which will see the introduction of a new 31,000 square foot Sport Chek store and a Cineplex Galaxy Theatre in space previously occupied by an anchor tenant.

Shortly after we closed Q1, we finalized the acquisition of Driftwood Mall in Courtenay, British Columbia for \$45 million. This is a great addition to our portfolio and consistent with our successful strategy of owning shopping centres that are dominant in their primary trade areas. Driftwood Mall is a single-level enclosed community shopping centre anchored by Zellers which is to be converted to Target in 2013. It also has three pad tenants for a total leasable area of 260,058 square feet (after completion of the 28,000 square foot expansion proposed by Target) which is situated on a site of 22.64 acres.

At the end of Q1 and prior to the acquisition, we had a \$3 million cash balance and \$73 million available on our credit line. Our debt to total assets ratio was 46%.

In early May we announced a very successful equity offering which was oversubscribed and will raise gross proceeds of between \$100 and \$115 million. We will use the net proceeds to repay indebtedness, fund future property acquisitions and finance redevelopment of our existing properties. The level of interest in this offering and the strength of our unit price which hit an all time high of \$23.39 recently are powerful indicators of the confidence that investors have in Primaris.

At our Annual and Special Meeting on May 8, I enjoyed meeting with Unitholders and sharing our successes with them. I was encouraged by the positive feedback I received about our performance.

John Morrison
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

For the three-month period ended March 31, 2012

Primaris Retail Real Estate Investment Trust ("Primaris") has prepared the following discussion and analysis of financial condition and results of operations ("MD&A"), which should be read in conjunction with the condensed interim consolidated financial statements and the accompanying notes prepared for the three-month periods ended March 31, 2012 and 2011.

The MD&A is dated May 3, 2012. 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.

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; and
- (ix) the development of properties, which could be impacted by real estate market cycles, the availability of labour and general economic conditions.

Although the forward-looking statements contained in this document are based on what management of Primaris believes are reasonable assumptions, forward-looking statements involve significant risks and uncertainties. They should not be read as guarantees of future performance or results and will not necessarily be an accurate indicator of whether or not such results will be achieved. Readers are cautioned not to place undue reliance on forward-looking statements as a number of factors could cause actual future results to differ from targets, expectations or estimates expressed in the forward-looking statements. Material factors or assumptions that were applied



in drawing a conclusion or making an estimate set out in the forward-looking information may include: a less robust retail environment; 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 three-month periods ended March 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 four series of convertible debentures of Primaris trade on the Toronto Stock Exchange under the symbols PMZ.UN, PMZ.DB, PMZ.DB.A, PMZ.DB.B and PMZ.DB.C, respectively.

Primaris' vision is to be the leading enclosed shopping centre REIT in Canada. The objectives of Primaris are:

- to generate stable and growing cash distributions;
- to enhance the value of Primaris' assets and maximize long-term unit value; and
- to expand the asset base of Primaris and increase its funds from operations through an 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)	Q1 2012	Q4 2011	Q3 2011	Q2 2011
Unit price at period end	\$ 21.64	\$ 20.61	\$ 20.50	\$ 21.05
Distributions	\$ 25,576	\$ 25,282	\$ 25,203	\$ 22,557
Funds from operations ¹	\$ 32,713	\$ 34,672	\$ 29,287	\$ 21,806
Funds from operations per unit diluted ¹	\$ 0.382	\$ 0.407	\$ 0.349	\$ 0.304
Occupancy (including committed space)	96.7%	97.1%	96.5%	95.7%
Tenant sales per square foot – same-property sales ²	\$ 466	\$ 458	\$ 453	\$ 454
Interest Coverage ³	2.4	2.5	2.2	2.2
Mortgages – weighted average term to maturity	5.5 years	5.8 years	6.0 years	6.3 years
Mortgages – weighted average interest rate	5.4%	5.4%	5.4%	5.5%
Indebtedness – % at fixed interest rates	98.4%	99.7%	99.6%	99.4%

1 FFO is not a term defined under IFRS. The reconciliation of FFO to net income is disclosed on page 7.

2 Tenant sales are reported on a one-month time lag during interim quarters; Q1 2012 is 12 months to February 2012, Q4 is 12 months to December 31, 2011, Q3 is 12 months to August 2011, and Q2 is 12 months to May 2011.

3 Interest coverage is calculated under 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 interest expense, using fixed or variable rates, and loan principal repayments.

The portfolio occupancy rate is relatively stable. It was 96.7% at March 31, 2012, compared to 97.1% at December 31, 2011, and 96.3% at March 31, 2011. The decline in occupancy from year end is primarily attributable to seasonality of revenues. 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 the 12-month periods ended March 31, 2012 and 2011, sales per square foot, on a same-tenant basis, have decreased slightly to \$466 from \$468 per square foot. For the same 18 properties the all-tenant total sales volume has increased 0.4%.

(Unaudited)	Same Tenant Sales per SF		Variance		All Tenant Total Sales Volume		Variance	
	2012	2011	\$	%	2012	2011	\$	%
Cataraqui Centre	505	510	(5)	(1.0%)	85,974	86,796	(822)	(0.9%)
Dufferin Mall	549	545	4	0.7%	92,445	90,592	1,853	2.0%
Eglinton Square	365	372	(7)	(2.0%)	32,251	28,029	4,222	15.1%
Heritage Place	306	316	(10)	(3.2%)	25,363	25,508	(145)	(0.6%)
Lambton Mall	317	327	(10)	(3.0%)	45,244	48,471	(3,227)	(6.7%)
Place d'Orleans	444	459	(15)	(3.2%)	103,103	107,308	(4,205)	(3.9%)
Place Du Royaume	421	417	4	0.9%	114,484	113,547	937	0.8%
Place Fleur De Lys	320	321	(1)	(0.2%)	69,184	71,616	(2,432)	(3.4%)
Stone Road Mall	533	528	5	1.0%	115,907	112,692	3,215	2.9%
Aberdeen Mall	369	371	(2)	(0.6%)	48,751	48,051	700	1.5%
Cornwall Centre	584	561	23	4.1%	86,325	81,614	4,711	5.8%
Grant Park	532	537	(5)	(0.8%)	26,298	27,170	(872)	(3.2%)
Midtown Plaza	604	596	8	1.3%	135,182	131,616	3,566	2.7%
Northland Village	492	496	(6)	(1.1%)	43,440	44,609	(1,169)	(2.6%)
Orchard Park	487	491	(4)	(0.8%)	131,938	129,908	2,030	1.6%
Park Place Mall	495	495	0	0.1%	76,954	76,485	469	0.6%
Sunridge Mall	479	492	(13)	(2.7%)	92,886	92,428	458	0.5%
Woodgrove Centre	473	493	(20)	(4.1%)	91,731	95,350	(3,619)	(3.8%)
	466	468	(2)	(0.6%)	1,417,460	1,411,790	5,670	0.4%

The same tenants' sales decreased 0.6% 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 February 29, 2012, increased 2.1%. Primaris' sales productivity of \$466 is lower than the ICSC average of \$597, largely because the ICSC includes sales from super regional malls that have the highest sales per square foot in the country.

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

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

(Unaudited)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Comparative Period Favourable/(Unfavourable)
Revenue			
Minimum rent	\$ 59,023	\$ 48,889	\$ 10,134
Recoveries from tenants	38,140	30,871	7,269
Percent rent	565	416	149
Parking	1,693	1,479	214
Other income	1,017	294	723
	100,438	81,949	18,489
Expenses			
Property operating	25,422	21,293	(4,129)
Property tax	19,279	15,479	(3,800)
Ground rent	331	294	(37)
General & administrative	2,429	3,127	698
Depreciation	381	187	(194)
	47,842	40,380	(7,462)
Income from operations	\$ 52,596	\$ 41,569	\$ 11,027
Finance income	5	10	(5)
Finance costs	(26,212)	(36,140)	9,928
Fair value adjustment on investment properties	485	(450)	935
Net income	\$ 26,874	\$ 4,989	\$ 21,885
Fair value adjustment on investment properties	(485)	450	(935)
Fair value adjustment on convertible debentures	671	12,336	(11,665)
Fair value adjustment on exchangeable units	2,255	3,861	(1,606)
Fair value adjustment on unit-based compensation	464	928	(464)
Distributions on exchangeable units	659	673	(14)
Amortization of tenant improvement allowances	2,275	1,781	494
Funds from operations¹	\$ 32,713	\$ 25,018	\$ 7,695
Funds from operations per unit – basic	\$ 0.393	\$ 0.363	\$ 0.030
Funds from operations per unit – diluted	\$ 0.382	\$ 0.352	\$ 0.030
Funds from operations – payout ratio	79.7%	86.5%	(6.8%)
Distributions per unit	\$ 0.305	\$ 0.305	\$ –
Weighted average units outstanding – basic	83,257,660	68,989,025	14,268,635
Weighted average units outstanding – diluted	94,214,608	78,464,092	15,750,516
Units outstanding, end of period	84,697,928	69,257,469	15,440,459

(1) FFO is not a term defined under IFRS.



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 2011 Acquisitions, including acquisition costs, was \$585,388.

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 \$100,438 is \$18,489 greater than the comparative three-month period. The Acquisitions contributed \$18,021 to this positive variance and same properties were also up \$1,257. The Dispositions decreased revenues by \$789. Same properties showed revenue increases for recoveries, offset by declines for minimum rent and percentage rent.

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 March 31, 2012, the amortization of these items totalled \$1,969, which is \$558 higher than the \$1,411 in the comparative three month period.

Lease-surrender revenue is unpredictable and varies from quarter to quarter. In the three months ended March 31, 2012, lease-surrender revenues totaled \$821 which is \$688 higher than the \$133 in the comparative three month period.

Operating Expenses

Operating expenses, the sum of property operating, property tax and ground rent, of \$45,032 are \$7,966 greater than in the comparative three month period. The Acquisitions account for \$7,578 of the increase and the Dispositions account for a \$428 decrease. The remaining properties had an increase of \$816.

Net Operating Income – All Properties

(Unaudited)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Variance to Comparative Period Favourable/(Unfavourable)
Revenue	\$ 100,438	\$ 81,949	\$ 18,489
Add: Amortization of non-cash ¹	1,969	1,411	558
Operating revenue	\$ 102,407	\$ 83,360	\$ 19,047
Less: Property operating	(25,422)	(21,293)	(4,129)
Property tax	(19,279)	(15,479)	(3,800)
Ground rent	(331)	(294)	(37)
Net operating income ¹	\$ 57,375	\$ 46,294	\$ 11,081

(1) 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 \$57,375 is \$11,081 greater than in the comparative three month period. The Acquisitions generated an increase of \$10,172 and the Dispositions account for a \$370 decrease. The balance is an increase of \$1,279, generated by the remainder of the properties in the portfolio.

Net Operating Income – Same Properties

(Unaudited)	Three Months ended March 31, 2012	Three Months ended March 31, 2011	Variance to Comparative Period Favourable/(Unfavourable)
Operating revenue ¹	\$ 84,662	\$ 82,567	\$ 2,095
Less operating expenses	(37,456)	(36,640)	(816)
Net operating income ¹	\$ 47,206	\$ 45,927	\$ 1,279

(1) 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 three month periods. Net operating income, on a same-property basis, was \$1,279 or 2.8% higher than the comparative period.

The \$2,095 increase in same property revenues results from an \$643 increase in minimum rent, a \$1,091 increase in recoveries, a \$145 increase in percent rent, a \$213 increase in parking revenues and a \$3 increase in other revenues.

On a same-property basis, operating expenses were \$816 higher than in the comparative period as a result of a \$900 increase in property taxes and an \$18 increase in ground rent. The increases are partially offset by a \$4 decrease in recoverable expenses and a \$98 decrease in non-recoverable expenses.

General and Administrative Expenses

General and administrative expenses decreased by \$698 primarily due to 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 March 31, 2012	Three Months Ended March 31, 2011
Salaries, wages and benefits	\$ 4,689	\$ 4,228
Fair value adjustment on unit-based compensation	464	928
Occupancy costs	491	419
Professional fees	385	369
Information systems	360	245
Public company costs	163	187
Abandoned transaction costs	–	52
Third-party leasing fees	226	46
Other general and administrative costs	135	88
Total Costs	6,913	6,562
Property management fees ¹	(2,926)	(2,370)
Other charges to properties ¹	(1,332)	(1,019)
Amounts capitalized	(226)	(46)
General and administrative expense	2,429	3,127
Fair value adjustment on unit-based compensation	(464)	(928)
General and administrative, net of fair value adjustments	\$ 1,965	\$ 2,199
As a percentage of total revenue	2.0%	2.7%
As a percentage of total assets	0.1%	0.1%

(1) Reported on the statement of comprehensive income as part of operating expenses

Depreciation

Depreciation is calculated only on the fixtures and equipment Primaris owns to operate the business, not on the investment properties which are recorded at fair value. Depreciation increased by \$194 over the comparative reporting period due to the expansion of Primaris head office space.

Finance Costs

(Unaudited)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Variance to Comparative Period Favourable/(Unfavourable)
Interest expense on mortgage financing	\$ 18,702	\$ 16,229	\$ (2,473)
Interest expense on convertible debentures	3,321	2,629	(692)
Interest expense on bank indebtedness	178	95	(83)
Interest expensed	22,201	18,953	(3,248)
Distributions paid on exchangeable units	659	673	14
Capitalized interest	–	–	–
Fair value adjustment on convertible debentures	671	12,336	11,665
Fair value adjustment on exchangeable units	2,255	3,861	1,606
Amortization of net loss on cash flow hedges	57	58	1
Amortization of debt placement costs	369	259	(110)
Other items	4,011	17,187	13,176
Total finance costs	\$ 26,212	\$ 36,140	\$ 9,928

Finance costs of \$26,212 are \$9,928 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 volatility in finance costs between comparable periods. Mortgage interest increased \$2,473 due to the mortgages secured by the Acquisitions and \$1,296 due to additional debt obtained on



the 2011 refinancing of Dufferin Mall. These increases were partially offset by decreases in interest expensed at other properties and the Dispositions. Interest on convertible debentures increased \$1,010 as a result of the new series of debentures issued in June 2011. This increase is partially offset by interest reductions on other series of debentures, which experienced conversions to equity.

Fair Value Adjustment on Investment Properties

The appraisal process resulted in a value of investment properties for March 31, 2012 of \$3,560,100 (\$3,557,900 as at December 31, 2011). During the first quarter, investment properties with an aggregate fair value of \$210,800 at March 31, 2012 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 6.5% to 10.7%, weighted average 7.3% (weighted on property value) (December 31, 2011 - 6.5% to 10.7%, average 7.3%)
- Terminal cap rates from 5.5% to 9.5%, weighted average 6.3% (weighted on property value) (December 31, 2011 - 5.5% to 9.5%, average 6.3%)

Primaris' Yonge Street assets, which represent less than 2% 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 March 31, 2012, the fair value of the 2011 Acquisitions was 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 March 31, 2012 was a gain of \$485, a change of \$935 from the loss of \$450 recorded for the comparable period.

Non-IFRS/GAAP 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 March 31, 2012	Three Months Ended March 31, 2011
Net Income	\$ 26,874	\$ 4,989
Fair value adjustment on investment properties	(485)	450
Fair value adjustment on convertible debentures	671	12,336
Fair value adjustment on exchangeable units	2,255	3,861
Fair value adjustment on unit-based compensation	464	928
Amortization of tenant improvement allowances	2,275	1,781
Distributions on exchangeable units	659	673
Funds from operations	\$ 32,713	\$ 25,018
Funds from operations per unit – basic	\$ 0.393	\$ 0.363
Funds from operations per unit – diluted	\$ 0.382	\$ 0.352
Funds from operations – payout ratio	79.7%	86.5%
Distributions per unit	\$ 0.305	\$ 0.305
Weighted average units outstanding – basic	83,257,660	68,989,025
Weighted average units outstanding – diluted	94,214,608	78,464,092
Units outstanding, end of period	84,697,928	69,257,469

An advantage of the FFO measure is improved comparability between Canadian and foreign Real Estate Investment Trusts ("REITs"). A disadvantage is that FFO is not a perfect measure of cash flow. FFO adds back to net income 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 March 31, 2012, increased \$7,695. FFO per unit for the first quarter of 2012 had a favourable variance of \$0.030 per unit on a diluted basis compared to the prior period. The favourable variance can be attributed to the accretive effect of the June 2011 acquisitions, higher lease-surrender revenue and same property NOI growth.

The diluted weighted average number of units outstanding increased from the comparative quarter because of three factors: the June 2011 equity offering, 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		2010			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	\$ 100,438	\$ 104,063	\$ 96,589	\$ 82,752	\$ 81,949	\$ 84,247	\$ 78,564	\$ 74,362
Seasonal revenue	4,153	6,821	3,689	3,297	3,008	5,316	3,313	3,158
Net operating income	57,375	59,329	55,278	47,449	46,294	49,700	45,331	43,539
Net income (loss)	26,874	156,437	29,223	41,150	4,989	350,805	(10,973)	58,879
Total assets	3,600,836	3,590,297	3,443,772	3,457,947	2,880,704	2,828,502	2,800,005	2,691,259
Indebtedness	1,661,863	1,677,475	1,689,107	1,706,940	1,409,931	1,359,068	1,374,053	1,261,354
Diluted funds from operations	\$ 0.382	\$ 0.407	\$ 0.349	\$ 0.285	\$ 0.352	\$ 0.416	\$ 0.340	\$ 0.346
Distributions per unit	\$ 0.305	\$ 0.305	\$ 0.305	\$ 0.305	\$ 0.305	\$ 0.305	\$ 0.305	\$ 0.305
Units outstanding, end of period	84,697,928	82,740,232	82,543,264	82,342,138	69,257,469	68,794,679	68,565,353	68,430,386

Note: As at April 30, 2012, there were 84,882,264 units outstanding (including 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 income-producing 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.

Management continues to take steps to maintain a strong financial position. There is a cash balance of \$3,126 at March 31, 2012 and \$27,000 was drawn on the revolving credit facility.

On May 1, 2012, Primaris entered into an underwriting agreement with a syndicate of banks to issue 4,350,000 trust units for gross proceeds of \$100,500 plus an over-allotment option of up to \$15,008.

On May 2, 2012, Primaris purchased Driftwood Mall, an enclosed community shopping centre in Courtenay, British Columbia, for \$45,200 plus transaction costs.

There was one mortgage of \$21,226 maturing July 1, 2012.

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. 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 March 31, 2012	Three Months Ended March 31, 2011
Net income	\$ 26,874	\$ 4,989
Depreciation	381	187
Finance costs	26,212	36,140
Fair value adjustment on investment properties	(485)	450
Fair value adjustment on unit-based compensation	464	928
Amortization of leasing costs and straight-line rent	1,969	1,411
EBITDA	\$ 55,415	\$ 44,105
EBITDA / Interest expense	2.4	2.3

During the three-month period ended March 31, 2012, \$61 of face value of the 6.75% series of convertible debentures and \$29,273 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 5.85% series of convertible debentures or of the 5.40% series of convertible debentures. The remaining outstanding balance at face value, as at March 31, 2012, of the 6.75% series is \$2,728, of the 5.85% series is \$93,476, of the 6.30% series is \$39,664 and of the 5.40% series is \$75,000.



During the current quarter, Primaris made \$8,136 of scheduled principal payments on its mortgages.

Primaris issued \$25,576 in distributions to Unitholders during the first quarter of 2012, including distributions to holders of exchangeable units. Primaris has a Distribution Reinvestment Plan ("DRIP"). Currently, Unitholders representing approximately 13.3% of units outstanding have elected to participate in the DRIP. This represents approximately \$13,295 per annum of additional capital to treasury, based on current distribution rates and units outstanding.

Capital Expenditures

In accordance with its objectives, Primaris distributes a high percentage of its FFO to Unitholders. As such it does not retain a material amount of operating cash flow. Primaris has a number of capital requirements including loan principal payments, acquisitions, developments, recoverable improvements and maintenance capital. Capital requirements for loan principal payments, acquisitions and development are generally sourced by financing for each project. Expenditures for acquisitions, developments, 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 \$3,162 of leasing costs in 2012 (and \$604 in the prior year), which is comprised of \$2,936 in tenant improvement allowances, and \$226 in leasing commissions. The timing of such expenditures is irregular and depends more on the satisfaction of contractual obligations in a lease rather than on the timing of the leasing process. Leasing costs, 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 \$34,010 at the beginning of 2012, \$425 recorded as additional expenditures during the three-month period, and \$1,648 recovered from tenants. This resulted in a balance of \$32,787 yet to be recovered as at March 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:

	2011	2010	2009	2008	2007
Leasing capital	\$ 6,148	\$ 3,561	\$ 4,266	\$ 4,493	\$ 8,321
Other capital	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)
	\$ 7,626	\$ 6,675	\$ 6,426	\$ 7,195	\$ 7,898

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 \$1.52. These historical costs may not be indicative of future costs for Primaris' 13.5 million square foot

portfolio. However, an extrapolation of these costs generates an amount of \$0.24 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 Primaris completed phase one of a three phase redevelopment at Lambton Mall in Sarnia, Ontario. Although this first phase created a vacant anchor store location, it provided an opportunity not only to add a food court where none existed previously, but also to backfill the vacant anchor space with new retail to refresh the merchandise mix.

Construction is complete on the second phase which introduced a new eight unit food court that opened December 1, 2011.

Work is about to begin 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 will be demolished and replaced with a new Galaxy Theatre building comprising approximately 32,000 square feet, approximately 31,000 square foot Sport Chek 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. Upon opening of the new Galaxy Theatre at Lambton Mall, Cineplex will close its existing theatre. This phase will cost approximately \$16 million, including the purchase of 1450 London Road. Lender approval is in hand and terms have been negotiated with Cineplex and Sport Chek. Municipal approvals are expected shortly and work will commence immediately thereafter for a spring 2013 opening of both Galaxy and Sport Chek.

A redevelopment project is well underway at Grant Park Shopping Centre in Winnipeg, Manitoba to accommodate an expanded and repositioned Manitoba Liquor Control Commission ("MLCC") store. This project also includes the realignment and upgrade of almost 11,500 square feet of common area with new floor and ceiling finishes which has revitalized the west end of the shopping centre. A portion of the exterior of the building and the west mall entrance are also being renovated to provide a marquee entry to the new redevelopment inside. Construction activities commenced in June 2011, with relocated retail tenants opening October 2011, and a targeted summer 2012 opening for the flagship MLCC. The project is on budget and is expected to cost \$6.5 million. This phased redevelopment has already created an additional consumer draw to the centre.

The second phase of the 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 are scheduled to commence in June 2012. Common area improvements and washroom renovations are expected to be completed by November 2012, and the expansion is expected to open in July 2013. This second phase has a \$5.4 million budget.

A freestanding pad development at the southeast corner of Place d'Orleans is now underway to construct a 21,000 square foot Farm Boy, an Ottawa-based specialty grocery retailer. Primaris secured construction pricing, lender, anchor and municipal approvals from the City of Ottawa in December 2011. Landlord's work was completed in mid-February 2012, with a planned tenant opening in August 2012. Primaris will invest \$3.0 million in this project. Farm Boy will act as a driver of mid-week traffic to the mall.

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 has considered the following items:

- the expectation of a continuing uncertain economic environment;
- Primaris' Operating Plan;
- availability of cash resources, including a \$100,000 line of credit;
- the outlook for loan maturities;
- conservative leverage measured on both a balance sheet and operating basis; and
- leasing and development capital requirements.

At its most recent meeting on May 3, 2012, the Distributions Committee reviewed the current rate of distributions of \$1.22 per unit per annum and resolved to maintain this rate at this time.



Corporate Structure and Debt Covenants

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

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

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

Primaris' operating credit agreement contains four financial covenants Primaris must maintain, as defined in the agreement, 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.

Primaris is in compliance with these covenants (refer to note 16 of the condensed consolidated interim financial statements) and has no defaults under any of its loan agreements.

Tax

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

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

	2011	2010	2009	2008	2007	2006	2005	2004	2003
Return of capital	61.1%	59.0%	76.6%	63.6%	80.0%	77.6%	56.4%	65.6%	74.4%
Income	34.1%	40.9%	21.6%	36.0%	20.0%	22.4%	43.6%	34.4%	25.6%
Capital gain	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%

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

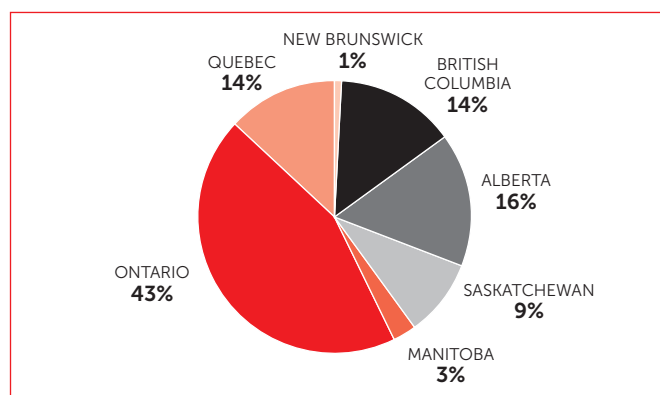
Investment properties represent 98.9% of total assets as at March 31, 2012. The property portfolio comprises 33 retail properties properties (giving effect to the Driftwood purchase) of various sizes and, as such, represents a good degree of market diversification. However, as revenues are earned from 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 33 properties have good geographic diversification.

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

Primaris leased 529,547 square feet of space during the first quarter of 2012. This represented 135 leases of generally smaller stores and 4 major tenants. Approximately 76.5% of the space leased during the current quarter of 2012 resulted from the renewal of existing tenants (64.9% 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 a 6.5% increase over the previous rent (7.6% if the major tenants are excluded).

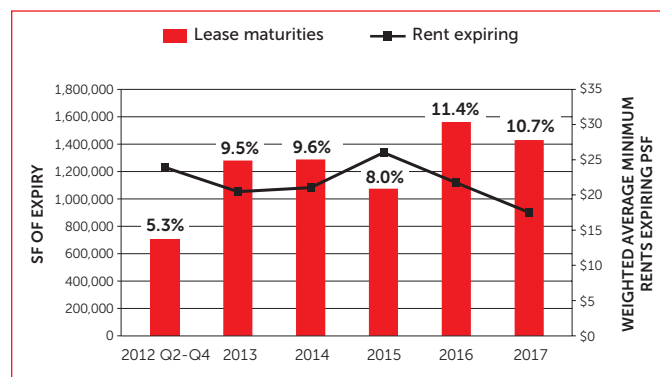
Geographic Diversification

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



Lease and Rent Expiries

Lease maturities are no greater than 11.4% of the portfolio in any year between 2012 and 2017.



Largest Tenants

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

Tenant Groups	Percentage of Total Annual Gross Rent	Area (Sq. ft.)	Weighted Average Lease Term to Maturity (Years)
1 HBC	4.4%	1,993,118	6.42
2 Canadian Tire	3.8%	886,735	5.10
3 YM	2.7%	242,629	3.57
4 Reitmans	2.5%	189,024	3.85
5 Sears	2.4%	1,208,334	6.58
6 Shoppers Drug Mart	2.3%	189,773	5.84
7 Target	2.2%	952,454	7.29
8 Bell Canada	1.8%	94,466	4.57
9 Comark	1.6%	106,318	4.33
10 Best Buy	1.6%	221,412	3.98
	25.3%		

Note: The tenant groups shown above represent different corporate covenants that fall within a given tenant group.

Indebtedness and Other Obligations

Year	Principal and interest payments on Mortgages	Convertible Unsecured Debentures	Ground Rent	Operating Leases	Total
2012 remainder	\$ 101,411	\$ -	\$ 1,066	\$ 1,322	\$ 103,799
2013	310,199	-	1,422	1,811	313,432
2014	182,846	96,204	1,422	1,811	282,283
2015	174,525	39,664	1,422	1,763	217,374
2016	197,413	-	1,422	1,791	200,626
Thereafter	832,108	75,000	34,092	5,256	946,456
	\$ 1,798,502	\$ 210,868	\$ 40,846	\$ 13,754	\$ 2,063,970

Note: Of the total mortgages balance, \$110,377 is recourse only to the underlying property.

As at March 31, 2012, Primaris had \$1,423,472 of mortgages payable, bearing a weighted average interest rate of 5.4%. 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 \$523 and debt placement costs of \$6,303. The mortgages payable have a weighted average term to maturity of 5.5 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 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	Weighted Average		Fair Value of Investment Property	Fair Value Variance	% Change	Debt to Total Assets
	Discount rate	Terminal cap rate				
Increase (decrease)						
(0.75%)	6.6%	5.6%	\$ 4,049,800	\$ 489,700	13.8%	40.5%
(0.50%)	6.8%	5.9%	\$ 3,872,500	\$ 312,400	8.8%	42.3%
(0.25%)	7.1%	6.1%	\$ 3,709,900	\$ 149,800	4.2%	44.1%
March 31, 2012	7.3%	6.3%	\$ 3,560,100	\$ 0	0.0%	46.0%
0.25%	7.6%	6.6%	\$ 3,421,800	\$ (138,300)	(3.9%)	47.8%
0.50%	7.8%	6.9%	\$ 3,293,600	\$ (266,500)	(7.5%)	49.7%
0.75%	8.1%	7.1%	\$ 3,174,600	\$ (385,500)	(10.8%)	51.5%

Fair Value of Mortgages

Primaris discloses the fair value of mortgages in the notes to the condensed interim 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 condensed interim 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. The extent of the impact of adoption has not yet been determined.

IAS 32 – Financial Instruments: presentation ("IAS 32") has been amended to clarify offsets in the statement of financial position and master netting arrangements. Primaris intends to adopt the amendments to IAS 32 in its financial statements for the annual period beginning on January 1, 2014. The extent of the impact of adoption of the amendments has yet to be determined.

IFRS 7 – Disclosures – Transfers of Financial Assets ("IFRS7") has been amended but is not expected to have a material impact on the financial statements, because of the nature of Primaris' operations and types of assets it holds. The effective date for the amendments is the annual period beginning January 1, 2013.

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 to early adopt this standard and has not yet determined the impact of IFRS 9 on its consolidated statements.

IFRS 10 – Consolidated Financial Statements (“IFRS 10”) was issued to replace IAS 27 – Consolidated and Separate Financial Statements and SIC 12 – Consolidation of Special Purpose Entities. IFRS 10 changes the definition of control to provide a single model. The standard also sets out the accounting requirements for the preparation of consolidated financial statements. The standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. Primaris does not expect IFRS 10 to have a significant impact on its consolidated financial statements and will not early adopt the 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 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 will 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 to early adopt this standard and has not yet determined the impact of IFRS 13 on its condensed consolidated interim statements.

Risks and Uncertainties

Real Property Ownership

Primaris owns 33 Canadian retail properties (giving effect to the Driftwood purchase) 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 tax, 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 \$1,661,863 as at March 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 income-producing 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.

There were no changes in internal control over financial reporting during the first 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

Our business is operating in a stable fashion and has a number of strategic redevelopment opportunities on the horizon. The Canadian retail environment will experience one of its most dynamic periods of change with the opening of Target stores, starting in 2013. Our portfolio is well positioned for this change. Growth expectations for the Canadian economy are muted, with expectations improving later in 2012 and into 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 have improved in the new year. 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.



CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(In thousands of dollars)

(Unaudited)

	March 31, 2012	December 31, 2011
Assets		
Non-current assets:		
Investment properties (NOTE 4)	\$ 3,560,100	\$ 3,557,900
Current assets:		
Rents receivable (NOTE 5)	6,996	7,387
Other assets and receivables (NOTE 6)	30,614	25,010
Cash and cash equivalents	3,126	-
	40,736	32,397
	\$ 3,600,836	\$ 3,590,297
Liabilities and Equity		
Non-current liabilities:		
Mortgages payable (NOTE 7)	\$ 1,257,940	\$ 1,372,871
Convertible debentures (NOTE 8)	229,982	268,766
Exchangeable units (NOTE 11)	45,925	45,079
Accounts payable and other liabilities (NOTE 10)	1,414	1,205
	1,535,261	1,687,921
Current liabilities:		
Current portion of mortgages payable (NOTE 7)	159,752	53,004
Bank indebtedness (NOTE 9)	27,000	6,779
Accounts payable and other liabilities (NOTE 10)	50,591	61,744
Distribution payable	8,461	8,251
	245,804	129,778
	1,781,065	1,817,699
Equity (NOTE 11)	1,819,771	1,772,598
	\$ 3,600,836	\$ 3,590,297

See accompanying notes to condensed consolidated interim financial statements.



CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(In thousands of dollars)

Three months ended March 31, 2012 and 2011 (Unaudited)

	Three months ended March 31, 2012	Three months ended March 31, 2011
<hr/>		
Revenue:		
Minimum rent	\$ 59,023	\$ 48,889
Recoveries from tenants	38,140	30,871
Percentage rent	565	416
Parking	1,693	1,479
Other income	1,017	294
	<hr/>	<hr/>
	100,438	81,949
Expenses:		
Property operating	25,422	21,293
Property taxes	19,279	15,479
Ground rent	331	294
General and administrative	2,429	3,127
Depreciation	381	187
	<hr/>	<hr/>
	47,842	40,380
Income from operations	52,596	41,569
Finance income	5	10
Finance costs (NOTE 13)	(26,212)	(36,140)
Fair value adjustment on investment properties (NOTE 4)	485	(450)
	<hr/>	<hr/>
Net income for the period	26,874	4,989
Other comprehensive income:		
Amortization of deferred net loss on cash flow hedges	57	58
	<hr/>	<hr/>
Comprehensive income for the period	\$ 26,931	\$ 5,047
	<hr/>	<hr/>

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

(In thousands of dollars)

Three months ended March 31, 2012 and 2011 (Unaudited)

2012	Amount of units issued	Contributed surplus	Cumulative net income	Distributions	Accumulated other comprehensive net loss	Total
Equity, beginning of period	\$ 1,124,856	\$ 543	\$ 1,171,792	\$ (523,779)	\$ (814)	\$ 1,772,598
Net income for the period	—	—	26,874	—	—	26,874
Distributions	—	—	—	(24,917)	—	(24,917)
Amortization of deferred net loss on cash flow hedges	—	—	—	—	57	57
Unit-based compensation plan (NOTE 11(d))	1,015	—	—	—	—	1,015
Issuance of units under distribution reinvestment plan	3,280	—	—	—	—	3,280
Conversion of convertible debentures to units	39,455	—	—	—	—	39,455
Conversion of exchangeable units	1,409	—	—	—	—	1,409
Equity, end of year	\$ 1,170,015	\$ 543	\$ 1,198,666	\$ (548,696)	\$ (757)	\$ 1,819,771

2011	Amount of units issued	Contributed surplus	Cumulative net income	Distributions	Accumulated other comprehensive net loss	Total
Equity, beginning of period	\$ 847,827	\$ 543	\$ 939,993	\$ (432,280)	\$ (1,044)	\$ 1,355,039
Net income for the period	—	—	4,989	—	—	4,989
Distributions	—	—	—	(20,457)	—	(20,457)
Amortization of deferred net loss on cash flow hedges	—	—	—	—	58	58
Unit-based compensation plan (NOTE 11(d))	198	—	—	—	—	198
Issuance of units under distribution reinvestment plan	1,828	—	—	—	—	1,828
Conversion of convertible debentures to units	7,284	—	—	—	—	7,284
Conversion of exchangeable units	597	—	—	—	—	597
Equity, end of period	\$ 857,734	\$ 543	\$ 944,982	\$ (452,737)	\$ (986)	\$ 1,349,536

See accompanying notes to condensed consolidated interim financial statements.



CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(In thousands of dollars)

Three months ended March 31, 2012 and 2011 (Unaudited)

	Three months ended March 31, 2012	Three months ended March 31, 2011
Cash flows from operating activities:		
Net income for the period	\$ 26,874	\$ 4,989
Adjustments for:		
Amortization of tenant improvement allowances	2,275	1,781
Amortization of tenant inducements	55	29
Amortization of straight-line rent	(361)	(399)
Value of units and options granted under unit-based compensation plan	1,005	1,957
Depreciation of fixtures and equipment	381	187
Net finance costs	26,207	36,130
Fair value adjustment on investment properties	(485)	450
	55,951	45,124
Change in other non-cash operating working capital (NOTE 14)	(20,250)	(12,945)
Leasing commissions	(226)	(46)
Tenant improvements	(2,936)	(558)
Net cash generated from operating activities	32,539	31,575
Interest received	5	10
Cash flows from operating activities	32,544	31,585
Cash flows from financing activities:		
Mortgage principal repayments	(8,136)	(6,117)
Proceeds of new mortgage financing	–	110,000
Repayment of financing	–	(37,039)
Advance (repayment) of bank indebtedness, net	20,221	(10,000)
Interest paid	(18,655)	(18,610)
Capitalized debt placement costs	(274)	(875)
Issuance of units	572	195
Distributions to Unitholders	(22,086)	(19,233)
Cash flows from (used in) financing activities	(28,358)	18,321
Cash flows from investing activities:		
Additions to buildings and building improvements	(97)	(2,164)
Additions to recoverable improvements	(425)	(93)
Additions to fixtures and equipment	(538)	(3)
Cash flows used in investing activities	(1,060)	(2,260)
Increase in cash and cash equivalents	3,126	47,646
Cash and cash equivalents, beginning of period	–	6,500
Cash and cash equivalents, end of period	\$ 3,126	\$ 54,146
Supplemental disclosure of non-cash operating, financing and investing activities:		
Value of units issued from conversion of convertible debentures	\$ 39,455	\$ 7,284
Value of units issued upon exchange	1,409	597
Value of units issued under distribution reinvestment plan	3,280	1,828
Value of units issued under unit-based compensation plan	443	3

See accompanying notes to condensed consolidated interim financial statements.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(In thousands of dollars)

Three months ended March 31, 2012 and 2011 (Unaudited)

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 Financing 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 May 3, 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; and
- Liabilities for unit-based payment arrangements measured at fair value.

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

(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 year.

(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 year.

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.

(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.

(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 Primaris' condensed consolidated interim statements of income and comprehensive income.

(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.

(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.

(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 the condensed consolidated interim statements of income and comprehensive income. Available-for-sale financial instruments are subsequently measured at fair value, with unrealized gains and losses recognized in the condensed consolidated interim statements of income and 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 in the condensed consolidated interim statements of income and comprehensive income at fair value.

(o) 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.



(p) 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. The extent of the impact of adoption of the amendments has not yet been determined.

(ii) IAS 32, Financial Instruments: Presentation ("IAS 32"):

Primaris intends to adopt the amendments to IAS 32 in its financial statements for the annual period beginning on January 1, 2014. The extent of the impact of adoption of the amendments has not yet been determined.

(iii) IFRS 7, Disclosures – Transfers of Financial Assets ("IFRS 7"):

Primaris does not expect the amendments to IFRS 7 to have a material impact on the financial statements, because of the nature of Primaris' operations and types of financial assets that it holds. The effective date for the amendments is the annual period beginning January 1, 2013.

(iv) 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 to early adopt this standard and has not yet determined the impact of IFRS 9 on its condensed consolidated interim statements.

(v) IFRS 10, Consolidated Financial Statements ("IFRS 10"):

IFRS 10 was issued to replace IAS 27, *Consolidated and Separate Financial Statements*, and SIC-12, *Consolidation of Special Purpose Entities*. IFRS 10 changes the definition of control to provide a single model. The standard also sets out the accounting requirements for the preparation of condensed consolidated interim financial statements. The standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. Primaris does not expect IFRS 10 to have a significant impact on its condensed consolidated interim financial statements and will not early adopt the standard.

(vi) 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, continues 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 condensed consolidated interim statements from this standard.

(vii) 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.

(viii) 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 to early adopt this standard and has not yet determined the impact of IFRS 13 on its condensed consolidated interim financial statements.

3. ACQUISITIONS:

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:

	December 31, 2011
Investment properties	\$ 584,546
Other assets	3,534
Other liabilities	(2,692)
Purchase price paid in cash, including acquisition costs of \$9,546	\$ 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%.

4. INVESTMENT PROPERTIES:

	Three months ended March 31, 2012	Three months ended March 31, 2011
Balance, beginning of period	\$ 3,557,900	\$ 2,804,900
Acquisitions of investment properties, including acquisition costs of nil (December 31, 2011 - \$9,546)	-	584,546
Additions:		
Capital expenditures	522	25,064
Direct leasing costs	3,162	19,667
Dispositions	-	(19,833)
Fair value adjustment on investment properties	485	149,113
Amortization of leasing costs and straight-line rents included in revenue	(1,969)	(5,557)
Balance, end of period	\$ 3,560,100	\$ 3,557,900

During the year ended December 31, 2011, Primaris sold two shopping centres. Primaris was released from a mortgage of \$5,394 on one of the properties sold. The proceeds of the sale of the second property, in the amount of \$13,027, are being held in escrow pending registration of a mortgage against a different shopping centre in the Primaris portfolio. Upon registration, these funds will be released to Primaris.

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	n/a	1,028,900 ⁽¹⁾
September 30	n/a	297,600
December 31	n/a	348,000
Year-to-date total	\$ 210,800	\$ 1,696,400

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

(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 March 31, 2012 and December 31, 2011, the fair values of investment properties purchased during the previous twelve 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:

	March 31, 2012			December 31, 2011		
	Maximum	Minimum	Weighted average	Maximum	Minimum	Weighted average
Discount rate	10.7%	6.5%	7.3%	10.7%	6.5%	7.3%
Terminal cap rate	9.5%	5.5%	6.3%	9.5%	5.5%	6.3%
Investment horizon (years)	10	10	10	10	10	10



Primaris' Yonge Street assets, which represent less than 2% of the portfolio value, were appraised at a capitalization rate lower than this range reflecting, in part, the redevelopment potential of these locations.

(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		Fair value of investment properties	Fair value variance	% change	Debt to total assets
	Discount rate	Terminal cap rate				
(0.75)%	6.6%	5.6%	\$ 4,049,800	\$ 489,700	13.8%	40.5%
(0.50)%	6.8%	5.9%	3,872,500	312,400	8.8%	42.3%
(0.25)%	7.1%	6.1%	3,709,900	149,800	4.2%	44.1%
March 31, 2012	7.3%	6.3%	3,560,100	-	-	46.0%
0.25%	7.6%	6.6%	3,421,800	(138,300)	(3.9)%	47.8%
0.50%	7.8%	6.9%	3,293,600	(266,500)	(7.5)%	49.7%
0.75%	8.1%	7.1%	3,174,600	(385,500)	(10.8)%	51.5%

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 \$32,787 (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 \$18,793 (December 31, 2011 - \$19,466) of obligations of its joint venture partner, which mature no later than March 31, 2013. Primaris has been indemnified and has implemented appropriate additional protective measures to minimize the risk of any loss.

5. RENTS RECEIVABLE:

	March 31, 2012	December 31, 2011
Rents receivable, net of allowance of \$1,243 (December 31, 2011 - \$1,167)	\$ 1,653	\$ 2,159
Accrued recovery revenue	4,149	2,739
Accrued percentage rent	497	724
Other amounts receivable	697	1,765
	\$ 6,996	\$ 7,387

6. OTHER ASSETS AND RECEIVABLES:

	March 31, 2012	December 31, 2011
Prepaid realty taxes	\$ 9,344	\$ 4,207
Prepaid ground rent	115	318
Fixtures and equipment, net of accumulated depreciation of \$2,826 (December 31, 2011 - \$2,445)	4,472	4,315
Other assets	3,656	3,143
Escrow funds (NOTE 4)	13,027	13,027
	\$ 30,614	\$ 25,010

The proceeds of the sale of a property, in the amount of \$13,027, are being held in escrow pending registration of a mortgage against a different shopping centre in the Primaris portfolio. Upon registration, these funds will be released to Primaris.

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.

	March 31, 2012	December 31, 2011
Mortgages payable	\$ 1,423,472	\$ 1,431,608
Mark-to-market adjustment, net	523	665
Debt placement costs, net of accumulated amortization of \$4,577 (December 31, 2011 - \$4,198)	(6,303)	(6,398)
	1,417,692	1,425,875
Less current portion	(159,752)	(53,004)
	\$ 1,257,940	\$ 1,372,871

Future principal payments on the mortgages payable are as follows:

	Payments on maturity	Total annual payments	Total
2012 remainder	\$ 21,227	\$ 24,835	\$ 46,062
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	\$ 215,602	\$ 1,423,472

8. CONVERTIBLE DEBENTURES:

					Three months ended March 31, 2012	Year ended December 31, 2011
	6.75% convertible debentures	5.85% convertible debentures	6.30% convertible debentures	5.40% convertible debentures	Total	Total
Principal balance, beginning of period	\$ 2,789	\$ 93,476	\$ 68,937	\$ 75,000	\$240,202	\$ 179,252
Issued	-	-	-	-	-	75,000
Conversions	(61)	-	(29,273)	-	(29,334)	(14,050)
Principal balance, end of period	2,728	93,476	39,664	75,000	210,868	240,202
Fair value adjustment	2,051	2,804	12,016	2,243	19,114	28,564
	\$ 4,779	\$ 96,280	\$ 51,680	\$ 77,243	\$229,982	\$ 268,766

Fair value is calculated using the quoted market price on March 31, 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, March 31, 2012	Maturity	Interest rate	Conversion price	Redemption date after
6.75%	\$ 2,728	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%	39,664	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 three months ended March 31, 2012, holders of \$61 (March 31, 2011 - \$314) of convertible debentures at face value exercised their option to convert to units. A total of 4,978 units (March 31, 2011 - 25,632) were issued on conversion. As at March 31, 2012, the face value of this series of debentures was \$2,728 (December 31, 2011 - \$2,789).



(b) 5.85% convertible debentures:

During the three months ended March 31, 2012 and 2011, there were no conversions nor any repurchases under Primaris' normal course issuer bid of this series of convertible debentures. As at March 31, 2012, the face value of this series of debentures was \$93,476 (December 31, 2011 - \$93,476).

(c) 6.30% convertible debentures:

During the three months ended March 31, 2012, holders of \$29,273 (March 31, 2011 - \$5,531) of convertible debentures at face value exercised their option to convert to units. A total of 1,752,871 units (March 31, 2011 - 331,195) were issued on conversion. As at March 31, 2012, the face value of this series of debentures was \$39,664 (December 31, 2011 - \$68,937).

(d) 5.40% convertible debentures:

During the three months ended March 31, 2012 and 2011, there were no conversions or any repurchases under Primaris' normal course issuer bid of this series of convertible debentures. As at March 31, 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 March 31, 2012, \$27,000 of the operating line was in use (December 31, 2011 - \$6,779).

10. ACCOUNTS PAYABLE AND OTHER LIABILITIES:

	March 31, 2012	December 31, 2011
Accounts payable and accrued liabilities	\$ 46,094	\$ 57,073
Tenant deposits	5,580	5,573
Deferred revenue	331	303
	52,005	62,949
Less non-current portion of accounts payable and accrued liabilities	(1,414)	(1,205)
	\$ 50,591	\$ 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 classified as liability instruments under IFRS 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 March 31, 2012, there were 2,122,261 exchangeable units issued and outstanding by subsidiaries of Primaris with a carrying value of \$45,925 (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.

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:

	Three months ended March 31, 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	152,382	3,280	422,088	8,714
Conversion of debentures (note 8)	1,757,849	39,455	864,335	17,926
Purchase of units under normal course issuer bid	—	—	(31,000)	(589)
Units issued under equity compensation arrangement	47,465	1,015	40,130	935
Units issued, net of costs	—	—	12,650,000	249,446
Conversion of exchangeable units	65,000	1,409	30,000	597
Trust units, end of period	82,575,667	\$1,170,015	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	—	2,255	—	2,351
Exchangeable units, end of period	2,122,261	\$ 45,925	2,187,261	\$ 45,079
Total trust units and exchangeable units, end of period	84,697,928		82,740,232	

Primaris issued 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.

(c) Normal course issuer bid:

No units were repurchased pursuant to the issuer bid (note 16) during the three months ended March 31, 2012 (March 31, 2011 - nil). No convertible debentures were repurchased in the three months ended March 31, 2012 (March 31, 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 then 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.

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:



	March 31, 2012	December 31, 2011
Unit-based compensation		
Compensation expense	\$ 541	\$ 1,292
Fair value adjustments	464	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

The number of options outstanding changed as follows:

	Three months ended March 31, 2011		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	(44,205)	\$ 12.94	(40,130)	\$ 11.40
Expired/forfeited	(2,637)	\$ 20.32	-	\$ -
Balance, end of period	1,352,598	\$ 19.07	932,793	\$ 17.43
Exercisable, end of period	461,492		508,334	

As at March 31, 2012, the following options were outstanding:

Exercise price	Number of options	Remaining weighted average life (in years)
\$10.70	28,088	3.7
\$14.06	90,000	4.4
\$16.81	255,258	4.7
\$17.17	3,878	4.9
\$17.25	203,216	4.9
\$20.32	305,511	5.7
\$21.54	466,647	6.7
\$10.70 - \$21.54	1,352,598	5.6

The number of restricted share units outstanding changed as follows:

	Three months ended March 31, 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 March 31, 2012, the carrying value of total unit-based compensation liability was \$4,647 (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.

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

	Three months ended March 31, 2012	Year ended December 31, 2011
Assets:		
Non-current	\$ 113,185	\$ 113,185
Current	18,532	17,346
Liabilities:		
Non-current	-	-
Current	130	247
Revenue	\$ 2,782	\$ 11,992
Expenses	1,107	4,803
Cash provided by (used in):		
Operations	\$ 144	\$ (99)
Investments	(381)	(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 \$18,793 (December 31, 2011 - \$19,466) of obligations of its joint venture partner, which mature no later than March 31, 2013. The joint venture partner is the manager of the property.

13. FINANCE COSTS:

	March 31, 2012	March 31, 2011
Mortgages payable	\$ 18,702	\$ 16,229
Convertible debentures	3,321	2,629
Distributions on exchangeable units	659	673
Bank indebtedness	178	95
Interest incurred	22,860	19,626
Fair value adjustment on convertible debentures	671	12,336
Fair value adjustment for exchangeable units	2,255	3,861
Amortization of deferred net loss on cash flow hedges	57	58
Amortization of debt placement costs	369	259
	\$ 26,212	\$ 36,140

14. CHANGE IN OTHER NON-CASH OPERATING WORKING CAPITAL:

	March 31, 2012	March 31, 2011
Rents receivable	\$ 391	\$ 1,083
Other assets and receivables, excluding fixtures and equipment and escrow funds	(5,447)	(4,823)
Accounts payable and other liabilities	(15,052)	(9,069)
Mortgage mark-to-market adjustment, net	(142)	(136)
	\$ (20,250)	\$ (12,945)

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 4.4% (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 three months ended March 31, 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.

Some of these provisions in the Declaration of Trust are subject to ratification at the Annual and Special Meeting of Unitholders on May 8, 2012.

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 March 31, 2012 and December 31, 2011 were as follows:

	March 31, 2012	December 31, 2011
Debt to Total Assets	46.0%	46.6%
Interest Coverage (rolling four quarters)	2.4x	2.3x
Debt Service Coverage (rolling four quarters)	1.8x	1.7x
Equity	\$1,865,696	\$ 1,817,677

For the three months ended March 31, 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.

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.

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.

The contractual principal and interest payments on Primaris' mortgages payable for the three months ended March 31 are as follows:

2012 remainder	\$ 101,411
2013	310,199
2014	182,846
2015	174,525
2016	197,413
Thereafter	832,108
	\$ 1,798,502

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 \$27,000 was utilized on March 31, 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.

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 \$2,109;
- Exchangeable units \$2,122; and
- Unit-based compensation \$649.

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:

	March 31, 2012		December 31, 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Mortgages payable	\$ 1,423,472	\$ 1,520,897	\$ 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.

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.

18. 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	\$ 160,689
2013	199,431
2014	177,328
2015	150,779
2016	122,185
Thereafter	331,575
	\$ 1,141,987

19. OPERATING LEASES:

Future minimum operating lease payments are as follows:

	Operating leases	Ground rent	Total
2012 remainder	\$ 1,322	\$ 1,066	\$ 2,388
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
	\$ 13,754	\$ 40,846	\$ 54,600

During the three months ended March 31, 2012, Primaris recognized operating lease payments, net of incentives, totalling \$430 (March 31, 2011 - \$352).

20. COMMITMENTS AND CONTINGENCIES:

- (a) Under the terms of a memorandum of agreement dated June 7, 1971 between The City of Calgary and Oxford Properties Group Inc. ("OPGI") as assumed, assigned and amended from time to time, including without limiting the generality of the foregoing, by a development amending agreement between The City of Calgary, Marathon Realty Company Limited and The Cadillac Fairview Corporation Limited, OPGI is obligated to pay for certain roadway construction near Northland Village and such roadway construction obligation remains registered on title for this property. OPGI has 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 March 31, 2012, Primaris has issued letters of credit in the amount of \$2,386 (December 31, 2011 - \$2,386).

21. SUBSEQUENT EVENT:

On May 2, 2012, Primaris purchased Driftwood Mall, an enclosed community shopping centre in Courtnay, British Columbia, for \$45,200 plus transaction costs. The purchase was funded by proceeds from the line of credit.

CORPORATE AND UNITHOLDER INFORMATION

OFFICERS

John Morrison
President and Chief Executive Officer

Louis M. Forbes, CA
Executive Vice President and
Chief Financial Officer

Patrick Sullivan
Senior Vice President,
Portfolio Management

Toran Eggert
Vice President,
Portfolio Management

Anne Morash
Vice President, Development

Ron Perlmutter
Vice President, Investments

Lesley Gibson, CA
Vice President, Finance

Leslie Buist, CA
Vice President, Finance

Devon Jones
Vice President,
Legal and Secretary

Oliver Hobday
Assistant Secretary

AUDITORS

KPMG LLP
Chartered Accountants

REGISTRAR AND TRANSFER AGENT

CIBC Mellon Trust Company
c/o Canadian Stock Transfer Company Inc.
P.O. Box 700, Station B,
Montreal, QC H3B 3K3
Toll-Free: 1-800-387-0825
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HEAD OFFICE

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INVESTOR RELATIONS

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Executive Vice President
and Chief Financial Officer
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Email: lforbes@primarisreit.com

STOCK EXCHANGE LISTING

Toronto Stock Exchange
(TMX), symbols
PMZ.UN
PMZ.DB
PMZ.DB.A
PMZ.DB.B
PMZ.DB.C

BOARD OF TRUSTEES



Roland A. Cardy | Independent, Chair of the Board

Since March 2003, Mr. Cardy has served as Managing Partner and a director of Gorbay Company Limited, a Toronto-based private company that owns and operates multi-family properties. From 2000 to March 2003, Mr. Cardy was a Senior Managing Director at Raymond James Ltd. Mr. Cardy has a Bachelor of Arts (Economics and History) and Master of Business Administration from York University. He also has completed the requirements of the Institute of Corporate Directors program.



William J. Biggar, CA | Independent, Chair of Audit Committee

Mr. Biggar has been President and CEO of North American Palladium since 2008. Prior to that, Mr. Biggar was Managing Director of Richardson Capital Limited from 2004 to 2007. Mr. Biggar has extensive experience in real estate acquisitions, development, financing and management. Mr. Biggar is a Chartered Accountant and also holds Bachelor of Commerce and Master of Business Administration degrees from the University of Toronto.



Ian Collier | Independent, Chair of Distributions Committee

Mr. Collier is CEO and Partner of Perseis Partners Inc. Prior to that, in 2004 and 2005, Mr. Collier was President and CEO of Borealis Private Equity and President and CEO of OMERS Capital Partners. Mr. Collier was a Director of Borealis Real Estate Management Inc. between May 2002 and February 2004 and a director of Oxford Properties Group Inc. between 2001 and 2004. Mr. Collier holds a Bachelor of Arts (Economics) from Wilfrid Laurier University.



Kenneth Field, CA | Independent, Chair of Compensation Committee

Mr. Field is a retired Investment Banker. Between 1996 and 2000, Mr. Field was Senior Vice President, Head of Real Estate Investment Banking with Midland Walwyn Inc. / Merrill Lynch Canada Inc. Mr. Field has over 35 years of experience in major real estate sales and financings across Canada. He is a Chartered Accountant, a former member of the Board of Governors of the Toronto Stock Exchange and a former Chair of the Board of Governors of the Toronto Futures Exchange.



Kerry Adams | FCA, ICD.D, Independent,
Chair of Governance & Nominating Committee

Ms. Adams has been President of K. Adams & Associates Limited providing wealth management services for trusts and private corporations since 1991. Ms. Adams was a Commissioner and Director of the Ontario Securities Commission from 1996 through 2003. A Chartered Accountant, Ms. Adams also holds a Bachelor of Arts (Honours Economics) from Queens University and is an Institute-certified Director (2012) of the Institute of Corporate Directors.



Brent Hollister | Independent

Mr. Hollister has been actively involved in the Canadian retail industry for over 35 years. He stepped down from his role as Chief Executive Officer of Sears Canada Inc. in 2006. Mr. Hollister is a director for Holiday Group Holdings Inc., a private equity company and is on the Advisory Board of the Boys & Girls Club Foundation of Canada. A retail graduate of Ryerson, Mr. Hollister has completed the requirements of the Institute of Corporate Directors program.



John Morrison | President, Chief Executive Officer & Trustee,
Non-independent

Mr. Morrison is President and Chief Executive Officer of Primaris Retail REIT. Prior to his appointment as CEO of Primaris, Mr. Morrison was President, Real Estate Management at Oxford Properties Group, where he was responsible for the performance of Oxford's \$10 billion Canadian portfolio. Mr. Morrison is on the Board of Trustees of The International Council of Shopping Centres (ICSC) and is Canadian divisional vice president on the Executive Committee of the ICSC.

www.primarisreit.com

