



FIRST QUARTER REPORT 2010

PERFORMANCE UNDERLYING STRENGTH

CALLOWAY
REAL ESTATE INVESTMENT TRUST

Table of Contents

President's Message	1
Management's Discussion and Analysis of Results of Operations and Financial Condition	2
Business Overview and Strategic Direction	3
Quarterly Financial and Operational Highlights	3
Real Estate Assets	5
Properties Under Development	7
Mortgages, Loans and Notes Receivable	8
Amounts Receivable, Prepaid Expenses and Deposits	9
Debt	10
Term Debt	10
Unsecured Debentures	11
Unitholders' Equity	13
Capital Resources and Liquidity	14
Results of Operations	17
Leasing Activities and Expiries	19
Quarterly Information	25
Related Parties	27
Disclosure Controls and Procedures and Internal Controls Over Financial Reporting	28
Critical Accounting Estimates	29
Accounting Policies	30
Risks and Uncertainties	34
Outlook	36
Consolidated Financial Statements	38
Consolidated Balance Sheets (Unaudited)	38
Consolidated Statements of Income and Comprehensive Income (Unaudited)	39
Consolidated Statements of Equity (Unaudited)	40
Consolidated Statements of Cash Flows (Unaudited)	41
Notes to Consolidated Financial Statements (Unaudited)	42
Corporate Information	67



SIMON NYILASSY
President and Chief Executive Officer

PRESIDENT'S MESSAGE

As we complete the first quarter of 2010, Calloway finds itself in an enviable position. Our defensive portfolio of shopping centres across the country has weathered the recession well - occupancy increased further, to 99.0% at the end of the quarter. We have not experienced any significant tenant departures for over twelve months, we retained over 90% of tenants whose leases expired this year, and we were able to achieve a respectable 9% increase in rents for those tenants who renewed.

Meanwhile, our five million square feet of additional space, available to be built if, as and when tenant interest demands, provides us with a ready source of growth in an improving economy. We have found limited availability of new shopping centres of Calloway's calibre to acquire, so this large pipeline, equivalent in area to 15 to 20 of our existing shopping centres, reduces our reliance on acquisitions for accretive growth.

The build out of 161,025 square feet of this pipeline, together with our strong leasing effort and the effects of contractual rent increases, helped us increase the Net Operating Income⁽¹⁾ of our portfolio by 2.9%, to \$77.2 million, over last quarter.

Funds from Operations⁽¹⁾ also increased over last quarter, by 2.9%, to \$41.3 million. On a per unit basis, the increase was somewhat lower, at 0.7%, as a result of the temporary dilution from our \$100 million equity and convertible debt offering, which closed early in the quarter.

As a result of this offering, our debt to gross book value now stands at 53.1%, excluding convertible debentures and 56.9% including convertible debentures – the lowest level for ten quarters.

We look forward to continued stability in the overall economy and in our sector, and stand ready to capitalize on renewed signs of growth as they appear.

(1) Non-GAAP measure

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

For the three months ended March 31, 2010

This Management's Discussion and Analysis ("MD&A") sets out Calloway Real Estate Investment Trust's ("Calloway" or the "Trust") strategies and provides an analysis of the financial performance and financial condition for the three months ended March 31, 2010, significant risks facing the business and management's outlook.

This MD&A should be read in conjunction with Calloway's audited consolidated financial statements for the years ended December 31, 2009 and 2008 and the unaudited consolidated financial statements for the three months ended March 31, 2010 and the notes contained therein. Such consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") using Calloway's reporting currency, the Canadian dollar.

This MD&A is dated May 5, 2010, which is the date of the press release announcing Calloway's results for the three months ended March 31, 2010. Disclosure contained in this MD&A is current to that date, unless otherwise noted.

Readers are cautioned that certain terms used such as "Funds from Operations (FFO)", "Adjusted Funds from Operations (AFFO)", "Net Operating Income (NOI)", "Gross Book Value", "Enterprise Value", "Payout Ratio", "Interest Coverage" and any related per Unit amounts used by management to measure, compare and explain the operating results and financial performance of Calloway are not recognized terms under Canadian GAAP, and therefore should not be construed as alternatives to net income or cash flow from operating activities calculated in accordance with Canadian GAAP. These terms are defined in this MD&A and reconciled to the unaudited consolidated financial statements of Calloway for the three months ended March 31, 2010. Such terms do not have a standardized meaning prescribed by Canadian GAAP and may not be comparable to similarly titled measures presented by other publicly traded entities. See "Other Measures of Performance", "Net Operating Income" and "Debt".

Certain statements in this MD&A are "forward-looking statements" that reflect management's expectations regarding Calloway's future growth, results of operations, performance and business prospects and opportunities as outlined under the headings "Business Overview and Strategic Direction" and "Outlook". More specifically, certain statements contained in this MD&A, including statements related to Calloway's maintenance of productive capacity, estimated future development plans and costs, view of term mortgage renewals including rates and upfinancing amounts, timing of future payments of obligations, intentions to secure additional financing and potential financing sources, and vacancy and leasing assumptions, and statements that contain words such as "could", "should", "can", "anticipate", "expect", "believe", "will", "may" and similar expressions and statements relating to matters that are not historical facts, constitute "forward-looking statements". These forward-looking statements are presented for the purpose of assisting Calloway's Unitholders and financial analysts in understanding Calloway's operating environment, and may not be appropriate for other purposes. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. However, such forward-looking statements involve significant risks and uncertainties, including those discussed under the heading "Risks and Uncertainties" and elsewhere in this MD&A. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements. Although the forward-looking statements contained in this MD&A are based on what management believes to be reasonable assumptions, including those discussed under the heading "Outlook" and elsewhere in this MD&A, Calloway cannot assure investors that actual results will be consistent with these forward-looking statements. The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. These forward-looking statements are made as at the date of this MD&A and Calloway assumes no obligation to update or revise them to reflect new events or circumstances unless otherwise required by applicable securities legislation.

Prior-period results have been reclassified to conform to the presentation adopted in the current period.

All amounts in the MD&A are in thousands of Canadian dollars, except where otherwise stated. Per Unit amounts are on a diluted basis, except where otherwise stated.

Additional information relating to Calloway, including Calloway's Annual Information Form for the year ended December 31, 2009, can be found at www.sedar.com.

Business Overview and Strategic Direction

Calloway is an unincorporated open-ended mutual fund trust governed by the laws of the Province of Alberta. The Units, 6.0% convertible debentures, 6.65% convertible debentures and 5.75% convertible debentures of Calloway are listed and publicly traded on the Toronto Stock Exchange (TSX) under the symbols “CWT.UN”, “CWT.DB”, “CWT.DB.A” and “CWT.DB.B”, respectively.

Calloway’s vision is to create exceptional places to shop.

Calloway’s purpose is to own and manage dominant shopping centres that provide our retailers with a platform to reach their customers through convenient locations, intelligent designs, and a desirable tenant mix.

Calloway’s shopping centres focus on value-oriented retailers and include the strongest national and regional names as well as strong neighbourhood merchants. It is expected that Wal-Mart will continue to be the dominant anchor tenant in the portfolio and that its presence will continue to attract other retailers and consumers.

As at March 31, 2010, Calloway owned 125 shopping centres, one office building and one industrial building, with total gross leasable area of 23.0 million square feet, located in communities across Canada. Generally, Calloway’s centres are conveniently located close to major highways, which, along with the anchor stores, provide significant draws to the Calloway portfolio, attracting both value-oriented consumers and retailers. Calloway acquired the right, for a ten-year term commencing in 2007, to use the “SmartCentres” brand, which represents a family-and-value-oriented shopping experience.

Acquisitions

Subject to the availability of acquisition opportunities and Calloway’s maintenance of productive capacity, Calloway intends to grow distributions, in part, through the accretive acquisition of properties. The current environment for acquisitions is very competitive with limited availability, however the cost of capital relative to the return available on acquisitions is such that accretive acquisitions can be negotiated. The Trust will continue to monitor the property and capital markets and explore acquisition opportunities as they arise.

Developments and Earnouts

Calloway developments and Earnouts continue to be a significant component of Calloway’s strategic plan. As at March 31, 2010, the Trust has approximately 5.0 million square feet of potential gross leasable area that could be developed. Assuming Calloway continues to successfully manage the development of leasable area and raise the capital required for such development, the Trust plans to develop approximately 2.5 million square feet of this gross leasable area internally (“Calloway Developments”), with the balance of the space to be acquired upon completion of development and lease to third parties by SmartCentres and other vendors (“Earnouts”).

Earnouts occur where the vendors retain responsibility for managing certain developments on behalf of the Trust for additional proceeds calculated based on a predetermined, or formula based, capitalization rate, net of land and development costs incurred by the Trust. Calloway is responsible for managing the completion of the Calloway Developments.

Professional Management

Through professional management of the portfolio, Calloway intends to ensure its properties portray an image that will continue to attract consumers as well as provide preferred locations for its tenants. Well-managed properties enhance the shopping experience and ensure customers continue to visit the centres. Professional management of the portfolio has contributed to a continuing high occupancy level of 99.0% at March 31, 2010 (March 31, 2009 – 98.4%).

Quarterly Financial and Operational Highlights

Calloway continued its growth through development and Earnouts in the first quarter of 2010. During the quarter, it focused on managing the operation and development of existing properties and raising the capital required for future growth of the business. Highlights for the quarter include the following:

- Increased portfolio occupancy to 99% level.
- Completed development and Earnout and lease up of 161,025 square feet of leasable area for \$54.5 million, providing an unleveraged yield of 7.2%.
- Issued \$40 million in new Trust units.
- Issued \$60 million convertible unsecured debentures.

Selected consolidated information:

(\$000s, except per Unit and other non-financial data)	March 31 2010	December 31 2009	March 31 2009 ⁽¹⁾
Operational Information			
Number of properties	127	127	126
Gross leasable area (in thousands of sq. ft.)	22,975	22,750	21,821
Future estimated development area (in thousands of sq. ft.)	4,985	5,144	5,813
Occupancy	99.0%	98.9%	98.4%
Average lease term to maturity	9.0 years	9.1 years	9.6 years
Net rental rate (per occupied sq. ft.)	\$13.93	\$13.91	\$13.78
Net rental rate excluding anchors (per occupied sq. ft.) ⁽²⁾	\$19.32	\$19.30	\$18.83
Financial Information			
Real estate assets	\$4,152,756	\$4,153,289	\$4,085,193
Total assets	\$4,230,329	\$4,236,839	\$4,175,556
Debt	\$2,688,854	\$2,726,698	\$2,627,677
Debt to gross book value ⁽³⁾	53.1%	55.3%	54.4%
Interest coverage ⁽⁴⁾	1.9X	2.0X	2.1X
Equity (book value)	\$1,387,718	\$1,372,617	\$1,406,762
		Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Revenue		123,038	117,100
Net operating income (NOI) ⁽⁵⁾		77,201	71,580
Net income		7,430	2,335
Cash provided by operating activities		42,983	34,428
Funds from operations (FFO) ⁽⁶⁾		41,298	41,898
Adjusted funds from operations (AFFO) ⁽⁶⁾		38,985	39,868
Distributions declared		39,496	37,106
Units outstanding ⁽⁷⁾		101,607,018	95,442,771
Weighted average – basic		101,773,281	95,499,518
Weighted average – diluted ⁽⁸⁾		101,773,281	95,499,518
Per Unit Information (Basic/Diluted)			
Net income		\$0.073/\$0.073	\$0.024/\$0.024
Funds from operations ⁽⁶⁾		\$0.406/\$0.406	\$0.439/\$0.439
Adjusted funds from operations ⁽⁶⁾		\$0.383/\$0.383	\$0.417/\$0.417
Distributions		\$0.387	\$0.387
Payout ratio ⁽⁹⁾		101.0%	92.8%

(1) Certain numbers were restated for changes in discontinued operations and for amortization of accretion on convertible debentures.

(2) Anchors are defined as tenants within a property with leasable area greater than 30,000 sq. ft.

(3) Defined as debt (excluding convertible debentures) divided by total assets plus accumulated amortization of income properties.

(4) Defined as net income plus amortization and interest expense less gain (loss) on sale of income properties divided by interest expense plus capitalized interest.

(5) Defined as rentals from income properties less property operating costs.

(6) See "Other Measures of Performance" for a reconciliation of these measures to the nearest financial statement measure.

(7) Total Units outstanding includes LP Units and Trust Units.

(8) The diluted weighted average does not include unvested options on Earnouts.

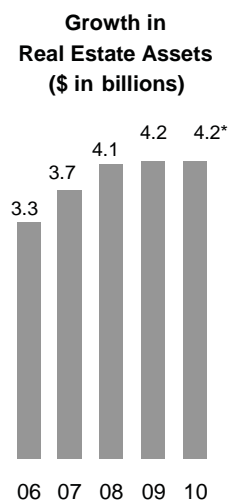
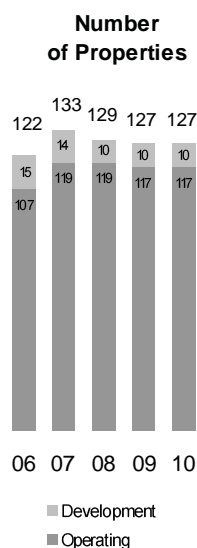
(9) Payout ratio is calculated as distributions per Unit divided by adjusted funds from operations per Unit.

Real Estate Assets

As at March 31, 2010, real estate assets totalled \$4,152.8 million, a decrease of \$0.5 million during the quarter. Real estate assets comprise income properties (\$3,559.7 million), properties under development (\$402.3 million), mortgages and loan receivables (\$185.1 million) and deferred leasing costs (\$5.7 million). The portfolio consists of 23.0 million square feet of built gross leasable area, 5.0 million square feet of future potential gross leasable area in 127 properties and the option to acquire 50.0% to 100.0% interests (2.3 million square feet) in 13 income properties upon their completion pursuant to the terms of mezzanine loans. The portfolio is located across Canada with assets in each of the ten provinces. The Trust targets major urban centres and shopping centres that are dominant in their trade area. By selecting well-located centres, Calloway attracts quality tenants at market rental rates.

Income Properties and Properties Under Development

(\$000s)	Income Properties \$	Properties Under Development \$
Balance – January 31, 2010	3,537,499	365,050
Developments and Earnouts completed on existing properties – costs transferred	-	(45,408)
Developments and Earnouts completed on existing properties – costs plus Earnout fees	54,494	-
Development costs acquired on settlement of development loans receivable	-	58,578
Development costs incurred	-	27,185
Adjustment for undeveloped land obligation	-	(3,077)
Building, equipment and tenant improvements on existing properties	1,668	-
Increase in accumulated amortization	(33,935)	-
Net additions	22,227	37,278
Balance – March 31, 2010	3,559,726	402,328



* as of March 31, 2010

Maintenance of Productive Capacity

The main focus in a discussion of capital expenditures is to differentiate between those costs incurred to achieve the Trust's longer-term goals to produce increased cash flows and Unit distributions, and those costs incurred to maintain the quality of the Trust's cash flow.

Acquisitions of income properties and the development of existing income properties (Earnouts and Calloway Developments) are the two main areas of capital expenditures that are associated with increasing the productive capacity of the Trust. In addition, there are capital expenditures incurred on existing income properties to maintain the productive capacity of the Trust ("sustaining capital expenditures").

Sustaining capital expenditures and leasing costs are funded from operating cash flow and, as such, are deducted from FFO in order to estimate a sustainable amount (AFFO) that can be distributed to Unitholders. Sustaining capital expenditures are those of a capital nature that are not considered to add to productive capacity and are not recoverable from tenants. These costs are incurred at irregular amounts over time. Leasing costs, which include tenant allowances and leasing commissions, vary with the timing of renewals, vacancies, tenant mix and the health of the retail market. Leasing costs are generally lower for renewals of existing tenants compared to new leases.

The following is a discussion and analysis of capital expenditures of a maintenance nature (sustaining capital expenditures and leasing costs), as acquisitions and developments will be discussed elsewhere in the MD&A.

Sustaining capital expenditures totalling \$0.8 million and leasing costs (tenant allowances and leasing commissions) of \$1.1 million included in building, equipment, tenant allowances and deferred leasing costs on existing properties were incurred during the quarter ended March 31, 2010. Since Calloway's income properties are relatively new and in good condition, management anticipates only modest increases for each of 2010 and 2011, and thus they are not expected to have an impact on the Trust's ability to pay distributions at its current level. The large increase in tenant allowances in 2009 over the previous years was mainly due to leasing of vacant spaces as a result of bankruptcies of large tenants earlier in the year.

(\$000s, except per Unit amounts)	Three Months Ended March 31, 2010 \$	Year Ended December 31, 2009 \$	Year Ended December 31, 2008 \$
Expenditures on deferred leasing costs per Consolidated Statements of Cash Flows	244	1,708	1,517
Leasing costs for first-time tenants ⁽¹⁾	-	(212)	(298)
Leasing commissions	244	1,496	1,219
Tenant allowances ⁽²⁾	890	3,152	1,289
Total leasing costs	1,134	4,648	2,508
Sustaining capital expenditures	778	1,641	1,845
	1,912	6,289	4,353
Per Unit – diluted	0.019	0.065	0.046

(1) Expenditures for first-time tenants are by their nature initial investments and not a cost of maintaining productive capacity.

(2) For the purposes of the AFFO calculations, these amounts are considered leasing costs.

Calloway Developments and Earnouts Completed on Existing Properties

During the first quarter of 2010, \$54.5 million of Earnouts and Calloway Developments transferred to income properties were completed, as follows:

(in millions of \$)	Three Months Ended March 31, 2010			Three Months Ended March 31, 2009		
	Area (sq. ft.)	Investment \$	Yield %	Area (sq. ft.)	Investment \$	Yield %
Earnouts	145,032	49.5	6.9	98,842	23.2	7.4
Calloway Developments	15,993	5.0	9.7	33,388	3.7	6.6
	161,025	54.5	7.2	132,230	26.9	7.2

On April 28, 2010, the Trust completed the purchase of Earnouts totalling 65,147 square feet of development space from SmartCentres and other vendors for \$4.5 million paid in cash.

With the decrease of Calloway's cost of capital due to higher unit prices and approximately 6% ten year debt, Calloway's development pipeline is once again providing accretive real estate to help grow the Trust.

Properties Under Development

As at March 31, 2010, properties under development totalled \$402.3 million compared to \$365.1 million at December 31, 2009. The net increase of \$37.2 million is a result of:

- Complying with the real estate investment trust exemption rules ("REIT Exemption") under the Income Tax Act (Canada), certain development management agreements were amended. As a result of the amendment, the development loans receivable in the amount of \$58.6 million were repaid and Calloway acquired the related development costs which was included in properties under development.
- Additional development costs of \$24.1 million incurred, offset by the transfer to income properties of the cost of four new buildings from Calloway Developments for \$5.0 million, and the cost of completed Earnouts of \$40.3 million.

Properties under development as at March 31, 2010 comprised the following:

(\$000s)	March 31, 2010 \$	December 31, 2009 \$
Earnouts subject to option agreements ⁽¹⁾	154,980	117,878
Calloway Developments subject to option agreements ⁽²⁾	77,528	97,140
Other Calloway Developments	169,820	150,032
Properties under development – end of year	402,328	365,050

(1) Earnout development costs during the development period are paid by the Trust and funded through interest bearing development loans provided by the vendors to the Trust. Upon completion of the development and the commencement of lease payments by a tenant, the Earnouts will be acquired from the vendors based on predetermined or formula capitalization rates ranging from 6.00% to 10.0%, net of land and development costs incurred. SmartCentres has contractual options to acquire Trust and LP Units upon completion of Earnout Developments as shown in note 11(b) of the consolidated financial statements for the three months ended March 31, 2010. In January 2009, the Trust and SmartCentres agreed in principle to amend certain development management agreements pertaining to the Earnouts of eleven properties that currently have a floating capitalization rate determined by reference to the ten-year Government of Canada bond rate. The proposed amendments are to include a fixed floor capitalization rate ranging from 6.00% to 7.50%.

(2) SmartCentres also has the right for a period of five years, plus a five-year renewal, to subscribe for up to 5,250,000 Class B Series 1 and Series 3 LP Units at a price of \$20.10 per Unit, upon the completion and rental of additional space in certain Calloway Developments, as shown in note 11(b) of the consolidated financial statements for the three months ended March 31, 2010.

The total future Earnouts and developments of 5.0 million square feet includes 2.3 million square feet of properties held for future development and 2.7 million square feet under active development. The following table summarizes the estimated investment in properties under active development; it is expected the future development costs will be spent over the next five years:

(\$000s except for area)	Gross Investment ⁽¹⁾ \$	Costs Incurred \$	Future Development Costs \$	Total Area Square feet
Earnouts	445,272	115,814	329,458	1,667,424
Calloway Developments	227,677	81,764	145,913	972,527
Total ⁽²⁾	672,949	197,578	475,371	2,639,951

(1) Adjustments to future development are based on management's estimates at March 31, 2010. Adjustments include acquisition of lands for development and site plan changes due to items such as, but not limited to, certification of areas, intensification of allowable density, tenant requirements, changes in tenant rents, successful property rezoning and parking requirements.

(2) On completion, these projects will add 2.7 million square feet of gross leasable area to Calloway's portfolio.

Approximately 63.2% of the properties under active development, representing 1.7 million square feet and an investment of \$445.3 million, are a commitment to purchase from SmartCentres and third parties once space has been leased and built and the tenant is in occupancy and paying rent. It is management's intention to finance the cost of construction through interim financing or operating facilities and, once rental revenue is realized, long-term financing will be negotiated. The remaining 1.0 million square feet of future space will be developed as Calloway leases space and finances the construction costs.

During the quarter ended March 31, 2010, the future properties under development pipeline decreased by 159,335 square feet. The change is summarized as follows:

	Total Area Square Feet
Future properties under development pipeline - January 1, 2010	5,144,274
Add:	
Adjustment to projects densities	1,690
Less:	
Completion of Earnout and development during the period	(161,025)
Net adjustment	(159,335)
Future properties under development pipeline - March 31, 2010	4,984,939

The economic slowdown which began in the second half of 2008 has had an impact on the timing of both Earnouts and Calloway Developments as tenants have delayed their expansion plans. As such, management has reviewed its developments and has identified certain properties where there are no immediate plans to commence any such developments. Management will evaluate development plans on these properties as they arise; however, any potential investment in development of such properties does not currently form part of Calloway's immediate capital planning activities.

The following table shows properties designated for future development:

(\$000s except for area)	Costs Incurred ⁽¹⁾ \$	Estimated Total Potential Area Square feet
Earnouts	45,244	860,505
Calloway Developments	116,761	1,484,484
Total	162,005	2,344,989

(1) Part of the \$402,328 of properties under development as disclosed in the consolidated financial statements as at March 31, 2010.

Mortgages, Loans and Notes Receivable

(\$000s)	March 31, 2010 \$	December 31, 2009 \$
Mortgages receivable	177,356	173,410
Loans receivable	5,102	69,374
Notes receivable	2,608	2,608
	185,066	245,392

Mortgages Receivable

In addition to direct property acquisitions, Calloway provides mezzanine financing to developers on terms that include an option to acquire an interest in the mortgaged property upon substantial completion. As at March 31, 2010, the Trust has total commitments of \$280.1 million to fund mortgages receivable under its mezzanine loan program. Each mortgage has an option entitling the Trust to acquire a 50% and 100% interest in the property upon substantial completion at an agreed upon formula.

As at March 31, 2010, mortgages totalling \$135.9 million, secured by first, second or third charges on the properties, have been advanced to SmartCentres. During the first quarter of 2010, including monthly interest accruals and payments, \$4.4 million was advanced. The mortgages are interest only with rates that range from 6.35% to 7.75%. The mortgages mature on various dates from 2010 to 2018, with options to extend under certain conditions.

Mortgages to other borrowers, totalling \$41.5 million, were outstanding at quarter end. The mortgages are interest only with rates that range from 7.25% to 7.50%, are secured by first and second charges, and mature on various dates from 2012 to 2015.

As at March 31, 2010, the Trust has funded \$177.4 million of the total commitment at a weighted average interest rate of 7.34% per annum. Assuming that developments are completed as anticipated, and assuming that borrowers repay their mortgages in accordance with the terms of the agreements governing such mortgages, expected repayments are as follows:

(\$000s)	Mortgages #	Principal Repayments \$
2010	1	11,846
2011	2	12,664
2012	2	26,725
2013	2	15,244
2014	2	73,031
2015	2	13,860
2017	1	9,251
2018	1	14,735
	13	177,356

Loans Receivable

Pursuant to development management agreements, loans receivable were provided to SmartCentres and Hopewell Development Corporation. For the three months ended March 31, 2010, an additional \$1.8 million has been funded, offset by repayments of \$66.1 million, which represented full repayment on these loans. During the quarter ended March 31, 2010, certain development management agreements were amended to comply with the REIT Exemption under the Income Tax Act (Canada). As a result of the amendments, the costs of developing these properties are now incurred directly by Calloway and included in properties under development as incurred.

Loans receivable of \$5.1 million have been provided pursuant to agreements with other unrelated parties. The loans bear interest at rates of 5.20% to 5.50%, mature in 2012 and 2015 and are secured by either first or second charges on properties, assignments of rents and leases, and general security agreements. For the quarter ended March 31, 2010, \$0.04 million has been repaid

Notes Receivable

The Trust owns a \$2.6 million share of secured demand notes provided to SmartCentres, bearing interest at 9.0%.

Amounts Receivable, Prepaid Expenses and Deposits

As at March 31, 2010, amounts receivable, prepaid expenses and deposits totalled \$67.1 million, a \$13.5 million increase during the quarter. This increase is primarily due to prepaid expenses and deposits (\$5.9 million), tenant receivables (\$4.7 million), other tenant receivable (\$2.5 million), straight-line rents receivable (\$0.9 million) offset by a decrease in other receivables (\$0.5 million). The increase in tenant receivables is mainly due to seasonal interim tax billings to tenants. The increase in prepaid expenses is mainly due to prepaid realty taxes from seasonal tax billings from municipalities. See note 9(a) in the consolidated financial statements for the three months ended March 31, 2010 for further discussion and analysis of tenant receivables.

Amounts receivable, prepaid expenses and deposits consist of the following:

(\$000s)	March 31, 2010 \$	December 31, 2009 \$
Amounts receivable		
Tenant receivables - net	14,790	10,087
Other tenant receivables	9,963	7,505
Straight-line rent receivable	28,627	27,755
Other receivables	3,992	4,465
	57,372	49,812
Prepaid expenses and deposits		
Prepaid expenses and other	9,377	3,432
Deposits	400	405
	9,777	3,837
	67,149	53,649

Debt

As at March 31, 2010, indebtedness totalling \$2,688.9 million was outstanding, compared to \$2,726.7 million as at December 31, 2009.

(\$000s)	March 31, 2010 \$	December 31, 2009 \$
Term debt		
Term mortgages	1,872,418	1,860,574
Unsecured debentures	521,452	521,452
	<u>2,393,870</u>	<u>2,382,026</u>
Development loans	127,822	144,323
Operating and acquisition facilities	5,000	92,000
Convertible debentures	178,705	123,769
Deferred financing costs	(16,543)	(15,420)
Total	<u>2,688,854</u>	<u>2,726,698</u>

Calloway's Declaration of Trust limits Calloway's indebtedness to a maximum of 60% of gross book value, excluding convertible debentures, and 65% including convertible debentures. Gross book value is defined as total assets plus accumulated amortization of income properties. Total indebtedness (excluding convertible debentures) as a percentage of gross book value was 53.1% as at March 31, 2010 and 55.3% as at December 31, 2009. Total indebtedness (including convertible debentures) as a percentage of gross book value was 56.9% as at March 31, 2010 and 57.9% as at December 31, 2009.

Term Debt

Term Mortgages

As at March 31, 2010, term mortgages have increased to \$1,872.4 million compared to \$1,860.6 million at December 31, 2009.

(\$000s)	\$
Balance – January 1, 2010	1,860,574
Borrowings	36,400
Scheduled amortization	(12,076)
Repayment on maturity	(11,384)
Amortization of acquisition date fair value adjustments	(1,096)
Balance – March 31, 2010	<u>1,872,418</u>

The term mortgages payable bear interest at a weighted average contractual interest rate of 5.91% (December 31, 2009 – 5.90%) and mature on various dates from 2010 to 2026. Including acquisition date fair value adjustments, the effective weighted average interest rate on term mortgages is 5.85% (December 31, 2009 – 5.84%). The weighted average years to maturity, including the timing for payments of principal amortization and debt maturing, is 6.2 years (December 31, 2009 – 6.4 years).

During the first quarter of 2010, the Trust obtained \$36.4 million in new mortgages with an average term of 6.7 years and weighted average interest rate of 6.21%.

On April 1, 2010, the Trust entered into a ten-year term mortgage totalling \$19,000, bearing interest at 5.79% and secured by a specific income property.

The Trust continues to have access to the term debt market due to its strong tenant base and high occupancy levels at mortgage loan levels ranging from 60% to 65% loan to value. Term debt maturities remain low for the next several years with only \$12.7 million (three mortgages) maturing for the balance of 2010 with a weighted average interest rate of 6.2%.

Future principal payments as a percentage of term debt are as follows:

Term Facilities (\$000s)	Payments of Principal Amortization \$	Debt Maturing During Year \$	Total \$	Total %	Weighted Average Interest Rate %
2010 (remainder of)	37,290	12,655	49,945	2.69	6.20
2011	51,163	83,265	134,428	7.24	6.14
2012	51,630	84,182	135,812	7.32	5.41
2013	48,980	232,950	281,930	15.19	6.17
2014	46,075	219,189	265,264	14.29	5.90
Thereafter	237,299	751,531	988,830	53.27	5.78
Total	472,437	1,383,772	1,856,209	100.00	5.91
Acquisition date fair value adjustment			16,209		
			1,872,418		

The debt maturing by type of lender is as follows:

Term Facilities (\$000s)	Debt Maturing During Year by Type of Lender				Total \$
	Life Insurance Companies \$	Conduit Loans \$	Banks \$	Pension Funds \$	
2010	3,794	8,861	-	-	12,655
2011	50,413	11,131	-	21,721	83,265
2012	70,965	-	13,217	-	84,182
2013	93,471	23,846	73,666	41,967	232,950
2014	-	72,497	131,400	15,292	219,189
Thereafter	370,372	219,074	82,342	79,743	751,531
Total	589,015	335,409	300,625	158,723	1,383,772

Unsecured Debentures

Issued and outstanding as at March 31, 2010:

(\$000s)	March 31, 2010 \$	December 31, 2009 \$
Series A senior unsecured, due September 22, 2010, bearing interest at 4.51% per annum, payable semi-annually on September 22 and March 22; issued on September 22, 2005	46,452	46,452
Series B senior unsecured, due October 12, 2016, bearing interest at 5.37% per annum, payable semi-annually on October 12 and April 12; issued on October 12, 2006	250,000	250,000
Series C senior unsecured, due April 14, 2014, bearing interest at 10.25% per annum, payable semi-annually on April 14 and October 14; issued on April 13, 2009	150,000	150,000
Series D senior unsecured, due June 30, 2014, bearing interest at 7.95% per annum, payable semi-annually on June 30 and December 30; issued on June 30, 2009	75,000	75,000
	521,452	521,452

Dominion Bond Rating Services ("DBRS") provides credit ratings of debt securities for commercial issuers, which indicate the risk associated with a borrower's capabilities to fulfill its obligations. An investment grade rating must exceed "BB", with the highest rating being "AAA". The Trust's debentures are rated "BBB" with a stable trend as at March 31, 2010.

Development Loans

Development loans totalling \$127.8 million (December 31, 2009 - \$144.3 million) are outstanding as at March 31, 2010, of which \$104.2 million (December 31, 2009 - \$119.4 million) is interest bearing and \$23.6 million (December 31, 2009 - \$24.9 million) is non-interest bearing.

Interest-bearing Loans

The vendor of certain properties, a joint venture between SmartCentres and Wal-Mart Canada Realty Inc., agreed to finance the costs associated with the construction and lease-up of undeveloped lands for certain assets. As at March 31, 2010, development loans totalling \$12.8 million have been advanced to Calloway from that joint venture under the agreements (December 31, 2009 - \$17.8 million). These loans bear variable interest rates at the banker's acceptance rate ("BA") plus 2% and are secured by first mortgages over specific income properties and properties under development and general assignment of leases. The loans are due the earlier of various dates in 2010 through 2015 or the date building construction is completed and the tenant is in occupancy and paying rent.

Calloway has also borrowed from third party lenders to finance construction and leasing costs of various other properties. Development loans totalling \$91.5 million as at March 31, 2010 (December 31, 2009 - \$101.6 million) bear variable interest rates as follows: BA rate plus 2.0% to 2.5% on \$81.3 million, prime plus 0.75% on \$4.4 million, and prime plus 0.5% on the remaining \$5.8 million. These loans are secured by first and second mortgages registered on income properties and a general assignment of leases.

Non-interest-bearing Loans

As at March 31, 2010, a joint venture between SmartCentres and Wal-Mart Canada Realty Inc. has provided \$23.6 million (December 31, 2009 - \$25.0 million) in non-interest bearing loans to finance certain land acquisition costs. An imputed annual cost has been calculated at rates ranging from 4.03% to 5.16%, and the loans are secured by first mortgages over specific income properties and development properties and a general assignment of leases and are due the earlier of various dates in 2010 through 2015 or the date building construction is completed and the tenant is in occupancy and paying rent.

Operating Facilities

A \$160 million revolving operating facility with \$5 million (December 31, 2009 - \$59 million) outstanding bears interest at a variable interest rate based on bank prime plus 2.25% or banker's acceptance rates plus 3.25%, is secured by first charges over specific income properties and first general assignments of leases and insurance and expires on September 30, 2011.

A \$105 million revolving operating facility was repaid at its maturity in January 2010.

Convertible Debentures

Originally issued at \$55.0 million, the 6.0% convertible unsecured subordinated debentures are due June 30, 2014. The debentures are convertible at the holders' option into Trust Units at \$17.00 per Unit. The convertible debentures are redeemable at the option of Calloway in cash or Units on or after June 30, 2010. During the first quarter of 2010, debenture holders elected to convert \$0.38 million into Trust Units. As at March 31, 2010, 6.0% convertible debentures outstanding totalled \$4.4 million at face value.

Originally issued at \$125.0 million, the 6.65% convertible unsecured subordinated debentures are due June 30, 2013. The debentures are convertible at the holders' option at any time into Trust Units at \$25.25 per Unit. The convertible debentures are redeemable at the option of Calloway in cash or Units on or after June 30, 2011. During the first quarter of 2010, debenture holders did not convert any amounts into Trust Units. As at March 31, 2010, 6.65% convertible debentures outstanding totalled \$125.0 million at face value.

On January 5, 2010, the Trust issued \$60 million of 5.75% convertible unsecured subordinated debentures due on June 30, 2017. The debentures are convertible at the holders' option at any time into Trust Units at \$25.75 per Unit. The convertible debentures are redeemable at the option of Calloway in cash or Units on or after June 30, 2013. During the first quarter of 2010, debenture holders did not convert any amounts into Trust Units. As at March 31, 2010, 5.75% convertible debentures outstanding totalled \$60.0 million at face value.

Financial Covenants

The Trust's various credit facilities provide first charge security interests on most of the properties in its portfolio of income-producing properties, to various lenders. These credit facilities contain numerous terms and covenants that limit the discretion of management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of the Trust to create liens or other encumbrances, to pay distributions on its Units or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. In addition, the credit facilities contain a number of financial covenants that require the Trust to meet certain financial ratios and financial condition tests. For example, certain of the Trust's loans require specific loan to value and debt service coverage ratios, which must be maintained by the Trust. A failure to comply with the obligations in the credit facilities could result in a default, which if not cured or waived, could result in a reduction or termination of distributions by the Trust and permit acceleration of the relevant indebtedness. If the indebtedness under the credit facilities were to be accelerated, there can be no assurance that the assets of the Trust would be sufficient to repay in full that indebtedness. For the quarter ended March 31, 2010, the Trust was in compliance with the terms and covenants of all its credit facilities.

Financial Instruments

The Trust has classified as loans and receivables its cash and cash equivalents, mortgages and loans receivable, financial assets included in amounts receivable, and deposits, and has classified as other financial liabilities its debt and financial liabilities included in accounts payable and accrued liabilities. Both loans and receivables and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost using the effective interest method. These financial instruments are used in the normal course of business.

The Trust's amounts receivable, deposits, and accounts payable and accrued liabilities are carried at cost, which approximates their fair value because of the short period to receipt or payment of cash. The fair value of the convertible and unsecured debentures is based on their market price. The fair values of other financial instruments are estimated based on discounted future cash flows using discounted rates that reflect current market conditions for instruments with similar terms and risks. Such fair value estimates are not necessarily indicative of the amounts the Trust might pay or receive in actual market transactions.

The Trust is exposed to interest rate and financing risks, and credit risks on certain of its financial instruments (see note 20 in the consolidated financial statements for the quarter ended March 31, 2010 for further discussion).

Unitholders' Equity

(\$000s)	Three Months Ended March 31, 2010 \$	Year Ended December 31, 2009 \$
Unitholders' equity – beginning of period	1,372,617	1,436,887
Issuance of Units, net of issuance cost	41,799	63,506
Conversion of debentures, net of financing cost	380	13
Equity component of convertible debentures issued	4,988	-
Net income for the period	7,430	23,286
Distributions for the period	(39,496)	(151,075)
Unitholders' equity – end of period	1,387,718	1,372,617

As at March 31, 2010, Unitholders' equity totalled \$1,387.7 million (December 31, 2009 - \$1,372.6 million), including \$12.2 million pertaining to the allocation of the equity component of convertible debentures. As at March 31, 2010, Unit Equity totalled \$1,857.0 million and Units outstanding, including Class B LP Units, Class D LP Units and Class B LPII Units of subsidiary partnerships, totalled 101,607,018. During the first quarter of 2010, the Trust issued 2,230,979 Trust Units and 10,595 Class B and Class D Units.

During the quarter ended March 31, 2010, holders of \$0.38 million face value of convertible debentures elected to convert and received 22,350 Trust Units. These conversions increased the Trust's capital by \$0.38 million.

During the quarter ended March 31, 2010, the Trust issued \$42.2 million in Units as follows:

	Trust Units #	LP Units Class B and Class D #	Total Units #	2010 \$
New issuance	2,100,000	-	2,100,000	40,005
Earnout options exercised	-	10,595	10,595	213
Distribution reinvestment plan (DRIP)	107,429	-	107,429	2,148
Debentures converted	22,350	-	22,350	380
DUP Units converted into Trust Units	1,200	-	1,200	-
Total	2,230,979	10,595	2,241,574	42,746
Deferred Unit Plan				1,183
Unit issuance costs				(1,750)
Total change in Unit equity				42,179

On January 5, 2010, the Trust issued 2.1 million Trust Units at a price of \$19.05 per unit for gross proceeds of \$40.0 million (net \$38.4 million).

Distributions declared by the Trust totalled \$39.5 million during the quarter ended March 31, 2010 (March 31, 2009 - \$37.1 million) or \$0.387 per Unit (three months ended March 31, 2009 - \$0.387 per Unit). The Trust paid \$37.4 million in cash and the balance by issuing 107,429 Trust Units under the distribution reinvestment plan.

Distributions to Unitholders in the three months ending March 31, 2010, as compared to the same period in 2009, were as follows:

(\$000s)	Three Months Ended March 31, 2010 \$	Three Months Ended March 31, 2009 \$
Distributions to Unitholders	39,496	37,106
Distributions reinvested through DRIP	(2,277)	(3,449)
Net cash outflow from distributions to Unitholders	37,219	33,657
DRIP as a percentage of distributions to Unitholders	5.77%	9.3%

Capital Resources and Liquidity

As at March 31, 2010, the Trust has the following capital resources available

(\$000s)	\$
Cash and cash equivalents	8,434
Unused operating facilities	126,045
Total capital resources at March 31, 2010	134,479

On the assumption that occupancy levels remain strong and that it will be able to obtain financing on reasonable terms, the Trust anticipates meeting all current and future obligations. Management expects to finance future acquisitions, including committed Earnouts and Calloway Developments, mezzanine loans and maturing debt from: (i) existing cash balances; (ii) a mix of mortgage debt secured by income properties, operating facilities, issuance of equity and convertible/unsecured debentures; and (iii) repayments of mortgages receivable and the sale of non-core assets. Cash flow generated from operating activities is the source of liquidity to service debt (except maturing debt), sustaining capital expenditures, leasing costs and unit distributions.

As at March 31, 2010, the Trust decreased its capital resources by \$36.8 million compared to December 31, 2009. This net decrease in capital resource is the result of a maturing revolving operating facility (\$105 million) in January 2010, a maturing mortgage (\$11.4 million), and investment in Earnouts and Calloway Developments (\$54.5 million), offset by funds obtained from new units and convertible debentures on January 5, 2010 (\$100 million) and new term mortgages (\$36.4 million).

The Trust manages its cash flow from operating activities by maintaining a target debt level. The debt to gross book value, as defined in the Declaration of Trust, at March 31, 2010, is 53.1%, excluding convertible debentures. Including the capital resources at March 31, 2010, the Trust could invest an additional \$362.0 million in new investments and remain at the mid-point of the Trust's target debt to gross book value range of 55% to 60%.

Future obligations, excluding the development pipeline, total \$2,817.0 million as identified in the following table. Other than contractual maturity dates, the timing of payment of these obligations is management's best estimate based on assumptions with respect to the timing of leasing, construction completion, occupancy and Earnout dates at March 31, 2010.

(\$000s)	Total \$	Remainder of 2010 \$	2011 \$	2012 \$	2013 \$	2014 \$	Thereafter \$
Mortgages payable	1,856,209	49,945	134,428	135,812	281,930	265,264	988,830
Revolving operating facilities (secured) ⁽¹⁾	5,000	-	5,000	-	-	-	-
Unsecured debentures	521,452	46,452	-	-	-	225,000	250,000
Construction loans ⁽²⁾	91,471	81,248	10,223	-	-	-	-
Related party loan	36,352	10,636	17,715	7,617	384	-	-
Convertible debentures	189,435	-	-	-	125,000	4,435	60,000
Mortgage receivable advances ⁽³⁾	102,779	24,097	35,639	29,329	7,225	2,936	3,553
Development obligations	14,303	14,303	-	-	-	-	-
	2,817,001	226,681	203,005	172,758	414,539	497,635	1,302,383

(1) The Trust expects the revolving operating facility to be renewed and extended as required.

(2) \$91.7 million represents construction loans on certain properties under development from various bank lenders, which typically have a maturity of one year. These loans are reviewed annually by the lenders and are renewed and extended as required from time to time to coincide with the progress of the development.

(3) Mortgages receivable of \$177.3 million at March 31, 2010, and further commitments of \$102.8 million mature over a period extending to 2018 if the Trust does not exercise its option to acquire the income properties. Refer also to "Mortgages Receivable" section for timing of principal repayments.

It is management's intention to refinance maturing term debt at amounts equal to, or greater than, those amounts due, based on increased revenues and amortized debt levels on the pledged assets.

The following summarizes maturities for existing term mortgages:

Year	Mortgages #	Debt Maturing During the Year \$	Current Base Rent \$	Loan to Value ⁽¹⁾ %
2010 (remainder of)	2	12,655	3,398	29%
2011	4	83,265	12,244	53%
2012	4	84,182	10,015	65%
2013	13	232,950	40,741	44%
2014	11	219,189	33,506	51%
2015	8	168,833	24,929	52%
Thereafter	46	582,698	148,152	30%
Total	88	1,383,772	272,985	39%

(1) Assuming a 7.5% capitalization rate ("Cap Rate") and 3% property management fee.

Potential upfinancing on maturing term debt of \$12.7 million in 2010 and \$83.3 million in 2011 is as follows:

Loan to Value	2010			2011		
	Cap Rate 7.25%	Cap Rate 7.50%	Cap Rate 7.75%	Cap Rate 7.25%	Cap Rate 7.50%	Cap Rate 7.75%
60%	14,626	13,717	12,866	15,028	11,752	8,687
65%	16,899	15,914	14,993	23,219	19,670	16,349

Management anticipates the 6.00% unsecured subordinated convertible debentures will convert into equity prior to their maturity based on the assumption that the trading value of Calloway Units will exceed the conversion price, and the 6.65% and 5.75% unsecured subordinated convertible debentures will not be converted. The development loan repayments, mortgage receivable advances and development obligations will be funded by additional term mortgages, net proceeds on the sale of non-core assets, existing cash or operating lines, the issuance of convertible and unsecured debentures, and equity units, if necessary.

Calloway's potential development pipeline of \$1,101.7 million consists of \$599.3 million in Earnouts and \$502.3 million in developments. Costs totalling \$402.3 million have been incurred to date (including \$42.7 million of non-cash development comprising future land obligations and value of Earnout options) with a further \$742.1 million still to be funded. The future funding includes \$438.3 million for Earnouts that will be paid once a lease has been executed, the space built and the tenant is in occupancy paying rent. The remaining \$303.8 million of development will proceed once Calloway has an executed lease and financing in place. Management expects this pipeline to be developed over the next three to five years.

Potential future pipeline:

(\$000s)	Total \$	Funded \$	Balance to Fund \$
Earnouts	599,322	161,058	438,264
Calloway Developments	502,341	198,525	303,816
Non-cash Development Cost	42,745	42,745	-
Sub-total	1,144,408	402,328	742,080
Less: Non-cash Development Cost	(42,745)	(42,745)	-
Aggregate Pipeline	1,101,663	359,583	742,080

The following schedule includes committed obligations for 2010 and 2011 (which are included in the potential future pipeline noted above) as at March 31, 2010:

Committed Pipeline:

(\$000s)	Total \$	Funded \$	Balance to Fund \$
Committed pipeline for the year 2010			
Balance – beginning of the period	154,567	48,544	106,023
Development costs acquired on settlement of development loans receivable	-	48,978	(48,978)
Changes during the period	(32,522)	(16,994)	(15,528)
Balance – end of the period	122,045	80,528	41,517
Committed pipeline for the year 2011			
Balance – beginning of the period	54,980	19,961	35,019
Development costs acquired on settlement of development loans receivable	-	9,600	(9,600)
Changes during the period	(4,804)	(4,440)	(364)
Balance – end of the period	50,176	25,121	25,055
Total committed pipeline	172,221	105,649	66,572

Potential financing sources for committed Earnouts and Calloway Developments and other commitments based on completing Earnouts, maintaining existing tenants at current or higher rental rates and obtaining financing on acceptable terms are as follows:

(\$000s)	2010 \$	2011 \$	Total \$
Uses:			
Committed Earnouts and Calloway Developments	41,517	25,055	66,572
Amortization of mortgage principal	37,290	51,163	88,453
Mezzanine loan advances	24,097	35,639	59,736
Unsecured debentures	46,452	-	46,452
	149,356	111,857	261,213
Sources:			
Existing cash and operating facilities ⁽¹⁾	103,356	31,123	134,479
Construction financing	4,000	4,000	8,000
Up-financing of maturing mortgages	14,000	12,000	26,000
Financing of unencumbered assets ⁽²⁾	19,000	55,735	74,735
Dividend Reinvestment Plan and Earnout Options ⁽³⁾	9,000	9,000	18,000
	149,356	111,858	261,214

(1) Includes cash and unused balances from all existing operating facilities.

(2) Includes mortgages closed in April 2010 for Aurora N (\$19 million).

(3) Management's best estimate based upon historical experience and anticipated price of Trust Units.

Results of Operations

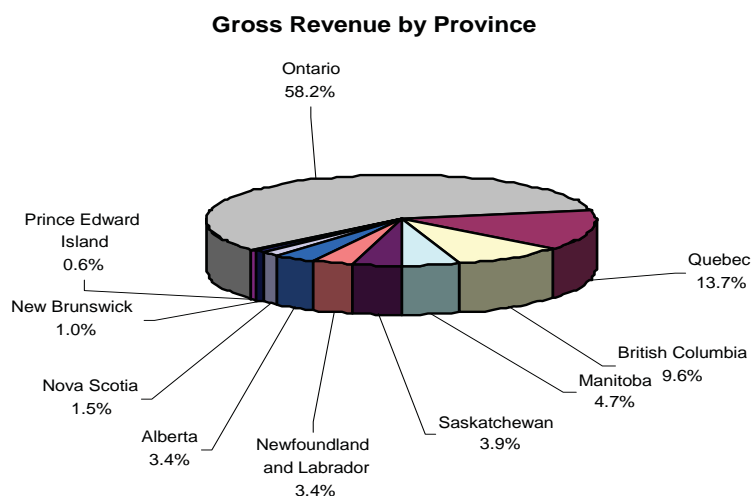
Calloway's real estate portfolio has grown through acquisitions, completed developments and Earnouts during the course of the past year. As a result, there are increases in operating results for the quarter ended March 31, 2010 compared to the quarter ended March 31, 2009.

Rentals from income properties for the first quarter of 2010 totalled \$119.8 million, a \$6.6 million or 5.8% increase over the first quarter of 2009. Base rent increased by \$5.4 million or 7.1% primarily due to acquisitions and Earnouts that occurred during 2009 and 2010. Property operating costs recovered increased by \$1.3 million or 3.5% due to the related increases in recoverable costs with the growth in the portfolio. Non-recoverable operating costs of \$1.6 million incurred during the first three months of 2010 include prepaid land rent (\$0.9 million), bad debts (\$0.3 million), and other non-recoverable costs including operating expenses relating to vacant units maintenance and re-leasing (\$0.4 million). The Trust recovered 95.7% of total recoverable expenses in the first quarter of 2010 compared to 94.7% for the same period in the prior year. The increase is mainly as a result of higher occupancy and lower fixed or capped rate shortfall due to lower common area maintenance expenses. NOI as a percentage of rentals from income properties has increased by 1.2% due to the increase in rental income being higher than the increase in the recoverable costs.

In comparison to the same quarter in 2009, NOI increased by \$5.6 million in the first quarter of 2010, primarily as a result of the growth of the portfolio due to Earnouts and completed development.

(\$000s)	Three Months Ended March 31, 2010 \$	Three Months Ended March 31, 2009 \$
Base rent	80,902	75,512
Property operating cost recoveries	38,003	36,719
Administration fee recoveries	891	960
Rentals from income properties	119,796	113,191
Recoverable costs	39,730	38,786
Property management administrative costs	1,076	1,025
Management fees	230	212
Non-recoverable costs	1,559	1,588
Total property-specific costs	42,595	41,611
Net operating income	77,201	71,580
NOI as a percentage of rentals from income properties	64.44%	63.24%

Rentals from income properties account for 97.4% of revenues for the quarter ended March 31, 2010, with 71.9% of the portfolio located in Ontario and Quebec, primarily in the Greater Toronto and Montreal areas. The balance of the portfolio is located across Canada.



The five largest tenants account for 40.2% of portfolio revenue as follows⁽¹⁾:

Tenants	% Of Revenues
Wal-Mart ⁽²⁾	26.0
Canadian Tire	4.1
Best Buy/Future Shop	3.6
HBC	3.4
Reitmans	3.1

(1) Annualized March 31, 2010.

(2) Calloway has a total of 72 Wal-Marts under lease, of which 25 are SuperCentres. An additional eight expansions are expected to be completed by the end of 2010. The Trust has 19 centres with Wal-Mart as shadow anchors, of which six are SuperCentres.

Net Operating Income

NOI from continuing operations is defined as rentals from income properties less property operating costs. NOI from acquisitions, Earnouts and development activities highlights the impact each component has on NOI. Straight-lining of rent and other adjustments have been excluded from NOI attributed to same properties, acquisitions, Earnouts and development activities in the table below.

The same properties' NOI for the quarter ended March 31, 2010 increased by 1.4% over the same period of the prior year due primarily to lease-up of vacant space and step-up of existing leases. In addition, NOI before adjustments increased 7.5% to \$76.9 million in the first quarter of 2010 from \$71.5 million in the same period of the previous year. The increase was primarily due to additional rent from lease-up of vacant space and rent step-ups (\$1.0 million), acquisitions (\$0.7 million), Earnouts from SmartCentres and development (\$3.7 million) made during 2009 and the first three months of 2010. Management's estimate of the annual property run-rate NOI (excluding the impact of straight-line rent and other adjustments) at March 31, 2010 is \$308.2 million. "Same properties" in the chart below refer to those income properties that were owned by the Trust on January 1, 2009 and throughout 2009 and the first quarter of 2010.

(\$000s) NOI	Three Months Ended March 31, 2010 \$	Three Months Ended March 31, 2009 \$
Same properties	72,080	71,108
2009 acquisitions	664	-
2010 acquisitions	-	-
Earnouts and developments	4,130	429
NOI before adjustments	76,874	71,537
Land rent	(900)	(897)
Lease termination and other adjustments	355	40
Straight-lining of rents	872	900
NOI	77,201	71,580

Based on the potential lease-up of vacant space, rent increases from 2010 lease renewals, and rent step-ups, the following is the potential rent increases for 2010:

Potential Rent Increases (\$000s)	Renewals and Re-leases			
	Net Rents Expiring	Contractual Rents ⁽¹⁾	Market Rents ⁽²⁾	Additional Rent ⁽³⁾⁽⁴⁾
Annualized increases in lease renewals	3,273	1,375	1,938	40
Commitments on vacant space	-	-	1,132	1,132
Rental step-ups	-	1,455	-	1,455
Committed Increases	3,273	2,830	3,070	2,627
Potential increases from expiring leases	5,283	1,175	4,431	323
Potential lease-up of vacant space	-	-	2,674	2,674
Total potential Increases	8,556	4,005	10,175	5,624

(1) Leases at maturity with option to renew at a predetermined rate.

(2) Lease renewals at estimated market rent.

(3) Additional rent is calculated based on the difference between market and contractual rents less net rent expiring on those spaces.

(4) The additional annualized rental increase for 2010 was adversely affected by a reduction of \$144 from a renewal of one large tenant.

Leasing Activities and Expiries

Leasing Activities

A high occupancy rate with low maturity, combined with strong national tenants in prime retail locations put Calloway in a position in which it has weathered the worst part of the economic slowdown. Calloway ended the first quarter of 2010 with a vacancy level of 234,044 square feet, representing 1.0% of the portfolio. This represents a reduction in vacancy compared to the previous quarter (250,507 square feet) and at the end of first quarter 2009 (374,542 square feet). In addition to the reduction in vacancy, the Trust has completed an additional 50,795 square feet of forward lease commitments. This equates to an additional \$1.13 million in additional annualized income. This trend of reducing vacancy and securing quality tenants levels is in keeping with Calloway's commitment to further strengthen its centres.

2010 Lease Expiries

Calloway's goal for 2010 is to continue to maintain a high level of retention and to replace weaker tenants with those that are reflective of the quality of its centres. Calloway achieved a retention rate of 90% of all tenants with 2009 expiries and is working towards achieving similar results for 2010. A total of 260,355 square feet of the 572,633 square feet of leases expiring in 2010 has been renewed with rate increases.

The following table shows lease expiries for the total portfolio:

Year of Expiry	Area (sq. ft.)	Area (%)	Annualized Base Rent (\$000s)	Average Rent psf ⁽¹⁾ (\$)
Month-to-month	35,523	0.2%	483,969	13.62
2010 (remainder of)	278,590	1.2%	4,798,868	17.23
2011	1,058,407	4.6%	17,541,241	16.57
2012	1,033,239	4.5%	18,913,088	18.30
2013	1,648,081	7.2%	33,178,061	20.13
2014	1,410,410	6.1%	25,602,446	18.15
2015	1,369,960	6.0%	23,817,154	17.39
Beyond	15,906,571	69.2%	192,447,376	12.10
Vacant	234,044	1.0%	-	-
Total	22,974,825	100.0%	316,782,203	13.93

(1) The average rent per square foot excludes vacant space of 234,044 square feet.

The following table shows lease expiries for the portfolio, excluding anchor tenants ⁽¹⁾:

Year of Expiry	Area (sq. ft.)	Area (%)	Annualized Base Rent (\$000s)	Average Rent psf ⁽²⁾ (\$)
Month-to-month	35,523	0.2%	483,969	13.62
2010 (remainder of)	278,590	1.2%	4,798,868	17.23
2011	788,998	3.4%	14,188,176	17.98
2012	985,461	4.3%	18,438,726	18.71
2013	1,336,774	5.8%	27,206,847	20.35
2014	1,152,524	5.0%	22,725,864	19.72
2015	1,044,487	4.5%	20,233,154	19.37
Beyond	3,680,991	16.0%	71,622,385	19.46
Vacant	217,001	0.9%	-	-
Total	9,520,349	41.3%	179,697,989	19.32

(1) An anchor tenant is defined as any tenant with leasable area greater than 30,000 square feet.

(2) The average rent per square foot excludes vacant space of 217,001 square feet.

During the first quarter of 2010 the Trust negotiated renewals of 103,833 square feet at an average rent of \$16.69 per square feet, an increase of 9.2% over the expiring leases.

Interest and Other Income

Interest income of \$3.2 million for the quarter ended March 31, 2010 has decreased by \$0.7 million over the prior year. This decrease is due to the Trust's decreased investment in mezzanine mortgage loans and development loans from the prior year.

(\$000s)	Three Month Ended March 31, 2010 \$	Three Month Ended March 31, 2009 \$
Mortgage and loan interest	3,101	3,770
Bank interest	98	82
Note receivable interest	43	57
Interest income	3,242	3,909

Interest Expense

Interest costs incurred during the first quarter of 2010 totalled \$42.1 million, net of the \$1.1 million amortization of acquisition date fair value adjustments. Interest capitalized to properties under development totalled \$4.5 million, and the balance of \$37.6 million was expensed. The increase in interest expense of \$5.8 million over the same quarter of 2009 is mainly the result of

- The \$150.0 million Series C 10.25% senior unsecured debentures issued on April 13, 2009 and the \$75.0 million Series D 7.95% senior unsecured debentures issued on June 19, 2009, used to repay \$153.5 million of the Series A 4.51% senior unsecured debentures and \$75.0 million of operating facility lines that were due, respectively, increased interest expense by \$2.8 million in the quarter ended March 31, 2010.
- Amortization of accretion on the \$125 million 6.65% convertible debenture issued on May 2, 2008, and the interest expenses and amortization of accretion on the \$60 million 5.75% convertible debenture issued on Jan 5, 2010, totalled \$1.3 million.

Interest expenses and amortization of deferred financing costs on new term financing and non-revolving operating facilities (\$1.7 million).

(\$000s)	Three Months Ended March 31, 2010 \$	Three Months Ended March 31, 2009 \$
Interest at contract rate	40,990	34,567
Acquisition date fair value adjustment	(1,096)	(1,177)
Amortization of accretion on convertible debentures	519	-
Amortization of deferred financing costs	1,652	1,349
	42,065	34,739
Less: capitalized interest	(4,462)	(2,895)
Interest expense	37,603	31,844
Weighted average interest rate (inclusive of acquisition date fair value adjustment)	5.95%	5.21%

Amortization

Amortization of \$33.0 million for the quarter ended March 31, 2010 has decreased by \$6.0 million over the quarter ended March 31, 2009. This decrease is primarily due to the higher write-off of tenant improvements and intangible assets related to tenant bankruptcies during 2009 (\$7.7 million) offset by additional amortization expenses (\$1.7 million) resulting from the growth of Calloway's portfolio in 2009 and the first three months of 2010.

(\$000s)	Three Months Ended March 31, 2010 \$	Three Months Ended March 31, 2009 \$
Income properties		
Tangible assets	21,510	22,811
Intangible assets	11,307	16,065
Deferred leasing costs	151	134
	<u>32,968</u>	<u>39,010</u>

General and Administrative

During the quarter ended March 31, 2010, total general and administrative costs before allocations to property operating costs and capitalization increased by \$0.29 million over the same quarter of 2009, due to additional public release costs for the units and convertible debentures issued on January 5, 2010. Costs allocated to property operations have increased by \$0.2 million, primarily as a result of the increase in the number of buildings in the portfolio. The net general and administrative expenses have increased by \$0.14 million, due to reduced costs capitalized to properties under development resulting from reduced volume of development in the first three months of 2010 compared to the same period in 2009 offset by reduced development salaries.

(\$000s)	Three Months Ended March 31, 2010 \$	Three Months Ended March 31, 2009 \$
Salaries and benefits	3,143	3,054
Professional fees	419	421
Public company costs	559	362
Rent and occupancy	411	430
Other	371	343
	<u>4,903</u>	<u>4,610</u>
Less: allocated to property operating costs	(2,291)	(2,085)
Less: capitalized to properties under development	(170)	(225)
General and administrative costs	<u>2,442</u>	<u>2,300</u>
As a percentage of revenue	<u>2.0%</u>	<u>2.0%</u>

Other Measures of Performance

The following are measures sometimes used by Canadian real estate income trusts (REITs) as indicators of financial performance. Management uses these measures to analyze operating performance. As one of the factors that may be considered relevant by prospective investors is the cash distributed by the Trust relative to the price of the Units, management believes these measures are a useful supplemental measure that may assist prospective investors in assessing an investment in Units. Calloway analyzes its cash distributions against these measures to assess the stability of the monthly cash distributions to Unitholders. As these measures are not standardized as prescribed by Canadian GAAP, they may not be comparable to similar measures presented by other trusts. These measures are not intended to represent operating profits for the period nor should they be viewed as an alternative to net income, cash flow from operating activities or other measures of financial performance calculated in accordance with Canadian GAAP. The calculations are derived from the consolidated financial statements for the quarter ended March 31, 2010, do not include any assumptions, do not include any forward-looking information and are consistent with prior reporting periods.

Funds From Operations (FFO)

While FFO is not defined by Canadian GAAP, it is a non-Canadian GAAP financial measure of operating performance widely used by the real estate industry. The Real Property Association of Canada (REALpac) recommends that FFO be determined by reconciling from net income. Whereas the Trust previously determined FFO by way of reconciliation from cash provided from operating activities, a change has been made by the Trust to adhere to the recommendations of REALpac with respect to the reconciliation of FFO. FFO, for the three months ended March 31, 2010, totalled \$41.3 million (three months ended March 31, 2009 – \$41.9 million), and the payout ratio totalled 95.3% (three months ended March 31, 2009 – 88.1%).

In comparison to the same quarter of 2009, FFO decreased by \$0.6 million in the first quarter of 2010, primarily due to a decrease in mezzanine loan interest revenue (\$0.7 million), an increase in interest expense (\$5.5 million) offset by an increase in NOI (\$5.6 million).

Adjusted Funds From Operations (AFFO)

Since FFO does not consider capital transactions, AFFO is presented herein as an alternative measure of determining available cash flow. AFFO is not defined by Canadian GAAP. AFFO, for the three months ended March 31, 2010, totalled \$39.0 million (three months ended March 31, 2009 - \$39.9 million) and the payout ratio totalled 101.0% (three months ended March 31, 2009 – 92.8%). Calloway targets a payout ratio of approximately 90% to 95% of AFFO. Management expects the payout ratio to be less than 100% by the fourth quarter of 2010.

In comparison to the same quarter of 2009, AFFO decreased by \$0.9 million in the first quarter of 2010, primarily due to a decrease in mezzanine loan interest revenue (\$0.7 million), an increase in interest expense (\$5.2 million), an increase in sustaining capital expenditures (\$0.6 million) offset by an increase in NOI (\$5.6 million).

The analysis below shows a reconciliation of the Trust's net income to FFO and AFFO:

(\$000s)	Three Months Ended March 31, 2010 \$	Three Months Ended March 31, 2009 \$	Variance \$
Net income	7,430	2,335	5,095
Add:			
Accretion on convertible debentures	-	(306)	306
Amortization of income properties	32,968	39,010	(6,042)
Amortization of land rent	900	859	41
FFO	41,298	41,898	(600)
Add(deduct):			
Amortization of deferred leasing costs related to new space	(48)	(134)	86
Accretion on convertible debentures	519	306	213
Straight lining of rents	(872)	(900)	28
Sustaining capital expenditures	(778)	(12)	(766)
Tenant inducements and leasing costs	(1,134)	(1,290)	156
AFFO	38,985	39,868	(883)

As the change to the reconciliation of FFO is being made in the first quarter of 2010, the Trust shall provide a comparison to show the reconciliation of FFO from cash flow from operating activities as the Trust has done in the past for each of the interim and annual periods of the 2010 fiscal year. For the quarter ended March 31, 2010, the analysis below shows a reconciliation from cash provided by operating activities to AFFO and FFO:

(\$000s, except per Unit amounts)	AFFO \$	FFO \$
Cash provided by operating activities	42,983	42,983
Capital lease obligation interest	(17)	(17)
Deferred Unit compensation expense	(197)	(197)
Expenditures on deferred leasing costs	244	244
Changes in other non-cash operating items	(1,512)	(1,512)
Amortization of:		
- Deferred financing costs	(1,652)	(1,652)
- Deferred leasing costs	(48)	-
- Acquisition date fair value adjustment	1,096	1,096
- Accretion on convertible debentures	-	(519)
Straight-lining of rents	-	872
Sustaining capital expenditures	(778)	-
Leasing costs	(1,134)	-
	38,985	41,298
Per Unit – basic/diluted ⁽¹⁾	\$0.383/\$0.383	\$0.406/\$0.406
Payout ratio	101.0%	95.3%

For the quarter ended March 31, 2009, AFFO and FFO are computed as follows:

(\$000s, except per Unit amounts)	AFFO \$	FFO \$
Cash provided by operating activities	34,428	34,428
Capital lease obligation interest	(15)	(15)
Deferred Unit compensation expense	(181)	(181)
Expenditures on deferred leasing costs	154	154
Changes in other non-cash operating items	7,090	7,090
Amortization of:		
- Deferred financing costs	(1,349)	(1,349)
- Deferred leasing costs	(134)	-
- Acquisition date fair value adjustment	1,177	1,177
- Accretion on convertible debentures	-	(306)
Straight-lining of rents	-	900
Sustaining capital expenditures	(12)	-
Leasing costs	(1,290)	-
	39,868	41,898
Per Unit – basic/diluted ⁽¹⁾	\$0.417/\$0.417	\$0.439/\$0.439
Payout ratio	92.8%	88.1%

(1) Diluted AFFO and FFO and per Unit are adjusted for the dilutive effect of the Convertible Debentures, which are not dilutive for net income purposes. To calculate diluted AFFO and FFO per Unit for the quarter ended March 31, 2010 and 2009, Convertible Debenture interest of \$3,450 and \$2,121 and amortization of accretion on Convertible Debentures of \$519 and \$306 (FFO only) is added back to net income, and 7,554,284 Units and 5,234,566 Units are added back to the weighted average Units outstanding, respectively.

In any given period, the distributions declared may differ from cash provided by operating activities primarily due to seasonal fluctuations in non-cash operating items (amounts receivable, prepaid expenses, deposits, accounts payable and accrued liabilities). These seasonal or short-term fluctuations are funded, if necessary, by the revolving operating facilities. In addition, the distributions declared include a component funded by the DRIP. Management also anticipates that distributions declared would in the foreseeable future continue to exceed net income, as net income includes amortization, and distributions are determined based on non-GAAP cash flow measures, which include consideration of the maintenance of productive capacity.

For the quarter ended March 31, 2010, distributions declared were below cash provided by operating activities by \$3.5 million. Distributions declared exceeded net income by \$32.1 million for the quarter ended March 31, 2010. This difference mainly comprises amortization (\$35.5 million) offset by other non-cash components of net income (\$3.4 million).

Management determines the Trust's Unit cash distribution rate by, among other considerations, its assessment of cash flow as determined using certain non-GAAP measures. As such, management feels the cash distributions are not an economic return of capital, but a distribution of sustainable cash flow from operations. Management targets a payout ratio of approximately 90.0% to 95.0% of AFFO, which allows for any unforeseen expenditures for the maintenance of productive capacity. Based on current facts and assumptions, management does not anticipate cash distributions will be reduced or suspended in the foreseeable future. The AFFO payout ratio for the quarter ended March 31, 2010 was 101.0% (year ended December 31, 2009 – 98.6%, 2008 – 91.2%). Management expects the payout ratio to be less than 100% by the fourth quarter of 2010.

(\$000s)	Three Months Ended March 31, 2010 \$	Year Ended December 31, 2009 \$	Year Ended December 31, 2008 \$
Cash provided by operating activities	42,983	142,785	144,069
Net income	7,430	23,286	89,648
Distributions declared	39,496	151,075	145,948
Distributions paid	36,930	137,684	126,380
AFFO	38,985	152,361	159,575
Surplus (shortfall) of cash provided by operating activities over distributions declared	3,487	(8,290)	(1,879)
Surplus of cash provided by operating activities over distributions paid	6,053	5,101	17,689
Surplus (shortfall) of cash provided by operating activities over AFFO	3,998	(9,576)	(15,506)
Shortfall of net income over distributions declared	(32,066)	(127,789)	(56,300)

Quarterly Information

Revenue from continuing operations has increased over the past eight quarters because of acquisitions and Earnout transactions at various times during 2008 through 2010.

Income from continuing operations fluctuated over the past eight quarters, aside from the large number of acquisitions and Earnouts, for the following reasons:

- The quarter ended March 31, 2010 includes the write-offs of \$1.1 million of tenant improvements and intangible assets due to tenant vacancies.
- The quarter ended December 31, 2009 includes amortization of accretion on 6.65% Convertible Debentures of \$1.3 million.
- The quarter ended September 30, 2009 includes the write-offs of \$1.4 million of tenant improvements and intangible assets due to tenant vacancies.
- The quarter ended June 30, 2009 includes the write-offs of \$2.5 million of tenant improvements and intangible assets due to tenant vacancies.
- The quarter ended March 31, 2009 includes the write-offs of \$8.8 million of tenant improvements and intangible assets due to tenant vacancies.
- The quarter ended June 30, 2008 includes a write down of properties under development of \$1.7 million.

Net income has fluctuated over the past eight quarters for the same reasons as indicated above. In addition, the quarters ended June 30, 2008, September 30, 2008 and December 31, 2008 include gains of \$18.6 million, \$6.8 million and \$3.7 million, respectively, on the sale of income properties.

Cash provided by operating activities has fluctuated over the past eight quarters primarily due to seasonal changes in non-cash operating items.

Quarterly Information

(\$000s, except per Unit and Unit amounts)

	March 31 2010 \$	December 31 2009 \$	September 30 2009 \$	June 30 2009 \$	March 31 2009 \$	December 31 2008 \$	September 30 2008 \$	June 30 2008 \$
Revenues	123,038	120,074	113,377	111,040	117,100	115,428	110,237	104,643
Income from continuing operations	7,430	7,473	6,810	6,961	2,340	12,475	9,380	5,624
Per Unit								
Basic	\$0.073	\$0.075	\$0.070	\$0.073	\$0.025	\$0.131	\$0.099	\$0.060
Diluted ⁽¹⁾	\$0.073	\$0.075	\$0.070	\$0.073	\$0.025	\$0.131	\$0.099	\$0.060
Net income	7,430	7,457	6,735	6,759	2,335	16,423	16,603	25,398
Per Unit								
Basic	\$0.073	\$0.075	\$0.069	\$0.071	\$0.024	\$0.173	\$0.175	\$0.273
Diluted ⁽¹⁾	\$0.073	\$0.075	\$0.069	\$0.071	\$0.024	\$0.173	\$0.175	\$0.273
Funds from operations	41,298	40,145	39,304	40,666	41,898	44,675	42,838	40,023
Per Unit								
Basic	\$0.406	\$0.403	\$0.403	\$0.424	\$0.439	\$0.470	\$0.453	\$0.430
Diluted ⁽²⁾	\$0.406	\$0.403	\$0.403	\$0.424	\$0.439	\$0.466	\$0.451	\$0.429
Adjusted funds from operations	38,985	35,785	37,406	39,304	39,868	41,568	39,931	37,716
Per Unit								
Basic	\$0.383	\$0.360	\$0.384	\$0.408	\$0.417	\$0.437	\$0.422	\$0.405
Diluted ⁽²⁾	\$0.383	\$0.360	\$0.384	\$0.408	\$0.417	\$0.435	\$0.422	\$0.405
Cash provided by operating activities	42,983	36,749	37,065	34,503	34,428	50,631	36,776	33,651
Distributions declared	39,496	38,636	38,107	37,226	37,106	36,903	36,821	36,262
Units outstanding ⁽³⁾	101,607,018	99,365,444	99,130,611	95,743,541	95,442,771	95,077,675	94,818,597	94,066,590
Weighted average Units outstanding								
Basic	101,773,281	99,511,965	97,408,149	95,900,244	95,499,518	95,153,901	94,566,806	93,019,898
Diluted	101,773,281	99,511,965	97,408,149	95,900,244	95,499,518	95,153,901	94,566,806	93,094,407
Total assets	4,230,329	4,236,839	4,236,803	4,203,243	4,175,556	4,194,387	4,217,373	4,210,768
Total debt	2,688,854	2,726,698	2,682,760	2,675,566	2,627,677	2,619,797	2,611,941	2,598,168

(1) Diluted income from continuing operations and net income per Unit are calculated using the weighted average number of Units outstanding for the respective quarters.

(2) Diluted FFO and AFFO per Unit are adjusted for the dilutive effect of the Convertible Debentures, which are not dilutive for net income purposes.

(3) Unit outstanding balance does not include the vested deferred Unit plan.

(4) March 31, 2009, June 30, 2009 and September 30, 2009 were restated in the fourth quarter of 2009 for amortization of accretion on Convertible Debentures recorded in the quarter ended December 31, 2009.

Related Parties

Calloway has identified three parties, all Trustees, that meet the definition of related party. A limited liability partnership, of which a Trustee is a principal, received \$0.1 million for legal services rendered during the quarter ended March 31, 2010.

SmartCentres, whose owner is also a Trustee, is the most significant related party. Calloway has entered into contracts and other arrangements with SmartCentres for the following:

(000s)	March 31, 2010 \$	March 31, 2009 \$
Acquisition of land and properties	3,544	5,550
Equity issued to SmartCentres during the period	213	-
Amounts receivable at period-end	5,338	6,039
Amounts payable at period-end	9,804	8,853
Accrued development obligation at period-end	32,759	33,543
Paid to/payable to SmartCentres		
Fees:		
Leasing/development	336	659
Legal, marketing and other administrative costs	298	375
Rent and operating costs	271	292
Interest	109	144
Paid by/payable by SmartCentres		
Opportunity fees/head lease rents	1,502	1,453
Interest income	2,357	3,003
Management fees	351	289

SmartCentres owns 23.4% of the aggregate issued and outstanding Trust Units and special voting Units of Calloway. A July 2005 agreement preserves SmartCentres' voting rights at a minimum of 25% for a period of five years, which may be extended for an additional five years under certain circumstances. The ownership would increase to 31.1% if SmartCentres exercised all remaining options to purchase Units pursuant to existing development and exchange agreements. Calloway has entered into agreements with SmartCentres to borrow funds from SmartCentres and to finance various development projects. In addition, the Trust has entered into property management, leasing, development and exchange agreements, and co-ownership agreements with SmartCentres.

The financial implication of these agreements is disclosed in notes 1, 3, 4, 5, 6, 9, 10, 11, 17, 18, 21 and 22 of the consolidated financial statements for the quarter ended March 31, 2010.

Future Income Taxes

The Trust is taxed as a mutual fund trust for Canadian income tax purposes. In accordance with the Declaration of Trust, distributions to Unitholders are declared at the discretion of the Trustees. The Trust endeavours to declare distributions in each taxation year in such an amount as is necessary to ensure the Trust will not be subject to tax on its net income and net capital gains under Part I of the Income Tax Act (Canada) (the "Tax Act").

Pursuant to the amendments to the Tax Act, the taxation regime applicable to specified investment flow-through trusts or partnerships ("SIFTs") and investors in SIFTs has been altered. If Calloway were to become subject to the new SIFT rules (the "SIFT Rules"), it generally would be taxed in a manner similar to corporations on income from business carried on in Canada by Calloway and on income (other than taxable dividends) or capital gains from non-portfolio properties (as defined in the Tax Act), at a combined federal/provincial tax rate similar to that of a corporation. In general, distributions paid as returns of capital will not be subject to this tax. The SIFT Rules are applicable beginning with the 2007 taxation year of a trust unless the trust would have been a "SIFT trust" (as defined in the Tax Act) on October 31, 2006 if the definition had been in force and applied to the trust on that date (the "Existing Trust Exemption"). For trusts

that meet the Existing Trust Exemption, including Calloway, the SIFT Rules will apply commencing in the 2011 taxation year, assuming compliance with the "normal growth" guidelines issued by the Department of Finance (Canada) on December 15, 2006, as amended from time to time (the "Normal Growth Guidelines"). The SIFT Rules are not applicable to a real estate investment trust that meets certain specified criteria relating to the nature of its revenue and investments (the "REIT Exemption"). Calloway intends to qualify for the REIT Exemption prior to 2011.

As the Trust does not meet the REIT Exemption as at March 31, 2010, a future income tax asset in the amount of \$5.8 million has been recorded as at March 31, 2010 based on the temporary differences that are expected to reverse on or after January 1, 2011, reduced by a valuation allowance of \$5.8 million to a net balance of \$nil, as the tax asset is not more likely than not to be realized given that Calloway intends to meet the REIT Exemption by January 1, 2011. The measurement of the future income tax asset as at the consolidated balance sheet date required management to make estimates and assumptions, including estimates and assumptions regarding the timing of when temporary differences are expected to reverse and regarding future allocations of taxable income between the various partners of the limited partnerships under the control of the Trust. Actual results could differ from those estimates.

It is the Trust's current intention to restructure its business affairs and/or discontinue certain of its activities, if necessary, by January 1, 2011 in order to qualify for the REIT Exemption.

There are a few issues that need resolution in order for the Trust to qualify for the REIT Exemption; however, the most significant issues relates to the mezzanine and development loans receivable that the Trust has provided pursuant to agreements with related and third parties for use in acquiring and developing properties. Under the SIFT rules, the Trust will not qualify for the REIT Exemption if it continues to hold the mezzanine loans as currently structured. As a result, the Trust along with its tax consultants has considered various options to resolve the issue. These options include: (i) purchase of the underlying development lands with a corresponding settlement of the related mezzanine loans; (ii) settlement of the mezzanine loans with the subject parties; and (iii) restructuring these loans in such a manner that permit the subject parties to develop the land and at the same time allow the Trust to meet the REIT Exemption. The option selected to restructure the mezzanine loans will depend on the particulars of each loan with the consent of the mortgagors. The Trust is currently in negotiation with the respective mortgagors.

The Trust has also provided development loans to related parties for development of certain of its existing properties. Under the SIFT Rules, the Trust will not qualify for the REIT Exemption if it continues to hold these development loans. To resolve the issue relating to the development loans, the Trust amended the existing development agreements during the quarter ended March 31, 2010 which resulted in repayment of outstanding amounts due to Calloway under the development loans and the acquisition by Calloway of the improvements to the properties from the developer. As a result of the amendments, the costs of developing these properties are now incurred directly by Calloway and included in properties under development as incurred.

Disclosure Controls and Procedures and Internal Controls Over Financial Reporting – National Instrument 52-109 Compliance

Disclosure Controls and Procedures

Calloway's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their direct supervision, Calloway's disclosure controls and procedures (as defined by National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings, adopted by the Canadian Securities Administrators) to provide reasonable assurance that: (i) material information relating to Calloway, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which the annual filings are being prepared; and (ii) material information required to be disclosed in the annual filings is recorded, processed, summarized and reported on a timely basis.

Internal Control Over Financial Reporting

Calloway's Chief Executive Officer and Chief Financial Officer have also designed, or caused to be designed under their direct supervision, Calloway's internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with Canadian GAAP.

Changes in Internal Controls Over Financial Reporting

No changes were made to the design of Calloway's internal control over financial reporting during the quarter ended March 31, 2010, that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Inherent Limitations

Notwithstanding the foregoing, because of its inherent limitations a control system can provide only reasonable assurance that the objectives of the control system are met and may not prevent or detect misstatements. Management's estimates may be incorrect, or assumptions about future events may be incorrect, resulting in varying results. In addition, management has attempted to minimize the likelihood of fraud. However, any control system can be circumvented through collusion and illegal acts.

Critical Accounting Estimates

In preparing the Trust's consolidated financial statements and accompanying notes, it is necessary for management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses during the quarter. The significant items requiring estimates are outlined below.

Impairment in Value of Assets

Under Canadian GAAP, management is required to write down to fair value any long-lived asset or financial asset that is determined to have been impaired. The Trust's long-lived assets and certain financial assets consist of certain real estate assets (income properties, properties under development, mortgages and loans receivable).

The fair value of the income properties and properties under development is dependent upon future cash flows over the holding period. The review of anticipated cash flows involves assumptions of estimated occupancy, rental rates and residual value. In addition to reviewing anticipated cash flows, management assesses changes in business climates and other factors, which may affect the ultimate value of the property. These assumptions may not ultimately be achieved. In the event these factors result in a carrying value that exceeds the sum of the undiscounted cash flows expected to result from the direct use and eventual disposition of the property, an impairment would be recognized.

The fair value of the mortgages and loans receivable depends upon the financial stability of the borrower and the economic value of the underlying security.

For the quarter ended March 31, 2010, the Trust determined there were no impairments.

Amortization

The Trust records amortization on its income properties on a straight-line basis. Under this method, amortization is charged to income on a straight-line basis over the remaining estimated useful life of the property. A significant portion of the acquisition cost of each property is allocated to building. The allocation of the acquisition cost to building and the determination of the useful life are based on management's estimates. In the event the allocation to building is inappropriate or the estimated useful life of the building proves incorrect, the computation of amortization will not be appropriately reflected over future periods.

Property Acquisitions

For acquisitions subsequent to September 12, 2003, in accordance with The Canadian Institute of Chartered Accountants (CICA) Handbook Sections 1581 and 3064, and giving consideration to the requirements of EIC Abstracts 137 and 140 of the CICA, management is required to perform many procedures that are subject to estimation judgment

Future Tax Provisions

The measurement of the future income tax asset as at the consolidated balance sheet date required management to make estimates and assumptions, including estimates and assumptions regarding the timing of when temporary differences are expected to reverse and regarding future allocations of taxable income among the various partners of the limited partnerships under the control of the Trust. Actual results could differ from those estimates.

Fair Value of Earnout Options Granted

Earnout options were issued at the time of certain acquisitions. The options were valued at their estimated fair market value based on a Black-Scholes calculation using certain assumptions with respect to the volatility of the underlying Trust Unit price, the risk free interest rate, the anticipated expected life of the options and the expected Unit distribution rate.

Accounting Policies

Future Changes in Accounting Policy

In January 2009, the CICA issued Handbook Section 1582, "Business Combinations", Section 1601, "Consolidations", and Section 1602, "Non-controlling Interests". These sections replace the former CICA Handbook Section 1581, "Business Combinations" and Section 1600, "Consolidated Financial Statements", and establish a new section for accounting for a non-controlling interest in a subsidiary.

Section 1582 establishes standards for the accounting for a business combination. It provides the Canadian equivalent to International Financial Reporting Standard IFRS 3, "Business Combinations" (January 2008). The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period on or after January 1, 2011.

Section 1601 establishes standards for the preparation of consolidated financial statements.

Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS IAS 27, "Consolidated and Separate Financial Statements" (January 2008).

Section 1601 and Section 1602 apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. As at March 31, 2010, the Trust did not adopt these sections. The Trust is currently evaluating the impact of the adoption of these sections.

International Financial Reporting Standards

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. In February 2008, the AcSB confirmed it will require publicly accountable enterprises to adopt IFRS, as issued by the International Accounting Standards Board (IASB), for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011, with comparative figures presented on the same basis. Calloway will present its first IFRS consolidated financial statements in the first quarter of 2011.

The transition to IFRS will have a significant impact on the Trust's financial reporting, business processes, information system, disclosure controls and procedures and internal controls over financial reporting. The Trust has completed an initial diagnostic impact assessment and has identified IFRS versus current Canadian GAAP differences but continues to assess the implication of such differences to its financial reporting. The Trust is in the process of quantifying the impact that the future adoption of IFRS will have on its consolidated financial statements and operating performance.

A significant component of the work plan includes performing a detailed impact analysis and implementation plan for individual standards, including the selection of IFRS accounting policies and transition elections that may be applicable, and quantification of the impact of IFRS on the Trust's consolidated financial statements. Based on management's assessment, there are a number of significant IFRS differences that will potentially have an impact on the Trust's consolidated financial statements and related processes and controls. In addition, there are a number of proposed and continuing projects of the IASB that may impact the Trust. Management will monitor any changes that arise to determine whether they will have any impact on the Trust. The Trust will continue to invest in training and resources through the transition process to facilitate a timely conversion. Additional information will be provided as the Trust moves toward 2011.

Area	Key Activities	Progress to Date
Financial Statement Presentation and Disclosure	Identify differences between IFRS and Canadian GAAP	Completed the identification process
	Assess and select accounting policy choices	Evaluation and selection of policies is substantially complete
	Quantify the effects of the difference based on accounting policies selected	In progress
	Prepare opening and quarterly financial statements and related note disclosures	In progress
Business Impacts	Identify required resources – valuation and accounting – for technical analysis and implementation during the transition	Complete, however, will continue to identify additional matters
	Develop a real estate valuation strategy	Complete
	Complete real estate valuation for the opening balance sheet as at January 1, 2010	In progress
	Identify impact on contractual agreements and financial covenants	Substantially complete
	Where required, make amendments to agreements	In progress
Processes and Systems	Identify changes required to current financial reporting systems	Significant system changes have been identified
	Identify data collection requirements and implement process to collect data	In progress
	Evaluate and select methods to address the need for dual record keeping during 2010	Dual record keeping structure has been established
Training	Technical training of accounting staff	Conducted a training session in Q1, detailed formal training to commence in Q3
	Educate Board of Trustees, Audit Committee and Senior Management on the effect of IFRS	Senior management is updated regularly. Board of Trustees and Audit Committee is updated quarterly
	Communication to all other internal and external stakeholders	Ongoing quarterly external communication through MD&A and periodic update internally
Internal Controls over financial reporting and disclosure	Ensure documentation of processes and system are in place	Substantially completed
	Ensure appropriate changes to internal controls to address existing accounting policies and requirement for dual record keeping during 2010	In progress
	Assess effectiveness of controls	On going

Impact of Adoption of IFRS

IFRS is premised on a conceptual framework similar to Canadian GAAP, however, significant differences exist in certain matters of recognition, measurement, presentation and disclosure. The significant IFRS differences that are expected to have an impact on the Trust's consolidated financial statements include the following:

Investment Property

IFRS defines investment property as a property (land or a building, or part of a building, or both) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both.

Under Canadian GAAP, the Trust measures its investment properties using the historical cost model and recognizes various tangible and intangible assets related to the investment property. Under IFRS, after the initial recognition, the Trust will have a choice of whether to measure its investment properties using the historical cost model or the fair value model.

- If the fair value model is selected, investment properties will be carried on the consolidated balance sheet at their fair values, and changes in fair value each period will be recorded in the consolidated statement of income. Under the fair value model, acquired lease intangible assets (i.e., in-place leases, customer relationships) are recognized as an integral part of the value of investment properties and are not presented separately on the consolidated balance sheet. No depreciation related to investment properties is recognized under the fair value model.
- The cost model is generally consistent with Canadian GAAP. Under the cost model for depreciation purposes, investment property will be broken down into significant components including land, building structures, significant improvements and facilities of the building, amounts relating to in-place leases, and other components. If the cost model is selected, the Trust will be required to disclose the fair value of investment properties in the notes to the consolidated financial statements in each reporting period.
- There is a third option available under IFRS 1 that allows an entity to initially measure investment properties upon transition to IFRS at fair value as deemed cost and subsequently measure using the cost model (see IFRS 1 discussion below).

The Trust has completed the design of its investment property valuation process and has commenced implementation.

The Trust is in the process of finalizing its choice for the accounting policy for investment properties. Information will be provided as the Trust makes its decision.

Properties Under Development

Properties under development are treated under the investment property standard. Under IFRS, administrative and other general overheads cannot be capitalized and any incidental operating income cannot be recognized. Capitalization of interest costs directly attributable to, and an allocation of borrowing costs on general debt that relate to, an asset under construction is required under IFRS.

Policies with respect to capitalization of overheads and incidental operations have been re-evaluated for properties under development.

Management has evaluated and identified items that are to be backed out from properties under development starting January 1, 2010. As a result, separate accounts have been created to track these amounts for 2010 comparatives.

Impairment

Under Canadian GAAP, impairment is recognized if the undiscounted future cash flows of the investment property are lower than its carrying value.

Under IFRS, an entity is required to recognize an impairment charge if the recoverable amount, determined as the higher of the estimated fair value less costs to sell or value-in-use, is less than its carrying value. Value-in-use is defined as the discounted present value of estimated future cash flows expected to arise from the planned use of an asset and from its disposal at the end of its useful life.

Under IFRS, recognition of impairments would likely be more frequent. IFRS allows impairment losses to be reversed if there is an increase in value; however, the increase cannot exceed cost less accumulated amortization (the net book value). The reversal of impairment losses is not allowed under Canadian GAAP.

Leases

Canadian GAAP and IFRS both require that tenant allowances be recorded as a reduction to rental revenue over the term of the lease. Currently, tenant improvements and certain other leasing costs are capitalized and amortized through amortization expense by the Trust. Under IFRS, portions of such costs are likely to be considered leasing incentives and will be amortized as a reduction of rental revenue over the term of the lease.

Leasing commissions will continue to be deferred on the consolidated balance sheet, but under IFRS they form a component of investment property.

Earlier this year the IASB and FASB published their discussion paper on accounting leases. The discussion paper proposes "right-of-use" approach that requires lessees to recognize an asset for its right to use the leased asset for the lease term and a corresponding liability for the committed cashflow. This treatment will effectively eliminate operating lease leaving all leases to be treated as finance lease.

The accounting for operating leases with tenants from the landlord's perspective is currently under discussion. Potentially, changes in lease accounting could result in the lessor (i.e. Trust) derecognizing its investment property (and recognizing a sale), or recording a deferred revenue amount, and recording a corresponding lease receivable. However, if the fair value model is selected for investment property (discussed above), it is expected that leases with tenants would continue to be treated as operating leases.

Business Combinations

IFRS and current Canadian GAAP require the acquisition method of accounting for all business combinations; however, significant differences exist between the two standards. IFRS prohibits the capitalization of transaction costs; these costs are to be expensed as incurred whereas Canadian GAAP allows the capitalization of these costs. All elements of consideration granted (i.e., units and Earnout options) including contingent consideration are recorded at fair value at the consummation of the acquisition. To the extent there is a fluctuation in value of consideration between the date the terms of the acquisition are agreed to and the date of consummation, this could lead to recognition of negative goodwill in the consolidated statement of income rather than applied on a prorata basis to reduce the fair value of assets acquired as required under Canadian GAAP, or the recognition of goodwill.

There continues to be discussion internationally as to whether the purchase of an investment property is a purchase of a business or a purchase of an asset. As noted, transaction costs are expensed for business acquisitions; however, they are generally capitalized for purchases of an asset. Under the fair value model, any transaction costs capitalized to the purchase of an asset would effectively be written off as part of the period end adjustment of investment properties to fair value.

Equity – Trust Units

Under IFRS and its interpretation by the Canadian accounting profession, the Trust Units meet the definition of a liability rather than equity as currently presented under Canadian GAAP. IFRS states that a liability arises where a financial instrument contains a contractual obligation to deliver cash or another financial asset to another entity. As the Trust Units are redeemable at the option of the holder, Trust Units meet the definition of a liability. Notwithstanding they meet the definition of a liability, special provisions under IFRS will permit the Trust Units to be presented as equity provided they are the most subordinated class of instruments, there are no other contractual obligations to deliver cash or another financial asset and certain other conditions are met. A mandatory requirement to distribute taxable income constitutes a contractual obligation to deliver cash and would have resulted in Trust Units being presented as a liability with future distributions treated as interest expense for purposes of IFRS.

The Unitholders approved an amendment to the Declaration of Trust at their annual meeting on May 7, 2009 to remove the requirement to distribute its taxable income. This change was reflected in the Declaration of Trust dated September 14, 2009. Accordingly, notwithstanding the Trust Units meet the definition of a liability as a result of their redemption feature, Calloway believes it has met the conditions under IFRS that will permit Trust Units to be presented as equity and distributions on Trust Units will continue to be presented as a reduction in the statement of equity.

Equity – LP units

Under Canadian GAAP, Calloway's LP Units are presented as equity in the consolidated balance sheet. However, under IFRS, the LP Units in their current form could be presented as a liability at fair value with changes in fair value recorded in income and distributions would be classified as interest expense. A similar situation was present for Trust Units that was rectified by amendment of the Declaration of Trust (as discussed above). However, the issues related to LP Units are more complex. The Canadian accounting profession has not reached a conclusion as to what actions need to be taken, if any, to allow the LP Units to be presented as equity under IFRS. Presentation of these units as a liability may impact the Trust's financial covenants.

This is an industry-wide issue. The Trust continues to monitor this issue and will make changes as appropriate to the LP agreements, where possible, once the accounting profession reaches a consensus.

A similar issue may require Earnout Options, deferred units and the conversion feature of Convertible Debentures to also be presented as a liability at fair value with changes in fair value recorded in income.

IFRS 1 – First-time Adoption of International Financial Reporting Standards

At adoption of IFRS, an entity is required to apply IFRS 1, which provides guidance to entities on financial reporting options available under IFRS on adoption and provides a suitable starting point for accounting under IFRS. In general, IFRS 1 requires an entity to retrospectively apply the IFRS standards that are in place at the reporting date. However, IFRS 1 grants a first-time adopter exemptions and exceptions to retrospective application of certain IFRS standards. The following are the optional exemptions available under IFRS 1 that may be significant to the Trust:

- **Business Combinations**

The Trust may elect not to apply the IFRS business combinations standard retrospectively for business combinations that occurred before the transition date (i.e. January 1, 2010). However, if the Trust chooses to restate any business combination that occurred prior to the transition date, it will have to restate all business combinations from the date selected. The Trust expects to elect to apply prospectively (i.e., the business combination standard will apply prospectively from January 1, 2010).

- **Fair Value or Revaluation as Deemed Cost**

Under IFRS 1, the Trust may elect to measure an item of property, plant and equipment and investment properties (under the cost model) as at the transition date at its then fair value and use the fair value as its deemed cost at that date. Fair value as deemed cost would become the new cost amount for the qualifying assets at transition. This is a one-time election available at the transition date only.

Income Taxes

The Trust has considered the impact of the IFRS income tax standard on accounting for income taxes in a REIT and believes that the tax deduction received by the Trust for its distributions to unitholders represents, in substance, an exemption from taxation of an equivalent amount of the Trust's earnings. Accordingly, the tax benefit of distributions to unitholders should be recognized as a reduction of income tax expense in the Trust's statement of income, and should not be allocated directly to unitholders' equity as an offset to the distributions.

Further, the Trust believes that the tax deductibility of its distributions to unitholders represents, in substance, an exemption from future income taxes relating to temporary differences in the Trust if the Trust continues to distribute all of its taxable income and taxable capital gains to its unitholders. Accordingly, the Trust does not expect to recognize any future income tax assets or liabilities on temporary differences in the Trust once it qualifies for the REIT Exemption under the SIFT rules.

Classified Balance Sheet

Under Canadian GAAP, the Trust presents a non-classified balance sheet. The Trust is evaluating whether this continues to be appropriate under IFRS or whether a classified balance sheet is appropriate.

As the Trust progresses through its work plan, there may be other areas identified that will have an impact on the consolidated financial statements of the Trust. Changes to current international accounting standards, if any, may result as proposed and continuing projects of the IASB are finalized, and such changes may also have an impact on the consolidated financial statements of the Trust.

As at the end of the first quarter of 2010, the Trust has identified the significant differences between Canadian GAAP and IFRS that impact the Trust's consolidated financial statements. The Trust is finalizing the impact that the future adoption of IFRS will have on its consolidated financial statements and operating performance measures including externally imposed measures. Appropriate resources have been secured to complete the transition on a timely basis. Additional information will be provided as the Trust completes quantification, makes accounting policy choices and finalizes the impact on its consolidated financial statement.

Risks and Uncertainties

Real Property Ownership Risk

All real property investments are subject to elements of risk. General economic conditions, local real estate markets, supply and demand for leased premises, competition from other available premises and various other factors affect such investments.

Real estate has a high fixed cost associated with ownership and income lost due to declining rental rates or increased vacancies cannot easily be minimized through cost reduction. Through well-located, well-designed and professionally managed properties, management seeks to reduce this risk. Management believes prime locations will attract high-quality retailers with excellent covenants and will

enable the Trust to maintain economic rents and high occupancy. By maintaining the property at the highest standard through professional management practices, management seeks to increase tenant loyalty.

Development Risk

Development risk arises from the possibility that developed space will not be leased or that the costs of development will exceed original estimates, resulting in an uneconomic return from the leasing of such developments. Calloway mitigates this risk by not commencing construction of any development until sufficient lease-up has occurred and by entering into fixed-price contracts for development costs.

Interest and Financing Risk

In the low interest rate environment that the Canadian economy has experienced in recent years, leverage has enabled the Trust to enhance its return to Unitholders. A reversal of this trend, however, can significantly affect the business' ability to meet its financial obligations. In order to minimize this risk, Calloway's policy is to negotiate fixed-rate term debt with staggered maturities on the portfolio and match average lease maturity to average debt maturity. Derivative financial instruments may be utilized by the Trust in the management of its interest rate exposure. The Trust's policy is not to utilize derivative financial instruments for trading or speculative purposes. In addition, the Declaration of Trust restricts total indebtedness permitted on the portfolio.

Interest rate changes will also affect the Trust's development portfolio. Calloway has entered into development agreements that obligate the Trust to acquire up to approximately 2.5 million square feet of additional income properties at a cost determined by capitalizing the rental income at predetermined rates. Subject to the ability to obtain financing on acceptable terms, the Trust will finance these acquisitions by issuing additional debt and equity. Changes in interest rates will have an impact on the return from these acquisitions and, should the rate exceed the capitalization rate used, could result in a purchase being non-accretive. This risk is mitigated as management has certain rights of approval over the developments.

Operating facilities and development loans exist that are priced at a risk premium over short-term rates. Changes in short-term interest rates will have an impact on the cost of funds. In addition, there is a risk the lenders will not refinance on maturity. By restricting the amount of variable interest rate debt and the short-term debt, the Trust has minimized the impact on financial performance.

During 2007, access to long-term financing was negatively affected by both sub-prime mortgages and the asset-backed commercial paper markets. Mortgage lenders are prepared to finance on a secured basis at lower debt ratios and at significantly higher cost. The all-in cost of debt has not increased significantly as a result of lower bond yields. Due to the quality and location of Calloway's real estate, management is confident that it will be able to meet its financial requirement in 2010. Calloway issued \$225.0 million unsecured debentures during the quarter ended June 30, 2009 and raised \$50.0 million in new equity during the quarter ended September 30, 2009, which addressed the previous concern pertaining to the refinancing of \$200.0 million (now \$46.5 million) unsecured debentures maturing in September 2010. In addition, on January 5, 2010, the Trust issued \$60.0 million of 5.75% convertible unsecured subordinated debentures and 2.1 million Units at a price of \$19.05 per unit to raise, in aggregate, gross proceeds of approximately \$100.0 million (\$96.2 million net proceeds). The proceeds were used to repay outstanding bank operating facilities.

Credit Risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments. The Trust mitigates this risk of credit loss by reviewing tenants' covenants, ensuring its tenant mix is diversified and limiting its exposure to any one tenant, except Wal-Mart Canada Corp. Further risks arise in the event that borrowers may default on the repayment of amounts owing to the Trust. The Trust endeavours to ensure adequate security has been provided in support of mortgages and loans receivable.

Environmental Risk

As an owner and manager of real property, the Trust is subject to various laws relating to environmental matters. These laws impose liability for the cost of removal and remediation of certain hazardous materials released or deposited on properties owned by the Trust or on adjacent properties. As required by the Declaration of Trust and in accordance with best management practices, Phase 1 audits are completed on all properties prior to acquisition. Further investigation is conducted if Phase 1 tests indicate a potential problem. The Trust has operating policies to monitor and manage risk. In addition, the standard lease requires compliance with environmental laws and regulations and restricts tenants from carrying on environmentally hazardous activities or having environmentally hazardous substances on site. The Trust has obtained environmental insurance on certain assets to further manage risk.

Capital Requirements

Calloway accesses the capital markets from time to time through the issuance of debt, equity or equity related securities. If Calloway were unable to raise additional funds or renew existing maturing debt on favourable terms, then acquisition or development activities could be curtailed, asset sales accelerated and property-specific financing, purchase and development agreements renegotiated, and monthly cash distributions reduced or suspended. However, Calloway anticipates accessing the capital markets on favourable terms due to its high occupancy levels and low lease maturities, combined with strong national tenants in prime retail locations.

Tax Rules for Income Trusts

Pursuant to the SIFT Rules, a SIFT will be subject to tax in respect of certain distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. The SIFT rules provide that a trust that would have been a SIFT trust on October 31, 2006, if the definition of "SIFT trust" had been in force on that date (an "Existing Trust") and applied to Calloway on that date, will become subject to the tax on distributions commencing with the 2011 taxation year. However, the SIFT rules also provide that an Existing Trust will become subject to this tax prior to the 2011 taxation year if its equity capital increases beyond certain limits measured against the market capitalization of the Existing Trust as determined under the Normal Growth Guidelines published by the Department of Finance (Canada).

The REIT Exemption, in its current form, does not fully accommodate the current business structures used by many Canadian REITs, and contains a number of technical tests that many Canadian REITs, including Calloway, may find difficult to satisfy. The SIFT rules will apply to an Existing Trust (other than REITs that qualify for the REIT Exemption) commencing with the earlier of the Existing Trust's 2011 taxation year or the first taxation year of the Existing Trust in which it exceeds the Normal Growth Guidelines. Accordingly, unless the REIT Exemption is applicable to Calloway, the SIFT Rules could have an impact on the level of cash distributions that would otherwise be made by Calloway and the taxation of such distributions to holders of Units.

Based on the legislation as it is now enacted, it would appear that Calloway, as currently structured, does not qualify for the REIT Exemption. Subject to the Normal Growth Guidelines discussed above, the SIFT Rules will apply to Calloway commencing in 2011. It is Calloway's current intention to restructure its business affairs and/or discontinue certain of its activities, if necessary, by January 1, 2011, in order to qualify for the REIT Exemption. However, no assurance can be given that Calloway will qualify for the REIT Exemption. Calloway continues to negotiate with third parties and intends to have an agreement in the second quarter and implementation to occur in the second half of the year.

Outlook

Tenant failures were limited in the first quarter, supported by improving consumer confidence, reduced inventories and access to capital. As a result, portfolio occupancy has increased to 99%. Management believes that this occupancy level will be maintained as the year progresses due to the value-oriented focus of our retailers, their financial strength and Calloway's optimal tenant mix. Management acknowledges that challenges will persist for those retailers offering discretionary goods and services.

As the cost of capital continues to improve for issuers with strong business models, demand by investors for investments with good risk adjusted yield persists. Cost of debt is expected to remain at current spreads with any change in pricing predicated on bond movements. The cost of equity should continue to improve over the medium term as operating results continue to support the valuations.

Management expects the volume of assets listed for sale to improve over 2010 with reasonable pricing expectations from both parties. There is significant cash available to acquire investment grade real estate so pricing will be aggressive. Calloway continues to analyze quality acquisition opportunities and will bid only if the underlying real estate fundamentals support the pricing. Development activity, however, is expected to remain moderate.



CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

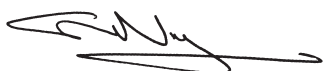
As at March 31, 2010 and December 31, 2009
(in thousands of dollars)

	March 31 2010 \$	December 31 2009 \$
Assets		
Real estate assets		
Income properties (note 4)		
Tangible assets	3,145,028	3,123,204
Prepaid land rent	159,675	150,573
Intangible assets	255,023	263,722
Properties under development (note 5)	402,328	365,050
Mortgages and loans receivable (note 6)	185,066	245,392
Deferred leasing costs (note 7)	5,636	5,348
	<u>4,152,756</u>	<u>4,153,289</u>
Deferred financing costs (note 8)	1,990	2,415
Amounts receivable, prepaid expenses and deposits (note 9(a))	67,149	53,649
Cash and cash equivalents	8,434	27,486
	<u>4,230,329</u>	<u>4,236,839</u>
Liabilities		
Debt (note 10)	2,688,854	2,726,698
Accounts payable and accrued liabilities (note 9(b))	153,757	137,524
	<u>2,842,611</u>	<u>2,864,222</u>
Equity	<u>1,387,718</u>	<u>1,372,617</u>
	<u>4,230,329</u>	<u>4,236,839</u>

Commitments and contingencies (note 21)

The accompanying notes are an integral part of these consolidated financial statements.

Approved by the Board of Trustees



Simon Nyilassy
Trustee



Al Mawani
Trustee

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED)

For the three months ended March 31, 2010 and 2009

(in thousands of dollars, except per Unit amounts)

	2010 \$	2009 \$
Revenues		
Rentals from income properties (note 12)	119,796	113,191
Interest income	3,242	3,909
	<u>123,038</u>	<u>117,100</u>
Expenses		
Property operating costs	42,595	41,611
Interest (note 10(g))	37,603	31,844
Amortization (note 13)	32,968	39,010
General and administrative	2,442	2,300
	<u>115,608</u>	<u>114,765</u>
Net income and comprehensive income for the period	<u>7,430</u>	<u>2,335</u>
Income per unit (note 15)		
Basic and diluted - Net income	<u>0.07</u>	<u>0.02</u>

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)

For the three months ended March 31, 2010 and 2009

(in thousands of dollars)

	Unit Equity (note 11) \$	Equity Component of Convertible Debentures \$	Cumulative Net Income \$	Cumulative Distributions \$	Total \$
Equity – January 1, 2009	1,751,323	7,222	192,191	(513,849)	1,436,887
Issuance of units	4,646	-	-	-	4,646
Net income for the period	-	-	2,335	-	2,335
Distributions for the period (note 11(g))	-	-	-	(37,106)	(37,106)
Equity – March 31, 2009	1,755,969	7,222	194,526	(550,955)	1,406,762
Equity – January 1, 2010	1,814,842	7,222	215,477	(664,924)	1,372,617
Issuance of units	41,799	-	-	-	41,799
Issurance of Convertible Debentures (note 10(f))	-	4,988	-	-	4,988
Conversion of Convertible Debentures	380	-	-	-	380
Net income for the period	-	-	7,430	-	7,430
Distributions for the period (note 11(g))	-	-	-	(39,496)	(39,496)
Equity – March 31, 2010	1,857,021	12,210	222,907	(704,420)	1,387,718

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

For the three months ended March 31, 2010 and 2009
(in thousands of dollars)

	2010 \$	2009 \$
Cash provided by (used in)		
Operating activities		
Net income for the period	7,430	2,335
Add (deduct): Items not affecting cash		
Amortization	32,968	39,010
Amortization of deferred financing costs	1,652	1,349
Amortization of prepaid land rent	900	859
Capital lease obligation interest	17	15
Straight-line rent adjustments	(872)	(900)
Deferred Unit compensation expense	197	181
Amortization of acquisition date fair value adjustment on assumed debt	(1,096)	(1,177)
Amortization of accretion on convertible debentures	519	-
	41,715	41,672
Expenditures on deferred leasing costs	(244)	(154)
Changes in other non-cash operating items (note 9(c))	1,512	(7,090)
	42,983	34,428
Financing activities		
Proceeds from issuance of convertible debentures - net of issuance costs	57,525	-
Proceeds from revolving acquisition and operating facilities, net of repayments	(87,000)	(11,000)
Proceeds from term mortgages	36,400	33,904
Term mortgages and other net debt repayments	(27,158)	(17,430)
Proceeds from issuance of units – net of issue costs	38,255	-
Distributions paid	(36,930)	(33,503)
Expenditures on financing costs	(97)	(1,665)
	(19,005)	(29,694)
Investing activities		
Acquisitions of income properties and properties under development (note 3)	(18,996)	(18,994)
Additions to income properties	(1,668)	(1,148)
Additions to properties under development	(27,185)	(8,137)
Advances of mortgages and loans receivable	(3,169)	(12,326)
Repayments of mortgages and loans receivable	7,982	28,384
Deposits	6	11
	(43,030)	(12,210)
Decrease in cash and cash equivalents during the period	(19,052)	(7,476)
Cash and cash equivalents – beginning of period	27,486	24,386
Cash and cash equivalents – end of period	8,434	16,910

Supplemental cash flow information (note 16)

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended March 31, 2010 and 2009
(in thousands of dollars, except Unit and per Unit amounts)

1. Organization

Calloway Real Estate Investment Trust (“the Trust”) is an unincorporated open-ended mutual fund trust governed by the laws of the Province of Alberta created under a declaration of trust, dated December 4, 2001, subsequently amended and last restated on September 14, 2009 (“the Declaration of Trust”).

At March 31, 2010, the SmartCentres Group of Companies (SmartCentres), owned by Mitchell Goldhar, owned approximately 23.4% (December 31, 2009 – 23.9%) of the issued and outstanding units of the Trust (see note 17).

2. Summary of significant accounting policies

Basis of presentation

These unaudited interim consolidated financial statements of the Trust have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are consistent with the accounting policies and method of their application used in the preparation of the audited consolidated financial statements as at and for the year ended December 31, 2009. The interim consolidated financial statements contain disclosures, which are supplemental to the Trust’s annual financial statements. They do not include all the information and disclosures required by Canadian generally accepted accounting principles applicable for annual consolidated financial statements and, therefore, they should be read in conjunction with the annual audited consolidated financial statements.

Comparative figures

Certain of the comparative figures have been reclassified to conform to the current year’s financial statement presentation.

3. Acquisitions

Acquisitions completed during the three months ended March 31, 2010

During the quarter ended March 31, 2010, pursuant to development management agreements referred to in note 5(a), the Trust completed the purchase of Earnouts totalling 145,032 square feet of development space from SmartCentres and other vendors for \$47,134. The purchase price was satisfied through the issuance of 10,595 Class B Series 1 and Series 3 LP Units for combined consideration of \$213 and the balance in cash, adjusted for other working capital amounts.

Consideration for the assets acquired during the three months ended March 31, 2010 is summarized as follows:

	Earnouts \$
Cash	18,996
Class B LP Units issued	213
Accounts payable and accrued liabilities assumed and repayment of loans receivable	27,925
	<u>47,134</u>

The allocation of the purchase price of the acquisitions during the three months ended March 31, 2010, to the assets acquired is summarized as follows:

	Earnouts \$
Income properties	
Tangible assets	
Land ⁽¹⁾	3,046
Buildings	31,018
Tenant improvements	460
	<u>34,524</u>
Prepaid land rent ⁽¹⁾	10,001
Intangible assets	
In-place leases	2,491
Tenant relationships	118
	<u>2,609</u>
	<u>47,134</u>

(1) The allocation of the purchase price of Earnouts in the above table does not include the cost of previously acquired freehold land and leasehold land in the amount of \$1,904 and \$nil, respectively

The allocation of the purchase price to fair values of assets acquired and liabilities assumed for acquisitions completed during the three months ended March 31, 2010 have not been finalized and will be subject to adjustment. Income from the acquired properties is included in the consolidated statements of income and comprehensive income from the date of acquisition.

Acquisitions completed during the three months ended March 31, 2009

During the quarter ended March 31, 2009, pursuant to development management agreements referred to in note 5(a), the Trust completed the purchase of Earnouts totalling 98,842 square feet of development space from SmartCentres and other vendors for \$22,568. The purchase price was paid in cash, adjusted for other working capital amounts.

Consideration for the assets acquired during the three months ended March 31, 2009 is summarized as follows:

	Earnouts \$
Cash	18,994
Accounts payable and accrued liabilities assumed and repayment of loans receivable	3,574
	<u>22,568</u>

The allocation of the purchase price of the acquisitions during the three months ended March 31, 2009, to the assets acquired is summarized as follows:

	Earnouts \$
Income properties	
Tangible assets	
Land ⁽¹⁾	1,260
Buildings	15,487
Tenant improvements	1,361
	18,108
Prepaid land rent ⁽¹⁾	1,363
Intangible assets	
In-place leases	2,703
Tenant relationships	394
	3,097
	22,568

(1) The allocation of the purchase price of Earnouts in the above table does not include the cost of previously acquired freehold land and leasehold land in the amount of \$2,098 and \$275, respectively.

Income from the acquired properties is included in the consolidated statements of income and comprehensive income from the date of acquisition.

4. Income properties

Income properties consist of the following:

	March 31, 2010			December 31, 2009		
	Cost \$	Accumulated Amortization \$	Net \$	Cost \$	Accumulated Amortization \$	Net \$
Tangible assets						
Land	904,770	-	904,770	898,356	-	898,356
Buildings	2,365,093	233,836	2,131,257	2,330,399	218,505	2,111,894
Tenant improvements	190,293	81,768	108,525	190,925	78,440	112,485
Equipment	938	462	476	935	466	469
	3,461,094	316,066	3,145,028	3,420,615	297,411	3,123,204
Prepaid land rent	170,398	10,723	159,675	160,827	10,254	150,573
Intangible assets						
In-place leases	393,645	160,633	233,012	396,008	154,820	241,188
Above-market leases	536	174	362	536	152	384
Below-market leases	(2,324)	(1,169)	(1,155)	(2,355)	(1,122)	(1,233)
Tenant relationships	32,234	9,430	22,804	32,250	8,867	23,383
	424,091	169,068	255,023	426,439	162,717	263,722
Total income properties	4,055,583	495,857	3,559,726	4,007,881	470,382	3,537,499

a) Capital leases

As at March 31, 2010, 14 (December 31, 2009 – 14) income properties with a cost of \$710,803 (December 31, 2009 – \$685,753) and a net book value of \$631,825 (December 31, 2009 – \$608,734) are subject to capital leases, summarized as follows:

- Three of the leasehold interests commenced in 2005 under the terms of 35-year leases with SmartCentres. SmartCentres has the right to terminate the leases after ten years on payment to the Trust of the market value of a 35-year leasehold interest in the properties at that time and also has the right to terminate the leases at any time in the event any third party acquires 20% of the aggregate of the Trust Units and special voting units by payment to the Trust of the unamortized balance of any prepaid lease cost. The Trust does not have a purchase option under these three leases.
- Of the ten leasehold interests that commenced in 2006 through 2009, four are under the terms of 80-year leases with SmartCentres and six are under the terms of 49-year leases with SmartCentres. The Trust has separate options to purchase each of these ten leasehold interests at the end of the respective leases at prices that are not considered to be bargain prices.
- The Trust prepaid its entire lease obligations for these 13 leasehold interests in the amount of \$666,830 (December 31, 2009 – \$641,731), including prepaid land rent of \$170,398 (December 31, 2009 – \$160,827); upon the completion and rental of additional space, the Trust prepaid its entire lease obligations relating to build-out costs of \$30,017 (year ended December 31, 2009 – \$44,327). There are no bargain purchase options at the end of the lease terms for these 13 leasehold interests and, accordingly, the portion of the prepaid lease obligation attributable to land has been classified as prepaid land rent. Amortization of prepaid land rent is included in property operating costs in the consolidated statements of income and comprehensive income.
- One leasehold interest commenced in 2003 under the terms of a 35-year lease with SmartCentres. The lease requires a \$10,000 payment at the end of the lease term in 2038 to exercise a purchase option, which is considered to be a bargain purchase option. The Trust prepaid its entire lease obligation for this property of \$43,973 (December 31, 2009 – \$44,022). This purchase option due at the end of the lease has been included in accounts payable, net of imputed interest at 9.18% of \$9,268 (December 31, 2009 – \$9,284), at the amount of \$732 (December 31, 2009 – \$716) (see note 9(b)). As the purchase option is considered to be a bargain purchase option, the portion of the prepaid lease obligation attributable to land has been classified as land.

b) Other

During the quarter ended March 31, 2010, unamortized tenant improvements and intangible assets relating to space that was vacated by tenants during the period before the expiry of their lease terms, totalling \$1,072 (March 31, 2009 – \$8,809), were charged to amortization expense.

5. Properties under and held for development

Properties under development consist of the following:

	March 31, 2010 \$	December 31, 2009 \$
Properties under development subject to development management agreements (a)	154,980	117,878
Properties under development not subject to development management agreements (b)	247,348	247,172
	<u>402,328</u>	<u>365,050</u>

For the three months ended March 31, 2010, general and administrative expenses of \$170 (March 31, 2009 – \$224) and interest expense of \$4,462 (March 31, 2009 – \$2,895) were capitalized to properties under development.

a) Properties under development subject to development management agreements

These properties under development (including certain leasehold properties) are subject to various development management agreements with SmartCentres, Wal-Mart Canada Realty Inc. and Hopewell Development Corporation (Hopewell), a company in which a trustee of the Trust is an officer (the vendors). Pursuant to the development management agreements, the Vendors assume responsibility for managing the development of the land on behalf of the Trust and are granted the right for a period of up to ten years to earn an Earnout fee. Upon the completion and rental of additional space on these properties, the Trust is obligated to pay the Earnout fee and to purchase the additional developments, at a total price calculated by a formula using the net operating rents and predetermined negotiated capitalization rates, on the date rent becomes payable on the additional space (Gross Cost). For additional space completed on land with a carrying value of \$71,959 (December 31, 2009 – \$76,584), the fixed predetermined negotiated

capitalization rates range from 6.00% to 10.00% during the five-year period of the respective development acquisition agreements. For additional space completed on land with a carrying value of \$83,021 (December 31, 2009 – \$41,294), the predetermined negotiated capitalization rates are fixed for each contract for either the first 1, 2, 3 or 4 years, ranging from 6.00% to 8.00%, and then are determined by reference to the ten-year Government of Canada bond rate at the time of completion plus a fixed predetermined negotiated spread ranging from 2.00% to 3.90% for the remaining term of the ten-year period of the respective development management agreements subject to a maximum capitalization rate ranging from 6.60% to 9.50%. The Earnout fee is calculated as the Gross Cost less the associated land and development costs incurred by the Trust.

For certain of these properties under development, SmartCentres and other unrelated parties have been granted Earnout Options that give them the right, at their option, to receive up to, 40% of the Earnout fee for one of the agreements and up to 30% to 40% of the Gross Cost for the remaining agreements in Trust Units, Class B LP Units or Class D LP Units, at predetermined option strike prices, for developments completed pursuant to the development management agreements, subject to a maximum number of units. For the three months ended March 31, 2010, the Trust completed 145,032 square feet (three months ended March 31, 2009 – 98,842 square feet) of retail space with a Gross Cost of \$35,605 (three months ended March 31, 2009 – \$12,817) exclusive of cost of land previously acquired and Earnout Fees paid to the vendors of \$11,529 (three months ended March 31, 2009 – \$9,751). SmartCentres elected to receive \$213 (March 31, 2009 – \$nil) in Class B Series 1 LP and Series 3 LP Units (note 11(b)).

Certain of the vendors have provided non-interest-bearing loans for the initial land acquisition costs and interest-bearing loans to finance additional costs of development (notes 10(c) and 10(b), respectively).

b) Properties under development not subject to development management agreements

These properties under development are being developed directly by the Trust. SmartCentres and the other vendors have been granted Earnout Options that give them the right, at their option, to acquire Class B Series 1 LP Units, at predetermined option strike prices, on the completion and rental by the Trust of additional space on certain of these properties under development, subject to a maximum number of units (note 11(b)).

During the three months ended March 31, 2010, the Trust completed the development and leasing of certain income properties on property under development not subject to development management agreements. Costs in respect of land of \$2,111 (three months ended March 31, 2009 – \$575), buildings of \$2,673 (three months ended March 31, 2009 – \$1,928) and tenant improvements of \$269 (three months ended March 31, 2009 – \$1,236) have been reclassified from properties under development to income properties.

6. Mortgages and loans receivable

Mortgages and loans receivable consist of the following:

	March 31, 2010 \$	December 31, 2009 \$
Mortgages receivable (a)	177,356	173,410
Loans and notes receivable (b), (c) and (d)	7,710	71,982
	<u>185,066</u>	<u>245,392</u>

- a) Mortgages receivable of \$135,897 (December 31, 2009 – \$132,425) and \$41,459 (December 31, 2009 – \$40,985) have been provided pursuant to agreements with SmartCentres and other unrelated parties, respectively, in which the Trust will lend up to \$280,135 (December 31, 2009 – \$280,135) for use in acquiring and developing thirteen (December 31, 2009 – thirteen) properties across Ontario, Quebec and British Columbia. Interest on these mortgages accrues monthly at 6.35% to 10% (December 31, 2009 – 6.35% to 10%) and is added to the outstanding principal up to a predetermined maximum accrual after which it is payable in cash monthly. A further \$43,285 may be accrued on the various mortgages receivable before cash interest must be paid. The principal and unpaid interest amounts are due at the maturity of the mortgages at various dates between 2010 and 2018 (one to ten years from the initial advance). The mortgages are secured by either a first, second or third charge on properties, assignments of rents and leases, and general security agreements. In addition, other SmartCentres affiliated companies have provided limited indemnities and guarantees on certain of the mortgages receivable. For the three months ended March 31, 2010, \$4,384 (three months ended March 31, 2009 – \$6,784) has been funded, including accrued interest of \$2,965 (three months ended March 31, 2009 – \$3,266), offset by repayments of \$438 (three months ended March 31, 2009 – \$25,058).

The following provides further details on these mortgages receivable:

- For mortgages totalling \$153,371 (December 31, 2009 – \$149,791), the Trust has an option to acquire a 50% (eight properties) and 100% (three properties) interest in the eleven properties (December 31, 2009 – eleven) upon substantial completion at an agreed upon formula using the net operating rents and a capitalization rate based on the ten-year Government of Canada bond rate at the time of completion plus a fixed predetermined negotiated spread ranging from 2.15% to 3.00% within a specified range as follows. Should the capitalization rate exceed the upper limit (ranging from 7.40% to 10.00%), the owner is not obligated to sell, with one exception, when the owner is obligated to sell, as there is no upper limit. Should the capitalization rate be less than the lower limit, then the lower limit (ranging from 6.25% to 7.65%) is deemed to be the capitalization rate, with five exceptions, where no lower limit exists.
 - The Trust has two (December 31, 2009 – two) agreements to loan SmartCentres up to \$15,000 and \$26,825, maturing in October 2017 and August 2018, for SmartCentres to use in acquiring and developing two properties in which the Trust has the other 50% co-ownership interest. The Trust has advanced \$23,985 (December 31, 2009 – \$23,619) on these mortgages as at March 31, 2010.
- b) Pursuant to development management agreements, loans receivable of \$nil (December 31, 2009 – \$57,921) and \$nil (December 31, 2009 – \$6,316) were provided to SmartCentres and Hopewell, respectively (note 5). For the three months ended March 31, 2010, an additional \$1,848 (three months ended March 31, 2009 – \$12,349) has been funded, offset by repayments of \$66,085 (three months ended March 31, 2009 – \$3,325), which represented full repayment on these loans. Certain development management agreements were amended to comply with the real estate investment trust exemption rules (“REIT Exemption”) under the Income Tax Act (Canada). This resulted in repayment of outstanding amounts due to Calloway under the development loans and the acquisition by Calloway of the improvements to the properties from the developer. As a result of the amendments, the costs of developing these properties are now incurred directly by Calloway and included in properties under development as incurred.
- c) As at March 31, 2010, notes receivable of \$2,608 (December 31, 2009 – \$2,608) have been granted to SmartCentres. These secured demand notes bear interest at 9.00% per annum. During the quarter ended March 31, 2010, \$nil (March 31, 2009 – \$nil) has been funded.
- d) Loans receivable of \$5,102 (December 31, 2009 - \$5,137) have been provided pursuant to agreements with other unrelated parties. The loans bear interest at rates of 5.20% to 5.50%, mature in 2012 and 2015 and are secured by either first or second charges on properties, assignments of rents and leases, and general security agreements. For the quarter ended March 31, 2010, \$35 (March 31, 2009 - \$33) has been repaid.

The estimated fair value of the mortgages, loans and notes receivable based on current market rates for mortgages, loans and notes with similar terms and risks are as follows:

	March 31, 2010 \$	December 31, 2009 \$
Mortgages receivable	166,504	163,347
Loans and notes receivable	7,710	71,982
	<u>174,214</u>	<u>235,329</u>

An assessment of impairment on mortgages and loans receivable is made on a quarterly basis. The full outstanding amount of mortgages and loans receivable as at March 31, 2010 is neither impaired nor past due, and there are no indications as of March 31, 2010 that the borrowers will not meet their payment obligations.

7. Deferred leasing costs

Deferred leasing costs consist of the following:

	March 31, 2010			December 31, 2009		
	Cost \$	Accumulated Amortization \$	Net \$	Cost \$	Accumulated Amortization \$	Net \$
Leasing commissions and other leasing costs	7,763	2,127	5,636	7,287	1,939	5,348

8. Deferred financing costs

Deferred financing costs that relate to revolving operating and acquisition facilities consist of the following:

	March 31, 2010			December 31, 2009		
	Cost \$	Accumulated Amortization \$	Net \$	Cost \$	Accumulated Amortization \$	Net \$
Deferred financing costs	2,817	827	1,990	5,039	2,624	2,415

Amortization of deferred financing costs is included in interest expense (note 10(g)).

9. Working capital**a) Amounts receivable, prepaid expenses and deposits**

Amounts receivable, prepaid expenses and deposits consist of the following:

	March 31, 2010 \$	December 31, 2009 \$
Amounts receivable		
Tenant receivables – net	14,790	10,087
Other tenant receivables	9,963	7,505
Straight-line rent receivable	28,627	27,755
Other receivables	3,992	4,465
	57,372	49,812
Prepaid expenses and deposits		
Prepaid expenses and other	9,377	3,432
Deposits	400	405
	9,777	3,837
	67,149	53,649

Tenant receivables

The Trust determines that impairment exists when there is objective evidence that the Trust will not be able to collect all amounts due. Significant financial difficulties, bankruptcy or financial reorganization are considered indicators of tenant receivable impairment. The carrying amount of tenant receivables is reduced through the use of an allowance account and a loss is recorded in the consolidated statements of income and comprehensive income within “Property operating costs.” When a tenant receivable is uncollectible, it is written off against the allowance for bad debts account for tenant receivables. Subsequent recoveries of tenant receivables previously written off are credited against “Property operating costs” in the consolidated statements of income and comprehensive income.

The reconciliation of changes in the allowance for bad debts on tenant receivables is as follows:

	2010 \$	2009 \$
Balance, January 1	2,416	2,029
Additional allowance recognized as expense	313	442
Reversal of previous allowances	(39)	(202)
Tenant receivables written off during the period	(54)	(204)
Balance, March 31	2,636	2,065

The total additional allowance of \$274 (March 31, 2009 - \$240) net of reversals of \$39 (March 31, 2009 - \$202) relates to allowances for specific tenant receivable impairments. Amounts written off totalling \$54 (March 31, 2009 - \$204) relate to uncollectible amounts from specific tenants that have vacated their premises or there is a settlement of a specific amount.

Tenant receivables representing rental payments from tenants are due at the beginning of each month. Annual common area maintenance (CAM) and property taxes are considered past due 60 days after billing. The increase in net tenant receivables over December 31, 2009 is primarily due to additional seasonal property tax recovery billings.

Tenant receivables less than 90 days old total \$7,411 (December 31, 2009 – \$2,710). The tenant receivable amounts older than 90 days totalling \$7,379 (December 31, 2009 – \$7,377), net of bad debt allowances of \$2,636 (December 31, 2009 - \$2,416) primarily pertain to CAM and property tax queries. Of the amounts over 90 days old, \$270 has been collected subsequent to the quarter end. The remaining amounts totalling \$7,109 are at various stages of the collection process and are considered by management to be fully collectible and not impaired.

Other tenant receivables totalling \$9,963 (December 31, 2009 - \$7,505) pertain to unbilled CAM and property tax recoveries and chargebacks, property taxes recoverable from municipalities and insurance claims. These amounts are considered current and collectible and are at various stages of the billing and collection process.

Other receivables

Other receivables consist primarily of accrued interest and related party receivables. As at March 31, 2010, other receivables are neither past due nor impaired, and there are no indications as of March 31, 2010, that the debtors will not meet their payment obligations.

b) Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consist of the following:

	March 31, 2010 \$	December 31, 2009 \$
Accrued development obligation	32,759	35,836
Accounts payable – operations and development	38,432	40,020
Tenant prepaid rent, deposits and other payables	22,099	21,017
Accrued interest payable	26,890	15,802
Distributions payable	13,107	12,818
Realty taxes payable	17,542	9,144
Non-controlling interest	2,196	2,171
Capital lease obligation (note 4(a))	732	716
	153,757	137,524

The accrued development obligation represents payments required to be made to SmartCentres for certain undeveloped lands acquired in October 2003, December 2006 and July 2007, either upon completion and rental of additional space on the undeveloped lands or, if no additional space is completed on the undeveloped lands, at the expiry of the ten-year development acquisition agreement period ending in 2013, 2016 and 2017. The accrued development obligation was initially measured at its estimated fair value using an imputed interest rate of 5.50%. For the three months ended March 31, 2010, imputed interest of \$450 (three months ended March 31, 2009 – \$461) was capitalized to properties under development.

c) Changes in other non-cash operating items

Changes in other non-cash operating items consist of the following:

	March 31, 2010 \$	March 31, 2009 \$
Amounts receivable and prepaid expenses	(15,697)	(11,437)
Accounts payable and accrued liabilities	17,209	4,347
	1,512	(7,090)

10. Debt

Debt consists of the following:

	March 31, 2010 \$	December 31, 2009 \$
Term mortgages (a)	1,872,418	1,860,574
Development loans		
Interest-bearing (b)	104,263	119,369
Non-interest-bearing (c)	23,559	24,954
Revolving operating facilities (d)	5,000	92,000
Unsecured debentures (e)	521,452	521,452
Convertible debentures (f)	178,705	123,769
	<u>2,705,397</u>	<u>2,742,118</u>
Less: Deferred financing costs	(16,543)	(15,420)
	<u>2,688,854</u>	<u>2,726,698</u>

Deferred financing costs as at March 31, 2010, pertaining to term mortgages amounted to \$7,976 (December 31, 2009 – \$8,610), unsecured debentures amounted to \$3,282 (December 31, 2009 – \$3,465) and convertible debentures amounted to \$5,285 (December 31, 2009 – \$3,345).

a) Term mortgages

Term mortgages bear interest at fixed rates with a weighted average interest rate of 5.91% at March 31, 2010 (December 31, 2009 – 5.90%) and mature between 2010 and 2026. The term mortgages are secured by first registered mortgages over specific income properties and properties under development and first general assignments of leases, insurance and registered chattel mortgages.

Principal repayment requirements for term mortgages are as follows:

	Instalment Payments \$	Lump Sum Payments at Maturity \$	Total \$
2010 (remainder of)	37,290	12,655	49,945
2011	51,163	83,265	134,428
2012	51,630	84,182	135,812
2013	48,980	232,950	281,930
2014	46,075	219,189	265,264
Thereafter	237,299	751,531	988,830
	<u>472,437</u>	<u>1,383,772</u>	<u>1,856,209</u>
Acquisition date fair value adjustment			16,209
			<u>1,872,418</u>

b) Interest bearing development loans

Interest bearing development loans total \$104,263 (December 31, 2009 – \$119,369) and are detailed as follows:

- Development loans totalling \$91,470 (December 31, 2009 – \$101,601) bear a variable interest rate of prime plus 0.50% to 0.75% on \$10,223 (December 31, 2009 – \$20,606) and bankers' acceptance rates plus 2.00% to 2.50% on \$81,247 (December 31, 2009 – \$80,995), are due on demand, are secured by first and second registered mortgages over specific income properties and first general assignments of leases and insurance and are subject to review annually.
- Development loans totalling \$12,793 (December 31, 2009 – \$17,768) have been provided by a joint venture between SmartCentres and Wal-Mart Canada Realty Inc. to finance additional costs of developments (note 5(a)). They bear variable interest rates at the bankers' acceptance rates plus 2.00%, are secured by first mortgages over specific income properties and income properties under development and first general assignments of leases, and are due the earlier of various dates between 2010 and 2015 or the date building construction is completed and the tenant is in occupancy and paying rent.

c) Non interest bearing development loans

Non-interest-bearing development loans have been provided by a joint venture between SmartCentres and Wal-Mart Canada Realty Inc. to finance initial land acquisition costs (note 5(a)). These loans were initially measured at their estimated fair value using imputed interest rates ranging from 4.03% to 5.16%, are secured by first mortgages over specific income properties and properties under development and first general assignments of leases, and are due the earlier of various dates in 2010 through 2015 or the date building construction is completed and the tenant is in occupancy and paying rent. During the three months ended March 31, 2010, imputed interest of \$265 (three months ended March 31, 2009 – \$160) was capitalized to properties under development.

d) Revolving operating facilities

The first revolving operating facility with \$5,000 outstanding (December 31, 2009 – \$59,000) bears interest at a variable interest rate based on bank prime plus 2.25% or banker's acceptance rates plus 3.25%, is secured by first charges over specific income properties and first general assignments of leases and insurance and expires on September 30, 2011.

A second revolving operating facility with \$nil outstanding (December 31, 2009 - \$33,000) secured by first charges over specific income properties and first general assignments of leases and insurance, was repaid at its maturity in January 2010.

	March 31, 2010 \$	December 31, 2009 \$
First revolving operating facility	160,000	160,000
Second revolving operating facility	-	105,000
Total available operating facilities	160,000	265,000
Lines of credit – outstanding	(5,000)	(92,000)
Letters of credit – outstanding	(28,955)	(29,194)
Remaining unused operating facilities	126,045	143,806

e) Unsecured debentures

	March 31, 2010 \$	December 31, 2009 \$
Series A senior unsecured, due September 22, 2010, bearing interest at 4.51% per annum, payable semi-annually on September 22 and March 22	46,452	46,452
Series B senior unsecured, due October 12, 2016, bearing interest at 5.37% per annum, payable semi-annually on October 12 and April 12	250,000	250,000
Series C senior unsecured, due April 14, 2014, bearing interest at 10.25% per annum, payable semi-annually on April 14 and October 14	150,000	150,000
Series D senior unsecured, due June 30, 2014, bearing interest at 7.95% per annum, payable semi-annually on June 30 and December 30	75,000	75,000
	521,452	521,452

Dominion Bond Rating Services (DBRS) provides credit ratings of debt securities for commercial issuers, which indicate the risk associated with a borrower's capabilities to fulfill its obligations. An investment grade rating must exceed "BB", with the highest rating being "AAA". The Trust's debentures are rated "BBB" with a stable trend as at March 31, 2010.

f) Convertible debentures

On May 14, 2004, the Trust issued \$55,000 of 6.00% convertible unsecured subordinated debentures (the 6.00% Convertible Debentures) due June 30, 2014. The 6.00% Convertible Debentures are convertible at the holders' option at any time into Trust Units at \$17.00 per unit and are redeemable at the option of the Trust on or after June 28, 2010. The 6.00% Convertible Debentures were divided into their liability and equity components, measured at their respective fair values at time of issue. For the three months ended March 31, 2010, \$380 of the face value of the 6.00% Convertible Debentures (three months ended March 31, 2009 – \$nil) was converted into Trust Units (note 11(e)). At March 31, 2010, \$4,435 of the face value of the 6.00% Convertible Debentures was outstanding (December 31, 2009 – \$4,815).

On May 2, 2008, the Trust issued \$125,000 of 6.65% convertible unsecured subordinated debentures (the 6.65% Convertible Debentures, and collectively, with the 6.00% Convertible Debentures: the Convertible Debentures) due June 30, 2013. The 6.65% Convertible Debentures are convertible at the holders' option at any time into Trust Units at \$25.25 per unit and are redeemable at the option of the Trust on or after June 30, 2011. The 6.65% Convertible Debentures were divided into their liability and equity

components, measured at their respective fair values at time of issue. For the three months ended March 31, 2010, \$nil of the face value of the 6.65% Convertible Debentures (three months ended March 31, 2009 – \$nil) was converted into Trust Units. At March 31, 2010, \$125,000 of the face value of the 6.65% Convertible Debentures was outstanding (December 31, 2009 – \$125,000).

On January 5, 2010, the Trust issued \$60,000 of 5.75% convertible unsecured subordinated debentures (the 5.75% Convertible Debentures) due June 30, 2017. The 5.75% Convertible Debentures are convertible at the holders' option at any time into Trust Units at \$25.75 per unit and are redeemable at the option of the Trust on or after June 30, 2013. The 5.75% Convertible Debentures were divided into their liability (\$54,797) and equity components (\$5,203), measured at their respective fair values at time of issue. The equity component after transaction costs is \$4,988. For the three months ended March 31, 2010, \$nil of the face value of the 5.75% Convertible Debentures was converted into Trust Units. At March 31, 2010, \$60,000 of the face value of the 5.75% Convertible Debentures was outstanding.

	March 31, 2010 \$	December 31, 2009 \$
6.65% convertible unsecured subordinated debentures	119,341	118,954
6.00% convertible unsecured subordinated debentures	4,435	4,815
5.75% convertible unsecured subordinated debentures	54,929	-
	<u>178,705</u>	<u>123,769</u>

g) Interest expense

Interest expense consists of the following:

	Three Months Ended March 31, 2010 \$	Three Months Ended March 31, 2009 \$
Interest at stated rate	40,990	34,567
Amortization of acquisition date fair value adjustments	(1,096)	(1,177)
Amortization of accretion on Convertible Debentures	519	-
Amortization of deferred financing costs	1,652	1,349
	<u>42,065</u>	<u>34,739</u>
Less: Interest capitalized to properties under development	(4,462)	(2,895)
Interest expense	<u>37,603</u>	<u>31,844</u>

h) Fair values

The estimated fair value of debt is approximately as follows:

	March 31, 2010 \$	December 31, 2009 \$
Term mortgages	1,834,257	1,806,285
Development loans	127,822	144,323
Operating facilities	5,000	92,000
Unsecured debentures	555,921	543,430
Convertible debentures	197,716	134,178
	<u>2,720,716</u>	<u>2,720,216</u>

11. Unit equity

The following presents the number of units issued and outstanding and the related carrying value of unit equity for the three months ended March 31, 2010, and March 31, 2009:

	Number of units issued and outstanding				Carrying amount			
	Trust Units	Class B and Class D LP Units	Class B LPII Units	Total Units	Trust Units \$	Class B and Class D LP Units \$	Class B LPII Units \$	Total \$
	(Table A)				(Table B)			
Balance – January 1, 2009	78,713,203	15,607,947	756,525	95,077,675	1,399,693	333,852	17,778	1,751,323
Deferred Unit Plan (c)	-	-	-	-	1,090	-	-	1,090
Distribution Reinvestment Plan (d)	332,054	-	-	332,054	3,556	-	-	3,556
Deferred Units exchanged for Trust Units (c)	33,042	-	-	33,042	-	-	-	-
Balance – March 31, 2009	79,078,299	15,607,947	756,525	95,442,771	1,404,339	333,852	17,778	1,755,969
Balance – January 1, 2010	82,981,042	15,627,877	756,525	99,365,444	1,462,811	334,253	17,778	1,814,842
Earnout Options exercised (b)	-	10,595	-	10,595	-	213	-	213
Deferred Unit Plan (c)	-	-	-	-	1,054	-	-	1,054
Deferred Units exchanged for Trust Units (c)	1,200	-	-	1,200	-	-	-	-
Distribution Reinvestment Plan (d)	107,429	-	-	107,429	2,277	-	-	2,277
Units issued for cash (f)	2,100,000	-	-	2,100,000	40,005	-	-	40,005
Debentures converted (e)	22,350	-	-	22,350	380	-	-	380
Unit issuance costs	-	-	-	-	(1,750)	-	-	(1,750)
Balance – March 31, 2010	85,212,021	15,638,472	756,525	101,607,018	1,504,777	334,466	17,778	1,857,021

TABLE A: Number of units issued and outstanding

	Class B Series 1 LP Units	Class B Series 2 LP Units	Class B Series 3 LP Units	Class D Series 1 LP Units	Total Units
Balance – January 1, 2009 and March 31, 2009	13,780,742	789,444	707,173	330,588	15,607,947
Balance – January 1, 2010	13,794,329	789,444	713,516	330,588	15,627,877
Earnout Options exercised	3,679	-	6,916	-	10,595
Balance – March 31, 2010	13,798,008	789,444	720,432	330,588	15,638,472

TABLE B: Carrying amount

	Class B Series 1 LP Units \$	Class B Series 2 LP Units \$	Class B Series 3 LP Units \$	Class D Series 1 LP Units \$	Total \$
Balance – January 1, 2009 and March 31, 2009	283,696	28,049	15,540	6,567	333,852
Balance – January 1, 2010	283,969	28,049	15,668	6,567	334,253
Earnout Options exercised	74	-	139	-	213
Balance – March 31, 2010	284,043	28,049	15,807	6,567	334,466

a) Authorized units**i) Trust units**

The Trust is authorized to issue an unlimited number of voting trust units (Trust Units), each of which represents an equal undivided interest in the Trust. All Trust Units outstanding from time to time shall be entitled to participate pro rata in any distributions by the Trust and, in the event of termination or windup of the Trust, in the net assets of the Trust. All Trust Units shall rank among themselves equally and rateably without discrimination, preference or priority. Unitholders are entitled to require the Trust to redeem all or any part of their Trust Units at prices determined and payable in accordance with the conditions provided for in the Declaration of Trust. A maximum amount of \$50 may be redeemed in total in any one month unless otherwise waived by the Board of Trustees.

In accordance with the Declaration of Trust, distributions to Unitholders are declared at the discretion of the Trustees. The Trust endeavours to declare distributions in each taxation year in such an amount as is necessary to ensure that the Trust will not be subject to tax on its net income and net capital gains under Part I of the Income Tax Act (Canada).

The Trust is authorized to issue an unlimited number of special voting units that will be used to provide voting rights to holders of securities exchangeable, including all series of Class B LP Units, all series of Class D LP Units, and Class B LPII Units, into Trust Units. Special voting units are not entitled to any interest or share in the distributions or net assets of the Trust. Each special voting unit entitles the holder to the number of votes at any meeting of unitholders of the Trust, which is equal to the number of Trust Units into which the exchangeable security is exchangeable or convertible. Special voting units are cancelled on the issuance of Trust Units on exercise, conversion or cancellation of the corresponding exchangeable securities. At March 31, 2010, there were 16,394,997 (December 31, 2009 – 16,384,402) special voting units outstanding. There is no value assigned to the special voting units.

ii) Calloway Limited Partnership units

Calloway Limited Partnership (LP) was formed on June 15, 2005, and commenced activity on July 8, 2005.

An unlimited number of any series of Class A LP Units, Class B LP Units, Class C LP Units, Class D LP Units, Class E LP Units and Class F LP Units may be issued by the LP. Class A LP partners have 20 votes for each Class A LP Unit held, Class B LP and Class D LP partners have one vote for each Class B LP Unit or Class D LP Unit held, respectively, and Class C LP, Class E LP and Class F LP partners have no votes at meetings of the LP. The LP is under the control of the Trust.

The Class A LP Units are entitled to all distributable cash of the LP after the required distributions on the other classes of units have been paid. At March 31, 2010, there were 3,114,131 (December 31, 2009 – 3,114,131) Class A LP Units outstanding. All Class A LP Units are owned indirectly by the Trust and have been eliminated on consolidation.

The Class B LP Units and the Class D LP Units are non-transferable, except under limited certain circumstances, but are exchangeable into an equal number of Trust Units at the holder's option. Holders of Class B LP Units and Class D LP Units are entitled to receive distributions equivalent to the distributions on Trust Units. Each Class B LP Unit and Class D LP Unit is entitled to one special voting unit, which will entitle the holder to receive notice of, attend and vote at all meetings of the Trust. The Class B LP Units and the Class D LP Units are considered to be economically equivalent to Trust Units and, accordingly, have been presented as equity in these consolidated financial statements.

The Class C LP Units and Class E LP Units are entitled to receive 0.01% of any distributions of the LP and have nominal value assigned in the consolidated financial statements. At the holder's option, and upon the completion and rental of additional space on specific properties and payment of a specific predetermined amount per unit, the Class C Series 1 and Series 2 LP Units, the Class C Series 3 LP Units and the Class E Series 1 LP Units are exchangeable into Class B LP Units, Class F Series 3 LP Units and Class D Series 1 LP Units, respectively, and the Class E Series 2 LP Units are exchangeable into Class F Series 2 LP Units (the Class C LP Units and Class E LP Units are effectively included in the Earnout Options – see note 11(b)). Upon exercise of the Earnout Options relating to the LP, the corresponding Class C LP Units and Class E LP Units are cancelled.

At March 31, 2010, there were 6,205,833 (December 31, 2009 – 6,209,512) Class C Series 1 LP Units, 3,350,000 (December 31, 2009 – 3,350,000) Class C Series 2 LP Units, 736,741 (December 31, 2009 – 743,657) Class C Series 3 LP Units, 16,704 (December 31, 2009 – 16,704) Class E Series 1 LP Units and 800,000 (December 31, 2009 – 800,000) Class E Series 2 LP Units outstanding.

The Class F LP Units are entitled to receive a preferred return determined at the time of issue based on the bid side yield on the ten-year Government of Canada Bond plus 135 basis points. There are certain redemption privileges at the option of each of the partnership and the unitholder. The redemption price is \$100 per unit. No Class F LP Units were outstanding as at March 31, 2010. Upon issuance, the Class F LP Units would be recorded as a liability in the consolidated financial statements.

iii) Calloway Limited Partnership II units

Calloway Limited Partnership II (LPII) was formed on February 6, 2006, and commenced activity on May 29, 2006.

An unlimited number of Class A LPII Units and Class B LPII Units may be issued by LPII. Class A LPII partners have five votes for each Class A LPII Unit held, and Class B LPII partners have one vote for each Class B LPII Unit held. LPII is under the control of the Trust.

The Class A LPII Units are entitled to all distributable cash of LPII after the required distributions on the Class B LPII Units have been paid. At March 31, 2010, there were 200,001 (December 31, 2009 – 200,001) Class A LPII Units outstanding. The Class A LPII Units are owned indirectly by the Trust and have been eliminated on consolidation.

The Class B LPII Units are non-transferable, except under limited certain circumstances, but are exchangeable into an equal number of Trust Units at the holder's option. Holders of Class B LPII Units are entitled to receive distributions equivalent to the distributions on Trust Units. Each Class B LPII Unit is entitled to one special voting unit, which will entitle the holder to receive notice of, attend and vote at all meetings of the Trust. The Class B LPII Units are considered to be economically equivalent to Trust Units and, accordingly, have been presented as equity in these consolidated financial statements.

b) Earnout options

As part of the consideration paid for certain income property acquisitions, the Trust has granted options in connection with the development management agreements (note 5(a)) and in connection with properties under development not subject to development management agreements (note 5(b)). Upon completion and rental of additional space on specific properties and payment of the relevant option strike prices, the holder may elect to exercise the Earnout Options and receive Trust Units, Class B LP Units or Class D LP Units, as applicable. The Earnout Options, pursuant to the development management agreements, are exercisable generally upon completion and rental of additional space on specific properties, for a period of five to ten years commencing at the grant date, which may be extended under certain conditions. The option strike prices were based on the market price of Trust Units on the date the substantive terms were agreed upon and announced.

The following presents the number of units granted, exercised and outstanding for the three months ended March 31, 2010 and March 31, 2009:

	Strike Price \$	Options Outstanding at January 1 2010 #	Options Expired During Three Months Ended March 31, 2010 #	Options Exercised During Three Months Ended March 31, 2010 #	Options Outstanding at March 31 2010 #	Proceeds During Three Months Ended March 31 2010 \$
Options to acquire Trust Units						
October 2003	10.00	12,688	-	-	12,688	-
October 2003	10.50	463,466	-	-	463,466	-
February 2004	14.00	442,007	-	-	442,007	-
May 2004	15.25	1	-	-	1	-
November 2004	17.80	5,212	-	-	5,212	-
March 2005	19.60	142,663	-	-	142,663	-
July 2005	20.10	1,205,227	-	-	1,205,227	-
December 2006	29.55 to 33.55	551,416	-	-	551,416	-
July 2007	29.55 to 33.00	1,348,223	-	-	1,348,223	-
		4,170,903	-	-	4,170,903	-
Options to acquire Class B LP Units and Class D LP Units ⁽¹⁾						
July 2005	20.10	4,175,183	(56,859)	(3,679)	4,114,645	74
December 2006	29.55 to 30.55	2,550,000	-	-	2,550,000	-
July 2007	29.55 to 33.00	1,600,000	-	-	1,600,000	-
June 2008	20.10	743,657	-	(6,916)	736,741	139
		9,068,840	(56,859)	(10,595)	9,001,386	213
Total Earnout Options		13,239,743	(56,859)	(10,595)	13,172,289	213

(1) Each option is represented by a corresponding Class C LP Unit or Class E LP Unit.

	Strike Price \$	Options Outstanding at January 1 2009 #	Options Expired During Three Months Ended March 31, 2009 #	Options Exercised During Three Months Ended March 31, 2009 #	Options Outstanding at March 31 2009 #	Proceeds During Three Months Ended March 31 2009 \$
Options to acquire Trust Units						
October 2003	10.00	12,688	-	-	12,688	-
October 2003	10.50	475,576	-	-	475,576	-
February 2004	14.00	442,007	-	-	442,007	-
May 2004	15.25	1	-	-	-	-
November 2004	17.80	5,212	-	-	5,212	-
March 2005	19.60	142,663	-	-	142,663	-
July 2005	20.10	1,225,606	-	-	1,225,606	-
December 2006	29.55 to 33.55	551,416	-	-	551,416	-
July 2007	29.55 to 33.00	1,348,223	-	-	1,348,223	-
		4,203,392	-	-	4,203,392	-
Options to acquire Class B LP Units and Class D LP Units ⁽¹⁾						
July 2005 ⁽²⁾	20.10	5,489,801	-	-	5,489,801	-
December 2006	29.55 to 30.55	2,550,000	-	-	2,550,000	-
July 2007	29.55 to 33.00	1,600,000	-	-	1,600,000	-
June 2008	20.10	750,000	-	-	750,000	-
		10,389,801	-	-	10,389,801	-
Total Earnout Options		14,593,193	-	-	14,593,193	-

(1) Each option is represented by a corresponding Class C LP Unit or Class E LP Unit.

(2) Includes 1,151,285 of vested options as at March 31, 2009. On September 30, 2008, the Trust entered into an agreement with SmartCentres whereby all the July 2005 Earnout Options to acquire Class B LP Units that have vested as at December 31, 2008, must be exercised by June 30, 2009, with an extension to September 30, 2009, under certain circumstances. The remaining July 2005 Earnout Options to acquire Class B LP Units that have not vested as at December 31, 2008, must be exercised within 60 days of completion and rental of additional space on specific properties.

c) Deferred Unit Plan

During 2005, the Trust implemented a deferred unit plan (amended May 16, 2006). The plan entitles Trustees and officers, at the participant's option, to receive deferred units in consideration for Trustee fees or executive bonuses with the Trust matching the number of units received. The deferred units in respect of Trustee fees or executive bonuses effectively vest immediately, and the matching deferred units vest 50% on the third anniversary and 25% on each of the fourth and fifth anniversaries, subject to provisions for earlier vesting in certain events. The deferred units earn additional deferred units for the distributions that would otherwise have been paid on the deferred units (i.e., had they instead been issued as Trust Units on the date of grant). Once vested, participants are entitled to receive an equivalent number of Trust Units for the vested deferred units and the corresponding additional deferred units. Deferred units are granted at the beginning of the following fiscal year.

During the three months ended March 31, 2010, Trustees, officers and employees elected to receive 44,291 deferred units in consideration for Trustee fees and bonuses amounting to \$857 (three months ended March 31, 2009 – \$909).

During the three months ended March 31, 2010, the Trust recorded compensation expense, in respect of the matching deferred units granted by the Trust, of \$197 (three months ended March 31, 2009 – \$181).

The status of the outstanding deferred units for the three months ended March 31, 2010, is as follows:

	Outstanding	Vested	Non-vested
Balance – January 1, 2009	305,301	211,417	93,884
Granted during the period	148,113	73,742	74,371
Reinvested during the period	17,093	10,843	6,250
Vested during the period	-	9,142	(9,142)
Exchanged for Trust Units	(33,042)	(33,042)	-
Balance – March 31, 2009	437,465	272,102	165,363
Balance – January 1, 2010	458,878	296,882	161,996
Granted during the period	88,582	44,291	44,291
Reinvested during the period	10,227	6,614	3,613
Vested during the period	-	16,994	(16,994)
Exchanged for Trust Units	(1,200)	(1,200)	-
Balance – March 31, 2010	556,487	363,581	192,906

d) Distribution Reinvestment Plan

The Trust enables holders of Trust Units to reinvest their cash distributions in additional units of the Trust at 97% of the weighted average unit price over the ten trading days prior to the distribution. The 3% bonus amount is recorded as an additional distribution and reinvestment.

e) Convertible Debentures

During the three months ended March 31, 2010, \$380 (three months ended March 31, 2009 – \$nil) of face value of the Convertible Debentures was converted into 22,350 (three months ended March 31, 2009 – nil) Trust Units. The face value of the Convertible Debentures, net of a discount of \$nil (three months ended March 31, 2009 – \$nil), plus a proportionate share of the equity component in the amount of \$nil (three months ended March 31, 2009 – \$nil), net of applicable unamortized deferred financing costs of \$nil (three months ended March 31, 2009 – \$nil), was added to Trust Unit capital.

f) Units issued for cash

During the quarter ended March 31, 2010, the Trust issued Trust Units for cash as follows

	Issued units	Issue price \$	Proceeds \$
January 5, 2010	2,100,000	19.05	40,005
Issue costs			(1,750)
			38,255

g) Unit distributions

The Unitholders approved an amendment to the Declaration of Trust at the Annual meeting of the Unitholders on May 7, 2009 to remove the requirement to distribute its taxable income. Pursuant to the Declaration of Trust effective September 14, 2009, the Trust endeavours to distribute annually such amount as is necessary to ensure that the Trust will not be subject to tax on its net income under Part I of the Income Tax Act (Canada). Unit distributions declared during the three months ended March 31, 2010, and March 31, 2009, are as follows:

	March 31, 2010 \$	March 31, 2009 \$
Trust Units	33,153	30,773
Class B Series 1 LP Units	5,339	5,333
Class B Series 2 LP Units	306	306
Class B Series 3 LP Units	277	273
Class D Series 1 LP Units	128	128
Class B LPII Units	293	293
	39,496	37,106

12. Rentals from income properties

Rentals from income properties consist of the following:

	March 31, 2010 \$	March 31, 2009 \$
Base rent	81,793	76,472
Property operating costs recovered	38,003	36,719
	119,796	113,191

13. Amortization expense

Amortization expense consists of the following:

	March 31, 2010 \$	March 31, 2009 \$
Income properties		
Tangible assets	21,510	22,811
Intangible assets	11,307	16,065
Deferred leasing costs	151	134
	32,968	39,010

14. Future income taxes

The Trust is taxed as a mutual fund trust for Canadian income tax purposes. In accordance with the Declaration of Trust, distributions to Unitholders are declared at the discretion of the Trustees. The Trust endeavours to declare distributions in each taxation year in such an amount as is necessary to ensure that the Trust will not be subject to tax on its net income and net capital gains under Part I of the Income Tax Act (Canada) (the "Tax Act").

Pursuant to the amendments to the Tax Act, the taxation regime applicable to specified investment flow-through trusts or partnerships ("SIFTs") and investors in SIFTs has been altered. If Calloway were to become subject to these new rules (the "SIFT Rules"), it generally would be taxed in a manner similar to corporations on income from business carried on in Canada by Calloway and on income (other than taxable dividends) or capital gains from non-portfolio properties (as defined in the Tax Act), at a combined federal/provincial tax rate similar to that of a corporation. In general, distributions paid as returns of capital will not be subject to this tax. The SIFT Rules are applicable beginning with the 2007 taxation year of a trust unless the trust would have been a "SIFT trust" (as defined in the Tax Act) on October 31, 2006, if the definition had been in force and applied to the Trust on that date (the "Existing Trust Exemption"). For trusts that meet the Existing Trust Exemption, including Calloway, the SIFT Rules will apply commencing in the 2011 taxation year, assuming compliance with the "normal growth" guidelines issued by the Department of Finance (Canada) on December 15, 2006, as amended from time to time (the "Normal Growth Guidelines"). The SIFT Rules are not applicable to a real estate investment trust that meets certain specified criteria relating to the nature of its revenue and investments (the "REIT Exemption"). Calloway intends to qualify for the REIT Exemption prior to 2011.

As the Trust does not meet the REIT Exemption as at March 31, 2010, a future income tax asset in the amount of \$5,824 has been recorded as at March 31, 2010 based on the temporary differences that are expected to reverse on or after January 1, 2011, reduced by a valuation allowance of \$5,824 to a net balance of \$nil, as the tax asset is not more likely than not to be realized given that Calloway intends to meet the REIT Exemption by January 1, 2011. The measurement of the future income tax asset as at the consolidated balance sheet date required management to make estimates and assumptions, including estimates and assumptions regarding the timing of when temporary differences are expected to reverse and regarding future allocations of taxable income between the various partners of the limited partnerships under the control of the Trust. Actual results could differ from those estimates.

As the Trust has not exceeded the Normal Growth Guidelines and the Trust is not currently taxable, no current income taxes have been recorded as at March 31, 2010 and for the year then ended.

The following reconciles the Trust's tax provision calculated using the Canadian statutory tax rate to the provision for income taxes:

	March 31, 2010 \$	March 31, 2009 \$
Income tax provision based on Canadian statutory tax rate of 30.60% (March 31, 2009 – 28.15%)	2,274	657
Decrease in provision resulting from:		
Distributions deducted for current income tax purposes	(2,274)	(657)
Total income tax provision	-	-

15. Income per Unit

The following table sets forth the weighted average number of Units outstanding for income per Unit purposes:

	March 31, 2010	March 31, 2009
Trust Units	85,052,575	78,891,710
Class B LP Units	15,299,643	15,277,359
Class D LP Units	330,588	330,588
Class B LPII Units	756,525	756,525
Vested deferred units	333,950	243,336
Basic and Diluted	101,773,281	95,499,518

The impact of the potential exercise of 13,172,289 (March 31, 2009 – 13,441,908) unvested Earnout Options has not been included in the calculation of the weighted average diluted number of units outstanding because the conditions necessary for their issuance were not satisfied as at March 31, 2010, or March 31, 2009. The impact of the unvested deferred units, and the potential conversion of the Convertible Debentures into Trust Units, as at March 31, 2010, and March 31, 2009, have not been included in the calculation of the diluted number of units outstanding as they have been determined to be anti-dilutive.

16. Supplemental cash flow information

The following summarizes supplemental cash flow information and non-cash transactions:

	March 31, 2010 \$	March 31, 2009 \$
Interest paid	30,420	31,547
Interest received	658	999
Class B LP Units issued as consideration for acquisitions	213	-
Liabilities assumed on acquisitions, net of other assets	27,925	3,574
Units issued under the Distribution Reinvestment Plan	2,277	3,556
Units issued on conversion of debentures	380	-
Distributions payable at quarter-end	13,107	12,312
Liabilities at quarter-end relating to additions to income properties and properties under and held for development	19,317	19,451

17. Related party transactions

Transactions with related parties that are conducted in the normal course of operations have been recorded at the exchange amount. Monetary transactions, and non-monetary transactions that have commercial substance, with related parties that are not in the normal course of operations, but that result in a substantive change in the ownership interests of the item transferred and are supported by independent evidence, are recorded at the exchange amount.

As at March 31, 2010, SmartCentres, owned by Mitchell Goldhar, owned 11,291,118 Trust Units, 11,505,539 Class B Series 1 LP Units, 206,935 Class B Series 2 LP Units, and 720,432 Class B Series 3 LP Units, which represent in total approximately 23.4% of the issued and outstanding units. A July 2005 agreement preserves SmartCentres' voting rights at a minimum of 25.0% for a period of five years commencing July 1, 2005 on the condition that SmartCentres' owner, Mitchell Goldhar, remains a Trustee of the Trust and owns at least 15,000,000 Trust Units and Class B LP Units, collectively. This entitlement will extend for a further five-year term so long as SmartCentres sells in aggregate at least \$800,000 of freehold assets to the Trust during the initial five-year period, and SmartCentres owns no less than the lesser of 20.0% of the outstanding units or 20,000,000 units and SmartCentres' owner remains a Trustee of the Trust. SmartCentres has Earnout Options to acquire approximately 3,983,264 Trust Units and approximately 8,006,209 Class B Series 1, Class B Series 2 and Class B Series 3 LP Units. As at March 31, 2010, the ownership would increase to 31.1% if SmartCentres were to exercise all remaining Earnout Options. Pursuant to its rights under the Declaration of Trust, as at March 31, 2010, SmartCentres has appointed three Trustees out of nine.

The non-controlling interests, which are included in accounts payable and accrued liabilities, represent a 5.0% equity interest by SmartCentres in four consolidated income properties.

In addition to agreements and contracts with SmartCentres described elsewhere in these consolidated financial statements, the Trust has entered into the following agreements with SmartCentres:

1. The Management Agreement, under which the Trust has agreed to provide to SmartCentres certain limited property management services for a fee equal to 1% of net rental revenues of the managed properties, for a one-year term ending December 31, 2010. The Management Agreement automatically renews for subsequent one-year terms unless terminated by either SmartCentres or the Trust.
2. The Support Services Agreement, under which SmartCentres has agreed to provide to the Trust certain support services for a fee based on an allocation of the relevant costs of the support services incurred by SmartCentres for a one-year term ending December 31, 2010. The Support Services Agreement automatically renews for subsequent one-year terms unless terminated by either SmartCentres or the Trust. In addition, the Trust rents its office premises from SmartCentres for a term of five years to December 2011, with an option to extend for a further five years.
3. The Construction and Leasing Services Agreement, under which SmartCentres has agreed to provide to the Trust construction management services and leasing services. The construction management services are provided, at the discretion of the Trust, with respect to certain of the Trust's properties under development for a fee equal to 4.5% of the construction costs incurred. Fees for leasing services, requested at the discretion of the Trust, are based on various rates, which approximate market rates, depending on the term and nature of the lease. The agreement continues in force until terminated by either SmartCentres or the Trust.
4. The Trademark Licence Agreement and Marketing Cost Sharing Agreement (collectively, the Licence Agreement), under which the Trust has licensed the use of the trademark "SmartCentres" from SmartCentres for a ten-year term ending December 31, 2016. Under the Licence Agreement, the Trust will pay 50% of the costs incurred by SmartCentres in connection with branding and marketing the trademark together with the Trust's proportionate share of signage costs. SmartCentres has the right to terminate the Licence Agreement at any time in the event any third party acquires 20.0% of the aggregate of the Trust Units and special voting units.

In addition to related party transactions and balances disclosed elsewhere in these consolidated financial statements, the following summarizes other related party transactions and balances with SmartCentres and other related parties:

	March 31, 2010 \$	March 31, 2009 \$
Related party transactions and balances with SmartCentres		
Development fees and costs paid (capitalized to real estate assets)	336	659
Interest expense (capitalized to properties under and held for development)	109	144
Interest income from mortgages and loans receivable	2,357	3,003
Opportunity fees, head lease rents and operating cost recoveries received:		
Included in rentals from income properties	347	269
Capitalized to properties under and held for development	1,155	1,184
Management fee revenue pursuant to the Management Agreement (included in rentals from income properties)	351	289
Rent and operating costs paid (included in general and administration expenses and in property operating costs)	271	292
Legal and other administration services paid (included in general and administration expenses and in property operating costs)	261	315
Marketing cost sharing (included in property operating costs)	37	60
Amounts receivable at quarter-end	5,338	6,039
Accounts payable and accrued liabilities at quarter-end	9,804	8,853
Accrued development obligation at quarter-end	32,759	33,543
Other related party transactions and balances		
Legal fees paid to a legal firm in which a partner is a trustee:		
Included in general and administrative expenses	21	3
Included in equity issuance costs	2	-
Included in deferred financing costs	83	145
Included in prepaid expenses	-	19
Interest income from mortgages receivable	-	100
Opportunity fees received (capitalized to properties under and held for development)	59	99
Amounts receivable at quarter-end	54	747
Amounts payable at quarter-end	49	-
Acquisition holdback due to Hopewell at quarter-end	46	1,500

18. Co-ownership interests

The following amounts, included in these consolidated financial statements, represent the Trust's proportionate share in the financial position of 15 co-ownership interests as at March 31, 2010 (15 co-ownership interests as at December 31, 2009) and the results of operations and cash flows for the three months ended March 31, 2010 and March 31, 2009:

	March 31, 2010 \$	December 31, 2009 \$
Assets	435,548	457,025
Liabilities	242,459	264,051

	March 31, 2010 \$	March 31, 2009 \$
Revenues	12,200	10,216
Expenses	10,608	10,700
Net income (loss)	1,592	(484)
Cash flow provided by operating activities	6,948	3,469
Cash flow provided by (used in) financing activities	(26,147)	2,328
Cash flow provided by (used in) investing activities	20,405	(5,444)

Management believes the assets of the co-ownerships are sufficient for the purpose of satisfying the associated obligations of the co-ownerships. SmartCentres is the co-owner in four of the properties. The Trust's interests in these co-ownerships range from 44.44% to 50.0%.

19. Segmented information

The Trust owns, develops, manages and operates income properties located in Canada. In measuring performance, the Trust does not distinguish or group its operations on a geographical or any other basis and, accordingly, has a single reportable segment for disclosure purposes.

The Trust's major tenant is Wal-Mart Canada Corp., accounting for 26.0% of the Trust's annualized rental revenue as at March 31, 2010 (March 31, 2009 – 27.1%).

20. Risk management

a) Financial risks

The Trust's activities expose it to a variety of financial risks including interest rate risk, credit risk and liquidity risk. The Trust's overall financial risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Trust's financial performance. The Trust may use derivative financial instruments to hedge certain risk exposures.

i) Interest rate risk

The majority of the Trust's debt is financed at fixed rates with maturities staggered over a number of years, thereby mitigating its exposure to changes in interest rates and financing risks. At March 31, 2010, approximately 4.06% (December 31, 2009 – 7.76%) of the Trust's debt is financed at variable rates exposing the Trust to changes in interest rates on such debt.

The Trust analyzes its interest rate exposure on a regular basis. The Trust monitors the historical movement of ten-year Government of Canada Bonds for the past two years and performs a sensitivity analysis to show the possible impact on net income of an interest rate shift. The simulation is performed on a quarterly basis to ensure that the maximum loss potential is within the limit acceptable to management. Management runs the simulation only for interest bearing development loans, revolving acquisition facility, revolving operating facility and non-revolving interim credit facility.

The Trust's policy is to capitalize interest expense incurred relating to properties under development (March 31, 2010 – 10.89% of total interest costs). The sensitivity analysis below shows the maximum impact (net of estimated interest capitalized to properties under development) on net income of possible changes in interest rates on variable rate debt.

Interest Shift of	-0.50%	-0.25%	0%	+0.25%	+0.50%
	\$	\$	\$	\$	\$
Net income increase (decrease)	501	250	-	(250)	(501)

ii) Credit risk

Credit risk arises from cash and cash equivalents as well as credit exposures with respect to tenant receivables and mortgages and loans receivable (see notes 6 and 9(a)). Tenants may experience financial difficulty and become unable to fulfill their lease commitments. The Trust mitigates this risk of credit loss by reviewing tenants' covenants, ensuring its tenant mix is diversified and by limiting its exposure to any one tenant except Wal-Mart Canada Corp. Further risks arise in the event that borrowers of mortgages and loans receivable default on the repayment of amounts owing to the Trust. The Trust endeavours to ensure adequate security has been provided in support of mortgages and loans receivable. The Trust limits cash transactions to high credit quality financial institutions to minimize its credit risk from cash and cash equivalents.

iii) Liquidity risk

Liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities and the ability to lease out vacant units. Due to the dynamic nature of the underlying business, the Trust aims to maintain flexibility and opportunities in funding by keeping committed credit lines available, obtaining additional mortgages as the value of income-producing properties increases and issuing convertible debentures. In spite of the challenging capital market conditions, during the year ended December 31, 2009 and early 2010, the Trust has been able to renew and increase its operating facilities, raise additional term mortgage financing and issue unsecured debentures, convertible debentures and equity.

During the remainder of 2010, term mortgages of \$12,655 and unsecured debentures of \$46,452 will mature. The key assumptions used in the Trust's estimates of future cash flows when assessing liquidity risk are capital markets remaining liquid and there are no major bankruptcies of large tenants. Management believes it has considered all reasonable facts and circumstances as of today in forming appropriate assumptions. However, as always, there is a risk significant changes in market conditions could alter the assumptions used.

The Trust's liquidity position is monitored on a regular basis by management. A schedule of principal repayments on term mortgages and other debt maturities is disclosed in note 10.

b) Capital risk management

The Trust's primary objectives when managing capital are:

- to safeguard the Trust's ability to continue as a going concern, so that it can continue to provide returns for Unitholders; and
- to ensure that the Trust has access to sufficient funds for acquisition (including Earnout) or development activities.

The Trust sets the amount of capital in proportion to risk. The Trust manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Trust may adjust the amount of distributions paid to Unitholders, issue new units and debt or sell assets to reduce debt or fund acquisition or development activities.

The Trust anticipates meeting all current and future obligations. Management expects to finance future acquisitions, mezzanine loans, development and maturing debt from: (i) existing cash balances; (ii) a mix of: mortgage debt secured by income properties, operating facilities, issuance of equity and convertible/unsecured debentures; and (iii) through the sale of non-core assets. Cash flow generated from operating activities is the source of liquidity to service debt (except maturing debt), sustaining capital expenditures, leasing costs and unit distributions.

The Trust monitors capital structure based on the following ratios: interest coverage ratio, debt service coverage ratio, payout ratio, debt to gross book value ratio, and variable debt over gross book value ratio. These ratios are used by the Trust to manage an acceptable level of leverage and are calculated in accordance with the terms of specific agreements with creditors and the Declaration of Trust, and are not considered measures in accordance with GAAP, nor is there an equivalent GAAP measure. The Trust has defined capital as the aggregate amount of Unitholders' equity and debt.

The Trust's strategy is to maintain its interest coverage ratio at or above approximately two times, debt to gross book value ratio excluding convertible debentures between 55% to 60%, debt to gross book value ratio including convertible debentures between 60% to 65% and variable debt over gross book value ratio below 20%.

The Trust is required by its lenders to maintain its interest coverage ratio above 1.70 times, debt service coverage ratio above 1.35 times, debt to gross book value ratio, excluding convertible debentures, is not to exceed 60% and debt to gross book value ratio, including convertible debentures, is not to exceed 65%.

Interest coverage ratio is defined as earnings before interest, income taxes and amortization over interest expense. Debt service ratio is defined as earnings before interest, income taxes and amortization over interest expense and principal payments. Payout ratio is defined as unit distributions declared to Unitholders during the period over funds from operations. Debt to gross book value ratio is defined as mortgages and other debt payable over total consolidated assets of the Trust plus the amount of accumulated amortization relating to income properties. Variable debt over gross book value ratio is defined as debt with floating interest rates and debt having maturity of less than one year over total consolidated assets of the Trust plus the amount of accumulated amortization related to income properties.

Those ratios were as follows:

	March 31, 2010	March 31, 2009	Increase (Decrease)
Interest coverage ratio	1.9X	2.1X	(0.2)
Debt service coverage ratio	1.5X	1.6X	(0.1)
Payout ratio (FFO)	95.3%	88.0%	7.3%

	March 31, 2010	December 31, 2009	Decrease
Debt to gross book value ratio (excluding convertible debentures)	53.1%	55.3%	(2.2%)
Debt to gross book value ratio (including convertible debentures)	56.9%	57.9%	(1.0%)
Variable debt over gross book value ratio	2.3%	4.5%	(2.2%)

The decrease in interest coverage ratio and debt service coverage ratio during the quarter is primarily due to the increase in interest rate from refinancing of existing debt and interest from additional debt that incurred during the quarter.

The decrease in debt to gross book value ratio and variable debt over gross book value ratio during the quarter is primarily the result of additional Earnouts of income properties and the repayment of debt from the proceeds of new units issued in this quarter.

In addition, the Trust is also required (reported quarterly) to maintain a minimum equity requirement by certain of its lenders of at least \$1,500,000. This minimum equity amount is calculated based on equity plus accumulated amortization. As at March 31, 2010 the minimum equity amounted to \$1,884,000 (December 31, 2009 - \$1,843,000). If the Trust does not meet all externally imposed ratios and the minimum equity requirements, then the related debt will become immediately due and payable unless the Trust is able to remedy the default or obtain a waiver from lenders. For the quarter ended March 31, 2010, the Trust met all the externally imposed ratios and the minimum equity requirements.

c) Environmental risk

As an owner of real property, the Trust is subject to various federal, provincial and municipal laws relating to environmental matters. Such laws provide a range of potential liability, including potentially significant penalties, and potential liability for the costs of removal or remediation of certain hazardous substances. The presence of such substances, if any, could adversely affect the Trust's ability to sell or redevelop such real estate or to borrow using such real estate as collateral and, potentially, could also result in civil claims against the Trust. As required by the Declaration of Trust, and in accordance with best management practices, Phase 1 audits are completed on all properties prior to acquisition. Further investigation is conducted if Phase 1 tests indicate a potential problem. The Trust has operating policies to monitor and manage risk. In addition, the standard lease requires compliance with environmental laws and regulations, and restricts tenants from carrying on environmentally hazardous activities or having environmentally hazardous substances on site. The Trust has obtained environmental insurance on certain assets to further manage risk.

21. Commitments and contingencies

The Trust has certain obligations and commitments pursuant to development management agreements to complete the purchase of Earnouts totalling approximately 2,527,929 square feet of development space from SmartCentres and others over periods extending to 2017 at formula prices, as more fully described in note 5(a). As at March 31, 2010, the Trust has incurred \$154,980 (December 31, 2009 – \$117,878) in respect of these obligations and commitments. The timing of completion of the purchase of the Earnouts, and the final price, cannot be readily determined as they are a function of future tenant leasing. The Trust has also entered into various other development construction contracts totalling \$14,303 that will be incurred in the remainder of 2010.

The Trust and SmartCentres have agreed in principle to amend certain development management agreements pertaining to the Earnouts of 11 properties that currently have a floating capitalization rate determined by reference to the ten-year Government of Canada bond rate. The proposed amendment to the agreements, which has not yet been finalized, would include a fixed floor capitalization rate ranging from 6.10% to 7.50%. Certain Earnouts, which closed in 2008 and 2009, were completed on the basis that this amended agreement was fully executed. If an agreement is not reached between the Trust and SmartCentres, additional proceeds of \$8,995 may be payable to SmartCentres on those completed Earnouts.

The Trust entered into agreements with SmartCentres and other parties in which the Trust will lend monies, as disclosed in note 6(a). The maximum amount that may be provided under the agreements totals \$280,135, of which \$177,356 has been provided as of March 31, 2010.

One of the Trust's income properties is subject to a land lease requiring annual lease payments of \$231. The lease expires in November 2011 and the Trust has an option to extend the lease for a further ten years.

Letters of credit totalling \$45,534 (including letters of credit drawn down under the revolving operating facility described in note 10(d)) have been issued on behalf of the Trust by the Trust's bank as security for mortgages and for maintenance and development obligations to municipal authorities.

The Trust carries insurance and indemnifies its trustees and officers against any and all claims or losses reasonably incurred in the performance of their services to the Trust to the extent permitted by law.

The Trust, in the normal course of operations, is subject to a variety of legal and other claims. Management and the Trust's legal counsel evaluate all claims on their apparent merits and accrue management's best estimate of the likely cost to satisfy such claims. Management believes the outcome of current legal and other claims filed against the Trust, after considering insurance coverage, will not have a significant impact on the Trust's consolidated financial statements.

22. Subsequent events

On April 1, 2010, the Trust entered into a new ten-year mortgage totalling \$19,000, bearing interest at 5.79% and secured by a specific income property.

On April 30, 2010, the Trust completed the purchase of Earnouts totalling 65,147 square feet of development space from SmartCentres and other parties for \$4,459 paid in cash and other adjustments.

CORPORATE INFORMATION

TRUSTEES

Simon Nyilassy
President, Chief Executive Officer
Calloway Real Estate Investment Trust

David M. Calnan³
Partner, Shea Nerland Calnan

Mitchell Goldhar³
President, Chief Executive Officer
SmartCentres Group of Companies

Peter Forde³
Chief Operating Officer
SmartCentres Group of Companies

Al Mawani¹
Managing Partner
Exponent Capital Partners Inc.

Jamie M. McVicar^{1,2}
Chief Financial Officer
Devonian Properties Ltd.

Kevin Pshebniski^{2,3}
President
Hopewell Development Corporation

J. Michael Storey^{1,3}
President
Exeter Financial Corporation

Michael Young²
Principal
Quadrant Capital Partners Inc.

SENIOR MANAGEMENT

Simon Nyilassy
President, Chief Executive Officer

Bart Munn
Chief Financial Officer

Rudy Gobin
Executive Vice President, Asset Management

BANKERS

TD Bank Financial Group
BMO Capital Markets
RBC Capital Markets
CIBC World Markets
Scotia Capital

AUDITORS

PricewaterhouseCoopers LLP
Toronto, Ontario

LEGAL COUNSEL

Shea Nerland Calnan
Calgary, Alberta

REGISTRAR & TRANSFER AGENT

Computershare Trust Company of Canada
Toronto, Ontario

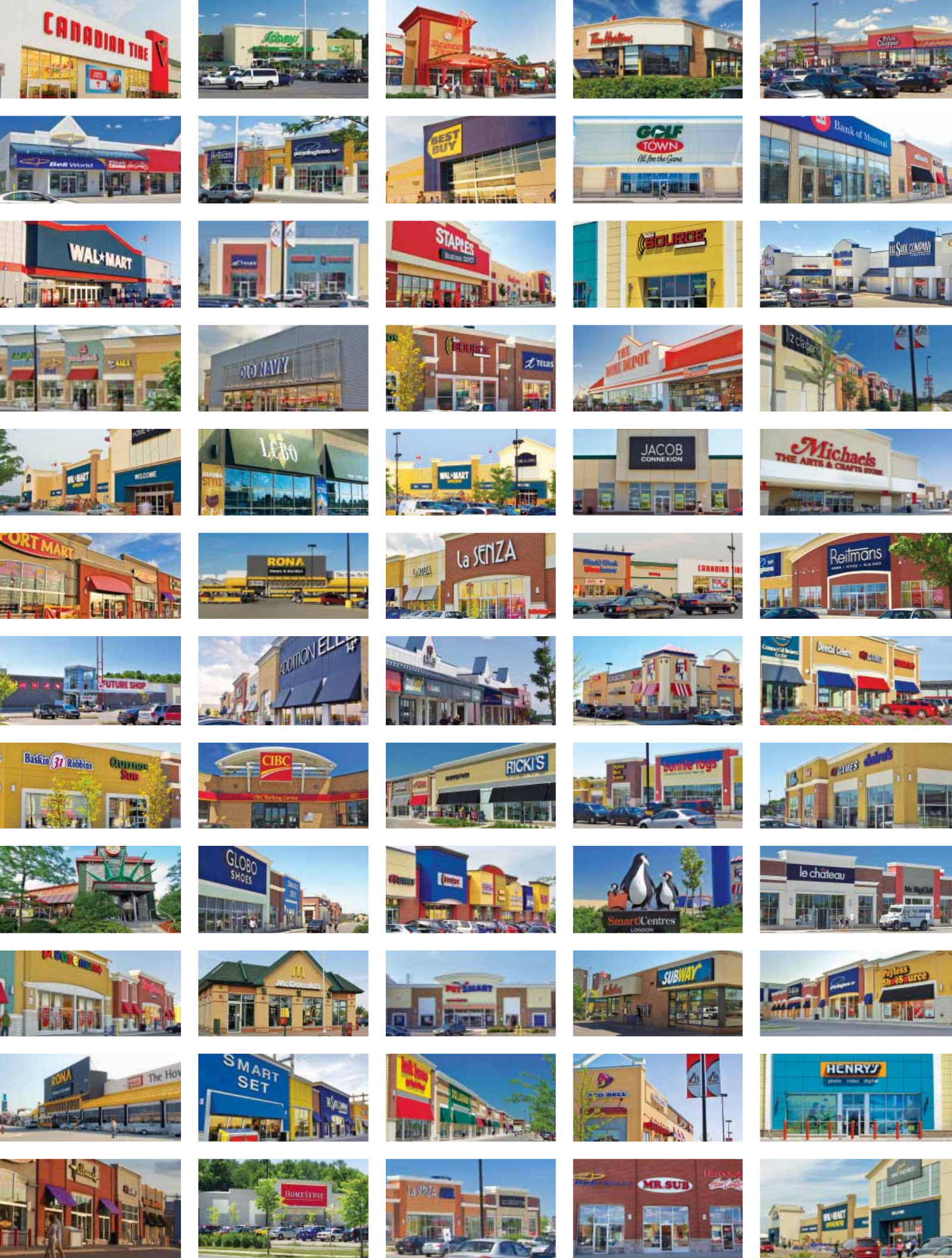
INVESTOR RELATIONS

Bart Munn,
Chief Financial Officer
Tel: 905.326.6400 Ext. 7631
Fax: 905.326.6402
TSX: CWT.UN

(1) Audit Committee

(2) Compensation and Corporate Governance Committee

(3) Investment Committee



CALLOWAY
REAL ESTATE INVESTMENT TRUST

700 Applewood Crescent, Suite 200, Vaughan, Ontario L4K 5X3
Tel: 905.326.6400 Fax: 905.326.0783
www.callowayreit.com