

REAL ESTATE INVESTMENT TRUST

PROVIDING VALUE



2008 Annual Report

Calloway REIT is the largest owner of large-format unenclosed retail properties in Canada. Its high-quality portfolio represents superior assets in prime locations across the country. These properties comprise a total of 21.9 million square feet – including 5.6 million square feet for future developments.

Calloway is led by an experienced senior management team. Under its leadership, Calloway's portfolio has grown from 12 to 119 high-quality properties in just six years. In that same period, total assets have soared from \$108.7 million to \$4.2 billion, for an impressive increase of 3,758%.

Focused on the ownership and development of exceptional retail properties, Calloway is home to leading, value-based national retailers. With a work force of 135 dedicated associates, Calloway's mission is to provide value for its Unitholders, its tenants and hard-working Canadian consumers.

VIEW FROM THE TOP

Q & A with Simon Nyilassy,
President and Chief Executive Officer



Simon Nyilassy assesses 2008 and provides his outlook on 2009.

Q: How would you describe 2008?

A: 2008 was an extraordinary year. The global financial crisis was a pervasive backdrop to events in the second half of the year. Stronger balance sheets and prudent management have helped mitigate the impact on Canadian financial institutions, but the size and scope of the U.S. crisis has permeated our economy and every other global economy. While the narrative to this story continues to play out and the conclusion to this chapter is hard to predict, one thing is clear. In order to succeed in this new economic reality, companies must be well-capitalized and well-managed.

Q: How is Calloway prepared for this new reality?

A: At Calloway, our business strategy is designed for stability during challenging times and the ability to seize opportunities when conditions improve. A great deal of our

durability originates from our strong relationships with top-tier tenants. Our longest and strongest relationship is with Wal-Mart Canada – which currently anchors 76% of our shopping centres. Wal-Mart is a value-minded retailer dedicated to value-minded Canadian shoppers. It possesses the size, scope and operating principles to endure and thrive in all economic cycles. In fact, in weak economies Wal-Mart traditionally increases market share as consumers gravitate to retailers who offer the best value.

Top 10 Tenants
(% of gross rental revenues)

1. Wal-Mart
2. Canadian Tire/
Mark's Work Warehouse
3. Best Buy/
Future Shop
4. HBC
5. Reitmans
6. Winners
7. Sobeys
8. Staples
9. Rona
10. Cara Restaurants

In addition to Wal-Mart, many of our centres enjoy the presence of other Canadian retailers that are leaders in their categories, such as Canadian Tire, Best Buy, HBC, Reitmans and Winners.



They add up to an impressive roster of value providers – for today’s value-conscious consumer. Our alignment with these retailers enhances our position now and in the future.

Q: What is at the heart of Calloway’s business model?

A: One key aspect is the centre design and layout. The large formats give retailers the ability to operate at an economic cost. The savings they achieve through operating efficiencies can be passed on to the consumer. The principle also applies on other levels. Since the large-box format is cost-effective for the landlord to build and operate, economical rents can be charged to the retailers – and that, too, can translate into savings for consumers.





Hard-working Canadians also benefit from accessibility, abundant free parking and close proximity to other high-profile, value-minded stores.

The aggregate of these benefits is the reason the large-box store design continues to be the format of choice for value-conscious consumers and retailers, especially now.

Q: How is the economy affecting your tenants?

A: As I said before, Calloway focuses on tenants that service the value-minded shopper. In this environment, the tenants continue to do well and are taking this opportunity to selectively expand, when others are cutting back. Wal-Mart Canada opened its first Wal-Mart Supercentre in November 2006. Just over two years later it opened its 56th store. The company expects to maintain a similar pace of Supercentre growth through new store openings and the expansion of existing traditional Wal-Mart stores.



Q: Was Calloway active on the acquisition front in 2008?

A: In April, we announced agreements with SmartCentres and Wal-Mart to acquire six new large-scale, unenclosed shopping centres, for approximately \$375 million. The initial



investment was approximately \$270 million, with a further \$105 million over the next three years as additional space is built and occupied in the centres.

These six newly built centres are all anchored by a Wal-Mart store

or Wal-Mart Supercentre and bring the total number of Wal-Marts in our portfolio to over 95. Three of the new centres are located in Calloway's core market of Ontario. The others expand our presence in British Columbia, Quebec and the rapidly growing Saskatoon market in Saskatchewan.

Q: What is the updated status of Calloway's portfolio?

A: The acquisition puts Calloway's assets at \$4.2 billion. Our portfolio is now comprised of 119 operating properties and 10 properties for the development of future shopping centres. The high quality of our



portfolio is reflected in three key facts. Most of the properties are newly built shopping centres – located in every province of Canada. They are leased to financially strong retailers with an overall average lease term of 9.7 years. And, our occupancy rates were over 99% throughout 2008 – the highest in the industry. The combination of quality buildings, high occupancy rates and low lease maturity puts Calloway in a strong position to weather an economic downturn.



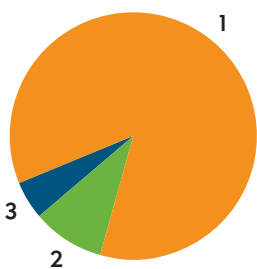
Q: Were there any other strategic initiatives in 2008?

A: Yes, late in 2008 we completed a number of strategic initiatives designed to upgrade the overall quality of our portfolio and to strengthen our balance sheet.

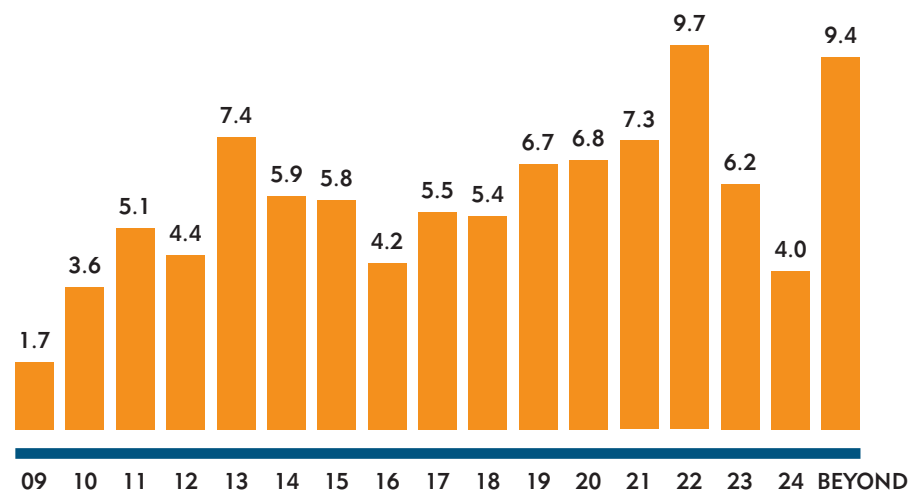
Among these initiatives was the sale of nine non-core assets. These retail properties were well maintained and of institutional quality, but were not large-box format or were located in communities in which Calloway did not have a significant presence. The net proceeds of these divestitures

Portfolio Age
(year of construction)

- 1. 2000–Present 85.8%
- 2. 1995–1999 9.3%
- 3. Before 1994 4.9%



Lease Expiries
(per cent)



totalled \$110 million. We also raised capital through early collection on a mortgage receivable, a strategy we continued in 2009, resulting in almost \$50 million of additional liquidity over a four-month period. This capital will be redeployed, as earnouts and development are completed over the next two years.

Q: How has the liquidity crunch affected Calloway?

A: We are fortunate that Canada's strong financial system, combined with Calloway's desirable assets, have meant that we continue to have access to secured debt financing.



Despite tight credit markets, we completed \$340 million in term financing at an average weighted interest rate of 5.5%. In 2009, the amount of mortgages maturing is only \$81 million, and it drops down to \$24 million in 2010. We also have \$260 million of secured bank lines to extend or re-finance in the second half of 2009. All are considered

well within Calloway's manageable range. In 2008, we negotiated a \$160 million operating facility that replaced a maturing acquisition facility and also issued a five year \$125 million convertible debenture in the second quarter. Our active financing program continued into 2009, with the closing of a new \$105 million revolving bank facility. Including this, we have raised \$730 million in the past 13 months – a solid result in difficult markets and one that reflects the quality of Calloway's assets.



Q: How does all that hard work in 2008 translate into financial performance?

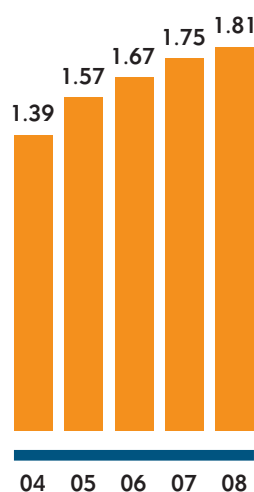
A: The high quality of our retailers, our exceptional occupancy levels and the strength of our shopping centre format allowed us to achieve solid numbers in 2008 despite the challenges of the financial crisis.

Calloway's assets under management increased from \$3.9 billion in 2007 to \$4.2 billion in 2008, representing an increase of 7.7%. Our revenues grew 14.6% from \$379.5 million in 2007 to \$434.8 million in 2008. Net operating income¹ improved to \$273.4 million in 2008 from \$245 million in 2007 – a gain of 11.6%. Finally, operating cash flow², which supports our monthly distributions continued to grow from \$1.66 per Unit fully diluted in 2007 to \$1.70 per Unit fully diluted in 2008, for an increase of 1.8%.

Distributions
(\$ per unit)



Funds From Operations
(\$ per unit)



Q: What's the outlook for 2009 and beyond?

A: Our strategy going forward is simple: continue to build on our core strengths and be positioned to adapt to the dynamics of the market. At present, economic forecasts



predict a significant reduction in consumer spending in Canada influenced by the weakening economy in the U.S. – the world's largest economy and Canada's largest trading partner. This outlook is likely to affect the plans and performance of Canadian retailers. Our strategy for the foreseeable future incorporates a more cautious view to building

new space – even when pre-leasing is available. This prudent posture places a higher degree of emphasis on market analysis and calls for caution when committing to build new space for tenants.

Calloway remains a trust with solid fundamentals. The high quality of our portfolio, our tenants, and our people stand us in good stead through the current environment and positions us well for when the economy starts to improve. We remain a leader in our industry. We remain confident in our ability to provide value for our Unitholders, tenants, and hard working, value-minded Canadian shoppers.



¹ Non- measure defined as rental from income properties less operating expenses.
² Non-GAAP measure represented by Adjusted Funds from Operations and defined in the MD&A under "Other Measures of Performance."

PROPERTY PORTFOLIO

Calloway's portfolio includes 119 high-quality properties located across Canada in major urban centres.



Retail Properties	Location	Ownership (%)	NRA (sq. ft.)	Occupancy (%)	Major Tenants
Courtenay SmartCentre	Courtenay, BC	100%	235,213	100.0%	Wal-Mart, Winners, Staples, Future Shop
Cranbrook SmartCentre	Cranbrook, BC	100%	135,521	100.0%	Wal-Mart, Real Canadian Superstore*, Home Hardware*
Kamloops SmartCentre	Kamloops, BC	100%	217,252	100.0%	Wal-Mart, Michaels, Pier 1 Imports
Langley SmartCentre	Langley, BC	100%	327,177	100.0%	Wal-Mart, Home Depot*, Save-on-Foods*, Home Outfitters
New Westminster SmartCentre	New Westminster, BC	100%	376,624	100.0%	Wal-Mart, Home Outfitters, Best Buy
Penticton Power Centre	Penticton, BC	100%	201,948	100.0%	Zellers, Winners, Staples
Prince George SmartCentre	Prince George, BC	100%	254,074	100.0%	Wal-Mart, Home Depot*, Canadian Tire*, Reitmans
Surrey West SmartCentre	Surrey, BC	100%	183,298	100.0%	Wal-Mart
Vernon SmartCentre	Vernon, BC	100%	200,204	100.0%	Wal-Mart, Rona*, Future Shop, Value Village
Calgary Southeast SmartCentre	Calgary, AB	100%	215,301	100.0%	Wal-Mart, London Drugs, Mark's Work Wearhouse
Edmonton Northeast SmartCentre	Edmonton, AB	100%	227,059	98.9%	Wal-Mart, Michaels, Mark's Work Wearhouse
Lethbridge SmartCentre	Lethbridge, AB	100%	331,988	100.0%	Wal-Mart Supercentre, Home Depot*, Ashley Furniture
St. Albert SmartCentre	St. Albert, AB	100%	249,669	99.4%	Wal-Mart Supercentre, Save-on-Foods*, Totem*
Regina East SmartCentre	Regina, SK	100%	370,735	100.0%	Wal-Mart, Real Canadian Superstore*, Rona*, Winners
Regina North SmartCentre	Regina, SK	100%	221,894	100.0%	Wal-Mart, IGA, Mark's Work Wearhouse, TD Bank
Saskatoon South SmartCentre	Saskatoon, SK	100%	283,128	100.0%	Wal-Mart, Home Depot*, The Brick
Kenaston Common SmartCentre	Winnipeg, MB	100%	167,246	100.0%	Rona, Costco*, Petland, HSBC
Winnipeg Southwest SmartCentre	Winnipeg, MB	100%	491,058	100.0%	Wal-Mart, Home Depot*, Safeway, Home Outfitters
Winnipeg West SmartCentre	Winnipeg, MB	100%	287,706	100.0%	Wal-Mart, Canadian Tire*, IGA, Winners
Ancaster SmartCentre	Ancaster, ON	100%	235,807	100.0%	Wal-Mart Supercentre, Canadian Tire*
Aurora North SmartCentre	Aurora, ON	50%	148,273	100.0%	Wal-Mart Supercentre, Rona, RBC, TD Canada Trust
Aurora SmartCentre	Aurora, ON	100%	50,463	100.0%	Canadian Tire*, Winners, Bank of Nova Scotia
Barrie North SmartCentre	Barrie, ON	100%	201,697	100.0%	Wal-Mart, Zehrs*, Old Navy, Reitmans
Barrie South SmartCentre	Barrie, ON	100%	369,577	100.0%	Wal-Mart, Sobeys, Winners, Michaels, LCBO
Bolton SmartCentre	Bolton, ON	100%	235,434	99.1%	Wal-Mart Supercentre, Real Canadian Superstore*, LCBO
Bramport SmartCentre	Brampton, ON	100%	60,205	100.0%	Loblaws*
Brampton East SmartCentre (I)	Brampton, ON	100%	35,777	96.5%	Rona*, Canadian Tire*, The Beer Store
Brampton East SmartCentre (II)	Brampton, ON	100%	358,432	98.3%	Wal-Mart Supercentre, Winners, Staples
Brampton North SmartCentre	Brampton, ON	100%	41,505	85.6%	Fortinos*, Shoppers Drug Mart
Brockville SmartCentre	Brockville, ON	100%	84,203	100.0%	Wal-Mart Supercentre*, Real Canadian Superstore*, Home Depot*
Burlington North SmartCentre	Burlington, ON	100%	176,516	100.0%	Wal-Mart, Reitmans, Moores
Burlington Staples SmartCentre	Burlington, ON	100%	134,238	100.0%	Home Depot*, Future Shop, Staples, Sears
Cambridge SmartCentre (I)	Cambridge, ON	100%	575,906	100.0%	Wal-Mart, Rona, Canadian Tire*, Staples, Michaels, Future Shop
Cambridge SmartCentre (II)	Cambridge, ON	100%	32,068	63.4%	Home Depot*
Carleton Place SmartCentre	Carleton Place, ON	100%	147,336	100.0%	Wal-Mart Supercentre
Chatham SmartCentre	Chatham, ON	50%	134,284	100.0%	Wal-Mart Supercentre, Zehrs*, Winners, Bank of Montreal
Cobourg SmartCentre	Cobourg, ON	100%	128,429	100.0%	Wal-Mart, Home Depot*, Loblaws*

* Non-owned anchor



Retail Properties	Location	Ownership (%)	NRA (sq. ft.)	Occupancy (%)	Major Tenants
Etobicoke SmartCentre	Etobicoke, ON	100%	293,735	100.0%	Wal-Mart, Home Depot*, Best Buy, Mark's Work Wearhouse
Hanover SmartCentre	Hanover, ON	100%	19,874	100.0%	Wal-Mart*, Loblaws*, Mark's Work Wearhouse
Huntsville SmartCentre	Huntsville, ON	100%	120,254	100.0%	Wal-Mart, Your Independent Grocer*
Kapuskasing SmartCentre	Kapuskasing, ON	100%	65,592	100.0%	Wal-Mart, Reitmans
Kenora Wal-Mart Centre	Kenora, ON	100%	80,881	100.0%	Wal-Mart, Canadian Tire*
Laurentian Power Centre	Kitchener, ON	100%	185,993	100.0%	Zellers, Rona*, Zehrs*, Home Outfitters, Staples, CIBC
London East Argyle Mall	London, ON	100%	353,567	98.2%	Wal-Mart, No Frills, Winners, Staples, LCBO
London North SmartCentre	London, ON	50%	235,925	100.0%	Wal-Mart Supercentre, Canadian Tire*, Winners, Future Shop
London Northwest SmartCentre (I)	London, ON	100%	9,827	100.0%	TD Canada Trust
London Northwest SmartCentre (II)	London, ON	100%	20,116	100.0%	Bank of Montreal, Royal Bank of Canada
Markham Woodside SmartCentre (I)	Markham, ON	50%	162,806	100.0%	Home Depot, Winners, Staples, Chapters, Michaels
Markham Woodside SmartCentre (II)	Markham, ON	50%	16,665	100.0%	Longo's*, LCBO
Midland SmartCentre	Midland, ON	100%	35,594	95.4%	Wal-Mart*, Home Depot*, Dollar Giant
Milton Wal-Mart Centre	Milton, ON	50%	64,464	100.0%	Wal-Mart*, Canadian Tire*, Staples
Mississauga (Erin Mills) SmartCentre	Mississauga, ON	100%	275,031	98.9%	Wal-Mart, No Frills, Goodlife Fitness, Bank of Montreal
Westgate SmartCentre	Mississauga, ON	100%	504,160	100.0%	Wal-Mart, Rona, Real Canadian Superstore*, Winners
Napanee SmartCentre	Napanee, ON	100%	109,383	100.0%	Wal-Mart, Mark's Work Wearhouse, EasyHome
Hopedale Mall	Oakville, ON	100%	309,211	95.4%	Zellers, Dominion (Metro)
Orleans SmartCentre	Orleans, ON	100%	376,333	100.0%	Wal-Mart Supercentre, Canadian Tire*, Home Outfitters
Oshawa North SmartCentre	Oshawa, ON	100%	422,195	100.0%	Wal-Mart, Loblaws, Home Depot*, Future Shop, Michaels
Oshawa South SmartCentre	Oshawa, ON	50%	146,900	100.0%	Wal-Mart Supercentre, RBC
Ottawa South SmartCentre	Ottawa, ON	50%	243,064	99.8%	Wal-Mart, Loblaws, Cineplex Odeon, Future Shop
Owen Sound SmartCentre	Owen Sound, ON	100%	157,831	96.7%	Wal-Mart, Home Depot*, Reitmans
Peterborough Home Outfitters Centre	Peterborough, ON	100%	58,355	100.0%	Home Outfitters, Jysk Linen 'N Furniture
Pickering SmartCentre	Pickering, ON	100%	528,001	100.0%	Wal-Mart, Sobeys, Canadian Tire*
Renfrew SmartCentre	Renfrew, ON	100%	9,471	100.0%	Wal-Mart Supercentre*, Canadian Tire*, Mark's Work Wearhouse
Rexdale SmartCentre	Rexdale, ON	100%	34,865	100.0%	Wal-Mart*, Bank of Nova Scotia
Rockland SmartCentre	Rockland, ON	100%	121,882	100.0%	Wal-Mart Supercentre
Scarborough (1900 Eglinton) SmartCentre	Scarborough, ON	100%	285,943	100.0%	Wal-Mart Supercentre, Bank of Montreal
Scarborough East SmartCentre (I)	Scarborough, ON	100%	90,969	98.4%	Home Depot*, Staples, Sears, Mark's Work Wearhouse
Scarborough East SmartCentre (II)	Scarborough, ON	100%	232,044	100.0%	Wal-Mart, Cineplex Odeon, Reitmans, LCBO
St. Catharines West SmartCentre (I)	St. Catharines, ON	100%	360,623	95.5%	Wal-Mart, Real Canadian Superstore*, Canadian Tire*
St. Catharines West SmartCentre (II)	St. Catharines, ON	100%	84,202	100.0%	Wal-Mart*, Real Canadian Superstore*, Canadian Tire*
St. Thomas SmartCentre	St. Thomas, ON	100%	170,778	95.7%	Wal-Mart, Real Canadian Superstore*, Canadian Tire*
Stouffville SmartCentre	Stouffville, ON	100%	97,438	100.0%	Wal-Mart Supercentre*, Canadian Tire, TD Canada Trust
401 & Weston Power Centre	Toronto, ON	44%	172,016	93.6%	Real Canadian Superstore*, Canadian Tire, The Brick
British Colonial Building	Toronto, ON	100%	17,429	92.9%	Irish Embassy Pubs Inc.

* Non-owned anchor



Retail Properties	Location	Ownership (%)	NRA (sq. ft.)	Occupancy (%)	Major Tenants
Leaside SmartCentre	Toronto, ON	100%	130,988	100.0%	Home Depot*, Best Buy, Sobeys, LCBO
Toronto Stockyards SmartCentre	Toronto, ON	100%	8,550	100.0%	Wal-Mart*, Bank of Montreal
Westside Mall	Toronto, ON	100%	144,377	100.0%	Canadian Tire, Price Chopper, Shoppers Drug Mart, CIBC
400 & 7 Power Centre	Vaughan, ON	100%	238,168	85.7%	The Brick, Home Depot*, Staples
Rutherford Village Shopping Centre	Vaughan, ON	100%	104,036	96.7%	Sobeys
Vaughan SmartCentre	Vaughan, ON	100%	269,755	100.0%	Wal-Mart Supercentre, Future Shop, Home Outfitters
Welland SmartCentre	Welland, ON	100%	151,137	100.0%	Wal-Mart, Canadian Tire*
Whitby North SmartCentre	Whitby, ON	100%	231,695	100.0%	Wal-Mart, Real Canadian Superstore*, LCBO
Whitby Northeast SmartCentre	Whitby, ON	100%	26,949	100.0%	Boston Pizza, Royal Bank of Canada
Windsor South SmartCentre	Windsor, ON	100%	200,551	94.9%	Wal-Mart, Moores, The Beer Store, CIBC
Woodbridge SmartCentre	Woodbridge, ON	50%	215,255	100.0%	Canadian Tire*, Fortinos*, Best Buy, Chapters, LCBO
Woodstock SmartCentre	Woodstock, ON	100%	216,281	100.0%	Wal-Mart, Canadian Tire*, Staples, Reitmans
Drummondville SmartCentre	Drummondville, QC	100%	51,186	71.1%	Wal-Mart*, Loblaws*, Mark's Work Wearhouse, CIBC
Hull SmartCentre (I)	Hull, QC	50%	122,682	100.0%	Wal-Mart, Famous Players*, Super C*, Staples
Hull SmartCentre (II)	Hull, QC	50%	24,976	100.0%	Wal-Mart*, Rona*, Famous Players*, Super C*, Winners
Kirkland SmartCentre	Kirkland, QC	100%	207,216	100.0%	Wal-Mart, The Brick
Laval West SmartCentre	Laval, QC	100%	558,035	100.0%	Wal-Mart, Rona, Canadian Tire*, IGA*, Best Buy
Magog SmartCentre	Magog, QC	100%	101,854	100.0%	Wal-Mart, Canadian Tire*
Mascouche SmartCentre	Mascouche, QC	100%	364,153	100.0%	Wal-Mart, Rona*, IGA, Home Outfitters
Montreal (Decarie) SmartCentre	Montreal, QC	50%	112,383	100.0%	Wal-Mart, Mar's Work Wearhouse, Pier 1 Imports
Montreal North SmartCentre	Montreal, QC	100%	257,204	100.0%	Wal-Mart, IGA, Winners, Mark's Work Wearhouse
Place Bourassa Mall	Montreal, QC	100%	276,022	96.2%	Zellers, Super C, RBC, National Bank
Rimouski SmartCentre	Rimouski, QC	100%	173,307	100.0%	Wal-Mart, Tanguay*, Super C*, Reitmans
Saint-Constant SmartCentre	Saint-Constant, QC	100%	303,731	99.0%	Wal-Mart, Metro Richelieu, Home Depot*, L'Aubenerie
Saint-Jean SmartCentre	Saint-Jean, QC	100%	193,468	100.0%	Wal-Mart, Maxi*, Mark's Work Wearhouse, TD Canada Trust
Saint-Jerome SmartCentre	Saint-Jerome, QC	100%	119,756	100.0%	Wal-Mart*, Sobeys, Home Depot*, TD Canada Trust
Sherbrooke SmartCentre	Sherbrooke, QC	100%	149,295	100.0%	Wal-Mart, Home Depot*, Canadian Tire*
Valleyfield SmartCentre	Valleyfield, QC	100%	161,236	100.0%	Wal-Mart, Reitmans
Saint John SmartCentre	Saint John, NB	100%	271,084	100.0%	Wal-Mart, Kent*, Canadian Tire*, Winners
Bridgewater SmartCentre	Bridgewater, NS	100%	31,996	96.3%	Wal-Mart*, Home Depot*, Canadian Tire*
Halifax Bayers Lake Centre	Halifax, NS	100%	155,377	100.0%	Zellers*, Atlantic Superstore*, Future Shop, Winners
Truro SmartCentre	Truro, NS	100%	118,461	100.0%	Wal-Mart, Kent*, Stitches, Penningtons
Charlottetown SmartCentre	Charlottetown, PE	100%	188,924	100.0%	Wal-Mart, Canadian Tire*, Home Depot*, Sobeys*
Corner Brook SmartCentre	Corner Brook, NL	100%	178,980	100.0%	Wal-Mart, Canadian Tire*, Dominion (Loblaws)*, Staples
Gander SmartCentre	Gander, NL	100%	25,235	91.8%	Wal-Mart*
Mount Pearl SmartCentre	Mount Pearl, NL	100%	248,736	98.9%	Wal-Mart, Canadian Tire*, Dominion (Loblaws)*, Staples
Pearlgate Shopping Centre	Mount Pearl, NL	100%	42,893	93.2%	Shoppers Drug Mart, TD Canada Trust

* Non-owned anchor



Retail Properties	Location	Ownership (%)	NRA (sq. ft.)	Occupancy (%)	Major Tenants
St. John's Central SmartCentre	St. John's, NL	100%	109,835	100.0%	Wal-Mart*, Home Depot*, Canadian Tire*, Sobeys
St. John's East SmartCentre (I)	St. John's, NL	100%	272,752	100.0%	Wal-Mart, Dominion (Loblaws)*, Winners, Sport Chek
St. John's East SmartCentre (II)	St. John's, NL	100%	87,411	100.0%	Staples, Future Shop, Old Navy, Michaels
Total Continuing Operations			21,446,589		
Discontinued Operations					
Crowchild Corner	Calgary, AB	100%	23,377	100.0%	Remax
Pembroke SmartCentre	Pembroke, ON	100%	11,247	100.0%	Wal-Mart*, Canadian Tire*, Reitmans
New Minas SmartCentre	New Minas, NS	100%	45,561	95.5%	Wal-Mart*, Sport Chek
Total Discontinued Operations			80,185		
Total Retail Properties			21,526,774		

Industrial Property	Location	Ownership (%)	NRA (sq. ft.)	Occupancy (%)	Major Tenants
Airtech Centre	Richmond, BC	100%	111,484	100.0%	MTU Maintenance
Mississauga (Dixie and Dundas) Centre	Mississauga, ON	100%	240,773	100.0%	National Logistics Services
Total Industrial			352,257		

Retail Development Lands	Location	Ownership (%)	NRA (sq. ft.)	Occupancy (%)	Major Tenants
Dawson Creek SmartCentre	Dawson Creek, BC	100%	63,000		Wal-Mart*
Quesnel SmartCentre	Quesnel, BC	100%	89,810		Wal-Mart*
Salmon Arm SmartCentre	Salmon Arm, BC	50%	176,083		Wal-Mart ¹
Burlington (Appleby) SmartCentre	Burlington, ON	100%	163,904		
Dunnville SmartCentre	Dunnville, ON	100%	105,304		Wal-Mart*, Canadian Tire*, Sobeys*
Etobicoke (Index) SmartCentre	Etobicoke, ON	100%	169,800		
Fort Erie SmartCentre	Fort Erie, ON	100%	36,455		Wal-Mart*, No Frills*
Halton Hills SmartCentre	Halton Hills, ON	100%	473,850		
Victoriaville SmartCentre	Victoriaville, QC	100%	40,450		Wal-Mart*, Home Depot*, Maxi*
Fredericton North SmartCentre	Fredericton, NB	100%	51,075		Wal-Mart*, Canadian Tire*, Kent*
Total Retail Development Lands			1,369,731		

* Non-owned anchor

¹ Currently in the development phase (Salmon Arm SmartCentre)

FINANCIALS

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

For the year ended December 31, 2008

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 year ended December 31, 2008, significant risks facing the business and management's outlook for 2009.

This MD&A should be read in conjunction with Calloway's audited consolidated financial statements for the year ended December 31, 2008, and the notes contained therein. Such 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 February 25, 2009, which is the date of the press release announcing Calloway's results for the year ended December 31, 2008. 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)", "Distributable Income (DI)", "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 consolidated financial statements of Calloway for the year ended December 31, 2008. 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 up-financing 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, 2008, 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 and 6.65% convertible debentures of Calloway are listed and publicly traded on the Toronto Stock Exchange (TSX) under the symbols "CWT.UN", "CWT.DB" and "CWT.DB.A", respectively.

Calloway's mission is to provide stable and growing cash distributions to our Unitholders by providing a value-oriented family shopping experience.

Calloway's objectives are to provide Unitholders with stable and growing tax-deferred cash distributions through the acquisition, development and operation of a portfolio of well-located, well-leased, primarily large-format unenclosed retail centres and to enhance the value of Calloway's assets and Unit value through effective management, leasing and redevelopment of its assets and effective control of long-term cost of capital and operating costs.

Calloway provides its retailers well-designed centres in convenient locations close to consumers. The focus is on value-oriented retailers and includes 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 December 31, 2008, Calloway owned 127 shopping centres and two industrial buildings, with total gross leasable area of 21.9 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. Commencing in 2007, Calloway has acquired the right, for a 10-year term, to use the "SmartCentres" brand, which represents a family-and-value-oriented shopping experience.

Acquisitions

Calloway intends to grow distributions, in part, through the accretive acquisitions of properties. The current environment is not conducive to acquisitions as there is limited availability and a higher cost of capital relative to the return available on acquisitions. The Trust will continue to monitor the property and capital markets and will resume acquisition activities as conditions permit.

Developments and Earnouts

Calloway developments and earnouts continue to be a significant component of Calloway's strategic plan. As at December 31, 2008, the Trust has approximately 5.6 million square feet of potential gross leasable area that could be developed. On the assumption that it will be able to obtain adequate financing, the Trust plans to develop approximately 2.3 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 our 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 over 99.2% at December 31, 2008 (December 31, 2007 – 99.3%).

Financial and Operational Highlights in 2008

Calloway continued its growth through acquisitions in the first half of 2008. In the second half of the year the focus was on managing the operation and development of existing properties and raising the capital required for future growth of the business. Despite tough economic conditions, the Trust completed the sale of nine non-core properties and raised \$462.4 million in financing. Highlights for the year include the following:

- Maintained portfolio occupancy above 99% level.
- Acquired six income properties for \$272.1 million.
- Completed development and earnout and lease-up of 918,718 square feet of leasable area for \$222.9 million, providing an unleveraged yield of 7.1%.
- Completed the sale of nine income properties for gross proceeds of \$162.5 million.
- Negotiated term financing of \$337.4 million.
- Issued \$125.0 million principal amount of 6.65% convertible debentures.
- Reduced short term operating debt facilities by \$90.0 million.

Selected consolidated information:

(in thousands of dollars, except per Unit and other non-financial data)	2008	2007	2006
Operational Information			
Number of properties	129	133	122
Gross leasable area (in thousands of sq. ft.)	21,879	20,174	18,364
Future estimated development area (in thousands of sq. ft.)	5,583	6,400	5,315
Occupancy	99.2%	99.3%	99.3%
Average lease term to maturity	9.7 years	9.8 years	10.5 years
Net rental rate (per occupied sq. ft.)	\$13.71	\$13.40	\$13.22
Net rental rate excluding anchors (per occupied sq. ft.) ¹	\$18.87	\$18.12	\$18.01
Financial Information			
Real estate assets	4,102,156	3,746,818	3,289,710
Total assets	4,194,387	3,893,732	3,583,888
Debt	2,619,797	2,298,690	1,963,370
Debt to gross book value ²	54.3%	55.2%	51.9%
Interest coverage ³	2.1X	2.1X	2.3X
Equity (book value)	1,436,887	1,428,760	1,493,371
Revenue	434,770	379,530	293,242
Income from continuing operations	36,690	25,923	11,095
Net operating income (NOI) ⁴	273,396	245,037	192,706
Net income	89,648	30,495	20,770
Cash provided by operating activities	144,069	160,872	92,439
Funds from operations ⁵	170,277	160,836	131,126
Adjusted funds from operations ⁵	159,575	152,460	122,663
Distributions declared	145,948	139,167	116,743
Units outstanding at year-end	95,077,675	92,147,428	90,133,153
Weighted average – basic	93,867,699	91,182,978	78,482,021
Weighted average – diluted	93,867,699	91,543,465	78,482,122
Per Unit Information (Basic/Diluted)			
Income from continuing operations	\$0.39/\$0.39	\$0.28/\$0.28	\$0.14/\$0.14
Net income	\$0.95/\$0.95	\$0.33/\$0.33	\$0.27/\$0.27
Funds from operations ⁵	\$1.81/\$1.81	\$1.76/\$1.75	\$1.67/\$1.67
Adjusted funds from operations ⁵	\$1.70/\$1.70	\$1.67/\$1.66	\$1.56/\$1.56
Distributions	\$1.55	\$1.52	\$1.47
Payout ratio ⁶	91.2%	91.4%	94.2%

¹ Anchors are defined as tenants with leasable area greater than 30,000 sq. ft.

² Defined as debt divided by total assets plus accumulated amortization of income properties.

³ Defined as net income plus amortization and interest expense less gain on sale of income properties, divided by interest expense plus capitalized interest.

⁴ Defined as rentals from income properties less property operating costs.

⁵ See "Other Measures of Performance" for a reconciliation of these measures to the nearest financial statement measure.

⁶ Payout ratio is calculated as distributions per Unit divided by adjusted funds from operations per Unit.

Real Estate Assets

As at December 31, 2008, real estate assets totalled \$4,102.2 million, an increase of \$355.3 million during the year. Real estate assets comprise income properties (\$3,450.6 million), properties under and held for development (\$381.8 million), mortgage and loan receivables (\$265.6 million) and deferred leasing costs (\$4.2 million). The portfolio consists of 21.9 million square feet of built gross leasable area, 5.6 million square feet of future potential gross leasable area in 129 properties and the option to acquire 50.0% to 100.0% interests (3.1 million square feet) in 17 income properties upon their completion pursuant to the terms of the mezzanine loans. The portfolio is located across Canada with assets in each of the 10 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.

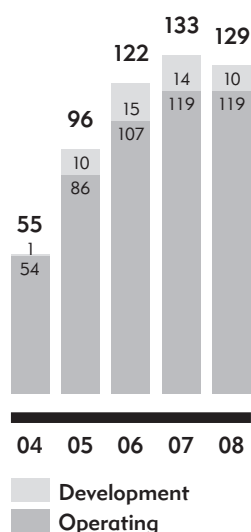
Income Properties and Properties Under Development

(in thousands of dollars)	2008 Income Properties	2007 Income Properties	2008 Properties Under and Held for Development	2007 Properties Under and Held for Development
Balance – beginning of year	3,155,676	2,942,043 ¹	401,750	261,090 ²
Less: Assets held for sale	(94,355)	(72,099)	(40)	(40)
	3,061,321	2,869,944	401,710	261,050
Acquisitions	272,128	149,976	18,604	143,568
Developments and earnouts completed on existing properties – costs transferred	–	–	(115,081)	(81,432)
Developments and earnouts completed on existing properties – costs + earnout fees	222,894	180,115	–	–
Development costs incurred	–	–	78,516	79,588
Building, equipment and tenant improvements on existing properties	3,134	2,394	–	–
Increase in accumulated amortization	(108,923)	(118,850)	–	–
Writedown of properties under development	–	–	(1,914)	(1,104)
Net additions	389,233	213,635	(19,875)	140,620
Balance – end of year	3,450,554	3,083,579	381,835	401,670

¹ After reclassification of \$33,882 to properties under development.

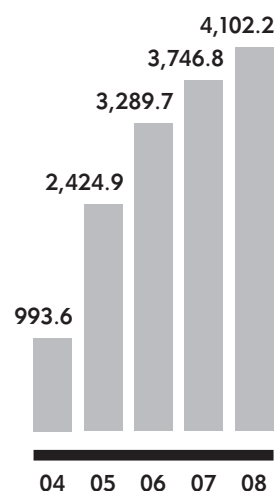
² After reclassification of \$33,882 from income properties and \$5,117 from amounts receivable.

Number of Properties



Growth in Real Estate Assets

(\$ in millions)



Acquisitions of Income Properties

Acquisitions – 2008

During the year, the Trust acquired 1.4 million square feet of retail space in six retail properties from a joint venture between SmartCentres and Wal-Mart Canada Realty Inc. for \$272.1 million, which was satisfied by the issuance of Class B Series 3 LP Units with a value of \$15.1 million, and the balance in cash.

The Trust acquired the following income properties during the year:

(in thousands of dollars) Income Property Acquired	Area (sq. ft.)	Purchase Price \$
Burlington, Ontario	125,774	21,110
Ottawa, Ontario	406,720	66,169
Saskatoon, Saskatchewan	276,894	59,828
Sherbrooke, Quebec	149,295	13,909
Surrey, British Columbia	183,298	40,950
Toronto, Ontario	272,566	70,162
	1,414,547	272,128

This compared to 2007, when 0.8 million square feet of retail space was acquired in six retail properties for \$150.0 million.

Dispositions of Income Properties

During 2007 and 2008, the Investment Committee approved the sale of 12 income properties. Of these properties, nine income properties (795,693 square feet) were sold during 2008 for gross proceeds of \$162.5 million, resulting in a gain on sale of \$48.1 million. Three income properties continue to be marketed and are disclosed as assets held for sale in the consolidated financial statements as at December 31, 2008.

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 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 this document.

Sustaining capital expenditures totalling \$1.8 million and leasing costs (tenant inducements and leasing commissions) of \$2.5 million included in building, equipment, tenant improvements and deferred leasing costs on existing properties were incurred during the year. Since income properties are relatively new and in good condition, management anticipates only modest increases for each of the remainder of 2009 and 2010, and thus they are not expected to have an impact on the Trust's ability to pay distributions at its current level.

The following table summarizes the sustaining capital expenditures and leasing costs:

(in thousands of dollars, except per Unit amounts)	2008	2007	2006
Sustaining capital expenditures	1,845	930	650
Leasing costs	2,508	2,224	1,203
	4,353	3,154	1,853
Per Unit – diluted	\$0.046	\$0.034	\$0.023

The following table summarizes the sustaining capital expenditures:

(in thousands of dollars, except per Unit amounts)	2008	2007	2006
Additions to income properties per Consolidated Statements of Cash Flows	3,134	2,394	1,553
Building additions and closing costs associated with acquisitions	–	–	(137)
Reallocation to leasing costs ¹	(1,289)	(1,464)	(766)
Sustaining capital expenditures	1,845	930	650
Consisting of the following:			
Maintenance of existing income properties	1,610	750	315
Office furniture, equipment, computers	235	180	335
	1,845	930	650
Per Unit – diluted	\$0.020	\$0.010	\$0.008

The following table summarizes the leasing costs:

(in thousands of dollars, except per Unit amounts)	2008	2007	2006
Expenditures on deferred leasing costs per Consolidated Statements of Cash Flows	1,517	2,297	1,189
Reallocation from sustaining capital expenditures ¹	1,289	1,464	766
Leasing costs for first-time tenants ²	(298)	(1,537)	(752)
	2,508	2,224	1,203
Consisting of the following:			
Tenant allowances	1,289	1,829	1,203
Leasing commissions	1,219	395	–
	2,508	2,224	1,203
Per Unit – diluted	\$0.026	\$0.024	\$0.015

¹ For the purposes of the AFFO calculations, these amounts are considered leasing costs.

² Expenditures for first-time tenants are by their nature initial investments and not a cost of maintaining productive capacity.

Calloway Developments and Earnouts Completed on Existing Properties

During the year, \$222.9 million of Earnouts and Calloway Developments transferred to income properties were completed, as follows:

(in millions of dollars)	2008			2007		
	Area (sq. ft.)	Investment \$	Yield %	Area (sq. ft.)	Investment \$	Yield %
Earnouts	820,500	193.4	6.8	746,331	139.6	7.3
Calloway Developments	98,218	29.5	10.2	190,733	40.5	8.1
	918,718	222.9	7.1	937,064	180.1	7.5

On January 30, 2009, the Trust completed the purchase of Earnouts totalling 70,995 square feet of development space from SmartCentres and other vendors for \$12.4 million paid in cash.

Properties Under and Held for Development

As at December 31, 2008, properties under and held for development totalled \$381.8 million compared to \$401.7 million at December 31, 2007. The net decrease of \$19.9 million is after the transfer to income properties of the cost of 21 new buildings from Calloway Developments for \$29.5 million and the cost of completed Earnouts of \$90.0 million.

Properties under development as at December 31, 2008, comprised the following:

(in thousands of dollars)	2008	2007
Earnouts subject to option agreements ¹	159,587	181,936
Calloway Developments subject to option agreements ²	116,853	107,973
Other Calloway Developments ³	105,395	111,761
Properties under development – end of year	381,835	401,670

¹ Earnouts 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 year ended December 31, 2008. In January 2009, the Trust and SmartCentres 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 10-year Government of Canada bond rate. The agreements were amended 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 year ended December 31, 2008.

³ Includes seven properties not actively being developed totalling \$49.5 million.

Acquisition of Properties Under and Held for Development

Acquisitions – 2008

During the year, in conjunction with the six income properties acquired from a joint venture between SmartCentres and Wal-Mart Canada Realty Inc., further development lands were acquired on these properties for \$15.8 million, allowing for the potential lease-up and development of approximately 305,378 square feet. In addition, a further three development properties were acquired for \$2.8 million.

Acquisitions – 2007

During the year, the Trust acquired 250.32 acres of development properties for \$143.6 million.

The following table presents the future developments as estimated at December 31, 2008:

(in thousands of dollars, except for area)	Gross Investment ¹	Costs Incurred ²	Future Development Costs	Total Area (sq. ft.)
Original Transaction Date	\$	\$	\$	
October 2003	20,249			133,571
July 2005	58,935			306,788
February 2004	23,189			114,763
May 2004	22,240			128,723
November 2004	19,601			103,278
March 2005	8,828			45,460
July 2005	60,374			222,764
April 2006	17,004			69,439
December 2006	370,819			1,484,847
July 2007	103,284			348,870
June 2008	87,284			311,787
Subtotal – Earnouts	791,807	(159,587)	632,220	3,270,290
July 2005	170,355			953,138
Development properties with no options	301,254			1,359,836
Subtotal – Calloway Developments	471,609	(222,248)	249,361	2,312,974
Total	1,263,416	(381,835)	881,581	5,583,264

¹ Adjustments to future development are based on management's estimates at December 31, 2008. 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 rezonings and parking requirements.

² This is the \$381,835 of properties under development as disclosed in the consolidated financial statements for the year ended December 31, 2008.

Calloway's future development pipeline totals 5.6 million square feet, representing an estimated total investment of \$1.2 billion. Calloway has incurred \$381.8 million to partially fund this cost. Approximately 58.6% of the pipeline, representing 3.3 million square feet and an investment of \$791.8 million, is 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. On the assumption that it will be able to obtain adequate financing, it is management's intention to finance the cost of construction through interim financing and, once rental revenue is realized, long-term financing will be negotiated. The remaining 2.3 million square feet of future space will be developed as Calloway leases space and finances the construction costs. An economic slowdown could have an impact on the timing of both Earnouts and Calloway Developments as tenants delay their expansion plans.

During the year, the future development land pipeline decreased by 817,204 square feet, i.e., an increase of 305,378 square feet from acquisitions, a decrease of 94,172 square feet resulting from adjustments to site plans, a decrease of 109,692 square feet from parcel sales, plus 918,718 square feet transferred to income properties upon completion of Earnouts and developments.

Mortgages, Loans and Notes Receivable

(in thousands of dollars)	2008	2007
Mortgages receivable	223,147	209,104
Loans receivable	39,868	46,656
Notes receivable	2,590	2,479
	265,605	258,239

Mortgages Receivable

In addition to direct property acquisitions, Calloway loans its mezzanine financing to developers on terms that include an option to acquire an interest in the related property upon substantial completion. As at December 31, 2008, the Trust has commitments of \$365.1 million to fund mortgages receivable under its mezzanine loan program. Each mortgage has an option entitling the Trust to acquire a 50% to 100% interest in the property upon substantial completion at an agreed-upon formula.

As at December 31, 2008, mortgages totalling \$183.2 million, secured by first, second or third charges on the properties, have been advanced to SmartCentres. During the year, including monthly interest accruals and payments, \$36.3 million was advanced. The mortgages are interest-only with rates that range from 6.3% to 10.0%. The mortgages mature on various dates from 2009 to 2018, with options to extend under certain conditions.

Mortgages to other borrowers, totalling \$39.9 million, were outstanding at year-end. The mortgages are interest-only with rates that range from 5.5% to 12.0%, are secured by first and second charges and mature on various dates from 2009 to 2018.

As at December 31, 2008, the Trust has funded \$223.1 million of the total commitment at a weighted average interest rate of 7.50% 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:

(in thousands of dollars)	Mortgages #	Principal Repayments \$
2009 ¹	4	70,848
2011	2	18,654
2012	3	25,024
2013	2	13,709
2014	2	61,322
2015	2	11,248
2017	1	8,318
2018	1	14,024
	17	223,147

¹ During 2008, the Trust exercised its option under the terms of one mortgage, closing in 2009, to acquire a 50.0% joint-venture interest in a property. The purchase price will be paid in cash with the proceeds on the repayment of 50.0% of the mortgage balance totalling \$14.0 million. As well, the Trust anticipates acquiring a 50.0% freehold interest in an income property from SmartCentres with the proceeds of a mortgage otherwise maturing in 2009 totalling \$20.9 million that was committed to in 2007 (see note 22 of the consolidated financial statements for the year ended December 31, 2008). In addition, a further \$23.7 million was repaid on February 20, 2009, and the Trust anticipates the repayment of further mortgages totalling \$12.3 million during 2009.

Loans Receivable

Pursuant to development agreements with SmartCentres and Hopewell Development Corporation, the Trust has advanced secured loans to fund the cost of improvements on 17 of Calloway's properties. As at December 31, 2008, loans receivable totalling \$39.9 million remain outstanding. The loans bear interest at rates that approximate the prime rate of a Canadian chartered bank plus rates ranging from 0.50% to 1.25% and are repayable upon completion and the commencement of rental payments. During the year, the Trust advanced \$56.6 million against 10 properties offset by repayments of \$63.4 million on seven properties.

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 December 31, 2008, amounts receivable, prepaid expenses and deposits totalled \$53.0 million, a \$3.2 million increase during the year. This increase is primarily due to straight-line rents receivable (\$5.4 million) offset by prepaid operating expenses (\$1.4 million) and the reduction of property acquisition deposits (\$1.0 million). See financial statement note 9(a) in the consolidated financial statements for the year ended December 31, 2008, for further discussion and analysis of tenant receivables.

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

(in thousands of dollars)	2008	2007
Amounts receivable		
Tenant receivables – net	20,067	20,414
Straight-line rent receivable	23,591	18,195
Other receivables	5,041	4,465
	48,699	43,074
Prepaid expenses and deposits		
Prepaid expenses and other	3,847	5,225
Deposits	488	1,524
	4,335	6,749
	53,034	49,823

Debt

As at December 31, 2008, indebtedness totalling \$2,619.8 million was outstanding, compared to \$2,298.7 million as at December 31, 2007.

(in thousands of dollars)	2008	2007
Term debt		
Term mortgages	1,716,479	1,443,254
Unsecured debentures	450,000	450,000
	2,166,479	1,893,254
Development loans	178,896	122,444
Operating and acquisition facilities and senior interim credit facility	165,500	284,850
Convertible debentures	122,520	5,419
Deferred financing costs	(13,598)	(7,277)
Total	2,619,797	2,298,690

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 54.3% as at December 31, 2008, and 55.2% as at December 31, 2007. Total indebtedness (including convertible debentures) as a percentage of gross book value was 57.0% as at December 31, 2008, and 55.3% as at December 31, 2007.

Term Debt

Term Mortgages

As at December 31, 2008, term mortgages have increased to \$1,716.5 million compared to \$1,443.3 million at December 31, 2007.

(in thousands of dollars)	2008	2007
Balance – beginning of year	1,443,254	1,443,494
Borrowings	337,412	30,590
Assumed on the acquisition of properties	–	31,821
Principal repayments		
Scheduled amortization	(37,503)	(30,056)
Repayment on maturity	–	(3,868)
Acquisition date fair value adjustment	(5,026)	(4,561)
Reclassified to discontinued operations	(21,658)	(24,166)
Balance – end of year	1,716,479	1,443,254

The term mortgages payable bear interest at a weighted average contractual interest rate of 5.88% (December 31, 2007 – 6.0%) and mature from 2009 to 2026. Including acquisition date fair value adjustments, the effective weighted average interest rate on term mortgages is 5.81% (December 31, 2007 – 5.89%). The weighted average years to maturity, including the timing for payments of principal amortization and debt maturing, is 7.2 years (December 31, 2007 – 8.3 years).

During the year, the Trust received \$337.4 million in new mortgages with an average term of 6.0 years and weighted average interest rate of 5.5%.

On February 5, 2009, the Trust entered into a new five-year term mortgage totalling \$24.0 million, bearing interest at 5.75% and secured by a specific income property, to replace an existing maturing term mortgage totalling \$17.6 million, bearing interest at 5.04%.

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 55% to 65% loan to value. Term debt maturities remain low for the next several years with \$80.7 million (five mortgages) maturing in 2009 with a weighted average interest rate of 5.44%.

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

(in thousands of dollars)	Payments of Principal Amortization \$	Debt Maturing During Year \$	Total \$	Total %	Weighted Average Interest Rate %
Term Facilities					
2009	41,288	80,682	121,970	7.20	5.44
2010	43,468	24,070	67,538	3.98	6.20
2011	44,812	83,257	128,069	7.56	6.24
2012	44,901	33,172	78,073	4.61	6.27
2013	42,965	206,174	249,139	14.70	6.13
Thereafter	274,626	775,692	1,050,318	61.95	5.78
Total	492,060	1,203,047	1,695,107	100.00	5.88
Acquisition date fair value adjustment			21,372		
			1,716,479		

The debt maturing by type of lender is as follows:

(in thousands of dollars)	Life Insurance Companies \$	Conduit Loans \$	Banks \$	Pension Funds \$	Total \$
Term Facilities					
2009	55,904	24,778	–	–	80,682
2010	3,826	20,245	–	–	24,070
2011	50,399	32,858	–	–	83,257
2012	19,955	–	13,217	–	33,172
2013	66,562	23,866	73,778	41,967	206,174
Thereafter	331,516	304,840	74,382	64,954	775,692
Total	528,162	406,587	161,377	106,921	1,203,047

Unsecured Debentures

Issued and outstanding as at December 31, 2008:

(in thousands of dollars)	2008	2007
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	200,000	200,000
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
	450,000	450,000

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 December 31, 2008.

Development Loans

Development loans totalling \$178.9 million (December 31, 2007 – \$122.4 million) are outstanding as at December 31, 2008, of which \$128.7 million (December 31, 2007 – \$95.5 million) is interest-bearing and \$50.2 million (December 31, 2007 – \$26.9 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. Development loans totalling \$18.9 million have been advanced from that joint venture under the agreements (December 31, 2007 – \$12.8 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 2009 and 2013 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 \$109.8 million (December 31, 2007 – \$82.7 million) bear variable interest rates at the BA rate plus 2.0% on \$66.5 million in loans, prime plus 0.75% on \$31.8 million in loans and prime plus 0.5% on the remaining \$11.5 million in loans. These loans are secured by first and second mortgages registered on income properties and a general assignment of leases.

Non-interest-bearing loans

A joint venture between SmartCentres and Wal-Mart Canada Realty Inc. has provided \$50.2 million (December 31, 2007 – \$26.9 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 2009 through 2013 or the date building construction is completed and the tenant is in occupancy and paying rent.

Operating Facilities

The Trust has in place a \$100.0 million secured operating facility with interest calculated at BA plus 0.85% or prime maturing in September 2009. During the year, the Trust arranged a \$160.0 million secured operating facility with interest calculated at BA plus 1.30% or prime plus 0.30% maturing in August 2009. All covenant requirements have been met on both operating facilities.

An existing non-revolving senior interim credit facility of \$100.0 million was repaid on September 21, 2008.

On January 29, 2009, the Trust entered into a senior secured revolving credit facility agreement for \$105.0 million. This facility bearing interest at a variable rate based on bank prime plus 1.75% for the first six months (plus 2.00% for the last six months) or banker's acceptance rate plus 2.75% (plus 3.00% for the last six months) and secured by first charges over specific income properties and a first general assignment of leases and insurance matures on January 29, 2010, with an option to extend for a further six months with an increase in the interest rate of 0.25%.

Convertible Debentures

Originally issued at \$55.0 million, these 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 quarter, debenture holders have elected to convert \$0.4 million into Trust Units. As at December 31, 2008, convertible debentures outstanding totalled \$4.8 million at face value.

On May 2, 2008, the Trust issued \$125.0 million of 6.65% convertible unsecured subordinated debentures 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. On issuance, the convertible debentures were divided into their liability (\$117.7 million) and equity components (\$7.3 million). There were no conversions during the quarter. As at December 31, 2008, convertible debentures outstanding totalled \$125.0 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 to 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 year ended December 31, 2008, the Trust was in compliance with the terms and covenants of all its credit facilities.

Financial Instruments

The Trust has classified its mortgages and loans receivable, financial assets included in amounts receivable and deposits as loans and receivables and its debt and financial liabilities included in accounts payable and accrued liabilities as other financial 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 21 in the consolidated financial statements for the year ended December 31, 2008, for further discussion).

Unitholders' Equity

(in thousands of dollars)	2008	2007
Unitholders' equity – beginning of year	1,428,760	1,493,371
Issuance of Units	55,162	40,574
Conversion of debentures, net of financing cost	551	1,750
Fair value of options issued	1,684	1,737
Issuance of convertible debentures	7,030	–
Net income for the year	89,648	30,495
Distributions for the year	(145,948)	(139,167)
Unitholders' equity – end of year	1,436,887	1,428,760

As at December 31, 2008, Unitholders' equity totalled \$1,436.9 million (December 31, 2007 – \$1,428.8 million), including \$7.2 million pertaining to the allocation of the equity component of convertible debentures. As at December 31, 2008, Unit equity totalled \$1,751.3 million and Units outstanding, including Class B LP Units, Class D LP Units and Class B LPII Units of subsidiary partnerships, totalled 95,077,675. During the year, the Trust issued 1,795,000 Trust Units and 1,135,247 Class B and Class D Units.

During the year, holders of \$0.6 million face value of convertible debentures elected to convert and received 34,761 Trust Units. These conversions increased the Trust's capital by \$0.6 million.

During the year ending December 31, 2008, the Trust issued \$57.4 million in Units as follows:

(in thousands of dollars, except per Unit amounts)	Trust Units #	LP Units Class B/Class D #	Total Units #	2008 \$
Earnout options exercised	701,811	462,204	1,164,015	19,242
Units issued for properties acquired	-	707,173	707,173	15,063
Distribution reinvestment plan (DRIP)	1,024,298	-	1,024,298	19,190
Debentures converted	34,761	-	34,761	574
LP Units converted to Trust Units	34,130	(34,130)	-	-
Total	1,795,000	1,135,247	2,930,247	54,069
Deferred Unit plan				1,699
Fair value of Earnout options issued				1,684
Unit issuance costs				(32)
Total change in Unit equity				57,420

Distributions declared by the Trust totalled \$145.9 million during the year (December 31, 2007 – \$139.2 million) or \$1.55 per Unit (December 31, 2007 – \$1.52 per Unit). The Trust paid \$127.3 million in cash and the balance by issuing 1,024,298 Trust Units under the distribution reinvestment plan.

Distributions to our Unitholders were as follows:

(in thousands of dollars)	2008	2007
Distributions to Unitholders	145,948	139,167
Distributions reinvested through DRIP	(18,614)	(17,186)
Net cash outflow from distributions to Unitholders	127,334	121,981
DRIP as a percentage of distributions to Unitholders	12.8%	12.3%

Effective September 1, 2007, distributions were increased from an annual rate of \$1.50 to \$1.548 per Unit.

Capital Resources and Liquidity

As at December 31, 2008, the Trust has the following capital resources available:

(in thousands of dollars)	
Cash and cash equivalents	24,386
Unused operating facilities	57,917
Total capital resources at December 31, 2008	82,303

On the assumption that occupancy levels remain strong and on the assumption that it will be able to obtain financing, the Trust anticipates meeting all current and future obligations. Management expects to finance future acquisitions, including committed earnouts, mezzanine loans, development and maturing debt from: (i) existing cash balances; (ii) a mix of mortgage debt secured by income properties, operating and acquisition facilities, issuance of equity and convertible/unsecured debentures; (iii) repayments of mortgages receivable and (iv) 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 December 31, 2008, the Trust increased its capital resources by \$21.2 million to \$82.3 million compared to December 31, 2007. This net increase in cash position is after funds obtained from new term mortgages (\$337.4 million) and net proceeds on the sale of nine income properties (\$109.6 million) were invested into further Earnouts, developments and mortgages and used to repay maturing debt. In addition, on January 29, 2009, the Trust entered into a revolving credit facility agreement for \$105.0 million as more fully described in the "Operating Facilities" section.

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 December 31, 2008 is 54.3%, excluding convertible debentures. Including the capital resources at December 31, 2008, the Trust could invest an additional \$288.8 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 total \$2,821.6 million as identified in the following schedule. 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 December 31, 2008.

(in thousands of dollars)	Total	2009	2010	2011	2012	2013	Thereafter
Mortgages payable	1,695,107	121,970	67,538	128,069	78,073	249,139	1,050,318
Revolving operating facilities (secured)	165,500	165,500	-	-	-	-	-
Unsecured debentures	450,000	-	200,000	-	-	-	250,000
Development loans ¹	178,896	36,486	66,658	55,220	13,463	7,069	-
Convertible debentures	129,828	-	1,000	1,300	1,300	126,228	-
Mortgage receivable advances ²	141,949	43,674	18,075	10,025	10,025	10,025	50,125
Accrued development obligation	33,220	10,301	17,889	3,653	1,377	-	-
Development obligations	21,729	21,729	-	-	-	-	-
Rent and operating costs	5,416	677	677	677	677	677	2,031
	2,821,645	400,337	371,837	198,944	104,915	393,138	1,352,474

¹ \$115.1 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. The remaining balance of \$63.8 million from a joint venture between SmartCentres and Wal-Mart Canada Realty Inc. is repaid as earnouts are completed.

² Mortgages receivable of \$223.1 million at December 31, 2008, and further commitments of \$142.0 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 table summarizes term debt maturities for existing debt:

(in thousands of dollars)	Mortgages #	Debt Maturing During Year \$	Current Base Rent \$	Loan to Value % ¹
2009	5	80,682	12,804	49
2010	3	24,070	4,788	39
2011	7	83,257	12,658	51
2012	3	33,172	3,399	75
2013	12	206,174	38,023	42
Thereafter	57	775,692	175,620	34
Total	87	1,203,047	247,292	38

¹ Assuming a 7.5% capitalization rate ("Cap Rate")

In 2009, assuming different cap rates and loan to value rates there is potential to up-finance upon renewal of these term mortgages up to approximately \$34.6 million, giving the Trust additional capital resources from existing income properties. The loan to value rate is the amount a financial institution is prepared to loan as a percentage of the fair value of the income property.

Potential up-financing on maturing term debt of \$80.7 million in 2009 and \$24.1 million in 2010 is as follows:

(in thousands of dollars)	2009			2010		
	Cap Rate 7.0%	Cap Rate 7.5%	Cap Rate 8.0%	Cap Rate 7.0%	Cap Rate 7.5%	Cap Rate 8.0%
Loan to Value						
55%	16,901	10,395	4,703	12,424	9,991	7,863
60%	25,772	18,675	12,465	15,742	13,088	10,766
65%	34,643	26,955	20,227	19,060	16,184	13,669

During 2009 and 2010, as they mature, it is management's intention to refinance the secured revolving operating facilities with either term mortgage financing with those pledged assets, or extend the existing facilities at maturity. A total commitment of \$260 million from the revolving operating facilities are secured by 13 assets with \$28.7 million of annualized base rents representing approximately 70% loan to value. Assuming a 50 basis point increase in property market capitalization rates and a 5% reduction in lending leverage, refinancing or extending these assets or operating facilities could result in a reduction of approximately \$34 million from capital resources on these assets.

Management also intends to refinance the unsecured debentures at maturity. The foregoing is subject to the assumption that Calloway will be able to arrange for adequate financing terms. Management anticipates that the 6.00% convertible debentures will convert into equity prior to their maturity based on the assumption that the trading value of Calloway units will recover prior to the maturity of those debentures and attain the conversion price, and the 6.65% 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 debentures, and equity units, if necessary. Rent and support service obligations will be funded through cash or operating lines.

In addition, the Trust has future Earnout and development obligations over a period extending out to 2017 of approximately \$632.2 million, based on management's estimates as at December 31, 2008, to be funded, on the assumption that Calloway will be able to obtain adequate financing, by a combination of, operating facilities, issuance of Units, and additional refinancing proceeds from the increased value of income properties. Although the timing of these obligations cannot be readily determined, as it is a function of future tenant leasing, estimated Earnout and development obligations totaling \$232.3 million, based on executed leases to December 31, 2010, are expected to be as follows:

(in thousands of dollars)	Total	Pre Funded	Balance to Fund
Earnouts	791,807	159,587	632,220
Calloway Developments	471,609	222,248	249,361
Aggregate Pipeline	1,263,416	381,835	881,581
Committed based on executed leases to December 31, 2010	334,179	101,886	232,293

Potential financing sources for committed Earnouts and developments and other commitments based on assumptions with respect to obtaining new executed leases and completing earnouts, maintaining existing tenants at current or higher rental rates and obtaining financing on acceptable terms are as follows:

(in thousands of dollars)	2009	2010	Total
Uses:			
Committed Earnouts and Developments	155,663	76,630	232,293
Unsecured debentures	–	200,000	200,000
	155,663	276,630	432,293
Sources:			
Existing cash and operating facilities ¹	148,000	–	148,000
Construction financing	49,000	30,000	79,000
Up-financing of maturing mortgages	19,000	13,000	32,000
New mortgages on unencumbered assets	–	25,000	25,000
Mezzanine loan repayments	31,000	–	31,000
Alternative financing ²	–	30,000	30,000
Proceeds on disposition of non-core assets	–	87,293	87,293
	247,000	185,293	432,293

¹ Includes senior secured revolving credit facility of \$105,000. (See note 23 of consolidated financial statements as at December 31, 2008), and reduction of \$34,000 based on potential reductions on operating facilities (assuming loan to value of 65.0% and a change in cap rate of 50 basis points).

² Possibly restructuring of existing first mortgages supplemented by new second mortgages.

Results of Operations

The real estate portfolio has grown through acquisitions, completed developments and Earnouts during the course of the past year. As a result, there are significant increases in operating results for the year ended December 31, 2008, compared to the year ended December 31, 2007.

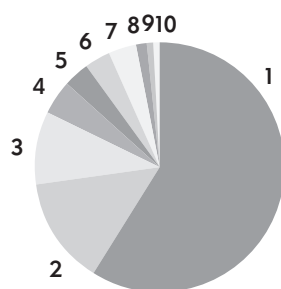
Rentals from income properties for 2008 totalled \$413.7 million a \$50.0 million, or 13.8% increase over 2007. Base rent increased by \$30.6 million or 11.9% primarily due to acquisitions and Earnouts that occurred during 2007 and 2008. Property operating costs recovered increased by \$18.9 million or 18.0% due to the related increase in recoverable costs with the growth in the portfolio. Non-recoverable operating costs of \$5.2 million incurred during the year include prepaid land rent (\$3.3 million), bad debts (\$0.9 million) and other vacant unit operating costs (\$1.0 million). The total of recoverable expenses remained virtually unchanged at 95.8% this year compared to 96.1% in the prior year. NOI as a percentage of rentals from income properties has decreased by 1.3% due to the increase in both the property operating cost recoveries and non-recoverable and property management administrative costs.

In comparison to 2007, NOI increased by \$28.4 million, primarily as a result of increased base rent due to new business in 2007 and 2008.

(in thousands of dollars)	2008	2007
Base rent	287,338	256,763
Property operating cost recoveries	123,637	104,772
Administration fee recoveries	2,692	2,114
Rentals from income properties	413,667	363,649
Recoverable costs	129,027	109,012
Property management administrative costs	5,252	4,810
Management fees	788	738
Non-recoverable costs	5,204	4,052
Total property-specific costs	140,271	118,612
Net operating income	273,396	245,037
NOI as a percentage of rentals from income properties	66.1%	67.4%

Rentals from income properties account for 95.1% of revenues for the year ended December 31, 2008, with 72.9% 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.

Gross Revenue by Province



1. Ontario	58.9%
2. Quebec	14.0%
3. British Columbia	9.5%
4. Manitoba	4.3%
5. Saskatchewan	3.5%
6. Newfoundland	3.4%
7. Alberta	3.4%
8. Nova Scotia	1.4%
9. New Brunswick	1.0%
10. Prince Edward Island	0.6%

The five largest tenants account for 40.8% of portfolio revenue as follows:¹

Tenants	Revenues %
Wal-Mart	26.9
Canadian Tire/Mark's Work Wearhouse	4.0
HBC	3.3
Best Buy/Future Shop	3.4
Reitmans Group of Companies	3.2

¹ Annualized December 31, 2008.

Net Operating Income

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.

For the year ended December 31, 2008, the same properties' NOI increased by 1.0% over the same period of the prior year due primarily to lease-up of vacant space, step rents and lease renewals at favourable rates. In addition, NOI before adjustments increased 13.8% to \$271.9 million from \$238.9 million in the previous year. The increase was primarily due to lease renewals (\$2.2 million), acquisitions (\$11.8 million), earnouts from SmartCentres and developments (\$18.9 million) made during 2007 and 2008. Included in property management, lease termination and opportunity fees in the prior year are opportunity fees totalling \$3.1 million, which are capitalized to properties under development in 2008. Management's estimate of the annual property run-rate NOI (excluding the impact of straight-line rent and other adjustments) at December 31, 2008, is \$289.9 million. "Same properties" in the chart below refer to those income properties that were owned by the Trust on January 1, 2007, and throughout 2007 and 2008.

(in thousands of dollars)	2008	2007
NOI		
Same properties	228,957	226,673
2008 acquisitions	10,090	–
2007 acquisitions	8,495	6,782
Earnouts and developments	24,405	5,516
NOI before adjustments	271,947	238,971
Management fee/property management cost	(6,039)	(5,548)
Property management, lease termination and opportunity fees	1,682	4,958
Straight-lining of rents	5,806	6,656
NOI	273,396	245,037

Leasing Activities and Expiries

Leasing activities

A high occupancy rate with low lease maturity, combined with strong national tenants in prime retail locations, has put Calloway in a good position to weather an economic slowdown. However, Calloway has not been totally shielded from the economic downturn in the retail market as evidenced by the following:

- The U.S. housewares retailer Linens N Things, filed for bankruptcy protection in Canada on October 19, 2008, and ceased paying rent in January, 2009. As a result, Calloway's reported vacancy will increase by 155,428 square feet in the first quarter of 2009. These six locations represent approximately 0.7% of the portfolio by area. Negotiations are already in process for four of the six locations with strong national retail chains with anticipated possession dates targeted for the second half of 2009.
- The Source by Circuit City filed for bankruptcy protection in Canada on November 10, 2008, and continues to be under protection. Unlike its U.S. retailer parent operation that is liquidating, the receivers for the Canadian operation are planning to sell the operation as a going concern. All locations remain open for business and are paying rent. Calloway's portfolio includes 41 locations with a total of 88,581 square feet.
- On January 23, 2009, Giant Carpet filed for bankruptcy in Canada. Giant Carpet has two locations in Calloway's portfolio totalling 19,990 square feet. Calloway continues to receive rent at one location, and is currently negotiating with interested national tenants the lease up of the other location.

Generally, leasing during the first quarter of a new year tends to be seasonally slower, and this remains the case for 2009. The Canadian retail market is under pressure but remains healthier than the United States retail market.

2008 Lease expiries

At the beginning of 2008, 103 leases representing 337,288 square feet were expiring during the course of 2008. A total of 88 leases representing 280,617 square feet were renewed or vacated and released during the year, contributing to an occupancy rate of 99.2% at December 31, 2008. After giving effect to the Linens N Things vacancy, the occupancy rate is 98.5%. Subsequent to year-end, forward lease commitments on vacant units totalling 26,974 square feet have been executed, offsetting part of the vacancy caused by the Linens N Things bankruptcy.

2009 Lease expiries

Lease expiries in 2009 consist of 141 leases representing 761,931 square feet (net of 26,511 square feet relating to properties sold during the year). A total of 398,825 square feet (including a 240,773 square foot one year renewal of an industrial space tenant) or 52.3% (30.3% excluding the industrial space lease renewal) has been renewed with rate increases, leaving a total of 363,106 square feet remaining to be renewed.

The following table shows lease expiries for the total portfolio:

Year of Expiry	Area (sq. ft.)	Area %	Annualized Base Rent \$000s	Average Rent per Square Foot \$
Month-to-month ¹	20,931	0.1	485	23.18
2009 ²	363,106	1.7	5,754	15.85
2010	795,495	3.6	10,742	13.50
2011	1,119,696	5.1	18,441	16.47
2012	970,656	4.4	18,229	18.78
2013	1,617,357	7.4	32,119	19.86
2014	1,281,976	5.9	21,693	16.92
Beyond	15,521,070	70.9	189,975	12.24
Vacant	188,744	0.9	–	–
Total	21,879,031	100.0	297,438	13.59

¹ Of the 20,931 square feet, 9,107 square feet are in the final stages of renegotiation of the terms of extension.

² Of the 761,931 square feet scheduled to mature in 2009, 398,825 square feet have already been renewed, leaving 363,106 square feet to renew or release.

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 per Square Foot \$
Month-to-month	20,931	0.1	485	23.18
2009	349,124	1.6	5,524	15.82
2010	510,382	2.3	8,683	17.01
2011	791,725	3.6	14,326	18.09
2012	887,178	4.1	17,094	19.27
2013	1,341,378	6.1	27,155	20.24
2014	1,038,072	4.7	19,174	18.47
Beyond	4,097,237	18.7	78,094	19.06
Vacant	188,744	0.9	–	–
Total	9,224,771	42.1	170,535	18.49

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

In addition to the modest lease expiries providing a downside protection during this economic slowdown, assuming no early tenant vacancies, there is also potential for rental increases on these lease maturities as follows:

(in thousands of dollars) Year of Expiry	Area (sq. ft.)	Area %	Net Rents Expiring \$	Contractual Rents ¹ \$	Market Rents ² \$	Additional Rent \$
Month-to-month	20,931	0.1	485	–	492	7
2009	363,106	1.7	5,754	1,963	4,255	464
2010	795,495	3.6	10,742	4,748	6,772	778
Vacant	188,743	0.9	–	389	2,480	2,869
Total	1,368,275	6.3	16,981	7,100	13,999	4,118

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

² Lease renewals at estimated market rent.

Interest and Other Income

Interest income of \$21.1 million for the year has increased by \$5.2 million over the prior year. This increase is due to the Trust's increased investment in mezzanine mortgage loans during 2007 and 2008. Bank interest has declined by \$3.1 million over the prior year due to lower bank balances.

(in thousands of dollars)	2008	2007
Mortgage and loan interest	19,986	11,643
Bank interest	890	4,016
Note receivable interest	227	222
Interest income	21,103	15,881

Interest Expense

Interest costs incurred during the year totalled \$136.8 million, net of the \$5.0 million amortization of acquisition date fair value adjustments. Interest capitalized to properties under development totalled \$12.6 million, and the balance of \$124.1 million was expensed. The increase in interest expense of \$21.2 million over 2007 is a result of mortgages assumed on acquisitions during 2007 and new mortgages on existing properties and due to an increase in amortization of deferred financing costs resulting from new costs incurred to finance new term financing, convertible debentures and a non revolving acquisition facility. Deferred financing costs attributable to the non-revolving acquisition facility that was advanced and repaid during the year totalled \$0.9 million and was expensed during the year.

(in thousands of dollars)	2008	2007
Interest at contract rate	137,334	114,495
Acquisition date fair value adjustment	(5,026)	(5,513)
Amortization of deferred financing costs	4,445	2,431
	136,753	111,413
Less: Capitalized interest	(12,611)	(8,518)
Interest expense	124,142	102,895
Weighted average interest rate (inclusive of acquisition date fair value adjustment)	5.81%	5.68%

Amortization

Amortization of \$123.2 million for the year ended December 31, 2008, has increased by \$1.4 million over 2007. This increase is due to the acquisition of income properties, earnouts and the transfer of completed tenant units from development to income properties during 2008 and 2007.

(in thousands of dollars)	2008	2007
Income properties		
Tangible assets	73,709	70,483
Intangible assets	49,006	50,997
Deferred leasing costs	448	309
Amortization expense	123,163	121,789

General and Administrative

During the year ended December 31, 2008, total general and administrative costs before allocations to property operating costs and capitalization increased by \$1.7 million over 2007. Costs allocated to property operations have increased by \$0.3 million, primarily as a result of internal restructuring of resources and the increase in the portfolio.

(in thousands of dollars)	2008	2007
Salaries and benefits	13,541	12,258
Professional fees	1,974	1,662
Public company costs	957	799
Rent and occupancy	1,488	1,717
Other	2,292	2,090
	20,252	18,526
Less: Allocated to property operating costs	(9,566)	(9,299)
Less: Capitalized to properties under development	(2,096)	(1,998)
General and administrative costs	8,590	7,229
As a percentage of revenue	1.98%	1.90%

Results From Operations – Fourth Quarter

Net income for the quarter ended December 31, 2008, increased \$9.1 million from the same quarter of 2007 as a result of portfolio growth (\$5.0 million), mezzanine loan interest (\$0.4 million) and the gain on sale of two income properties (\$3.7 million). The fourth-quarter gross margin (defined as rentals from income properties less property operating costs) is 0.1% higher than the gross margin in the quarter ended December 31, 2007, primarily due to a decrease in bad debts (\$0.2 million).

(in thousands of dollars)	Three Months Ended December 31, 2008	Three Months Ended December 31, 2007
Revenues		
Rentals from income properties	109,122	95,576
Interest and other income	5,824	5,466
	114,946	101,042
Expenses		
Property operating costs	36,632	32,187
Interest	33,024	27,928
Amortization	30,877	31,245
General and administrative	2,138	1,786
Bond forward contract loss	–	1,934
Writedown of properties under development	201	–
	102,872	95,080
Income from continuing operations	12,074	5,962
Income from discontinued operations	4,349	1,387
Net income for the period	16,423	7,349
Gross margin	66.4%	66.3%

Net Operating Income – Fourth Quarter

For the quarter ended December 31, 2008, the same properties NOI increased by \$0.8 million or 1.28% over the same period of the prior year due primarily to lease-up of vacant space, step rents and lease renewals at favourable rates. In addition, NOI before adjustments increased 16.4% to \$72.2 million from \$62.1 million in the previous year. The increase was primarily due to lease renewals (\$0.8 million), acquisitions (\$4.6 million), earnouts from SmartCentres and other vendors, and developments (\$4.8 million) made during 2007 and 2008. Included in property management, lease termination and opportunity fees in the prior year are opportunity fees totalling \$0.8 million, which are capitalized to properties under development in 2008. "Same properties" in the chart below refer to those income properties that were owned by the Trust on September 1, 2007, and throughout 2007 and 2008.

(in thousands of dollars)	Three Months Ended December 31, 2008	Three Months Ended December 31, 2007
NOI		
Same properties	62,346	61,556
2008 acquisitions	4,565	–
2007 acquisitions	–	–
Earnouts and developments	5,324	510
NOI before adjustments	72,235	62,066
Management fee/property management cost	(1,406)	(1,616)
Property management, lease termination and opportunity fees	471	1,452
Straight-lining of rents	1,190	1,487
NOI	72,490	63,389

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 that these measures are a useful supplemental measure that may assist prospective investors in assessing an investment in Units. We consider the following measures to be meaningful additional measures of cash flow performance as they more clearly measure normalized and stabilized cash flow as opposed to cash flow from operating activities calculated in accordance with Canadian GAAP, which reflects seasonal fluctuations in working capital and other items. We analyze our cash distributions against these measures to assess the stability of our monthly cash distributions to our 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 year ended December 31, 2008, do not include any assumptions, do not include any forward-looking information and are consistent with prior reporting periods.

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 December 31, 2008, totalled \$41.6 million (December 31, 2007 – \$40.1 million), and the payout ratio totalled 88.9% (December 31, 2007 – 89.2%). AFFO for the year ended December 31, 2008 totalled \$159.6 million (2007 – \$152.5 million), and the payout ratio totalled 91.2% (2007 – 91.4%). Calloway targets a payout ratio of 85.0% to 95.0% of AFFO.

In comparison to the same quarter of the prior year, AFFO increased (\$1.5 million), primarily due to an increase in NOI (\$9.1 million), offset by an increase in interest expense (\$5.1 million), finance costs (\$0.4 million) and sustaining capital expenditures and leasing costs (\$1.0 million).

In comparison to the prior year, AFFO increased (\$7.1 million) primarily due to an increase in NOI (\$28.4 million) and interest income (\$5.2 million) offset by an increase in interest expense (\$21.2 million), finance costs (\$2.2 million), general and administrative costs (\$1.4 million) and sustaining capital expenditures and leasing costs (\$1.2 million).

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 starts the reconciliation from cash provided from operating activities. FFO, for the three months ended December 31, 2008 totalled \$44.7 million (three months ended December 31, 2007 – \$40.4 million), and the payout ratio totalled 83.0% (three months ended December 31, 2007 – 88.5%). FFO for the year ended December 31, 2008, totalled \$170.3 million (2007 – \$160.8 million), and the payout ratio totalled 85.7% (2007 – 86.7%). See the AFFO section for the reason that FFO has increased and the payout ratio has decreased.

Distributable Income (DI)

DI has historically been used as an indicator of financial performance in the REIT industry. The calculation of DI is not comparable from REIT to REIT, and the differences in methodology can be significant. DI, for the three months ended December 31, 2008 totalled \$42.1 million (three months ended December 31, 2007 – \$37.6 million), and the payout ratio totalled 87.7% (three months ended December 31, 2007 – 95.0%). DI for the year ended December 31, 2008, totalled \$158.9 million (2007 – \$148.2 million), and the payout ratio totalled 91.6% (2007 – 94.0%). See the AFFO section for the reason that DI has increased and the payout ratio has decreased.

For the year ended December 31, 2008, AFFO, FFO and DI are computed as follows:

(in thousands of dollars, except per Unit amounts)	AFFO	FFO	DI
Cash provided by operating activities	144,069	144,069	144,069
Capital lease obligation interest	(57)	(57)	(57)
Deferred Unit compensation expense	(683)	(683)	(683)
Expenditures on deferred leasing costs	1,517	1,517	1,517
Changes in other non-cash operating items	19,135	19,135	19,135
Amortization of income properties			
Deferred financing costs	(4,631)	(4,631)	(4,631)
Deferred leasing costs	(448)	–	(448)
Acquisition date fair value adjustment	5,026	5,026	–
Straight-lining of rents	–	5,901	–
Sustaining capital expenditures	(1,845)	–	–
Leasing costs	(2,508)	–	–
	159,575	170,277	158,902
Per Unit – basic/diluted ¹	\$1.700/\$1.697	\$1.814/\$1.807	\$1.693/\$1.690
Payout ratio	91.2%	85.7%	91.6%

For the year ended December 31, 2007, AFFO, FFO and DI are computed as follows:

(in thousands of dollars, except per Unit amounts)	AFFO	FFO	DI
Cash provided by operating activities	160,872	160,872	160,872
Capital lease obligation interest	(52)	(52)	(52)
Deferred Unit compensation expense	(288)	(288)	(288)
Expenditures on deferred leasing costs	2,297	2,297	2,297
Changes in other non-cash operating items	(9,824)	(9,824)	(9,824)
Bond forward contract loss	–	(1,934)	(1,934)
Amortization of income properties			
Deferred financing costs	(2,474)	(2,474)	(2,474)
Deferred leasing costs	(430)	–	(430)
Acquisition date fair value adjustment	5,513	5,513	–
Straight-lining of rents	–	6,726	–
Sustaining capital expenditures	(930)	–	–
Leasing costs	(2,224)	–	–
	152,460	160,836	148,167
Per Unit – basic/diluted ¹	\$1.672/\$1.663	\$1.764/\$1.754	\$1.625/\$1.616
Payout ratio	91.4%	86.7%	94.0%

¹ Diluted AFFO, FFO and DI per Unit are adjusted for the dilutive effect of the convertible debentures, which are not dilutive for net income purposes. To calculate diluted AFFO, FFO and DI per Unit for the years ended December 31, 2008 and 2007, convertible debenture interest of \$5,838 and \$366 is added back to net income, and 3,600,465 units and 357,973 units are added back to the weighted average units outstanding, respectively.

For the three months ended December 31, 2008, AFFO, FFO and DI are computed as follows:

(in thousands of dollars, except per Unit amounts)	AFFO	FFO	DI
Cash provided by operating activities	50,631	50,631	50,631
Capital lease obligation interest	(15)	(15)	(15)
Deferred Unit compensation expense	(312)	(312)	(312)
Expenditures on deferred leasing costs	512	512	512
Changes in other non-cash operating items	(7,516)	(7,516)	(7,516)
Amortization of income properties			
Deferred financing costs	(1,040)	(1,040)	(1,040)
Deferred leasing costs	(128)	–	(128)
Acquisition date fair value adjustment	1,222	1,222	–
Straight-lining of rents	–	1,193	–
Sustaining capital expenditures	(44)	–	–
Leasing costs	(1,742)	–	–
	41,568	44,675	42,132
Per Unit – basic/diluted ¹	\$0.437/\$0.435	\$0.470/\$0.466	\$0.443/\$0.441
Payout ratio	88.9%	83.0%	87.7%

For the three months ended December 31, 2007, AFFO, FFO and DI are computed as follows:

(in thousands of dollars, except per Unit amounts)	AFFO	FFO	DI
Cash provided by operating activities	73,691	73,691	73,691
Capital lease obligation interest	(14)	(14)	(14)
Deferred Unit compensation expense	(77)	(77)	(77)
Expenditures on deferred leasing costs	1,373	1,373	1,373
Changes in other non-cash operating items	(34,646)	(34,646)	(34,646)
Bond forward contract loss	–	(1,934)	(1,934)
Amortization of income properties			
Deferred financing costs	(668)	(668)	(668)
Deferred leasing costs	(125)	–	(125)
Acquisition date fair value adjustment	1,349	1,349	–
Straight-lining of rents	–	1,300	–
Sustaining capital expenditures	(152)	–	–
Leasing costs	(666)	–	–
	40,065	40,374	37,600
Per Unit – basic/diluted ¹	\$0.436/\$0.434	\$0.439/\$0.437	\$0.409/\$0.407
Payout ratio	89.2%	88.5%	95.0%

¹ Diluted AFFO, FFO and DI per Unit are adjusted for the dilutive effect of the convertible debentures, which are not dilutive for net income purposes. To calculate diluted AFFO, FFO and DI per Unit for the three months ended December 31, 2008 and 2007, convertible debenture interest of \$2,143 and \$82 is added back to net income, and 5,234,566 units and 324,009 units are added back to the weighted average units outstanding, respectively.

Distributable Cash

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 year ended December 31, 2008, distributions declared approximated cash provided by operating activities. Distributions declared exceeded net income by \$56.3 million for the year ended December 31, 2008. This difference mainly comprises of amortization (\$123.2 million) offset by the gain on sale of income properties (\$48.1 million) and other non-cash components of net income (\$19.1 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 that 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 85.0% 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 that cash distributions may be reduced or suspended in the foreseeable future. The AFFO payout ratio for the year ended December 31, 2008, was 91.2% (December 31, 2007 – 91.4%, 2006 – 94.2%).

(in thousands of dollars)	2008	2007	2006
Cash provided by operating activities	144,069	160,872	92,439
Net income	89,648	30,495	20,770
Distributions declared	145,948	139,167	116,743
Distributions paid	126,380	120,809	104,198
AFFO	159,575	152,460	122,663
Surplus (shortfall) of cash provided by operating activities over distributions declared	(1,879)	21,705	(24,304)
Surplus (shortfall) of cash provided by operating activities over distributions paid	17,689	40,063	(11,579)
Surplus (shortfall) of cash provided by operating activities over AFFO	(15,506)	8,412	(30,224)
Shortfall of net income over distributions declared	(56,300)	(108,672)	(95,973)

Quarterly Information

Revenue from continuing operations has increased significantly over the past eight quarters because of the large number of acquisitions and Earnout transactions at various times during 2007 through 2008.

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 June 30, 2008 includes a writedown of properties under development of \$1.7 million.
- The quarter ended December 31, 2007 includes a bond forward contract loss of \$1.9 million.
- The quarter ended September 30, 2007 includes a writedown of properties under development of \$1.1 million.

Net income has fluctuated over the past eight quarters for the same reasons as indicated above. In addition, the quarters ended March 31, 2008, June 30, 2008, September 30, 2008 and December 31, 2008, include gains of \$19.1 million, \$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.

Funds from operations have continued to increase in each of the last eight quarters except for the quarter ended December 31, 2007, due to the bond forward contract loss of \$1.9 million and for the quarter ended June 30, 2008, where there was a decrease due to certain one-time charges.

Adjusted funds from operations has steadily increased over the last eight quarters, except for the quarter ended June 30, 2008, where there was a decrease due to certain one-time charges.

QUARTERLY INFORMATION

(in thousands of dollars, except per Unit and Unit amounts)

	December 31, 2008	September 30, 2008	June 30, 2008	March 31, 2008	December 31, 2007	September 30, 2007	June 30, 2007	March 31, 2007
Revenues	114,946	109,818	104,139	105,868	101,042	94,180	91,974	92,334
Income from continuing operations	12,074	9,189	5,378	9,910	5,962	6,569	6,616	6,784
Per Unit								
Basic	\$0.127	\$0.097	\$0.058	\$0.107	\$0.065	\$0.072	\$0.073	\$0.075
Diluted ¹	\$0.127	\$0.097	\$0.058	\$0.107	\$0.065	\$0.072	\$0.073	\$0.075
Net income	16,423	16,603	25,398	31,224	7,349	7,324	7,763	8,059
Per Unit								
Basic	\$0.173	\$0.175	\$0.062	\$0.338	\$0.080	\$0.080	\$0.085	\$0.089
Diluted ¹	\$0.173	\$0.175	\$0.062	\$0.338	\$0.080	\$0.080	\$0.085	\$0.089
Funds from operations	44,675	42,838	40,023	42,741	40,374	41,540	40,198	38,724
Per Unit								
Basic	\$0.470	\$0.453	\$0.430	\$0.462	\$0.439	\$0.455	\$0.442	\$0.428
Diluted ²	\$0.466	\$0.451	\$0.429	\$0.462	\$0.437	\$0.454	\$0.441	\$0.427
Distributable income	42,132	40,038	37,090	39,642	37,600	38,259	37,067	35,241
Per Unit								
Basic	\$0.443	\$0.423	\$0.399	\$0.429	\$0.409	\$0.419	\$0.407	\$0.390
Diluted ²	\$0.441	0.423	\$0.399	\$0.428	\$0.407	\$0.418	\$0.407	\$0.389
Adjusted funds from operations	41,568	39,931	37,716	40,360	40,065	38,312	38,081	36,002
Per Unit								
Basic	\$0.437	\$0.422	\$0.405	\$0.437	\$0.436	\$0.419	\$0.419	\$0.398
Diluted ²	\$0.435	\$0.422	\$0.405	\$0.436	\$0.434	\$0.419	\$0.418	\$0.397
Cash provided by operating activities	50,631	36,776	33,651	23,011	73,691	25,857	43,825	17,499
Distributions declared	36,903	36,821	36,262	35,962	35,777	35,127	34,233	34,030
Units outstanding	95,077,675	94,818,597	94,066,590	92,529,796	92,147,428	91,612,567	91,151,520	90,646,698
Weighted average units outstanding								
Basic	95,153,901	94,566,806	93,019,898	92,426,435	91,909,832	91,384,013	90,988,016	90,431,596
Diluted	95,153,901	94,566,806	93,094,407	92,426,435	92,197,764	91,384,013	90,988,016	90,431,596
Total assets	4,194,387	4,217,373	4,210,768	3,930,190	3,893,732	3,815,779	3,613,900	3,571,357
Total debt	2,619,797	2,611,941	2,598,168	2,325,327	2,298,690	2,236,411	2,020,206	1,971,632

¹ Diluted income from continuing operations and net income per Unit are calculated using the weighted average number of units outstanding for the quarter.

² Diluted funds from operations, distributable income and adjusted funds from operations per Unit are adjusted for the dilutive effect of the convertible debentures, which are not dilutive for net income purposes.

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 \$1.3 million for legal services rendered during the year, and the Trust has loans outstanding for \$11.4 million to a corporation of which the second Trustee is President.

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:

(in thousands of dollars)	2008	2007
Acquisition of land and properties	287,901	77,667
Mortgages advanced to SmartCentres during the year	36,266	117,188
Equity issued to SmartCentres during the year	31,403	19,954
Amounts receivable at year-end	6,058	9,980
Amounts payable at year-end	10,505	19,047
Accrued development obligation at year-end	33,220	36,343
Paid to/Payable to SmartCentres		
Fees:		
Leasing/development	3,228	2,708
Legal, marketing and other administrative costs	2,058	1,626
Acquisition fees	-	4,518
Rent and operating costs	975	1,298
Interest	1,000	517
Paid by/Payable by SmartCentres		
Opportunity fees/head lease rents	6,513	7,062
Interest income	16,393	10,358
Management fees	886	703

SmartCentres owns 24.8% 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 34.7% 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, 22 and 23 of the consolidated financial statements for the year ended December 31, 2008.

Future Income Taxes

The Trust is taxed as a mutual fund trust for Canadian income tax purposes. The Trust is required by its Declaration of Trust to distribute all of its taxable income to its Unitholders, which currently enables the Trust to deduct such distributions for income tax purposes. Accordingly, prior to June 12, 2007, no provision for income taxes was recorded in the consolidated financial statements.

On June 12, 2007, amendments to the Income Tax Act (Canada) were substantively enacted that modify the tax treatment of certain trusts and partnerships that are specified investment flow-through trusts or partnerships ("SIFTs"). On February 6, 2009, the Minister of Finance released draft legislation that includes previously announced measures to further amend the tax rules that apply to SIFTs. Under the SIFT rules, certain distributions by a SIFT entity relating to income from a business carried on in Canada by the SIFT and income (other than taxable dividends) or capital gains from non-portfolio properties (as defined in the Income Tax Act) will not be deductible for tax purposes and will, accordingly, be taxed in the SIFT entity at a rate that is generally comparable to the combined provincial/federal corporate income tax rate for ordinary business income. Allocations or distributions of income and capital gains that are subject to the SIFT rules will be treated as a taxable dividend from a taxable Canadian corporation in the hands of the beneficiaries or partners of the SIFT. For Canadian resident beneficiaries or partners, such dividends will be taxed as an eligible dividend and will be subject to the applicable gross-up and dividend tax credit rules. Subject to the normal growth guidelines issued in a press release by the Department of Finance (Canada) on December 15, 2006 ("the Normal Growth Guidelines"), the SIFT rules will not apply until the 2011 taxation year to trusts or partnerships that would have been SIFTs on October 31, 2006, if the "SIFT trust" and "SIFT partnership" definitions in the Income Tax Act had been in force as of that date.

Certain real estate investment trusts that satisfy certain specified conditions ("the REIT Exception") are excluded from the SIFT definition and, therefore, will not be subject to the SIFT rules. In order to qualify for the REIT Exception in respect of a taxation year: (i) the REIT must, at no time in that taxation year, hold non-portfolio property other than "qualified REIT properties" (as defined in the Income Tax Act); (ii) not less than 95% of the REIT's revenues for that taxation year must be derived from rent from real or immovable properties, interest, capital gains from dispositions of real or immovable properties, dividends and royalties; (iii) not less than 75% of the REIT's revenues for that taxation year must be derived from rent from, interest from mortgages or hypothecs on, and capital gains from the disposition of real or immovable properties situated in Canada; and (iv) the REIT must, throughout the taxation year, hold real or immovable properties situated in Canada, cash and certain government guaranteed debt with a total fair market value that is not less than 75% of the REIT's equity value. The February 6, 2009, draft legislation removes the distinction between Canadian and foreign properties. The 75% REIT revenue test and 75% REIT asset test will continue to apply, but the geographic location of the real or immovable properties will not be relevant.

As the Trust does not meet the REIT Exception as at December 31, 2008, a future income tax asset in the amount of \$6.7 million has been recorded based on the temporary differences that are expected to reverse on or after January 1, 2011, reduced by a valuation allowance of \$6.7 million to a net balance of \$nil as the tax asset is not more likely than not to be realized, given the Trust intends to meet the REIT Exception by January 1, 2011. In addition, there may be a possible interpretation of the tax legislation under which each of the limited partnerships under the control of the Trust could be viewed as a SIFT. Management does not believe this to be the intent of the legislation and believes there to be valid technical and policy arguments supporting the fact that each of these limited partnerships is not a SIFT. Accordingly, the Trust has not recorded current or future income taxes or temporary differences attributable to the other partners' interests. However, the February 6, 2009, draft legislation amends the SIFT definition to exclude trusts and partnerships whose equity (i) is not publicly traded and (ii) is wholly owned by a SIFT, a REIT, a taxable Canadian corporation, another entity meeting this test or any combination of these types of entities. The deferred tax asset, prior to the valuation allowance, arises due to: (i) certain properties that have a tax carrying value greater than the accounting carrying value as a result of accelerated amortization rates for accounting purposes, net of (ii) the Trust's share of properties with a tax carrying value less than the accounting carrying value as a result of assuming lower initial tax carrying values on certain properties when acquired. The measurement of the future income tax asset as at the 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 December 31, 2008, and for the year then ended.

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 Exception.

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. Further, they have evaluated, or caused to be evaluated under their direct supervision, the effectiveness of Calloway's disclosure controls and procedures at December 31, 2008, and concluded that they were effective.

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 financial statements for external purposes in accordance with Canadian GAAP. Further, using the criteria established in *Internal Control – Integrated Framework* published by the Committee of Sponsoring Organizations of the Treadway Commission, they have evaluated, or caused to be evaluated under their direct supervision, the effectiveness of Calloway's internal control over financial reporting at December 31, 2008, and concluded that it was effective.

Changes in Internal Controls Over Financial Reporting

No changes were made to the design of Calloway's internal control over financial reporting during the year ended December 31, 2008, 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 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 that 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 year ended December 31, 2008, the Trust determined that there were impairments to three properties under and held for development as described in note 5 of the consolidated financial statements for the year ended December 31, 2008, and, accordingly, recognized an impairment loss of \$1.9 million on the consolidated statements of income and comprehensive income.

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 3062 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 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.

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

Changes in Current Year

In December 2006, the CICA issued Handbook Section 3862, "Financial Instruments – Disclosures," and Section 3863, "Financial Instruments – Presentation." These sections were effective for fiscal years beginning on or after October 1, 2007, although early adoption was permitted. The Trust implemented these sections in the first quarter of 2008.

CICA Handbook Section 3862 modifies the disclosure requirements of CICA Handbook Section 3861, "Financial Instruments – Disclosure and Presentation," including required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance and of the extent of risks arising from financial instruments to which the Trust is exposed and how the Trust manages those risks. Application of CICA Handbook Section 3862 does not affect any of the amounts recognized in the consolidated balance sheets or consolidated statements of income and comprehensive income, equity and cash flows. CICA Handbook Section 3863 carries forward the presentation-related requirements of CICA Handbook Section 3861 and provides additional guidance for the classification of financial instruments, from the perspective of the issuer, between liabilities and equity.

Changes in 2009

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 International Financial Reporting Standard 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. 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 that it will require publicly accountable enterprises to adopt International Financial Reporting Standards (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. The transition from Canadian GAAP to IFRS will be applicable for Calloway for its first quarter of 2011.

The Trust expects the transition to IFRS to have an impact on financial reporting, business processes, information systems, disclosure controls and procedures and internal controls over financial reporting. The Trust has completed an initial diagnostic impact assessment and is in the process of completing its planning activities and work plan for the remainder of the transition process, establishing its implementation team and identifying further training and resource requirements and establishing an external communications plan. A significant component of the work plan will include 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 financial statements. Based upon management's preliminary assessment, there are a number of significant IFRS differences, which will potentially have an impact on the Trust's financial statements and related processes and controls. In addition, there are a number of proposed and continuing projects of the IASB that may have an impact on the Trust. Management will monitor any changes that arise to determine if 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.

The significant IFRS differences that will potentially have an impact on the Trust's financial statements include the following:

1. Under Canadian GAAP, the Trust measures its income properties using the historical cost model and recognizes various tangible and intangible components of the income property. Under IFRS, the Trust will have a choice of whether to use the historical cost model or the fair value model. If the fair value model is selected, income properties will be carried on the balance sheet at their fair values, and changes in fair value each period will be recorded in the statement of income. If the historical cost model is selected, the Trust will be required to disclose the fair value of income properties in the notes to the consolidated financial statements.
2. Under Canadian GAAP, the Trust proportionately consolidates its interests in joint ventures. Under IFRS expected to be in place when the Trust adopts IFRS, joint ventures are accounted for using the equity method. However, the Trust will continue to pick up its share of jointly owned assets.
3. Under Canadian GAAP, unit equity of the Trust is presented as equity in the consolidated balance sheet. Under IFRS, the unit equity of the Trust, in its current form, would likely be presented as a liability and distributions would be classified as interest expense. In order to address this presentation change, it may be necessary to amend the distribution provisions in the Declaration of Trust.
4. Under Canadian GAAP, tenant improvements and certain other leasing costs are capitalized and amortized through amortization expense. Under IFRS, a portion of such costs are likely to be considered to be leasing incentives and will be amortized as a reduction of rental revenues.
5. Accounting for income taxes is an area that is currently subject to review by the standard-setters and may have an impact on the Trust. An exposure draft is expected to be issued in the near future, and the Trust will assess the impact, if any, on its consolidated financial statements.
6. 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 financial statements of the Trust. Changes to current 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 financial statements of the Trust.

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 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's ability to meet its financial obligations. In order to minimize this risk, Calloway negotiates fixed-rate term debt with staggered maturities on the portfolio and matches 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 3.2 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 that the lenders will not refinance upon 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. The conduit market and the unsecured market for "BBB"-rated debentures in the real estate sector are no longer available. 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 2009. In September 2010, the Trust has \$200.0 million unsecured debentures maturing. Management is monitoring this situation and is considering various options should the unsecured market not improve.

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 may 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 Exception, in its current form, does not fully accommodate the current business structures used by many Canadian real estate investment trusts (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 Exception) 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 Exception 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 Exception. 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 Exception. However, no assurance can be given that Calloway will qualify for the REIT Exception.

Outlook

The Canadian economy is expected to contract in 2009 before improving slightly in 2010. Credit markets will remain a challenge for borrowers, consistent with the 2008 lending environment. Consumer spending is likely to remain soft as job losses continue to mount and persist. Retailers are expected to slow their expansion plans and move forward cautiously. Calloway will continue to be prudent in pursuing its strategies of portfolio and organic growth. Along with our development partners, we expect a more cautious approach when building out new space, focusing primarily on tenant mix, covenant strength and access to financing. For our existing tenants, we have less than 5% of leases maturing, on average, in each of the next five years and an 11.2-year average lease term remaining to maturity in our top 25 tenants. This positions Calloway for long-term stability.

Calloway remains confident that its portfolio of high-quality, dominant retailers, along with management's focus on its key strategic initiatives, uniquely positions it to respond to the current economic environment and sets the stage for positive performance in the long term.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

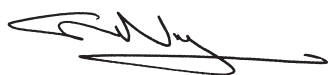
The Annual Report, including consolidated financial statements, is the responsibility of the management of Calloway Real Estate Investment Trust. The financial statements have been prepared in accordance with the recommendations of The Canadian Institute of Chartered Accountants. Financial information contained elsewhere in this report is consistent with information contained in the consolidated financial statements.

Management maintains a system of internal controls that provides reasonable assurance that the assets of Calloway Real Estate Investment Trust are safeguarded and that facilitates the preparation of relevant, timely and reliable financial information that reflects, where necessary, management's best estimates and judgments based on informed knowledge of the facts.

The Board of Trustees is responsible for ensuring that management fulfills its responsibility and for final approval of the consolidated financial statements. The Board has appointed an Audit Committee comprising three Trustees to approve, monitor, evaluate, advise or make recommendations on matters affecting the external audit, the financial reporting and the accounting controls, policies and practices of Calloway Real Estate Investment Trust under its terms of reference.

The Audit Committee meets at least four times per year with management and with the independent auditors to satisfy itself that they are properly discharging their responsibilities. The consolidated financial statements and the Management Discussion and Analysis have been reviewed by the Audit Committee and approved by the Board of Trustees.

PricewaterhouseCoopers LLP, the independent auditors, have audited the consolidated financial statements in accordance with Canadian generally accepted accounting principles and have read Management's Discussion and Analysis. Their auditors' report is as set forth.



Simon Nyilassy
President and Chief Executive Officer



Bart Munn
Chief Financial Officer

AUDITORS' REPORT

February 25, 2009

To the Unitholders of Calloway Real Estate Investment Trust

We have audited the consolidated balance sheets of Calloway Real Estate Investment Trust ("the Trust") as at December 31, 2008 and 2007 and the consolidated statements of income and comprehensive income, equity and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants
Toronto, Ontario

CONSOLIDATED FINANCIAL STATEMENTS

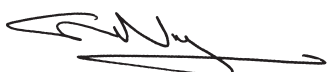
CONSOLIDATED BALANCE SHEETS

As at December 31, 2008 and December 31, 2007

(in thousands of dollars)	2008	2007
Assets		
Real estate assets		
Income properties (note 4)		
Tangible assets	3,003,186	2,682,457
Prepaid land rent	154,903	104,735
Intangible assets	292,465	296,387
Properties under and held for development (note 5)	381,835	401,670
Mortgages and loans receivable (note 6)	265,605	258,239
Deferred leasing costs (note 7)	4,162	3,330
	4,102,156	3,746,818
Deferred financing costs (note 8)	1,768	1,290
Amounts receivable, prepaid expenses and deposits (note 9(a))	53,034	49,823
Cash and cash equivalents	24,386	22,054
Assets held for sale (note 20)	13,043	73,747
	4,194,387	3,893,732
Liabilities		
Debt (note 10)	2,619,797	2,298,690
Accounts payable and accrued liabilities (note 9(b))	136,260	140,962
Liabilities related to assets held for sale (note 20)	1,443	25,320
	2,757,500	2,464,972
Equity	1,436,887	1,428,760
	4,194,387	3,893,732
Commitments and contingencies (note 22)		

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

Years ended December 31, 2008 and 2007

(in thousands of dollars, except per Unit amounts)	2008	2007
Revenues		
Rentals from income properties (note 12)	413,667	363,649
Interest income	21,103	15,881
	434,770	379,530
Expenses		
Property operating costs	140,271	118,612
Interest (note 10(i))	124,142	102,895
Amortization (note 13)	123,163	121,789
General and administrative	8,590	7,229
Bond forward contract loss (note 10(i))	-	1,934
Writedown of properties under and held for development (note 5)	1,914	1,104
	398,080	353,563
Income from continuing operations	36,690	25,967
Income from discontinued operations (note 20)	52,958	4,528
Net income and comprehensive income for the year	89,648	30,495
Income per unit (note 15)		
Basic		
Continuing operations	0.39	0.28
Discontinued operations	0.56	0.05
Net income	0.95	0.33
Diluted		
Continuing operations	0.39	0.28
Discontinued operations	0.56	0.05
Net income	0.95	0.33

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

CONSOLIDATED STATEMENTS OF EQUITY

Years ended December 31, 2008 and 2007

(in thousands of dollars)	Unit Equity (note 11)	Equity Component of Convertible Debentures	Cumulative Net Income	Cumulative Distributions	Total
Equity – January 1, 2007	1,649,769	288	72,048	(228,734)	1,493,371
Issuance of units	40,574	–	–	–	40,574
Fair value of Earnout Options issued (note 3)	1,737	–	–	–	1,737
Conversion of Convertible Debentures	1,823	(73)	–	–	1,750
Net income for the year	–	–	30,495	–	30,495
Distributions for the year (note 11(f))	–	–	–	(139,167)	(139,167)
Equity – December 31, 2007	1,693,903	215	102,543	(367,901)	1,428,760
Issuance of units	55,162	–	–	–	55,162
Fair value of Earnout Options issued (note 3)	1,684	–	–	–	1,684
Issuance of Convertible Debentures (note 10(h))	–	7,030	–	–	7,030
Conversion of Convertible Debentures	574	(23)	–	–	551
Net income for the year	–	–	89,648	–	89,648
Distributions for the year (note 11(f))	–	–	–	(145,948)	(145,948)
Equity – December 31, 2008	1,751,323	7,222	192,191	(513,849)	1,436,887

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2008 and 2007

(in thousands of dollars)	2008	2007
Cash provided by (used in)		
Operating activities		
Net income for the year	89,648	30,495
Add (deduct): Items not affecting cash		
Amortization	123,163	121,789
Amortization of deferred financing costs	4,445	2,431
Amortization of prepaid land rent	3,153	2,288
Amortization included in discontinued operations	732	5,203
Capital lease obligation interest	57	52
Straight-line rent adjustments	(5,901)	(6,955)
Deferred Unit compensation expense	683	288
Amortization of acquisition date fair value adjustment on assumed debt	(5,026)	(5,513)
Gain on sale of income properties included in discontinued operations	(48,147)	-
Bond forward contract settlement ^{(note 10(i))}	-	1,934
Writedown of properties under and held for development	1,914	1,104
	164,721	153,116
Expenditures on deferred leasing costs	(1,517)	(2,297)
Changes in other non-cash operating items ^{(note 9(c))}	(19,135)	10,053
	144,069	160,872
Financing activities		
Proceeds from issuance of Convertible Debentures	125,000	-
Proceeds from revolving acquisition and operating facilities, net of repayments	(19,350)	184,850
Proceeds from (repayments of) non-revolving senior interim credit facility	(100,000)	100,000
Proceeds from term mortgages	337,412	30,590
Term mortgages and other net debt repayments	(67,750)	(16,219)
Proceeds from issuance of units – net of issue costs	4,529	(233)
Distributions paid	(126,380)	(120,809)
Expenditures on financing costs	(11,844)	(2,210)
	141,617	175,969
Investing activities		
Acquisitions of income properties and properties under and held for development ^(note 3)	(348,512)	(314,004)
Additions to income properties	(3,134)	(2,394)
Additions to properties under and held for development	(48,397)	(55,683)
Advances of mortgages and loans receivable	(88,007)	(235,173)
Repayments of mortgages and loans receivable	96,041	74,284
Deposits	1,036	(1,623)
Net proceeds on sale of income properties included in discontinued operations	109,553	-
Bond forward contract settlement ^{(note 10(i))}	(1,934)	-
	(283,354)	(534,593)
Increase (decrease) in cash and cash equivalents during the year	2,332	(197,752)
Cash and cash equivalents – beginning of year	22,054	219,806
Cash and cash equivalents – end of year	24,386	22,054
Supplemental cash flow information ^(note 16)		

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007

(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 May 16, 2006 (“the Declaration of Trust”).

At December 31, 2008, the SmartCentres Group of Companies (SmartCentres), owned by Mitchell Goldhar, owned approximately 24.8% (December 31, 2007 – 23.4%) of the issued and outstanding units of the Trust (see note 17).

2. Summary of significant accounting policies

Basis of presentation

The Trust’s accounting policies and its standards of financial disclosure are in accordance with Canadian generally accepted accounting principles (GAAP). The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Implementation of new accounting policies – 2008

Effective January 1, 2008, the Trust adopted the requirements of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3862, “Financial Instruments – Disclosures,” and Section 3863, “Financial Instruments – Presentation.”

CICA Handbook Section 3862 modifies the disclosure requirements of CICA Handbook Section 3861, “Financial Instruments – Disclosure and Presentation,” including required disclosure for the assessment of the significance of financial instruments for an entity’s financial position and performance and of the extent of risks arising from financial instruments to which the Trust is exposed and how the Trust manages those risks. Application of CICA Handbook Section 3862 does not affect any of the amounts recognized in the consolidated balance sheets or consolidated statements of income and comprehensive income, equity and cash flows. CICA Handbook Section 3863 carries forward the presentation-related requirements of CICA Handbook Section 3861 and provides additional guidance for the classification of financial instruments, from the perspective of the issuer, between liabilities and equity.

The adoption of CICA Handbook Section 3862 resulted in additional disclosures in the notes to the consolidated financial statements (see notes 6, 9, 10 and 21). The adoption of CICA Handbook Section 3863 has had no effect on the Trust.

Future changes in accounting policies

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 International Financial Reporting Standard 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. 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. As part of that plan, accounting standards for public companies would be required to converge with International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011, with comparative figures presented on the same basis. In February 2008, the AcSB confirmed the effective date of the initial adoption of IFRS.

While the conceptual framework underlying IFRS is similar to Canadian GAAP, there are several significant differences. While the adoption of IFRS will not have a material impact on the reported cash flows of the Trust, it is expected that it will have a material impact on the Trust’s consolidated balance sheets and consolidated statements of income and comprehensive income. The Trust has performed an initial assessment of the expected impact of IFRS on its financial statements and has identified potentially significant accounting policy and presentation changes that may have an impact on the presentation and measurement of income properties, proportionate consolidation of joint ventures, balance sheet classification of unit equity, accounting for leases, accounting for income taxes and presentation of a classified balance sheet. A more detailed discussion of the Trust’s IFRS transition plan and significant impact areas can be found in the Management’s Discussion and Analysis.

Principles of consolidation

The consolidated financial statements include the accounts of the Trust and its subsidiaries, together with its proportionate share of the assets, liabilities, revenue and expenses of all co-ownerships in which it participates.

The Trust follows the requirements of CICA Accounting Guideline 15, Consolidation of Variable Interest Entities (“AcG-15”), which provides guidance for applying the principles in CICA Handbook Section 1590, “Subsidiaries,” to those entities defined as Variable Interest Entities (VIEs). This standard considers a VIE to be an entity in which either: (i) the equity at risk is not sufficient to permit it to finance its activities without additional subordinated financial support from other parties; or (ii) equity investors lack either voting control, an obligation to absorb expected losses or the right to receive expected residual returns. AcG-15 requires consolidation of VIEs by the primary beneficiary. The primary beneficiary is defined as the party who has exposure to the majority of a VIE’s expected losses and/or expected residual returns. The Trust has determined that it is not the primary beneficiary of any VIEs.

Exchangeable securities

The Trust has applied the recommendations of the Emerging Issues Committee (EIC) of the CICA who issued an abstract of Issues Discussed No. 151, Exchangeable Securities Issued by Subsidiaries of Income Trusts (EIC-151), which provides guidance on the presentation of exchangeable securities issued by a subsidiary of an income trust. In order to be presented as equity, the exchangeable securities must have distributions that are economically equivalent to distributions on units issued directly by the income trust, and the exchangeable securities must also ultimately be exchanged for units of the income trust; otherwise the exchangeable securities would be presented as either a liability or non-controlling interest. The Trust has determined that it is appropriate to present its exchangeable securities as equity.

Real estate assets

a) Income properties

Income properties are carried at cost less accumulated amortization, less impairment loss, if any. Cost includes initial acquisition costs, improvements, other direct costs and capitalized development costs. In accordance with EIC-137, Recognition of Customer Relationship Intangible Assets Acquired in a Business Combination, and EIC-140, Accounting for Operating Leases Acquired in Either an Asset Acquisition or a Business Combination, the cost of income property acquisitions initiated on or after September 12, 2003, is allocated to tangible and intangible assets based on their respective fair market values. Tangible assets include land, buildings, tenant improvements and equipment. The fair value of buildings is determined using an income-based valuation approach referred to as the “as-if-vacant” approach. Intangible assets include the value of in-place leases, the value of above-and below-market leases and the value of tenant relationships, if any. For income property acquisitions initiated before September 12, 2003, the cost of income properties was allocated to land and buildings based on their respective fair values.

The Trust records amortization expense on a straight-line basis over the assets’ estimated useful lives as follows:

Buildings	40 years
Buildings under land leases or capital leases	lesser of 40 years and term of respective lease
Tenant improvements	term of respective lease
Equipment	5 years
Value of in-place leases	term of respective lease
Value of tenant relationships	term of respective lease plus renewal periods as applicable

The Trust amortizes the value of the above-and below-market leases on a straight-line basis over the term of the respective lease as an adjustment to rentals from income properties.

b) *Properties under and held for development*

Properties under and held for development are stated at cost less impairment charges, if any. Cost includes initial acquisition costs, other direct costs of development and construction, allocation of directly attributable general and administrative expenses, property taxes, interest on both specific and general debt, and incidental operating revenues and expenses during the period of development. Certain properties under development are subject to development management agreements (see note 5(a)).

c) *Impairment of income properties and properties under and held for development*

The Trust uses a two-step process for determining when an impairment of income properties and properties under and held for development should be recognized in the consolidated financial statements. If events or circumstances indicate that the carrying value of a property may be impaired, a recoverability analysis is performed based on estimated undiscounted future cash flows to be generated from property operations and its projected disposition. If the analysis indicates that the carrying value is not recoverable from future cash flows, the property is written down to estimated fair value and an impairment loss is recognized. Impairment losses were recorded by the Trust during 2008 and 2007.

d) *Properties held for sale and discontinued operations*

A property is classified by the Trust as held for sale on the consolidated balance sheets at the point in time when it is available for immediate sale, management has committed to a plan to sell the asset and is actively locating a buyer for the asset at a sale price that is reasonable in relation to the current fair value of the asset, and the sale is probable and expected to be completed within a one-year period. Properties held for sale are stated at the lower of cost or fair value less selling costs. No further amortization is recorded on these properties once classified as held for sale. A property that is subsequently reclassified to held and in use is measured at the lower of: (i) its carrying amount before it was classified as held for sale, adjusted for any amortization expense that would have been recognized had it been continuously classified as held and in use; or (ii) its estimated fair value at the date of the subsequent decision not to sell.

The results of operations associated with properties disposed of or classified as held for sale are reported separately as income from discontinued operations when the Trust will have no continuing involvement with the ongoing cash flow of the assets.

e) *Deferred leasing costs*

Deferred leasing costs include leasing commissions and other leasing costs. These costs are deferred and amortized on a straight-line basis over the terms of the respective lease.

f) *Impairment of mortgages and loans receivable*

Mortgages and loans receivable are classified as impaired when, in the opinion of management, there is reasonable doubt as to the timely collection of principal and interest. The carrying amount of a mortgage or loan receivable that is classified as impaired is reduced to its estimated fair value.

Financial instruments – recognition and measurement

Financial instruments must be classified into one of the following five categories: held for trading, held to maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. Initially, all financial assets and financial liabilities are recorded on the consolidated balance sheet at fair value. After initial recognition, financial instruments are measured at their fair values, except for held-to-maturity investments, loans and receivables and other financial liabilities, which are measured at amortized cost. The effective interest related to financial assets and liabilities measured at amortized cost and the gain or loss arising from the change in the fair value of financial assets or liabilities classified as held for trading are included in net income for the period in which they arise. Available-for-sale financial instruments are measured at fair value with gains and losses recognized in other comprehensive income until the financial asset is derecognized and all cumulative gains or losses are then recognized in net income.

i) *Financial assets and liabilities*

The Trust has classified its mortgages and loans receivable, financial assets included in amounts receivable and deposits as loans and receivables, which are initially measured at fair value and subsequently measured at amortized cost using the effective interest method. Debt and financial liabilities included in accounts payable and accrued liabilities are classified as other financial liabilities, which are initially measured at fair value and subsequently measured at amortized cost, using the effective interest method.

ii) *Financing costs*

Financing costs include commitment fees, underwriting costs and legal costs associated with the acquisition or issuance of financial assets or liabilities.

Financing costs relating to term mortgages, non-revolving credit facilities and debentures are accounted for as part of the respective liability's carrying value at inception and amortized to interest expense using the effective interest method. Financing costs incurred to establish revolving credit facilities are deferred as a separate asset on the consolidated balance sheet and amortized on a straight-line basis over the term of the facilities. In the event that any debt is terminated, any associated unamortized financing costs are expensed immediately. Upon conversion of convertible debt into Trust Units, a portion of the associated unamortized financing costs is charged to equity. Financing costs relating to financial assets are expensed immediately.

iii) Derivative instruments

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 instruments for trading or speculative purpose.

Derivative instruments and certain non-financial derivative instruments are measured at fair value with changes in fair value recognized in the consolidated statements of income. Derivative instruments may be embedded in other financial instruments and other contracts. Embedded derivative instruments are accounted for as separate derivative instruments when their economic characteristics and risks are not closely related to those of the host contract; the terms of the embedded derivative instruments are the same as those of a stand-alone derivative; and the combined contract is not classified as held for trading. Embedded derivative instruments are measured at fair value with changes in fair value recognized in the consolidated statements of income.

iv) Fair value of financial instruments

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act; i.e., the fair value of consideration given or received. In certain circumstances, however, the initial fair value may be based on other observable current market transactions in the same instrument, without modification or on a valuation technique using market-based inputs.

The carrying value of the Trust's financial assets included in amounts receivable, deposits, cash and cash equivalents and financial liabilities included in accounts payable and accrued liabilities approximates their fair value because of the short period to receipt or payment of cash. The fair value of the convertible debentures and unsecured debentures is based on their market price. The fair values of mortgages and loans receivable, term mortgages, development loans and credit facilities 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.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash and include short-term investments with original maturities of three months or less. At December 31, 2008, cash and cash equivalents include the Trust's proportionate share of cash balances of joint ventures of \$3,684 (December 31, 2007 – \$1,961).

Convertible debentures

Upon issuance, convertible debentures are separated into their debt and equity components. These components are measured based on their respective estimated fair values at the date of issuance of the convertible debentures. The fair value of the debt component is estimated based on the present value of future interest and principal payments due under the terms of the convertible debentures using a discounted rate for similar debt instruments without a conversion feature. The value assigned to the equity component is the estimated fair value ascribed to the holders' option to convert the convertible debentures into units. The difference between the fair value of the debt component of the convertible debentures and their face value at issuance is recognized as interest expense using the effective interest method.

Unit-based compensation

a) Unit options issued to non-employees on acquisitions ("the Earnout Options")

The Earnout Options are described in note 11(b). In connection with certain acquisitions and the associated development agreements, the Trust may grant options to acquire units of the Trust or the Calloway Limited Partnership (LP) to SmartCentres or other vendors. These options are exercisable, at strike prices determined on the date of grant, upon the completion and rental of additional space on acquired properties. These options are measured at fair value at the date of grant using a Black-Scholes option pricing model and are included in determining the cost of the acquisition.

b) Deferred unit plan

The deferred unit plan is described in note 11(c). Deferred units granted to trustees and executives in respect of their Trustee fees or bonuses are considered to be in respect of past services and are recognized in compensation expense upon grant. Deferred units granted relating to amounts matched by the Trust are considered to be in respect of future services and are recognized in

compensation expense on a straight-line basis over the vesting period. Compensation cost is measured based on the market price of the Trust's units on the date of grant of the deferred units. The deferred units earn additional deferred units for the distributions that would otherwise have been paid on the deferred units as if they instead had been issued as Trust Units on the date of grant. No additional compensation cost is recorded for these additional deferred units issued. Deferred units that have vested, but for which the corresponding Trust Units have not been issued and where the ultimate issuance of such Trust Units is simply a matter of a passage of time, are considered to be outstanding units from the date of vesting for basic income per unit calculations.

Revenue recognition

Rentals from income properties include rents from tenants under leases, property tax and operating cost recoveries, percentage participation rents, lease cancellation fees, parking income and incidental income. Rents from tenants may include free rent periods and rental increases over the term of the lease and are recognized in revenue on a straight-line basis over the term of the lease. The difference between revenue recognized and the cash received is included in amounts receivable as straight-line rent receivable. Recoveries from tenants are recognized as revenue in the period in which the applicable costs are incurred. Percentage participation rents are recognized after the minimum sales level has been achieved with each lease. Lease cancellation fees are recognized as revenue when the tenant foregoes the rights and obligations from the use of the space. Other income is recorded in the period it is earned.

For properties under development, rentals from individual units in income properties are recognized in the consolidated statements of income commencing upon the earlier of attaining a break-even point in cash flow after debt servicing or the expiration of a reasonable period of time following substantial completion determined at the time of approval of the project. Prior to the income property under development meeting these criteria, revenues net of expenses are recorded as a reduction of capitalized costs.

Income per Unit calculations

Basic income per Unit is calculated by dividing income by the weighted average number of Units outstanding for the year, including vested deferred units. The calculation of income per Unit on a diluted basis considers the potential exercise or conversion of outstanding Earnout Options, unvested deferred units, warrants and convertible debentures, if dilutive, and is calculated using the treasury stock method.

Income taxes

The Trust uses the liability method of accounting for future income taxes. The net future income tax liability or asset represents the cumulative amount of tax applicable to the temporary differences between the carrying amount of assets and liabilities and their carrying amounts for tax purposes. A future income tax asset, including the benefit of tax losses available to be carried forward to future years for tax purposes, is recognized if it is more likely than not to be realized; otherwise a valuation allowance is recognized. Future income taxes are measured at the tax rates expected to apply in the future when temporary differences reverse and tax losses are utilized. Changes to future income taxes relating to changes in tax rates are recognized in income in the period when the tax rate change is substantively enacted.

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 year ended December 31, 2008

- a) On February 15, 2008, the Trust completed the acquisition of a 4.98-acre development property in London, Ontario, for a purchase price totalling \$1,057 paid in cash, adjusted for other working capital items.
- b) On June 13, 2008, the Trust completed the acquisition of freehold and leasehold 100% interests in six properties from a joint venture between SmartCentres and Wal-Mart Canada Realty Inc. As at the closing date, the six properties comprised approximately 1,414,547 net square feet of leased area and included lands with potential for future development of approximately 305,378 net square feet. In connection with the acquisition, the Trust entered into long-term development management agreements with SmartCentres.

The purchase price of the properties was \$287,891 (including properties under and held for development of \$15,763), adjusted for costs of acquisition and working capital amounts. Of this purchase price, approximately \$29,834 relates to 40% of one property (60% was a freehold acquisition) in which the Trust acquired leasehold interests and prepaid its entire lease obligations. The purchase price was satisfied by the assumption of non-interest-bearing mortgages provided by the vendors totalling \$14,079, the issuance of 707,173 Class B Series 3 LP Units with a value of \$15,062 (see note 11(a) for a description of Class B Series 3 LP Units) to SmartCentres resulting from the exercise of 707,173 Earnout Options previously issued, the issuance of 750,000 new Earnout Options to SmartCentres in exchange for 750,000 Earnout Options previously issued and the balance in cash.

In connection with this acquisition, on September 30, 2008, the Trust entered into an agreement with SmartCentres whereby all July 2005 Earnout Options to acquire Class B LP Units that have been vested as at December 31, 2008 (estimated to be approximately 1,088,000 Earnout Options) must be exercised by June 30, 2009, with an extension to September 30, 2009, under certain circumstances. In addition, further July 2005 Earnout Options to acquire Class B LP Units (estimated to be approximately 2,757,000 Earnout Options) 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. The Class B Series 3 LP Units were valued at a price of \$21.30 per unit, which was the approximate fair market value of Trust Units on the date the substantive terms of the acquisition were agreed upon and announced. Earnout Options were valued at their estimated combined fair market value of \$1,684 based on a Black-Scholes calculation using the following assumptions: average volatility ranging from 21.5% to 30.4% on the underlying Trust Units; an exercise price of \$20.10 per unit; a risk-free interest rate ranging from 2.13% to 3.60%; a weighted average expected life of one year; and an expected distribution rate on the Trust Units ranging from 7.27% to 8.30%.

- c) On June 26, 2008, the Trust completed the acquisition of a development property in Brockville, Ontario, for a purchase price of \$1,141 paid in cash, adjusted for other working capital amounts.
- d) On November 17, 2008, the Trust completed the acquisition of a 1.12-acre development property in Toronto, Ontario, for a purchase price of \$642 paid in cash, adjusted for other working capital amounts.
- e) During the year ended December 31, 2008, pursuant to development management agreements referred to in note 5(a), the Trust completed the purchase of Earnouts totalling 820,500 square feet of development space from SmartCentres and other vendors for \$189,945. The purchase price was satisfied through the issuance of 691,756 Trust Units and 244,115 Class B Series 1 LP Units for combined consideration of \$14,656 and the balance in cash, adjusted for other working capital amounts.

Consideration for the assets acquired during the year ended December 31, 2008, is summarized as follows:

	Acquisitions	Earnouts	Total
Cash	259,657	88,855	348,512
Mortgages assumed at fair value	14,079	–	14,079
Accounts payable and accrued liabilities assumed and repayment of loans receivable	249	86,434	86,683
Class B LP Units issued	15,062	4,906	19,968
Trust Units issued	–	9,750	9,750
Earnout Options issued	1,684	–	1,684
	290,731	189,945	480,676

The allocation of the purchase price of the acquisitions during the year ended December 31, 2008 to the assets acquired is summarized as follows:

	Acquisitions	Earnouts	Total
Income properties			
Tangible assets			
Land ¹	91,289	7,187	98,476
Buildings	141,064	131,532	272,596
Tenant improvements	5,363	8,651	14,014
	237,716	147,370	385,086
Prepaid land rent ¹	8,150	20,303	28,453
Intangible assets			
In-place leases	25,187	19,794	44,981
Above-market leases	314	–	314
Below-market leases	(764)	–	(764)
Tenant relationships	1,525	2,478	4,003
	26,262	22,272	48,534
	272,128	189,945	462,073
Properties under and held for development	18,603	–	18,603
	290,731	189,945	480,676

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 \$15,389 and \$24,868, respectively.

As at December 31, 2008, the allocation of the purchase price to fair values of assets acquired and liabilities assumed for acquisitions was finalized. 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 year ended December 31, 2007

- a) On January 26, 2007, the Trust completed the acquisition of a 240,733 square foot income property in Mississauga, Ontario, for a purchase price of \$17,646. The purchase price was paid in cash, adjusted for other working capital amounts.
- b) On March 30, 2007, the Trust completed the acquisition of two income properties (403,656 square feet) in the Greater Toronto Area for a purchase price of \$93,112 paid for by assuming an existing mortgage of \$23,539 and the remainder in cash, adjusted for other working capital amounts.
- c) On April 2, 2007, the Trust completed the acquisition of a 42,985 square foot income property in Mount Pearl, Newfoundland and Labrador, for a purchase price of \$10,703. The purchase price was satisfied by the assumption of an existing first mortgage totalling \$5,319 and the balance in cash, adjusted for other working capital amounts.
- d) On May 7, 2007, the Trust completed the acquisition of a 2.94-acre development property in Toronto, Ontario, for a purchase price of \$4,185 paid in cash, adjusted for other working capital amounts.
- e) On May 11 and June 15, 2007, the Trust completed the acquisition of three adjoining parcels of development property totalling 60.61 acres in Halton, Ontario, for a combined purchase price of \$33,224 paid in cash, adjusted for other working capital amounts.
- f) On June 21, 2007, the Trust completed the acquisition of a 104,090 square foot income property and additional development parcels in Winnipeg, Manitoba, from Hopewell Development Corporation (Hopewell), a company in which a Trustee of the Trust is an officer, for a purchase price of \$31,614 (including properties under and held for development of \$8,568). The purchase price was satisfied in cash, adjusted for other working capital amounts. The Trust has also entered into a development management agreement with Hopewell whereby Hopewell will complete the development of the property.
- g) On June 28, 2007, the Trust acquired from SmartCentres a 50.0% interest in a development property that adjoins the Trust's existing 50.0% interest in an income property in Milton, Ontario, for a purchase price of \$2,739 paid in cash, adjusted for other working capital amounts. This property is subject to joint control and, accordingly, has been proportionately consolidated from the date of acquisition.
- h) On July 6, 2007, the Trust completed the acquisition of a 58.9-acre development property from SmartCentres in Stouffville, Ontario, for \$32,773. The purchase price was satisfied by the assumption of an existing construction loan facility totalling \$25,480, the issuance of 1,600,000 Earnout Options to SmartCentres and the balance in cash, adjusted for other working capital amounts. Earnout Options were valued at their estimated combined fair market value of \$1,141 based on a Black-Scholes calculation using the following assumptions: average volatility of 18.5% on the underlying Trust Units; an exercise price ranging from \$29.55 to \$33.00 per unit; a risk-free interest rate of 4.3%; a weighted average expected life ranging from one year to three years; and an expected distribution rate on the Trust Units of 5.93%. In connection with the acquisition, the Trust entered into long-term development agreements with SmartCentres whereby SmartCentres will develop these properties.
- i) On July 25, 2007, the Trust completed the acquisition of three leasehold property interests from SmartCentres and other unrelated parties for \$43,892 (including properties under development of \$39,719). Of the three leasehold properties, two leasehold properties (development properties) are 50.0% co-ownership interests and, accordingly, have been proportionately consolidated from the date of acquisition, and one leasehold property (income property) is wholly owned. The leasehold interests were prepaid in full and satisfied by the assumption of existing construction loans and mortgages payable totalling \$23,468, the issuance of 1,348,223 Earnout Options to SmartCentres and the balance in cash, adjusted for other working capital amounts. Earnout Options were valued at their estimated combined fair market value of \$596 based on a Black-Scholes calculation using the following assumptions: average volatility of 18.5% on the underlying Trust Units; an exercise price ranging from \$29.55 to \$33.00 per unit; a risk-free interest rate of 4.3%; a weighted average expected life ranging from 1 year to 2.25 years; and an expected distribution rate on the Trust Units of 6.12%. In connection with the acquisitions, the Trust entered into long-term development management agreements with SmartCentres.
- j) On August 30, 2007, the Trust completed the acquisition of a 4.87-acre development property in Halton Hills, Ontario, for a purchase price of \$2,649 paid in cash, adjusted for other working capital amounts.

- k) On September 28, 2007, the Trust completed the acquisition of a 15.5-acre development property in London, Ontario, for \$12,202. Included in the purchase price is an acquisition fee paid to SmartCentres of \$4,518. The purchase price was satisfied by the release from escrow of 158,364 Class B Series 1 LP Units with a value of \$3,144 and the balance in cash, adjusted for other working capital amounts.
- l) On October 15, 2007, the Trust completed the acquisition of a 50.0% co-ownership interest in a 61.86-acre development property in Salmon Arm, British Columbia, for a purchase price of \$7,509 paid in cash, adjusted for other working capital amounts. This property is subject to joint control and, accordingly, has been proportionately consolidated from the date of acquisition.
- m) During 2007, pursuant to development management agreements referred to in note 5(a), the Trust completed the purchase of Earnouts totalling 746,331 square feet of development space from SmartCentres and other vendors for \$135,216. The purchase price was satisfied through the issuance of 877,999 Trust Units and 334,066 Class B LP Units for combined consideration of \$21,848 and the balance in cash, adjusted for other working capital amounts.
- n) In conjunction with certain 2006 acquisitions, further acquisition costs of \$1,296 were incurred and recorded during 2007.

Consideration for the assets acquired during the year ended December 31, 2007, is summarized as follows:

	Acquisitions	Earnouts	Total
Cash	209,043	104,961	314,004
Mortgages payable and construction loan facility assumed at fair value	77,806	–	77,806
Accounts payable and accrued liabilities assumed and repayment of loans receivable	1,814	8,407	10,221
Class B LP Units issued	–	6,715	6,715
Class B LP Units released from escrow	3,144	–	3,144
Trust Units issued	–	15,133	15,133
Earnout Options issued	1,737	–	1,737
	293,544	135,216	428,760

The allocation of the purchase price of the acquisitions during the year ended December 31, 2007, to the assets acquired is summarized as follows:

	Acquisitions	Earnouts	Total
Income properties			
Tangible assets			
Land ¹	53,787	14,822	68,609
Buildings	71,044	99,577	170,621
Tenant improvements	6,564	4,792	11,356
	131,395	119,191	250,586
Prepaid land rent	679	2,701	3,380
Intangible assets			
In-place leases	16,093	11,992	28,085
Above-market leases	217	26	243
Below-market leases	(602)	–	(602)
Tenant relationships	2,194	1,306	3,500
	17,902	13,324	31,226
	149,976	135,216	285,192
Properties under and held for development	143,568	–	143,568
	293,544	135,216	428,760

¹ The allocation of the purchase price of Earnouts in the above table does not include the cost of previously acquired land in the amount of \$11,620.

As at December 31, 2007, the allocation of the purchase price to fair values of assets acquired and liabilities assumed for acquisitions was finalized. 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:

	2008			2007		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Tangible assets						
Land	881,167	–	881,167	769,960	–	769,960
Buildings	2,157,199	159,861	1,997,338	1,892,586	110,701	1,781,885
Tenant improvements	201,077	76,938	124,139	188,283	58,120	130,163
Equipment	911	369	542	692	243	449
	3,240,354	237,168	3,003,186	2,851,521	169,064	2,682,457
Prepaid land rent	162,452	7,549	154,903	109,132	4,397	104,735
Intangible assets						
In-place leases	422,388	152,628	269,760	391,106	116,552	274,554
Above-market leases	556	85	471	241	7	234
Below-market leases	(2,436)	(823)	(1,613)	(1,671)	(525)	(1,146)
Tenant relationships	30,701	6,854	23,847	27,788	5,043	22,745
	451,209	158,744	292,465	417,464	121,077	296,387
Total income properties	3,854,015	403,461	3,450,554	3,378,117	294,538	3,083,579

a) Capital leases

As at December 31, 2008, 13 (December 31, 2007 – 10) income properties with a cost of \$609,655 (December 31, 2007 – \$489,425) and a net book value of \$547,253 (December 31, 2007 – \$449,586) 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 10 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 nine leasehold interests that commenced in 2006 through 2008, four are under the terms of 80-year leases with SmartCentres and five are under the terms of 49-year leases with SmartCentres. The Trust has separate options to purchase each of these nine 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 12 leasehold interests in the amount of \$565,543 (December 31, 2007 – \$444,885), including prepaid land rent of \$162,452 (December 31, 2007 – \$109,132); upon the completion and rental of additional space, the Trust prepaid its entire lease obligations relating to build-out costs of \$66,481 (December 31, 2007 – \$24,284). There are no bargain purchase options at the end of the lease terms for these 12 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.
- 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 \$44,112 (December 31, 2007 – \$44,540), including the prepayment of its entire lease obligations upon the completion and rental of additional developments of \$nil (December 31, 2007 – \$nil), but excluding the purchase option due at the end of the lease, which has been included in accounts payable, net of imputed interest at 9.18% of \$9,347 (December 31, 2007 – \$9,404), at the amount of \$653 (December 31, 2007 – \$596) (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 year ended December 31, 2008, 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 \$3,442 (December 31, 2007 – \$5,354), were charged to amortization expense.

5. Properties under and held for development

Properties under and held for development consist of the following:

	2008	2007
Properties under development subject to development management agreements (a)	159,587	181,936
Properties under and held for development not subject to development management agreements (b)	222,248	219,734
	381,835	401,670

For the year ended December 31, 2008, general and administrative expenses of \$2,096 (December 31, 2007 – \$1,998) were capitalized to properties under and held for development.

During 2008, the Trust recorded an asset impairment loss of \$1,914 (December 31, 2007 – \$1,104) related to three properties (2007 – two properties) under and held for development not subject to development management agreements. The Trust is considering the sale of these properties (at this time, these properties have not met the criteria for classification as held for sale) in the near future; thus, the Trust obtained a range of prices for similar assets, either through independent third parties or internal research, to estimate the fair value of those assets and determined that the carrying amounts of these properties were above their estimated fair value. As a result, the Trust wrote down the carrying amounts to their estimated fair value. As at December 31, 2008, these properties had a carrying value after writedown of \$5,044 (December 31, 2007 – \$3,349).

a) *Properties under development subject to development management agreements*

These properties under development (including two leasehold properties) are subject to various development management agreements with SmartCentres, Wal-Mart Canada Realty Inc., Hopewell and the other vendors of the properties. 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 two to 10 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 \$84,776 (December 31, 2007 – \$76,514), 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 \$74,811 (December 31, 2007 – \$105,422), the predetermined negotiated capitalization rates are fixed in the first one to four years, ranging from 6.00% to 8.00%, and then are determined by reference to the 10-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 six-to 10-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 (see note 23).

The two leasehold properties with a carrying value totalling \$29,965 (December 31, 2007 – \$58,570) acquired during 2007 are under the terms of 49-year capital leases with SmartCentres. The Trust prepaid its entire lease obligations of \$67,838 (December 31, 2007 – \$58,570) and initially included the prepaid land rent in properties under development. Amortization of this prepaid land rent will commence once the property has been completed and will be included in property operating costs in the consolidated statements of income. For the year ended December 31, 2008, \$37,873 (December 31, 2007 – \$nil) was transferred to income properties on the lease-up and completion of construction of tenant space. In addition, a further \$9,268 (December 31, 2007 – \$18,448) of development costs was incurred during the year.

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 30% or 40% of the Gross Cost 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 year ended December 31, 2008, the Trust completed 820,500 square feet (December 31, 2007 – 746,331 square feet) of retail space with a Gross Cost of \$110,873 (December 31, 2007 – \$70,006) exclusive of cost of land previously acquired and Earnout Fees paid to the vendors of \$79,072 (December 31, 2007 – \$65,210). SmartCentres elected to receive \$9,750 (December 31, 2007 – \$15,133) in Trust Units and \$4,906 (December 31, 2007 – \$6,715) in Class B Series 1 LP Units.

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 and held for development not subject to development management agreements*

These properties under and held for 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 year ended December 31, 2008, the Trust completed the development and leasing of certain income properties on property under and held for development not subject to development management agreements. Costs in respect of land of \$8,420 (December 31, 2007 – \$18,878), buildings of \$19,034 (December 31, 2007 – \$31,550) and tenant improvements of \$1,853 (December 31, 2007 – \$1,696) have been reclassified from properties under and held for development to income properties. For the year ended December 31, 2008, 218,089 Earnout Options were exercised on the completion and rental of additional space, resulting in the issuance of 198,523 Class B Series 1 LP Units and 19,566 Class D Series 1 LP Units with a total value of \$4,385. In addition, during the year ended December 31, 2008, 10,055 Earnout Options were exercised for 10,055 Trust Units with a value of \$203.

There are seven properties (December 31, 2007 – seven properties) totalling \$49,455 (December 31, 2007 – \$47,921) not actively being developed as at December 31, 2008.

6. Mortgages and loans receivable

Mortgages and loans receivable consist of the following:

	2008	2007
Mortgages receivable (a)	223,147	208,504
Loans and notes receivable (b) and (c)	42,458	49,135
Mortgage receivable (d)	–	600
	265,605	258,239

- a) Mortgages receivable of \$183,182 (December 31, 2007 – \$175,970) and \$39,965 (December 31, 2007 – \$32,534) have been provided pursuant to agreements with SmartCentres and other unrelated parties, respectively, in which the Trust will lend up to \$365,096 (December 31, 2007 – \$376,990) for use in acquiring and developing 17 (December 31, 2007 – 18) properties in Ontario, Quebec and British Columbia. Interest on these mortgages accrues monthly at 6.35% to 10% (December 31, 2007 – 6.35% to 9.00%) subject to a minimum accrual after which it is payable in cash monthly. The principal and unpaid interest amounts are due at the maturity of the mortgages at various dates between 2009 and 2018 (one to ten years from the initial advance). The mortgages are secured by first, second or third charges on properties, assignments of rents and leases, and general security agreements. In addition, other SmartCentres-affiliated companies have provided limited indemnities and guarantees on the mortgages receivable. For the year ended December 31, 2008, \$46,625 (December 31, 2007 – \$141,227) has been funded, including accrued interest of \$18,580 (December 31, 2007 – \$7,832), offset by repayments of \$31,982 (December 31, 2007 – \$10,830).

The following provides further details on these mortgages receivable:

- For mortgages totalling \$193,939 (December 31, 2007 – \$181,326), the Trust has an option to acquire a 50% (12 properties) to 100% (three properties) interest in the 15 properties upon substantial completion at an agreed-upon formula using the net operating rents and a capitalization rate based on the 10-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.
- In July 2007, the Trust entered into an agreement to loan SmartCentres up to \$24,000, maturing in July 2010 with certain permitted extensions. Prior to or at the maturity date of the mortgage, the Trust is obligated to acquire either a 50.0% leasehold or freehold interest in an income property in Richmond Hill, Ontario (note 22). The Trust has advanced \$20,892 (December 31, 2007 – \$19,844) on this mortgage as at December 31, 2008. If the acquisition is a freehold interest, SmartCentres has the option to be paid the purchase price in cash and/or Trust units at \$29.30 per unit if the Trust purchases the property within one to three years, or \$33.00 per unit, if the Trust purchases the property within four to five years. The Trust determined, at the date of entering into this agreement, that the fair value of this option was nominal.

- The Trust has also entered into an agreement to loan SmartCentres up to \$15,000, maturing in October 2017, for SmartCentres to use in acquiring and developing a property in which the Trust has the other 50% co-ownership interest. The Trust has advanced \$8,316 (December 31, 2007 – \$7,334) on this mortgage as at December 31, 2008.
- b) Loans receivable of \$28,479 (December 31, 2007 – \$33,012) and \$11,389 (December 31, 2007 – \$13,644) have been provided pursuant to development management agreements with SmartCentres and Hopewell, respectively (note 5). The loans bear interest at rates that approximate the prime rate of a Canadian chartered bank plus rates ranging from 0.50% to 1.25% (December 31, 2007 – 0.50% to 1.25%). The loans receivable, including interest, are repayable at the completion and rental of the properties under development. SmartCentres and Hopewell have not provided any security in regard to the loans; however, the loan agreements stipulate that the proceeds of the loans are to be used to fund improvements to properties owned by the Trust. For the year ended December 31, 2008, \$56,645 (December 31, 2007 – \$101,778) has been funded, offset by repayments of \$63,434 (December 31, 2007 – \$63,454).
- c) As at December 31, 2008, notes receivable of \$2,590 (December 31, 2007 – \$2,479) have been granted to SmartCentres. These secured demand notes bear interest at 9% per annum. During the year ended December 31, 2008, \$111 (December 31, 2007 – \$73) has been funded.
- d) This mortgage receivable, provided to Hopewell, was repaid during 2008.

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:

	2008	2007
Mortgages receivable	212,800	214,571
Loans and notes receivable	42,458	49,135
Mortgage receivable	–	648
	255,258	264,354

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 December 31, 2008, is neither impaired nor past due, and there are no indications as of December 31, 2008, that the borrowers will not meet their payment obligations.

7. Deferred leasing costs

Deferred leasing costs consist of the following:

	2008			2007		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Leasing commissions and other leasing costs	5,513	1,351	4,162	4,081	751	3,330

8. Deferred financing costs

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

	2008			2007		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Deferred financing costs	3,533	1,765	1,768	2,952	1,662	1,290

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

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

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

	2008	2007
Amounts receivable		
Tenant receivables – net	20,067	20,414
Straight-line rent receivable	23,591	18,195
Other receivables	5,041	4,465
	48,699	43,074
Prepaid expenses and deposits		
Prepaid expenses and other	3,847	5,225
Deposits	488	1,524
	4,335	6,749
	53,034	49,823

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 as 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 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.

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

	2008
Balance, January 1, 2008	1,394
Additional allowance recognized as expense	1,274
Reversal of previous allowances	(396)
Tenant receivables written off during the year	(243)
Balance, December 31, 2008	2,029

The total additional allowance of \$878 (net of reversals of \$396) relates to allowances for specific tenant receivable impairments. Amounts written off relate to uncollectible amounts from specific tenants that have vacated their premises.

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.

Tenant receivables less than 90 days old total \$5,925. The tenant receivable amounts older than 90 days totalling \$6,248 (net of bad debt allowances of \$2,029 and credits of \$428 included in accounts payable and accrued liabilities) primarily pertain to CAM and property tax queries. Of the amounts over 90 days old, \$426 has been collected subsequent to the year-end. The remaining amounts totalling \$5,822 are at various stages of the collection process and considered by management to be fully collectible.

Other tenant receivables totalling \$7,466 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 collection process.

Other receivables

Other receivables consist primarily of accrued interest and related-parties receivables. As at December 31, 2008, other receivables are neither past due nor impaired, and there are no indications as of December 31, 2008, that the debtors will not meet their payment obligations.

b) *Accounts payable and accrued liabilities*

Accounts payable and accrued liabilities consist of the following:

	2008	2007
Accrued development obligation	33,220	36,343
Accounts payable – operations and development	56,455	48,860
Tenant prepaid rent, deposits and other payables	11,099	19,501
Accrued interest payable	14,080	14,843
Distributions payable	12,265	11,887
Realty taxes payable	6,172	6,560
Non-controlling interest	2,316	2,372
Capital lease obligation (note 4(a))	653	596
	136,260	140,962

The accrued development obligation represents payments required to be made to SmartCentres for certain undeveloped lands acquired in December 2006, 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 10-year development acquisition agreement period ending in 2016. The accrued development obligation was initially measured at its estimated fair value using an imputed interest rate of 5.50%. For the year ended December 31, 2008, imputed interest of \$1,883 (December 31, 2007 – \$2,139) 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:

	2008	2007
Amounts receivable and prepaid expenses	(17,240)	7,063
Accounts payable and accrued liabilities	(1,895)	2,990
	(19,135)	10,053

10. Debt

Debt consists of the following:

	2008	2007
Term mortgages (a)	1,716,479	1,443,254
Development loans		
Interest-bearing (b)	128,677	95,536
Non-interest-bearing (c)	50,219	26,908
Revolving acquisition facility (d)	–	122,350
Revolving operating facilities (e)	165,500	62,500
Non-revolving senior interim credit facility (f)	–	100,000
Unsecured debentures (g)	450,000	450,000
Convertible debentures (h)	122,520	5,419
	2,633,395	2,305,967
Less: Deferred financing costs	(13,598)	(7,277)
	2,619,797	2,298,690

Deferred financing costs as at December 31, 2008, pertaining to term mortgages amounted to \$7,003 (December 31, 2007 – \$4,121), unsecured debentures amounted to \$2,374 (December 31, 2007 – \$3,156) and convertible debentures amounted to \$4,221 (December 31, 2007 – \$nil).

a) *Term mortgages*

Term mortgages bear interest at fixed rates with a weighted average interest rate of 5.88% at December 31, 2008 (December 31, 2007 – 6.0%) and mature between 2009 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
2009	41,288	80,682	121,970
2010	43,468	24,070	67,538
2011	44,812	83,257	128,069
2012	44,901	33,172	78,073
2013	42,965	206,174	249,139
Thereafter	274,626	775,692	1,050,318
	492,060	1,203,047	1,695,107
Acquisition date fair value adjustment			21,372
			1,716,479

b) Interest-bearing development loans

Interest-bearing development loans total \$128,677 (December 31, 2007 – \$95,536) and are detailed as follows:

- Development loans totalling \$109,766 (December 31, 2007 – \$82,681) bear a variable interest rate of prime plus 0.50% to 0.75% on \$43,303 (December 31, 2007 – \$43,303) and banker's acceptance rates plus 2.00% on \$66,463 (December 31, 2007 – \$39,378), 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 \$18,911 (December 31, 2007 – \$12,855) 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 banker's 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 2009 and 2013 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 2009 through 2013 or the date building construction is completed and the tenant is in occupancy and paying rent. During the year ended December 31, 2008, imputed interest of \$405 (December 31, 2007 – \$171) was capitalized to properties under development.

d) Revolving acquisition facility

The revolving acquisition facility, with an available credit limit of \$150,000 bearing interest at a variable rate based on the 30-day banker's acceptance rate plus 1.50%, was repaid at its maturity in September 2008. As the facility has expired, no further amounts may be drawn down on this facility.

e) Revolving operating facilities

The first revolving operating facility bears interest at a variable interest rate based on bank prime plus nil% or banker's acceptance rates plus 0.85% and is secured by first charges over specific income properties and first general assignments of leases and insurance. In September 2007, the operating facility was renewed and increased by \$50,000 to \$100,000, which expires on September 30, 2009.

	2008	2007
Lines of credit – total facility	100,000	100,000
Lines of credit – outstanding	(45,500)	(62,500)
Letters of credit – outstanding	(36,583)	(27,118)
Amount available	17,917	10,382

The second revolving operating facility totalling \$120,000 (December 31, 2007 – \$nil), with an available credit limit of \$160,000, bears interest at a variable interest rate based on bank prime plus 0.30% or banker's acceptance rates plus 1.30%, is secured by first charges over specific income properties and first general assignments of leases and insurance and expires in August 2009.

f) *Non-revolving senior interim credit facility*

On September 28, 2007, the Trust entered into a non-revolving senior interim credit facility agreement for \$100,000. This facility was interest-bearing at a variable rate based on bank prime plus 0.15% or banker's acceptance rate plus 1.15% and had an original maturity of March 21, 2008. The Trust had an option to extend the maturity until September 21, 2008, at which time it did not exercise a second option to extend and repaid the balance in full.

g) *Unsecured debentures*

	2008	2007
Series A senior unsecured, due September 22, 2010, bearing interest at 4.51% per annum, payable semi-annually on September 22 and March 22	200,000	200,000
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
	450,000	450,000

At December 31, 2008, both Series A and Series B senior unsecured debentures are rated "BBB" with a stable trend by Dominion Bond Rating Services.

h) *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 year ended December 31, 2008, \$591 of the face value of the 6.00% Convertible Debentures (December 31, 2007 – \$1,881) was converted into Trust Units (note 11(e)).

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 (\$117,692) and equity components (\$7,308), measured at their respective fair values at time of issue. The equity component after transaction costs is \$7,030. For the year ended December 31, 2008, \$nil of the face value of the 6.65% Convertible Debentures (December 31, 2007 – \$nil) was converted into Trust Units. At December 31, 2008, \$125,000 of the face value of the 6.65% Convertible Debentures was outstanding (December 31, 2007 – \$nil).

	2008	2007
6.65% convertible unsecured subordinated debentures	117,692	–
6.00% convertible unsecured subordinated debentures	4,828	5,419
	122,520	5,419

i) *Bond forward contracts*

On October 2, 2007, the Trust entered into bond forward contracts based on five-year Government of Canada Bonds to manage the interest rate variability on anticipated future debt financing for \$100,000. The Trust agreed to deliver or receive a net settlement for the difference between the bond forwards' price and the bonds' fair value as at January 2, 2008 (settlement date). On January 2, 2008, the Trust paid \$1,934 in settlement of the bond forward contracts. As the Trust chose not to apply hedge accounting to these contracts, the fair value adjustment of the bond forward contracts was recognized on the consolidated balance sheets (in accounts payable and accrued liabilities) and recorded as a charge to earnings for the year ended December 31, 2007.

j) *Interest expense*

Interest expense consists of the following:

	2008	2007
Interest at stated rate	137,334	114,495
Amortization of acquisition date fair value adjustments	(5,026)	(5,513)
Amortization of deferred financing costs	4,445	2,431
	136,753	111,413
Less: Interest capitalized to properties under development	(12,611)	(8,518)
Interest expense	124,142	102,895

k) *Fair values*

The estimated fair value of debt is approximately as follows:

	2008	2007
Term mortgages	1,686,091	1,465,218
Development loans	178,896	122,444
Acquisition and operating facilities	165,500	184,850
Non-revolving senior interim credit facility	–	100,000
Unsecured debentures	392,182	432,271
Convertible debentures	106,796	7,303
	2,529,465	2,312,086

11. Unit equity

The following presents the number of units issued and outstanding and the related carrying value of unit equity for the years ended December 31, 2008, and December 31, 2007:

	Number of Units Issued and Outstanding				Carrying Amount				
	Trust Units	Class B and Class D LP Units		Class B LP II Units	Total Units	Trust Units \$	Class B and Class D LP Units \$		Trust Units \$
		Class B LP Units	Class D LP Units				Class B LP II Units	Trust Units \$	
	(Table A)				(Table B)				
Balance –									
January 1, 2007	75,237,994	14,138,634	756,525	90,133,153	1,330,462	301,529	17,778	1,649,769	
Earnout Options exercised (b)	877,999	334,066	–	1,212,065	15,133	6,715	–	21,848	
Fair value of Earnout									
Options issued (note 3)	–	–	–	–	596	1,141	–	1,737	
Deferred Unit Plan (c)	–	–	–	–	1,177	–	–	1,177	
Units issued under									
Deferred Unit Plan (c)	5,993	–	–	5,993	–	–	–	–	
Distribution									
Reinvestment Plan (d)	685,589	–	–	685,589	17,717	–	–	17,717	
Debentures converted (e)	110,628	–	–	110,628	1,823	–	–	1,823	
Unit issuance costs	–	–	–	–	(168)	–	–	(168)	
Balance –									
December 31, 2007	76,918,203	14,472,700	756,525	92,147,428	1,366,740	309,385	17,778	1,693,903	
Earnout Options exercised (b)	701,811	462,204	–	1,164,015	9,952	9,290	–	19,242	
Units issued for properties									
acquired (note 3)	–	707,173	–	707,173	–	15,063	–	15,063	
Fair value of Earnout									
Options issued (note 3)	–	–	–	–	–	1,684	–	1,684	
Deferred Unit Plan (c)	–	–	–	–	1,699	–	–	1,699	
Distribution									
Reinvestment Plan (d)	1,024,298	–	–	1,024,298	19,190	–	–	19,190	
Debentures converted (e)	34,761	–	–	34,761	574	–	–	574	
LP Units converted									
to Trust Units	34,130	(34,130)	–	–	1,570	(1,570)	–	–	
Unit issuance costs	–	–	–	–	(32)	–	–	(32)	
Balance –									
December 31, 2008	78,713,203	15,607,947	756,525	95,077,675	1,399,693	333,852	17,778	1,751,323	

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	Class D Series 2 LP Units	Total Units
Balance – January 1, 2007	13,004,038	789,444	–	311,022	34,130	14,138,634
Earnout Options exercised	334,066	–	–	–	–	334,066
Balance – December 31, 2007	13,338,104	789,444	–	311,022	34,130	14,472,700
Earnout Options exercised	442,638	–	–	19,566	–	462,204
Units issued for properties acquired	–	–	707,173	–	–	707,173
LP Units converted to Trust Units	–	–	–	–	(34,130)	(34,130)
Balance – December 31, 2008	13,780,742	789,444	707,173	330,588	–	15,607,947

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 \$	Class D Series 2 LP Units \$	Trust Units \$
Balance – January 1, 2007	266,877	27,478	–	6,174	1,000	301,529
Earnout Options exercised	6,715	–	–	–	–	6,715
Fair value of Earnout Options issued	–	571	–	–	570	1,141
Balance – December 31, 2007	273,592	28,049	–	6,174	1,570	309,385
Earnout Options exercised	8,897	–	–	393	–	9,290
Units issued for properties acquired	–	–	15,063	–	–	15,063
Fair value of Earnout Options issued	1,207	–	477	–	–	1,684
LP Units converted to Trust Units	–	–	–	–	(1,570)	(1,570)
Balance – December 31, 2008	283,696	28,049	15,540	6,567	–	333,852

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, provided that the Trust is required 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 LP II 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 December 31, 2008, there were 16,364,472 (December 31, 2007 – 15,229,225) 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 December 31, 2008, there were 3,114,131 (December 31, 2007 – 3,080,001) 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. During the year, 34,130 Class D Series 2 LP Units were exchanged for 34,130 Trust Units. The exchange was valued at a pro rata carrying amount of the LP Units. 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 December 31, 2008, there were 6,223,097¹ (December 31, 2007 – 7,467,885) Class C Series 1 LP Units, 3,350,000 (December 31, 2007 – 3,350,000) Class C Series 2 LP Units, 750,000 (December 31, 2007 – nil) Class C Series 3 LP Units, 16,704 (December 31, 2007 – 36,270) Class E Series 1 LP Units and 800,000 (December 31, 2007 – 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 10-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 December 31, 2008, or December 31, 2007. 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 (LP II) was formed on February 6, 2006, and commenced activity on May 29, 2006.

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

The Class A LP II Units are entitled to all distributable cash of the LP II after the required distributions on the Class B LP II Units have been paid. At December 31, 2008, there were 200,001 (December 31, 2007 – 200,001) Class A LP II Units outstanding. The Class A LP II Units are owned indirectly by the Trust and have been eliminated on consolidation.

¹ Includes 750,000 Units that are cancelled in tandem as each Class F Series 3 LP Unit is exchanged for a Class B LP Unit.

The Class B LP II 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 II Units are entitled to receive distributions equivalent to the distributions on Trust Units. Each Class B LP II 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 II 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 10 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 years ended December 31, 2008 and December 31, 2007:

	Strike Price \$	Options Outstanding at January 1, 2008 #	Options Exchanged or Expired During 2008 #	Options Exercised During 2008 #	Options Outstanding at December 31, 2008 #	Proceeds During 2008 \$
Options to acquire Trust Units						
October 2003	10.00	12,688	–	–	12,688	–
October 2003	10.50	846,103	–	(370,527)	475,576	3,891
February 2004	14.00	530,010	–	(88,003)	442,007	1,232
May 2004	15.25	1	–	–	1	–
November 2004	17.80	31,657	–	(26,445)	5,212	471
March 2005	19.60	142,663	–	–	142,663	–
July 2005	20.10	1,442,442	–	(216,836)	1,225,606	4,358
December 2006	29.55 to 33.55	551,416	–	–	551,416	–
July 2007	29.55 to 33.00	1,348,223	–	–	1,348,223	–
		4,905,203	–	(701,811)	4,203,392	9,952
Options to acquire Class B LP Units and Class D LP Units¹						
July 2005 ^{2, 3, 4}	20.10	7,504,155	(844,977)	(1,169,377)	5,489,801	23,506
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 ³	20.10	–	750,000	–	750,000	–
		11,654,155	(94,977)	(1,169,377)	10,389,801	23,506
Total Earnout Options		16,559,358	(94,977)	(1,871,188)	14,593,193	33,458

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

² Includes 1,117,032 of vested options as at December 31, 2008. 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.

³ Includes 750,000 Earnout Options exchanged in connection with the June 13, 2008, acquisitions as described in note 3.

⁴ Earnout Options of 94,977 expired during the year, and the related Class C LP Units were cancelled.

	Strike Price \$	Options Outstanding at January 1, 2007 #	Options Granted During 2007 #	Options Exercised During 2007 #	Options Outstanding at December 31, 2007 #	Proceeds During 2007 \$
Options to acquire Trust Units						
October 2003	10.00	12,688	–	–	12,688	–
October 2003	10.50	908,548	–	(62,445)	846,103	656
February 2004	14.00	830,435	–	(300,425)	530,010	4,206
May 2004	15.25	1	–	–	1	–
November 2004	17.80	60,275	–	(28,618)	31,657	509
March 2005	19.60	176,044	–	(33,381)	142,663	654
July 2005	20.10	1,895,572	–	(453,130)	1,442,442	9,108
December 2006	29.55 to 33.55	551,416	–	–	551,416	–
July 2007	29.55 to 33.00	–	1,348,223	–	1,348,223	–
		4,434,979	1,348,223	(877,999)	4,905,203	15,133
Options to acquire Class B LP Units and Class D LP Units¹						
July 2005 ²	20.10	7,838,221	–	(334,066)	7,504,155	6,715
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	–
		10,338,221	1,600,000	(334,066)	11,654,155	6,715
Total Earnout Options		14,823,200	2,948,223	(1,212,065)	16,559,358	21,848

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

² Includes 1,862,448 of vested options as at December 31, 2007.

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. During 2007, the plan was amended for administrative purposes to provide that Trustees, officers and employees be granted such deferred units at the beginning of the following fiscal year as opposed to on a quarterly basis.

During the year ended December 31, 2008, Trustees, officers and employees elected to receive 43,417 deferred units in consideration for Trustee fees and bonuses amounting to \$1,016 (2007 – \$889).

During the year ended December 31, 2008, the Trust recorded compensation expense, in respect of the matching deferred units granted by the Trust, of \$683 (2007 – \$288).

The status of the outstanding deferred units for the years ended December 31, 2008, and December 31, 2007 is as follows:

	Outstanding	Vested	Non-Vested
Balance – January 1, 2007	131,736	105,032	26,704
Granted during the year	55,372	27,686	27,686
Reinvested during the year	11,153	7,927	3,226
Exchanged for Trust Units	(5,993)	(5,993)	–
Balance – January 1, 2008	192,268	134,652	57,616
Granted during the year	86,834	43,417	43,417
Reinvested distributions	26,199	17,136	9,063
Vested during the year	–	16,212	(16,212)
Balance – December 31, 2008	305,301	211,417	93,884

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 10 trading days prior to the distribution. The 3% bonus amount is recorded as an additional distribution and reinvestment.

e) Convertible debentures

During the year ended December 31, 2008, \$591 (2007 – \$1,881) of face value of the Convertible Debentures was converted into 34,761 (2007 – 110,628) Trust Units. The face value of the Convertible Debentures, net of a discount of \$nil (2007 – \$73), plus a proportionate share of the equity component in the amount of \$23 (2007 – \$73), net of applicable unamortized deferred financing costs of \$17 (2007 – \$58), was added to Trust Unit capital.

f) Unit distributions

Pursuant to the Declaration of Trust, the Trust is required 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 years ended December 31, 2008, and December 31, 2007, are as follows:

	2008	2007
Trust Units	121,334	116,294
Class B Series 1 LP Units	21,043	19,998
Class B Series 2 LP Units	1,222	1,200
Class B Series 3 LP Units	639	–
Class D Series 1 LP Units	499	473
Class D Series 2 LP Units	40	52
Class B LP II Units	1,171	1,150
	145,948	139,167

12. Rentals from income properties

Rentals from income properties consist of the following:

	2008	2007
Base rent	287,338	256,763
Property operating costs recovered	126,329	106,886
	413,667	363,649

13. Amortization expense

Amortization expense consists of the following:

	2008	2007
Income properties		
Tangible assets	73,709	70,483
Intangible assets	49,006	50,997
Deferred leasing costs	448	309
	123,163	121,789

14. Future income taxes

The Trust is taxed as a mutual fund trust for Canadian income tax purposes. The Trust is required by its Declaration of Trust to distribute all of its taxable income to its unitholders, which currently enables the Trust to deduct such distributions for income tax purposes. Accordingly, prior to June 12, 2007, no provision for income taxes was recorded in the consolidated financial statements.

On June 12, 2007, amendments to the Income Tax Act (Canada) were substantively enacted that modify the tax treatment of certain trusts and partnerships that are specified investment flow-through trusts or partnerships (“SIFTS”). On February 6, 2009, the Minister of Finance released draft legislation that includes previously announced measures to further amend the tax rules that apply to SIFTS. Under the SIFT rules, certain distributions by a SIFT entity relating to income from a business carried on in Canada by the SIFT entity and income (other than taxable dividends) or capital gains from non-portfolio properties (as defined in the Income Tax Act) will not be deductible for tax purposes and will, accordingly, be taxed in the SIFT entity at a rate that is generally comparable to the combined provincial/federal corporate income tax rate for ordinary business income. Allocations or distributions of income and capital gains that are subject to the SIFT rules will be treated as a taxable dividend from a taxable Canadian corporation in the hands of the beneficiaries or partners of the SIFT entity. For Canadian resident beneficiaries or partners, such dividends will be taxed as an

eligible dividend and will be subject to the applicable gross-up and dividend tax credit rules. Subject to the normal growth guidelines issued in a press release by the Department of Finance (Canada) on December 15, 2006 (“the Normal Growth Guidelines”), the SIFT rules will not apply until the 2011 taxation year to trusts or partnerships that would have been SIFTs on October 31, 2006, if the “SIFT trust” and “SIFT partnership” definitions in the Income Tax Act had been in force as of that date.

Certain real estate investment trusts that satisfy certain specified conditions (“the REIT Exception”) are excluded from the SIFT definition and therefore will not be subject to the SIFT rules. In order to qualify for the REIT Exception in respect of a taxation year: (i) the REIT must, at no time in that taxation year, hold non-portfolio property other than “qualified REIT properties”; (ii) not less than 95% of the REIT’s revenues for that taxation year must be derived from rent from real or immovable properties, interest, capital gains from dispositions of real or immovable properties, dividends and royalties; (iii) not less than 75% of the REIT’s revenues for that taxation year must be derived from rent, interest from mortgages or hypothecs on, and capital gains from the disposition of, real or immovable properties situated in Canada; and (iv) the REIT must, throughout the taxation year, hold real or immovable properties situated in Canada, cash and certain government guaranteed debt with a total fair market value that is not less than 75% of the REIT’s equity value. The February 6, 2009, draft legislation removes the distinction between Canadian and foreign properties. The 75% REIT revenue test and 75% REIT asset test will continue to apply, but the geographic location of the real or immovable properties will not be relevant.

As the Trust does not meet the REIT Exception as at December 31, 2008, a future income tax asset in the amount of \$6,744 has been recorded as at December 31, 2008, based on the temporary differences that are expected to reverse on or after January 1, 2011, reduced by a valuation allowance of \$6,744 to a net balance of \$nil, as the tax asset is not more likely than not to be realized given the Trust intends to meet the REIT Exception by January 1, 2011. There may be a possible interpretation of the tax legislation under which each of the limited partnerships under the control of the Trust could each be viewed as a SIFT. Management does not believe this to be the intent of the legislation and believes there to be valid technical and policy arguments supporting the fact that each of these limited partnerships is a SIFT. Accordingly, the Trust has not recorded future, or current, if any, income taxes on temporary differences attributable to the other partner’s interests. The February 6, 2009, draft legislation amends the SIFT definition to exclude trusts and partnerships whose equity (i) is not publicly traded and (ii) is wholly owned by a SIFT, a REIT, a taxable Canadian corporation, another entity meeting this test or any combination of these types of entities. 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 December 31, 2008, and for the period then ended.

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

	2008	2007
Income tax provision based on Canadian statutory tax rate of 35.12%	31,484	10,710
Decrease in provision resulting from:		
Distributions deducted for current income tax purposes	(31,484)	(10,710)
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:

	2008	2007
Trust Units	77,826,295	75,978,164
Class B LP Units	14,753,780	14,024,575
Class D LP Units	349,997	345,152
Class B LP II Units	756,525	756,525
Vested deferred units	181,102	78,562
Basic	93,867,699	91,182,978
Effect of dilutive securities		
Vested Earnout Options	–	360,487
Diluted	93,867,699	91,543,465

The impact of the potential exercise of 13,476,161 (2007 – 14,696,910) 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 December 31, 2008, or December 31, 2007. The impact of the unvested deferred units, and the potential conversion of the Convertible Debentures into Trust Units, as at December 31, 2008, and December 31, 2007, and vested Earnout Options for the year ended December 31, 2008, 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:

	2008	2007
Interest paid	138,096	113,268
Interest received	3,331	6,687
Mortgages and other debt assumed on acquisitions	14,079	77,806
Trust and Class B LP Units issued as consideration for acquisitions	29,718	21,848
Earnout Options issued as consideration for acquisitions	1,684	1,737
Liabilities assumed on acquisitions, net of other assets	86,683	10,221
Units issued under the Distribution Reinvestment Plan	19,190	17,717
Units issued on conversion of debentures	551	1,750
Mortgages assumed by purchasers on sale of income properties	45,586	–
Distributions payable at year-end	12,265	11,887
Liabilities at year-end relating to additions to income properties and properties under and held for development	24,925	28,290

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 December 31, 2008, SmartCentres, owned by Mitchell Goldhar, owned 11,170,629 Trust Units, 11,488,273 Class B Series 1 LP Units, 206,935 Class B Series 2 LP Units and 707,173 Class B Series 3 LP Units, which represent in total approximately 24.8% 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 4,100,582 Trust Units and approximately 10,144,620 Class B Series 1, Class B Series 2 and Class B Series 3 LP Units. As at December 31, 2008, the ownership would increase to 34.7% if SmartCentres were to exercise all remaining Earnout Options. Pursuant to its rights under the Declaration of Trust, as at December 31, 2008, 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, 2009. 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, 2009. 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 3% 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 Trade-Mark Licence Agreement and Marketing Cost Sharing Agreement (collectively, "the Licence Agreement"), under which the Trust has licensed the use of the trademark "Smart!Centres" from SmartCentres for a 10-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:

	2008	2007
Related party transactions and balances with SmartCentres		
Development fees and costs paid (capitalized to real estate assets)	3,228	2,708
Interest expense (capitalized to properties under and held for development)	1,000	517
Interest income from mortgages and loans receivable	16,393	10,358
Opportunity fees, head lease rents and operating cost recoveries received:		
Included in rentals from income properties	1,597	4,818
Capitalized to properties under and held for development	4,916	2,244
Management fee revenue pursuant to the Management Agreement (included in rentals from income properties)	886	703
Rent and operating costs paid (included in general and administration expenses and in property operating costs)	975	1,298
Legal and other administration services paid (included in general and administration expenses and in property operating costs)	1,721	1,193
Marketing cost sharing (included in property operating costs)	337	433
Acquisition fees paid (capitalized to real estate assets)	-	4,518
Amounts receivable at year-end	6,058	9,980
Accounts payable and accrued liabilities at year-end	10,505	19,047
Accrued development obligation at year-end	33,220	36,343
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	38	15
Included in equity issuance costs	57	17
Included in deferred financing costs	350	173
Included in income properties and properties under and held for development	532	510
Included in gain on sale of income properties	279	-
Interest income from mortgages receivable	895	393
Opportunity fees received (capitalized to properties under and held for development)	529	317
Amounts receivable at year-end	899	637
Acquisition holdback due to Hopewell at year-end	1,500	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 13 co-ownership interests as at December 31, 2008 (13 co-ownership interests as at December 31, 2007) and the results of operations and cash flows for the years ended December 31, 2008, and December 31, 2007:

	2008	2007
Assets	396,503	357,406
Liabilities	234,409	195,254
Revenues	39,806	32,795
Expenses	37,688	34,126
Net income (loss)	2,118	(1,331)
Cash flow provided by operating activities	15,108	10,484
Cash flow provided by financing activities	36,894	69,029
Cash flow used in investing activities	(50,211)	(79,625)

Management believes the assets of the co-ownerships are sufficient for the purpose of satisfying the associated obligations of the co-ownership. SmartCentres is the co-owner in three 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 26.9% of the Trust's annualized rental revenue as at December 31, 2008 (December 31, 2007 – 25.1%).

20. Assets held for sale, assets sold and discontinued operations

During 2008, the Trust's Investment Committee approved the sale of a further five income properties and has designated these properties, in addition to the seven income properties designated in 2007, as held for sale for financial reporting purposes. Nine income properties (795,693 square feet) were sold during 2008 for gross proceeds of \$162,518 resulting in a gain of \$48,147. The purchasers assumed \$45,586 of existing mortgages on the sale of six of the income properties.

The following tables set forth the balance sheets associated with the income properties classified as held for sale as at December 31, 2008 (three income properties) and December 31, 2007 (seven income properties) and the statements of income for properties held for sale or sold for the years ended December 31, 2008 (12 income properties) and December 31, 2007 (12 income properties):

Balance Sheet	2008	2007
Assets		
Income properties	9,096	72,139
Mortgages and loans receivable	3,540	224
Deferred leasing costs	54	386
Amounts receivable, prepaid expenses and deposits	353	998
	13,043	73,747
Liabilities		
Term mortgages	–	24,077
Accounts payable and accrued liabilities	1,443	1,243
	1,443	25,320
Net investment in properties held for sale	11,600	48,427
Statements of income	2008	2007
Rentals from income properties	9,700	18,227
Interest	65	13
	9,765	18,240
Expenses		
Property operating costs	2,625	5,555
Interest	1,597	2,954
Amortization	546	5,159
Amortization of deferred financing costs	186	44
	4,954	13,712
Income before gain on sale of income properties	4,811	4,528
Gain on sale of income properties	48,147	–
Income from discontinued operations	52,958	4,528

21. 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 December 31, 2008, approximately 11.23% (2007 – 16.55%) 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 10-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 (December 31, 2008 – 9.18% 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)	1,647	823	–	(823)	(1,647)

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 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, 2008, the Trust has been able to renew and increase its operating facilities and raise additional term mortgage financing due to what it believes are its high-quality retail properties that Calloway has and continues to develop.

During 2009, term mortgage payments at maturity total \$80,682. Subsequent to year-end, the Trust renewed one of these mortgages (see note 23). In addition, subsequent to year-end, the Trust entered into a senior secured credit facility agreement totalling \$105,000 (see note 23). The key assumptions used in the Trust's estimates of future cash flows when assessing liquidity risk are: the renewal or replacement of the revolving operating facilities in August 2009 and September 2009, of \$100,000 and \$160,000, respectively, at reasonable terms and conditions in the normal course of business; no major bankruptcies of large tenants; and the renewal of the \$80,682 of term mortgages maturing in 2009 at reasonable terms and conditions in the normal course of business. Management believes that it has considered all reasonable facts and circumstances as of today in forming appropriate assumptions. However, as always, there is a risk that significant changes in market conditions could alter the assumptions used.

The Trust's liquidity position is monitored on a very regular basis by management. A schedule of principal repayments on term mortgages and other debt maturities is disclosed in notes 9 and 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 and acquisition facilities, issuance of equity and convertible/unsecured debentures; and (iii) 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 defined capital as the aggregate amount of unitholders' equity and debt.

During 2008, the Trust's strategy was to maintain its interest coverage ratio above 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%.

In addition, the Trust is required by its lenders to maintain its interest coverage ratio above 1.75 times, debt service coverage ratio above 1.5 times, payout ratio not to exceed 95%, debt to gross book value ratio, excluding convertible debentures, not to exceed 60% and debt to gross book value ratio, including convertible debentures, not to exceed 65%; it reports on this quarterly.

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:

	2008	2007	Increase (Decrease)
Interest coverage ratio	2.1X	2.1X	-
Debt service coverage ratio	1.7X	1.8X	(0.1)
Payout ratio (FFO)	85.7%	86.7%	(1.0%)
Debt to gross book value ratio (excluding convertible debentures)	54.3%	55.2%	(0.9%)
Debt to gross book value ratio (including convertible debentures)	57.0%	55.3%	1.7%
Variable debt over gross book value ratio	6.4%	9.1%	(2.7%)

The increase (decrease) in interest coverage ratio, debt service coverage ratio, payout ratio and debt to gross book value ratio and variable debt over gross book value ratio during 2008 resulted primarily from the increase in debt that occurred during the period, increase in accumulated amortization related to income properties due to additional acquisitions of income properties, increase in distributions to unitholders and improvement on overall profitability over the prior year.

In addition, the Trust is also required to maintain a minimum equity requirement by certain of its lenders of \$1,000. This minimum equity amount is calculated based on initial equity plus a percentage of net proceeds of equity offerings; it reports on this quarterly. 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. In 2008, 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.

22. Commitments and contingencies

The Trust has certain obligations and commitments pursuant to development management agreements to complete the purchase of Earnouts totalling approximately 3,270,290 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 December 31, 2008, the Trust has incurred \$159,587 (2007 – \$181,936) 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 \$21,729 that will be incurred during 2009.

The Trust entered into agreements with SmartCentres and other parties in which the Trust will lend monies to, as disclosed in note 6(a). The maximum amount that may be provided under the agreements totals \$365,096, of which \$223,147 has been provided as of December 31, 2008.

During 2007, the Trust entered into an agreement with SmartCentres to acquire either a 50.0% leasehold or freehold interest in an income property in Richmond Hill, Ontario, prior to or at the mortgage maturity date as disclosed in note 6(a) for a price of \$38,973 plus closing adjustments. Concurrent with the closing of this acquisition, the mortgage receivable will be repaid in full.

One of the Trust's income properties is subject to a land lease requiring annual lease payments of \$220. 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 \$59,732 (including letters of credit drawn down under the revolving operating facility described in note 10(e)) 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.

23. Subsequent events

On January 29, 2009, the Trust entered into a senior secured revolving credit facility agreement for \$105,000. This facility bearing interest at a variable rate based on bank prime plus 1.75% for the first six months (plus 2.00% for the last six months) or banker's acceptance rate plus 2.75% (plus 3.00% for the last six months) is secured by first charges over specific income properties and a first general assignment of leases and insurance and matures on January 29, 2010, with an option to extend for a further six months with an increase in the interest rate of 0.25%.

On January 30, 2009, the Trust completed the purchase of Earnouts totalling 70,995 square feet of development space from SmartCentres and other vendors for \$12,358 paid in cash.

In January 2009, the Trust and SmartCentres 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 10-year Government of Canada bond rate. The agreements were amended to include a fixed floor capitalization rate ranging from 6.10% to 7.50%

On February 5, 2009, the Trust entered into a new five-year term mortgage totalling \$24,000, bearing interest at 5.75% and secured by a specific income property to replace an existing maturing term mortgage totalling \$17,592 bearing interest at 5.04%.

On February 20, 2009, a mortgage receivable due from SmartCentres totalling \$23,701 was repaid in full.

CORPORATE INFORMATION

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Michael Young²
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Quadrant Capital Partners Inc.

¹ Audit Committee

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³ Investment Committee

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ANNUAL GENERAL MEETING

May 7, 2009 at 10:30am
St. Andrew's Club & Conference Centre
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