CALLOWAY

REAL ESTATE INVESTMENT TRUST

ANNUAL REPORT 2002

CORPORATE PROFILE

Calloway REIT is an unincorporated, closed-end, real estate investment trust, engaged in the acquisition and management of well located office, industrial and retail properties. Calloway's current portfolio comprises over one million square feet of leaseable area in four western and central provinces. Calloway trades on the Toronto Stock Exchange under the symbol CWT.UN.

OBJECTIVES

Calloway's primary objectives are to:

- deliver reliable and growing cash distributions to unitholders on a tax-deferred basis
- increase and maximize unitholder value

STRATEGY

Calloway's strategy is to expand its geographically diversified portfolio by focusing on the upper tier of the mid-market commercial real estate sector. As a consolidator of Canada's mid-market commercial real estate, Calloway will leverage its expertise in this market niche to:

- carry out prudent and accretive acquisitions
- increase the value of properties through proactive asset management
- participate in low-risk developments through mezzanine financing

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NOTICE OF ANNUAL SHAREHOLDERS MEETING

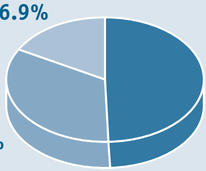
To be held Monday, May 26, 2003 at 10:00 a.m. at Shea Nerland Calnan Barristers and Solicitors, 1900, 715-5th Avenue SW Calgary, Alberta. Those shareholders who are unable to attend are encouraged to complete and return the form of proxy mailed with this Annual Report.

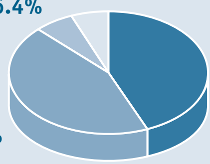
HIGHLIGHTS

FINANCIAL

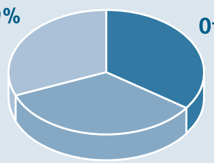
(in thousands of dollars)	Nine Months Ended December 31 2002	Twelve Months Ended March 31 2002
Income property assets	$ 105,898	$ 5,844
Revenue from income properties	3,753	1,233
Net income before income taxes	1,261	477
Cash from operations	$ 1,340	$ 257

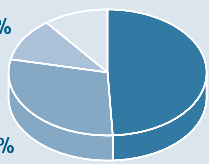
SEGMENTED INFORMATION BY REVENUE





SEGMENTED INFORMATION BY RENTABLE AREA





REPORT TO UNITHOLDERS

OUTSTANDING GROWTH

2002 was characterized by dynamic growth and positive transition for Calloway. Calloway grew exponentially by successfully completing a $54 million initial public offering and simultaneously closing on significant property acquisitions. The portfolio increased from four retail centres with 89,000 square feet of rentable area at the end of March 2002, to 12 office, retail and industrial buildings comprising over one million square feet in British Columbia, Alberta, Manitoba and Ontario at the end of December 2002.

In addition to changing our year end to December 31, we restructured the company into a REIT – a tax-efficient investment vehicle which is very popular with today's more yield-driven investors. As part of the $54 million initial public offering (IPO) Calloway changed its listing from the Canadian Venture Exchange to the Toronto Stock Exchange – vastly improving liquidity for investors and our ability to raise capital for future growth.

FINANCIAL HIGHLIGHTS

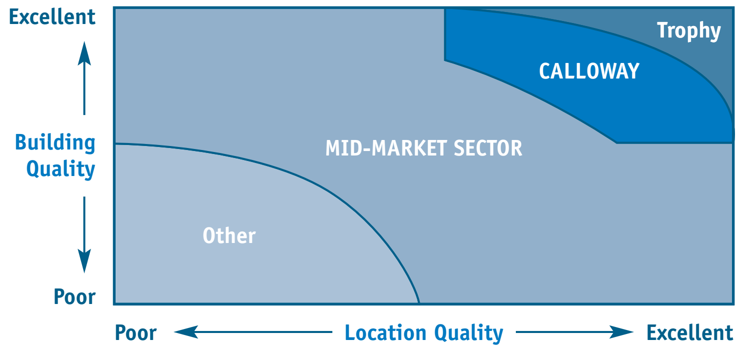
With the dramatic growth of our portfolio, income producing properties increased over eighteen-fold from $5.8 million at March 31, 2002 to over $105 million as at December 31, 2002. Revenues more than tripled from $1.2 million for the twelve months ending March 31 2002 to $3.7 million during the nine month period ending December 31, 2002. Net income before income taxes increased during this period by over 260%, from $0.5 million to $1.26 million.

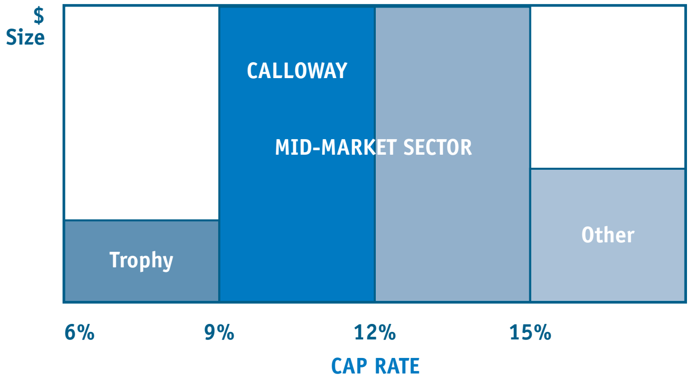
Calloway's conservative debt management delivered a year-end ratio of debt to gross book value of 51.6% (well below our maximum guideline of 60%) allowing considerable room for acquisitions under the unused portion of the $27.5 million credit facility.

MID-MARKET STRATEGY

We are pursuing a strategy which differentiates us from our competition. We are consolidating well located properties with a history of high occupancy in the mid-market sector of Canada's key urban centres into a diversified commercial portfolio. We will continue this consolidation primarily through disciplined acquisitions which are accretive to the bottom line, and through selective developments for which we will provide mezzanine financing.

The upper tier, mid-market Canadian office sector, for example, consists of all Class B buildings and suburban Class A buildings. Class B buildings comprise over 130 million square feet or 33% of the total office market while suburban Class A buildings comprise over 200 million square feet or 55% of the total office market. We will not compete with major institutional investors and real estate companies seeking to acquire expensive trophy properties at lower yields. Our acquisition targets are the more modest sized, attractive and profitable properties which are conservatively leveraged. Many of these properties offer upside potential for low-risk value enhancement through proactive leasing, refurbishment, re-positioning, re-development or expansion.





On the development front, our competitive advantage is a strategic alliance with Hopewell Development Corporation, which has built over six million square feet of commercial space during the past six years. Through our development agreement, Hopewell provides a pipeline of attractive development projects, for which Calloway may elect to provide mezzanine financing and exercise the option to acquire a successfully completed project at 95% of its appraised fair market value.

Calloway will also create value through the professional asset management of existing properties in the portfolio. Our primary focus is to establish a solid tenant base: at year end, for example, 26% of our rental revenue was derived from triple-A creditworthy government leases. While vacancy rates increased in many sectors of the real estate market in 2002, particularly the office market, Calloway managed to maintain the overall occupancy rate of our portfolio at 96.4%. Until we create sufficient critical mass to fully internalize property management, we will cost-effectively outsource this function to the best local manager in markets where we have but a few properties. This gives our executive management team more time to focus on asset management and building the portfolio.

OUTLOOK

Assuming that economic growth will continue to support favourable market conditions, we will maintain our course of disciplined and profitable growth. There is a large supply of mid-market properties available that would complement our portfolio and our cost of capital is conducive to further accretive acquisitions. There are also pockets of opportunity for development in our niche markets. We have the required human and capital resources to execute our strategy. Aligned with unitholders' interests, our management team is committed to enhancing and creating value, growing distributable income, and delivering a sustainable and attractive yield.

On behalf of management, I wish to acknowledge with sincere gratitude the efforts and support of our employees, trustees, tenants, advisors and other stakeholders for making 2002 a success and 2003 so promising.

(signed)
J. Michael Storey
President and Chief Executive Officer
April 10, 2003

CALLOWAY PORTFOLIO | OPERATIONS REVIEW

PROPERTIES As at December 31, 2002

Location	Ownership Interest	Year Built[1] or Renovated[2]	Net Rentable Area (Sq. Ft.)	Occupancy	Major Tenants	Occupancy by Major Tenants
RETAIL						
British Colonial Toronto, ON	100%	1875[1] 1903[2] 1980[2] 1997[2]	17,356	100%	• Navigator • Irish Embassy Pubs Inc. • Canadian Institute of Public Real Estate Companies	53.7% 21.4% 17.6%
Richter Plaza Calgary, AB	100%	1981[1]	12,901	91.2%	• Georgian Homes	14.9%
Dover Village Square Calgary, AB	100%	1976[1]	43,654	100%	• Thrift Store • Bonasera Pizza • VHQ Entertainment • Turbo/Shell (land lease)	46.6% 10.6% 10.4% –
Collingwood Plaza Calgary, AB	100%	1960[1]	7,210	56.9%*	• Calgary North Decorating (Benjamin Moore Paints) • *Property under renovation	33.0% –
Crowchild Centre Calgary, AB	100%	1962[1]	23,140	100%	• Re/Max House of Real Estate • Entertainment Publications Inc.	35.3% 12.9%
Lloyd Mall Lloydminster, AB	100%	1973[1] 1990[2]	205,211	100%	• Zellers • Sears • Canada Safeway	32.8% 20.1% 15.2%
Total			**309,472**	**98.6%**		
OFFICE						
Century Park Place Calgary, BC	100%	1987[1]	75,675	91.2%	• Government of Alberta	75.7%
Holland Cross Ottawa, ON	100%	1988[1]	272,410	95.2%	• Government of Canada • Great West Life	39.1% 9.0%
Total			**348,085**	**94.2%**		
INDUSTRIAL						
Airtech Centre Vancouver, BC	100%	1983[1] 1991[1] 2002[2]	103,513	100%	• MTU Maintenance (Daimler Chrysler) • William R. Rutherford	48.5% 10.5%
Canadian Commercial Centre Calgary, AB	100%	1978[1]	126,792	90.9%	• The Winroc Corp. • Palco Telecom Inc. • Grafton West	20.5% 19.7% 17.0%
110 Lowson Crescent Winnipeg, MB	100%	2000[1]	53,100	100%	• Daycon Mechanical Systems Inc.	100%
1558 Willson Place Winnipeg, MB	100%	1966[1] 1999[2]	59,439	100%	• National Leasing • Symbol Technologies	72.4% 27.6%
Total			**342,844**	**96.6%**		
TOTAL			**1,000,401**	**96.4%**		

ASSETS OF CALLOWAY Calloway's portfolio is diversified by three segments of the commercial real estate market: ◆ retail properties; ■ office properties; and ● industrial properties. Approximately 33.6% of rental revenue is derived from retail properties containing an aggregate of 309,472 square feet; approximately 49.5% of rental revenue is derived from office properties containing an aggregate of 348,085 square feet; and approximately 16.9% of rental revenue is derived from industrial properties containing an aggregate of 342,844 square feet. The current portfolio includes one property located in British Columbia, seven properties located in Alberta, two properties located in Manitoba and two properties located in Ontario.

The properties are typical of mid-market commercial properties located in British Columbia, Alberta, Manitoba and Ontario. Each of the properties has been professionally managed and well maintained. The properties have historically enjoyed the benefits of strong locations, ongoing planned maintenance and repair programs and professional management and leasing practices, resulting in low vacancy, stable income and controlled expenses.

RETAIL PROPERTIES

BRITISH COLONIAL BUILDING, TORONTO, ONTARIO This property is an retail/office property prominently located in downtown Toronto at the intersection of Wellington and Yonge Streets. The property is a heritage building, originally constructed in 1875 and most recently renovated in 1997. The property is 100% leased and consists of 17,356 square feet of net rentable space.

RICHTER PLAZA, CALGARY, ALBERTA This is a two story, mixed use project with a total of 12,901 square feet located in Marda Loop, an inner city neighbourhood in Calgary, in the midst of growth and a positive demographic shift. The property was built in 1981 and is well positioned on 33rd Avenue SW, the major retail thoroughfare for the area. This property is 91.2% leased.

DOVER VILLAGE SQUARE, CALGARY, ALBERTA This 43,654 square foot retail property is located in the southeast quadrant of Calgary at the corner of 26th Avenue and 36th Street SE. It is a single story, L-shaped centre with a free standing gas bar facility and 155 parking stalls. The property was constructed in 1976 and is 100% leased.

COLLINGWOOD PLAZA, CALGARY, ALBERTA This retail property is located in the northwest Calgary community of Collingwood at 920 Northmount Drive NW. Collingwood Plaza is a single story strip centre built in 1960 with a net rentable area of 7,210 square feet. The property enjoys exposure to Northmount Drive and is situated across from a school. The centre is predominantly leased to local tenants including Calgary North Decorating (Benjamin Moore Paints). This property is currently 56.9% leased and Calloway is in the process of refurbishing this asset.

CROWCHILD CENTRE, CALGARY, ALBERTA This 23,140 square foot retail centre is located on Crowchild Trail in southwest Calgary. This thoroughfare enjoys one of the city's highest traffic counts of 73,000 vehicles per day. The property consists of a single story "L" shaped building with 119 parking stalls and a good tenant mix including, among others, Kentucky Fried Chicken, Mac's Convenience Store and Re/Max House of Real Estate. This property is 100% leased.

LLOYD MALL, LLOYDMINSTER, ALBERTA This retail property is an enclosed mall located in Lloydminster, Alberta anchored by Sears, Zellers and Canada Safeway. The property has had a long history of high occupancy and strong performance by its tenants. The Lloydminster market has traditionally been the destination retail shopping market for an expansive trade area with a number of other prominent retailers operating in Lloydminster including Wal-Mart, Real Canadian Superstore, Staples and IGA. The asset consists of 205,211 square feet of rentable space and is 100% leased. Retail sales in the centre excluding the major tenants were $475 per square foot to December 31 2001 and $502 per square foot to December 31 2002.

OFFICE PROPERTIES

CENTURY PARK PLACE, CALGARY, ALBERTA This property is an 11-storey office tower located in downtown Calgary. The property consists of 75,675 square feet of net rentable space and is 91.2% leased. The largest tenant is an Alberta government agency that has leased its space since 1985, occupies 75.7% of the space on a long-term lease and has recently completed a lease renewal for a further five year term.

HOLLAND CROSS, OTTAWA, ONTARIO This property is a prominent office and retail property located adjacent to Tunney's Pasture in Ottawa, four kilometres west of the Ottawa city centre. Tunney's Pasture is a 114 acre government office park consisting of 20 buildings totaling 2.88 million square feet of space. The property currently consists of 272,410 square feet of net rentable office and retail space. The complex also includes a two level underground parking garage with 776 stalls and was originally constructed in 1988. Further potential growth of this asset exists through the potential completion of an 80,000 square foot third office tower. This property is 95.2% leased.

INDUSTRIAL PROPERTIES

AIRTECH CENTRE, VANCOUVER, BRITISH COLUMBIA This property is an office/warehouse building located near Vancouver International Airport. Calloway acquired a crown lease for this property which expires on December 31, 2011 and contains a 10 year renewal option. The property is leased to several prominent tenants and consists of 103,513 square feet of rentable space with an additional 2.2 acres of development land. There is potential for a build to suit on this site. This property is 100% leased.

CANADIAN COMMERCIAL CENTRE, CALGARY, ALBERTA This asset consists of a 126,792 square foot, three building, showroom/industrial property located in south Calgary just off of MacLeod Trail. The property has historically operated at near full occupancy and is presently 90.9% leased.

110 LOWSON CRESCENT, WINNIPEG, MANITOBA This property is a single tenant sale/leaseback with Daycon Mechanical Systems Ltd. Daycon provides complete design, supply and installation services for material handling systems, dust control systems, and grain cleaning systems. Daycon also provides turnkey mechanical retrofits for the grain industry. The property was constructed in 1998 and consists of 53,100 square feet of rentable space with 45,000 square feet of warehouse space and 8,100 square feet of office space.

1558 WILLSON PLACE, WINNIPEG, MANITOBA This property is a two tenant light industrial property located in the Fort Garry Business Park in Winnipeg, Manitoba. The property consists of 59,439 square feet of rentable space and is 100% leased. Both tenants, National Leasing and Symbol Technologies, have 10 year leases in the property. National Leasing provides financial solutions to businesses in Canada and the U.S. It provides equipment financing in every business sector including agriculture, health care, construction, manufacturing, computer technology and office interiors. The Winnipeg location is National Leasing's head office and it has 13 branch offices across Canada. Symbol Technologies develops, manufactures, markets and services innovative industry specific, scanner integrated mobile and wireless information management systems. Symbol Technologies reported annual revenue of US$1.45 billion in 2001.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management discussion and analysis of the financial condition and results of operations should be read in conjunction with Calloway Real Estate Investment Trust's ("Calloway") audited consolidated financial statements and notes thereto for the nine months ended December 31, 2002 and the year ended March 31, 2002. Our fiscal year was changed from March 31 to December 31 and therefore references to fiscal 2002 relate to the nine months ended December 31, 2002. By way of a Plan of Arrangement Calloway converted to a REIT structure on February 9, 2002 and accordingly the financial reporting is based on the continuation of interest method of accounting. Comparative figures for the previous year and references to the prior period relate to the twelve months ended March 31, 2002.

This discussion may contain forward-looking statements which are based on our expectations, estimates and forecasts. These statements are subject to risks and uncertainties that are difficult to predict or control. These risks and uncertainties could cause actual results to differ materially from those indicated. These risks and uncertainties are described elsewhere in this discussion and in other regulatory filings. Readers should not place undue reliance on any such forward-looking statements. We disclaim any intention or obligation to update or revise any such statement as a result of new information, the occurrence of future events or otherwise.

OVERVIEW

Calloway is an unincorporated "closed end" trust created by a Declaration of Trust and governed by the laws of the Province of Alberta. Calloway's units are publicly traded and listed on the Toronto Stock Exchange under the symbol CWT.UN. Calloway was created to invest in a diversified portfolio of income-producing rental properties located in Canada and focus specifically on the acquisition of high quality, mid-market retail, office and industrial properties.

The REIT's primary objectives are to:

- deliver reliable and growing cash distributions to unitholders on a tax-deferred basis
- increase and maximize unitholder value

Table A HIGHLIGHTS OF THE YEAR

(000's except per unit)		December 2002		March 2002
Income property assets	$	105,898	$	5,844
Revenue from income properties	$	3,753	$	1,233
Net income before income taxes	$	1,261	$	477
Cash from operations	$	1,340	$	257

Table B PROPERTY OVERVIEW

	Industrial	Retail	Office	Total
Number of properties	4	6	2	12
Total leasable area (square feet)	342,844	309,472	348,085	1,000,401
Occupancy	96.6%	98.6%	94.2%	96.4%
Average net rent in place	$6.71	$12.24	$14.63	$11.15

Table C TOP 10 TENANTS BY ANNUAL REVENUE

1. Government of Canada	$	2,697,195	15.21%
2. Alberta Infrastructure	$	1,518,874	8.57%
3. Domtar	$	614,109	3.46%
4. National Leasing	$	600,281	3.39%
5. Great West Life	$	489,980	2.76%
6. MTU Maintenance (Daimler Chrysler)	$	481,853	2.72%
7. Silicon Access Technology	$	472,923	2.67%
8. City of Ottawa	$	414,472	2.34%
9. Zellers	$	405,688	2.29%
10. Shoppers Drug Mart	$	373,718	2.11%

LEASE EXPIRES BY YEAR

Table D

	Area (square feet)	% Area
2003	62,951	6.29%
2004	124,780	12.47%
2005	185,434	18.54%
2006	150,660	15.06%
2007	189,733	18.97%
2008	13,913	1.39%
2009	69,310	6.93%
Beyond	167,504	16.74%
Vacant	36,118	3.61%

RESULTS OF OPERATIONS

Results of operations changed considerably upon the acquisition of eight properties in November 2002. Total leasable square footage went from 86,905 square feet to 1,000,401 square feet. As a result, net income was $1,260,749 for the nine months ended December 31, 2002 as compared to $402,887 for the year ended March 31, 2002.

Occupancy rates were as follows during the period: December 31, 2002 – 96.4%; March 31, 2002 – 96.6%.

FINANCIAL RESULTS

Table E

	Three Months Ended December 31 2002	Prospectus Forecast	Variance	Nine Months Ended December 31 2002	Twelve Months Ended March 31 2002
Rentals from income properties	$ 3,168,230	$ 3,145,702	$ 22,528	$ 3,753,235	$ 1,233,390
Property operating costs	1,270,676	1,193,358	(77,318)	1,457,032	391,238
Interest expense	629,408	626,213	(3,195)	805,854	405,895
Amortization of income properties	137,784	135,358	(2,426)	160,874	62,203
Amortization of deferred expenses	28,456	30,668	2,212	52,476	34,194
General and administrative expenses	85,831	111,500	25,669	139,214	63,265
Professional fees	32,384	32,000	(384)	48,483	55,229
Operating income	983,691	1,016,605	(32,914)	1,089,302	221,366
Gain on sale of income properties	–	–	–	133,865	242,552
Interest income	37,582	33,040	4,542	37,582	13,340
Net income (before income taxes)	1,021,273	1,049,645	(28,372)	1,260,749	477,258
Add (deduct)					
Gain on sale of income properties	–	–	–		
Amortization of income properties	137,784	135,358	2,426		
Distributable income	$ 1,159,057	$ 1,185,003	$ (25,946)		
Distributable income per unit	$ 0.31	$ 0.32	($0.01)		

ACQUISITION OF 1558 WILLSON PLACE PROPERTY

The Willson Place property was acquired subsequent to the closing of the public offering and was therefore not included as part of the financial forecast in the prospectus. The property was acquired at a total cost of $4,769,307 which was funded by way of advances under the revolving operating facility and a second mortgage. The property provided gross rental income of $82,879 (2.6% of the forecast revenue) and net operating income of $9,856 (1% of forecast operating income) for the period November 15,2002 to December 31, 2002.

Results of Operations for three months ended December 31, 2002 compared to Prospectus Forecast

Rentals from income properties for the three months ended December 31, 2002 increased by $22,526 over forecast primarily due to the acquisition of the Willson Place property in late November and additional recoveries for operating expenses. This increase was partially offset by less than expected percentage rent from retail tenants, lower parking income and the fact that the Lloyd Mall acquisition was forecast to close on October 31, 2002, but in fact closed on November 4, 2002 (therefore providing only 27 days of rent/net income for November). Property operating costs were higher than forecast primarily due to increased utility costs and parkade expenses, and the acquisition of the Willson Place property.

Results of Operations for nine months ended December 31, 2002 compared to year ended March 31, 2002

Rentals from income properties for the nine months ended December 31, 2002 increased by $2,519,845 or 204% when compared to the year ended March 31, 2002. The increase was due to the purchase of eight properties in November 2002. Total property operating costs increased to 39% of rental revenue for the nine months ended December 31, 2002 as compared to 32% for the prior period. The increase is attributed to the type of properties purchased. Property operating costs tend to be fully recovered under leases with the exception of vacant space.

Interest Expense

Interest expense consists primarily of interest paid on secured mortgages on the income property portfolio. The weighted average interest rate has declined from 7.05% as at March 31, 2002 to 6.38% at December 31, 2002. Total mortgage and other debt payable as a percentage of gross book value decreased from 67% as at March 31, 2002 to 51.6% as at December 31, 2002. This decrease is the result of the equity raised and the lower interest rates on both the revolving operating facility and the renewed mortgage debt.

Interest expense for the three months ended December 31, 2002 was less than forecast as a result of two factors: (a) the actual interest rate on the floating rate debt was 0.25% lower than forecast and (b) the amount of floating rate debt outstanding was less than forecast. This decrease was somewhat offset by the interest expense on the second mortage used to finance the Willson Place property. The overall net variance to the forecast interest expense was not significant.

Interest expense for the nine months ended December 31, 2002 has increased 99% compared to the year ended March 31, 2002. This increase is due to the substantial increase in mortgage debt arising from the acquisition of properties in November 2002.

Amortization

Amortization of income properties for the three months ended December 31, 2002 has increased as compared to forecast due to the acquisition of the Willson Place property. Amortization of deferred expenses decreased as compared to forecast due to the timing of certain financing charges.

Amortization of income properties for the nine months ended December 31, 2002 compared to the year ended March 31, 2002 has increased as result of the acquisition of eight properties in November 2002. Amortization of deferred expenses increased due mainly to financing fees incurred on new and renewed financing.

General and Administrative Expenses
Professional Fees

Management of the REIT is fully internalized and therefore general and administrative expenses are essentially comprised of: executive salaries and benefits net of recoveries, transfer agent fees, filing fees, press releases, printing costs, rent, office and other related expenses. Professional fees mainly include audit fees and legal fees.

General and administrative expenses for the three months ended December 31, 2002 were less than anticipated in the forecast due to prudent management of other trust expenses and use of the forecast contingency was not required.

General and administrative expenses for the nine months ended December 31, 2002 have increased compared to the year ended March 31, 2002 due to the addition of employees, trustee fees, increased investor relation and stock exchange costs as a result of Calloway's recent growth. Professional fees have remained relatively level.

Net Income
Distributable Income

As a result of the items discussed above, actual net income and distributable income for the three months ended December 31, 2002 were less than forecasted by $28,372 (2.7%) and $25,946 (2.2%) respectively. It should be noted the initial public offering financing and the acquisitions connected thereto closed on November 4, 2002 rather than October 31, 2002 as forecast.

FINANCIAL POSITION

Income Properties

Net book value of income properties increased to $105,898,326 as at December 31, 2002, an increase of $100,053,896 from the net book value of $5,844,430 as at March 31, 2002. During the nine months ended December 31, 2002, eight properties were purchased for a total consideration of $101,206,892. Proceeds of $1,171,815 were received in April 2002 from the sale of our interest in a jointly held property.

Deferred Expenses

Deferred expenses increased by $388,381 to $651,491 an increase of 148% during the period from March 31, 2002 to December 31, 2002. This increase is mainly due to deferred financing expenses related to the revolving operating facility, refinancing of three mortgages and transfer fees associated with assumed mortgages.

Mortgages Receivable

Calloway entered into a Development Agreement with Hopewell Development Corporation, a major Canadian real estate developer, whereby Calloway may offer to provide mezzanine loans on development projects presented to Calloway by Hopewell. As at December 31, 2002, two loans totalling $1,600,000 have been provided to Hopewell. These loans are secured by properties under development and bear interest at 12% collectible monthly. Calloway holds options to purchase these properties exercisable upon completion of the development projects.

Other Assets

Prepaid expense and deposits decreased to $20,372 as at December 31, 2002 from $35,161 as at March 31, 2002 a decrease of 42%. The December 31, 2002 balance consists of deposits provided on office furniture and equipment acquisitions/leases and prepaid insurance premiums.

Income taxes recoverable of $23,229 as at December 31, 2002 are the remaining income tax recoveries arising form the wind-up of Calloway Properties Inc. These amounts will be collected in 2003. The REIT is taxed as a "Mutual Fund Trust" for income tax purposes. The REIT intends to distribute all taxable income directly earned by the REIT to unitholders and to deduct such distributions for income tax purposes. Therefore, no provision for capital taxes and future income taxes has been recorded at March 31, 2002 and December 31, 2002.

Accounts receivable increased to $185,327 as at December 31, 2002 from $74,369 as at March 31, 2002 an increase of $110,958 or 149%. This increase is a result of the increase in size of the Calloway asset base and relates to amounts receivable during the normal course of business.

Cash and cash equivalents increased to $309,795 as at December 31, 2002 from $86,168 as at March 31, 2002 an increase of $223,627. This increase is a result of Calloway's recent growth. There were no restrictions on the availability or usage of these funds.

Mortgages and Other Debt Payable

Mortgages and other debt payable increased to $56,238,616 as at December 31, 2002 from $4,326,436 as at March 31, 2002 an increase of $51,912,180. This increase arose from the following: firstly, the assumption of $28,983,498 of existing mortgages on properties acquired; secondly, the raising of additional debt of $22,475,000 used to acquire properties; thirdly, a net increase of $500,000 received from the refinancing of existing debt.

The mortgages and other debt payable bear interest at the weighted average interest rate of 6.38% (March 31, 2002 – 7.05%) and mature between 2003 and 2010. Future principal payments as a percentage of mortgages and other debt payable are as follows:

Table F

2003	$ 23,837,673	42.4%
2004	1,023,955	1.8%
2005	1,095,262	1.9%
2006	1,171,547	2.1%
2007	25,344,409	45.1%
Thereafter	3,765,770	6.7%

Approximately $20,475,000 or 36% of the mortgages and other debt payable balance as at December 31, 2002 is comprised of floating rate debt. Interest expense would be impacted by $205,000 per annum or $0.034 per unit for every 1% change in interest rates. We have commenced proceedings to convert $9 million of this floating rate debt to fixed rate debt.

Calloway's Declaration of Trust limits Calloway's indebtedness to a maximum of 60% of the gross book value of Calloway. (Gross book value is defined as total assets plus accumulated amortization of income properties). As at December 31, 2002 Calloway's indebtedness was 51.6%.

Management anticipates Calloway will be able to renew its mortgage debt as it matures.

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities increased to $1,189,774 as at December 31, 2002 from $162,089 as at March 31, 2002 an increase of $1,027,685. The increase is a result of the increase in size of Calloway's asset base.

Unitholders' Equity

Unitholders equity increased to $51,288,045 as at December 31, 2002 from $1,675,553 as at March 31, 2002 an increase of $49,612,492. This increase was due to the following issuance of units: firstly, private placement on July 18, 2002 for 54,918 units (after consolidation) for gross proceeds of $400,850; secondly, public offering of 5,080,000 units providing gross proceeds of $50,800,000; and, thirdly, exercise by the underwriters of their overallotment options for 330,750 units for gross proceeds of $3,307,500. These gross proceeds were reduced by issuance costs totalling $5,046,822.

It is our intent to make monthly cash distributions to unitholders of approximately 90% of Calloway's Distributable Income. For the nine months ended December 31, 2002 cash distributions amounting to 86.2% of distributable income were made.

Cash distributions to unitholders in 2002 were 100% tax deferred.

LIQUIDITY AND CAPITAL RESOURCES

Calloway's principal sources of liquidity are its ability to generate cash flow from operating activities, arrange new loans, and offer units to the public. For the nine months ended December 31, 2002, cash flows from operating activities totalled $1,340,234, an increase of $1,083,502 from the twelve months ended March 31, 2002.

We expect to be able to meet all of Calloway's ongoing obligations, including cash distributions to unitholders, with Calloway's level of distributable income and its borrowing capacity.

RISKS AND UNCERTAINTIES

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.

The primary risk facing Calloway is the potential for declining revenue arising from increased vacancies or declining rental rates. Calloway has reduced this risk by diversifying its holdings across categories of properties (office, retail, industrial) and geographically across Canada. In addition, no tenant, other than government tenants, account for more than 4% of rental income. Various federal, provincial and municipal government tenants comprise approximately 26% of the rental revenue as at December 31, 2002. The government of Canada comprises 15.21% of rental revenue.

Calloway is exposed to interest rate risk in regard to its debt. It minimizes this risk by restricting total long term debt to 60% of gross book value. Futhermore, as previously discussed under Mortgages and Other Debt Payable, we have commenced proceedings to convert $9 million of the floating rate debt to fixed rate debt.

Management of Calloway is subject to investment guidelines and operating criteria as set forth in the Declaration of Trust. This includes appropriate due diligence procedures for property acquisitions, the amount of leverage allowed, and review of operations by the Trustees.

There is a risk, which is considered to be remote in the circumstances, that unitholders could be held personally liable for obligations of Calloway to the extent that these claims are not satisfied by Calloway. We have taken steps to mitigate this risk, including obtaining appropriate insurance and, where feasible, attempting to have every material written contract or commitment of Calloway contain an express disavowal of liability against the unitholders, trustees and employees of Calloway.

ENVIRONMENTAL RISK

In accordance with the Declaration of Trust, the REIT must conduct an environmental review through third party consultants prior to acquiring new properties.

CHANGE IN ACCOUNTING POLICY AND YEAR END

Calloway changed their method of amortization of income properties from the declining balance method to the sinking fund method. The sinking fund method of amortization is the method utilized by most, if not all, the real estate investment trusts in Canada. This change resulted in an increase in income properties and unitholders equity as at March 31, 2002 of $311,089 and increased reported income for the year ended March 31, 2002 by $109,909. The effect on the nine months ended December 31, 2002 has been to decrease amortization of income properties by $565,000 and increase net income by $565,000.

Calloway changed its year-end to December 31 from March 31; therefor, the results for the period ended December 31, 2002 are for nine months.

SUBSEQUENT EVENTS

The REIT has entered into a conditional financing agreement to convert approximately $9 million of its floating rate debt into fixed rate debt on favourable market terms.

The REIT has entered into three agreements with three separate vendors to acquire four income producing properties with an aggregate purchase price of approximately $12 million. The purchase price will be settled by way of cash on hand, drawing down on credit facility, assumption of mortgages and in one instance issuance of units from treasury. The purchase agreements are subject to typical due diligence of each property.

The following table sets forth selected quarterly financial information of Calloway.

QUARTERLY INFORMATION

Table G

Three Months Ended	Dec. 31 2002 (unaudited)	Sept. 30 2002 (unaudited)	June 30 2002 (unaudited)	March 31 2002 (unaudited)	Dec. 31 2001 (unaudited)	Sept. 30 2001 (unaudited)	June 30 2001 (unaudited)	March 31 2001 (unaudited)
Revenues	3,168,230	311,675	273,330	398,157	268,394	254,400	312,439	339,581
Operating income (4)	983,691	59,839	45,773	92,895	44,086	37,063	47,321	68,474
Operating income per unit/share (1)(2)(4)	0.263	0.113	0.094	0.193	0.094	0.079	0.101	0.146
Other revenues	37,582	–	133,865	5,200	10,007	(1,867)	242,552	(4,731)
Net income (4)	1,021,273	59,839	179,638	100,676	40,269	22,630	239,311	63,727
Net income per unit/share (1)(2)(4)	0.273	0.113	0.370	0.209	0.086	0.048	0.512	0.136
Distributable income (4)	1,159,057	75,550	53,151	114,916	54,510	40,802	12,310	80,855
Distributable income per unit/share (2)(4)	0.309	0.142	0.109	0.237	0.117	0.087	0.026	0.173
Total assets (4)	108,716,435	8,309,814	6,423,976	6,339,238	6,157,574	6,105,411	6,705,644	7,796,434
Total mortgages and debt payable (3)	56,238,616	4,890,041	4,390,746	4,326,436	4,147,749	4,183,590	4,718,707	5,910,905

Notes:

(1) Operating income per unit/share and net income per unit/share was calculated using the weighted average number of units/shares outstanding.

(2) Weighted average number of units/shares was retroactively calculated providing for the 2 shares for 1 unit conversion on February 9, 2002 and the 11.229 for 1 unit consolidation on November 4, 2002.

(3) Total mortgages and debt payable includes amounts described in Note 8 of the Financial Statements of Calloway for the periods ended March 31, 2000, March 31, 2001, June 30, 2001, March 31, 2002 and June 30, 2002.

(4) After providing for the retroactive adoption of the sinking fund method of amortization of income properties.

MANAGEMENT'S RESPONSIBILITY

The consolidated financial statements and information accompanying this report have been prepared by the management of Calloway and management is therefore responsible for their integrity and objectivity. The information contained herein has been prepared with the recommendations of the *Canadian Institute of Chartered Accountants* and the *Canadian Institute of Public and Private Real Estate Companies*. Calloway maintains appropriate systems of internal control, policies and procedures to ensure that its reporting practices and accounting and administrative procedures are of high quality.

Kenway Mack Slusarchuk Stewart LLP were retained as auditors of Calloway and are responsible for giving an opinion of the consolidated financial statements, which is set forth below.

The consolidated financial statements have been reviewed and approved by the Board of Trustees and the Audit Committee. The Audit Committee meets regularly and the auditors have full and direct access to the Audit Committee.

(signed)

J. Michael Storey
President and Chief Executive Officer
April 03, 2003

(signed)

Mark A. Suchan
Chief Financial Officer
April 03, 2003

AUDITORS' REPORT

To the Trustees of Calloway Real Estate Investment Trust:

We have audited the consolidated balance sheet of Calloway Real Estate Investment Trust as at December 31, 2002 and March 31, 2002 and the consolidated statements of income, unitholders' equity and cash flows for the periods 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 audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated 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, 2002 and March 31, 2002 and the results of its operations and its cash flows for the periods then ended in accordance with Canadian generally accepted accounting principles.

(signed)
Kenway Mack Slusarchuk Stewart LLP
Calgary, Alberta
March 7, 2003 *(Except for Note 16, which is as at March 18, 2003)* Chartered Accountants

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheets

	Notes	December 31 2002	March 31 2002 (Restated – see Note 4)
ASSETS			
Income properties	4	$ 105,898,326	$ 5,844,430
Mortgages receivable	5	1,600,000	–
Deferred expenses	6	651,491	263,110
Equipment	7	27,895	–
Prepaid expenses and deposits		20,372	35,161
Income taxes recoverable		23,229	36,000
Accounts receivable		185,327	74,369
Cash and cash equivalents		309,795	86,168
		$ 108,716,435	$ 6,339,238
LIABILITIES			
Mortgages and other debt payable	8	$ 56,238,616	$ 4,326,436
Due to related party	13	–	175,160
Accounts payable and accrued liabilities		1,189,774	162,089
		57,428,390	4,663,685
UNITHOLDERS' EQUITY	10	51,288,045	1,675,553
		$ 108,716,435	$ 6,339,238

See accompanying notes to the consolidated financial statements.

Approved by the Board of Trustees:

(signed)

David M. Calnan, *Trustee*

(signed)

Kevin B. Pshebniski, *Trustee*

Consolidated Statements of Income

	Notes	Nine Months Ended December 31 2002	Year Ended March 31 2002
			(Restated – see Note 4)
REVENUES			
Rentals from income properties		$ 3,753,235	$ 1,233,390
EXPENSES			
Property operating costs		1,457,032	391,238
Interest		805,854	405,895
Amortization of income properties		160,874	62,203
General and administrative		139,214	63,265
Amortization of deferred expenses		52,476	34,194
Professional fees		48,483	55,229
		2,663,933	1,012,024
OPERATING INCOME		1,089,302	221,366
OTHER REVENUES			
Gain on sale of income properties		133,865	242,552
Interest		37,582	13,340
		171,447	255,892
Income before income taxes		1,260,749	477,258
Income taxes	12	–	74,371
Net income		$ 1,260,749	$ 402,887
Net income per unit			
Basic and diluted	10	$ 0.792	$ 0.855

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Unitholders' Equity

	Notes	Nine Months Ended December 31 2002	Year Ended March 31 2002 (Restated – see Note 4)
UNITHOLDERS' EQUITY/RETAINED EARNINGS			
Beginning of period, as previously stated		$ 1,364,464	$ 228,307
Prior period adjustment	4	311,089	201,180
Unitholders' equity, beginning of period, as restated		1,675,553	429,487
Issuance of units		54,508,350	–
Issue costs		(5,046,822)	–
Net income		1,260,749	402,887
Distributions		(1,109,785)	–
Reorganization			
Transfer from share capital	10	–	786,005
Income tax effect	12	–	108,619
Costs		–	(51,445)
Unitholders' equity, end of period		$ 51,288,045	$ 1,675,553

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

	Notes	Nine Months Ended December 31 2002	Year Ended March 31 2002 (Restated – see Note 4)
OPERATING ACTIVITIES			
Net income		$ 1,260,749	$ 402,887
Add (deduct) items not affecting cash:			
Amortization of income properties		160,874	62,203
Amortization of deferred expenses		52,476	34,194
Gain on sale of income properties		(133,865)	(242,552)
Cash from operations		1,340,234	256,732
Expenditures on deferred expenses		(514,580)	(202,029)
Change in accounts payable and other non-cash operating items		944,287	(134,461)
		1,769,941	(79,758)
FINANCING ACTIVITIES			
Proceeds from issuance of units, net of issue costs		49,461,528	–
Proceeds from financings		31,199,592	207,500
Mortgages and other debt repayments		(8,270,910)	(1,791,968)
Distributions to unitholders		(1,109,785)	–
Repayments to related party		(175,160)	(272,878)
Proceeds from exercise of stock options		–	41,200
		71,105,265	(1,816,146)
INVESTING ACTIVITIES			
Proceeds on sale of income properties		1,171,815	1,877,604
Additions to income properties (net of mortgages assumed)		(72,223,394)	(22,098)
Advances for mortgages receivables		(1,600,000)	–
		(72,651,579)	1,855,506
Increase (decrease) in cash and cash equivalents		223,627	(40,398)
Cash and cash equivalents, beginning of period		86,168	126,566
Cash and cash equivalents, end of period		$ 309,795	$ 86,168
Supplemental cash flow information			
Interest paid		$ 508,590	$ 405,895
Supplemental disclosure of non-cash investing and financing activities			
Portion of income properties acquired through the assumption of existing mortgages		$ 28,983,498	$ –

See accompanying notes to the consolidated financial statements.

NOTES | TO THE CONSOLIDATED FINANCIAL STATEMENTS

Nine Months Ended December 31, 2002 and Year Ended March 31, 2002

ORGANIZATION *Note 1*

Calloway Real Estate Investment Trust (the "REIT") is an unincorporated closed-end real estate investment trust governed by the laws of the Province of Alberta created under a declaration of trust, dated December 4, 2001. On February 9, 2002, a Plan of Arrangement was completed, pursuant to which the REIT acquired all of the outstanding shares of Calloway Properties Inc. and Calloway Properties Inc. subsequently transferred all of its assets and liabilities to the REIT and wound up.

Basis of Presentation

The REIT is considered to be a continuation of Calloway Properties Inc. following the continuity of interest method of accounting. Under the continuity of interest method of accounting, the REIT's acquisition of Calloway Properties Inc. is recorded at the net book value of Calloway Property Inc.'s assets and liabilities on February 9, 2002, and the share capital and retained earnings of Calloway Properties Inc. became the opening Unitholders' Equity of the REIT at that date.

PUBLIC OFFERING AND ACQUISITIONS *Note 2*

On November 4, 2002 the REIT completed a public offering (the "Offering") of trust units for gross cash proceeds of $50,800,000 through the issuance of 5,080,000 units at $10 per unit (excluding the underwriters' over-allotment option). Costs relating to the Offering, including underwriters' fees have been charged directly to unitholders' equity. On closing of the Offering, the REIT acquired a portfolio of 7 income properties located in Western Canada and the Province of Ontario for $96,402,848. The REIT, through its wholly owned subsidiary, also advanced $1,600,000 in mortgage financing for two development projects in Calgary.

The balance of the acquisition cost of the income properties was financed by $28,983,498 in mortgages assumed and $21,974,647 of new financing.

Subsequent to the Offering, an additional income property was acquired for $4,769,307 with funds from the revolving loan facility and the refinancing of one of the seven income properties.

On December 31, 2002, the underwriters of the Offering exercised their over-allotment option to purchase 330,750 units for gross cash proceeds of $3,307,500. The underwriters' fees related to the exercise of the over-allotment option have been charged directly to unitholders' equity. Net proceeds from the over-allotment, were used to pay down the revolving operating facility.

SIGNIFICANT ACCOUNTING POLICIES *Note 3*

These consolidated financial statements of the REIT have been prepared in accordance with Canadian generally accepted accounting principles and are generally in accordance with the recommendations of the Canadian Institute of Public and Private Real Estate Companies.

Basis of Consolidation

The consolidated financial statements present the accounts and operations of Calloway Real Estate Investment Trust and its wholly owned subsidiary Calloway Financial Inc. The operations of the subsidiary are included in the consolidated statement of income from September 13, 2002, the date of incorporation.

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates that affect the amounts of assets and liabilities reported in the financial statements. Those estimates also affect the disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

Revenue Recognition

Rentals from income properties are recognized as revenue over the terms of the related lease agreements as they become due. Recoveries from tenants for property taxes and property operating costs are recognized as revenues in the period the applicable costs are incurred.

Investment in Joint Venture

Investments in joint ventures are accounted for using the proportionate consolidation method, whereby the REIT's proportionate share of the assets, liabilities and the related revenues and expenses are included in these financial statements.

Income Properties

Income properties are recorded at the lower of cost less accumulated amortization and net recoverable amount. The net recoverable amount represents the undiscounted estimated future net cash flow expected to be received from the ongoing use and residual value of the properties, and is intended to determine recovery of an investment and is not an expression of a property's fair market value.

The REIT changed its method of amortization from the declining balance method to the sinking fund method. Buildings are amortized over the buildings' estimate remaining useful lives ranging from 19 to 40 years using a notional interest rate of 5.0% per annum.

Equipment

Equipment is amortized at 30% using the declining balance basis.

Deferred Expenses

Deferred expenses includes tenant inducements, leasing expenses and financing expenses. Tenant inducements and leasing expenses are deferred and amortized on the straight line basis over the terms of the related lease agreements. Financing expenses are deferred and amortized over five years.

Cash and Cash Equivalents

Cash and cash equivalents include bank accounts and a cashable guaranteed investment certificate with maturity under 120 days.

Income Taxes

The REIT is taxed as a "Mutual Fund Trust" for income tax purposes. The REIT intends to distribute all taxable income directly earned by the REIT to unitholders and to deduct such distributions for income tax purposes. Therefore, no provision for capital taxes and future income taxes has been recorded at March 31, 2002 and December 31, 2002.

From April 1, 2000 to February 9, 2002, the date of the completion of the Plan of Arrangement described in Note 1, Calloway Properties Inc. used the liability method of accounting for income taxes whereby future income tax assets and liabilities were determined based on differences between the carrying amount and the tax basis of the assets and liabilities recorded at the income tax rates that were expected to apply when the future tax liability is settled or the future tax asset is realized. The benefit of loss carryforwards were only recognized as future tax assets to the extent that it was more likely than not that future taxable income would be available to utilize these losses.

Stock Based Compensation

The REIT has a stock-based compensation plan, which is described in Note 11. Effective April 1, 2002 a new accounting standard for stock-based compensation plans was adopted. As permitted by the CICA, the REIT has applied this change prospectively for new awards granted on or after April 1, 2002.

For stock options granted to employees at an exercise price that exceeds or equals the fair value of the REIT's units at the date of the grant, the REIT has chosen to recognize no compensation. As no options have been granted during the nine months ended December 31, 2002, pro-forma net income and net income per unit information has not been disclosed. Any consideration paid by employees on exercise of unit options or purchase of units is credited to unitholders' equity.

Stock compensation granted to non-employees will be accounted for in accordance with the fair value method of accounting for stock-based compensation. The fair value of stock compensation granted is determined using the Black Scholes option pricing model.

Net Income and Cash Flow Per Trust Unit

Per unit amounts are calculated using the weighted average number of units outstanding during the period. The dilutive effect on per unit amounts resulting from the options outstanding under the unit option plan is calculated using the treasury stock method.

Related Party Transactions

Transactions with related parties that are conducted in the normal course of operations have been recorded at the exchange amount.

INCOME PROPERTIES *Note 4*

	December 31 2002			March 31 2002		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land	$ 21,381,685	$ –	$ 21,381,685	$ 1,899,479	$ –	$ 1,899,479
Buildings	84,763,223	246,582	84,516,641	4,058,111	113,160	3,944,951
	$ 106,144,908	$ 246,582	$ 105,898,326	$ 5,957,590	$ 113,160	$ 5,844,430

Prior Period Adjustment

During the period, the REIT retroactively adopted the sinking fund method of amortization for its income properties. Previously the declining balance basis of amortization, at a rate of 4%, had been used.

Accordingly, the March 31, 2002 financial statements have been restated. The effect of this change is to increase previously reported unitholders' equity and decrease accumulated amortization of income properties as at March 31, 2002 by $311,089 (March 31, 2001 – $201,180) and increase previously reported net income for the year ended March 31, 2002 by $109,909.

Had the REIT continued to amortize income properties using the 4% declining balance basis, the effect on the current period's operation would have been to increase amortization of income properties, increase accumulated amortization of income properties, and decrease the current year's net income by $565,000.

MORTGAGES RECEIVABLE *Note 5*

The mortgages receivable are secured by second charges on two properties under development, bear interest at 12% per annum and are repayable upon the earliest of the REIT purchasing the properties, the properties being sold to a third party and the day which is two years following the date of substantial completion of the properties.

The mortgages receivable are provided to a company in which a trustee of the REIT is an officer and director.

The REIT has an option to purchase the properties at a negotiated price, or failing agreement, at a price equal to 95% of the appraised fair market value of the properties.

DEFERRED EXPENSES *Note 6*

	December 31 2002			March 31 2002		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Tenant inducements	$ 223,620	$ 52,064	$ 171,556	$ 210,128	$ 22,878	$ 187,250
Leasing expenses	59,092	10,909	48,183	88,694	12,834	75,860
Financing fees	452,514	20,762	431,752	–	–	–
	$ 735,226	$ 83,735	$ 651,491	$ 298,822	$ 35,712	$ 263,110

EQUIPMENT *Note 7*

	December 31 2002			March 31 2002		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Equipment	$ 31,045	$ 3,150	$ 27,895	$ –	$ –	$ –
	$ 31,045	$ 3,150	$ 27,895	$ –	$ –	$ –

Note 8 MORTGAGES AND OTHER DEBT PAYABLE

	December 31 2002	March 31 2002
Term mortgages with interest rates ranging from 6.34% to 12% (weighted average rates: December 31, 2002 – 7.08%; March 31, 2002 – 6.4%), are repayable in blended monthly installments aggregating $289,723 in December 2002, and $35,991 in March 2002, are secured by first and second registered mortgages over specific income properties, and general assignments of all leases, insurance and registered chattel mortgages, and are due November 2003 through October 2010.	$ 35,763,969	$ 2,796,946
Revolving operating facility bears interest at the prime rate of a Canadian chartered bank plus 0.5%, is secured by first charges over specific income properties, and general assignment of all leases and insurance, and is due November 15, 2003. The facility is authorized to a maximum of 27,500,000	20,474,647	–
Demand loans with interest at 8.25% secured by a first charge over a specific income property.	–	1,529,490
	$ 56,238,616	$ 4,326,436

All of the income properties of the REIT have been pledged as security under the various debt agreements.

Approximate principal repayments required to maturity are as follows:

	December 31 2002
2003	$ 23,837,673
2004	1,023,955
2005	1,095,262
2006	1,171,547
2007	25,344,409
Thereafter	3,765,770
	$ 56,238,616

Note 9 FINANCIAL INSTRUMENTS

The carrying values of accounts receivable, cash and cash equivalents, due to related party, and accounts payable and accrued liabilities approximates their fair values due to the immediate or short-term maturity of these instruments.

The carrying value of the revolving operating facility approximates its fair value as it is due on demand.

The carrying value of the term mortgages approximates their fair values as the interest rates are consistent with the current rates offered to the REIT for debt with similar terms.

Note 10 UNITHOLDERS' EQUITY

Authorized

The REIT is authorized to issue an unlimited number of trust units of a single class, each of which represents an equal undivided interest in the trust. Prior to the date of reorganization the authorized share capital was an unlimited number of common shares without par value.

Share capital

The REIT's share capital to the date of reorganization was as follows:

	Shares	Amount
Balance of common shares at March 31, 2001	10,500,000	$ 744,805
Exercise of stock options on January 22, 2002, prior to reorganization	412,000	41,200
Balance of common shares at February 9, 2002	10,912,000	786,005
Elimination upon completion of the reorganization	(10,912,000)	(786,005)
	–	$ –

Trust Units

	Units
Units issued in exchange for Calloway Properties Inc. common shares (1 unit for 2 common shares)	5,456,000
Balance of units at March 31, 2002	5,456,000
Units issued pursuant to Private Placement, July 18, 2002	616,692
Balance of units at November 4, 2002 prior to consolidation	6,072,692
Units issued, consolidated basis (1 unit for each 11.2294 units)	540,785
Units issued, public offering November 4, 2002	5,080,000
Units issued, over-allotment option December 31, 2002	330,750
Balance of units at December 31, 2002	5,951,535

On February 9, 2002 a Plan of Arrangement was completed reorganizing Calloway Properties Inc. into a Real Estate Investment Trust. Pursuant to the Plan of Arrangement, the REIT acquired all of the outstanding shares of Calloway Properties Inc. and Calloway Properties Inc. subsequently transferred all of its assets and liabilities to the REIT and wound up. As a result, the share capital of Calloway Properties Inc. was transferred to the Unitholders' Equity of the REIT upon completion of the reorganization.

Upon the February 9, 2002 reorganization, shares were converted to units on a 2 to 1 basis.

On July 18, 2002, the REIT completed a Private Placement of 616,692 trust units at $0.65 per unit for gross proceeds of $400,850.

On November 4, 2002, prior to completion of a public offering, 6,072,692 pre-consolidation units were consolidated into 540,785 units.

On November 4, 2002, the REIT completed a public offering of 5,080,000 trust units at $10.00 per unit for gross proceeds of $50,800,000.

On December 31, 2002, the underwriters of the public offering exercised their over-allotment option. The REIT issued 330,750 trust units at $10.00 per unit for gross proceeds of $3,307,500.

Weighted Average Number of Units

Net income and cash flow from operations per unit were calculated using of the weighted average number of units/shares outstanding after providing for the share conversion on February 9, 2002 and the unit consolidation on November 4, 2002 as follows:

	Nine Months Ended December 31 2002	Year Ended March 31 2002
	1,591,838	470,941

UNIT / STOCK OPTIONS *Note 11*

At March 31, 2001 Calloway Properties Inc. had 412,000 stock options outstanding. These options were exercised on January 22, 2002.

On October 24, 2002, the REIT adopted a unit option plan for its trustees, officers, employees and other persons who provide services to the REIT. The plan provides for the granting of options to purchase units of the REIT at the market price at the time of granting. Options issued shall not exceed 10% of the units issued and outstanding in the capital of the REIT. No options were granted prior to December 31, 2002.

At December 31, 2002, 562,000 units had been reserved for issuance under the unit option plan.

INCOME TAXES *Note 12*

As described in Note 2, the REIT operated as a corporation up to February 9, 2002. The provision for income taxes as at March 31, 2002 reflects the income tax liability prior to the reorganization to a REIT. Subsequent to the reorganization, the REIT began operations and as such no provision has been made for capital tax, future income tax and current income tax expenses in accordance with the non-taxable status of the REIT as at March 31, 2002 and December 31, 2002.

Pursuant to the reorganization, Calloway Properties Inc. transferred all of its properties to the REIT and wound-up. The transfer of the income properties to the REIT was a taxable transaction to Calloway Properties Inc. which resulted in an income tax recovery of $108,619. This amount has been recorded in unitholders' equity.

Note 13 RELATED PARTY TRANSACTIONS

During the nine months ended December 31, 2002, the REIT paid fees totaling $396,339 (year ended March 31, 2002 – $66,177) to a legal firm in which a trustee is a partner. Of the current period fees, $378,659 were for services rendered to assist in the public offerings of units.

During the nine months ended December 31, 2002 the REIT paid fees totaling $185,079 to a company owned by the majority unitholder of the REIT prior to the issuance of units on November 4, 2002. These fees were for financial, accounting and other consulting services rendered to assist in the public offering of units.

Until April 2002, the REIT owned an income property through a joint venture with a related party. A director of the other joint venture party was the majority unitholder of the REIT prior to the issuance of units on November 4, 2002. In addition, another director and an officer of the other joint venture party is a trustee of the REIT. The amount due of $NIL (March 31, 2002 – $175,160) is non-interest bearing, unsecured with no fixed terms of repayment and has been recorded at its exchange amount.

The REIT's share of the assets, liabilities, revenues and expenses of the joint venture, which have been proportionately consolidated in these financial statements are as follows:

	December 31 2002	March 31 2002
Assets	$ –	$ 1,103,278
Liabilities	$ –	$ 1,092,994
Revenue	–	136,185
Expenses	–	139,634
Gain on sale	133,865	–
Cash flow from (applied to):		
Operating activities	(28,161)	(72,584)
Financing activities	(1,143,654)	123,748
Investing activities	1,171,815	(16,099)

Note 14 SEGMENTED DISCLOSURES

The REIT's assets are in, and its revenue is derived from, the Canadian real estate rental industry. The REIT's major tenant is the Government of Canada, accounting for 15.21% of the REIT's December 2002 rental revenue.

Note 15 DISTRIBUTABLE INCOME

Distributable income is not a measure defined by generally accepted accounting principles and there is no standardized measure of distributable income. It is a measure of cash flow and operating profitability and, by definition, excludes certain expenses, specifically amortization of income properties and equipment.

Distributions paid to unitholders are computed based on distributable income as defined by the Declaration of the Trust as follows:

	December 31 2002
Net income	$ 1,260,749
Add (deduct)	
Amortization of income properties	160,874
Gain on sale of income properties	(133,865)
Distributable income	$ 1,287,758
Distributions paid to unitholders	$ 1,109,785

Note 16 SUBSEQUENT EVENTS

Subsequent to the year end, the REIT has entered into agreements to acquire four income properties with an aggregate acquisition cost of $12,000,000. The consideration paid consists of mortgage financing of $8,005,000, operating facility advances of $2,085,000, and the issuance of 191,542 trust units at $10.05 per unit. Certain of these purchase agreements are subject to typical due diligence procedures.

On March 5, 2003, the REIT entered into an agreement to refinance $9,000,000 of the existing revolving operating facility with term mortgages at an interest rate, to be fixed at the time of funding, equal to the Government of Canada five year bond yield rate plus 185 basis points.

CORPORATE INFORMATION

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Keith N. McRae
Director of Operations

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