Annual Report 2003

CALLOWAY REAL ESTATE INVESTMENT TRUST

Corporate Profile

Calloway REIT is an unincorporated, closed-end, real estate investment trust, engaged in the acquisition and management of well located retail, office and industrial properties. Calloway's current portfolio comprises over 4,200,000 square feet of leasable area in provinces from British Columbia to Nova Scotia. 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

As a result of Calloway's recent acquisitions from the FirstPro Shopping Centres group of companies, Calloway will focus specifically on the acquisition of high quality unenclosed large format retail shopping centre properties.

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Corporate Information

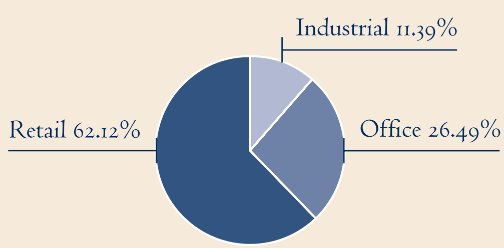
HIGHLIGHTS

Financial

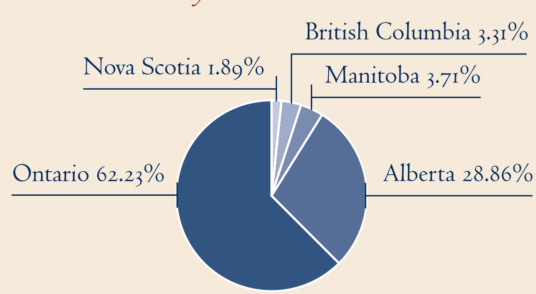
(in thousands of dollars)		***Twelve Months Ended December 31, 2003***		*Nine Months Ended December 31, 2002*
Real estate assets	**$**	**226,788**	$	107,746
Rentals from income properties	**$**	**22,497**	$	3,753
Net income	**$**	**8,961**	$	1,261
Cash from operations	**$**	**8,780**	$	1,340

SEGMENTED INFORMATION BY REVENUE

Revenue Breakdown by Asset Class

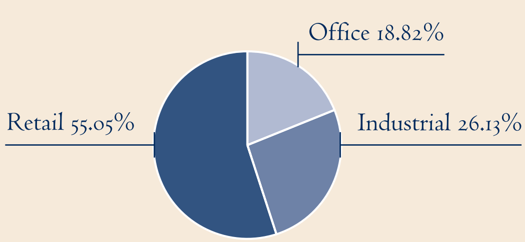


Revenue Breakdown by Province

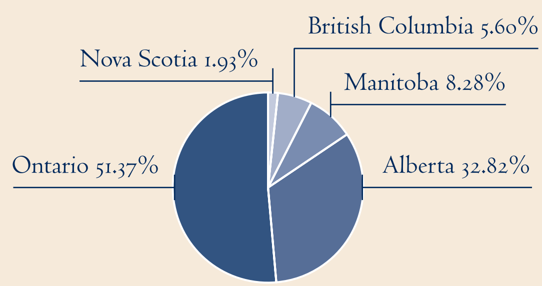


SEGMENTED INFORMATION BY RENTABLE AREA

Area by Asset Class



Area by Province



REPORT TO UNITHOLDERS

Outstanding Growth

The year 2003 will be known as another period of dynamic growth and transformation for Calloway. Two months after completing its initial public offering on the TSX, Calloway began its first year as a newly minted diversified REIT with a market capitalization of $58 million. The goal for 2003 was to expand the asset base and market capitalization to achieve POP issuer status – requiring a market cap of $75 million. Inching forward with an 11.5% yield requirement and a tight real estate market, Calloway managed to acquire four properties for a total cost of approximately $12 million by the end of the second quarter. By the end of the third quarter, however, Calloway had entered into an agreement with the FirstPro Shopping Centre Group to acquire nine shopping centres for a total cost of $109 million, thereby doubling the size of the enterprise. This acquisition marked a truly defining period in Calloway's evolution as a growing and thriving REIT in the Canadian real estate market. In completing this acquisition, Calloway not only achieved its goal of POP issuer status, but also broke through the $100 million market cap required by institutional investors in terms of credibility and liquidity. It also forged a strategic relationship with FirstPro, Canada's largest developer of unenclosed, large format shopping centres. The nine properties involved in this first transaction with FirstPro are characterized by strong national and regional tenants and further diversified Calloway's portfolio geographically. In the fourth quarter, Calloway entered into another agreement with FirstPro to acquire a further 12 unenclosed large format shopping centres, once again doubling in size, and exiting 2003 with a new focus and tremendous growth prospects for the year ahead.

Financial Highlights

In 2003 Calloway's real estate investments increased by over $119 million to $227 million an increase of 110%. Rental revenue increased to $22.5 million, an increase of 20% over the prospectus forecast. Distributable income grew to $8.5 million, an increase of 19% over the prospectus forecast. As a result of repositioning Calloway's portfolio through asset dispositions and financing initiatives, a portion of Calloway's capital was underemployed during the last quarter of 2003. As a consequence distributable income per unit for 2003 was $1.24 compared to the prospectus forecast of $1.28. This temporary reduction in RDI per unit was undertaken in order to access the potential created by the FirstPro relationship and to refocus Calloway's investment strategy. Calloway's market cap grew to $155 million by the end of 2003, from $58 million, adding significant financial strength to the enterprise as well as much improved liquidity for unitholders. As at December 31, 2003 Calloway's debt as a percentage of Gross Book Value was 51.1% and the occupancy rate for the portfolio was 97.9%.

Redefined Strategy

Clearly the market has approved of Calloway's transformation from a diversified REIT to one focused on unenclosed large format retail shopping centres. This timely refocusing of Calloway's investment strategy, brought on by the relationship with FirstPro, gives Calloway an exceptional opportunity for future growth. Not just growth for the sake of growth, but growth in a segment of the real estate market which offers lower risk, solid tenant covenants and long term leases, culminating into a stable and growing distribution for unitholders. The development of large format retail centres has redefined the shopping centre industry in Canada over the last decade. While no new enclosed malls have been constructed during this period, some 200 unenclosed large format centres have either been constructed or entered the development stage. This trend stems from the predominance of value seeking shoppers in the Canadian landscape and hence the expansion of the lower price-point retailer. The large format centres cost less to build and maintain, which translates into far lower rents and operating costs for tenants. In addition to lower rent, the large format centres offer tenants direct delivery access, larger inventory and retailing space, and more prominent signage. Convenience also plays a large roll in the success of these types of shopping centres, which offer ample parking adjacent to retail stores and much improved traffic flow. Growth in this value-oriented segment has gained momentum over the years as the cost savings and efficiencies are passed from developer to retailer and from retailer to consumers. Calloway is very pleased to be in a position to focus on this investment grade product, which offers strong tenant profiles as well as recession proof investment in real estate.

In order to focus management's resources on higher margin activities, Calloway will continue to outsource the majority of its property management function. In terms of development of adjacent lands, upon closing of the second transaction with FirstPro, Calloway has the potential for approximately 850,000 square feet of additional building, totaling over $100 million in value. Pursuant to our development agreements the process of leasing and developing these buildings will continue to be managed by FirstPro.

Outlook

Calloway has continued to expand by accretive acquisitions, low risk development of existing land parcels and mezzanine loans that allow Calloway to position itself on the ground floor of development opportunities. To this end, on March 10, 2004, Calloway entered into an agreement to acquire an additional 12 properties from the Wal-Mart/FirstPro Partnership. In addition, development is underway on a number of new buildings on the undeveloped lands associated with the existing retail properties. Calloway has also entered into three mezzanine loan agreements with FirstPro for development projects that provide Calloway the ability to acquire up to 50% of the completed property. With the formation of our strategic relationship with First Pro and other Canadian developers, we believe we are well on our way to delivering on our objective of providing a stable and growing distribution for our unitholders.

On behalf of management I want to thank the unitholders, trustees, advisors and staff members for their hard work and dedication towards our current and future success.

J. Michael Storey
President and Chief Executive Officer
March 24, 2004

OPERATIONS REVIEW

Retail Properties

New Minas Wal-Mart Centre, New Minas, Nova Scotia

This centre is located on 4.3 acres at the northwest corner of Commercial Street and Jones Road in New Minas, Nova Scotia. Wal-Mart occupies and owns a 108,000 square foot store adjacent to the site, which opened in January 2003. The First New Minas Shopping Centre comprises of a total retail area of 45,000 square feet, anchored by a brand new 15,000 square foot Sport Chek and a 12,500 square foot Mark's Work Wearhouse.

British Colonial Building, Toronto, Ontario

The British Colonial is a retail/office property located in downtown Toronto at the prominent intersection of Wellington and Yonge Streets. The property is a heritage building, originally constructed in 1875 and most recently renovated in 1997. The property consists of 17,356 square feet of net rentable space.

Scarborough 401 Centre, Scarborough, Ontario

This centre is located at the northeast corner of the Highway 401 and Morningside Avenue interchange in Toronto, Ontario. The centre is anchored by an 111,647 square foot Home Depot store owned by Home Depot. The centre comprises approximately 62,000 square feet of retail space occupied by tenants such as Staples, Mark's Work Wearhouse, Harvey's/Swiss Chalet and Mr. Greek. Future development potential includes approximately 75,000 square feet on the residual lands.

Yonge Aurora Centre, Aurora, Ontario

This fully built centre is located on 4.9 acres at the southwest corner of the Yonge Street and Murray Drive in Aurora, Ontario. The centre is anchored by a 63,500 square foot Canadian Tire on 6.4 acres owned by Canadian Tire. The balance of the centre's retail area is approximately 50,000 square feet, and includes tenants such as Winners, Bank of Nova Scotia and Blockbuster Video.

Brampton North Centre, Brampton, Ontario

This property is located at the northeast corner of Bovaird Road and Mountainash Road in Brampton, Ontario. The centre is comprised of the separately owned Springdale Square (which comprises approximately 105,000 square feet anchored by Fortino's) and will accommodate a further 56,000 square feet. The centre is located on 5.4 acres and includes a 10,244 square foot Shoppers Drug Mart. Approximately 29,000 square feet of developable area remains.

Brampton East Centre, Brampton, Ontario

This center is located on 4 acres at the northwest corner Highway 7 and Airport Road in Brampton, Ontario. A Rona Home Improvement and a Canadian Tire store, both of which are owned by the operators, anchor the shopping center. Tenants constructed and in-place occupy approximately 17,000 square feet with another 17,000 square feet of developable area remaining.

Burlington QEW Centre, Burlington, Ontario

This property is situated on 12 acres of land at the corner of Guelph Line and Davidson Court, directly off the QEW interchange in Burlington, Ontario. A 130,000 square foot Home Depot currently anchors this site. Home Depot owns its premises (situated on 11 acres of land). Tenants on the site include Staples, Lee Valley Tools, and a Montana's restaurant. Giant Carpet and Part Source are currently anticipated to open in Fall 2004. The remaining 106,000 square feet of developable area will be completed as leasing occurs.

Ancaster Wal-Mart Centre, Hamilton, Ontario

The Ancaster Wal-Mart Centre is located on 31.3 acres at the northwest corner of Highway 53 and Shaver Road in the City of Hamilton, Ontario. The centre is anchored by an 111,000 square feet Wal-Mart store (on 13 acres) and a 50,000 square feet Canadian Tire store (on 8.3 acres sold to Canadian Tire), with approximately 10 acres remaining to be developed.

London Argyle Wal-Mart Centre London, Ontario

Argyle Mall is situated on approximately 40 acres of land on the southeast corner of Clarke St. and Dundas St. (Highway 2), in London, Ontario. Formerly an enclosed shopping center, the centre has been converted into approximately 260,000 square feet of new format retail space anchored by tenants such as No Frills, Winners, Staples, Bouclair, Mark's Work Wearhouse as well as a new 128,638 square feet Wal-Mart store. Development plans include adding approximately 60,000 square feet of new format retail space and outparcels, while retaining the remaining enclosed mall space (approximately 80,000 square feet). Argyle Mall is the dominant shopping center in the eastern end of London. The primary trade area encompasses over 100,000 people and the total population for the City of London is approximately 300,000.

Retail Properties

Lloyd Mall, Lloydminster, Alberta

The Lloyd Mall is the only enclosed shopping centre located in Lloydminster, Alberta and is 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. Retail sales in the centre excluding the major tenants were $475 per square foot in 2001 and $502 per square foot in 2002.

Spruce Grove Wal-Mart Centre, Spruce Grove, Alberta

This centre is located at the southeast corner of Campsite Road and Highway 16 (a Trans Canada Highway) in Spruce Grove, Alberta. The center is anchored by a new 106,000 square feet Wal-Mart that sits on 10 acres of land sold to Wal-Mart in 2001. The balance of the site of 6.5 acres includes new format retail space with tenants such as Mark's Work Wearhouse, Payless ShoeSource, Domino's Pizza and Subway. On completion, the center will comprise approximately 60,000 square feet of retail area.

Namao Centre, Edmonton, Alberta

Namao Centre is a 100% leased, 33,605 square foot retail property located in North Edmonton. The property was constructed in 1999/2000 and is anchored by tenants including Shoppers Drug Mart and Blockbuster Video. It is also shadow-anchored by an IGA store.

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).

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 ReMax.

Office Properties

Holland Cross, Ottawa, Ontario

Holland Cross 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 growth of this asset exists through the potential completion of an 80,000 square foot third office tower.

Century Park Place, Calgary, Alberta

Century Park Place is an 11-storey office tower located in downtown Calgary. The property consists of 75,675 square feet of net rentable space. The largest tenant is the Alberta Government that has leased this space since 1985 and occupies 75.7% of the building.

Industrial Properties

110 Lowson Crescent, Winnipeg, Manitoba

110 Lowson Crescent 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.

1000 Waverley, 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 Canadian head office and it has 13 branch office across Canada. Symbol Technologies develops, manufactures, markets and services innovative industry specific, scanner integrated mobile and wireless information management systems.

1300 Church Avenue, Winnipeg, Manitoba

The Church Warehouse consists of a single tenant warehouse manufacturing facility 100% leased and occupied by Nygard International. The tenant uses the space for clothing/fashion production and warehousing (light industrial use). Property consists of 40,600 square feet of rentable space on 2.01 acres of land. Property is well located in the Inkster Park industrial area of Winnipeg, reasonably close to the airport. Building was originally constructed in 1958 and with the recent lease renewal, has approximately $150,000 worth of renovations about to be completed.

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.

Gesco Warehouse, Calgary, Alberta

The Gesco Warehouse is located in SE Calgary and is 100% leased to Gesco. The tenant has been in this location since the property was originally constructed in 1966. The asset consists of 63,894 square feet. The tenant is a floor coverings wholesaler and distributor.

Ecco Warehouse, Calgary, Alberta

The Ecco Manufacturing Warehouse is located in SE Calgary and is 100% leased. The tenant has occupied the premises since 1991, and the property was constructed in 1979. The asset consists of 36,000 square feet of rentable space. The tenant is a regional manufacturer and distributor of sheet metal products in western Canada with 11 branches.

Airtech Centre, Vancouver, British Columbia

The Airtech Centre is an office/warehouse building located near Vancouver International Airport. Calloway acquired a crown lease or 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.

RETAIL PROPERTIES *as at December 31, 2003*

PROPERTY LOCATION	OWNERSHIP INTEREST	NET RENTABLE AREA (SQ. FT.)	OCCUPANCY	MAJOR TENANTS	YEAR ACQUIRED
New Minas Wal-Mart Centre New Minas, Nova Scotia	100%	35,665	100%	• Sport Chek • Mark's Work Wearhouse	2003
British Colonial Building Toronto, Ontario	100%	17,356	100%	• Navigator	2002
Scarborough 401 Centre Scarborough, Ontario	100%	61,633	100%	• Staples • Mark's Work Wearhouse	2003
Yonge Aurora Centre Aurora, Ontario	100%	46,022	100%	• Winners	2003
Brampton North Centre Brampton, Ontario	100%	24,199	100%	• Shoppers Drug Mart	2003
Brampton East Centre Brampton, Ontario	100%	17,240	100%	• Kelsey's	2003
Burlington QEW Centre Burlington, Ontario	100%	49,719	100%	• Staples • Lee Valley Tools	2003
Ancaster Wal-Mart Centre Hamilton, Ontario	100%	121,203	100%	• Wal-Mart	2003
London Wal-Mart Argyle Mall London, Ontario	100%	340,488	100%	• Wal-Mart • Loblaw's	2003
Lloyd Mall Lloydminster, Alberta	100%	205,391	100%	• Zellers • Sears • Canada Safeway	2002
Spruce Grove Wal-Mart Centre Spruce Grove, Alberta	100%	35,644	100%	• Mark's Work Wearhouse	2003
Namao Centre Edmonton, Alberta	100%	33,605	100%	• Blockbuster Video • Shoppers Drug Mart	2003
Collingwood Plaza Calgary, Alberta	100%	7,210	89.68%	• Calgary North Decorating	1998
Crowchild Centre Calgary, Alberta	100%	23,140	100%	• ReMax • Mac's • KFC	2000
TOTAL		**1,018,515**	**99.93%**		

OFFICE PROPERTIES *as at December 31, 2003*

PROPERTY LOCATION	OWNERSHIP INTEREST	NET RENTABLE AREA (SQ. FT.)	OCCUPANCY	MAJOR TENANTS	YEAR ACQUIRED
Holland Cross Ottawa, Ontario	100%	272,550	89.64%	• Government of Canada	2002
Century Park Place Calgary, Alberta	100%	75,675	95.13%	• Government of Alberta	2002
TOTAL		**348,225**	**90.63%**		

INDUSTRIAL PROPERTIES *as at December 31, 2003*

PROPERTY LOCATION	OWNERSHIP INTEREST	NET RENTABLE AREA (SQ. FT.)	OCCUPANCY	MAJOR TENANTS	YEAR ACQUIRED
110 Lowson Crescent Winnipeg, Manitoba	100%	53,100	100%	• Daycon Mechanical Systems	2002
1000 Waverley Winnipeg, Manitoba	100%	59,439	100%	• National Leasing	2002
1300 Church Avenue Winnipeg, Manitoba	100%	40,600	100%	• Nygard	2003
Canadian Commercial Centre Calgary, Alberta	100%	126,792	100%	• Winroc • Palco Telecom	2002
Gesco Warehouse Calgary, Alberta	100%	63,894	100%	• Gesco	2003
Ecco Warehouse Calgary, Alberta	100%	36,000	100%	• Ecco	2003
Airtech Centre Vancouver, BC	100%	103,513	95.22%	• MTU Maintenance	2002
TOTAL		**483,338**	**98.98%**		

MANAGEMENT'S DISCUSSION & 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 year ended December 31, 2003 and the nine months ended December 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.

Business 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. As a result of our recent acquisitions from the FirstPro Shopping Centres group of companies ("FirstPro"), Calloway will focus specifically on the acquisition of high quality shopping centre properties.

Calloway's primary objectives are to:

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

Table A HIGHLIGHTS OF THE YEAR

(000's except per unit)		*Year ended Dec. 31, 2003*		*Nine months ended Dec. 31, 2002*		*Year ended March 31, 2002*
Income properties	$	223,405	$	105,926	$	5,844
Total assets	$	228,914	$	108,716	$	6,339
Mortgages payable	$	117,137	$	56,239	$	4,326
Revenue	$	22,744	$	3,791	$	1,247
Net Income	$	8,961	$	1,261	$	403
Net income per unit – basic	$	1.29	$	0.79	$	0.855
Net income per unit – diluted	$	1.29	$	0.79	$	0.855
Distributions paid	$	8,156	$	1,110	$	–
Distributions per unit	$	1.1508	$	0.1918	$	–
Units outstanding	$	11,298	$	5,952	$	486
Weighted average units outstanding	$	6,934	$	1,592	$	471

business overview continued

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

Table B QUARTERLY INFORMATION

Three Months Ended	**Dec. 31 2003** *(unaudited)*	**Sept. 30 2003** *(unaudited)*	**June 30 2003** *(unaudited)*	**March 31 2003** *(unaudited)*	**Dec. 31 2002** *(unaudited)*	**Sept. 30 2002** *(unaudited)*	**June 30 2002** *(unaudited)*	**March 31 2002** *(unaudited)*
Revenues	7,636,617	5,003,592	5,020,379	4,836,007	3,168,230	311,675	273,330	398,157
Net income	2,590,925	1,924,920	2,878,329	1,567,303	1,021,273	59,839	179,638	100,676
Net income per unit (1) (2)	0.270	0.314	0.479	0.263	0.273	0.117	0.370	0.209
Distributable income	2,913,470	2,020,838	1,863,617	1,771,294	1,159,057	75,550	53,151	114,916
Distributions paid	2,950,138	1,764,225	1,729,579	1,712,255	1,109,785	–	–	–
Distributable income per unit	0.303	0.330	0.310	0.298	0.309	0.142	0.109	0.237
Units outstanding	11,297,692	6,132,167	6,132,167	5,951,535	5,951,535	540,785	485,867	485,867
Weighted average units outstanding	9,606,108	6,132,167	6,011,084	5,951,535	3,746,989	530,637	485,867	481,587
Total assets	228,914,626	118,687,346	119,802,274	113,599,647	108,716,435	8,309,814	6,423,976	6,339,237
Total mortgages payable (3)	117,550,384	62,375,325	63,447,139	60,413,228	56,238,616	4,890,041	4,390,746	4,326,436

Notes:

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

(2) Weighted average number of units 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 payable includes capital lease obligations.

business overview continued

Table C PROPERTY OVERVIEW

	Retail	Industrial	Office	Total
Number of Properties	14	7	2	23
Total Leasable Area (SQ. FT.)	1,018,515	483,338	348,225	1,850,078
Occupancy	99.93%	98.98%	90.63%	97.93%
Average Net Rent in place	$ 12.85	$ 6.13	$ 15.06	$ 11.46

Table D TOP TEN TENANTS BY ANNUAL GROSS REVENUE

1. Wal-Mart	$ 3,302,641	10.25%
2. Government of Canada	$ 2,849,408	8.84%
3. Alberta Infrastructure	$ 1,518,874	4.71%
4. Staples	$ 1,512,776	4.69%
5. Winners	$ 1,059,222	3.29%
6. Mark's Work Wearhouse	$ 883,074	2.74%
7. Shoppers Drug Mart	$ 869,123	2.70%
8. Sport Chek/Intersport (Forzani's)	$ 828,904	2.57%
9. Loblaws	$ 613,377	1.90%
10. Domtar	$ 449,461	1.39%

Table E EXPIRES BY CALENDAR YEAR

	Area (sq. feet)	% Area
2004	118,541	6.41%
2005	187,460	10.13%
2006	140,155	7.57%
2007	312,256	16.88%
2008	89,955	4.86%
2009	118,573	6.41%
2010	116,331	6.29%
Thereafter	728,502	39.38%
Current Vacancy	38,305	2.07%
Total	1,850,078	100.00%

Results of Operations

Occupancy rates were as follows during the period: December 31, 2003 – 97.9%; September 30, 2003 – 97.7%: December 31, 2002 – 96.4%; September 30, 2002 – 96.0%.

Table F FINANCIAL RESULTS

	Three Months Ended December 31, 2003	Prospectus Forecast	Variance	Three Months Ended December 31, 2002
Rentals from income properties	$ 7,636,617	$ 4,908,714	$ 2,727,903	$ 3,168,230
Interest income	82,465	1,560	80,905	37,582
	7,719,082	4,910,274	2,808,808	3,205,812
Property operating costs	2,983,782	1,756,974	1,226,808	1,270,676
Interest expense	1,552,779	956,661	596,118	629,408
Amortization of income properties	322,545	209,645	112,900	137,784
Amortization of deferred leasing costs	28,523	31,621	(3,098)	12,569
Amortization of deferred financing costs	36,968	21,109	15,859	15,887
General and administrative expenses	203,560	213,100	(9,540)	118,215
	5,128,157	3,189,110	1,939,047	2,184,539
	2,590,925	1,721,164	869,761	1,021,273
Gain on sale of income properties	–	–	–	–
Net income	2,590,925	1,721,164	869,761	1,021,273
Add (deduct)				
Gain on sale of income properties	–	–	–	–
Amortization of income properties	322,545	209,645	112,900	137,784
Distributable income	$ 2,913,470	$ 1,930,809	$ 982,661	$ 1,159,057
Distributable income per unit – basic	$ 0.30	$ 0.34		$ 0.31
Distributable income per unit – diluted	$ 0.30	$ 0.34		$ 0.31

results of operations continued

Table G FINANCIAL RESULTS

	Year Ended December 31, 2003	Prospectus Forecast	Variance	Nine Months Ended December 31, 2002
Rentals from income properties	$ 22,496,595	$ 18,704,429	$ 3,792,166	$ 3,753,235
Interest income	247,251	119,640	127,611	37,582
	22,743,846	18,824,069	3,919,777	3,790,817
Property operating costs	8,860,938	7,010,814	1,850,124	1,457,032
Interest expense	4,417,917	3,676,003	741,914	805,854
Amortization of income properties	961,421	810,231	151,190	160,874
Amortization of deferred leasing costs	98,208	113,698	(15,490)	31,713
Amortization of deferred financing costs	112,635	84,436	28,199	20,763
General and administrative expenses	684,929	757,000	(72,071)	187,697
	15,136,048	12,452,182	2,683,866	2,663,933
	7,607,798	6,371,887	1,235,911	1,126,884
Gain on sale of income properties	1,353,679	–	1,353,679	133,865
Net income	8,961,477	6,371,887	2,589,590	1,260,749
Add (deduct)				
Gain on sale of income properties	(1,353,679)	–	(1,353,679)	(133,865)
Amortization of income properties	961,421	810,231	151,190	160,874
Distributable income	$ 8,569,219	$ 7,182,118	$ 1,387,101	$ 1,287,758
Distributable income per unit – basic	$ 1.24	$ 1.28		$ 0.81
Distributable income per unit – diluted	$ 1.23	$ 1.28		$ 0.81

results of operations continued

Acquisition of Income Properties

The Willson, Ecco, Gesco, Church, Namao and the nine FirstPro properties (collectively referred to as "Other Properties") were acquired subsequent to the closing of the November 2002 public offering and were therefore not included as part of the financial forecast in the prospectus. The properties were acquired at a total cost of $125,954,385 which were funded by way of proceeds from the underwriters' overallotment option, new and assumed mortgages, advances under the revolving operating facility, and issuance of units to vendors and by way of private placement. These properties provided gross rental income of $3,110,492 (63.4% of the forecast revenue) and net income of $1,149,828 (66.9% of forecast income) for the period October 1, 2003 to December 31, 2003. These properties provided gross rental income of $4,347,525 (23.2% of the forecast revenue) and net income of $1,756,799 (27.6% of forecast income) for the period January 1, 2003 to December 31, 2003.

Results of Operations for three months ended December 31, 2003 compared to Prospectus Forecast

Rentals from income properties for the three months ended December 31, 2003 increased by $2,727,903 over forecast primarily due to the acquisition of the Other Properties, offset by reduced revenue from the sale of Dover Square and Richter Plaza, and the deferred acquisition of the Hopewell Business Park and Hopewell Distribution Park properties (collectively the "Hopewell Properties"), and vacancy in Holland Cross office building. Property operating costs were higher than forecast primarily due to the acquisition of the Other Properties and increased parkade expenses, and somewhat reduced due to the sale of Dover Square and Richter Plaza, and the deferred acquisition of the Hopewell Properties. Property operating costs increased to 39.0% of rental revenue for the three months ended December 31, 2003 as compared to 35.8% for the forecast for the three months ended December 31, 2003.

Results of Operations for three months ended December 31, 2003 compared to the three months ended December 31, 2002

Rentals from income properties for the three months ended December 31, 2003 increased by $4,468,387 when compared to the three months ended December 31, 2002. The increase was due to the purchase of seven properties in November 2002 and the purchase of the Other Properties. Total property operating costs decreased to 39.0% of rental revenue for the three months ended December 31, 2003 as compared to 40.1% 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.

Results of Operations for twelve months ended December 31, 2003 compared to Prospectus Forecast

Rentals from income properties for the twelve months ended December 31, 2003 increased by $3,792,166 over forecast primarily due to the acquisition of the Other Properties and increased parking rent offset by the sale of Dover Village Square and Richter Plaza, the deferred acquisition of the Hopewell Properties, and vacancies in Holland Cross office building. Property operating costs were higher than forecast primarily due to the acquisition of the Other Properties and increased parkade expenses offset by the sale of Dover Village Square and deferred acquisition of the Hopewell Properties.

Results of Operations for twelve months ended December 31, 2003 compared to the nine months ended December 31, 2002

Rentals from income properties for the twelve months ended December 31, 2003 increased by $18,743,360 when compared to the nine months ended December 31, 2002. The increase was due to the purchase of seven properties in November 2002 and the Other Properties. Total property operating costs increased to 39.4% of rental revenue for the twelve months ended December 31, 2003 as compared to 38.8% for the prior period. Property operating costs tend to be fully recovered under leases with the exception of vacant space.

results of operations continued

Interest Expense

Interest expense consists primarily of interest paid on mortgages on the income property portfolio. The weighted average interest rate was 6.24% as at December 31, 2003, as compared to 6.21% as at September 30, 2003 and 6.38% as at December 31, 2002. Total mortgages payable (including capital lease obligations) as a percentage of gross book value was 51.1% as at December 31, 2003, as compared to 52.2% as at September 30, 2003 and 51.6% as at December 31, 2002.

Interest expense for the three months ended December 31, 2003 was greater than the forecast as a result of interest on term mortgages for the Other Properties. This increase was partially offset by the decrease in weighted average interest rate on mortgages and overall debt level, the sale of Dover Village Square and Richter Plaza, and the deferred acquisition of the Hopewell Properties.

Interest expense for the twelve months ended December 31, 2003 was greater than the forecast as a result of interest on term mortgages for the Other Properties. This increase was partially offset by the sale of Dover Village Square and Richter Plaza, the deferred acquisition of the Hopewell Business Park and Hopewell Distribution Park properties, and the decrease in weighted average interest rate on mortgages and overall debt level.

Interest expense for the three months and twelve months ended December 31, 2003 has increased $923,371 and $3,612,063, respectively, compared to same periods ended December 31, 2002. This increase is due to the substantial increase in mortgage debt arising from the acquisition of seven properties in November 2002 and the acquisition of the Other Properties.

Amortization

Amortization of income properties for the three months and twelve months ended December 31, 2003 has increased as compared to forecast due to the acquisition of the Other Properties offset by the sale of Dover Village Square and Richter Plaza and the deferred acquisition of the Hopewell properties. Amortization of deferred financing costs and deferred leasing costs increased due mostly to amortization of financing fees and tenant inducements associated with the Other Properties.

Amortization of income properties for the three months and twelve months ended December 31, 2003 compared to the three months and nine months ended December 31, 2002 has increased as result of the acquisition of seven properties in November 2002 and the Other Properties. Amortization of deferred financing costs increased mainly due to financing fees incurred on new and renewed financing.

General and Administrative Expenses

Management of Calloway 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, and professional fees such as audit fees and legal fees.

General and administrative expenses for the three months and twelve months ended December 31, 2003 were less than anticipated in the forecast. The additional employee anticipated in the forecast has not yet been hired. Additional savings were realized by prudent management of trust expenses and, as a result, the forecast contingency was not required. These were offset by professional fees being greater than anticipated in the forecast due to legal services provided for dealing with tenant disputes and other matters, for auditor review of quarterly financial statements and reports, and for consultant fees for acquisitions not completed.

General and administrative expenses for the three months and twelve months ended December 31, 2003 have increased compared to the three months and nine months ended December 31, 2002, respectively, due to the addition of employees, the addition of trustee fees, and increased investor relation and stock exchange costs as a result of Calloway's recent growth.

Gain on Sale of Income Property

Effective June 15, 2003, Calloway sold the Dover Village Square Shopping Centre for gross proceeds of $3,380,000. The sale price was settled by the purchaser assuming the outstanding mortgage, Calloway providing a second mortgage in the amount of $230,000, and the remainder in cash. The property had a carrying value of $2,095,497 and a gain on sale of $1,230,255 was realized.

Effective September 30, 2003, Calloway sold the Richter Plaza Property for gross proceeds of $1,250,000. The sale price was settled by the purchaser assuming the outstanding mortgage and the remainder in cash. The property had a carrying value of $1,115,876 and a gain on sale of $123,424 was realized.

results of operations continued

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, 2003 were greater than forecasted by $869,761 (50.5%) and $982,661 (50.9%) respectively. Actual net income and distributable income for the twelve months ended December 31, 2003 were greater than forecasted by $2,589,590 (40.6%) and $1,387,101 (19.3%) respectively.

Distributable income per unit for the three months ended December 31, 2003 ($0.30) and the year ended December 31, 2003 ($1.24) were less than forecast for the three months ended December 31, 2003 ($0.34) and the year ended December 31, 2003 ($1.28) due mainly to three factors. First, the sale proceeds from the sale of Dover Square and Richter Plaza were not reinvested in other income properties but used to reduce the revolving operating facility. Secondly, the deferred acquisition of the Hopewell properties resulted in lower than forecasted return on invested capital. Thirdly, Calloway raised more proceeds on the October 2003 private placement than required for the October acquisition. In addition, these units along with those issued to FirstPro were not provided for in the forecast. Essentially, all three factors contributed to a temporary situation where Calloway had excess equity relative to its debt. Management intends to restore the debt to gross book value ratio to a target 55% level on its future property acquisitions.

Financial Position

Income Properties

Net book value of income properties increased to $223,405,404 as at December 31, 2003, an increase of $117,479,183 from the net book value of $105,926,221 as at December 31, 2002. This increase is due to the acquisition of the Ecco, Gesco, Church, Namao and the nine FirstPro properties offset by the sale of the Dover Village Square and Richter Plaza properties, as previously described. During the three months ended December 31, 2003, the FirstPro properties were acquired for a total consideration including costs of $109,238,698.

Included in income properties is land acquired during 2003 and subject to development agreements with the vendors of the property. These lands have a potential future development of 424,228 square feet of retail space. The vendors pay to Calloway an opportunity fee equal to 9% per annum of the aggregate undeveloped lands value as reduced from time to time upon the completion and rental of additional space. As the negotiated opportunity fee earned by Calloway reflects Management's estimate of a fair market return for the use of a productive asset, the fee is recognized as revenue. Pursuant to the development agreements, the vendors assume responsibility for the cost of developing the land and are granted the right for a period of five years to earn additional proceeds from Calloway on the completion and rental of additional space on these lands. The purchase price for the additional developments will be calculated by formula using the net operating rents and predetermined capitalization rates. The vendors have the right, at their option, to receive up to 40% of the proceeds for any new developments in units at purchase prices of $10 or $10.50 per unit (not to exceed 199,975 units and approximately 1,800,000 units respectively). The REIT will provide financing to the vendors for the development costs of the additional developments. The REIT has provided a second mortgage on a specific property in the amount of $10,000,000 to the vendors as security for payment of the additional proceeds. The obligation of the vendors is secured by units of Calloway having a value equivalent to the remaining undeveloped land value from time to time. The vendors are part of the FirstPro Group of Companies which is owned by a significant unitholder of Calloway and in which two trustees serve as officers. In the event that FirstPro does not elect to take any portion of the proceeds for new developments in units, Calloway intends to raise such portion of the purchase price by the issuance of units pursuant to one or more private placements. The REIT will lend to FirstPro, at Calloway's cost of funds, monies required to complete the developments. It is projected that these lands will be fully developed in four years at an additional cost of $51,600,000 to Calloway.

financial position continued

Mortgages Receivable

Mortgages receivable increased to $2,571,446 as at December 31, 2003 from $1,600,000 as at December 31, 2002. The increase is due to the second mortgage provided by Calloway to the purchaser of Dover Village Square and for a development loan provided to FirstPro for construction on lands under development.

Other Assets

Prepaid expenses and deposits increased to $640,865 as at December 31, 2003 from $20,372 as at December 31, 2002, an increase of $620,493. This increase is a result of deposits and expenditures relating to the purchase agreement relating to twelve properties which closed in February 2004.

Accounts receivable increased to $341,444 as at December 31, 2003 from $208,556 as at December 31, 2002. This increase is due to the purchase of the Other Properties.

Mortgages Payable

Mortgages payable increased to $117,137,027 as at December 31, 2003 from $56,238,616 as at December 31, 2002, an increase of $60,898,411. This increase arose from the assumption of $70,285,713 of existing mortgages on properties acquired, new term mortgages totaling $12,472,500, offset by term mortgages repaid of $4,580,024, mortgages assumed by purchasers of properties sold of $2,654,079, net repayments of floating rate debt totaling $13,404,148, and principal repayments totaling $1,221,551.

The mortgages payable bear interest at the weighted average interest rate of 6.24% (December 31, 2002 – 6.38%) and mature between 2006 and 2019. Future principal payments as a percentage of mortgages and other debt payable are as follows *(Table H)*:

Table H MORTGAGES PAYABLE

	Payments of Principal	*Debt Maturing During Year*	*Total*	*% of Total*	*Weighted Average Interest Rate (%)*
2004	$ 2,028,795	$ 9,939,007	$ 11,967,802	10.22	5.64
2005	2,168,414	37,144,478	39,312,892	33.57	5.61
2006	2,285,065	2,486,010	4,771,075	4.07	5.78
2007	1,494,918	22,846,511	24,341,429	20.78	6.71
2008	1,387,768	8,710,692	10,098,460	8.62	6.15
2009	1,382,483	0	1,382,483	1.18	7.15
2010	1,301,849	7,060,770	8,362,619	7.14	7.52
2011	953,468	3,397,457	4,350,925	3.71	7.21
2012	900,567	0	900,567	0.77	6.92
2013	545,149	8,075,043	8,620,192	7.36	6.78
2014	514,637	0	514,637	0.44	7.05
2015	551,557	0	551,557	0.47	7.05
2016	591,129	0	591,129	0.50	7.05
2017	633,537	0	633,537	0.54	7.05
2018	678,988	0	678,988	0.58	7.05
2019	58,735	0	58,735	0.05	7.05
Thereafter	0	0	0	0.00	0.00
Total	$ 17,477,059	$ 99,659,968	$117,137,027	100.00	6.24

financial position continued

Included in the 2005 repayment balance of $37,144,478 is the revolving operating facility in the amount of $7,070,500. The maturity date for this facility is February 28, 2005.

Approximately $47,083,485 or 40.2% of the mortgages payable balance as at December 31, 2003 is comprised of variable rate debt. As at December 31, 2003, $15,000,000 of this variable rate debt is subject to interest rate swap agreements wherein the interest rate is fixed at a blended fixed rate of 5.836%. Interest expense (net of variable rate debt subject to interest rate swaps) would be impacted by $320,835 per annum or $0.046 per unit (basic and diluted) for every 1% change in interest rates. Subsequent to December 31, 2003, approximately $34,820,378 of the term debt financing obtained in connection with the property acquisition completed February 16, 2004 was used to reduce variable 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, 2003, Calloway's indebtedness (including capital lease obligations) was 51.1% of the gross book value.

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

Capital Lease Obligations

An income property was acquired under the terms of a 35 year lease. A single payment of $39.0 million was made on October 31, 2003 and a payment of $10.0 million is due at the end of the lease to exercise a purchase option. The capital lease obligation, net of implicit interest costs at 9.18% of $9,586,643, is $413,357 at December 31, 2003.

Lease Commitment

One of Calloway's income properties is subject to a land lease requiring annual lease payments of $205,000. The annual lease payment increases to $220,000 in 2007. The lease expires November 2011, and Calloway has an option to extend for a further 10 years.

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities increased to $5,319,023 as at December 31, 2003 from $1,189,774 as at December 31, 2002 an increase of $4,129,249. The increase is a result of additional accrual of interest and operating costs for the Other Properties, holdbacks for costs to complete on FirstPro properties purchased, and an increase in net GST payable.

Unitholders' Equity

Unitholders equity increased to $106,045,219 as at December 31, 2003 from $51,288,045 as at December 31, 2002 an increase of $54,757,174. This increase was due to the issuance of units for partial consideration on purchase of income properties, units issued under a private placement and exercise of options, and net income including gain on sale of income properties, offset by distributions to unitholders and costs of the private placement.

It is our intent to make monthly cash distributions to unitholders of approximately 90% of Calloway's Distributable Income. For each of the three months ended March 31, 2003, June 30, 2003, September 30, 2003, and December 31, 2003, distributions amounting to 96.7%, 92.8%, 87.3%, and 101.3% respectively, of distributable income were made or declared. For the year ended December 31, 2003 distributions amounting to 95.2% of distributable income were made or declared. The higher payout ratio is due to the following: first, an increase in the number of units outstanding as a result of the overallotment option (330,750 units) at the end of December 2002, whereas the proceeds from these units had not been invested fully during the first quarter of 2003; secondly, the sale proceeds from the sale of Dover Square and Richter Plaza were not reinvested in other income properties but used to reduce the revolving operating facility; thirdly, the deferred acquisition of the Hopewell Properties resulted in the lower than expected return on invested capital; fourthly, units issued under the private placement were issued a full distribution for the month of October, 2003, whereas the proceeds were not used until the closing of the acquisition of nine FirstPro properties on October 31, 2003.

Liquidity and Capital Resources

Calloway's principal sources of liquidity are its ability to generate cash from operations, arrange new loans, and offer units to the public. For the three months ended December 31, 2003, cash from operations totalled $2,980,937, an increase of $1,187,513 from the three months ended December 31, 2002. For the twelve months ended December 31, 2003, cash from operations totalled $8,780,062, an increase of $7,439,828 from the nine months ended December 31, 2002.

During the three months ended December 31, 2003, term mortgages and development loans increased by $63,061,702. Mortgages assumed were $63,820,428 and mortgage repayments were $758,726. During the same period, net repayments of $8,300,000 were made to the revolving operating facility. Unit issuances for the three months ended December 31, 2003, resulted in proceeds of $52,680,250.

During the twelve months ended December 31, 2003, term mortgages and development loans increased by $74,302,558. New mortgages and mortgages assumed were $82,758,213 and mortgage repayments and assumptions by purchasers of income properties were $8,455,655. During the same period, net repayments of $13,404,147 were made to the revolving operating facility. Unit issuances for the twelve months ended December 31, 2003, resulted in proceeds of $54,495,602. Net proceeds of $1,914,070 were received during the same period from the sale of Dover Village Square and Richter Plaza.

On February 16, 2004, the REIT completed the acquisition of twelve retail properties by issuing term mortgages on ten of the properties totalling $191,650,000, by the vendors providing mortgages on two of the properties totalling $12,912,723, and by issuing 10,948,182 units at a price of $13.75 per unit for gross proceeds of $150,537,502.

We expect to be able to meet all of Calloway's ongoing obligations, and maintain cash distributions to unitholders, based on Calloway's cash flow from operations and its borrowing capacity. We expect to fund growth by using borrowing capacity and issuing units.

Related Party Transactions

As a result of transactions completed on October 31, 2003, the owner (or his nominees) of the FirstPro Group of Companies ("FirstPro") became a significant unitholder of Calloway. An officer of FirstPro was a trustee of Calloway during 2003. In addition, another officer of FirstPro was appointed a trustee of Calloway subsequent to October 31, 2003.

During the year ended December 31, 2003, Calloway paid fees totaling $387,501 (nine months ended December 31, 2002 – $396,339) to a legal firm in which a trustee is a partner.

During the year ended December 31, 2003, Calloway received interest income totaling $192,000 (nine months ended December 31, 2002 – $29,984) from a company in which a trustee of Calloway is an officer and director.

During the year ended December 31, 2003, under the terms of property management agreements, Calloway paid property management fees totaling $105,676 to companies in which trustees of Calloway are officers and directors.

During the year ended December 31, 2003, under the terms of development agreements, Calloway received opportunity fees, head lease rents and operating recoveries totaling $445,034 (nine months ended December 31, 2002 – $nil) from FirstPro.

As at December 31, 2003, amounts totaling $32,088 included in accounts receivable were receivable from related parties and amounts totaling $1,526,608 included in accounts payable were payable to related parties.

Risks and Uncertainties

Real Property Ownership

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 geographically across Canada while focusing its acquisition strategy on unenclosed new format retail shopping centres. These centres provide tenants with lower operating costs and tend to be less costly to lease than most other types of commercial real estate. Wal-Mart Canada Inc., Canada's major retailer, comprises approximately 26.2% of the rental revenue as at February 29, 2004. As at December 31, 2003, 45.8% of leases renew in the next five years. After completion of the February 16, 2004 acquisition, 21.6% of leases will renew in the next five years.

Debt Financing and Interest Rate Risk

Calloway is exposed to interest rate risk in regard to its debt. It minimizes this risk by restricting total indebtedness to 60% of gross book value. Calloway also staggers maturity dates of term debt. In addition, although the revolving credit facility is floating rate debt, Calloway has the ability to swap the floating rate to a fixed rate for a term not exceeding the maturity date. As at February 29, 2004, over 72% of total debt matures in greater than five years. In addition, as at February 29, 2004, variable rate debt was effectively nil.

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.

Unitholder Liability

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 operational and asset 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, Calloway must conduct an environmental review through third party consultants prior to acquiring new properties.

Credit Risk

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

Land Leases

To the extent the properties in which Calloway has an interest are located on leased land, the land leases may be subject to periodic rate resets which may fluctuate and may result in significant rental rate adjustments.

Tax Related Risk Factors

There can be no assurance that Canadian federal income tax laws respecting the treatment of mutual fund trusts will not be changed in a manner which results in Calloway being taxed on a basis other than undistributed taxable income.

Potential Conflicts of Interest

Calloway may be subject to various conflicts of interest because of the fact that the Trustees and executive management, and their associates, are engaged in a wide range of real estate and other business activities. Calloway may become involved in transactions which conflict with the interests of the foregoing. Existing Non-Competition Agreements address certain of these conflicts of interest.

The Trustees, executive management and their associates or affiliates may from time to time deal with persons, firms, institutions or corporations with which Calloway may be dealing, or which may be seeking investments similar to those desired by Calloway. The interests of these persons could conflict with those of Calloway. In addition, from time to time, these persons may be competing with Calloway for available investment opportunities. David Calnan, an officer and Trustee of Calloway, is a partner of Shea Nerland Calnan, a law firm that provides legal services to Calloway. John MacNeil and *risks and uncertainties continued*

Simon Nyilassy, Trustees of Calloway, are officers of FirstPro, a group of companies from which Calloway has purchased income properties, entered into development agreements with, and provided loans to. FirstPro also provides property management services to Calloway. Kevin Pshebniski, a Trustee of Calloway, is an officer and director of Hopewell which Calloway has provided loans to and which provides property management services to Calloway. Michael Young, a Trustee of Calloway, provides equity raising services to Calloway.

The Declaration of Trust contains "conflicts of interest" provisions requiring Trustees to disclose material interests in material contracts and transactions, and refrain from voting.

Capital Requirements

Calloway accesses the capital markets from time to time. If Calloway were to be unable to raise additional funds through the issuance of debt, equity or equity-related securities, certain of its acquisition or development activities may be curtailed. Furthermore, Calloway may not be able to raise additional funds on favourable terms.

Reliance on Key Personnel

Management of Calloway depends on the services of certain key personnel. The loss of the services of key personnel could have an adverse effect on Calloway. Calloway does not have key man insurance on any of its key employees.

Critical Accounting Estimates

Calloway's significant accounting policies are disclosed in Note 3 to the consolidated financial statements. An estimate is considered critical if it requires management to make assumptions about matters that are highly uncertain at the time the accounting estimate is made and different estimates that management could have used in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, would have a material impact on Calloway's condition, changes in financial position or results of operations.

Property Acquisitions

Effective for transactions commenced after September 12, 2003, the purchase price of income properties is allocated to land, building, tenant improvements and intangibles, such as the value of above and below market leases, in-place leases and tenant relationships, if any. Management is required to perform the procedures listed below. Many of these procedures are subject to estimation and management judgment.

(a) Estimate the value of the building on an "as if vacant" basis as of the acquisition date.

(b) Allocate that value among land, tenant improvements and building.

(c) Estimate the value of the above and below market leases.

(d) Estimate the value of costs avoided by acquiring in-place operating leases.

(e) Calculate the value and associated life of the tenant relationships, if any, by taking the direct identifiable benefits of the tenant relationship and discounting that to its present value.

None of the property acquisitions in 2003 were subject to this standard.

Impairment of Assets

Under Canadian GAAP, management is required to write down to fair value, any long-lived asset that is determined to have been permanently impaired. Calloway's long-lived assets consist of investments in income properties and mortgages and loans receivable. The fair value of investments in income properties is dependent upon anticipated future cash flows from operations over the anticipated holding period. The review of anticipated cash flows involves subjective assumptions of estimated occupancy, rental rates and a residual value. In addition to reviewing anticipated cash flows, management assesses changes in business climates and other factors, which may affect the ultimate value of the property. These assumptions are subjective and may not ultimately be achieved. The fair value of mortgages and loans receivable depends upon the financial condition of the issuer and the economic value of the underlying security. 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 *critical accounting estimates continued*

disposition of the property, a provision for impairment would be recognized. There were no impairments recorded for 2003 and 2002.

Amortization of Income Properties

Buildings are amortized over the buildings' estimated remaining useful life using the sinking fund method and a notional interest rate of 5.0% per annum. 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 upon management's estimates. In the event the allocation to building is inappropriate or the estimated useful life of buildings proves incorrect, the computation of amortization will not be appropriately reflected over future periods.

Fair Value of Mortgages Payable

In determining the fair value, management uses internally developed models that are based upon current market conditions. The process involves discounting the future contractual mortgage payments based upon a current market rate. In determining market rates, management adds a credit spread to the quoted yields on Canadian government bonds with similar maturity dates to the Calloway's mortgages. The credit spread is estimated based upon experience in obtaining similar financing, and is also affected by current market conditions.

Fair Value of Unit Based Payments and Unit Based Compensation

In determining the fair value of unit based payments and compensation, management uses the Black Scholes Option Pricing model. The pricing model utilizes management's assumptions of unit price volatility, a risk free interest rate, the expected life of the option and the expected distribution rate on units. In determining these assumptions, management assesses market conditions for the units, historical trends relating to unit prices, current market information on interest rates and anticipated cash flows relating to distributable income. These assumptions are subjective and may not ultimately be achieved.

New Accounting Policies Adopted in 2003

The Canadian Institute of Chartered Accountants ("CICA") issued accounting pronouncements that impacted the accounting policies of Calloway in 2003. They are as follows:

Accounting for Operating Leases Acquired in an Asset Acquisition

For transactions that commenced after September 12, 2003, Calloway has adopted the CICA guidance that requires an enterprise that acquires real estate to allocate a portion of the purchase price to any intangible assets, such as in-place operating leases, that are acquired in connection with the property. This standard is prospective in application. None of the property acquisitions in 2003 were subject to this standard.

Accounting for Impairment of Long Lived Assets

The CICA's new standard for impairment of long lived assets requires that a test for impairment be conducted when a change in an entity's circumstance gives rise to concerns that the carrying value of a long lived asset may be impaired. The test for impairment involves comparing the carrying amount of a long lived asset with the undiscounted cash flows expected from its use and disposal. If the carrying amount exceeds the undiscounted cash flows expected, an impairment loss is recognized to the extent carrying value exceeds its fair value. Fair value is estimated based on published market information for the asset or recognized valuation techniques. No impairment losses were recognized in regards to long lived assets owned by Calloway at December 31, 2003.

Derivative Financial Instruments

During the year, Calloway implemented an interest rate swap program. On implementation, the CICA's recommendation for the disclosure of the accounting policy, terms and conditions, and fair value of these financial instruments were adopted.

Future Changes in Accounting Policies

The CICA has recently issued accounting pronouncements which will impact the accounting policies of Calloway. They are as follows:

Amortization of Income Properties

The CICA has issued recommendations on the definition of Canadian generally accepted accounting principles (GAAP). This definition does not include accounting principles generally accepted within particular industries. In the Real Estate sector, the Canadian Institute of Public and Private Real Estate Companies ("CIPPREC") provides guidance on accounting policies specific to the industry. CIPPREC is in the process of adopting recommendations which effectively disallow the use of the sinking fund method of amortization, which is currently used by Calloway in amortizing its income properties. This recommendation is prospective in application and effective for Calloway's 2004 fiscal year. This requirement will result in Calloway adopting the straight-line method for amortization of income properties. Management is unable to disclose the financial impact of this change as it has yet to complete its review of this change in policy.

Recognition of Revenue from Rentals; Step Leases

In the recommendations regarding the definition of Canadian GAAP, there is guidance that in certain circumstances, adopting a more detailed and fact-specific guidance from a recognized American or international accounting body is appropriate. Canadian GAAP provides general guidance on the recognition of rental revenue as services are provided. Where a lease provides for a step in the rental rate charged over the life of the lease, industry practice was to recognize the increase in revenue as of the date the increase came into effect. Accounting pronouncements in the United States provide that total revenue as outlined in the lease agreement should be recognized in revenue on a straight line basis over the life of the lease. This recommendation is prospective in application and effective for Calloway's 2004 fiscal year. Management is unable to disclose the financial impact of this change as it has yet to complete its review of this change in policy.

Unit Based Compensation

The CICA has issued recommendations for the mandatory recognition of the fair value of unit based compensation associated with options granted to employees. Previously Calloway had provided note disclosure of the expense and pro forma net income information. This recommendation is retroactive in application and effective for Calloway's 2004 fiscal year. The impact on Calloway's financial position for options previously granted for which no compensation expense has been recognized is not considered to be material.

Asset Retirement Obligations

The CICA has issued recommendations requiring the recognition of the fair value of obligations relating to the retirement of assets with a corresponding increase in the carrying value of the asset. In periods subsequent to initial measurement the entity recognizes the period to period changes in the liability resulting from the passage of time and revisions to estimates of the timing and amount of cash flows related to retirement of the asset. Previously the requirement was to record estimates of the costs for future removal and site restoration costs when such costs were reasonably determinable. This recommendation is retroactive in application. On adoption the fair value of any existing obligation is to be based on current data. The recommendation is effective for Calloway's 2004 fiscal year. The impact on Calloway's financial position on adoption is not considered to be material.

Subsequent Events

On February 16, 2004, Calloway completed the acquisition of twelve retail properties from a partnership in which a significant unitholder is a 40% owner and an affiliate of a major tenant is a 60% owner. The purchase price of the properties was approximately $313,000,000 including costs of acquisition. Wal-Mart Canada Inc. operates stores in all twelve centres. The purchase price (net of adjustments) was satisfied as follows: by new debt financing on ten of the properties totaling $191,650,000, by the vendors providing a mortgage on two of the properties totaling $12,912,723, and by the payment of the balance in cash. The REIT funded the cash component of the purchase price by issuing 10,948,182 units at a price of $13.75 per unit. A significant unitholder subscribed for 1,818,182 of these units. Excess funds from the equity and debt issues, net of issuance costs, were used to repay variable rate debt obligations.

The REIT has entered into agreements with affiliates of a significant unitholder in which Calloway will lend up to $16,500,000 for use in acquiring and developing three properties in Ontario and Quebec. These loans bear interest at a weighted interest rate of 9.03% with interest only payable monthly. The loans are secured by first charges on property, assignment of rents and leases, general security agreement and indemnities and guarantees of affiliated companies. The loans are due five years from initial advance. The REIT has an option to acquire a 50% interest in the properties upon substantial completion at an agreed upon formula.

On March 10, 2004, Calloway entered into an agreement to purchase twelve retail properties from a partnership in which a significant shareholder is a 40% owner and an affiliate of a major tenant is a 60% owner. The purchase price of the properties will be approximately $300,000,000. The properties comprise approximately 2,400,000 square feet of leased area of which 1,500,000 square feet is leased to Wal-Mart, and include adjacent lands with the potential for future development of 400,000 square feet. The cost of the properties will be satisfied as follows: by obtaining first mortgage financing of approximately $170,000,000; by way of vendor take-back mortgage of approximately $10,000,000; and by payment of the balance in cash. The REIT intends to fund the cash component by issuance of additional units of Calloway. The holder of the warrants has advised Calloway its intention of exercising 750,000 of the warrants which proceeds will be used for the acquisition. This agreement is subject to typical due diligence by vendor and purchaser and approval by regulatory authorities and unitholders. This transaction is expected to close in May, 2004.

Management's Responsibility for Financial Reporting

The Annual Report, including the 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 the information contained in the financial statements.

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

The Board of Trustees is responsible for ensuring that management fulfills its responsibilities 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.

Kenway Mack Slusarchuk Stewart LLP, independent external auditors appointed by the unitholders, have examined the consolidated financial statements and have read Management's Discussion and Analysis. Their report as auditors is set forth below.

J. Michael Storey
President and Chief Executive Officer, March 24, 2004

M. Suchan

Mark A. Suchan
Chief Financial Officer, March 24, 2004

Auditors' Report

To the Unitholders of Calloway Real Estate Investment Trust:

We have audited the consolidated balance sheets of Calloway Real Estate Investment Trust as at December 31, 2003 and December 31, 2002 and the consolidated statements of income, unitholders' equity and cash flows for the year ended December 31, 2003 and the nine months ended December 31, 2002. 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, 2003 and December 31, 2002 and the results of its operations and its cash flows for the year ended December 31, 2003 and the nine months ended December 31, 2002 in accordance with Canadian generally accepted accounting principles.

Kenway Mack Slusarchuk Stewart LLP

Calgary, Alberta
March 2, 2004
Chartered Accountants

Consolidated Balance Sheets

	Notes	December 31, 2003	December 31, 2002
Assets			
Real estate assets			
Income properties	4	**$ 223,405,404**	$ 105,926,221
Mortgages and loans receivable	5	**2,571,446**	1,600,000
Deferred leasing costs	6	**810,702**	219,739
		226,787,552	107,745,960
Deferred financing costs	7	**674,329**	431,752
Prepaid expenses and deposits		**640,865**	20,372
Accounts receivable		**341,444**	208,556
Cash and cash equivalents		**470,436**	309,795
		$ 228,914,626	$ 108,716,435
Liabilities			
Mortgages payable	8	**$ 117,137,027**	$ 56,238,616
Capital lease obligations	9	**413,357**	–
Accounts payable and accrued liabilities		**5,319,023**	1,189,774
		122,869,407	57,428,390
Unitholders' Equity	10	**106,045,219**	51,288,045
		$ 228,914,626	$ 108,716,435

See accompanying notes to the consolidated financial statements.

Approved by the Board of Trustees:

David M. Calnan, *Trustee*

Kevin B. Pshebniski, *Trustee*

Consolidated Statements of Income

	Notes	Year Ended December 31, 2003	Nine Months Ended December 31, 2002
Revenues			
Rentals from income properties		$ **22,496,595**	$ 3,753,235
Interest		**247,251**	37,582
		22,743,846	3,790,817
Expenses			
Property operating costs		**8,860,938**	1,457,032
Interest		**4,417,917**	805,854
Amortization of income properties		**961,421**	160,874
General and administrative		**684,929**	187,697
Amortization of deferred leasing costs		**98,208**	31,713
Amortization of deferred financing costs		**112,635**	20,763
		15,136,048	2,663,933
		7,607,798	1,126,884
Gain on sale of income properties		**1,353,679**	133,865
Net income		$ **8,961,477**	$ 1,260,749
Net income per unit	10		
Basic		$ **1.29**	$ 0.79
Diluted		$ **1.29**	$ 0.79

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Unitholders' Equity

	Notes	Units in $	Net Income	Distributions	Total
Unitholders' Equity					
March 31, 2002		$ 786,005	$ 889,548	$ –	$ 1,675,553
Issuance of units		54,508,350	–	–	54,508,350
Issue costs		(5,046,822)	–	–	(5,046,822)
Net income		–	1,260,749	–	1,260,749
Distributions		–	–	(1,109,785)	(1,109,785)
Unitholders' Equity					
December 31, 2002		50,247,533	2,150,297	(1,109,785)	51,288,045
Issuance of units		54,495,602	–	–	54,495,602
Issue costs		(641,666)	–	–	(641,666)
Fair value of warrants issued	12	97,950	–	–	97,950
Net income		–	8,961,477	–	8,961,477
Distributions		–	–	(8,156,189)	(8,156,189)
Unitholders' Equity					
December 31, 2003		$ 104,199,419	$ 11,111,774	$ (9,265,974)	$ 106,045,219

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

	Notes	**Year Ended December 31, 2003**	Nine Months Ended December 31, 2002
Operating activities			
Net income		**$ 8,961,477**	$ 1,260,749
Add (deduct) items not affecting cash:			
Amortization of income properties		**961,421**	160,874
Amortization of deferred leasing costs		**98,208**	31,713
Amortization of deferred financing costs		**112,635**	20,763
Gain on sale of income properties		**(1,353,679)**	(133,865)
Cash from operations		**8,780,062**	1,340,234
Expenditures on deferred leasing costs		**(833,774)**	(62,067)
Change in accounts payable and other non-cash operating items		**1,874,798**	944,287
		9,821,086	2,222,454
Financing activities			
Proceeds from issuance of units (net of issue costs)		**21,033,334**	49,461,528
Proceeds from mortgage financings		**22,094,396**	31,199,592
Mortgages and other debt repayments		**(28,931,076)**	(8,270,910)
Distributions to unitholders		**(8,156,189)**	(1,109,785)
Expenditures on deferred financing costs		**(397,095)**	(452,513)
Repayments to related party		**–**	(175,160)
		5,643,370	70,652,752
Investing activities			
Proceeds on sale of income properties	14	**1,914,070**	1,171,815
Additions to income properties	14	**(16,246,438)**	(72,223,394)
Advances for mortgages and loans receivable (net of repayments)		**(971,446)**	(1,600,000)
		(15,303,814)	(72,651,579)
Increase in cash and cash equivalents		**160,642**	223,627
Cash and cash equivalents, beginning of period		**309,795**	86,168
Cash and cash equivalents, end of period		**$ 470,437**	$ 309,795

See accompanying notes to the consolidated financial statements.

Notes

TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2003 and Nine Months Ended December 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 subsequently amended and restated on October 24, 2002, October 31, 2003 and January 16, 2004.

In 2002, the REIT changed its fiscal year end from March 31 to December 31. Accordingly, comparative financial statements are for the nine month period ended December 31, 2002.

ACQUISITIONS, DISPOSALS AND UNIT ISSUANCES *Note 2*

2003

On March 31, 2003, the REIT completed the purchase of two industrial properties for $4,629,845. The consideration paid consisted of assumption of mortgage financing of $2,238,022, advances under the operating facility of $2,175,353, and the remainder by available cash.

On April 30, 2003, the REIT completed the purchase of an industrial property for $1,139,240. The consideration paid consisted of advances under the operating facility of $1,050,000 and the remainder by available cash.

On May 31, 2003, the REIT completed the purchase of a retail property for $6,177,295. The consideration paid consisted of assumption of mortgage financing of $4,227,263, the issuance of 180,632 trust units at $10.05 per unit, and the remainder by available cash.

On June 15, 2003, the REIT disposed of a retail property for $3,380,000. The sale price was settled by the purchaser assuming a mortgage in the amount of $1,929,207, the REIT providing a second mortgage in the amount of $230,000, and the remainder in cash. The property had a carrying value of $2,095,497 and a gain on sale of $1,230,255 was recognized.

On September 30, 2003, the REIT disposed of a retail property for $1,250,000. The sale price was settled by the purchaser assuming a mortgage in the amount of $724,872 and the remainder in cash. The property had a carrying value of $1,115,876 and a gain on sale of $123,424 was recognized.

On October 16, 2003, the REIT issued 2,050,000 subscription receipts at a price of $10.50 each. On October 31, 2003, the REIT issued 2,050,000 units on conversion of the subscription receipts.

On October 31, 2003, the REIT completed the purchase of nine retail properties from the FirstPro Shopping Centres group of companies ("FirstPro") for $109,238,698 including acquisition costs. The consideration paid consists of assumption of mortgage financing of $63,820,428, the issuance of 3,100,525 units at $10 per unit to a nominee of First Pro, assumption of other adjustment items of $2,375,101, and the remainder in cash.

During December 2003, 15,000 options with an exercise price of $10 per unit were exercised resulting in the issuance of 15,000 units for gross proceeds of $150,000.

2002

On November 4, 2002 the REIT completed a public 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). On closing of the public offering, the REIT acquired a portfolio of seven 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 mortgage financing.

Subsequent to the public 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 other income properties.

On December 31, 2002, the underwriters of the public offering exercised their over-allotment option to purchase 330,750 units for gross cash proceeds of $3,307,500.

SIGNIFICANT ACCOUNTING POLICIES *Note 3*

These consolidated financial statements of the REIT have been prepared in accordance with Canadian generally accepted accounting principles. Certain comparative figures have been reclassified to conform with the current year's financial statement presentation.

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.

Income Properties

Income properties are recorded at cost less accumulated amortization. If it is determined that the carrying amount of an income property exceeds the undiscounted estimated future net cash flow expected to be received from the ongoing use and residual value of the property, it is reduced to its estimated fair value.

Buildings are amortized over the buildings' estimate remaining useful lives ranging from 19 to 40 years using the sinking fund method and a notional interest rate of 5.0% per annum. Equipment is amortized at 30% using the declining balance basis.

Effective for transactions commenced after September 12, 2003, the purchase price of income properties is allocated to tangible assets including land, building and tenant improvements and intangible assets including the value of above and below-market leases, in-place leases and tenant relationships, if any. The values of tenant improvements, above and below-market leases, in-place leases and tenant relationships are amortized over the terms of the lease agreements and renewal periods where applicable. In the event a tenant vacates its leased space prior to the contractual termination of the lease and no rental payments are being made on the lease, any unamortized balance of the related tenant improvement or intangible will be written off. None of the property acquisitions in 2003 were subject to this standard.

Deferred Leasing Costs

Deferred leasing costs include tenant inducements and leasing expenses. These costs are deferred and amortized on the straight line basis over the terms of the related lease agreements.

Deferred Financing Costs

Financing costs for term mortgages are deferred and amortized over the term of the respective indebtedness. Financing costs for non-term mortgages are deferred and amortized over five years. In the event any mortgages are terminated, any unamortized financing costs will be expensed.

Cash and Cash Equivalents

Cash and cash equivalents include bank accounts and a deposit held with a financial institution.

Derivative Financial Instruments

Derivative financial instruments are utilized by the REIT in the management of its interest rate exposures. The REIT's policy is not to utilize derivative financial instruments for trading or speculative purposes.

The REIT enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its mortgages payable. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based.

The REIT designates its interest rate hedge agreements as hedges of the underlying debt. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps.

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 December 31, 2003 and December 31, 2002.

Unit Based Compensation

(A) UNIT OPTION PLAN

The REIT has a unit option plan for trustees and employees, which is described in Note 11. For unit options granted under the unit option plan at an exercise price that exceeds or equals the fair value of the REIT's units at the date of grant, no compensation expense is recognized by the REIT. The proforma effect on the net income of the REIT, had the fair value method been adopted to account for unit options granted, is disclosed in Note 11.

(B) UNIT OPTIONS AND WARRANTS ISSUED TO NON-EMPLOYEES

The REIT has issued unit options and warrants to FirstPro as described in Notes 11 and 12. The REIT uses the fair value method to account for unit options and warrants issued to non-employees. The fair values of the unit options and the warrants are recognized by the REIT as an increase in the cost of the income property when conditions for issuance of unit options and warrants have been met.

The fair value of unit options and warrants is determined using the Black-Scholes option pricing model. The consideration received by the REIT for units issued on the exercise of unit options and warrants is credited to unitholders' equity.

Net Income 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 and warrants outstanding 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. Monetary transactions with related parties that are not in the normal course of operations, but result in a substantive change in the ownership interests of the item transferred, are recorded at the exchange amount.

INCOME PROPERTIES — *Note 4*

	December 31, 2003			December 31, 2002		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land	$ 61,493,754	$ –	$ 61,493,754	$ 21,381,685	$ –	$ 21,381,685
Buildings	162,968,032	1,125,797	161,842,235	84,763,223	246,582	84,516,641
Equipment	92,230	22,815	69,415	31,045	3,150	27,895
	$ 224,554,016	$ 1,148,612	$ 223,405,404	$ 106,175,953	$ 249,732	$ 105,926,221

Included in income properties is an income property acquired during the year subject to a capital lease. It has a cost of $39,735,951 and a net book value of $39,697,778.

Included in income properties is land acquired during 2003 and subject to development agreements with FirstPro, the vendors of the property. The vendors pay to the REIT an opportunity fee equal to 9% per annum of the aggregate undeveloped lands value as reduced from time to time upon the completion and rental of additional space. As the negotiated opportunity fee earned by the REIT reflects Management's estimate of a fair market return for the use of a productive asset, the fee is recognized as revenue. Pursuant to the development agreements, the vendors assume responsibility for the cost of developing the land and are granted the right for a period of five years to earn additional proceeds from the REIT on the completion and rental of additional space on these lands. The purchase price for the additional developments will be calculated by formula using the net operating rents and predetermined capitalization rates. The vendors have the right, at their option, to receive up to 40% of the proceeds for any new developments in units at purchase prices of $10 or $10.50 per unit (not to exceed 199,975 units and approximately 1,800,000 units respectively). The REIT will provide financing to the vendors for the development costs of the additional developments. The REIT has provided a second mortgage on a specific property in the amount of $10,000,000 to the vendors as security for payment of the additional proceeds.

MORTGAGES AND LOANS RECEIVABLE *Note 5*

Mortgages receivable totaling $1,600,000 (2002 – $1,600,000) are secured by second charges on two properties under development, bear interest at 12% per annum and are repayable in their entirety 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 value of the properties.

A mortgage receivable in the amount of $227,026 (2002 – $nil) is secured by a second charge on an income producing property, bears interest at 11.75%, is repayable in blended monthly installments of $2,683, and is due June 15, 2006.

Loans receivable totaling $744,420 (2002 – $nil) have been provided pursuant to a development agreement with FirstPro on a specific property under development. The loan bears interest at the prime rate of a Canadian chartered bank plus 1.25%. The loan is repayable at the completion and rental of the property under development. FirstPro has not provided any security in regards to the loans, however, proceeds of the loan are used to fund improvements to property owned by the REIT.

DEFERRED LEASING COSTS *Note 6*

	December 31, 2003			*December 31, 2002*		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Tenant inducements	$ 659,601	$ 61,069	$ 598,532	$ 223,620	$ 52,064	$ 171,556
Leasing expenses	254,153	41,983	212,170	59,092	10,909	48,183
	$ 913,754	$ 103,052	$ 810,702	$ 282,712	$ 62,973	$ 219,739

DEFERRED FINANCING COSTS *Note 7*

Deferred financing costs are net of accumulated amortization of $122,514 (2002 – $20,762).

MORTGAGES PAYABLE — Note 8

	December 31, 2003	December 31, 2002
Term mortgages	$ 70,053,542	$ 35,763,969
Development loans	40,012,985	–
Revolving operating facility	7,070,500	20,474,647
	$ 117,137,027	$ 56,238,616

Term mortgages bear fixed interest rates ranging from 4.698% to 7.78% (2002 – 6.34% to 12%), are repayable in blended monthly installments aggregating $551,579 in December 2003 ($289,723 in December 2002), are secured by first registered mortgages over specific income properties, and first general assignments of all leases, insurance and registered chattel mortgages, and are due July 2006 through January 2019.

Development loans bear variable interest rates ranging from the prime rates of various Canadian chartered banks plus 0.875% to 1.25%, are secured by first and second registered mortgages over specific income properties, and first general assignments of all leases and insurance, and are due March 2004 through March 2005.

Revolving operating facility bears a variable interest rate at the prime rate of a Canadian chartered bank plus 0.5%, is secured by first charges over specific income properties, and first general assignments of all leases and insurance, and is due February 28, 2005. This facility is authorized to a maximum of $27,500,000.

During the year, the REIT implemented an interest rate swap program. As at December 31, 2003, $15,000,000 of the variable rate debt is subject to interest rate swap agreements wherein the interest rate is fixed at a weighted average fixed rate of 5.836%. These interest rate swap agreements mature in February 2005. At December 31, 2003, there were no unrealized gains or losses.

All of the income properties of the REIT have been pledged as security under the various debt agreements. The weighted average interest rate of the debt is 6.24% as at December 31, 2003 (6.38% at December 31, 2002).

Approximate principal repayments required to maturity are as follows:

2004	$ 11,967,802
2005	39,312,892
2006	4,771,075
2007	24,341,429
2008	10,098,460
Thereafter	26,645,369
	$ 117,137,027

CAPITAL LEASE OBLIGATIONS — Note 9

An income property was acquired under the terms of a 35 year lease. A single payment of $39.0 million was made on October 31, 2003 and a payment of $10.0 million is due at the end of the lease to exercise a purchase option. The capital lease obligation, net of implicit interest costs at 9.18% of $9,586,643, is $413,357 at December 31, 2003.

UNITHOLDERS' EQUITY *Note 10*

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.

Trust Units Issued and Outstanding

	Year ended December 31, 2003	Nine months ended December 31, 2002
Balance of units, beginning of period	5,951,535	485,867
Issued for cash	2,050,000	5,465,668
Issued to vendors of properties acquired	3,281,157	–
Unit options exercised	15,000	–
Balance of units, end of period	11,297,692	5,951,535

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 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 per unit for gross proceeds of $3,307,500.

On May 31, 2003, the REIT completed the acquisition of a property wherein the consideration paid included the issuance of 180,632 units at $10.05 per unit for gross proceeds of $1,815,352.

On October 31, 2003, the REIT completed the acquisition of nine retail properties wherein the consideration paid included the issuance of 3,100,525 units at $10 per unit for gross proceeds of $31,005,250.

On October 31, 2003, the REIT funded the cash component of the purchase price and costs of acquisition of the nine retail properties by issuing 2,050,000 units of Calloway on conversion of its previously issued 2,050,000 subscription receipts. The subscription receipts were issued at a price of $10.50 per unit for gross proceeds of $21,525,000.

During December 2003, 15,000 options with an exercise price of $10 per unit were exercised resulting in the issuance of 15,000 units for gross proceeds of $150,000.

Weighted Average Number of Units

Net income per unit is calculated using the weighted average number of units outstanding after providing for the unit consolidation on November 4, 2002 as follows:

	Year ended December 31, 2003	Nine months ended December 31, 2002
Basic	6,933,559	1,591,838
Diluted	6,944,185	1,591,838

UNIT OPTIONS *Note 11*

(A) UNIT OPTION PLAN

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 maximum number of units issuable upon exercise of such options currently may not exceed 562,000 units. The number of units issuable under the option plan may be increased on an annual basis subject to any required regulatory and unitholder approvals. The plan provides for the granting of options to purchase units of the REIT at not less than the market price at the time of granting. The vesting terms of any options granted are fixed by the Board of Trustees of the REIT at the time of grant. An option's maximum term is five years.

On July 7, 2003, 560,000 unit options were granted to employees and trustees. These options have an exercise price of $10 per unit and expire July 7, 2008. The trading price at the date of grant was $9.94 per unit. All options granted vested immediately except for 60,000 options vesting January 1, 2004 and 60,000 options vesting January 1, 2005. Options totaling 15,000 were exercised to December 31, 2003.

The fair value of the options granted at the time of granting, using the Black-Scholes option pricing model, is $0.11 per unit option. As the exercise price exceeds the trading price of the REIT's units at the date of grant, the REIT has recognized no compensation. Had compensation costs for these options using the fair value based method of accounting for stock based compensation been utilized, the REIT's net income and net income per unit amounts would have been reduced to the following proforma amounts:

	Year ended December 31, 2003	Nine months ended December 31, 2002
Net income, as reported	$ 8,961,477	$ 1,260,749
Net income, proforma	$ 8,903,673	$ 1,260,749
Earnings per unit, basic, as reported	$ 1.29	$ 0.79
Earnings per unit, basic, proforma	$ 1.28	$ 0.79
Earnings per unit, diluted, as reported	$ 1.29	$ 0.79
Earnings per unit, diluted, proforma	$ 1.28	$ 0.79

The fair value of the options at the grant date was calculated using the Black-Scholes option pricing model, assuming an average volatility of 13% on the underlying units, an exercise price of $10, a risk free interest rate of 4%, an expected life of four years, and an expected distribution rate of 11.5%.

(B) DEVELOPMENT AGREEMENT OPTIONS

Pursuant to development agreements (see Note 4), FirstPro has the right, at their option, to receive up to 40% of the proceeds for any new developments in units at purchase prices of $10 or $10.50 per unit (not to exceed 199,975 units and approximately 1,800,000 units respectively). No developments were completed by December 31, 2003. The fair value of these options at the date of the agreement was $199,700 calculated using an average volatility of 13% on the underlying units, an exercise price of $10 or $10.50 per unit, a risk free interest rate of 4%, an expected life of four years and an expected distribution rate of 11.5% or 10.95%. The fair value has not been recorded as conditions for issuance have not been met. In addition, if the conditions for issuance had been met, the result would have been anti-dilutive.

WARRANTS *Note 12*

Pursuant to the purchase of properties completed on October 31, 2003, 1,000,000 warrants were issued to a FirstPro nominee. These warrants allow the vendor to acquire units in the REIT at $10.50 per unit. The warrants expire October 31, 2008. The fair value of the warrants at the date of the agreement was $97,950 calculated using an average volatility of 13% on the underlying units, an exercise price of $10.50 per unit, a risk free interest rate of 4%, an expected life of four years and an expected distribution rate of 10.95%.

RISK MANAGEMENT AND FAIR VALUES *Note 13*

Risk Management

The REIT is exposed to certain financial risks, including interest rates and the credit quality of its tenants. The REIT manages these risks as follows:

(A) INTEREST RATE RISK

The majority of the REIT's debt is financed at fixed rates with maturities staggered over a number of years, thereby mitigating its exposure to interest rate fluctuations.

A portion of the REIT's debt is financed at variable rates. From time to time the REIT may enter into interest rate swap contracts to modify the interest rate profile of its variable rate debt without an exchange of the underlying principal amount.

(B) CREDIT RISK

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

Fair Values

The carrying values of accounts receivable, cash and cash equivalents 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 mortgages and loans receivable, the development loans payable, the revolving operating facility and the capital lease obligations approximates their fair values as the interest rates are consistent with the current rates offered by or to the REIT for mortgages or other debt with similar terms.

The estimated fair values of fixed rate mortgages payable are $72,568,506 (December 31, 2002 – $36,892,767). Fair values are based upon discounted future cash flows using discount rates that reflect current market rates for mortgages with similar terms and risks. Such fair value estimates are not necessarily indicative of the amounts the REIT might pay in actual market transactions. Potential transaction costs have not been considered in estimating fair values.

The estimated fair value of the interest rate swaps is an obligation of $40,500, and is based on relevant market prices available. The estimate is not necessarily indicative of the amount that the REIT might pay in actual market transactions.

SUPPLEMENTAL CASH FLOW INFORMATION *Note 14*

	Year ended December 31, 2003	Nine months ended December 31, 2002
Interest paid	$ 3,917,777	$ 508,590
Interest received	$ 231,021	$ 18,962
Portion of income properties acquired through the assumption of existing mortgages, capital lease obligation, issuance of units, fair value of warrants issued and an increase in accounts payable	$ 105,070,513	$ 28,983,498
Portion of income properties sold by the purchaser's assumption of existing mortgages	$ 2,654,079	$ –
Units issued in connection with income property acquisitions	$ 32,820,602	$ –

RELATED PARTY TRANSACTIONS *Note 15*

As a result of transactions completed on October 31, 2003, a nominee of the FirstPro Group of Companies ("FirstPro") became a significant unitholder of the REIT. An officer of FirstPro was a trustee of the REIT during 2003. In addition, another employee of FirstPro was appointed a trustee of the REIT subsequent to October 31, 2003.

During the year ended December 31, 2003, the REIT paid fees totaling $387,501 (nine months ended December 31, 2002 – $396,339) to a legal firm in which a trustee is a partner.

During the year ended December 31, 2003, the REIT received interest income totaling $192,000 (nine months ended December 31, 2002 – $29,984) from a company in which a trustee of the REIT is an officer and director.

During the year ended December 31, 2003, under the terms of property management agreements, the REIT paid property management fees totaling $105,676 (nine months ended December 31, 2002 – $nil) to FirstPro and another company in which trustees of the REIT are officers and directors.

During the year ended December 31, 2003, under the terms of development agreements, the REIT received opportunity fees, head lease rents and operating recoveries totaling $445,034 (nine months ended December 31, 2002 – $nil) from FirstPro.

As at December 31, 2003, amounts totaling $32,088 included in accounts receivable were receivable from related parties and amounts totaling $1,526,608 included in accounts payable were payable to related parties.

SEGMENTED DISCLOSURES *Note 16*

The REIT owns, develops, manages and operates income properties located in Canada. Management, in measuring the REIT's performance, does not distinguish or group its operations on a geographical or any other basis. Accordingly, the REIT has a single reportable segment for disclosure purposes in accordance with Canadian generally accepted accounting principles.

The REIT's major tenant is Wal-Mart Canada Inc., accounting for 10.25% of the REIT's December 2003 rental revenue. Upon completion of the acquisition of twelve properties on February 16, 2004, Wal-Mart Canada Inc. will account for 26.2% of the REIT's rental revenue.

DISTRIBUTABLE INCOME *Note 17*

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:

	Year ended December 31, 2003	*Nine months ended December 31, 2002*
Net income	$ 8,961,477	$ 1,260,749
Add (deduct)		
Amortization of income properties	961,421	160,874
Gain on sale of income properties	(1,353,679)	(133,865)
Distributable income	$ 8,569,219	$ 1,287,758
Distributions paid to unitholders	$ 8,156,189	$ 1,109,785

COMMITMENTS AND CONTINGENCIES *Note 18*

The REIT has entered into development agreements as disclosed in Note 4. The estimated commitments payable under the agreements total $51,600,000.

One of the REIT's income properties is subject to a land lease requiring annual lease payments of $205,000. The annual lease payment increases to $220,000 in 2007. The lease expires November 2011 and the REIT has an option to extend for a further 10 years.

A letter of credit for $150,000 has been issued on behalf of the REIT by the REIT's bank as security for a mortgage.

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

The REIT, in the normal course of operations, is subject to a variety of legal and other claims against the REIT. Management and the REIT's legal counsel evaluate all claims on their apparent merits and accrue managements best estimate of the likely cost to satisfy such claims. Management believes that the outcome of legal and other claims filed against the REIT will not have a significant impact on the REIT's financial position, operations or cash flow.

SUBSEQUENT EVENTS *Note 19*

On February 16, 2004, the REIT completed the acquisition of twelve retail properties from a partnership in which a FirstPro is a 40% owner and an affiliate of a major tenant is a 60% owner. The purchase price of the properties was approximately $313,000,000 including costs of acquisition. Wal-Mart Canada Inc. operates stores in all twelve centres. The purchase price (net of adjustments) was satisfied as follows: by new debt financing on ten of the properties totaling $191,650,000, by the vendors providing a mortgage on two of the properties totaling $12,912,723, and by the payment of the balance in cash. The REIT funded the cash component of the purchase price by issuing 10,948,182 units at a price of $13.75 per unit. A significant unitholder subscribed for 1,818,182 of these units. Excess funds from the equity and debt issues, net of issuance costs, were used to repay variable rate debt obligations.

The REIT has entered into agreements with FirstPro in which the REIT will lend up to $16,500,000 for use in acquiring and developing three properties in Ontario and Quebec. These loans bear interest at a weighted interest rate of 9.03% with interest only payable monthly. The loans are secured by first charges on property, assignment of rents and leases, and general security agreements. In addition, other FirstPro affiliated companies have provided indemnities and guarantees. The loans are due five years from initial advance. The REIT has an option to acquire a 50% interest in the properties upon substantial completion at an agreed upon formula.

On March 10, 2004, the REIT entered into an agreement to purchase twelve retail properties from a partnership in which FirstPro is a 40% owner and an affiliate of a major tenant is a 60% owner. The purchase price of the properties will be approximately $300,000,000. The properties comprise approximately 2,400,000 square feet of leased area of which approximately 1,500,000 square feet is leased to Wal-Mart, and include adjacent lands with the potential for future development of approximately 400,000 square feet. The cost of the properties will be satisfied as follows: by obtaining first mortgage financing of approximately $170,000,000; by way of vendor take-back mortgage of approximately $10,000,000; and by payment of the balance in cash. The REIT intends to fund the cash component by issuance of additional units of the REIT. The holder of the warrants has advised the REIT its intention of exercising 750,000 of the warrants which proceeds will be used for the acquisition. This agreement is subject to typical due diligence by vendor and purchaser and approval by regulatory authorities and unitholders. This transaction is expected to close in May, 2004.

Corporate Information

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