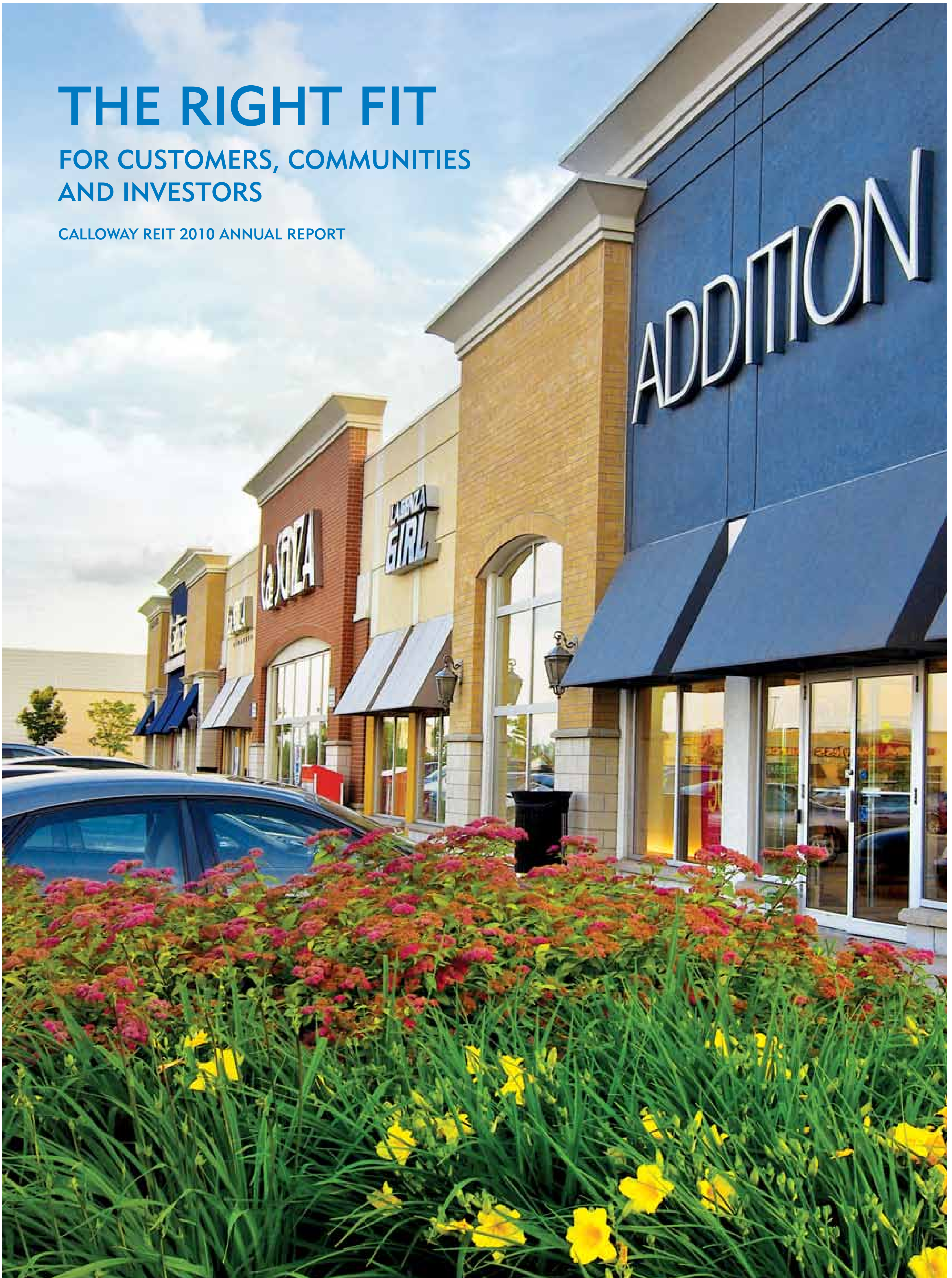


THE RIGHT FIT

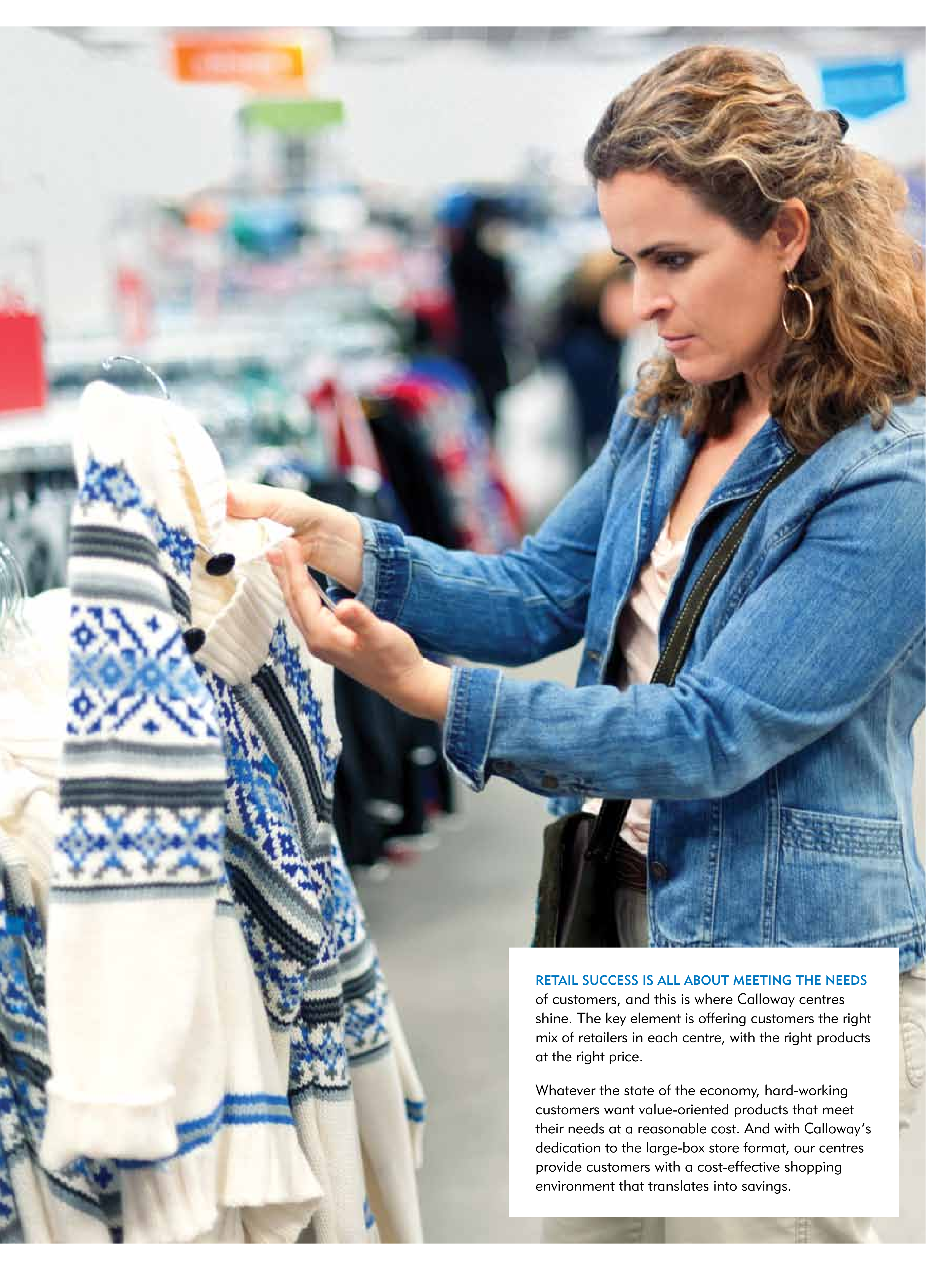
FOR CUSTOMERS, COMMUNITIES AND INVESTORS

CALLOWAY REIT 2010 ANNUAL REPORT

IT'S ALWAYS SATISFYING WHEN

EVERYTHING COMES TOGETHER...

FOR CUSTOMERS



RETAIL SUCCESS IS ALL ABOUT MEETING THE NEEDS of customers, and this is where Calloway centres shine. The key element is offering customers the right mix of retailers in each centre, with the right products at the right price.

Whatever the state of the economy, hard-working customers want value-oriented products that meet their needs at a reasonable cost. And with Calloway's dedication to the large-box store format, our centres provide customers with a cost-effective shopping environment that translates into savings.

FOR COMMUNITIES

ACROSS CANADA, CALLOWAY'S LARGE-SCALE, unenclosed shopping centres not only serve but also enhance the communities in which they're located.

Ease and convenience are among their attractive features. Each centre is located strategically in a heavily populated area and offers abundant parking. As well, our centres feature prominent retailers, providing customers with just the right mix of retail outlets – representing a wide array of non-redundant, complementary tenants. It's an ideal platform for current tenants and for retailers looking to expand.

FOR INVESTORS

DEPENDABLE RETURNS AND A CLEARLY DEFINED strategy for the future are the two key reasons why Calloway REIT offers the right fit for investors who are seeking both income and growth.

In 2010, the REIT provided Unitholders with steady income and reliable distributions. The Trust not only maintained industry-leading performance and increased the value of its well-managed portfolio, but it also laid the groundwork for additional acquisitions and other growth opportunities.

PRESIDENT'S MESSAGE

Simon Nyilassy
President & CEO

In 2010, Calloway's management team and board remained focused on delivering steadily improving results to our Unitholders in what remained an uncertain economic environment. The REIT's solid assets, sound fundamentals and strong leadership produced stable income distributions and laid the groundwork for future growth. The Trust not only maintained industry-leading portfolio performance and a strong balance sheet, it expanded the portfolio by over one million square feet.

Occupancy rates remained high throughout the year, despite the fragile economic conditions of 2010, closing the year at 99.1% – the highest in the industry. During this period, the Trust also strengthened its relationships with tenants. The Trust renewed 90% of tenant leases expiring in 2010. The average increase over previous rent rates was 7-8%. These achievements not only demonstrate strong, respectful, working relationships with tenants, they are an endorsement of Calloway's high-quality assets that tenants recognize and appreciate.

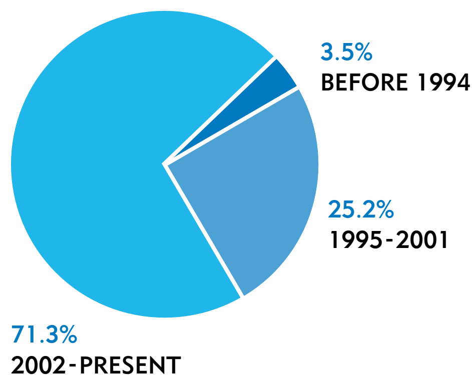
Over the course of the past year, Calloway capitalized on improving capital markets to raise over $500 million in debt and equity capital. This significant undertaking has greatly enhanced Calloway's ability to seize new opportunities. Accessing the capital markets in August for $115 million in equity and $100 million in unsecured debentures provided the necessary capital to acquire two quality assets in October for $130 million. One is located in Laval, Quebec, the other in Sarnia, Ontario.

As a result of these financing efforts, Calloway completed 2010 with $116.9 million available in cash and undrawn lines of credit. This also provides the Trust with substantial capital resources to fund planned growth through 2011. Further to these achievements, management also reduced debt-to-gross book value[1] from 55.3% down to 51.3%, the lowest level in four years and well below the Trust's target range of 55-60%.

TOP 10 TENANTS

1. WAL-MART
2. CANADIAN TIRE/MARK'S
3. BEST BUY/FUTURE SHOP
4. WINNERS
5. REITMANS
6. HBC
7. SOBEYS
8. RONA
9. STAPLES
10. THE BRICK

PORTFOLIO AGE (YEAR OF CONSTRUCTION)



In terms of financial performance, Calloway's income-producing portfolio generated revenues of $481.0 million, for a $34.0 million increase over 2009. Net operating income[1] of $317.9 million increased $23.6 million or 8% primarily as a result of the growth of the portfolio due to acquisitions, earnouts and completed developments, and improvement in occupancy. Income from continuing operations totalled $11.6 million in 2010 versus $23.3 million in 2009. Cash flow as measured by Funds from Operations[1] totalled $175.7 million, compared to $162.0 million in 2009, an increase of 8.4%.

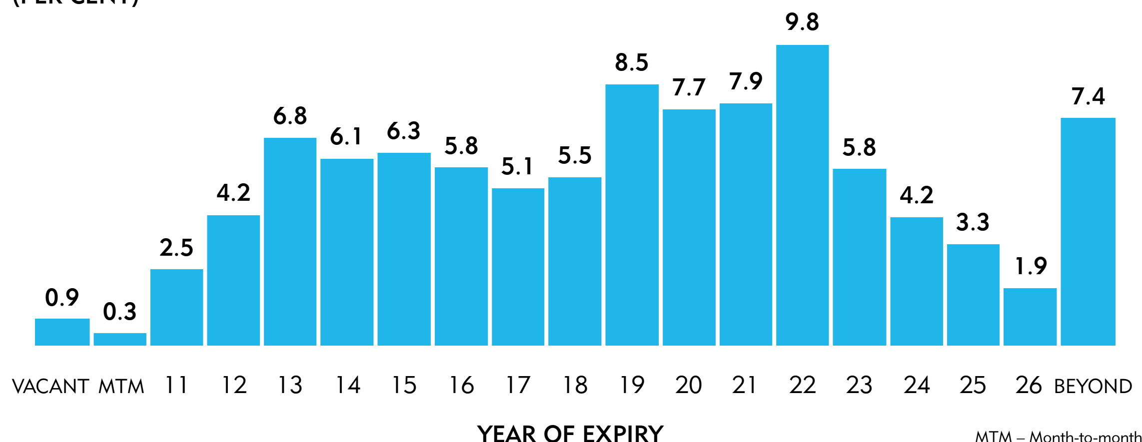
Improved occupancy levels, continued accretive growth through acquisition, developments and earnouts, and lower cost of equity and debt financing all contributed to these positive results. This solid performance allowed Calloway to maintain annual distributions at $1.55 per unit.

As mentioned above, the strong financial position allowed the Trust to expand the portfolio in a substantive and exciting way through the acquisitions of properties in Laval, Quebec, and Sarnia, Ontario. These two large-scale, Wal-Mart anchored developments total 731,000 square feet. While the initial acquisition was $130 million, there are plans for a further $94 million in future investments over the next five years as additional space is built and occupied in the centres. Both locations represent dynamic, new geographic locations for Calloway.

In addition, Calloway invested $151 million to complete the development of 508,436 square feet in new income-producing space. This space was leased to exceptional tenants such as Lowes, Golf Town, Winners and Dollarama. Exceptional tenants are a critical component of the Calloway business model. Calloway's top-tier tenants which, include Wal-Mart, Canadian Tire, BestBuy/Future Shop and Winners, provide products and services to hard-working, value-minded Canadian shoppers.

Wal-Mart is Calloway's largest tenant and anchors 74 of the Trust's shopping centres. Calloway's strong alliance with Wal-Mart has resulted in the development and opening of 37 Supercentre formats to date in the portfolio. These formats offer more product and a wider selection of fresh food, drawing more consumers to Calloway's centres. In addition, Wal-Mart shadow anchors 17 of our centres, of which eight locations are Supercentres. During 2010, Wal-Mart continued with an aggressive expansion strategy converting 15 stores in Calloway's portfolio to Supercentre formats. A further 12 Supercentre conversions are planned in 2011.

LEASE EXPIRIES
(PER CENT)

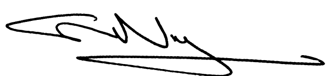


In an effort to maintain a strong level of tenant service and satisfaction with these high-quality tenants, Calloway commissioned a tenant-specific survey in 2010. As a result of constructive feedback, the Trust established new and better ways to provide improved tenant service. This was just one of several important programs launched to improve the overall performance of the portfolio. The Trust also conducted a comprehensive internal review and negotiated multi-year contracts with its suppliers. These initiatives allowed Calloway to streamline operations and realize cost savings for the future.

As the Trust moves forward, it does so with the confidence that comes from owning a well-balanced, well-managed portfolio. As at December 31, 2010, Calloway's real estate portfolio had a fair value at over $5 billion. The portfolio includes 24.2 million square feet of gross leasable area and 4.6 million square feet of future developable area in 119 operating and 11 development properties. The majority of Calloway properties are newly built, and the overall average lease term is 8.8 years.

From this solid base, Calloway continues to eye growth. As the Canadian and U.S. economies strengthen and gain more traction, the Trust will pursue acquisition and other growth opportunities and will act when those opportunities are deemed in the best interest of the portfolio and Unitholders. As well, with a growing number of prominent U.S. retailers looking to expand into Canada or elevate their presence here, Calloway is well positioned to capitalize on these opportunities. For many of these leading American retailers, the Trust's large, stand-alone format stores represent the "right fit." Strategic market locations, high-density traffic, abundant parking and a solid roster of non-redundant, complementary tenants translate into a powerfully appealing platform for business success. To underscore Calloway's position even further, it has 4.6 million square feet in available land in strong markets across the country, zoned and ready to build on as tenant demand continues to emerge.

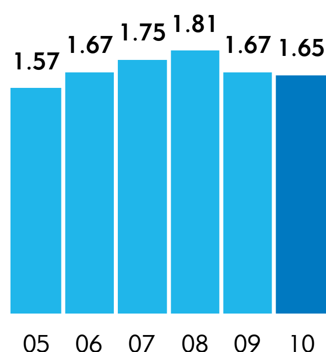
In short, Calloway is well equipped and well prepared to embrace new opportunities – ever and always determined to deliver the best possible results to Unitholders, tenants and their hard-working, value-minded Canadian consumers.



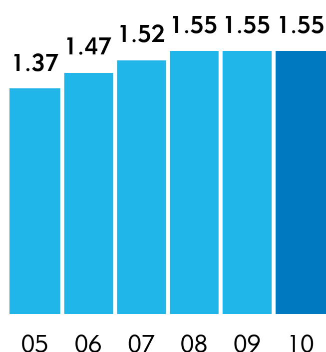
Simon Nyilassy
President and CEO

[1] Non-GAAP measure

FUNDS FROM OPERATIONS
($ PER UNIT)



DISTRIBUTIONS
($ PER UNIT)



CALLOWAY REIT, CREATING EXCEPTIONAL PLACES TO SHOP

NATIONAL PORTFOLIO

Calloway's national portfolio includes 119 high-quality operating properties and 11 development properties located across Canada.

RETAIL PROPERTIES

Courtenay SmartCentre *Courtenay, BC*
Occupancy: 100%, **GLA (sq. ft.):** 243,372
Major Tenants: Wal-Mart, Winners, Staples, Future Shop, Petland, Sport Mart, RBC

Cranbrook SmartCentre *Cranbrook, BC*
Occupancy: 100%, **GLA (sq. ft.):** 136,626
Major Tenants: Wal-Mart Supercentre, Real Canadian Superstore*, Home Hardware*

Kamloops SmartCentre *Kamloops, BC*
Occupancy: 100%, **GLA (sq. ft.):** 217,252
Major Tenants: Wal-Mart, Michaels, Lordco Auto Parts, Pier 1 Imports

Langley SmartCentre *Langley, BC*
Occupancy: 100%, **GLA (sq. ft.):** 327,110
Major Tenants: Wal-Mart, Home Depot*, Save-on-Foods*, Home Outfitters

New Westminster SmartCentre *New Westminster, BC*
Occupancy: 98.6%, **GLA (sq. ft.):** 383,904
Major Tenants: Wal-Mart, Home Outfitters, Best Buy, Petcetera, Tommy Hilfiger

Penticton Power Centre *Penticton, BC*
Occupancy: 100%, **GLA (sq. ft.):** 201,948
Major Tenants: Zellers, Staples, Winners, Petcetera, TD Canada Trust

Prince George SmartCentre *Prince George, BC*
Occupancy: 98.9%, **GLA (sq. ft.):** 288,022
Major Tenants: Wal-Mart Supercentre, Home Depot*, Canadian Tire*, Michaels

Quesnel SmartCentre *Quesnel, BC*
Development Lands
Major Tenants: Wal-Mart*

Salmon Arm SmartCentre** *Salmon Arm, BC*
Development Lands

Surrey West SmartCentre *Surrey, BC*
Occupancy: 98%, **GLA (sq. ft.):** 183,298
Major Tenants: Wal-Mart Supercentre, Dollar Giant, Sleep Country, Reitmans

Vernon SmartCentre *Vernon, BC*
Occupancy: 100%, **GLA (sq. ft.):** 251,838
Major Tenants: Wal-Mart Supercentre, Rona*, Future Shop, Value Village

Calgary Southeast SmartCentre *Calgary, AB*
Occupancy: 100%, **GLA (sq. ft.):** 245,980
Major Tenants: Wal-Mart Supercentre, London Drugs, Mark's Work Wearhouse

Crowchild Corner *Calgary, AB*
Occupancy: 100%, **GLA (sq. ft.):** 23,377
Major Tenants: Re/Max, Respiratory Homecare Solutions Inc.

Edmonton Northeast SmartCentre *Edmonton, AB*
Occupancy: 99.5%, **GLA (sq. ft.):** 241,690
Major Tenants: Wal-Mart, Michaels, Mark's Work Wearhouse, Moores, Reitmans

Lethbridge SmartCentre *Lethbridge, AB*
Occupancy: 100%, **GLA (sq. ft.):** 324,749
Major Tenants: Wal-Mart Supercentre, Home Depot*, Ashley Furniture, Moores

St. Albert SmartCentre *St. Albert, AB*
Occupancy: 100%, **GLA (sq. ft.):** 249,534
Major Tenants: Wal-Mart Supercentre, Save-on-Foods*, Totem*, Sleep Country

Regina East SmartCentre *Regina, SK*
Occupancy: 100%, **GLA (sq. ft.):** 370,755
Major Tenants: Wal-Mart, Real Canadian Superstore*, Rona*, HomeSense

Regina North SmartCentre *Regina, SK*
Occupancy: 100%, **GLA (sq. ft.):** 264,517
Major Tenants: Wal-Mart Supercentre, IGA, Mark's Work Wearhouse

Saskatoon South SmartCentre *Saskatoon, SK*
Occupancy: 100%, **GLA (sq. ft.):** 374,430
Major Tenants: Wal-Mart Supercentre, Home Depot*, HomeSense, The Brick

Kenaston Common SmartCentre *Winnipeg, MB*
Occupancy: 100%, **GLA (sq. ft.):** 246,851
Major Tenants: Rona, Costco*, Indigo Books, Golf Town, Petland, HSBC, RBC

Winnipeg Southwest SmartCentre *Winnipeg, MB*
Occupancy: 100%, **GLA (sq. ft.):** 491,154
Major Tenants: Wal-Mart, Home Depot*, Safeway, Home Outfitters, HomeSense

Winnipeg West SmartCentre *Winnipeg, MB*
Occupancy: 100%, **GLA (sq. ft.):** 327,150
Major Tenants: Wal-Mart, Canadian Tire*, IGA, Winners, Shoppers Drug Mart

Ancaster SmartCentre *Ancaster, ON*
Occupancy: 100%, **GLA (sq. ft.):** 235,807
Major Tenants: Wal-Mart Supercentre, Canadian Tire*, Future Shop, Dollar Giant

Aurora North SmartCentre** *Aurora, ON*
Occupancy: 100%, **GLA (sq. ft.):** 240,299
Major Tenants: Wal-Mart Supercentre, Rona, Best Buy, TD Canada Trust

Aurora SmartCentre *Aurora, ON*
Occupancy: 100%, **GLA (sq. ft.):** 50,463
Major Tenants: Canadian Tire*, Winners, Bank of Nova Scotia, Blockbuster

Barrie North SmartCentre *Barrie, ON*
Occupancy: 100%, **GLA (sq. ft.):** 233,876
Major Tenants: Wal-Mart Supercentre, Zehrs*, Old Navy, Bonnie Togs, Addition-Elle

Barrie South SmartCentre *Barrie, ON*
Occupancy: 100%, **GLA (sq. ft.):** 368,349
Major Tenants: Wal-Mart, Sobeys, Winners, Michaels, PetSmart, La-Z-Boy

Bolton SmartCentre *Bolton, ON*
Occupancy: 100%, **GLA (sq. ft.):** 235,434
Major Tenants: Wal-Mart Supercentre, Real Canadian Superstore*, LCBO

Bramport SmartCentre *Brampton, ON*
Occupancy: 100%, **GLA (sq. ft.):** 119,363
Major Tenants: Loblaws*, LCBO, Dollarama, Swiss Chalet, Bank of Montreal

Brampton East SmartCentre (I) *Brampton, ON*
Occupancy: 90%, **GLA (sq. ft.):** 35,777
Major Tenants: Rona*, Canadian Tire*, The Beer Store, Kelsey's

Brampton East SmartCentre (II) *Brampton, ON*
Occupancy: 100%, **GLA (sq. ft.):** 358,432
Major Tenants: Wal-Mart Supercentre, The Brick, Winners, Staples

Brampton North SmartCentre *Brampton, ON*
Occupancy: 100%, **GLA (sq. ft.):** 41,536
Major Tenants: Fortinos*, Shoppers Drug Mart

Brockville SmartCentre *Brockville, ON*
Occupancy: 100%, **GLA (sq. ft.):** 108,605
Major Tenants: Wal-Mart Supercentre*, Real Canadian Superstore*, Home Depot*

Burlington (Appleby) SmartCentre *Burlington, ON*
Development Lands

Burlington North SmartCentre *Burlington, ON*
Occupancy: 100%, **GLA (sq. ft.):** 226,039
Major Tenants: Wal-Mart Supercentre, Reitmans, Moores, Bank of Nova Scotia

Burlington Staples SmartCentre *Burlington, ON*
Occupancy: 92.2%, **GLA (sq. ft.):** 134,238
Major Tenants: Home Depot*, Future Shop, Staples, Bad Boy Furniture, Sears

Cambridge SmartCentre (I) *Cambridge, ON*
Occupancy: 97.4%, **GLA (sq. ft.):** 686,315
Major Tenants: Wal-Mart Supercentre, Reno Depot, Canadian Tire*, Staples

Cambridge SmartCentre (II) *Cambridge, ON*
Occupancy: 68.9%, **GLA (sq. ft.):** 32,068
Major Tenants: Home Depot*, 2001 Audio Video, Henry's Photography

Carleton Place SmartCentre *Carleton Place, ON*
Occupancy: 100%, **GLA (sq. ft.):** 148,607
Major Tenants: Wal-Mart Supercentre, Dollarama, Mark's Work Wearhouse

Chatham SmartCentre** *Chatham, ON*
Occupancy: 100%, **GLA (sq. ft.):** 139,838
Major Tenants: Wal-Mart Supercentre, Zehrs*, Winners, Mark's Work Wearhouse

Cobourg SmartCentre *Cobourg, ON*
Occupancy: 100%, **GLA (sq. ft.):** 160,543
Major Tenants: Wal-Mart Supercentre, Home Depot*, Loblaws*, Swiss Chalet

Dunnville SmartCentre *Dunnville, ON*
Development Lands
Major Tenants: Canadian Tire*, Sobeys*

Leaside SmartCentre *East York, ON*
Occupancy: 100%, **GLA (sq. ft.):** 210,969
Major Tenants: Home Depot*, Winners, Sport Chek, Best Buy, Sobeys, LCBO

Etobicoke (Index) SmartCentre *Etobicoke, ON*
Development Lands

Etobicoke SmartCentre *Etobicoke, ON*
Occupancy: 100%, **GLA (sq. ft.):** 293,847
Major Tenants: Wal-Mart, Home Depot*, Best Buy, Sport Chek, Old Navy

Rexdale SmartCentre *Etobicoke, ON*
Occupancy: 96%, **GLA (sq. ft.):** 35,093
Major Tenants: Wal-Mart Supercentre*, Dollarama, Bank of Nova Scotia

Fort Erie SmartCentre *Fort Erie, ON*
Development Lands
Major Tenants: Wal-Mart Supercentre*, No Frills*

Halton Hills SmartCentre *Halton Hills, ON*
Development Lands

Hanover SmartCentre *Hanover, ON*
Occupancy: 100%, **GLA (sq. ft.):** 19,874
Major Tenants: Wal-Mart Supercentre*, Loblaws*, Mark's Work Wearhouse

Huntsville SmartCentre *Huntsville, ON*
Occupancy: 100%, **GLA (sq. ft.):** 120,254
Major Tenants: Wal-Mart Supercentre, Your Independent Grocer*, Dollar Giant

Innisfil SmartCentre** *Innisfil, ON*
Development Lands

Kapuskasing SmartCentre *Kapuskasing, ON*
Occupancy: 100%, **GLA (sq. ft.):** 65,592
Major Tenants: Wal-Mart, Reitmans

Kenora Wal-Mart Centre *Kenora, ON*
Occupancy: 100%, **GLA (sq. ft.):** 80,881
Major Tenants: Wal-Mart, Canadian Tire*

Laurentian Power Centre *Kitchener, ON*
Occupancy: 100%, **GLA (sq. ft.):** 185,993
Major Tenants: Zellers, Rona*, Zehrs*, Home Outfitters, Staples, CIBC

London East Argyle Mall *London, ON*
Occupancy: 96.3%, **GLA (sq. ft.):** 353,490
Major Tenants: Wal-Mart, No Frills, Winners, Staples, Sport Chek, GoodLife Fitness

London North SmartCentre** *London, ON*
Occupancy: 96.8%, **GLA (sq. ft.):** 236,044
Major Tenants: Wal-Mart Supercentre, Canadian Tire*, Future Shop, Winners

London Northwest SmartCentre *London, ON*
Occupancy: 100%, **GLA (sq. ft.):** 35,319
Major Tenants: Boston Pizza, Montana's, Bank of Montreal, TD Canada Trust, RBC

Markham Woodside SmartCentre (I)** *Markham, ON*
Occupancy: 100%, **GLA (sq. ft.):** 162,806
Major Tenants: Home Depot, Winners, Staples, Chapters, Petstuff, Michaels

Markham Woodside SmartCentre (II)** *Markham, ON*
Occupancy: 100%, **GLA (sq. ft.):** 16,665
Major Tenants: Longo's*, La-Z-Boy, LCBO

Midland SmartCentre *Midland, ON*
Occupancy: 95.4%, **GLA (sq. ft.):** 35,594
Major Tenants: Wal-Mart Supercentre*, Home Depot*, Mark's Work Wearhouse

Milton Wal-Mart Centre** *Milton, ON*
Occupancy: 96.4%, **GLA (sq. ft.):** 69,266
Major Tenants: Wal-Mart Supercentre*, Canadian Tire*, Staples, Bouclair, RBC

Mississauga (Dixie and Dundas) Centre *Mississauga, ON*
Development Lands

Mississauga (Erin Mills) SmartCentre *Mississauga, ON*
Occupancy: 98.8%, **GLA (sq. ft.):** 281,365
Major Tenants: Wal-Mart Supercentre, No Frills, GoodLife Fitness

Westgate SmartCentre *Mississauga, ON*
Occupancy: 100%, **GLA (sq. ft.):** 560,712
Major Tenants: Wal-Mart Supercentre, Reno Depot, Real Canadian Superstore*

Napanee SmartCentre *Napanee, ON*
Occupancy: 100%, **GLA (sq. ft.):** 109,383
Major Tenants: Wal-Mart, Dollarama, Mark's Work Wearhouse, EasyHome

401 & Weston Power Centre** *North York, ON*
Occupancy: 93.3%, **GLA (sq. ft.):** 172,008
Major Tenants: Real Canadian Superstore*, Canadian Tire, The Brick, Home Outfitters

Hopedale Mall *Oakville, ON*
Occupancy: 95.5%, **GLA (sq. ft.):** 309,081
Major Tenants: Zellers, Metro, Shoppers Drug Mart, LCBO, CIBC

Orleans SmartCentre *Orleans, ON*
Occupancy: 99.3%, **GLA (sq. ft.):** 381,416
Major Tenants: Wal-Mart Supercentre, Canadian Tire*, Home Outfitters, Future Shop

Oshawa North SmartCentre *Oshawa, ON*
Occupancy: 100%, **GLA (sq. ft.):** 487,940
Major Tenants: Wal-Mart Supercentre, Loblaws, Home Depot*, Future Shop

Oshawa South SmartCentre** *Oshawa, ON*
Occupancy: 100%, **GLA (sq. ft.):** 225,182
Major Tenants: Wal-Mart Supercentre, Urban Barn, Moores, Reitmans, RBC

Ottawa South SmartCentre** *Ottawa, ON*
Occupancy: 100%, **GLA (sq. ft.):** 245,502
Major Tenants: Wal-Mart, Loblaws, Cineplex Odeon, Future Shop, Winners, Staples

Owen Sound SmartCentre *Owen Sound, ON*
Occupancy: 100%, **GLA (sq. ft.):** 157,831
Major Tenants: Wal-Mart Supercentre, Home Depot*, Penningtons, Dollarama

Pembroke SmartCentre *Pembroke, ON*
Occupancy: 100%, **GLA (sq. ft.):** 11,247
Major Tenants: Wal-Mart*, Canadian Tire*, Boston Pizza, Reitmans

Peterborough Home Outfitters Centre *Peterborough, ON*
Occupancy: 100%, **GLA (sq. ft.):** 58,355
Major Tenants: Home Outfitters, Jysk Linen 'N Furniture, Boston Pizza

Pickering SmartCentre *Pickering, ON*
Occupancy: 100%, **GLA (sq. ft.):** 528,074
Major Tenants: Wal-Mart Supercentre, Sobeys, Canadian Tire*, Toys R Us, Winners

Renfrew SmartCentre *Renfrew, ON*
Occupancy: 100%, **GLA (sq. ft.):** 9,471
Major Tenants: Wal-Mart Supercentre*, Canadian Tire*, Mark's Work Wearhouse

Richmond Hill SmartCentre** *Richmond Hill, ON*
Occupancy: 99.4 %, **GLA (sq. ft.):** 136,093
Major Tenants: Wal-Mart Supercentre, Metro, Shoppers Drug Mart

Rockland SmartCentre *Rockland, ON*
Occupancy: 100%, **GLA (sq. ft.):** 140,190
Major Tenants: Wal-Mart Supercentre, Dollarama, LCBO, Boston Pizza

Sarnia SmartCentre *Sarnia, ON*
Occupancy: 100%, **GLA (sq. ft.):** 271,052
Major Tenants: Wal-Mart Supercentre, PetSmart, Penningtons, Dollarama

Scarborough (1900 Eglinton) SmartCentre *Scarborough, ON*
Occupancy: 99.4%, **GLA (sq. ft.):** 339,018
Major Tenants: Wal-Mart Supercentre, Winners, Mark's Work Wearhouse

Scarborough East SmartCentre (I) *Scarborough, ON*
Occupancy: 100%, **GLA (sq. ft.):** 92,545
Major Tenants: Home Depot*, Staples, Sears, Mark's Work Wearhouse, RBC

Scarborough East SmartCentre (II) *Scarborough, ON*
Occupancy: 100%, **GLA (sq. ft.):** 281,242
Major Tenants: Wal-Mart Supercentre, Cineplex Odeon, LCBO, Reitmans

St. Catharines West SmartCentre (I) *St. Catharines, ON*
Occupancy: 100%, **GLA (sq. ft.):** 400,126
Major Tenants: Wal-Mart Supercentre, Real Canadian Superstore*, Canadian Tire*

St. Catharines West SmartCentre (II) *St. Catharines, ON*
Occupancy: 100%, **GLA (sq. ft.):** 111,216
Major Tenants: The Brick, Michaels, Golf Town, Bouclair, Bulk Barn

St. Thomas SmartCentre *St. Thomas, ON*
Occupancy: 98%, **GLA (sq. ft.):** 202,721
Major Tenants: Wal-Mart Supercentre, Real Canadian Superstore*, Canadian Tire*

Stouffville SmartCentre *Stouffville, ON*
Occupancy: 100%, **GLA (sq. ft.):** 162,311
Major Tenants: Wal-Mart Supercentre*, Canadian Tire, Winners, Staples

Toronto (Eastern) SmartCentre** *Toronto, ON*
Development Lands

Toronto Stockyards SmartCentre *Toronto, ON*
Occupancy: 100%, **GLA (sq. ft.):** 8,550
Major Tenants: Wal-Mart*, Bank of Montreal, Citifinancial

Westside Mall *Toronto, ON*
Occupancy: 100%, **GLA (sq. ft.):** 144,377
Major Tenants: Canadian Tire, Price Chopper, Shoppers Drug Mart, CIBC

400 & 7 Power Centre *Vaughan, ON*
Occupancy: 94.4%, **GLA (sq. ft.):** 237,992
Major Tenants: The Brick, Home Depot*, Staples, Value Village, GoodLife Fitness

Rutherford Village Shopping Centre *Vaughan, ON*
Occupancy: 95.8%, **GLA (sq. ft.):** 104,036
Major Tenants: Sobeys, Pharma Plus, TD Canada Trust

Vaughan SmartCentre *Vaughan, ON*
Occupancy: 100%, **GLA (sq. ft.):** 269,755
Major Tenants: Wal-Mart Supercentre, Future Shop, Home Outfitters

Welland SmartCentre *Welland, ON*
Occupancy: 100%, **GLA (sq. ft.):** 203,824
Major Tenants: Wal-Mart, Canadian Tire*, Mark's Work Wearhouse, Dollar Giant

Whitby North SmartCentre *Whitby, ON*
Occupancy: 100%, **GLA (sq. ft.):** 231,695
Major Tenants: Wal-Mart, Real Canadian Superstore*, LCBO, TD Canada Trust

Whitby Northeast SmartCentre *Whitby, ON*
Occupancy: 100%, **GLA (sq. ft.):** 26,949
Major Tenants: Boston Pizza, Bell World, RBC

Windsor South SmartCentre *Windsor, ON*
Occupancy: 97%, **GLA (sq. ft.):** 230,375
Major Tenants: Wal-Mart, Part Source, Dollarama, Super Pet, Moores, CIBC

Woodbridge SmartCentre** *Woodbridge, ON*
Occupancy: 87.7%, **GLA (sq. ft.):** 215,255
Major Tenants: Canadian Tire*, Fortinos*, Best Buy, Toys R Us, Chapters

Woodstock SmartCentre *Woodstock, ON*
Occupancy: 100%, **GLA (sq. ft.):** 256,342
Major Tenants: Wal-Mart Supercentre, Canadian Tire*, Staples

Drummondville SmartCentre *Drummondville, QC*
Occupancy: 92.7%, **GLA (sq. ft.):** 51,186
Major Tenants: Wal-Mart*, Loblaws*, Addition-Elle, Mark's Work Wearhouse

Hull SmartCentre** *Hull, QC*
Occupancy: 100%, **GLA (sq. ft.):** 147,658
Major Tenants: Wal-Mart, Rona*, Famous Players*, Super C*, Winners, Staples

Kirkland SmartCentre *Kirkland, QC*
Occupancy: 100%, **GLA (sq. ft.):** 207,216
Major Tenants: Wal-Mart, The Brick

Laval East SmartCentre *Laval, QC*
Occupancy: 100%, **GLA (sq. ft.):** 460,381
Major Tenants: Wal-Mart, Canadian Tire, IGA, Winners, Bouclair, Sports Experts

Laval West SmartCentre *Laval, QC*
Occupancy: 100%, **GLA (sq. ft.):** 559,542
Major Tenants: Wal-Mart, Reno Depot, Canadian Tire*, IGA*, Home Outfitters

Magog SmartCentre *Magog, QC*
Occupancy: 100%, **GLA (sq. ft.):** 101,854
Major Tenants: Wal-Mart, Canadian Tire*

Mascouche SmartCentre *Mascouche, QC*
Occupancy: 100%, **GLA (sq. ft.):** 364,153
Major Tenants: Wal-Mart, Rona*, IGA, Home Outfitters, Winners, Staples, Bouclair

Montreal (Decarie) SmartCentre** *Montreal, QC*
Occupancy: 100%, **GLA (sq. ft.):** 112,457
Major Tenants: Wal-Mart, Mark's Work Wearhouse, Pier 1 Imports, Addition-Elle

Montreal North SmartCentre *Montreal, QC*
Occupancy: 100%, **GLA (sq. ft.):** 257,204
Major Tenants: Wal-Mart, IGA, Winners, Dollarama, Mark's Work Wearhouse

Place Bourassa Mall *Montreal, QC*
Occupancy: 98.1%, **GLA (sq. ft.):** 276,206
Major Tenants: Zellers, Super C, Pharmaprix, Bouclair, L'Aubainerie, SAQ, RBC

Rimouski SmartCentre *Rimouski, QC*
Occupancy: 97.3%, **GLA (sq. ft.):** 232,849
Major Tenants: Wal-Mart, Tanguay*, Super C*, Future Shop, Mark's Work Wearhouse

Saint-Constant SmartCentre *Saint-Constant, QC*
Occupancy: 99.5%, **GLA (sq. ft.):** 303,731
Major Tenants: Wal-Mart, Home Depot*, Super C, L'Aubainerie Concept Mode

Saint-Jean SmartCentre *Saint-Jean, QC*
Occupancy: 100%, **GLA (sq. ft.):** 195,929
Major Tenants: Wal-Mart, Maxi*, Mark's Work Wearhouse, TD Canada Trust

Saint-Jerome SmartCentre *Saint-Jerome, QC*
Occupancy: 100%, **GLA (sq. ft.):** 140,312
Major Tenants: Wal-Mart*, Home Depot*, IGA, Future Shop, Bouclair, Dollarama

Sherbrooke SmartCentre *Sherbrooke, QC*
Occupancy: 100%, **GLA (sq. ft.):** 205,185
Major Tenants: Wal-Mart, Home Depot*, Canadian Tire*, Mark's Work Wearhouse

Valleyfield SmartCentre *Valleyfield, QC*
Occupancy: 100%, **GLA (sq. ft.):** 161,236
Major Tenants: Wal-Mart, Dollarama, SAQ, Reitmans

Victoriaville SmartCentre *Victoriaville, QC*
Occupancy: 100%, **GLA (sq. ft.):** 23,214
Major Tenants: Wal-Mart*, Home Depot*, Maxi*

Fredericton North SmartCentre *Fredericton, NB*
Development Lands
Major Tenants: Wal-Mart*, Canadian Tire*, Kent*

Saint John SmartCentre *Saint John, NB*
Occupancy: 100%, **GLA (sq. ft.):** 271,084
Major Tenants: Wal-Mart, Kent*, Canadian Tire*, Winners, Future Shop, Sport Chek

Bridgewater SmartCentre *Bridgewater, NS*
Occupancy: 93.3%, **GLA (sq. ft.):** 46,707
Major Tenants: Wal-Mart*, Home Depot*, Canadian Tire*, Boston Pizza, Reitmans

Halifax Bayers Lake Centre *Halifax, NS*
Occupancy: 100%, **GLA (sq. ft.):** 155,397
Major Tenants: Zellers*, Atlantic Superstore*, Future Shop, Winners, Reitmans

New Minas SmartCentre *New Minas, NS*
Occupancy: 95.5%, **GLA (sq. ft.):** 45,561
Major Tenants: Wal-Mart*, Sport Chek, Mark's Work Wearhouse, Bulk Barn

Truro SmartCentre *Truro, NS*
Occupancy: 100%, **GLA (sq. ft.):** 123,571
Major Tenants: Wal-Mart, Kent*, Stitches, Penningtons

Charlottetown SmartCentre *Charlottetown, PE*
Occupancy: 100%, **GLA (sq. ft.):** 188,924
Major Tenants: Wal-Mart, Canadian Tire*, Home Depot*, Sobeys*, Michaels

Corner Brook SmartCentre *Corner Brook, NL*
Occupancy: 98%, **GLA (sq. ft.):** 178,980
Major Tenants: Wal-Mart, Canadian Tire*, Dominion (Loblaws)*, Staples, Bulk Barn

Gander SmartCentre *Gander, NL*
Occupancy: 91.8%, **GLA (sq. ft.):** 25,235
Major Tenants: Wal-Mart*, Penningtons, EasyHome, Bank of Nova Scotia

Mount Pearl SmartCentre *Mount Pearl, NL*
Occupancy: 99.5%, **GLA (sq. ft.):** 261,513
Major Tenants: Wal-Mart, Canadian Tire*, Dominion (Loblaws)*, Staples, Reitmans

Pearlgate Shopping Centre *Mount Pearl, NL*
Occupancy: 100%, **GLA (sq. ft.):** 42,893
Major Tenants: Shoppers Drug Mart, TD Canada Trust

St. John's Central SmartCentre *St. John's, NL*
Occupancy: 92.7%, **GLA (sq. ft.):** 111,025
Major Tenants: Wal-Mart*, Home Depot*, Canadian Tire*, IGA, Petcetera, Moores

St. John's East SmartCentre *St. John's, NL*
Occupancy: 100%, **GLA (sq. ft.):** 364,210
Major Tenants: Wal-Mart, Dominion (Loblaws)*, Winners, Staples, Future Shop

Total Retail Properties – Occupancy: 99.1%, GLA: 24,089,473 sq. ft.

INDUSTRIAL/OFFICE PROPERTIES

Airtech Centre *Richmond, BC*
Occupancy: 100%, **GLA (sq. ft.):** 111,488
Major Tenants: MTU Maintenance, Amre Supply Co.

British Colonial Building *Toronto, ON*
Occupancy: 100%, **GLA (sq. ft.):** 17,428
Major Tenants: Navigator Limited, Irish Embassy Pubs Inc.

Total Industrial/Office Properties – Occupancy: 100%, GLA: 128,916 sq. ft.

* Non-owned anchor
** Calloway interest – indicates Calloway's ownership interest. Calloway owns a 44.4% interest in the 401 & Weston Power Centre, a 49.9% interest in Hull SmartCentre, 50% interests in Aurora North SmartCentre, Chatham SmartCentre, Innisfil SmartCentre, London North SmartCentre, Markham Woodside SmartCentre (I), Markham Woodside SmartCentre (II), Milton Wal-Mart Centre, Montreal (Decarie) SmartCentre, Oshawa South SmartCentre, Ottawa South SmartCentre, Richmond Hill SmartCentre, Salmon Arm SmartCentre, Toronto (Eastern) SmartCentre and Woodbridge SmartCentre.

GLA – Gross Leasable Area

CORPORATE OVERVIEW

Calloway REIT is the dominant owner of large-format unenclosed retail properties in Canada, with a fair value at over $5 billion. Through the ownership and development of premium retail properties, it is creating exceptional places for Canadians to shop. Home to leading national retailers, these properties comprise a total of 24.2 million square feet. Calloway continues to create value for its Unitholders, its tenants and hard-working Canadian consumers.

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

FOR THE YEAR ENDED DECEMBER 31, 2010

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

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

This MD&A is dated February 24, 2011, which is the date of the press release announcing Calloway's results for the year ended December 31, 2010. Disclosure contained in this MD&A is current to that date, unless otherwise noted.

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

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

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

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

Additional information relating to Calloway, including Calloway's Annual Information Form for the year ended December 31, 2010, can be found at www.sedar.com.

Business Overview and Strategic Direction

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

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

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

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

As at December 31, 2010, Calloway owned 128 shopping centres, one office building and one industrial building, with total gross leasable area of 24.2 million square feet, located in communities across Canada. Generally, Calloway's centres are conveniently located close to major highways, which, along with the anchor stores, provide significant draws to the Calloway portfolio, attracting both value oriented consumers and retailers. Calloway acquired the right, for a ten-year term commencing in 2007, to use the "SmartCentres" brand, which represents a family and value oriented shopping experience.

Acquisitions

Subject to the availability of acquisition opportunities, Calloway intends to grow distributions, in part, through the accretive acquisition of properties. The current environment for acquisitions is very competitive; however the cost of capital relative to the return available on acquisitions is such that accretive acquisitions can be negotiated. The Trust explores acquisition opportunities as they arise.

Developments and Earnouts

Calloway Developments and Earnouts continue to be a significant component of Calloway's strategic plan. As at December 31, 2010, the Trust has approximately 4.6 million square feet of potential gross leasable area that could be developed. Assuming Calloway continues to successfully manage the development of leasable area and raise the capital required for such development, the Trust plans to develop approximately 2.3 million square feet of this gross leasable area internally ("Calloway Developments"), with the balance of the space to be developed and leased to third parties by SmartCentres and other vendors ("Earnouts").

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

Professional Management

Through professional management of the portfolio, Calloway intends to ensure its properties portray an image that will continue to attract consumers as well as provide preferred locations for its tenants. Well managed properties enhance the shopping experience and ensure customers continue to visit the centres. Professional management of the portfolio has contributed to a continuing high occupancy level of 99.1% at December 31, 2010 (December 31, 2009 – 98.9%).

Financial and Operational Highlights in 2010

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

- Maintained portfolio occupancy above the 99% level.
- Acquired two income properties for $130.1 million and a development property for $25.9 million.
- Completed Developments and Earnouts of 508,436 square feet of leasable area for $151.3 million, providing an unleveraged yield of 7.4%.
- Issued $306 million in new Trust Units.
- Issued $260 million in unsecured and convertible debentures at rates ranging from 5.00% to 5.75%.
- Redeemed $150 million 10.25% Series C senior unsecured debentures, $46 million 4.51% Series A senior unsecured debentures and the balance of the 6.00% convertible debentures.
- The fair value of the Trusts' investment properties is $1.1 billion over its book value.

Selected consolidated information:

(in thousands of dollars, except per Unit and other non-financial data)	**2010**	2009[1]	2008
Operational Information			
Number of properties	**130**	127	129
Gross leasable area (in thousands of sq. ft.)	**24,218**	22,750	21,879
Future estimated development area (in thousands of sq ft.)	**4,615**	5,144	5,583
Occupancy	**99.1%**	98.9%	99.2%
Average lease term to maturity	**8.6 years**	9.1 years	9.7 years
Net rental rate (per occupied sq. ft.)	**$14.03**	$13.91	$13.71
Net rental rate excluding anchors (per occupied sq. ft.)[2]	**$19.62**	$19.30	$18.87
Financial Information			
Fair value of investment properties	**5,216,429**	4,214,609	N/A
Real estate assets	**4,308,987**	4,153,289	4,102,156
Total assets	**4,373,522**	4,236,839	4,194,387
Debt	**2,666,583**	2,726,698	2,619,797
Debt to gross book value[3]	**51.3%**	55.3%	54.3%
Interest coverage[4]	**1.9X**	2.0X	2.1X
Equity (book value)	**1,553,650**	1,372,617	1,436,887
Revenue	**494,417**	461,592	436,578
Net operating income (NOI)[5]	**317,948**	294,300	274,580
Net income	**11,645**	23,286	89,648
Cash provided by operating activities	**139,979**	142,785	144,069
Funds from operations (FFO)[6]	**144,110**	162,013	170,277
Adjusted funds from operations (AFFO)[6]	**163,531**	152,363	159,575
Distributions declared	**166,021**	151,075	145,948
Units outstanding[7]	**114,939,541**	99,365,444	95,077,675
Weighted average – basic	**106,504,173**	97,091,861	93,867,699
Weighted average – diluted[8]	**106,504,173**	97,091,861	93,867,699
Per Unit Information (Basic/Diluted)			
Net income	**$0.11/$0.11**	$0.24/$0.24	$0.95/$0.95
Funds from operations (FFO)[6]	**$1.35/$1.35**	$1.67/$1.67	$1.81/$1.81
Adjusted funds from operations (AFFO)[6]	**$1.54/$1.54**	$1.57/$1.57	$1.70/$1.70
Distributions	**$1.55**	$1.55	$1.55
Payout ratio[9]	**100.8%**	98.6%	91.2%

[1] In the first quarter of 2009, the Trust merged three existing properties with other adjacent existing properties.

[2] Anchors are defined as tenants within a property with leasable area greater than 30,000 square feet.

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

[4] Defined as net income plus amortization and interest expense less gain (loss) on sale of income properties divided by interest expense excluding the one-time charge for interest expense booked on revised payments made on redemption of the Series C 10.25% unsecured debentures plus capitalized interest.

[5] Defined as rentals from income properties less property operating costs.

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

[7] Total Units outstanding includes LP Units and Trust Units.

[8] The diluted weighted average does not include unvested options on Earnouts.

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

Real Estate Assets

As at December 31, 2010, real estate assets totalled $4,309.0 million, an increase of $155.7 million during the year. Real estate assets comprise income properties ($3,696.5 million), properties under development ($427.3 million), mortgages and loan receivables ($179.1 million) and deferred leasing costs ($6.1 million). The portfolio consists of 24.2 million square feet of built gross leasable area, 4.6 million square feet of future potential gross leasable area in 130 properties and the option to acquire 50.0% to 100.0% interests (1.7 million square feet) in 11 income properties upon their completion pursuant to the terms of mezzanine loans. The portfolio is located across Canada with assets in each of the ten provinces. The Trust targets major urban centres and shopping centres that are dominant in their trade area. By selecting well-located centres, Calloway attracts quality tenants at market rental rates.

Income Properties and Properties Under Development

(in thousands of dollars)	**2010 Income Properties**	2009 Income Properties	**2010 Properties Under Development**	2009 Properties Under Development
Balance – beginning of year	**3,537,499**	3,459,674	365,050	381,835
Developments and Earnouts completed on existing properties – costs transferred	**–**	–	(108,659)	(85,286)
Developments and Earnouts completed on existing properties – costs plus Earnout fees	**51,332**	186,494	–	–
Development costs acquired on settlement of development loans receivable	**–**	–	58,578	–
Acquisition of properties under development	**–**	–	25,946	14,285
Acquisition of income properties	**130,108**	40,814	–	–
Development cost incurred	**–**	–	80,103	51,336
Adjustment for undeveloped land obligation	**–**	–	6,291	(12,145)
Disposition of properties under development	**–**	–	–	(1,358)
Transfer from income properties[1]	**–**	(16,383)	–	16,383
Building, equipment and tenant improvements on existing properties	**9,287**	4,793	–	–
Increase in accumulated amortization	**(131,744)**	(137,893)	–	–
Net additions (reductions)	**158,983**	77,825	62,259	(16,785)
Balance – end of year	**3,696,482**	3,537,499	427,309	365,050

[1] One of the income properties (Dixie) was capitalized and transferred to properties under development in the first quarter of 2009.

Acquisitions of Income Properties

Acquisitions – 2010

On November 23, 2010, the Trust completed the acquisition of a 50% co-ownership interest in an 18.47 acre development property in Toronto, Ontario, for a purchase price totalling $25.9 million, which was paid with proceeds received from an existing mortgage receivable of $22.7 million, and the balance paid in cash, adjusted for other working capital amounts.

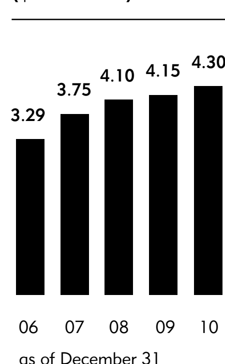
On September 13, 2010, the Trust acquired 731,433 square feet of retail space in two retail properties from a joint venture between SmartCentres and Wal-Mart Canada Realty Inc. for $130.1 million, which was satisfied by the issuance of Class B LPIII Units with a value of $11.1 million, and the balance in cash. An additional 415,238 square feet of retail space is to be built and acquired under Earnout agreements.

Acquisitions – 2009

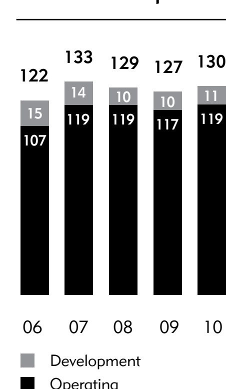
On August 31, 2009, the Trust completed the acquisition from SmartCentres of a 50% leasehold interest in an income property (272,595 square feet) in Richmond Hill, Ontario, for $40.8 million pursuant to an existing agreement signed in 2007. The purchase price was satisfied by the proceeds received from an existing mortgage receivable of $20.8 million, the assumption of an existing first mortgage totalling $17.9 million and the balance in cash, adjusted for other working capital amounts.

On April 30, 2009, the Trust completed the acquisition from SmartCentres of a 50% co-ownership interest in an 86.6 acre development property in Innisfil, Ontario for a purchase price totalling $14.3 million, which was paid with proceeds received from an existing mortgage receivable of $14.1 million, adjusted for other working capital amounts.

Total Real Estate Assets ($ in billions)



Number of Properties



Maintenance of Productive Capacity

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

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

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

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

Sustaining capital expenditures totalling $4.2 million and leasing costs (tenant allowances and leasing commissions) of $6.4 million included in building, equipment, tenant allowances and deferred leasing costs on existing properties were incurred during the year ended December 31, 2010. Since Calloway's income properties are relatively new and in good condition, management anticipates only modest increases for each of 2011 and 2012, and thus they are not expected to have an impact on the Trust's ability to pay distributions at its current level. The large increase in sustaining capital expenditures in the current year is mainly due to the capitalization of a new enterprise software implementation.

Sustaining capital expenditures and leasing costs consist of the following:

(in thousands of dollars, except per Unit amounts)	**2010**	2009	2008
Expenditures on deferred leasing costs per Consolidated Statements of Cash Flows	**1,351**	1,708	1,517
Leasing costs for first-time tenants[1]	**–**	(212)	(298)
Leasing commissions	**1,351**	1,496	1,219
Tenant allowances[2]	**5,039**	3,152	1,289
Total leasing costs	**6,390**	4,648	2,508
Sustaining capital expenditures[3]	**4,249**	1,641	1,845
	10,639	6,289	4,353
Per Unit – diluted	**0.100**	0.065	0.046

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

[2] For the purposes of the AFFO calculations, these amounts are considered leasing costs.

[3] Includes $1.7 million for new accounting software implementation year to date.

Calloway Developments and Earnouts Completed on Existing Properties

During 2010, $151.3 million of Earnouts and Calloway Developments transferred to income properties were completed, compared to $186.5 million in 2009, summarized as follows:

	2010			2009		
(in millions of dollars)	**Area (sq. ft.)**	**Investment $**	**Yield %**	Area (sq. ft.)	Investment $	Yield %
Earnouts	**448,413**	**135.5**	**7.3**	640,814	158.0	7.0
Calloway Developments	**60,023**	**15.8**	**8.7**	134,676	28.5	9.0
	508,436	**151.3**	**7.4**	775,490	186.5	7.3

On January 31, 2011, the Trust completed the purchase of Earnouts totalling 38,329 square feet of development space from SmartCentres and other vendors for gross proceeds of $12.0 million with an unleveraged yield of 7.5%.

Properties Under Development

As at December 31, 2010, properties under development totalled $427.3 million compared to $365.1 million at December 31, 2009. The net increase of $62.2 million is a result of additional development cost of $145.0 million and acquisition of properties under development of $25.9 million offset by the transfer to income properties of the cost of nine new buildings from Calloway Developments for $15.8 million and the cost of completed Earnouts of $92.9 million.

Properties under development as at December 31, 2010 and December 31, 2009 are comprised of the following:

(in thousands of dollars)	**2010**	2009
Earnouts subject to option agreements[1]	**130,445**	117,878
Calloway Developments subject to option agreements[2]	**101,810**	97,140
Other Calloway Developments	**195,054**	150,032
Properties under development – end of year	**427,309**	365,050

[1] Earnout development costs during the development period are paid by the Trust and funded through interest bearing development loans provided by the vendors to the Trust. Upon completion of the development and the commencement of lease payments by a tenant, the Earnouts will be acquired from the vendors based on predetermined or formula capitalization rates ranging from 6.00% to 10.00%, net of land and development costs incurred. SmartCentres has contractual options to acquire Trust and LP Units upon completion of Earnout Developments as shown in note 11(b) of the audited consolidated financial statements for the year ended December 31, 2010. In January 2009, the Trust and SmartCentres agreed in principle to amend certain development management agreements pertaining to the Earnouts of eleven properties that currently have a floating capitalization rate determined by reference to the ten-year Government of Canada bond rate. The proposed amendments are to include a fixed floor capitalization rate ranging from 6.00% to 7.50%.

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

The total future Earnouts and Calloway Developments of 4.6 million square feet include 2.3 million square feet of Earnouts and 2.3 million square feet of Calloway Developments. The following table summarizes the estimated investment in properties under development; it is expected the future development costs will be spent over the next five years:

(in thousands of dollars, except for area)	Gross Investment[1] $	Costs Incurred $	Future Development Costs $	Total Area (sq. ft.)
Earnouts	607,432	130,445	476,987	2,339,517
Calloway Developments	595,932	244,925	351,007	2,275,095
Total	1,203,364	375,370	827,994	4,614,612

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

Approximately 50.7% of the properties under development, representing 2.3 million square feet and an investment of $607.4 million, are lands that are under contract by vendors to develop and lease to third parties for additional proceeds. It is management's intention to finance the cost of construction through interim financing or operating facilities and, once rental revenue is realized, long-term financing will be negotiated. The remaining 2.3 million square feet of future space will be developed as Calloway leases space and finances the construction costs.

During the year ended December 31, 2010, the future properties under development pipeline decreased by 529,662 square feet. The change is summarized as follows:

	Total Area (sq. ft.)
Future properties under development pipeline – beginning of the year	5,144,274
Add:	
Acquisition of development land	110,000
Development related to properties acquired during the year	415,238
Less:	
Adjustment to project densities[1]	(546,464)
Completion of Earnout and Calloway Development during the year	(508,436)
Net adjustment	(529,662)
Future properties under development pipeline – end of the year	4,614,612

[1] Includes adjustment for future parcel sales which were previously included as part of the development pipeline.

Mortgages, Loans and Notes Receivable

(in thousands of dollars)	**2010**	2009
Mortgages receivable	**171,436**	173,410
Loans receivable	**4,993**	69,374
Notes receivable	**2,655**	2,608
	179,084	245,392

Mortgages Receivable

In addition to direct property acquisitions, Calloway provides mezzanine financing to developers on terms that include an option to acquire an interest in the mortgaged property upon substantial completion. As at December 31, 2010, the Trust has total commitments of $256.1 million to fund mortgages receivable under its mezzanine loan program. Each mortgage has an option entitling the Trust to acquire a 50% or 100% interest in the property upon substantial completion at an agreed upon formula. The acquisition options on two of the mortgages have already been exercised in prior years.

As at December 31, 2010, mortgages totalling $149.0 million, secured by first, second or third charges on the properties, have been advanced to SmartCentres. During the year ended December 31, 2010, including monthly interest accruals and payments, $17.4 million was advanced. The mortgages are interest only up to a predetermined maximum with rates ranging from a variable rate based on the bankers' acceptance rate plus 1.75% to 2.00% and at a fixed rate of 6.35% to 7.75%. The mortgages mature on various dates from 2011 to 2018, with options to extend under certain conditions.

Mortgages to other borrowers, totalling $22.4 million, were outstanding at 2010 year-end. The mortgages are interest only up to a predetermined maximum with a rate of 7.50%. They are secured by first and second charges and mature on various dates from 2012 to 2015.

As at December 31, 2010, the Trust has funded $171.4 million of the total commitment at a weighted average interest rate of 6.81% per annum. Assuming that developments are completed as anticipated, and assuming that borrowers repay their mortgages in accordance with the terms of the agreements governing such mortgages, expected repayments would be as follows:

(in thousands of dollars)	Mortgages #	Principal Repayments $
2011	1	12,783
2012	1	11,399
2013	4	30,154
2014	2	57,821
2015	3	34,176
2017	1	9,914
2018	1	15,189
	13	171,436

Loans Receivable

Loans receivable of $5.0 million have been provided pursuant to agreements with other unrelated parties. The loans bear interest at rates of 5.20% to 5.50%, mature in 2012 and 2015 and are secured by either first or second charges on properties, assignments of rents and leases, and general security agreements. For the year ended December 31, 2010, $0.14 million has been repaid.

Notes Receivable

The Trust owns a $2.7 million share of secured demand notes provided to SmartCentres, bearing interest at 9.0%.

Amounts Receivable, Prepaid Expenses and Deposits

As at December 31, 2010, amounts receivable, prepaid expenses and deposits totalled $54.6 million, a $0.9 million increase during the year. This increase is primarily due to prepaid expenses and deposits ($1.0 million), straight-line rents receivable ($3.4 million) offset by a decrease in net tenant receivables ($0.1 million), other tenant receivables ($1.2 million) and other receivables ($2.2 million). See note 9(a) in the audited consolidated financial statements for the year ended December 31, 2010, for further discussion and analysis of tenant receivables.

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

(in thousands of dollars)	**2010**	2009
Amounts receivable		
Tenant receivables – net	**9,947**	10,087
Other tenant receivables	**6,305**	7,505
Straight-line rent receivable	**31,191**	27,755
Other receivables	**2,291**	4,465
	49,734	49,812
Prepaid expenses and deposits		
Prepaid expenses and other	**3,510**	3,432
Deposits	**1,353**	405
	4,863	3,837
Total	**54,597**	53,649

Debt

As at December 31, 2010, indebtedness totalling $2,666.6 million was outstanding, compared to $2,726.7 million as at December 31, 2009.

(in thousands of dollars)	**2010**	2009
Term debt		
Term mortgages	**1,862,574**	1,860,574
Unsecured debentures	**525,000**	521,452
	2,387,574	2,382,026
Development loans	**99,090**	144,323
Operating and acquisition facilities	**20,000**	92,000
Convertible debentures	**175,890**	123,769
Deferred financing costs	**(15,971)**	(15,420)
Total	**2,666,583**	2,726,698

Calloway's Declaration of Trust limits Calloway's indebtedness to a maximum of 60% of gross book value, excluding convertible debentures, and 65% including convertible debentures. Gross book value is defined as total assets plus accumulated amortization of income properties. Total indebtedness (excluding convertible debentures) as a percentage of gross book value was 51.3% as at December 31, 2010, compared to 55.3% as at December 31, 2009. Total indebtedness (including convertible debentures) as a percentage of gross book value was 54.9% as at December 31, 2010 compared to 57.9% as at December 31, 2009.

Term Debt

Term Mortgages

As at December 31, 2010, term mortgages have increased to $1,862.6 million compared to $1,860.6 million at December 31, 2009.

(in thousands of dollars)	**2010**	2009
Balance – beginning of year	**1,860,574**	1,716,479
Borrowings	**79,900**	265,756
Assumed on the acquisition of properties	**–**	17,917
Scheduled amortization	**(49,578)**	(43,379)
Repayment on maturity	**(24,120)**	(91,626)
Amortization of acquisition date fair value adjustments	**(4,202)**	(4,573)
Balance – end of year	**1,862,574**	1,860,574

The term mortgages payable bear interest at a weighted average contractual interest rate of 5.87% (December 31, 2009 – 5.90%) and mature on various dates from 2011 to 2026. Including acquisition date fair value adjustments, the effective weighted average interest rate on term mortgages is 5.83% (December 31, 2009 – 5.84%). The weighted average years to maturity, including the timing for payments of principal amortization and debt maturing, is 5.7 years (December 31, 2009 – 6.4 years).

During 2010, the Trust obtained $79.9 million in new mortgages with an average term of 7.7 years and weighted average interest rate of 5.58%.

On February 1, 2011, the Trust obtained financing based on a ten-year mortgage totalling $66.0 million, bearing interest at 5.52% and secured by four specific income properties. This financing was packaged in the first new Canadian Commercial mortgaged-backed securities ("CMBS") in two years.

The Trust continues to have access to the term debt market due to its strong tenant base and high occupancy levels at mortgage loan levels ranging from 60% to 70% loan to value. Term debt maturities remain low for the next several years with $83.3 million (four mortgages) maturing in 2011 with a weighted average interest rate of 6.21%.

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

(in thousands of dollars) Term Mortgages	Payments of Principal Amortization $	Debt Maturing During Year $	Total $	Total %	Weighted Average Interest Rate %
2011	52,089	83,265	135,354	7.32	6.21
2012	52,600	84,182	136,782	7.40	5.47
2013	50,002	232,950	282,952	15.30	6.18
2014	47,150	219,189	266,339	14.40	5.92
2015	43,075	168,833	211,908	11.46	5.75
Thereafter	199,290	616,846	816,136	44.12	5.79
Total	444,206	1,405,265	1,849,471	100.00	5.87
Acquisition date fair value adjustment			13,103		
			1,862,574		

The debt maturing by type of lender is as follows:

(in thousands of dollars) Term Mortgages	Life Insurance Companies	Conduit Loans	Banks	Pension Funds	Total
2011	50,413	11,131	–	21,721	83,265
2012	70,965	–	13,217	–	84,182
2013	93,471	23,846	73,666	41,967	232,950
2014	–	72,496	131,400	15,293	219,189
2015	37,021	57,202	5,604	69,006	168,833
Thereafter	351,156	161,873	91,121	12,696	616,846
Total	603,026	326,548	315,008	160,683	1,405,265

Unsecured Debentures

Issued and outstanding as at December 31, 2010:

(in thousands of dollars)	**2010**	2009
Series A senior unsecured, due September 22, 2010, bearing interest at 4.51% per annum, payable semi-annually on September 22 and March 22; issued on September 22, 2005	**–**	46,452
Series B senior unsecured, due October 12, 2016, bearing interest at 5.37% per annum, payable semi-annually on October 12 and April 12; issued on October 12, 2006	**250,000**	250,000
Series C senior unsecured, due April 14, 2014, bearing interest at 10.25% per annum, payable semi-annually on April 14 and October 14; issued on April 13, 2009	**–**	150,000
Series D senior unsecured, due June 30, 2014, bearing interest at 7.95% per annum, payable semi-annually on June 30 and December 30; issued on June 30, 2009	**75,000**	75,000
Series E senior unsecured, due June 30, 2015, bearing interest at 5.10% per annum, payable semi-annually on June 4 and December 4; issued on June 4, 2010	**100,000**	–
Series F senior unsecured, due February 1, 2019, bearing interest at 5.00% per annum, payable semi-annually on February 1 and August 1; issued on October 1, 2010	**100,000**	–
	525,000	521,452

On June 4, 2010, the Trust issued $100 million (net proceeds including issuance costs – $99 million) of 5.10% Series E senior unsecured debentures due on June 4, 2015, with semi-annual payments due on June 4 and December 4 each year. The proceeds from the sale of the debentures were used for general corporate purposes, including the paydown of the Trust's operating facilities.

On July 6, 2010, the Trust redeemed $46.5 million aggregate principal amount of 4.51% Series A senior unsecured debentures. In addition to paying accrued interest of $0.6 million, the Trust paid a yield maintenance fee of $0.4 million in connection with the redemption of the 4.51% Series A senior unsecured debentures.

On October 1, 2010, the Trust issued $100 million (net proceeds including issuance costs – $98.5 million) of 5.00% Series F senior unsecured debentures due on February 1, 2019, with semi-annual payments due on February 1 and August 1 each year. The proceeds from the sale of the debentures, together with proceeds from the offering of 4,120,000 units issued on September 30, 2010, were used to redeem $150 million aggregate principal amount of 10.25% Series C senior unsecured debentures on October 25, 2010. In addition to the accrued interest of $0.5 million, the Trust paid a yield maintenance payment of $31.0 million in connection with the redemption of the 10.25% Series C senior unsecured debentures. The adjustment for the revised payments on redemption of the Series C senior unsecured debentures, including unamortized transaction costs of $0.9 million, totalled $31.6 million and is included in interest expense.

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

Development Loans

Development loans totalling $99.1 million (December 31, 2009 – $144.3 million) are outstanding as at December 31, 2010, of which $79.5 million (December 31, 2009 – $119.4 million) is interest bearing and $19.6 million (December 31, 2009 – $24.9 million) is non-interest bearing.

Interest-Bearing Loans

The vendor of certain properties, a joint venture between SmartCentres and Wal-Mart Canada Realty Inc., agreed to finance the costs associated with the construction and lease-up of undeveloped lands for certain assets. As at December 31, 2010, development loans totalling $8.5 million have been advanced to Calloway from that joint venture under the agreements (December 31, 2009 – $17.8 million). These loans bear variable interest rates at the bankers' acceptance rates ("BA") plus 2% and are secured by first mortgages over specific income properties and properties under development and general assignments of leases. The loans are due the earlier of various dates in 2013 through 2015 or the date building construction is completed and the tenant is in occupancy and paying rent.

Calloway has also borrowed from third party lenders to finance construction and leasing costs of various other properties. Development loans totalling $71.0 million as at December 31, 2010 (December 31, 2009 – $101.6 million) bear variable interest rates as follows: BA plus 2.5% to 3.5% on $64.6 million and prime plus 0.50% on $6.4 million. These loans are secured by first and second mortgages registered on income properties and a general assignment of leases.

Non-Interest-Bearing Loans

As at December 31, 2010, a joint venture between SmartCentres and Wal-Mart Canada Realty Inc. has provided $19.6 million (December 31, 2009 – $25.0 million) in non-interest bearing loans to finance certain land acquisition costs. An imputed annual interest has been calculated at rates ranging from 4.03% to 5.16%, and the loans are secured by first mortgages over specific income properties and development properties and a general assignment of leases and are due the earlier of various dates in 2013 through 2015 or the date building construction is completed and the tenant is in occupancy and paying rent.

Operating Facilities

A $160 million revolving operating facility with $20.0 million (December 31, 2009 – $59.0 million) outstanding bears interest at a variable interest rate based on bank prime plus 2.25% or BA plus 3.25%, is secured by first charges over specific income properties and first general assignments of leases and insurance and expires on September 30, 2011.

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

Convertible Debentures

Originally issued at $55.0 million, the 6.00% convertible unsecured subordinated debentures were due June 30, 2014. The debentures were convertible at the holders' option into Trust Units at $17.00 per Unit. The convertible debentures were redeemable at the option of Calloway in cash or Units on or after June 30, 2010. On July 6, 2010, the Trust redeemed the balance of 6.00% convertible debentures for $0.4 million in cash.

Originally issued at $125.0 million, the 6.65% convertible unsecured subordinated debentures are due June 30, 2013. The debentures are convertible at the holders' option at any time into Trust Units at $25.25 per Unit and may not be redeemed prior to June 30, 2011. On or after June 30, 2011, and prior to June 30, 2012, the 6.65% convertible debentures may be redeemed by the Trust, in whole or in part, at a price equal to the principal amount plus accrued and unpaid interest, provided the weighted average trading price for the Trust's Units for the 20 consecutive trading days, ending on the fifth trading day immediately preceding the date on which notice of redemption is given, is not less than 125% of the conversion price. After June 30, 2012, the 6.65% convertible debentures may be redeemed by the Trust at any time. During 2010, holders of 6.65% convertible debentures did not convert any amounts into Trust Units. As at December 31, 2010, 6.65% convertible debentures outstanding totalled $125.0 million at face value.

On January 5, 2010, the Trust issued $60.0 million of 5.75% convertible unsecured subordinated debentures due on June 30, 2017. The debentures are convertible at the holders' option at any time into Trust Units at $25.75 per Unit and may not be redeemed prior to June 30, 2013. On or after June 30, 2013, but prior to June 30, 2015, the 5.75% convertible debentures may be redeemed by the Trust, in whole or in part, at a price equal to the principal amount plus accrued and unpaid interest, provided the weighted average trading price of the Trust's Units for the 20 consecutive trading days, ending on the fifth trading day immediately preceding the date on which notice of redemption is given, is not less than 125% of the conversion price. After June 30, 2015, the 5.75% convertible debentures may be redeemed by the Trust at any time. During 2010, holders of 5.75% convertible debentures did not convert any amounts into Trust Units. As at December 31, 2010, 5.75% convertible debentures outstanding totalled $60.0 million at face value.

Financial Covenants

The Trust's various credit facilities provide first charge security interests on most of the properties in its portfolio of income-producing properties to various lenders. These credit facilities contain numerous terms and covenants that limit the discretion of management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of the Trust to create liens or other encumbrances, to pay distributions on its Units or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity.

In addition, the credit facilities contain a number of financial covenants that require the Trust to meet certain financial ratios and financial condition tests. For example, certain of the Trust's loans require specific loan to value and debt service coverage ratios, which must be maintained by the Trust. A failure to comply with the obligations in the credit facilities could result in a default which, if not cured or waived, could result in a reduction or termination of distributions by the Trust and permit acceleration of the relevant indebtedness.

For the year ended December 31, 2010, the Trust was in compliance with the terms and covenants of all its credit facilities.

Financial Instruments

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

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

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

Unitholders' Equity

(in thousands of dollars)	**2010**	2009
Unitholders' equity – beginning of year	**1,372,617**	1,436,887
Issuance of Units, net of issuance cost	**325,992**	63,506
Conversion of convertible debentures, net of financing cost	**4,429**	13
Equity component of convertible debentures issued	**4,988**	–
Net income for the year	**11,645**	23,286
Distributions for the year	**(166,021)**	(151,075)
Unitholders' equity – end of year	**1,553,650**	1,372,617

As at December 31, 2010, Unitholders' equity totalled $1,553.7 million (December 31, 2009 – $1,372.6 million), including $12.2 million pertaining to the allocation of the equity component of convertible debentures. As at December 31, 2010, Unit equity totalled $2,145.3 million and Units outstanding, including Class B LP Units, Class D LP Units, Class B LPII Units and Class B LPIII Units of subsidiary partnerships, totalled 114,939,541.

The Trust has entered into an Equity Distribution Agreement dated June 10, 2010, with an exclusive agent for the issuance and sale, from time to time, until November 8, 2011, of up to 5,000,000 Trust Units by way of "at-the-market distributions". Sales of Trust Units, if any, pursuant to the Equity Distribution Agreement will be made in transactions that are deemed to be "at-the-market distributions", including sales made directly on the Toronto Stock Exchange ("TSX"). During the year ended December 31, 2010, as part of the "at-the-market distribution" program and pursuant to the Equity Distribution Agreement, the Trust issued a total of 74,100 Trust Units at a weighted average unit price of $21.82 for total gross proceeds of $1.62 million (net proceeds including issuance costs – $1.57 million).

During the year ended December 31, 2010, the Trust issued $330.4 million in Units as follows:

(in thousands of dollars, except per Unit amounts)	Trust Units #	LP Units #	Total Units #	2010 $
New issuances	13,812,100	–	13,812,100	305,795
Units issued for properties acquired	–	480,000	480,000	11,093
Earnout options exercised	414,136	108,203	522,339	9,231
Distribution reinvestment plan (DRIP)	497,995	–	497,995	11,303
Debentures converted	260,463	–	260,463	4,429
LP Units converted into Trust Units	19,566	(19,566)	–	–
Deferred Units exchanged for Trust Units	1,200	–	1,200	–
Total	15,005,460	568,637	15,574,097	341,851
Deferred Unit plan				1,686
Unit issuance costs				(13,116)
Total change in Unit equity				330,421

Distributions declared by the Trust totalled $166.0 million during the year ended December 31, 2010 (December 31, 2009 – $151.1 million) or $1.55 per Unit (December 31, 2009 – $1.55 per Unit). The Trust paid $154.7 million in cash and the balance by issuing 497,995 Trust Units under the distribution reinvestment plan.

Distributions to the Unitholders in 2010, as compared to 2009, were as follows:

(in thousands of dollars)	**2010**	2009
Distributions to Unitholders	**166,021**	151,075
Distributions reinvested through DRIP	**(11,303)**	(12,452)
Net cash outflow from distributions to Unitholders	**154,718**	138,623
DRIP as a percentage of distributions to Unitholders	**6.8%**	8.2%

Capital Resources and Liquidity

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

(in thousands of dollars)	
Cash and cash equivalents	**8,785**
Unused operating facilities	**108,128**
Total capital resources at December 31, 2010	**116,913**

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

As at December 31, 2010, the Trust decreased its capital resources by $54.4 million compared to December 31, 2009. This net decrease in capital resources is the result of investment in the acquisition of income properties, Earnouts and Calloway Developments ($270.9 million), repayment of unsecured debentures and convertible debentures ($228.4 million) and reduction of operating facilities ($105.0 million) offset by funds obtained from issuance of Trust Units, unsecured debentures and convertible debentures ($547.7 million).

The Trust manages its cash flow from operating activities by maintaining a target debt level. The debt to gross book value, as defined in the Declaration of Trust, at December 31, 2010, is 51.3%, excluding convertible debentures. Including the Trust's capital resources at December 31, 2010, the Trust could invest an additional $611.8 million in new investments and remain at the mid-point of the Trust's target debt to gross book value range of 55% to 60% (excluding convertible debentures).

Future obligations, excluding the development pipeline, total $2,781.4 million as identified in the following table. Other than contractual maturity dates, the timing of payment of these obligations is management's best estimate based on assumptions with respect to the timing of leasing, construction completion, occupancy and Earnout dates at December 31, 2010.

(in thousands of dollars)	Total	2011	2012	2013	2014	2015	Thereafter
Mortgages payable	1,849,471	135,354	136,782	282,952	266,339	211,908	816,136
Revolving operating facilities (secured)[1]	20,000	20,000	–	–	–	–	–
Unsecured debentures	525,000	–	–	–	75,000	100,000	350,000
Construction loans[2]	71,016	41,640	29,376	–	–	–	–
Related party loans	28,074	11,104	16,290	680	–	–	–
Convertible debentures[3]	185,000	–	–	125,000	–	–	60,000
Mortgage receivable advances[4]	84,699	32,083	15,009	24,021	2,628	1,291	9,667
Development obligations	18,156	18,156	–	–	–	–	–
	2,781,416	258,337	197,457	432,653	343,967	313,199	1,235,803

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

[2] $71.0 million represents construction loans on certain properties under development from various bank lenders, which typically have a maturity of one year. These loans are reviewed annually by the lenders and are renewed and extended as required from time to time to coincide with the progress of the development.

[3] Assuming no conversion.

[4] Mortgages receivable of $171.4 million at December 31, 2010, and further commitments of $84.7 million, mature over a period extending to 2018 if the Trust does not exercise its option to acquire the income properties. Refer also to the "Mortgages Receivable" section for timing of principal repayments.

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

The following summarizes maturities for existing term mortgages:

(in thousands of dollars)	Mortgages #	Debt Maturing During Year $	Current Base Rent $	Loan to Value[1] %
2011	4	83,265	12,072	50
2012	5	84,182	13,021	47
2013	13	232,950	41,008	41
2014	11	219,189	33,809	47
2015	9	168,833	26,785	45
2016	7	89,990	17,211	38
Thereafter	40	526,856	138,104	28
Total	89	1,405,265	282,010	36

[1] Assuming a 7.00% capitalization rate ("Cap Rate") and 3% property management fee.

Potential up-financing on maturing term debt of $83.3 million in 2011 and $84.2 million in 2012 is as follows:

(in thousands of dollars)	2011			2012		
Loan to Value	Cap Rate 6.75%	Cap Rate 7.00%	Cap Rate 7.25%	Cap Rate 6.75%	Cap Rate 7.00%	Cap Rate 7.25%
60%	20,822	17,105	13,644	28,085	24,076	20,343
65%	29,496	25,469	21,719	37,441	33,097	29,053
70%	38,170	33,833	29,795	46,797	42,119	37,764

Management anticipates the 6.65% and 5.75% unsecured subordinated convertible debentures will be converted. The development loan repayments, mortgage receivable advances and development obligations will be funded by additional term mortgages, net proceeds on the sale of non-core assets, existing cash or operating lines, the issuance of convertible and unsecured debentures, and equity units, if necessary.

Calloway's potential development pipeline of $1,203.4 million consists of $607.4 million in Earnouts and $596.0 million in Calloway Developments. Costs totalling $427.3 million have been incurred to date (including $51.9 million of non-cash development comprising future land obligations and value of Earnout options) with a further $828.0 million still to be funded. The future funding includes $477.0 million for Earnouts that will be paid once a lease has been executed, and construction of the space commenced. The remaining $351.0 million of development will proceed once Calloway has an executed lease and financing in place. Management expects this pipeline to be developed over the next five years.

Potential Future Pipeline:

(in thousands of dollars)	Total	Funded	Balance to Fund
Earnouts	607,432	130,445	476,987
Calloway Developments	595,932	244,925	351,007
Non-cash development cost	51,939	51,939	–
Subtotal	1,255,303	427,309	827,994
Less: Non-cash development cost	(51,939)	(51,939)	–
Aggregate pipeline	1,203,364	375,370	827,994

The following table includes committed obligations for 2011 and 2012 (which are included in the potential future pipeline noted above) as at December 31, 2010:

Committed Pipeline:

(in thousands of dollars)	Total	Funded	Balance to Fund
Committed pipeline for the year 2011			
Balance – beginning of the year	54,980	19,961	35,019
Development costs acquired on settlement of development loans receivable	–	9,600	(9,600)
Changes during the year	73,340	40,483	32,857
Balance – end of the year	128,320	70,044	58,276
Committed pipeline for the year 2012			
Balance – beginning of the year	14,506	5,601	8,905
Changes during the year	44,107	6,630	37,477
Balance – end of the year	58,613	12,231	46,382
Total committed pipeline	186,933	82,275	104,658

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

(in thousands of dollars)	2011	2012	Total
Uses:			
Committed Earnouts and Calloway Developments	58,276	46,382	104,658
Amortization of mortgage principal	52,089	52,600	104,689
Mezzanine loan advances	32,083	15,009	47,092
	142,448	113,991	256,439
Sources:			
Existing cash and operating facilities[1]	21,448	71,991	93,439
Construction financing	3,000	3,000	6,000
Up-financing of maturing mortgages[2]	17,000	24,000	41,000
Financing of unencumbered assets[3]	86,000	–	86,000
Dividend Reinvestment Plan and Earnout Options[4]	15,000	15,000	30,000
	142,448	113,991	256,439

[1] Includes cash and unused balances from all existing operating facilities.

[2] Assuming a loan to value of 60% and cap rate of 7.00%.

[3] Includes mortgage closed in February 2011 on four specific income properties ($66 million) and additional potential financing of $20 million for a property expected to close in 2011.

[4] Management's best estimate based on historical experience and anticipated price of Trust units.

Results of Operations

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

Rentals from income properties for 2010 totalled $481.0 million, a $34.0 million or 7.6% increase over 2009. Base rent increased by $22.6 million or 7.3% primarily due to acquisitions, Earnouts and completed Calloway Developments that occurred during 2009 and 2010. Property operating costs recovered increased by $11.2 million or 8.3% due to the related increases in recoverable costs with the growth in the portfolio. Non-recoverable operating costs of $5.6 million incurred in 2010 include prepaid land rent ($3.7 million), bad debts ($0.8 million), and other non-recoverable costs including operating expenses relating to vacant unit maintenance and re-leasing ($1.1 million). The Trust recovered 95.6% of total recoverable expenses in 2010 compared to 94.5% in the prior year. The increase is mainly as a result of lower tax recovery shortfall due to higher occupancy. NOI as a percentage of rentals from income properties has increased by 0.3% due to decrease in recovery shortfall and lower bad debt expenses.

In comparison to 2009, NOI increased by $23.6 million in 2010, primarily as a result of the growth of the portfolio due to acquisitions, Earnouts, completed Calloway Developments and improvement in occupancy.

(in thousands of dollars)	2010	2009
Base rent	**332,278**	309,708
Property operating cost recoveries	**145,625**	134,431
Administration fee recoveries	**3,124**	2,857
Rentals from income properties	**481,027**	446,996
Recoverable costs	**152,279**	142,267
Property management administrative costs	**4,284**	4,301
Management fees	**905**	796
Non-recoverable costs	**5,611**	5,332
Total property-specific costs	**163,079**	152,696
Net operating income	**317,948**	294,300
NOI as a percentage of rentals from income properties	**66.1%**	65.8%

Rentals from income properties account for 97.3% of revenues for the year ended December 31, 2010, with 72.5% of the portfolio located in Ontario and Quebec, primarily in the Greater Toronto and Montreal areas. The balance of the portfolio is located across Canada.

Gross Revenue by Province

The five largest tenants account for 40.2% of portfolio revenue as follows:[1]

Tenants	Revenues %
Wal-Mart[2]	25.7
Canadian Tire/Mark's	4.3
Best Buy/Future Shop	3.7
Winners	3.4
Reitmans	3.1

[1] Annualized as at December 31, 2010.

[2] Calloway has a total of 74 Wal-Marts under lease, of which 37 are SuperCentres. An additional 12 expansions are expected to be completed by the end of 2011. Calloway has 19 centres with Wal-Mart as shadow anchors, of which eight are SuperCentres.

Net Operating Income

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

The same properties' NOI for 2010 increased by 1.7% over the prior year due primarily to lease-up of vacant space, rent step-ups and decreased bad debt expenses. In addition, NOI before adjustments increased by 8.1% to $316.5 million in 2010 from $292.8 million in the previous year. The increase was primarily due to increases in same properties NOI described above ($4.9 million), acquisitions ($4.4 million) and Earnouts and Calloway Developments ($14.5 million) made during 2009 and 2010. Management's estimate of the annual property run-rate NOI (excluding the impact of straight-line rent and other adjustments) at December 31, 2010 is $328.3 million. "Same properties" in the table below refer to those income properties that were owned by the Trust on January 1, 2009, and throughout 2009 and 2010.

(in thousands of dollars)

NOI	**2010**	2009
Same properties	**290,454**	285,516
2009 acquisitions	**2,510**	850
2010 acquisitions	**2,704**	–
Earnouts and Calloway Developments	**20,872**	6,398
NOI before adjustments	**316,540**	292,764
Land rent	**(3,531)**	(2,704)
Lease termination and other adjustments	**1,503**	194
Straight-lining of rents	**3,436**	4,046
NOI	**317,948**	294,300

Leasing Activities and Expiries

Leasing Activities

Calloway ended the year with a vacancy level of 207,333 square feet, which represents 0.9% of the portfolio and is a substantial improvement over the 2009 year-end results (250,507 square feet). In addition, the Trust has completed an additional 60,685 square feet of forward leasing commitments on vacant space. This equates to a further $1.0 million in additional annualized net income. Calloway is forecasting that it will maintain this level of vacancy into the first half of 2011. During 2010, Calloway had no material tenant bankruptcies within the portfolio and is not foreseeing any for 2011. Calloway's commitment to further strengthening its centres and maintaining a high occupancy level is one of its main priorities.

2010 and 2011 Lease Expiries

Calloway's goal for 2010 was to maintain a high level of tenant retention and to replace weaker tenants with those that are reflective of the quality of its centres. Calloway retained 90% of the 572,633 square feet of space that had leases expiring in 2010. For the tenants that renewed in 2010, rents in aggregate increased by 5% over the expiring rent. The aggregate increase in rent was adversely affected by the renewal of one large tenant which had to be renewed with a rent reduction; excluding the impact of that tenant, the aggregate rental increase would have been 7.6% over the current rent. The Trust is also diligently working on 2011 renewals and has already renewed 539,446 square feet of expiring leases, which represents 48.7% of the 2011 renewals, at an average rental increase of 9.5% over that of expiring leases.

The following table shows remaining lease expiries for the total portfolio:

Year of Expiry	Area (sq. ft.)	Area %	Annualized Base Rent $000s	Average Rent per sq. ft.[1] $
Month-to-month	62,497	0.3%	1,026	16.42
2011	615,598	2.5%	10,695	17.37
2012	1,029,261	4.2%	18,895	18.36
2013	1,647,869	6.8%	33,449	20.30
2014	1,475,957	6.1%	26,931	18.25
2015	1,525,918	6.3%	27,485	18.01
2016	1,406,370	5.8%	23,973	17.05
Beyond	16,247,586	67.1%	194,426	11.97
Vacant	207,333	0.9%	–	–
Total	24,218,389	100.0%	336,880	14.03

[1] The total average rent per square foot excludes vacant space of 207,333 square feet.

The following table shows lease expiries for the portfolio, excluding anchor tenants:[1]

Year of Expiry	Area (sq. ft.)	Area %	Annualized Base Rent $000s	Average Rent per sq. ft.[2] $
Month-to-month	62,497	0.3%	1,026	16.42
2011	469,959	1.9%	8,984	19.12
2012	981,483	4.1%	18,420	18.77
2013	1,367,140	5.6%	27,967	20.46
2014	1,187,494	4.9%	23,565	19.84
2015	1,200,445	5.0%	24,013	20.00
2016	1,048,989	4.3%	19,327	18.42
Beyond	3,499,682	14.4%	69,331	19.81
Vacant	190,291	0.8%	–	–
Total	10,007,980	41.3%	192,633	19.62

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

[2] The total average rent per square foot excludes vacant space of 190,291 square feet.

Interest and Other Income

Interest income of $13.4 million for the year ended December 31, 2010, has decreased by $1.2 million over the prior year. This decrease is due to the repayment of development loans and the Trust's decreased investment in mezzanine mortgage loans during 2010.

(in thousands of dollars)	**2010**	2009
Mortgage and loan interest	**12,778**	14,034
Bank interest	**376**	327
Note receivable interest	**236**	235
Interest income	**13,390**	14,596

Interest Expense

Excluding the effect of the adjustment for the revised payments on redemption of the unsecured debentures, interest cost incurred during 2010 totalled $149.5 million, net of the $4.2 million amortization of acquisition date fair value adjustments and $18.7 million of interest capitalized to properties under development. The increase in interest expense of $9.5 million in 2010 over 2009 is mainly the result of:

- The issuance of $100 million Series E 5.10% senior unsecured debentures on June 4, 2010, and the $60 million 5.75% convertible debentures on January 5, 2010, offset by the redemption of $46.5 million of the Series A 4.51% senior unsecured debentures which increased interest expense ($4.8 million).
- The $75 million Series D 7.95% senior unsecured debentures issued on June 19, 2009, increased interest expense by $6.0 million annualized ($3.0 million in 2010).
- Interest expenses on new term financing on existing properties ($6.2 million).
- Amortization of accretion on the $125 million 6.65% convertible debentures issued on May 2, 2008, and amortization of accretion on the $60 million 5.75% convertible debentures issued on January 5, 2010 ($0.9 million).
- Partially offset by the increase in interest capitalized to properties under development as a result of additional development costs acquired on settlement of development loans receivable ($5.1 million).
- The $150 million Series C 10.25% senior unsecured debentures issued on April 13, 2009 were used to repay $153.5 million of the Series A 4.51% senior unsecured debentures in 2009. The $150 million Series C 10.25% debentures were subsequently repaid on October 25, 2010, from the proceeds of the Series F 5.00% senior unsecured debentures and a Trust Units offering. The interest expense in the current year related to all of the above debentures was not significantly different compared to the prior year.

(in thousands of dollars)	**2010**	2009
Interest at contract rate	**164,710**	150,950
Acquisition date fair value adjustments	**(4,202)**	(4,573)
Amortization of accretion on convertible debentures	**2,139**	1,262
Amortization of deferred financing costs	**5,579**	6,041
	168,226	153,680
Less: Capitalized interest	**(18,692)**	(13,607)
Interest expense excluding adjustment	**149,534**	140,073
Adjustment for revised payments on redemption of unsecured debentures	**31,582**	–
Total interest expense	**181,116**	140,073
Weighted average interest rate (inclusive of acquisition date fair value adjustment)	**5.8%**	5.8%

Amortization

Amortization of $128.9 million for the year ended December 31, 2010, has decreased by $6.9 million over 2009. This decrease is primarily due to the higher write-off of tenant improvements and intangible assets related to tenant bankruptcies during 2009 ($10.1 million) offset by additional amortization expenses ($3.2 million) resulting from the growth of Calloway's portfolio in 2010 and 2009.

(in thousands of dollars)	**2010**	2009
Income properties		
Tangible assets	**84,141**	84,608
Intangible assets	**44,069**	50,644
Deferred leasing costs	**724**	576
	128,934	135,828

General and Administrative

The total general and administrative cost of $9.6 million decreased by $0.1 million for the year ended December 31, 2010, compared to 2009, mainly because costs allocated to property operations increased as a result of the increase in total area in the portfolio offset by additional legal and accounting fees on new accounting and tax regulations.

(in thousands of dollars)	**2010**	2009
Salaries and benefits	**12,210**	11,887
Professional fees	**3,046**	2,579
Public company costs	**937**	1,098
Rent and occupancy	**1,538**	1,516
Other	**1,705**	1,821
	19,436	18,901
Less: Allocated to property operating costs	**(9,215)**	(8,588)
Less: Capitalized to properties under development	**(578)**	(604)
General and administrative costs	**9,643**	9,709
As a percentage of revenue	**2.0%**	2.1%

Results From Operations – Fourth Quarter

Net income for the quarter ended December 31, 2010, increased $7.1 million from the same quarter of 2009. The increase is a result of higher rental revenue due to growth of the portfolio ($9.8 million) and lower interest expense ($2.0 million), partially offset by lower mezzanine loan interest revenue ($0.4 million), higher property operating costs ($2.0 million), higher amortization expense ($1.6 million) and higher general and administrative expenses ($0.6 million). The fourth quarter gross margin for 2010 (defined as rentals from income properties less property operating costs divided by rentals from income properties) is 1.2% higher than the gross margin in the quarter ended December 31, 2009, primarily due to a decrease in common area maintenance ("CAM") and tax recovery shortfall due to higher occupancy.

(in thousands of dollars)	**Three Months Ended December 31, 2010**	Three Months Ended December 31, 2009
Revenues		
Rentals from income properties	**126,020**	116,214
Interest and other income	**3,433**	3,860
	129,453	120,074
Expenses		
Property operating costs	**43,255**	41,243
Interest	**36,357**	38,323
Amortization	**32,512**	30,946
General and administrative	**2,752**	2,105
	114,876	112,617
Net income for the year	**14,577**	7,457
NOI as a percentage of rentals from income properties	**65.7%**	64.5%

Net Operating Income – Fourth Quarter

For the quarter ended December 31, 2010, the same properties' NOI increased by 2.1% over the same period of the prior year due primarily to lease-up of vacant space and step-up on existing leases. In addition, NOI before adjustments increased 10.0% to $82.4 million in the fourth quarter of 2010 from $74.9 million in the same period of the previous year. The increase was primarily due to increases in same property NOI described above ($1.6 million), acquisitions ($2.3 million) and Earnouts and Calloway Developments ($3.6 million) made during 2009 and 2010. "Same properties" in the table below refer to those income properties that were owned by the Trust on October 1, 2009, and throughout 2009 and 2010.

(in thousands of dollars) NOI	**Three Months Ended December 31, 2010**	Three Months Ended December 31, 2009
Same properties	**75,985**	74,393
2009 acquisitions	**–**	–
2010 acquisitions	**2,273**	–
Earnouts and Calloway Developments	**4,097**	489
NOI before adjustments	**82,355**	74,882
Land rent	**(900)**	(831)
Lease termination and other adjustments	**708**	81
Straight-lining of rents	**602**	839
NOI	**82,765**	74,971

Other Measures of Performance

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

Funds From Operations (FFO)

While FFO is not defined by Canadian GAAP, it is a non-Canadian GAAP financial measure of operating performance widely used by the real estate industry. The Real Property Association of Canada ("REALpac") recommends that FFO be determined by reconciling from net income. Whereas the Trust previously determined FFO by way of reconciliation from cash provided from operating activities, a change has been made by the Trust to adhere to the recommendations of REALpac with respect to the reconciliation of FFO.

FFO for the three months ended December 31, 2010, totalled $48.0 million (three months ended December 31, 2009 – $40.1 million), and the payout ratio totalled 92.8% (three months ended December 31, 2009 – 96.0%). In comparison to the same quarter of the prior year, FFO increased by $7.8 million in the fourth quarter of 2010, primarily due to an increase in NOI ($7.8 million).

Excluding the effect of the adjustment for revised payments on redemption of unsecured debentures, FFO for the year ended December 31, 2010, totalled $175.7 million (2009 – $162.0 million), and the payout ratio totalled 93.8% (2009 – 92.8%). In comparison to the prior year, FFO increased by $13.7 million in 2010 primarily due to the increase in NOI ($23.6 million) offset by the increase in interest expense ($9.5 million).

Adjusted Funds From Operations (AFFO)

Since FFO does not consider capital transactions, AFFO is presented herein as an alternative measure of determining available cash flow. AFFO is not defined by Canadian GAAP. AFFO for the three months ended December 31, 2010, totalled $45.9 million (December 31, 2009 – $35.8 million), and the payout ratio totalled 97.0% (December 31, 2009 – 107.6%). In comparison to the same quarter of the prior year, AFFO increased by $10.1 million in the fourth quarter of 2010, primarily due to an increase in NOI excluding straight-lining of rents ($8.0 million) and a decrease in sustaining capital expenditures and tenant inducements ($1.7 million).

AFFO for the year ended December 31, 2010, totalled $163.5 million (2009 – $152.4 million), and the payout ratio totalled 100.8% (2009 – 98.6%). In comparison to the prior year, AFFO increased by $11.2 million in 2010 primarily due to an increase in NOI excluding straight-lining of rents ($24.2 million) partially offset by the increase in interest expense excluding accretion on convertible debentures ($8.6 million) and the increase in sustaining capital expenditure and tenant inducements ($4.4 million). The payout ratio increased by 2.2% primarily due to the dilutive effect of the issuance of 13.8 million Trust units during 2010 and a $4.4 million increase in sustaining capital expenditures and tenant inducements. Calloway targets a payout ratio of approximately 95% of AFFO. Management expects the payout ratio to be back to its 95% target during 2011.

The analysis below shows a reconciliation of the Trust's net income to FFO and AFFO for the year ended December 31, 2010:

(in thousands of dollars, except per Unit amounts)	**December 31, 2010**	December 31, 2009	Increase (Decrease)
Net income	**11,645**	23,286	(11,641)
Add:			
Amortization of income properties	**128,934**	135,828	(6,894)
Amortization of land rent	**3,531**	2,705	826
Gain on sale of income properties	**–**	194	(194)
FFO	**144,110**	162,013	(17,903)
Add:			
Adjustment for revised payments on redemption of unsecured debentures	**31,582**	–	31,582
FFO excluding one-time adjustment	**175,692**	162,013	13,679
Add (deduct):			
Amortization of deferred leasing costs related to new space	**(225)**	(576)	351
Accretion on convertible debentures	**2,139**	1,262	877
Straight-lining of rents	**(3,436)**	(4,047)	611
Sustaining capital expenditures[1]	**(4,249)**	(1,641)	(2,608)
Tenant inducements and leasing costs	**(6,390)**	(4,648)	(1,742)
AFFO	**163,531**	152,363	11,168
Per Unit – basic/diluted :[2]			
FFO	**$1.353/$1.353**	$1.669/$1.669	($0.316)/($0.316)
FFO excluding one-time adjustment	**$1.650/$1.650**	$1.669/$1.669	($0.019)/($0.019)
AFFO	**$1.535/$1.535**	$1.569/$1.569	($0.034)/($0.034)
Payout Ratio:			
FFO	**114.4%**	92.8%	21.6%
FFO excluding one-time adjustment	**93.8%**	92.8%	1.0%
AFFO	**100.8%**	98.6%	2.2%

[1] Includes $1.7 million for new enterprise software implementation.

[2] Diluted AFFO and FFO per Unit are adjusted for the dilutive effect of the convertible debentures, unless they are anti-dilutive. To calculate diluted AFFO and FFO per Unit for the years ended December 31, 2010 and 2009, convertible debenture interest of $11.8 million and $8.6 million and amortization of accretion on convertible debentures of $2.1 million and $1.3 million (FFO only) are added back to net income, and 7,413,705 Units and 5,234,425 Units are added back to the weighted average Units outstanding, respectively.

The analysis below shows a reconciliation of the Trust's net income to FFO and AFFO for the three months ended December 31, 2010:

(in thousands of dollars, except per Unit amounts)	**Three Months Ended December 31, 2010**	Three Months Ended December 31, 2009	Increase (Decrease)
Net income	**14,577**	7,457	7,120
Add:			
Accretion on convertible debentures[1]	**–**	938	(938)
Amortization of income properties	**32,512**	30,946	1,566
Amortization of land rent	**900**	832	68
Gain on sale of income properties	**–**	(26)	26
FFO	**47,989**	40,147	7,842
Add (deduct):			
Amortization of deferred leasing costs related to new space	**(57)**	(162)	105
Accretion on convertible debentures	**551**	324	227
Straight-lining of rents	**(602)**	(840)	238
Sustaining capital expenditures[2]	**(446)**	(1,090)	644
Tenant inducements and leasing costs	**(1,499)**	(2,593)	1,094
AFFO	**45,936**	35,786	10,150
Per Unit – basic/diluted:[3]			
FFO	**$0.417/$0.417**	$0.403/$0.403	$0.014/$0.014
AFFO	**$0.399/$0.399**	$0.360/$0.360	$0.039/$0.039
Payout Ratio:			
FFO	**92.8%**	96.0%	(3.2%)
AFFO	**97.0%**	107.6 %	(10.6%)

[1] Add-back relates to accretion on convertible debentures relating to the first three quarters of 2009 that was recorded in the fourth quarter of 2009.

[2] Includes $0.2 million for new enterprise software implementation.

[3] Diluted AFFO and FFO per Unit are adjusted for the dilutive effect of the convertible debentures, unless they are anti-dilutive. To calculate diluted AFFO and FFO per Unit for the three months ended December 31, 2010 and 2009, convertible debenture interest of $2.9 million and $2.1 million and amortization of accretion on convertible debentures of $0.5 million and $0.3 million (FFO only) are added back to net income, and 7,280,592 Units and 5,234,037 Units are added back to the weighted average Units outstanding, respectively.

As the change to the reconciliation of FFO was made in the first quarter of 2010, the Trust provided a comparison to show the reconciliation of FFO from cash flow from operating activities as the Trust has done in the past in each of the interim and annual periods of the 2010 fiscal year.

For the year ended December 31, 2010, the analysis below shows a reconciliation from cash provided by operating activities to AFFO and FFO:

(in thousands of dollars, except per Unit amounts)	**AFFO**	**FFO**
Cash provided by operating activities	**139,979**	**139,979**
Capital lease obligation interest	**(68)**	**(68)**
Deferred Unit compensation expense	**(829)**	**(829)**
Expenditures on deferred leasing costs	**1,351**	**1,351**
Changes in other non-cash operating items	**3,757**	**3,757**
Amortization of:		
Deferred financing costs	**(5,579)**	**(5,579)**
Deferred leasing costs	**(225)**	**–**
Acquisition date fair value adjustment	**4,202**	**4,202**
Accretion on convertible debentures	**–**	**(2,139)**
Adjustment for revised payments on redemption of unsecured debentures	**31,582**	**–**
Straight-lining of rents	**–**	**3,436**
Sustaining capital expenditures	**(4,249)**	**–**
Leasing costs	**(6,390)**	**–**
	163,531	**144,110**
Per Unit – basic/diluted	**$1.535/$1.535**	**$1.353/$1.353**
Payout ratio	**100.8%**	**114.4%**

For the year ended December 31, 2009, the analysis below shows a reconciliation from cash provided by operating activities to AFFO and FFO:

(in thousands of dollars, except per Unit amounts)	AFFO	FFO
Cash provided by operating activities	142,785	142,785
Capital lease obligation interest	(63)	(63)
Deferred Unit compensation expense	(642)	(642)
Expenditures on deferred leasing costs	1,708	1,708
Changes in other non-cash operating items	16,908	16,908
Amortization of:		
Deferred financing costs	(6,041)	(6,041)
Deferred leasing costs	(576)	–
Acquisition date fair value adjustment	4,573	4,573
Accretion on convertible debentures	–	(1,262)
Straight-lining of rents	–	4,047
Sustaining capital expenditures	(1,641)	–
Leasing costs	(4,648)	–
	152,363	162,013
Per Unit – basic/diluted	$1.569/$1.569	$1.669/$1.669
Payout ratio	98.6%	92.8%

For the three months ended December 31, 2010, the analysis below shows a reconciliation from cash provided by operating activities to AFFO and FFO:

(in thousands of dollars, except per Unit amounts)	**AFFO**	**FFO**
Cash provided by operating activities	**9,753**	**9,753**
Capital lease obligation interest	**(17)**	**(17)**
Deferred Unit compensation expense	**(213)**	**(213)**
Expenditures on deferred leasing costs	**429**	**429**
Changes in other non-cash operating items	**6,658**	**6,658**
Amortization of:		
Deferred financing costs	**(1,248)**	**(1,248)**
Deferred leasing costs	**(57)**	**–**
Acquisition date fair value adjustment	**994**	**994**
Accretion on convertible debentures	**–**	**(551)**
Adjustment for revised payments on redemption of unsecured debenture	**31,582**	**31,582**
Straight-lining of rents	**–**	**602**
Sustaining capital expenditures	**(446)**	**–**
Leasing costs	**(1,499)**	**–**
	45,936	**47,989**
Per Unit – basic/diluted	**$0.399/$0.399**	**$0.417/$0.417**
Payout ratio	**97.0%**	**92.8%**

For the three months ended December 31, 2009, the analysis below shows a reconciliation from cash provided by operating activities to AFFO and FFO:

(in thousands of dollars, except per Unit amounts)	AFFO	FFO
Cash provided by operating activities	36,749	36,749
Capital lease obligation interest	(17)	(17)
Deferred Unit compensation expense	(165)	(165)
Expenditures on deferred leasing costs	438	438
Changes in other non-cash operating items	3,025	3,025
Amortization of:		
Deferred financing costs	(1,524)	(1,524)
Deferred leasing costs	(162)	–
Acquisition date fair value adjustment	1,125	1,125
Accretion on convertible debentures	–	(324)
Straight-lining of rents	–	840
Sustaining capital expenditures	(1,090)	–
Leasing costs	(2,593)	–
	35,786	40,147
Per Unit – basic/diluted	$0.360/$0.360	$0.403/$0.403
Payout ratio	107.6%	96.0%

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

For the year ended December 31, 2010, distributions declared exceeded cash provided by operating activities by $26.0 million primarily due to the $31.6 million yield maintenance on the redemption of the $150 million Series C 10.25% senior unsecured debentures. Distributions declared exceeded net income by $154.4 million for the year ended December 31, 2010. This difference mainly comprises amortization ($128.9 million) and adjustment for revised payments on redemption of unsecured debentures ($31.6 million) offset by other non-cash components of net income ($6.1 million).

Management determines the Trust's Unit cash distribution rate by, among other considerations, its assessment of cash flow as determined using certain non-GAAP measures. As such, management feels the cash distributions are not an economic return of capital, but a distribution of sustainable cash flow from operations. Management targets a payout ratio of approximately 90.0% to 95.0% of AFFO, which allows for any unforeseen expenditures for the maintenance of productive capacity. Based on current facts and assumptions, management does not anticipate cash distributions will be reduced or suspended in the foreseeable future. The AFFO payout ratio for the year ended December 31, 2010, was 100.8% (year ended December 31, 2009 – 98.6%, 2008 – 91.2%). Management expects the payout ratio to return to the 95% level during 2011.

(in thousands of dollars)	**2010**	2009	2008
Cash provided by operating activities	**139,979**	142,785	144,069
Net income	**11,645**	23,286	89,648
Distributions declared	**166,021**	151,075	145,948
Distributions paid	**152,709**	137,685	126,380
AFFO	**163,531**	152,363	159,575
Shortfall of cash provided by operating activities over distributions declared	**(26,042)**	(8,290)	(1,879)
Surplus (shortfall) of cash provided by operating activities over distributions paid	**(12,730)**	5,100	17,689
Shortfall of cash provided by operating activities over AFFO	**(23,552)**	(9,578)	(15,506)
Shortfall of net income over distributions declared	**(154,376)**	(127,789)	(56,300)

Quarterly Information

Revenue from continuing operations has increased over the past eight quarters because of acquisitions and Earnout transactions at various times during 2009 through 2010.

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

- The quarter ended September 30, 2010, includes an adjustment of $31.6 million for revised payments on redemption of $150 million Series C 10.25% senior unsecured debentures.
- The quarter ended March 31, 2010, includes the write-off of $1.1 million of tenant improvements and intangible assets due to tenant vacancies.
- The quarter ended December 31, 2009, includes amortization of accretion of $1.3 million on the 6.65% convertible debentures.
- The quarter ended September 30, 2009, includes the write-off of $1.4 million of tenant improvements and intangible assets due to tenant vacancies.
- The quarter ended June 30, 2009, includes the write-offs of $2.5 million of tenant improvements and intangible assets due to tenant vacancies.
- The quarter ended March 31, 2009, includes the write-offs of $8.8 million of tenant improvements and intangible assets due to tenant vacancies.

Net (loss) income has fluctuated over the past eight quarters for the same reasons indicated above.

Cash provided by operating activities has fluctuated over the past eight quarters primarily due to seasonal changes in non-cash operating items and due to the payment of the $31.6 million yield maintenance on the redemption of the $150 million Series C 10.25% senior unsecured debentures.

QUARTERLY INFORMATION

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

	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
Revenues	129,453	121,284	120,642	123,038	120,074	113,377	111,040	117,101
Income (loss) from continuing operations	14,577	(21,109)	10,747	7,430	7,457	6,735	6,759	2,335
Per Unit								
Basic	$0.127	($0.197)	$0.105	$0.073	$0.075	$0.069	$0.071	$0.024
Diluted[1]	$0.127	($0.197)	$0.105	$0.073	$0.075	$0.069	$0.071	$0.024
Net income (loss)	14,577	(21,109)	10,747	7,430	7,457	6,735	6,759	2,335
Per Unit								
Basic	$0.127	($0.197)	$0.105	$0.073	$0.075	$0.069	$0.071	$0.024
Diluted[1]	$0.127	($0.197)	$0.105	$0.073	$0.075	$0.069	$0.071	$0.024
Funds from operations[2]	47,989	11,835	42,988	41,298	40,147	39,303	40,633	41,930
Per Unit								
Basic	$0.417	$0.111	$0.421	$0.406	$0.403	$0.403	$0.424	$0.439
Diluted[3]	$0.417	$0.111	$0.421	$0.406	$0.403	$0.403	$0.424	$0.439
Adjusted funds from operations	45,936	38,853	39,757	38,985	35, 786	37,406	39,271	39,900
Per Unit								
Basic	$0.399	$0.363	$0.390	$0.383	$0.360	$0.384	$0.409	$0.418
Diluted[3]	$0.399	$0.363	$0.390	$0.383	$0.360	$0.384	$0.409	$0.418
Cash provided by operating activities	9,753	52,608	34,635	42,983	36,749	37,065	34,503	34,468
Distributions declared	44,670	42,259	39,596	39,496	38,636	38,107	37,226	37,106
Units outstanding[4]	114,939,541	114,568,758	101,804,178	101,607,018	99,365,444	99,130,611	95,743,541	95,442,771
Weighted average Units outstanding								
Basic	115,114,448	106,925,177	102,044,718	101,773,281	99,511,965	97,408,149	95,900,244	95,499,518
Diluted	115,114,448	106,925,177	102,044,891	101,773,281	99,511,965	97,408,149	95,900,244	95,499,518
Total assets	4,373,522	4,489,230	4,273,452	4,230,329	4,236,839	4,236,803	4,203,243	4,175,556
Total debt	2,666,583	2,728,367	2,754,404	2,688,854	2,726,698	2,682,760	2,675,566	2,627,677

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

[2] March 31, 2009, June 30, 2009 and September 30, 2009, were restated in the fourth quarter of 2009 for amortization of accretion on convertible debentures recorded in the quarter ended December 31, 2009.

[3] Diluted FFO and AFFO per Unit are adjusted for the dilutive effect of the convertible debentures, unless they are anti-dilutive.

[4] The Unit outstanding balance does not include the vested deferred Units plan.

Related Parties

Calloway has identified three parties, all Trustees of Calloway, that meet the definition of a related party. A limited liability partnership, of which a Trustee is a principal, received $1.3 million for legal services rendered during the year ended December 31, 2010.

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

(in thousands of dollars)	**2010**	2009
Acquisition of land and properties	**130,108**	55,099
Mortgages advanced to SmartCentres during the year	**17,417**	19,950
Units issued to SmartCentres during the year	**20,324**	937
Amounts receivable at year-end	**3,967**	5,157
Amounts payable at year-end	**5,679**	8,854
Accrued development obligation at year-end	**42,128**	35,836
Paid to/payable to SmartCentres		
Fees:		
Leasing/development	**3,790**	3,358
Legal, marketing and other administrative costs	**1,408**	1,044
Acquisition fees	**500**	–
Consulting fees	**100**	–
Rent and operating costs	**1,125**	1,078
Interest	**394**	526
Paid by/payable by SmartCentres		
Opportunity fees/head lease rents	**5,710**	5,963
Interest income	**9,647**	10,706
Management fees	**1,430**	1,326

SmartCentres owns 21.5% of the aggregate issued and outstanding Trust Units and special voting Units of Calloway. A July 2005 agreement preserves SmartCentres' voting rights at a minimum of 25% for a period of five years, which was extended for an additional five years after certain conditions were met. The ownership would increase to 28.9% if SmartCentres exercised all remaining options to purchase Units pursuant to existing development and exchange agreements. Calloway has entered into agreements with SmartCentres to borrow funds from SmartCentres and to finance various development projects. In addition, the Trust has entered into property management, leasing, development and exchange agreements, and co-ownership agreements with SmartCentres.

The Trust also expects the previously announced agreement in principle to insert a "floor" cap rate in the Earnout agreement for various assets acquired in 2006 will be executed in 2011. The original agreement contained floating cap rates based on a ten year Government of Canada bond yield. Since this agreement in principle was reached, this cap rate floor has already yielded purchase price savings to Calloway of approximately $13.2 million.

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

The Trust has in the past entered into various mezzanine lending agreements with SmartCentres, secured by lands to be developed as a high quality shopping centre. These arrangements included an option to purchase interests in these centres upon completion. The Trust is currently in negotiations with SmartCentres to amend the terms of these loans to ensure funding for these projects will be available to complete their development. The affected loans are in the amount of approximately $149.0 million outstanding on 11 properties comprising 188 acres.

Calloway and SmartCentres are in discussions regarding a 30/70 joint venture relationship for a development property located in the city of Vaughan. The Trust expects this property will include significant mixed use density based on the Consolidated Official Plan. In addition, a proposed extension of the Toronto subway system is expected to end at this property.

Future Income Taxes and SIFT Compliance

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

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

Prior to January 1, 2011 and the completion of the Trust's restructuring to meet the existing REIT Exemption under the Tax Act, the Department of Finance on December 16, 2010 announced proposed amendments ("Announcement") to the provisions in the Tax Act concerning the income tax treatment of REITs. This legislative proposal was open for comment until January 31, 2011 and if passed will be effective January 1, 2011. The Announcement provided clarity and new changes in the application of the REIT Exemption, particularly as they relate to certain aspects of the Trust's previously announced restructuring.

Among the new proposals, REITs will be permitted to hold up to 10% of their non-portfolio properties as non-qualifying REIT properties without losing their REIT status. As a result, the Trust's existing mezzanine loan portfolio will meet the REIT Exemption under the proposed amendments. Accordingly, the Trust and SmartCentres, the primary mezzanine loan borrower, have agreed not to restructure the loans as previously disclosed. Prior to the Announcement, the Trust incurred $1.2 million in aggregate legal and third party costs which have been expensed in 2010 as general and administrative expenses related to the mezzanine loans and other SIFT issues.

In addition, the previously announced restructuring of the Trust's existing mezzanine loans with a third party is no longer required as the existing loans will meet the proposed amendments and the parties have agreed not to proceed.

An interest in one mezzanine loan property with a third party was acquired as the transaction had been completed prior to the Announcement. Further, the REIT Exemption issue relating to development loans was resolved in the first quarter of 2010 by the Trust amending the existing development agreements, which resulted in repayment of outstanding amounts due to the Trust under the development loans and the acquisition by the Trust of the improvements to the properties from the developer. As a result of the amendments, the costs of developing these properties are now incurred directly by the Trust and included in properties under development as incurred.

The Trust is expected to meet the REIT Exemption based on the proposed amendment effective January 1, 2011. However, until such time that the proposed amendments are passed and become substantially enacted, the Trust cannot rely on the amended REIT Exemption for accounting purposes. As a result, starting January 1, 2011, since the Trust does not meet the existing REIT Exemption, it will be required to record current and future income taxes for accounting purposes. If the proposed amendments are enacted in 2011, previously recorded current and future taxes, if any, will be reversed for accounting purposes.

As the Trust does not meet the existing REIT Exemption as at December 31, 2010, a future income tax asset in the amount of $10.5 million has been recorded as at December 31, 2010, based on the temporary differences that are expected to reverse on or after January 1, 2011, reduced by a valuation allowance of $10.5 million to a net balance of $nil, as the tax asset is not more likely than not to be realized given that the Trust expects to meet the amended REIT Exemption if the proposed amendments are enacted which will be effective January 1, 2011, or by completing restructuring to meet the existing REIT Exemption. The measurement of the future income tax asset as at the consolidated balance sheet date required management to make estimates and assumptions, including estimates and assumptions regarding the timing of when temporary differences are expected to reverse and regarding future allocations of taxable income between the various partners of the limited partnerships under the control of the Trust. Actual results could differ from those estimates.

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

Disclosure Controls and Procedures ("DCP")

The Trust's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have designed, or caused to be designed under their direct supervision, Calloway's DCP (as defined in National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings ("N152-109"), adopted by the Canadian Securities Administrators) to provide reasonable assurance that: (i) material information relating to Calloway, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which the annual filings are being prepared; and (ii) material information required to be disclosed in the annual filings is recorded, processed, summarized and reported on a timely basis. The Trust continues to evaluate the effectiveness of DCP and changes are implemented to adjust the needs of new processes and enhancement required. Further, the Trust's CEO and CFO have evaluated, or caused to be evaluated under their direct supervision, the effectiveness of the Trust's DCP at December 31, 2010, and concluded that they are effective.

Internal Control Over Financial Reporting ("ICFR")

The Trust's CEO and CFO have also designed, or caused to be designed under their direct supervision, Calloway's ICFR to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with Canadian GAAP.

Using the criteria established for internal controls framework, the Trust's CEO and CFO have evaluated, or caused to be evaluated under their direct supervision, the effectiveness of the Trust's ICFR as at December 31, 2010, and concluded that it was effective.

The Trust's conversion from Canadian GAAP to IFRS will have significant impact on ICFR. The Trust has identified areas that may have an impact on its ICFR as it relates to its initial reporting of IFRS financial statements, including related note disclosures, as well as on-going financial reporting.

The Trust has finalized the valuation of its real estate portfolio as of January 1, 2010. Implementations of other IFRS differences with significant process changes are substantially complete.

Inherent Limitations

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

Critical Accounting Estimates

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

Impairment in Value of Assets

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

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

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

For the year ended December 31, 2010, the Trust determined there were no impairments.

Amortization

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

Property Acquisitions

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

Future Tax Provisions

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

Fair Value of Earnout Options Granted

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

Accounting Policies

Future Changes in Accounting Policies

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

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

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

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

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

Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Trust has elected not to early adopt these sections in 2010.

International Financial Reporting Standards (IFRS)

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

The transition to IFRS will have a significant impact on the Trust's financial reporting, business processes, information system, disclosure controls and procedures and internal controls over financial reporting. The Trust has completed a detailed diagnostic impact assessment and has identified IFRS versus current Canadian GAAP differences but continues to assess the implication of such differences to its financial reporting as more information and clarity are provided on more complex issues. The Trust has substantially quantified the impact that the future adoption of IFRS will have on its consolidated financial statements and operating performance.

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

Significant elements of the Trust's IFRS conversion plan include:

Area	Key Activities	Progress to Date
Financial Statements	Identify differences between IFRS and Canadian GAAP	Completed
Presentation and Disclosure	Assess and select accounting policy choices	Completed
	Quantify the effects of the difference based on accounting policies selected	Substantially complete
	Prepare opening and quarterly financial statements and related note disclosures	Substantially complete
Business Impacts	Identify required resources – valuation and accounting – for technical analysis and implementation during the transition	Completed
	Develop a real estate valuation strategy	Completed
	Complete real estate valuation for the opening balance sheet as at January 1, 2010	Completed
	Identify impact on contractual agreements and financial covenants	Completed
	Where required, make amendments to agreements	Substantially complete
Processes and Systems	Identify changes required to current financial reporting systems	Completed
	Identify data collection requirements and implement process to collect data	Completed
	Evaluate and select methods to address the need for dual record keeping during 2010	Dual record keeping structure has been established
Training	Technical training of accounting staff	Conducted a high-level training session in Q1 2010. Detailed formal training was completed in Q4 2010
	Educate Board of Trustees, Audit Committee and Senior Management on the effect of IFRS	Senior management is updated regularly. Board of Trustees and Audit Committee are updated quarterly
	Communication to all other internal and external stakeholders	Ongoing quarterly external communication through MD&A and periodic updates internally
Internal Controls over Financial Reporting and Disclosure	Ensure documentation of processes and system are in place	Substantially complete
	Ensure appropriate changes to internal controls to address existing accounting policies and requirement for dual record keeping during 2010	Completed
	Assess effectiveness of controls	Ongoing

Impact of Adoption of IFRS

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

Investment Property

IFRS defines investment property as a property (land or a building, or part of a building, or both) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both. Investment property will include all properties currently classified as "income properties" and "properties under development".

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

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

The Trust has decided to adopt the fair value model for its investment properties. This will result in the Trust's opening balance sheet reflecting an initial revaluation adjustment to the Trust's investment properties to fair value as at January 1, 2010. The adjustment will be booked through opening equity.

Subsequent to transition, under the fair value model, the Trust will revalue its investment properties on a quarterly basis and the change in value will be recorded through operating earnings. Investment properties will not be subject to amortization or impairment under the fair value model.

The impact of IFRS on the Trust's investment properties, including properties under development and leasing commissions is as follows:

(in thousands of dollars, except per Unit amounts)	Canadian GAAP Net Book Value[1] $	IFRS Fair Value[2] $	Increase $	Average Cap Rates %
January 1, 2010	3,955,319	4,214,609	259,290	7.59
March 31, 2010	3,955,874	4,402,541	446,667	7.38
June 30, 2010	3,961,620	4,491,530	529,910	7.30
September 30, 2010	4,099,597	5,082,864	983,267	6.76
December 31, 2010	4,113,694	5,216,429	1,102,735	6.66

[1] The net book value disclosed in the consolidated financial statements prepared in accordance with GAAP at each reporting period stated above has been reduced for tenant inducements (discussed below) that will be presented separately from investment properties totalling $10,685, $11,341, $11,429, $13,644 and $14,215, respectively.

[2] The fair value amounts have been reduced for the effect of straight-line rent and tenant inducements that will be presented separately in the IFRS financial statements.

Properties Under Development

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

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

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

It is management's estimate that administrative and other general overhead costs that have been previously capitalized under Canadian GAAP will amount to approximately $0.6 million annually; such costs will be expensed under IFRS.

Leases

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

Tenant incentives previously classified as tenant improvements are to be presented as a separate line item in the consolidated financial statements. The total amount that was initially included in tenant improvements which is considered tenant incentives under IFRS is approximately $10.7 million as at January 1, 2010. Starting January 1, 2010, this amount will be amortized as a reduction of rental revenue over the term of the leases.

Leasing commissions will continue to be deferred on the consolidated balance sheet, but under IFRS they form a component of investment property and will not be amortized.

In 2010, the IASB and FASB published their exposure draft on accounting for leases. The exposure draft proposes a "right-of-use" approach that requires lessees to recognize an asset for its right to use the leased asset for the lease term and a corresponding liability for the committed cash flows. This treatment will effectively eliminate operating leases, leaving all leases to be treated as finance leases.

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

Business Combinations

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

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

It is the Trust's view that individual property acquisitions are asset acquisitions as opposed to business combinations under IFRS and as a result, after considering the facts and circumstances of each transaction, the Trust will treat most property acquisitions as asset acquisitions. The primary benefit of treating property acquisitions as asset acquisitions would be the capitalization of transaction costs and measurement of equity considerations. Since the Trust has adopted the fair value model for its investment properties, this would only be a timing difference as these costs would effectively be written off and adjusted to fair value as part of the period end adjustment of investment properties.

Equity – Trust Units

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

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

Equity – LP Units
Under Canadian GAAP, the Trust's LP Units are presented as equity in the consolidated balance sheet. However, under IFRS, the LP Units as structured at January 1, 2010, would be presented as a liability effectively at fair value with changes in fair value recorded in income and distributions would be classified as interest expense. A similar situation was present for Trust Units that was rectified by amendment of the Declaration of Trust (as discussed above). However, the issues related to LP Units are more complex. Presentation of these units as a liability will not have a negative impact on the Trust's financial covenants relating to its unsecured debentures, which refer to GAAP existing at the time of issuance.

Accordingly, at January 1, 2010, and throughout 2010, the LP Units will be recorded on the IFRS consolidated balance sheet as a liability, measured at amortized cost each reporting period, which will approximate their fair value, with changes in carrying amount recorded directly in earnings. The distributions will be classified as interest expense in the consolidated statement of income and comprehensive income. There will be no impact on reported FFO and AFFO as the interest expense related to the distributions on the LP Units will be added back.

The Trust identified the following solutions that would allow the Trust to present the LP Units as equity in the consolidated balance sheet. The solutions are:

1. Remove the redemption feature of the Trust Units (i.e., convert Calloway to a closed-end trust).
2. Put in place an automatic mechanism such that Calloway would convert to a closed-end trust prior to an LP Unitholder exercising its exchange right.

The Trust amended some but not all LP agreements in the fourth quarter of 2010 to require going to a closed end Trust prior to exchanging the LP Units into Trust Units. Accordingly, notwithstanding the LP Units meeting the definition of a liability, the Trust believes it has met the conditions under IFRS that will permit some LP Units to be presented as equity and distributions on such LP Units will be presented as a reduction in the statement of equity. However, some of the agreements relating to specific classes of LP Units were not amended and, as a result, such LP Units will be presented as a liability effectively at fair value with changes in fair value recorded in income, and distributions on such units will be classified as interest expense.

Under IFRS, Earnout options, deferred units and the conversion feature of the convertible debentures are considered to be a financial liability because there is a contractual obligation for the Trust to deliver Trust Units upon conversion of these instruments. As a result of this obligation, these instruments are exchangeable into a liability (the Trust Units are a liability by definition), and accordingly, these instruments are also considered to be a liability.

Earnout options, deferred units and the conversion feature of convertible debentures will be presented as a liability in the Trust's consolidated financial statements at fair value with changes in fair value recorded in income.

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

- *Business Combinations*
  The Trust may elect not to apply the IFRS 3 business combinations standard retrospectively for business combinations that occurred before the transition date (i.e., January 1, 2010). However, if the Trust chooses to restate any business combination that occurred prior to the transition date, it will have to restate all business combinations from the date selected. The Trust has made this election in order to apply IFRS 3 to business combinations, if any, prospectively (i.e., the business combination standard will apply prospectively from January 1, 2010).

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

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

The Trust is currently in the process of calculating the future income tax assets or liabilities on temporary differences under IFRS for the comparative period of 2010.

Classified Balance Sheet
Under IFRS, a classified balance sheet is required unless the Trust makes a determination that a presentation based upon liquidity would provide information that is reliable and more relevant. The Trust currently presents a non-classified balance sheet and will be presenting a classified balance sheet under IFRS.

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

To date, the Trust has identified and substantially quantified the significant differences between Canadian GAAP and IFRS that have an impact on the Trust's consolidated financial statements. The Trust is finalizing the impact that the adoption of IFRS will have on its consolidated financial statements and operating performance measures including externally imposed measures. Appropriate resources have been secured to complete the transition on a timely basis.

Risks and Uncertainties

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

Real estate has a high fixed cost associated with ownership, and income lost due to declining rental rates or increased vacancies cannot easily be minimized through cost reduction. Through well-located, well designed and professionally managed properties, management seeks to reduce this risk. Management believes prime locations will attract high quality retailers with excellent covenants and will enable the Trust to maintain economic rents and high occupancy. By maintaining the property at the highest standard through professional management practices, management seeks to increase tenant loyalty.

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

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

Interest rate changes will also affect the Trust's development portfolio. Calloway has entered into development agreements that obligate the Trust to acquire up to approximately 2.6 million square feet of additional income properties at a cost determined by capitalizing the rental income at predetermined rates. Subject to the ability to obtain financing on acceptable terms, the Trust will finance these acquisitions by issuing additional debt and equity. Changes in interest rates will have an impact on the return from these acquisitions and, should the rate exceed the capitalization rate used, could result in a purchase being non-accretive. This risk is mitigated as management has certain rights of approval over the developments.

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

The Canadian capital markets have recovered in 2009 and 2010 and are competitively priced. In addition, the secured debt market remains strong with lenders seeking quality product. Due to the quality and location of Calloway's real estate, management expects to meets its financial obligations.

Credit Risk

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

Environmental Risk

As an owner and manager of real property, the Trust is subject to various laws relating to environmental matters. These laws impose a liability for the cost of removal and remediation of certain hazardous materials released or deposited on properties owned by the Trust or on adjacent properties.

As required by the Declaration of Trust and in accordance with best management practices, Phase 1 audits are completed on all properties prior to acquisition. Further investigation is conducted if Phase 1 audits indicate a potential problem. The Trust has operating policies to monitor and manage risk. In addition, the standard lease requires compliance with environmental laws and regulations and restricts tenants from carrying on environmentally hazardous activities or having environmentally hazardous substances on site. The Trust has obtained environmental insurance on certain assets to further manage risk.

Capital Requirements

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

Tax Rules for Income Trusts

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

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

Based on the legislation as it is now enacted, it would appear that Calloway, as currently structured, does not qualify for the REIT Exemption. Subject to the Normal Growth Guidelines discussed above, the SIFT Rules will apply to Calloway commencing in 2011. On December 16, 2010, the Department of Finance announced proposed amendments to the provisions in the Tax Act that provided clarity and new changes in the application of the REIT Exemption that would allow Calloway to meet the proposed new rules without making any further changes to its current business structure. The effective date of the proposed amendments, if enacted, would be January 1, 2011. However, no assurance can be given that Calloway will qualify for the REIT Exemption if the proposed amendments to the Tax Act are not substantially enacted by the end of 2011.

Outlook

In 2010, Canadian retailers had a very good year with sales increasing 5.1% over 2009. Management expects this retailing strength to continue into 2011. American retailers have taken note of the Canadian market with many having expanded, or announced their intentions to expand, across the border. The most notable of such retailers is Target, which will be assuming the majority of the Zellers leases during 2011.

Calloway's occupancy level exceeds 99%, and management believes it will stay in this range for the foreseeable future. A high retention ratio is expected to continue with a 5% to 6% increase in rents over expiring leases expected to be achieved.

Liquidity in the market place is expected to continue. Cost of debt is expected to increase marginally for the remainder of 2011 with changes in bond rates partially offset by changes due to tighter risk spreads. The most recent syndication of a $200 million conduit loan, the first since the 2008 economic crisis, should add additional liquidity to borrowers. The cost of equity should continue to improve over the medium term as operating results support the valuations.

In the Canadian marketplace, significant cash is available to acquire investment grade real estate so future pricing will be aggressive. Calloway continues to analyze acquisition opportunities and bid on assets where the underlying real estate fundamentals support the pricing. Limited development activity is expected in the Canadian market place; however, Calloway will experience increased activity as construction has commenced on a number of new projects.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

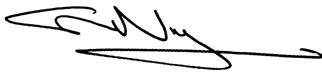
The Annual Report, including consolidated financial statements, is the responsibility of the management of Calloway Real Estate Investment Trust. The financial statements have been prepared in accordance with the recommendations of the Canadian Institute of Chartered Accountants. Financial information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

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

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

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

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



Simon Nyilassy
President and Chief Executive Officer

Bart Munn
Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

February 24, 2011

To the Unitholders of Calloway Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of Calloway Real Estate Investment Trust and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2010 and December 31 2009 and the consolidated statements of income and comprehensive income, equity and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Calloway Real Estate Investment Trust and its subsidiaries as at December 31, 2010 and December 31, 2009 and the results of their operations and their cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants
Toronto, Ontario

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

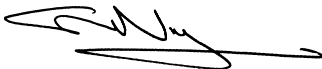
As at December 31, 2010 and December 31, 2009

(in thousands of dollars)	**2010**	2009
Assets		
Real estate assets		
Income properties (note 4)		
Tangible assets	**3,290,681**	3,123,204
Prepaid land rent	**155,931**	150,573
Intangible assets	**249,870**	263,722
Properties under development (note 5)	**427,309**	365,050
Mortgages and loans receivable (note 6)	**179,084**	245,392
Deferred leasing costs (note 7)	**6,112**	5,348
	4,308,987	4,153,289
Deferred financing costs (note 8)	**1,153**	2,415
Amounts receivable, prepaid expenses and deposits (note 9(a))	**54,597**	53,649
Cash and cash equivalents	**8,785**	27,486
	4,373,522	4,236,839
Liabilities		
Debt (note 10)	**2,666,583**	2,726,698
Accounts payable and accrued liabilities (note 9(b))	**153,289**	137,524
	2,819,872	2,864,222
Equity	**1,553,650**	1,372,617
	4,373,522	4,236,839

Commitments and contingencies (note 21)

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

Approved by the Board of Trustees



Simon Nyilassy
Trustee

Al Mawani
Trustee

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Years ended December 31, 2010 and 2009

(in thousands of dollars, except per Unit amounts)	**2010**	2009
Revenues		
Rentals from income properties (note 12)	**481,027**	446,996
Interest income	**13,390**	14,596
	494,417	461,592
Expenses		
Property operating costs	**163,079**	152,696
Interest expense excluding adjustment (note 10(g))	**149,534**	140,073
Adjustment for revised payments on redemption of unsecured debentures (note 10(g))	**31,582**	–
Amortization (notes 4(b) and 13)	**128,934**	135,828
General and administrative	**9,643**	9,709
	482,772	438,306
Net income and comprehensive income for the year	**11,645**	23,286
Income per unit (note 15)		
Basic and diluted – Net income	**$0.11**	$0.24

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

CONSOLIDATED STATEMENTS OF EQUITY

Years ended December 31, 2010 and 2009

(in thousands of dollars)	Unit Equity (note 11)	Equity Component of Convertible Debentures	Cumulative Net Income	Cumulative Distributions	Total
Equity – January 1, 2009	1,751,323	7,222	192,191	(513,849)	1,436,887
Issuance of units	63,506	–	–	–	63,506
Conversion of convertible debentures	13	–	–	–	13
Net income for the year	–	–	23,286	–	23,286
Distributions for the year (note 11(g))	–	–	–	(151,075)	(151,075)
Equity – December 31, 2009	**1,814,842**	**7,222**	**215,477**	**(664,924)**	**1,372,617**
Issuance of units	**325,992**	**–**	**–**	**–**	**325,992**
Issuance of convertible debentures (note 10(f))	**–**	**4,988**	**–**	**–**	**4,988**
Conversion of convertible debentures	**4,429**	**–**	**–**	**–**	**4,429**
Net income for the year	**–**	**–**	**11,645**	**–**	**11,645**
Distributions for the year (note 11(g))	**–**	**–**	**–**	**(166,021)**	**(166,021)**
Equity – December 31, 2009	**2,145,263**	**12,210**	**227,122**	**(830,945)**	**1,553,650**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2010 and 2009

(in thousands of dollars)	**2010**	2009
Cash provided by (used in)		
Operating activities		
Net income for the year	**11,645**	23,286
Add (deduct): Items not affecting cash		
Amortization	**128,934**	135,828
Amortization of deferred financing costs	**5,579**	6,041
Amortization of prepaid land rent	**3,531**	2,705
Capital lease obligation interest	**68**	63
Straight-line rent adjustments	**(3,436)**	(4,047)
Deferred Unit compensation expense	**829**	642
Amortization of acquisition date fair value adjustment on assumed debt	**(4,202)**	(4,573)
Amortization of accretion on convertible debentures	**2,139**	1,262
Loss on sale of income properties	**–**	194
	145,087	161,401
Expenditures on deferred leasing costs	**(1,351)**	(1,708)
Changes in other non-cash operating items (note 9(c))	**(3,757)**	(16,908)
	139,979	142,785
Financing activities		
Proceeds from issuance of unsecured debentures and convertible debentures, net of issuance costs	**255,025**	223,196
Repayment of unsecured debentures and convertible debentures	**(196,839)**	(153,548)
Proceeds from acquisition and operating facilities, net of repayments	**(72,000)**	(73,500)
Proceeds from term mortgages	**79,900**	265,756
Mortgages and other net debt repayments	**(89,684)**	(142,944)
Proceeds from issuance of units, net of issue costs	**292,679**	47,855
Distributions paid	**(152,709)**	(137,685)
Expenditures on financing costs	**(766)**	(7,147)
	115,606	21,983
Investing activities		
Acquisitions of income properties and properties under development (note 3)	**(183,406)**	(91,730)
Additions to income properties	**(9,287)**	(4,793)
Additions to properties under development	**(78,227)**	(68,187)
Advances of mortgages and loans receivable	**(12,729)**	(66,079)
Repayments of mortgages and loans receivable	**10,311**	67,695
Deposits	**(948)**	83
Net proceeds on sale of properties under development	**–**	1,343
	(274,286)	(161,668)
Increase (decrease) in cash and cash equivalents during the year	**(18,701)**	3,100
Cash and cash equivalents – beginning of year	**27,486**	24,386
Cash and cash equivalents – end of year	**8,785**	27,486

Supplemental cash flow information (note 16)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009
(in thousands of dollars, except Unit and per Unit amounts)

1. Organization

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

At December 31, 2010, the SmartCentres Group of Companies (SmartCentres), owned by Mitchell Goldhar, owned approximately 21.5% (December 31, 2009 – 23.9%) of the issued and outstanding units of the Trust (see note 17).

2. Summary of significant accounting policies

Basis of presentation

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

Future changes in accounting policies

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

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

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

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

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

Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Trust has elected not to early adopt these sections in 2010.

International Financial Reporting Standards

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards for public companies would be required to converge with International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011 with comparative figures presented on the same basis. In February 2008, the AcSB confirmed the effective date of the initial adoption of IFRS.

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

The Trust will adopt IFRS effective for interim and annual periods commencing January 1, 2011, including the preparation and reporting of one year of comparative figures.

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

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

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

Real estate assets

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

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

Buildings	40 years
Buildings under land leases or capital leases	lesser of 40 years and term of respective lease
Tenant improvements	term of respective lease
Value of in-place leases	term of respective lease
Value of tenant relationships	term of respective lease plus renewal periods as applicable
Furniture, computer hardware and software	3 to 7 years

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

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

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

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

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

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

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

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

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

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

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

iii) Derivative instruments

Derivative financial instruments may be utilized by the Trust in the management of its interest rate exposure. The Trust's policy is not to utilize derivative instruments for trading or speculative purposes.

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

iv) Fair value of financial instruments

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

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

Cash and cash equivalents

Cash and cash equivalents are comprised of cash and include short-term investments with original maturities of three months or less. At December 31, 2010, cash and cash equivalents include the Trust's proportionate share of cash balances of joint ventures of $1,547 (December 31, 2009 – $2,076).

Convertible debentures

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

Unit-based compensation

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

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

b) Deferred unit plan

The deferred unit plan is described in note 11(c). Deferred units granted to Trustees and executives in respect of their Trustee fees or bonuses are considered to be in respect of past services and are recognized in compensation expense upon grant. Deferred units granted relating to amounts matched by the Trust are considered to be in respect of future services and are recognized in compensation expense on a straight-line basis over the vesting period. Compensation cost is measured based on the market price of the Trust's units on the date of grant of the deferred units. The deferred units earn additional deferred units for the distributions that would otherwise have been paid on the deferred units as if they instead had been issued as Trust Units on the date of grant. No additional compensation cost is recorded for these additional deferred units issued. Deferred units that have vested, but for which the corresponding Trust Units have not been issued and where the ultimate issuance of such Trust Units is simply a matter of a passage of time, are considered to be outstanding units from the date of vesting for basic income per unit calculations.

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

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

Income per Unit calculations
Basic income per unit is calculated by dividing income by the weighted average number of units outstanding for the year including vested deferred units. The calculation of income per unit on a diluted basis considers the potential exercise or conversion of outstanding Earnout Options and unvested deferred units using the treasury stock method and convertible debentures using the "if-converted" method, in all cases when dilutive.

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

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

3. Acquisitions

Acquisitions completed during the year ended December 31, 2010

a) On November 23, 2010, the Trust completed the acquisition of a 50% co-ownership interest in an 18.47 acre development property in Toronto, Ontario, for a purchase price totalling $25,946, which was paid with proceeds received from an existing mortgage receivable of $22,650, and the balance paid in cash, adjusted for other working capital amounts. The purchase price includes a $500 acquisition fee paid to SmartCentres (see note 17).

b) On September 13, 2010, the Trust completed the acquisition of two properties in Ontario and Quebec from a joint venture between SmartCentres and Wal-Mart Canada Realty Inc. As at the closing date, the two properties comprised approximately 731,433 net square feet of leased area, and included lands with potential for future development of approximately 415,238 net square feet. In connection with the acquisition, the Trust entered into long-term development management agreements with SmartCentres.

The purchase price of the properties was $130,108, adjusted for costs of acquisition and working capital amounts. The purchase price was satisfied by the issuance of 480,000 Class B LPIII Units with a value of $11,093 (see note 11(a) for a description of Class B LPIII Units) to SmartCentres, the issuance of 1,000,000 new Earnout Options (see note 11(b)) to SmartCentres, and the balance in cash. The Class B LPIII Units were valued at a price of $23.11 per unit, which was the approximate fair market value of Trust Units on the date the substantive terms of the acquisition were agreed upon and announced. Earnout Options were valued at their estimated fair market value of $nil based on an exercise price equivalent to the market price of the Trust Units at the time of the Earnout event. In addition, an accrued development obligation was booked at its estimated fair value of $10,768 in connection with this transaction (see note (9(b)).

c) During the year ended December 31, 2010, pursuant to development management agreements referred to in note 5(a), the Trust completed the purchase of Earnouts totalling 448,413 square feet of development space from SmartCentres and other vendors for $125,913. The purchase price was satisfied through the issuance of 414,136 Trust Units and 14,823 Class B Series 1 and Series 3 LP Units for combined consideration of $7,354, and the balance paid in cash, adjusted for other working capital amounts.

Consideration for the assets acquired during the year ended December 31, 2010, is summarized as follows:

	Acquisitions	Earnouts	Total
Cash	122,311	61,095	183,406
Proceeds received from an existing mortgage receivable	22,650	–	22,650
Trust Units issued	–	7,056	7,056
Class B LP and Class B LPIII Units issued	11,093	298	11,391
Accounts payable and accrued liabilities assumed	–	57,464	57,464
	156,054	125,913	281,967

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

	Acquisitions	Earnouts	Total
Income properties			
Tangible assets			
Land [1]	34,862	8,701	43,563
Buildings	72,596	93,102	165,698
Tenant improvements	4,843	4,729	9,572
	112,301	106,532	218,833
Prepaid land rent [1]	–	6,970	6,970
Intangible assets			
In-place leases	16,189	11,283	27,472
Below market leases	–	(195)	(195)
Tenant relationships	1,618	1,323	2,941
	17,807	12,411	30,218
	130,108	125,913	256,021
Properties under development	25,946	–	25,946
	156,054	125,913	281,967

[1] The allocation of the purchase price of Earnouts in the above table does not include the cost of previously acquired freehold land and leasehold land in the amount of $6,733 and $1,919, respectively.

As at December 31, 2010, the allocation of the purchase prices to fair values of assets acquired and liabilities assumed for acquisitions was finalized. Income from the acquired properties is included in the consolidated statements of income and comprehensive income from the date of acquisition.

Acquisitions completed during the year ended December 31, 2009

a) On August 31, 2009, the Trust completed the acquisition from SmartCentres of a 50% leasehold interest in an income property (272,595 square feet) in Richmond Hill, Ontario, for $40,814 pursuant to an existing agreement signed in 2007. The purchase price was satisfied by the proceeds received from an existing mortgage receivable of $20,756, the assumption of an existing first mortgage totalling $17,917 and the balance in cash, adjusted for other working capital amounts.

b) On April 30, 2009, the Trust completed the acquisition from SmartCentres of a 50% co-ownership interest in an 86.6 acre development property in Innisfil, Ontario, for a purchase price totalling $14,285, which was paid with proceeds received from an existing mortgage receivable of $14,075, adjusted for other working capital amounts.

c) During the year ended December 31, 2009, pursuant to development management agreements referred to in note 5(a), the Trust completed the purchase of Earnouts totalling 640,814 square feet of development space from SmartCentres and other vendors for $140,496. The purchase price was satisfied through the issuance of 32,489 Trust Units and 19,930 Class B Series 1 and Series 3 LP Units for combined consideration of $937 and the balance in cash, adjusted for other working capital amounts.

Consideration for the assets acquired during the year ended December 31, 2009, is summarized as follows:

	Acquisitions	Earnouts	Total
Cash	2,351	89,379	91,730
Proceeds received from an existing mortgage receivable	34,831	–	34,831
Mortgages payable assumed at fair value	17,917	–	17,917
Class B LP Units issued	–	401	401
Trust Units issued	–	536	536
Accounts payable and accrued liabilities assumed and repayment of loans receivable	–	50,180	50,180
	55,099	140,496	195,595

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

	Acquisitions	Earnouts	Total
Income properties			
Tangible assets			
Land[1]	–	9,635	9,635
Buildings	24,235	95,274	119,509
Tenant improvements	691	8,180	8,871
	24,926	113,089	138,015
Prepaid land rent[1]	11,849	9,963	21,812
Intangible assets			
In-place leases	3,601	15,273	18,874
Above market leases	56	–	56
Tenant relationships	382	2,171	2,553
	4,039	17,444	21,483
	40,814	140,496	181,310
Properties under development	14,285	–	14,285
	55,099	140,496	195,595

[1] The allocation of the purchase price of Earnouts in the above table does not include the cost of previously acquired freehold land and leasehold land in the amount of $12,276 and $3,219, respectively.

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

4. Income properties

Income properties consist of the following:

	2010			2009		
	Cost	**Accumulated Amortization**	**Net**	Cost	Accumulated Amortization	Net
Tangible assets						
Land	**954,462**	**–**	**954,462**	898,356	–	898,356
Buildings	**2,509,883**	**281,827**	**2,228,056**	2,330,399	218,505	2,111,894
Tenant improvements	**195,997**	**89,828**	**106,169**	190,925	78,440	112,485
Furniture, computer hardware and software	**2,577**	**583**	**1,994**	935	466	469
	3,662,919	**372,238**	**3,290,681**	3,420,615	297,411	3,123,204
Prepaid land rent	**169,716**	**13,785**	**155,931**	160,827	10,254	150,573
Intangible assets						
In-place leases	**403,392**	**176,273**	**227,119**	396,008	154,820	241,188
Above-market leases	**460**	**207**	**253**	536	152	384
Below-market leases	**(2,448)**	**(1,391)**	**(1,057)**	(2,355)	(1,122)	(1,233)
Tenant relationships	**34,776**	**11,221**	**23,555**	32,250	8,867	23,383
	436,180	**186,310**	**249,870**	426,439	162,717	263,722
Total income properties	**4,268,815**	**572,333**	**3,696,482**	4,007,881	470,382	3,537,499

a) *Capital leases*
As at December 31, 2010, 14 (December 31, 2009 – 14) income properties with a cost of $738,651 (December 31, 2009 – $685,753) and a net book value of $642,070 (December 31, 2009 – $608,734) are subject to capital leases, summarized as follows:

- Three of the leasehold interests commenced in 2005 under the terms of 35-year leases with SmartCentres. SmartCentres has the right to terminate the leases after ten years on payment to the Trust of the market value of a 35-year leasehold interest in the properties at that time and also has the right to terminate the leases at any time in the event any third party acquires 20% of the aggregate of the Trust Units and special voting units by payment to the Trust of the unamortized balance of any prepaid lease cost. The Trust does not have a purchase option under these three leases.
- Of the ten leasehold interests that commenced in 2006 through 2009, four are under the terms of 80-year leases with SmartCentres and six are under the terms of 49-year leases with SmartCentres. The Trust has separate options to purchase each of these ten leasehold interests at the end of the respective leases at prices that are not considered to be bargain prices.
- The Trust prepaid its entire lease obligations for these 13 leasehold interests in the amount of $694,678 (December 31, 2009 – $641,731), including prepaid land rent of $169,716 (December 31, 2009 – $160,827); upon the completion and rental of additional space, the Trust prepaid its entire lease obligations relating to build-out costs of $58,747 (year ended December 31, 2009 – $44,327). There are no bargain purchase options at the end of the lease terms for these 13 leasehold interests and, accordingly, the portion of the prepaid lease obligation attributable to land has been classified as prepaid land rent. Amortization of prepaid land rent is included in property operating costs in the consolidated statements of income.
- One leasehold interest commenced in 2003 under the terms of a 35-year lease with SmartCentres. The lease requires a $10,000 payment at the end of the lease term in 2038 to exercise a purchase option, which is considered to be a bargain purchase option. The Trust prepaid its entire lease obligation for this property of $43,973 (December 31, 2009 – $44,022). This purchase option due at the end of the lease has been included in accounts payable, net of imputed interest at 9.18% of $9,216 (December 31, 2009 – $9,284), at the amount of $784 (December 31, 2009 – $716) (see note 9(b)). As the purchase option is considered to be a bargain purchase option, the portion of the prepaid lease obligation attributable to land has been classified as land.

b) *Other*
During the year ended December 31, 2010, unamortized tenant improvements and intangible assets relating to space that was vacated by tenants during the period before the expiry of their lease terms, totalling $2,765 (December 31, 2009 – $12,922), were charged to amortization expense.

5. Properties under development

Properties under development consist of the following:

	2010	2009
Properties under development subject to development management agreements (a)	**130,445**	117,878
Properties under development not subject to development management agreements (b)	**296,864**	247,172
	427,309	365,050

For the year ended December 31, 2010, general and administrative expenses of $578 (December 31, 2009 – $604) and interest expense of $18,692 (December 31, 2009 – $13,607) were capitalized to properties under development.

a) *Properties under development subject to development management agreements*
These properties under development (including certain leasehold properties) are subject to various development management agreements with SmartCentres, Wal-Mart Canada Realty Inc. and Hopewell Development Corporation (Hopewell, a company in which a Trustee of the Trust is an officer) ("the vendors"). Pursuant to the development management agreements, the vendors assume responsibility for managing the development of the land on behalf of the Trust and are granted the right for a period of up to ten years to earn an Earnout fee. Upon the completion and rental of additional space on these properties, the Trust is obligated to pay the Earnout fee and to purchase the additional developments, at a total price calculated by a formula using the net operating rents and predetermined negotiated capitalization rates, on the date rent becomes payable on the additional space (Gross Cost). For additional space completed on land with a carrying value of $65,003 (December 31, 2009 – $76,584), the fixed predetermined negotiated capitalization rates range from 6.00% to 10.00% during the five-year period of the respective development acquisition agreements. For additional space completed on land with a carrying value of $65,442 (December 31, 2009 – $41,294), the predetermined negotiated capitalization rates are fixed for each contract for either the first 1, 2, 3 or 4 years, ranging from 6.00% to 8.00%, and then are determined by reference to the ten-year Government of Canada bond rate at the time of completion plus a fixed predetermined negotiated spread ranging from 2.00% to 3.90% for the remaining term of the ten-year period of the respective development management agreements subject to a maximum capitalization rate ranging from 6.60% to 9.50%. The Earnout fee is calculated as the Gross Cost less the associated land and development costs incurred by the Trust.

For certain of these properties under development, SmartCentres and other unrelated parties have been granted Earnout Options that give them the right, at their option, to receive up to 40% of the Earnout fee for one of the agreements and up to 30% to 40% of the Gross Cost for the remaining agreements in Trust Units, Class B LP Units, Class D LP Units or Class B LPIII Units, at current market prices or at predetermined option strike prices, for developments completed pursuant to the development management agreements, subject to a maximum number of units. For the year ended December 31, 2010, the Trust completed 448,413 square feet (December 31, 2009 – 640,814 square feet) of retail space with a Gross Cost of $82,614 (December 31, 2009 – $81,323) exclusive of cost of land previously acquired and Earnout fees paid to the vendors of $43,299 (December 31, 2009 – $59,173). SmartCentres elected to receive $7,056 (December 31, 2009 – $536) in Trust Units and $298 (December 31, 2009 – $401) in Class B Series 1 LP Units and Series 3 LP Units.

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

b) Properties under development not subject to development management agreements
These properties under development are being developed directly by the Trust. SmartCentres and the other vendors have been granted Earnout Options that give them the right, at their option, to acquire Class B Series 1 LP Units, at predetermined option strike prices, on the completion and rental by the Trust of additional space on certain of these properties under development, subject to a maximum number of units (note 11(b)).

During the year ended December 31, 2010, the Trust completed the development and leasing of certain income properties on property under development not subject to development management agreements. Costs in respect of land of $5,855 (December 31, 2009 – $6,283), buildings of $9,555 (December 31, 2009 – $20,031) and tenant improvements of $400 (December 31, 2009 – $2,629) have been reclassified from properties under development to income properties. For the year ended December 31, 2010, 93,380 (December 31, 2009 – nil) Earnout Options were exercised on the completion and rental of additional space for 93,380 (December 31, 2009 – nil) Class B Series 1 LP Units with a value of $1,877 (December 31, 2009 – $nil).

6. Mortgages and loans receivable

Mortgages and loans receivable consist of the following:

	2010	2009
Mortgages receivable (a)	**171,436**	173,410
Loans and notes receivable (b), (c) and (d)	**7,648**	71,982
	179,084	245,392

a) Mortgages receivable of $149,014 (December 31, 2009 – $132,425) and $22,422 (December 31, 2009 – $40,985) have been provided pursuant to agreements with SmartCentres and unrelated parties, respectively, in which the Trust will lend up to $256,135 (December 31, 2009 – $280,135) for use in acquiring and developing thirteen (December 31, 2009 – thirteen) properties across Ontario, Quebec and British Columbia. Interest on these mortgages accrues monthly at a variable rate based on the bankers' acceptance rate plus 1.75% to 2.00% on mortgages receivable of $17,866 (December 31, 2009 – $nil) and at a fixed rate of 6.35% to 7.75% (December 31, 2009 – 6.35% to 10%) on mortgages receivable of $153,570 (December 31, 2009 – $173,410) and is added to the outstanding principal up to a predetermined maximum accrual after which it is payable in cash monthly. A further $35,883 (December 31, 2009 – $46,702) may be accrued on the various mortgages receivable before cash interest must be paid. The principal and unpaid interest amounts are due at the maturity of the mortgages at various dates between 2011 and 2018 (one to ten years from the initial advance). The mortgages are secured by either a first, second or third charge on properties, assignments of rents and leases, and general security agreements. In addition, other SmartCentres affiliated companies have provided limited indemnities and guarantees on certain of the mortgages receivable. For the year ended December 31, 2010, $23,335 (December 31, 2009 – $23,853) has been funded, including accrued interest of $12,402 (December 31, 2009 – $12,694), offset by repayments of $25,309 (December 31, 2009 – $71,863).

The following provides further details on these mortgages receivable:

- For mortgages totalling $146,335 (December 31, 2009 – $149,791), the Trust has options to acquire a 50% (nine properties) and 100% (two properties) interest in the eleven properties (December 31, 2009 – eleven) upon substantial completion at an agreed upon formula using the net operating rents and a capitalization rate based on the ten-year Government of Canada bond rate at the time of completion plus a fixed predetermined negotiated spread ranging from 2.15% to 3.00% within a specified range as follows. Should the capitalization rate exceed the upper limit (ranging from 7.40% to 10.00%), the owner is not obligated to sell, with one exception, when the owner is obligated to sell as there is no upper limit. Should the capitalization rate be less than the lower limit, then the lower limit (ranging from 6.25% to 7.65%) is deemed to be the capitalization rate, with five exceptions, where no lower limit exists.

- The Trust has two (December 31, 2009 – two) agreements to loan SmartCentres up to $15,000 and $26,825, maturing in October 2017 and August 2018, for SmartCentres to use in acquiring and developing two properties in which the Trust has the other 50% co-ownership interest. The Trust has advanced $25,101 (December 31, 2009 – $23,619) on these mortgages as at December 31, 2010.
- During the year, an existing mortgage in the amount of $22,650 with an unrelated party was repaid in connection with the acquisition of a 50% co-ownership interest in the related income property (see note 3(a)).

b) Pursuant to development management agreements, as at December 31, 2009 development loans receivable of $57,921 and $6,316 were provided to SmartCentres and Hopewell, respectively (note 5). For the year ended December 31, 2010, $1,848 (December 31, 2009 – $54,902) was funded, offset by repayments of $66,085 (December 31, 2009 – $30,533). During the first quarter of 2010, certain development management agreements were amended to enable the Trust to comply with the real estate investment trust exemption rules ("REIT Exemption") under the Income Tax Act (Canada). This resulted in repayment of outstanding amounts due to Calloway under the development loans and the acquisition by Calloway of the improvements to the properties from the developer. As a result of the amendments, the costs of developing these properties are now incurred directly by Calloway and included in properties under development as incurred. Prior to repayment, the loans were interest bearing at rates that approximated the prime rate of a Canadian chartered bank plus rates ranging from 0.50% to 1.25%, were unsecured and were repayable at the completion and rental of the properties under development.

c) As at December 31, 2010, notes receivable of $2,655 (December 31, 2009 – $2,608) have been granted to SmartCentres. These secured demand notes bear interest at 9.00% per annum. During the year ended December 31, 2010, $47 (December 31, 2009 – $18) has been funded.

d) Loans receivable of $4,993 (December 31, 2009 – $5,137) have been provided pursuant to agreements with other unrelated parties. The loans bear interest at rates of 5.20% to 5.50%, mature in 2012 and 2015 and are secured by either first or second charges on properties, assignments of rents and leases, and general security agreements. For the year ended December 31, 2010, $144 (December 31, 2009 – $130) has been repaid.

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

	2010	2009
Mortgages receivable	**158,042**	163,347
Loans and notes receivable	**7,648**	71,982
	165,690	235,329

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

7. Deferred leasing costs

Deferred leasing costs consist of the following:

		2010			2009	
	Cost	**Accumulated Amortization**	**Net**	Cost	Accumulated Amortization	Net
Leasing commissions and other leasing costs	**8,816**	**2,704**	**6,112**	7,287	1,939	5,348

8. Deferred financing costs

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

		2010			2009	
	Cost	**Accumulated Amortization**	**Net**	Cost	Accumulated Amortization	Net
Deferred financing costs	**2,917**	**1,764**	**1,153**	5,039	2,624	2,415

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

9. Working capital

a) Amounts receivable, prepaid expenses and deposits

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

	2010	2009
Amounts receivable		
Tenant receivables – net	**9,947**	10,087
Other tenant receivables	**6,305**	7,505
Straight-line rent receivable	**31,191**	27,755
Other receivables	**2,291**	4,465
	49,734	49,812
Prepaid expenses and deposits		
Prepaid expenses and other	**3,510**	3,432
Deposits	**1,353**	405
	4,863	3,837
	54,597	53,649

Tenant receivables

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

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

	2010	2009
Balance, January 1	**2,416**	2,029
Additional allowance recognized as expense	**1,309**	2,334
Reversal of previous allowances	**(545)**	(1,024)
Tenant receivables written off during the year	**(751)**	(923)
Balance, December 31	**2,429**	2,416

The total additional allowance of $764 (December 31, 2009 – $1,310) net of reversals of $545 (December 31, 2009 – $1,024) relates to allowances for specific tenant receivable impairments or lease interpretation issues. Amounts written off totalling $751 (December 31, 2009 – $923) relate to uncollectible amounts from specific tenants that have vacated their premises or settlement of a specific amount.

Tenant receivables representing rental payments from tenants are due at the beginning of each month. Annual common area maintenance ("CAM") and property taxes are considered past due 60 days after billing. The decrease in net tenant receivables over December 31, 2009 is primarily the result of settlement of various tenants' issues during the year partially offset by the growth of the portfolio.

Tenant receivables less than 90 days old total $3,495 (December 31, 2009 – $2,710). The net tenant receivable amounts older than 90 days totalling $6,452 (December 31, 2009 – $7,377), net of bad debt allowances of $2,429 (December 31, 2009 – $2,416), primarily pertain to CAM and property tax queries. The net amounts over 90 days old are at various stages of the collection process and are considered by management to be collectible.

Other tenant receivables totalling $6,305 (December 31, 2009 – $7,505) pertain to unbilled CAM and property tax recoveries and chargebacks, property taxes recoverable from municipalities and insurance claims. These amounts are considered current and collectible and are at various stages of the billing and collection process.

Other receivables

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

b) *Accounts payable and accrued liabilities*
Accounts payable and accrued liabilities consist of the following:

	2010	2009
Accrued development obligation	**42,128**	35,836
Accounts payable – operations and development	**44,644**	40,020
Tenant prepaid rent, deposits and other payables	**26,560**	21,017
Accrued interest payable	**13,553**	15,802
Distributions payable	**14,827**	12,818
Realty taxes payable	**8,653**	9,144
Non-controlling interest	**2,140**	2,171
Capital lease obligation (note 4(a))	**784**	716
	153,289	137,524

The accrued development obligation represents payments required to be made to SmartCentres for certain undeveloped lands acquired in October 2003, December 2006, July 2007 and September 2010, either upon completion and rental of additional space on the undeveloped lands or, if no additional space is completed on the undeveloped lands, at the expiry of the ten-year development acquisition agreements ending in 2013, 2016, 2017 and 2020. The accrued development obligation was initially measured at its estimated fair value using an imputed interest rate of 5.50%. For the year ended December 31, 2010, imputed interest of $1,883 (December 31, 2009 – $1,819) was capitalized to properties under development.

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

	2010	2009
Amounts receivable and prepaid expenses	**(9,064)**	(8,993)
Accounts payable and accrued liabilities	**5,307**	(7,915)
	(3,757)	(16,908)

10. Debt

Debt consists of the following:

	2010	2009
Term mortgages (a)	**1,862,574**	1,860,574
Development loans		
Interest-bearing (b)	**79,522**	119,369
Non-interest-bearing (c)	**19,568**	24,954
Revolving operating facilities (d)	**20,000**	92,000
Unsecured debentures (e)	**525,000**	521,452
Convertible debentures (f)	**175,890**	123,769
	2,682,554	2,742,118
Less: Deferred financing costs	**(15,971)**	(15,420)
	2,666,583	2,726,698

Deferred financing costs as at December 31, 2010, pertaining to term mortgages amounted to $7,030 (December 31, 2009 – $8,610), unsecured debentures amounted to $4,642 (December 31, 2009 – $3,465) and convertible debentures amounted to $4,299 (December 31, 2009 – $3,345).

a) *Term mortgages*
Term mortgages bear interest at fixed rates with a weighted average interest rate of 5.87% at December 31, 2010 (December 31, 2009 – 5.90%) and mature between 2011 and 2026. The term mortgages are secured by first registered mortgages over specific income properties and properties under development and first general assignments of leases, insurance and registered chattel mortgages.

Principal repayment requirements for term mortgages are as follows:

	Instalment Payments	Lump Sum Payments at Maturity	Total
2011	52,089	83,265	135,354
2012	52,600	84,182	136,782
2013	50,002	232,950	282,952
2014	47,150	219,189	266,339
2015	43,075	168,833	211,908
Thereafter	199,290	616,846	816,136
	444,206	1,405,265	1,849,471
Acquisition date fair value adjustment			13,103
			1,862,574

b) *Interest-bearing development loans*
Interest-bearing development loans total $79,522 (December 31, 2009 – $119,369) and are detailed as follows:

- Development loans totalling $71,016 (December 31, 2009 – $101,601) bear a variable interest rate of prime plus 0.50% on $6,440 (December 31, 2009 – $20,606) and bankers' acceptance rates plus 2.50% to 3.50% on $64,576 (December 31, 2009 – $80,995), are due on demand, are secured by first and second registered mortgages over specific income properties and first general assignments of leases and insurance and are subject to review annually.
- Development loans totalling $8,506 (December 31, 2009 – $17,768) have been provided by a joint venture between SmartCentres and Wal-Mart Canada Realty Inc. to finance additional costs of developments (note 5(a)). They bear variable interest rates at bankers' acceptance rates plus 2.00%, are secured by first mortgages over specific income properties and income properties under development and first general assignments of leases, and are due the earlier of various dates between 2013 and 2015 or the date building construction is completed and the tenant is in occupancy and paying rent.

c) *Non-interest-bearing development loans*
Non-interest-bearing development loans have been provided by a joint venture between SmartCentres and Wal-Mart Canada Realty Inc. to finance initial land acquisition costs (note 5(a)). These loans were initially measured at their estimated fair value using imputed interest rates ranging from 4.03% to 5.16%, are secured by first mortgages over specific income properties and properties under development and first general assignments of leases, and are due the earlier of various dates in 2013 through 2015 or the date building construction is completed and the tenant is in occupancy and paying rent. During the year ended December 31, 2010, imputed interest of $966 (December 31, 2009 – $1,123) was capitalized to properties under development.

d) *Revolving operating facilities*
The first revolving operating facility with $20,000 outstanding (December 31, 2009 – $59,000) bears interest at a variable interest rate based on bank prime plus 2.25% or bankers' acceptance rates plus 3.25%, is secured by first charges over specific income properties and first general assignments of leases and insurance and expires on September 30, 2011.

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

	2010	2009
First revolving operating facility	**160,000**	160,000
Second revolving operating facility	–	105,000
Total available operating facilities	**160,000**	265,000
Lines of credit – outstanding	**(20,000)**	(92,000)
Letters of credit – outstanding	**(31,872)**	(29,194)
Remaining unused operating facilities	**108,128**	143,806

e) *Unsecured debentures*

	2010	2009
Series A senior unsecured, due September 22, 2010, bearing interest at 4.51% per annum, payable semi-annually on September 22 and March 22	**–**	46,452
Series B senior unsecured, due October 12, 2016, bearing interest at 5.37% per annum, payable semi-annually on October 12 and April 12	**250,000**	250,000
Series C senior unsecured, due April 14, 2014, bearing interest at 10.25% per annum, payable semi-annually on April 14 and October 14	**–**	150,000
Series D senior unsecured, due June 30, 2014, bearing interest at 7.95% per annum, payable semi-annually on June 30 and December 30	**75,000**	75,000
Series E senior unsecured, due June 4, 2015, bearing interest at 5.10% per annum, payable semi-annually on June 4 and December 4	**100,000**	–
Series F senior unsecured, due February 1, 2019, bearing interest at 5.00% per annum, payable semi-annually on February 1 and August 1	**100,000**	–
	525,000	521,452

On June 4, 2010, the Trust issued $100,000 (net proceeds including issuance costs – $99,000) of 5.10% Series E senior unsecured debentures due on June 4, 2015 with semi-annual payments due on June 4 and December 4 each year. The proceeds from the sale of the debentures were used for general corporate purposes including the paydown of the Trust's operating facilities.

On July 6, 2010, the Trust redeemed $46,452 aggregate principal amount of 4.51% Series A senior unsecured debentures. In addition to paying accrued interest of $620, the Trust paid a yield maintenance fee of $355 in connection with the redemption of the Series A senior unsecured debentures and wrote off unamortized transaction costs of $82.

On October 1, 2010, the Trust issued $100,000 (net proceeds including issuance costs – $98,500) of 5.00% Series F senior unsecured debentures due on February 1, 2019, with semi-annual payments due on February 1 and August 1 each year. The proceeds from the sale of the debentures, together with proceeds from the September 30, 2010 Unit offering, were used to redeem the Series C senior unsecured debentures.

On October 25, 2010, the Trust redeemed $150,000 aggregate principal amount of 10.25% Series C senior unsecured debentures. In addition to the accrued interest of $464, the Trust paid a yield maintenance fee of $30,975 in connection with the redemption of the Series C senior unsecured debentures. The adjustment for the revised payments on redemption of the Series C senior unsecured debentures, including unamortized transaction costs of $872, totalled $31,582 and is included in interest expense (note 10(g)).

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

f) *Convertible debentures*

On May 14, 2004, the Trust issued $55,000 of 6.00% convertible unsecured subordinated debentures (the 6.00% convertible debentures) due June 30, 2014. The 6.00% convertible debentures are convertible at the holder's option at any time into Trust Units at $17.00 per unit and are redeemable at the option of the Trust on or after June 28, 2010. The 6.00% convertible debentures were divided into their liability and equity components, measured at their respective fair values at time of issue. For the year ended December 31, 2010, $4,429 of the face value of the 6.00% convertible debentures (December 31, 2009 – $13) was converted into Trust Units (note 11(e)). On July 6, 2010, the Trust redeemed the balance of the 6.00% convertible debentures for $387 in cash.

On May 2, 2008, the Trust issued $125,000 of 6.65% convertible unsecured subordinated debentures (the 6.65% convertible debentures) due June 30, 2013. The 6.65% convertible debentures are convertible at the holder's option at any time into Trust Units at $25.25 per unit and may not be redeemed prior to June 30, 2011. On or after June 30, 2011, and prior to June 30, 2012, the 6.65% convertible debentures may be redeemed by the Trust, in whole or in part, at a price equal to the principal amount plus accrued and unpaid interest, provided the weighted average trading price for the Trust's Units for the 20 consecutive trading days, ending on the fifth trading day immediately preceding the date on which notice of redemption is given, is not less than 125% of the conversion price. After June 30, 2012, the 6.65% convertible debentures may be redeemed by the Trust at any

time. The 6.65% convertible debentures were divided into their liability and equity components, measured at their respective fair values at time of issue. For the year ended December 31, 2010, $nil of the face value of the 6.65% convertible debentures (December 31, 2009 – $nil) was converted into Trust Units. At December 31, 2010, $125,000 of the face value of the 6.65% convertible debentures was outstanding (December 31, 2009 – $125,000).

On January 5, 2010, the Trust issued $60,000 of 5.75% convertible unsecured subordinated debentures (the 5.75% convertible debentures and, collectively, with the 6.00% convertible debentures and the 6.65% convertible debentures: the "convertible debentures") due June 30, 2017. The 5.75% convertible debentures are convertible at the holder's option at any time into Trust Units at $25.75 per unit and may not be redeemed prior to June 30, 2013. On or after June 30, 2013, but prior to June 30, 2015, the 5.75% convertible debentures may be redeemed by the Trust, in whole or in part, at a price equal to the principal amount plus accrued and unpaid interest, provided the weighted average trading price of the Trust's Units for the 20 consecutive trading days, ending on the fifth trading day immediately preceding the date on which notice of redemption is given, is not less than 125% of the conversion price. After June 30, 2015, the 5.75% convertible debentures may be redeemed by the Trust at any time. The 5.75% convertible debentures were divided into their liability ($54,797) and equity components ($5,203), measured at their respective fair values at time of issue. The equity component after transaction costs is $4,988. For the year ended December 31, 2010, $nil of the face value of the 5.75% convertible debentures (December 31, 2009 – $nil) was converted into Trust Units. At December 31, 2010, $60,000 of the face value of the 5.75% convertible debentures was outstanding (December 31, 2009 – $nil).

The carrying values of the convertible debentures are as follows:

	2010	2009
6.65% convertible unsecured subordinated debentures	**120,551**	118,954
6.00% convertible unsecured subordinated debentures	**–**	4,815
5.75% convertible unsecured subordinated debentures	**55,339**	–
	175,890	123,769

g) Interest expense

Interest expense consists of the following:

	2010	2009
Interest at stated rate	**164,710**	150,950
Amortization of acquisition date fair value adjustments	**(4,202)**	(4,573)
Amortization of accretion on convertible debentures	**2,139**	1,262
Amortization of deferred financing costs	**5,579**	6,041
	168,226	153,680
Less: Interest capitalized to properties under development	**(18,692)**	(13,607)
Interest expense excluding adjustment	**149,534**	140,073
Adjustment for revised payments on redemption of unsecured debentures (note 10(e))	**31,582**	–
Total interest expense	**181,116**	140,073

h) Fair values

The estimated fair value of debt is approximately as follows:

	2010	2009
Term mortgages	**1,909,132**	1,806,285
Development loans	**99,090**	144,323
Revolving operating facilities	**20,000**	92,000
Unsecured debentures	**545,231**	543,430
Convertible debentures	**194,600**	134,178
	2,768,053	2,720,216

11. Unit equity

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

	Number of Units Issued and Outstanding			Carrying Amount		
	Trust Units #	LP Units #	Total Units #	Trust Units $	LP Units $	Total Units $
		(Table A)			(Table B)	
Balance – January 1, 2009	78,713,203	16,364,472	95,077,675	1,399,693	351,630	1,751,323
Earnout Options exercised (b)	32,489	19,930	52,419	536	401	937
Deferred Unit Plan (c)	–	–	–	1,877	–	1,877
Deferred Units exchanged for Trust Units (c)	39,496	–	39,496	–	–	–
Distribution reinvestment plan (d)	969,090	–	969,090	12,837	–	12,837
Debentures converted (e)	764	–	764	13	–	13
Units issued for cash (f)	3,226,000	–	3,226,000	50,003	–	50,003
Unit issuance costs (f)	–	–	–	(2,148)	–	(2,148)
Balance – December 31, 2009	**82,981,042**	**16,384,402**	**99,365,444**	**1,462,811**	**352,031**	**1,814,842**
LP Units converted to Trust Units (a)	**19,566**	**(19,566)**	**–**	**388**	**(388)**	**–**
Earnout Options exercised (b)	**414,136**	**108,203**	**522,339**	**7,056**	**2,175**	**9,231**
Units issued for properties acquired (note 3)	**–**	**480,000**	**480,000**	**–**	**11,093**	**11,093**
Deferred Unit Plan (c)	**–**	**–**	**–**	**1,686**	**–**	**1,686**
Deferred Units exchanged for Trust Units (c)	**1,200**	**–**	**1,200**	**–**	**–**	**–**
Distribution reinvestment plan (d)	**497,995**	**–**	**497,995**	**11,303**	**–**	**11,303**
Debentures converted (e)	**260,463**	**–**	**260,463**	**4,429**	**–**	**4,429**
Units issued for cash (f)	**13,812,100**	**–**	**13,812,100**	**305,795**	**–**	**305,795**
Unit issuance costs (f)	**–**	**–**	**–**	**(13,116)**	**–**	**(13,116)**
Balance – December 31, 2010	**97,986,502**	**16,953,039**	**114,939,541**	**1,780,352**	**364,911**	**2,145,263**

TABLE A: NUMBER OF UNITS ISSUED AND OUTSTANDING

	Class B Series 1 LP Units	Class B Series 2 LP Units	Class B Series 3 LP Units	Class D Series 1 LP Units	Class B LPII Units	Class B LPIII Units	Total Units
Balance – January 1, 2009	13,780,742	789,444	707,173	330,588	756,525	–	16,364,472
Earnout Options exercised	13,587	–	6,343	–	–	–	19,930
Balance – December 31, 2009	**13,794,329**	**789,444**	**713,516**	**330,588**	**756,525**	**–**	**16,384,402**
Earnout Options exercised	**101,287**	**–**	**6,916**	**–**	**–**	**–**	**108,203**
Units issued for properties acquired	**–**	**–**	**–**	**–**	**–**	**480,000**	**480,000**
LP Units converted to Trust Units	**–**	**–**	**–**	**(19,566)**	**–**	**–**	**(19,566)**
Balance – December 31, 2010	**13,895,616**	**789,444**	**720,432**	**311,022**	**756,525**	**480,000**	**16,953,039**

TABLE B: CARRYING AMOUNT

	Class B Series 1 LP Units $	Class B Series 2 LP Units $	Class B Series 3 LP Units $	Class D Series 1 LP Units $	Class B LPII Units $	Class B LPIII Units $	Total $
Balance – January 1, 2009	283,696	28,049	15,540	6,567	17,778	–	351,630
Earnout Options exercised	273	–	128	–	–	–	401
Balance – December 31, 2009	**283,969**	**28,049**	**15,668**	**6,567**	**17,778**	**–**	**352,031**
Earnout Options exercised	**2,036**	**–**	**139**	**–**	**–**	**–**	**2,175**
Units issued for properties acquired	**–**	**–**	**–**	**–**	**–**	**11,093**	**11,093**
LP Units converted to Trust Units	**–**	**–**	**–**	**(388)**	**–**	**–**	**(388)**
Balance – December 31, 2010	**286,005**	**28,049**	**15,807**	**6,179**	**17,778**	**11,093**	**364,911**

a) *Authorized units*

i) ***Trust Units***

The Trust is authorized to issue an unlimited number of voting trust units (Trust Units), each of which represents an equal undivided interest in the Trust. All Trust Units outstanding from time to time shall be entitled to participate pro rata in any distributions by the Trust and, in the event of termination or windup of the Trust, in the net assets of the Trust. All Trust Units shall rank among themselves equally and rateably without discrimination, preference or priority.

Unitholders are entitled to require the Trust to redeem all or any part of their Trust Units at prices determined and payable in accordance with the conditions provided for in the Declaration of Trust. A maximum amount of $50 may be redeemed in total in any one month unless otherwise approved by the Board of Trustees.

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

The Trust is authorized to issue an unlimited number of special voting units that will be used to provide voting rights to holders of securities exchangeable, including all series of Class B LP Units, all series of Class D LP Units, Class B LPII Units and Class B LPIII Units, into Trust Units. Special voting units are not entitled to any interest or share in the distributions or net assets of the Trust. Each special voting unit entitles the holder to the number of votes at any meeting of Unitholders of the Trust, which is equal to the number of Trust Units into which the exchangeable security is exchangeable or convertible. Special voting units are cancelled on the issuance of Trust Units on exercise, conversion or cancellation of the corresponding exchangeable securities. At December 31, 2010, there were 16,953,039 (December 31, 2009 – 16,384,402) special voting units outstanding. There is no value assigned to the special voting units.

ii) ***Calloway Limited Partnership Units***

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

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

The Class A LP Units are entitled to all distributable cash of the LP after the required distributions on the other classes of units have been paid. At December 31, 2010, there were 3,133,698 (December 31, 2009 – 3,114,131) Class A LP Units outstanding. All Class A LP Units are owned directly or indirectly by the Trust and have been eliminated on consolidation.

The Class B LP Units and the Class D LP Units are non-transferable, except under certain limited circumstances, but are exchangeable into an equal number of Trust Units at the holder's option. During 2010, 19,566 Class D Series 1 LP Units were exchanged for 19,566 Trust Units (December 31, 2009 – nil). The exchange was measured at a pro rata carrying amount of the LP Units. Holders of Class B LP Units and Class D LP Units are entitled to receive distributions equivalent to the distributions on Trust Units. Each Class B LP Unit and Class D LP Unit is entitled to one special voting unit, which will entitle the holder to receive notice of, attend and vote at all meetings of the Trust. The Class B LP Units and the Class D LP Units are considered to be economically equivalent to Trust Units and, accordingly, have been presented as equity in these consolidated financial statements.

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

At December 31, 2010, there were 6,094,966 (December 31, 2009 – 6,209,512) Class C Series 1 LP Units, 3,350,000 (December 31, 2009 – 3,350,000) Class C Series 2 LP Units, 736,741 (December 31, 2009 – 743,657) Class C Series 3 LP Units, 16,704 (December 31, 2009 – 16,704) Class E Series 1 LP Units and 800,000 (December 31, 2009 – 800,000) Class E Series 2 LP Units outstanding. Of the 6,094,966 Class C Series 1 LP Units: 4,000,333 units have corresponding

Earnout Options, 1,357,892 units have expired Earnout Options and 736,741 units are cancelled concurrently with Class F Series 3 LP Units upon the completion and rental of additional space on specific properties.

The Class F Series 3 LP Units are entitled to receive distributions equivalent to 65.5% of the distributions on Trust Units. At the holder's option, the Class F Series 3 LP Units are exchangeable for $20.10 in cash per unit or upon the completion and rental of additional space on specific properties, the Class F Series 3 LP Units are exchangeable into Class B LP Units. No Class F Series 3 LP Units were outstanding as at December 31, 2010 or December 31, 2009. Upon issuance, the Class F Series 3 LP Units would be recorded as a liability in the consolidated financial statements.

iii) Calloway Limited Partnership II Units

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

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

The Class A LPII Units are entitled to all distributable cash of LPII after the required distributions on the Class B LPII Units have been paid. At December 31, 2010, there were 200,002 (December 31, 2009 – 200,001) Class A LPII Units outstanding. The Class A LPII Units are owned directly or indirectly by the Trust and have been eliminated on consolidation.

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

iv) Calloway Limited Partnership III Units

Calloway Limited Partnership III (LPIII) was formed on September 2, 2010 and commenced activity on September 13, 2010.

An unlimited number of Class A LPIII Units, Class B LPIII Units and Class C LPIII Units may be issued by LPIII. Class A LPIII partners have 20 votes for each Class A LPIII Unit held, Class B LPIII partners have one vote for each Class B LPIII Unit held and Class C LPIII partners have no votes at meetings of LPIII. LPIII is under the control of the Trust.

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

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

The Class C LPIII Units are entitled to receive 0.01% of any distributions of LPIII and have nominal value assigned in the consolidated financial statements. At the holder's option, and upon the completion and rental of additional space on specific properties and payment of a specific formula amount per unit based on the market price of Trust Units, Class C LPIII Units are exchangeable into Class B LPIII Units (the Class C LPIII Units are effectively included in the Earnout Options – see note 11(b)). Upon exercise of the Earnout Options relating to LPIII, the corresponding Class C LPIII Units are cancelled. At December 31, 2010, there were 1,000,000 (December 31, 2009 – nil) Class C LPIII Units outstanding.

b) Earnout Options

As part of the consideration paid for certain income property acquisitions, the Trust has granted options in connection with the development management agreements (note 5(a)) and in connection with properties under development not subject to development management agreements (note 5(b)). Upon completion and rental of additional space on specific properties and payment of the relevant option strike prices, the holder may elect to exercise the Earnout Options and receive Trust Units, Class B LP Units, Class D LP Units or Class B LPIII Units, as applicable. The Earnout Options, pursuant to the development management agreements, are exercisable generally upon completion and rental of additional space on specific properties, for a period of five to 10 years commencing at the grant date, which may be extended under certain conditions. The fixed option strike prices were based on the market price of Trust Units on the date the substantive terms were agreed upon and announced.

The following presents the number of units granted, exercised and outstanding for the years ended December 31, 2010:

	Strike Price $	Options Outstanding at January 1, 2010 #	Options Expired During 2010 #	Options Granted During 2010 #	Options Exercised During 2010 #	Options Outstanding at December 31, 2010 #	Proceeds During 2010 $
Options to acquire Trust Units							
October 2003	10.00	12,688	–	–	–	12,688	–
October 2003	10.50	463,466	–	–	–	463,466	–
February 2004	14.00	442,007	–	–	(202,035)	239,972	2,829
May 2004	15.25	1	–	–	–	1	–
November 2004	17.80	5,212	–	–	–	5,212	–
March 2005	19.60	142,663	–	–	(71,291)	71,372	1,397
July 2005	20.10	1,205,227	–	–	(140,810)	1,064,417	2,830
December 2006	29.55 to 30.55	551,416	–	–	–	551,416	–
July 2007	29.55 to 33.00	1,348,223	–	–	–	1,348,223	–
		4,170,903	–	–	(414,136)	3,756,767	7,056
Options to acquire Class B LP Units and Class D LP Units[1]							
July 2005	20.10	4,175,183	(56,859)	–	(101,287)	4,017,037	2,036
December 2006	29.55 to 30.55	2,550,000	–	–	–	2,550,000	–
July 2007	29.55 to 33.00	1,600,000	–	–	–	1,600,000	–
June 2008	20.10	743,657	–	–	(6,916)	736,741	139
		9,068,840	(56,859)	–	(108,203)	8,903,778	2,175
Options to acquire Class B LPIII Units[2]							
September 2010	market price	–	–	1,000,000	–	1,000,000	–
		–	–	1,000,000	–	1,000,000	–
Total Earnout Options		13,239,743	(56,859)	1,000,000	(522,339)	13,660,545	9,231

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

[2] Each option is represented by a corresponding Class C LP III Unit.

The following presents the number of units granted, exercised and outstanding for years ended December 31, 2009:

	Strike Price $	Options Outstanding at January 1, 2009 #	Options Expired During 2009 #	Options Exercised During 2009 #	Options Outstanding at December 31, 2009 #	Proceeds During 2009 $
Options to acquire Trust Units						
October 2003	10.00	12,688	–	–	12,688	–
October 2003	10.50	475,576	–	(12,110)	463,466	127
February 2004	14.00	442,007	–	–	442,007	–
May 2004	15.25	1	–	–	1	–
November 2004	17.80	5,212	–	–	5,212	–
March 2005	19.60	142,663	–	–	142,663	–
July 2005	20.10	1,225,606	–	(20,379)	1,205,227	409
December 2006	29.55 to 30.55	551,416	–	–	551,416	–
July 2007	29.55 to 33.00	1,348,223	–	–	1,348,223	–
		4,203,392	–	(32,489)	4,170,903	536
Options to acquire Class B LP Units and Class D LP Units[1]						
July 2005[2]	20.10	5,489,801	(1,301,031)	(13,587)	4,175,183	273
December 2006	29.55 to 30.55	2,550,000	–	–	2,550,000	–
July 2007	29.55 to 33.00	1,600,000	–	–	1,600,000	–
June 2008	20.10	750,000	–	(6,343)	743,657	128
		10,389,801	(1,301,031)	(19,930)	9,068,840	401
Total Earnout Options		14,593,193	(1,301,031)	(52,419)	13,239,743	937

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

[2] Includes 56,859 of vested options at December 31, 2009.

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

During the year ended December 31, 2010, Trustees, officers and employees elected to receive 44,291 (December 31, 2009 – 74,373) deferred units in consideration for Trustee fees and bonuses amounting to $857 (December 31, 2009 – $1,236).

During the year ended December 31, 2010, the Trust recorded compensation expense, in respect of the matching deferred units granted by the Trust, of $829 (December 31, 2009 – $641).

The status of the outstanding deferred units for the years ended December 31, 2010 and December 31, 2009, is as follows:

	Outstanding	Vested	Non-Vested
Balance – January 1, 2009	305,301	211,417	93,884
Granted during the year	148,746	74,373	74,373
Reinvested during the year	53,315	33,611	19,704
Vested during the year	–	16,977	(16,977)
Forfeited units during the year	(8,988)	–	(8,988)
Exchanged for Trust Units	(39,496)	(39,496)	–
Balance – December 31, 2009	458,878	296,882	161,996
Granted during the year	88,582	44,291	44,291
Reinvested during the year	40,987	27,027	13,960
Vested during the year	–	26,447	(26,447)
Exchanged for Trust Units	(1,200)	(1,200)	–
Balance – December 31, 2010	587,247	393,447	193,800

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

e) *Convertible debentures*
During the year ended December 31, 2010, $4,429 (December 31, 2009 – $13) of the face value of the convertible debentures was converted into 260,463 (December 31, 2009 – 764) Trust Units.

f) *Units issued for cash*
During the year ended December 31, 2010, the Trust issued Trust Units for cash as follows:

	Issued units \#	Issue price $	Proceeds $
January 5, 2010	2,100,000	19.05	40,005
August 5, 2010	6,900,000	21.60	149,040
September 30, 2010	4,738,000	24.30	115,133
"At-the-market distributions"	74,100	21.82	1,617
	13,812,100		305,795
Issue costs			(13,116)
Net proceeds			292,679

During the year ended December 31, 2009, the Trust issued Trust Units for cash as follows:

	Issued units \#	Issue price $	Proceeds $
August 25, 2009	3,226,000	15.50	50,003
Issue costs			(2,148)
Net proceeds			47,855

The Trust has entered into an Equity Distribution Agreement dated June 10, 2010 with an exclusive agent for the issuance and sale, from time to time, until November 8, 2011 of up to 5,000,000 Trust Units by way of "at-the-market distributions". Sales of Trust Units, if any, pursuant to the Equity Distribution Agreement will be made in transactions that are deemed to be "at-the-market distributions", including sales made directly on the Toronto Stock Exchange ("TSX").

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

	2010	2009
Trust Units	**140,364**	125,740
Class B Series 1 LP Units	**21,410**	21,334
Class B Series 2 LP Units	**1,222**	1,222
Class B Series 3 LP Units	**1,114**	1,096
Class D Series 1 LP Units	**492**	512
Class B LPII Units	**1,171**	1,171
Class B LPIII Units	**248**	–
	166,021	151,075

12. Rentals from income properties

Rentals from income properties consist of the following:

	2010	2009
Base rent	**335,402**	309,708
Property operating costs recovered	**145,625**	137,288
	481,027	446,996

13. Amortization expense

Amortization expense consists of the following:

	2010	2009
Income properties		
Tangible assets	**84,141**	84,608
Intangible assets	**44,069**	50,644
Deferred leasing costs	**724**	576
	128,934	135,828

14. Future income taxes

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

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

For trusts that meet the Existing Trust Exemption, including the Trust, the SIFT Rules will apply commencing in the 2011 taxation year, assuming compliance with the "normal growth" guidelines issued by the Department of Finance (Canada) on December 15, 2006,

as amended from time to time (the "Normal Growth Guidelines"). The SIFT Rules are not applicable to a real estate investment trust that meets certain specified criteria relating to the nature of its revenue and investments ("REIT Exemption").

Prior to January 1, 2011 and completion of the Trust's restructuring to meet the existing REIT Exemption under the Tax Act, the Department of Finance on December 16, 2010, announced proposed amendments to the provisions in the Tax Act concerning the income tax treatment of real estate investment trusts ("REITs"). This legislative proposal was open for comment until January 31, 2011 and if passed will be effective January 1, 2011. The announcement provided clarity and new changes in the application of the REIT Exemption, particularly as they relate to certain aspects of the Trust's previously announced restructuring. The Trust is expected to meet the REIT Exemption based on the proposed amendment effective January 1, 2011. However, until such time that the proposed amendments are passed and become substantially enacted, the Trust cannot rely on the amended REIT Exemption for accounting purposes. As a result, starting January 1, 2011, since the Trust does not meet the existing REIT Exemption, it will be required to record current and future income taxes for accounting purposes. If the proposed amendments are enacted in 2011, previously recorded current and future taxes, if any, will be reversed for accounting purposes.

As the Trust does not meet the existing REIT Exemption at December 31, 2010, a future income tax asset in the amount of $10,462 has been recorded as at December 31, 2010, based on the temporary differences that are expected to reverse on or after January 1, 2011, reduced by a valuation allowance of $10,462 to a net balance of $nil, as the tax asset is not more likely than not to be realized given the Trust expects to meet the amended REIT Exemption if the proposed amendments are enacted which will be effective January 1, 2011 or by completing restructuring to meet the existing REIT Exemption. The measurement of the future income tax asset as at the consolidated balance sheet date required management to make estimates and assumptions, including estimates and assumptions regarding the timing of when temporary differences are expected to reverse and regarding future allocations of taxable income between the various partners of the limited partnerships under the control of the Trust. Actual results could differ from those estimates.

As the Trust did not exceed the Normal Growth Guidelines, no current income taxes have been recorded for the year ended December 31, 2010.

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

	2010	2009
Income tax provision based on Canadian statutory tax rate of 30.70% (December 31, 2009 – 32.46%)	**3,575**	7,559
Decrease in provision resulting from:		
Distributions deducted for current income tax purposes	**(3,575)**	(7,559)
Total income tax provision	**–**	–

15. Income per Unit

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

	2010	2009
Trust Units	**89,584,177**	80,450,690
Class B LP Units	**15,331,440**	15,277,960
Class D LP Units	**318,741**	330,588
Class B LPII Units	**756,525**	756,525
Class B LPIII Units	**144,658**	–
Vested deferred units	**368,632**	276,098
Basic and Diluted	**106,504,173**	97,091,861

The impact of the potential exercise of 13,660,545 (December 31, 2009 – 13,182,884) unvested Earnout Options has not been included in the calculation of the weighted average diluted number of units outstanding because the conditions necessary for their issuance were not satisfied as at December 31, 2010 or December 31, 2009. The impact of the unvested deferred units, vested Earnout Options and the potential conversion of the convertible debentures into Trust Units, as at December 31, 2010 and December 31, 2009, has not been included in the calculation of the diluted number of units outstanding, as they have been determined to be anti-dilutive.

16. Supplemental cash flow information

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

	2010	2009
Interest paid	**200,678**	149,745
Interest received	**2,935**	1,886
Mortgages assumed on acquisition at fair value	**–**	17,917
Units issued as consideration for acquisitions	**18,447**	937
Liabilities assumed on acquisitions, net of other assets	**57,464**	50,180
Units issued under the Distribution reinvestment plan	**11,303**	12,837
Units issued on conversion of convertible debentures	**4,429**	13
Distributions payable at year-end	**14,827**	12,818
Liabilities at year-end relating to additions to income properties and properties under development	**20,498**	20,228

17. Related party transactions

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

As at December 31, 2010, SmartCentres, owned by Mitchell Goldhar, owned 11,685,683 Trust Units, 11,603,147 Class B Series 1 LP Units, 206,935 Class B Series 2 LP Units, 720,432 Class B Series 3 LP Units and 480,000 Class B LPIII Units, which represent in total approximately 21.5% of the issued and outstanding units. A July 2005 agreement preserves SmartCentres' voting rights at a minimum of 25.0% for a period of five years commencing July 1, 2005, on the condition that SmartCentres' owner, Mitchell Goldhar, remains a Trustee of the Trust and owns at least 15,000,000 Trust Units and Class B LP Units, collectively. This entitlement was extended for a further five-year term after SmartCentres met certain conditions to sell in aggregate at least $800,000 of freehold assets to the Trust during the initial five-year period, own no less than the lesser of 20.0% of the outstanding units or 20,000,000 units and SmartCentres' owner remains a Trustee of the Trust. SmartCentres has Earnout Options to acquire approximately 3,589,059 Trust Units, approximately 7,908,599 Class B Series 1, Class B Series 2 and Class B Series 3 LP Units and 1,000,000 Class C LPIII Units. As at December 31, 2010, the ownership would increase to 28.9% (December 31, 2009 – 31.8%) if SmartCentres were to exercise all remaining Earnout Options. Pursuant to its rights under the Declaration of Trust, as at December 31, 2010, SmartCentres has appointed three Trustees out of nine.

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

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

1. The Management Agreement, under which the Trust has agreed to provide to SmartCentres certain limited property management services for a fee equal to 1% of net rental revenues of the managed properties for a one-year term ending December 31, 2011. The Management Agreement automatically renews for subsequent one-year terms unless terminated by either SmartCentres or the Trust.

2. The Support Services Agreement, under which SmartCentres has agreed to provide to the Trust certain support services for a fee based on an allocation of the relevant costs of the support services incurred by SmartCentres for a one-year term ending December 31, 2011. The Support Services Agreement automatically renews for subsequent one-year terms unless terminated by either SmartCentres or the Trust. In addition, the Trust rents its office premises from SmartCentres for a term of five years to December 2011, with an option to extend for a further five years.

3. The Construction and Leasing Services Agreement, under which SmartCentres has agreed to provide to the Trust construction management services and leasing services. The construction management services are provided, at the discretion of the Trust, with respect to certain of the Trust's properties under development for a fee equal to 4.5% of the construction costs incurred. Fees for leasing services, requested at the discretion of the Trust, are based on various rates, which approximate market rates, depending on the term and nature of the lease. The agreement continues in force until terminated by either SmartCentres or the Trust.

4. The Trade-Mark Licence Agreement and Marketing Cost Sharing Agreement (collectively, the Licence Agreement), under which the Trust has licensed the use of the trademark "Smart!Centres" from SmartCentres for a ten-year term ending December 31, 2016. Under the Licence Agreement, the Trust will pay 50% of the costs incurred by SmartCentres in connection with branding and marketing the trademark, together with the Trust's proportionate share of signage costs. SmartCentres has the right to terminate the Licence Agreement at any time in the event any third party acquires 20.0% of the aggregate of the Trust Units and special voting units.

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

	2010	2009
Related party transactions and balances with SmartCentres		
Development fees and costs paid (capitalized to real estate assets)	**3,790**	3,358
Interest expense (capitalized to properties under development)	**394**	526
Interest income from mortgages and loans receivable	**9,647**	10,706
Opportunity fees, head lease rents and operating cost recoveries received:		
Included in rentals from income properties	**1,865**	1,344
Capitalized to properties under development	**3,845**	4,619
Management fee revenue pursuant to the Management Agreement (included in rentals from income properties)	**1,430**	1,326
Rent and operating costs paid (included in general and administration expenses, and property operating costs)	**1,125**	1,078
Legal and other administration services paid (included in general and administration expenses, and property operating costs)	**1,180**	891
Marketing cost sharing (included in property operating costs)	**228**	153
Acquisition fees paid (capitalized to real estate assets (note 3(a))	**500**	–
Consulting fees paid (capitalized to computer hardware and software)	**100**	–
Amounts receivable at year-end	**3,967**	5,157
Accounts payable and accrued liabilities at year-end	**5,679**	8,854
Accrued development obligation at year-end	**42,128**	35,836
Other related party transactions and balances		
Legal fees paid to a legal firm in which a partner is a Trustee:		
Included in general and administrative expenses	**495**	295
Included in equity issuance costs	**198**	44
Included in income properties and properties under development	**249**	–
Included in deferred financing costs	**321**	533
Included in gain on sale of income properties	**–**	174
Interest income from mortgages receivable	**–**	235
Opportunity fees received (capitalized to properties under development)	**199**	307
Amounts receivable at year-end	**73**	387
Accounts payable and accrued liabilities at year-end	**450**	13
Acquisition holdback due to Hopewell at year-end	**–**	46

18. Co-ownership interests

The following amounts, included in these consolidated financial statements, represent the Trust's proportionate share in the financial position of 16 co-ownership interests as at December 31, 2010 (15 co-ownership interests as at December 31, 2009) and the results of operations and cash flows for the years ended December 31, 2010 and December 31, 2009:

	2010	2009
Assets	**473,923**	457,025
Liabilities	**289,563**	264,051
Revenues	**47,581**	43,298
Expenses	**41,678**	41,373
Net income	**5,903**	1,925
Cash flow provided by operating activities	**23,335**	19,655
Cash flow provided by financing activities	**8,594**	55,379
Cash flow used in investing activities	**(32,459)**	(76,641)

Management believes the assets of the co-ownerships are sufficient for the purpose of satisfying the associated obligations of the co-ownerships. SmartCentres is the co-owner in three of the operating properties and three of the development properties. The Trust's interests in these co-ownerships range from 44.44% to 50.00%.

19. Segmented information

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

The Trust's major tenant is Wal-Mart Canada Corp., accounting for 25.7% of the Trust's annualized rental revenue as at December 31, 2010 (December 31, 2009 – 26.4%).

20. Risk management

a) *Financial risks*

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

i) Interest rate risk

The majority of the Trust's debt is financed at fixed rates with maturities staggered over a number of years, thereby mitigating its exposure to changes in interest rates and financing risks. At December 31, 2010, approximately 3.67% (December 31, 2009 – 7.76%) of the Trust's debt is financed at variable rates, exposing the Trust to changes in interest rates on such debt.

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

The Trust's policy is to capitalize interest expense incurred relating to properties under development (December 31, 2010 – 12.50% of total interest costs excluding the one-time adjustment for revised payments on redemption of the Series C 10.25% senior unsecured debentures (note 10(e))). The sensitivity analysis below shows the maximum impact (net of estimated interest capitalized to properties under development) on net income of possible changes in interest rates on variable-rate debt.

	Interest Shift of				
	–0.50% $	–0.25% $	0% $	+0.25% $	+0.50% $
Net income increase (decrease)	422	211	–	(211)	(422)

ii) Credit risk

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

iii) Liquidity risk

Liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities and the ability to lease out vacant units. Due to the dynamic nature of the underlying business, the Trust aims to maintain flexibility and opportunities in funding by keeping committed credit lines available, obtaining additional mortgages as the value of income-producing properties increases and issuing convertible or unsecured debentures. During the year ended December 31, 2010 and early 2011, the Trust has been able to raise additional term mortgage financing and issue unsecured debentures, convertible debentures and equity.

The key assumptions used in the Trust's estimates of future cash flows when assessing liquidity risk are capital markets remaining liquid and no major bankruptcies of large tenants. Management believes it has considered all reasonable facts and circumstances as of today in forming appropriate assumptions. However, as always, there is a risk significant changes in market conditions could alter the assumptions used.

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

b) *Capital risk management*

The Trust's primary objectives when managing capital are:

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

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

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

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

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

The Trust is required (reported quarterly) by certain of its lenders to maintain its interest coverage ratio above 1.7 times; debt service coverage ratio above 1.35 times; debt to gross book value ratio, excluding convertible debentures, not to exceed 60%; and debt to gross book value ratio, including convertible debentures, not to exceed 65%.

Interest coverage ratio is defined as earnings before interest, income taxes and amortization over interest expense excluding the one-time charge for interest expense booked on the revised payments made on redemption of the Series C 10.25% unsecured debentures (note 10(e)). Debt service ratio is defined as earnings before interest, income taxes and amortization over interest expense excluding the one-time charge for interest expense booked on the revised payments made on the Series C 10.25% unsecured debentures (note 10(e)) and principal payments. Debt to gross book value ratio is defined as mortgages and other debt payable over total consolidated assets of the Trust plus the amount of accumulated amortization relating to income properties. Variable debt over gross book value ratio is defined as debt with floating interest rates and debt having maturity of less than one year over total consolidated assets of the Trust plus the amount of accumulated amortization related to income properties.

Those ratios were as follows:

	December 31, 2010	December 31, 2009	Increase (Decrease)
Interest coverage ratio	**1.9X**	2.0X	(0.1)
Debt service coverage ratio	**1.5X**	1.5X	–
Debt to gross book value ratio (excluding convertible debentures)	**51.3%**	55.3%	(4.0%)
Debt to gross book value ratio (including convertible debentures)	**54.9%**	57.9%	(3.0%)
Variable debt over gross book value ratio	**2.0%**	4.5%	(2.5%)

The decrease in interest coverage ratio during 2010 is primarily due to the increase in interest from refinancing of existing debt and interest from additional debt that occurred during the current year and the previous year.

The decrease in debt to gross book value ratio and variable debt over gross book value ratio during 2010 is primarily the result of additional Earnouts and acquisitions of income properties and from proceeds of new units issued in the year.

In addition, the Trust is also required (reported quarterly) to maintain a minimum equity requirement by certain of its lenders of at least $1,500,000. This minimum equity amount is calculated based on equity plus accumulated amortization. As at December 31, 2010, the minimum equity amounted to $2,126,000 (December 31, 2009 – $1,843,000). If the Trust

does not meet all externally imposed ratios and the minimum equity requirements, then the related debt will become immediately due and payable unless the Trust is able to remedy the default or obtain a waiver from lenders. For the year ended December 31, 2010, the Trust met all the externally imposed ratios and the minimum equity requirements.

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

21. Commitments and contingencies

The Trust has certain obligations and commitments pursuant to development management agreements to complete the purchase of Earnouts totalling approximately 2,339,517 square feet of development space from SmartCentres and others over periods extending to 2020 at formula prices, as more fully described in note 5(a). As at December 31, 2010, the Trust has incurred $130,445 (December 31, 2009 – $117,878) in respect of these obligations and commitments. The timing of completion of the purchase of the Earnouts, and the final price, cannot be readily determined as they are a function of future tenant leasing. The Trust has also entered into various other development construction contracts totalling $18,156 that will be incurred in 2011.

The Trust and SmartCentres have agreed in principle to amend certain development management agreements pertaining to the Earnouts of 11 properties that currently have a floating capitalization rate determined by reference to the ten-year Government of Canada bond rate. The proposed amendment to the agreements, which has not yet been finalized, would include a fixed floor capitalization rate ranging from 6.10% to 7.50%. Certain Earnouts, which closed in 2008 to 2010, were completed on the basis that this amended agreement was fully executed. If an agreement is not reached between the Trust and SmartCentres, additional proceeds of $13,240 may be payable to SmartCentres on those completed Earnouts.

The Trust entered into agreements with SmartCentres and other parties in which the Trust will lend monies, as disclosed in note 6(a). The maximum amount that may be provided under the agreements totals $256,135, of which $171,436 has been provided as of December 31, 2010.

One of the Trust's income properties is subject to a land lease requiring annual lease payments of $213. The lease expires in November 2011 and the Trust has an option to extend the lease for a further ten years.

Letters of credit totalling $46,741 (including letters of credit drawn down under the revolving operating facility described in note 10(d)) have been issued on behalf of the Trust by the Trust's bank as security for mortgages and for maintenance and development obligations to municipal authorities.

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

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

22. Subsequent events

On January 31, 2011, the Trust completed the purchase of Earnouts totalling 38,329 square feet of development space from SmartCentres, for gross proceeds of $11,969. The purchase price was satisfied with a combination of cash, working capital adjustments and the issuance of units.

On February 1, 2011, the Trust entered into a ten-year mortgage totalling $66,000 bearing interest at 5.52% and secured by four specific income properties.

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ANNUAL GENERAL MEETING
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St. Andrew's Club & Conference Centre
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