

**PROSPECTUS SUPPLEMENT**  
**To a Short Form Base Shelf Prospectus Dated September 14, 2005**

*This prospectus supplement together with the short form base shelf prospectus to which it relates dated September 14, 2005, as amended or supplemented, and each document deemed to be incorporated by reference in the short form base shelf prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities.*

*No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. The securities offered hereby have not been, and will not be, registered under the United States Securities Act of 1933, as amended and, subject to certain exceptions, may not be offered or sold in the United States or to U.S. persons.*

New Issue

October 10, 2006



**\$250,000,000**  
**5.37% Series B Debentures Due October 12, 2016**  
**(Senior Unsecured)**

Interest on the 5.37% Series B Debentures (the “**Debentures**”) of Calloway Real Estate Investment Trust (“**Calloway**”) will be payable semi-annually in arrears on October 12 and April 12 in each year commencing April 12, 2007. The Debentures will mature on October 12, 2016. Please see “Details of the Offering” for particulars of the material attributes of the Debentures.

**At the time of closing, the Debentures will qualify for investment under the statutes set out under “Eligibility for Investment”.**

**There is no market through which the Debentures may be sold and purchasers may not be able to resell Debentures purchased under this prospectus supplement. This may affect the pricing of the Debentures in the secondary market, the transparency and availability of trading prices, the liquidity of the Debentures and the extent of issuer regulation. See “Risk Factors”.**

	<b>Price to Calloway<sup>(1)</sup></b>	<b>Underwriters’ Fee</b>	<b>Net Proceeds to Calloway<sup>(2)(3)</sup></b>
Per \$100 principal amount of Debenture .....	\$99.9066	\$0.70	\$99.2066
Total.....	\$249,766,500	\$1,750,000	\$248,016,500

(1) **The Debentures have been priced to yield 5.382% if held to maturity.**

(2) Plus accrued interest, if any, from October 12, 2006 to the date of delivery.

(3) Before deducting the expenses of the offering, not including the Underwriters’ Fee, estimated to be approximately \$400,000.

RBC Dominion Securities Inc., Scotia Capital Inc. and TD Securities Inc. (the “**Underwriters**”) have agreed to purchase the Debentures from Calloway at 99.9066% of their principal amount, plus accrued interest (if any) from October 12, 2006 to the date of delivery, subject to the terms and conditions of the Underwriting Agreement described under “Plan of Distribution”.

**The Underwriters are subsidiaries of separate Canadian chartered banks which are lenders to Calloway. Consequently, Calloway may be considered to be a “connected issuer” of the Underwriters under applicable Canadian securities legislation. See “Relationship Between Calloway and the Underwriters”.**

The Debentures will be offered to the public at prices to be negotiated between each purchaser and the Underwriters. Accordingly, the price at which the Debentures will be offered and sold to the public may vary as between purchasers and during the period of distribution of the Debentures.

The Underwriters, as principals, conditionally offer the Debentures, subject to prior sale, if, as and when issued by Calloway and accepted by the Underwriters in accordance with the conditions of the Underwriting Agreement referred to under "Plan of Distribution" and subject to the approval of certain legal matters on behalf of Calloway by Shea Nerland Calnan LLP and on behalf of the Underwriters by McCarthy Tétrault LLP.

Calloway has been advised by the Underwriters that, in connection with this offering, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Debentures at levels other than those which otherwise might prevail on the open market. Such transactions, if commenced, may be discontinued at any time. See "Plan of Distribution".

Subscriptions for the Debentures will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of this offering will take place on October 12, 2006 or on such other date as Calloway and the Underwriters may agree but, in any event, not later than October 19, 2006 and that Debentures will be available for delivery in book-entry form only through the facilities of The Canadian Depository for Securities Limited on or about closing.

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## DOCUMENTS INCORPORATED BY REFERENCE

This prospectus supplement is deemed to be incorporated by reference into the accompanying short form base shelf prospectus of Calloway dated September 14, 2005 (the "**Short Form Prospectus**") as of the date hereof solely for the purpose of offering the Debentures.

In addition, the following documents, filed by Calloway with the securities commission or similar authority in each of the provinces of Canada, are specifically incorporated by reference into this prospectus supplement:

- (a) Calloway's management information circular dated March 10, 2006 regarding Calloway's annual and special meeting of unitholders held on May 16, 2006;
- (b) Calloway's annual information form dated March 10, 2006;
- (c) Calloway's audited consolidated comparative financial statements and the notes thereto for the fiscal year ended December 31, 2005 together with the auditors' report thereon, all of which can be found on pages 39 to 79 of Calloway's annual report for the fiscal year ended December 31, 2005, and including management's discussion and analysis relating thereto which can be found on pages 13 to 36 of Calloway's annual report for the fiscal year ended December 31, 2005;
- (d) Calloway's audited consolidated comparative financial statements and the notes thereto for the fiscal year ended December 31, 2004, together with the auditors report thereon;
- (e) Calloway's unaudited consolidated comparative financial statements and the notes thereto for the six month period ended June 30, 2006 and management's discussion and analysis relating thereto;
- (f) Calloway's material change report dated March 31, 2006 regarding an offering of trust units; and
- (g) the following portions of the management information circular of Calloway dated June 9, 2005:
  - (i) the unaudited pro forma consolidated balance sheet of Calloway as at March 31, 2005 and the unaudited pro forma consolidated statements of income for the three months ended March 31, 2005 and for the year ended December 31, 2004, together with the notes

thereto and the compilation report thereon, all of which can be found in Schedule B to that information circular;

- (ii) the schedules of combined net operations relating to certain properties acquired by Calloway (the “**Centres V Phase I**”) for the years ended December 31, 2004 and 2003, together with the notes thereto and the auditors’ report thereon, and the unaudited interim comparative schedules of combined net operations for such acquisitions for the three month periods ended March 31, 2005 and 2004, all of which can be found in Schedule B to that information circular;
- (iii) the schedules of combined net operations relating to certain properties acquired by Calloway (the “**Centres V Phase II**”) for the years ended December 31, 2004 and 2003, together with the notes thereto and the auditors’ report thereon, and the unaudited interim comparative schedules of combined net operations for such acquisitions for the three month periods ended March 31, 2005 and 2004, all of which can be found in Schedule B to that information circular; and
- (iv) the schedules of combined net operations relating to certain properties acquired by Calloway (the “**Centres V Phase III**”) for the years ended December 31, 2004 and 2003, together with the notes thereto and the auditors’ report thereon, and the unaudited interim comparative schedules of combined net operations for such acquisitions for the three month periods ended March 31, 2005 and 2004, all of which can be found in Schedule B to that information circular.

It is hereby noted that the following documents are incorporated, or deemed to be incorporated, by reference into Calloway’s annual information form dated March 10, 2006 which document is specifically incorporated by reference into this prospectus supplement:

- (a) the business acquisition report of Calloway dated February 11, 2005 including the audited schedules of combined net operations for certain prior acquisitions (the “**Phase I Centres**”) of Calloway for the years ended December 31, 2003 and 2002, together with the notes thereto and the auditors’ report thereon, and the unaudited interim comparative schedules of combined net operations for such acquisitions for the nine month periods ended September 30, 2004 and 2003, all of which can be found at pages 19 to 24 of that business acquisition report; and
- (b) the business acquisition report of Calloway dated May 10, 2005 including the audited schedules of combined net operations for certain prior acquisitions (the “**Phase II Centres**”) of Calloway for the years ended December 31, 2004 and 2003, together with the notes thereto and the auditors’ report thereon, all of which can be found at pages 6 to 10 of that business acquisition report.

**Any documents of the type referred to in the preceding paragraph and any material change reports (excluding confidential material change reports) filed by Calloway with a securities regulatory authority in Canada after the date of this prospectus supplement and prior to the completion or withdrawal of the distribution of the Debentures are deemed to be incorporated by reference in this prospectus supplement.**

Any statement contained in the Short Form Prospectus, in this prospectus supplement or in a document incorporated or deemed to be incorporated by reference herein or in the Short Form Prospectus for the purposes of the offering of Debentures will be deemed to be modified or superseded, for purposes of this prospectus supplement, to the extent that a statement contained herein or in the Short Form Prospectus or in any other subsequently filed document that also is or is deemed to be incorporated by reference herein or in the Short Form Prospectus modifies or supersedes such prior statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or included any other information set out in the document that it modifies or supersedes. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this prospectus supplement. The making of a modifying or superseding statement will not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a

misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made.

**Information has been incorporated by reference in this prospectus supplement from documents filed with securities commissions or similar authorities in Canada.** Copies of the documents incorporated herein by reference may be obtained on request without charge from the Chief Financial Officer of Calloway Real Estate Investment Trust at Suite 200, 700 Applewood Crescent, Vaughan, Ontario L4K 5X3 (Telephone (905) 326-6400 Extension 7631). For the purposes of the Province of Quebec, this prospectus supplement contains information to be completed by consulting the permanent information record. A copy of the permanent information record may be obtained from the Chief Financial Officer of the issuer at the above-mentioned address and telephone number.

## ELIGIBILITY FOR INVESTMENT

Subject to compliance with the general investment provisions and, in certain cases, subject to compliance with the prudent investment requirements, general investment provisions and restrictions of the statutes referred below (and where applicable, regulations or guidelines thereunder) and additional requirements relating to investment or lending policies or goals, the purchase of the Debentures offered hereunder would not, if the date hereof was the date of the closing of this offering, be precluded as investments under or by the following statutes and the applicable regulations:

*Insurance Companies Act (Canada)*  
*Pension Benefits Standards Act 1985 (Canada)*  
*Trustee Act (Ontario)*  
*Insurance Act (Alberta)*

*Trust and Loan Companies Act (Canada)*  
*Pension Benefits Act (Ontario)*  
*Insurance Act (Ontario)*

In the opinion of Shea Nerland Calnan LLP, counsel to Calloway, and McCarthy Tétrault LLP, counsel to the Underwriters, on the date of this prospectus supplement, the Debentures, if issued on the date of this prospectus supplement, will not be a prohibited investment for a registered pension plan under the *Income Tax Act* (Canada) (the “**Tax Act**”) other than a plan for which Calloway, or a person who is connected with, controlled directly or indirectly in any manner by or that does not deal at arm’s length with Calloway, is the employer. Provided that Calloway is a mutual fund trust under the Tax Act, the units of which are listed on a prescribed stock exchange, the Debentures will be qualified investments under the Tax Act and the regulations thereunder (the “**Regulations**”) for a trust governed by a registered retirement savings plan, a registered retirement income fund, registered education savings plan or a deferred profit sharing plan (collectively “**Plans**”), other than a deferred profit sharing plan for which Calloway, or a corporation with which Calloway does not deal at arm’s length, is the employer.

On March 23, 2004, the Minister of Finance (Canada) proposed amendments to the Tax Act (the “**Budget Proposals**”) to restrict direct and indirect holdings in certain “business income trusts” (as defined in the Budget Proposals) by certain tax-exempt entities. On May 18, 2004, the Minister of Finance (Canada) announced that the application of the Budget Proposals was suspended to allow further consultation. On November 23, 2005 the Minister of Finance announced a reduction in personal income taxes on dividends as being the consensus from the consultation process, which thereby ended the consultation process without specifically addressing the Budget Proposals. Prospective purchasers should consult their own tax advisors regarding the potential application of the Budget Proposals.

## CREDIT AND STABILITY RATINGS

Dominion Bond Rating Service Limited (“**DBRS**”) provides credit ratings of debt securities for commercial entities. A credit rating generally provides an indication of the risk that the borrower will not fulfill its full obligations in a timely manner with respect to both interest and principal commitments. Rating categories range from highest credit quality (generally AAA) to very highly speculative (generally C). DBRS has provided Calloway with a credit rating of BBB with a stable trend relating to all general unsecured obligations of Calloway and a provisional rating of BBB with a stable trend on the Debentures. A credit rating of BBB is generally an indication of adequate credit quality as defined by DBRS. The credit ratings accorded to Calloway’s debt securities are not recommendations to purchase, hold or sell such debt securities. There can be no assurance that any rating will

remain in effect for any given period of time or that any rating will not be withdrawn or revised by a rating agency at any time.

DBRS also provides stability ratings for real estate investment trusts (“REITs”) and income trusts. A stability rating generally provides an indication of both the stability and sustainability of REITs’ and income trusts’ distributions to unitholders. DBRS’s rating categories range from highest stability and sustainability of distributions per unit (STA-1) to poor stability and sustainability of distributions per unit (STA-7). Calloway has a DBRS stability rating of STA-3 (high). This rating category reflects good stability and sustainability of distributions per unit. A stability rating is not a recommendation to purchase, hold or sell securities and is subject to revision or withdrawal by DBRS at any time.

## **INTEREST AND EARNINGS COVERAGES**

The Series B Trust Indenture (as defined under “Details of the Offering - Definitions”) will contain a covenant that Calloway will maintain a ratio of Consolidated EBITDA to Consolidated Interest Expense of not less than 1.65 to 1. The calculation of such interest coverage ratio will be based on the defined terms of Consolidated EBITDA and Consolidated Interest Expense to be contained in the Series B Trust Indenture (see “Details of the Offering- Definitions” and “Details of the Offering – Certain Covenants re Debentures – Consolidated EBITDA to Consolidated Interest Expense Ratio”). This interest coverage ratio differs from the earnings coverage ratio required to be calculated under applicable Canadian securities law disclosure requirements. Such securities law disclosure requires the calculation to be based upon earnings and, as described in Note 1 below under “Earnings Coverage Ratios”, includes a full 12 months of interest expense on indebtedness incurred subsequent to the respective calculation periods as if the indebtedness was incurred at the beginning of the calculation period but gives no credit to income derived from the associated use of proceeds other than interest savings on the repayment, redemption or retirement of other indebtedness. The interest coverage ratio calculated in accordance with the terms of the Trust Indenture for the period ended June 30, 2006 gives pro forma effect to the offering of the Debentures and to acquisitions, debt incurred and debt retired during or subsequent to the calculation period and the associated annual income therefrom as if these transactions occurred at the beginning of the calculation period. These coverage ratios are set out below. The first coverage ratio (under “Interest Coverage Ratio”) has been calculated using the methodology that will be prescribed by the Series B Trust Indenture. The second coverage ratios (under “Earnings Coverage Ratios”) have been calculated using the methodology prescribed under applicable Canadian securities law.

### **Interest Coverage Ratio**

The interest coverage ratio for Calloway for the 12 month period ended June 30, 2006 (including pro forma adjustments as required under the Series B Trust Indenture), being Calloway’s ratio of Consolidated EBITDA to Consolidated Interest Expense calculated in accordance with the terms of the Series B Trust Indenture, is 2.23.

### **Earnings Coverage Ratios**

After giving pro forma effect to the issuances of long-term debt and other changes in indebtedness subsequent to the respective calculation periods as if the issuances and changes had occurred at the beginning of the respective calculation periods, and all servicing costs that have been, or are expected to be, incurred in connection therewith and after giving effect to this offering and assuming the retirement of certain other indebtedness (the “**Pro Forma Adjustments**”), Calloway’s pro forma interest expense for the 12 months ended December 31, 2005 and for the 12 months ended June 30, 2006 was \$82,244,000 and \$96,275,000, respectively, and its pro forma net income before deducting interest and income taxes for such periods was \$83,308,000 and \$101,185,000, respectively, being 1.01 and 1.05 times Calloway’s pro forma interest requirements for such periods, respectively.

The following table sets out the earnings coverage ratios discussed above.

	For the 12 months ended <u>June 30, 2006</u> <sup>(1)</sup>	For the 12 months ended <u>December 31, 2005</u> <sup>(1)</sup>
	(Pro forma)	(Pro forma)
Interest Expense (\$)	89,922,000	78,236,000
Capitalized Interest (\$)	6,353,000	4,008,000
<b>Denominator for Earnings Coverage Ratio (\$)</b>	<b>96,275,000</b>	<b>82,244,000</b>
Net Income (\$)	11,263,000	5,072,000
Income Taxes (\$) <sup>(2)</sup>	-	-
Interest Expense (\$)	89,922,000	78,236,000
<b>Numerator for Earnings Coverage Ratio (\$)</b>	<b>101,185,000</b>	<b>83,308,000</b>
<b>Earnings Coverage Ratio</b>	<b>1.05</b>	<b>1.01</b>

Notes:

- (1) Includes a full 12 months of pro forma interest expense on indebtedness incurred subsequent to the end of the calculation period as if the indebtedness was incurred at the beginning of the calculation period but gives no credit to income derived from the associated use of proceeds other than interest savings on the repayment, redemption or retirement of other indebtedness.
- (2) Calloway is taxed as a mutual fund trust for income tax purposes. Calloway intends to distribute all taxable income directly earned by Calloway directly to unitholders and to deduct such distributions for income tax purposes.

### CONSOLIDATED CAPITALIZATION

As at June 30, 2006, the end of the most recently completed interim period of Calloway for which financial statements of Calloway have been filed in accordance with applicable Canadian securities legislation, Calloway had 66,720,065 trust units (“**Units**”) and 13,926,062 Exchangeable Securities (as defined below) outstanding for a total of 80,646,127 Units and Exchangeable Securities in aggregate. “**Exchangeable Securities**” means any securities of any trust, limited partnership or corporation other than Calloway that are convertible or exchangeable directly for Units of Calloway without the payment of additional consideration therefore. Since June 30, 2006, there have no material changes in the capitalization of Calloway other than the issuance of:

- (a) 212,832 Units and 76,479 Exchangeable Securities issued as partial consideration for properties developed pursuant to certain of the development agreements and exchange agreements that Calloway has entered into;
- (b) 83,090 Units issued pursuant to the distribution reinvestment plan of Calloway; and
- (c) 96,877 Units issued upon the exercise of the conversion option of the outstanding convertible debentures of Calloway.

As such, as at September 30, 2006, Calloway had 67,112,864 Units and 14,002,541 Exchangeable Securities outstanding for a total of 81,115,405 Units and Exchangeable Securities in aggregate.

As at June 30, 2006, the indebtedness of Calloway, consisting of mortgages payable, development loans, unsecured debentures, convertible debentures and revolving operating facilities was approximately \$1,455,447,000. Since that time, in connection with acquisition and development activity, the indebtedness of Calloway has increased by approximately \$167,455,000. As a result of this offering, the indebtedness of Calloway will increase by a further \$250,000,000. However, of the net proceeds of the offering, it is currently anticipated that approximately \$97,400,000 will be used by Calloway to repay a portion of its indebtedness resulting in an anticipated net increase in the indebtedness of Calloway since June 30, 2006 of approximately \$320,055,000. See “Use of Proceeds”.

### DETAILS OF THE OFFERING

*The Debentures will be issued under a trust indenture (the “**Trust Indenture**”) dated September 22, 2005 between Calloway and Computershare Trust Company of Canada (the “**Indenture Trustee**”), as supplemented by the first supplemental trust indenture to be dated as of the closing date of the offering and to be entered into between Calloway and the Indenture Trustee (the **Trust Indenture**, as supplemented by the first supplemental trust indenture,*

are collectively referred to as the “**Series B Trust Indenture**”). The Trust Indenture authorizes Calloway to issue an unlimited aggregate principal amount of Debt Securities (as defined below) in one or more series. Each such issue, other than the initial series A debentures which were issued under the Trust Indenture, will be made by way of a supplemental indenture which will set out the terms of the relevant series of Debt Securities. The terms of the Debentures will be set out in the Series B Trust Indenture. The following is a summary of the material terms of the Debentures which does not purport to be complete. For full particulars of such terms, reference should be made to the Series B Trust Indenture.

## Definitions

For the purpose of the following discussion of certain provisions of the Series B Trust Indenture, the following terms have the meanings set out below:

“**Adjusted Unitholders’ Equity**” of Calloway, at any time, means the aggregate of the amount of unitholders’ equity of Calloway and the amount of accumulated amortization of income properties, including accumulated amortization of the fair value of intangible assets and liabilities recorded on the acquisition of income properties, recorded in the books and records of Calloway at such time, calculated in accordance with generally accepted accounting principles.

“**Aggregate Assets**” of Calloway, at any time, means the total book value of the assets of Calloway, excluding goodwill, determined on a consolidated basis, plus accumulated amortization of income properties, including accumulated amortization of the fair value of intangible assets but less than fair value of intangible liabilities and the associated accumulated amortization recorded on the acquisition of income properties, recorded in the books and records of Calloway at such time, determined in accordance with generally accepted accounting principles.

“**Capital Lease Obligation**” of any person means the obligation of such person, as lessee, to pay rent or other payment amounts under a lease of real or personal property which is required to be classified and accounted for as a capital lease or a liability on a consolidated balance sheet of such person in accordance with generally accepted accounting principles.

“**Change of Control**” means the acquisition by a person, or group of persons acting jointly or in concert, of units of Calloway (and/or securities convertible into units of Calloway) representing (on a diluted basis, but only giving effect to the conversion or exercise of convertible securities held by such person or group of persons) greater than 50% of the units of Calloway.

“**Consolidated EBITDA**” of Calloway for any period means Consolidated Net Income increased by the sum of (i) Consolidated Interest Expense, excluding interest that has been capitalized on projects that are under development or held for future development, for such period, (ii) income tax expense of Calloway for such period (other than income taxes, either positive or negative, attributable to extraordinary or non-recurring gains or losses) determined on a consolidated basis in accordance with generally accepted accounting principles, (iii) amortization of income properties (including provisions for diminution of income properties) for such period, determined on a consolidated basis in accordance with generally accepted accounting principles, (iv) amortization of the fair value of intangible assets and liabilities for such period, determined on a consolidated basis in accordance with generally accepted accounting principles, (v) amortization of deferred expenses of Calloway for such period, determined on a consolidated basis in accordance with generally accepted accounting principles, and (vi) other non-cash items changing Consolidated Net Income resulting from a change in accounting principles in determining Consolidated Net Income for such period.

“**Consolidated Indebtedness**” as at any date means the consolidated Indebtedness of Calloway as at such date determined, except as otherwise expressly provided in the Series B Trust Indenture, in accordance with generally accepted accounting principles.

“**Consolidated Interest Expense**” of Calloway for any period means the aggregate amount of interest expense of Calloway in respect of Indebtedness, Capital Lease Obligations, the original issue discount of any Indebtedness issued at a price less than the face amount thereof paid, accrued or scheduled to be paid or accrued by



Calloway during such period and, to the extent interest has been capitalized on projects that are under development or held for future development during the period, the amount of interest so capitalized, all as determined on a consolidated basis in accordance with generally accepted accounting principles (provided that, notwithstanding its presentation under generally accepted accounting principles, all interest expense of Calloway in respect of convertible debt Indebtedness will be included (without duplication) in determining Consolidated Interest Expense).

“**Consolidated Net Income**” of Calloway for any period means the net income (loss) of Calloway for such period determined on a consolidated basis in accordance with generally accepted accounting principles, excluding (i) any gain or loss (net of any tax impact) attributable to the sale or other disposition of any asset of Calloway, other than the sale or disposition of income properties specifically acquired and held for resale, (ii) any extraordinary gains and losses of Calloway, determined on a consolidated basis in accordance with generally accepted accounting principles and (iii) other nonrecurring items.

“**Debt Securities**” means unsecured debt securities of Calloway issued from time to time pursuant to the Trust Indenture;

“**Extraordinary Resolution**” means, for any series of Debt Securities, instruments in writing signed by the holders of not less than 66 2/3% (or 75% in certain events as described under “Modification and Waiver”) of the aggregate outstanding principal amount of such series of Debt Securities or a resolution passed as an Extraordinary Resolution by the affirmative vote of the holders of not less than 66 2/3% (or 75% in certain events as described under “Modification and Waiver”) of the aggregate outstanding principal amount of such series of Debt Securities represented and voting at a meeting of holders of such series of Debt Securities duly convened and held in accordance with the Trust Indenture, all upon compliance with the procedures specified in the Trust Indenture.

“**generally accepted accounting principles**” means, as at any date of determination, generally accepted accounting principles in effect in Canada as of the date of the Series B Trust Indenture.

“**Indebtedness**” of any person means (without duplication), on a consolidated basis, (i) any obligation of such person for borrowed money (including, for greater certainty, the full principal amount of convertible debt, notwithstanding its presentation under generally accepted accounting principles), (ii) any obligation of such person incurred in connection with the acquisition of property, assets or businesses, (iii) any obligation of such person issued or assumed as the deferred purchase price of property, (iv) any Capital Lease Obligation of such person, and (v) any obligations of the type referred to in clauses (i) through (iv) of another person, the payment of which such person has guaranteed or for which such person is responsible or liable; provided that, for the purpose of clauses (i) through (v) (except in respect of convertible debt, as described above), an obligation will constitute Indebtedness only to the extent that it would appear as a liability on the consolidated balance sheet of such person in accordance with generally accepted accounting principles. Obligations referred to in clauses (i) through (iii) exclude (i) trade accounts payable, (ii) distributions payable to unitholders of Calloway, (iii) accrued liabilities arising in the ordinary course of business which are not overdue or which are being contested in good faith, (iv) indebtedness with respect to the unpaid balance of installment receipts, where such indebtedness has a term not in excess of 12 months, (v) intangible liabilities and (vi) deferred revenues, all of which will be deemed not to be Indebtedness for the purposes of this definition.

“**Material Subsidiary**” means, at any date, any Subsidiary the book value of the assets of which exceed (on a stand alone basis) 5% of the Adjusted Unitholders’ Equity calculated as at such date.

“**Non-Recourse Indebtedness**” means any Indebtedness of a Subsidiary of Calloway which is a single purpose company or whose principal assets and business are constituted by a particular project and pursuant to the terms of which Indebtedness payment is to be made from the revenues arising out of such project with recourse for such payment being available only to the revenues or the assets of such single purpose company or the project.

“**Subsidiary**” of any Person has the meaning attributed to it in the Ontario Securities Commission Rule 45-501 as in effect on the date hereof.

## **General**

The Debentures will be issued in \$1,000 denominations and will be dated October 12, 2006, will bear interest at the rate of 5.37% per annum, payable in semi-annual instalments on October 12 and April 12 in each year, with the first payment of interest due on April 12, 2007 and will mature on October 12, 2016.

## **Rank**

The Debentures will be direct senior unsecured obligations of Calloway and will rank equally and rateably with one another and with all other unsecured and unsubordinated Indebtedness of Calloway except for sinking fund provisions (if any) applicable to different series of Debt Securities or other obligations of Calloway, except to the extent prescribed by law.

## **Guarantee**

The Debentures will be guaranteed by the wholly-owned Material Subsidiaries of Calloway and certain of the wholly-owned corporate Subsidiaries. All such current and future Material Subsidiaries will provide a guarantee of the Debentures. In the case of default by Calloway, the Indenture Trustee will, subject to the Series B Trust Indenture, seek redress from such Subsidiaries for the guaranteed obligations. These guarantees are intended to eliminate structural subordination, which arises as a consequence of certain Calloway assets being held in various Subsidiaries. A guarantor may be released from its guarantee in certain circumstances where it no longer remains a majority-owned Subsidiary of Calloway. See "Risk Factors – Structural Subordination of Debentures".

## **Redemption by Calloway**

At its option, Calloway may redeem the Debentures, in whole or in part, at any time and from time to time, on payment of a redemption price equal to the greater of (i) the Canada Yield Price and (ii) par, together in each case with accrued and unpaid interest to the date fixed for redemption. Calloway will give notice of redemption at least 30 days but not more than 60 days before the date fixed for redemption. Where less than all of the Debentures are to be redeemed pursuant to their terms, the Debentures to be so redeemed will be redeemed on a *pro rata* basis according to the principal amount of Debentures registered in the respective name of each holder of Debentures or in such other manner as the Indenture Trustee may consider equitable.

For the purposes of the foregoing provisions, the following terms will be defined in the Series B Trust Indenture substantially as follows:

**"Canada Yield Price"** means a price equal to the price of the Debentures calculated to provide a yield to maturity, compounded semi-annually and calculated in accordance with generally accepted financial practice, equal to the Government of Canada Yield calculated at 10:00 a.m. (Toronto time) on the date on which Calloway gives notice of redemption of the Debentures pursuant to the Trust Indenture plus 0.34%

**"Government of Canada Yield"** on any date means the yield to maturity on such date, compounded semi-annually and calculated in accordance with generally accepted financial practice, which a non-callable Government of Canada bond would carry if issued, in Canadian dollars in Canada, at 100% of its principal amount on such date with a term to maturity equal to the remaining term to maturity of the Debentures, calculated as of the redemption date of the Debentures, such yield to maturity being the average of the yields provided by two major Canadian investment dealers selected by Calloway.

## **Purchase of Debt Securities**

Calloway may at any time and from time to time purchase the Debentures in the market (which will include purchases from or through an investment dealer or a firm holding membership on a recognized stock exchange) or by tender or private contract at any price. Debt Securities that are so purchased will be cancelled and will not be reissued or resold.

## **Certain Trust Indenture Covenants**

The Series B Trust Indenture will contain covenants substantially to the following effect in favour of holders of the Debt Securities (including the Debentures).

### *Maintenance of Properties*

Calloway will maintain and keep or cause to be maintained and kept in good condition, repair and working order all of the properties owned by it or any of its Subsidiaries used in its business or in the business of any of its Subsidiaries. Calloway will make or cause to be made all necessary repairs and renewals to and replacements and improvements of these properties as in its judgment may be necessary to carry on its business properly and prudently. Notwithstanding the foregoing, Calloway and its Subsidiaries will not be prohibited from selling or transferring their properties in the ordinary course of business.

### *Insurance*

Calloway will maintain and will cause its Subsidiaries to maintain such property and liability insurance as would be maintained by a prudent owner.

### *Restrictions on Consolidations and Mergers*

Calloway may not consolidate with, amalgamate or merge with or into or sell, assign, transfer or lease all or substantially all of its properties and assets unless:

- i) the entity formed by such consolidation or amalgamation or into which Calloway is merged or the entity which acquires by operation of law or by conveyance or by transfer the assets of Calloway substantially as an entirety is a corporation or unincorporated organization organized or existing under the laws of Canada or any province or territory thereof and (except where such assumption is deemed to have occurred solely by the operation of law) such entity assumes under a supplemental indenture all the obligations of Calloway under the Trust Indenture, any supplemental indenture and the Debt Securities and such transaction to the satisfaction of the Indenture Trustee and in the opinion of counsel will be on such terms to preserve and not impair any of the rights and powers of the Indenture Trustee and the holders of Debt Securities;
- ii) immediately before and immediately after giving effect to such transaction, no Event of Default (as defined in the Trust Indenture) has occurred and is continuing; and
- iii) immediately after giving effect to such transaction, the surviving entity could incur at least \$1.00 of additional Indebtedness.

## **Certain Covenants re Debentures**

The Series B Trust Indenture will contain covenants substantially to the following effect in favour of the holders of the Debentures.

### *Consolidated EBITDA to Consolidated Interest Expense Ratio*

Calloway will maintain a ratio of Consolidated EBITDA to Consolidated Interest Expense of not less than 1.65 to 1.

### *Restrictions on Additional Indebtedness*

Calloway will not incur or assume, or permit any Subsidiary to incur or assume, any Indebtedness unless the quotient (expressed as a percentage) obtained by dividing Consolidated Indebtedness by Aggregate Assets, calculated on a pro forma basis as described below (the “**Indebtedness Percentage**”), would be less than or equal to 65%.

The Series B Trust Indenture will provide that the Indebtedness Percentage will be calculated on a *pro forma* basis as at the date of Calloway's most recently published balance sheet (the "**Balance Sheet Date**") giving effect to the incurrence of the Indebtedness to be incurred or assumed and the application of the proceeds therefrom and to any other event that has increased or decreased Consolidated Indebtedness or Aggregate Assets since the Balance Sheet Date to the date of calculation.

#### *Equity Maintenance*

Calloway will maintain an Adjusted Unitholders' Equity of at least \$500 million.

#### **Events of Default**

The Trust Indenture provides that each of the following events will constitute an event of default (each, an "**Event of Default**") in respect of each series of Debt Securities (including the Debentures):

- a) default in payment of principal when due;
- b) default in payment of any interest when due where such default continues for a period of three business days after the relevant interest payment date;
- c) a breach of or default in the performance of any other covenant of Calloway under the Trust Indenture, the Debt Securities or a supplemental indenture in connection with that series of Debt Securities where such default or breach continues for a period of 30 days after the Indenture Trustee has given notice in writing to Calloway specifying the nature of such breach or default, and requiring that it be remedied unless the Indenture Trustee (having regard to the subject matter of such breach or default) agrees to a longer period, and in such event within the period agreed to by the Indenture Trustee;
- d) certain events of bankruptcy, insolvency, winding up or dissolution related to Calloway or a Material Subsidiary as set out in the Trust Indenture;
- e) the rendering of a final judgment or judgments (not subject to appeal) against Calloway or any Material Subsidiary in an aggregate amount in excess of \$25 million by a court or courts of competent jurisdiction, which remains or remain undischarged and unstayed for a period of 60 days after the date on which the right to appeal has expired; and
- f) default by Calloway or any Material Subsidiary under the terms of any Indebtedness (other than any Non-Recourse Indebtedness) where that default results in the acceleration of that Indebtedness (after expiration of any applicable grace period) unless such acceleration is waived or rescinded; provided that the aggregate of all such Indebtedness which is accelerated exceeds \$25 million.

Subject to the provisions of the Trust Indenture relating to the duties of the Indenture Trustee, in case an Event of Default applicable to a series of Debt Securities occurs and is continuing, the Indenture Trustee will be under no obligation to exercise any of its rights or powers under the Trust Indenture at the request or direction of any of the holders of Debt Securities of such series, unless such holders have offered to indemnify the Indenture Trustee to its reasonable satisfaction.

If an Event of Default (other than an Event of Default described in paragraph (d) above) occurs and is continuing with respect to a particular series of Debt Securities, either the Indenture Trustee or the holders of at least 25% in aggregate principal amount of the outstanding Debt Securities of such series may accelerate the maturity of all Debt Securities of such series; provided that, notwithstanding any other provisions of the Trust Indenture, any supplemental indenture or any Debt Securities, after such acceleration, but before a judgment or decree based on acceleration, the holders of a majority in aggregate principal amount of outstanding Debt Securities of that series may rescind and annul such acceleration in certain circumstances described in the Trust Indenture. See "Modification and Waiver". If an Event of Default specified in paragraph (d) above occurs, the outstanding Debt Securities will become immediately due and payable without any declaration or other act on the part of the Indenture

Trustee or any holder of Debt Securities. If the maturity of the Debt Securities of a series has been accelerated, legal action against Calloway may be authorized by an Extraordinary Resolution of the holders of the Debt Securities of such series.

### **Depository Services**

Except as otherwise provided below, the Debentures will be issued in “book-entry only” form and must be purchased or transferred through participants (“**Participants**”) in the depository service of The Canadian Depository for Securities Limited or a successor (“**CDS**”), which include securities brokers and dealers, banks and trust companies. On the closing date of the offering, Calloway will cause a global certificate or certificates representing the Debentures (each, a “**Global Debenture**”) to be delivered to, and registered in the name of, CDS or its nominee. Except as described below, no purchaser of a Debenture will be entitled to a certificate or other instrument from Calloway or CDS evidencing that Debentureholder’s ownership thereof, and no Debentureholder will be shown on the records maintained by CDS except through a book-entry account of a Participant acting on behalf of such Debentureholder. Each Debentureholder will receive a customer confirmation of purchase from the registered dealer from which the Debenture is purchased in accordance with the practices and procedures of that registered dealer. Practices of registered dealers may vary, but generally customer confirmations are issued promptly after execution of a customer order. CDS will be responsible for establishing and maintaining book-entry accounts for its Participants having interests in the Debentures.

Debentures will be issued in fully registered form to holders or their nominees other than CDS or its nominee if (i) Calloway determines that CDS is no longer willing or able to discharge properly its responsibilities as depository and Calloway is unable to locate a qualified successor, (ii) Calloway at its option elects, or is required by law, to terminate the book-entry system through CDS or such book-entry system ceases to exist or (iii) after the occurrence of an Event of Default, holders of Debentures representing beneficial interests aggregating over 50% of the outstanding principal amount of Debentures determine that the continuation of the book-entry system is no longer in their best interests.

### **Transfers**

Transfers of ownership in the Debentures will be effected only through records maintained by CDS or its nominee for such Debentures with respect to interests of Participants and on the records of Participants with respect to interests of persons other than Participants. Debentureholders who are not Participants, but who desire to purchase, sell or otherwise transfer ownership of or other interest in the Debentures, may do so only through Participants.

The ability of a Debentureholder to pledge a Debenture or otherwise take action with respect to such Debentureholder’s interest in a Debenture (other than through a Participant) may be limited due to the lack of a physical certificate.

### **Payment of Interest and Principal**

Except in the case of payment on maturity, in which case payment may be made on surrender of the Global Debenture, payments of interest and principal on each Global Debenture will be made to CDS as registered holder of the Global Debenture. Interest payments on the Global Debenture will be made by cheque dated the date interest is payable and delivered to CDS two days before the date interest is payable. Payments of interest may also be made by electronic funds transferred to CDS at the option of Calloway. Principal payments on the Global Debenture will be made by cheque dated the maturity date delivered to CDS at maturity against receipt of the Global Debenture. As long as CDS is the registered holder of the Global Debenture, CDS will be considered the sole owner of the Global Debenture for the purpose of receiving payment on the Debentures and for all other purposes under the Trust Indenture and the Debentures.

Calloway expects that CDS, upon receipt of any payment of principal or interest in respect of a Global Debenture, will credit Participants’ accounts, on the date principal or interest is payable, with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Debenture as shown on the records of CDS. Calloway also expects that payments of principal and interest by Participants to the owners of

beneficial interests in such Global Debenture held through such Participants will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name”, and will be the responsibility of such Participants. The responsibility and liability of Calloway and the Indenture Trustee in respect of Debentures represented by the Global Debenture is limited to making payment of any principal and interest due on such Global Debenture to CDS.

If the date for payment of any amount of principal or interest on any Debenture is not a business day at the place of payment, then payment will be made on the next business day and the holder of the Debenture will not be entitled to any further interest or other payment in respect of the delay.

### **Change of Control**

In the event of a Change of Control, the holders of Debentures may require Calloway to repurchase their Debentures, in whole or in part, at a price of (i) 101% of the principal amount of such Debentures plus (ii) all accrued interest to the date of repurchase.

### **Defeasance**

The Trust Indenture contains provisions requiring the Indenture Trustee to release Calloway from its obligations under the Trust Indenture and any supplemental indenture relating to a particular series of Debt Securities (including the Debentures) provided that, among other things, Calloway satisfies the Indenture Trustee that it has deposited funds or made due provision for the payment of (i) the expenses of the Indenture Trustee and (ii) all principal, premium (if any), interest and other amounts due or to become due in respect of such series of Debt Securities.

### **Modification and Waiver**

The rights of the holders of Debt Securities issued under the Trust Indenture and any supplemental indenture may be modified if authorized by Extraordinary Resolution. If the proposed modification affects the rights of the holders of a separate series of Debt Securities rather than all of the Debt Securities, the approval of a like proportion of the holders of such separate series of Debt Securities outstanding will be required.

The approval threshold for an Extraordinary Resolution will generally be 66 2/3% but will be 75% for the following: (a) to change the stated maturity of the principal or redemption price of or any premium or installment of interest on, any Debt Securities of such series, (b) to reduce the principal amount of, or interest or premium (if any) on, any Debt Securities of such series, (c) to change the place or currency of payment of the principal of, premium (if any) on redemption price of or interest on, any Debt Securities of such series or (d) to amend the percentage of Debt Securities of such series necessary to approve an Extraordinary Resolution. See the definition of “Extraordinary Resolution” under “Definitions”.

Subject to certain rights of the Indenture Trustee as provided in the Trust Indenture, the holders of a majority of the outstanding principal amount of the Debt Securities of a series (including the Debentures), on behalf of all holders of Debt Securities of such series, may waive certain Events of Default under the Trust Indenture with respect to such series of Debt Securities.

### **Financial Information**

Calloway has covenanted in the Trust Indenture to deliver to the Indenture Trustee its audited annual financial statements and unaudited interim financial statements at such time as such statements are delivered to Canadian securities regulators.

## **PLAN OF DISTRIBUTION**

Under an underwriting agreement (the “**Underwriting Agreement**”) dated October 10, 2006 between the Underwriters and Calloway, Calloway has agreed to sell and the Underwriters have severally agreed to purchase on October 12, 2006 or such other date as may be agreed upon, but not later than October 19, 2006, subject to

compliance with all necessary legal requirements and to the terms and conditions contained in the Underwriting Agreement, \$250,000,000 principal amount of Debentures at a price equal to \$99.9066 per \$100 principal amount of Debenture, plus accrued interest (if any) from October 12, 2006 to the date of delivery, payable in cash to Calloway against delivery of such principal amount of Debentures. The Underwriting Agreement provides that Calloway will pay the Underwriters a fee equal to \$1,750,000 on account of their services rendered in connection with this offering. The obligations of the Underwriters under the Underwriting Agreement may be terminated at their discretion upon the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all of the Debentures offered hereby if any of the Debentures are purchased under the Underwriting Agreement.

The Debentures will be offered to the public at prices to be negotiated between each purchaser and the Underwriters. Accordingly, the price at which the Debentures will be offered and sold to the public may vary as between purchasers and during the period of distribution of the Debentures. The Underwriters' overall compensation will increase or decrease by the amount by which the aggregate price paid for the Debentures by the purchasers exceeds or is less than the gross proceeds paid by the Underwriters to Calloway.

The Debentures offered hereby have not been and will not be registered under the United States Securities Act of 1993 (the "U.S. Securities Act") and may not be offered or sold within the United States of America or to U.S. persons absent registration or pursuant to an applicable exemption from the U.S. Securities Act. Each Underwriter has agreed that it will not offer or sell any Debentures within the United States of America.

Calloway has agreed to indemnify the Underwriters and their directors, officers, employees and agents against certain liabilities, including civil liabilities under Canadian provincial securities legislation, or to contribute to payments the Underwriters may be required to make in respect thereof.

Calloway has been advised by the Underwriters that, in connection with this offering, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Debentures at levels other than those which otherwise might prevail on the open market. Such transactions, if commenced, may be discontinued at any time.

#### **RELATIONSHIP BETWEEN CALLOWAY AND THE UNDERWRITERS**

The Underwriters are subsidiaries of three separate Canadian chartered banks (the "Banks") which are lenders to Calloway. Accordingly, Calloway may be considered to be a "connected issuer" of the Underwriters under applicable Canadian securities legislation.

As at June 30, 2006: (i) nil was outstanding under a credit facility with the Bank which owns RBC Dominion Securities Inc.; (ii) approximately \$2,293,000 was outstanding under a credit facility and pursuant to mortgages on certain of Calloway's properties with the Bank which owns Scotia Capital Inc.; and (iii) nil was outstanding under a credit facility with the Bank which owns TD Securities Inc. under a credit facility. While a portion of the net proceeds of the offering will be used to repay a portion of the current outstanding indebtedness of Calloway, none will be paid to reduce outstanding indebtedness with any of the Banks. See "Use of Proceeds".

The credit facilities and the mortgages referred to above are secured by certain assets of Calloway. The agreements governing such indebtedness contain representations and covenants, restrictions and events of default that are customary for such agreements, including restrictions on Calloway relating to additional indebtedness, liens and encumbrances and adherence to specified financial covenants.

As of the date of this prospectus supplement, Calloway is in compliance with the terms of such agreements and the financial position of Calloway and the value of the security granted to the Banks pursuant to such agreements have not materially changed since such agreements were entered into.

Each of RBC Dominion Securities Inc., Scotia Capital Inc. and TD Securities Inc. has advised Calloway that the decision to underwrite this offering was made independently of the Banks and the Banks had no influence as to the determination of the terms of the distribution. None of RBC Dominion Securities Inc., Scotia Capital Inc. and TD Securities Inc. will receive any benefit in connection with this offering other than its share of the Underwriters' fee payable by Calloway.

## USE OF PROCEEDS

The estimated net proceeds to Calloway from this offering, after deducting the Underwriters' fees of \$1,750,000 and the estimated expenses of the issue estimated to be approximately \$400,000, will be approximately \$247,616,500.

Of the net proceeds of the offering, it is currently anticipated that approximately \$97,400,000 will be used by Calloway to pay down amounts owing under its revolving credit facilities, with the balance to be used to fund future acquisition and development activity, if any, and for general trust purposes.

The amounts drawn subsequent to June 30, 2006 by Calloway under its revolving credit facilities were used by Calloway to fund acquisition and development activity and for general trust purposes.

## CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Shea Nerland Calnan LLP, counsel to Calloway, and McCarthy Tétrault LLP, counsel to the Underwriters, the following is, at the date hereof, a summary of the principal Canadian federal income tax considerations generally applicable to a holder of Debentures (a "**Holder**") who acquires Debentures pursuant to this offering and who, at all relevant times, for purposes of the Tax Act, is resident in Canada, holds the Debentures as capital property and deals at arm's length and is not affiliated with Calloway. Generally, the Debentures will be considered capital property to a holder provided that the holder does not hold the Debentures in the course of carrying on a business of buying and selling securities and has not acquired them as an adventure in the nature of trade. Certain holders whose Debentures might not otherwise qualify as capital property may be entitled to obtain such qualification in certain circumstances by making an irrevocable election permitted by subsection 39(4) of the Tax Act.

This summary is not applicable to a Holder that is a "financial institution" (as defined in the Tax Act for purposes of the mark-to-market rules) or a "specified financial institution", or a Holder an interest in which is a "tax shelter investment" (all as defined in the Tax Act). Such Holders should consult their own tax advisors having regard to their particular circumstances.

This summary is based upon the facts set out in the Short Form Prospectus and this prospectus supplement, the current provisions of the Tax Act and the Regulations in force at the date of this prospectus supplement, all specific proposals to amend the Tax Act and Regulations publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof and counsel's understanding of the current published administrative and assessing policies and practices of the Canada Revenue Agency (the "CRA"). There can be no assurance that the proposed amendments will be implemented in their current form or at all. This summary does not otherwise take into account or anticipate any changes of law or practice, whether by judicial, governmental or legislative decision or action or changes in the administrative policies or assessing practices of the CRA, nor does it take into account tax legislation or considerations of any province or foreign jurisdiction. The provisions of provincial income tax legislation vary from province to province in Canada and in some cases differ from federal income tax legislation.

**This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular Holder, and no representations with respect to the income tax consequences to any particular Holder are made. Accordingly, prospective purchasers should consult their own tax advisors for advice with respect to the tax consequences to them of acquiring, holding and disposing of the Debentures, including the application and effect of the income and other tax laws of any country, province, state or local tax authority.**

**This summary does not address any Canadian federal income tax considerations applicable to non-residents of Canada, and non-residents should consult their own tax advisors regarding the tax consequences of acquiring and holding the Debentures. All payments to non-residents of interest on the Debentures (including amounts deemed to be interest for purposes of the Tax Act) will be net of any applicable withholding taxes.**



A Holder that is a corporation, partnership, unit trust or any trust of which a corporation or partnership is a beneficiary will be required to include in computing its income for a taxation year any interest on a Debenture that accrues or is deemed to accrue to the Holder to the end of that taxation year or becomes receivable or is received by the Holder before the end of that taxation year, except to the extent that such interest was otherwise included in the Holder's income for a preceding taxation year.

Any other Holder, including an individual and trusts that have only individuals as beneficiaries, will be required to include in income for a taxation year any interest on a Debenture received or receivable by such Holder in that year (depending upon the method regularly followed by the Holder in computing income), except to the extent that the interest was included in the Holder's income for a preceding taxation year.

On a disposition or deemed disposition of a Debenture, including a purchase for cancellation, a Holder will generally be required to include in income the amount of interest accrued or deemed to accrue on the Debenture from the date of the last interest payment to the date of disposition to the extent that such amount has not otherwise been included in the Holder's income for the taxation year or a previous taxation year. In general, a disposition or deemed disposition of a Debenture will give rise to a capital gain (or capital loss) to the extent that the proceeds of disposition, net of any accrued interest and any other amount included in computing income and any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of the Debenture to the Holder immediately before the disposition.

One-half of the amount of any capital gain (a "**taxable capital gain**") realized by a Holder in a taxation year generally must be included in the Holder's income for that year, and one-half of the amount of any capital loss (an "**allowable capital loss**") realized by a Holder in a taxation year may generally be deducted from taxable capital gains realized by the Holder in that year. Allowable capital losses in excess of taxable capital gains in a particular year may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against net taxable capital gains realized in such years, to the extent and under the circumstances described in the Tax Act.

A Holder that is a "Canadian controlled private corporation" (as defined in the Tax Act) may be liable to pay an additional refundable tax of 6<sup>2/3</sup>% on certain investment income, including amounts of interest and taxable capital gains. A capital gain realized by a holder who is an individual may give rise to a liability for alternative minimum tax.

## **RISK FACTORS**

There are risks associated with the Debentures being distributed under the offering. In addition to the risks described herein, reference is made to the risks described in the Short Form Prospectus including Calloway's annual information form and management's discussion and analysis which are incorporated therein by reference.

### **Credit Ratings**

Real or anticipated changes in credit ratings on the Debentures may affect the market value of the Debentures. In addition, real or anticipated changes in credit ratings can affect the cost at which Calloway can access the debenture market.

### **Structural Subordination of Debentures**

Liabilities of a parent entity with assets held by various Subsidiaries may result in the structural subordination of the lenders of the parent entity. The parent entity is entitled only to the residual equity of its Subsidiaries after all debt obligations of its Subsidiaries are discharged. In the event of a bankruptcy, liquidation or reorganization of Calloway, holders of indebtedness of Calloway (including holders of Debentures) may become subordinate to lenders to the Subsidiaries of Calloway.

Wholly-owned Material Subsidiaries and certain wholly-owned corporate Subsidiaries of Calloway will provide a form of guarantee pursuant to which the Indenture Trustee will, subject to the Trust Indenture, be entitled to seek redress from such wholly-owned Subsidiaries for the guaranteed indebtedness. These guarantees are

intended to eliminate structural subordination which arises as a consequence of certain Calloway assets being held in various Subsidiaries. Although all wholly-owned Material Subsidiaries will provide a guarantee, not all Subsidiaries of Calloway will provide such a guarantee. In addition, there can be no assurance that the Indenture Trustee will, or will be able to, effectively enforce the guarantee. See “Details of the Offering – Guarantee”.

### **Coverage Ratios**

See “Interest and Earnings Coverages” which is relevant to an assessment of the risk that Calloway will be unable to pay interest or principal on the Debentures when due.

### **Market Value Fluctuation**

Prevailing interest rates will affect the market value of the Debentures, as they carry a fixed interest rate. Assuming all other factors remain unchanged, the market value of the Debentures, which carry a fixed interest rate, will decline as prevailing interest rates for comparable debt instruments rise, and increase as prevailing interest rates for comparable debt instruments decline.

### **Trading Market for Debentures**

There is no market through which the Debentures may be sold and purchasers may not be able to resell Debentures purchased under this prospectus supplement. This may affect the pricing of the Debentures in the secondary market, the transparency and availability of trading prices, the liquidity of the Debentures and the extent of issuer regulation.

If the Debentures are traded after their initial issuance, they may trade at a discount from their initial public offering price depending on prevailing interest rates, the market for similar securities, the performance of Calloway and other factors. No assurance can be given as to whether an active trading market will develop or be maintained for the Debentures. To the extent that an active trading market for the Debentures does not develop, the liquidity and trading prices for the Debentures may be adversely affected.

### **Debt Financing**

As at June 30, 2006, Calloway had outstanding indebtedness of approximately \$1,455,447,000, of which approximately \$986,951,000 is principal payments and debt maturing prior to January 1, 2016. After giving pro forma effect to this offering and assuming the retirement of certain other indebtedness (see “Use of Proceeds”), Calloway would have had outstanding indebtedness as of June 30, 2006 of approximately \$1,608,047,000 of which approximately \$986,951,000 would have been principal payments and debt maturing prior to January 1, 2016. In addition, approximately 0.318% of Calloway’s indebtedness, as a percentage of Gross Book Value (as defined in the declaration of trust of Calloway), is variable rate debt as at June 30, 2006 (0.303% as at June 30, 2006 after giving pro forma effect to this offering and assuming the retirement of certain other indebtedness (see “Use of Proceeds”).

The ability of Calloway to make cash distributions or make other payments or advances is subject to applicable laws and contractual restrictions contained in the instruments governing its indebtedness. The degree to which Calloway is leveraged could have important consequences to the holders of the Debentures, including: that Calloway's ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited; that a significant portion of Calloway's cash flow from operations may be dedicated to the payment of the principal of and interest on its indebtedness, thereby reducing funds available for future operations and distributions; that certain of Calloway's borrowings may be at variable rates of interest, which exposes it to the risk of increased interest rates; and that Calloway may be vulnerable to economic downturns including Calloway’s ability to retain and attract tenants. Also, there can be no assurance that Calloway will continue to generate sufficient cash flow from operations to meet required interest and principal payments. Further, Calloway is subject to the risk that any of its existing indebtedness may not be able to be refinanced upon maturity or that the terms of such financing may not be as favourable as the terms of its existing indebtedness. These factors may adversely affect Calloway's cash distributions.

Calloway's various credit facilities provide first charge security interests on most of the properties in its portfolio of income producing properties, to the 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 Calloway 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 Calloway to meet certain financial ratios and financial condition tests. For example, certain of Calloway's loans require specific loan to value and debt service coverage ratios which must be maintained by Calloway. 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 Calloway and permit acceleration of the relevant indebtedness. If the indebtedness under the credit facilities were to be accelerated, there can be no assurance that the assets of Calloway would be sufficient to repay in full that indebtedness.

### **Statutory Remedies**

Calloway is not a legally recognized entity within the relevant definitions of the *Bankruptcy and Insolvency Act*, the *Companies' Creditors Arrangement Act* and in some cases, the *Winding Up and Restructuring Act*. As a result, in the event a restructuring of Calloway were necessary, Calloway would not be able to access the remedies available thereunder. In the event of a restructuring, a holder of Debentures may be in a different position than a holder of secured indebtedness of a corporation.

### **TRANSFER AGENT AND REGISTRAR**

The registrar and transfer agent for the Debentures will be Computershare Trust Company of Canada at its principal office in Toronto, Ontario.

### **LEGAL MATTERS**

Legal matters in connection with the issuance of the Debentures offered by this prospectus supplement will be passed upon at the date of closing on behalf of Calloway by Shea Nerland Calnan LLP and on behalf of the Underwriters by McCarthy Tétrault LLP.

As of the date hereof, the partners and associates of Shea Nerland Calnan LLP, as a group, and McCarthy Tétrault LLP, as a group, beneficially own, directly or indirectly, less than 1% of the outstanding units of Calloway. David M. Calnan, a partner of Shea Nerland Calnan LLP, is a member of the board of trustees of Calloway.

### **PURCHASERS' STATUTORY RIGHTS**

Securities legislation in several of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment thereto. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages if the prospectus and any amendment thereto contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

## AUDITORS' CONSENTS

### *PricewaterhouseCoopers LLP, Chartered Accountants*

We have read the base shelf short form prospectus of Calloway Real Estate Investment Trust (the "Trust") dated September 14, 2005 relating to the issuance and sale of Trust Securities, and the prospectus supplement of the Trust dated October 10, 2006 relating to the issuance and sale of senior unsecured debentures. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use through incorporation by reference in the above mentioned prospectus supplement of our report dated March 6, 2006 on the consolidated balance sheet of the Trust as at December 31, 2005 and the consolidated statements of income, equity and cash flows for the year ended December 31, 2005.

Toronto, Ontario  
October 10, 2006

(signed) "PricewaterhouseCoopers LLP"  
Chartered Accountants

### *Kenway Mack Slusarchuk Stewart LLP, Chartered Accountants*

We have read the base shelf short form prospectus of Calloway Real Estate Investment Trust (the "Trust") dated September 14, 2005 relating to the issuance and sale of Trust Securities, and the prospectus supplement of the Trust dated October 10, 2006 relating to the issuance and sale of senior unsecured debentures. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use through incorporation by reference in the above mentioned prospectus supplement of our report dated February 19, 2005 (except Note 22 which is dated March 2, 2005) on the consolidated balance sheets of the Trust as at December 31, 2004 and 2003 and the consolidated statements of income, unitholders' equity and cash flows for the years ended December 31, 2004 and 2003.

We also consent to the use through incorporation by reference in the above-mentioned prospectus supplement of our compilation report dated February 11, 2005 on the unaudited pro forma consolidated balance sheet of the Trust as at September 30, 2004 and the unaudited pro forma consolidated statements of income for the nine months ended September 30, 2004 and for the year ended December 31, 2003.

We also consent to the use through incorporation by reference in the above-mentioned prospectus supplement of our compilation report dated May 5, 2005 on the unaudited pro forma consolidated balance sheet of the Trust as at December 31, 2004 and the unaudited pro forma consolidated statement of income for the year ended December 31, 2004.

We also consent to the use through incorporation by reference in the above-mentioned prospectus supplement of our compilation report dated June 9, 2005 on the unaudited pro forma consolidated balance sheet of the Trust as at March 31, 2005 and the unaudited pro forma consolidated statements of income for the three months ended March 31, 2005 and for the year ended December 31, 2004.

Calgary, Alberta  
October 10, 2006

(signed) "Kenway Mack Slusarchuk Stewart LLP"  
Chartered Accountants

### *KPMG LLP, Chartered Accountants*

We have read the prospectus supplement dated October 10, 2006 to a short form base shelf prospectus of Calloway Real Estate Investment Trust (the "Trust") dated September 14, 2005 relating to the issuance and sale of senior unsecured debentures (in combination the "Prospectus"). We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use through incorporation by reference in the above-mentioned Prospectus of our report to the partners of the Wal-Mart-First Pro Realty Partnership on the schedules of combined net operations relating to the Phase I Centres for the years ended December 31, 2003 and 2002. Our report is dated February 10, 2005.

We also consent to the use through incorporation by reference in the above-mentioned Prospectus of our report to the co-owners of the Wal-Mart-First Pro Realty Co-ownerships on the schedules of combined net operations relating to the Phase II Centres for the years ended December 31, 2004 and 2003. Our report is dated April 29, 2005.

We also consent to the use through incorporation by reference in the above-mentioned Prospectus of our report to the co-owners of the Wal-Mart-First Pro Realty Co-ownerships on the schedules of combined net operations relating to the Centres V Phase I for the years ended December 31, 2004 and 2003. Our report is dated April 29, 2005.

We also consent to the use through incorporation by reference in the above-mentioned Prospectus of our report to the co-owners of the Wal-Mart-First Pro Realty Co-ownerships on the schedules of combined net operations relating to the Centres V Phase II for the years ended December 31, 2004 and 2003. Our report is dated April 29, 2005.

Toronto, Ontario  
October 10, 2006

(signed) "KPMG LLP"  
Chartered Accountants

*The Sacks Partnership, Chartered Accountants*

We have read the base shelf short form prospectus of Calloway Real Estate Investment Trust (the "Trust") dated September 14, 2005 relating to the issuance and sale of Trust Securities, and the prospectus supplement of the Trust dated October 10, 2006 relating to the issuance and sale of senior unsecured debentures. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use through incorporation by reference in the above-mentioned prospectus supplement of our report to the owners of Centres V Phase III on the schedule of combined net operations relating to Centres V Phase III for the years ended December 31, 2004 and 2003. Our report is dated May 17, 2005.

Toronto, Ontario  
October 10, 2006

(signed) "The Sacks Partnership"  
Chartered Accountants

## UNDERWRITERS' CERTIFICATE

Dated: October 10, 2006

To the best of our knowledge, information and belief, the short form prospectus, together with the documents incorporated in the prospectus by reference, as supplemented by the foregoing, constitutes full, true and plain disclosure of all material facts relating the securities offered by the prospectus and this supplement as required by the securities legislation of each of the provinces of Canada. For the purposes of the Province of Quebec, this simplified prospectus, together with documents incorporated herein by reference and as supplemented by the permanent information record, contains no misrepresentation that is likely to affect the value or the market price of the securities to be distributed.

RBC DOMINION SECURITIES INC.

By: (Signed) "*David M. Dulberg*"

SCOTIA CAPITAL INC.

By: (Signed) "*D. Gregory Lawrence*"

TD SECURITIES INC.

By: (Signed) "*Raghunath Davloor*"