



**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**MARCH 31, 2011**

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**Unitholder Returns**

	Three Months Ended March 31, 2011	Year Ended December 31, 2010
Distribution per unit	\$0.10	\$0.40
Opening unit price	\$4.02	\$2.69
Closing unit price	\$4.49	\$4.02
Annualized yield on opening price (distribution/opening unit price)	10.0%	14.9%

The trust units of Temple Real Estate Investment Trust are listed on the TSX Venture Exchange under the symbol "TR.UN". The 7.5% Series A and 8.5% Series B convertible debentures are listed on the TSX Venture Exchange under the symbol of "TR.DB.A" and "TR.DB.B", respectively. The 8.75% Senior Secured convertible debentures are listed on the TSX Venture Exchange under the symbol of TR.DB.S.

**REPORT TO UNITHOLDERS****Operating Results***Operating Income and Cash Flow*

During the first quarter of 2011, Temple Real Estate Investment Trust ("Temple REIT") achieved income of \$400,465, before income taxes and change in fair value of financial instruments, representing an increase in income of \$1,333,643, compared to the first quarter of 2010. The improvement in income, before income taxes and change in fair value of financial instruments, mainly reflects an increase in hotel operating income of \$833,408 and a decrease in interest expense, net and trust expenses, of \$274,800 and \$238,175, respectively.

During the first quarter of 2011, cash provided by operating activities, excluding working capital adjustments, increased by \$1,246,748, compared to the first quarter of 2011, mainly due to the increase in hotel operating income and a decrease in interest payments on mortgage and debenture debt.

Distributable income also increased by \$1,184,742 during the first quarter of 2011. Distributions declared were equal to 84% of distributable income.

*Change in Fair Value of Financial Instruments*

In accordance with International Financial Reporting Standards (IFRS), certain financial instruments of Temple REIT, namely, convertible debentures, the convertible mortgage loan, marketable securities and unit compensation payable are recorded at fair value. A change in the fair value serves to increase or decrease the income of the Trust during the reporting period, with the increase or decrease to income being disclosed on the income statement as "change in fair value of financial instruments".

During the first quarter of 2011, the change in fair value of financial instruments served to reduce income by \$4,554,791, compared to the first quarter of 2010.

The income reduction associated with the change in fair value of financial instruments represents a non-cash component of the net loss of the Trust. The operating cash flow of the Trust was not affected by the income reduction.

*Net Income/Loss*

After accounting for the decrease in income pertaining to the change in fair value of financial instruments of \$4,554,791 and the increase in income pertaining to the recovery of income taxes of \$239,120, Temple REIT completed the first quarter of 2011 with a net loss of \$2,331,035, compared to net income of \$650,993, during the first quarter of 2010.

## Equity Financing

### *Trust Unit Offering in February 2011*

In February 2011, Temple REIT completed a public offering of Trust units generating gross proceeds of \$20 million and net proceeds of \$18.6 million after deducting agents fees and other costs.

The proceeds from the unit offering were used to pay down the first mortgage loan for the Clearwater hotel by \$9 million and retire the \$6,540,000 second mortgage loan for the Merit hotel expansion. The first quarter debt reduction was a major factor in the decrease in interest expense during the first quarter of 2011.

### *Sheraton Red Deer Hotel and Convention Centre*

Temple REIT is undertaking extensive guest room improvements and building upgrades to the Capri Centre in Red Deer, Alberta. The budgeted cost of the upgrade/improvement program is \$9.8 million of which approximately \$1.4 million has been incurred to March 31, 2011 in regard to design costs and the acquisition of room furnishings.

The guest room renovations and building upgrades will occur throughout the second and third quarter of 2011 and be substantially completed by October 2011. Upon completion of the upgrade/improvement program the Capri Centre will be renamed the "Sheraton Red Deer Hotel and Convention Centre".

## Outlook

During the first quarter of 2011, the operating income of Temple REIT continued an upward trend, after having reached a low point during the first quarter of 2010. During May and June the occupancy of TREIT's six hotels in Fort McMurray is exceeding 87% which approximates the record occupancy levels last achieved in 2008. Although the average daily room rates have not yet returned to the peak levels of 2008, the marked improvement in the Fort McMurray hotel market conditions indicate the continuation of significant growth in TREIT hotel operating income for the remainder of 2011 and 2012. No new hotel supply is under construction in Fort McMurray. Next year the new investment in the Sheraton Red Deer Hotel and Convention Centre will also begin contributing to additional income growth.

The existing cash resources of the Trust, combined with the cash flow generated from operations and the projected proceeds from the upward refinancing of mortgage loan debt, are expected to be more than sufficient to fund the working capital requirements of Temple REIT for the remainder of 2011, including the monthly distributions.

TEMPLE REAL ESTATE INVESTMENT TRUST



ARNI C. THORSTEINSON, CFA  
President & Chief Executive Officer  
June 16, 2011

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Forward-Looking Statements

Management's Discussion and Analysis ("MD&A") of Temple Real Estate Investment Trust ("Temple REIT" or the "Trust") should be read in conjunction with the financial statements of Temple REIT for the three months ended March 31, 2011 and with reference to the Annual Report for 2010.

Certain statements contained in this MD&A and in certain documents incorporated by reference herein are "forward-looking statements" that reflect the expectations of management regarding the future growth, results of operations, performance, prospects and opportunities of Temple REIT. Readers are cautioned not to place undue reliance on forward-looking information. All statements other than statements of historical fact contained or incorporated by reference herein are forward-looking statements including, without limitation, statements regarding the timing and amount of distributions and the future financial position, business strategy, potential acquisitions, plans and objectives of Temple REIT. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risks and uncertainties. A number of factors, as discussed herein, could cause actual results to differ materially from the results discussed in forward-looking statements. Although the forward-looking statements contained or incorporated by reference herein are based upon what management believes to be reasonable assumptions, Temple REIT 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. Forward-looking statements are made as of the date hereof, or such other date specified in such statements, and neither Temple REIT nor any other person assumes any obligation to update or revise such forward-looking statements to reflect new information, events or circumstances, except as expressly required by applicable securities law.

### Purchase Price/Acquisition Cost

Unless otherwise noted, all references to "purchase price(s)" or "acquisition cost(s)", as disclosed in this report, exclude closing costs and other adjustments on closing.

### Appraised Value

In this management discussion and analysis, references are made to the appraised value of Temple REIT's property portfolio.

In summary, the total appraised value of the property portfolio is \$286,700,000 at March 31, 2011. Appraisals of three properties, representing 31% of total appraised value, were prepared in 2010, appraisals of two properties, representing 20% of total appraised value, were prepared in 2009, appraisals of three properties, representing 32% of total appraised value, were prepared in 2008 and an appraisal of two properties, representing 17% of total appraised value were prepared in 2007.

The appraised value is based on appraisals prepared by independent appraisers. The appraisals are estimates only, are made effective as at the date set forth in the appraisal and are based on facts on the data set forth in the appraisal and are subject to a number of assumptions, qualifications and limiting conditions, including but not limited to those described in such appraisals. Such assumptions, qualifications and limiting conditions generally include, among other things: (i) that title to the property is good and marketable; (ii) there are no encroachments, encumbrances, restrictions, leases or covenants that would in any way affect valuation, except as noted in the appraisals; (iii) the existing use of the property is legal and may be continued by any purchaser of the property; (iv) there has been no delinquency in the payment of taxes relating to the property; (v) that environmental laws have been complied with and there are no potentially hazardous materials on the property or any adjoining property; and (vi) that there are no patent or latent defects in the buildings located on the property.

There can be no assurance that the appraised value of a property is an accurate reflection of the value of such property as at the effective date set forth in the appraisal or on any other date, including on March 31, 2011. In addition, there can be no assurance that the valuation method or the capitalization rate(s) used in appraising a property was appropriate for such property as at the effective date set forth in the appraisal or on any other date, including on March 31, 2011.

Temple REIT undertakes no obligation to update the appraised value of its portfolio from time to time.

## FINANCIAL AND OPERATING STATISTICS

	March 31 2011	December 31 2010
<b>BALANCE SHEET</b>		
Total Assets	\$ 262,571,320	\$ 260,481,436
Total Debt	\$ 189,238,347	\$ 204,494,094
	<b>Three Months Ended March 31</b>	
	2011	2010
<b>DISTRIBUTIONS</b>		
Amount - total	\$ 1,817,216	\$ 1,282,535
- per unit	\$ 0.10	\$ 0.10
<b>KEY PERFORMANCE INDICATORS</b>		
Operations:		
Occupancy *	65%	51%
ADR *	\$145.60	\$158.97
RevPar *	\$94.67	\$81.46
Operating profit margin *	34%	32%
Operating results:		
Total revenue	\$ 16,666,451	\$ 14,894,848
Operating income	\$ 5,619,587	\$ 4,786,179
Net income (loss)	\$ (2,331,035)	\$ 650,993
Cash flows:		
Cash flow from operating activities*	\$ 2,053,770	\$ 1,427,681
Distributable income *	\$ 2,155,249	\$ 970,507
Funds from operations *	\$ 2,137,315	\$ 871,307
Financing:		
Weighted average interest rate of debt *	6.60%	6.52%
<b>PER UNIT AMOUNTS</b>		
	Basic and Diluted	Basic and Diluted
Net income (loss)	\$(0.15)	\$0.05
Distributable income *	\$0.14	\$0.08
Funds from operations *	\$0.14	\$0.07
Cash from operating activities	\$0.13	\$0.11

Per unit statistics reflect weighted average number of units for the quarter.

### Non-IFRS Measurements

Items marked with an asterisk represent measurements which are not calculated or presented in accordance with IFRS or which do not have a standardized meaning as prescribed by IFRS. The non-IFRS measurements may not be comparable to the measurements which are provided by other entities and should not be used as an alternative to the measurements which are determined in accordance with IFRS for purposes of assessing the performance of Temple REIT. Temple REIT believes, however, that the non-IFRS measurements are useful in supplementing the reader's understanding of the performance of the Trust.

Distributable income is a measure of cash flow that is not defined under Canadian IFRS, and accordingly, may not be comparable to similar measures used by other issuers. Distributable income is defined as net income in accordance with Canadian IFRS, subject to certain adjustments as set out in the Declaration of Trust, including adding back depreciation, future income taxes (recovery) expense, the non cash portion of interest expense and a reserve for the replacement of furniture and fixtures that is included in the computation of net income, and making any other adjustments determined by the trustees of the REIT in their discretion.

Funds from Operations ("FFO") is not defined by IFRS and is a non-IFRS financial measures of operating performance which are widely used by the real estate industry. FFO has been calculated in accordance with the recommendations of Real Property Association of Canada ("RealPac")

FFO per unit and distributable income per unit have been calculated on a basis which is consistent with the method prescribed by IFRS for calculating earnings per unit.

Details regarding the calculation of the non-IFRS measurements and a reconciliation to IFRS measurements, where applicable, are provided in the report.

## EXECUTIVE SUMMARY

### Core Business and Strategy

Temple REIT was established in order to create a portfolio of income-producing hotel properties. The core business activities of Temple REIT consist of investment, development and management activities which are focused on maximizing the return on the hotel portfolio.

As of March 31, 2011, the real estate portfolio of Temple REIT consists of ten hotel properties with a cost of approximately \$265 Million, including six hotel properties located in Fort McMurray, Alberta.

A more detailed description of the operations and business strategy of Temple REIT is provided in the section of the MD&A titled "Overview of Operations and Business Strategy".

### Changes in Operating/Financial Variables - Q1 2011 vs Q1 2010

#### Hotel Properties

There were no changes in the number of available rooms in the hotel portfolio of Temple REIT between January 1, 2010 and March 31, 2011.

#### Net Income(Loss)

As disclosed in the following chart, the income of Temple REIT before change in fair value of financial instruments and income taxes increased by \$1,210,246 during the first quarter of 2011, compared to the first quarter of 2010. After including change in fair value of financial instruments and income taxes, the net income decreased by \$2,972,271.

	Three Months Ended March 31		Increase/ (Decrease)
	2011	2010	
Income (loss) before change in fair value of financial instruments and income taxes	400,465	(933,178)	1,333,643
Change in fair value financial instruments	3,014,012	(1,540,779)	4,554,791
Income taxes expense (recovery)	(282,512)	(43,392)	(239,120)
Net income (loss)	<u>\$ (2,331,035)</u>	<u>\$ 650,993</u>	<u>\$ (2,982,028)</u>

The increase in income before change in fair value of financial instruments and income taxes mainly reflects an increase in operating income of \$833,408 and a decrease in net interest expense and trust expenses of \$274,800 and \$238,175, respectively.

The increase in operating income is comprised of the following increases/decreases in operating income: Fort McMurray hotel portfolio (increase of \$652,157); Capri Centre (increase of \$44,797); Temple Gardens (decrease of \$141,105); Best Western Wayside Inn (increase of \$278,050) and Chateau Nova (decrease of \$491).

The decrease in interest expense mainly reflects a reduction of mortgage loan debt.

#### Change in Fair value of Financial Instruments

Financial instruments of Temple REIT include convertible debentures, a convertible mortgage loan, marketable securities and unit based compensation payable. Under IFRS, Temple REIT is required to carry these financial instruments at "fair value". The fair value of convertible debentures, marketable securities and unit based compensation payable is based on the trading price of the financial instrument at the last trading day of the period. The "fair value" of the convertible mortgage is determined with reference to the Canada bond yield for the specified term of the convertible mortgage. An increase in fair value serves to increase the carrying value of the debentures, with the offset being a charge against income, while a decrease in fair value serves to decrease the carrying value of the debentures, with the offset being an increase to income.

As noted above, the change in fair value of financial instruments served to decrease income by \$4,554,791 during the first quarter 2011, compared to the first quarter of 2010. As disclosed in the following chart, the decrease in income associated with financial instruments is mainly attributable to the change in fair value of convertible debentures.

Financial instrument	Increase/decrease in trading price from year end March 31		Increase (decrease) in income Three months ended March 31		Net increase (decrease) in income
	2011 \$ per \$100	2010 \$ per \$100	2011	2010	2011 vs 2010
Series A convertible debentures	9.75	(22.01)	(240,289)	542,436	(782,725)
Series B convertible debentures	3.00	(3.00)	(595,983)	595,983	(1,191,966)
Senior Secured convertible debentures	15.00	0.10	<u>(2,183,538)</u>	<u>(15,000)</u>	<u>(2,168,538)</u>
Change in fair value of convertible debentures			(3,019,810)	1,123,419	(4,143,229)
Change in fair value of convertible mortgage			38,845	208,122	(169,277)
Change in fair value of marketable securities			15,600	94,575	(78,975)
Change in fair value unit based compensation			<u>(48,647)</u>	<u>114,663</u>	<u>(163,310)</u>
Net increase (decrease) in income			<u>\$ (3,014,012)</u>	<u>\$ 1,540,779</u>	<u>\$ (4,554,791)</u>

The change in fair value of financial instruments is a non-cash expense and does not affect the cash flows of the Trust.

### Cash Flow

Cash from operating activities, excluding working capital adjustments increased by \$1,246,748 during the first quarter of 2011, primarily due to an increase in operating income of \$833,408.

### Distributions

During 2010, Temple REIT declared a distribution of \$0.40 per unit, comprised of a declared distribution of \$0.10 per unit for the first, second, third and fourth quarters of 2010. The distributions were paid on April 15, 2010, July 15, 2010, October 15, 2010, and December 31, 2010, respectively.

During the first quarter of 2011, Temple REIT declared a distribution of \$0.10 per unit. The distribution was paid on April 15, 2011. Effective April 1, 2011, Temple REIT implemented a monthly distribution policy. The first monthly cash distribution in the amount of \$0.03334 per unit (\$0.40 on an annual basis) was paid on May 15, 2011 to Unitholders of record as of April 30, 2011. The distribution for May 2011 was declared on May 18, 2011, with payment made on June 15, 2011 to Unitholders of record as of May 31, 2011.

### Trust unit offering

On February 11, 2011, Temple REIT completed a public offering of 5,000,000 trust units at a price of \$4.00 per unit for gross proceeds of \$20,000,000 and net proceeds of \$18,593,295 after deducting agents fees and other costs. The net proceeds from the offering were used to retire the \$6,540,000 second mortgage loan of the Merit hotel and to reduce the first mortgage of the Clearwater Hotel by \$9,000,000.

Based on a distribution of \$0.40 per annum, the increase in distributions associated with the issuance of 5,000,000 trust units is \$2 Million.

### Outlook for Remainder of 2011

#### Operating Income/Operating Cash Flows

The extent to which operating income and operating cash flows continue to improve during the remainder of 2011 will reflect the rate of economic growth in Fort McMurray in particular and Alberta in general.

#### Improvements/Upgrades to the Capri Centre

Temple REIT is undertaking extensive guest room improvements and building upgrades to the Capri Centre in Red Deer, Alberta, at a budgeted cost of \$9.8 million. After accounting for expenditures incurred in to date of approximately \$1.4 Million, the amount to be expended in 2011 is approximately \$8.4 Million. During the first quarter of 2011, expenditures in regard to the Capri Centre upgrade/improvement program amounted to \$144,805.

The upgrade/improvement program is being undertaken to re-brand the Capri Centre under the "Sheraton" hotel banner. The improvements will involve new guest room designs which were created by the in-house design team for Sheraton and are based on extensive in-room behaviour research. The new rooms at the Capri Centre will serve as the prototype for the new Sheraton room design in the Canadian market. The upgrade/improvement program is expected to be completed by October 2011 at which time the Capri Centre will be renamed the "Sheraton Red Deer Hotel and Convention Centre".

The upgrade/improvement program is expected to be partially funded from the upward refinancing of mortgage loan debt, including the upward refinancing of the Capri Centre.

## **Financing**

### *Upward Refinancing of Long-Term Debt*

During 2011, the upward refinancing of mortgage loan debt will serve as a source of supplemental funding for overall operations, including the funding of the upgrade/improvement program at the Capri Centre. It is anticipated that approximately \$15.3 million will be generated from upward refinancing of mortgage loan debt, comprised of the following:

- Approximately \$5.8 million from increased debt financing of the Capri Centre during the second half of 2011.
- Approximately \$1 million from the upward refinancing of the long-term debt of the Temple Gardens hotel in October 2011.
- Approximately \$10 million from the upward refinancing of the Clearwater hotel during the fourth quarter of 2011.

The increased debt financing of the Capri Centre is specifically designated for the funding of the upgrade improvement program.

### *Breach of Debt Service Coverage Requirements*

As of March 31, 2011, Temple REIT is in breach of the debt service coverage covenant for two mortgage loans totaling \$15,435,205. In the event that either of the two lenders demand repayment of the mortgage loans, the Senior Secured convertible debentures with a face value of \$13.8 million may become payable, on demand, as a result of cross-default clauses. Temple REIT has requested a waiver of the loan breaches with the two lenders and to date, the breaches have not resulted in acceleration of the repayment of any the loans.

## **Risks and Uncertainties**

The rate of economic growth in Fort McMurray is a risk factor for Temple REIT, given the concentration of hotel properties in Fort McMurray. Economic conditions in Fort McMurray affect the operating cash flows of Temple REIT and the financing capabilities of the Trust. The level of operating cash flow determines the extent to which Temple REIT requires other sources of capital to fund debt repayments and capital expenditures, after funding distributions.

The renewal or refinancing of hotel mortgage loans in smaller cities encompasses a degree of risk in comparison to the availability of other mortgage loans. Management believes loan renewals can be obtained at maturity or that replacement financing can be arranged.

There are tax risks associated with the application of the SIFT Rules (as herein defined) to Temple REIT and its Unitholders, which commence in the 2011 taxation year. For a complete discussion of this risk, refer to "Taxation" below and the Tax-Related Risk Factors set out in Temple REIT's 2010 Annual Information Form.

Additional details of the key risks of Temple REIT are provided in the section of the MD&A titled "Operating Risks and Uncertainties".

## **LIQUIDITY/WORKING CAPITAL REQUIREMENTS**

### **Working Capital Requirements**

#### *General*

To the extent that the existing cash resources of the Trust, combined with the cash flow from operating activities, are insufficient to fund regular principal repayments of mortgage loan debt, capital expenditures and distributions, Temple REIT may require an additional source of cash.

#### *Regular principal repayments of mortgage loan debt*

Regular principal repayments of mortgage loan debt are scheduled at approximately \$4.28 million for the remainder of 2011.

### *Capital expenditures*

Capital expenditures for the remainder of 2011 are expected to be approximately \$8.8 million, comprised of \$8.40 million for the upgrade/improvement program at the Capri Centre and \$400,000 for other hotels.

The existing first mortgage loan for the Capri Centre provides for construction advances as the upgrade/improvement program progresses, to a maximum amount whereby the loan balance shall not exceed \$27 Million at the completion of construction. As of September 30, 2011, the amount of funding available under the mortgage loan will be approximately \$5.8 million.

### *Cash distributions*

Based on the units outstanding as of March 31, 2011 and assuming a declared distribution of \$0.03334 on a monthly basis, the total cash distributions for the remainder of 2011, including the distribution payable as of March 31, 2011, are expected to be \$7.3 million.

## **Funding of Working Capital Requirements**

### *Existing Cash Resources*

As of March 31, 2011, the unrestricted cash balance is \$6,614,636.

### *Cash Provided by Operating Activities*

During the first quarter of 2011, Temple REIT generated cash from operating activities of \$2,053,770 after working capital adjustments, and \$2,738,575, before working capital adjustments.

### *Mortgage loan financing*

Temple REIT has three mortgage loans which mature during the remainder of 2011. The expectation of management for the renewal or refinancing of the loans is as follows:

- *Clearwater Suites Hotel*

The 6.83% first mortgage loan which is registered against the Clearwater Suites hotel will have a balance of \$20,537,227 at the December 31, 2011 maturity date. Management expects that the first mortgage loan will be upward refinanced before maturity, resulting in net proceeds of approximately \$10 million.

- *Temple Gardens Mineral Spa*

On May 1, 2011, the 4.32% first mortgage loan of \$4,838,393 which is registered against Temple Gardens Mineral Spa was renewed at the same interest rate for a one year term. The 5.51% first mortgage loan tranche will have a balance of \$5,970,769 at the October 1, 2011 maturity date and is expected to be increased to \$7.0 million, resulting in net proceeds of approximately \$1 million.

- *Chateau Nova*

A 6.5% first mortgage loan which is registered against Chateau Nova, will have a balance of \$5,168,348 at the November 30, 2011 maturity date. Management expects that the first mortgage loan will be renewed at maturity with similar terms and conditions.

In addition, the existing mortgage loan for the Capri Hotel permits additional advance of approximately \$5.8 million to fund expenditures to upgrade the hotel.

In total, the net proceeds from the upward refinancing of the mortgage loan debt are projected to be approximately \$16.8 million during 2011.

## Summary

The projected net proceeds from the upward refinancing of mortgage loan debt, combined with the existing cash resources of the Trust and the projected improvement in cash flow from operations are expected to be more than sufficient to fund regular interest payments, principal repayments of mortgage loan debt, capital expenditures and distributions.

The ability of Temple REIT to complete the upward refinancing of mortgage loan debt to the extent anticipated is subject to uncertainty. If the Trust is unable to complete the upward refinancing of mortgage loan debt and, depending on the level of operating income, there is some risk that distributions could be reduced.

## INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

Temple REIT has adopted International Financial Reporting Standards effective for the 2011 fiscal year, commencing with the first quarter financial statements for 2011. In the first quarter financial statements for 2011, comparative financial information for the first quarter of 2010 has been restated to reflect the retrospective application of IFRS. The retrospective application of IFRS encompassed the restatement of the balance sheet of Temple REIT, as at January 1, 2010. All previous financial statements were prepared using the Canadian Generally Accepted Accounting Principles (GAAP).

The main change in accounting policy that has occurred as a result of the adoption of IFRS is the requirement to recognize convertible debentures and convertible mortgages at the fair value at each reporting period of the Trust. During the first quarter of 2011, expenses related to financial instruments at fair value under IFRS were \$2.8 million higher than would have been reported under GAAP. In comparison, expenses related to financial instruments for the operating results in the first quarter of 2010, as restated under IFRS, were \$1.6 million lower than was previously reported under GAAP.

After considering all changes related to the adoption of IFRS, the income of Temple REIT for the first quarter of 2011 was \$2.8 million lower than it would have been under GAAP. Income for the first quarter of 2010, as restated under IFRS was \$1.6 million higher than previously reported under GAAP.

Additional information regarding the change in accounting policies related to the adoption of IFRS are included in the section of the MD&A, titled "Change in Accounting Policies". A detailed reconciliation of the financial position and operating results of the Temple REIT between GAAP and IFRS for the three months ended March 31, 2010 and for the year ended December 31, 2010 is provided in Note 26 of the financial statements.

## OVERVIEW OF TRUST OPERATIONS

### Temple Real Estate Investment Trust ("Temple REIT")

Temple Real Estate Investment Trust ("Temple REIT") is an open-ended real estate investment trust which was formed under the laws of the Province of Manitoba on July 12, 2006, pursuant to the Declaration of Trust. Temple REIT is not a "real estate investment trust" as determined in the Income Tax Act (Canada). See the "Taxation" section of the MD&A. The head office of Temple REIT is located at 2600 Seven Evergreen Place in Winnipeg, Manitoba.

Temple REIT was established as an investment trust for the purpose of investing, directly and indirectly, in hotel properties and assets. The primary business activity of Temple REIT is the acquisition and development of income-producing hotel properties and the active management of the acquired/developed properties.

## **Overall Investment Objectives and Strategy**

### **Primary Objectives**

The primary investment objectives of Temple REIT are to generate stable and growing cash distributions on a tax-efficient basis, enhance the value of Temple REIT's assets and maximize long-term unit value through the active management of its assets, and expand the asset base and increase distributable income through an accretive acquisition program.

### **Growth**

The general strategy of Temple REIT for external growth is to pursue the acquisition of hotel properties and assets in markets across Canada, and possibly in the United States, based on an investment criteria which focuses on return of equity, security of cash flow and potential for capital appreciation. The target capitalization rate for hotel acquisitions is generally between 9% and 13%.

The assessment of the capital appreciation potential of targeted properties includes an evaluation of market conditions, an analysis of the available opportunities for increasing cash flows by implementing more efficient operating systems, and an examination of the potential redevelopment or expansion opportunities for the property.

The overall investment strategy of Temple REIT also encompasses the acquisition of hotels in regional clusters and of similar asset sizes in order to create economies of scale. Temple REIT also focuses on acquiring hotels in solid physical condition with minimal initial capital expenditure requirements.

The acquisition of additional hotel properties is expected to be deferred, however, until hotel market conditions improve.

### **Financing**

The overall strategy of Temple REIT is to raise investment capital through the issuance of trust units or convertible debentures. In general, new property acquisitions will be funded by arranging new mortgage financing or assuming existing mortgage financing, with the remaining equity portion to be funded from the reserves of investment capital. The equity portion of new property acquisitions may also be partially funded by the exchange of trust units.

The strategy of Temple REIT is to efficiently utilize and manage leverage, targeting mortgage debt in the range of 60% to 70% of appraised value to maximize return on equity while maintaining cash flow stability. Temple REIT will pursue the upward refinancing of under-leveraged properties or the subsequent arrangement of mortgage financing for properties which are initially acquired on a 100% cash basis.

Temple REIT may also utilize acquisition lines of credit, bridge financing and other short-term financing facilities as a source of interim investment capital, as investment opportunities arise, pending the replenishment of capital reserves from additional trust unit or convertible debenture offerings.

### **Management**

Temple REIT has assembled an experienced management team in order to assist it in achieving its business objectives. The management team of Temple REIT have experience in the hotel industry and have developed key relationships with owners across North America which management believes should enable Temple REIT to gain access to a significant acquisition pipeline.

Asset management services are provided to Temple REIT by Shelter Canadian Properties Limited ("Shelter"). Shelter brings real estate investment, development and asset management experience to Temple REIT. Please refer to the section of this report entitled "Related Party Transactions" for details of the remuneration of Shelter.

The hotel properties of Temple REIT are currently operated and managed by Atlific Hotels and Resorts ("Atlific"). Atlific currently manages a portfolio of approximately 40 properties across Canada, including hotels with the Marriott, Best Western, Comfort Inn and Holiday Inn brands. Atlific is an affiliate of Ocean Properties Ltd., one of the largest privately-owned hotel management companies in North America. Combined, Atlific and Ocean Properties have over 80 years of experience in hotel management and manage a portfolio of 100 properties. Details of the terms of the Atlific management agreements for the hotels in the Temple REIT portfolio are provided in the section of this report entitled "Hotel Management".

## PROPERTY PORTFOLIO

As disclosed in the following chart, the real estate portfolio of Temple REIT consists of ten hotel properties as of March 31, 2011, comprising 1,241 rooms and with a total cost of \$265 Million. Six of the hotels are located in Fort McMurray, Alberta. The four other hotels are located in Moose Jaw, Saskatchewan; Yellowknife, Northwest Territories; Lloydminster, Alberta and Red Deer, Alberta.

The six Fort McMurray hotels encompass a total of 634 rooms, or 51% of the total rooms in the hotel portfolio. There were no changes in the number of available rooms in the hotel portfolio between January 1, 2010 and March 31, 2011.

### Property Portfolio - March 31, 2011

Property	Location	Purchase Price	Acquisition Date	Rooms/Suites
<b>Alberta</b>				
<i>Fort McMurray</i>				
Clearwater Suite Hotel	Fort McMurray	\$ 56,500,000	March 2007	150
Merit Hotel and Suites	Fort McMurray	16,000,000	April 2007	92
Merit Hotel expansion	Fort McMurray	19,040,000	August 2009	68
Franklin Suites	Fort McMurray	18,800,000	April 2007	75
Nomad Hotel	Fort McMurray	23,700,000	April 2007	139
Nomad Suites	Fort McMurray	10,000,000	April 2007	27
Vantage Inn & Suites	Fort McMurray	<u>19,400,000</u>	January 2008	<u>83</u>
		163,440,000		634
<i>Other</i>				
Best Western Wayside Inn & Suites	Lloydminster	22,500,000	June 2008	130
Capri Centre	Red Deer	<u>40,000,000</u>	December 2008	<u>218</u>
		225,940,000		982
<b>Northwest Territories</b>				
Chateau Nova	Yellowknife	13,000,000	March 2007	80
<b>Saskatchewan</b>				
Temple Gardens Mineral Spa Resort Hotel	Moose Jaw	<u>26,102,670</u>	October 2006	<u>179</u>
Total		<u>\$ 265,042,670</u>		<u>1,241</u>

The operations of Temple Gardens hotel also encompass a 50% co-ownership agreement in regard to a 23,400 square foot casino complex which is located directly across from the Temple Gardens hotel. The casino complex, which is known as "Casino Moose Jaw", is subject to a 25-year lease under which the tenant is responsible for all costs associated with the leased premises, including structural or foundation repairs or replacement. Income derived from the co-ownership interest in the casino is included in "other hotel revenue".

## RESULTS OF OPERATIONS

### Summary of Quarterly Results

#### Quarterly Analysis - Reported under IFRS

	2011	
	Q1	YTD Total
Total revenue	\$ 16,666,451	\$ 16,666,451
Operating income	\$ 5,619,587	\$ 5,619,587
Net income (loss)	\$ (2,331,035)	\$ (2,331,035)
PER UNIT		
Operating income		
- Basic	\$ 0.36	\$ 0.36
- Diluted	\$ 0.29	\$ 0.29
Net income (loss)		
- Basic	\$ (0.15)	\$ (0.15)
- Diluted	\$ (0.15)	\$ (0.15)
Key performance indicators		
- Occupancy	65%	65%
- ADR	\$ 145.60	\$ 145.60
- RevPar	\$ 94.67	\$ 94.67

#### Quarterly Analysis - Reported under IFRS

	2010				
	Q4	Q3	Q2	Q1	YTD Total
Total revenue	\$ 16,675,610	\$ 16,311,654	\$ 15,668,532	\$ 14,894,848	\$ 63,550,644
Operating income	\$ 5,308,925	\$ 5,881,418	\$ 5,073,478	\$ 4,786,179	\$ 21,050,000
Net income (loss)	\$ (2,286,958)	\$ 686,080	\$ (2,608,877)	\$ 650,993	\$ (3,558,762)
PER UNIT					
Operating income					
- Basic	\$ 0.41	\$ 0.46	\$ 0.39	\$ 0.37	\$ 1.66
- Diluted	\$ 0.41	\$ 0.46	\$ 0.39	\$ 0.37	\$ 1.66
Net income (loss)					
- Basic	\$ (0.18)	\$ 0.05	\$ (0.20)	\$ 0.05	\$ (0.28)
- Diluted	\$ (0.18)	\$ 0.05	\$ (0.20)	\$ 0.05	\$ (0.28)
Key performance indicators					
- Occupancy	55%	61%	55%	51%	56%
- ADR	\$ 149.00	\$ 152.97	\$ 155.18	\$ 158.97	\$ 153.92
- RevPar	\$ 81.85	\$ 92.83	\$ 86.05	\$ 81.46	\$ 85.55

#### Quarterly Analysis - As previously reported under Canadian GAAP

	2009				
	Q4	Q3	Q2	Q1	YTD Total
Total revenue	\$ 16,123,722	\$ 15,639,078	\$ 16,780,369	\$ 17,268,422	\$ 65,811,591
Operating income	\$ 5,448,887	\$ 5,852,451	\$ 6,501,010	\$ 6,778,428	\$ 24,580,776
Net income (loss)	\$ (581,909)	\$ (180,211)	\$ 828,023	\$ 838,375	\$ 904,278
PER UNIT					
Operating income					
- Basic	\$ 0.42	\$ 0.46	\$ 0.51	\$ 0.53	\$ 1.92
- Diluted	\$ 0.42	\$ 0.46	\$ 0.51	\$ 0.53	\$ 1.92
Net income (loss)					
- Basic	\$ (0.05)	\$ (0.01)	\$ 0.06	\$ 0.07	\$ 0.07
- Diluted	\$ (0.05)	\$ (0.01)	\$ 0.06	\$ 0.07	\$ 0.07
Key performance indicators					
- Occupancy	50%	55%	54%	53%	53%
- ADR	\$ 164.45	\$ 169.73	\$ 175.52	\$ 185.26	\$ 173.74
- RevPar	\$ 81.42	\$ 92.95	\$ 94.80	\$ 98.57	\$ 91.94

From a general perspective, the quarterly results of Temple REIT, as disclosed in the preceding chart, reflect the gradual impact of recessionary influences on operating results during 2009 and into 2010, with a reversal of the downward trend in operating results occurring in the second quarter of 2010. Other main factors which have affected the quarterly results include the completion of the 68 room expansion at the Merit Hotel in the third quarter of 2009 and seasonal fluctuations in demand at the hotels, particularly for the Fort McMurray portfolio where there is typically a reduction in demand during July, August and December.

During the second quarter of 2009, operating income decreased by \$277,418, compared to the first quarter of 2009. The decrease is primarily due to a decrease in operating income from the Capri Centre, partially offset by an increase in operating income from Temple Gardens and Chateau Nova. Net income was virtually unchanged during the second quarter of 2009, compared to the first quarter of 2009, as the decrease in operating income was almost entirely offset by a decrease in financing expense and an increase in the value of marketable securities.

During the third quarter of 2009, operating income decreased by \$648,559, compared to the second quarter of 2009, mainly due to a decrease in "other" hotel revenue at the Capri Centre, partially offset by a decrease in hotel operating costs. Net income decreased by \$1,008,234 during the third quarter of 2009, mainly due to the decrease in operating income, combined with an increase in financing expense associated with the new mortgage debt for the Merit Hotel expansion and an increase in the interest rate on the second mortgage loan of the Clearwater Suites hotel.

During the fourth quarter of 2009, operating income decreased by \$403,564, compared to the third quarter of 2009. The decrease is mainly due to a decrease in room revenue from the Fort McMurray hotel portfolio, as a result of a decrease in occupancy levels and room rates. After accounting for the decrease in operating income and a combined increase in financing, trust and depreciation expenses of \$402,704, the net loss increased by \$401,698 during the fourth quarter of 2009.

During the first quarter of 2010, operating income, as reported under IFRS, decreased by \$662,708, compared to operating income for the fourth quarter of 2009, as reported under GAAP. The decrease is mainly due to a decrease in room revenue and other hotel revenue at the Capri Centre and the Best Western Wayside Inn. There is a minor difference between the IFRS and GAAP operating income for the first quarter of 2010, with the GAAP operating income being \$86,169 higher than the IFRS operating income.

The net loss for the first quarter of 2010, as previously reported under GAAP, was \$986,251 representing an increase in the loss of \$404,342 compared to the net loss for the fourth quarter of 2009, as reported under GAAP. The net income/loss results for the first quarter of 2010 and the fourth quarter of 2009 are no longer comparable due to the changes in the difference in accounting for the change in fair value of financial instruments under IFRS. From a general perspective, the net loss of Temple REIT, excluding non-cash expenses, was higher in the first quarter of 2010, than in the fourth quarter of 2009.

During the second quarter of 2010, operating income increased by \$287,299, compared to the first quarter of 2010, mainly due to a increase in operating income for the Fort McMurray hotel portfolio and the Best Western Wayside Inn, partially offset by a decrease in operating income at the Capri Centre. Excluding changes in fair value of financial instruments and income taxes the net loss decreased by \$469,526 during the second quarter of 2010, compared to the first quarter of 2010. The net loss, including the change in fair value of financial instruments adjustments and income taxes increased by \$3,259,870 during the second quarter of 2010.

During the third quarter of 2010, operating income increased by \$807,940, compared to the second quarter of 2010, mainly due to a increase in operating income throughout the hotel portfolio, with the exception of the Capri Centre. Excluding changes in fair value of financial instruments and income taxes the net income increased by \$928,300 during the third quarter of 2010, compared to the second quarter of 2010. The net income, including the change in fair value of financial instruments and income taxes increased by \$3,294,957 during the third quarter of 2010.

During the fourth quarter of 2010, operating income decreased by \$572,493, compared to the third quarter of 2010, mainly due to a decrease in operating income at Temple Gardens Mineral Spa and the Fort McMurray hotel portfolio, partially offset by an increase in operating income at the Capri Centre. Excluding the change in fair value of financial instruments and income taxes the net loss increased by \$668,947 during the fourth quarter of 2010, compared to the third quarter of 2010. The net loss, including the change in fair value of financial instruments and income taxes increased by \$2,973,038 during the fourth quarter of 2010.

During the first quarter of 2011, operating income increased by \$310,662, compared to the fourth quarter of 2010. The increase reflects to an increase in operating income throughout the Temple REIT hotel portfolio with the exception of the Chateau Nova hotel, Capri Centre and the Best Western Wayside Inn. Excluding changes in fair value of financial instruments and income taxes the net income increased by \$604,764 during the first quarter of 2011, compared to the fourth quarter of 2010. The net loss, including the change in fair value of financial instruments and income taxes increased by \$44,077 during the first quarter of 2011.

On a basic per unit basis, operating income was \$0.36 per unit during the first quarter of 2011, compared to \$0.37 per unit during the first quarter of 2010. The decrease in operating income on a per unit basis, reflects the increase in units from the February 2011 unit offering, largely offset by the increase in operating income.

## Detailed Analysis of Operating Results

### Analysis of Net Income (loss) \*

	Three Months Ended March 31		Increase/ (Decrease)
	2011	2010	
Revenue			
Room revenue	\$ 10,460,705	\$ 9,031,285	\$ 1,429,420
Other hotel revenue	6,205,746	5,863,563	342,183
Total revenue	16,666,451	14,894,848	1,771,603
Hotel operating costs	11,046,864	10,108,669	938,195
Operating income	5,619,587	4,786,179	833,408
Interest expense, net	3,335,952	3,610,752	(274,800)
Trust expense	125,832	364,007	(238,175)
Depreciation	1,757,338	1,744,598	12,740
	400,465	(933,178)	1,333,643
Change in fair value of financial instruments	3,014,012	(1,540,779)	4,554,791
Income taxes expense (recovery)	(282,512)	(43,392)	(239,120)
Net income (loss)	\$ (2,331,035)	\$ 650,993	\$ (2,982,028)

\* The analysis of net income (loss) represents the reformatting of balances from the Consolidated Statements of Income (loss) and Comprehensive Income (loss), per the financial statements of Temple REIT, in order to provide amounts which correspond to the analysis in this report. All of the amounts in the analysis agree to the financial statements with the following exceptions:

- (i) the analysis provides a sub-total for income before derivative financial instrument adjustments and income taxes;
- (ii) the analysis does not provide a sub total for "income before taxes"; and
- (iii) the analysis combines the "current" and "deferred" component of income taxes into one line;

## Overall Results

In comparison to the first quarter of 2010, the income of Temple REIT, before changes in fair value of financial instruments and income taxes increased by \$1,333,643 during the first quarter of 2011.

The increase in is mainly due to an increase in operating income of \$833,408 and a decrease in interest expense of \$274,800. Trust expense also decreased by \$238,175.

After providing for changes in fair value of financial instruments and income taxes, Temple REIT completed the first quarter of 2011 with a loss of \$2,331,035, compared to income of \$650,993 during the first quarter of 2010, representing a decrease of \$2,982,028.

## Revenue

### Hotel Market Conditions

Hotel market conditions in Fort McMurray have a pronounced impact on overall revenue results, given the extent to which the Temple REIT hotel portfolio is concentrated in Fort McMurray.

Throughout 2010, there was an upward trend in the quarterly results during the second and third quarters of 2010 with RevPar increasing from \$87.77 in the first quarter of 2010 to \$90.69 and \$93.50 during the second and third quarters of 2010, respectively. During the fourth quarter of 2010, RevPar for the Fort McMurray decreased to \$81.76. The decrease in RevPar in the fourth quarter of 2010 reflects the normal seasonal fluctuation in demand.

During the first quarter of 2011, the RevPar of the Fort McMurray hotel portfolio was \$94.67 representing a continuation of the upward trend from the first three quarters of 2010. The increase in RevPar reflects an improvement in hotel market conditions in Fort McMurray primarily due to an increase in development activity and oil production in the oil sands industry.

### Total Revenue

#### Analysis of Total Revenues

	Three Months Ended March 31				
	2011		2010		Increase/ (Decrease)
	Amount	% of Total	Amount	% of Total	
Hotel revenue					
Room	\$ 10,460,705	63 %	\$ 9,031,285	61 %	\$ 1,429,420
Other	<u>6,205,746</u>	<u>37 %</u>	<u>5,863,563</u>	<u>39 %</u>	<u>342,183</u>
Total	<u>\$ 16,666,451</u>	<u>100 %</u>	<u>\$ 14,894,848</u>	<u>100 %</u>	<u>\$ 1,771,603</u>

The revenue of Temple REIT is comprised of "room revenue" and "other hotel revenue". As disclosed in the preceding chart, total revenue increased by \$1,771,603 during the first quarter of 2011, compared to the first quarter of 2010, comprised of a \$1,429,420 increase in room revenue and a \$342,183 increase in other hotel revenue.

During the first quarter of 2011 room revenue and other hotel revenue accounted for 63% and 37% of total revenue, respectively, compared to 61% and 39% during the first quarter of 2010.

As discussed in the following sections of the MD&A, the relative significance of other hotel revenue varies considerably between hotels and is a major factor affecting hotel profit margins.

## Hotel Revenue

### Analysis of Total Hotel Revenues

	Three Months Ended March 31		
	2011	2010	Increase/ (Decrease)
<b>Fort McMurray</b>			
Room revenue	\$ 5,742,713	\$ 4,952,401	\$ 790,312
Other hotel revenue	425,761	397,947	27,814
	<u>\$ 6,168,474</u>	<u>\$ 5,350,348</u>	<u>\$ 818,126</u>
<b>Temple Gardens Mineral Spa</b>			
Room revenue	1,915,133	\$ 1,965,554	(50,421)
Other hotel revenue	1,136,942	1,188,311	(51,369)
	<u>\$ 3,052,075</u>	<u>\$ 3,153,865</u>	<u>\$ (101,790)</u>
<b>Chateau Nova</b>			
Room revenue	552,321	\$ 481,944	70,377
Other hotel revenue	29,968	18,546	11,422
	<u>\$ 582,289</u>	<u>\$ 500,490</u>	<u>\$ 81,799</u>
<b>Best Western Wayside Inn</b>			
Room revenue	968,454	\$ 611,550	356,904
Other hotel revenue	915,623	601,335	314,288
	<u>\$ 1,884,077</u>	<u>\$ 1,212,885</u>	<u>\$ 671,192</u>
<b>Capri Centre</b>			
Room revenue	1,282,084	\$ 1,019,836	262,248
Other hotel revenue	3,697,452	3,657,424	40,028
	<u>\$ 4,979,536</u>	<u>\$ 4,677,260</u>	<u>\$ 302,276</u>
<b>Total</b>			
Room revenue	\$ 10,460,705	\$ 9,031,285	\$ 1,429,420
Other hotel revenue	6,205,746	5,863,563	342,183
Total hotel revenue	<u>\$ 16,666,451</u>	<u>\$ 14,894,848</u>	<u>\$ 1,771,603</u>

### Room Revenue

Room revenue increased by \$1,429,420 or 16% during the first quarter of 2011, compared to the first quarter of 2010. The increase in room revenue mainly reflects an increase in room revenue from the Fort McMurray hotel portfolio, and from the Best Western Wayside Inn and the Capri Centre. As disclosed in the chart above, the room revenue from the Fort McMurray hotel portfolio increased by \$790,312 during the first quarter of 2011, compared to the first quarter of 2010, while the room revenue for the Best Western Wayside Inn and the Capri Centre increased by \$356,904 and \$262,248, respectively.

As disclosed in the following chart, RevPar for the Fort McMurray hotel portfolio increased by \$13.50 during the first quarter of 2011, mainly due to an increase in the occupancy level, partially offset by a decrease in the average daily room rate (ADR). RevPar for the Best Western Wayside Inn and the Capri Centre increased by \$30.89 and \$13.33, respectively during the first quarter of 2011, compared to the first quarter of 2010. The increase in RevPar is mainly due to an increase in the occupancy level.

The Chateau Nova hotel achieved an increase in room revenue of \$70,377 or 15%; however, due to the small size of the hotel the contribution to the overall increase in revenue was relatively modest. The Temple Gardens hotel experienced a decrease in room revenue of \$50,421.

**Room Revenue Statistics**

	Three Months Ended March 31					
	2011			2010		
	Occ	ADR	RevPar	Occ	ADR	RevPar
Fort McMurray	67 %	\$ 150.71	\$ 101.27	51 %	\$ 172.55	\$ 87.77
Temple Gardens	72 %	\$ 165.71	\$ 119.53	77 %	\$ 160.15	\$ 122.67
Chateau Nova	58 %	\$ 132.93	\$ 77.36	47 %	\$ 143.89	\$ 67.01
Best Western Wayside Inn	66 %	\$ 125.46	\$ 83.31	42 %	\$ 125.92	\$ 52.42
Capri Centre	52 %	\$ 124.80	\$ 65.48	42 %	\$ 124.07	\$ 52.15
Overall Portfolio	65 %	\$ 145.60	\$ 94.67	51 %	\$ 158.97	\$ 81.46

The occupancy level (Occ) is calculated by dividing the number of rooms available during the reporting period into the number of rooms actually rented. The average daily rate (ADR) is a non GAAP measure commonly used in the hotel industry to evaluate hotel operations and is calculated by dividing total room revenue by the number of rooms rented.

RevPar is a non-GAAP measurement which is commonly used within the hotel industry to evaluate hotel operations and is generally considered to be the leading indicator of operating performance. RevPar is calculated by multiplying ADR by the occupancy level. RevPar does not include revenues from food and beverage operations or from other hotel service.

**Other Hotel Revenue**

"Other hotel revenue" includes food and beverage revenue, spa revenue, video lottery terminal revenue, parking and gift shop revenue. Hotels which encompass more extensive amenities, such as lounges, restaurants, liquor stores or banquet and conference facilities, generate a higher amount of "other hotel revenue", in comparison to the other hotels.

As reflected in the "Hotel Revenue Analysis" chart, there are three hotels which generate proportionately higher levels of other hotel revenue, namely the Capri Centre, the Temple Gardens Hotel and the Best Western Wayside Inn. The Capri Centre, which is the highest contributor to other hotel revenue, has numerous income-generating amenities, including a 53,110 square foot conference centre, three restaurants, three lounges, a leased gift shop, clothing store and hair salon and a free-standing liquor store. During the first quarter of 2011, the total contribution to revenue by the Capri Centre amounted to \$4,979,536, of which \$3,697,452 or 74% was attributable to "other hotel revenue".

During the first quarter of 2011, other hotel revenue increased by \$342,183 or 6%, compared to the first quarter of 2010, mainly due to an increase in other hotel revenue at the Best Western Wayside Inn. The increase in other hotel revenue at the Best Western Wayside Inn mainly reflects the improvement in the occupancy level of the hotel. The Best Western Wayside Inn also assumed management of the hotel restaurant operations during the third quarter of 2010 which contributed to the increase in other hotel revenue.

Hotels with a higher proportion of other hotel revenue, such as Capri Centre, also tend to have a lower overall profit margin due to the comparatively high level of operating costs which are directly related to the income-generating amenities of the hotel. Increases or decreases in other hotel revenue also typically result in proportionately higher increases or decreases in hotel operating costs, due to the revenue/cost relationship.

As disclosed in the following sections of this report, the Best Western Wayside Inn and the Capri Centre experienced the highest increase in operating costs, although, for both hotels, the revenue increase exceeded the increase in operating costs

**Hotel Operating Costs**

Hotel operating costs include all costs related to the operation of the hotel properties, including asset management fees pertaining to the gross revenues of the hotel properties. Expenses related to the overall administration and management of the Trust, including legal, audit and regulatory fees are classified as "Trust" expenses. An analysis of hotel operating costs is provided below.

**Analysis of Operating Expenses**

	Three Months Ended March 31		
	2011	2010	Increase/ (Decrease)
<b>Fort McMurray</b>			
Operating costs	\$ 2,578,813	\$ 2,358,446	\$ 220,367
Property taxes and insurance	326,480	400,648	(74,168)
Fees	215,918	196,151	19,767
	<u>\$ 3,121,211</u>	<u>\$ 2,955,245</u>	<u>\$ 165,966</u>
<b>Temple Gardens</b>			
Operating costs	2,143,225	2,101,448	41,777
Property taxes and insurance	202,310	201,706	604
Fees	123,628	126,693	(3,065)
	<u>\$ 2,469,163</u>	<u>\$ 2,429,847</u>	<u>\$ 39,316</u>
<b>Chateau Nova</b>			
Operating costs	414,227	336,417	77,810
Property taxes and insurance	40,831	39,609	1,222
Fees	23,291	20,032	3,259
	<u>\$ 478,349</u>	<u>\$ 396,058</u>	<u>\$ 82,291</u>
<b>Best Western Wayside Inn</b>			
Operating costs	1,203,058	823,054	380,004
Property taxes and insurance	41,068	40,031	1,037
Fees	77,238	65,137	12,101
	<u>\$ 1,321,364</u>	<u>\$ 928,222</u>	<u>\$ 393,142</u>
<b>Capri Centre</b>			
Operating costs	3,323,717	3,104,256	219,461
Property taxes and insurance	122,857	121,132	1,725
Fees	210,203	173,909	36,294
	<u>\$ 3,656,777</u>	<u>\$ 3,399,297</u>	<u>\$ 257,480</u>
<b>Total</b>			
Operating costs	\$ 9,663,040	\$ 8,723,621	\$ 939,419
Property taxes and insurance	733,546	803,126	(69,580)
Fees	650,278	581,922	68,356
Total hotel operating costs	<u>\$ 11,046,864</u>	<u>\$ 10,108,669</u>	<u>\$ 938,195</u>

**Notes:**

- (1) Fees include asset management fees related to the gross revenue of the hotel properties and property management fees, as follows:

**Analysis of Fees included in Operating Expenses**

	Three Months Ended March 31		
	2011	2010	Increase/ (Decrease)
Atlitic property management fees	\$ 398,715	\$ 357,258	\$ 41,457
Shelter asset management fees	251,563	224,664	26,899
Total	<u>\$ 650,278</u>	<u>\$ 581,922</u>	<u>\$ 68,356</u>

During the first quarter of 2011, hotel operating costs increased by \$939,419, compared to the first quarter of 2010. As disclosed in the analysis of hotel operating costs, the increase in costs was mainly experienced at the hotels which achieved the highest revenue increases during the first quarter of 2011, namely the Fort McMurray hotel portfolio, Capri Centre and the Best Western Wayside Inn.

The hotel with the highest increase in other hotel revenue, the Best Western Wayside Inn, also experienced the highest increase in operating costs. During the first quarter of 2011, operating costs at the Best Western Wayside Inn increased by \$393,142 or 42%, while hotel revenues increased by \$671,192 or 55%. The increase in operating costs is mainly due to cost of sales relating to food service at the restaurant as well as higher labour costs.

## Operating Income and Profit Margin

### Operating Income and Profit Margin

	Operating Income			Operating Profit Margin	
	Amount			Three Months Ended	
	Three Months Ended			March 31	March 31
	March 31 2011	March 31 2010	Increase/ (Decrease)	2011	2010
Fort McMurray	\$ 3,047,263	\$ 2,395,103	\$ 652,160	49 %	45 %
Temple Gardens	582,912	724,018	(141,106)	21 %	25 %
Chateau Nova	103,940	104,432	(492)	18 %	21 %
Best Western W.I.	562,713	284,663	278,050	30 %	23 %
Capri Centre	1,322,759	1,277,963	44,796	27 %	27 %
<b>Total</b>	<b>\$ 5,619,587</b>	<b>\$ 4,786,179</b>	<b>\$ 833,408</b>	<b>34 %</b>	<b>32 %</b>

After accounting for the increase in total revenues and the increase in hotel operating costs, the operating income of the Trust increased by \$833,408 or 17% during the first quarter of 2011, compared to the first quarter of 2010. The increase in operating income is mainly attributable to an increase in operating income at the Fort McMurray hotel portfolio and the Best Western hotel. In general terms, the increase in operating income for the Fort McMurray portfolio is mainly due to an increase in room revenue while the increase in operating income at the Best Western is mainly due to an increase in room and other hotel revenue.

As disclosed in the preceding chart, the overall profit margin of the entire hotel portfolio increased from 32% during the first quarter of 2010, to 34% during the first quarter of 2011.

## Interest Expense, Net

### Analysis of Interest Expense, Net

	Three Months Ended March 31		
	2011	2010	Increase/ (Decrease)
<b>Interest expense</b>	\$ 3,425,098	\$ 3,696,921	\$ (271,823)
<b>Add/(deduct):</b>			
Interest revenue	(9,395)	(4,186)	(5,209)
Finance lease interest revenue	(79,751)	(81,983)	(2,232)
<b>Total interest expense, net</b>	<b>\$ 3,335,952</b>	<b>\$ 3,610,752</b>	<b>\$ (274,800)</b>

"Total interest expense, net" is mainly comprised of interest expense. The "net" amount is derived by deducting interest revenue and finance lease interest revenue.

During the first quarter of 2011, "Interest expense, net" decreased by \$274,800, compared to the first quarter of 2010, mainly due to a decrease in outstanding debt.

## Interest Revenue and Finance Lease Interest Revenue

Interest revenue is comprised of interest revenue on the excess cash reserves of the Trust, and interest revenue on defeasance assets. Finance lease interest revenue consists of income related to the co-ownership interest of the Temple Gardens hotel in the "Casino Moose Jaw". During the first quarter of 2011 interest revenue increased by \$5,209 compared to the first quarter of 2010, while finance lease interest income decreased by \$2,232.

## Interest Expense

### Total Interest Expense

The majority of the interest expense of Temple REIT pertains to mortgage loan debt, convertible debenture debt and for the 2010 comparable period, the defeased loan. During the first quarter of 2011, interest expense in regard to mortgage loan debt accounted for 77% (2010 - 76%) of the total interest expense of the Trust and interest expense in regard to debenture debt accounted for 23% (2010 - 22%). The change in percentage reflects the interest expense on the defeased loan recorded in 2010.

Interest expense encompasses interest expense on mortgage loan debt and convertible debentures and defeased loan interest, as well as amortization charges for transaction costs. The amortization charges for transaction costs are non-cash expenses. During the first quarter of 2011, the "non-cash" component of interest expense represented 3% of the total interest expense compared to 5% during the first quarter of 2010.

As disclosed in the following analysis, total interest expense decreased by \$271,823 or 7% during the first quarter of 2011, compared to the first quarter of 2010. The decrease is mainly attributable to a decrease in interest expense on mortgage loan debt.

#### Analysis of Interest Expense

	Three Months Ended March 31		
	2011	2010	Increase/ (Decrease)
<b>Mortgage loans</b>			
Interest on mortgage loans	\$ 2,486,060	\$ 2,632,948	\$ (146,888)
Convertible mortgage loan interest	49,931	151	49,780
Amortization of transaction costs	115,820	192,205	(76,385)
Subtotal	<u>2,651,811</u>	<u>2,825,304</u>	<u>(173,493)</u>
<b>Defeasance Loan</b>			
Interest	-	64,172	(64,172)
Amortization of transaction costs	-	10,956	(10,956)
Total - mortgage loans	<u>-</u>	<u>75,128</u>	<u>(75,128)</u>
<b>Debentures</b>			
Interest on convertible debentures	<u>773,287</u>	<u>796,489</u>	<u>(23,202)</u>
<b>Interest expense</b>	<u>\$ 3,425,098</u>	<u>\$ 3,696,921</u>	<u>\$ (271,823)</u>

### Cash Component of Interest Expense

The cash component of interest expense is comprised of interest on mortgage loan debt and convertible debentures. During the first quarter of 2010, the cash component of interest expense also included interest on the defeased loan.

#### Mortgage Loan Debt

Interest on mortgage loan debt decreased by \$146,888 or 6%, during the first quarter of 2011, compared to the first quarter of 2010. The decrease in interest on mortgage loan debt reflects the following financing transactions:

- As of December 31, 2009, the long-term debt of Temple REIT included a 12% "interest-only" second mortgage loan in regard to the Merit Hotel with a balance of \$7,040,000. On October 31, 2010, the loan was reduced to \$6,540,000 and on February 11, 2011 the loan was fully repaid. The total interest expense associated with the second mortgage loan was \$145,536 during the first quarter of 2011, compared to \$208,307 during the first quarter of 2010, representing a decrease of \$62,771.
- In February 2011, the 6.83% first mortgage loan for the Clearwater Suites hotel was reduced by \$9 million. As a result of the paydown, interest expense associated with the Clearwater loan decreased by \$97,493 during the first quarter of 2011.

- In May 2010, Temple REIT obtained a \$5 million mortgage loan for the Temple Gardens hotel at an interest rate of 4.32%. The increase in interest expense associated with the additional debt during the first quarter of 2011 was \$51,460.
- During the twelve month period ended March 31, 2011 regular payments of the mortgage loan debt amounted to \$6,008,124. Based on the weighted average interest rate for mortgage loan debt, the principal repayments represent an interest reduction of approximately \$40,000 for the three months ended March 31, 2011.

#### *Convertible Debentures*

Interest on convertible debenture debt decreased by \$23,202 or 3% during the first quarter of 2011, compared to the first quarter of 2010. The decrease in interest expense reflects the conversion of convertible debentures.

Additional information regarding the mortgage loans and convertible debentures of the Trust is provided in the section of this report entitled "Capital Structure".

#### *Defeased Loan*

Interest expense on the defeased loan amounted to by \$64,172 during the first quarter of 2010, compared to nil during to the first quarter of 2011, as the defeased loan was extinguished effective April 1, 2010. Interest income on defeasance assets also decreased by \$1,781 during the first quarter of 2011.

#### *Convertible Mortgage Loan*

During the first quarter of 2011, interest on the convertible mortgage loan increased by \$49,780 compared to the first quarter of 2010, due to an over accrual in the fourth quarter in 2009, which was reversed in the first quarter of 2010.

### **Transaction costs**

Transaction costs related to debt are capitalized and expensed through amortization charges. Amortization charges represent a "non-cash" expense and are excluded from the determination of cash flow from operating activities. The actual cash outlay in regard to transaction costs is included in the determination of cash flow from financing activities. During the first quarter of 2011, expenditures on transaction costs amounted to \$10,320 compared to \$1,022 during the first quarter of 2010.

### **Trust Expense**

#### **Analysis of Trust Expense**

	Three Months Ended March 31		
	2011	2010	Increase/ (Decrease)
Professional and legal fees	\$ 25,773	\$ 145,369	\$ (119,596)
TSX and other reporting/filing fees	44,609	55,433	(10,824)
Other administrative costs	45,073	30,541	14,532
Shelter asset management fees (1)	378	4,094	(3,716)
Sub-total	115,833	235,437	(119,604)
Unit based compensation	9,999	128,570	(118,571)
<b>Total - trust expense</b>	<b>\$ 125,832</b>	<b>\$ 364,007</b>	<b>\$ (238,175)</b>

(1) The asset management fees paid to Shelter are apportioned between Operating Expenses and Trust Expense.

*General*

The trust expense of Temple REIT consists of professional and legal fees, general administrative expenses related to overall Trust expenses, unit-based compensation expense, regulatory and filing fees charged by the TSX Venture Exchange and a small portion of the asset management fees of Shelter (i.e. asset management fees related to the gross revenue from general Trust operations). As previously discussed, the majority of asset management fees are included in hotel operating costs.

Trust expense decreased by \$238,175 or 65% during the first quarter of 2011, compared to the first quarter of 2010. The decrease mainly reflects a decrease in professional and legal fees and a decrease in unit based compensation.

The decrease in professional fees mainly reflects the fact that professional fees were comparatively high during the first quarter of 2010 due to the fees which were incurred in regard to the convertible debenture offering and a review of income tax and audit issues.

The decrease in unit based compensation mainly reflects a unit options issuance during the first quarter of 2010.

*Unit Based Compensation*

Units issued by Temple REIT under its unit option plan or deferred unit plan are considered to be "unit based compensation". Unit based compensation is carried at fair value and recorded as a liability.

The fair value of units issued during the year and the gain or loss on units exercised during the year, represents the total amount of unit based compensation component of Trust expense.

During the first quarter of 2011, the unit based compensation component of trust expense decreased by \$118,571, compared to the first quarter of 2010.

*Trustee Compensation*

The independent Trustees of Temple REIT receive annual compensation, based on a pre-established fee schedule, for serving on the Board, acting as a Committee Chair, and attending meetings. The total fees for the first quarter of 2011 and the first quarter of 2010 amounted to \$35,930 and \$33,924 respectively.

Under the Deferred Unit Plan, Trustees, officers, employees and consultants may elect to have their annual compensation paid in the form of deferred units. In general terms, the number of deferred units granted is determined by dividing the amount of the compensation by the market value of the trust units, as of the date on which the compensation is payable.

During the first quarter of 2011, 2,227 deferred units were issued to Trustees under the Deferred Unit Plan, at weighted average market value of \$4.49 per unit, representing a total value of \$9,999 or 28% of the total Trustees fees of \$35,930. Trustee fees received in deferred units are reflected in "unit-based compensation". Trustee fees paid in cash are reflected in "other administrative costs".

Additional information regarding the Unit Option Plan and Deferred Unit Plan are disclosed in Note 14 of the March 31, 2011 Financial Statements of Temple REIT.

### Depreciation

During the first quarter of 2011 depreciation charges increased by \$12,740 compared to the first quarter of 2010.

### Change in Fair Value of Financial Instruments

The change in fair value of financial instruments relates to adjustments to the fair value of convertible debentures, the convertible mortgage loan, marketable securities, and unit based compensation payable. The fair value of convertible debentures and marketable securities is determined based on the trading prices for the debentures/securities on the last trading day of the quarter. The fair value of the convertible mortgage loan is determined based on the Canada bond yield for the specified term of the convertible mortgage loan. The fair value of unit based compensation payable is based on the trading price for units on the last trading day of the quarter.

The marketable securities of Temple REIT consist of trust units in two Canadian hotel REIT's, the majority of which were purchased in 2008.

At the end of each quarter, the carrying value of financial instruments is adjusted to reflect changes in fair value. An increase in the carrying value of the financial liabilities is recorded as an expense, while a decrease in the carrying value results in an expense reduction. An increase in the carrying value of financial assets is recorded as an expense reduction while a decrease in the carrying value results in an expense.

As of March 31, 2011, the fair value of financial instruments increased by \$3,014,012 compared to the fair value as of December 31, 2010. This increase in fair value resulted in an increase in the carrying value of the financial instruments and a corresponding reduction in income of \$3,014,012. In comparison, the fair value of financial instruments decreased by \$1,540,779 during the first quarter of 2010, resulting in a decrease in the carrying value of the instruments and a corresponding increase in income of \$1,540,779. Overall, the variance in fair value served to reduce income by \$4.55 million during the first quarter of 2011, compared to the first quarter of 2010.

As disclosed in the following chart, the gain or loss associated with the change in fair value of financial instruments is mainly attributable to convertible debentures and reflects volatility of the trading value of the convertible debentures since December 31, 2009:

Financial instrument	Change in trading price		Interest expense charge (credit)	
	2011	2010	2011	2010
	\$ per \$100	\$ per \$100		
Series A convertible debentures	9.75	(22.01)	240,289	(542,436)
Series B convertible debentures	3.00	(3.00)	595,983	(595,983)
Senior Secured convertible debentures	15.00	0.10	2,183,538	15,000
Change in fair value of convertible debentures			3,019,810	(1,123,419)
Change in fair value of convertible mortgage			(38,845)	(208,122)
Change in marketable securities			(15,600)	(94,575)
Change in fair value of unit based compensation			48,647	(114,663)
Charge to income (credit)			\$ 3,014,012	\$ (1,540,779)

The change in the fair value of financial instruments is a non-cash transaction, and does not affect the cash from operating activities of the Trust.

## COMPARISON TO PRIOR QUARTER

### Analysis of Net Income (loss) - Q1 2011 vs. Q4 2010

	Q1 2011	Q4 2010	Increase/ (Decrease)
Revenue			
Room	\$ 10,460,705	\$ 9,444,728	\$ 1,015,977
Other	6,205,746	7,230,883	(1,025,137)
Total revenue	16,666,451	16,675,611	(9,160)
Hotel operating costs	11,046,864	11,366,685	(319,821)
Operating income	5,619,587	5,308,926	310,661
Interest expense, net	3,335,952	3,629,435	(293,483)
Trust expense	125,832	137,705	(11,873)
Depreciation	1,757,338	1,746,085	11,253
	400,465	(204,299)	604,764
Change in fair value of financial instruments	3,014,012	2,472,198	541,814
Income taxes expense (recovery)	(282,512)	(389,539)	107,027
Net income (loss)	<u>\$ (2,331,035)</u>	<u>\$ (2,286,958)</u>	<u>\$ (44,077)</u>

As disclosed in the preceding chart, income before change in fair value of financial instruments and income taxes increased by \$604,764 during the first quarter of 2011, compared to the fourth quarter of 2010. The increase in income mainly reflects an increase in operating income and a decrease in interest expense.

During the first quarter of 2011, operating income increased by \$310,661 or 6%. The increase in operating income is mainly due to an increase in operating income at the Fort McMurray Hotel portfolio, partially offset by a decrease in operating income at the Temple Gardens.

The increase in operating income for the Fort McMurray hotel portfolio is mainly due to an increase in room revenue. The increase in room revenue reflects an increase in the occupancy level of the hotel portfolio partially offset by a decrease in the average daily room rate.

As disclosed in the following chart, occupancy levels improved throughout the hotel portfolio during the first quarter of 2011 with the exception of the Temple Gardens hotel which experienced a minor decrease in the occupancy level and the Best Western hotel which maintained an occupancy level of 66%. Average daily room rates decreased throughout the hotel portfolio, with the exception of the Temple Gardens hotel. After considering the overall increase in occupancy levels and the overall decrease in the average daily room rates, the RevPar of the hotel portfolio was \$94.67 per room during the first quarter of 2011, compared to \$81.85 per room during the fourth quarter of 2010.

### Room Revenue Statistics

	Three Months Ended					
	Q1 2011			Q4 2010		
	Occ	ADR	RevPar	Occ	ADR	RevPar
Fort McMurray	67 %	\$ 150.71	\$ 101.27	52 %	\$ 157.95	\$ 81.76
Temple Gardens	72 %	\$ 165.71	\$ 119.53	73 %	\$ 161.15	\$ 116.89
Chateau Nova	58 %	\$ 132.93	\$ 77.36	47 %	\$ 135.43	\$ 63.92
Best Western Wayside Inn	66 %	\$ 125.46	\$ 83.31	66 %	\$ 126.60	\$ 83.43
Capri Centre	52 %	\$ 124.80	\$ 65.48	50 %	\$ 127.40	\$ 63.61
Overall portfolio	<u>65 %</u>	<u>\$ 145.60</u>	<u>\$ 94.67</u>	<u>55 %</u>	<u>\$ 149.00</u>	<u>\$ 81.85</u>

During the first quarter of 2011, interest expense decreased by \$293,483 compared to the fourth quarter of 2010. The decrease in interest expense mainly reflects the lump-sum repayment of mortgage loan debt from the proceeds of the public offering of trust units in February 2011. After reflecting the change in fair value financial instruments and income tax expense, the net loss increased by \$44,077 during the first quarter of 2011 compared to the fourth quarter of 2010.

## ANALYSIS OF CASH FLOWS

### Operating

	Three Months Ended March 31		
	2011	2010	Increase/ (Decrease)
Total revenue	\$16,666,451	\$14,894,848	\$1,771,603
Hotel operating costs	<u>11,046,864</u>	<u>10,108,669</u>	<u>938,195</u>
Operating Income	5,619,587	4,786,179	833,408
Interest paid	2,823,838	3,076,401	(252,563)
Interest received	<u>(89,146)</u>	<u>(86,169)</u>	<u>(2,977)</u>
	<u>2,734,692</u>	<u>2,990,232</u>	<u>(255,540)</u>
Trust expense	125,832	364,007	(238,175)
Unit-based compensation	<u>(9,999)</u>	<u>(128,570)</u>	<u>118,571</u>
Cash component of trust expense	<u>115,833</u>	<u>235,437</u>	<u>(119,604)</u>
Current income taxes	<u>30,487</u>	<u>68,683</u>	<u>(38,196)</u>
Cash provided by operating activities, before working capital adjustments	2,738,575	1,491,827	1,246,748
Working capital adjustments	<u>(684,805)</u>	<u>(64,146)</u>	<u>(620,659)</u>
Cash provided by operating activities	<u>\$ 2,053,770</u>	<u>\$ 1,427,681</u>	<u>\$ 626,089</u>
Per unit			
Basic	\$ 0.13	\$ 0.11	\$ 0.02
Diluted	\$ 0.11	\$ 0.11	\$ -

Per unit statistics reflect weighted average number of units for the quarter.

### Cash from Operating Activities

During the first quarter of 2011, Temple REIT generated cash from operating activities of \$2,053,770, compared to \$1,427,681 during the first quarter of 2010. After excluding working capital adjustments, cash from operating activities amounted to \$2,738,575, representing an increase of \$1,246,748 compared to the first quarter of 2010. The increase mainly reflects an increase in operating income of \$833,408, a decrease in the cash component of trust expense of \$119,604 a decrease in interest paid, net of interest received, of \$255,540.

### Funds From Operations ("FFO")

FFO is a non-IFRS measurement of the cash generating abilities of an entity which is widely used by the real estate industry. As disclosed in the following chart, the FFO of Temple REIT was \$2,137,315 or \$0.14 per unit during the first quarter of 2011, compared to \$871,307 or \$0.07 per unit during the first quarter of 2010.

The FFO calculation is in accordance with the recommendations of the Real Property Association of Canada ("RealPac"). Readers are cautioned that the method which is used by Temple REIT for calculating FFO may differ from other issuers' methods and accordingly, may not be comparable with measures used by other issuers.

#### Funds from Operations

	Three Months Ended March 31	
	2011	2010
Net income (loss)	\$ (2,331,035)	\$ 650,993
Add:		
Deferred income taxes (recovered)	(312,999)	(112,075)
Change in fair value of financial instruments	3,014,012	(1,540,779)
Unit-based compensation	9,999	128,570
Depreciation	1,757,338	1,744,598
Funds from operations	<u>\$ 2,137,315</u>	<u>\$ 871,307</u>
Funds from operations - Per unit		
- basic	\$0.14	\$0.07
- diluted	\$0.11	\$0.07

Per unit statistics reflect weighted average number of units for the quarter.

#### Distributable Income

Distributable income is a financial measurement which is commonly used to assess the cash distribution capabilities and cash flows of investment trusts and, as such, management believes that the disclosure of distributable income provides useful information to investors. Distributable income does not have any standardized meaning prescribed by IFRS and, therefore, the method that is used by Temple REIT for calculating distributable income may not be comparable to similar measures presented by other issuers. The most directly comparable IFRS measurement of the cash flows of Temple REIT is "cash provided by operating activities", as disclosed in the Consolidated Statement of Cash Flows in the financial statements. Accordingly, a reconciliation between cash provided by operating activities and distributable income is provided in the chart below.

Distributable income does not represent the amount of cash which is available for distribution. As disclosed in the discussion of "capital requirements" in the following sections of this report, Temple REIT requires an additional source of cash to the extent that operating cash flow is not sufficient to fund principal payments on mortgage loan debt, capital expenditures and distributions.

As disclosed in the chart, the distributable income of Temple REIT is equal to cash provided by operating activities, excluding working capital adjustments and after deducting, a reserve for the replacement of furniture, fixtures and equipment and capital improvements ("FF&E Reserve"). The reserve represents 3.5% of the gross revenue of the Trust.

Working capital adjustments are excluded from the calculation of distributable income as working capital adjustments are subject to significant temporary fluctuations which are typically reversed over time, mainly due to timing differences in accounts receivable and accounts payable.

#### Reconciliation Between Distributable Income and Cash From Operating Activities

	Three Months Ended March 31	
	2011	2010
Net cash from operating activities, per Statement of Cash Flow	\$ 2,053,770	\$ 1,427,681
Add/Deduct:		
Working capital adjustments	684,805	64,146
FF&E Reserve	(583,326)	(521,320)
Distributable income	<u>\$ 2,155,249</u>	<u>\$ 970,507</u>
Distributable income - Per unit		
- basic	\$0.14	\$0.08
- diluted	\$0.11	\$0.08

Per unit statistics reflect weighted average number of units for the quarter.

During the first quarter of 2011, the distributable income of Temple REIT was \$2,155,249 or \$0.14 per unit, compared to \$970,507 or \$0.08 per unit during the first quarter of 2010. During the first quarter of 2011 and 2010, the distributions of Temple REIT were equal to 84% and 132% of distributable income, respectively.

### Distributions

The distributions of Temple REIT are established at the discretion of the Trustees.

In total, Temple REIT declared a distribution of \$0.40 per unit in 2010, comprised of a declared distribution of \$0.10 per unit for the first, second, third and fourth quarters of 2010. The distributions were paid on April 15, 2010, July 15, 2010, October 15, 2010 and December 31, 2010, respectively.

In February 2011, Temple REIT announced a change in its distribution policy from quarterly cash distributions to monthly cash distributions, effective April 1, 2011. The final quarterly cash distribution in the amount of \$0.10 per unit was paid on April 15, 2011 to the Unitholders of record on March 31, 2011. The first monthly cash distribution in the amount of \$0.03334 per unit (\$0.40 on an annual basis) was paid on May 15, 2011 to Unitholders of record as of April 30, 2011. The distribution for May 2011 in the amount of \$0.03334 per unit was declared on May 18, 2011, providing for payment on June 15, 2011 to Unitholders of record as of May 31, 2011.

As of March 31, 2011, the distribution payable for the first quarter of the year amounted to \$1,817,216 compared to \$1,282,535 as of March 31, 2010.

### Comparison of Distributions to Cash Flow Measurements

	<u>Three Months Ended March 31</u>	
	<u>2011</u>	<u>2010</u>
Total distributions	<u>\$ 1,817,216</u>	<u>\$ 1,282,535</u>
Cash flow from operations	<u>\$ 2,053,770</u>	<u>\$ 1,427,681</u>
Excess (shortfall) compared to distributions	<u>\$ 236,554</u>	<u>\$ 145,146</u>
Cash from operations after regular repayments of principal on mortgage loans	<u>\$ 346,697</u>	<u>\$ (57,204)</u>
Excess (shortfall) compared to distributions	<u>\$ (1,470,519)</u>	<u>\$ (1,339,739)</u>
Cash from operations after regular repayments of principal on mortgage loans and capital expenditures	<u>\$ (531,076)</u>	<u>\$ (264,533)</u>
Excess (shortfall) compared to distributions	<u>\$ (2,348,294)</u>	<u>\$ (1,547,068)</u>
Distributable income	<u>\$ 2,155,249</u>	<u>\$ 970,507</u>
Excess (shortfall) compared to distributions	<u>\$ 338,033</u>	<u>\$ (312,028)</u>
Funds from operations	<u>\$ 2,137,315</u>	<u>\$ 871,307</u>
Excess (shortfall) compared to distributions	<u>\$ 320,099</u>	<u>\$ (411,228)</u>

As noted in the the chart, cash flow from operations, distributable income and funds from operations for the first quarter of 2011 exceeded distributions, while distributions exceeded cash from operations after scheduled repayments of long term debt and cash from operations after scheduled repayments of long term debt and capital expenditures.

As noted in the chart, cash flow from operations exceeded distributions by \$236,554 during the first quarter of 2011, compared to \$145,146 during the first quarter of 2010. After including scheduled principal repayments of mortgage loan debt, distributions exceeded cash flow by \$1,470,519 during the first quarter of 2011, compared to \$1,339,739 during the first quarter of 2010. After including principal repayments and capital expenditures, distributions exceeded cash flow by \$2,348,294 during the first quarter of 2011, compared to \$1,547,068 during the first quarter of 2010.

Temple REIT continues to require sources of funding in addition to cash flow from operations in order to fund principal repayments, capital expenditures and distributions. For the first quarter of 2011, the other sources of funding were proceeds of the unit offering.

### **Financing Activities**

As disclosed in the Consolidated Statements of Cash Flows in the 2011 First Quarter financial statements, the financing activities of Temple REIT resulted in a net cash inflow of \$1,370,940 during the first quarter of 2011. Financing activities consist primarily of mortgage loan debt transactions, and transactions related to the public offering of trust units. The distributions declared for the first quarter of 2011 are accrued in "Accounts Payable and Other Liabilities", as of March 31, 2011.

Details regarding the mortgage loan debt transactions and unit offering of Temple REIT are provided in other sections of this report.

### **Investing Activities**

As disclosed in the Consolidated Statements of Cash Flows in the 2011 First Quarter financial statements, the investing activities of Temple REIT resulted in a net cash outflow of \$907,032 during the first quarter of 2011. Investing activities include a cash inflow of \$32,749 in regard to net lease payments received from the investment in the Moose Jaw Casino, a cash outflow of \$877,773 in regard to additions to property and equipment and a cash outflow of \$62,008 in regard to an increase in restricted cash.

#### *Additions to Property and Equipment*

During the first quarter of 2011, the cash outflow in regard to additions to property and equipment amounted to \$877,773 of which \$144,805 or 16% pertained to the upgrade/improvement program at the Capri Centre.

#### *Restricted Cash*

The increase in cash in escrow of \$62,008 is mainly attributable to an increase in the Furniture, Fixtures and Equipment Replacement Reserve Fund.

### **Cash Flow Summary**

The net cash flow from operating, financing and operating activities during the first quarter of 2011 was \$2,517,678. After providing for the opening cash balance of \$4,096,958, Temple REIT completed the first quarter of 2011 with a cash balance of \$6,614,636. The ending cash balance excludes the first quarter distribution of \$1,817,216.

## CAPITAL RESOURCES AND LIQUIDITY

### Capital Structure

<b>Capital Structure</b>	March 31 2011	December 31 2010
Mortgage loan debt - principal amount	\$ 146,799,543	\$ 164,046,616
Convertible debentures - face value	36,145,600	37,082,600
Convertible mortgage - face value	4,500,000	4,500,000
Equity raised - trust units (net of issue costs)	<u>82,857,447</u>	<u>62,790,634</u>
Total capitalization	<u>\$ 270,302,590</u>	<u>\$ 268,419,850</u>

#### Trust units:

Authorized - unlimited

Issued

March 31, 2011 - 18,172,169

June 16, 2011 - 18,348,876

### Debt

December 31, 2010 - \$204,494,094

March 31, 2011 - \$189,238,347

The debt of Temple REIT includes mortgage loans, convertible debentures and a convertible mortgage loan. The carrying value of debt is net of unamortized transaction costs.

### Mortgage Loans

In total, mortgage loans represent 76% of the total debt as of March 31, 2011.

The balance of mortgage loan debt, as of March 31, 2011, and excluding unamortized transaction costs, decreased by \$17,247,073, compared to the balance as of December 31, 2010. The decrease consists of \$1,707,073 of regular monthly mortgage loan principal payments, as well as the lump sum paydown of \$9 Million in regard to the Clearwater hotel first mortgage loan and the retirement of the \$6,540,000 interest-only loan for the Merit hotel expansion.

### Debt Covenants

The Trust is required to maintain certain debt service coverage ratios and certain debt to equity ratios for its mortgage loan debt. In addition, capital expenditures must not exceed certain maximums. As of March 31, 2011 the Trust was not in compliance with mortgage loan covenants for two first mortgage loans totaling \$15,435,205.

The status of the mortgage loans which are in breach of the debt service coverage requirements is provided below.

Property	Debt Service Coverage Requirement	Type of Mortgage	Mortgage Balance at March 31, 2011	Status
Fort McMurray				
Vantage Inn and Suites	1.40	First	10,056,857	(1)
Yellowknife				
Chateau Nova	1.50	First	<u>5,378,348</u>	(1) (2)
			<u>\$ 15,435,205</u>	

- (1) Management has notified the lenders of the breaches and requested that the lenders acknowledge and consent to the breach. Management believes that all covenant breaches will be waived or otherwise resolved. Income levels in 2011 may not satisfy the existing debt service coverage requirements.
- (2) The loan was renewed in November 2010 for a one year term expiring November 30, 2011.

*Debt Maturities*

The first mortgage loan of the Clearwater Suites hotel, with a maturity date of March 30, 2011, was the only mortgage loan of Temple REIT which matured during the first quarter of 2011. On February 11, 2011, the loan was reduced by \$9 Million and the remaining balance of \$23,058,327 was renewed until December 31, 2011 at the same interest rate. In addition, the interest-only mortgage loan for the Merit Hotel expansion in the amount of \$6,540,000 was repaid in full from the proceeds of the unit offering on February 11, 2011.

The expectation of management in regard to mortgage loans which mature during the remainder of 2011, is as follows:

- As noted above, the first mortgage loan for the Clearwater Suites hotel was renewed to December 30, 2011. Management expects that the first mortgage loan will be retired from the proceeds of a new \$30 million first mortgage loan, resulting in net proceeds of approximately \$9 million.
- On May 1, 2011, the 4.32% first mortgage loan for Temple Gardens Mineral Spa was renewed for a one year term at the same interest rate.
- The 5.51% first mortgage loan tranche which is registered against Temple Gardens Mineral Spa, will have a balance of \$5,970,769 at the October 1, 2011 maturity date and management expects that the mortgage loan debt will be upward refinanced resulting in net proceeds of approximately \$1.0 million.
- A 6.5% first mortgage loan which is registered against Chateau Nova, will have a balance of \$5,193,348 at the November 30, 2011 maturity date. Management expects that the first mortgage loan will be renewed at maturity with similar terms and conditions.

*Debt Summary*

A summary of interest rates and debt ratios for the mortgage loan portfolio is provided in the following chart.

<b>Debt Summary</b>					
	2011		2010		
	Q1	Q4	Q3	Q2	Q1
Weighted average interest rate of debt	6.60%	6.63%	6.61%	6.45%	6.52%
Ratio of mortgage loans payable, compared to:					
Acquisition cost of property portfolio	54%	60%	61%	62%	60%
Appraised value of property portfolio	50%	56%	55%	55%	54%
Ratio of debt, compared to:					
Acquisition cost of property portfolio	72%	77%	78%	78%	76%
Appraised value of property portfolio	67%	72%	70%	69%	67%
<b>Debt Summary - As presented under Canadian GAAP</b>					
	2009				
	Q4	Q3	Q2	Q1	
Weighted average interest rate of debt	6.51%	6.96%	6.34%	6.34%	
Ratio of mortgage loans payable, compared to:					
Acquisition cost of property portfolio	63%	66%	67%	68%	
Appraised value of property portfolio	54%	57%	57%	57%	
Ratio of mortgage loans payable and convertible debenture debt (at face value), compared to:					
Acquisition cost of property portfolio	78%	76%	76%	77%	
Appraised value of property portfolio	66%	64%	61%	65%	

### Convertible Debentures

The following chart summarizes the convertible debenture offerings of Temple REIT.

#### Analysis of Debenture Conversions

Issue Date/Maturity Date	Series	Interest Rate	Amount Issued (face value)	Unit Conversions		Net amount Outstanding March 31, 2011 (face value)
				To December 31, 2010 (face value)	Three Months Ended March 31, 2011 (face value)	
Feb. 15/07/Mar. 31/12 (1)	A	7.50 %	\$ 15,680,000	\$ (13,215,500)	\$ -	\$ 2,464,500
Apr. 8/08/Apr. 30/13 (2)	B	8.50 %	30,000,000	(10,133,900)	-	19,866,100
Nov. 27/09/Nov. 30/14 (3)	S*	8.75 %	15,000,000	(248,000)	(937,000)	13,815,000
Face value			<u>\$ 60,680,000</u>	<u>\$ (23,349,400)</u>	<u>\$ (937,000)</u>	<u>36,145,600</u>

\* Referenced in the Financial Statements as Senior Secured Convertible Debentures.

- (1) The Series A Debentures are convertible into Units at the option of the holder at anytime until the March 31, 2012 maturity at a price of \$5.75 per Unit.
- (2) The Series B Debentures are convertible into Units at the option of the holder at anytime until the April 30, 2013 maturity at a price of \$7.50 per Unit.
- (3) The Senior Secured Debentures are convertible into Units at the option of the holder at anytime until the November 30, 2014 maturity at a price of \$3.65 per Unit.

The Senior Secured debentures include a provision under which the outstanding amount of the debentures may become payable on demand, upon default and acceleration, under certain terms and conditions, of a mortgage loan. There is a risk that the Senior Secured debentures may become payable on demand in the event that the lender demands repayment of either of the two mortgage loans which are in breach of the debt service coverage covenant for 2011. See "Debt Service Coverage Covenants".

In accordance with the terms of the trust indenture for the Series A and Series B debentures, the Trust has option at the maturity of the Series A and Series B to retire the principal amount of the debentures, in whole or in part, by issuing units. If Temple REIT exercises its option, the number of units issued at maturity is determined by dividing the principal amount at the maturity date by 95% of the current market price of the units.

### Convertible Mortgage

The convertible mortgage has a face value of \$4,500,000, bear interest at 4.5% and is due July 31, 2014.

### Fair Value Adjustments

In accordance with IFRS, the convertible mortgage loan and the convertible debentures are measured at fair value as a liability in the financial statements of the Trust. The convertible mortgage loans and the convertible debentures are adjusted on a quarterly basis to fair value.

### Trust Units

The following is a summary of the units which have been issued by Temple REIT as of March 31, 2011.

Description	Units Issued	Equity Raised
Balance, January 1, 2011	12,903,795	\$ 62,790,634
Public offering	5,000,000	20,000,000
Exercise of options	11,666	45,275
Exercise of convertible debentures	256,708	1,075,300
Issue costs		(1,053,762)
Balance, March 31, 2011	<u>18,172,169</u>	<u>\$ 82,857,447</u>

**Public offering of Trust units - February 2011**

On February 11, 2011, Temple REIT completed a public offering of 5,000,000 trust units at a price of \$4.00 per unit for gross proceeds of \$20,000,000 and net proceeds of \$18,593,295 after deducting agents fees and other costs.

The net proceeds from the offering were used to repay \$6,540,000 of second mortgage debt, as well as a \$9,000,000 principal paydown on the first mortgage at the Clearwater Hotel. The remaining proceeds were designated for general purposes and for the funding of a portion of the renovation and expansion costs at the Capri Hotel.

The prospectus for the public offering of trust units proposed that \$6 million of the net proceeds from the offering would be used to fund renovation and expansion costs at the Capri Centre. For sound business reasons, a portion of the net proceeds from the offering were used to pay down debt for the Clearwater Suites hotel. As a result, the amount of proceeds from the unit offering which were available for the funding of the renovation and expansion costs at the Capri Centre was effectively reduced to approximately \$3 million. It is anticipated that the remaining proceeds from the public offering in the amount of \$3 million, the \$5.8 million of additional funding which is pre-arranged for the Capri Centre renovations and the proceeds of the upward refinancing of other mortgage loan debt will be sufficient to fund the Capri Centre renovation.

**Deferred Unit Plan**

Temple REIT adopted a Deferred Unit Plan in 2009, under which Trustees, officers, employees and consultants may elect to have their annual compensation paid in the form of deferred units. As previously disclosed, 2,227 deferred units were issued to Trustees under the Deferred Unit Plan during the first quarter of 2011, with a deemed market value of \$9,999.

**Unit Options**

Pursuant to the Unit Option Plan, the Trust may grant unit purchase options to the Trustees, directors and senior officers of Temple REIT and to other individuals who are employed or retained by the Trust to perform specific duties, provided that the number of units reserved for issuance will not exceed 10% of the issued and outstanding units. The unit options are exercisable for a maximum period of five years from the date on which the unit options are granted.

Temple REIT did not issue any options under the Unit Option Plan during the first quarter of 2011.

Additional details of the Deferred Unit Plan and Unit Options Plan are disclosed in Note 14 of the 2011 first quarter financial statements of Temple REIT.

**Other Assets and Liabilities****Trade and Other Receivables**

As of March 31, 2011, "Trade and other receivables", as disclosed on the balance sheet of Temple REIT, amount to \$3,276,566, compared to a balance of \$3,038,065 as of December 31, 2010. The total amount receivable consists primarily of contractual commercial accounts.

**Accounts Payable and Other Liabilities**

As of March 31, 2011, "Accounts payable and other" liabilities on the balance sheet of Temple REIT, amount to \$7,975,861, compared to a balance of \$8,123,457 as of December 31, 2010. The accounts payable and other liabilities consist of normal trade payables, accrued interest payable, the liability for gift certificates, deposits payable and the declared distribution payable.

The accounts payable and other liabilities have fixed payment dates in 2011 and are not overdue.

## Defeasance Assets and Defeased Liability

The purchase of the Nomad Inn encompassed the acquisition of the bare trustee company which held title to the properties. The debt of the bare trustee company included a loan with Computershare Trust Company of Canada of \$3,690,806 with a maturity date of April 1, 2010. As the loan could not be discharged on closing due to the nature of the loan security, the loan was defeased. In this regard, the bare trustee company effectively nullified the loan by placing sufficient Government of Canada bonds in escrow to offset the debt obligations. The fair value of the bonds was \$4,151,677.

As of March 31, 2010 the debt of the bare trustee company is disclosed on the balance sheet of Temple REIT as a "defeased liability". The Government of Canada bonds in escrow are disclosed as "defeasance assets".

On April 1, 2010, the defeasance assets were realized and the defeased liability was paid in full, resulting in a nil balance for the assets and liability as of March 31, 2011.

## Deposits and Prepaids

As of March 31, 2011, "Deposits and Prepaids", as disclosed on the balance sheet of Temple REIT, amount to \$1,421,369, compared to a balance of \$1,650,384 as of December 31, 2010. The total amount mainly consists of prepaid deposits relating to the purchase of furnishings and fixtures for the Capri Centre upgrade/expansion program.

## Capital Requirements

### General

Temple REIT requires an ongoing source of cash to fund regular principal payments on mortgage loan debt, capital expenditures and distributions. Cash from operating activities effectively represents the initial source of funding for these expenditures. New mortgage loan financing may also be obtained whereby the release of loan proceeds is conditional upon the completion of property-specific capital expenditures.

Temple REIT also requires capital for other investing and financing activities, including the funding of the equity component of new property acquisitions and lump-sum repayments of mortgage loan debt. The repayment of convertible debenture debt is also a funding consideration from a longer term perspective.

To the extent that cash from operating activities is not sufficient to fund regular principal repayments of mortgage loan debt, "non-financed" capital expenditures and distributions, Temple REIT may require an additional source of cash. The shortfall between the cash from operating activities and the total cash outflow for regularly scheduled principal payments, distributions and capital expenditures was \$2,348,292 during the first quarter of 2011.

## Mortgage Loan Debt and Lease Payments

A summary of the payments due in regard to the mortgage loan debt and operating leases of Temple REIT, is provided in the following chart.

### Summary of Contractual Obligations

Payments Due By Period	Total	1 year	2 - 3 years	4 - 5 years	> 5 years
Mortgage loan debt	\$146,799,543	\$ 53,248,714	\$ 87,731,780	\$ 2,893,874	\$ 2,925,175
Operating leases	365,561	322,588	194,545	42,973	-
Total	<u>\$147,165,104</u>	<u>\$ 53,571,302</u>	<u>\$ 87,926,325</u>	<u>\$ 2,936,847</u>	<u>\$ 2,925,175</u>

The total amount of mortgage loan debt due for the twelve month period ending March 31, 2012 of \$53,137,032 is comprised of the following:

- regular repayments of principal in the estimated amount of \$6,595,439;
- the principal balance of a mortgage loan which matures in 2013 that is in breach of debt service covenant requirements, in the amount of \$10,056,857 as of March 31, 2011; and
- principal due of \$36,484,736 in regard to mortgage loans which mature within the twelve month period ending March 31, 2012 all of which matures during the remainder of 2011. An analysis of the maturing loans is provided in the "Long-Term Debt" section of this report.

### **Capital Expenditures**

Temple REIT is undertaking extensive guest room improvements and building upgrades to the Capri Centre in Red Deer, Alberta, at a budgeted cost of \$9.8 million. The upgrade/improvement program is being undertaken as part of the process to re-brand the Capri Centre under the "Sheraton" hotel banner. The improvements involve new guest room designs which were created by the in-house design team for Sheraton and are based on extensive in-room behaviour research. The new rooms at the Capri Centre will serve as the prototype for the new room design in the Canadian market. The upgrade/improvement program is expected to be completed by October 2011 at which time the Capri Centre will be renamed the "Sheraton Red Deer Hotel and Convention Centre".

After accounting for cumulative expenditures to March 31, 2011 in regard to the upgrade/improvement program of \$1.4 million, the remaining budgeted cost is \$8.4 million.

The existing first mortgage loan for the Capri Centre provides for construction advances as the expansion program progresses, to a maximum amount whereby the loan balance shall not exceed \$27 Million at the completion of construction. As of March 31, 2011, the amount of funding remaining under the mortgage loan is \$5,259,261. The balance of the upgrade/improvements are expected to be funded from the cash reserves of the Trust. Specifically, approximately \$3 million of the proceeds which were raised from the public offering of trust units in February 2011 are intended to be used to fund the upgrade/improvement program.

### **Sources of Capital**

#### *Existing Cash*

As of March 31, 2011, the unrestricted cash balance of Temple REIT was approximately \$6.6 Million, while the working capital balance was \$3.1 Million, excluding the current portion of long-term debt and the mortgage and debenture interest payable.

Working capital consists of unrestricted cash, marketable securities, trade and other receivables, inventories, deposits and prepaids and the current portion of net investment in lease, less accounts payable and other liabilities and the declared distribution payable.

Mortgage principal payments and convertible debenture payments due within the twelve month period ending March 31, 2012 are not included in the calculation of the working capital.

Unit based compensation payable is not included in the calculation of working capital as the amount payable will be eliminated when unit options are exercised or expire.

Working capital is a commonly used financial measurement of an entity's liquidity and is generally derived by deducting current assets from current liabilities, excluding short-term debt. Working capital is a non-IFRS measurement and the method which is used by Temple REIT for calculating the working capital may differ from the method which is used by other issuers. Accordingly, the working capital as calculated by Temple REIT may not be comparable to the working capital measurements which are provided by the other issuers.

*Cash from Operating Activities*

Cash flow from operating activities increased during the first quarter of 2011, compared to the first quarter of 2010, largely due to an increase in hotel revenues and a corresponding increase in operating income. Cash flow from operating activities is expected to continue to improve in 2011. The extent of the improvement is largely dependent on the rate of recovery of economic conditions in Fort McMurray in particular and Alberta in general. The anticipated improvement is expected to mainly occur during the second and third quarters of 2011 when demand for rooms at the Temple REIT hotels is typically at its highest level.

*Additional Mortgage Loan Financing*

The upward refinancing of the mortgage loan debt of the hotel portfolio represents a potential source of supplemental financing for overall Trust operations.

*Marketable Securities*

As of March 31, 2011, Temple REIT owns marketable equity securities with a fair value of \$266,100 and guaranteed investment securities with a fair value of \$325,015 and have various maturities in 2011. The marketable equity securities represent a potential source of capital.

*Debt and/or Equity Offerings*

Public offerings or private placements of debt and/or equity represent an potential source of capital for Temple REIT.

**Summary**

For the remainder of 2011, the existing cash resources of the Trust, combined with the proceeds from the upward refinancing of mortgage loan debt, the additional advances on the Capri Centre mortgage loan, and operating cash flow are expected to provide a sufficient level of supplemental capital to fund "regular" mortgage loan principal payments, renovation/expansion costs at the Capri Centre, other capital expenditures and distributions.

**HOTEL MANAGEMENT**

Temple REIT has retained Atlific to manage all of the hotels in its existing property portfolio. The terms of the five year management contracts for each of the hotels are provided below.

	Expiry Date	Base Management Fee		
		Year 1	Year 2	Year 3 to Year 5 % of Gross Revenues
Temple Gardens	Sept. 30, 2011	\$175,000	\$200,000	2.5%
Chateau Nova	Mar. 22, 2012	\$45,000	\$65,000	2.5%
Clearwater Suites	Mar. 31, 2012	\$135,000	\$200,000	2.0%
Merit Hotel & Franklin Suites	Apr. 30, 2012	\$125,000	\$150,000	2.0%
Nomad Hotel and Suites	Apr. 30, 2012	\$125,000	\$150,000	2.0%
Vantage Inn & Suites	Jan. 31, 2013	\$125,000	\$150,000	2.0%
Best Western Wayside Inn	May 31, 2013	\$175,000	\$187,750	2.5%
Capri Centre	Dec. 31, 2013	\$305,000	\$406,000	Fixed

In addition to the base management fee, the management agreement for each hotel also provides for an incentive management fee. The incentive management fee is equal to 10% of the amount by which the net operating income of the hotel exceeds the budgeted net operating income commencing in the second year after acquisition of the hotels.

Atlific received \$398,715 in base and incentive management fees during the first quarter of 2011, compared to \$357,258 during the first quarter of 2010.

## RELATED PARTY TRANSACTIONS

### Shelter Canadian Properties Limited ("Shelter")

Asset management services are provided to Temple REIT by Shelter, pursuant to the terms of an Asset Management Agreement. The Asset Management Agreement also requires Shelter to act as administrator of the Trust by providing accounting and human resource services, office space and equipment and the necessary clerical and secretarial personnel for the administration of the day-to-day activities of Temple REIT.

The Asset Management Agreement provides for Shelter to receive an asset management fee equal to 1.5% of the gross revenues of the hotel properties and to be reimbursed for all expenses incurred in connection with fulfilling the role of Administrator, including third party costs.

During the first quarter of 2011, Shelter earned asset management fees of \$251,941, compared to \$228,668 during the first quarter of 2010.

Hotel operating costs include \$7,500 (2010 - \$nil) for the three months ended March 31, 2011 for rental premises. Shelter Canadian Properties Limited, as agent for the beneficial owner is the landlord of the rental premises.

Mr. Arni Thorsteinson, the President and Chief Executive Office of Temple REIT and a Trustee, is the sole director and President of Shelter and the sole director and President of the parent corporation of Shelter, 2668921 Manitoba Ltd.

## OPERATING RISKS AND UNCERTAINTIES

An investment in units of Temple REIT encompasses the risks which are inherent in the ownership and operation of a portfolio of hotel properties, as well as the normal risks which are associated with an investment in a real estate investment trust which invests in hotel properties.

An investment in Temple REIT encompasses a number of risks including liquidity, financing, environmental and diversification risks; the risks associated with real property ownership, the hotel industry, franchised hotels, potential labour disruptions, competition, land leases, interest rate fluctuations, current economic conditions, availability of cash flow, seasonality, lack of available growth opportunities, the risk of general uninsured losses and the failure to maintain mutual fund trust status, the failure to obtain additional financing, as well as restrictions on redemptions, investment concentration, acquisition risk, potential Unitholder liability, potential conflicts of interest, uncertainties regarding the market price of Units, the legal rights attaching to Units, income tax related risk factors, the potential dilution arising from the issue of additional Units, securities investment risks and risk associated with the relationship with Shelter and Atlific. The Annual Information Form of Temple REIT which is available at [www.sedar.com](http://www.sedar.com) sets out the key risk factors applicable to Temple REIT.

The key risks include the following:

### Hotel Industry

Specific risks associated with hotel ownership and operations include:

- cyclical downturns arising from changes in general and local economic conditions;
- changes in the level of business and commercial travel and tourism;
- increases in the supply of accommodations in local markets which may adversely affect the results of operations;
- competition from other hotels;
- the recurring need for renovation, refurbishment and improvement of hotel properties;

- changes in wages, prices, energy costs and construction and maintenance costs that may result from inflation, government regulations, changes in interest rates or currency fluctuations;
- availability of financing for operating or capital requirements;
- seasonal fluctuations in hotel operating income produced throughout the year;
- increases in operating costs due to inflation which may not necessarily be offset by increase room rates;
- increases in expenses of travel, particularly automotive travel; and
- other factors, including acts of terrorism, natural disasters, extreme weather conditions and labour shortages, work stoppages or disputes.

### **Economic Conditions**

Canadian real estate investment trusts are subject to risks generally incidental to the Canadian real estate, credit, capital and financial markets. The global recessionary economic conditions and the global financial liquidity crisis that existed in 2008 and 2009, resulted in interruptions in the credit and capital markets, devaluations of assets directly or indirectly linked to the Canadian real estate finance markets and the reduction of long and short-term liquidity from the capital markets.

Sensitivity to the global economic conditions, and their impact in Canada, may negatively affect the income received from Temple REIT's properties. Inherent illiquidity may limit Temple REIT's ability to vary its portfolio in response to changes in the global, national and/or local economic conditions. Increased vacancy rates may occur and may adversely affect the income received from Temple REIT's properties. Finally, the extent to which Temple REIT relies on debt financing for properties located in secondary geographic markets increases the risk that Temple REIT will either be unable to refinance existing indebtedness or result in Temple REIT receiving less favourable terms than that of existing financing arrangements.

Certain of Temple REIT's hotel properties, particularly in Fort McMurray, Alberta, experienced declines in revenue during the past recession. While management of Temple REIT believes that the hotel market in Fort McMurray will continue to improve, there can be no assurance it will improve and financial results for future periods may be uncertain.

### **Debt Financing Risk**

Temple REIT and its subsidiaries have incurred, and will continue to incur, indebtedness in connection with acquisitions, including by way of additional mortgage loans, vendor take-back financing and the issuance of debentures. A portion of the cash flow generated by hotel properties owned by Temple REIT and its subsidiaries will be devoted to servicing such debt and there can be no assurance that Temple REIT's hotel properties will generate sufficient cash flow from operations to meet the required interest and principal payments on such debt. During the first quarter of 2011, cash flow from operating activities, amounted to \$2,053,770, while principal payments on mortgage loan debt amounted to \$1,707,073, excluding lump-sum principal payments of \$15,540,000.

Temple REIT is subject to the risks associated with debt financing including the risk that cash flow from operations may be insufficient to fully meet required payments of principal and interest, the risk that existing debt will not be able to be refinanced or that terms of such refinancings will not be as favourable to Temple REIT as existing debt and the risk that necessary capital expenditures for such purposes as renovations and other improvements will not be able to be financed on favourable terms or at all. In such circumstances, if Temple REIT were in need of capital to repay indebtedness in accordance with its terms or otherwise, it could be required to liquidate one or more investments in hotel properties at times which may not permit realization of the maximum return on such investments or could be required to agree to additional financing(s) on unfavourable terms. In addition, Temple REIT will be subject to the risk that its interest expense may increase on the refinancing of existing indebtedness or on any portion of its indebtedness that bears interest at floating rates if interest rates increase, which could have a material adverse effect on the results of operations of Temple REIT and its ability to make distributions. In order to minimize this risk, Temple REIT will attempt to appropriately structure the timing of the renewal of significant indebtedness on each respective hotel property in relation to the time at which mortgage indebtedness on such property becomes due for refinancing. Temple REIT expects that its financing arrangements will contain covenants that will restrict its ability to operate its business in certain ways.

If Temple REIT fails to comply with the restrictions in its financing arrangements, its lenders may be able to accelerate related debt as well as any other debt to which a cross default or cross acceleration provision applies. A default could also allow creditors to foreclose, sell or realize on the property securing such debt or exercise other remedies against Temple REIT. Credit facilities also typically require repayment of funds or cash flow sweeps when certain coverage ratios are not met. In connection with its financing arrangements, Temple REIT expects that it will grant security interests over substantially all of its assets. If Temple REIT is not able to meet its debt service obligations, it risks the loss of some or all of its assets to foreclosure or sale.

Also as previously disclosed in this report, Temple REIT is in breach of a debt service coverage covenant for 2010 in regard to two first mortgage loans totaling \$15,435,205. There is a risk that the mortgage loans will become payable on demand and, as a result of cross default clauses, a risk that the Senior Secured convertible debentures, with a face value of \$13,815,000 may become payable on demand. Management has notified the lenders and has requested that the lenders acknowledge and consent to the breaches for both of the loans.

### **Interest Rate Fluctuations and Financing Risk**

Financing by Temple REIT and its subsidiaries may include indebtedness with interest rates based on variable interest rates that result in fluctuations in the cost of borrowing. Temple REIT and/or its subsidiaries will be required to refinance its debt from time to time and, if new debt has less favourable terms than existing indebtedness, or if such refinancing cannot be obtained, there is a potential negative impact on cash available for distributions.

Following the recession in 2008, the Canadian economy has experienced historically low interest rates, which has had a positive impact on Temple REIT's overall debt costs. An increase in interest rates could significantly affect Temple REIT's ability to meet its financial obligations. In order to minimize this risk, Temple REIT negotiates fixed-rate term debt with staggered maturities for the majority of debt on its property portfolio. As of March 31, 2011 approximately 97% of the debt of Temple REIT is fixed rate debt. Derivative financial instruments may be utilized by Temple REIT in the management of its interest rate exposure. Temple REIT's policy is not to utilize derivative financial instruments for trading or speculative purposes. In addition, the Declaration of Trust restricts total mortgage loan indebtedness permitted on its portfolio to a maximum of 75% of the appraised value of all properties.

### **Fluctuations in Cash Distributions**

A return on an investment in Units is not comparable to the return on an investment in a fixed-income security. The recovery of the initial investment in Units is at risk, and the return on an investment in Units is based on many performance assumptions. The distributions of Temple REIT are established at the discretion of the Trustees. The actual amount of distributions depends on numerous factors, including the actual and projected financial performance of the hotels in Temple REIT's portfolio, its cash reserves, its debt covenants and obligations, working capital requirements, principal and interest payments on its indebtedness, tenant allowances, leasing commissions, capital expenditures and other factors that may be beyond the control of Temple REIT. Distributions may be reduced or suspended at any time. In addition, the market value of the units may decline if Temple REIT is unable to provide a satisfactory return to Unitholders and that decline may be significant.

### **Public Market Risk**

It is not possible to predict the price at which units will trade in the future and there can be no assurance that an active trading market for the units will be sustained. The Units will not necessarily trade at values determined solely by reference to the value of the properties of Temple REIT. Accordingly, the Units may trade at a premium or a discount to the value implied by the value of the properties of Temple REIT. In addition, the market price for units may be affected by changes in general market conditions, fluctuations in the market for equity securities and numerous other factors which are beyond the control of Temple REIT, may affect the market price for the Units.

### **Investment in Marketable Equity Securities**

Temple REIT may invest in publicly-traded securities, which are subject to all of the risks associated with such investments, including general market risks, including the potential decrease in value and volatility of financial results and dividends and/or distributions, if applicable.

Temple REIT purchased equitable marketable securities in 2008 as a short-term investment of excess cash. As of March 31, 2011, the market value of the securities, net of distributions received, has decreased by \$1,337,191, compared to the purchase price of the securities.

There is a risk that the marketable equity securities will experience a further decline in value.

### **Concentration of Temple REIT's Portfolio in One Market**

The property portfolio of Temple REIT has significant exposure to the Fort McMurray, Alberta market. Temple REIT has ten hotel properties in its real estate portfolio, six of which are located in Fort McMurray, Alberta. Based on the cost of \$265,042,670 for the ten hotels, the six properties represent approximately 62% of the total acquisition cost of the portfolio.

During the first quarter of 2011, the six hotel properties in Fort McMurray accounted for 37% of the total revenue of the Trust and 53% of the total operating income, while achieving an average occupancy of 67%.

The Capri Centre is the second largest contributor to revenue and operating income. During the first quarter of 2011, the Capri Centre in Red Deer, Alberta accounted for 30% of revenue and 23% of total operating income, while achieving an average occupancy level of 52%.

In total, the Fort McMurray hotel portfolio and the Capri Centre accounted for 67% of total revenue and 78% of operating income during the first quarter of 2011.

### **Payment of Cash Distributions**

In accordance with the terms of the Declaration of Trust, as amended, the distributions of Temple REIT are determined at the discretion of the Trustees.

### **Changes to Tax Treatment of Trusts**

Effective for the 2011 taxation year, the SIFT Rules (as herein defined - See "Taxation") will apply to Temple REIT and its Unitholders, and significantly change the way in which Temple REIT and distributions from Temple REIT are taxed.

Pursuant to the SIFT Rules, Temple REIT will no longer be able to deduct any part of certain amounts payable to Unitholders. Distributions which Temple REIT is unable to deduct will be taxed in Temple REIT at rates of tax designed to emulate the combined federal and provincial corporate tax rates, and such distributions received by Unitholders will be recharacterized by the SIFT Rules as dividends payable to Unitholders. Distributions paid as returns of capital will not be subject to this tax.

The SIFT Rules do not apply to a Qualifying REIT (as herein defined - See "Taxation"). Temple REIT is not, nor is it expected to be in the future, a Qualifying REIT.

Management of the Trust anticipates that over the next few years, a large portion of distributions are to be returns of capital, which would significantly mitigate the impact of the SIFT Rules on Unitholders.

### **Relationship with Shelter and Atlific**

The financial performance of Temple REIT will depend in part on the performance of Shelter in providing administrative and asset management services to the Trust, pursuant to the Services Agreement.

The financial performance of Temple REIT will also depend in part on the performance of hotel management, currently being Atlific. Temple REIT depends on Atlific for all aspects of the day-to-day management of all of its hotel properties owned at the date hereof. There can be no assurance that a suitable replacement would be found in a timely manner or at all if Atlific ceased providing services to Temple REIT.

### **Impairment Testing**

Ongoing impairment testing of property and equipment involves the determination of the "recoverable amount" of the assets. The recoverable amount is the greater of fair value and value in use. Value in use is determined based on estimated future discounted cash flows. The determination of fair value is based on appraisal reports, which encompasses estimates, and on the judgement of management.

### **Reliance on Key Personnel**

The success of Temple REIT is highly dependent on the services of certain management personnel, including Arni Thorsteinson. The loss of the services of such personnel could have an adverse effect on Temple REIT.

### **Other Risks**

Other risks are more fully discussed in the other regulatory filings of Temple REIT, including the 2010 Annual Information Form.

## **ACCOUNTING ESTIMATES**

The application of the significant accounting policies for purposes of preparing the consolidated financial statements, in accordance with International Financial Reporting Standards (IFRS), requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. The estimates are based on historical experience and on other assumptions that are believed to be reasonable under the circumstances. Under different assumptions or conditions, the actual results may differ, potentially materially, from the estimated amounts. Many of the conditions impacting the assumptions and estimates are beyond the control of management. The estimates and assumptions are evaluated on a periodic basis.

Financial statement items which encompass estimates include the following:

- depreciation of property and equipment - depreciation expense is based on the estimated useful life of the property and equipment;
- carrying amount of property and equipment and goodwill - the carrying amount of property and equipment and goodwill is periodically compared to its recoverable amount in order to determine if there has been any impairment in value;
- The expected tax rates applicable to SIFT's of 25% for 2011 and 25% for 2012 and later have been applied in the periods that temporary tax differences of the Trust are expected to reverse.
- The fair value of financial instruments estimated based on observed inputs; and
- The allowance for doubtful accounts.

The estimates which were used for financial statement reporting purposes, for the above noted items, are not expected to change from period to period and do not encompass a high degree of uncertainty.

## **CHANGES IN ACCOUNTING POLICIES**

### **International Financial Reporting Standards (IFRS)**

#### *Reason for Change to IFRS*

Effective January 1, 2011, the accounting framework under which all publicly accountable enterprises in Canada are required to prepare financial statements, as established by the Canadian Accounting Standards board, officially changed from Canadian "Generally accepted accounting principles" ("GAAP") to "International Financial Reporting Standards" ("IFRS").

Accordingly, Temple REIT adopted International Financial Reporting Standards effective January 1, 2011.

#### *Description of New Accounting Standards*

The main differences between Canadian GAAP and IFRS are summarized below.

#### *Asset Impairment*

Under IFRS, an asset is compared to its recoverable amount. The recoverable amount is the higher of discounted cash flows and the fair value less costs to sell the asset. Under Canadian GAAP, assets were first tested for impairment by taking undiscounted cash flows and comparing to carrying value. If the carrying value was higher, the asset was revalued using discounted future cash flows.

The Trust has completed impairment testing and has determined that adjustments to the carrying value of assets is not required as a result of implementing the IFRS impairment tests.

#### *Recognition of Convertible Debentures and Convertible Mortgages as Financial Instruments*

Temple REIT is an open ended mutual fund trust. For an open ended mutual fund trust, convertible debentures and convertible mortgages are linked to puttable trust units and under IFRS are recorded at fair value with changes in fair value recorded in the income statement. For a closed end mutual fund trust, convertible debentures and convertible mortgages are considered to be compound financial instruments under IFRS, which is the same treatment previously used under GAAP.

At the January 1, 2010 conversion to IFRS, the equity component of the convertible debentures and convertible mortgage of Temple REIT, as determined under GAAP, in the amount of \$6.5 million was eliminated; the carrying value of the convertible debentures and convertible mortgages was increased by \$3.9 million in order to recognize the fair value of the financial instruments, an adjustment was recorded to the future income tax liability and the the balance adjusted in equity.

As noted in other sections of the report, the process of restating the fair value of convertible debentures and the convertible mortgage has a significant impact on reported income under IFRS primarily due to the volatility of the market prices of the convertible debentures.

In comparison to GAAP, the change in the accounting policy for convertible debentures and convertible mortgage resulted in an increase in income of \$1,637,244 for the 2010 first quarter operating results as restated under IFRS, comprised of a decrease in interest expense relating to the accretion of the debt component of the convertible mortgage and convertible debentures of \$377,395 and an increase in income as a result of the change in fair value of financial instruments in the total amount of \$1,259,849.

#### *Unit-Based Compensation and Deferred Units*

The unit option plan and deferred unit plan of Temple REIT are considered to be cash-settled and are recorded as a liability at fair value in accordance with IFRS-2 - Shared-Based Payment. Under GAAP, the Trust accounted for unit options issued under its unit option plan using the fair value method. Under this method, compensation expense was measured at fair value at the grant date using the Black-Scholes option pricing model and recognized over the vesting period. For deferred units, unit granted were charged to expense when granted.

At the January 1, 2010 conversion to IFRS, a unit based compensation liability of \$50,932 was established.

In comparison to GAAP, the change in accounting policy for the unit based compensation resulted in a reduction of trust expense of \$nil during the first quarter of 2010.

#### *First-time adoption of International Financial Standards*

The Trust's adoption of IFRS required the application of IFRS 1 - First-Time Adoption of International Financial Reporting Standards, which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires that an entity apply all IFRS effective at the end of its first IFRS reporting period retrospectively. However, IFRS 1 has certain exceptions and options in specified areas of certain standards. The most significant option available to the Trust is an option to value property and equipment at the current fair value as of the date of transition to IFRS (January 1, 2010). As reflected in the December 31, 2009 financial statements property and equipment is measured at amortized cost, in accordance with Canadian GAAP. The Trust will continue to measure property and equipment in this manner under IFRS.

The Trust did not apply any exemptions in the transition to IFRS.

Note 26 to the financial statements includes a detailed reconciliation between the financial information previously recorded under Canadian GAAP and IFRS.

## **FINANCIAL INSTRUMENTS**

The financial instruments of Temple REIT consist of basic financial instruments which are typically used in the operation and ownership of hotel properties and in the operation of a real estate investment trust, including cash, restricted cash, marketable securities, trade and other receivables, deposits, accounts payable and other liabilities, unit based compensation payable, defeased assets and liabilities, mortgage loans and other debt secured by the revenues or assets of hotel properties.

For the current assets and liabilities, the main risk is the credit risk associated with accounts receivable. The credit risk is reduced due to a diversified customer base. The risks associated with mortgage loans and long-term debt include the risk of interest rate increases for maturing loans and the risk of potential defaults in debt payments due to insufficient cash flows. In order to minimize the risk associated with potential interest rate increases, Temple REIT will stagger debt maturity dates, to the extent possible. Temple REIT attempts to minimize the risk of any defaults in debt payments through its investment and operating policies which include focusing on hotel acquisitions with a history of stable cash flows and restricting the amount of mortgage loan financing to 75% of the appraised value of the hotel properties.

### **Future changes to significant accounting policies**

The following new or amended standards have been issued by the IASB:

- IFRS 7 - Financial Instruments-Disclosure, amendments relating to disclosures with respect to the transfers of financial assets, effective for annual periods beginning on or after July 1, 2011 with earlier application permitted.
- IA'S 12 - Income Taxes, amendments applicable to the measurement of deferred tax assets and liabilities where investment property is measured using the fair value model, effective for annual periods beginning on or after January 1, 2012 with earlier application permitted.
- IFRS 9 - replaces IAS 39 - Financial Instruments: Recognition and Measurement, retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value, effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.
- IFRS 10 - Consolidated Financial Statements - replaces IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities, provides a single consolidation model that identifies control as the basis for consolidation for all types of entities, effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.
- IFRS 11 - Joint Arrangements - supersedes IAS 31 Interests in Joint Ventures and SIC-13-Jointly Controlled Entities-Non-monetary Contributions by Venturers, established principles for the financial reporting by parties to a joint arrangement, effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.
- IFRS 12 - Disclosure of Interests in Other Entities - combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangement, associates and unconsolidated structured entities, effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.
- In conjunction with IFRS 10, IFRS 11 and IFRS 12, the IASB also issued amended and retitled IAS 27 - Separate Financial Statements and IAS 28 - Investments in Associates and Joint Ventures, effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.
- IFRS 13 - Fair Value Measurement - defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements, effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

The Trust is currently evaluating the impact of these standards on its financial statements.

## **TAXATION**

### **Taxation of Temple REIT**

Temple REIT qualifies as a mutual fund trust for income tax purposes.

Temple REIT is generally subject to tax in Canada under the Income Tax Act (the "Tax Act") in respect of its taxable income each year. For taxation years prior to 2011, to the extent that taxable income was paid or deemed to be payable to Unitholders, it could be deducted by Temple REIT for tax purposes. The distributions of Temple REIT are established in the discretion of the Trustees.

In June 2007, new legislation relating to, among other things, the federal income taxation of publicly traded income trusts (the "SIFT Rules") was enacted. The SIFT Rules apply to "specified investment flow-through trusts" ("SIFTS") and their unitholders and, generally commencing in 2011, significantly change the way in which they are taxed. Temple REIT is a SIFT and, subject to becoming a "Qualifying REIT" (as herein defined), will be subject to the SIFT Rules commencing in the 2011 taxation year.

Pursuant to the SIFT Rules, Temple REIT will no longer be able to deduct any part of the amounts payable to unitholders in respect of (i) aggregate net income from businesses it carries on in Canada; (ii) aggregate net income (other than taxable dividends received by the trust) from its non-portfolio properties; and (iii) aggregate net taxable capital gains from its dispositions of non-portfolio properties. It is not expected that there will be material amounts which will be deductible to Temple REIT. Distributions which Temple REIT is unable to deduct will be taxed in Temple REIT at rates of tax designed to emulate the combined federal and provincial corporate tax rates. Distributions paid as returns of capital will not be subject to this tax.

The SIFT Rules do not apply to a "real estate investment trust" that meets prescribed conditions relating to the nature of its revenues and investments (a "Qualifying REIT"). Temple REIT is not a Qualifying REIT due to its investment in subsidiaries which carry on hotel businesses. While the tests for being a Qualifying REIT are applied on an annual basis, significant restructuring, including the disposition of the business interests, would be required prior to Temple REIT being able to become a Qualifying REIT, and there is currently no intention to undertake such restructuring.

For a more complete discussion of the SIFT Rules, refer to the Tax-Related Risk Factors set out in Temple REIT's 2010 Annual Information Form.

### **Taxation of Unitholders**

Subject to the SIFT Rules, a Unitholder is required to include, in computing income for tax purposes each year, the portion of the amount of net income and net taxable capital gains of Temple REIT paid or payable to the Unitholder in the year. Pursuant to the SIFT Rules which will become applicable to Temple REIT in the 2011 taxation year, distributions of income of the Trust received by Unitholders that are not deductible to Temple REIT (see above - Taxation of Temple REIT) will be recharacterized by the SIFT Rules as dividends payable to Unitholders, and will be taxed in the hands of Unitholders as eligible dividends from a taxable Canadian corporation, whether that amount is received in cash, additional units or otherwise. Distributions paid as returns of capital will not be subject to this tax.

The cash distributions which have been paid to the Unitholders since the inception of Temple REIT in 2006 have exceeded the taxable income of Temple REIT, as calculated for income tax purposes, and accordingly have been paid as returns of capital. Management of Temple REIT anticipates that over the next few years, a large portion of distributions will continue to be returns of capital, which would significantly mitigate the impact of the SIFT Rules on Unitholders. Generally, distributions that are characterized as returns of capital are not taxable to Unitholders but serve to reduce the adjusted cost base of a Unitholder's Units. Where reductions to a Unitholder's adjusted cost base of Units for the year will result in the adjusted cost base becoming a negative amount, such amount will be treated as a capital gain realized by the Unitholder in the year and the Unitholder's adjusted cost base of the Units at the beginning of the next year will then be nil.

Upon the disposition or deemed disposition by a Unitholder of a Unit, a capital gain (or a capital loss) will generally be realized to the extent that the net proceeds of disposition of the Unit exceed (or are exceeded by) the adjusted cost base of the Unit. Currently, 50% of a capital gain ("taxable capital gain") must be included in computing a Unitholder's income for tax purposes, and 50% of a capital loss may be deducted against taxable capital gains.

## **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

Except as noted below, no changes were made to the design of the internal controls over financial reporting during the three month period ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, the effectiveness of the internal control system.

During the first quarter of 2011, Temple REIT implemented additional controls to ensure the reliability of any financial information which was materially affected as a result of the adoption of International Financial Reporting Standards. In addition, IFRS record-keeping processes were implemented within the financial information system of the Trust, including changes to IT systems and data collection mechanisms.

The additional controls enabled the Trust to maintain the effectiveness of its internal control system.

Readers are cautioned, however, that a control system can only provide reasonable, not absolute, assurance that the objectives of the control system are achieved. Due to the inherent limitations in all control systems, an evaluation of controls cannot provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. Inherent limitations include the possibility that the assumptions and judgments of management could ultimately prove to be incorrect under varying conditions and circumstances, or that isolated errors could prove to have a significant impact on the reliability of information.

Additionally, controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and it is not possible to provide complete assurance that a control system will succeed in achieving its stated goals under all potential future conditions.

## **ADDITIONAL INFORMATION**

Additional information relating to Temple REIT is available on the SEDAR website at [www.sedar.com](http://www.sedar.com). SEDAR acts as a facilitator for the electronic filing of securities information, as required by the securities regulatory agencies in Canada.

## **APPROVAL BY TRUSTEES**

The content of the 2011 First Quarter Report of Temple REIT, including Schedule I, and the delivery of the report to the Unitholders have been approved by the Trustees.

**Temple Real Estate Investment Trust  
2011 First Quarter Report  
Management's Discussion and Analysis**

**Schedule I  
Profile of Hotel Properties**

**Temple Gardens Mineral Spa Resort Hotel (Acquired on October 1, 2006)**

The Temple Gardens Mineral Spa Resort Hotel is located in Moose Jaw, Saskatchewan and consists of a 179 guest rooms. The hotel also features a restaurant, café, banquet and meeting rooms, gift shop, fitness room, spa treatment centre and geo-thermal mineral water pool. The spa resort is well known for its mineral-rich, geo-thermal therapeutic waters.

**Chateau Nova (Acquired on March 22, 2007)**

The Chateau Nova hotel property is located in Yellowknife, Northwest Territories and consists of a four-storey, 60-room hotel complex known as Chateau Nova, and a three-storey, 20-room annex, known as Chateau Nova Suites. The property offers a full range of services, including a full service restaurant, lounge, room service, meeting and conference rooms, business centre, fitness centre and spa services. Chateau Nova and Chateau Nova Suites are located across from each other on Franklin Avenue, the main street of downtown Yellowknife.

**Clearwater Suites (Acquired on March 30, 2007)**

The Clearwater Suites hotel complex is a four-storey, 150-room extended stay hotel complex, located in Fort McMurray, Alberta, comprised of 117 one-bedroom units, 11 two-bedroom units and 22 studio units. The property is operated as an extended stay lodging complex to accommodate oil sands and major project staff who stay in Fort McMurray for periods of one week to several months. The property also includes a 75-stall underground parkade.

**Franklin Suites (Acquired on April 30, 2007)**

The Franklin Suites is a five-storey, 75-room hotel located in Fort McMurray, Alberta. The hotel contains a business centre, two meeting rooms totaling approximately 850 square feet and fitness facilities. The hotel also contains provision for a restaurant/coffee shop, which is not fully developed and is currently used to serve complimentary continental breakfast.

**Merit Hotel and Suites (Acquired on April 30, 2007)**

The Merit Hotel is a four-storey, full service hotel located in Fort McMurray, Alberta. The hotel offers a restaurant and lounge and also includes a business centre, two meeting rooms totaling approximately 2,500 square feet, indoor pool and whirlpool and fitness facilities. A 68-room expansion of the hotel was completed in August 2009, increasing the number of rooms to 160.

**Nomad Hotel (Acquired on April 30, 2007)**

The Nomad Hotel is a seven-storey, full-service hotel located in Fort McMurray, Alberta, comprised of 139 rooms. The hotel offers a Keg Restaurant, cafe and pub and also includes approximately 1,200 square feet of meeting space, business centre, indoor pool and fitness facilities.

**Nomad Suites (Acquired on April 30, 2007)**

The Nomad Suites is a four-storey, extended stay hotel located in Fort McMurray, Alberta, comprised of 27 rooms. The hotel also includes a small area for serving complimentary breakfast. The hotel's front desk and management operations are handled through the Nomad Hotel.

**Vantage Inn & Suites (Acquired on January 31, 2008)**

The Vantage Inn & Suites is a four-storey hotel located in Fort McMurray, Alberta. The hotel contains 83 rooms, meeting facilities, a sports bar, business centre, fitness centre and continental breakfast area.

**Best Western Wayside Inn & Suites (Acquired on June 1, 2008)**

The Best Western Wayside Inn & Suites is located on the Yellowhead Highway in Lloydminster, Alberta. The six-storey hotel contains 130 rooms, banquet and conference facilities for a maximum of 450 people, licensed restaurant, cocktail lounge, liquor store, indoor swimming pool and fitness centre.

**Capri Centre (Acquired on December 30, 2008)**

The Capri Centre is a full service hotel, trade and conference centre located in Red Deer, Alberta. The complex includes a 14-storey hotel with 218 rooms, including 22 suites, a 53,110 square foot conference centre, three restaurants, three lounges, an outdoor, heated whirlpool and exercise room, a leased gift shop, clothing store and hair salon and a free-standing liquor store.