TEMPLE
Real Estate Investment Trust

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

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Unitholder Returns

	Six Months Ended June 30, 2010	Year Ended December 31, 2009
Distribution per unit	$0.20	$0.50
Opening unit price	$2.84	$5.00
Closing unit price	$2.46	$2.69
Annualized yield on opening price (distribution/opening unit price)	14.1%	10.0%

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

During the second quarter of 2010, Temple Real Estate Investment Trust ("Temple REIT") experienced an improvement in its quarter-to-quarter operating results for the first time since the beginning of 2009. In comparison to the first quarter of 2010, the operating income of Temple REIT increased by $286,719 during the second quarter of 2010, while the net loss decreased by $224,197.

The improvement in operating income is mainly due to an increase in operating income for the Fort McMurray hotel portfolio and the Best Western Wayside Inn, partially offset by a decrease in operating income for the Capri Centre. Cash flow from operating activities, excluding changes in non-cash operating items, also increased by $292,396 during the second quarter of 2010, compared to the first quarter of 2010.

The Temple REIT hotel portfolio has a high concentration of properties in Fort McMurray, Alberta and throughout 2009 hotel market conditions in Fort McMurray declined, following the slowdown of development activity in the oil sands industry. The gradual decline in market conditions is reflected in the overall room revenue results for the Fort McMurray hotel portfolio, with the "revenue per available room" ("RevPar") decreasing from $114.74 per room in the first quarter of 2009 to $108.13, $99.58 and $84.70 per room during the second, third and fourth quarter of the year, respectively.

Although hotel market conditions in Fort McMurray are beginning to show signs of a recovery, the general state of the hotel market was considerably weaker during the second quarter of 2010, compared to the second quarter of 2009. Accordingly, and as anticipated, there is a substantial unfavourable variance between the operating results for Temple REIT for the second quarter of 2010, compared to the second quarter of 2009.

During the second quarter of 2010, Temple REIT incurred a net loss of $762,054, compared to net income of $828,023 during the second quarter of 2009. Operating income decreased by $1,341,943 during the second quarter of 2010, compared to the second quarter of 2009.

In addition to the cash generated from operating activities, Temple obtained $5 million of additional mortgage loan financing during the second quarter of 2010. After considering cash outflows in regard to mortgage principal payments, distributions, property improvements and other transactions, the cash balance of Temple REIT increased by approximately $2.7 million during the second quarter of 2010, compared to the cash balance at March 31, 2010. As of June 30, 2010, the cash balance of the Trust is approximately $8.7 million.

In contrast to the ongoing decline in quarterly operating results during 2009, the operating results for Temple REIT for 2010 are displaying a stabilized trend. We continue to anticipate gradually improving results for our hotel portfolio. By 2011, Temple REIT will complete improvements at Capri Centre with the objective of improving market share and ensuring longer-term value enhancement for our largest property.

TEMPLE REAL ESTATE INVESTMENT TRUST

ARNI C. THORSTEINSON, CFA
President & Chief Executive Officer
August 19, 2010

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 six months ended June 30, 2010 and with reference to the 2010 First Quarter Report and the Annual Report for 2009.

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 $309,460,000 at June 30, 2010. Appraisals of six properties, representing 58% of total appraised value, were prepared in 2009, appraisals of two properties, representing 24% of total appraised value, were prepared in 2008 and an appraisal of two properties, representing 18% 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 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 June 30, 2010. 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 June 30, 2010.

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

FINANCIAL AND OPERATING STATISTICS

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
DISTRIBUTIONS				`
Amount - total	$ 1,282,535	$ 1,282,535	$ 2,565,070	$ 3,844,939
- per unit	$ 0.10	$ 0.10	$ 0.20	$ 0.30
BALANCE SHEET				
Total Assets	$ 266,136,192	$ 258,084,378	$ 266,136,192	$ 258,084,378
Total Long-Term Debt and Convertible Debentures	$ 201,915,547	$ 186,021,034	$ 201,915,547	$ 186,021,034
KEY PERFORMANCE INDICATORS				
Operations:				
Occupancy *	55%	54%	53%	54%
ADR *	$155.18	$175.52	$169.91	$180.35
RevPar *	$86.05	$94.80	$92.31	$96.69
Operating profit margin *	33%	39%	33%	39%
Operating results:				
Total revenue	$ 15,754,121	$ 16,780,369	$ 30,735,138	$ 34,048,791
Operating income	$ 5,159,067	$ 6,501,010	$ 10,031,415	$ 13,279,438
Net income (loss)	$ (762,054)	$ 828,023	$ (1,748,305)	$ 1,666,398
Cash flows:				
Distributable income *	$ 815,469	$ 2,470,033	$ 1,365,600	$ 5,075,612
Funds from operations *	$ 885,968	$ 2,706,903	$ 1,380,903	$ 5,558,141
Financing:				
Weighted average interest rate of long-term debt *	6.45%	6.34%	6.45%	6.34%
PER UNIT AMOUNTS	Basic and Diluted	Basic and Diluted	Basic and Diluted	Basic and Diluted
Net income (loss)	$(0.06)	$0.06	$(0.14)	$0.13
Distributable income *	$0.06	$0.19	$0.11	$0.40
Funds from operations *	$0.07	$0.21	$0.11	$0.43

Non-GAAP Measurements

Items marked with an asterisk represent measurements which are not calculated or presented in accordance with GAAP or which do not have a standardized meaning as prescribed by GAAP. The non-GAAP 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 GAAP for purposes of assessing the performance of Temple REIT. Temple REIT believes, however, that the non-GAAP 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 GAAP, and accordingly, may not be comparable to similar measures used by other issuers. Distributable income is defined as net income in accordance with Canadian GAAP, subject to certain adjustments as set out in the Declaration of Trust, including adding back amortization, 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 GAAP and is a non-GAAP 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 GAAP for calculating earnings per unit.

Details regarding the calculation of the non-GAAP measurements and a reconciliation to GAAP 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 June 30, 2010, 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 - First Six Months of 2010 vs. First Six Months of 2009

Hotel Properties

The 68-room expansion of the Merit Hotel was substantially completed in July 2009 and the new rooms were available to Temple REIT, effective August 1, 2009. Aside from the expansion of the Merit Hotel, there were no changes in the number of available rooms in the hotel portfolio of Temple REIT between January 1, 2009 and June 30, 2010.

Mortgage Loan Receivable

During the first six months of 2009, the mortgage loans receivable of Temple REIT consisted of a $6 Million mortgage loan receivable, bearing interest at 10%, with payments of interest and principal due on the maturity date. On September 7, 2009, the total amount due, including accrued interest, was paid in full, resulting in gross proceeds to Temple REIT of approximately $7.07 Million. Interest income on the mortgage loan receivable amounted to $336,565 during the first six months of 2009.

Subsequent to September 7, 2009, Temple REIT has not invested in any additional mortgage loans receivable.

Long-term Financial Obligations

During the first six months of 2010, finance expense increased by $852,912 compared to the first six months of 2009. The increase mainly reflects the net impact of the following transactions:

- On November 27, 2009, Temple REIT completed a $15 Million public offering of 8.75% Senior Secured convertible redeemable debentures. The new debenture issue served to increase finance expense by $914,661 during the first six months of 2010, compared to the first six months of 2009.

- At the beginning of 2009, Clearwater Suites was encumbered by a 6% second mortgage loan of $10 Million requiring payments of interest only. The second mortgage loan was fully repaid in November 2009. The repayment of the loan served to reduce finance expense by $300,000 during the first six months of 2010, compared to the first six months of 2009.

- The cost of the Merit Hotel expansion of $19,040,000, excluding GST, was funded by a $500,000 cash deposit, 12% mortgage loan of $14.04 Million from the builder and through the issuance of 4.5% convertible mortgage debt of $4.5 Million, with a due date of October 31, 2014. As of December 31, 2009, the 12% loan from the builder loan was reduced to a balance of $7,040,000. The total finance expense associated with the debt of the Merit Hotel expansion was $418,928 during the first six months of 2010.

- Subsequent to June 30, 2009, Temple REIT obtained $8 Million of additional mortgage loan financing for the Temple Gardens Hotel, comprised of a $3 Million upward refinanced mortgage loan obtained in September 2009 at an interest rate of 6.35% and $5 Million of additional mortgage loan financing obtained in May 2010 at an interest rate of 4.3207%. The total finance expense associated with the additional debt during the first six months of 2010 was $120,563.

Operations

During the first six months of 2010, Temple REIT incurred a net loss, before taxes, of $2,139,060, compared to a net income, before taxes, of $2,352,198 in the first six months of 2009, representing a decrease in the net income of $4,491,258. The decrease mainly reflects the net impact of the following variables:

- a decrease in net operating income of $3,248,023;

- an increase in finance expense of $852,912; and

- an increase in amortization charges and trust expense of $299,333 and $159,090 respectively.

Cash from operating activities decreased by $5,009,889 during the first six months of 2010, primarily due to a decrease in the cash component of operating income, an increase in the cash component of finance expense and a decrease in cash "inflows" associated with changes in non-cash operating items of $1,183,899.

Net Operating Income

Recessionary influences continued to have a negative impact on local market conditions for the Temple REIT hotels during the first six months of 2010, affecting both room revenue and revenue generated from hotel amenities (ie, "other" hotel revenue).

During the first six months of 2010, total hotel revenue decreased by $2,833,852 compared to the first six months of 2009, mainly due to a decrease in room revenue of $2,030,914 for the Fort McMurray hotel portfolio and a decrease in both room revenue and other hotel revenue of $375,666 and $355,882 at the Capri Centre and Best Western Wayside Inn, respectively. The decrease in hotel revenue resulted in a corresponding decrease in net operating income.

Distributions

During the first six months of 2010, Temple REIT declared a distribution of $0.20 per unit, comprised of a declared distribution of $0.10 per unit for the first and second quarter of the year. During the first six months of 2009, Temple REIT declared a total distribution of $0.30 per unit.

Outlook for 2010

As of June 30, 2010, the cash resources of Temple REIT are sufficient to address the funding commitments of the Trust for the remainder of 2010. The longer term growth potential of Temple REIT is largely dependent on the rate of recovery in economic conditions in Fort McMurray in particular and Alberta in general.

Key Risks and Uncertainties

The timing and extent of the economic recovery in Fort McMurray is a primary 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, as well as the financing capabilities of the Trust and the cash distribution policy.

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 potential application of the SIFT Rules to Temple REIT and its Unitholders. For a complete discussion of this risk, refer to the Tax-Related Risk Factors set out in Temple REIT's 2009 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.

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. 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. The general acquisition strategy is to create a geographically and sectorally diversified portfolio of hotel properties and assets in primary and secondary markets across Canada.

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 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 the Trust 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 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 June 30, 2010, 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. Aside from the 68-room expansion of the Merit Hotel effective August 1, 2009, there were no changes in the number of available rooms in the hotel portfolio between January 1, 2009 and June 30, 2010.

Property Portfolio - June 30, 2010

Property	Location	Purchase Price	Acquisition Date	Rooms/Suites
Alberta				
Fort McMurray				
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	19,400,000	January 2008	83
		163,440,000		634
Other				
Best Western Wayside Inn & Suites	Lloydminster	22,500,000	June 2008	130
Capri Centre	Red Deer	40,000,000	December 2008	218
		225,940,000		982
Northwest Territories				
Chateau Nova	Yellowknife	13,000,000	March 2007	80
Saskatchewan				
Temple Gardens Mineral Spa Resort Hotel (1)	Moose Jaw	26,102,670	October 2006	179
Total		$ 265,042,670		1,241

Note:

(1) Ownership of the Temple Gardens hotel is held by Temple Gardens Mineral Spa Inc. (TGMS). All of the common shares of TGMS were acquired by Temple REIT at the inception of the Trust for cash consideration of $12,248,408, by issuing 276,771 trust units at a deemed value of $1,383,855 and by the assumption of long-term debt of $12,470,407, representing a total acquisition cost of $26,102,670.

The operations of TGMS also encompass a 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. TGMS has a 50% equity interest in the co-ownership agreement.

RESULTS OF OPERATIONS

Summary of Quarterly Results

Quarterly Analysis

	2010		2009	
	Q2	Q1	Q4	Q3
Total revenue	$ 15,754,121	$ 14,981,017	$ 16,123,722	$ 15,639,078
Operating income	$ 5,159,067	$ 4,872,348	$ 5,448,887	$ 5,852,451
Net income (loss)	$ (762,054)	$ (986,251)	$ (581,909)	$ (180,211)
PER UNIT				
Operating income				
- Basic	$ 0.40	$ 0.38	$ 0.42	$ 0.46
- Diluted	$ 0.40	$ 0.38	$ 0.42	$ 0.46
Net income (loss)				
- Basic	$ (0.06)	$ (0.08)	$ (0.05)	$ (0.01)
- Diluted	$ (0.06)	$ (0.08)	$ (0.05)	$ (0.01)

	2009		2008	
	Q2	Q1	Q4	Q3 (restated)
Total revenue	$ 16,780,369	$ 17,268,422	$ 14,624,757	$ 15,313,120
Operating income	$ 6,501,010	$ 6,778,428	$ 6,615,295	$ 7,897,240
Net income	$ 828,023	$ 838,375	$ 633,348	$ 2,978,257
PER UNIT				
Operating income				
- Basic	$ 0.51	$ 0.53	$ 0.58	$ 0.64
- Diluted	$ 0.51	$ 0.53	$ 0.44	$ 0.49
Net income				
- Basic	$ 0.06	$ 0.07	$ 0.06	$ 0.24
- Diluted	$ 0.06	$ 0.07	$ 0.04	$ 0.22

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. Other main factors which have affected the quarterly results include the acquisition of the Capri Centre at the end of 2008 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 fourth quarter of 2008, the operating income of Temple REIT decreased by $1,281,945 or 16%, compared to the third quarter of 2008, mainly due to a reduction in demand for the Fort McMurray hotels. The reduced demand in Fort McMurray partially reflects the change in demand which normally occurs in December, as well as an overall reduction in demand due to the declining market conditions in Fort McMurray. The write-down of marketable securities by $786,142 also served to reduce net income during the fourth quarter of 2008.

During the first quarter of 2009, the operating income of Temple REIT increased by $163,133 or 2%, compared to the fourth quarter of 2008. The increase mainly reflects the incremental operating income from the Capri Centre, largely offset by a reduction in operating income from the other hotel properties and, in particular the hotel portfolio in Fort McMurray. The reduction in operating income from the hotel portfolio in Fort McMurray, and from the other hotels, reflects the impact of recessionary influences for a full quarter as overall economic conditions continued to decline. Net income increased by $205,027 during the first quarter of 2009, as the fourth quarter results for 2008 were comparatively low due to the significant write-down related to the change in value of marketable securities, as noted above.

During the second quarter of 2009, the operating income of Temple REIT 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, partly offset by an increase in operating income from Temple Gardens and Chateau Nova. Net income was virtually unchanged during the first six months 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 the 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 amortization 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 decreased by $576,539, compared to the fourth quarter of 2009. 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. After accounting for other variables, including an increase of $95,925 associated with the change in marketable securities and a positive variance of $101,832 in regard to income taxes, the net loss increased by $404,342 during the first quarter of 2010.

During the second quarter of 2010, operating income increased by $286,719, 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. After accounting for the increase in operating income and a combined decrease in financing, trust and amortization expenses of $215,971, the net loss decreased by $224,197 during the second quarter of 2010.

Detailed Analysis of Operating Results

Analysis of Net Income (loss) *

	Three Months Ended June 30			Six Months Ended June 30		
	2010	2009	Increase/ (Decrease)	2010	2009	Increase/ (Decrease)
Hotel revenue						
Room	$ 9,732,697	$ 10,333,821	$ (601,124)	$ 18,763,981	$ 20,916,888	$ (2,152,907)
Other	5,497,137	5,668,100	(170,963)	10,956,183	11,637,128	(680,945)
Total hotel revenue	15,229,834	16,001,921	(772,087)	29,720,164	32,554,016	(2,833,852)
Interest and other income	524,287	778,448	(254,161)	1,014,974	1,494,775	(479,801)
Total revenue	15,754,121	16,780,369	(1,026,248)	30,735,138	34,048,791	(3,313,653)
Hotel operating costs	10,595,054	10,279,359	315,695	20,703,723	20,769,353	(65,630)
Operating income	5,159,067	6,501,010	(1,341,943)	10,031,415	13,279,438	(3,248,023)
Finance expense	4,001,516	3,541,697	459,819	8,074,809	7,221,897	852,912
Trust expense	219,383	225,491	(6,108)	583,390	424,300	159,090
Amortization	1,745,028	1,595,755	149,273	3,489,626	3,190,293	299,333
	(806,860)	1,138,067	(1,944,927)	(2,116,410)	2,442,948	(4,559,358)
Change in marketable securities	(117,225)	26,175	(143,400)	(22,650)	(90,750)	68,100
Income taxes recovery (expense)	162,031	(336,219)	498,250	390,755	(685,800)	1,076,555
Net income (loss)	$ (762,054)	$ 828,023	$ (1,590,077)	$ (1,748,305)	$ 1,666,398	$ (3,414,703)

* 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 separates "hotel revenue" into two components, namely "room revenue" and "other hotel revenue";

(ii) the analysis combines the "current" and "future" component of income taxes into one line;
(iii) the analysis provides a sub-total for income before change in marketable securities and taxes; and
(iv) the analysis does not provide a sub total for "income before taxes".

Overall Results

Comparison of Second Quarter Results

In comparison to the second quarter of 2009, the income of Temple REIT, before taxes and the change in value of marketable securities, decreased by $1,944,927 during the second quarter of 2010.

The decrease in income mainly reflects a decrease in operating income from hotel operations of $1,341,943 and an increase in financing expense of $459,819. Amortization expense also increased by $149,273.

The decrease in operating income mainly reflects a decline in hotel occupancy levels and a corresponding decline in room revenue and other hotel revenue.

The increase in financing expense mainly reflects incremental financing charges related to the $15 Million, 8.75% convertible debenture offering in November 2009.

After providing for taxes and the change in value of marketable securities, Temple REIT completed the second quarter of 2010 with a loss of $762,054, representing a decrease of $1,590,077 compared to the second quarter of 2009.

Comparison of Six Month Results

In comparison to the first six months of 2009, the income of Temple REIT, before taxes and the change in value of marketable securities, decreased by $4,559,358 during the first six months of 2010.

The decrease in income is mainly due to the same factors which contributed to the decrease in income during the second quarter of 2010, namely a decrease in operating income from hotel operations of $3,248,023 and an increase in financing expense of $852,912. Trust expense and amortization expense also increased by $159,090 and $299,333, respectively.

After providing for taxes and the change in value of marketable securities, Temple REIT completed the first six months of 2010 with a loss of $1,748,305, representing a decrease of $3,414,703 compared to the first six months of 2009.

Revenue

Hotel Market Conditions

Market influences continued to have a negative impact for most of the Temple REIT hotels during the second quarter of 2010. The continuation of very competitive hotel market conditions in Fort McMurray also continues to have a more pronounced impact on overall revenue results, given the extent to which the Temple REIT hotel portfolio is concentrated in Fort McMurray.

During 2009, there was a time lag between the decline in general economic conditions and the slowdown of development projects in the oil sands industry in Fort McMurray. The delayed impact of the economic downturn on hotel bookings, combined with seasonal reductions in demand in July, August and December, resulted in a gradual decline in hotel revenue for the Fort McMurray hotel portfolio during 2009. During 2009, the RevPar of the Fort McMurray hotel portfolio decreased from $114.74 in this first quarter of the year to $108.13, $99.58 and $84.70 during the second, third and fourth quarters of the year, respectively.

Although development activity in the oil sands industry is displaying signs of an upturn, the general consensus is that the economic recovery in Fort McMurray will occur gradually. The slowdown of development activity in the oil sands industry has affected all facets of the real estate market in Fort McMurray and resulted in very competitive market conditions in regard to attracting and retaining individuals who are seeking accommodations in the city. In addition to competition from other hotels, the increased availability of furnished apartment suites, the leasing of apartment suites on a month-to-month basis and an increase in the capacity at construction crew camps have resulted in an accommodation market which is price sensitive and highly competitive.

Total Revenue

Analysis of Total Revenues

	Six Months Ended June 30				
	2010		2009		Increase/
	Amount	% of Total	Amount	% of Total	(Decrease)
Hotel revenue					
Room	$ 18,763,981	61 %	$ 20,916,888	62 %	$ (2,152,907)
Other	10,956,183	36 %	11,637,128	34 %	(680,945)
Subtotal	29,720,164	97 %	32,554,016	96 %	(2,833,852)
Interest and other income	1,014,974	3 %	1,494,775	4 %	(479,801)
Total	$ 30,735,138	100 %	$ 34,048,791	100 %	$ (3,313,653)

The revenue of Temple REIT is comprised of "hotel revenue" and "interest and other income". Hotel revenue is comprised of "room revenue" and "other hotel revenue".

As disclosed in the preceding chart, room revenue is the primary source of revenue for Temple REIT, although "other" hotel revenue also represents a significant component of total revenue. During the first six months of 2010, room revenue and other hotel revenue accounted for 61% and 36% of total hotel revenue, respectively, compared to 62% and 34%, during the first six months of 2009.

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

As disclosed in the preceding chart, total revenue decreased by $3,313,653 during the first six months of 2010, compared to the first six months of 2009, comprised of a $2,833,852 decrease in hotel revenue and a $479,801 decrease in interest and other revenue. The decrease in hotel revenue is comprised of a $2,152,907 decrease in room revenue and a $680,945 decrease in other hotel revenue.

Hotel Revenue

Analysis of Total Hotel Revenues

	Three Months Ended June 30			Six Months Ended June 30		
	2010	2009	Increase/ (Decrease)	2010	2009	Increase/ (Decrease)
Fort McMurray						
Room revenue	$ 5,259,723	$ 5,982,742	$ (723,019)	$ 10,212,125	$ 12,243,039	$ (2,030,914)
Other hotel revenue	244,746	218,158	26,588	484,569	441,048	43,521
	$ 5,504,469	$ 6,200,900	$ (696,431)	$ 10,696,694	$ 12,684,087	$ (1,987,393)
Temple Gardens Mineral Spa						
Room revenue	1,977,409	$ 2,037,578	(60,169)	3,942,963	$ 3,911,295	31,668
Other hotel revenue	1,134,477	1,193,176	(58,699)	2,274,866	2,364,592	(89,726)
	$ 3,111,886	$ 3,230,754	$ (118,868)	$ 6,217,829	$ 6,275,887	$ (58,058)
Chateau Nova						
Room revenue	536,850	$ 539,855	(3,005)	1,018,794	$ 1,065,446	(46,652)
Other hotel revenue	1,000	2,546	(1,546)	4,090	14,291	(10,201)
	$ 537,850	$ 542,401	$ (4,551)	$ 1,022,884	$ 1,079,737	$ (56,853)
Best Western Wayside Inn						
Room revenue	766,182	$ 688,034	78,148	1,377,731	$ 1,421,224	(43,493)
Other hotel revenue	655,607	849,903	(194,296)	1,184,346	1,516,519	(332,173)

	$ 1,421,789	$ 1,537,937	$ (116,148)	$ 2,562,077	$ 2,937,743	$ (375,666)
Capri						
Room revenue	1,192,533	$ 1,085,612	106,921	2,212,368	$ 2,275,884	(63,516)
Other hotel revenue	3,461,307	3,404,317	56,990	7,008,312	7,300,678	(292,366)
	$ 4,653,840	$ 4,489,929	$ 163,911	$ 9,220,680	$ 9,576,562	$ (355,882)
Total						
Room revenue	$ 9,732,697	$ 10,333,821	$ (601,124)	$ 18,763,981	$ 20,916,888	$ (2,152,907)
Other hotel revenue	5,497,137	5,668,100	(170,963)	10,956,183	11,637,128	(680,945)
Total hotel revenue	$15,229,834	$ 16,001,921	(772,087)	$ 29,720,164	$ 32,554,016	$ (2,833,852)

Room Revenue

Room revenue decreased by $601,124 or 6% during the second quarter of 2010, compared to the second quarter of 2009. As reflected in the chart above, the decrease mainly reflects a decrease in room revenue for the Fort McMurray hotel portfolio of $723,019 offset by an increase in room revenue of $121,895 at the other hotel properties.

A summary of the revenue statistics for the hotel portfolio of Temple REIT is provided in the following chart. As disclosed in the chart, the Revenue per Available Room ("RevPar") for the Fort McMurray hotel portfolio decreased to $90.69 per room during the second quarter of 2010, compared to $108.13 per room during the second quarter of 2009. The decrease in RevPar is almost entirely due to a decrease in the average daily room rate (ADR). During the second quarter of 2010, the ADR decreased by 15%, compared to the second quarter of 2009, while the average occupancy level remained relatively constant at 54% during the second quarter of 2009, compared to 53% during the second quarter of 2010.

During the first six months of 2010, room revenue decreased by $2,152,907 or 10%, compared to the first six months of 2009. As with the second quarter comparative results, the decrease in room revenue for the first six months of 2010 is mainly due to a decrease in room revenue for the Fort McMurray hotel portfolio as a result of decrease in the ADR.

The two most notable differences between the second quarter comparatives and the six month comparatives for room revenue are as follows:

(i) the extent of the variance is significantly less in the second quarter of 2010. In total, 28% of the six month decrease in room revenue pertains to the second quarter of 2010 and 72% pertains to the first quarter.

(ii) the Capri Centre experienced an increase in room revenue and other hotel revenue during the second quarter of 2010. As disclosed in the following sections of this report, the operating expense increases at the Capri Centre exceeded the total increase in revenue by $302,978.

Room Revenue Statistics

	Six Months Ended June 30					
	2010			2009		
	Occ	ADR	RevPar	Occ	ADR	RevPar
Fort McMurray	52 %	$ 199.45	$ 115.15	53 %	$ 208.83	$ 111.44
Temple Gardens	76 %	$ 160.19	$ 122.06	76 %	$ 158.42	$ 120.88
Chateau Nova	50 %	$ 140.37	$ 70.42	50 %	$ 148.66	$ 73.79
Best Western Wayside Inn	47 %	$ 124.40	$ 58.86	48 %	$ 127.83	$ 60.80
Capri Centre	46 %	$ 122.70	$ 56.28	42 %	$ 136.42	$ 57.53
Overall Portfolio	53 %	$ 157.00	$ 83.75	54 %	$ 180.35	$ 96.69

Room Revenue Statistics

	Three Months Ended June 30					
	2010			2009		
	Occ	ADR	RevPar	Occ	ADR	RevPar
Fort McMurray	53 %	$169.98	$ 90.69	54 %	$ 199.29	$ 108.13
Temple Gardens	76 %	$160.22	$121.45	79 %	$ 157.65	$ 125.12
Chateau Nova	54 %	$137.32	$ 73.83	49 %	$ 151.31	$ 74.24
Best Western Wayside Inn	53 %	$123.20	$ 65.30	46 %	$ 126.79	$ 58.62
Capri Centre	50 %	$121.54	$ 60.40	40 %	$ 135.95	$ 54.56
Overall portfolio	55 %	$155.18	$ 86.05	54 %	$ 175.52	$ 94.80

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 the average daily room rate ("ADR") by the occupancy level. RevPar does not include revenues from food and beverage operations or from other hotel service.

The occupancy level is calculated by dividing the number of rooms available during the reporting period into the number of rooms actually rented. ADR is calculated by dividing total room revenue by the number of rooms rented.

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.

During the second quarter of 2010, "Other hotel revenue" for the entire hotel portfolio decreased by $170,963 or 3% compared the second quarter of 2009. 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 decrease in other hotel revenue during the second quarter of 2010 is mainly due to a decrease in other hotel revenue at the Best Western Wayside Inn and the Temple Gardens hotel, partially offset by an increase in other hotel revenue at the Capri Centre.

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 second quarter of 2010, the total contribution to hotel revenue by the Capri Centre amounted to $4,653,840, of which 74% was attributable to "other hotel revenue".

Hotels with a higher proportion of "other hotel revenue" 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.

During the first six months of 2010, other hotel revenue decreased by $680,944 or 6%, compared to the first six months of 2009. The decrease in other hotel revenue for the first six months of 2010 is mainly attributable to the Best Western Wayside Inn, the Capri Centre and the Temple Gardens hotel. The decrease in revenue at the Best Western is primarily the result of a $317,497 decrease in sales at the hotel liquor store as a result of increased competition with a major retail chain that entered the local liquor sales market.

Interest and Other Income

Interest and other income consists of interest and other income related to hotel operations, as well as interest and other income related and general Trust "operations". Interest and other income from hotel operations consists primarily of income related to the co-ownership interest of the Temple Gardens hotel in the "Casino Moose Jaw", interest income on the operating cash balances of the hotel properties and miscellaneous hotel income. Interest and other income related to general Trust operations includes interest income on the excess cash reserves of the Trust and interest income on mortgage loans receivable.

During the first six months of 2010, "Interest and Other Income" decreased by $479,801, compared to the first six months of 2009, of which $125,552 is attributable to hotel operations and $354,249 is attributable to general trust operations.

Interest and other income from general Trust operations decreased from $358,785 during the first six months of 2009 to $4,536 during the first six months of 2010. The decrease is mainly attributable to a decrease in interest income on mortgage loan receivable as a result of the collection of the mortgage loan receivable in September 2009.

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 securities commission fees are classified as "Trust" expenses. An analysis of hotel operating costs is provided below.

Analysis of Operating Expenses

	Three Months Ended June 30			Six Months Ended June 30		
	2010	2009	Increase/ (Decrease)	2010	2009	Increase/ (Decrease)
Fort McMurray						
Operating costs	$ 2,403,073	$ 2,301,670	$ 101,403	$ 4,761,519	$ 4,862,146	$ (100,627)
Property taxes and insurance	351,982	409,717	(57,735)	752,629	792,287	(39,658)
Fees	198,607	249,548	(50,941)	394,758	510,432	(115,674)
	$ 2,953,662	$ 2,960,935	$ (7,273)	$ 5,908,906	$ 6,164,865	$ (255,959)
Temple Gardens						
Operating costs	2,091,761	2,100,170	(8,409)	4,193,209	4,188,107	5,102
Property taxes and insurance	202,877	208,946	(6,069)	404,583	393,780	10,803
Fees	126,998	134,734	(7,736)	253,691	257,290	(3,599)
	$ 2,421,636	$ 2,443,850	$ (22,214)	$ 4,851,483	$ 4,839,177	$ 12,306
Chateau Nova						
Operating costs	358,200	331,248	26,952	694,617	679,725	14,892
Property taxes and insurance	42,387	38,623	3,764	81,997	76,686	5,311
Fees	22,197	22,157	40	42,229	46,587	(4,358)
	$ 422,784	$ 392,028	$ 30,756	$ 818,843	$ 802,998	$ 15,845
Best Western Wayside Inn						
Operating costs	942,902	1,096,539	(153,637)	1,765,956	2,078,428	(312,472)
Property taxes and insurance	41,635	44,569	(2,934)	81,666	90,561	(8,895)
Fees	70,170	66,062	4,108	135,307	127,102	8,205
	$ 1,054,707	$ 1,207,170	$ (152,463)	$ 1,982,929	$ 2,296,091	$ (313,162)
Capri Centre						
Operating costs	3,432,795	2,995,016	437,779	6,537,051	6,130,089	406,962
Property taxes and insurance	134,147	134,995	(848)	255,279	236,511	18,768
Fees	175,323	145,365	29,958	349,232	299,622	49,610
	$ 3,742,265	3,275,376	$ 466,889	$ 7,141,562	6,666,222	$ 475,340
Total	$10,595,054	$10,279,359	$ 315,695	$ 20,703,723	$ 20,769,353	$ (65,630)

Notes:

(1) Cost of Sales consists primarily of variable costs which are directly associated with revenues generated from hotel sales. Cost of Sales also includes bad debt expense. Administrative costs include employees wages and administrative office expenses.

(2) 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 June 30			Six Months Ended June 30		
	2010	2009	Increase/ (Decrease)	2010	2009	Increase/ (Decrease)
Atlific property management fees	$ 357,019	$ 370,071	$ (13,052)	$ 714,277	$ 736,785	$ (22,508)
Shelter asset management fees	236,276	247,795	(11,519)	460,940	504,248	(43,308)
Total	$ 593,295	$ 617,866	$ (24,571)	$ 1,175,217	$ 1,241,033	$ (65,816)

During the first six months of 2010, hotel operating costs decreased by $65,630, compared to the first six months of 2009. As disclosed in the analysis of operating expenses chart, the decrease is mainly due to a decrease in operating costs at the Fort McMurray portfolio and Best Western Wayside Inn offset by an increase in costs at the Capri Centre. In very general terms, the operating expense increases and decreases for the three and six months periods ended June 30, 2010, vary in relation to changes in revenue with the exception of the Capri Centre.

During the first six months of 2010, operating expenses at the Capri Centre increased by $475,340 or 7%, while total revenues decreased by $355,882 or 4% during the same period. The majority of the operating expense increases at the Capri Centre (98%) is attributable to the second quarter of 2010. During the second quarter of 2010, the operating expense increase at the Capri Centre exceeded the second quarter revenue increase by $302,978. The increase in operating expenses at the Capri Centre is mainly due to an increase in food and beverage costs associated with higher sales, a large increase in utility costs as a result of rate increases in the second quarter of 2010 and, higher labour costs due to inflationary wage rate adjustments. The cost increases were partially offset by a decrease in liquor store costs of sales related to a decrease in sales at the liquor store during the period.

Operating Income and Profit Margin

Operating Income and Profit Margin

	Operating Income Amount				Operating Profit Margin			
	Three Months Ended		Six Months Ended		Three Months Ended		Six Months Ended	
	June 30 2010	June 30 2009	June 30 2010	June 30 2009	June 30 2010	June 30 2009	June 30 2010	June 30 2009
Fort McMurray	$ 2,719,922	$ 3,479,539	$ 5,117,127	$ 6,974,002	48 %	54 %	46 %	53 %
Temple Gardens	822,170	924,495	1,628,172	1,696,417	25 %	27 %	25 %	26 %
Chateau Nova	132,533	161,881	236,964	296,294	24 %	29 %	22 %	27 %
Best Western W.I.	452,348	431,675	737,392	828,798	30 %	26 %	27 %	27 %
Capri Centre	1,029,260	1,332,290	2,307,224	3,141,913	22 %	29 %	24 %	32 %
Total portfolio	5,156,233	6,329,880	10,026,879	$12,937,424	33 %	39 %	33 %	39 %
Trust operations	2,834	171,130	4,536	342,014				
Total	$ 5,159,067	$ 6,501,010	$10,031,415	$13,279,438				

During the second quarter of 2010, total hotel revenues decreased by $772,087 or 5%, while hotel operating costs increased by $315,695 or 3%. The operating income of Temple REIT after accounting for the decrease in income from Trust operations, decreased by $1,341,943 or 21% during the second quarter of 2010.

During the first six months of 2010, the operating income of the Trust decreased by $3,248,023 or 24%, compared to the first six months of 2009.

As disclosed in the preceding chart, the overall profit margin of the entire hotel portfolio decreased from 39% during the second quarter of 2009, to 33% in the second quarter of 2010. The decrease in the profit margin was the same for the six month comparatives. The decrease in the overall profit margin mainly reflects a decrease in the profit margin of the Fort McMurray hotel portfolio and the Capri Centre.

Change in Marketable Equity Securities

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

Investments in marketable equity securities are recorded at fair value. Accordingly, at the end of each quarter, the carrying value of marketable equity securities is adjusted to reflect changes in fair value. The reduction in the carrying value, is net of distributions received on the securities. A decrease in the carrying value of the marketable equity securities is recorded as a loss, while an increase in the carrying value is recorded as income.

As of June 30, 2010, the carrying value of marketable equity securities decreased by $22,650 compared to the carrying value as of December 31, 2009. As a result, a loss of $22,650 was recorded for the first six months of 2010. In comparison, the operating results for the first six months of 2009 include a loss of $90,750 associated with the decrease in the carrying value of marketable equity securities. Overall, the net impact of the change in the carrying value is to increase income during the first six months of 2010 by $68,100, compared to the first six months of 2009.

The loss associated with the change in carrying value of marketable equity securities for the first six months of 2010 is comprised of income of $94,575 for the first quarter of 2010, offset by a loss of $117,225 for the second quarter of 2010.

The change in the value of the marketable equity securities is a non-cash transaction, and does not affect the cash from operating activities of the Trust.

Finance Expense

Total Finance Expense

The majority of the finance expense of Temple REIT pertains to long-term debt and convertible debenture debt. During the first six months of 2010, finance expense in regard to long-term debt and convertible debenture debt accounted for 71% and 28% of the total finance expense of the Trust respectively, compared to 78% and 20% during the first six months of 2009. The increase in the relative percentage of convertible debenture debt is due to the $15 million, 8.75% convertible debenture offering in November 2009.

Finance expense encompasses interest expense on long-term debt and convertible debentures, defeased loan interest, the accretion of the debt component of the convertible debentures and the convertible mortgage loan, as well as amortization charges for transaction costs. Accretion on debt and amortization charges for transaction costs are non-cash expenses. During the first six months of 2010, the "non-cash" component of financing expense represented 13% of the total finance expense.

As disclosed in the following analysis, total finance expense increased by $852,912 or 12% during the first six months of 2010, compared to the first six months of 2009. The increase is mainly attributable to an increase in financing expense for debenture debt as a result of the $15 Million, 8.75% convertible debenture offering in November 2009.

Analysis of Finance Expense

	Three Months Ended June 30			Six Months Ended June 30		
	2010	2009	Increase/ (Decrease)	2010	2009	Increase/ (Decrease)
Long-term Debt						
Interest on long-term debt	$ 2,724,132	$ 2,651,687	$ 72,445	$ 5,357,232	$ 5,317,533	$ 39,699
Accretion on the debt component of convertible mortgage	20,911	-	20,911	41,306	-	41,306
Amortization of transaction costs	135,584	145,273	(9,689)	326,767	300,720	26,047
Subtotal	2,880,627	2,796,960	83,667	5,725,305	5,618,253	107,052
Defeasance Loan						
Interest	-	71,203	(71,203)	64,172	144,645	(80,473)
Amortization of transaction costs	3,708	10,226	(6,518)	14,664	20,219	(5,555)
Total - mortgage loans	3,708	81,429	(77,721)	78,836	164,864	(86,028)
Debentures						
Interest on convertible debentures	796,489	468,364	328,125	1,592,978	1,050,540	542,438
Accretion of debt component	223,475	144,322	79,153	486,289	289,127	197,162
Amortization of transaction costs	97,217	50,622	46,595	191,401	99,113	92,288
Total - debentures	1,117,181	663,308	453,873	2,270,668	1,438,780	831,888
Total - finance expense	$ 4,001,516	$ 3,541,697	$ 459,819	$ 8,074,809	$ 7,221,897	$ 852,912
Interest expense	$ 3,520,621	$ 3,191,254	$ 329,367	$ 7,014,382	$ 6,512,718	$ 501,664
Non-cash expense	480,895	350,443	130,452	1,060,427	709,179	351,248
Total - finance expense	$ 4,001,516	$ 3,541,697	$ 459,819	$ 8,074,809	$ 7,221,897	$ 852,912

Interest Expense on Long-term Debt and Convertible Debentures

The cash component of finance expense is comprised of interest expense on long-term debt, convertible debentures and the defeased loan.

Long-term Debt

As a result of the near-offsetting impact of new mortgage loan financing and mortgage loan repayments subsequent to June 30, 2009, interest expense on long-term debt changed by a modest amount during the first six months of 2010, increasing by $39,699 or 1%, compared to the first six months of 2009. More specifically, the increase in interest on long-term debt mainly reflects the incremental interest on the mortgage loan debt for the Merit Hotel expansion and the additional mortgage loan debt for the Temple Gardens Hotel almost entirely offset by a reduction in interest expense due to the repayment of the second mortgage loan of Clearwater Suites hotel and the repayment of principal on other loans by approximately $5.9 Million since June 2009. The additional mortgage loan debt for the Temple Gardens hotel is comprised of approximately $3 Million of loan debt in regard to the upward refinancing of the 6.35% first mortgage loan in September 2009 and $5 Million of 4.3207% mortgage loan debt obtained on May 12, 2010.

Convertible Debentures

Interest expense on convertible debenture debt increased by $542,438 or 52% during the first six months of 2010, compared to the first six months of 2009. The increase mainly reflects incremental interest related to the 8.75% senior secured convertible debenture offering of $15 Million in November 2009.

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 decreased by $80,473 during the first six months of 2010, compared to the first six months of 2009, as the defeased loan was extinguished effective April 1, 2010.

Second Quarter Comparatives

During the second quarter of 2010 interest expense increased by $329,367 or 10%, compared to the second quarter of 2009. The increase reflects interest on the Senior Secured convertible debentures of $328,125.

Trust Expense

Analysis of Trust Expenses

	Three Months Ended June 30			Six Months Ended June 30		
	2010	2009	Increase/ (Decrease)	2010	2009	Increase/ (Decrease)
Professional and legal fees	$ 109,464	$ 78,779	$ 30,685	$ 254,833	$ 117,237	$ 137,596
TSX and other reporting/filing fees	24,634	38,379	(13,745)	80,067	80,152	(85)
Other administrative costs	70,281	87,259	(16,978)	100,822	200,624	(99,802)
Shelter asset management fees (1)	(1,999)	6,174	(8,173)	2,095	11,387	(9,292)
Sub-total	202,380	210,591	(8,211)	437,817	409,400	28,417
Unit based compensation	17,003	14,900	2,103	145,573	14,900	130,673
Total - trust expense	$ 219,383	$ 225,491	$ (6,108)	$ 583,390	$ 424,300	$ 159,090

(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 increased by $159,090 or 37% during the first six months of 2010, compared to the first six months of 2009. The increase mainly reflects an increase in unit based compensation expense and professional and legal fees, partially offset by a decrease in other administrative costs.

The increase in professional and legal fees is mainly due to fees which were incurred in regard to the convertible debenture offering and a review of income tax issues, as well as an increase in audit and other accounting fees.

The increase in unit based compensation expense reflects the granting of options to purchase units under the Unit Option Plan of the Trust. During the first quarter of 2010, Temple REIT granted options to purchase 80,000 units at $3.01 per unit. The fair value of $116,370 associated with the unit options is reflected in unit-based compensation expense. The Trust did not grant any options to purchase under the Unit Option Plan in 2009.

The decrease in other administrative costs is mainly due to a decrease in costs related to terminated acquisitions, partially offset by an increase in Trustee fees.

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 six months of 2010 and the first six months of 2009 amounted to $81,880 and $73,750 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 six months of 2010, 10,499 deferred units were issued to Trustees under the Deferred Unit Plan, at weighted average market value of $2.81 per unit, representing a total value of $29,203 or 34% of the total Trustees fees of $81,880. Trustee fees are reflected in "other administrative costs".

Additional information regarding the Unit Option Plan and Deferred Unit Plan are disclosed in Note 14 and Note 15 of the 2010 Second Quarter Financial Statements of Temple REIT.

Amortization

During the first six months of 2010, amortization charges increased by $299,333, compared to the first six months of 2009. The increase in amortization expense mainly reflects incremental amortization charges related to the expansion of the Merit Hotel.

COMPARISON TO PRIOR QUARTER

Analysis of Net Income - Q2 2010 vs. Q1 2010

	Three Months Ended Q2 2010	Three Months Ended Q1 2010	Increase (Decrease)
Hotel revenue			
Room	$ 9,732,697	$ 9,031,285	$ 701,412
Other	5,497,137	5,459,045	38,092
Total hotel revenue	15,229,834	14,490,330	739,504
Interest and other income	524,287	490,687	33,600
Total revenue	15,754,121	14,981,017	773,104
Hotel operating expenses	10,595,054	10,108,669	486,385
Operating income	5,159,067	4,872,348	286,719
Finance expense	4,001,516	4,073,293	(71,777)
Trust expense	219,383	364,007	(144,624)
Amortization	1,745,028	1,744,598	430
	(806,860)	(1,309,550)	502,690
Increase (decrease) in value of marketable securities	(117,225)	94,575	211,800
Income taxes recovery	162,031	228,724	66,693
Net income (loss)	$ (762,054)	$ (986,251)	$ 224,197

As disclosed in the preceding chart, the loss of Temple REIT, before taxes and the change in value of marketable equity securities, decreased by $502,690 during the second quarter of 2010, compared to the first quarter of 2010. The decrease in the loss mainly reflects a increase in operating income and a decrease in finance and Trust expense.

During the second quarter of 2010, operating income increased by $286,719 or 6%. The increase in operating income mainly reflects an increase in hotel revenue of $739,504, partially offset by a increase in hotel operating expenses of $486,385.

The increase in hotel revenue is mainly due to a increase in room revenue for the Fort McMurray hotel portfolio and an increase in both room revenue and other hotel revenue at the Best Western Wayside Inn and the Capri Centre. The increase in room revenue is the result of an improvement in occupancy levels and a corresponding improvement in RevPar. As disclosed in the following chart, the RevPar of the Fort McMurray hotel portfolio, the Best Western Wayside Inn and the Capri Centre increased by 3%, 25% and 16% respectively during the second quarter of 2010, compared to the first quarter of 2010. Overall, the RevPar of the hotel portfolio was $86.05 per room during the second quarter of 2010, compared to $81.46 per room during the first quarter of 2010.

Room Revenue Statistics

	Three Months Ended					
	Q2 2010			Q1 2010		
	Occ	ADR	RevPar	Occ	ADR	RevPar
Fort McMurray	53 %	$ 169.98	$ 90.69	51 %	$ 172.55	$ 87.77
Temple Gardens	76 %	$ 160.22	$ 121.45	77 %	$ 160.15	$ 122.67
Chateau Nova	54 %	$ 137.32	$ 73.83	47 %	$ 143.89	$ 67.01
Best Western Wayside Inn	53 %	$ 123.20	$ 65.30	42 %	$ 125.92	$ 52.42
Capri Centre	50 %	$ 121.54	$ 60.40	42 %	$ 124.07	$ 52.15
Overall portfolio	55 %	$ 155.18	$ 86.05	51 %	$ 158.97	$ 81.46

The increase in hotel operating expenses is mainly attributable to the Capri Centre. After accounting for revenue and operating expense increases/decreases the operating income of the Fort McMurray hotel portfolio and the Best Western Wayside Inn increased by $322,717 and $167,304 respectively, while the operating income at the Capri Centre decreased by $248,704.

During the second quarter of 2010, Trust expense decreased by $144,624 compared to the first quarter of 2010, while finance expense decreased by $71,777.

The decrease in Trust expense mainly reflects a decrease in unit based compensation expense as the majority of the year-to-date unit based compensation expense was incurred during the first quarter of 2010 in regard to the issuance of additional options under the Unit Option Plan. The "professional and legal fees" component of Trust expense also decreased during the second quarter of 2010, as professional and legal fees were comparatively high during the first quarter of 2010 as the first quarter of the year encompasses fees related to the November 2009 convertible debenture offering.

The decrease in finance expense is mainly due to a decrease in interest on the defeased loan, as the defeased loan was extinguished effective April 1, 2010.

ANALYSIS OF CASH FLOWS

Operating

	Three Months Ended June 30			Six Months Ended June 30		
	2010	2009	Increase/ (Decrease)	2010	2009	Increase/ (Decrease)
Total revenue	$ 15,754,121	$16,780,369	$ (1,026,248)	$30,735,138	$ 34,048,791	$ (3,313,653)
Hotel operating costs	10,595,054	10,279,359	315,695	20,703,723	20,769,353	(65,630)
Operating Income	5,159,067	6,501,010	(1,341,943)	10,031,415	13,279,438	(3,248,023)
Financing expense	4,001,516	3,541,697	459,819	8,074,809	7,221,897	852,912
Non-cash component of financing expense	(480,895)	(350,443)	(130,452)	(1,060,427)	(709,179)	(351,248)
Cash component of financing expense	3,520,621	3,191,254	329,367	7,014,382	6,512,718	501,664
Trust expense	219,383	225,491	(6,108)	583,390	424,300	159,090
Unit-based compensation	(17,003)	(14,900)	(2,103)	(145,573)	(14,900)	(130,673)
Cash component of trust expense	202,380	210,591	(8,211)	437,817	409,400	28,417
Current income taxes	69,203	41,819	27,384	137,886	90,000	47,886
Cash provided by operating activities, before changes in non-cash operating activities	1,366,863	3,057,346	(1,690,483)	2,441,330	6,267,320	(3,825,990)
Changes in non-cash operating items	(725,843)	(410,450)	(315,393)	(372,629)	811,270	(1,183,899)
Cash provided by operating activities	$ 641,020	$ 2,646,896	$ (2,005,876)	$ 2,068,701	$ 7,078,590	$ (5,009,889)

Cash from Operating Activities

During the first six months of 2010, Temple REIT generated cash from operating activities of $2,068,701, compared to $7,078,590 during the first six months of 2009. After excluding changes in non-cash operating items, cash from operating activities amounted to $2,441,330, representing a decrease of $3,825,990 compared to the first six months of 2009. The decrease mainly reflects a decrease in operating income of approximately $3.3 Million and an increase in the cash component of financing expense of approximately $500,000.

The total decrease in cash from operating activities, excluding changes in non cash operating items, of $3,825,990 is comprised of a decrease of $2,135,507 in the first quarter of 2010 and a decrease of $1,690,483 in the second quarter of 2010. The decrease in the first quarter of 2010 is proportionately higher primarily as the unfavourable variance in operating income was considerably higher during the first quarter of 2010.

Distributions and Distributable Income

Distributions

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

In March 2009, Temple REIT announced a reduction in the total distribution for 2009 and a change from a monthly distribution policy to a quarterly distribution policy, commencing in the second quarter of 2009. In total, Temple REIT declared a distribution of $0.50 per unit in 2009, comprised of three distributions which were paid in the second, third and fourth quarter of 2009, in the combined amount of $0.30 per unit, plus distributions of $0.10 per unit which were paid for both January 2009 and February 2009. The reduction in the total distribution was necessitated as a result of the decrease in operating cash flows.

During the first six months of 2010, Temple REIT declared a distribution of $0.20 per unit, comprised of a declared distribution of $0.10 per unit for both the first and second quarters of 2010. The distributions were paid on April 15, 2010 and July 15, 2010, respectively.

Due to the timing of payments, cash outflows for distributions amounted to $2,562,404 during the first six months of 2009, compared to $1,282,535 during the first six months of 2010.

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 GAAP 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 GAAP measurement of the cash flows of Temple REIT is "cash from operating activities", as disclosed in the Consolidated Statement of Cash Flows in the financial statements. Accordingly, a reconciliation between cash from 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 ongoing source of cash to fund mortgage loan principal payments and capital expenditures, prior to the funding of distributions.

As disclosed in the chart, the distributable income of Temple REIT is equal to cash provided by operating activities, net of changes in non-cash operating items, 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.

Changes in non-cash operating items are excluded from the calculation of distributable income as non-cash operating items 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 June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Net cash from operating activities, per Statement of Cash Flow	$ 641,020	$ 2,646,896	$ 2,068,701	$ 7,078,590
Add/Deduct:				
Changes in non-cash operating items	725,843	410,450	372,629	(811,270)
FF&E Reserve	(551,394)	(587,313)	(1,075,730)	(1,191,708)
Distributable income	$ 815,469	$ 2,470,033	$ 1,365,600	$ 5,075,612
Distributions declared	$ 1,282,535	$ 1,282,535	$ 2,565,070	$ 3,844,939
Excess (shortfall) of distributable income over distributions declared	$ (467,066)	$ 1,187,498	$ (1,199,470)	$ 1,230,673
Distributable income - Per unit - basic and diluted	$0.06	$0.19	$0.11	$0.40

During the first six months of 2010, the distributable income of Temple REIT was $1,365,600 or $0.11 per unit, compared to $5,075,612 or $0.40 per unit during the first six months of 2009. On a percentage basis, the distributions declared during the first six months of 2010 are equal to 188% of distributable income, compared to 76% during the first six months of 2009.

Funds From Operations ("FFO")

FFO is a non-GAAP 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 $1,380,903 or $0.11 per unit during the first six months of 2010, compared to $5,558,141 or $0.43 per unit during the first six months of 2009.

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 June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Net income (loss)	$ (762,054)	$ 828,023	$ (1,748,305)	$ 1,666,398
Add:				
Future income taxes (recovered)	(231,234)	294,400	(528,641)	595,800
Unit-based compensation	17,003	14,900	145,573	14,900
Change in value of marketable securities	117,225	(26,175)	22,650	90,750
Amortization	1,745,028	1,595,755	3,489,626	3,190,293
Funds from operations	$ 885,968	$ 2,706,903	$ 1,380,903	$ 5,558,141
Funds from operations - Per unit - basic and diluted	$0.07	$0.21	$0.11	$0.43

Financing Activities

As disclosed in the Consolidated Statements of Cash Flows in the unaudited financial statements, the financing activities of Temple REIT resulted in a net cash outflow of $2,452,489 during the first six months of 2010. Financing activities consist primarily of distributions, long-term debt transactions, and the retirement of the defeased liability.

Details regarding the long-term debt transactions, defeased loan and distributions of Temple REIT are provided in other sections of this report.

Investing Activities

As disclosed in the Consolidated Statements of Cash Flows in the unaudited financial statements, the investing activities of Temple REIT resulted in a net cash inflow of $1,641,563 during the first six months of 2010. Investment activities include disbursements of $480,258 in regard to additions to property and equipment, net lease payments from the investment in the Moose Jaw Casino of $61,576, a cash outflow of $881,478 in regard to an increase in cash in escrow and a cash inflow of $2,941,723 in regard to the realization of the defeasance assets.

Additions to Property and Equipment

During the first six months of 2010, the cash outflow in regard to additions to property and equipment amounted to $480,258, the majority of which represents upgrades to the Capri Centre, Franklin Suites, and Temple Gardens Mineral Spa.

Cash in Escrow

The increase in cash in escrow of $881,478 is mainly attributable to an increase in the Furniture, Fixtures and Equipment Replacement Reserve Fund for the Clearwater Hotel.

Cash Flow Summary

The net cash flow from operating, financing and operating activities during the first six months of 2010 was $1,257,775. After providing for the opening cash balance of $7,401,442, Temple REIT completed the first six months of 2010 with a cash balance of $8,659,217. On July 15, 2010, the second quarter distribution of $1,282,535 was paid from the cash balance.

CAPITAL RESOURCES AND LIQUIDITY

Capital Structure

Capital Structure

	June 30 2010	December 31 2009
Long-term debt - principal amount	$ 171,817,005	$ 170,051,865
Convertible debentures - face value	37,330,600	37,330,600
Equity raised - trust units (net of issue costs)	62,490,881	62,491,116
Total capitalization	$ 271,638,486	$ 269,873,581

Trust units:
Authorized - unlimited
Issued
June 30, 2010 - 12,825,352
August 19, 2010 - 12,825,352

Long-Term Debt

December 31, 2009 - $170,051,865
June 30, 2010 - $171,817,005

The long-term debt of Temple REIT consists primarily of mortgage loans which are secured by specific hotel properties. In total, mortgage loans represent 98% of the total long-term debt as of June 30, 2010. The remaining portion of the long-term debt consists almost entirely of a loan which was obtained in 2002 in order to fund the development of the casino complex at the Temple Gardens hotel.

Long-term Debt Transactions

The balance of long-term debt, as of June 30, 2010, excluding transaction costs, increased by $1,765,140, compared to the balance as of December 31, 2009. The increase consists of $5 Million of additional mortgage loan financing for the Temple Gardens hotel, less $2,779,860 of regular monthly mortgage loan principal payments during the first six months of 2010, as well as lump sum paydown of $455,000 in regard to the Chateau Nova mortgage loan.

Debt Summary

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

Long-term Debt Summary

	2010		2009				2008	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Weighted average interest rate of long-term debt	6.45%	6.52%	6.51%	6.96%	6.34%	6.34%	6.34%	6.43%
Ratio of mortgage loans payable, compared to:								
Acquisition cost of property portfolio	63%	62%	63%	66%	67%	68%	68%	68%
Appraised value of property portfolio	54%	53%	54%	57%	57%	57%	58%	59%
Ratio of mortgage loans payable and convertible debenture debt (at face value), compared to:								
Acquisition cost of property portfolio	78%	77%	78%	76%	76%	77%	77%	79%
Appraised value of property portfolio	66%	65%	66%	64%	61%	65%	65%	69%

Convertible Debentures

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

Analysis of Debenture Conversions

				Repayments/Unit Conversions		
Issue Date/Maturity Date	Series	Interest Rate	Amount Issued	Year Ended December 31, 2009	Six Months Ended June 30, 2010	Net amount Outstanding June 30, 2010
Feb. 15/07/Mar. 31/12	A	7.50 %	$ 15,680,000	$ (13,215,500)	$ -	$ 2,464,500
Apr. 8/08/Apr. 30/13	B	8.50 %	30,000,000	(10,133,900)	-	19,866,100
Nov. 27/09/Nov. 30/14	S*	8.75 %	15,000,000	-	-	15,000,000
Face value			$ 60,680,000	$ (23,349,400)	$ -	37,330,600
Net accumulated accretion						1,520,275
Unamortized transaction costs						(1,720,994)
Book value, June 30, 2010						$ 37,129,881

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

Debt and Equity Components

In accordance with generally accepted accounting principles, the total amount of convertible debentures, as disclosed in the financial statements, is divided into debt and equity components based on the present value of future interest and principal payments. The amount by which the total present value exceeds the face value of the convertible debentures is referred to as "accretion". The accretion of the debt component, which serves to increase the carrying value of the debt component, is included in financing expense. As accretion is a "non-cash" transaction, the accretion of the debt component is added back for purposes of calculating operating cash flows and distributable income.

The allocation of the debt and equity component of the convertible debentures is provided in note 9 of the 2010 second quarter financial statements of Temple REIT.

Trust Units

The following is a summary of the units which have been issued by TREIT as of June 30, 2010.

Issue Date	Description	Units Issued	Equity Raised
Balance, January 1, 2010		12,825,352	$ 62,491,116
	Issue costs	-	(235)
Balance, June 30, 2010		12,825,352	$ 62,490,881

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, 10,499 deferred units were issued to Trustees under the Deferred Unit Plan during the first six months of 2010, with a deemed market value of $29,203.

Unit Options

Pursuant to the Unit Option Plan, the Trust may grant unit purchase options to the Trustees, Directors and Senior Officers of TREIT 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.

During 2009, Temple REIT did not issue any options under the Unit Option Plan.

On January 12, 2010, Temple REIT issued a total of 80,000 incentive options to purchase units at a price of $3.01 per unit. As the options were exercisable immediately, the estimated fair value of the options, in the amount of $116,370, was expensed in the first quarter of 2010 as "unit-based compensation" expense.

Additional details of the Deferred Unit Plan and Unit Options Plan are disclosed in note 14 and note 15 of the 2010 second quarter financial statements of Temple REIT.

Other Assets and Liabilities

Accounts Receivable

As of June 30, 2010, "Accounts receivable", as disclosed on the balance sheet of Temple REIT, amount to $2,054,607, compared to a balance of $2,150,209 as of December 31, 2009. The accounts receivable consist primarily of contractual commercial accounts.

Accounts Payable and Accrued Liabilities

As of June 30, 2010, "Accounts payable and accrued" liabilities on the balance sheet of Temple REIT, amount to $4,804,300, compared to a balance of $4,570,013 as of December 31, 2009. The accounts payable and accrued liabilities consist primarily of normal trade payable and accrued wages payable.

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.

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 June 30, 2010.

Capital Requirements

General

Temple REIT requires an ongoing source of cash to fund regular principal payments on long-term debt, "non-financed maintenance" capital expenditures and distributions. Cash from operating activities effectively represents the initial source of funding for these expenditures. During the first six months of 2010, cash from operating activities amounted to $2,068,701, while regular monthly mortgage payments and capital expenditures amounted to $3,301,426. After accounting for the funding of declared distributions of $2,565,070, there was a "shortfall" in cash from operating activities of $3,797,795. The "shortfall" was effectively funded from capital raised through financing activities.

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.

Long-term Debt and Lease Payments

A summary of the long-term debt maturities and operating lease obligations 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
Long-term debt	$172,211,384	$ 55,255,749	$ 83,454,051	$ 30,454,995	$ 3,046,589
Operating leases	1,303,237	244,765	920,472	138,000	-
Total	$173,514,621	$ 55,500,514	$ 84,374,523	$ 30,592,995	$ 3,046,589

The total amount of long-term debt due for the twelve month period ending June 30, 2011 of $55,255,749 is comprised of the following:

- regular repayments of principal in the estimated amount of $4,442,684; and

- principal due of $50,813,065 on the following loans:

(i) principal of $7,040,000 in regard to the 12% mortgage loan on the Merit Hotel expansion, due on October 31, 2010.

(ii) principal of $5,825,000 in regard to the 6.5% first mortgage loan of Chateau Nova, due on November 30, 2010.

(iii) principal in the amount $32,967,381 in regard to the 6.83% first mortgage loan of the Clearwater hotel, due on March 30, 2011.

(iv) principal of $4,980,684 in regard to the 4.3207% mortgage loan financing for the Temple Gardens hotel, due on May 1, 2011.

The Trust is not in compliance on one first mortgage loan in the amount of $32,967,381, as a result of a breach of the debt service coverage requirement in respect of that mortgage loan. The loan balance of $32,967,381 as at June 30, 2010 matures March 31, 2011.

Given that the net operating income may not improve substantially in the near future, the breach in the debt service covenant requirement may continue. The Trust has notified the lender.

Management believes that a lower cost replacement loan can be obtained for the mortgage loan on the Merit hotel expansion or that interim financing can be arranged at a similar rate. For the remainder of the mortgage loan debt, management believes the debt will be renewed or refinanced under similar terms and conditions.

Capital Expenditures

A major upgrade/improvement program is scheduled for 2010 and 2011 at the Capri Centre at a budgeted cost of $8 Million. The Trust has obtained $5 Million of additional first mortgage financing and arranged $3 Million in additional first mortgage financing for the upgrade/improvement program at the hotel. The program will include changes to the layout of the hotel resulting in the addition of 24 new guest rooms together with an improvement in the overall quality of amenities provided by the hotel. At completion of the upgrade/improvement program, the hotel will be re-named the Sheraton Hotel and Convention Centre.

Sources of Capital

Existing Cash

As of June 30, 2010, the cash balance of Temple REIT was approximately $8.7 Million, while the working capital balance was $4.67 Million, excluding the current portion of long-term debt.

Cash from Operating Activities

As anticipated, cash flow from operating activities decreased during the first six months of 2010, compared to the first six months of 2009, largely due to a decrease in hotel revenues and a corresponding decrease in operating income. Cash flow from operating activities for the remainder of 2010 is expected to remain at or near current levels, unless there is a substantial improvement in hotel market conditions in Fort McMurray.

Additional Mortgage Loan Financing

The upward refinancing of the mortgage loan debt of the hotel portfolio also represents a potential source of financing for capital expenditures.

Marketable Securities

As of June 30, 2010, Temple REIT owns marketable equity securities with a fair value of $280,800. The marketable equity securities represent a potential source of capital.

As of June 30, 2010, Temple REIT also has $324,758 invested in guaranteed investment securities, all of which mature in 2010.

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	Base Management Fee Year 2	Base Management Fee 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	$415,000	2.5%

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 $714,277 in base management fees during the first six months 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 assets of the Trust and to be reimbursed for all expenses incurred in connection with fulfilling the role of Administrator, including third party costs.

During the first six months of 2010, Shelter earned asset management fees of $463,035.

Mr. Arni Thorsteinson, the President and Chief Executive Office of Temple REIT and a Trustee, is the Director and President of Shelter and the 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.

An investment in Temple REIT encompasses a number of risks including liquidity, financing, environmental and diversification risks; the risks associated with real property ownership franchised hotels, potential labour disruptions, competition, land leases, interest rate fluctuations and the operation of the Temple Gardens hotel; the risk of general uninsured losses and the failure to maintain mutual fund trust status, as well as restrictions on redemptions, investment concentration, the potential the lack of available growth opportunities, acquisition risk, potential Unitholder liability, potential conflicts of interest, uncertainties regarding the market price of Units, the legal rights attaching to Units, other tax related risk factors and the potential dilution arising from the issue of additional Units. For a summary of certain additional key risks to Temple REIT, see the Annual Information Form which is available at www.sedar.com.

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 medical concerns related to travelling to Canada, acts of terrorism, natural disasters, extreme weather conditions and labour shortages, work stoppages or disputes.

Current 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 2009 and are continuing into 2010, have resulted in persistent interruptions in the credit and capital markets, devaluations of assets directly or indirectly linked to the Canadian real estate finance markets and the concurrent elimination of long and short-term liquidity from the capital markets. These conditions have had, and we expect will continue to have, an adverse effect on Temple REIT as well as the assets Temple REIT has invested in.

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 and may ultimately prevent Temple REIT from implementing its acquisition and investment strategies. Increased vacancy rates and other difficulties commonly associated with recessionary economic conditions, 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 and the current difficulty associated with obtaining debt financing increases the likelihood 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.

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, the issuance of debentures and a line of credit. 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 continue to generate sufficient cash flow from operations to meet the required interest and principal payments on such debt.

Temple REIT is subject to the risks associated with debt financing including the risk that cash flow from operations will be insufficient to 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.

The slowdown of development activity in Fort McMurray has resulted in a decline in hotel market conditions and a reduction in the operating income of the Fort McMurray hotel portfolio. The reduction in operating income has increased the level of debt-financing risk to Temple REIT.

As previously disclosed in this report, Temple REIT has approximately $12.87 Million of mortgage loan debt which matures during the fourth quarter of 2010, of which $7.04 Million pertains to the Fort McMurray hotel portfolio. Management believes that a lower cost replacement loan can be obtained for the mortgage loan on the Merit hotel expansion or that interim financing can be arranged at a similar rate. In March 2010, the mortgage loan of the Clearwater hotel was renewed for a one year term until March 30, 2011 under the same terms and conditions.

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 Distributable Income.

In the low interest rate environment that the Canadian economy has experienced in recent years, leverage has enabled Temple REIT to enhance its Distributable Income. A reversal of this trend, however, 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 on its property portfolio. 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 indebtedness permitted on its portfolio.

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 financial performance of the hotels in Temple REIT's portfolio, its debt covenants and obligations, working capital requirements, principal and interest payments on its indebtness, 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.

As previously disclosed in this report, Temple REIT purchased equitable marketable securities in 2008 as a short-term investment of excess cash. As of June 30, 2010, the market value of the securities, net of distributions received, has decreased by $958,372, comprised of a decrease of $881,797 in 2008, a decrease of $288,375 in 2009 and an decrease of $22,650 during the first six months of 2010.

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 six months of 2010, the six hotel properties in Fort McMurray accounted for 36% of the total revenue of the Trust and 51% of the total operating income.

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. If circumstances permit, and subject to the application of the SIFT Rules discussed below, it is the intent of the Trust to distribute the greater of taxable income or 85% of distributable income each period to its Unitholders and to deduct these distributions for income tax purposes.

Changes to Tax Treatment of Trusts

Except for corporate subsidiaries of Temple REIT, no provision for income taxes is required under the current Canadian income tax legislation.

On June 22, 2007, legislation relating to, among other things, the federal income taxation of publicly traded income trusts (the "SIFT Rules") was enacted. Under the SIFT Rules, certain distributions from a "specified investment flow-through" trust (a "SIFT") will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. Distributions of income of a SIFT received by a Unitholder that are not deductible to the SIFT will be characterized as dividends payable to the Unitholder. Generally, distributions paid by a SIFT as a return of capital will generally not be subject to the tax.

The SIFT Rules provide that a SIFT which was publicly listed prior to November 1, 2006 (an "Existing Trust") will become subject to the tax on distributions commencing in the 2011 taxation year. However, an Existing Trust may become subject to this tax prior to 2011 if its equity capital increases beyond certain limits measured against the market capitalization of the Existing Trust at the close of trading on October 31, 2006. Based on its October 31, 2006 market capitalization, Temple REIT may increase its equity capital by $50 Million for the period November 1, 2006 to December 31, 2007, and each of the years ending December 31, 2008, December 31, 2009 and December 31, 2010 (the "Safe Harbour Limit"). To date, Temple REIT's equity capital has not increased beyond the Safe Harbour Limit.

The SIFT Rules do not apply to a "real estate investment trust" (a "Qualifying REIT") that meets prescribed conditions relating to the nature of its revenue and property (the "REIT Conditions"). Temple REIT does not currently satisfy the REIT Conditions. Accordingly, Temple REIT is subject to the SIFT Rules and, subject to earlier application if it increases its equity capital beyond its Safe Harbour Limit, Temple REIT will be subject to the tax on distributions commencing in 2011.

A discussion of the application of tax rules specific to the Trust is discussed in the following section of the report under the heading "Taxation".

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.

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 Annual Information Form for the year ended December 31, 2009.

CRITICAL ACCOUNTING ESTIMATES

The application of the significant accounting policies for purposes of preparing the consolidated financial statements, in accordance with Canadian generally accepted accounting principles (GAAP), 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:

- amortization of property and equipment - amortization expense is based on the estimated useful life of the property and equipment;

- carrying amount of goodwill - the carrying amount of goodwill is periodically compared to its estimated fair value in order to determine if there has been any impairment in value; and

- unit-based compensation expense - unit-based compensation expense is based on the estimated fair value of the applicable units and warrants using the Black-Scholes option pricing method.

- The expected tax rates applicable to SIFT's of 29.5% for 2011 and 28.0% for 2012 and later have been applied in the periods that temporary tax differences of the Trust are expected to reverse.

The estimates which were used for financial statement reporting purposes, for the above noted items, are not expected to change from period to period.

Future Changes to Accounting Standards

Business Combinations

CICA Handbook Section 1582 - Business Combinations will apply prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. CICA Handbook Sections 1601 - Consolidations and 1602 - Non-Controlling Interests will be effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. These sections replace the former CICA Handbook Sections 1581 - Business Combinations and 1600 - Consolidated Financial Statements. CICA Handbook Section 1582 establishes standards for the accounting for a business combination. CICA Handbook Section 1601 establishes standards for the preparation of consolidated financial statements. CICA Handbook section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination.

The Trust is currently considering the effect on the financial statements of the new standards.

International Financial Reporting Standards (IFRS)
In February 2008, the Canadian Accounting Standards Board confirmed January 1, 2011 as the date on which International Financial Reporting Standards (IFRS) will replace current Canadian accounting standards and serve as the basis for Canadian generally accepted accounting principles (Canadian GAAP).

The changeover from current Canadian GAAP to IFRS will be a significant undertaking for Temple REIT and the implementation of new accounting standards may have a material impact on the financial position and results of operation, as disclosed in the financial statements of the Trust. The conversion plan will address first time adoption and transition activities. To date, activities being undertaken as part of the conversion plan include, but are not limited to:

- Establishment of a project team with regular reporting to the Audit Committee of the Board of Trustee's;
- Ongoing training and education sessions for staff;
- Identification of internal and external resource requirements;
- Preliminary identification of the main differences between Canadian GAAP and IFRS.

The main differences between Canadian GAAP and IFRS which have been identified to date are summarized below.

Property and Equipment
Property and equipment are initially recorded at cost. In subsequent years, Property and equipment can either be measured at amortized cost or fair value. Property and equipment continues to be amortized over its useful life based on the amortized cost or fair value each reporting period. The classification of Property and equipment may create more components. Under IFRS, each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. The Trust has not arrived at a definite conclusion on its option to measure property and equipment at amortized cost or fair value. A decision will be made in 2010.

Asset Impairment
Under Canadian GAAP, assets are first tested for impairment by taking undiscounted cash flows and comparing to carrying value. If the carrying value is higher, the asset is revalued using discounted future cash flows. 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. The Trust is in the process of finalizing it impairment testing as at its opening IFRS balance sheet.

Joint Ventures
IFRS currently provides the option to choose between proportionate consolidation and the equity method when accounting for joint ventures. The International Accounting Standards Board is currently reviewing its standards for accounting for joint ventures to eliminate the option to use proportionate consolidation for jointly controlled entities. The Trust currently accounts for its investment in the Moose Jaw Casino complex property using the proportionate consolidation method.

Business Combinations

CICA Handbook Section 1582 - Business Combinations will apply prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. CICA Handbook Sections 1601 - Consolidations and 1602 - Non-Controlling Interests will be effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. These sections replace the former CICA Handbook Sections 1581 - Business Combinations and 1600 - Consolidated Financial Statements. CICA Handbook Section 1582 establishes standards for the accounting for a business combination. CICA Handbook Section 1601 establishes standards for the preparation of consolidated financial statements. CICA Handbook section 1602 establishes standards for accounting for a noncontrolling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The Trust is currently considering the effect on the financial statements of the new standards and whether to adopt the standards at the beginning of its 2010 fiscal year to minimize any restatement required when the Trust adopts IFRS.

Classification of Trust Units

Under current Canadian GAAP, trust units are presented as equity. Under IFRS, trust units may be presented as a liability when the declaration of trust requires a distribution. To continue to present trust units as equity, the Trust has amended the distribution provisions in the declaration of trust to make distributions discretionary to the Trustees.

First-time adoption of International Financial Standards

The Trust's adoption of IFRS will require 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 limited optional exemptions in specified areas of certain standards. The Trust has not arrived at a definite conclusion on its option under IFRS 1. A decision will be made in 2010.

Management is in the process of reviewing the impact of the above changes on the financial statements and evaluating the accounting policy alternatives for the purpose of determining the necessary changes to accounting policies, internal control procedures, disclosure control and business process.

The effect of the differences on opening equity has been identified pending the approval of accounting policy selections and first-time adoption of IFRS elections.

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, term deposits, marketable equity securities, accounts receivable, accounts payable and accrued liabilities, gift certificate liabilities, mortgage loans and other long-term debt secured by the revenues or assets of hotel properties.

The fair value of the mortgage loans and other long-term debt approximates the carrying value due to the nature of the debt and the relatively short terms to maturity. The fair value of the current assets and liabilities approximates the carrying value due to the immediate or short-term nature of the instruments.

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.

TAXATION

Taxation of Temple REIT

Temple REIT qualifies as a mutual fund trust for income tax purposes, subject to the SIFT Rules, Temple REIT is generally subject to tax in Canada under the Income Tax (the "Tax Act") in respect to its taxable income each year, except to the extent such taxable income is paid or deemed to be payable to Unitholders and deducted by Temple REIT for tax purposes.

Unless determined otherwise by the Trustees, Temple REIT intends to distribute or designate all of its taxable income to the Unitholders in order to ensure that subject to the application of the SIFT Rules, Temple REIT will not be subject to income tax under Part I of the Tax Act.

Under the SIFT Rules, distributions paid by a SIFT as returns of capital will not be subject to the tax. In 2009, 100% of the distributions of Temple REIT were characterized as tax-deferred returns of capital. Management believes that it is likely that a high return of capital component would continue in the reasonably foreseeable future and that any impact of the SIFT Rules on Trust Unitholders will be significantly mitigated due to the large proportion of distributions which are expected to be a return of capital.

Taxation of Unitholders

Subject to the SIFT Rules, a Unitholder is required to include, in computing 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. The cash distributions which have been paid to the Unitholders, since the inception of Temple REIT as a real estate investment trust in 2006, have exceeded the income of Temple REIT, as calculated for income tax purposes. Distributions in excess of the taxable income of Temple REIT for the year which are allocated to a Unitholder will not be included in computing the taxable income of the Unitholder. The adjusted cost base of the units which are held by the Unitholder will, however, be reduced by the amount of distributions not included in income.

Under the SIFT Rules, should they become applicable to Temple REIT as set out above, certain distributions from Temple REIT which would otherwise have been ordinary income will be characterized as dividends in addition to being subject to tax in Temple REIT at rates similar to the combined federal and provincial corporate tax rates. Distributions to Canadian resident individuals will be deemed to be "eligible dividends", qualifying for the enhanced dividend tax credit.

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, only 50% of a capital gain ("taxable capital gain") must be included in computing a Unitholders' income and 50% of a capital loss (an "allowable capital loss") may be deducted against taxable capital gains.

Under the SIFT Rules, if Temple REIT does not meet the REIT Conditions to become a qualifying REIT resulting in the tax on distributions commencing to apply to Temple REIT in 2011 (or earlier if Temple REIT increases its equity capital beyond its Safe Harbour Limit), certain distributions from Temple REIT will no longer be deductible in computing its taxable income, and it will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. However, distributions paid as a return of capital will generally not be subject to the tax.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

No changes were made to the design of the internal controls over financial reporting during the period ended June 30, 2010 that have materially affected, or are reasonably likely to materially affect, the effectiveness of the internal control system.

Temple REIT will be implementing additional controls, as necessary, to ensure the reliability of any financial information which is materially affected as a result of the adoption of International Financial Reporting Standards. In addition, IFRS record-keeping will be implemented within the financial information system of the Trust to enable the capturing of financial information under multiple sets of accounting principles and required changes to IT systems and data collection mechanisms are being identified as each work stream progresses.

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. 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 2010 Second 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
August 19, 2010

Temple Real Estate Investment Trust
2010 Second 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.