



MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

TABLE OF CONTENTS

Unitholder Returns	2
Report to Unitholders	2
Management's Discussion and Analysis	
Financial and Operating Statistics	5
Executive Summary	6
Liquidity/Working Capital Requirements	8
International Financial Reporting Standards ("IFRS")	10
Overview of Trust Operations	10
Property Portfolio	12
Results of Operations	13
Comparison to Prior Quarter	26
Analysis of Cash Flows	27
Capital Resources and Liquidity	31
Hotel Management	38
Related Party Transactions	38
Operating Risks and Uncertainties	39
Accounting Estimates	43
Changes in Accounting Policy	43
Financial Instruments	45
Taxation	47
Internal Controls Over Financial Reporting	48
Additional Information	48
Approval by Trustees	48
Schedule I - Profile of Hotel Properties	49

Unitholder Returns

	Six Months Ended June 30, 2011	Year Ended December 31, 2010
Distribution per unit	\$0.20	\$0.40
Opening unit price	\$4.02	\$2.69
Closing unit price	\$4.26	\$4.02
Annualized yield on opening price (distribution/opening unit price)	10.0%	14.9%

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

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

The upward trend in the quarterly revenues of Temple REIT continued in full force in the second quarter of 2011, primarily due to the impact of renewed development activity in the oil sands industry and improving hotel market conditions in Fort McMurray. During the second quarter of 2010, the occupancy level and RevPar for the Fort McMurray hotel portfolio increased to 78% and \$119.68, respectively, compared to 53% and \$90.69 during the second quarter of 2010 and 67% and \$101.27 during the first quarter of 2011.

The positive revenue results, combined with reduced debt levels, translated into strong growth in operating income and operating cash flow during the second quarter of 2011 as reflected in the following summary.

- Operating income: increased by \$1,879,503 or 37%, compared to 2010 Q2.
- Cash provided by operating activities: increased by \$2,071,827 or 323%, compared to 2010 Q2.
- Distributable income: increased by \$2,340,990 or 1651%, compared to 2010 Q2.
- Funds from Operations (FFO): increased by \$1,814,190 or 103%, compared to 2010 Q2.
- Income, before change in fair value of financial instruments and income taxes: increased by \$2,151,008 to \$1,686,537, compared to a loss of \$464,471 in 2010 Q2.*
- Net Income: increased by \$4,776,518 to \$2,168,424, compared to loss of \$2,608,094 in 2010 Q2.

**Change in Fair Value of Financial Instruments*

In accordance with International Financial Reporting Standards (IFRS), certain financial instruments of Temple REIT are recorded at fair value. Although the gain or loss associated with the change in fair value affects the net income/loss of the Trust, the gain or loss represents a non-cash transaction which does not impact operating cash flow.

The change in fair value of financial instruments served to increase net income by approximately \$1 million during the second quarter of 2011 and to reduce net income by approximately \$2.5 million during the second quarter of 2010.

Debt Reduction

During the second quarter of 2011, the first mortgage loan of the Clearwater hotel in Fort McMurray was paid down by \$1 million from funds released from escrow. The second quarter paydown, combined with the lump-sum repayment of mortgage loan debt of \$15,540,000 in the first quarter of 2011 and ongoing regular monthly mortgage loan principal payments have served to reduce interest costs which, in turn, has contributed to the improvement in income and cash flow results.

During the second quarter of 2011, the cash component of interest expense decreased by \$484,192, compared to the second quarter of 2010. As of June 30, 2011, the total debt of Temple REIT has decreased by approximately \$22.3 million, compared to the total debt as of June 30, 2010.

Sheraton Red Deer Hotel and Convention Centre

The guest room renovations and building upgrades to the Capri Centre in Red Deer, Alberta are well underway. After substantial completion of the \$9.8 million project later in 2011, the Capri Centre will be renamed the "Sheraton Red Deer Hotel and Conference Centre". This property will be the premier meeting hotel location in Central Alberta and contribute to significant earnings growth in 2012.

Outlook

Hotel market conditions remain positive in Fort McMurray and further growth in revenues and operating income will be achieved in the third quarter of 2011. Based on past results, the third quarter of the year has also been a period in which demand for hotel rooms is typically at a high level for the majority of the hotels in the Temple REIT portfolio.

Cash flow from operating activities will be well in excess of distributions paid and the renewal and/or refinancing of mortgage loans during this quarter will reduce interest costs. This month the Trust arranged \$61.3 million of renewed and increased first mortgage debt on four properties at attractive fixed interest rates. The term for \$60.4 million of the mortgage debt is five years with an average interest rate of 4.8%. Beginning in the fourth quarter, these debt transactions will significantly reduce the interest cost and extend the fixed rate term of 40% of first mortgage debt outstanding.

The projected cash resources of the Trust combined with the upward refinancing of mortgage loan debt are expected to fund investing activities for the remainder of 2011 inclusive of a potential and accretive acquisition of a new hotel for the portfolio. The current historic low cost of mortgage financing is conducive to attractive acquisition opportunities in the Prairie provinces.

Cash Distributions

Given the favourable operating results and earnings outlook, the Trustees have approved an increase in the monthly distribution to Unitholders from \$0.03334 per unit (\$0.40 on an annual basis) to \$0.04 per unit (\$0.48 on an annual basis), representing a 20% increase commencing with the October distribution. The distribution for the month of October will be paid in November 2011 to Unitholders of record, as of October 31, 2011.

TEMPLE REAL ESTATE INVESTMENT TRUST



ARNI C. THORSTEINSON, CFA
President & Chief Executive Officer
August 22, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Forward-Looking Statements

Management's Discussion and Analysis ("MD&A") of Temple Real Estate Investment Trust ("Temple REIT" or the "Trust") should be read in conjunction with the financial statements of Temple REIT for the six months ended June 30, 2011 and with reference to the Annual Report for 2010 and the First Quarter Report for 2011.

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 \$292,500,000 at June 30, 2011. An appraisal of one property, representing 19% of total appraised value was prepared in 2011, an appraisal of one properties, representing 14% of total appraised value, was prepared in 2010, appraisals of three properties, representing 27% of total appraised value, were prepared in 2009, appraisals of two properties, representing 24% of total appraised value, were prepared in 2008 and appraisals of three properties, representing 16% of total appraised value were prepared in 2007.

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

There can be no assurance that the appraised value of a property is an accurate reflection of the value of such property as at the effective date set forth in the appraisal or on any other date, including on June 30, 2011. In addition, there can be no assurance that the valuation method or the capitalization rate(s) used in appraising a property was appropriate for such property as at the effective date set forth in the appraisal or on any other date, including on June 30, 2011.

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

FINANCIAL AND OPERATING STATISTICS

	June 30 2011		December 31 2010	
BALANCE SHEET				
Total Assets	\$ 258,891,892		\$ 260,481,436	
Total Debt	\$ 183,991,916		\$ 204,494,094	
	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
DISTRIBUTIONS				
Amount - total	\$ 1,835,650	\$ 1,282,535	\$ 3,652,866	\$ 2,565,070
- per unit	\$ 0.10	\$ 0.10	\$ 0.20	\$ 0.20
KEY PERFORMANCE INDICATORS				
Operations:				
Occupancy *	72%	55%	68%	53%
ADR *	\$148.15	\$155.18	\$146.94	\$157.00
RevPar *	\$106.37	\$86.05	\$100.52	\$83.75
Operating profit margin *	37%	32%	36%	32%
Operating results:				
Total revenue	\$ 18,703,635	\$ 15,668,530	\$ 35,370,086	\$ 30,563,378
Operating income	\$ 6,952,979	\$ 5,073,476	\$ 12,572,566	\$ 9,859,655
Net income (loss)	\$ 2,168,424	\$ (2,608,094)	\$ (162,611)	\$ (1,957,097)
Cash flows:				
Cash flow from operating activities	\$ 2,712,847	\$ 641,020	\$ 4,766,617	\$ 2,068,701
Distributable income *	\$ 2,482,763	\$ 141,773	\$ 4,591,223	\$ 1,178,936
Funds from operations *	\$ 3,582,547	\$ 1,228,357	\$ 5,719,862	\$ 2,099,664
Financing:				
Weighted average interest rate of debt *	6.63%	6.45%	6.63%	6.45%
PER UNIT AMOUNTS				
	Basic	Basic	Basic	Basic
Net income (loss)	\$0.12	\$(0.20)	\$(0.01)	\$(0.15)
Cash from operating activities	\$0.15	\$0.05	\$0.28	\$0.16
Distributable income *	\$0.14	\$0.01	\$0.27	\$0.09
Funds from operations *	\$0.20	\$0.10	\$0.34	\$0.16

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

Non-IFRS Measurements

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

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

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

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

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

EXECUTIVE SUMMARY

Core Business and Strategy

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

As of June 30, 2011, the real estate portfolio of Temple REIT consists of ten hotel properties with a cost of approximately \$265 Million, including six hotel properties located in Fort McMurray, Alberta.

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

Changes in Operating/Financial Variables - Q2 2011 vs Q2 2010

Hotel Properties

There were no changes in the number of available rooms in the hotel portfolio of Temple REIT between January 1, 2010 and June 30, 2011.

Net Income(Loss)

As disclosed in the following chart, the income of Temple REIT before change in fair value of financial instruments and income taxes increased by \$2,151,008 during the second quarter of 2011, compared to the second quarter of 2010. After including change in fair value of financial instruments and income taxes, the net income increased by \$4,776,518.

	Three Months Ended June 30			Six Months Ended June 30		
	2011	2010	Increase/ (Decrease)	2011	2010	Increase/ (Decrease)
Income (loss) before change in fair value of financial instruments and income taxes	\$ 1,686,537	\$ (464,471)	\$ 2,151,008	\$ 2,087,002	\$ (1,397,649)	\$ 3,484,651
Change in fair value financial instruments	(1,029,912)	2,551,269	(3,581,181)	1,984,100	1,010,486	973,614
Income taxes expense (recovery)	548,025	(407,646)	955,671	265,513	(451,038)	716,551
Net income (loss)	<u>\$ 2,168,424</u>	<u>\$ (2,608,094)</u>	<u>\$ 4,776,518</u>	<u>\$ (162,611)</u>	<u>\$ (1,957,097)</u>	<u>\$ 1,794,486</u>

The increase in income, before change in fair value of financial instruments and income taxes, for the second quarter of 2011, mainly reflects an increase in operating income of \$1,879,503 and a decrease in interest expense of \$476,000, partially offset by an increase in trust expense of \$174,834.

The increase in operating income is comprised of the following increases/decreases in operating income: Fort McMurray hotel portfolio (increase of \$1,421,178); Capri Centre (increase of \$312,797); Temple Gardens (decrease of \$69,695); Best Western Wayside Inn (increase of \$180,446) and Chateau Nova (increase of \$34,777).

The decrease in interest expense is mainly due to a reduction of mortgage loan debt.

The increase in income, before change in fair value of financial instruments and income taxes, for the six months ended June 30, 2011, is mainly due to the same factors which affected the second quarter comparatives. The increase in income for the second quarter comparatives is proportionately higher than the first quarter comparatives, mainly due to the extent of the favourable variance in operating income in the second quarter of 2011.

Change in Fair value of Financial Instruments

The main change in accounting policy that has occurred as a result of the adoption of IFRS is the requirement to recognize the carrying value of certain financial instruments at fair value at each reporting period of the Trust. The "fair value" financial instruments include assets (marketable securities) and liabilities (convertible debentures, convertible mortgage loans and unit based compensation).

An increase in the carrying value of a "fair-valued" liability is offset by a charge against income, while a decrease in value is offset by an increase to income. An increase in the carrying value of a "fair-valued" asset is offset by an increase to income, while a decrease in value is offset by a charge against income.

The change in fair value of financial instruments served to decrease income by \$1,984,100 during the first six months of 2011, compared to the first six months of 2010 comprised of an increase of \$1,029,912 in the second quarter of 2011 and a decrease of \$3,014,012 in the first quarter of 2011.

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

Cash Flow

Cash from operating activities, excluding working capital adjustments increased by \$2,447,218 during the second quarter of 2011, compared to the second quarter of 2010 and by \$3,580,522 during the six months ended June 30, 2011, compared to the six months ended June 30, 2010 primarily due to an increase in operating income of \$1,879,503 and \$2,712,911 respectively.

Distributions

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

During the first quarter of 2011, Temple REIT declared a distribution of \$0.10 per unit. The distribution was paid on April 15, 2011. Effective April 1, 2011, Temple REIT implemented a monthly distribution policy. Monthly cash distributions in the amount of \$0.03334 per unit (\$0.40 on an annual basis) were declared for the months of April 2011, May 2011, June 2011, July 2011 and August 2011. The distribution for August 2011 will be paid on September 15, 2011.

Given the favourable operating results, the Trustees have approved an increase in the monthly distribution to Unitholders from \$0.0334 per month (\$0.40 annually) to \$0.040 per month (\$0.48 annually) commencing with the October distribution to be paid in November 2011.

Trust unit offering

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

Outlook for Remainder of 2011

Operating Income/Operating Cash Flows

The extent to which operating income continues to improve during the remainder of 2011 will be largely dependent on the rate of economic growth in Fort McMurray in particular and Alberta in general. An increase in operating income would contribute to an increase in cash flow from operations, as interest payments on debt for the second half of the year are expected to approximate interest payments for the first half of the year.

Heightened concerns regarding the European debt problem and the recent volatility in stock markets may have a negative impact on economic conditions in Fort McMurray and the hotel market.

Improvements/Upgrades to the Capri Centre

Temple REIT is undertaking extensive guest room improvements and building upgrades to the Capri Centre in Red Deer, Alberta, at a budgeted cost of \$9.8 million. After accounting for expenditures incurred to June 30, 2011 of approximately \$2.9 Million, the amount to be expended in 2011 is approximately \$6.9 Million. During the first six months of 2011, expenditures in regard to the Capri Centre upgrade/improvement program amounted to \$1.67 million, of which approximately \$1.5 million pertains to the second quarter of 2011.

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

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

Financing

Upward Refinancing of Long-Term Debt

During 2011, the upward refinancing of mortgage loan debt will serve as a source of supplemental funding for overall operations, including the funding of the upgrade/improvement program at the Capri Centre. It is anticipated that approximately \$14.1 million will be generated from upward refinancing of mortgage loan debt, comprised of the following:

- Approximately \$5.7 million from increased debt financing of the Capri Centre during the second half of 2011 and the first quarter of 2012.
- Approximately \$7.5 million from the upward refinancing of the Clearwater hotel during the third quarter of 2011.
- Approximately \$0.9 million from the upward refinancing of the Best Western Wayside Inn during the second half of 2011 and the first quarter of 2012.

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

Breach of Debt Service Coverage Requirements

As of June 30, 2011, Temple REIT is in breach of a debt service coverage covenant for 2011 in regard to a first mortgage loan of approximately \$9.9 million for the Vantage Inn and Suites in Fort McMurray and a first mortgage loan of approximately \$5.3 million for the Chateau Nova hotel in Yellowknife, representing a combined total of approximately \$15.2 million. There is a risk that the mortgage loans may become payable on demand and, as a result of cross default clauses, a risk that the Senior Secured convertible debentures, with a face value of \$12,603,000 may become payable on demand. Management has notified the lenders and has requested that the lenders acknowledge and consent to the breaches for both of the loans. Notwithstanding the debt service covenant breach, the first mortgage loan for Chateau Nova was renewed for a one year term, maturing November 30, 2011.

Risks and Uncertainties

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

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

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

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

LIQUIDITY/WORKING CAPITAL REQUIREMENTS**Working Capital Requirements***General*

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

Regular principal repayments of mortgage loan debt

Regular principal repayments of mortgage loan debt are scheduled at approximately \$2.71 million for the second half of 2011.

Capital expenditures

Capital expenditures for the remainder of 2011 are expected to be approximately \$7.8 million, comprised of \$6.9 million for the upgrade/improvement program at the Capri Centre and \$0.9 million for other hotels.

The existing first mortgage loan for the Capri Centre provides for construction advances as the upgrade/improvement program progresses, to a maximum amount whereby the loan balance shall not exceed \$27 Million at the completion of construction. As of September 30, 2011, the amount of funding available under the mortgage loan will be approximately \$5.7 million.

Cash distributions

Given the favourable operating results, the Trustees have approved an increase in the monthly distribution to unitholders from \$0.03334 per month (\$0.40 annually) to \$0.04 per month (\$0.48 annually). This distribution increase is for the October distribution to be paid on November 15, 2011. Based on Trust Units outstanding as of June 30, 2011, the total distributions for the remainder of 2011 after taking into account the revised distribution amount and the distribution payable at June 30, 2011 is \$4.7 million.

Funding of Working Capital Requirements

Existing Cash Resources

As of June 30, 2011, the unrestricted cash balance is \$3,362,289.

Cash Provided by Operating Activities

During the first six months of 2011, Temple REIT generated cash from operating activities of \$4,766,617 after working capital adjustments, and \$5,829,176, before working capital adjustments. It is anticipated that there will be an improvement in cash from operating activities during the second half of 2011, compared to the first half of the year.

Mortgage loan financing

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

- *Clearwater Suites Hotel*

The 6.83% first mortgage loan which is registered against the Clearwater Suites hotel will have a balance of \$20,537,227 at the December 31, 2011 maturity date. Management expects that the first mortgage loan will be retired from the proceeds of a new \$27.5 million first mortgage loan with a 5 year term and a 4.4% interest rate resulting in net proceeds of approximately \$7.5 million.

- *Temple Gardens Mineral Spa*

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

- *Chateau Nova*

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

As noted above, the existing mortgage loan for the Capri Hotel permits additional advance of approximately \$5.7 million to fund expenditures to upgrade the hotel and a commitment has been signed which provides for an advance of \$0.9 million of the Best Western Wayside Inn.

In total, the net proceeds from the upward refinancing of the mortgage loan debt are projected to be approximately \$14.1 million during 2011.

Summary

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

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

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

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

The main changes in accounting policy that has occurred as a result of the adoption of IFRS are:

- The requirement to recognize certain financial liability instruments at fair value at each reporting period of the Trust (Marketable securities which is a financial asset instrument, is carried at fair value under IFRS and was also carried at fair value under GAAP). The "fair value" financial liability instruments include convertible debentures, convertible mortgage loans, unit options and deferred units.
- In contrast, under Canadian GAAP, the accretion of the debt component of convertible debenture and convertible mortgages was changed to interest expense. and
- Under IFRS, there is a requirement to record the deferred tax adjustments on such financial instruments transactions.

The following chart reflects the impact of converting from Canadian GAAP to IFRS.

	Three Months Ended June 30	Six Months Ended June 30
	2010	2010
Expense recorded under IFRS on change in fair value of financial liability instruments	\$ 2,434,044	\$ 987,836
Expense recorded under Canadian GAAP for accretion of the debt component of convertible debenture and convertible mortgages	<u>(342,389)</u>	<u>(718,761)</u>
Increase (decrease) in recorded expense before deferred income tax adjustments	2,091,655	269,075
Deferred tax adjustments	<u>(245,615)</u>	<u>(60,283)</u>
Increase (decrease) in recorded expense	<u>1,846,040</u>	<u>208,792</u>

Additional information regarding the change in accounting policies related to the adoption of IFRS are included in the section of the MD&A, titled "Change in Accounting Policies". A detailed reconciliation of the financial position and operating results of the Temple REIT between GAAP and IFRS for the three months ended June 30, 2010, the six months ended June 30, 2010 and for the year ended December 31, 2010 is provided in Note 23 of the financial statements.

OVERVIEW OF TRUST OPERATIONS

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, and is governed by the Declaration of Trust. Temple REIT is not a "real estate investment trust" as defined in the Income Tax Act (Canada). See the "Taxation" section of the MD&A. The head office of Temple REIT is located at 2600 Seven Evergreen Place in Winnipeg, Manitoba.

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

Overall Investment Objectives and Strategy

Primary Objectives

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

Growth

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

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

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

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

Financing

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

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

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

Management

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

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

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

PROPERTY PORTFOLIO

As disclosed in the following chart, the real estate portfolio of Temple REIT consists of ten hotel properties as of June 30, 2011, comprising 1,241 rooms and with a total cost of \$265 Million. Six of the hotels are located in Fort McMurray, Alberta. The four other hotels are located in Moose Jaw, Saskatchewan; Yellowknife, Northwest Territories; Lloydminster, Alberta and Red Deer, Alberta.

The six Fort McMurray hotels encompass a total of 634 rooms, or 51% of the total rooms in the hotel portfolio. There were no changes in the number of available rooms in the hotel portfolio between January 1, 2010 and June 30, 2011.

Property Portfolio - June 30, 2011

Property	Location	Purchase Price	Acquisition Date	Rooms/Suites
Alberta				
<i>Fort McMurray</i>				
Clearwater Suite Hotel	Fort McMurray	\$ 56,500,000	March 2007	150
Merit Hotel and Suites *	Fort McMurray	35,040,000	April 2007	160
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
<i>Other</i>				
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	Moose Jaw	26,102,670	October 2006	179
Total		\$ 265,042,670		1,241

* - The Merit hotel and suites underwent an expansion in August 2009 which added 68 rooms to the 92 rooms originally purchased.

The operations of Temple Gardens hotel also encompass a 50% co-ownership agreement in regard to a 23,400 square foot casino complex which is located directly across from the Temple Gardens hotel. The casino complex, which is known as "Casino Moose Jaw", is subject to a 25-year lease maturing in 2027 under which the tenant is responsible for all costs associated with the leased premises, including structural or foundation repairs or replacement. Income derived from the co-ownership interest in the casino is included in "other hotel revenue".

RESULTS OF OPERATIONS

Summary of Quarterly Results

Quarterly Analysis - Reported under IFRS

	2011		
	Q2	Q1	YTD Total
Total revenue	\$ 18,703,635	\$ 16,666,451	\$ 35,370,086
Operating income	\$ 6,952,979	\$ 5,619,587	\$ 12,572,566
Net income (loss)	\$ 2,168,424	\$ (2,331,035)	\$ (162,611)
PER UNIT			
Operating income			
- Basic	\$ 0.38	\$ 0.36	\$ 0.36
- Diluted	\$ 0.31	\$ 0.29	\$ 0.29
Net income (loss)			
- Basic	\$ 0.12	\$ (0.15)	\$ (0.01)
- Diluted	\$ 0.11	\$ (0.15)	\$ (0.01)
Key performance indicators			
- Occupancy	72%	65%	68%
- ADR	\$ 148.15	\$ 145.60	\$ 146.94
- RevPar	\$ 106.37	\$ 94.67	\$ 100.52

Quarterly Analysis - Reported under IFRS

	2010				
	Q4	Q3	Q2	Q1	YTD Total
Total revenue	\$ 16,675,612	\$ 16,311,654	\$ 15,668,530	\$ 14,894,848	\$ 63,550,644
Operating income	\$ 5,308,927	\$ 5,881,418	\$ 5,073,476	\$ 4,786,179	\$ 21,050,000
Net income (loss)	\$ (2,287,741)	\$ 686,080	\$ (2,608,094)	\$ 650,993	\$ (3,558,762)
PER UNIT					
Operating income					
- Basic	\$ 0.41	\$ 0.46	\$ 0.39	\$ 0.37	\$ 1.66
- Diluted	\$ 0.41	\$ 0.46	\$ 0.39	\$ 0.37	\$ 1.66
Net income (loss)					
- Basic	\$ (0.18)	\$ 0.05	\$ (0.20)	\$ 0.05	\$ (0.28)
- Diluted	\$ (0.18)	\$ 0.05	\$ (0.20)	\$ 0.05	\$ (0.28)
Key performance indicators					
- Occupancy	55%	61%	55%	51%	56%
- ADR	\$ 149.00	\$ 152.97	\$ 155.18	\$ 158.97	\$ 153.92
- RevPar	\$ 81.85	\$ 92.83	\$ 86.05	\$ 81.46	\$ 85.55

Quarterly Analysis - As previously reported under Canadian GAAP

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

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

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

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

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

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

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

During the second quarter of 2010, operating income increased by \$287,297, compared to the first quarter of 2010, mainly due to a increase in operating income for the Fort McMurray hotel portfolio and the Best Western Wayside Inn, partially offset by a decrease in operating income at the Capri Centre. Excluding changes in fair value of financial instruments and income taxes the net loss decreased by \$468,707 during the second quarter of 2010, compared to the first quarter of 2010. The net loss, including the change in fair value of financial instruments adjustments and income taxes increased by \$3,259,087 during the second quarter of 2010.

During the third quarter of 2010, operating income increased by \$807,942, compared to the second quarter of 2010, mainly due to a increase in operating income throughout the hotel portfolio, with the exception of the Capri Centre. Excluding changes in fair value of financial instruments and income taxes the net income increased by \$929,795 during the third quarter of 2010, compared to the second quarter of 2010. The net income, including the change in fair value of financial instruments and income taxes increased by \$3,294,174 during the third quarter of 2010.

During the fourth quarter of 2010, operating income decreased by \$572,491, compared to the third quarter of 2010, mainly due to a decrease in operating income at Temple Gardens Mineral Spa and the Fort McMurray hotel portfolio, partially offset by an increase in operating income at the Capri Centre. Excluding the change in fair value of financial instruments and income taxes the net loss increased by \$670,442 during the fourth quarter of 2010, compared to the third quarter of 2010. The net loss, including the change in fair value of financial instruments and income taxes increased by \$2,973,821 during the fourth quarter of 2010.

During the first quarter of 2011, operating income increased by \$310,660, compared to the fourth quarter of 2010. The increase reflects an increase in operating income throughout the Temple REIT hotel portfolio with the exception of the Chateau Nova hotel, Capri Centre and the Best Western Wayside Inn. Excluding changes in fair value of financial instruments and income taxes, the net income increased by \$603,269 during the first quarter of 2011, compared to the fourth quarter of 2010. The net loss, including the change in fair value of financial instruments and income taxes, increased by \$43,294 during the first quarter of 2011.

During the second quarter of 2011, operating income increased by \$1,333,392, compared to the first quarter of 2011. The increase reflects an increase in operating income throughout the Temple REIT hotel portfolio with the Fort McMurray hotel portfolio accounting for 82% of the increase. Excluding changes in fair value of financial instruments and income taxes, the net income increased by \$1,286,072 during the second quarter of 2011, compared to the first quarter of 2011. The net income, including the change in fair value of financial instruments and income taxes increased by \$4,499,459 during the second quarter of 2011.

On a basic per unit basis, operating income was \$0.38 per unit during the second quarter of 2011, compared to \$0.39 per unit during the second quarter of 2010. The decrease in operating income on a per unit basis, reflects the increase in Trust Units from the February 2011 unit offering, largely offset by the increase in operating income.

Detailed Analysis of Operating Results

Analysis of Net Income (loss) *

	Three Months Ended June 30			Six Months Ended June 30		
	2011	2010	Increase/ (Decrease)	2011	2010	Increase/ (Decrease)
Revenue						
Room revenue	\$ 11,891,411	\$ 9,732,696	\$ 2,158,715	\$ 22,352,116	\$ 18,763,981	\$ 3,588,135
Other hotel revenue	6,812,224	5,935,834	876,390	13,017,970	11,799,397	1,218,573
Total revenue	18,703,635	15,668,530	3,035,105	35,370,086	30,563,378	4,806,708
Hotel operating costs	11,750,656	10,595,054	1,155,602	22,797,520	20,703,723	2,093,797
Operating income	6,952,979	5,073,476	1,879,503	12,572,566	9,859,655	2,712,911
Interest expense, net	3,097,536	3,573,536	(476,000)	6,433,488	7,184,288	(750,800)
Trust expense	394,217	219,383	174,834	520,049	583,390	(63,341)
Depreciation	1,774,689	1,745,028	29,661	3,532,027	3,489,626	42,401
	1,686,537	(464,471)	2,151,008	2,087,002	(1,397,649)	3,484,651
Change in fair value of financial instruments	1,029,912	(2,551,269)	3,581,181	(1,984,100)	(1,010,486)	(973,614)
Income taxes expense (recovery)	548,025	(407,646)	955,671	265,513	(451,038)	716,551
Net income (loss)	\$ 2,168,424	\$ (2,608,094)	\$ 4,776,518	\$ (162,611)	\$ (1,957,097)	\$ 1,794,486

* 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 does not provide a sub total for "income before taxes"; and
- (ii) the analysis combines the "current" and "deferred" component of income taxes into one line.

Overall Results

Comparison of Second Quarter Results

In comparison to the second quarter of 2010, the income of Temple REIT, before changes in fair value of financial instruments and income taxes, increased by \$2,151,008 during the second quarter of 2011.

The increase in is mainly due to an increase in operating income of \$1,879,503 and a decrease in interest expense of \$476,000, partially offset by a increase in trust expense by \$174,834.

After providing for changes in fair value of financial instruments and income taxes, Temple REIT completed the second quarter of 2011 with a net income of \$2,168,424, compared to a net loss of \$2,608,094 during the second quarter of 2010, representing an increase in net income of \$4,776,518.

Comparison of Six Month Results

In comparison to the first six months of 2010, the income of Temple REIT, before changes in fair value of financial instruments and income taxes, increased by \$3,484,651 during the first six months of 2011, comprised of the second quarter increase of \$2,151,008 and the first quarter increase of \$1,333,643. The proportionality higher increase in the second quarter of 2011 is mainly due to a variance in the quarterly comparatives for operating income. During the first quarter of 2011, operating income increased by \$833,408, compared to the first quarter of 2010, while the comparative increase in operating income for the second quarter of 2011 was \$1,879,503.

After providing for changes in fair value of financial instruments and income taxes, Temple REIT completed the first six months of 2011 with a net loss of \$162,611, compared to a net loss of \$1,957,097 during the first six months of 2010, representing a decrease in the net loss of \$1,794,486.

The improvement in the bottom-line results is more favourable for the 2011 second quarter comparatives than the first quarter 2011 comparatives due to the variance in the income/expense associated with the change in fair value of financial instruments.

Revenue

Hotel Market Conditions

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

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

During the first and second quarter of 2011, the RevPar of the Fort McMurray hotel portfolio was \$101.27 and \$119.68, respectively representing a continuation of the upward trend from the first three quarters of 2010. The increase in RevPar reflects an improvement in hotel market conditions in Fort McMurray primarily due to an increase in development activity and oil production in the oil sands industry.

Total Revenue

Analysis of Total Revenues

	Six Months Ended June 30				
	2011		2010		Increase/ (Decrease)
	Amount	% of Total	Amount	% of Total	
Hotel revenue					
Room	\$ 22,352,116	63 %	\$ 18,763,981	61 %	\$ 3,588,135
Other	<u>13,017,970</u>	<u>37 %</u>	<u>11,799,397</u>	<u>39 %</u>	<u>1,218,573</u>
Total	<u>\$ 35,370,086</u>	<u>100 %</u>	<u>\$ 30,563,378</u>	<u>100 %</u>	<u>\$ 4,806,708</u>

The revenue of Temple REIT is comprised of "room revenue" and "other hotel revenue". As disclosed in the preceding chart, total revenue increased by \$4,806,708 during the first six months of 2011, compared to the first six months of 2010, comprised of a \$3,588,135 increase in room revenue and a \$1,218,573 increase in other hotel revenue.

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

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

Hotel Revenue

Analysis of Total Hotel Revenues

	Three Months Ended June 30			Six Months Ended June 30		
	2011	2010	Increase/ (Decrease)	2011	2010	Increase/ (Decrease)
Fort McMurray						
Room revenue	\$ 6,979,854	\$ 5,259,724	\$ 1,720,130	\$ 12,722,567	\$ 10,212,125	\$ 2,510,442
Other hotel revenue	<u>470,248</u>	<u>412,610</u>	<u>57,638</u>	<u>896,008</u>	<u>810,557</u>	<u>85,451</u>
	<u>\$ 7,450,102</u>	<u>\$ 5,672,334</u>	<u>\$ 1,777,768</u>	<u>\$ 13,618,575</u>	<u>\$ 11,022,682</u>	<u>\$ 2,595,893</u>
Temple Gardens Mineral Spa						
Room revenue	1,929,965	\$ 1,977,409	(47,444)	3,845,098	\$ 3,942,963	(97,865)
Other hotel revenue	<u>1,158,614</u>	<u>1,184,944</u>	<u>(26,330)</u>	<u>2,295,556</u>	<u>2,373,255</u>	<u>(77,699)</u>
	<u>\$ 3,088,579</u>	<u>\$ 3,162,353</u>	<u>\$ (73,774)</u>	<u>\$ 6,140,654</u>	<u>\$ 6,316,218</u>	<u>\$ (175,564)</u>
Chateau Nova						
Room revenue	569,022	\$ 536,850	32,172	1,121,343	\$ 1,018,794	102,549
Other hotel revenue	<u>29,951</u>	<u>18,468</u>	<u>11,483</u>	<u>59,919</u>	<u>37,014</u>	<u>22,905</u>
	<u>\$ 598,973</u>	<u>\$ 555,318</u>	<u>\$ 43,655</u>	<u>\$ 1,181,262</u>	<u>\$ 1,055,808</u>	<u>\$ 125,454</u>
Best Western Wayside Inn						
Room revenue	1,015,472	\$ 766,181	249,291	1,983,926	\$ 1,377,731	606,195
Other hotel revenue	<u>1,083,166</u>	<u>740,820</u>	<u>342,346</u>	<u>1,998,789</u>	<u>1,342,155</u>	<u>656,634</u>
	<u>\$ 2,098,638</u>	<u>\$ 1,507,001</u>	<u>\$ 591,637</u>	<u>\$ 3,982,715</u>	<u>\$ 2,719,886</u>	<u>\$ 1,262,829</u>
Capri Centre						
Room revenue	1,397,098	\$ 1,192,532	204,566	2,679,182	\$ 2,212,368	466,814
Other hotel revenue	<u>4,070,245</u>	<u>3,578,992</u>	<u>491,253</u>	<u>7,767,698</u>	<u>7,236,416</u>	<u>531,282</u>
	<u>\$ 5,467,343</u>	<u>\$ 4,771,524</u>	<u>\$ 695,819</u>	<u>\$ 10,446,880</u>	<u>\$ 9,448,784</u>	<u>\$ 998,096</u>
Total						
Room revenue	\$ 11,891,411	\$ 9,732,696	\$ 2,158,715	\$ 22,352,116	\$ 18,763,981	\$ 3,588,135
Other hotel revenue	<u>6,812,224</u>	<u>5,935,834</u>	<u>876,390</u>	<u>13,017,970</u>	<u>11,799,397</u>	<u>1,218,573</u>
Total hotel revenue	<u>\$ 18,703,635</u>	<u>\$ 15,668,530</u>	<u>\$ 3,035,105</u>	<u>\$ 35,370,086</u>	<u>\$ 30,563,378</u>	<u>\$ 4,806,708</u>

Room Revenue

Room revenue increased by \$2,158,715 or 22% during the second quarter of 2011, compared to the second quarter of 2010. The increase in room revenue mainly reflects an increase in room revenue from all hotel properties with the exception of a relatively modest decrease in room revenue from the Temple Gardens Mineral Spa. As disclosed in the chart above, the room revenue from the Fort McMurray hotel portfolio increased by \$1,720,130 during the second quarter of 2011, compared to the second quarter of 2010, representing 80% of the total increase in room revenue. The room revenue for the Best Western Wayside Inn increased by \$249,291, representing 12% of the total increase in room revenue, while room revenue for the Capri Centre increased by \$204,566, representing 9% of the total increase.

As disclosed in the following chart, RevPar for the Fort McMurray hotel portfolio increased by \$28.99 during the second quarter of 2011, compared to the second quarter of 2010, mainly due to an increase in the occupancy level, partially offset by a decrease in the average daily room rate (ADR). RevPar for the Best Western Wayside Inn and the Capri Centre increased by \$21.66 and \$10.27, respectively during the second quarter of 2011, compared to the second quarter of 2010, mainly due to an increase in the occupancy level.

During the second quarter of 2011, the Chateau Nova hotel achieved an increase in room revenue of \$32,172 or 6%, compared to the second quarter of 2010; however, due to the small size of the hotel the contribution to the overall increase in revenue was relatively modest. The Temple Gardens hotel experienced a decrease in room revenue of \$47,444.

During the first six months of 2011, room revenue increased by \$4,806,708 or 16%, compared to the first six months of 2010. The improvement in room revenue results for the six month period is mainly due to the same factors which contributed to the increase in room revenue during the second quarter of 2011, with the main exception being that the improvement in room revenue results for the Fort McMurray hotel portfolio was proportionately higher in the second quarter of 2011 as a result of comparatively higher increase in the occupancy level.

Room Revenue Statistics

	Six Months Ended June 30					
	2011			2010		
	Occ	ADR	RevPar	Occ	ADR	RevPar
Fort McMurray	73 %	\$ 152.08	\$ 110.47	52 %	\$ 199.45	\$ 115.15
Temple Gardens	72 %	\$ 167.75	\$ 121.31	76 %	\$ 160.19	\$ 122.06
Chateau Nova	58 %	\$ 134.98	\$ 77.81	50 %	\$ 140.37	\$ 70.42
Best Western Wayside Inn	67 %	\$ 126.53	\$ 85.13	47 %	\$ 124.40	\$ 58.86
Capri Centre	55 %	\$ 123.28	\$ 68.07	46 %	\$ 122.70	\$ 56.28
Overall Portfolio	68 %	\$ 146.94	\$ 100.52	53 %	\$ 157.00	\$ 83.75

Room Revenue Statistics

	Three Months Ended June 30					
	2011			2010		
	Occ	ADR	RevPar	Occ	ADR	RevPar
Fort McMurray	78 %	\$153.25	\$ 119.68	53 %	\$ 169.98	\$ 90.69
Temple Gardens	73 %	\$169.78	\$ 123.09	76 %	\$ 160.22	\$ 121.45
Chateau Nova	57 %	\$137.06	\$ 78.26	54 %	\$ 137.32	\$ 73.83
Best Western Wayside Inn	68 %	\$127.57	\$ 86.96	53 %	\$ 123.20	\$ 65.30
Capri Centre	58 %	\$121.91	\$ 70.67	50 %	\$ 121.54	\$ 60.40
Overall portfolio	72 %	\$148.15	\$ 106.37	55 %	\$ 155.18	\$ 86.05

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

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

Other Hotel Revenue

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

As reflected in the "Hotel Revenue Analysis" chart, there are three hotels which generate proportionately higher levels of other hotel revenue, namely the Capri Centre, the Temple Gardens Hotel and the Best Western Wayside Inn. The Capri Centre, which is the highest contributor to other hotel revenue, has numerous income-generating amenities, including a 53,110 square foot conference centre, three restaurants, three lounges, a leased gift shop, clothing store and hair salon and a free-standing liquor store. During the second quarter of 2011, the total contribution to revenue by the Capri Centre amounted to \$5,467,343, of which \$4,070,245 or 74% was attributable to "other hotel revenue".

During the second quarter of 2011, other hotel revenue increased by \$876,390 or 15%, compared to the second quarter of 2010, mainly due to an increase in other hotel revenue at the Capri Centre and the Best Western Wayside Inn. The increase in other hotel revenue at the Capri Centre and the Best Western Wayside Inn mainly reflects the improvement in the occupancy level of the hotels. The Best Western Wayside Inn also assumed management of the hotel restaurant operations during the third quarter of 2010 which contributed to the increase in other hotel revenue.

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

As disclosed in the following sections of this report, the Best Western Wayside Inn and the Capri Centre experienced the highest increase in operating costs during the second quarter of 2011, although, for both hotels, the increase in total revenue exceeded the increase in operating costs.

During the first six months of 2011, other hotel revenue increased by \$1,218,573 or 10%, compared to the first six months of 2010. The increase in other hotel revenue for the first six months of 2011 is also mainly attributable to the Capri Centre and Best Western Wayside Inn.

Hotel Operating Costs

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

Analysis of Operating Expenses

	Three Months Ended June 30			Six Months Ended June 30		
	2011	2010	Increase/ (Decrease)	2011	2010	Increase/ (Decrease)
Fort McMurray						
Operating costs	\$ 2,743,441	\$ 2,403,073	\$ 340,368	\$ 5,322,254	\$ 4,761,519	\$ 560,735
Property taxes and insurance	305,744	351,982	(46,238)	632,224	752,629	(120,405)
Fees	261,066	198,606	62,460	476,984	394,758	82,226
	<u>\$ 3,310,251</u>	<u>\$ 2,953,661</u>	<u>\$ 356,590</u>	<u>\$ 6,431,462</u>	<u>\$ 5,908,906</u>	<u>\$ 522,556</u>
Temple Gardens						
Operating costs	2,119,398	2,091,761	27,637	4,262,623	4,193,209	69,414
Property taxes and insurance	173,808	202,877	(29,069)	376,118	404,583	(28,465)
Fees	124,346	126,999	(2,653)	247,974	253,691	(5,717)
	<u>\$ 2,417,552</u>	<u>\$ 2,421,637</u>	<u>\$ (4,085)</u>	<u>\$ 4,886,715</u>	<u>\$ 4,851,483</u>	<u>\$ 35,232</u>
Chateau Nova						
Operating costs	368,710	358,200	10,510	782,937	694,617	88,320
Property taxes and insurance	38,993	42,387	(3,394)	79,824	81,997	(2,173)
Fees	23,960	22,197	1,763	47,251	42,229	5,022
	<u>\$ 431,663</u>	<u>\$ 422,784</u>	<u>\$ 8,879</u>	<u>\$ 910,012</u>	<u>\$ 818,843</u>	<u>\$ 91,169</u>
Best Western Wayside Inn						
Operating costs	1,349,462	942,902	406,560	2,552,520	1,765,956	786,564
Property taxes and insurance	33,935	41,635	(7,700)	75,003	81,666	(6,663)
Fees	82,502	70,170	12,332	159,740	135,307	24,433
	<u>\$ 1,465,899</u>	<u>\$ 1,054,707</u>	<u>\$ 411,192</u>	<u>\$ 2,787,263</u>	<u>\$ 1,982,929</u>	<u>\$ 804,334</u>
Capri Centre						
Operating costs	3,756,471	3,432,795	323,676	7,080,188	6,537,051	543,137
Property taxes and insurance	151,297	134,147	17,150	274,154	255,279	18,875
Fees	217,523	175,323	42,200	427,726	349,232	78,494
	<u>\$ 4,125,291</u>	<u>\$ 3,742,265</u>	<u>\$ 383,026</u>	<u>\$ 7,782,068</u>	<u>\$ 7,141,562</u>	<u>\$ 640,506</u>
Total						
Operating costs	\$ 10,337,482	\$ 9,228,731	\$ 1,108,751	\$ 20,000,522	\$ 17,952,352	\$ 2,048,170
Property taxes and insurance	703,777	773,028	(69,251)	1,437,323	1,576,154	(138,831)
Fees	709,397	593,295	116,102	1,359,675	1,175,217	184,458
Total hotel operating costs	<u>\$ 11,750,656</u>	<u>\$ 10,595,054</u>	<u>\$ 1,155,602</u>	<u>\$ 22,797,520</u>	<u>\$ 20,703,723</u>	<u>\$ 2,093,797</u>

Notes:

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

Analysis of Fees included in Operating Expenses

	Three Months Ended June 30			Six Months Ended June 30		
	2011	2010	Increase/ (Decrease)	2011	2010	Increase/ (Decrease)
Atlicif property management fees	\$ 427,672	\$ 357,019	\$ 70,653	\$ 826,387	\$ 714,277	\$ 112,110
Shelter asset management fees	281,725	236,276	45,449	533,288	460,940	72,348
Total	<u>\$ 709,397</u>	<u>\$ 593,295</u>	<u>\$ 116,102</u>	<u>\$ 1,359,675</u>	<u>\$ 1,175,217</u>	<u>\$ 184,458</u>

During the second quarter of 2011, hotel operating costs increased by \$1,155,602, compared to the second quarter of 2010. As disclosed in the analysis of hotel operating costs, the increase in costs was mainly experienced at the hotels which achieved the highest revenue increases during the second quarter of 2011, namely the Fort McMurray hotel portfolio, Capri Centre and the Best Western Wayside Inn.

The hotel with the highest increase in operating costs, the Best Western Wayside Inn, also experienced a significant increase in total revenue. During the second quarter of 2011, operating costs at the Best Western Wayside Inn increased by \$411,192 or 39%, while hotel revenues increased by \$591,637 or 39%. The increase in operating costs is mainly due to cost of sales relating to food service at the restaurant as well as higher labour costs.

During the first six months of 2011, hotel operating costs increased by \$2,093,797, compared to the first six months of 2010. As disclosed in the analysis of operating expenses chart, the increase is mainly due to an increase in operating costs at the Fort McMurray hotel portfolio, the Best Western Wayside Inn and the Capri Centre.

Operating Income and Profit Margin

	Operating Income				Operating Profit Margin			
	Amount							
	Three Months Ended		Six Months Ended		Three Months Ended		Six Months Ended	
	June 30 2011	June 30 2010	June 30 2011	June 30 2010	June 30 2011	June 30 2010	June 30 2011	June 30 2010
Fort McMurray	\$ 4,139,851	\$ 2,718,672	\$ 7,187,113	\$ 5,113,776	56 %	48 %	53 %	46 %
Temple Gardens	671,027	740,717	1,253,939	1,464,735	22 %	23 %	20 %	23 %
Chateau Nova	167,310	132,534	271,250	236,965	28 %	24 %	23 %	22 %
Best Western W.I.	632,739	452,294	1,195,452	736,957	30 %	30 %	30 %	27 %
Capri Centre	<u>1,342,052</u>	<u>1,029,259</u>	<u>2,664,812</u>	<u>2,307,222</u>	<u>25 %</u>	<u>22 %</u>	<u>26 %</u>	<u>24 %</u>
Total	<u>\$ 6,952,979</u>	<u>\$ 5,073,476</u>	<u>\$12,572,566</u>	<u>\$ 9,859,655</u>	<u>37 %</u>	<u>32 %</u>	<u>36 %</u>	<u>32 %</u>

After accounting for the increase in total revenues and the increase in hotel operating costs, the operating income of the Trust increased by \$1,879,503 or 37% during the second quarter of 2011, compared to the second quarter of 2010. The increase in operating income is mainly attributable to an increase in operating income at the Fort McMurray hotel portfolio, and, to a lesser extent, at the Capri Centre and the Best Western Wayside Inn. In general terms, the increase in operating income for the Fort McMurray portfolio is mainly due to an increase in room revenue while the increase in operating income at the Capri Centre and the Best Western Wayside Inn is mainly due to both an increase in room and other hotel revenue.

During the first six months of 2011, the operating income of the Trust increased by \$2,712,911 or 28%, compared to the first six months of 2010. The six month increase is comprised of an increase of \$833,408 in the first quarter of 2011 and a \$1,879,503 increase in the second quarter of 2011.

As disclosed in the preceding chart, the overall profit margin of the entire hotel portfolio increased from 32% during the second quarter of 2010, to 37% during the second quarter of 2011. For the six months ended June 30, 2011, the overall profit margin increased from 32% in 2010, to 36% in 2011.

Interest Expense, Net

	Three Months Ended June 30			Six Months Ended June 30		
	2011	2010	Increase/ (Decrease)	2011	2010	Increase/ (Decrease)
Interest expense	\$ 3,186,527	\$ 3,659,126	\$ (472,599)	\$ 6,611,625	\$ 7,356,048	\$ (744,423)
Add/(deduct):						
Interest revenue	\$ (9,823)	\$ (4,150)	\$ (5,673)	(19,218)	(8,336)	(10,882)
Finance lease interest revenue	<u>(79,168)</u>	<u>(81,440)</u>	<u>2,272</u>	<u>(158,919)</u>	<u>(163,424)</u>	<u>(4,505)</u>
Total interest expense, net	<u>\$ 3,097,536</u>	<u>\$ 3,573,536</u>	<u>\$ (476,000)</u>	<u>\$ 6,433,488</u>	<u>\$ 7,184,288</u>	<u>\$ (750,800)</u>

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

During the first six months of 2011, "Interest expense, net" decreased by \$750,800, compared to the first six months of 2010, mainly due to a decrease in interest expense.

Interest Revenue and Finance Lease Interest Revenue

Interest revenue is comprised of interest revenue on the excess cash reserves of the Trust, and interest revenue on defeasance assets. Finance lease interest revenue consists of income related to the co-ownership interest of the Temple Gardens hotel in the "Casino Moose Jaw". During the first six months of 2011 interest revenue increased by \$10,882 compared to the first six months of 2010, while finance lease interest income decreased by \$4,505.

Interest Expense

Total Interest Expense

The interest expense of Temple REIT pertains to mortgage loan debt and convertible debenture debt. For the 2010 comparable period, interest expense also pertains to the defeased loan. During the first six months of 2011, interest expense in regard to mortgage loan debt accounted for 77% (2010 - 78%) of the total interest expense of the Trust and interest expense in regard to debenture debt accounted for 23% (2010 - 22%). The change in percentage reflects the interest expense on the defeased loan recorded in 2010.

Interest expense encompasses interest expense on mortgage loan debt and convertible debentures and defeased loan interest, as well as amortization charges for transaction costs. The amortization charges for transaction costs are non-cash expenses. During the first six months of 2011, the "non-cash" component of interest expense represented 4% of the total interest expense compared to 5% during the first six months of 2010.

As disclosed in the following analysis, total interest expense decreased by \$744,423 or 10% during the first six months of 2011, compared to the first six months of 2010. The decrease is mainly attributable to a reduction of outstanding debt.

Analysis of Interest Expense

	Three Months Ended June 30			Three Months Ended June 30		
	2011	2010	Increase/ (Decrease)	2011	2010	Increase/ (Decrease)
Mortgage loans						
Interest on mortgage loans	\$ 2,241,333	\$ 2,673,646	\$ (432,313)	\$ 4,727,393	\$ 5,306,595	\$ (579,202)
Convertible mortgage loan interest	51,042	50,486	556	100,973	50,637	50,336
Amortization of transaction costs	150,098	134,797	15,301	265,918	327,002	(61,084)
Subtotal	<u>2,442,473</u>	<u>2,858,929</u>	<u>(416,456)</u>	<u>5,094,284</u>	<u>5,684,234</u>	<u>(589,950)</u>
Defeasance Loan						
Interest	-	-	-	-	64,172	(64,172)
Amortization of transaction costs	-	3,708	(3,708)	-	14,664	(14,664)
Total - mortgage loans	<u>-</u>	<u>3,708</u>	<u>(3,708)</u>	<u>-</u>	<u>78,836</u>	<u>(78,836)</u>
Debentures						
Interest on convertible debentures	<u>744,054</u>	<u>796,489</u>	<u>(52,435)</u>	<u>1,517,341</u>	<u>1,592,978</u>	<u>(75,637)</u>
Interest expense	<u>\$ 3,186,527</u>	<u>\$ 3,659,126</u>	<u>\$ (472,599)</u>	<u>\$ 6,611,625</u>	<u>\$ 7,356,048</u>	<u>\$ (744,423)</u>
Cash component of interest expense	<u>\$ 3,036,429</u>	<u>\$ 3,520,621</u>	<u>\$ (484,192)</u>	<u>\$ 6,345,707</u>	<u>\$ 7,014,382</u>	<u>\$ (668,675)</u>

Cash Component of Interest Expense

Six Month Comparatives

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

The cash component of interest expense is adjusted for purposes of calculating "interest paid" on the Consolidated Statements of Cash Flows. Specifically, interest paid on the Consolidated Statements of Cash Flows of \$6,456,697 includes the cash component of interest expense of \$6,345,707, plus the decrease in accrued interest between December 31, 2010 and June 30, 2011 of \$110,990.

Mortgage Loan Debt

Interest on mortgage loan debt decreased by \$579,202 or 11%, during the first six months of 2011, compared to the first six months of 2010. The decrease in interest on mortgage loan debt reflects the following financing transactions:

- As of December 31, 2009, the long-term debt of Temple REIT included a 12% "interest-only" second mortgage loan in regard to the Merit Hotel with a balance of \$7,040,000. On October 31, 2010, the loan was reduced to \$6,540,000 and on February 11, 2011 the loan was fully repaid. As a result of the lump-sum repayments, the interest expense associated with the second mortgage loan decreased by \$273,392 during the first six months of 2011, of which \$210,621 or 77% pertains to the second quarter of 2011.
- In February 2011, the 6.83% first mortgage loan for the Clearwater Suites hotel was reduced by \$9 million. On April 1, 2011, the loan was further reduced by \$1 million of funds which were being held in escrow by the lender in regard to the furniture, fixture and equipment reserve fund. As a result of the paydown, interest expense associated with the Clearwater loan decreased by \$286,040 during the first six months of 2011, of which \$188,547 or 66% pertains to the second quarter of 2011.
- In May 2010, Temple REIT obtained a \$5 million mortgage loan for the Temple Gardens hotel at an interest rate of 4.32%. The increase in interest expense associated with the additional debt during the first six months of 2011 was \$92,137, of which \$40,526 or 44% pertains to the second quarter of 2011.
- During the twelve month period ended June 30, 2011 regular payments of the mortgage loan debt amounted to \$6,325,201. Based on the weighted average interest rate for mortgage loan debt, the principal repayments represent an interest reduction of approximately \$105,000 for the six months ended June 30, 2011. The interest reduction for the second quarter of 2011 is approximately \$65,000 or 62% of the total.

Convertible Debentures

Interest on convertible debenture debt decreased by \$75,637 or 5% during the first six months of 2011, compared to the first six months of 2010. The decrease in interest expense reflects the conversion of convertible debentures.

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

Defeased Loan

Interest expense on the defeased loan amounted to by \$64,172 during the first six months of 2010, compared to \$nil during to the first six months of 2011, as the defeased loan was extinguished effective April 1, 2010. Interest income on defeasance assets also decreased by \$2,370 during the first six months of 2011.

Total

During the first six months of 2011, the cash component of interest expense decreased by \$668,675, compared to the first six months of 2010, of which \$484,192 or 72% pertains to the second quarter of 2010.

Second Quarter Comparatives

Interest expense decreased by \$472,599 during the second quarter of 2011, compared to the second quarter of 2010, representing 63% of the decrease for the six month comparative periods. The second quarter comparatives reflect three months of reduced interest in regard to the repayment of the second mortgage loan for the Merit Hotel and the paydown of the first mortgage loan for the Clearwater Suites hotel, compared to approximately 1.5 months in the first quarter.

The second quarter comparatives reflect a higher interest reduction in regard to regular payment.

Transaction costs

Transaction costs related to debt are capitalized and expensed through amortization charges. Amortization charges represent a "non-cash" expense and are excluded from the determination of cash flow from operating activities. The actual cash outlay in regard to transaction costs is included in the determination of cash flow from financing activities.

During the first six months of 2011, expenditures on transaction costs amounted to \$282,570 compared to \$44,226 during the first six months of 2010. Transaction costs for the second quarter of 2011 were \$272,250, compared to \$43,204 for the second quarter of 2010. The higher level of transaction costs in the second quarter of 2011 reflect final billings for expenses related to the mortgage loan transactions in the first quarter of 2011.

Trust Expense

Analysis of Trust Expense

	Three Months Ended June 30			Six Months Ended June 30		
	2011	2010	Increase/ (Decrease)	2011	2010	Increase/ (Decrease)
Professional and legal fees	\$ 143,341	\$ 109,464	\$ 33,877	\$ 169,114	\$ 254,833	\$ (85,719)
TSX and other reporting/filing fees	26,027	24,634	1,393	70,636	80,067	(9,431)
Other administrative costs	51,014	70,281	(19,267)	96,087	100,822	(4,735)
Shelter asset management fees (1)	125	(1,999)	2,124	503	2,095	(1,592)
Sub-total	220,507	202,380	18,127	336,340	437,817	(101,477)
Unit based compensation	173,710	17,003	156,707	183,709	145,573	38,136
Total - trust expense	\$ 394,217	\$ 219,383	\$ 174,834	\$ 520,049	\$ 583,390	\$ (63,341)

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

General

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

Trust expense decreased by \$63,341 or 11% during the first six months of 2011, compared to the first six months of 2010. The decrease mainly reflects a decrease in professional and legal fees partially offset by an increase in unit based compensation.

The decrease in professional fees mainly reflects the fact that professional fees were comparatively high during the first quarter of 2010 due to the fees which were incurred in regard to the convertible debenture offering in November 2009 and a review of income tax and audit issues.

The increase in unit based compensation mainly reflects the granting of 400,000 unit options during the second quarter of 2011 at a cost of \$152,836, compared to the granting of 80,000 unit options during the first quarter of 2010 at a cost of \$116,370.

The decrease in Trust expense for the first six months of 2011 is comprised of a decrease of \$238,175 in the first quarter of 2011 and a increase of \$174,834 in the second quarter of 2011. The variance in the quarterly comparative results reflects differences in the timing and extent of unit options granted and the fact that the favourable variance in professional fee pertains to the first quarter comparatives.

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 2011 and the first six months of 2010 amounted to \$66,803 and \$81,880 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 2011, 7,127 deferred units were issued to Trustees under the Deferred Unit Plan, at weighted average market value of \$4.33 per unit, representing a total value of \$30,873 or 46% of the total Trustees fees of \$66,803. Trustee fees received in deferred units are reflected in "unit-based compensation". Trustee fees paid in cash are reflected in "other administrative costs".

Unit Based Compensation

Trust Units issued by Temple REIT under its unit option plan or deferred unit plan are considered to be "unit based compensation".

The fair value of Trust Units granted and the gain or loss of Trust Units exercised during the year under the unit option plan, as well as the fair value of units granted under the deferred unit plan, represents the total amount of unit based compensation component of Trust expense.

During the first six months of 2011, the unit based compensation component of trust expense increased by \$38,136, compared to the first six months of 2010.

The fair value of outstanding unit options and outstanding deferred units is reflected as a liability of the Trust as "unit based compensation". The change in fair value during each reporting period is recorded as a loss or gain in the income statement under "Change in fair value of financial instruments".

Additional information regarding the Unit Option Plan and Deferred Unit Plan are disclosed in Note 11 of the June 30, 2011 Financial Statements of Temple REIT.

Depreciation

During the first six months of 2011, depreciation charges increased by \$42,401 compared to the first six months of 2010.

Change in Fair Value of Financial Instruments

In accordance with IFRS, certain financial instruments are recognized at fair value at the end of each reporting period. The financial instruments include assets (marketable securities) and liabilities (convertible debentures, the convertible mortgage loan and unit based compensation). The fair value of marketable securities and convertible debentures is determined based on the trading prices for the securities/debentures on the last trading day of the quarter. The fair value of the convertible mortgage loan is determined based on the Canada bond yield for the specified term of the convertible mortgage loan for unit options. For outstanding unit options, the fair value is based on the Black-Scholes model and for deferred units the fair value is based on the trading price for Trust Units on the last trading day of the quarter.

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

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

COMPARISON TO PRIOR QUARTER

Analysis of Net Income (loss) - Q2 2011 vs. Q1 2011

	Q2 2011	Q1 2011	Increase/ (Decrease)
Revenue			
Room	\$ 11,891,411	\$ 10,460,705	\$ 1,430,706
Other	6,812,224	6,205,746	606,478
Total revenue	18,703,635	16,666,451	2,037,184
Hotel operating costs	11,750,656	11,046,864	703,792
Operating income	6,952,979	5,619,587	1,333,392
Interest expense, net	3,097,536	3,335,952	(238,416)
Trust expense	394,217	125,832	268,385
Depreciation	1,774,689	1,757,338	17,351
	1,686,537	400,465	1,286,072
Change in fair value of financial instruments	(1,029,912)	3,014,012	(4,043,924)
Income taxes expense (recovery)	548,025	(282,512)	830,537
Net income (loss)	\$ 2,168,424	\$ (2,331,035)	\$ 4,499,459

As disclosed in the preceding chart, income before change in fair value of financial instruments and income taxes increased by \$1,286,072 during the second quarter of 2011, compared to the first quarter of 2011. The increase in income mainly reflects an increase in operating income and a decrease in interest expense partially offset by an increase in trust expenses.

During the second quarter of 2011, operating income increased by \$1,333,392 or 24%. The increase in operating income is mainly due to an increase in operating income at the Fort McMurray hotel portfolio.

The increase in operating income for the Fort McMurray hotel portfolio is mainly due to an increase in room revenue. The increase in room revenue reflects an increase in the occupancy level of the hotel portfolio as well as an increase in the average daily room rate.

As disclosed in the following chart, occupancy levels improved throughout the hotel portfolio during the second quarter of 2011 with the exception of the Chateau Nova which experienced a minor decrease in the occupancy level. Average daily room rates increased throughout the hotel portfolio, with the exception of the Capri Centre. After considering the overall increase in occupancy levels and the overall increase in the average daily room rates, the RevPar of the hotel portfolio was \$106.37 per room during the second quarter of 2011, compared to \$94.67 per room during the first quarter of 2011. The RevPar of every hotel was also higher during the second quarter of 2011, compared to the first quarter of 2011.

Room Revenue Statistics

	Three Months Ended					
	Q2 2011			Q1 2011		
	Occ	ADR	RevPar	Occ	ADR	RevPar
Fort McMurray	78 %	\$ 153.25	\$ 119.68	67 %	\$ 150.71	\$ 101.27
Temple Gardens	73 %	\$ 169.78	\$ 123.09	72 %	\$ 165.71	\$ 119.53
Chateau Nova	57 %	\$ 137.06	\$ 78.26	58 %	\$ 132.93	\$ 77.36
Best Western Wayside Inn	68 %	\$ 127.57	\$ 86.96	66 %	\$ 125.46	\$ 83.31
Capri Centre	58 %	\$ 121.91	\$ 70.67	52 %	\$ 124.80	\$ 65.48
Overall portfolio	72 %	\$ 148.15	\$ 106.37	65 %	\$ 145.60	\$ 94.67

During the second quarter of 2011, interest expense, net decreased by \$238,416 compared to the first quarter of 2011. The decrease in interest expense mainly reflects a full quarter of interest savings following the lump-sum repayment of mortgage loan debt from the proceeds of the public offering of Trust Units in mid-February 2011. After reflecting the change in fair value financial instruments and income tax expense, the net income increased by \$4,499,459 during the second quarter of 2011 compared to the first quarter of 2011. The variance in the fair value gain of \$1,029,912 during the second quarter of 2011, compared to the fair value loss of \$3,014,012 during the first quarter of 2011, served to increase income for the second quarter of 2011 by \$4,043,924 compared to the first quarter of 2011. The variance in fair value mainly reflects a decrease in the trading price of the convertible debentures during the second quarter of 2011, compared to an increase in the trading price of the convertible debentures during the first quarter of 2011.

ANALYSIS OF CASH FLOWS

Operating

	Three Months Ended June 30			Six Months Ended June 30		
	2011	2010	Increase/ (Decrease)	2011	2010	Increase/ (Decrease)
Total revenue	\$ 18,703,635	\$15,668,530	\$ 3,035,105	\$35,370,086	\$30,563,378	\$ 4,806,708
Hotel operating costs	<u>11,750,656</u>	<u>10,595,054</u>	<u>1,155,602</u>	<u>22,797,520</u>	<u>20,703,723</u>	<u>2,093,797</u>
Operating Income	6,952,979	5,073,476	1,879,503	12,572,566	9,859,655	2,712,911
Gain on sale of equipment	<u>(8,199)</u>	-	<u>(8,199)</u>	<u>(8,199)</u>	-	<u>(8,199)</u>
	<u>6,944,780</u>	<u>5,073,476</u>	<u>1,871,304</u>	<u>12,564,367</u>	<u>9,859,655</u>	<u>2,704,712</u>
Interest paid	3,632,859	4,005,149	(372,290)	6,456,697	7,081,550	(624,853)
Interest received	<u>(88,991)</u>	<u>(85,590)</u>	<u>(3,401)</u>	<u>(178,137)</u>	<u>(171,760)</u>	<u>(6,377)</u>
	<u>3,543,868</u>	<u>3,919,559</u>	<u>(375,691)</u>	<u>6,278,560</u>	<u>6,909,790</u>	<u>(631,230)</u>
Trust expense	394,217	219,383	174,834	520,049	583,390	(63,341)
Unit-based compensation	<u>(173,710)</u>	<u>(17,003)</u>	<u>(156,707)</u>	<u>(183,709)</u>	<u>(145,573)</u>	<u>(38,136)</u>
Cash component of trust expense	<u>220,507</u>	<u>202,380</u>	<u>18,127</u>	<u>336,340</u>	<u>437,817</u>	<u>(101,477)</u>
Income taxes paid	<u>43,015</u>	<u>261,365</u>	<u>(218,350)</u>	<u>120,291</u>	<u>263,394</u>	<u>(143,103)</u>
Cash provided by operating activities, before working capital adjustments	3,137,390	690,172	2,447,218	5,829,176	2,248,654	3,580,522
Working capital adjustments	<u>(424,543)</u>	<u>(49,152)</u>	<u>(375,391)</u>	<u>(1,062,559)</u>	<u>(179,953)</u>	<u>(882,606)</u>
Cash provided by operating activities	<u>\$ 2,712,847</u>	<u>\$ 641,020</u>	<u>\$ 2,071,827</u>	<u>\$ 4,766,617</u>	<u>\$ 2,068,701</u>	<u>\$ 2,697,916</u>
Per unit						
Basic	<u>\$ 0.15</u>	<u>\$ 0.05</u>	<u>\$ 0.10</u>	<u>\$ 0.28</u>	<u>\$ 0.16</u>	<u>\$ 0.12</u>
Diluted	<u>\$ 0.12</u>	<u>\$ 0.05</u>	<u>\$ 0.07</u>	<u>\$ 0.28</u>	<u>\$ 0.16</u>	<u>\$ 0.12</u>

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

Cash from Operating Activities

During the first six months of 2011, Temple REIT generated cash from operating activities of \$4,766,617, compared to \$2,068,701 during the first six months of 2010. After excluding working capital adjustments, cash from operating activities amounted to \$5,829,176, representing an increase of \$3,580,522 compared to the first six months of 2010. The increase mainly reflects an increase in operating income of \$2,704,712 and a decrease in interest paid, net of interest received, of \$631,230.

The increase in cash from operating activities, before working capital adjustments of \$3,580,522, is comprised of an increase of \$1,133,304 in the first quarter of 2011 and an increase of \$2,447,218 in the second quarter of 2011. The increase in the second quarter of 2011 is proportionately larger as the favourable variance in operating income and "interest paid" is higher for the second quarter of 2011.

Funds From Operations ("FFO")

FFO is a non-IFRS measurement of the cash generating abilities of an entity which is widely used by the real estate industry. As disclosed in the following chart, the FFO of Temple REIT was \$5,719,862 or \$0.34 per unit during the first six months of 2011, compared to \$2,099,664 or \$0.16 per unit during the first six months of 2010.

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

Funds from Operations

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Net income (loss)	\$ 2,168,424	\$ (2,608,094)	\$ (162,611)	\$ (1,957,097)
Add:				
Deferred income taxes (recovered)	495,636	(476,849)	182,637	(588,924)
Change in fair value of financial instruments	(1,029,912)	2,551,269	1,984,100	1,010,486
Unit-based compensation	173,710	17,003	183,709	145,573
Depreciation	1,774,689	1,745,028	3,532,027	3,489,626
Funds from operations	<u>\$ 3,582,547</u>	<u>\$ 1,228,357</u>	<u>\$ 5,719,862</u>	<u>\$ 2,099,664</u>
Funds from operations - Per unit				
- basic	\$0.20	\$0.10	\$0.34	\$0.16
- diluted	\$0.16	\$0.10	\$0.34	\$0.16

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

Distributable Income

Distributable income is a financial measurement which is commonly used to assess the cash distribution capabilities and cash flows of investment trusts and, as such, management believes that the disclosure of distributable income provides useful information to investors. Distributable income does not have any standardized meaning prescribed by IFRS and, therefore, the method that is used by Temple REIT for calculating distributable income may not be comparable to similar measures presented by other issuers. The most directly comparable IFRS measurement of the cash flows of Temple REIT is "net cash flow from operating activities", as disclosed in the Consolidated Statement of Cash Flows in the financial statements. Accordingly, a reconciliation between the net cash flow 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 additional source of cash to the extent that operating cash flow is not sufficient to fund principal payments on mortgage loan debt, capital expenditures and distributions.

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

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

Reconciliation Between Distributable Income and Net Cash Flow From Operating Activities

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Net cash flow from operating activities, per Statement of Cash Flow	\$ 2,712,847	\$ 641,020	\$ 4,766,617	\$ 2,068,701
Add/Deduct:				
Working capital adjustments	424,543	49,152	1,062,559	179,953
FF&E Reserve	(654,627)	(548,399)	(1,237,953)	(1,069,718)
Distributable income	<u>\$ 2,482,763</u>	<u>\$ 141,773</u>	<u>\$ 4,591,223</u>	<u>\$ 1,178,936</u>
Distributable income - Per unit				
- basic	\$0.14	\$0.01	\$0.27	\$0.09
- diluted	\$0.11	\$0.01	\$0.27	\$0.09

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

During the second quarter of 2011, the distributable income of Temple REIT was \$2,482,763 or \$0.14 per unit, compared to \$141,773 or \$0.01 per unit during the second quarter of 2010. During the second quarter of 2011 and 2010, the distributions of Temple REIT were equal to 74% and 904% of distributable income, respectively.

During the first six months of 2011, the distributable income of Temple REIT was \$4,591,223 or \$0.27 per unit, compared to \$1,178,936 or \$0.09 per unit during the first six months of 2010. During the first six months of 2011 and 2010, the distributions of Temple REIT were equal to 80% and 218% of distributable income, respectively.

Distributions

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

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

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

As of June 30, 2011, the distribution payable for the month of June 2011 amounted to \$616,940, whereas, the distribution payable for the second quarter of 2010 amounted to \$1,282,535.

A distribution for July 2011 in the amount of \$0.03334 per unit was paid on August 15, 2011 to Unitholders of record as of July 31, 2011. On August 15, 2011, a distribution of \$0.03334 per unit was declared for payment on September 15, 2011 to Unitholders of record as of August 31, 2011.

Given the favourable operating results, the Trustees have approved an increase in the monthly distribution to Unitholders from \$0.03334 per unit (\$0.40 on an annual basis) to \$0.04 per unit (\$0.48 on an annual basis), representing a 20% increase commencing with the October distribution. The distribution for the month of October will be paid in November 2011 to Unitholders of record, as of October 31, 2011.

Comparison of Distributions to Cash Flow Measurements

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Total distributions, declared	<u>\$ 1,835,650</u>	<u>\$ 1,282,535</u>	<u>\$ 3,652,866</u>	<u>\$ 2,565,070</u>
Cash flow from operations	<u>\$ 2,712,847</u>	<u>\$ 641,020</u>	<u>\$ 4,766,617</u>	<u>\$ 2,068,701</u>
Excess (shortfall) compared to distributions	<u>\$ 877,197</u>	<u>\$ (641,515)</u>	<u>\$ 1,113,751</u>	<u>\$ (496,369)</u>
Cash from operations after regular repayments of principal on mortgage loans	<u>\$ 1,100,795</u>	<u>\$ (695,263)</u>	<u>\$ 1,447,492</u>	<u>\$ (752,467)</u>
Excess (shortfall) compared to distributions	<u>\$ (734,855)</u>	<u>\$ (1,977,798)</u>	<u>\$ (2,205,374)</u>	<u>\$ (3,317,537)</u>
Cash from operations after regular repayments of principal on mortgage loans and capital expenditures	<u>\$ (134,236)</u>	<u>\$ (968,192)</u>	<u>\$ (665,312)</u>	<u>\$ (1,232,725)</u>
Excess (shortfall) compared to distributions	<u>\$ (1,969,886)</u>	<u>\$ (2,250,727)</u>	<u>\$ (4,318,178)</u>	<u>\$ (3,797,795)</u>
Distributable income	<u>\$ 2,482,763</u>	<u>\$ 141,773</u>	<u>\$ 4,591,223</u>	<u>\$ 1,178,936</u>
Excess (shortfall) compared to distributions	<u>\$ 647,113</u>	<u>\$ (1,140,762)</u>	<u>\$ 938,357</u>	<u>\$ (1,386,134)</u>
Funds from operations	<u>\$ 3,582,547</u>	<u>\$ 1,228,357</u>	<u>\$ 5,719,862</u>	<u>\$ 2,099,664</u>
Excess (shortfall) compared to distributions	<u>\$ 1,746,897</u>	<u>\$ (54,178)</u>	<u>\$ 2,066,996</u>	<u>\$ (465,406)</u>

As noted in the the chart, cash flow from operations, distributable income and funds from operations exceeded distributions for the second quarter of 2011 and for the six month period ended June 30, 2011. Conversely, distributions for the second quarter of 2011 and for the six month period ended June 30, 2011 exceeded cash from operations after scheduled repayments of long term debt and cash from operations after scheduled repayments of long term debt and capital expenditures.

After including principal repayments and capital expenditures, distributions exceeded cash flow by \$1,969,886 during the second quarter of 2011, compared to \$2,250,727 during the second quarter of 2010.

After including principal payments and capital expenditures, distributions exceeded cash flow by \$4,318,178 for the six month period ended June 30, 2011, compared to \$3,797,795 for the six month period ended June 30, 2010.

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

Financing Activities

As disclosed in the Consolidated Statements of Cash Flows in the 2011 Second Quarter financial statements, the financing activities of Temple REIT resulted in a net cash outflow of \$4,549,288 during the first six months of 2011. Financing activities consist primarily of mortgage loan debt transactions, distributions declared and not paid as of June 30, 2011 are accrued on the balance sheet in the "declared distribution payable", transactions related to the public offering of Trust Units and distributions paid.

Details regarding the mortgage loan debt transactions, unit offering 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 2011 Second Quarter financial statements, the investing activities of Temple REIT resulted in a net cash outflow of \$951,998 during the first six months of 2011. Investing activities include a cash inflow of \$66,081 in regard to net lease payments received from the investment in the Moose Jaw Casino, a cash outflow of \$2,112,804 in regard to additions to property and equipment, a cash inflow of \$1,085,325 in regard to a decrease in restricted cash and a cash inflow in regard to proceeds from the the sale of equipment of \$9,400.

Capital Expenditures

During the first six months of 2011, the cash outflow in regard to capital expenditures amounted to \$2,112,804 of which \$1,002,181 or 47% pertained to the upgrade/improvement program at the Capri Centre. Of the total capital expenditures for the Capri Centre, \$857,376 were incurred during the second quarter of 2011.

Restricted Cash

The decrease in restricted cash of \$1,085,325 mainly represents the release of cash from furniture, fixtures and equipment replacement reserve fund for the Clearwater hotel. As previously disclosed in this report, the cash released from the reserve fund was used to pay down the first mortgage loan of the Clearwater hotel by \$1 million.

Cash Flow Summary

The net cash outflow from operating, financing and operating activities during the first six months of 2011 was \$734,669. After providing for the opening cash balance of \$4,096,958, Temple REIT completed the first six months of 2011 with a cash balance of \$3,362,289. The ending cash balance excludes the distribution payable for June 2011 of \$616,940.

CAPITAL RESOURCES AND LIQUIDITY

Capital Structure

<u>Capital Structure</u>	June 30 2011	December 31 2010
Mortgage loan debt - principal amount	\$ 144,187,493	\$ 164,046,616
Convertible debentures - face value	34,933,600	37,082,600
Convertible mortgage - face value	4,500,000	4,500,000
Equity raised - Trust Units (net of issue costs)	<u>84,255,588</u>	<u>62,790,634</u>
Total capitalization	<u>\$ 267,876,681</u>	<u>\$ 268,419,850</u>

Trust Units:

Authorized - unlimited

Issued:

June 30, 2011 - 18,504,216

August 22, 2011 - 18,918,740

Debt

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

June 30, 2011 - \$183,991,916

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

Mortgage Loans

In total, mortgage loans represent 80% of the total debt as of June 30, 2011.

The balance of mortgage loan debt, as of June 30, 2011, excluding unamortized transaction costs, decreased by \$19,859,123, compared to the balance as of December 31, 2010. The decrease consists of \$3,319,125 of regular monthly mortgage loan principal payments, as well as the lump sum paydowns in the total amount of \$10 Million in regard to the Clearwater hotel first mortgage loan and the retirement of the \$6,540,000 interest-only loan for the Merit hotel expansion.

Debt Covenants

The Trust is required to maintain certain debt service coverage ratios and certain debt to equity ratios for its mortgage loan debt. In addition, capital expenditures must not exceed certain maximums. As of June 30, 2011, the Trust was not in compliance with mortgage loan covenants for two first mortgage loans totaling \$15,203,687.

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

<u>Property</u>	<u>Debt Service Coverage Requirement</u>	<u>Type of Mortgage</u>	<u>Mortgage Balance at June 30, 2011</u>	<u>Status</u>
Fort McMurray Vantage Inn and Suites	1.40	First	9,915,339	(1) (2)
Yellowknife Chateau Nova	1.50	First	<u>5,288,348</u>	(1) (3)
			<u>\$ 15,203,687</u>	

(1) Management has notified the lenders of the breaches and requested that the lenders acknowledge and consent to the breach. Management believes that all covenant breaches will be waived or otherwise resolved. Income levels in 2011 may not satisfy the existing debt service coverage requirements.

(2) The lender recently provided additional loan accommodations on two other properties.

(3) The loan was renewed in November 2010 for a one year term expiring November 30, 2011.

Debt Maturities

On February 11, 2011, the first mortgage loan of the Clearwater Suites hotel, with a maturity date of March 30, 2011 was reduced by \$9 Million and the remaining balance of \$22,981,051 was renewed until December 31, 2011 at the same interest rate. On April 1, 2011, the loan was further reduced by \$1,000,000 by applying funds which were released for the furniture, fixtures and equipment reserve account. In addition, the interest-only mortgage loan for the Merit Hotel expansion in the amount of \$6,540,000 was repaid in full from the proceeds of the unit offering on February 11, 2011.

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

- As noted above, the first mortgage loan for the Clearwater Suites hotel was renewed to December 30, 2011. Management expects that the first mortgage loan will be retired from the proceeds of a new \$27.5 million first mortgage loan with a five year term and a 4.4% interest rate, resulting in net proceeds of approximately \$7.5 million.
- On May 1, 2011, the 4.32% first mortgage loan for Temple Gardens Mineral Spa was renewed for a one year term at the same interest rate.
- The 5.51% first mortgage loan tranche which is registered against Temple Gardens Mineral Spa, will have a balance of \$5,970,769 at the October 1, 2011 maturity date. Management expects that the mortgage loan debt will be renewed at maturity at a reduced interest rate.

- A 6.5% first mortgage loan which is registered against Chateau Nova, will have a balance of \$5,193,348 at the November 30, 2011 maturity date. Management expects that the first mortgage loan will be renewed at maturity at a reduced interest rate.

Debt Summary

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

Debt Summary	2011		2010			
	Q2	Q1	Q4	Q3	Q2	Q1
Weighted average interest rate of total debt	6.63%	6.60%	6.63%	6.61%	6.45%	6.52%
Ratio of mortgage loans payable, compared to:						
Acquisition cost of property portfolio	54%	54%	60%	61%	62%	60%
Appraised value of property portfolio	49%	50%	56%	55%	55%	54%
Ratio of total debt, compared to:						
Acquisition cost of property portfolio	69%	72%	77%	78%	78%	76%
Appraised value of property portfolio	63%	67%	72%	70%	69%	67%

Debt Summary - As presented under Canadian GAAP

Debt Summary - As presented under Canadian GAAP	2009			
	Q4	Q3	Q2	Q1
Weighted average interest rate of total debt	6.51%	6.96%	6.34%	6.34%
Ratio of mortgage loans payable, compared to:				
Acquisition cost of property portfolio	63%	66%	67%	68%
Appraised value of property portfolio	54%	57%	57%	57%
Ratio of mortgage loans payable and convertible debenture debt (at face value), compared to:				
Acquisition cost of property portfolio	78%	76%	76%	77%
Appraised value of property portfolio	66%	64%	61%	65%

Convertible Debentures

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

Analysis of Debenture Conversions

Issue Date/Maturity Date	Series	Interest Rate	Amount Issued (face value)	Unit Conversions		Net amount Outstanding June 30, 2011 (face value)
				To December 31, 2010 (face value)	Six Months Ended June 30, 2011 (face value)	
Feb. 15/07/Mar. 31/12 (1)	A	7.50 %	\$ 15,680,000	\$ (13,215,500)	\$ -	\$ 2,464,500
Apr. 8/08/Apr. 30/13 (2)	B	8.50 %	30,000,000	(10,133,900)	-	19,866,100
Nov. 27/09/Nov. 30/14 (3)	S*	8.75 %	15,000,000	(248,000)	(2,149,000)	12,603,000
Face value			<u>\$ 60,680,000</u>	<u>\$ (23,349,400)</u>	<u>\$ (2,149,000)</u>	<u>34,933,600</u>

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

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

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

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

Convertible Mortgage

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

Fair Value Adjustments

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

Trust Units

The following is a summary of the Trust Units which have been issued by Temple REIT as of June 30, 2011.

Description	Units Issued	Equity Raised
Balance, January 1, 2011	12,903,795	\$ 62,790,634
Public offering	5,000,000	20,000,000
Exercise of options	11,666	45,275
Exercise of convertible debentures	588,755	2,473,441
Issue costs		(1,053,762)
Balance, June 30, 2011	18,504,216	\$ 84,255,588

Public offering of Trust Units - February 2011

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

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

The prospectus for the public offering of Trust Units proposed that \$6 million of the net proceeds from the offering would be used to fund renovation and expansion costs at the Capri Centre. For sound business reasons, a portion of the net proceeds from the offering were used to pay down debt for the Clearwater Suites hotel. As a result, the amount of proceeds from the unit offering which were available for the funding of the renovation and expansion costs at the Capri Centre was effectively reduced to approximately \$3 million. It is anticipated that the remaining proceeds from the public offering in the amount of \$3 million, the \$5.7 million of additional funding which is pre-arranged for the Capri Centre renovations and the proceeds of the upward refinancing of other mortgage loan debt will be sufficient to fund the Capri Centre renovation.

Deferred Unit Plan

Temple REIT adopted a Deferred Unit Plan in 2009, under which Trustees, officers, employees and consultants may elect to have their annual compensation paid in the form of deferred units. As previously disclosed, 7,127 deferred units were issued to Trustees under the Deferred Unit Plan during the first six months of 2011, with a deemed market value of \$30,873.

Unit Options

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

On June 24, 2011, Temple REIT issued a total of 400,000 incentive options to purchase Trust Units at a price of \$4.20 per unit.

Additional details of the Deferred Unit Plan and Unit Options Plan are disclosed in Note 11 of the 2011 second quarter financial statements of Temple REIT.

Other Assets and Liabilities

Trade and Other Receivables

As of June 30, 2011, "Trade and other receivables", as disclosed on the balance sheet of Temple REIT, amount to \$4,225,856, compared to a balance of \$3,038,065 as of December 31, 2010. The total amount receivable consists primarily of contractual commercial accounts and is relatively higher than year end primarily due to the Canada Post strike.

Accounts Payable and Other Liabilities

As of June 30, 2011, "Accounts payable and other" liabilities on the balance sheet of Temple REIT, amount to \$8,602,989, compared to a balance of \$8,123,457 as of December 31, 2010. The accounts payable and other liabilities consist of normal trade payables, accrued interest payable, the liability for gift certificates and deposits payable.

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

Deposits and Prepaids

As of June 30, 2011, "Deposits and Prepaids", as disclosed on the balance sheet of Temple REIT, amount to \$2,071,892, compared to a balance of \$1,650,384 as of December 31, 2010. The total amount mainly consists of prepaid deposits relating to the purchase of furnishings and fixtures for the Capri Centre upgrade/expansion program.

The increase in the balance during the first six months of 2011 mainly represents prepaid amounts which were recorded as asset additions during the period.

Capital Requirements

General

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

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

To the extent that cash from operating activities is not sufficient to fund regular principal repayments of mortgage loan debt, "non-financed" capital expenditures and distributions, Temple REIT will require an additional source of cash. As previously disclosed in this report, the shortfall between the cash from operating activities and the total cash outflow for regularly scheduled principal payments, distributions and capital expenditures was \$4,318,178 during the first six months of 2011.

Mortgage Loan Debt and Lease Payments

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

Summary of Contractual Obligations					
<u>Payments Due By Period</u>	<u>Total</u>	<u>1 year</u>	<u>2 - 3 years</u>	<u>4 - 5 years</u>	<u>> 5 years</u>
Mortgage loan debt	\$144,187,491	\$ 51,647,006	\$ 86,783,418	\$ 2,873,791	\$ 2,883,276
Operating leases	340,447	309,730	131,836	30,717	-
Total	<u>\$144,527,938</u>	<u>\$ 51,956,736</u>	<u>\$ 86,915,254</u>	<u>\$ 2,904,508</u>	<u>\$ 2,883,276</u>

The total amount of mortgage loan debt due for the twelve month period ending June 30, 2012 of \$51,647,006 is comprised of the following:

- regular repayments of principal in the estimated amount of \$5,422,604;
- the principal balance of a mortgage loan which matures in 2013 that is in breach of debt service covenant requirements, in the amount of \$9,915,339 as of June 30, 2011; and
- principal due of \$36,309,063 in regard to mortgage loans which mature within the twelve month period ending June 30, 2012 all of which matures during the remainder of 2011. An analysis of the maturing loans is provided in the "Long-Term Debt" section of this report.

Capital Expenditures

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

After accounting for cumulative expenditures to June 30, 2011 in regard to the upgrade/improvement program of \$2.9 million, the remaining budgeted cost is \$6.9 million. Expenditures during the second quarter amounted to approximately \$1.67 million.

The existing first mortgage loan for the Capri Centre provides for construction advances as the expansion program progresses, to a maximum amount whereby the loan balance shall not exceed \$27 Million at the completion of construction. As of June 30, 2011, the amount of funding remaining under the mortgage loan is \$5.7 million. The balance of the upgrade/improvements in the amount of \$1.3 million are expected to be funded from mortgage proceeds and operating cash flows.

Sources of Capital

Existing Cash

As of June 30, 2011, the unrestricted cash balance of Temple REIT was approximately \$3.4 Million, while the working capital balance was \$2.1 Million, excluding the current portion of long-term debt and the unit based compensation payable.

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

Mortgage principal payments and convertible debenture payments, due within the twelve month period ending June 30, 2012, are not included in the calculation of the working capital.

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

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

Cash from Operating Activities

The main components of cash flow from operating activities are operating income, interest payments and working capital adjustments.

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

To the extent that there is an increased level of uncertainty in global financial markets there may be a negative impact on the economic recovery in Fort McMurray and limit the extent of the anticipated improvement in operating income.

Additional Mortgage Loan Financing

The upward refinancing of mortgage loan debt during the fourth quarter of 2011 is expected to result in net proceeds of approximately \$8.4 Million, excluding the additional mortgage loans for the Capri Centre.

Marketable Securities

As of June 30, 2011, Temple REIT owns marketable equity securities with a fair value of \$276,975 and guaranteed investment securities with a fair value of \$325,015 and have various maturities in 2011. The marketable equity securities represent a potential source of capital.

Debt and/or Equity Offerings

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

Summary

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

HOTEL MANAGEMENT

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

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

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

Atlific received \$826,387 in base and incentive management fees during the first six months of 2011, compared to \$714,277 during the first six months of 2010.

RELATED PARTY TRANSACTIONS**Shelter Canadian Properties Limited**

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

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

During the first six months of 2011, Shelter earned asset management fees of \$533,790, compared to \$463,035 during the first six months of 2010.

The Trust has also entered into a construction management agreement with Shelter. The agreement provides for Shelter to receive a fee equal to 5% of construction costs and requires Shelter to approve all plans and specifications; manage the tender process; arrange financing and perform construction management services related to the guest room improvements and building upgrades at the Capri Centre. To June 30, 2011, a service fee of \$139,273 (2010 - \$nil) has been charged for such services.

Hotel operating costs include \$21,800 (2010 - \$nil) for the six months ended June 30, 2011 for rental premises. Shelter, as agent for the beneficial owner, is the landlord of the rental premises.

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

OPERATING RISKS AND UNCERTAINTIES

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

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

The key risks include the following:

Hotel Industry

Specific risks associated with hotel ownership and operations include:

- cyclical downturns arising from changes in general and local economic conditions;
- changes in the level of business and commercial travel and tourism;
- increases in the supply of accommodations in local markets which may adversely affect the results of operations;
- competition from other hotels;
- the recurring need for renovation, refurbishment and improvement of hotel properties;
- changes in wages, prices, energy costs and construction and maintenance costs that may result from inflation, government regulations, changes in interest rates or currency fluctuations;
- availability of financing for operating or capital requirements;
- seasonal fluctuations in hotel operating income produced throughout the year;
- increases in operating costs due to inflation which may not necessarily be offset by increase room rates;
- increases in expenses of travel, particularly automotive travel; and
- other factors, including acts of terrorism, natural disasters, extreme weather conditions and labour shortages, work stoppages or disputes.

Economic Conditions

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

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

Certain of Temple REIT's hotel properties, particularly in Fort McMurray, Alberta, experienced declines in revenue during the past recession. While management of Temple REIT believes that the hotel market in Fort McMurray will continue to improve, there can be no assurance the hotel market will improve and financial results for future periods are uncertain. The recent volatility in global stock markets may have a negative impact on economic conditions in Fort McMurray and affect the hotel market.

Debt Financing Risk

Temple REIT and its subsidiaries have incurred, and will continue to incur, indebtedness in connection with acquisitions, including by way of additional mortgage loans, vendor take-back financing and the issuance of debentures. A portion of the cash flow generated by hotel properties owned by Temple REIT and its subsidiaries will be devoted to servicing such debt and there can be no assurance that Temple REIT's hotel properties will generate sufficient cash flow from operations to meet the required interest and principal payments on such debt. During the first six months of 2011, cash flow from operating activities, amounted to \$4,766,617, while principal payments on mortgage loan debt amounted to \$3,319,125, excluding lump-sum principal payments of \$16,540,000. Cash flow from operating activities is net of interest payments on mortgage and other long-term debt of \$6,456,697.

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

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

Also as previously disclosed in this report, Temple REIT is in breach of a debt service coverage covenant for 2011 in regard to a first mortgage loan of approximately \$9.9 million for a property in Fort McMurray and a first mortgage loan of approximately \$5.3 million for the Chateau Nova hotel in Yellowknife, representing a combined total of approximately \$15.2 million. There is a risk that the mortgage loans will become payable on demand and, as a result of cross default clauses, a risk that the Senior Secured convertible debentures, with a face value of \$12.6 million as at June 30, 2011 may become payable on demand. Management has notified the lenders and has requested that the lenders acknowledge and consent to the breaches for both of the loans. Notwithstanding the debt service covenant breach, the first mortgage loan for Chateau Nova was renewed for a one year term, maturing November 30, 2011.

Interest Rate Fluctuations and Financing Risk

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

Following the recession in 2008, the Canadian economy has experienced historically low interest rates, which has had a positive impact on Temple REIT's overall debt costs. An increase in interest rates could significantly affect Temple REIT's ability to meet its financial obligations. In order to minimize this risk, Temple REIT negotiates fixed-rate term debt with staggered maturities for the majority of debt on its property portfolio. As of June 30, 2011 approximately 96% of the debt of Temple REIT is fixed rate debt. Derivative financial instruments may be utilized by Temple REIT in the management of its interest rate exposure. Temple REIT's policy is not to utilize derivative financial instruments for trading or speculative purposes. In addition, the Declaration of Trust restricts total mortgage loan indebtedness permitted on its portfolio to a maximum of 75% of the appraised value of all properties.

Fluctuations in Cash Distributions

A return on an investment in Trust Units is not comparable to the return on an investment in a fixed-income security. The recovery of the initial investment in Trust Units is at risk, and the return on an investment in Trust Units is based on many performance assumptions. The distributions of Temple REIT are established at the discretion of the Trustees. The actual amount of distributions depends on numerous factors, including the actual and projected financial performance of the hotels in Temple REIT's portfolio, its cash reserves, its debt covenants and obligations, working capital requirements, principal and interest payments on its indebtedness, tenant allowances, leasing commissions, capital expenditures and other factors that may be beyond the control of Temple REIT. Distributions may be reduced or suspended at any time. In addition, the market value of the Trust 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 Trust Units will trade in the future and there can be no assurance that an active trading market for the Trust Units will be sustained. The Trust Units will not necessarily trade at values determined solely by reference to the value of the properties of Temple REIT. Accordingly, the Trust 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 Trust Units may be affected by changes in general market conditions, fluctuations in the market for equity securities and numerous other factors which are beyond the control of Temple REIT, may affect the market price for the Units.

Investment in Marketable Equity Securities

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

Temple REIT purchased equitable marketable securities in 2008 as a short-term investment of excess cash. As of June 30, 2011, the market value of the securities, net of distributions received, has decreased by \$1,348,066, compared to the purchase price of the securities.

There is a risk that the marketable equity securities will experience a further decline in value at the end of the next reporting period.

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 2011, the six hotel properties in Fort McMurray accounted for 39% of the total revenue of the Trust and 57% of the total operating income, while achieving an average occupancy of 73%.

The Capri Centre is the second largest contributor to revenue and operating income. During the first six months of 2011, the Capri Centre in Red Deer, Alberta accounted for 30% of revenue and 21% of total operating income, while achieving an average occupancy level of 55%.

In total, the Fort McMurray hotel portfolio and the Capri Centre accounted for 68% of total revenue and 78% of operating income during the first six months of 2011.

Payment of Cash Distributions

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

Changes to Tax Treatment of Trusts

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

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

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

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

Relationship with Shelter and Atlific

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

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

Impairment Testing

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

Reliance on Key Personnel

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

Other Risks

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

ACCOUNTING ESTIMATES

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

Financial statement items which encompass estimates include the following:

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

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

CHANGES IN ACCOUNTING POLICIES

International Financial Reporting Standards (IFRS)

Reason for Change to IFRS

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

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

Description of New Accounting Standards

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

Asset Impairment

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

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

Recognition of Convertible Debentures and Convertible Mortgages as Financial Instruments

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

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

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

In comparison to GAAP, the change in the accounting policy for convertible debentures and convertible mortgage resulted in a decrease in income of \$394,753 for the first six months of 2010 as restated under IFRS, comprised of a decrease in interest expense relating to the accretion of the debt component of the convertible mortgage and convertible debentures of \$527,595 and a decrease in income as a result of the change in fair value of financial instruments in the total amount of \$1,113,515.

Unit-Based Compensation and Deferred Units

The unit option plan and deferred unit plan of Temple REIT are considered to be cash-settled and are recorded as a liability at fair value in accordance with IFRS-2 - Shared-Based Payment. As a result, unit options are valued at market using the Black Scholes option pricing model and are subjected to a deferred tax calculation. Deferred units are valued at the trading prices at inception. The above results is the creation of an unit based compensation expense and a unit based compensation payable. At each reporting date the unit based compensation payable is adjusted to fair value with a change fair value of financial instruments. Under GAAP, the Trust accounted for unit options issued under its unit option plan using the fair value method. Under this method, compensation expense was measured at fair value at the grant date using the Black-Scholes option pricing model and recognized over the vesting period. For deferred units, unit granted were charged to expense when granted.

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

In comparison to GAAP, the change in accounting policies for unit options and deferred units resulted in a increase in income of \$125,679 for the first six months of 2010 as reported under GAAP as a result of the change in fair value of financial instruments.

First-time adoption of International Financial Standards

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

Transition elections for exemption from full retrospective application made under IFRS 1 and other applicable standards are as follows:

Business combinations

The Trust has elected not to retrospectively apply IFRS 3 - Business Combinations to business combinations that occurred prior to January 1, 2010. Accordingly, acquisition-related transaction costs associated with business combination completed prior to January 1, 2010 continue to be capitalized.

Property and equipment valuation

IFRS 1 provides an election which would permit property and equipment to be restated at fair value on the transition date. The Trust chose not to revalue property and equipment.

Borrowing costs

The Trust has elected to adopt IA'S 23 - Borrowing Costs, prospectively to construction projects for which the capitalization commencement date is after January 1, 2010. Accordingly, the Trust will apply IA'S 23 - Borrowing Costs to qualifying assets for which the commencement date for capitalization is January 1, 2010 or later.

Unit based compensation

The Trust has applied the share-based payments exemption in IFRS 1 to not apply IFRS 2 - Share-based payments to liabilities arising from share-based payment transactions that were settled prior to January 1, 2010. Accordingly, the Trust has not restated for the settlement of liabilities arising from share-based payments that took place prior to January 1, 2010.

Compound financial instruments

The Trust has elected to apply this exemption to convertible debentures with the related liability component no longer being outstanding at January 1, 2010. Accordingly, the Trust has not restated for convertible debenture conversions prior to January 1, 2010.

Note 23 to the financial statements includes a detailed reconciliation between the financial information previously recorded under Canadian GAAP and IFRS.

FINANCIAL INSTRUMENTS

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

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

Future changes to significant accounting policies

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

- IFRS 7 - Financial Instruments-Disclosure, amendments relating to disclosures with respect to the transfers of financial assets, effective for annual periods beginning on or after July 1, 2011 with earlier application permitted.
- IAS 12 - Income Taxes, amendments applicable to the measurement of deferred tax assets and liabilities where investment property is measured using the fair value model, effective for annual periods beginning on or after January 1, 2012 with earlier application permitted.
- IFRS 9 - Replaces IAS 39 - Financial Instruments: Recognition and Measurement, retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value, effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.
- IFRS 10 - Consolidated Financial Statements - replaces IAS 27 Consolidated and Separate Financial Statements and SIC - 12 Consolidation - Special Purpose Entities, provides a single consolidation model that identifies control as the basis for consolidation for all types of entities, effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.
- IFRS 11 - Joint Arrangements - supersedes IAS 31 - Interests in Joint Ventures and SIC 13 - Jointly Controlled Entities - Non-monetary Contributions by Venturers, establishes principles for the financial reporting by parties to a joint arrangement, effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.
- IFRS 12 - Disclosure of Interests in Other Entities - combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities, effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.
- In conjunction with IFRS 10, IFRS 11 and IFRS 12, the IASB also issued amended and retitled IAS 27 - Separate Financial Statements and IAS 28 - Investments in Associates and Joint Ventures, effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.
- IFRS 13 - Fair Value Measurement - defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements, effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.
- IAS 19 - Employee benefits - amendments provide investors and other users of financial statements with a much clearer picture of an entity's obligations resulting from the provision of defined benefit plans and how those obligations will affect its financial position, financial performance and cash flow.
- IAS 1 - Presentation of Financial Statements - amendments require grouping together items within other comprehensive income that may be reclassified to the net income. The amendments also reaffirm existing requirements that items in other comprehensive income and net income should be presented as either a single statement or two consecutive statements

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

TAXATION

Taxation of Temple REIT

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

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

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

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

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

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

Taxation of Unitholders

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

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

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Except as noted below, no changes were made to the design of the internal controls over financial reporting during the six month period ended June 30, 2011 that have materially affected, or are reasonably likely to materially affect, the effectiveness of the internal control system.

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

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

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

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

ADDITIONAL INFORMATION

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

APPROVAL BY TRUSTEES

The content of the 2011 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
2011 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.