



2006 ANNUAL REPORT

TABLE OF CONTENTS

Unitholder Returns and Price History	2
Report to Unitholders	3
Management's Discussion and Analysis	
Forward-Looking Statements	4
Critical Accounting Estimates	4
Financial and Operating Statistics	5
Overview of Trust Operations	6
Results of Operations	8
Analysis of Cash Flows	10
Capital Resources and Liquidity	11
Related Party Transactions	14
Operating Risks and Uncertainties	14
Financial Instruments	16
Taxation	17
Controls and Procedures	17
Additional Information	18
Approval by Trustees	18
Management's Responsibility	19
Auditor's Report	20
Financial Statements	21
Unitholder Information	37

Unitholder Returns

	<u>2006</u>
Distribution per unit	\$0.14
Opening unit price	\$5.00
Closing unit price	\$4.95
Annualized yield on opening price (distribution/opening unit price)	11.20%
Capital appreciation (capital appreciation/opening unit price)	<u>(1.00)%</u>
Total return	<u>10.20%</u>
Projected cash distribution per unit - 2007	\$0.60
Closing unit price - April 26, 2007	\$4.65
Current yield	12.9%
Number of units outstanding - December 31, 2006	2,345,837
- April 26, 2007	8,841,83

Temple Real Estate Investment Trust trades on the TSX Venture Exchange under the symbol "TR.UN".

REIT Unit Price History

Month	High	Low	Volume
2007			
to April 26	\$4.90	\$4.15	199,233
March	\$5.10	\$4.40	321,668
February	\$5.72	\$5.00	402,662
January	\$5.25	\$4.94	13,526
2006			
December	\$4.95	\$4.25	54,269
November	\$4.89	\$4.00	86,533
October	\$5.00	\$4.50	33,418

REPORT TO UNITHOLDERS

The primary investment objective of Temple Real Estate Investment Trust (Temple REIT) is to create a large and diversified portfolio of quality hotel properties and to maximize the investment return to the holders of units by focusing on an accretive acquisition program and a proactive asset and property management strategy.

Temple REIT commenced operations on October 1, 2006, after acquiring ownership of its first hotel property, the Temple Gardens Mineral Spa Resort Hotel in Moose Jaw, Saskatchewan. The Temple Gardens resort is a major tourist destination in Saskatchewan, featuring a world famous geo-thermal mineral water pool and the adjacent Casino Moose Jaw operated by the Government of Saskatchewan.

The Temple Gardens Mineral Spa Resort Hotel, which opened for business in 1996, has a proven track record of revenue growth and profitability and is reflective of the type of hotel property that Temple REIT is targeting in terms of long-term capital appreciation opportunities. The 2006 Annual Report for Temple REIT reflects the operations of the Temple Gardens hotel for the three month period from October 1, 2006 to December 31, 2006, during which time the hotel achieved an average occupancy level of 74% and revenue of \$103.40 per available room. The net income of the Trust for the three month period ending December 31, 2006 was \$109,377 or \$0.097 per unit (\$0.39 per unit on an annualized basis).

On February 15 and March 14, 2007, Temple REIT successfully completed a public offering of trust units and debentures, resulting in gross proceeds of \$48,160,000. As a result of identifying potential property acquisitions in advance, the Trust acquired two additional hotel properties before the end of the first quarter with a combined purchase price of \$69.5 Million, of which \$17.3 Million was funded in cash. A number of additional hotel properties are targeted for acquisition in the upcoming months with the expectation that the value of the hotel property portfolio will be approaching \$200 Million by the end of 2007.

In summary, Temple REIT has clearly demonstrated that it has the capability to deliver results in terms of achieving a growing portfolio of quality hotel properties. The Board of Trustees and the management team of Shelter Canadian Properties Limited are committed to the long-term success of the Trust.

TEMPLE REAL ESTATE INVESTMENT TRUST



ARNI C. THORSTEINSON, CFA
President & Chief Executive Officer
April 27, 2007

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 audited financial statements of Temple REIT for the year ended December 31, 2006.

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.

Critical Accounting Estimates

The significant accounting policies of Temple REIT are disclosed in note 2 of the consolidated financial statements. As disclosed in note 2, the application of the significant accounting policies for purposes of preparing the consolidated financial statements, in accordance with Canadian generally accepted accounting principles (GAAP), requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. The estimates are based on historical experience and on other assumptions that are believed to be reasonable under the circumstances. Under different assumptions or conditions, the actual results may differ, potentially materially, from the estimated amounts. Many of the conditions impacting the assumptions and estimates are beyond the control of management. The estimates and assumptions are evaluated on a periodic basis.

Financial statement items which encompass estimates include the following:

- amortization of property and equipment - amortization expense is based on the estimated useful life of the property and equipment;
- carrying amount of goodwill - the carrying amount of goodwill is periodically compared to its estimated fair value in order to determine if there has been any impairment in value; and
- unit-based compensation expense - unit-based compensation expense is based on the estimated fair value of the applicable units and warrants using the Black-Scholes option pricing method.

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

Financial and Operating Statistics

	Period Ended December 31, 2006	
BALANCE SHEET		
Total assets	\$32,961,791	
Total liabilities	\$24,456,613	
CASH DISTRIBUTIONS		
Amount - total	\$328,417	
- per unit	\$0.14 (\$0.56 annualized)	
KEY PERFORMANCE INDICATORS		
Operations		
Occupancy *	74.04%	
ADR *	\$139.66	
RevPar *	\$103.40	
Operating profit margin *	29.9%	
Operating Results		
Total revenue	\$2,985,282	
Operating income	\$823,174	
Net income	\$109,377	
Cash Flows		
Cash flow from operating activities	\$1,257,575	
Distributable income *	\$349,346	
Financing		
Weighted average interest rate of long-term debt *	6.15%	
PER UNIT AMOUNTS		
	<u>Basic</u>	<u>Diluted</u>
Net income	\$0.097	\$0.096
Distributable income *	\$0.311	\$0.307

Non-GAAP Measurements

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

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

OVERVIEW OF TRUST OPERATIONS

Creation of Temple Real Estate Investment Trust ("Temple REIT")

Prior to its reorganization as a real estate investment trust, Temple REIT existed as a capital pool company known as "HPVC Inc.". HPVC Inc. was incorporated under the Canada Business Corporations Act on August 5, 2005, completed its initial public offering on February 22, 2006 and became a publicly listed company on the TSX Venture Exchange on February 27, 2006.

On October 1, 2006, HPVC Inc. completed a Qualifying Transaction whereby, pursuant to a Plan of Arrangement, HPVC Inc. was reorganized into a real estate investment trust, under the name of "Temple Real Estate Investment Trust". In accordance with the Plan of Arrangement, the common shares of HPVC Inc. were exchanged for trust units of Temple REIT on a ten to one basis. Temple REIT also acquired all of the issued and outstanding shares of Temple Gardens Mineral Spa Inc. ("TGMS") by exchanging 276,771 trust units of Temple REIT for 439,329 shares of TGMS and by purchasing all of the remaining TGMS shares for cash consideration of \$12,248,408.

TGMS was incorporated under the Business Corporation Act (Saskatchewan) on September 24, 1993 for the primary purpose of owning and operating the Temple Gardens Mineral Spa Resort Hotel, a 179 room, full-service resort hotel and spa complex, located in Moose Jaw, Saskatchewan.

Pursuant to the Plan of Agreement, Temple REIT completed a private placement of 1,302,400 trust units, at a price of \$5.00 per unit, for aggregate gross proceeds of \$6,512,000. Additional mortgage financing was also obtained for the Temple Gardens Hotel in the amount of \$6,652,592. The proceeds from the private placement of trust units, combined with the proceeds from the new mortgage financing, served to fund the purchase price of the TGMS shares.

The trust units of TREIT commenced trading on the TSX Venture Exchange on October 3, 2006.

Overall Investment Objectives and Strategy

Primary Objectives

Temple REIT is an open-ended real estate investment trust focused on owning and acquiring a geographically and sectorally diversified portfolio of hotel properties and assets in primary and secondary markets across Canada. The primary 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 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 will also encompass the acquisition of hotels in regional clusters and of similar asset sizes in order to create economies of scale. Temple REIT will also focus on acquiring hotels in solid physical condition with minimal initial capital expenditure requirements.

Financing

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

The strategy of Temple REIT is to efficiently utilize and manage leverage, targeting first mortgage debt in the range of 65% to 75% 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 will also utilize operating 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 a highly skilled and experienced management team in order to assist the Trust in achieving its business objectives. The management team and the Trustees of Temple REIT have extensive experience in all facets of the commercial real estate hotel industry and have developed key relationships with vendors across North America which should enable Temple REIT to gain access to a significant acquisition pipeline on an unlisted basis.

Asset management services are provided to Temple REIT by Shelter Canadian Properties Limited. Shelter Canadian has been one of Canada's leading real estate development and property management companies for over 25 years and brings a wealth of real estate investment, development and asset management experience to Temple REIT.

The hotel properties of Temple REIT will be primarily, but not exclusively, operated and managed by Atlific Hotels and Resorts ("Atlific"). Atlific currently manages a portfolio of over 30 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 managed a portfolio of 100 properties.

Details of the remuneration of Shelter Canadian and Atlific are provided on page 14 of this report.

Property Portfolio - December 31, 2006

Temple Gardens Mineral Spa Resort Hotel

As of December 31, 2006, the real estate portfolio of Temple REIT consists of one hotel property, the Temple Gardens Mineral Spa Resort Hotel in Moose Jaw, Saskatchewan. (the "Temple Gardens Hotel").

The Temple Gardens Hotel consists of a 179-room hotel with restaurant, café, banquet and meeting rooms, gift shop, fitness room, spa treatment centre and geo-thermal mineral water pool. The spa resort is most well known for its mineral-rich, geo-thermal therapeutic waters.

TGMS and Casino Co-ownership Agreement

Temple REIT owns the Temple Gardens Hotel by virtue of its indirect ownership of 100% of the common shares of TGMS.

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

RESULTS OF OPERATIONS

Analysis of Net Earnings

	Period Ended December 31, 2006
Hotel revenue	
Room	\$ 1,702,826
Other	<u>1,083,183</u>
Total hotel revenue	2,786,009
Interest and other income	<u>199,273</u>
Total revenue	2,985,282
Operating expenses	<u>2,162,108</u>
Operating income	823,174
Finance expense	291,033
Trust expense	146,702
Amortization	264,298
Provision for taxes	<u>11,764</u>
Net income	<u>\$ 109,377</u>

Net Income

General

During its initial three month operating period ended December 31, 2006, the operating activities of Temple REIT consisted entirely of the operations of the Temple Gardens Hotel, including rent for the 50% co-ownership of the Casino Moose Jaw building.

During its first fiscal year ended December 31, 2006, Temple REIT generated operating income of \$823,174 and net income of \$109,377. Operating income consists entirely of revenues and expenses pertaining to the operations of the Temple Gardens Hotel, aside from interest income of \$52,657 which was earned on the excess cash reserves of the Trust.

Revenue

Total Revenues

For the three month operating period ended December 31, 2006, Temple REIT generated total revenues of \$2,985,282 consisting of \$2,786,009 in hotel revenues and \$199,273 in interest and other income.

The hotel revenue is comprised of \$1,702,826 in room revenue and \$1,083,183 in other hotel revenue. Other hotel revenue includes food and beverage revenue of \$585,662, spa revenue of \$397,644 and parking, gift shop and miscellaneous revenue of \$99,877.

Interest and other income consists of interest income on the excess cash reserves of the Trust and TGMS together with miscellaneous income at TGMS.

Room Revenues

Room Revenue Analysis

	Period Ended December 31, 2006	Year Ended September 30, 2006 **
Occupancy level	74.04 %	75.74 %
Average daily room rate	\$ 139.66	\$ 135.44
RevPar*	\$ 103.40	\$ 102.58

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

** Represents information with respect to Temple Gardens Mineral Spa Inc.

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

For the three month operating period ended December 31, 2006, the Temple Gardens Hotel achieved an occupancy level of 74.04% and an average daily room rate of \$139.66. The revenue per occupied room ("RevPar") was \$103.40.

Temple REIT owns the Temple Gardens Hotel by virtue of its indirect ownership of 100% of the common shares of TGMS. Prior to the acquisition of TGMS by TREIT, TGMS was a publicly-traded company with a fiscal year end of September 30th. The room revenue statistics for TGMS, for the year ended September 30, 2006 are disclosed in its 2006 Annual Report and summarized in the preceding chart.

In comparison to the results of the Temple Gardens Hotel for the year ended September 30, 2006, the RevPar of the hotel for three month operating period ended December 31, 2006 increased by \$0.92 or 1.0%. The increase reflects an increase in the average daily room rate, partially offset by a modest decrease in the occupancy level.

Operating Expenses

For the three month operating period ended December 31, 2006, the total operating costs of Temple REIT amounted to \$2,162,108. The operating costs pertain entirely to the operations of the Temple Gardens Hotel and consist of the following components:

Operating Expenses

	Period Ended December 31, 2006
Departmental costs	\$ 1,309,996
Marketing, administrative, utilities and maintenance	633,023
Rent, property taxes, insurance and hotel management fees	219,089
Total	\$ 2,162,108

Operating Profit Margin

The operating profit margin for the three month operating period ended December 31, 2006, was 27.6%. The profit margin is calculated by dividing operating income by total revenues.

Financing Expense

The total financing expense of \$291,033 consists of interest expense on the loans which are pledged against the assets or revenues of the Temple Gardens Hotel.

Trust Expense

The trust expense of Temple REIT for 2006 consists of asset management fees, professional and legal fees as well as fees charged by the TSX Venture Exchange.

Amortization Expense

During 2006, amortization expense amounted to \$264,298, of which \$262,330 pertains to the amortization of the hotel properties.

ANALYSIS OF CASH FLOWS**Operating Activities****Cash from Operating Activities**

During the three month period ended December 31, 2006, Temple REIT generated cash from operating activities of \$1,257,575. Cash from operating activities includes cash from operations of \$349,346, as well as the change in non-cash operating items of \$908,229. The change in non-cash operating items reflects the net effect of the acquisition of TGMS.

Distributable Income

Distributable income is a non-GAAP measurement of cash flows which is used to facilitate the determination of distributions to the Unitholders. Distributable income is equal to the income or loss of Temple REIT adjusted for certain non-cash transactions, such as adding back amortization expense and future income taxes.

Commencing in fiscal 2007, Temple REIT intends to issue cash distributions which are in excess of its distributable income until the proceeds from unit and debenture offerings are invested in new hotel properties. Thereafter, the cash distributions of Temple REIT will be a minimum of 85% of distributable income.

For the period ended December 31, 2006, the distributable income of Temple REIT is \$349,346, which is the same amount as cash from operations. As noted above, the difference between cash from operations/distributable income and cash from operating activities is equal to the adjustment for non-cash operating items of \$908,229.

Distributable income	<u>Period Ended December 31, 2006</u>
Cash provided from operating activities	\$ 1,257,575
Less: Changes in non-cash operating activities	<u>908,229</u>
Distributable income	<u>\$ 349,346</u>
Per unit	
- basic	\$0.311
- diluted	\$0.307

Cash Distributions

On December 29, 2006, Temple REIT paid its initial quarterly cash distribution in regard to the three month period ended December 31, 2006, in the amount of \$328,417 representing a distribution of \$0.14 per unit, or \$0.047 on a monthly basis and \$0.56 per unit on an annualized basis.

The 2006 cash distribution is equal to 94% of distributable income/cash from operations.

Effective January 1, 2007, Temple REIT changed its cash distribution policy from quarterly cash distributions to monthly cash distributions and increased the amount of the cash distribution to \$0.05 per month or \$0.60 on an annual basis.

A cash distribution of \$0.05 per unit has been paid for the month of January, February and March 2007. The March 2007 distribution was paid on April 15, 2007.

Financing/Investment Activities

During the three month operating period ended December 31, 2006, the net cash provided by financing activities exceeded the net cash used in investment activities by \$2,805,162. Financing activities consisted primarily of transactions related to the initial unit offering and mortgage loan financing for the Temple Gardens Hotel, as well as the initial cash distribution of \$328,417. Investment activities consisted primarily of transactions pertaining to the acquisition of TGMS.

CAPITAL RESOURCES AND LIQUIDITY

Capital Structure

<u>Capital Structure</u>	<u>Authorized</u>	<u>December 31, 2006</u>
Long-term debt		\$18,995,485
Equity raised - trust units	unlimited (2,345,837 units)	<u>8,620,218</u>
Total capitalization		<u>\$27,615,713</u>

Long-Term Debt

As of December 31, 2006, the long-term debt of Temple REIT consists entirely of loans which are pledged against the assets or revenues of TGMS, including the \$6.7 Million first mortgage loan which was obtained for the Temple Gardens Hotel at the inception of the Trust.

In total, first mortgage loans represent 78.4% of the total long-term debt. The remaining portion of the long-term debt consists almost entirely of a loan which was obtained in 2002 in order to fund the development of the casino complex.

Summary of Trust Units Issued

The following is a summary of the units which have been issued by TREIT as of December 31, 2006, since its inception (other than the initial unit issued on the inception, which was redeemed.).

<u>Issue Date</u>	<u>Description</u>	<u>Units Issued</u>	<u>Equity Raised</u>
October 1, 2006	Units issued in exchange for HPVC shares	766,666	\$ 2,000,000
October 1, 2006	Units issued in exchange for TGMS shares	276,771	1,383,885
October 1, 2006	Private placement	1,302,400	6,512,000
October 1, 2006	Issue costs		(1,275,667)
		<u>2,345,837</u>	<u>\$ 8,620,218</u>
Units outstanding, December 31, 2006			

Capital Requirements

General

Aside from the working capital which is required for the day-to-day operations of hotel properties and the administration of the Trust, Temple REIT requires capital to fund long-term debt and operating lease obligations, property acquisitions and capital improvements. As Temple REIT intends to issue cash distributions which are in excess of its distributable income, until the proceeds from the unit and debenture offering are fully invested and distributable income increases sufficiently, capital will also be required to fund a portion of the monthly cash distributions.

Hotel Operations

The acquisition of additional hotels is expected to result in a significant increase in cash flow from operating activities in 2007 and increase the extent to which the capital reserves of the Trust are supplemented from operational activities.

Contractual Debt and Lease Obligations

A summary of the long-term debt and operating lease obligations of Temple REIT for each of the next five years and thereafter, is provided in the following chart.

Summary of Contractual Obligationsn-cash

<u>Payments Due By Period</u>	<u>Total</u>	<u>< 1 year</u>	<u>1 - 3 years</u>	<u>4 - 5 years</u>	<u>> 5 years</u>
Long-term debt	\$ 18,995,485	\$ 5,149,340	\$ 3,858,406	\$ 6,462,012	\$ 3,525,727
Operating leases	2,168,803	425,103	747,698	703,060	292,942
Total	\$ 21,822,288	\$ 5,692,361	\$ 4,606,104	\$ 7,165,072	\$ 3,820,669

Management intends to refinance the balloon payments on the first mortgage loans, under similar terms and conditions, effective on the due date of the payments.

Capital Commitments - Property Acquisitions

The following chart provides a summary of the capital commitments of Temple REIT for 2007 in regard to completed and contracted property acquisitions.

Property	Approximate Amount (1)	Description
Chateau Nova (closed March 23, 2007)	\$6.8 Million	Represents the \$13 Million purchase price, net of the mortgage loan of \$6.2 Million.
Clearwater Hotel (closed March 30, 2007)	<u>\$10.5 Million</u>	Represents the \$56.5 Million purchase price, net of a first mortgage loan of \$36 Million and a vendor take-back mortgage of \$10 Million.
	<u>\$17.3 Million</u>	

(1) Purchase prices are subject to closing adjustments which may result in a corresponding adjustment to the capital commitment of Temple REIT.

Other Commitments

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

During 2006 options to Trustees and Officers to acquire an aggregate of 181,331 units were granted. The exercise price is \$3.00 for 61,331 options and \$5.00 for the balance of the 120,000 options. The options expire in 2011. Also during 2006, the Agents of the Trust were granted warrants for 78,144 units at \$5.00 per unit, which expire September 29, 2007 and options for 56,666 units at \$3.00 per unit which expire February 22, 2008.

Sources of Capital

Cash/Working Capital - December 31, 2006

As of December 31, 2006, the cash balance of Temple REIT was \$4,062,737, while the working capital balance was \$2,123,366 excluding the current portion of long-term debt of \$5,149,340.

Financing Activities - Subsequent to December 31, 2006

In February 2007, Temple REIT completed a public offering of trust units and 5 Year 7.5% Series A Convertible Redeemable Debentures. Pursuant to the offering, Temple REIT sold 5,800,000 trust units at a price of \$5.00 per unit and debentures in the aggregate principal amount of \$14,000,000 for aggregate gross proceeds of \$43,000,000. In March 2007, pursuant to the over-allotment option, Temple REIT sold an additional 696,000 trust units at a price of \$5.00 per unit and additional debentures in the amount of \$1,680,000. In total, the gross proceeds from the offering amounted to \$48,160,000.

The debentures are convertible at the option of the holder, at any time prior to the maturity date or, if applicable, the redemption date, at a per unit price of \$5.75, subject to adjustment for certain conditions. The debentures are redeemable by Temple REIT, in year four and five only, at a price equal to the principal amount plus accrued and unpaid interest, subject to certain conditions.

Summary

The total year end cash balance, combined with the proceeds from the unit and debenture offering in March 2007, less financing and issue costs, amounts to approximately \$52.3 Million. After deducting the cash which was required for the first quarter for property acquisitions in 2007, the remaining cash balance is approximately \$35 Million. In summary, Temple REIT has substantial reserves of investment capital and is well-positioned to achieve significant growth in its property portfolio in 2007.

RELATED PARTY TRANSACTIONS

Shelter Canadian Properties Limited ("Shelter Canadian")

Asset management services are provided to Temple REIT by Shelter Canadian, 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 Canadian to receive an asset management fee equal to 1.5% of the gross revenues of the hotel properties and assets of the Trust and to be reimbursed for all expenses incurred in connection with fulfilling the role of Administrator, including third party costs.

During the three month operating period ended December 31, 2006, Shelter Canadian received asset management fees of \$44,799.

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

Relationship with Atlific Hotels and Resorts

The Temple Gardens Hotel is managed by Atlific Hotels and Resorts ("Atlific"). Pursuant to the terms of the Management Agreement, Atlific will be paid a base management fee in an amount equal to: (i) \$175,000 in the first year; (ii) \$200,000 in the second year; and (iii) 2.5% of gross revenues of Temple Gardens thereafter. In addition to the base management fee, Atlific shall receive an incentive management fee equal to 10% on account of any fiscal year of New TGMS in which the net operating income is greater than the approved budget.

Temple REIT intends to enter into separate management agreements with Atlific Hotels and Resorts or other third property hotel manager, with respect to each of its properties. Temple REIT expects that such management agreements will contain similar terms to those set forth above.

OPERATING RISKS AND UNCERTAINTIES

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

The key risks include the following:

Hotel Industry

Specific risks associated with hotel ownership and operations include:

- cyclical downturns arising from changes in general and local economic conditions;
- changes in the level of business and commercial travel and tourism;
- increases in the supply of accommodations in local markets which may adversely affect the results of operations;
- competition from other hotels;

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

Fluctuations in Cash Distributions

A return on an investment in Units is not comparable to the return on an investment in a fixed-income security. The recovery of the initial investment in Units is at risk, and the return on an investment in Units is based on many performance assumptions. Although Temple REIT intends to distribute its Distributable Income, the actual amount of Distributable Income distributed in respect of Units will depend on numerous factors, including the amount of principal repayments, tenant allowances, leasing commissions, capital expenditures and other factors that may be beyond the control of Temple REIT. Cash distributions may be reduced or suspended at any time. In addition, the market value of the Units may decline if Temple REIT is unable to provide a satisfactory return to Unitholders.

Public Market Risk

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

Proposed Changes to Tax Treatment of Trusts

Temple REIT currently qualifies as a Mutual Fund Trust for income tax purposes. As required by its Declaration of Trust, Temple REIT intends to distribute all taxable income to its unitholders and to deduct these distributions for income tax purposes. Except for corporate subsidiaries of Temple REIT, no provision for income taxes is required under the current Canadian income tax legislation.

On March 29, 2007, the Minister of Finance Canada tabled in the House of Commons a Bill that contained legislation to implement a previously announced proposal for the federal income taxation of publicly traded trusts, including income trusts (the "Bill"). The Bill would apply to publicly traded trusts which existed prior to November 1, 2006 starting with taxation years ending in or after 2011, except for those existing trusts that qualify for the real estate investment trust ("Qualifying REIT") exception included in the legislation. There are certain circumstances where an existing trust may lose its relief in the interim periods prior to 2011 where it undergoes "undue expansion".

The Bill contemplates that a REIT which carries on Canadian hotel operations (including through subsidiaries) will not be a Qualifying REIT. Accordingly, the Bill, if passed in its current form, could adversely affect the level of cash distribution to unitholders commencing in 2011 if Temple REIT does not become a Qualifying REIT by 2011. Unless the Bill is amended prior to being enacted in a manner that will accommodate the holding of REIT-related hotel operations, Temple REIT will become subject to tax under the proposals.

Management will be reviewing whether it is feasible to reorganize Temple REIT so that Temple REIT can become a Qualifying REIT, however, it is not possible at this preliminary juncture to provide any assurances that any reorganization can or will be implemented before 2011, or that any such reorganization, if implemented, would not result in material costs or other adverse consequences to Temple REIT and its unitholders.

Other Risks

Other risks, uncertainties and items of relevance include liquidity, financing, environmental and diversification risks; the risks associated with franchised hotels, land leases, interest rate fluctuations and the operation of the Temple Gardens Hotel; the risk of general uninsured losses and the failure to maintain mutual fund trust status, as well as restrictions on redemptions, the potential the lack of available growth opportunities, potential Unitholder liability, potential conflicts of interest, uncertainties regarding the market price of Units, the legal rights attaching to Units, other tax related risk factors, the relationship with Shelter the potential dilution arising from the issue of additional Units and reliance on key personnel.

These topics are more fully explained in the other regulatory filings of Temple REIT, including the December 2006 prospectus for the public offering of trust units and convertible debentures.

FINANCIAL INSTRUMENTS

The financial instruments of Temple REIT consist of basic financial instruments which are typically used in the operation and ownership of hotel properties and in the operation of a real estate investment trust, including cash, term deposits, accounts receivable, accounts payable and accrued liabilities, gift certificate liabilities, mortgage loans and other long-term debt secured by the revenues or assets of hotel properties.

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

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

TAXATION

Taxation of Temple REIT

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

Pursuant to the Declaration of Trust of Temple REIT, the Trustees intend to distribute or designate all taxable income directly earned by Temple REIT to the Unitholders of the Trust in order to ensure that Temple REIT will not be subject to income tax under Part I of the Tax Act.

Taxation of Unitholders

A Unitholder is required to include, in computing for tax purposes each year, the portion of the amount of net income and net taxable capital gains of Temple REIT paid or payable to the Unitholder in the year. The Declaration of Trust generally requires Temple REIT to claim the maximum amount of capital cost allowance for purposes of computing its income for tax purposes. The cash distributions which have been paid to the Unitholders, since the inception of Temple REIT as a real estate investment trust in 2006, have exceeded the income of Temple REIT, as calculated for income tax purposes. Distributions in excess of the taxable income of Temple REIT are allocated to the Unitholder for the year and will not be included in computing the taxable income of the Unitholder. The adjusted cost base of the units which are held by the Unitholder will, however, be reduced by the amount of distributions not included in income.

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

The cash distributions which were paid by Temple REIT in 2006 represented a reduction in the cost base of the units.

CONTROLS AND PROCEDURES

Disclosure Controls

The management of Temple REIT, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for establishing and maintaining the disclosure controls and procedures for the Trust. Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to management, including the CEO and the CFO, as appropriate, to allow timely decisions regarding disclosure.

The CEO and CFO evaluated the effectiveness of the disclosure controls and procedures of Temple REIT (as defined in Multilateral Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings*) as at December 31, 2006 and have concluded that the controls and procedures are operating effectively.

Internal Controls Over Financial Reporting

The management of Temple REIT, including the CEO and CFO, are also responsible for establishing adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles (GAAP).

The CEO and CFO conducted an assessment of the design of the internal controls over financial reporting for Temple REIT (as defined in Multilateral Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings*) as at December 31, 2006 and, based on that assessment, determined that the internal controls over financial reporting were appropriately designed.

No changes were made to the design of the internal controls over financial reporting during the three months ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, the effectiveness of the 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 2006 Annual Report of Temple REIT and the delivery of the report to the Unitholders have been approved by the Trustees.

TEMPLE REAL ESTATE INVESTMENT TRUST
April 27, 2007

MANAGEMENT'S RESPONSIBILITY

The financial statements contained in the annual report have been prepared in conformity with Canadian generally accepted accounting principles and, where appropriate, reflect estimates based on management's best judgment in the circumstances. The financial information presented throughout the annual report is consistent with the information contained in the financial statements.

Scarrow & Donald LLP, the independent auditors, were appointed by the Unitholders and are responsible for auditing the financial statements and giving an opinion thereon.

The financial statements have been reviewed and approved by the Board of Trustees and by the Audit Committee, which is comprised of the three independent Trustees. The Audit Committee meets regularly with management and the auditors. The auditors have full and direct access to the Audit Committee.

"Arni Thorsteinson"

Arni Thorsteinson
Chief Executive Officer

"John Liddle"

John Liddle
Chief Financial Officer

April 27, 2007

**SCARROW & DONALD LLP
CHARTERED ACCOUNTANTS**

100 - Five Donald Street
Winnipeg, Manitoba R3L 2T4
Telephone: (204) 982-9800
Fax: (204) 474-2886
www.scarrowdonald.mb.ca

April 19, 2007

AUDITORS' REPORT

**To the Unitholders of
Temple Real Estate Investment Trust:**

We have audited the consolidated balance sheet of Temple Real Estate Investment Trust as at December 31, 2006 and the consolidated statements of operations and equity and cash flows for the 349 days then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Trust as at December 31, 2006 and the results of its operations and cash flows for the 349 days then ended in accordance with Canadian generally accepted accounting principles.

Scarrow & Donald LLP

Chartered Accountants
Winnipeg, Canada

For this communication, together with the work done to prepare this communication and for the opinions we have formed, if any, we accept and assume responsibility only to the addressee of this communication, as specified in our letter of engagement.

CONSOLIDATED BALANCE SHEET

	<u>December 31</u> <u>2006</u>
Assets	
Current assets	
Cash	\$ 4,062,737
Accounts receivable	244,852
Inventories	203,964
Prepaid expenses	39,032
Current portion of net investment in lease (Note 5)	<u>101,439</u>
	4,652,024
Property and equipment (Note 4)	21,610,051
Net investment in lease (Note 5)	4,867,641
Deferred charges (Note 6)	37,397
Deposits on potential acquisitions	125,000
Goodwill	<u>1,669,678</u>
	<u>\$ 32,961,791</u>
Liabilities and Equity	
Current liabilities	
Accounts payable and accrued liabilities	\$ 823,814
Gift certificate liability	1,636,257
Income taxes payable	68,588
Current portion of long-term debt (Note 7)	<u>5,149,340</u>
	7,677,999
Long-term debt (Note 7)	13,846,145
Future income taxes (Note 8)	<u>2,932,469</u>
	24,456,613
Equity	<u>8,505,178</u>
	<u>\$ 32,961,791</u>

Approved by the Trustees

"Arni Thorsteinson"

"David Drybrough"

CONSOLIDATED STATEMENT OF OPERATIONS

	<u>349 Days Ended December 31 2006</u>
Revenue	
Hotel revenue	\$ 2,786,009
Interest and other income	<u>199,273</u>
	2,985,282
Expenses	
Hotel operating costs	<u>2,162,108</u>
Operating income	<u>823,174</u>
Interest expense	291,033
Trust expense	146,702
Amortization	<u>264,298</u>
	<u>702,033</u>
Income before income taxes	121,141
Income taxes:	
Current	36,093
Future (Note 8)	<u>(24,329)</u>
	<u>11,764</u>
Net income	<u>\$ 109,377</u>
Income per unit (Note 13)	
Basic	\$ 0.097
Diluted	0.096

CONSOLIDATED STATEMENT OF EQUITY

	349 Days Ended December 31 <u>2006</u>
Trust Units (Note 10)	
Balance, beginning of period	\$ -
Issuance of trust units	9,895,885
Unit issue costs	<u>(1,275,667)</u>
Balance, end of period	<u>8,620,218</u>
Unit Options	
Balance, beginning of period	-
Value associated with unit options granted	<u>65,800</u>
Balance, end of period	<u>65,800</u>
Warrants	
Balance, beginning of period	-
Value associated with warrants granted	<u>38,200</u>
Balance, end of period	<u>38,200</u>
Cumulative earnings	
Balance, beginning of period	-
Net income	<u>109,377</u>
Balance, end of period	<u>109,377</u>
Cumulative distributions to unitholders	
Balance, beginning of period	-
Distribution to unitholders	<u>(328,417)</u>
Balance, end of period	<u>(328,417)</u>
Total unitholders' equity	<u>\$ 8,505,178</u>
Units issued and outstanding (Note 10)	<u>2,345,837</u>

CONSOLIDATED STATEMENT OF CASH FLOWS

	349 Days Ended December 31 2006
	<u> </u>
Cash provided by (used in) operating activities	
Income from operations	\$ 109,377
Items not affecting cash	
Amortization	264,298
Future income taxes	<u>(24,329)</u>
	349,346
Changes in non-cash operating items (net of effects of acquisition of property and equipment)	<u>908,229</u>
	<u>1,257,575</u>
Cash provided by (used in) financing activities	
Proceeds of mortgage loan financing	6,652,593
Repayment of mortgage loans	(127,515)
Private placement of units	8,512,000
Financing costs	(39,365)
Unit issue costs	(1,171,667)
Distributions paid on trust units	(328,417)
Repayment of lease obligation	<u>(19,237)</u>
	<u>13,478,392</u>
Cash provided by (used in) investing activities	
Property and equipment acquired (Note 3)	(12,248,408)
Additions to income properties	(125,788)
Deposits on potential acquisitions	(125,000)
Receipt of net investment in lease	16,220
Cash assumed on acquisition	<u>1,809,746</u>
	<u>(10,673,230)</u>
Cash increase	<u>4,062,737</u>
Cash, end of period	<u>\$ 4,062,737</u>
Supplementary cash flow information	
Interest paid on mortgage loans payable	<u>\$ 217,447</u>
Income taxes paid	<u>\$ -</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006****1 Organization**

Temple Real Estate Investment Trust ("the Trust") is a open-end real estate investment trust established under the laws of the Province of Manitoba on July 12, 2006. Effective October 1, 2006, a Plan of Arrangement was completed, pursuant to which all of the outstanding shares of HPVC Inc. were exchanged for units of the Trust on a ten for one basis. All of the assets and liabilities of HPVC Inc. were transferred to the Trust as of October 1, 2006.

HPVC Inc. was incorporated under the Canada Business Corporations Act on August 5, 2005 and was classified as a capital pool company as defined in TSX Venture Exchange Inc. (the Exchange) Policy 2.4. HPVC Inc. was inactive prior to January 17, 2006. Subsequent to the plan of arrangement, the shareholders of HPVC Inc. controlled Temple REIT, accordingly, the arrangement has been accounted for as a continuity of interest.

The consolidated financial statements of the Trust includes the accounts of the Trust's wholly-owned subsidiaries TR Trust, Temple Limited Partnership, Temple General Partner Inc. and Temple Gardens Mineral Spa Inc., with provision for its 50% proportionate share of assets, liabilities, revenues and expenses of the Moose Jaw Casino Co-ownership. All significant intercompany balances and transactions have been eliminated upon consolidation.

2 Significant accounting policies

The accompanying financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. These financial statements reflect the operations of the Trust and its wholly owned subsidiary, Temple Gardens Mineral Spa Inc.

Revenue recognition**Hotel**

Revenue from services provided and products sold is recognized at the time the service is provided and the products are delivered to the customer.

Future income related to the finance-type lease is recognized in a manner that produces a constant rate of return on the net investment in the lease. The investment in the lease for purposes of income recognition is comprised of net minimum lease payments and unearned finance income.

Accounting estimates

Accounting estimates are included in financial statements to approximate the effect of past business transactions or events, or to approximate the present status of an asset or liability. Examples include the estimated useful life of an asset. It is possible that changes in future conditions could require changes in the recognized amounts for accounting estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in the period in which they become known.

Inventories

Inventories are stated at the lower of cost and net realizable value, on a first-in, first-out basis.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006**

2 Significant accounting policies (continued)

Property and equipment

Property and equipment are recorded at cost. Property and equipment are amortized over their estimated useful lives. This requires estimation of the useful life of the asset and its salvage and residual value. Long-lived assets are tested for recoverability if events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount of a long-lived asset is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. Impairment losses are measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value. As is true for all accounting estimates, it is possible that changes in future conditions could require changes in the recognized amounts for accounting estimates. Should an adjustment become necessary, it would be reported in earnings in the period in which it became known. The Trust provides for amortization on fixed assets so as to apply the cost of the assets over the estimated useful lives as follows:

	<u>Method</u>	<u>Rate</u>
Land improvements	Straight-line	5%
Buildings	Straight-line	2.5%
Furnishings and equipment	Straight-line	10% - 33.3%

Deferred charges

Deferred charges include financing costs relating to mortgage loans payable. Financing costs are deferred and amortized over the term of the respective mortgages.

Goodwill

Goodwill represents the excess of the purchase price of acquired businesses over the fair value of the net assets acquired. Goodwill is not amortized. Management compares the carrying amount of goodwill to the estimated fair value and recognizes in operations any impairment in value.

Gift Certificate liability

Gift certificates are recorded as a liability when sold and revenue is recognized upon redemption of the gift certificate. Gift certificates are recognized as revenue if not redeemed within three years from the date of issue. It is management's opinion that there is no liability for a gift certificate beyond its expiry date.

In determining the estimated revenue in conjunction with gift certificate liabilities, the Trust relies on assumptions regarding applicable industry performance and redemption rates, as well as general business and economic conditions that prevail or are expected to prevail. Assumptions underlying the measurement of gift certificate liabilities are limited by the uncertainty of predictions concerning future events. By its nature the evaluation of gift certificate liability is subjective and does not necessarily result in precise determinations. Should an adjustment become necessary it will be adjusted in the period known.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006****2 Significant accounting policies (continued)****Unit options and warrants**

The Trust has a unit option plan available for officers, employees and trustees. The fair value based method of accounting is applied to all unit-based compensation. Compensation expense for option based compensation awards is recognized when unit options are granted over the vesting periods. The fair value of the unit options and warrants granted are estimated on the date of grant using the Black-Scholes option pricing model. On exercise of unit options, consideration received and the accumulated unit options amount relating thereto is credited to trust units. Awards of options and warrants related to private placements or public offerings of units are treated as unit issue costs.

Income taxes

The Trust, is a "Mutual Fund Trust" for income tax purposes. In accordance with the terms of the Declaration of the Trust, the Trust intends to distribute the greater of taxable income or 85% of distributable income each period by an amount which may be sufficient to ensure the Trust will not be liable for income taxes under Part I of the Income Tax Act.

Temple Gardens Mineral Spa Inc., a wholly owned subsidiary of the Trust, is an operating business and provides for income tax expense using the liability method of accounting for income taxes. Current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between tax and accounting bases of assets and liabilities as well as the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized.

Per unit calculations

Per unit amounts are calculated using the weighted average number of units outstanding during the year. The dilutive effect on per unit amounts resulting from outstanding unit options is calculated using the treasury stock method. Under this method, the diluted weighted average number of units is calculated assuming the proceeds that arise from the exercise of the outstanding options are used to purchase units of the Trust at their average market price for the period.

3 Acquisitions

On October 1, 2006, the Trust purchased all issued and outstanding shares of Temple Gardens Mineral Spa Inc., a hotel and spa located in Moose Jaw, Saskatchewan for consideration of \$13,632,293 using the purchase method. Operations from Temple Gardens Mineral Spa Inc. are included in the consolidated operations from its respective date of acquisition.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006**

3 Acquisitions (continued)

The net assets acquired in the transactions were as follows:

Cash	\$ 1,809,746
Accounts receivable	324,219
Inventories	140,640
Prepaid expenses and deposits	143,956
Property and equipment	21,746,593
Net investment in lease	4,985,300
Other assets	47,894
Goodwill	1,669,678
Accounts payable and accrued liabilities	(568,494)
Gift certificate liability	(1,193,267)
Income taxes payable	(27,530)
Long term debt	(12,470,407)
Capital lease	(19,237)
Future income tax liability	<u>(2,956,798)</u>
	<u>\$ 13,632,293</u>
Consideration:	
Cash	\$ 12,248,408
Trust units issuance - 276,771 units	<u>1,383,885</u>
	<u>\$ 13,632,293</u>

Additional information was made available regarding the estimated allocation and purchase price subsequent to the October 1, 2006 acquisition. An adjustment to the acquisition resulted in the following changes to the October 1, 2006 balances:

Net investment in lease increased	\$ 4,985,300
Property and equipment decreased	3,471,968
Future tax liability increased	448,975
Future tax asset decreased	39,803
Deferred gain decreased	90,962
Goodwill decreased	1,073,527
Cash consideration increased	41,989

4 Property and equipment

	Cost	Accumulated Amortization	Net Book Value December 31 2006
Land	\$ 697,305	\$ -	\$ 697,305
Land improvements	65,716	(1,775)	63,941
Buildings	19,804,254	(142,317)	19,661,937
Furniture and equipment	<u>1,305,106</u>	<u>(118,238)</u>	<u>1,186,868</u>
	<u>\$ 21,872,381</u>	<u>\$ (262,330)</u>	<u>\$ 21,610,051</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006**

4 Property and equipment (continued)

Amortization of property and equipment consists of the following:

	349 Days Ended December 31 <u>2006</u>
Land improvements	\$ 1,775
Buildings	142,317
Furniture and equipment	<u>118,238</u>
	<u>\$ 262,330</u>

5 Net investment in lease

During the 2002 fiscal year, Temple Gardens Mineral Spa Inc. entered into co-ownership of a Moose Jaw casino complex property. Future income related to the finance-type lease is recognized in a manner that produces a constant rate of return on the net investment in the lease. The investment in the lease for purposes of income recognition is comprised of net minimum lease payments and unearned finance income.

Interest income of \$88,096 related to the net investment in lease was recorded during the period

The company's net investment in lease includes the following:

	December 31 <u>2006</u>
Total minimum lease payments receivable	\$ 9,337,500
Unearned income	<u>4,368,420</u>
Net investment in lease	4,969,080
Less current portion	<u>(101,439)</u>
	<u>\$ 4,867,641</u>

The Trust's proportionate share of future minimum lease payments is \$450,000 per annum through October 2011 escalating to \$477,500 until the end of the lease term, October 1, 2026.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006**

6 Deferred charges

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value December 31 2006</u>
Financing costs	\$ 39,365	\$ (1,968)	\$ 37,397
	<u>\$ 39,365</u>	<u>\$ (1,968)</u>	<u>\$ 37,397</u>

Amortization of deferred charges consists of the following:

	<u>349 Days Ended December 31 2006</u>
Financing costs	<u>\$ 1,968</u>

7 Long-term debt

6.159% mortgage payable in monthly blended instalments of \$24,903 maturing February 1, 2008 against which a first mortgage, in conjunction with the mortgages described below, a general security agreement, assignment of rent, contract and bonds have been pledged as collateral	\$ 3,438,426
6.22% mortgage payable in monthly blended instalments of \$35,101 maturing August 1, 2007 against which a first mortgage, in conjunction with the mortgages described above and below, a general security agreement and assignment of rent, contract and bonds have been pledged as collateral	4,823,700
5.507% mortgage payable in monthly blended instalments of \$40,634 maturing October 1, 2011 against which a first mortgage, in conjunction with the mortgages described above, a general security agreement and assignment of rent, contract and bonds have been pledged as collateral	6,631,817
10% unsecured loan payable to Saskatchewan Water Corporation in blended monthly instalments of \$1,389, maturing December 1, 2009	<u>43,057</u>
	14,937,000
Moose Jaw Casino Co-ownership	
7.08% loan payable in blended monthly instalments of \$30,895, maturing September 1, 2027 against which a specific assignment of the Saskatchewan Gaming Corporation lease as well as assignments of insurance have been pledged as collateral	<u>4,058,485</u>
	18,995,485
Less current portion	<u>(5,149,340)</u>
	<u>13,846,145</u>

The weighted average interest rate of long-term debt at December 31, 2006 is 6.15%.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006**

7 Mortgage loans payable (continued)

Approximate principal repayments are as follows:

Year ending December 31

2007	\$ 5,149,340
2008	3,594,254
2009	264,152
2010	425,244
2011	6,036,768
Thereafter	<u>3,525,727</u>
	<u>\$ 18,995,485</u>

8 Income taxes

The future tax liability of the Trust wholly owned subsidiary corporations, which are subject to tax consists of the following:

	<u>December 31 2006</u>
Tax liabilities related to difference in tax and book value	\$ 3,048,231
Tax assets related to deductible issue costs	<u>(115,762)</u>
	<u>\$ 2,932,469</u>

All of the temporary differences that give rise to future tax assets and liabilities are related to Temple Gardens Mineral Spa Inc.

The effective tax rate of wholly owned subsidiary corporations approximates the statutory rate of 36.12%. The tax value of assets and liabilities of the Trust and subsidiary trust that are not subject to income taxes because their income is taxed directly to their owners differs from the reported amounts as follows:

Financing fees - undeducted reserve	<u>\$ 1,171,667</u>
-------------------------------------	---------------------

9 Related party transactions

Asset Management Agreement

The Trust entered into an Asset Management Agreement, for an initial term expiring October 1, 2011, with Shelter Canadian Properties Limited, a Unitholder. The Agreement provides for Shelter to receive an asset management fee of 1.5% of the gross revenues of the Trust and its subsidiaries on a consolidated basis. The Asset Management Agreement requires Shelter to act as Administrator of the Trust by providing accounting, human resource services, office space and equipment and the necessary clerical and secretarial personnel for the administration of the day-to-day activities of the Trust.

The Trust incurred service fees to Shelter Canadian Properties Limited of \$44,799 for the 349 days ended December 31, 2006.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006**

10 Trust units

On October 1, 2006, 1,302,400 the Trust issued units at a price of \$5.00 per unit through a private placement for gross proceeds of \$6,512,000.

On October 1, 2006, in accordance with the purchase agreement 276,771 shares were issued related to the acquisition of Temple Gardens Mineral Spa Inc. at a price of \$5.00 per unit for a total of \$1,383,885.

A summary of the status of the units and changes during the period is as follows:

	<u>349 Days Ended December 31, 2006</u>	
	<u>Units</u>	<u>Amount</u>
Outstanding, beginning of year	-	\$ -
Units issued in exchange for shares of HPVC Inc.	766,666	2,000,000
Units issued by private placement	1,302,400	6,512,000
Units issued in exchange for shares of Temple Gardens Mineral Spa Inc.	<u>276,771</u>	<u>1,383,885</u>
Outstanding, end of year	<u>2,345,837</u>	<u>\$ 9,895,885</u>

11 Unit options and warrants

The Trust may grant options to trustees, senior officers, employees of the Trust or of a subsidiary of the Trust, management company employees of the Trust or any subsidiary of the Trust investor relations' consultants and technical consultants to the Trust.

The maximum number of units reserved for issuance under all securities compensation arrangements is limited to 10% of the total number of issued and outstanding units. The maximum number of units that may be issued to a participant shall not exceed 5% of the total number of issued and outstanding units provided that person is other than a consultant or person employed in investor relations activities and 2% of the total number of issued and outstanding units for all consultants and persons employed in investor relations activities.

The Trustees set the exercise price at the time that an option is granted under the plan, which exercise price shall not be less than the discounted market price of the shares. The discounted market price is the market price of the shares, less a discount, which shall not exceed 25% if the market price is \$0.50 or less, 20% if the market price is from \$0.51 to \$2.00, and 15% if the market price is above \$2.00 as determined under the policies of the Exchange.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006**

11 Unit options and warrants (continued)

The options have a maximum term of five years from the date of grant unless otherwise specifically provided by the Board of Trustees and authorized by the Exchange. For a participant employed in investor relations activities, no option shall be exercisable for a period exceeding 12 months from the date of grant, with no more than 1/4 of the options vesting in any three-month period.

	<u>Unit options</u>	<u>Weighted Average Exercise Price</u>
Outstanding, beginning of period	-	\$ -
Units options granted during period	<u>237,997</u>	<u>4.01</u>
Unit options outstanding and vested, end of period	<u>237,997</u>	<u>\$ 4.01</u>

The 566,666 agent options of HPVC Inc. were exchanged for options of the Trust on the basis of one option of the Trust for every ten options of HPVC Inc. The 56,666 trust options have an exercise price of \$3.00. The options expire on February 22, 2008.

The 613,334 directors and officers options of HPVC Inc. were exchanged for options of the Trust on the basis of one option of the Trust for every ten options of HPVC Inc. The 61,331 trust options have an exercise price \$3.00. The options expire on February 22, 2011.

On completion of the qualifying transaction October 1, 2006, the Trustees of the Trust were granted options to purchase 120,000 units at \$5.00 per unit. The options will expire five years from the date the options are granted. The fair value associated with the options issued was calculated using the Black-Scholes model for option valuation and charged to the deficit as a cost of issuing units, assuming a weighted average volatility of 35% on the underlying shares, the term to expiry (generally five years), a dividend yield rate of 11.20% and the weighted average risk free interest rate (typically the Canada bond rate at the date of grant).

	<u>Unit Warrants</u>	<u>Weighted Average Exercise Price</u>
Outstanding, beginning of period	-	\$ -
Units warrants granted during period	<u>78,144</u>	<u>5.00</u>
Unit warrants outstanding and vested, end of period	<u>78,144</u>	<u>\$ 5.00</u>

On completion of the qualifying transaction the Trustees of the Trust granted warrants to the Agents to purchase 78,144 units at \$5.00 per unit. The warrants will expire September 29, 2007, one year from the date the warrants were granted. The fair value associated with the warrants issued was calculated using the Black-Scholes model for warrant valuation and charged to the deficit as a cost of issuing units, assuming a weighted average volatility of 35% of the underlying shares, the term to expiry (one year), a dividend yield rate of 11.20% and the weighted average risk free interest rate (typically the Canada bond rate at the date of grant).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006**

12 *Investment in co-ownership*

During the 2002 fiscal year, Temple Gardens Mineral Spa Inc. entered into co-ownership of a Moose Jaw casino complex property. The co-ownership completed the development of a 23,400 square foot building and 140 parking stalls. The entire property is subject to a 25 year lease and the tenant must acquire ownership of the property at the end of the lease term for consideration of \$1. Under the terms of the lease, the tenant is responsible for all and every cost arising from or related to the leased premises, including the cost of replacement of the structure and foundation.

Pursuant to the terms of the co-ownership agreement, the co-owners each hold a 50% equity interest in the co-ownership, with all equity contributions, distributions, and net income allocations being made on this same 50% basis.

Summarized financial information of Temple REIT's interest in a jointly controlled entity, which has been proportionately consolidated, is as follows:

Assets	<u>\$ 5,009,099</u>
Liabilities	<u>\$ 4,093,197</u>
Net income	<u>\$ 16,823</u>
Cash flow from operations	<u>\$ (14,225)</u>
Cash flow from investing	<u>\$ 16,220</u>
Cash flow from financing	<u>\$ (21,081)</u>

13 *Per unit calculations*

Basic per unit information is calculated based on the weighted average number of units outstanding for the period. Diluted per unit information is calculated based on the weighted average diluted number of units for the period, considering the potential exercise of outstanding unit options to the extent that the unit options are dilutive and the potential conversion of outstanding convertible debentures to the extent that the debentures are dilutive.

Income per unit calculations are based on the following:

	349 Days Ended December 31 <u>2006</u>
Income	<u>\$ 109,377</u>
Diluted Income	<u>\$ 109,377</u>
Weighted average number of units	1,124,500
Dilutive options	<u>13,536</u>
Weighted average number of diluted units	<u>1,138,036</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006**

14 *Distribution of income*

In accordance with the Declaration of Trust, the Trust shall issue cash distributions in an amount equal to the greater of:

- Eighty five percent of distributable income
- any amount of net income and net realized capital gains as is necessary to ensure that the Trust will not be subject to Part I tax on its net income and net capital gains

The following table reflects taxable income by source and the minimum distribution required in accordance with the Declaration of Trust.

	349 Days Ended December 31 <u>2006</u>
Eighty five percent of distributable income	\$ 296,944
Net income	109,377
Minimum distribution required by Declaration of Trust	<u>296,944</u>
Actual distributions	<u>\$ 328,417</u>

15 *Financial instruments and risk management*

Fair values

The carrying values of cash, accounts receivable, accounts payable and accrued liabilities approximate their fair value due the relatively short periods to maturity of the instruments.

The fair value of the long-term debt approximates their carrying values due to the nature of the loans and the relatively short terms to maturity.

Risk management

In the normal course of business, the Trust is exposed to financial risk that arises from its indebtedness, including fluctuations in interest rates that can create a cash flow risk. Cash flow risk is minimized by obtaining long term mortgages with fixed interest rates and limiting indebtedness. The Declaration of Trust restricts mortgage loans on hotel properties from being greater than 75% of the appraised value of the hotel properties. As at December 31, 2006, the total mortgage loans payable is 70.5% of the appraised value of hotel properties.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006**

16 Commitments

The Trust is committed under the terms of operating lease agreements for occupancy and equipment with the following annual lease payments over the next five years and thereafter.

2007	\$	425,103
2008		392,291
2009		355,407
2010		351,530
2011		351,530
Thereafter		292,942

The Trust has entered into commitments to fix natural gas rates at \$5.40 per gigajoule until October 2007 and \$8.85 per gigajoule from November 2007 to October 2012 to fix energy costs. The commitments is in accordance with the Trust's expected usage requirements.

The current term of the parkade lease expires December 31, 2007 and is subject to renewal thereafter.

17 Subsequent events

Acquisitions

On March 23, 2007, the Trust acquired Chateau Nova, a 60-room hotel property and Chateau Nova suites, a 20-room annex located in Yellowknife, Northwest Territories for a total of \$13,000,000. The acquisition was funded with a first mortgage loan of \$6,200,000 with the balance paid in cash.

On March 30, 2007, the Trust acquired Clearwater Suites, an 150 unit extended stay lodging facility located in Fort McMurray, Alberta for \$56,500,000. The acquisition was funded with a first mortgage loan in the amount of \$36,000,000, and a second mortgage of \$10,000,000, with the balance paid in cash.

Convertible Debentures

On February 15, 2007, the Trust issued and sold 140,000 Series A convertible redeemable debentures at \$100 per debenture for gross proceeds of \$14,000,000 pursuant to a long form prospectus filed December 28, 2006. The debentures have a five year term bearing interest at 7.5% per annum and are redeemable at the option of the holder at \$5.75 per unit.

On March 14, 2007, subject to the over allotment provisions of the prospectus, the Trust issued and sold an additional 16,800 Series A debentures for gross proceeds of \$1,680,000.

Units

On February 15, 2007, the Trust issued and sold 5,800,000 units at a price of \$5.00 per unit for gross proceeds of \$29,000,000 pursuant to a long form prospectus filed December 28, 2006.

On March 14, 2007, subject to the over allotment provisions of the prospectus, the Trust issued and sold an additional 696,000 units for gross proceeds of \$3,480,000.

UNITHOLDER INFORMATION

Trustees and Officers

The investment policies and operations of Temple REIT are subject to the control of the trustees, pursuant to the terms of a Declaration of Trust. The Declaration of Trust provides for a minimum of three trustees and a maximum of ten trustees and requires that the majority of trustees be independent trustees. The Declaration of Trust provides Shelter Canadian Properties Limited with the right to appoint one trustee.

The current trustees of Temple REIT are Ms. Rosanne Hill Blaisdell, Mr. Gary Buckley, Mr. David Drybrough, Mr. Rod Marlin and Mr. Arni Thorsteinson. Ms. Hill Blaisdell is the Vice President of Leasing for Harvard Developments Inc. Mr. Buckley is the owner of the Elkhorn Resort and Conference Centre and the owner/operator of various other real estate properties. Mr. Drybrough was Vice President of Gendis Inc. prior to his retirement in January 2004. Mr. Marlin is the President, CEO and a Trustee of Eveready Income Fund. Mr. Thorsteinson is the President and principal owner of Shelter Canadian Properties Limited and serves as Chief Executive Officer of Temple REIT. Mr. Thorsteinson is the appointee of Shelter Canadian Properties Limited.

The Chief Financial Officer of Temple REIT is Mr. John Liddle, CGA, Manager, Financial Reporting - Multi-Family Rental, Condominium & Retirement Properties for Shelter Canadian Properties Limited.

Asset Manager of the Trust

Shelter Canadian Properties Limited has been appointed by the Trustees, pursuant to the terms of the Asset Management Agreement, to provide asset management services, to administer the daily affairs of Temple REIT and to perform the accounting and reporting functions of Temple REIT.

Shelter Canadian Properties Limited is one of Canada's leading privately owned real estate development and property management companies.

Office Address

Temple Real Estate Investment Trust
c/o Shelter Canadian Properties Limited
2600 Seven Evergreen Place
Winnipeg, Manitoba R3L 2T3
Telephone: (204) 475-9090
Facsimile: (204) 452-5505
Email: info@TREIT.ca
Website: www@TREIT.ca

Unit Listing

TSX Venture Exchange
Unit trading symbol: TR.UN

Unitholder and Investor Contact

Mr. Gino Romagnoli, CGA
Manager, Investor Services
Shelter Canadian Properties Limited
Telephone: (204) 475-9090, Ext. 208
Facsimile: (204) 452-5505
Email: gromagnoli@TREIT.ca

Transfer Agent and Registrar

CIBC Mellon Trust Company
600, 333 - 7th Avenue S.W.
Calgary, Alberta T2P 2Z1

Auditors

Scarrow & Donald LLP
Chartered Accountants
100 - Five Donald Street
Winnipeg, Manitoba R3L 2T4

Legal Counsel

Aikins MacAulay & Thorvaldson LLP
30th Floor, Commodity Exchange Tower
360 Main Street
Winnipeg, Manitoba R3C 4G1