



CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010 and 2009

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 26, 2011

INDEPENDENT AUDITORS' REPORT

To the Unitholders of Temple Real Estate Investment Trust:

We have audited the accompanying consolidated financial statements of Temple Real Estate Investment Trust, which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of income (loss) and comprehensive income (loss), equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Temple Real Estate Investment Trust as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years 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 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.

TEMPLE REAL ESTATE INVESTMENT TRUST

CONSOLIDATED BALANCE SHEETS

	<u>December 31 2010</u>	<u>December 31 2009</u>
Assets		
Current assets		
Cash	\$ 4,096,958	\$ 7,401,442
Marketable securities (Note 3)	575,515	628,208
Accounts receivable (net of allowance for doubtful accounts of \$139,386; 2009 - \$102,057)	3,038,065	2,150,209
Income tax receivable	31,537	-
Inventories (Note 4)	797,746	716,220
Prepaid expenses	1,324,817	226,402
Current portion of net investment in lease (Note 5)	139,133	125,370
Defeasance assets (Note 6)	-	<u>2,941,723</u>
	<u>10,003,771</u>	14,189,574
Property and equipment (Note 7)	242,440,745	248,546,241
Net investment in lease (Note 5)	4,377,463	4,516,591
Other assets (Note 8)	2,051,175	952,794
Goodwill	<u>1,608,282</u>	<u>1,608,282</u>
	<u>\$260,481,436</u>	<u>\$269,813,482</u>
Liabilities and Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 5,801,986	\$ 4,570,013
Gift certificate liability	2,321,471	2,132,718
Income taxes payable	-	135,042
Current portion of long-term debt (Note 9)	69,101,469	50,746,879
Defeased liability (Note 6)	-	<u>2,834,896</u>
	<u>77,224,926</u>	60,419,548
Long-term debt (Note 9)	98,393,158	118,051,239
Convertible debentures (Note 10)	31,535,253	30,391,822
Future income taxes (Note 11)	<u>3,095,271</u>	<u>3,712,128</u>
	210,248,608	212,574,737
Equity	<u>50,232,828</u>	<u>57,238,745</u>
	<u>\$260,481,436</u>	<u>\$269,813,482</u>

Approved by the Trustees

"Arni Thorsteinson"

"David Drybrough"

TEMPLE REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31	
	<u>2010</u>	<u>2009</u>
Revenue		
Hotel revenue	\$ 61,947,315	\$ 63,134,474
Interest and other income	<u>1,954,678</u>	<u>2,677,117</u>
	63,901,993	65,811,591
Expenses		
Hotel operating costs	<u>42,500,644</u>	<u>41,230,815</u>
Operating income	<u>21,401,349</u>	<u>24,580,776</u>
Finance expense (Note 12)	16,259,269	15,521,431
Trust expense	770,047	709,711
Amortization	<u>6,981,053</u>	<u>6,558,811</u>
	<u>24,010,369</u>	<u>22,789,953</u>
Other		
Change in value of marketable securities	<u>(52,950)</u>	<u>(288,375)</u>
Income (loss) before income taxes	(2,661,970)	1,502,448
Income tax expense (recovery):		
Current (Note 11)	260,003	213,530
Future (Note 11)	<u>(616,857)</u>	<u>384,640</u>
	<u>(356,854)</u>	<u>598,170</u>
Net income (loss) and comprehensive income (loss)	<u>\$ (2,305,116)</u>	<u>\$ 904,278</u>
Net income (loss) per unit (Note 13)		
Basic and diluted	\$ (0.18)	\$ 0.07

TEMPLE REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF EQUITY

	Year Ended December 31	
	2010	2009
Trust units (Note 14)		
Balance, beginning of period	\$ 62,491,116	\$ 62,590,168
Value associated with options exercised	15,274	-
Units issued on exercise of options	31,605	-
Units issued on conversion of debentures	214,390	85,597
Equity component of debentures converted	40,334	16,357
Unit issue costs	<u>(14,754)</u>	<u>(201,006)</u>
Balance, end of period	<u>62,777,965</u>	<u>62,491,116</u>
Unit based compensation (Notes 16 and 17)		
Balance, beginning of period	197,239	146,210
Value associated with unit options granted	139,187	-
Value associated with options exercised	(15,274)	-
Value associated with options expired	(11,986)	-
Value of deferred units	<u>61,332</u>	<u>51,029</u>
Balance, end of period	<u>370,498</u>	<u>197,239</u>
Equity component of convertible mortgage (Note 9)		
Balance, beginning of period	471,175	-
Equity component of convertible mortgage issued	<u>-</u>	<u>471,175</u>
Balance, beginning and end of period	<u>471,175</u>	<u>471,175</u>
Equity component of convertible debentures (Note 10)		
Balance, beginning of period	6,101,487	3,678,296
Equity component of convertible debentures issued	-	2,439,548
Equity component of debentures converted	<u>(40,334)</u>	<u>(16,357)</u>
Balance, end of period	<u>6,061,153</u>	<u>6,101,487</u>
Cumulative earnings and accumulated comprehensive earnings		
Balance, beginning of period	12,995,421	12,091,143
Value associated with options expired	11,986	-
Net income (loss)	<u>(2,305,116)</u>	<u>904,278</u>
Balance, end of period	<u>10,702,291</u>	<u>12,995,421</u>
Cumulative distributions to unitholders		
Balance, beginning of period	(25,017,693)	(18,607,684)
Distribution to unitholders	<u>(5,132,561)</u>	<u>(6,410,009)</u>
Balance, end of period	<u>(30,150,254)</u>	<u>(25,017,693)</u>
Total unitholders' equity	<u>\$ 50,232,828</u>	<u>\$ 57,238,745</u>
Units issued and outstanding (Note 14)	<u>12,903,795</u>	<u>12,825,352</u>
Deferred units outstanding (Note 17)	<u>39,826</u>	<u>18,288</u>

TEMPLE REAL ESTATE INVESTMENT TRUST
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31	
	2010	2009
Cash provided by (used in) operating activities		
Net income (loss) and comprehensive income (loss)	\$ (2,305,116)	\$ 904,278
Items not affecting cash		
Amortization	6,981,053	6,558,811
Amortization of transaction costs	1,011,751	924,520
Accretion on debt component of convertible debentures	1,019,637	632,346
Accretion on debt component of convertible mortgage	84,177	35,490
Unit based compensation	200,519	51,029
Change in fair value of marketable equity securities	52,950	288,375
Future income taxes	<u>(616,857)</u>	<u>384,640</u>
	6,428,114	9,779,489
Changes in non-cash operating items	<u>(954,144)</u>	<u>1,759,824</u>
	<u>5,473,970</u>	<u>11,539,313</u>
Cash provided by (used in) financing activities		
Proceeds of long-term debt	5,000,000	3,000,000
Repayment of mortgage loan on refinancing	-	(2,000,000)
Repayment of mortgage loan from proceeds of mortgage loan receivable	-	(6,184,147)
Lump sum mortgage loan payments	(1,155,000)	-
Scheduled principal repayment of long-term debt	(5,785,936)	(5,408,023)
Proceeds of convertible debentures	-	15,000,000
Repayment of mortgage loans from debenture proceeds	-	(8,815,853)
Exercise of options	31,605	-
Unit issue costs	(235)	(196,376)
Decrease in defeased liability	(2,849,560)	(395,444)
Expenditures on transaction costs	(120,157)	(1,442,759)
Distributions paid on trust units	<u>(5,132,561)</u>	<u>(6,410,009)</u>
	<u>(10,011,844)</u>	<u>(12,852,611)</u>
Cash provided by (used in) investing activities		
Additions to property and equipment	(875,557)	(2,321,511)
Receipt of net investment in lease	125,365	116,820
Change in cash in escrow	(958,141)	(98,156)
Purchase of marketable securities	-	(6,458)
Return of capital from marketable equity securities	-	73,725
Decrease in defeasance assets	2,941,723	563,887
Proceeds from expropriated land	-	811,615
Deposits on potential acquisitions	-	750,000
Receipt of mortgage loan receivable	<u>-</u>	<u>6,000,000</u>
	<u>1,233,390</u>	<u>5,889,922</u>
Change in cash	(3,304,484)	4,576,624
Cash, beginning of period	<u>7,401,442</u>	<u>2,824,818</u>
Cash, end of period	<u>\$ 4,096,958</u>	<u>\$ 7,401,442</u>
Supplementary cash flow information		
Interest paid	<u>\$ 14,286,446</u>	<u>\$ 13,526,041</u>
Income taxes paid	<u>\$ 411,492</u>	<u>\$ 238,962</u>

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 and 2009

1 *Basis of presentation*

Temple Real Estate Investment Trust ("the Trust") is an open-end real estate investment trust established under the laws of the Province of Manitoba on July 12, 2006.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP). 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 indirect 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.

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.

Financial Instruments

The Trust has designated its financial instruments, as follows:

<u>Financial Statement Item</u>	<u>Classification</u>	<u>Measurement</u>
Cash	Held-for-trading	Fair value
Marketable securities	Held-for-trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Cash in escrow	Held-for-trading	Fair value
Defeasance assets	Held-to-maturity	Amortized cost
Accounts payable	Other financial liabilities	Amortized cost
Long-term debt	Other financial liabilities	Amortized cost
Defeased liability	Other financial liabilities	Amortized cost
Convertible debentures - debt component	Other financial liabilities	Amortized cost

Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading. For other financial instruments, transaction costs are added to the related financial asset or liability on initial recognition and are measured at amortized cost using the effective interest method. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

The Trust assesses impairment of all its financial assets, except those classified as held-for-trading. Management considers whether there has been a breach in contract, such as a default or delinquency in interest or principal payments in determining whether objective evidence of impairment exists. Impairment is measured as the difference between the asset's carrying value and its fair value and is included in net income.

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 and 2009

2 *Significant accounting policies (continued)*

Fair Value

The fair value of a financial instrument is the amount of consideration that could be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no obligation to act. In certain circumstances, however, the initial fair value may be based on other observable current market transactions in the same instrument, without modification or on a valuation technique using market based inputs.

Fair value measurements recognized in the balance sheet are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobserved inputs) (Level 3).

Each type of fair value is categorized based on the lowest level input that is significant to the fair value measurement in its entirety.

Inventories

Inventories of supplies and goods for sale are stated at the lower of cost and net realizable value, on a first-in, first-out basis. The costs of inventories comprise the purchase price, import duties and other non-recoverable taxes and transportation and handling costs.

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 net income 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>
Buildings	Straight-line	2.5%
Furniture and equipment	Straight-line	5% - 33.3%

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 net income any impairment in value.

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 and 2009

2 *Significant accounting policies (continued)*

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.

Convertible debentures

The convertible debentures are convertible into units, as disclosed in Note 10. Accordingly, the debentures are divided into debt and equity components, based on the net present value of the future payments at the time of issue.

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.

Per unit calculations

Per unit amounts are calculated using the weighted average number of units outstanding during the year including vested deferred units. 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.

Revenue recognition

Revenue from services provided and products sold is recognized at the time the service is provided and the products are delivered to the customer. Interest income is recognized on a time proportion basis.

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.

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 and 2009

2 *Significant accounting policies (continued)*

Income taxes

In accordance with the terms of the Declaration of the Trust, the Trust intends, whenever possible, to distribute its income for income tax purposes each year to such an extent that it will not be liable for income taxes under Part I of the Income Tax Act.

In June 2007, new legislation relating to, among other things, the federal income taxation of publicly traded income trusts was enacted. Under the new rules, certain distributions from a "specified investment flow-through" trust (a "SIFT") will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. Distributions paid as returns of capital will not be subjected to this tax.

The new rules do not apply to a "real estate investment trust" that meets prescribed conditions relating to the nature of its income and investments (a "Qualifying REIT"). The legislation does not apply to the Trust until 2011 as it provides for a transition period for publicly traded entities that existed prior to November 1, 2006. In the opinion of management, the Trust will not satisfy the prescribed conditions of a Qualifying REIT and will, therefore, be treated as a SIFT for income tax purposes commencing January 1, 2011.

As the Trust does not meet the criteria for a Qualifying REIT, GAAP requires that the Trust and its wholly owned subsidiaries perform a future income taxes asset and liabilities calculation as follows:

- (i) determine its temporary differences between asset balances for income tax purposes and the balances recorded in accordance with GAAP;
- (ii) determine the periods over which those temporary differences are expected to reverse; and
- (iii) apply the tax rates enacted at the balance sheet date that will apply in the periods those temporary differences are expected to reverse.

The Trust and its wholly owned subsidiaries are required to use reasonable estimates in completing the calculation and the result of the calculation is recorded as a future income tax asset, if the asset is more likely than not be realized, or liability.

Comprehensive income

The Trust does not have any other comprehensive income or accumulated other comprehensive income.

Future changes to significant accounting policies

The CICA Accounting Standards Board has adopted a strategic plan for the direction of accounting in Canada. As part of that plan, accounting standards for public entities will be required to converge with International Financial Reporting Standards for fiscal years beginning on or after January 1, 2011 with comparative figures presented on the same basis. The Trust will convert to International Financial Reporting Standards for its 2011 year.

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 and 2009

3 *Marketable securities*

	December 31 2010	December 31 2009
Marketable equity securities	\$ 250,500	\$ 303,450
Guaranteed investment certificates	<u>325,015</u>	<u>324,758</u>
	<u>\$ 575,515</u>	<u>\$ 628,208</u>

Marketable equity securities are recorded at fair value based on published market value and are classified as held-for-trading financial instruments. The investments were written down from their carrying value by \$52,950 for the year ended December 31, 2010 (2009 - \$288,375).

Guaranteed investment certificates bear interest at 0.001% - 1.000% (December 31, 2009 - 0.001% - 2.15%) with maturity dates in 2011 (December 31, 2009 - 2010).

4 *Inventories*

During the year ended December 31, 2010, cost of sales related to inventory was \$7,014,898 (2009 - \$7,137,784) and is included in hotel operating costs in the financial statements.

5 *Net investment in lease*

In 2002, 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.

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. The effective interest rate of the net investment in lease is 7.31%.

Interest income from the lease for the year ended December 31, 2010 was \$324,635 (2009 - \$333,179) and is included in interest and other income.

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 and 2009

5 *Net investment in lease (continued)*

The net investment in lease includes the following:

	December 31 2010	December 31 2009
Total minimum lease payments receivable	\$ 7,537,500	\$ 7,987,500
Unearned income	<u>(3,020,904)</u>	<u>(3,345,539)</u>
Net investment in lease	4,516,596	4,641,961
Less current portion	<u>(139,133)</u>	<u>(125,370)</u>
	<u>\$ 4,377,463</u>	<u>\$ 4,516,591</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.

6 *Defeasance assets and defeased liability*

In conjunction with the refinancing of the Merit and Nomad hotels on September 24, 2007, an existing \$3,690,806 loan was defeased. The defeased loan was payable in monthly payments of \$56,551 including interest at 9.41% was originally amortized over 15 years and was due April 1, 2010. The Trust purchased Government of Canada bonds in the amount of \$4,151,677 and pledged them as security to the debtholder. The bonds matured between June 1, 2009 and December 1, 2009, had a weighted average interest rate of 4.14% and were placed in escrow. The defeasance assets and the defeased liability were measured at amortized cost using the effective interest rate method of amortization until April 1, 2010 at which time the assets were realized and the debt was extinguished.

The following table reflects the effect of the defeasance asset and the defeased liability.

	Recorded as	Year Ended December 31	
		2010	2009
Interest income on defeasance assets	Interest and other income	\$ 2,370	\$ 114,730
Interest expense on defeased liability	Finance expense	(64,172)	(280,129)
Amortization of transaction costs	Finance expense	<u>(14,664)</u>	<u>(41,389)</u>
		<u>\$ (76,466)</u>	<u>\$ (206,788)</u>

The unamortized balance of the defeasance transaction costs is \$nil (2009 - \$14,664).

TEMPLE REAL ESTATE INVESTMENT TRUST

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 and 2009**

7 *Property and equipment*

<u>December 31, 2010</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Land	\$ 28,200,924	\$ -	\$ 28,200,924
Buildings	225,520,317	(18,593,920)	206,926,397
Furniture and equipment	<u>10,776,435</u>	<u>(3,463,011)</u>	<u>7,313,424</u>
	<u>\$264,497,676</u>	<u>\$ (22,056,931)</u>	<u>\$242,440,745</u>
 <u>December 31, 2009</u>	 <u>Cost</u>	 <u>Accumulated Amortization</u>	 <u>Net Book Value</u>
Land	\$ 28,200,924	\$ -	\$ 28,200,924
Buildings	224,831,975	(12,696,248)	212,135,727
Furniture and equipment	<u>10,628,365</u>	<u>(2,418,775)</u>	<u>8,209,590</u>
	<u>\$263,661,264</u>	<u>\$ (15,115,023)</u>	<u>\$248,546,241</u>

Amortization of property and equipment consists of the following:

	<u>Year Ended December 31</u>	
	<u>2010</u>	<u>2009</u>
Buildings	\$ 5,897,673	\$ 5,565,388
Furniture and equipment	<u>1,083,380</u>	<u>993,423</u>
	<u>\$ 6,981,053</u>	<u>\$ 6,558,811</u>

8 *Other assets*

	<u>December 31 2010</u>	<u>December 31 2009</u>
Cash in escrow	\$ 1,725,608	\$ 767,467
Deposits and other	231,342	91,102
Franchise application fee	<u>94,225</u>	<u>94,225</u>
	<u>\$ 2,051,175</u>	<u>\$ 952,794</u>

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 and 2009

9 Long-term debt

Long-term debt consists of the following:

	December 31 2010	December 31 2009
First mortgage loans secured by specific hotel properties bearing interest at fixed rates between 4.32% and 6.83% weighted average interest rate - 6.24% (2009 - rates between 5.06% and 6.83%, weighted average interest rate - 6.35%) and maturing between March 30, 2011 and August 1, 2014.	\$149,271,037	\$150,375,362
Moose Jaw Casino Co-ownership - 7.08% loan payable, maturing September 1, 2027 secured by a specific assignment of the Saskatchewan Gaming Corporation lease.	3,655,886	3,767,269
12% Second mortgage loan - secured by a specific hotel property with payments of interest only, maturing June 30, 2011 (Note 23).	6,540,000	7,040,000
6% Second mortgage loan - secured by a specific hotel property, maturing December 31, 2013.	4,579,693	4,804,919
4.5% Convertible mortgage loan - secured by a specific hotel property with payments of interest only, \$4,500,000 face value maturing July 31, 2014. The mortgage loan is convertible to trust units at any time during its term at a price of \$15.00 at the option of the lender. \$471,175 was allocated to equity on issuance of the debt for an estimated cost of borrowing of 7.0%.	<u>4,148,492</u>	<u>4,064,315</u>
	168,195,108	170,051,865
Transaction costs	(700,481)	(1,253,747)
Less current portion - net of transaction costs of \$383,001 (December 31, 2009 - \$522,700)	<u>(69,101,469)</u>	<u>(50,746,879)</u>
	<u>\$ 98,393,158</u>	<u>\$118,051,239</u>

Approximate principal repayments are as follows:

12 months ending December 31

2011	\$ 69,484,470
2012	51,033,405
2013	33,822,119
2014	11,082,540
2015	157,729
Thereafter	<u>2,966,353</u>
	<u>\$168,546,616</u>

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 and 2009

9 Long term debt (continued)

Mortgage loans are secured by mortgage charges registered against specific income properties and are also secured by assignments of book debts and inventories.

As a condition of some long-term debt arrangements, the Trust is required to maintain certain debt service coverage ratios and certain debt to equity ratios. In addition, capital expenditures must not exceed certain maximums. Except as noted below, the Trust was in compliance of all covenants as of December 31, 2010.

The Trust was not in compliance on three first mortgage loans in the amount of \$48,092,524, as of December 31, 2010 as a result of a breach of the debt service coverage requirement in respect of such mortgage loans. In accordance with GAAP, the balance of the mortgage loans which are in breach of debt service coverage requirements are included in principal repayments in 2010.

In regard to one mortgage loan in the amount of \$32,424,610 the Trust notified the lender on August 17, 2010 of the breach of the debt service coverage requirement and on September 2, 2010, the lender issued a formal notice of default. The lender did not demand the loan or accelerate mortgage payments under the loan. All payments of principal and interest were made as scheduled. On March 30, 2011 the loan matured and was renewed. The renewal of the mortgage loan resolved the covenant breach in regard to this loan.

Transaction costs are incremental costs that are directly attributable to the acquisition of mortgage financing and include both fees and charges, brokerage fees and commissions, legal fees, advisor and similar costs. Transaction costs are amortized over the term of the respective mortgages using the effective interest method. The transaction cost amortization for the year ended December 31, 2010 amounted to \$596,137 (2009 - \$670,424).

10 Convertible debentures

As of December 31, 2010, the Trust has three series of convertible debentures outstanding:

Series A

The Trust issued \$15,680,000 of Series A convertible redeemable debentures by way of private placement on February 15, 2007. The debentures are unsecured, bear interest at 7.5% payable semi-annually and mature on March 31, 2012. The debentures are convertible to trust units at any time during their term at a price of \$5.75 at the option of the debenture holder.

The debentures are redeemable at the option of the Trust at the principal amount, subject to certain terms and conditions, from March 31, 2010 and prior to March 31, 2011, providing that the 20-day weighted average trading price of the units is at least \$7.1875 and, on or after March 31, 2011, at their principal amount.

During the year ended December 31, 2010 and year ended December 31, 2009 there were no conversions of Series A debentures.

In accordance with the terms of the trust indenture for the Series A debentures, the Trust has an option to repay the principal amount of the debentures, in whole or in part, by the issue of units, on the maturity of the Series A debentures.

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 and 2009

10 *Convertible debentures (continued)*

Series B

The Trust issued \$30,000,000 of Series B convertible redeemable debentures by way of private placement on April 8, 2008. The debentures are unsecured, bear interest at 8.5% semi-annually and mature on April 30, 2013. The debentures are convertible to trust units at any time during their term at a price of \$7.50 at the option of the debenture holder.

The debentures are redeemable at the option of the Trust at the principal amount, subject to certain terms and conditions, from April 30, 2011 and prior to April 30, 2012, providing that the 20-day weighted average trading price of the units is at least \$9.375 and, on or after April 30, 2012, at their principal amount.

During the year ended December 31, 2010, there were no conversions of Series B debentures.

During the year ended December 31, 2009, \$100,000 of Series B debentures were converted to 13,333 trust units.

In accordance with the terms of the trust indenture for the Series B debentures, the Trust has an option to repay the principal amount of the debentures, in whole or in part, by the issue of units, on the maturity of the Series B debentures.

Senior Secured Convertible Redeemable

The Trust issued \$15,000,000 of senior secured convertible redeemable debentures by way of public offering on November 27, 2009. The debentures are secured by a secondary charge on certain hotel properties, bear interest at 8.75% semi-annually and mature on November 30, 2014. The debentures are convertible to trust units at any time during their term at a price of \$3.65 at the option of the debenture holder.

The debentures are redeemable at the option of the Trust at the principal amount, subject to certain terms and conditions, from November 30, 2012 and prior to November 30, 2014, providing that the current trading price of the units is at least \$4.5625 and, on or after November 30, 2013, at their principal amount.

During the year ended December 31, 2010, \$248,000 of senior secured convertible redeemable debentures were converted to 67,943 trust units.

During the year ended December 31, 2009 there were no conversions of senior secured convertible redeemable debentures.

The following schedule allocates the convertible debentures between the debt and equity components on the basis of the net present value of future interest and principal payments at an estimated cost of borrowing without conversion option as reflected in the schedules:

<u>December 31, 2010</u>	<u>Estimated Cost of Borrowing</u>	<u>Debt</u>	<u>Equity</u>	<u>Total</u>	<u>Face Value</u>
Series A	12.00 %	\$ 2,361,125	\$ 412,489	\$ 2,773,614	\$ 2,464,500
Series B	13.00 %	17,956,132	3,249,450	21,205,582	19,866,100
Senior Secured	13.25 %	12,751,089	2,399,214	15,150,303	14,752,000
Transaction costs		<u>(1,533,093)</u>	<u>-</u>	<u>(1,533,093)</u>	<u>-</u>
		<u>\$31,535,253</u>	<u>\$ 6,061,153</u>	<u>\$37,596,406</u>	<u>\$ 37,082,600</u>

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 and 2009

10 *Convertible debentures (continued)*

<u>December 31, 2009</u>	Estimated Cost of <u>Borrowing</u>	<u>Debt</u>	<u>Equity</u>	<u>Total</u>	<u>Face Value</u>
Series A	12.00 %	\$ 2,259,094	\$ 412,489	\$ 2,671,583	\$ 2,464,500
Series B	13.00 %	17,410,097	3,249,450	20,659,547	19,866,100
Senior Secured	13.25 %	12,593,908	2,439,548	15,033,456	15,000,000
Transaction costs		<u>(1,871,277)</u>	<u>-</u>	<u>(1,871,277)</u>	<u>-</u>
		<u>\$30,391,822</u>	<u>\$ 6,101,487</u>	<u>\$36,493,309</u>	<u>\$ 37,330,600</u>

Transaction costs are incremental costs that are directly attributable to issuance of convertible debentures and include both fees and charges, brokerage fees and commissions, legal fees, advisor fees and similar costs. Transaction costs are amortized over the term of the debenture using the effective interest method. The transaction cost amortization for the year ended December 31, 2010 amounted to \$400,950 (2009 - \$212,707).

The accretion of the debt component for the year ended December 31, 2010 of \$1,019,637 (2009 - \$632,346), which increases the debt component from the initial carrying amount, is included in financing expense on convertible debentures.

The Senior Secured debentures provide that for the outstanding amount of the debentures may become payable on demand upon default and acceleration, under certain terms and conditions, of a mortgage loan. At December 31, 2010, the Trust was not in compliance with three first mortgage loans totaling \$48,092,524 as a result of a breach of the debt service coverage requirements in respect of such mortgage loans. If, at a future date, the lenders demand the repayments of any of the loans, the Senior Secured debentures, with a face value of \$14,752,000 may become payable on demand.

11 *Future income taxes and income tax expense (recovery)*

The future tax liability of the Trust and its wholly owned subsidiary corporations consists of the following:

	<u>December 31 2010</u>	<u>December 31 2009</u>
Tax liability related to difference in tax and book values	\$ 5,568,774	\$ 5,092,306
Tax asset related to deductible issue costs	(214,330)	(520,393)
Tax asset related to income tax loss carryforward	<u>(2,259,173)</u>	<u>(859,785)</u>
	<u>\$ 3,095,271</u>	<u>\$ 3,712,128</u>

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

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 and 2009

11 *Future income taxes and income tax expense (recovery) (continued)*

Income tax expense (recovery) consists of the following:

	Year Ended December 31	
	<u>2010</u>	<u>2009</u>
Income tax computed at the Canadian statutory rate of nil applicable to the Trust for 2010 and 2009	\$ -	\$ -
Change in future income tax liability arising from change in estimate of temporary differences expected to reverse in or after 2011	(596,058)	426,784
Future income tax applicable to Temple Gardens Mineral Spa Inc.	<u>(20,799)</u>	<u>(42,144)</u>
	(616,857)	384,640
Current income tax applicable to Temple Gardens Mineral Spa Inc. at the statutory rate of 30.0% (2009 - 31.0%)	<u>260,003</u>	<u>213,530</u>
	<u>\$ (356,854)</u>	<u>\$ 598,170</u>

12 *Finance expense*

Financing costs are comprised of the following:

	Year Ended December 31	
	<u>2010</u>	<u>2009</u>
Mortgage loan interest	\$ 10,899,001	\$ 11,540,203
Accretion of the debt component of convertible mortgage loan	84,177	35,490
Defeasance mortgage interest	64,172	280,129
Interest on debentures	3,180,531	2,108,743
Accretion of the debt component of convertible debentures	1,019,637	632,346
Amortization of transaction costs	997,087	883,131
Amortization of defeasance transaction costs	<u>14,664</u>	<u>41,389</u>
	<u>\$ 16,259,269</u>	<u>\$ 15,521,431</u>

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 and 2009

13 *Per unit calculations*

Basic per unit information is calculated based on the weighted average number of units and deferred units (Note 17) 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 (loss) per unit calculations are based on the following:

	Year Ended December 31	
	2010	2009
Income (loss) and diluted income (loss)	<u>\$ (2,305,116)</u>	<u>\$ 904,278</u>
Weighted average number of units - basic and diluted	<u>12,855,117</u>	<u>12,829,587</u>

The following securities were not included in the diluted net income per unit calculation as the effect would have been anti-dilutive.

	Exercise/Conversion Price	Number of units if converted or exercised at December 31, 2010
Unit options		
	\$ 3.00	7,666
	\$ 3.01	67,000
	\$ 3.93	25,000
	\$ 5.00	100,000
	\$ 6.19	335,000
Convertible debentures		
Series A	\$ 5.75	428,609
Series B	\$ 7.50	2,648,813
Senior Secured	\$ 3.65	4,041,644
Convertible mortgage loan	\$ 15.00	300,000

14 *Trust units*

	Year Ended December 31, 2010		Year Ended December 31, 2009	
	Units	Amount	Units	Amount
Outstanding, beginning of period	12,825,352	\$ 62,491,116	12,812,019	\$ 62,590,168
Units issued on exercise of options	10,500	31,605	-	-
Value associated with options exercised		15,274		-
Units issued on conversion of debentures	67,943	214,390	13,333	85,597
Equity component of debentures converted		40,334		16,357
Unit issue costs		<u>(14,754)</u>		<u>(201,006)</u>
Outstanding, end of period	<u>12,903,795</u>	<u>\$ 62,777,965</u>	<u>12,825,352</u>	<u>\$ 62,491,116</u>

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 and 2009

15 *Distributions*

The Trust makes distributions on its units in accordance with the Declaration of Trust, at the discretion of the Trustees.

The following table reflects a comparison of taxable income to distributions declared.

	Year Ended December 31	
	2010	2009
Business income	\$ -	\$ -
Dividend income	1,331,114	-
Taxable capital gain	-	-
	<u>\$ 1,331,114</u>	<u>\$ -</u>
Actual distributions	<u>\$ 5,132,561</u>	<u>\$ 6,410,009</u>

16 *Unit options*

Option plan

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.

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.

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 and 2009

16 Unit options (continued)

Unit options

	Year Ended December 31, 2010		Year Ended December 31, 2009	
	Unit options	Weighted Average Exercise Price	Unit options	Weighted Average Exercise Price
Outstanding, beginning of period	467,666	\$ 5.86	467,666	\$ 5.86
Unit options granted during period	105,000	3.23	-	-
Unit options exercised during period	(10,500)	3.01	-	-
Unit options expired during period	<u>(27,500)</u>	<u>5.51</u>	<u>-</u>	<u>-</u>
Unit options outstanding and vested, beginning and end of period	<u>534,666</u>	<u>\$ 5.42</u>	<u>467,666</u>	<u>\$ 5.86</u>
Weighted average remaining life (years)	<u>2.28</u>		<u>2.85</u>	

On January 12, 2010, the Trust granted options to purchase 80,000 units at \$3.01 per unit. The options vest immediately and will expire five years from the date they were granted. The fair value of \$116,370 associated with the options issued, included in trust expense, was calculated using the Black-Scholes model for option valuation and charged to unit-based compensation, assuming a weighted average volatility of 200% on the underlying units, a dividend yield rate of 13.25% and the weighted average risk free interest rate (typically the Canada bond rate at the date of grant).

On December 15, 2010, the Trust granted options to purchase 25,000 units at \$3.93 per unit. The options vest immediately and will expire five years from the date they were granted. The fair value of \$22,817 associated with the options issued, included in trust expense, was calculated using the Black-Scholes model for option valuation and charged to unit-based compensation, assuming a weighted average volatility of 50% on the underlying units, a dividend yield rate of 10.18% and the weighted average risk free interest rate (typically the Canada bond rate at the date of grant).

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 and 2009

17 *Deferred unit plan*

The Trust has a deferred unit plan available for trustees, officers, employees, or consultants of the Trust under which, any trustee, officer, employee, or consultants of the Trust have their annual bonus, annual board retainer or board meeting fees payable to that person by the Trust paid in the form of deferred units. The fair value based method of accounting is applied to all unit-based compensation. The fair value of deferred units granted is estimated on the date of grant using the market value of units of the Trust. Compensation expense is recognized when deferred units are granted. On the redemption of deferred units, the accumulated deferred unit value is credited to the units of the Trust.

The number of deferred units received by a participant is determined by dividing the amount of the annual bonus, annual board retainer or board meeting fees as applicable to be paid in the form of deferred units on that date by the fair market value of the Trust's units.

Deferred units granted to Trustees shall vest immediately. Deferred units granted to participants other than Trustees shall vest 33% on the first anniversary of grant, 33% on the second anniversary of grant, and 34% on the third anniversary of grant. In the event of any change of control, any unvested deferred units shall vest upon the earlier of the next applicable vesting date and the date that is immediately prior to the date upon which the change of control is completed. The board shall have the discretion to vary the manner in which deferred units vest for any participant.

The deferred units credited to a participant (including deferred units that have not yet vested) shall vest immediately and be redeemable by the participant following the termination other than for cause, retirement, or death, of the participant. In the event that a participant is terminated for cause, only the deferred units that have vested shall be redeemable and any unvested deferred units shall be cancelled.

Whenever cash distributions are paid on the units of the Trust, additional deferred units will be credited to the participant based on the number of deferred units held, the amount of the distribution and the market value of a unit of the Trust on the date of the distribution. Additional deferred units shall vest at the same time and on the same basis as the deferred units in respect of which they are credited.

Deferred units granted to Trustees for the year ended December 31, 2010, totaled 21,538 units (2009 - 18,288). The Trust expensed \$61,332 (2009 - \$51,029) for the year ended December 31, 2010 of unit based compensation related to the deferred unit plan which was included in Trust expenses in the consolidated statements of income and comprehensive income.

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 and 2009

18 *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 was renewed for a second term expiring October 1, 2016. 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 \$963,666 for the year ended December 31, 2010 (2009 - \$997,779). Included in accounts payable and accrued liabilities is \$514,665 (December 31, 2009 - \$245,750) due to Shelter Canadian Properties Limited.

19 *Investment in co-ownership*

Temple Gardens Mineral Spa Inc. is a party to a co-ownership agreement in regard to the Moose Jaw casino complex property. The co-ownership completed the development of a 23,400 square foot building and 140 parking stalls which is leased to the Saskatchewan Gaming Commission. 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 the Trust's interest in a jointly controlled entity, which has been proportionately consolidated, is as follows:

	Year ended December 31	
	2010	2009
Assets	<u>\$ 4,550,039</u>	<u>\$ 4,777,450</u>
Liabilities	<u>\$ 3,679,076</u>	<u>\$ 3,791,053</u>
Net income	<u>\$ 64,297</u>	<u>\$ 82,684</u>
Cash flow from operations	<u>\$ 62,356</u>	<u>\$ (12,951)</u>
Cash flow from investing	<u>\$ 125,365</u>	<u>\$ 116,821</u>
Cash flow from financing	<u>\$ (185,183)</u>	<u>\$ (103,898)</u>

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 and 2009

20 Risk management and fair values

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 and in the credit quality of its customers. Management's involvement in operations helps identify risks and variations from expectations. The Trust does not manage risk through the use of hedging transactions. As a part of the overall operation of the Trust, management takes steps to avoid undue concentrations of risk. The Trust manages the risks, as follows:

Liquidity risk

The Trust's principal liquidity needs arise from working capital requirements, debt servicing and repayment obligations, planned funding of maintenance, leasing costs and distributions to Unitholders, and possible property acquisition funding requirements. Revenues from hotel operations tend to fluctuate throughout the year, with greater demand in the last three quarters of the calendar year.

The above liquidity needs are funded from cash flows from operations, with the exception of debt repayment obligations and property acquisition funding requirements which are funded from refinancing the Trust's maturing debt or financing unencumbered properties. The particular features and quality of the underlying assets being financed and the debt market parameters existing at the time will affect the success of this strategy. If this strategy is unsuccessful, other sources of funding include raising new equity by issuing Units. The risk with issuing new capital is that the capital markets may not be receptive to an equity issue with financial terms favourable to the Trust.

There is a risk that lenders will not refinance maturing debt on terms and conditions acceptable to the Trust or on any terms at all. The risk associated with the refinancing of maturing debt is mitigated as the maturity dates of the mortgage portfolio are staggered over a number of years. The following are the estimated maturities of the Trust's financial liabilities with convertible debentures and the convertible mortgage loan disclosed at their face value as at December 31, 2010:

	<u>Total</u>	<u>1 year</u>	<u>2 years</u>	<u>3 years</u>	<u>4 years</u>	<u>5 years</u>	<u>Thereafter</u>
Accounts payable and accrued liabilities	\$ 5,801,986	\$ 5,801,986	\$ -	\$ -	\$ -	\$ -	\$ -
Long-term debt	168,546,616	69,484,470	51,033,405	33,822,119	11,082,540	157,729	2,966,353
Convertible debentures	37,082,600	-	2,464,500	19,866,100	14,752,000	-	-
Total	<u>\$211,431,202</u>	<u>\$75,286,456</u>	<u>\$53,497,905</u>	<u>\$53,688,219</u>	<u>\$25,834,540</u>	<u>\$ 157,729</u>	<u>\$ 2,966,353</u>

Interest rate risk

Interest rate risk is the risk that changes in market interest rates may have an effect on the cash flows associated with some financial instruments, known as interest rate cash flow risk, or on the fair value of other financial instruments, known as interest rate price risk.

Obtaining long-term mortgages with fixed interest rates minimizes interest rate cash flow risk.

Market risk

Market risk is the risk that changes in market prices will have an effect on future cash flows associated with financial instruments. Market risk comprises three types of risk: credit risk, currency risk, and other price risk.

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 and 2009

20 Risk management and fair values (continued)

Credit risk

Credit risk arises from the possibility that debtors may be unable to fulfill their commitments. For a financial asset, this is typically the gross carrying amount, net of any amounts offset and any impairment losses.

The Trust has credit policies to address credit risk, which are applied when granting credit and does include the analysis of the financial position of the debtor and review of credit limits. The Trust also does review credit history and credit performance as part of the credit accreditation process. An allowance for doubtful accounts or other impairment provisions are established based upon factors surrounding credit risk, historical trends and other information.

A financial asset is past due when a debtor has failed to make a payment when contractually due. The following is an aging of rents receivable past due but not impaired:

	<u>December 31 2010</u>	<u>December 31 2009</u>
Accounts receivable:		
0 to 30 days overdue	\$ 404,892	\$ 125,163
More than 30 days overdue	<u>247,203</u>	<u>112,897</u>
	<u>\$ 652,095</u>	<u>\$ 238,060</u>

The following is an analysis of bad debt charges to income included in hotel operating costs:

	<u>Year Ended December 31</u>	
	<u>2010</u>	<u>2009</u>
Amounts charged to income	<u>\$ 44,723</u>	<u>\$ (7,005)</u>
Percent of hotel revenue	<u>0.07%</u>	<u>(0.01%)</u>

Currency risk

Currency risk is the risk that changes in foreign exchange rates may have an effect on future cash flows associated with financial instruments. The Trust has no transactions denominated in foreign currency and is not exposed to foreign currency risk.

Other price risk

Other price risk is the risk that changes in market prices, including commodity or equity prices, will have an effect on future cash flows associated with financial instruments. The cash flows associated with financial instruments of the Trust are not exposed to other price risk.

Fair values

Financial instruments include cash, accounts receivable, investment in marketable securities, cash in escrow, defeasance assets, accounts payable, long-term debt, defeased liability, and the debt component of convertible debentures payable.

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 and 2009

20 Risk management and fair values (continued)

The following schedule summarizes the method used to determine the fair value of financial instruments which are carried at fair value.

	December 31, 2010		December 31, 2009	
	<u>Quoted Prices</u>	<u>Observed Inputs</u>	<u>Quoted Prices</u>	<u>Observed Inputs</u>
Cash	\$ 4,096,958	\$ -	\$ 7,401,442	\$ -
Marketable securities	250,500	325,015	303,450	324,758
Cash in escrow	1,725,608	-	767,467	-

The carrying values of accounts receivable, accounts payable, defeasance assets and defeased liability approximate fair value due to the short term nature of such financial instruments.

The carrying value of the long-term debt are impacted by changes in market yields which can result in differences between the carrying value and fair value of instruments. The fair value of long-term debt has been estimated based on the current market rates for debt with similar terms and conditions. The estimated fair value of long-term debt as at December 31, 2010 is \$169,591,000 (December 31, 2009 - \$175,832,017).

The carrying value of the debt components of convertible debentures payable are impacted by changes in market yields which can result in differences between the carrying value and fair value of instruments. The fair value of the debt component of convertible debentures payable has been estimated based on the current market rates for debentures with similar terms and conditions. The estimated fair value of the debt component of convertible debentures payable as at December 31, 2010 is \$36,985,000 (December 31, 2009 - \$34,066,577).

The fair value of the defeasance assets and the defeased liability was nil on a net basis as there was no cash flow impact to the Trust from the defeasance assets or defeased liability.

21 Segmented financial information

The assets are located in and revenue is derived from the operation of hotels in Canada.

Year ended December 31, 2010:

	Fort		Trust	Total
	<u>McMurray</u>	<u>Other</u>		
Hotel revenue	\$ 21,494,779	\$ 40,452,536	\$ -	\$ 61,947,315
Interest and other income	703,699	1,235,714	15,265	1,954,678
Property operating costs	11,699,873	30,800,771	-	42,500,644
Operating income	10,498,605	10,887,479	15,265	21,401,349
Financing expense	7,065,897	4,592,254	4,601,118	16,259,269
Amortization	4,391,864	2,589,189	-	6,981,053
Trust expenses	-	-	770,047	770,047
Change in marketable securities	-	-	(52,950)	(52,950)
Income taxes	-	239,204	(596,058)	(356,854)
Income (loss)	\$ (959,156)	\$ 3,466,832	\$ (4,812,792)	\$ (2,305,116)
Total assets	\$155,920,295	\$103,924,312	\$ 636,829	\$260,481,436

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 and 2009

21 *Segmented financial information (continued)*

Year ended December 31, 2009:

	Fort McMurray	Other	Trust	Total
Hotel revenue	\$ 23,722,001	\$ 39,412,473	\$ -	\$ 63,134,474
Interest and other income	806,519	1,417,832	452,766	2,677,117
Property operating costs	12,284,109	28,946,706	-	41,230,815
Operating income	12,244,411	11,883,599	452,766	24,580,776
Financing expense	8,068,811	4,458,343	2,994,277	15,521,431
Amortization	3,994,979	2,563,832	-	6,558,811
Trust expenses	-	-	709,711	709,711
Change in marketable securities	-	-	(288,375)	(288,375)
Income taxes	-	171,386	426,784	598,170
Income (loss)	\$ 180,621	\$ 4,690,038	\$ (3,966,381)	\$ 904,278
Total assets	\$161,129,757	\$104,551,994	\$ 4,131,731	\$269,813,482

22 *Management of capital*

The capital structure of the Trust is comprised of the following:

	December 31 2010	December 31 2009
Mortgage debt	\$ 167,494,627	\$ 168,798,118
Convertible debentures	31,535,253	30,391,822
Unitholders' equity	<u>50,232,828</u>	<u>57,238,745</u>
Total	<u>\$ 249,262,708</u>	<u>\$ 256,428,685</u>

The Trust manages capital in order to safeguard its ability to continue as a going concern; to help ensure that returns are provided to Unitholders, and to help ensure an appropriate balance of risk and return.

The overall capital management strategy addresses the following considerations:

- The equity component of acquired properties is primarily funded from the proceeds of offering of trust units or convertible debentures.
- Mortgage debt financing is arranged to optimize the leveraged returns from the hotel portfolio.
- Total mortgage debt financing is maintained within the overall debt limits as established by the Declaration of Trust. The Declaration of Trust allows total mortgage indebtedness of the Trust up to 75% of the appraised value of all properties.
- The Trust will endeavour to obtain a fixed rate of interest.
- Mortgage due dates are structured to reflect the nature of the properties being financed and debt maturity dates will be staggered, to the extent possible, in order to manage refinancing risk.

As of December 31, 2010 and December 31, 2009, total mortgage indebtedness was 55% and 54% respectively of the appraised value of properties. The individual property appraisals were prepared between 2007 and 2010.

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 and 2009

22 *Management of capital (continued)*

The Trust monitors capital from time-to-time using a variety of measures which are applicable to the hotel industry. Monitoring procedures are typically performed as a part of the overall management of operations and are performed with the goal of enhancing the ability of the Trust to access capital and/or reduce the cost of capital.

In order to maintain or adjust the capital structure the Trust may issue units, debentures or mortgage debt; adjust the amount of distributions paid to shareholders; return capital to shareholders; or reduce debt.

Market requirements for attracting capital may vary and may not be accurately predicted by the Trust.

23 *Commitments and contingencies*

Operating lease agreements

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.

2011	511,453
2012	162,567
2013	46,108
2014	27,405
2015	18,459

Operating cost agreements

The Trust has entered into commitments to fix natural gas rates at \$8.85 per gigajoule at Temple Gardens Mineral Spa until October 2012.

The Trust has entered into a Water Supply Contract with the Saskatchewan Water Corporation to purchase geo-thermally heated mineralized water at Temple Gardens Mineral Spa from wells owned by the City of Moose Jaw until May 31, 2020. The Water Supply Charge shall be set from time to time by the Saskatchewan Water Corporation at its sole discretion.

The Trust has entered into commitments to obtain natural gas supplies for all Alberta hotels at a cost which will not exceed \$7.50 per gigajoule for a term expiring September 30, 2013.

The commitments are in accordance with the Trust's expected usage requirements.

Hotel management

Temple REIT has retained Atlific Hotels and Resorts to manage all of the hotels for its existing property portfolio. For the year ended December 31, 2010, the Trust paid management fees of \$1,444,321 (2009 - \$1,463,979).

Contingencies

In the normal course of operations, the Trust will become subject to a variety of legal and other claims. Management and legal counsel evaluate all claims on their apparent merits, and accrue management's best estimate of the estimated costs to satisfy such claims. Although the outcome of legal and other claims are not reasonably determined, management believes that any such outcome will not be material.

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 and 2009

24 *Subsequent events*

Unit offering

On February 4, 2011, the Trust filed a short-form prospectus related to the public offering of a minimum of 2,000,000 and a maximum of 5,000,000 trust units out of treasury at a price of \$4.00 per unit.

The offering was fully subscribed at the maximum 5,000,000 units and closed on February 11, 2011 and raised gross proceeds of \$20,000,000. Commissions paid to the agents related the offering were \$1,100,000 and approximately \$257,000 in professional fees and expenses were incurred resulting in net cash proceeds of \$18,643,000. The net cash proceeds were used to make a lump sum prepayment of \$9,000,000 on long-term debt, retire \$6,540,000 in long-term debt and to improve working capital.

Long-term debt

On February 11, 2011, the \$6,540,000 second mortgage loan secured by the Merit Hotel in Fort McMurray maturing June 30, 2011 was prepaid in full without penalty. The loan had been renewed on October 31, 2010 bearing interest at 15% per annum with the condition that the interest rate would be reduced to 12% per annum if the loan is repaid prior to February 28, 2011. As the Trust complied with the terms of the prepayment option, the interest rate was reduced to 12% from the date of renewal.

The first mortgage loan of \$32,424,610 secured by the Clearwater Hotel due March 30, 2011 was partially prepaid without penalty by \$9,000,000 on February 11, 2011. The balance of loan of \$23,058,327 was renewed until December 31, 2011 under similar terms and conditions.

The first mortgage loan of \$4,900,621 at December 31, 2010, secured by the Temple Gardens Mineral Spa was renewed until May 1, 2012.

Unit options

Subsequent to December 31, 2010, 11,666 unit options were exercised for gross proceeds of \$35,038.

Convertible debentures

Subsequent to December 31, 2010, \$951,985 of senior secured convertible redeemable debentures were converted into 260,817 units.