



CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2011

(unaudited)

TEMPLE REAL ESTATE INVESTMENT TRUST

CONSOLIDATED BALANCE SHEETS

	March 31 2011	December 31 2010	January 1 2010
Assets			
Current assets			
Cash	\$ 6,614,636	\$ 4,096,958	\$ 7,401,442
Trade and other receivables (Note 5)	3,276,566	3,038,065	2,150,209
Deposits and prepaids (Note 6)	1,421,369	1,650,384	411,729
Income tax receivable	78,326	31,537	-
Marketable securities (Note 7)	591,115	575,515	628,208
Inventories (Note 8)	793,240	797,746	716,220
Net investment in lease (Note 9)	148,526	139,133	125,370
Defeasance assets (Note 10)	-	-	2,941,723
	<u>12,923,778</u>	<u>10,329,338</u>	<u>14,374,901</u>
Non-current assets			
Property and equipment (Note 12)	241,561,180	242,440,745	248,546,241
Net investment in lease (Note 9)	4,335,321	4,377,463	4,516,591
Goodwill	1,608,282	1,608,282	1,608,282
Restricted cash (Note 11)	1,787,616	1,725,608	767,467
Deferred income tax (Note 16)	355,143	-	-
	<u>\$262,571,320</u>	<u>\$260,481,436</u>	<u>\$269,813,482</u>
Liabilities and Equity			
Current liabilities			
Accounts payable and other liabilities (Note 13)	\$ 7,975,861	\$ 8,123,457	\$ 6,702,731
Unit based compensation (Note 14)	262,963	217,986	50,932
Declared distribution payable	1,817,216	-	-
Debt (Note 15)	55,371,728	69,101,469	50,746,879
Income tax payable	-	-	135,042
Defeased liability	-	-	2,834,896
	<u>65,427,768</u>	<u>77,442,912</u>	<u>60,470,480</u>
Non-current liabilities			
Debt (Note 15)	133,866,619	135,392,625	152,413,202
Deferred income tax (Note 16)	2,529,051	2,816,579	3,708,675
	<u>201,823,438</u>	<u>215,652,116</u>	<u>216,592,357</u>
Equity			
Trust units	82,857,447	62,790,634	62,491,116
Cumulative earnings	9,857,905	12,188,940	15,747,702
Cumulative distributions to unit owners	<u>(31,967,470)</u>	<u>(30,150,254)</u>	<u>(25,017,693)</u>
	<u>60,747,882</u>	<u>44,829,320</u>	<u>53,221,125</u>
	<u>\$262,571,320</u>	<u>\$260,481,436</u>	<u>\$269,813,482</u>

Approved by the Trustees

"Arni Thorsteinson"

"David Drybrough"

(unaudited)

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TEMPLE REAL ESTATE INVESTMENT TRUST

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

	Three Months Ended March 31	
	<u>2011</u>	<u>2010</u>
Revenue		
Room revenue	\$ 10,460,705	\$ 9,031,285
Other hotel revenue	<u>6,205,746</u>	<u>5,863,563</u>
	16,666,451	14,894,848
Expenses		
Hotel operating costs	<u>11,046,864</u>	<u>10,108,669</u>
Hotel operating income	<u>5,619,587</u>	<u>4,786,179</u>
Interest expense, net (Note 18)	3,335,952	3,610,752
Trust expense	125,832	364,007
Depreciation	<u>1,757,338</u>	<u>1,744,598</u>
	400,465	(933,178)
Change in fair value of financial instruments	<u>(3,014,012)</u>	<u>1,540,779</u>
Income (loss) before income taxes	(2,613,547)	607,601
Income taxes expense (recovery):		
Current	30,487	68,683
Deferred	<u>(312,999)</u>	<u>(112,075)</u>
	<u>(282,512)</u>	<u>(43,392)</u>
Net income (loss) and comprehensive income (loss)	<u>\$ (2,331,035)</u>	<u>\$ 650,993</u>
Net income (loss) per unit (Note 19)		
Basic and diluted	\$ (0.15)	\$ 0.05

TEMPLE REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF EQUITY

	Three Months Ended	
	March 31	
	2011	2010
Trust units (Note 17)		
Balance, beginning of period	\$ 62,790,634	\$ 62,491,116
Issuance of trust units	20,000,000	-
Units issued on conversion of debentures	1,075,300	-
Units issued on exercise of options	45,275	-
Unit issue costs	<u>(1,053,762)</u>	<u>-</u>
Balance, end of period	<u>82,857,447</u>	<u>62,491,116</u>
Cumulative earnings		
Balance, beginning of period	12,188,940	15,747,702
Net income (loss)	<u>(2,331,035)</u>	<u>650,993</u>
Balance, end of period	<u>9,857,905</u>	<u>16,398,695</u>
Cumulative distributions to unitholders		
Balance, beginning of period	(30,150,254)	(25,017,693)
Distribution to unitholders	<u>(1,817,216)</u>	<u>(1,282,535)</u>
Balance, end of period	<u>(31,967,470)</u>	<u>(26,300,228)</u>
Total unitholders' equity	<u>\$ 60,747,882</u>	<u>\$ 52,589,583</u>
Units issued and outstanding (Note 17)	<u>18,172,169</u>	<u>12,825,352</u>
Deferred units outstanding	<u>42,053</u>	<u>22,528</u>

TEMPLE REAL ESTATE INVESTMENT TRUST
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended	
	March 31	
	2011	2010
Cash provided by (used in) operating activities		
Net income (loss) and comprehensive income (loss)	\$ (2,331,035)	\$ 650,993
Items not affecting cash		
Depreciation	1,757,338	1,744,598
Change in fair value of financial instruments	3,014,012	(1,540,779)
Deferred income taxes	(312,999)	(112,075)
Unit based compensation	9,999	128,570
Interest expense	3,335,952	3,610,752
Interest received	89,146	86,169
Interest paid	<u>(2,823,838)</u>	<u>(3,076,401)</u>
	2,738,575	1,491,827
Working capital adjustments		
Change in trade and other receivables	(238,501)	(260,452)
Change in deposits and prepaids	229,015	(26,409)
Change in income tax receivable	(46,789)	-
Change in inventories	4,506	(80,650)
Change in accounts payables and other liabilities	(633,036)	236,711
Change in income tax payable	<u>-</u>	<u>66,654</u>
Net cash flow from operating activities	<u>2,053,770</u>	<u>1,427,681</u>
Cash provided by (used in) financing activities		
Proceeds of unit offering	20,000,000	-
Unit issue costs	(1,406,705)	-
Exercise of options	35,038	-
Decrease in defeased liability	-	(104,677)
Lump sum principal payments on mortgage loans	(15,540,000)	(455,000)
Regular repayment of principal on mortgage loans	(1,707,073)	(1,484,885)
Expenditures on transaction costs	<u>(10,320)</u>	<u>(1,022)</u>
Net cash flow from financing activities	<u>1,370,940</u>	<u>(2,045,584)</u>
Cash provided by (used in) investing activities		
Capital expenditures on completed hotel properties	(877,773)	(207,329)
Decrease in defeasance assets	-	167,873
Receipt of net investment in lease	32,749	30,516
Change in restricted cash	<u>(62,008)</u>	<u>(819,376)</u>
Net cash flow from investing activities	<u>(907,032)</u>	<u>(828,316)</u>
Change in cash and cash equivalents	2,517,678	(1,446,219)
Cash and cash equivalents, beginning of period	<u>4,096,958</u>	<u>7,401,442</u>
Cash and cash equivalents, end of period	<u>\$ 6,614,636</u>	<u>\$ 5,955,223</u>

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2011

1 **Organization**

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 registered office for the Trust is located at 2600 Seven Evergreen Place, Winnipeg, Canada. The Trust is listed on the TSX Venture Exchange ("the Exchange"). The following schedule reflects securities of the Trust, which trade on the Exchange and the related trading symbol.

Units	TR.UN
Series A Convertible Debentures	TR.DB.A
Series B Convertible Debentures	TR.DB.B
Senior Secured Convertible Debentures	TR.DB.S

The Trust operates hotel property investments in Canada.

The consolidated statements for the period ended March 31, 2011 were approved for issue in accordance with a resolution of the Board of Trustees on June 16, 2011.

2 **Basis of presentation**

The consolidated financial statements have been prepared on a going concern basis. The consolidated financial statements have been prepared on an historical cost basis except for marketable securities, unit based compensation, convertible mortgage loans and convertible debentures which are measured at fair value. The consolidated financial statements are presented in Canadian dollars.

Statement of compliance

The condensed interim consolidated financial statements of the Trust have been prepared in accordance with International Financial Reporting Standards ("IFRS"), including IAS 34 and IFRS 1. Subject to certain transition elections disclosed in Note 26, the accounting policies in Note 3 have been applied consistently in all material respects. Comparative amounts for 2010 have been restated to give effect to changes required for the adoption of IFRS. Note 26 discloses the impact of the transition to IFRS on the Trust's reported financial position, net income (loss) and comprehensive income (loss) and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Trust's consolidated financial statements for the year ended December 31, 2010.

The consolidated financial statements are based on IFRS standards issued and outstanding as at June 16, 2011. Subsequent changes to IFRS standards that are given effect in the Trust's annual consolidated financial statements for the year ending December 31, 2011 could result in the restatement of these financial statements, including the transition adjustments recognized on change-over to IFRS.

The condensed interim consolidated financial statements should be read in conjunction with the Trust's Canadian generally accepted accounting principles ("Canadian GAAP") annual financial statements for the year ended December 31, 2010.

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2011

3 Significant accounting policies

(a) Principles of consolidation

The financial statements of the Trust reflect the operations of the Trust and TR Trust, Temple Limited Partnership, Temple General Partner Inc. and Temple Gardens Mineral Spa Inc., which are wholly owned subsidiaries under its control. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Trust obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Trust, using consistent accounting policies.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Where a hotel property is acquired through the acquisition of corporate interests, management considers the substance of the assets and activities of the acquired entity in determining whether the acquisition represents the acquisition of a business.

Where such acquisitions are not judged to be an acquisition of a business, they are not treated as business combinations. Rather, the cost to acquire the corporate entity is allocated between the identifiable assets and liabilities of the entity based on their relative fair values at the acquisition date. Where an acquisition is not judged to be an acquisition of business, no goodwill or additional deferred taxation arises. Otherwise corporate acquisitions are accounted for as business combinations.

(b) Joint venture

A joint venture is a contractual arrangement pursuant to which the Trust or its subsidiaries and other parties undertake an economic activity that is subject to joint control whereby the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control. Joint venture arrangements that involve the establishment of a separate entity in which each venture has an interest are referred to as jointly controlled entities. The Trust recognizes its proportionate share of the assets, liabilities, revenue and expenses of these co-ownerships in the respective lines in the consolidated financial statements.

(c) Cash and restricted cash

Cash on the balance sheet comprise demand deposits at the bank.

Cash deposits, which are not available for use by the Trust to meet short term cash commitments, are carried on the balance sheet as restricted cash.

(d) Trade and other receivables

Trade and other receivables are recognized and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortized cost. Allowance is made when there is objective evidence that the Trust will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2011

3 *Significant accounting policies (continued)*

(e) 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. Cost is comprised of the purchase price, plus associated, non-recoverable taxes and delivery costs. Net realizable value is the estimated selling price in the normal course of business less the estimated costs necessary to make the sale.

(f) Property and equipment

Property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. The application of this policy requires an estimate of the useful life of the asset and its residual value.

The Trust provides for depreciation of property and equipment so as to apply the cost of the assets over the estimated useful lives as follow.

	<u>Method</u>	<u>Rate</u>
Buildings	Straight-line	2.5%
Furniture and equipment	Straight-line	5% - 33.3%

(g) Goodwill

Goodwill represents the future economic benefits arising from other assets acquired in business combinations that are not individually identified and separately recognized. Goodwill is measured at cost less any accumulated impairment losses and is not amortized.

(h) Impairment of non-financial assets

The Trust assesses at the end of each reporting period whether there is any indication that an asset may be impaired. Property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Assets, including goodwill, that do not generate independent cash flows are combined into cash-generating units. Cash generating units to which goodwill has been allocated are tested for impairment at the end of each reporting period and whenever there is an indication that the cash-generating unit may be impaired. If the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. Recoverable amount is the greater of fair value less costs to sell and value in use. Value in use is assessed based on estimated future cash flows discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount and is recorded as an expense.

Assets or cash-generating units that have been impaired in prior periods are tested for possible reversal of impairment whenever events or changes in circumstances indicate that the impairment has reversed. If the impairment has reversed the carrying amount of the asset or cash-generating unit (excluding goodwill) is increased to its recoverable amount but not beyond the carrying amount that would have been determined had no impairment loss been recognized for the asset in the prior periods. A reversal of an impairment loss is recognized in net income. Impairment losses for goodwill are not reversed.

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2011

3 Significant accounting policies (continued)

(i) Provisions

Provisions are recognized when the Trust has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will occur and where a reliable estimate can be made of the amount of the obligation.

Where the effect of discounting is material, provisions are determined by discounting the expected future cash flows. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The amount recognized as a provision is the best estimate at the reporting date of the expenditure required to settle the obligation.

(j) Unit based compensation

The Trust has a unit option plan available for officers, employees and trustees of the Trust as well as management company employees of the trust including Shelter Canadian Properties Limited and consultants retained by the Trust including investor relations consultants. In addition, the Trust has a deferred unit plan available for trustees, officers, employees, or consultants of the Trust under which, any trustee, officer, employee, or consultant 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. Compensation expense for unit option awards is recognized when unit options are granted over the vesting periods. Compensation expense for deferred unit based compensation is recognized when the deferred units are granted. Awards of unit options related to private placements or public offerings of units are treated as unit issue costs.

The fair value of unit options granted is estimated on the date of grant and subsequently using the Black-Scholes option pricing model. The fair value of deferred units granted is estimated on the date of grant using the market value of units of the Trust. Units of the Trust are considered puttable instruments; therefore, subsequent to initial recognition, unit options and deferred units are measured at fair value at each reporting date and are presented as liabilities. Changes in fair value are recognized in net income as additional compensation expense over their vesting period and as a fair value gain or loss as change in fair value of financial instruments once vested. On the exercise of unit options, the consideration received and the fair value of the option is credited to units. On the exercise of deferred units, the fair value of the option is credited to units.

The Trust is an open-end real estate investment trust. As a result, unit based compensation is considered to be cash settled and in accordance with IFRS 2 - Share Based Payments and are recorded as a liability carried at fair value.

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2011

3 *Significant accounting policies (continued)*

(k) Mortgage loans

Mortgage loans are initially recognized at fair value less directly attributable transaction costs. After initial recognition, interest bearing loans are subsequently measured at amortized cost using the effective interest rate method. Transaction fees, costs, discounts and premiums directly related to mortgage loans are recognized in net income over the expected life of the borrowings. Interest payable is recognized on an accrual basis. Principal payments on mortgage loans due more than twelve months from the date of the balance sheet are classified as non-current liabilities. Notwithstanding the previous statement, all principal on mortgage loans that are in breach of a debt covenant such that the debt becomes payable on demand and for which the Trust has not obtained a cure for said breach at the balance sheet date, are classified as current liabilities.

(l) Convertible debentures and convertible mortgages

The convertible debentures and convertible mortgages are convertible into units of the Trust, which are considered puttable instruments. The debt and conversion feature of the convertible debentures and convertible mortgages are presented as liabilities. The Trust has elected to record the full outstanding amount of each convertible debenture and convertible mortgage at its fair value with the changes being recorded in net income as a fair value adjustment. Transaction fees, costs, discounts and premiums directly related to convertible debentures and convertible mortgages are recognized in net income as incurred.

(m) Borrowing costs

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are capitalized to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized as interest expense in net income in the period in which they are incurred.

(n) Income taxes

Current tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities including interest. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax assets and liabilities are recognized in respect of temporary differences between the tax base and carrying value of assets and liabilities and unrealised tax losses.

Deferred tax assets are recognized to the extent that it is regarded as probable that the deductible temporary differences can be realized. The recoverability of all tax assets is reassessed at the end of each reporting period.

Deferred tax is calculated at the tax rates that are expected to apply in the periods in which the asset or liability will be settled, based on rates enacted or substantively enacted at the end of the reporting period.

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2011

3 ***Significant accounting policies (continued)***

(o) Units

The Trust's units are considered a puttable financial instrument because of the holder's option to redeem in accordance with the terms of the Declaration of Trust. To be classified as equity a puttable financial instrument must meet all of the following conditions: (i) it must entitle the holder to a pro-rata share of the entity's net assets in the event of the entity's dissolution; (ii) it must be in the class of instruments that is subordinate to all other instruments; (iii) all instruments in the class in (ii) must have identical features; (iv) other than the redemption feature, there can be no other contractual obligations that meet the definition of a liability; and (v) the expected cash flows for the instrument must be based substantially on the profit or loss of the entity or change in fair value of the instrument. The Trust's units meet the conditions and accordingly are presented as equity.

Units are initially recognized at the fair value of the consideration received by the Trust. Transaction costs related to the issuance of units are recognized directly in Unitholders' equity as a reduction of the proceeds received.

(p) Distributions

The Trust makes distributions on its units in accordance with the Declaration of Trust, at the discretion of the Trustees. Distributions are recorded as a reduction of retained earnings and are presented as a liability in the period in which the distributions are approved by the Board of Trustees.

(q) 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 using the effective interest method.

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. Revenue recognized on unused gift certificates is estimated based on 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 revenues are limited by the uncertainty of predictions concerning future events. By its nature the evaluation of gift certificate revenue is subjective and does not necessarily result in precise determinations. Should an adjustment become necessary it will be adjusted in the period in which it becomes known.

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. Amounts due from lessees are recorded as net investment in lease at the amount of the net present value.

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2011

3 *Significant accounting policies (continued)*

(r) Per unit calculations

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

(s) Financial instruments

Financial instruments are measured at fair value on initial recognition. The measurement in subsequent periods and classification of financial assets and liabilities is dependent on the purpose for which the instruments were acquired or issued, their characteristics and the Trust's designation of such instruments. Financial assets and financial liabilities classified as fair value through net income are subsequently measured at fair value with gains and losses recognized in net income. Financial assets classified as held to maturity, loans and receivables, and other liabilities are subsequently measured at their amortized cost, using the effective interest method. Available for sale financial assets are subsequently measured at fair value with unrealized gains and losses recognized in other comprehensive income until the financial asset is disposed of.

<u>Financial Statement Item</u>	<u>Classification</u>	<u>Measurement</u>
Cash	Loans and receivables	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Deposits	Loans and receivables	Amortized cost
Marketable securities	Fair value through net income	Fair value
Defeasance assets	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Accounts payable and other liabilities	Other liabilities	Amortized cost
Unit based compensation	Fair value through net income	Fair value
Defeased liability	Other liabilities	Amortized cost
Mortgage loans	Other liabilities	Amortized cost
Convertible mortgage loans	Fair value through net income	Fair value
Convertible debentures	Fair value through net income	Fair value

The Trust assesses impairment of all its financial assets, except those classified as fair value through net income. 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. Impairment is included in net income (loss).

(t) Operating segments

Operating segments are reported in a manner consistent with internal reporting to management. Reportable operating segments are distinguishable components of the Trust that are engaged in providing related services that are subject to risks and rewards that are different from those of other reportable segments. The Trust's reportable segments are Fort McMurray, Other and Trust.

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2011

3 Significant accounting policies (continued)

(u) Future changes to significant accounting policies

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

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

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

4 Significant accounting judgments, estimates and assumptions

The preparation of the Trust's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected.

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2011

4 *Significant accounting judgments, estimates and assumptions (continued)*

(a) **Judgments other than estimates**

Management bases their judgments, estimates and assumptions on factors they believe to be reasonable in the circumstances, but which may be inherently uncertain and unpredictable. In the process of applying the Trust's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Business combinations

The Trust acquired a subsidiary that owns real estate. At the time of acquisition, the Trust considers whether the acquisition represents the acquisition of a business. The Trust accounts for an acquisition as a business combination when an integrated set of activities is acquired in addition to the real estate. More specifically, the following criteria are considered:

- The number of items of land and buildings owned by the subsidiary
- The extent to which significant processes are acquired and in particular the extent of ancillary services provided by the subsidiary (e.g., maintenance, cleaning, security, bookkeeping, hotel services, etc.)
- Whether the subsidiary has allocated its own staff to manage the property and/or to deploy any processes (including all relevant administration such as invoicing, cash collection, provision of management information to the entity's owners and tenant information)

When the acquisition of a subsidiary does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill is recognized.

Classification of units

The Trust applies judgment in the classification of Trust units as equity with respect to the application of the conditions under which puttable financial instruments may be classified as equity.

Classification of joint venture

The Trust makes judgments as to whether its joint venture provides it with joint control, significant influence or no influence. The Trust has determined that it has joint control and therefore has accounted for its investment using the proportionate consolidation method.

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2011

4 *Significant accounting judgments, estimates and assumptions (continued)*

(b) 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.

Significant areas of estimation by management include the impairment of property and equipment and other non-financial assets, the useful lives of property and equipment, the expected tax rate, the fair value of financial instruments and allowance for doubtful accounts.

5 *Trade and other receivables*

	<u>March 31 2011</u>	<u>December 31 2010</u>	<u>January 1 2010</u>
Trade receivables	\$ 3,340,909	\$ 2,892,573	\$ 1,854,735
Less: allowance for doubtful accounts	<u>(163,384)</u>	<u>(139,386)</u>	<u>(102,057)</u>
	3,177,525	2,753,187	1,752,678
Other receivables	<u>99,041</u>	<u>284,878</u>	<u>397,531</u>
	<u>\$ 3,276,566</u>	<u>\$ 3,038,065</u>	<u>\$ 2,150,209</u>

6 *Deposits and prepaids*

	<u>March 31 2011</u>	<u>December 31 2010</u>	<u>January 1 2010</u>
Deposits	\$ 192,164	\$ 325,567	\$ 185,327
Prepaid expenses	<u>1,229,205</u>	<u>1,324,817</u>	<u>226,402</u>
	<u>\$ 1,421,369</u>	<u>\$ 1,650,384</u>	<u>\$ 411,729</u>

7 *Marketable securities*

	<u>March 31 2011</u>	<u>December 31 2010</u>	<u>January 1 2010</u>
Marketable equity securities	\$ 266,100	\$ 250,500	\$ 303,450
Guaranteed investment certificates	<u>325,015</u>	<u>325,015</u>	<u>324,758</u>
	<u>\$ 591,115</u>	<u>\$ 575,515</u>	<u>\$ 628,208</u>

Marketable equity securities are recorded at fair value based on published market values and are classified as fair value through net income. Guaranteed investment certificates bear interest at 0.001% - 2.15% (2010 - 0.001% - 2.15%) with maturity dates in 2011 (December 31, 2010 - 2010).

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2011

7 *Marketable securities (continued)*

The following chart summarizes marketable securities:

	Three Months Ended March 31	
	<u>2011</u>	<u>2010</u>
Balance, beginning of period	\$ 575,515	\$ 628,208
Change in fair value of marketable securities	<u>15,600</u>	<u>94,575</u>
Balance, end of period	<u>\$ 591,115</u>	<u>\$ 722,783</u>

8 *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.

During the three months ended March 31, 2011, cost of sales related to inventory was \$1,678,324 (2010 - \$1,531,796) and is included in hotel operating costs.

9 *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%.

The net investment in lease includes the following:

	<u>March 31 2011</u>	<u>December 31 2010</u>	<u>January 1 2010</u>
Total minimum lease payments receivable	\$ 7,425,000	\$ 7,537,500	\$ 7,987,500
Unearned income	<u>(2,941,153)</u>	<u>(3,020,904)</u>	<u>(3,345,539)</u>
Net investment in lease	4,483,847	4,516,596	4,641,961
Less current portion	<u>(148,526)</u>	<u>(139,133)</u>	<u>(125,370)</u>
	<u>\$ 4,335,321</u>	<u>\$ 4,377,463</u>	<u>\$ 4,516,591</u>

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2011

9 *Net investment in lease (continued)*

Interest income for the three months ended March 31, 2011 was \$79,751 (2010 - \$81,983) and is included in interest expense, net.

Future lease payments are summarized as follows:

<u>Twelve Months Ended March 31</u>	<u>Minimum Lease Payments</u>	<u>Unearned Income</u>
2012	\$ 461,460	\$ 312,934
2013	477,500	301,296
2014	477,500	288,407
2015	477,500	274,576
2016	477,500	259,733
Thereafter	5,053,540	1,504,207

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

	<u>March 31 2011</u>	<u>December 31 2010</u>	<u>January 1 2010</u>
Current assets	<u>\$ 179,842</u>	<u>\$ 172,589</u>	<u>\$ 156,277</u>
Non-current assets	<u>\$ 4,335,321</u>	<u>\$ 4,377,450</u>	<u>\$ 4,621,173</u>
Current liabilities	<u>\$ 144,414</u>	<u>\$ 142,553</u>	<u>\$ 135,771</u>
Non-current liabilities	<u>\$ 3,505,293</u>	<u>\$ 3,536,523</u>	<u>\$ 3,655,282</u>

	<u>Three Months Ended March 31</u>	
	<u>2011</u>	<u>2010</u>
Interest revenue	<u>\$ 79,777</u>	<u>\$ 81,893</u>
Expenses	<u>\$ 64,853</u>	<u>\$ 65,403</u>

10 *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.

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2011

11 *Restricted cash*

	March 31 2011	December 31 2010	January 1 2010
Credit union member equity	\$ 104,260	\$ 104,260	\$ 104,248
Reserves required by mortgage loan agreements	<u>1,683,356</u>	<u>1,621,348</u>	<u>663,219</u>
	<u>\$ 1,787,616</u>	<u>\$ 1,725,608</u>	<u>\$ 767,467</u>

12 *Property and equipment*

Asset additions and disposals are comprised of the following:

	Land	Building	Furniture and Equipment	Total
As at January 1, 2010	\$ 28,200,924	\$224,831,975	\$ 10,628,365	\$ 263,661,264
Additions	-	688,342	187,215	875,557
Dispositions	<u>-</u>	<u>-</u>	<u>(39,145)</u>	<u>(39,145)</u>
As at December 31, 2010	28,200,924	225,520,317	10,776,435	264,497,676
Additions	-	176,706	701,067	877,773
Dispositions	<u>-</u>	<u>-</u>	<u>(47,818)</u>	<u>(47,818)</u>
As at March 31, 2011	<u>\$ 28,200,924</u>	<u>\$225,697,023</u>	<u>\$ 11,429,684</u>	<u>\$ 265,327,631</u>

Accumulated depreciation are summarized as follows:

	Land	Building	Furniture and Equipment	Total
As at January 1, 2010	\$ -	\$ (12,696,248)	\$ (2,418,775)	\$ (15,115,023)
Depreciation	-	(5,897,672)	(1,083,380)	(6,981,052)
Adjustment at disposition	<u>-</u>	<u>-</u>	<u>39,144</u>	<u>39,144</u>
As at December 31, 2010	\$ -	\$ (18,593,920)	\$ (3,463,011)	\$ (22,056,931)
Depreciation	-	(1,475,412)	(281,926)	(1,757,338)
Adjustment at disposition	<u>-</u>	<u>-</u>	<u>47,818</u>	<u>47,818</u>
As at March 31, 2011	<u>\$ -</u>	<u>\$ (20,069,332)</u>	<u>\$ (3,697,119)</u>	<u>\$ (23,766,451)</u>

Net book value is comprised of:

	Land	Building	Furniture and Equipment	Total
As at January 1, 2010	<u>\$ 28,200,924</u>	<u>\$212,135,727</u>	<u>\$ 8,209,590</u>	<u>\$ 248,546,241</u>
As at December 31, 2010	<u>\$ 28,200,924</u>	<u>\$206,926,397</u>	<u>\$ 7,313,424</u>	<u>\$ 242,440,745</u>
As at March 31, 2011	<u>\$ 28,200,924</u>	<u>\$205,627,691</u>	<u>\$ 7,732,565</u>	<u>\$ 241,561,180</u>

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2011

13 *Accounts payables and other liabilities*

	March 31 2011	December 31 2010	January 1 2010
Accounts payable	\$ 3,609,972	\$ 4,018,053	\$ 2,625,298
Accrued liabilities	253,207	254,330	245,750
Accrued interest	1,814,414	1,328,974	1,471,716
Deposits	163,245	200,629	227,249
Gift certificate liability	<u>2,135,023</u>	<u>2,321,471</u>	<u>2,132,718</u>
	<u>\$ 7,975,861</u>	<u>\$ 8,123,457</u>	<u>\$ 6,702,731</u>

14 *Unit based compensation*

Unit based compensation is measured at fair value and is comprised of the following:

	March 31 2011	December 31 2010	January 1 2010
Units options (a)	\$ 74,145	\$ 57,885	\$ 1,737
Deferred units (b)	<u>188,818</u>	<u>160,101</u>	<u>49,195</u>
	<u>\$ 262,963</u>	<u>\$ 217,986</u>	<u>\$ 50,932</u>

(a) *Unit options*

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. The 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 MARCH 31, 2011

14 Unit based compensation (continued)

(a) Units options (continued)

The following chart summarizes options outstanding:

	Three Months Ended March 31, 2011		Year Ended December 31, 2010	
	Unit options	Weighted Average Exercise Price	Unit options	Weighted Average Exercise Price
Outstanding, beginning of period	534,666	\$ 5.42	467,666	\$ 5.86
Unit options granted during period	-	-	105,000	3.23
Unit options exercised during period	(11,666)	3.00	(10,500)	3.01
Unit options expired during period	-	-	(27,500)	5.51
Unit options outstanding and vested, beginning and end of period	<u>523,000</u>	<u>\$ 5.47</u>	<u>534,666</u>	<u>\$ 5.42</u>
Weighted average remaining life (years)	<u>2.04</u>		<u>2.28</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 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 risk free interest rate (typically the Canada bond rate at the date of grant).

The fair value associated with the unit options outstanding as at March 31, 2011 was calculated using the Black-Scholes model for option valuation assuming a weighted average volatility of 19.9% (December 31, 2010 - 24.5%, January 1, 2010 - 27.5%) on the underlying units, dividend yield rate of 8.9% (December 31, 2010 - 9.95%, January 1, 2010 - 14.9%) and a risk free interest rate (typically the Canada bond rate at the financial statement date).

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2011

14 *Unit based compensation (continued)*

(a) Units options (continued)

The following chart summarizes unit options:

	Three Months Ended March 31	
	2011	2010
Balance, beginning of period	\$ 57,885	\$ 1,737
Unit based compensation	-	116,370
Exercise of options	(13,669)	-
Change in fair value of unit options	<u>29,929</u>	<u>(117,248)</u>
Balance, end of period	<u>\$ 74,145</u>	<u>\$ 859</u>

(b) Deferred units

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 fair 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.

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2011

14 Unit based compensation payable (continued)

(b) Deferred units (continued)

The Trust expensed \$9,999 (2010 - \$12,200) for the three months ended March 31, 2011 of unit based compensation related to the deferred units issued which was included in Trust expenses in the consolidated statements of income (loss) and comprehensive income (loss).

The following chart summarizes the number of deferred units outstanding. All units have vested.

	Three Months Ended March 31	
	2011	2010
Deferred unit outstanding, beginning of period	39,826	18,288
Deferred units granted	<u>2,227</u>	<u>21,538</u>
Deferred unit outstanding, end of period	<u>42,053</u>	<u>39,826</u>

The fair value of deferred units issued and at each reporting date is determined by the fair value of Trust units.

The following chart summarizes deferred units:

	Three Months Ended March 31	
	2011	2010
Balance, beginning of period	\$ 160,101	\$ 49,195
Unit based compensation	9,999	12,200
Change in fair value of deferred units	<u>18,718</u>	<u>2,585</u>
Balance, end of period	<u>\$ 188,818</u>	<u>\$ 63,980</u>

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2011

15 Debt

	March 31 2011	December 31 2010	January 1 2010
Secured debt			
Mortgage loans (a)	\$146,799,543	\$164,046,616	\$165,987,550
Convertible mortgage (b)	4,123,953	4,162,798	4,318,337
Convertible debentures (c)	<u>16,578,000</u>	<u>15,489,600</u>	<u>14,985,000</u>
Total secured debt	<u>167,501,496</u>	<u>183,699,014</u>	<u>185,290,887</u>
Unsecured debt			
Convertible debentures (c)	<u>22,331,832</u>	<u>21,495,561</u>	<u>19,081,823</u>
Unamortized transaction costs			
Mortgage loans (a)	<u>(594,981)</u>	<u>(700,481)</u>	<u>(1,212,629)</u>
	<u>189,238,347</u>	<u>204,494,094</u>	<u>203,160,081</u>
Less current portion			
Mortgage loans (a)	53,248,714	69,484,470	51,269,579
Convertible debenture (b)	2,465,732	-	-
Transaction costs	<u>(342,718)</u>	<u>(383,001)</u>	<u>(522,700)</u>
	<u>55,371,728</u>	<u>69,101,469</u>	<u>50,746,879</u>
Total non-current debt	<u>\$133,866,619</u>	<u>\$135,392,625</u>	<u>\$152,413,202</u>

Principal payments and principal maturities at face value for 12 months year ending March 31 are as follows:

	<u>Mortgage loans</u>				<u>Total</u>
	<u>Principal Payments</u>	<u>Principal Maturities</u>	<u>Convertible Debentures</u>	<u>Convertible Mortgage</u>	
2012	\$ 6,716,955	\$ 46,531,759	\$ 2,464,500	\$ -	\$ 55,713,214
2013	3,421,731	50,009,807	-	-	53,431,538
2014	1,390,809	32,909,433	19,866,100	-	54,166,342
2015	183,833	2,549,543	13,815,000	4,500,000	21,048,376
2016	160,498	-	-	-	160,498
Thereafter	<u>2,925,175</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,925,175</u>
	<u>\$ 14,799,001</u>	<u>\$132,000,542</u>	<u>\$ 36,145,600</u>	<u>\$ 4,500,000</u>	<u>\$ 187,445,143</u>

The Trust intends to seek renewals of the mortgage loans at market rates at the maturity date.

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2011

15 Debt (continued)

(a) Mortgage loans

	March 31 <u>2011</u>	December 31 <u>2010</u>	January 1 <u>2010</u>
First mortgage loans	\$142,278,268	\$152,926,923	\$154,142,631
Second mortgage loans	<u>4,521,275</u>	<u>11,119,693</u>	<u>11,844,919</u>
Total	146,799,543	164,046,616	165,987,550
Unamortized transaction costs	<u>(594,981)</u>	<u>(700,481)</u>	<u>(1,212,629)</u>
	146,204,562	163,346,135	164,774,921
Current portion	<u>(53,248,714)</u>	<u>(69,484,470)</u>	<u>(51,269,579)</u>
	<u>\$ 92,955,848</u>	<u>\$ 93,861,665</u>	<u>\$113,505,342</u>

Weighted average interest rate

First mortgage loans	6.21 %	6.24 %	6.52 %
Second mortgage loans	6.00 %	11.29 %	9.56 %
Total	6.20 %	6.59 %	6.87 %

As a condition of long-term debt, the Trust is required to maintain certain annual 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 March 31, 2011.

The Trust was not in compliance on two first mortgage loans in the aggregate amount of \$15,435,205, as of March 31, 2011 as a result of a breach of the debt service coverage requirement in respect of such mortgage loans. In accordance with IFRS, the balance of the mortgage loans which are in breach of debt service coverage requirements are included in principal repayments in 2012.

Subsequent to March 31, 2011, the Trust notified the lenders of the breaches and requested that the lenders acknowledge and consent to the breaches. The lenders did not demand the loans or accelerate payments under the loans and all payments of principal and interest continue to be made as scheduled.

Mortgage loans are secured by mortgage charges registered against specific hotel properties and an assignment of the net investment in lease.

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2011

15 Debt (continued)

(b) Convertible Mortgage

On August 1, 2009 the Trust issued convertible mortgage loans with a face value of \$4,500,000. The loans bear interest rate of 4.5%, are secured by a specific hotel property, requires monthly payment of interest only and matures July 31, 2014.

The change in fair value is reflected in the following chart. The fair value of the convertible mortgage is determined by discounting future payments using estimated rates available for debt with similar terms for the debt component and by using the Black-Scholes model to value the conversion feature.

	March 31 2011	March 31 2010
Convertible mortgage, beginning of period	\$ 4,162,798	\$ 4,318,337
Change in fair value of convertible mortgage	<u>(38,845)</u>	<u>(208,122)</u>
Convertible mortgage, end of period	<u>\$ 4,123,953</u>	<u>\$ 4,110,215</u>

(c) Convertible debentures

Convertible debentures are carried at fair value. The fair value of the convertible debentures is determined by using the publicly traded market value.

	March 31 2011	December 31 2010	January 1 2010
Unsecured			
Series A	\$ 2,465,732	\$ 2,225,444	\$ 2,193,651
Series B	<u>19,866,100</u>	<u>19,270,117</u>	<u>16,888,172</u>
Subtotal	22,331,832	21,495,561	19,081,823
Senior Secured	<u>16,578,000</u>	<u>15,489,600</u>	<u>14,985,000</u>
Total	38,909,832	36,985,161	34,066,823
Current portion	<u>(2,465,732)</u>	<u>-</u>	<u>-</u>
	<u>\$ 36,444,100</u>	<u>\$ 36,985,161</u>	<u>\$ 34,066,823</u>

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

During the three months ended March 31, 2011, \$937,000 of senior secured convertible debentures were converted into 256,708 units.

Subsequent to March 31, 2011, \$645,000 of senior secured convertible debentures were converted into 176,707 units.

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2011

15 Debt (continued)

(c) Convertible debentures (continued)

The following chart reflects the rate, conversion price that the debentures are converted to Trust units at any time at the option of the holder of the debentures and the dues date of the debentures:

	<u>Rate</u>	<u>Conversion Price</u>	<u>Due Date</u>
Series A	7.50 %	\$ 5.75	March 31, 2012
Series B	8.50 %	\$ 7.50	April 30, 2013
Senior Secured	8.75 %	\$ 3.65	November 30, 2014

The Series A 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.

The Series B 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.

The Senior Secured 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 20-day weighted average trading price of the units is at least \$4.5625 and, on or after November 30, 2013, at their principal amount.

In accordance with the terms of the trust indenture for the Series A and 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 A and Series B debentures.

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2011

15 Debt (continued)

(c) Convertible debentures (continued)

Convertible debentures are recorded at fair value. The change in fair value of the convertible mortgage is reflected in the following chart:

<u>March 31, 2011</u>	<u>Beginning of Period</u>	<u>Change in Fair value</u>	<u>Conversions</u>	<u>End of Period</u>
Series A	\$ 2,225,444	\$ 240,288	\$ -	\$ 2,465,732
Series B	19,270,117	595,983	-	19,866,100
Senior Secured	<u>15,489,600</u>	<u>2,183,538</u>	<u>(1,095,138)</u>	<u>16,578,000</u>
	<u>\$ 36,985,161</u>	<u>\$ 3,019,809</u>	<u>\$ (1,095,138)</u>	<u>\$38,909,832</u>
<u>March 31, 2010</u>	<u>Beginning of Period</u>	<u>Change in Fair Value</u>	<u>Conversions</u>	<u>End of Period</u>
Series A	\$ 2,193,651	\$ (542,436)	\$ -	\$ 1,651,215
Series B	16,888,172	(595,983)	-	16,292,189
Senior Secured	<u>14,985,000</u>	<u>15,000</u>	<u>-</u>	<u>15,000,000</u>
	<u>\$ 34,066,823</u>	<u>\$ (1,123,419)</u>	<u>\$ -</u>	<u>\$32,943,404</u>

The Senior Secured debentures provide that for the outstanding amount of the debentures may become payable on demand upon default and acceleration, under certain term and conditions, of a mortgage loan. At March 31, 2011, the Trust was not in compliance with two first mortgage loans totaling \$15,435,205 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 repayment of any loans, the Senior Secured debentures, with a face value of \$13,815,000 may become payable on demand.

The following chart reflects the face value of the convertible debentures at the following dates:

	<u>March 31 2011</u>	<u>December 31 2010</u>	<u>January 1 2010</u>
Unsecured			
Series A	\$ 2,464,500	\$ 2,464,500	\$ 2,464,500
Series B	<u>19,866,100</u>	<u>19,866,100</u>	<u>19,866,100</u>
Subtotal	22,330,600	22,330,600	22,330,600
Senior Secured	<u>13,815,000</u>	<u>14,752,000</u>	<u>15,000,000</u>
	<u>\$ 36,145,600</u>	<u>\$ 37,082,600</u>	<u>\$ 37,330,600</u>

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2011

16 *Deferred income tax*

The deferred income tax assets and liability of the Trust and its wholly owned subsidiary corporations consists of the following:

<u>The Trust</u>	<u>March 31 2011</u>	<u>December 31 2010</u>	<u>January 1 2010</u>
Deferred income tax asset (liability) of the Trust relating to the temporary differences between accounting and tax values of:			
Property and equipment	\$ (2,455,644)	\$ (2,854,897)	\$ (2,405,280)
Convertible debentures and convertible mortgage	299,562	(54,526)	(432,230)
Debt issue costs	822,914	577,723	929,022
Other	42,331	31,030	(10,862)
Deferred income tax asset (liability) of the Trust relating to unused tax losses	<u>1,645,980</u>	<u>2,023,046</u>	<u>770,428</u>
Deferred income tax asset (liability)	<u>\$ 355,143</u>	<u>\$ (277,624)</u>	<u>\$ (1,148,922)</u>

The deferred tax asset will be used against future taxable income. Discretionary capital cost allowance claims can be reduced in future periods to increase future taxable income and utilize unused tax losses.

<u>Temple Gardens Mineral Spa</u>	<u>March 31 2011</u>	<u>December 31 2010</u>	<u>January 1 2010</u>
Deferred income tax asset (liability) of the Temple Gardens Mineral Spa Inc. and its wholly owned subsidiaries relating to the temporary differences between accounting and tax values of:			
Property and equipment	\$ (2,599,053)	\$ (2,607,913)	\$ (2,630,309)
Debt issue costs	1,514	(1,021)	(5,253)
Other	<u>68,488</u>	<u>69,979</u>	<u>75,809</u>
Deferred income tax asset (liability)	<u>\$ (2,529,051)</u>	<u>\$ (2,538,955)</u>	<u>\$ (2,559,753)</u>
Aggregate deferred income tax			
Asset	<u>\$ 355,143</u>	<u>\$ -</u>	<u>\$ -</u>
Liability	<u>\$ 2,529,051</u>	<u>\$ 2,816,579</u>	<u>\$ 3,708,675</u>

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2011

17 *Trust units*

The number of units issued, exercised and converted, are as follows:

	Three Months Ended March 31, 2011		Year Ended December 31, 2010	
	Units	Amount	Units	Amount
Outstanding, beginning of period	12,903,795	\$ 62,790,634	12,825,352	\$ 62,491,116
Units issue costs	-	(1,053,762)	-	-
Units issued by private placement	5,000,000	20,000,000	-	-
Units issued on exercise of options	11,666	45,275	10,500	39,369
Units issued on exercise of convertible debentures	<u>256,708</u>	<u>1,075,300</u>	<u>67,943</u>	<u>260,149</u>
Outstanding, end of period	<u>18,172,169</u>	<u>\$ 82,857,447</u>	<u>12,903,795</u>	<u>\$ 62,790,634</u>

18 *Interest expense, net*

Interest expense, net is comprised of the following:

	Three Months Ended March 31	
	2011	2010
Mortgage loans interest	\$ 2,486,060	\$ 2,632,948
Amortization of transaction costs	115,820	192,205
Interest on convertible debentures	773,287	796,489
Interest on convertible mortgage loan	49,931	151
Defeasance mortgage interest	-	64,172
Amortization of defeasance transaction costs	-	10,956
	<u>3,425,098</u>	<u>3,696,921</u>
Interest revenue	(9,395)	(4,186)
Finance lease interest revenue	<u>(79,751)</u>	<u>(81,983)</u>
	<u>\$ 3,335,952</u>	<u>\$ 3,610,752</u>

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2011

19 *Per unit calculations*

Basic per unit information is calculated based on the weighted average number of units and deferred units outstanding for the period. Diluted per unit information is calculated based on the weighted average diluted number of units for the period after considering the following:

- the potential exercise of outstanding 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:

	Three Months Ended March 31	
	<u>2011</u>	<u>2010</u>
Income (loss) and diluted income (loss)	<u>\$ (2,331,035)</u>	<u>\$ 650,993</u>
Weighted average number of units and diluted number of units	<u>15,759,641</u>	<u>12,826,010</u>

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

	<u>Exercise/Conversion Price</u>	<u>Number of units if converted or exercised at March 31, 2011</u>
Unit options		
	\$ 3.01	63,000
	\$ 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	3,784,932
Convertible mortgage loan	\$ 15.00	300,000

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2011

20 *Related party transactions*

Asset management agreement

The Trust entered into an asset management agreement, for a term expiring September 30, 2016, 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. Key management personnel are provided by Shelter Canadian Properties Limited.

The Trust incurred service fees to Shelter Canadian Properties Limited of \$251,941 for the three months ended March 31, 2011 (2010 - \$228,668). Included in accounts payable and other liabilities is \$253,207 (December 31 - \$514,665) due to Shelter Canadian Properties Limited.

The Trust has also entered into a construction management agreement with Shelter Canadian Properties Limited. The agreement provides for Shelter to receive a fee equal to 5% of construction costs and requires Shelter to approve all plans and specifications; manage the tender process; arrange financing and perform construction management services related to the guest room improvements and building upgrades at the Capri Centre. To March 31, 2011, a service fee of \$nil (2010 - \$nil) has been charged for such services

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

21 *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. These 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.

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2011

21 Risk management and fair values (continued)

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 excluding unit based compensation with convertible debentures and the convertible mortgage disclosed at their face value as at March 31, 2011:

	<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 other liabilities	\$ 9,793,077	\$ 9,793,077	\$ -	\$ -	\$ -	\$ -	\$ -
Debt	<u>187,445,143</u>	<u>55,713,214</u>	<u>53,431,538</u>	<u>54,166,342</u>	<u>21,048,376</u>	<u>160,498</u>	<u>2,925,175</u>
Total	<u>\$197,238,220</u>	<u>\$65,506,291</u>	<u>\$53,431,538</u>	<u>\$54,166,342</u>	<u>\$21,048,376</u>	<u>\$ 160,498</u>	<u>\$ 2,925,175</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.

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>March 31 2011</u>	<u>December 31 2010</u>	<u>January 1 2010</u>
Accounts receivable:			
0 to 30 days overdue	\$ 184,865	\$ 404,892	\$ 125,163
More than 30 days overdue	<u>224,988</u>	<u>247,203</u>	<u>112,897</u>
	<u>\$ 409,853</u>	<u>\$ 652,095</u>	<u>\$ 238,060</u>

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2011

21 Risk management and fair values (continued)

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

	Three Months Ended	
	March 31	March 31
	2011	2010
Amounts charged to income	<u>\$ 23,998</u>	<u>\$ 9,200</u>
Percent of revenue	<u>0.15%</u>	<u>0.06%</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.

Fair value is an estimate of the amount at which items might be exchanged in an arm's length transaction between knowledgeable willing parties who are under no compulsion to act. Fair value should not be interpreted as an amount that could be realized in immediate settlement of the instruments. The estimate of fair value at the financial statement date may not represent fair values at any other date. The determination of fair value is affected by the use of judgment and by uncertainty.

Financial instruments carried at fair value include marketable securities, unit based compensation, convertible debentures and convertible mortgage loans. The methods used to establish fair value are summarized as follows:

- Quoted prices in active markets for identical assets or liabilities
- Use of a model with inputs other than quoted prices that are directly or indirectly observable market data

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2011

21 Risk management and fair values (continued)

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

	March 31, 2011		December 31, 2010	
	<u>Quoted Prices</u>	<u>Observed Inputs</u>	<u>Quoted Prices</u>	<u>Observed Inputs</u>
Marketable securities	\$ 266,100	\$ 325,015	\$ 250,500	\$ 325,015
Unit based compensation payable	-	262,963	-	217,986
Convertible debentures	38,909,832	-	36,985,161	-
Convertible mortgage	-	4,123,953	-	4,162,798

	January 1, 2010	
	<u>Quoted Prices</u>	<u>Observed Inputs</u>
Marketable securities	\$ 303,450	\$ 324,758
Unit based compensation payable	-	50,932
Convertible debentures	34,066,823	-
Convertible mortgage	-	4,318,337

Except for mortgage loans and the defeased asset and liability, the carrying value of the financial instruments measured at amortized cost approximates the carrying values of these financial instruments.

The carrying value of the mortgage loans 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 mortgage loans has been estimated based on the current market rates for debt with similar terms and conditions. The estimated fair value of mortgage loans as at March 31, 2011 is \$142,913,888 (December 31, 2010 - \$164,046,616; January 1, 2010 - \$165,987,550).

The fair value of the defeasance assets and the defeased liability is nil on a net basis as cash flows to the Trust will be nil.

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2011

22 *Segmented financial information*

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

Three Months Ended March 31, 2011:

	Fort McMurray	Other	Trust	Total
Room revenue	\$ 5,742,713	\$ 4,717,992	\$ -	\$ 10,460,705
Other hotel revenue	425,761	5,779,985	-	6,205,746
Hotel operating costs	3,121,211	7,925,653	-	11,046,864
Operating income	3,047,263	2,572,324	-	5,619,587
Interest expense, net	1,523,151	1,044,714	768,087	3,335,952
Depreciation	1,102,625	654,713	-	1,757,338
Trust expenses	-	-	125,832	125,832
Change in fair value of financial instruments	38,845	-	(3,052,857)	(3,014,012)
Income taxes	-	20,584	(303,096)	(282,512)
Income (loss)	\$ 460,332	\$ 852,313	\$ (3,643,680)	\$ (2,331,035)
Total assets	\$155,150,188	\$104,576,547	\$ 2,844,585	\$262,571,320
Total liabilities	\$100,370,391	\$ 74,841,529	\$26,611,518	\$201,823,438

Three Months Ended March 31, 2010:

	Fort McMurray	Other	Trust	Total
Room revenue	\$ 4,952,401	\$ 4,078,884	\$ -	\$ 9,031,285
Other hotel revenue	397,947	5,465,616	-	5,863,563
Hotel operating costs	2,955,245	7,153,424	-	10,108,669
Operating income	2,395,103	2,391,076	-	4,786,179
Interest expense, net	1,786,783	1,028,159	795,810	3,610,752
Depreciation	1,097,501	647,097	-	1,744,598
Trust expenses	-	-	364,007	364,007
Change in fair value of financial instruments	-	(208,122)	(1,332,657)	(1,540,779)
Income taxes	-	68,683	(112,075)	(43,392)
Income (loss)	\$ (489,181)	\$ 855,259	\$ 284,915	\$ 650,993
Total assets	\$160,920,912	\$104,627,983	\$ 2,364,172	\$267,913,067
Total liabilities	\$105,202,492	\$ 68,794,266	\$41,326,726	\$215,323,484

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2011

23 *Management of capital*

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

	March 31 2011	December 31 2010	January 1 2010
Debt	\$ 189,238,347	\$ 204,494,094	\$ 203,160,081
Unitholders' equity	<u>60,747,882</u>	<u>44,829,320</u>	<u>53,221,125</u>
Total	<u>\$ 249,986,229</u>	<u>\$ 249,323,414</u>	<u>\$ 256,381,206</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 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 March 31, 2011 and December 31, 2010, total mortgage indebtedness was 50% and 55% respectively of the appraised value of properties. The individual property appraisals were prepared between 2007 and 2010.

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.

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2011

24 *Commitments*

Operating lease agreements

The Trust is committed under the terms of operating lease agreements for occupancy and equipment with the following annual lease payments for the 12 months ending March 31 are as follows:

2012	387,173
2013	126,672
2014	37,747
2015	23,000
2016	13,845

Operating cost agreement

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

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

The Trust has retained Atlific Hotels and Resorts to manage all of the hotels for its existing property portfolio. For the three months ended March 31, 2011, the Trust paid management fees of \$398,715 (2010 - \$357,258).

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.

25 *Subsequent events*

Long-term debt

A first mortgage loan of \$4,859,088 at March 31, 2011, secured by Temple Gardens Mineral Spa, was renewed on May 1, 2011 for a one year term at an interest rate of 4.31%.

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2011

26 *Adoption of IFRS*

Effective January 1, 2010, the Trust adopted IFRS and has prepared its opening balance sheet as at January 1, 2010. Financial information was previously issued under Canadian GAAP and has been restated in accordance with IFRS.

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

Business combinations

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

Property and equipment valuation

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

Borrowing costs

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

Unit based compensation

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

Compound financial instruments

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

Estimates

Estimates previously made under Canadian GAAP were consistently applied under IFRS.

Balance sheet transition

The following provides a reconciliation of the Trust's balance sheet previously issued under Canadian GAAP to its balance sheet in accordance with IFRS.

TEMPLE REAL ESTATE INVESTMENT TRUST

RECONCILIATION OF BALANCE SHEET INFORMATION BETWEEN GAAP AND IFRS AS OF JANUARY 1, 2010

	<u>Canadian GAAP</u>	<u>Changes in Presentation</u>	<u>Changes in Measurement</u>	<u>IFRS</u>
ASSETS				
Current assets				
Cash	\$ 7,401,442	\$ -	\$ -	\$ 7,401,442
Rent and other receivable	2,150,209	-	-	2,150,209
Deposits and prepaids	226,402	185,327	-	411,729
Marketable securities	628,208	-	-	628,208
Inventories	716,220	-	-	716,220
Current portion net investment in lease	125,370	-	-	125,370
Defeasance assets	<u>2,941,723</u>	<u>-</u>	<u>-</u>	<u>2,941,723</u>
Total current assets	<u>14,189,574</u>	<u>185,327</u>	<u>-</u>	<u>14,374,901</u>
Non-current assets				
Property and equipment	248,546,241	-	-	248,546,241
Net investment in lease	4,516,591	-	-	4,516,591
Goodwill	1,608,282	-	-	1,608,282
Other assets	952,794	(952,794)	-	-
Restricted cash	<u>-</u>	<u>767,467</u>	<u>-</u>	<u>767,467</u>
Total non-current assets	<u>255,623,908</u>	<u>(185,327)</u>	<u>-</u>	<u>255,438,581</u>
Total assets	<u>\$ 269,813,482</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 269,813,482</u>
LIABILITIES AND EQUITY				
Current liabilities				
Accounts payable and other liabilities	\$ 4,570,013	\$ 2,132,718	\$ -	\$ 6,702,731
Unit based compensation payable	-	-	50,932	50,932
Debt	50,746,879	-	-	50,746,879
Gift certificate liability	2,132,718	(2,132,718)	-	-
Income tax payable	135,042	-	-	135,042
Deceased liability	<u>2,834,896</u>	<u>-</u>	<u>-</u>	<u>2,834,896</u>
	<u>60,419,548</u>	<u>-</u>	<u>50,932</u>	<u>60,470,480</u>
Non-current liabilities				
Mortgage loans payable	118,051,239	(118,051,239)	-	-
Convertible debentures - debt	30,391,822	(30,391,822)	-	-
Debt	-	148,443,061	3,970,141	152,413,202
Deferred tax liabilities	<u>3,712,128</u>	<u>-</u>	<u>(3,453)</u>	<u>3,708,675</u>
Total long-term liabilities	<u>152,155,189</u>	<u>-</u>	<u>3,966,688</u>	<u>156,121,877</u>
Total liabilities	<u>212,574,737</u>	<u>-</u>	<u>4,017,620</u>	<u>216,592,357</u>
Equity				
Units	62,491,116	-	-	62,491,116
Unit based compensation	197,239	-	(197,239)	-
Equity component of convertible mortgage	471,175	-	(471,175)	-
Equity component of convertible debentures	6,101,487	-	(6,101,487)	-
Cumulative earnings	12,995,421	-	2,752,281	15,747,702
Cumulative distributions to unitholders	<u>(25,017,693)</u>	<u>-</u>	<u>-</u>	<u>(25,017,693)</u>
Total equity	<u>57,238,745</u>	<u>-</u>	<u>(4,017,620)</u>	<u>53,221,125</u>
Total liabilities and equity	<u>\$ 269,813,482</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 269,813,482</u>

(unaudited)

TEMPLE REAL ESTATE INVESTMENT TRUST

RECONCILIATION OF BALANCE SHEET INFORMATION BETWEEN GAAP AND IFRS AS OF MARCH 31, 2010

	<u>Canadian GAAP</u>	<u>Changes in Presentation</u>	<u>Changes in Measurement</u>	<u>IFRS</u>
ASSETS				
Current assets				
Cash	\$ 5,955,223	\$ -	\$ -	\$ 5,955,223
Rent and other receivable	2,410,661	-	-	2,410,661
Deposits and prepaids	247,811	190,327	-	438,138
Marketable securities	722,783	-	-	722,783
Inventories	796,870	-	-	796,870
Current portion net investment in lease	127,598	-	-	127,598
Defeasance assets	<u>2,773,850</u>	<u>-</u>	<u>-</u>	<u>2,773,850</u>
Total current assets	<u>13,034,796</u>	<u>190,327</u>	<u>-</u>	<u>13,225,123</u>
Non-current assets				
Property and equipment	247,008,972	-	-	247,008,972
Net investment in lease	4,483,847	-	-	4,483,847
Goodwill	1,608,282	-	-	1,608,282
Other assets	1,777,170	(1,777,170)	-	-
Restricted cash	<u>-</u>	<u>1,586,843</u>	<u>-</u>	<u>1,586,843</u>
Total non-current assets	<u>254,878,271</u>	<u>(190,327)</u>	<u>-</u>	<u>254,687,944</u>
Total assets	<u>\$ 267,913,067</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 267,913,067</u>
LIABILITIES AND EQUITY				
Current liabilities				
Accounts payable and other liabilities	\$ 5,433,654	\$ 1,923,147	\$ -	\$ 7,356,801
Unit based compensation payable	-	-	64,839	64,839
Declared distribution payable	1,282,535	-	-	1,282,535
Debt	49,998,734	-	-	49,998,734
Gift certificate liability	1,923,147	(1,923,147)	-	-
Income tax payable	201,695	-	-	201,695
Deceased liability	<u>2,741,175</u>	<u>-</u>	<u>-</u>	<u>2,741,175</u>
	<u>61,580,940</u>	<u>-</u>	<u>64,839</u>	<u>61,645,779</u>
Non-current liabilities				
Mortgage loans payable	117,112,196	(117,112,196)	-	-
Debt	30,707,703	(30,707,703)	-	-
Long term debt	-	147,819,899	2,261,205	150,081,104
Deferred tax liabilities	<u>3,414,721</u>	<u>-</u>	<u>181,880</u>	<u>3,596,601</u>
Total long-term liabilities	<u>151,234,620</u>	<u>-</u>	<u>2,443,085</u>	<u>153,677,705</u>
Total liabilities	<u>212,815,560</u>	<u>-</u>	<u>2,507,924</u>	<u>215,323,484</u>
Equity				
Units	62,490,094	-	1,022	62,491,116
Unit based compensation	325,809	-	(325,809)	-
Equity component of convertible mortgage	471,175	-	(471,175)	-
Equity component of convertible debentures	6,101,487	-	(6,101,487)	-
Cumulative earnings	12,009,170	-	4,389,525	16,398,695
Cumulative distributions to unitholders	<u>(26,300,228)</u>	<u>-</u>	<u>-</u>	<u>(26,300,228)</u>
Total equity	<u>55,097,507</u>	<u>-</u>	<u>(2,507,924)</u>	<u>52,589,583</u>
Total liabilities and equity	<u>\$ 267,913,067</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 267,913,067</u>

(unaudited)

TEMPLE REAL ESTATE INVESTMENT TRUST

RECONCILIATION OF BALANCE SHEET INFORMATION BETWEEN GAAP AND IFRS AS OF DECEMBER 31, 2010

	<u>Canadian GAAP</u>	<u>Changes in Presentation</u>	<u>Changes in Measurement</u>	<u>IFRS</u>
ASSETS				
Current assets				
Cash	\$ 4,096,958	\$ -	\$ -	\$ 4,096,958
Rent and other receivable	3,038,065	-	-	3,038,065
Deposits and prepaid	1,324,817	325,567	-	1,650,384
Income tax receivable	31,537	-	-	31,537
Marketable securities	575,515	-	-	575,515
Inventories	797,746	-	-	797,746
Current portion net investment in lease	139,133	-	-	139,133
Defeasance assets	-	-	-	-
Total current assets	<u>10,003,771</u>	<u>325,567</u>	<u>-</u>	<u>10,329,338</u>
Non-current assets				
Property and equipment	242,440,745	-	-	242,440,745
Net investment in lease	4,377,463	-	-	4,377,463
Goodwill	1,608,282	-	-	1,608,282
Other assets	2,051,175	(2,051,175)	-	-
Restricted cash	-	1,725,608	-	1,725,608
Total non-current assets	<u>250,477,665</u>	<u>(325,567)</u>	<u>-</u>	<u>250,152,098</u>
Total assets	<u>\$ 260,481,436</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 260,481,436</u>
LIABILITIES AND EQUITY				
Current liabilities				
Accounts payable and other liabilities	\$ 5,801,986	\$ 2,321,471	\$ -	\$ 8,123,457
Unit based compensation payable	-	-	217,986	217,986
Debt	69,101,469	-	-	69,101,469
Gift certificate liability	2,321,471	(2,321,471)	-	-
	<u>77,224,926</u>	<u>-</u>	<u>217,986</u>	<u>77,442,912</u>
Non-current liabilities				
Mortgage loans payable	98,393,158	(98,393,158)	-	-
Convertible debentures - debt	31,535,253	(31,535,253)	-	-
Debt	-	129,928,411	5,464,214	135,392,625
Deferred tax liabilities	3,095,271	-	(278,692)	2,816,579
Total long-term liabilities	<u>133,023,682</u>	<u>-</u>	<u>5,185,522</u>	<u>138,209,204</u>
Total liabilities	<u>210,248,608</u>	<u>-</u>	<u>5,403,508</u>	<u>215,652,116</u>
Equity				
Trust units	62,777,965	-	12,669	62,790,634
Unit based compensation	370,498	-	(370,498)	-
Equity component of convertible mortgage	471,175	-	(471,175)	-
Equity component of convertible debentures	6,061,153	-	(6,061,153)	-
Cumulative earnings	10,702,291	-	1,486,649	12,188,940
Cumulative distributions to unitholders	(30,150,254)	-	-	(30,150,254)
Total equity	<u>50,232,828</u>	<u>-</u>	<u>(5,403,508)</u>	<u>44,829,320</u>
Total liabilities and equity	<u>\$ 260,481,436</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 260,481,436</u>

(unaudited)

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2011

26 *Adoption of IFRS (continued)*

Changes in presentation in the balance sheets

Cash in escrow previously included in other assets has been reclassified as restricted cash. Deposits and other and franchise application fee previously included in other assets have been reclassified to deposits, prepaid and other.

Gift certificate liability and distribution payable have been reclassified to accounts payable and other liabilities. Mortgage loans payable and convertible debentures have been reclassified as debt.

Changes in measurement in the balance sheets

Convertible debentures and convertible mortgage

Under Canadian GAAP, the debt component of the Trust's convertible debentures and convertible mortgage was valued on the issue date and recorded as a liability, with the remainder recorded as equity representing the value of the conversion feature. Financing costs associated with the liability component were netted against the liability and amortized to interest expense using the effective interest method. Under IFRS the Trust's units are considered puttable financial instruments and the convertible debentures and convertible mortgage are classified as liabilities in their entirety. The Trust has designated the convertible debentures and convertible mortgage as financial liabilities measured at fair value on each reporting date. Accordingly, the equity component of the convertible debentures and convertible mortgages was reclassified to liabilities and the carrying amount of the equity component and liability component under Canadian GAAP have been adjusted to the fair value of the convertible debentures and the convertible mortgage. In addition, transaction costs associated with the convertible debentures and convertible mortgage are no longer netted against the liability and were recognized as an expense in the period in which they were incurred.

Unit based compensation

Under Canadian GAAP, the value associated with unit options and deferred units was recognized as equity. Under IFRS, the Trust's units are considered puttable financial instruments and the unit options and deferred units are classified as liabilities and measured at fair value on each reporting date with the resulting gains or losses recognized in net income (loss) for the period. As a result, the values associated with unit options and deferred units were reclassified to liabilities and adjusted to their fair values.

Statement of income (loss) and comprehensive income (loss) transition

The following provides a reconciliation of the Trust's Statement of income (loss) and comprehensive income (loss) previously issued under Canadian GAAP to the statements of comprehensive income (loss) in accordance with IFRS.

TEMPLE REAL ESTATE INVESTMENT TRUST

RECONCILIATION OF STATEMENT OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) INFORMATION BETWEEN GAAP AND IFRS FOR THE THREE MONTHS ENDED MARCH 31, 2010

	<u>Canadian GAAP</u>	<u>Changes in Presentation</u>	<u>Changes in Measurement</u>	<u>IFRS</u>
Revenue				
Hotel revenue	\$ 14,490,330	\$ (14,490,330)	\$ -	\$ -
Interest and other income	490,687	(490,687)	-	-
Room revenue	-	9,031,285	-	9,031,285
Other hotel revenue	-	<u>5,863,563</u>	-	<u>5,863,563</u>
Total revenue	14,981,017	(86,169)	-	14,894,848
Expenses				
Hotel operating costs	<u>10,108,669</u>	-	-	<u>10,108,669</u>
Hotel operating income	<u>4,872,348</u>	<u>(86,169)</u>	-	<u>4,786,179</u>
Interest expense, net	4,073,293	(86,169)	(376,372)	3,610,752
Trust expense	364,007	-	-	364,007
Depreciation	1,744,598	-	-	1,744,598
Change in fair value of financial instruments	-	<u>(94,575)</u>	<u>(1,446,204)</u>	<u>(1,540,779)</u>
Marketable securities loss (income)	<u>94,575</u>	<u>(94,575)</u>	-	-
Income (loss) before taxes	<u>(1,214,975)</u>	-	<u>1,822,576</u>	<u>607,601</u>
Income tax expense (recovery)				
Current	68,683	-	-	68,683
Deferred	<u>(297,407)</u>	-	<u>185,332</u>	<u>(112,075)</u>
	<u>(228,724)</u>	-	<u>185,332</u>	<u>(43,392)</u>
Net income (loss) and comprehensive income (loss)	<u>\$ (986,251)</u>	<u>\$ -</u>	<u>\$ 1,637,244</u>	<u>\$ 650,993</u>

(unaudited)

TEMPLE REAL ESTATE INVESTMENT TRUST

RECONCILIATION OF STATEMENT OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) INFORMATION BETWEEN GAAP AND IFRS FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Canadian GAAP</u>	<u>Changes in Presentation</u>	<u>Changes in Measurement</u>	<u>IFRS</u>
Revenue				
Hotel revenue	\$ 61,947,315	\$ (61,947,315)	\$ -	\$ -
Interest and other income	1,954,678	(1,954,678)	-	-
Room revenue	-	38,803,869	-	38,803,869
Other hotel revenue	-	<u>24,746,775</u>	-	<u>24,746,775</u>
Total revenue	63,901,993	(351,349)	-	63,550,644
Expenses				
Hotel operating costs	<u>42,500,644</u>	-	-	<u>42,500,644</u>
Hotel operating income	<u>21,401,349</u>	<u>(351,349)</u>	-	<u>21,050,000</u>
Interest expense, net	16,259,269	(351,349)	(1,468,362)	14,439,558
Trust expense	770,047	-	-	770,047
Depreciation	6,981,053	-	-	6,981,053
Change in fair value of financial instruments	-	<u>52,950</u>	<u>2,997,247</u>	<u>3,050,197</u>
Marketable securities loss (income)	<u>(52,950)</u>	<u>52,950</u>	-	-
Income (loss) before taxes	<u>(2,661,970)</u>	-	<u>(1,528,885)</u>	<u>(4,190,885)</u>
Income tax expense (recovery)				
Current	260,003	-	-	260,003
Deferred	<u>(616,857)</u>	-	<u>(275,239)</u>	<u>(892,096)</u>
	<u>(356,854)</u>	-	<u>(275,239)</u>	<u>(632,093)</u>
Net income (loss) and comprehensive income (loss)	<u>\$ (2,305,116)</u>	<u>\$ -</u>	<u>\$ (1,253,646)</u>	<u>\$ (3,558,762)</u>

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2011

26 *Adoption of IFRS (continued)*

Changes in presentation in the statement of income (loss) and comprehensive income (loss)

Hotel revenue and interest and other revenue have been reclassified as room revenue and other hotel revenue. Interest revenue previously included in interest and other income has been reclassified to interest expense, net.

Changes in measurement in the statement of income (loss) and comprehensive income (loss)

Convertible debentures and convertible mortgage

Under Canadian GAAP, interest expense on convertible debentures and convertible mortgage included accretion and the amortization of deferred finance costs related to the convertible debentures and convertible mortgage. Under IFRS, finance costs related to convertible debentures and convertible mortgage are expensed as incurred. Interest expense is recorded based on the stated interest rate and changes in the fair value of the convertible debentures and convertible mortgage are recognized in net income during the period of change. Net income is adjusted for the elimination of accretion, the amortization of deferred finance cost related to convertible debentures and the convertible mortgage and the fair value gains and losses from convertible debentures and the convertible mortgage.

Unit based compensation

Under Canadian GAAP, expense for unit options was recognized when unit options and deferred units were granted over the vesting periods. The value of the unit options and deferred units was recognized as equity. Under IFRS, unit options and deferred units are presented as liabilities and changes in fair value are recognized in net income as additional expense over their vesting period and as a fair value gain or loss. Net income is adjusted for the fair value gains and losses from unit options and deferred units.

Income tax expense

Under Canadian GAAP, temporary differences were not recognized for financial instruments containing both a liability and an equity component if the Trust was able to settle the instrument in accordance with its terms without the incidence of tax. There were no temporary differences for convertible debentures or the convertible mortgage. Under IFRS, the convertible debentures, convertible mortgage and unit based compensation have been measured at fair value resulting in temporary differences. Deferred tax expense (recovery) has been adjusted for these temporary differences.