TEMPLE
Real Estate Investment Trust

CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

(unaudited)

TEMPLE REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30 2011	December 31 2010
Assets		
Current assets		
Cash	$ 3,621,127	$ 4,096,958
Trade and other receivables (Note 3)	3,699,273	3,038,065
Deposits and prepaids (Note 4)	760,020	1,650,384
Income tax receivable	28,755	31,537
Marketable securities (Note 5)	529,915	575,515
Inventories (Note 6)	814,315	797,746
Net investment in lease (Note 7)	167,819	139,133
	9,621,224	10,329,338
Non-current assets		
Property and equipment (Note 8)	246,509,176	242,440,745
Net investment in lease (Note 7)	4,248,771	4,377,463
Goodwill	1,608,282	1,608,282
Restricted cash (Note 9)	4,230,799	1,725,608
	$266,218,252	$260,481,436
Liabilities and Equity		
Current liabilities		
Accounts payable and other liabilities (Note 10)	$ 12,092,387	$ 8,123,457
Unit based compensation (Note 11)	652,192	217,986
Declared distribution payable	634,249	-
Debt (Note 12)	61,407,082	69,101,469
	74,785,910	77,442,912
Non-current liabilities		
Debt (Note 12)	122,993,760	135,392,625
Deferred income tax (Note 13)	3,134,742	2,816,579
	200,914,412	215,652,116
Equity		
Trust units	86,487,496	62,790,634
Cumulative earnings	14,510,977	12,188,940
Cumulative distributions to unit owners	(35,694,633)	(30,150,254)
	65,303,840	44,829,320
	$266,218,252	$260,481,436

Approved by the Trustees

"Arni Thorsteinson"

"David Drybrough"

(unaudited)

TEMPLE REAL ESTATE INVESTMENT TRUST

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Revenue				
Room revenue	**$ 11,278,617**	$ 10,595,160	**$ 33,630,733**	$ 29,359,141
Other hotel revenue	**5,651,297**	5,716,497	**18,669,267**	17,515,894
	16,929,914	16,311,657	**52,300,000**	46,875,035
Expenses				
Hotel operating costs	**11,301,394**	10,430,236	**34,098,914**	31,133,959
Hotel operating income	**5,628,520**	5,881,421	**18,201,086**	15,741,076
Interest expense, net (Note 14)	**2,783,519**	3,622,063	**9,217,007**	10,806,351
Trust expense	**118,991**	48,952	**639,040**	632,342
Depreciation	**1,778,011**	1,745,342	**5,310,038**	5,234,968
	947,999	465,064	**3,035,001**	(932,585)
Change in fair value of financial instruments expense (recovery) (Note 15)	**(2,040,855)**	(425,862)	**(56,755)**	584,624
Income (loss) before income taxes	**2,988,854**	890,926	**3,091,756**	(1,517,209)
Income taxes expense (recovery):				
Current	**114,125**	153,921	**197,001**	291,807
Deferred	**390,081**	50,924	**572,718**	(538,000)
	504,206	204,845	**769,719**	(246,193)
Net income (loss) and comprehensive income (loss)	**$ 2,484,648**	$ 686,081	**$ 2,322,037**	$ (1,271,016)

(unaudited)

TEMPLE REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

	Nine Months Ended September 30	
	2011	**2010**
Trust units (Note 16)		
Balance, beginning of period	**$ 62,790,634**	$ 62,491,116
Issuance of Trust units	**20,000,000**	-
Trust units issued on conversion of debentures	**4,705,349**	-
Trust units issued on exercise of options	**45,275**	-
Unit issue costs	**(1,053,762)**	-
Balance, end of period	**86,487,496**	62,491,116
Cumulative earnings		
Balance, beginning of period	**12,188,940**	15,747,702
Net income (loss)	**2,322,037**	(1,271,016)
Balance, end of period	**14,510,977**	14,476,686
Cumulative distributions to unitholders		
Balance, beginning of period	**(30,150,254)**	(25,017,693)
Distribution to unitholders	**(5,544,379)**	(3,847,605)
Balance, end of period	**(35,694,633)**	(28,865,298)
Total unitholders' equity	**$ 65,303,840**	$ 48,102,504
Trust units issued and outstanding (Note 16)	**19,023,377**	12,825,352
Deferred units outstanding	**50,458**	34,746

TEMPLE REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Cash provided by (used in) operating activities				
Net income (loss) and comprehensive income (loss)	**$ 2,484,648**	$ 686,081	**$ 2,322,037**	$ (1,271,016)
Items not affecting cash				
Depreciation	**1,778,011**	1,745,342	**5,310,038**	5,234,968
Change in fair value of financial instruments	**(2,040,855)**	(425,862)	**(56,755)**	584,624
Deferred income taxes	**390,081**	50,924	**572,718**	(538,000)
Unit based compensation	**14,651**	14,479	**198,360**	160,052
Gain on sale of equipment	**-**	-	**(8,199)**	-
Current income taxes	**114,125**	153,921	**197,001**	291,807
Income taxes paid	**(73,928)**	(92,350)	**(194,219)**	(355,744)
Interest expense - net	**2,783,519**	3,622,063	**9,217,007**	10,806,351
Interest received	**81,586**	89,410	**259,723**	261,170
Interest paid	**(2,182,670)**	(2,940,709)	**(8,639,367)**	(10,022,259)
	3,349,168	2,903,299	**9,178,344**	5,151,953
Working capital adjustments				
Change in trade and other receivables	**526,583**	(639,154)	**(661,208)**	(734,756)
Change in deposits and prepaids	**1,311,872**	4,348	**890,364**	(197,405)
Change in inventories	**27,197**	31,022	**(16,569)**	(81,602)
Change in accounts payables and other liabilities	**(54,311)**	(327,678)	**536,195**	(97,652)
Net cash flow from operating activities	**5,160,509**	1,971,837	**9,927,126**	4,040,538
Cash provided by (used in) financing activities				
Proceeds of unit offering	**-**	-	**20,000,000**	-
Unit issue costs	**-**	-	**(1,406,705)**	-
Proceeds of long-term debt	**6,631,903**	-	**6,631,903**	5,000,000
Exercise of options	**-**	-	**35,038**	-
Decrease in defeased liability	**-**	-	**-**	(2,849,560)
Lump sum principal payments on mortgage loans	**-**	-	**(16,540,000)**	(455,000)
Regular repayment of principal on mortgage loans	**(1,842,987)**	(1,463,899)	**(5,162,112)**	(4,285,067)
Expenditures on transaction costs	**(1,971)**	235	**(284,541)**	(43,991)
Distributions paid on trust units	**(1,874,204)**	(1,282,535)	**(4,910,130)**	(2,565,070)
Net cash flow from financing activities	**2,912,741**	(2,746,199)	**(1,636,547)**	(5,198,688)
Cash provided by (used in) investing activities				
Capital expenditures on completed hotel properties	**(4,257,821)**	(734,945)	**(6,370,625)**	(1,215,203)
Decrease in defeasance assets	**-**	-	**-**	2,941,723
Receipt of net investment in lease	**33,925**	31,613	**100,006**	93,189
Change in restricted cash	**(3,590,516)**	(37,728)	**(2,505,191)**	(919,206)
Proceeds on sale of equipment	**-**	-	**9,400**	-
Net cash flow from investing activities	**(7,814,412)**	(741,060)	**(8,766,410)**	900,503
Change in cash and cash equivalents	**258,838**	(1,515,422)	**(475,831)**	(257,647)
Cash and cash equivalents, beginning of period	**3,362,289**	8,659,217	**4,096,958**	7,401,442
Cash and cash equivalents, end of period	**$ 3,621,127**	$ 7,143,795	**$ 3,621,127**	$ 7,143,795

(unaudited)

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 head 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:

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

The Trust operates hotel property investments in Canada.

The consolidated statements for the three and nine month periods ended September 30, 2011 were approved for issue in accordance with a resolution of the Board of Trustees on November 22, 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. Comparative amounts for 2010 have been restated to give effect to changes required for the adoption of IFRS. The consolidated financial statements are based on IFRS standards issued and outstanding as at November 22, 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 Trust follows accounting policies under IFRS as disclosed in the March 31, 2011 interim report. Subject to certain transition elections disclosed in Note 26 to the March 31, 2011 interim financial statements, the accounting policies in Note 3 to the March 31, 2011 interim financial statements have been applied consistently in all material respects. Note 26 to the March 31, 2011 interim financial statements 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.

2 Basis of presentation (continued)

Future Changes to Significant Accounting Policies

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

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

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

3 *Trade and other receivables*

	September 30 2011	December 31 2010
Trade receivables	$ 3,665,508	$ 2,892,573
Less: allowance for doubtful accounts	(130,507)	(139,386)
	3,535,001	2,753,187
Other receivables	164,272	284,878
	$ 3,699,273	$ 3,038,065

4 *Deposits and prepaids*

	September 30 2011	December 31 2010
Deposits	$ 287,740	$ 325,567
Deposits on potential acquistions	100,000	-
Prepaid expenses	372,280	1,324,817
	$ 760,020	$ 1,650,384

5 *Marketable securities*

	September 30 2011	December 31 2010
Marketable equity securities	$ 204,900	$ 250,500
Guaranteed investment certificates	325,015	325,015
	$ 529,915	$ 575,515

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% (December 31, 2010 - 0.001% - 2.15%) with maturity dates in 2011 and 2012 (December 31, 2010 - 2011).

The following chart summarizes marketable securities:

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Balance, beginning of period	$ 601,990	$ 605,558	$ 575,515	$ 628,208
Change in fair value of marketable securities	(72,075)	(48,600)	(45,600)	(71,250)
Balance, end of period	$ 529,915	$ 556,958	$ 529,915	$ 556,958

6 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 September 30, 2011, cost of sales related to inventory was $1,777,270 (2010 - $1,755,790) and for the nine months ended September 30, 2011 was $5,391,522 (2010 - $4,995,417) and is included in hotel operating costs.

7 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:

	September 30 2011	December 31 2010
Total minimum lease payments receivable	$ 7,200,000	$ 7,537,500
Unearned income	(2,783,410)	(3,020,904)
Net investment in lease	4,416,590	4,516,596
Less current portion	(167,819)	(139,133)
	$ 4,248,771	$ 4,377,463

7 *Net investment in lease (continued)*

Future lease payments are summarized as follows:

Twelve Months Ended September 30	Minimum Lease Payments	Unearned Income
2012	$ 475,208	$ 307,393
2013	477,500	294,967
2014	477,500	281,614
2015	477,500	267,286
2016	477,500	251,910
Thereafter	4,814,792	1,380,240

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

	September 30 2011	December 31 2010
Current assets	$ 200,411	$ 172,589
Non-current assets	$ 4,248,771	$ 4,377,450
Current liabilities	$ 148,435	$ 142,553
Non-current liabilities	$ 3,418,679	$ 3,536,523

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Interest revenue	$ 78,712	$ 80,887	$ 237,631	$ 244,311
Expenses	$ 64,746	$ 64,601	$ 190,711	$ 173,341

8 *Property and equipment*

Asset additions and disposals are comprised of the following:

Cost	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	-	-	(39,145)	(39,145)
As at December 31, 2010	28,200,924	225,520,317	10,776,435	264,497,676
Additions	-	5,523,081	3,856,589	9,379,670
Dispositions	-	-	(63,659)	(63,659)
As at September 30, 2011	$ 28,200,924	$231,043,398	$ 14,569,365	$ 273,813,687

Accumulated Depreciation	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	-	-	39,144	39,144
As at December 31, 2010	$ -	$ (18,593,920)	$ (3,463,011)	$ (22,056,931)
Depreciation	-	(4,426,682)	(883,356)	(5,310,038)
Adjustment at disposition	-	-	62,458	62,458
As at September 30, 2011	$ -	$ (23,020,602)	$ (4,283,909)	$ (27,304,511)

Net book value	Land	Building	Furniture and Equipment	Total
As at January 1, 2010	$ 28,200,924	$212,135,727	$ 8,209,590	$ 248,546,241
As at December 31, 2010	$ 28,200,924	$206,926,397	$ 7,313,424	$ 242,440,745
As at September 30, 2011	$ 28,200,924	$208,022,796	$ 10,285,456	$ 246,509,176

Property and equipment additions for the three months and nine months ended September 30, 2011 include $216,107 of incremental borrowing costs directly related to property renovations.

9 *Restricted cash*

	September 30 2011	December 31 2010
Credit union member equity	$ 104,278	$ 104,260
Reserves required by mortgage loan agreements	4,126,521	1,621,348
	$ 4,230,799	$ 1,725,608

10 Accounts payables and other liabilities

	September 30 2011	December 31 2010
Accounts payable	$ 7,639,573	$ 4,018,053
Accrued liabilities	256,561	254,330
Accrued interest	1,752,640	1,328,974
Deposits	325,686	200,629
Gift certificate liability	2,117,927	2,321,471
	$ 12,092,387	$ 8,123,457

11 Unit based compensation

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

	September 30 2011	December 31 2010
Trust unit options (a)	$ 441,277	$ 57,885
Deferred units (b)	210,915	160,101
	$ 652,192	$ 217,986

(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 Trust units reserved for issuance under all securities compensation arrangements is limited to 10% of the total number of issued and outstanding Trust units. The maximum number of Trust units that may be issued to a participant shall not exceed 5% of the total number of issued and outstanding Trust 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 Trust units. The discounted market price is the market price of the Trust units, 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.

11 Unit based compensation (continued)

(a) Units options (continued)

The following chart summarizes options outstanding:

	Nine Months Ended September 30, 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	400,000	4.20	105,000	3.23
Unit options exercised during period	(11,666)	3.00	(10,500)	3.01
Unit options expired during period	(20,000)	5.00	(27,500)	5.51
Unit options outstanding and vested, beginning and end of period	903,000	$ 4.92	534,666	$ 5.42
Weighted average remaining life (years)	2.91		2.28	

	Outstanding	Exercise Price	Remaining Contractual Life (Months)
	80,000	5.00	7
	335,000	6.19	13
	63,000	3.01	40
	25,000	3.93	50
	400,000	4.20	57
Total	903,000		
Weighted average		4.92	34.9

On January 12, 2010, the Trust granted options to purchase 80,000 units at $3.01 per Trust unit. The options vested 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 Trust 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 Trust unit. The options vested 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 Trust units, a dividend yield rate of 10.18% and the risk free interest rate (typically the Canada bond rate at the date of grant).

11 Unit based compensation (continued)

(a) Units options (continued)

On June 24, 2011, the Trust granted options to purchase 400,000 units at $4.20 per unit. The options vested immediately and will expire five years from the date they were granted. The fair value of $152,836 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 30.30% on the underlying units, a dividend yield rate of 9.55% 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 September 30, 2011 was calculated using the Black-Scholes model for option valuation assuming a weighted average volatility of 43.41% (December 31, 2010 - 24.5%) on the underlying units, dividend yield rate of 9.57% (December 31, 2010 - 9.95%) and a risk free interest rate (typically the Canada bond rate at the financial statement date).

The following chart summarizes unit options:

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Balance, beginning of period	$ 304,922	$ 9	$ 57,885	$ 1,737
Unit based compensation	-	-	152,836	116,370
Exercise of options	-	-	(13,669)	-
Change in fair value of unit options	136,355	885	244,225	(117,213)
Balance, end of period	$ 441,277	$ 894	$ 441,277	$ 894

Unit based compensation is included in Trust expenses in the consolidated statements of income (loss) and comprehensive income (loss).

(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 Trust 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 Trust 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.

11 Unit based compensation (continued)

(b) Deferred units (continued)

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.

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Deferred units outstanding, beginning of period	46,953	28,787	39,826	18,288
Deferred units granted	3,505	5,959	10,632	16,458
Deferred units outstanding, end of period	50,458	34,746	50,458	34,746

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

11 Unit based compensation (continued)

(b) Deferred units (continued)

The following chart summarizes deferred units:

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Balance, beginning of period	$ 200,020	$ 70,817	$ 160,101	$ 49,195
Unit based compensation	14,651	14,479	45,524	43,682
Change in fair value of deferred units	(3,756)	1,569	5,290	(6,012)
Balance, end of period	$ 210,915	$ 86,865	$ 210,915	$ 86,865

Unit based compensation is included in Trust expenses in the consolidated statements of income (loss) and comprehensive income (loss).

12 Debt

	September 30 2011	December 31 2010
Secured debt		
Mortgage loans (a)	$148,976,407	$164,046,616
Convertible mortgage (b)	4,253,775	4,162,798
Convertible debentures (c)	12,391,298	15,489,600
Total secured debt	165,621,480	183,699,014
Unsecured debt		
Convertible debentures (c)	19,350,685	21,495,561
Unamortized transaction costs		
Mortgage loans (a)	(571,323)	(700,481)
Total debt	184,400,842	204,494,094
Less current portion		
Mortgage loans (a)	59,308,511	69,484,470
Convertible debenture (c)	2,464,500	-
Transaction costs	(365,929)	(383,001)
Total current debt	61,407,082	69,101,469
Total non-current debt	$122,993,760	$135,392,625

12 Debt (continued)

Principal payments and principal maturities at face value for the 12 months period ending September 30 are as follows:

	Mortgage loans				
	Principal Payments	Principal Maturities	Convertible Debentures	Convertible Mortgage	Total
2012	$ 4,910,328	$ 54,398,183	$ 2,464,500	$ -	$ 61,773,011
2013	2,776,062	41,682,404	19,866,100	-	64,324,566
2014	1,772,868	17,303,240	-	-	19,076,108
2015	1,600,279	-	10,708,000	4,500,000	16,808,279
2016	1,556,599	20,135,803	-	-	21,692,402
Thereafter	2,840,641	-	-	-	2,840,641
	$ 15,456,777	$133,519,630	$ 33,038,600	$ 4,500,000	$186,515,007

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

(a) Mortgage loans

	September 30 2011	December 31 2010
First mortgage loans	$144,574,590	$152,926,923
Second mortgage loans	4,401,817	11,119,693
Total	148,976,407	164,046,616
Unamortized transaction costs	(571,323)	(700,481)
	148,405,084	163,346,135
Current portion	(59,308,511)	(69,484,470)
	$ 89,096,573	$ 93,861,665
Weighted average interest rate		
First mortgage loans	6.01 %	6.24 %
Second mortgage loans	6.00 %	11.29 %
Total	6.01 %	6.59 %

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 September 30, 2011.

As of September 30, 2011, the Trust was not in compliance on two first mortgage loans in the aggregate amount of $14,969,899, 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.

12 Debt (continued)

(a) Mortgage loans (continued)

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 have provided a forbearance of the breaches.

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

(b) Convertible Mortgage

On August 1, 2009, the Trust issued a convertible mortgage loan with a face value of $4,500,000. The loan bears interest at a rate of 4.5%, is secured by a specific hotel property, requires monthly payment of interest only and matures July 31, 2014. The mortgage loan is convertible to Trust Units at the option of the holder at a conversion price of $15.00 per unit until the maturity date of the loan.

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.

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Convertible mortgage, beginning of period	$ 4,167,458	$ 4,202,474	$ 4,162,798	$ 4,318,337
Change in fair value of convertible mortgage	86,317	(75,577)	90,977	(191,440)
Convertible mortgage, end of period	$ 4,253,775	$ 4,126,897	$ 4,253,775	$ 4,126,897

12 Debt (continued)

(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.

	September 30 2011	December 31 2010
Unsecured		
Series A	$ 2,464,500	$ 2,225,444
Series B	16,886,185	19,270,117
Subtotal	19,350,685	21,495,561
Senior Secured	12,391,298	15,489,600
Total	31,741,983	36,985,161
Current portion	(2,464,500)	-
	$ 29,277,483	$ 36,985,161

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

During the nine months ended September 30, 2011, $4,044,000 of senior secured convertible debentures were converted into 1,107,916 Trust units.

Subsequent to September 30, 2011, $1,024,000 of senior secured convertible debentures were converted into 280,543 Trust units.

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:

	Rate	Conversion Price	Due Date
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 Trust 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 Trust units is at least $9.375 and, on or after April 30, 2012, at their principal amount.

12 Debt (continued)

(c) Convertible debentures (continued)

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 Trust 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 Trust units, on the maturity of the Series A and Series B debentures.

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

September 30, 2011	Beginning of Period	Change in Fair value	Conversions	End of Period
Series A	$ 2,225,444	$ 239,056	$ -	$ 2,464,500
Series B	19,270,117	(2,383,932)	-	16,886,185
Senior Secured	15,489,600	1,702,029	(4,800,331)	12,391,298
	$ 36,985,161	$ (442,847)	$ (4,800,331)	$31,741,983

September 30, 2010	Beginning of Period	Change in Fair Value	Conversions	End of Period
Series A	$ 2,193,651	$ 24,399	$ -	$ 2,218,050
Series B	16,888,172	1,388,640	-	18,276,812
Senior Secured	14,985,000	(585,000)	-	14,400,000
	$ 34,066,823	$ 828,039	$ -	$34,894,862

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

	September 30 2011	December 31 2010
Unsecured		
Series A	$ 2,464,500	$ 2,464,500
Series B	19,866,100	19,866,100
Subtotal	22,330,600	22,330,600
Senior Secured	10,708,000	14,752,000
	$ 33,038,600	$ 37,082,600

13 Deferred income tax

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

The Trust	September 30 2011	December 31 2010
Deferred income tax liabilities (asset) of the Trust relating to the temporary differences between accounting and tax values of:		
Property and equipment	$ 1,746,986	$ 2,854,897
Convertible debentures and convertible mortgage	193,492	54,526
Debt issue costs	(617,205)	(577,723)
Other	(139,952)	(31,030)
Deferred income tax liability (asset) of the Trust relating to unused tax losses	(561,792)	(2,023,046)
Deferred income tax liability	$ 621,529	$ 277,624

Discretionary capital cost allowance claims can be reduced in future periods to increase future taxable income and utilize unused tax losses.

Temple Gardens Mineral Spa Inc.	September 30 2011	December 31 2010
Deferred income tax liability (asset) 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	$ 2,582,124	$ 2,607,913
Debt issue costs	(2,863)	1,021
Other	(66,048)	(69,979)
Deferred income tax liability	$ 2,513,213	$ 2,538,955
Aggregate deferred income tax liability	$ 3,134,742	$ 2,816,579

14 *Interest expense, net*

Interest expense, net is comprised of the following:

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Mortgage loans interest	$ 1,996,457	$ 2,718,542	$ 6,723,850	$ 8,025,137
Amortization of transaction costs	147,781	145,401	413,699	472,403
Interest on convertible debentures	702,602	796,489	2,219,943	2,389,467
Interest on convertible mortgage loan	18,265	51,041	119,238	101,678
Defeasance mortgage interest	-	-	-	64,172
Amortization of defeasance transaction costs	-	-	-	14,664
	2,865,105	3,711,473	9,476,730	11,067,521
Interest revenue	(3,011)	(8,523)	(22,229)	(16,859)
Finance lease interest revenue	(78,575)	(80,887)	(237,494)	(244,311)
	$ 2,783,519	$ 3,622,063	$ 9,217,007	$ 10,806,351

15 *Change in fair value of financial instruments*

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Increase (decrease) in value of:				
Convertible debentures (Note 12 c)	$ (2,331,846)	$ (401,339)	$ (442,847)	$ 828,039
Convertible mortgage (Note 12 b)	86,317	(75,577)	90,977	(191,440)
Unit options (Note 11 a)	136,355	885	244,225	(117,213)
Deferred units (Note 11 b)	(3,756)	1,569	5,290	(6,012)
	(2,112,930)	(474,462)	(102,355)	513,374
Decrease (increase) in value of marketable securities (Note 5)	72,075	48,600	45,600	71,250
Expense (recovery)	$ (2,040,855)	$ (425,862)	$ (56,755)	$ 584,624

16 Trust units

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

	Nine Months Ended September 30, 2011		Nine Months Ended September 30, 2010	
	Trust Units	Amount	Trust Units	Amount
Outstanding, beginning of period	12,903,795	$ 62,790,634	12,825,352	$ 62,491,116
Trust units issue costs	-	(1,053,762)	-	-
Trust units issued by private placement	5,000,000	20,000,000	-	-
Trust units issued on exercise of options	11,666	45,275	-	-
Trust units issued on exercise of convertible debentures	1,107,916	4,705,349	-	-
Outstanding, end of period	19,023,377	$ 86,487,496	12,825,352	$ 62,491,116

The Trust is authorized to issue an unlimited number of participating voting units, each of which represents an equal undivided beneficial interest in the Trust. All units outstanding from time to time shall participate pro rata in any distributions by the Trust and, in the event of termination or winding up of the Trust, in the net assets of the Trust. Units shall rank among themselves equally and rateably without discrimination, preference or priority. Unitholders are entitled to require the Trust to redeem all or any part of their Trust Units at prices determined and payable in accordance with the conditions provided for in the Declaration of Trust. A maximum amount of $30,000 may be redeemed in total in any one month unless otherwise waived by the Board of Trustees.

The Trust is authorized to issue an unlimited number of special voting units that will be used to provide voting rights to holders of securities exchangeable into Trust Units. The special voting units shall not be entitled to any amount in respect of distributions or on a liquidation, dissolution or winding-up of the Trust. There are no outstanding special voting units.

17 Related party transactions

Shelter Canadian Properties Limited is a related party by virtue of the asset management agreement with the Trust and 2668921 Manitoba Ltd., the parent company to Shelter Canadian Properties Limited, is a related party as 2668921 Manitoba Ltd. is owned by a family member of an officer and Trustee of the Trust.

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.

17 Related party transactions (continued)

The Trust incurred asset management fees to Shelter Canadian Properties Limited of $255,296 for the three months ended September 30, 2011 (2010 - $247,567) and $789,086 for the nine months ended September 30, 2011 (2010 - $710,602).

Construction management agreement
The Trust has 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 renovations and building upgrades at the Capri Centre. To September 30, 2011, a service fee of $360,000 (2010 - $nil) has been charged for such services.

Included in accounts payable and other liabilities is $824,395 (December 31, 2010 - $514,665) due to Shelter Canadian Properties Limited relating to the service fees and the construction management fees.

Hotel operating costs include $50,500 (2010 - $nil) for the three months ended September 30, 2011 and $72,300 (2010 - $nil) for the nine months end September 30, 2011 for rental premises. Shelter Canadian Properties Limited, as agent for the beneficial owner is the manager of the rental premises.

18 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, 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 investment capital by issuing Trust Units or other securities such as convertible debentures. The risk with issuing new investment capital is that the capital markets may not be receptive to a securities issue with financial terms favourable to the Trust or at all.

18 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 September 30, 2011:

	Total	1 year	2 years	3 years	4 years	5 years	Thereafter
Accounts payable and other liabilities	$ 12,072,387	$ 12,072,387	$ -	$ -	$ -	$ -	$ -
Debt	186,515,007	61,773,011	64,324,566	19,076,108	16,808,279	21,692,402	2,840,641
Total	$198,587,394	$ 73,845,398	$ 64,324,566	$19,076,108	$ 16,808,279	$21,692,402	$ 2,840,641

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:

	September 30 2011	December 31 2010
Accounts receivable:		
0 to 30 days overdue	$ 263,317	$ 404,892
More than 30 days overdue	345,615	247,203
	$ 608,932	$ 652,095

18 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 September 30		Three Months Ended September 30	
	2011	2010	2011	2010
Amounts charged to income	$ 33,054	$ 22,988	$ 57,654	$ 40,523
Percent of revenue	0.20%	0.14%	0.11%	0.09%

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

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

	September 30, 2011		December 31, 2010	
	Quoted Prices	Observed Inputs	Quoted Prices	Observed Inputs
Marketable securities	$ 204,900	$ 325,015	$ 250,500	$ 325,015
Unit based compensation	-	652,192	-	217,986
Convertible debentures	31,741,983	-	36,985,161	-
Convertible mortgage	-	4,253,775	-	4,162,798

18 Risk management and fair values (continued)

Except for mortgage loans, 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 September 30, 2011 is $150,987,563 (December 31, 2010 - $164,046,616).

19 Segmented financial information

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

Three Months Ended September 30, 2011:

	Fort McMurray	Other	Trust	Total
Room revenue	$ 6,553,243	$ 4,725,374	$ -	$ 11,278,617
Other hotel revenue	437,624	5,213,673	-	5,651,297
Hotel operating costs	3,384,292	7,917,102	-	11,301,394
Operating income	3,606,575	2,021,945	-	5,628,520
Interest expense, net	1,259,811	822,038	701,670	2,783,519
Depreciation	1,110,317	667,694	-	1,778,011
Trust expenses	-	-	118,991	118,991
Change in fair value of financial instruments	86,317	-	(2,127,172)	(2,040,855)
Income taxes	-	105,931	398,275	504,206
Income (loss)	$ 1,150,130	$ 426,282	$ 908,236	$ 2,484,648
Total assets	$152,879,750	$112,610,449	$ 728,053	$266,218,252
Total liabilities	$ 93,465,423	$ 81,814,293	$25,614,696	$200,894,412

Three Months Ended September 30, 2010:

	Fort McMurray	Other	Trust	Total
Room revenue	$ 5,540,452	$ 5,054,708	$ -	$ 10,595,160
Other hotel revenue	380,571	5,335,926	-	5,716,497
Hotel operating costs	2,913,578	7,516,658	-	10,430,236
Operating income	3,007,445	2,873,976	-	5,881,421
Interest expense, net	1,742,915	1,089,136	790,012	3,622,063
Depreciation	1,098,036	647,306	-	1,745,342
Trust expenses	-	-	48,952	48,952
Change in fair value of financial instruments	(75,577)	-	(350,285)	(425,862)
Income taxes	-	147,109	57,736	204,845
Income (loss)	$ 242,070	$ 990,426	$ (546,415)	$ 686,081
Total assets - December 31, 2010	$155,920,295	$103,924,312	$ 636,829	$260,481,436
Total liabilities - December 31, 2010	$ 99,782,699	$ 75,475,072	$40,394,345	$215,652,116

19 Segmented financial information (continued)

Nine Months Ended September 30, 2011:

	Fort McMurray	Other	Trust	Total
Room revenue	$ 19,275,810	$ 14,354,923	$ -	$ 33,630,733
Other hotel revenue	1,333,632	17,335,635	-	18,669,267
Hotel operating costs	9,815,752	24,283,162	-	34,098,914
Operating income	10,793,690	7,407,396	-	18,201,086
Interest expense, net	4,102,679	2,902,384	2,211,944	9,217,007
Depreciation	3,323,203	1,986,835	-	5,310,038
Trust expenses	-	-	639,040	639,040
Change in fair value of financial instruments	90,977	-	(147,732)	(56,755)
Income taxes	-	171,260	598,459	769,719
Income (loss)	$ 3,276,831	$ 2,346,917	$ (3,301,711)	$ 2,322,037

Nine Months Ended September 30, 2010:

	Fort McMurray	Other	Trust	Total
Room revenue	$ 15,752,577	$ 13,606,564	$ -	$ 29,359,141
Other hotel revenue	1,191,128	16,324,766	-	17,515,894
Hotel operating costs	8,822,484	22,311,475	-	31,133,959
Operating income	8,121,221	7,619,855	-	15,741,076
Interest expense, net	5,275,289	3,152,608	2,378,454	10,806,351
Depreciation	3,293,200	1,941,768	-	5,234,968
Trust expenses	-	-	632,342	632,342
Change in fair value of financial instruments	(191,440)	-	776,064	584,624
Income taxes	-	277,555	(523,748)	(246,193)
Income (loss)	$ (255,829)	$ 2,247,925	$ (3,263,112)	$ (1,271,016)

20 Management of capital

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

	September 30 2011	December 31 2010
Debt	$ 184,400,842	$ 204,494,094
Unitholders' equity	65,303,840	44,829,320
Total	$ 249,704,682	$ 249,323,414

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 September 30, 2011 and December 31, 2010, total mortgage indebtedness was 51% and 57% respectively of the appraised value of properties. The individual property appraisals were prepared between 2007 and 2011.

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.

21 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 September 30 are as follows:

2012	232,286
2013	70,329
2014	28,925
2015	19,973
2016	4,615

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 in order 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 September 30, 2011, the Trust paid management fees of $431,489 (2010 - $369,883) and $1,257,876 for the nine months ended September 30, 2011 (2010 - $1,084,160).

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.

22 Subsequent events

Convertible debenture offering
On November 16, 2011, the Trust completed a prospectus offering of Series C debentures in the amount of $20,000,000 plus over allotment of $3,000,000 for gross proceeds of $23,000,000 and net proceeds of approximately $21,360,000 after deducting agents fees and other costs.

The Series C debentures are unsecured, bear interest of 8% and are convertible at the option of the holder at a conversion of $5.82 per trust unit.

Long-term debt
A first mortgage loan tranche of $5,971,555 secured by Temple Gardens Mineral Spa, was renewed on October 1, 2011 for a four year term at an interest rate of 4.7804%.

On November 16, 2011, a $14,000,000 prepayment of the 6.83% first mortgage loan at the Clearwater Suites hotel was made from the proceeds of the Series C convertible debenture offering.

23 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. Details of the accounting policies and transition elections are disclosed in the March 31, 2011 interim report.

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.

	RECONCILIATION OF BALANCE SHEET INFORMATION BETWEEN GAAP AND IFRS AS OF SEPTEMBER 30, 2010			
	Canadian GAAP	Changes in Presentation	Changes in Measurement	IFRS
ASSETS				
Current assets				
Cash	$ 7,143,795	$ -	$ -	$ 7,143,795
Rent and other receivable	2,884,965	-	-	2,884,965
Deposits and prepaids	353,088	256,046	-	609,134
Marketable securities	556,958	-	-	556,958
Inventories	797,822	-	-	797,822
Current portion net investment in lease	132,182	-	-	132,182
Total current assets	11,868,810	256,046	-	12,124,856
Non-current assets				
Property and equipment	244,526,476	-	-	244,526,476
Net investment in lease	4,416,590	-	-	4,416,590
Goodwill	1,608,282	-	-	1,608,282
Other assets	1,942,719	(1,942,719)	-	-
Restricted cash	-	1,686,673	-	1,686,673
Total non-current assets	252,494,067	(256,046)	-	252,238,021
Total assets	$ 264,362,877	$ -	$ -	$ 264,362,877
LIABILITIES AND EQUITY				
Current liabilities				
Accounts payable and other liabilities	$ 5,277,695	$ 1,885,579	$ -	$ 7,163,274
Unit based compensation payable	-	-	87,759	87,759
Declared distribution payable	1,282,535	-	-	1,282,535
Debt	54,568,844	-	-	54,568,844
Gift certificate liability	1,885,579	(1,885,579)	-	-
Income tax payable	71,339	-	-	71,339
	63,085,992	-	87,759	63,173,751
Non-current liabilities				
Mortgage loans payable	115,021,085	(115,021,085)	-	-
Convertible debentures	31,360,259	(31,360,259)	-	-
Debt	-	146,381,344	3,534,603	149,915,947
Deferred tax liabilities	3,144,181	-	26,494	3,170,675
Total long-term liabilities	149,525,525	-	3,561,097	153,086,622
Total liabilities	212,611,517	-	3,648,856	216,260,373
Equity				
Trust Units	62,490,881	-	235	62,491,116
Unit based compensation	357,291	-	(357,291)	-
Equity component of convertible mortgage	471,175	-	(471,175)	-
Equity component of convertible debentures	6,101,487	-	(6,101,487)	-
Cumulative earnings	11,195,824	-	3,280,862	14,476,686
Cumulative distributions to unitholders	(28,865,298)	-	-	(28,865,298)
Total equity	51,751,360	-	(3,648,856)	48,102,504
Total liabilities and equity	$ 264,362,877	$ -	$ -	$ 264,362,877

23 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 unites 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.

RECONCILIATION OF STATEMENT OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) INFORMATION BETWEEN GAAP AND IFRS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2010

	Canadian GAAP	Changes in Presentation	Changes in Measurement	IFRS
Revenue				
Hotel revenue	$ 15,889,777	$ (15,889,777)	$ -	$ -
Interest and other income	511,290	(511,290)	-	-
Room revenue	-	10,595,160	-	10,595,160
Other hotel revenue	-	5,716,497	-	5,716,497
Total revenue	16,401,067	(89,410)	-	16,311,657
Expenses				
Hotel operating costs	10,430,236	-	-	10,430,236
Hotel operating income	5,970,831	(89,410)	-	5,881,421
Interest expense, net	4,064,614	(89,410)	(353,141)	3,622,063
Trust expense	48,952	-	-	48,952
Depreciation	1,745,342	-	-	1,745,342
Change in fair value of financial instruments	-	48,600	(474,462)	(425,862)
Marketable securities loss (income)	(48,600)	48,600	-	-
Income (loss) before taxes	63,323	-	(827,603)	890,926
Income tax expense (recovery)				
Current	153,921	-	-	153,921
Deferred	(39,306)	-	90,230	50,924
	114,615	-	90,230	204,845
Net income (loss) and comprehensive income (loss)	$ (51,292)	$ -	$ 737,373	$ 686,081

RECONCILIATION OF STATEMENT OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) INFORMATION BETWEEN GAAP AND IFRS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010

	Canadian GAAP	Changes in Presentation	Changes in Measurement	IFRS
Revenue				
Hotel revenue	$ 45,609,941	$ (45,609,941)	$ -	$ -
Interest and other income	1,526,264	(1,526,264)	-	-
Room revenue	-	29,359,141	-	29,359,141
Other hotel revenue	-	17,515,894	-	17,515,894
Total revenue	47,136,205	(261,170)	-	46,875,035
Expenses				
Hotel operating costs	31,133,959	-	-	31,133,959
Hotel operating income	16,002,246	(261,170)	-	15,741,076
Interest expense, net	12,139,423	(261,170)	(1,071,902)	10,806,351
Trust expense	632,342	-	-	632,342
Depreciation	5,234,968	-	-	5,234,968
Change in fair value of financial instruments	-	71,250	513,374	584,624
Marketable securities loss (income)	(71,250)	71,250	-	-
Income (loss) before taxes	(2,075,737)	-	(558,528)	(1,517,209)
Income tax expense (recovery)				
Current	291,807	-	-	291,807
Deferred	(567,947)	-	29,947	(538,000)
	(276,140)	-	29,947	(246,193)
Net income (loss) and comprehensive income (loss)	$ (1,799,597)	$ -	$ (528,581)	$ (1,271,016)

23 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 income tax expense (recovery) has been adjusted for these temporary differences.

Other impacts
a) Cash flow statement
The transition from Canadian GAAP to IFRS had no significant impact on the cash flow statements for the three and nine months ended September 30, 2010.