



MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

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Unitholder Returns

	Six Months Ended June 30, 2007	349 Days Ended December 31, 2006
Distribution per unit	\$0.30	\$0.14
Opening unit price	\$4.95	\$5.00
Closing unit price	\$4.74	\$4.95
Annualized cash distribution per unit - (effective September 2007)	\$0.72	
Closing unit price - August 27, 2007	\$4.50	
Current yield	16.0%	
Number of units outstanding - June 30, 2007	8,848,920	
- August 27, 2007	8,848,920	

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

REIT Unit Price History

Month	High	Low	Volume
2007			
to August 27	\$4.64	\$4.05	163,204
July	\$4.74	\$4.02	295,489
June	\$4.90	\$4.53	138,009
May	\$5.18	\$4.63	358,171
April	\$5.25	\$4.11	269,108
March	\$5.10	\$4.25	321,668
February	\$5.72	\$5.00	402,662
January	\$5.25	\$4.83	13,496
2006			
December	\$4.95	\$4.25	54,269
November	\$4.89	\$4.00	86,533
October	\$5.00	\$4.50	33,418

REPORT TO UNITHOLDERS

The primary investment objective of Temple Real Estate Investment Fund (Temple REIT) is to create a large and diversified portfolio of quality hotel properties and to maximize the long-term investment returns to the Unitholders.

The operating results of Temple REIT for the second quarter of 2007 exceeded expectations and reflects significant progress in terms of attaining the long-term growth objectives of the Trust. Temple REIT commenced operations as a publicly-listed real estate investment trust on October 1, 2006 and essentially completed the 2006 fiscal year and the first quarter of 2007 with one hotel property in its portfolio. During the period from March 23, 2007 to April 30, 2007, the Trust acquired six additional hotels, at a combined purchase price of \$138 Million and encompassing a total of 543 rooms. The equity component of the hotel acquisitions was primarily funded from the proceeds of a \$48 Million unit and convertible denture offering which was completed during the first quarter of 2007.

As a result of the property acquisitions in March and April of 2007, there has been an improvement in operating results in the second quarter of 2007, compared to the first quarter of the year. During the second quarter of 2007, net income increased by \$1.2 Million or \$0.122 per unit, compared to the first quarter of the year, while operating income increased by \$3.7 Million or \$0.337 per unit and cash from operating activities increased by \$2.8 Million or \$0.307 per unit. Distributable income also increased by \$2.1 Million during the second quarter of 2007 or by \$0.209 per unit. During the three month period ended June 30, 2007, distributable income doubled cash distributions of \$1.3 Million.

Temple REIT is building a foundation for long-term growth by focusing on hotel acquisitions which offer security of cash flow and potential for capital appreciation. From the Temple Gardens Mineral Spa Resort Hotel, which features a world famous geo thermal mineral water pool, to the newly acquired Clearwater Suites, a 150-room extended stay hotel complex in Fort McMurray, Alberta, all of the hotel properties in the Temple REIT portfolio achieved favourable operating results in the second quarter of 2007. Overall, the occupancy level for the entire portfolio was 79.08% during the second quarter of 2007, while the average room rate was \$171.11, RevPar was \$135.19 and operating profit margin was 50.01%.

In the upcoming months, it is anticipated that Temple REIT will proceed with the acquisition of additional hotel properties as equity funding is generated from the upward refinancing of under-leveraged properties and, in 2008, from the completion of another debenture or trust unit offering. Accordingly, for the remainder of 2007, Temple REIT is expected to move further along its growth continuum, as the existing portfolio reaches its full quarterly income potential and as additional income-producing properties are acquired.

The operating results for the second quarter of 2007, combined with the successful completion of the \$48 Million unit/debenture offering and the timely acquisition of quality hotel properties, provide a clear indication that Temple REIT has the capability to attain its investment objectives and deliver solid results to its investors. The Board of Trustees and the management team of Shelter Canadian Properties Limited remain fully committed to maximizing the long-term investment returns to the Unitholders.

TEMPLE REAL ESTATE INVESTMENT TRUST



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

Profile of Hotel Properties

Temple Gardens Mineral Spa Resort Hotel

The Temple Gardens Mineral Spa Resort Hotel was acquired by Temple REIT on October 1, 2006. The hotel is located in Moose Jaw, Saskatchewan and consists of a 179 guest rooms. The hotel also features a restaurant, café, banquet and meeting rooms, gift shop, fitness room, spa treatment center and geo-thermal mineral water pool. The spa resort is most well known for its mineral-rich, geo-thermal therapeutic waters.

Chateau Nova

The Chateau Nova hotel property was acquired by Temple REIT on March 23, 2007. The property is located in Yellowknife, Northwest Territories and consists of a four-storey, 60-room hotel complex known as Chateau Nova, and a three-storey, 20-room annex, known as Chateau Nova Suites. The property offers a full range of services, including a full service restaurant, lounge, room service, meeting and conference rooms, business centre, fitness centre and spa services. Chateau Nova and Chateau Nova Suites are located across from each other on Franklin Avenue, the main street of downtown Yellowknife.

Clearwater Suites

The Clearwater Suites hotel complex was acquired by Temple REIT on March 30, 2007. Clearwater Suites is a four-storey, 150-room extended stay hotel complex, located in Fort McMurray, Alberta, comprised of 117 one-bedroom units, 11 two-bedroom units and 22 studio units. The property is operated as an extended stay lodging complex to accommodate oil field and major project workers who stay in Fort McMurray for periods of one week to several months. The property also includes a 75-stall underground parkade.

Merit Inn & Suites

The five-storey hotel opened in April 2006, is located in Fort McMurray, Alberta and contains 75 rooms. The hotel contains a business centre, two meeting rooms totalling approximately 850 square feet and fitness facilities. The hotel also contains provision for a restaurant/coffee shop, which is not fully developed and is currently used to serve complimentary continental breakfast.

Merit Hotel

The four-storey, full service hotel opened in 2003, is located in Fort McMurray, Alberta and contains 92 rooms. The hotel offers a restaurant and lounge and also includes a business centre, two meeting rooms totalling approximately 2,500 square feet, indoor pool and whirlpool and fitness facilities.

Nomad Hotel

The seven-storey, full-service hotel opened in 1988, is located in Fort McMurray, Alberta and contains 139 rooms. The hotel offers a Keg Restaurant, cafe and pub and also includes approximately 1,200 square feet of meeting space, business centre, indoor pool and fitness facilities.

Nomad Suites

The four-storey, extended stay hotel opened in 2000, is located in Fort McMurray, Alberta and contains 27 rooms. The hotel also includes a small area for serving complimentary breakfast. The hotel's front desk and management operations are handled through the Nomad Hotel.

The Merit and Nomad hotel properties were acquired by Temple REIT on April 30, 2007.

Property Portfolio - June 30, 2007

<u>Property</u>	<u>Location</u>	<u>Purchase Price</u>	<u>Acquisition Date</u>	<u>Rooms/Suites</u>
Alberta				
Clearwater Suite Hotel	Fort McMurray	\$ 56,500,000	March 2007	150
Merit Hotel	Fort McMurray	16,000,000	April 2007	92
Merit Inn & Suites	Fort McMurray	18,800,000	April 2007	75
Nomad Inn	Fort McMurray	23,700,000	April 2007	139
Nomad Suites	Fort McMurray	10,000,000	April 2007	27
Northwest Territories				
Chateau Nova	Yellowknife	13,000,000	March 2007	80
Saskatchewan				
Temple Gardens Mineral Spa Resort Hotel (1)	Moose Jaw	<u>26,055,884</u>	October 2006	<u>179</u>
Total		<u>\$ 164,055,884</u>	Total suites	<u>742</u>

Notes:

(1) Ownership of the Temple Gardens Hotel is held by Temple Gardens Mineral Spa Inc. (TGMS). All of the common shares of TGMS were acquired by Temple REIT at the inception of the Trust for cash consideration of \$12,248,408, by issuing 276,771 trust units at a deemed value of \$1,383,855 and long-term debt financing of \$12,423,621, representing a total acquisition cost of \$26,055,884.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Forward-Looking Statements

Management's Discussion and Analysis ("MD&A") of Temple Real Estate Investment Trust ("Temple REIT" or the "Trust") should be read in conjunction with the financial statements of Temple REIT for the quarter ended June 30, 2007 and with reference to the 2007 First Quarter Report and the 2006 Annual Report.

Certain statements contained in this MD&A and in certain documents incorporated by reference herein are "forward-looking statements" that reflect the expectations of management regarding the future growth, results of operations, performance, prospects and opportunities of Temple REIT. Readers are cautioned not to place undue reliance on forward-looking information. All statements other than statements of historical fact contained or incorporated by reference herein are forward-looking statements including, without limitation, statements regarding the timing and amount of distributions and the future financial position, business strategy, potential acquisitions, plans and objectives of Temple REIT. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risks and uncertainties. A number of factors, as discussed herein, could cause actual results to differ materially from the results discussed in forward-looking statements. Although the forward-looking statements contained or incorporated by reference herein are based upon what management believes to be reasonable assumptions, Temple REIT cannot assure investors that actual results will be consistent with these forward-looking statements.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. Forward-looking statements are made as of the date hereof, or such other date specified in such statements, and neither Temple REIT nor any other person assumes any obligation to update or revise such forward-looking statements to reflect new information, events or circumstances, except as expressly required by applicable securities law.

2007 SECOND QUARTER HIGHLIGHTS

Acquisition and Development

- Invested \$68.5 Million in the acquisition of four additional hotel properties, representing 333 suites.
- Quarter ending portfolio consists of seven hotels properties, comprised of 742 suites.

Financial

Second quarter of 2007, compared to first quarter of 2007:

- Operating income increased by \$3.7 Million, or \$0.337 per unit
- Net income increased by \$1.2 Million, or \$0.122 per unit
- Cash from operating activities increased by \$2.8 Million or \$0.307 per unit
- Distributable income increased by 2.1 Million or \$0.209 per unit
- RevPar for the entire hotel portfolio increased from \$108.39 to \$135.19

Capital Structure

- Financed \$50.7 Million of mortgage debt.
- Weighted average interest rate on the aggregate mortgage loan balance of 6.97% at June 30, 2007.
- Mortgage loan debt to current value ratio of 60.05% at June 30, 2007.

Financial and Operating Statistics

	Three Months Ended June 30, 2007		Three Months Ended March 31, 2007	
CASH DISTRIBUTIONS				
Amount - total	\$1,326,984		\$966,676	
- per unit	\$0.15 (\$0.60 annualized)		\$0.15 (\$0.60 annualized)	
KEY PERFORMANCE INDICATORS				
Operations				
Occupancy *	79.08%		73.50%	
ADR *	\$171.11		\$147.53	
RevPar *	\$135.19		\$108.39	
Operating profit margin *	50.01%		32.5%	
Operating Results				
Total revenue	\$9,522,466		\$3,278,709	
Operating income	\$4,761,400		\$1,066,867	
Net income	\$1,421,241		\$206,544	
Cash Flows				
Cash flow from operating activities	\$3,015,620		\$180,100	
Distributable income *	\$2,589,705		\$445,610	
Financing				
Weighted average interest rate of long-term debt *	6.970%		6.505%	
PER UNIT AMOUNTS				
	<u>Basic</u>	<u>Diluted</u>	<u>Basic</u>	<u>Diluted</u>
Net income	\$0.161	\$0.157	\$0.039	\$0.038
Distributable income *	\$0.293	\$0.223	\$0.084	\$0.083

Non-GAAP Measurements

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

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

OVERVIEW OF TRUST OPERATIONS

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

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

On October 1, 2006, HPVC Inc. completed a Qualifying Transaction whereby, pursuant to a Plan of Arrangement, HPVC Inc. was reorganized into a real estate investment trust, under the name of "Temple Real Estate Investment Trust". In accordance with the Plan of Arrangement, the common shares of HPVC Inc. were exchanged for trust units of Temple REIT on a ten to one basis and all of the assets and liabilities of HPVC Inc. were transferred to the Trust.

Overall Investment Objectives and Strategy

Primary Objectives

Temple REIT is an open-ended real estate investment trust with a long-term focus on owning and acquiring a geographically and sectorally diversified portfolio of hotel properties and assets in primary and secondary markets across Canada. The primary objectives of Temple REIT are to generate stable and growing cash distributions on a tax-efficient basis, enhance the value of Temple REIT's assets and maximize long-term unit value through the active management of its assets, and expand the asset base and increase distributable income through an accretive acquisition program.

Growth

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

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

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

Financing

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

The strategy of Temple REIT is to efficiently utilize and manage leverage, targeting first mortgage debt in the range of 65% to 75% of appraised value to maximize return on equity while maintaining cash flow stability. Temple REIT will pursue the upward refinancing of under-leveraged properties or the subsequent arrangement of mortgage financing for properties which are initially acquired on a 100% cash basis.

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

Management

Temple REIT has assembled a highly skilled and experienced management team in order to assist the Trust in achieving its business objectives. The management team and Trustees of Temple REIT have extensive experience in all facets of the hotel industry and have developed key relationships with vendors across North America which should enable Temple REIT to gain access to a significant acquisition pipeline on an unlisted basis.

Asset management services are provided to Temple REIT by Shelter Canadian Properties Limited. Shelter Canadian has been one of Canada's leading real estate development and property management companies for over 35 years and brings a wealth of real estate investment, development and asset management experience to Temple REIT. Please refer to the section of this report entitled "Related Party Transactions" for details of the remuneration of Shelter Canadian.

The hotel properties of Temple REIT will be primarily, but not exclusively, operated and managed by Atlific Hotels and Resorts ("Atlific"). Atlific currently manages a portfolio of over 30 properties across Canada, including hotels with the Marriott, Best Western, Comfort Inn and Holiday Inn brands. Atlific is an affiliate of Ocean Properties Ltd., one of the largest privately owned hotel management companies in North America. Combined, Atlific and Ocean Properties have over 80 years of experience in hotel management and manage a portfolio of 100 properties.

Property Portfolio - June 30, 2007

As of June 30, 2007, the real estate portfolio of Temple REIT consists of seven hotel properties, with the following acquisition dates:

Temple Gardens - October 1, 2006
Chateau Nova - March 23, 2007
Clearwater Suites - March 30, 2007
Merit Hotel - April 30, 2007
Merit Inn and Suites - April 30, 2007
Nomad Hotel - April 30, 2007
Nomad Suites - April 30, 2007

The Temple Gardens, Chateau Nova and Clearwater Suites hotels were owned by Temple REIT for the entire second quarter of 2007. The Merit and Nomad hotel properties were acquired partway through the second quarter and contributed two months of operations to the second quarter results.

In comparison, Temple Gardens is the only hotel which was owned by Temple REIT for the entire first quarter of 2007. In total, Chateau Nova and Clearwater Suites contributed 11 days of operations to the first quarter results.

RESULTS OF OPERATIONS

Summary of Quarterly Results

Quarterly Analysis (1) (2) (3)

	2007		2006	
	Q2	Q1	Q4	Q3
Total revenue	\$ 9,522,466	\$ 3,278,709	\$ 2,943,520	\$ 17,558
Operating income	\$ 4,761,400	\$ 1,066,867	\$ 781,142	\$ -
Net income (loss)	\$ 1,421,241	\$ 206,544	\$ 100,924	\$ (1,321)
PER UNIT				
Operating income				
- Basic	\$ 0.538	\$ 0.201	\$ 0.695	\$ -
- Diluted	\$ 0.410	\$ 0.201	\$ 0.686	\$ -
Net income (loss)				
- Basic	\$ 0.161	\$ 0.039	\$ 0.090	\$ (0.002)
- Diluted	\$ 0.157	\$ 0.038	\$ 0.089	\$ (0.002)

Quarterly Analysis (1) (2) (3)

	2006	
	Q2	Q1
Total revenue	\$ 17,660	\$ 6,544
Operating income	\$ -	\$ -
Net income (loss)	\$ 15,458	\$ (5,684)
PER UNIT		
Operating income		
- Basic	\$ -	\$ -
- Diluted	\$ -	\$ -
Net income (loss)		
- Basic	\$ 0.020	\$ (0.012)
- Diluted	\$ 0.019	\$ (0.012)

Notes:

1. The inception date of Temple REIT as a publicly-listed company on the TSX Venture Exchange occurred on October 1, 2006, pursuant to a Plan of Arrangement between Temple REIT and HPVC Inc., whereby Temple REIT acquired all of the common shares of HPVC Inc. in exchange for Temple REIT trust units, on a ten to one basis. HPVC Inc. was incorporated on August 5, 2005 and commenced active operations on January 17, 2006.
2. On October 1, 2006, upon the completion of the Plan of Arrangement, which encompassed the transfer of all of the assets and liabilities of HPVC Inc. to Temple REIT and the acquisition of the shares of TGMS, the Trust assumed control of the operations of the Temple Gardens Hotel.
3. The operating results for Temple REIT, prior to October 1, 2006, reflect the operations of HPVC Inc. The operating results for the first quarter of 2006 reflect the operations of HPVC Inc. for the period from January 17, 2006 to March 31, 2006. During the period from January 17, 2006 to September 30, 2006, HPVC Inc. did not have any revenue or expenses, aside from interest income of \$41,762 and professional and other fees of \$33,309. For comparative purposes, the Per Unit amounts prior to October 1, 2006 have been adjusted to reflect the exchange of ten common shares of HPVC Inc. for one unit.

Comparative Analysis

A summary of operating results by quarter, commencing in the first quarter of 2006, is provided in the chart above. As disclosed in the notes to the chart, Temple REIT did not assume control of the operations of the Temple Gardens Hotel until October 1, 2006. Prior to October 1, 2006, Temple REIT existed as a capital pool company known as "HPVC Inc."

Given the limited transactions of HPVC Inc. prior to October 1, 2006, it is not meaningful to undertake an analysis of the six month results for 2007, compared to the corresponding period in the prior year. Accordingly, this report focuses on an analysis of the operating results for the second quarter of 2007, compared to the first quarter of 2007 and on an analysis of the "same property" results for the first and second quarter of 2007.

Net Income

As disclosed in the following chart, Temple REIT generated net income of \$1,421,241 during the second quarter of 2007, compared to \$206,544, during the first quarter of 2006. The increase in net income mainly reflects an increase in operating income of \$3,694,533 partially offset by an increase in financing expense and amortization.

Analysis of Net Earnings

	Six Months Ended	Three Months Ended		Increase (Decrease)
	June 30, 2007	June 30, 2007	March 31, 2007	
Hotel revenue				
Room	\$ 9,548,564	\$ 7,698,841	\$ 1,849,723	\$ 5,849,118
Other	<u>2,421,303</u>	<u>1,324,070</u>	<u>1,097,233</u>	<u>226,837</u>
Total hotel revenue	11,969,867	9,022,911	2,946,956	6,075,955
Interest and other income	<u>831,308</u>	<u>499,555</u>	<u>331,753</u>	<u>167,802</u>
Total revenue	12,801,175	9,522,466	3,278,709	6,243,757
Operating expenses	<u>6,972,908</u>	<u>4,761,066</u>	<u>2,211,842</u>	<u>2,549,224</u>
Operating income	5,828,267	4,761,400	1,066,867	3,694,533
Finance expense	2,654,749	2,153,294	501,455	1,651,839
Trust expense	308,766	187,331	121,435	65,896
Amortization	1,083,414	908,668	174,746	733,922
Provision for taxes	<u>153,553</u>	<u>90,866</u>	<u>62,687</u>	<u>28,179</u>
Net income	<u>\$ 1,627,785</u>	<u>\$ 1,421,241</u>	<u>\$ 206,544</u>	<u>\$ 1,214,697</u>

Operating Income

During the second quarter of 2007, the operating income of Temple REIT increased by \$3,694,533 or 346%, compared to the first quarter of 2007. The increase reflects mainly reflects the acquisition of six additional properties between March 23, 2007 and April 30, 2007

Revenue

Hotel Revenue

During the second quarter of 2007, Temple REIT generated total hotel revenue of \$9,022,911, comprised of \$7,698,841 in room revenue and \$1,324,070 in other hotel revenue.

Room Revenue Analysis - Entire Portfolio

	Three Months Ended	Three Months Ended
	June 30, 2007	March 31, 2007
Occupancy level	79.08 %	73.50 %
Average daily room rate	\$ 171.11	\$ 147.53
RevPar	\$ 135.19	\$ 108.39

The three months ended March 31, 2007 room revenue analysis calculations only reflect the results of Temple Gardens Mineral Spa.

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

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

Room Revenue - Entire Portfolio

For the three months ended June 30, 2007, Temple REIT generated room revenue of \$7,698,841, compared to \$1,849,723 during the first quarter of 2007. In general, the increase in revenue reflects the acquisition of six additional properties between March 23, 2007 and April 30, 2007.

Overall Rev Par increased by \$26.80 per occupied room mainly due to the fact that the average daily room rate for the portfolio of new hotels is higher than the average daily room rate of Temple Gardens.

Other Hotel Revenue

Other hotel revenue includes food and beverage revenue of \$688,788, spa revenue of \$513,521 and parking and gift shop revenue of \$121,761.

During the second quarter of 2007, "Other hotel revenue" increased by \$226,837 or 20.68%, compared to the first quarter of 2007. In general, the increase reflects an increase in spa, food and beverage and gift shop revenues at Temple Gardens. In total, Temple Gardens accounts for 88% of "Other hotel revenue" for the second quarter of 2007. The remaining amount is mainly attributable to the Clearwater Hotel.

Interest and Other Income

Interest and other income consists of interest income on the excess cash reserves of the Trust, interest income on a mortgage loan receivable, interest income on the operating cash balances of the hotel properties and miscellaneous hotel income.

For the three months ended June 30, 2007, "Interest and other income" amounted to \$499,555, compared to \$331,753 during the first quarter of 2007. In general, the increase in interest and other income reflects the acquisition of six additional properties between March 23, 2007 and April 30, 2007.

The mortgage loan receivable pertains to a \$2 Million loan which Temple REIT provided to a hotel which is considered to be a potential property acquisition. The loan bears interest at 10% and matures on October 1, 2007.

Operating Expenses

General

For the three months ended June 30, 2007, "Operating expenses" increased by \$2,549,224 or 115.25% compared to the first quarter of 2007. In general, the increase reflects the acquisition of six additional properties between March 23, 2007 and April 30, 2007.

As reflected in the following summary, the most significant expense increase occurred in the "cost of sales and administrative" cost category.

Operating Expenses

	Three Months Ended		
	June 30, 2007	March 31, 2007	Increase (Decrease)
Cost of sales and administrative	\$ 2,586,602	\$ 1,285,318	\$ 1,301,284
Marketing, utilities and maintenance	1,335,242	601,181	734,061
Rent, property taxes, insurance and fees	<u>839,219</u>	<u>325,343</u>	<u>513,876</u>
Total	<u>\$ 4,761,063</u>	<u>\$ 2,211,842</u>	<u>\$ 2,549,221</u>

Operating Profit Margin

The operating profit margin for the entire portfolio of hotel properties was 50.01% in the second quarter of 2007, compared to 32.5% in the first quarter of 2007. The profit margin is calculated by dividing operating income by total revenues.

The increase in the operating profit margin reflects the acquisition of the six hotels and change in the revenue mix as a result of the acquisition of the additional properties. The revenue generated by the six hotels acquired is virtually all room revenue which typically has a much higher margin than food, beverage and other hotel revenue.

Financing Expense

The total financing expense for the second quarter of 2007 of \$2,153,294 consists of interest expense of \$1,677,041 in regard to the loans which are pledged against the assets or revenues of the hotel properties, financing expense of \$371,444 in regard to the Series A convertible debenture offering which was completed on February 15, 2007 and amortization of transactions costs of \$104,808.

In comparison to the first quarter of 2007, financing expense increased by \$1,651,839. The increase is attributable to an increase in the mortgage loan debt of the Trust, as a result of the acquisition of six additional properties between March 23, 2007 and April 30, 2007. The increase also reflects the accrual of interest expense on the convertible debentures for the entire second quarter of 2007, compared to a partial accrual period in the first quarter of 2007.

Trust Expense

The trust expense of Temple REIT consists of asset management fees, professional and legal fees, unit-based compensation expense as well as fees charged by the TSX Venture Exchange.

Trust expense increased by \$65,896 or 35.17%, compared to the first quarter of 2007, mainly due to the unit-based compensation expense associated with the May 2007 unit options (see pg. 17), as well as an increase in professional fees.

Amortization

In comparison to the first quarter of 2007, amortization charges increased by \$733,922. The increase is mainly due to the acquisition of six additional properties between March 23, 2007 and April 30, 2007.

Same Property Results

As Temple Gardens Hotel is the only hotel which was owned by the Trust for the entire first quarter of 2007, the "same property" analysis consists exclusively of an analysis of the operating results of the Temple Gardens Hotel.

Room Revenues - Temple Gardens Hotel

Room Revenue Analysis - Temple Gardens Hotel

	Three Months Ended June 30, 2007	Three Months Ended March 31, 2007
Occupancy level	74.50 %	73.50 %
Average daily room rate	\$ 146.43	\$ 147.53
RevPar	\$ 109.09	\$ 108.39

For the three months ended June 30, 2007, the Temple Gardens Hotel achieved an occupancy level of 74.5% and an average daily room rate of \$146.43. The revenue per occupied room ("RevPar") was \$109.09. In comparison to the first quarter of 2007, the RevPar of the Temple Gardens Hotel for the second quarter of 2007 increased by \$0.70 or 0.65%. The increase reflects a slight improvement in occupancy and a small decrease in the average daily room rates.

Total Revenues and Operating Income - Temple Gardens Hotel

Analysis of Revenues and Operating Income - Temple Gardens Hotel

	Three Months Ended		Increase(Decrease)	
	June 30, 2007	March 31, 2007	Amount	%
Total revenue	<u>\$ 3,139,005</u>	<u>\$ 2,988,028</u>	<u>\$ 150,977</u>	<u>5.06</u>
Operating income	<u>830,166</u>	<u>814,109</u>	<u>16,057</u>	<u>1.98</u>

As disclosed in the preceding analysis, the total revenue of the Temple Gardens Hotel increased by 4.81% in the second quarter of 2007, compared to the first quarter of 2007, while operating income increased by 1.98%, during the same period.

The improvement in revenue reflects the increase in RevPar as noted above. The proportionally lower increase in operating income reflects a modest decrease in the profit margin during the second quarter of 2007.

ANALYSIS OF CASH FLOWS

Operating Activities

Cash from Operating Activities

During the second quarter of 2007, Temple REIT generated cash from operating activities of \$3,015,620. After excluding the change in non-cash operating items of \$425,915, the cash flow from operating activities for the second quarter of 2007 was \$2,589,705.

In comparison to the first quarter of 2007, the cash flow of the Trust, prior to changes in non-cash operating items, increased by \$2,144,095 or 481%. The increase mainly reflects the increase in the net income of the Trust, excluding amortization expense and other non-cash changes to income.

For the six months ended June 30, 2007, Temple REIT generated cash from operating activities of \$3,035,315, after excluding the change in non-cash operating items.

Distributable Income

Distributable income is a non-GAAP measurement of cash flows which is commonly used by real estate investment trusts to facilitate the determination of distributions to the Unitholders. For Temple REIT, distributable income is equal to the cash provided by operating activities, excluding the changes in non-cash operating items. Accordingly, the distributable income of Temple REIT, for the three month and six month periods ended June 30, 2007, is \$2,589,705 and \$3,035,315, respectively.

On a per unit basis, distributable income is \$0.428 per unit for the six months ended June 30, 2007, \$0.293 per unit for the three months ended June 30, 2007 and \$0.084 per unit for the three months ended March 31, 2007. Please refer to the following chart.

Distributable Income	<u>Six Months Ended June 30, 2007</u>	<u>Three Months Ended June 30, 2007</u>	<u>Three Months Ended March 31, 2006</u>
Cash provided from operating activities	\$ 3,195,720	\$ 3,015,620	\$ 180,100
Deduct: Changes in non-cash operating activities	<u>(160,405)</u>	<u>(425,915)</u>	<u>265,510</u>
 Distributable income	 <u>\$ 3,035,315</u>	 <u>\$ 2,589,705</u>	 <u>\$ 445,610</u>
 Per unit			
- basic	\$0.428	\$0.293	\$0.084
- diluted	\$0.426	\$0.223	\$0.083

Financing Activities

Summary

During the second quarter of 2007, the net cash flow provided by financing activities amounted to \$49,087,987. Financing activities consisted primarily of mortgage loan proceeds and distributions.

Proceeds of mortgage loan financing

During the second quarter of 2007, mortgage loan proceeds amounted to \$50.7 Million, consisting of a \$44.5 Million "wrap-around" first mortgage loan in regard to the acquisition of the Merit and Nomad hotel properties in April 2007 and a \$6.2 Million interim first mortgage loan for Chateau Nova. The proceeds of the interim first mortgage loan for Chateau Nova served to pay the remaining balance of the purchase price, following the acquisition of the property on March 23, 2007.

The wrap-around first mortgage loan matured on July 15, 2007 and was extended through September 7, 2007. Mortgage extension fees of \$1,284,712 were incurred. Management has a commitment from CDPQ Mortgage Corporation to refinance the loan on or before that date. The extension fee will be recorded as a financing expense in the third quarter of 2007.

Distributions

The current policy of Temple REIT is to issue distributions which are a minimum of 85% of the annual distributable income of the Trust. Distributions are paid on a monthly basis.

The total distribution declared for the second quarter of 2007 was \$1,326,984, representing a monthly distribution of \$0.05 per unit or \$0.60 per unit on an annual basis. The June 2007 distribution of \$442,446 was paid on July 15, 2007.

The second quarter distribution is equal to 51.2% of the second quarter distributable income. The cumulative distribution for the six months ended June 30, 2007 of \$2,293,660 is equal to 75.6% of distributable income for the six month period.

Investment Activities

Summary

During the second quarter of 2007, the net cash outflow in regard to investment activities amounted to approximately \$77,672,980. The investment activities consisted primarily of transactions related to the acquisition of hotel properties.

Property Acquisitions

On April 30, 2007, Temple REIT completed the acquisition of the Merit and Nomad hotel properties at a total purchase price of \$68.5 Million. The cash component of the acquisition was \$25,033,628.

Cash Flow Summary

After providing for the net cash inflow from operating activities and the opening cash balance of \$29,593,628, Temple REIT completed the second quarter of 2007 with a cash balance of \$4,024,255.

CAPITAL RESOURCES AND LIQUIDITY

Capital Structure

<u>Capital Structure</u>	<u>June 30, 2007</u>
Long-term debt	\$115,322,573
Convertible debentures (net of transaction costs)	12,333,449
Equity component of convertible debentures	2,624,387
Equity raised - trust units (net of issue costs)	<u>38,726,899</u>
Total capitalization	<u>\$169,007,308</u>
Trust units:	
Authorized - unlimited	
Issued	
June 30, 2007 - 8,848,920	
August --, 2007	

Long-Term Debt

June 30, 2007 - \$115,322,573
December 31, 2006 - \$18,995,485

The balance of mortgage loans payable, as of June 30, 2007, excluding transaction costs, increased by \$96,327,088, compared to the balance as of December 31, 2006. The increase is comprised of the following amounts:

First mortgage loans assumed on new property acquisitions	\$ 86,700,000
Second mortgage loans assumed on new property acquisitions	10,000,000
Principal repayments	<u>(372,912)</u>
	<u>\$ 96,327,088</u>

In total, mortgage loans represent 96.5% of the total long-term debt. The remaining portion of the long-term debt consists almost entirely of a \$4,014,071 loan which was obtained in 2002 in order to fund the development of the casino complex.

The ratio of mortgage loans payable, compared to the appraised value of the property portfolio, is 60.05%, as of June 30, 2007.

Convertible Debentures

As of June 30, 2007, the face value of the 7.5% Series A convertible debentures is \$15,680,000. Based on the current face value, interest payments amount to \$1,176,000, payable in semi-annual instalments of \$588,000 on March 31st and September 30th.

The debentures are convertible at the option of the holder, at any time prior to the maturity date or, if applicable, the redemption date, at a per unit price of \$5.75, subject to adjustment for certain conditions. The debentures are redeemable by Temple REIT, in year four and five only, at a price equal to the principal amount plus accrued and unpaid interest, subject to certain conditions. The debentures mature March 31, 2012.

In accordance with generally accepted accounting principles, the total amount of convertible debentures, as disclosed in the financial statements, is divided into debt and equity components based on the present value of future interest and principal payments. The amount by which the total present value exceeds the face value of the convertible debentures is referred to as "accretion". The accretion of the debt component, which serves to increase the carrying value of the debt component, is included in financing expense. As accretion is a "non-cash" transaction, the accretion of the debt component is added back for purposes of calculating operating cash flows and distributable income.

As of June 30, 2007, the total present value of the convertible debentures is \$15,794,069, representing an increase of \$77,444, compared to the face value, due to accretion. The debt and equity component for the debentures is \$13,169,682 and \$2,624,387, respectively.

Trust Units

The following is a summary of the units which have been issued by TREIT during the six month period ended June 30, 2007.

Issue Date	Description	Units Issued	Equity Raised
Units outstanding January 1, 2007		2,345,837	\$ 8,620,218
February 15, 2007	Public offering	5,800,000	29,000,000
March 14, 2007	Over allotment option	696,000	3,480,000
May 25, 2007	Unit options converted	7,083	21,249
	Issue costs		<u>(2,394,568)</u>
Units outstanding, June 30, 2007		<u>8,848,920</u>	<u>\$ 38,726,899</u>

Unit Options

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

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

On May 1, 2007, Temple REIT issued a total of 98,000 options to the four independent Trustees, the Chief Financial Officer and a management employee of Shelter Canadian to purchase units at a price of \$5.00 per unit. The options are exercisable immediately.

The accounting policy of Temple REIT provides for the estimated fair value of options which are issued under the unit option plan to be expensed over the vesting period of the options and for expense to be recorded as "unit-based compensation". Unit-based compensation expense is included in trust expense in the Consolidated Statement of Operations. As unit-based compensation is a "non-cash" expense, it does not impact the operating cash flows of the Trust. Options which are issued to agents in conjunction with private placements or private offerings of trust units are recorded as unit issue costs and charged to equity.

The estimated cost of all of the options and warrants which were issued in 2006 was charged to the equity of the Trust as a cost of issuing units. As the options which were issued in May 2007 were exercisable immediately, the estimated fair value of the options, in the amount of \$43,306, is being fully expensed during the eight month period from May 1, 2007 to December 31, 2007.

Capital Requirements

General

On an annual basis, Temple REIT is generating sufficient cash from operating activities to fully fund operating costs and mortgage loan debt service costs for its entire portfolio of hotel properties, as well as interest payable on convertible debentures and trust expenses.

Temple REIT requires other sources of capital in order to fund property acquisitions and capital improvements.

Contractual Debt and Lease Obligations

A summary of the long-term debt and operating lease obligations of Temple REIT for the remainder of 2007 and for each of the next five years and thereafter, is provided in the following chart.

Summary of Contractual Obligations-cash					
<u>Payments Due By Period</u>	<u>Total</u>	<u>< 1 year</u>	<u>1 - 3 years</u>	<u>4 - 5 years</u>	<u>> 5 years</u>
Long-term debt	\$115,322,573	\$ 59,990,343	\$ 45,474,645	\$ 6,383,741	\$ 3,473,844
Operating leases	<u>1,956,252</u>	<u>212,552</u>	<u>747,698</u>	<u>703,060</u>	<u>292,942</u>
Total	\$117,278,825	\$ 60,202,895	\$ 46,222,343	\$ 7,086,801	\$ 3,766,786

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

Capital Commitments - Property Acquisitions

As of June 30, 2007, the purchase price of all property acquisitions has been fully paid.

Deposits on potential acquisitions amount to \$275,000, as of June 30, 2007.

Capital Commitments

Aside from upgrades which are completed in the normal course of annual operations, there are no significant capital improvements projected for the remainder of 2007 for the existing portfolio of hotel properties.

In 2008, TREIT intends to expand the Nomad Hotel with an addition of up to 80 new rooms and expand the premises for the Keg Restaurant.

Sources of Capital

As of June 30, 2007, the cash balance of Temple REIT was \$4.02 million, while the working capital balance was \$4.02 Million, excluding the current portion of long-term debt. In the short term, the equity component of new property acquisitions is expected to be funded from working capital and from the upward refinancing of under-leveraged properties. In July 2007, an additional \$5.14 Million first mortgage loan was arranged for Temple Gardens.

In the longer term, it is anticipated that additional debenture or trust unit offerings will serve as the primary source of investment capital.

Trends

During the third quarter of 2007, Temple REIT is expected to achieve continued growth in income and cash flows, primarily as a result of the inclusion of the Merit and Nomad hotel properties for a full three month period. The growth in operating income and cash flows is expected to be offset by an increase in financing expense with the upward refinancing of under-leveraged properties and the extension fees on the Merit/Nomad acquisition.

RELATED PARTY TRANSACTIONS

Shelter Canadian Properties Limited ("Shelter Canadian")

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

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

During the second quarter of 2007, Shelter Canadian received asset management fees of \$150,521.

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

OPERATING RISKS AND UNCERTAINTIES

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

The key risks include the following:

Hotel Industry

Specific risks associated with hotel ownership and operations include:

- cyclical downturns arising from changes in general and local economic conditions;
- changes in the level of business and commercial travel and tourism;
- increases in the supply of accommodations in local markets which may adversely affect the results of operations;
- competition from other hotels;
- the recurring need for renovation, refurbishment and improvement of hotel properties;
- changes in wages, prices, energy costs and construction and maintenance costs that may result from inflation, government regulations, changes in interest rates or currency fluctuations;
- availability of financing for operating or capital requirements;
- seasonal fluctuations in hotel operating income produced throughout the year;

- increases in operating costs due to inflation which may not necessarily be offset by increase room rates;
- increases in expenses of travel, particularly automotive travel; and
- other factors, including medical concerns related to travelling to Canada, acts of terrorism, natural disasters, extreme weather conditions and labour shortages, work stoppages or disputes.

Fluctuations in Cash Distributions

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

Public Market Risk

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

Concentration of Temple REIT's Portfolio in One Market

The property portfolio of Temple REIT has significant exposure to the Fort McMurray, Alberta market. As of the date of this report, Temple REIT has seven hotel properties in its real estate portfolio, five of which are located in Fort McMurray, Alberta. The five properties represent approximately 82% of the total acquisition cost of the portfolio and approximately 65% of the total hotel rooms.

Changes to Tax Treatment of Trusts

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

On June 22, 2007, new legislation relating to, among other things, the federal income taxation of publicly traded income trusts (the "New SIFT Rules") was enacted. Under the New SIFT Rules, certain distributions from a "specified investment flow-through" trust (a "SIFT") will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. However, distributions paid by a SIFT as a return of capital will generally not be subject to the tax.

The New SIFT Rules provide that a SIFT which was publicly listed prior to November 1, 2006 (an "Existing Trust") will become subject to the tax on distributions commencing in the 2011 taxation year. However, an Existing Trust may become subject to this tax prior to 2011 if its equity capital increases beyond certain limits measured against the market capitalization of the Existing Trust at the close of trading on October 31, 2006. Based on its October 31, 2006 market capitalization, Temple REIT may increase its equity capital by \$50 Million for each of the years ending December 31, 2008, December 31, 2009 and December 31, 2010 (the "Safe Harbour Limit"). To date, Temple REIT's equity capital has not increased beyond the Safe Harbour Limit.

The New SIFT Rules do not apply to a "real estate investment trust" (a "Qualifying REIT") that meets prescribed conditions relating to the nature of its income and investments (the "REIT Conditions"). In the opinion of management, the Trust does not currently satisfy the prescribed conditions. Accordingly, Temple REIT is subject to the New SIFT Rules and, subject to earlier application if it increases its equity capital beyond its Safe Harbour Limit, Temple REIT will be subject to the tax on distributions commencing in 2011. Prior to 2011, Temple REIT will consider its alternatives, including restructuring its affairs to qualify as a Qualifying REIT. However, no assurances can be given that any reorganization can or will be implemented before 2011, or that any such reorganization, if implemented, would not result in material costs or other adverse consequences to Temple REIT and its Unitholders. In addition, no assurance can be given that Temple REIT's equity capital will not increase beyond the Safe Harbour Limit prior to 2011.

Relationship with Shelter Canadian

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

Reliance on Key Personnel

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

Other Risks

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

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

CRITICAL ACCOUNTING ESTIMATES

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

Financial statement items which encompass estimates include the following:

- amortization of property and equipment - amortization expense is based on the estimated useful life of the property and equipment;
- carrying amount of goodwill - the carrying amount of goodwill is periodically compared to its estimated fair value in order to determine if there has been any impairment in value; and

- unit-based compensation expense - unit-based compensation expense is based on the estimated fair value of the applicable units and warrants using the Black-Scholes option pricing method.

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

CHANGES IN ACCOUNTING POLICY

Effective January 1, 2007, Temple REIT adopted the new GAAP accounting policies for "Financial Instruments, Recognition and Measurement" (Handbook Section 3855), for "Comprehensive Income and Equity" (Handbook Sections 1530 and 3251) and for "Hedges" (Handbook Section 3865).

This new policy for Financial Instruments, Recognition and Measurement establishes standards for the recognition and measurement of all financial instruments, provides a character-based definition of a derivative financial instrument and provides criteria to be used to determine when a financial instrument should be recognized and when a financial instrument is to be extinguished.

The new policy for Comprehensive Income and Equity establishes standards for the presentation of equity and changes in equity during the reporting period.

The new accounting policies are described, at length, in note 2 of the second quarter financial statements. The main impact of the new accounting policies, is the accounting treatment of transaction costs for mortgage loans and convertible debentures.

Prior to January 1, 2007, transaction costs related to mortgage loans and convertible debentures were recorded as a deferred charge and amortized over the term of the mortgage/debenture. In accordance with the new accounting policy, transaction costs related to mortgage loans and convertible debentures are recorded as a reduction to the carrying value of the debt and amortized over the term of the debt. As a result of the change in accounting policy, the balance of deferred charges as of January 1, 2007 was reclassified as a reduction of mortgage loans payable. Transaction costs related to the convertible debenture offering in February 2007 serve to reduce the carrying value of debenture debt.

FINANCIAL INSTRUMENTS

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

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

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

TAXATION

Taxation of Temple REIT

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

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

Taxation of Unitholders

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

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

All of the cash distributions which have been paid by Temple REIT from December 2006 to June 30, 2007 have represented a reduction in the cost base of the units.

CONTROLS AND PROCEDURES

Internal Controls Over Financial Reporting

No changes were made to the design of the internal controls over financial reporting during the six months ended June 30, 2007 that have materially affected, or are reasonably likely to materially affect, the effectiveness of the internal control system.

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

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

ADDITIONAL INFORMATION

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

APPROVAL BY TRUSTEES

The content of the 2007 Second Quarter Report of Temple REIT and the delivery of the report to the Unitholders have been approved by the Trustees.

TEMPLE REAL ESTATE INVESTMENT TRUST
August 27, 2007

UNITHOLDER INFORMATION

Trustees and Officers

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

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

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

Asset Manager of the Trust

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

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

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Listing

TSX Venture Exchange
Unit trading symbol: TR.UN
Debenture trading symbol: TR.DB.A

Unitholder and Investor Contact

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