



MANAGEMENT'S DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2007

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REPORT TO UNITHOLDERS

Since its inception as a real estate investment trust in October 2006, Temple REIT has focused on acquiring quality hotel properties with strong cash flow capabilities and a high level of growth potential. During the third quarter of 2007, the hotel portfolio has, once again, fully met all expectations, achieving an increase in operating income of approximately \$1.08 Million or \$0.12 per unit, compared to the second quarter of the year. Occupancy levels and average daily room rates continue to be maintained at favourable levels, as reflected in the following chart:

	Three Months Ended		Industry Averages*	
	September 30, 2007	June 30, 2007	Forecast 2007	Actual 2006
Occupancy level	76%	79%	66%	65%
Average daily room rate	\$175	\$171	\$127	\$123
RevPar	\$131	\$135	\$84	\$80

* From the Hotel Association of Canada Fact Sheet.

The operating results for the third quarter of 2007 reflect a full quarter of operating income for four of the hotels in Fort McMurray, Alberta (the "Merit/Nomad" hotels) which were acquired by Temple REIT on April 30, 2007.

Rising oil prices have sparked billions of dollars of new development activity in Fort McMurray's oil sands and created an economic boom in the area, including a very strong demand for hotel accommodations. For the four-year period ending in 2010, the oil sands industry is projecting an average annual population increase in Fort McMurray of 9% and a doubling of permanent jobs. As a result, Temple REIT's hotel portfolio in Fort McMurray, including the 150-room Clearwater Suites Hotel and the Merit/Nomad hotels (333 rooms), is expected to continue to generate favourable operating results for the foreseeable future. During the third quarter of 2007, the operating profit margin of the Fort McMurray hotel portfolio was 62.6%. Temple REIT has also contracted to acquire its fifth hotel property in Fort McMurray. The acquisition of the 83-room hotel, which is known as the Advantage West Inn and Suites, is expected to be completed on January 31, 2008.

As previously reported, the Trust experienced a decrease in net income during the third quarter of 2007, compared to the second quarter of the year, as a result of the non-recurring financing expenses of approximately \$1.4 Million which were incurred in regard to the completion of financing arrangements for the Merit/Nomad hotel acquisition. After excluding the non-recurring financing expense, net income for the third quarter of 2007 increased by approximately \$523,000 or 36.8%, compared to the second quarter of the year. For the nine months ended September 30, 2007, the net income of the Trust was approximately \$2.2 Million, while distributable income was approximately \$4 Million, or approximately \$0.3 Million in excess of the total distributions declared for the period. The ratio of distributions declared to distributable income, for the nine-month period ending September 30, 2007, was 97%.

During the third quarter of 2007, the capital appreciation potential of the hotel portfolio was also identified as a result of the upward refinancing of the Temple Gardens Mineral Spa Resort Hotel in Moose Jaw, Saskatchewan. During the upward refinancing process, the Temple Gardens Hotel was appraised at a value of \$33 Million, representing an increase of \$7 Million or 27%, in comparison to the October 2006 acquisition cost. Due to a number of factors, including the favourable economic conditions in Fort McMurray and the unique amenities offered by the Temple Gardens Hotel in Moose Jaw, the potential for ongoing growth in the value of all of the properties in the Temple REIT portfolio remains strong. In terms of unit values, Temple REIT closed at a price of \$5.61 per unit on November 26, 2007, representing an increase of 12.2%, in comparison to the opening trading price of the units on October 4, 2006.

Operating income of the Fort McMurray Hotel portfolio has continued to grow during the fourth quarter. In light of the positive earnings outlook for Temple REIT, the Board of Trustees has approved a 33% increase in the monthly cash distribution to the Unitholders from \$0.06 per month, or \$0.72 annually, to \$0.08 per month, or \$0.96 annually, commencing with the distribution for January 2008, which is to be paid on February 15, 2008.

Over the course of one year, Temple REIT has delivered solid results to the Unitholders and has demonstrated its strong cash flow generating capabilities. The existing portfolio of hotel properties will provide a strong foundation for future growth and the outlook for ongoing gains in unit values remains positive. The Board of Trustees and the management team of Shelter Canadian Properties Limited remain fully committed to the long-term success of the Trust

TEMPLE REAL ESTATE INVESTMENT TRUST

A handwritten signature in cursive script, appearing to read "A.C. Thorsteinson".

ARNI C. THORSTEINSON, CFA
President & Chief Executive Officer
November 26, 2007

Unitholder Returns

	<u>Nine Months Ended September 30, 2007</u>	<u>349 Days Ended December 31, 2006</u>
Distribution per unit	\$0.46	\$0.14
Opening unit price	\$4.59	\$5.00
Closing unit price	\$5.85	\$4.95
Annualized cash distribution per unit - (effective September 2007)	\$0.72	
Closing unit price - November 26, 2007	\$5.61	
Current yield	12.8%	
Number of units outstanding - September 30, 2007	8,952,954	
- November 26, 2007	8,991,378	

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

Property Portfolio - September 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>26,102,670</u>	October 2006	<u>179</u>
Total		<u>\$ 164,102,670</u>		<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 by the assumption of long-term debt of \$12,470,407, representing a total acquisition cost of \$26,102,670.

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.

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 centre 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 22, 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 Merit Inn and Suites was acquired by Temple REIT on April 30, 2007. 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 totaling 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 Merit Hotel was acquired by Temple REIT on April 30, 2007. 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 totaling approximately 2,500 square feet, indoor pool and whirlpool and fitness facilities.

Nomad Hotel

The Nomad Hotel was acquired by Temple REIT on April 30, 2007. 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 Nomad Suites was acquired by Temple REIT on April 30, 2007. 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.

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 September 30, 2007 and with reference to the 2007 First and Second Quarter Reports 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 THIRD QUARTER HIGHLIGHTS

Acquisition and Development

- Quarter ending portfolio consists of seven hotels properties, comprised of 742 suites.
- Subsequent to September 30, 2007, Temple REIT entered into an agreement to purchase an 83-room hotel property in Fort McMurray, Alberta at a price of \$19.4 Million.

Financial

Third quarter of 2007, compared to second quarter of 2007:

- Operating income increased by \$1.08 Million, or \$0.12 per unit
- Excluding non-recurring financing expenses of approximately \$1.4 Million, or \$0.16 per unit:
 - Net income increased by \$0.52 Million, or \$0.06 per unit.
 - RevPar was maintained at a very favourable level of \$131.59, compared to \$135.19 in the second quarter of 2007.

Capital Structure

- Financed \$49.6 Million of mortgage debt.
- Mortgage loan debt to current value ratio is under 60% at September 30, 2007.

Financial and Operating Statistics

	Nine Months Ended September 30, 2007		Three Months Ended September 30, 2007		Three Months Ended June 30, 2007	
CASH DISTRIBUTIONS						
Amount - total	\$3,717,635		\$1,423,975		\$1,326,984	
- per unit	\$0.46		\$0.16		\$0.15	
KEY PERFORMANCE INDICATORS						
Operations						
Occupancy *	78.12%		75.73%		79.08%	
ADR *	\$172.57		\$175.87		\$171.11	
RevPar *	\$134.06		\$131.59		\$135.19	
Operating profit margin *	49.27%		53.66%		50.01%	
Operating Results						
Total revenue	\$23,686,560		\$10,885,385		\$9,522,466	
Operating income	\$11,668,514		\$5,840,247		\$4,761,400	
Net income	\$2,171,603		\$543,818		\$1,421,241	
Cash Flows						
Cash flow from operating activities/Distributable income	\$3,819,863		\$645,393		\$3,015,620	
Financing						
Weighted average interest rate of long-term debt *	6.43%		6.43%		6.97%	
PER UNIT AMOUNTS						
	<u>Basic</u>	<u>Diluted</u>	<u>Basic</u>	<u>Diluted</u>	<u>Basic</u>	<u>Diluted</u>
Net income	\$0.282	\$0.281	\$0.061	\$0.061	\$0.161	\$0.157
Distributable income *	\$0.497	\$0.494	\$0.073	\$0.073	\$0.341	\$0.260

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 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 acquisition 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 - September 30, 2007

As of September 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 22, 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

Temple Gardens is the only hotel which was owned by Temple REIT prior to 2007.

Contracted Property Acquisitions - Subsequent to September 30, 2007

In November 2007, Temple REIT entered into an agreement to acquire the Advantage West Inn and Suites, a four-storey hotel property located in Fort McMurray, Alberta. The hotel which opened in July 2004, contains 83 rooms, meeting facilities, sports bar, business centre, fitness centre and continental breakfast area. The purchase price of \$19.4 Million will be financed with a first mortgage loan in the amount of \$11.64 Million with an estimated interest rate of 6.58% and a 5 year term, with the balance paid in cash. The acquisition is scheduled to close on January 31, 2008.

RESULTS OF OPERATIONS

Summary of Quarterly Results

Quarterly Analysis (1) (2) (3)

	2007			2006
	Q3	Q2	Q1	Q4
Total revenue	\$ 10,885,385	\$ 9,522,466	\$ 3,278,709	\$ 2,943,520
Operating income	\$ 5,840,247	\$ 4,761,400	\$ 1,066,867	\$ 781,142
Net income	\$ 543,818	\$ 1,421,241	\$ 206,544	\$ 100,924
PER UNIT				
Operating income				
- Basic	\$ 0.659	\$ 0.538	\$ 0.201	\$ 0.695
- Diluted	\$ 0.656	\$ 0.410	\$ 0.201	\$ 0.686
Net income				
- Basic	\$ 0.061	\$ 0.161	\$ 0.039	\$ 0.090
- Diluted	\$ 0.061	\$ 0.157	\$ 0.038	\$ 0.089

	2006		
	Q3	Q2	Q1
Total revenue	\$ 17,558	\$ 17,660	\$ 6,544
Operating income	\$ -	\$ -	\$ -
Net income (loss)	\$ (1,321)	\$ 15,458	\$ (5,684)
PER UNIT			
Operating income			
- Basic	\$ -	\$ -	\$ -
- Diluted	\$ -	\$ -	\$ -
Net income (loss)			
- Basic	\$ (0.002)	\$ 0.020	\$ (0.012)
- Diluted	\$ (0.002)	\$ 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 nine 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 third quarter of 2007, compared to the second quarter of 2007.

General

At the end of the second quarter of 2007, the expectation for the third quarter was that Temple REIT would achieve continued growth in operating income and cash flows as a result of the inclusion of the operations of the Merit and Nomad hotel properties for a full three month period. The growth in operating income and cash flows was expected to be offset by an increase in financing expense as a result of the upward refinancing of under-leveraged properties and the non-recurring financing expenses on the extension of the "wrap-around" first mortgage loan for the Merit/Nomad hotel properties.

Net Income

Overall, operating results were generally in accordance with expectations, with Temple REIT achieving an increase in operating income of \$1,078,847 or 22.7% compared to the second quarter of 2007, while net income decreased by \$877,423 or 61.7%. The decrease in net income mainly reflects an increase in financing expense of \$1,730,916, as well as an increase in amortization expense of \$160,813.

The third quarter increase in financing expense includes non-recurring charges of approximately \$1.4 Million in regard to the extension of the interim mortgage loan. After excluding the non-recurring charges, net income increased by \$0.52 Million or 36.8% over the second quarter.

The non-recurring financing expenses of approximately \$1.4 Million also served to decrease cash flow from operating activities during the third quarter of 2007. Specifically, cash flow from operating activities, including non-recurring charges, and before changes in non-cash operating items decreased by \$0.66 Million. Excluding the non-recurring charges, cash flows increased by \$0.74 Million or 28.7% during the third quarter of 2007, compared to the second quarter.

Analysis of Net Earnings

	Nine Months Ended September 30, 2007	Three Months Ended		
		September 30, 2007	June 30, 2007	Increase (Decrease)
Hotel revenue				
Room	\$ 18,831,081	\$ 9,282,517	\$ 7,698,841	\$ 1,583,676
Other	<u>3,644,019</u>	<u>1,222,716</u>	<u>1,324,070</u>	<u>(101,354)</u>
Total hotel revenue	22,475,100	10,505,233	9,022,911	1,482,322
Interest and other income	<u>1,211,460</u>	<u>380,152</u>	<u>499,555</u>	<u>(119,403)</u>
Total revenue	23,686,560	10,885,385	9,522,466	1,362,919
Operating expenses	<u>12,018,046</u>	<u>5,045,138</u>	<u>4,761,066</u>	<u>284,072</u>
Operating income	11,668,514	5,840,247	4,761,400	1,078,847
Finance expense	6,538,959	3,884,210	2,153,294	1,730,916
Trust expense	379,303	70,537	187,331	(116,794)
Amortization	2,152,895	1,069,481	908,668	160,813
Provision for taxes	<u>425,754</u>	<u>272,201</u>	<u>90,866</u>	<u>181,335</u>
Net income	<u>\$ 2,171,603</u>	<u>\$ 543,818</u>	<u>\$ 1,421,241</u>	<u>\$ (877,423)</u>

Operating Income

During the third quarter of 2007, the operating income of Temple REIT increased by \$1,078,847 or 22.7%, compared to the second quarter of 2007. The increase reflects mainly reflects the inclusion of the Merit and Nomad hotels for a full three month period during the third quarter of 2007.

Revenue

Hotel Revenue

During the third quarter of 2007, Temple REIT generated total hotel revenue of \$10,505,233, comprised of \$9,282,517 in room revenue and \$1,222,716 in other hotel revenue.

Room Revenue Analysis - Entire Portfolio

	Three Months Ended September 30, 2007	Three Months Ended June 30, 2007
Occupancy level	75.73 %	79.08 %
Average daily room rate	\$ 175.87	\$ 171.11
RevPar	\$ 131.59	\$ 135.19

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 September 30, 2007, Temple REIT generated room revenue of \$9,282,517, compared to \$7,698,841 during the second quarter of 2007. In general, the increase in revenue reflects the inclusion of the Merit and Nomad properties for a full three month period during the third quarter of 2007.

As disclosed in the chart above, the average room rate increased by \$4.76 during the third quarter of 2007, compared to the second quarter, while the average occupancy level decreased from approximately 79% to approximately 76%. Overall, Rev Par was maintained at a favourable level of \$131.59, compared to \$135.19 in the second quarter of 2007.

The decrease in the average occupancy level in the third quarter is mainly attributable to the Merit/Nomad hotels and reflects a reduction in demand from the business sector during the summer holiday months.

Other Hotel Revenue

Other hotel revenue includes food and beverage revenue of \$599,203, spa revenue of \$500,308 and parking and gift shop revenue of \$123,205.

During the third quarter of 2007, "Other hotel revenue" decreased by \$101,354 or 7.66%, compared to the second quarter of 2007. In general, the decrease reflects a decrease in food and beverage revenues at Temple Gardens. In total, Temple Gardens accounts for 90.7% of "Other hotel revenue" for the third 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 September 30, 2007, "Interest and other income" decreased by \$119,403 compared to the second quarter of 2007. The decrease is mainly due to a decrease in interest income on the overall cash balance of the Trust, as there was a very high level of cash reserves during the first month of the second quarter, prior to the acquisition of the Merit/Nomad hotels.

Operating Expenses

Operating Expenses	Three Months Ended		
	September 30, 2007	June 30, 2007	Increase (Decrease)
Cost of sales and administrative	\$ 2,713,189	\$ 2,586,605	\$ 126,584
Marketing, utilities and maintenance	1,394,978	1,335,242	59,736
Rent, property taxes, insurance and fees	936,971	839,219	97,752
Total	\$ 5,045,138	\$ 4,761,066	\$ 284,072

General

As disclosed in the chart above, "Operating expenses" increased by \$284,072 or 5.97%, for the three months ended September 30, 2007, compared to the second quarter of 2007. The increase in each major cost category mainly reflects the inclusion of the Merit and Nomad properties for a full three month period during the third quarter of 2007.

Operating Profit Margin

The operating profit margin for the entire portfolio of hotel properties was 53.66% in the third quarter of 2007, compared to 50.01% in the second quarter of 2007. The profit margin is calculated by dividing operating income by total revenues.

The increase in the operating profit margin reflects the comparatively high profit margins of the Merit and Nomad properties and the additional 30 day time frame of ownership in the third quarter of 2007, as well as an increase in the profit margin for the Temple Gardens hotel.

Financing Expense

The total financing expense for the third quarter of 2007 of \$3,884,210 consists of financing expense of \$3,380,489 in regard to the mortgages and loans which are secured by the assets or revenues of the hotel properties, financing expense of \$395,277 in regard to the Series A convertible debenture offering which was completed on February 15, 2007 and amortization of transactions costs of \$108,444.

In comparison to the second quarter of 2007, financing expense increased by \$1,730,916. The increase is almost entirely attributable to the mortgage loan component of financing expense and mainly reflects premium interest charges and extension fees of approximately \$1.4 Million which were incurred in regard to the extension of the "wrap-around" first mortgage loan for the Merit and Nomad properties. As disclosed in the second quarter report for 2007, it was necessary to request an extension of the "wrap-around" first mortgage loan, pending the finalization of permanent first mortgage loan financing. The "wrap around" mortgage was discharged on September 27, 2007 or 20 days later than anticipated per the second quarter report. As a result, the premium interest charges and extension charges were approximately \$100,000 higher than previously anticipated.

The remainder of the increase in financing expense mainly reflects an additional month of regular interest expense on the "wrap-around" loan as the loan was in place for three months during the third quarter of 2007, compared to two months in the second quarter.

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.

During the third quarter of 2007, Trust expense decreased by \$116,794 or 62.3%, compared to the second quarter of 2007. The decrease mainly reflects the fact that trust expenses were comparatively high during the second quarter of 2007 as special audit fees and unit-based compensation expense was recorded in the second quarter.

Amortization

In comparison to the second quarter of 2007, amortization charges increased by \$160,813 during the third quarter of the year. The increase mainly reflects an entire quarter of amortization charges for the Merit and Nomad properties.

Same Property Results

Three of the hotels in the Temple REIT portfolio have been owned by the Trust throughout the second and third quarter of 2007, namely, Temple Gardens, Chateau Nova and Clearwater Suites. An analysis of the operating results of the three properties for the third quarter of 2007, compared to the second quarter of 2007, is provided in the following analysis.

Room Revenues

Room Revenue Analysis - Same Properties

	Three Months Ended September 30, 2007	Three Months Ended June 30, 2007
Occupancy level	85.70 %	83.20 %
Average daily room rate	\$ 153.18	\$ 150.37
RevPar	\$ 132.30	\$ 126.18

For the three months ended September 30, 2007, the RevPar of the three hotels increased by \$6.12 or 4.85%, compared to the second quarter of 2007. The increase mainly reflects an increase in the average occupancy level at the Temple Gardens hotel and a modest increase in the average daily room rate at each of the three hotels, and in particular, Clearwater Suites.

Total Revenues and Operating Income

Analysis of Revenues and Operating Income - Same Properties

	Three Months Ended		Increase(Decrease)	
	September 30, 2007	June 30, 2007	Amount	%
Total revenue	\$ 6,501,381	\$ 6,244,897	\$ 256,484	4.11
Operating income	3,089,469	2,616,008	473,461	18.10

As disclosed in the preceding analysis, the total revenue of the three hotels increased by 4.11% in the third quarter of 2007, compared to the second quarter of 2007, while operating income increased by 18.10%, during the same period.

The improvement in revenue reflects the increase in RevPar as noted above. The increase in operating income is mainly attributable to Temple Gardens, due to the higher occupancy level, and to Clearwater Suites, due to an increase in the average daily room rate.

ANALYSIS OF CASH FLOWS

Operating Activities

Cash from Operating Activities

During the third quarter of 2007, Temple REIT generated cash from operating activities of \$645,393. After excluding changes in non-cash operating items of \$1,286,453, the cash flow from operating activities for the third quarter of 2007 was \$1,931,846.

In comparison to the second quarter of 2007, cash flow from operating activities, excluding changes in non-cash operating items, decreased by \$657,859 or 25.4%. The decrease is roughly equivalent to the increase in financing expense net of the increase in operating income and reflects the net impact of the non-recurring financing expenses in regard to the extension of the interim loan for the Merit/Nomad hotels.

For the nine months ended September 30, 2007, Temple REIT generated cash from operating activities of \$4,967,161, 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. On July 6, 2007 the National Policy 41.201 "Income Trusts and Other Indirect Offerings" was issued defining the calculation of distributable income. Prior to this quarter, distributable income had been calculated by adding back or deducting the changes in non-cash operating income items. Pursuant to the guidelines of the new policy, Distributable income no longer includes this calculation. The distributable income has been restated for the second quarter as a result. Distributable income for Temple REIT is calculated in the chart set out below.

On a per unit basis, distributable income is \$0.073 per unit for the three months ended September 30, 2007, compared to \$0.341 per unit for the three months ended June 30, 2007. For the nine months ended September 30, 2007, distributable income is \$0.497 per unit. Please refer to the following chart.

Distributable Income	Nine Months Ended September 30, 2007	Three Months Ended September 30, 2007	Three Months Ended June 30, 2007 (restated)
Net income	\$ 2,171,603	\$ 543,818	\$ 1,421,241
Add/Deduct:			
Accretion on debt component of convertible debentures	215,346	137,902	40,819
Unit-based compensation	43,306	-	43,306
Amortization	2,152,895	1,069,481	908,668
Amortization of transaction costs	220,257	108,444	104,805
Future income taxes	163,754	72,201	70,866
Changes in non-cash operating items	<u>(1,147,298)</u>	<u>(1,286,453)</u>	<u>425,915</u>
Distributable income	<u>\$ 3,819,863</u>	<u>\$ 645,393</u>	<u>\$ 3,015,620</u>
Excess (shortfall) of distributable income over cash distributions paid	<u>\$ 639,405</u>	<u>\$ (683,851)</u>	<u>\$ 1,688,990</u>
Excess (shortfall) of net income over cash distributions paid	<u>\$ (1,008,855)</u>	<u>\$ (785,426)</u>	<u>\$ 94,611</u>
Per unit			
- basic	\$0.497	\$0.073	\$0.341
- diluted	\$0.494	\$0.073	\$0.260

After excluding the changes in non-cash operating items and the non-recurring financing expense of \$1.4 million, cash generated was \$3.33 million representing an increase of \$0.74 million or 28.7% over the second quarter.

Financing Activities

Summary

During the nine months ended September 30, 2007, the net cash flow provided by financing activities amounted to \$141,800,299. Financing activities consisted primarily of mortgage loan transactions, issuance of units and convertible debentures, and distributions to the Unitholders.

Mortgage Loan Transactions

Mortgage Loan Proceeds

During the nine months ended September 30, 2007, mortgage loan proceeds amounted to \$146.4 Million, consisting of the following:

- a \$6.2 Million first mortgage loan in regard to the acquisition of Chateau Nova in March 2007. The first mortgage loan matures on November 30, 2008 and will be increased to \$8.0 Million as of December 1, 2007;
- \$46.0 Million of mortgage loans in regard to the acquisition of Clearwater Suites in March 2007;
- a \$44.5 Million interim first mortgage loan in regard to the acquisition of the Merit and Nomad hotel properties in April 2007. The interim first mortgage loan matured on July 15, 2007 and was extended to September 7, 2007;
- a \$44.5 Million first mortgage loan from CDPQ Mortgage Corporation. The loan proceeds were used to repay the interim first mortgage loan on the Merit and Nomad hotel properties; and
- an advance of \$5,138,306 from Conexus Credit Union in regard to the upward refinancing of the first mortgage loans of the Temple Gardens Hotel.

Mortgage Loan Repayments

During the first nine months of 2007, mortgage loan principal repayments amounted to \$41,545,454, of which \$736,260 represents regular monthly repayments and \$40.8 Million represents the repayment of the interim mortgage loan on the Merit and Nomad hotel properties.

Transaction Costs

During the three months ended September 30, 2007, transaction costs amounted to \$886,222, consisting of \$43,735 in financing fees for the upward financing of Temple Gardens, \$87,354 related to the defeased loan and \$755,133 related entirely to the first mortgage loan re-financing for the Merit Nomad properties. The transaction costs associated with the Merit/Monad re-financing represent 1.7% of the loan amount.

Defeased Asset and Liability

The purchase of the Nomad Inn encompassed the acquisition of the bare trustee company which held title to the properties. The debt of the bare trustee company included a loan with Computer Share Trust Company of Canada of \$3,690,806. As the loan could not be discharged on closing, due to the nature of the loan security, the loan was defeased. In this regard, the bare trustee company effectively nullified the loan by placing sufficient Government of Canada bonds in escrow with Computer Share to offset the debt obligations. The fair value of the bonds was \$4,151,677.

The debt of bare trustee company is disclosed on the balance sheet of Temple REIT as a "defeased liability", The Government of Canada bonds in escrow is disclosed as "defeased asset".

Subsequent to the acquisition of Merit/Nomad hotel properties, the name of the bare trustee company was changed to TREIT Holdings 3.

Units and convertible debentures

Please refer to pages 18 and 19.

Distributions

Distributions are paid on a monthly basis. The amount of the monthly distribution is established at the discretion of the Trust and is to be a minimum of 85% of the annual distributable income of the Trust, subject to certain provisions as set forth in the Declaration of Trust.

Effective for the month of September 2007, the monthly distribution was increased from \$0.05 per month, or \$0.60 annually, to \$0.06 per month, or \$0.72 annually. The September 2007 distribution of \$537,177 was paid on October 15, 2007.

The total distributions declared for the third quarter are equal to 221% of the third quarter distributable income (70% after adding back the non-recurring financing expense). The cumulative distributions declared for the nine months ended September 30, 2007 of \$3,717,635 are equal to 97% of distributable income for the nine month period.

Investment Activities

Summary

During the nine months ended September 30, 2007, the net cash outflow in regard to investment activities amounted to approximately \$142,747,560. The investment activities consisted primarily of transactions related to the acquisition of hotel properties, as well as a \$2 Million mortgage loan investment.

Property Acquisitions

During the first nine months of 2007, Temple REIT acquired six hotel properties. As disclosed in note 3 of the financial statements, the net acquisition cost of the six properties, in the amount of \$140,179,435, was funded by the assumption of mortgage financing of \$96,700,000, with the balance of \$43,479,435 paid in cash.

Mortgage Loan Receivable

During the first nine months of 2007, Temple REIT also provided \$2 Million of first mortgage financing on a potential hotel acquisition in Edson, Alberta. The loan bears interest at 10% per annum with payments of interest only and matures on May 1, 2008.

Cash Flow Summary

The net cash inflow from operating, financing and operating activities during the nine month period ended September 30, 2007 was \$2,872,602. After providing for the opening cash balance of \$4,062,737, Temple REIT completed the third quarter of 2007 with a cash balance of \$6,935,339.

CAPITAL RESOURCES AND LIQUIDITY

Capital Structure

<u>Capital Structure</u>	<u>September 30, 2007</u>
Long-term debt (excluding transaction costs)	\$120,097,530
Convertible debentures (net of transaction costs)	12,468,309
Equity component of convertible debentures	2,624,387
Equity raised - trust units (net of issue costs)	<u>39,204,090</u>
Total capitalization	<u>\$174,394,316</u>
Trust units:	
Authorized - unlimited	
Issued	
September 30, 2007 - 8,952,954	
November 26, 2007 - 8,991,378	

Long-Term Debt

September 30, 2007 - \$120,097,530
 December 31, 2006 - \$18,995,485

The long-term debt of Temple REIT consists primarily of mortgage loans which are secured by specific hotel properties. In total, mortgage loans represent 96.7% of the total long-term debt. The remaining portion of the long-term debt consists almost entirely of a \$3,991,278 loan which was obtained in 2002 in order to fund the development of the casino complex at the Temple Gardens Hotel.

The balance of long-term debt, as of September 30, 2007, excluding transaction costs, increased by \$101,102,045, compared to the balance as of December 31, 2006. The increase is comprised of the following amounts:

First mortgage loans on new property acquisitions	\$ 86,700,000
Second mortgage loan on new property acquisition	10,000,000
Upward financing of Temple Gardens Mineral Spa	5,138,305
Principal repayments	<u>(736,260)</u>
	<u>\$101,102,045</u>

The ratio of long-term debt, excluding the casino loan, compared to the appraised value of the property portfolio, is under 60.0%, as of September 30, 2007.

Convertible Debentures

As of September 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 installments 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 September 30, 2007, the total present value of the convertible debentures is \$15,895,346, representing an increase of \$215,346, compared to the face value, due to accretion. The debt and equity component for the debentures is \$13,270,959 and \$2,624,387, respectively.

Trust Units

The following is a summary of the units which have been issued by TREIT during the nine month period ended September 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 exercised	7,083	21,249
August 30, 2007	Unit options exercised	38,333	114,999
September 12, 2007	Warrants exercised	17,186	85,930
September 26, 2007	Warrants exercised	31,085	155,425
September 27, 2007	Warrants exercised	17,430	87,150
	Value associated with warrants exercised		32,119
	Issue costs		(2,393,000)
		<u>8,952,954</u>	<u>\$ 39,204,090</u>
Units outstanding, September 30, 2007			

Unit Options and Warrants

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. During the third quarter of 2007, 38,333 options were exercised at \$3.00 per unit.

Also during 2006, the Agents of the Trust were granted warrants for 78,144 units at \$5.00 per unit, which expired September 29, 2007 and options for 56,666 units or \$3.00 per unit which expire February 22, 2008. During the third quarter of 2007, 67,170 warrants were exercised and 12,443 warrants expired.

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, was fully expensed during the second quarter of 2007.

On November 6, 2007, 28,333 options were exercised at a price of \$3.00 per option for gross proceeds of \$84,999.

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 Obligations

Long-term Debt and Lease Payment

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	\$120,097,530	\$ 11,890,888	\$ 47,954,450	\$ 17,780,309	\$ 42,471,883
Operating leases	<u>1,849,976</u>	<u>106,276</u>	<u>747,698</u>	<u>703,060</u>	<u>292,942</u>
Total	\$121,947,506	\$ 11,997,164	\$ 48,702,148	\$ 18,483,369	\$ 42,764,825

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

Property Acquisitions

During October 2007, the Trust acquired a 2,090 square foot property and a 10,000 square foot property located in Moose Jaw, Saskatchewan for \$435,000. The buildings will be demolished and converted to additional parking for Temple Gardens Mineral Spa.

The acquisition of the Advantage West Inn and Suites is scheduled to close on January 31, 2008. After providing for the first mortgage loan financing of \$11.64 Million, the projected equity contribution is \$7.76 Million, based on the purchase price of \$19.4 Million.

Deposits on potential acquisitions amount to \$325,000, as of September 30, 2007.

Capital Improvements

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 September 30, 2007, the cash balance of Temple REIT was \$6.94 Million, while the working capital balance was \$8.06 Million, excluding the current portion of long-term debt and the current portion of the defeased asset and defeased liability. 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. Subsequent to September 30, 2007, Temple REIT arranged for the upward refinancing of the first mortgage loan of Chateau Nova by \$1,800,000.

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 fourth quarter of 2007, Temple REIT is expected to achieve modest growth in operating income as the existing portfolio of hotel properties is expected to remain unchanged until the first quarter of 2008. As the third quarter net income results included a significant non-recurring financing expense, it is anticipated that there will be a significant improvement in net income and cash flows during the fourth quarter of 2007 as a result of a reduction in financing expense.

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 third quarter of 2007, Shelter Canadian charged asset management fees of \$165,931.

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.

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.

CONTROLS AND PROCEDURES

Internal Controls Over Financial Reporting

No changes were made to the design of the internal controls over financial reporting during the nine months ended September 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 Third 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
November 26, 2007