



CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS

JUNE 30, 2011

(unaudited)

TEMPLE REAL ESTATE INVESTMENT TRUST
CONDENSED CONSOLIDATED BALANCE SHEETS

	<u>June 30</u> <u>2011</u>	<u>December 31</u> <u>2010</u>
Assets		
Current assets		
Cash	\$ 3,362,289	\$ 4,096,958
Trade and other receivables (Note 3)	4,225,856	3,038,065
Deposits and prepaids (Note 4)	2,071,892	1,650,384
Income tax receivable	68,952	31,537
Marketable securities (Note 5)	601,990	575,515
Inventories (Note 6)	841,512	797,746
Net investment in lease (Note 7)	<u>158,088</u>	<u>139,133</u>
	11,330,579	10,329,338
Non-current assets		
Property and equipment (Note 8)	241,020,321	242,440,745
Net investment in lease (Note 7)	4,292,427	4,377,463
Goodwill	1,608,282	1,608,282
Restricted cash (Note 9)	<u>640,283</u>	<u>1,725,608</u>
	<u>\$258,891,892</u>	<u>\$260,481,436</u>
Liabilities and Equity		
Current liabilities		
Accounts payable and other liabilities (Note 10)	\$ 8,602,989	\$ 8,123,457
Unit based compensation (Note 11)	504,942	217,986
Declared distribution payable	616,940	-
Debt (Note 12)	<u>53,662,876</u>	<u>69,101,469</u>
	63,387,747	77,442,912
Non-current liabilities		
Debt (Note 12)	130,329,040	135,392,625
Deferred income tax (Note 13)	<u>2,696,308</u>	<u>2,816,579</u>
	196,413,095	215,652,116
Equity		
Trust units	84,255,588	62,790,634
Cumulative earnings	12,026,329	12,188,940
Cumulative distributions to unit owners	<u>(33,803,120)</u>	<u>(30,150,254)</u>
	<u>62,478,797</u>	<u>44,829,320</u>
	<u>\$258,891,892</u>	<u>\$260,481,436</u>

Approved by the Trustees

"Arni Thorsteinson"

"David Drybrough"

TEMPLE REAL ESTATE INVESTMENT TRUST

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

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2011	2010	2011	2010
Revenue				
Room revenue	\$ 11,891,411	\$ 9,732,696	\$ 22,352,116	\$ 18,763,981
Other hotel revenue	<u>6,812,224</u>	<u>5,935,834</u>	<u>13,017,970</u>	<u>11,799,397</u>
	18,703,635	15,668,530	35,370,086	30,563,378
Expenses				
Hotel operating costs	<u>11,750,656</u>	<u>10,595,054</u>	<u>22,797,520</u>	<u>20,703,723</u>
Hotel operating income	<u>6,952,979</u>	<u>5,073,476</u>	<u>12,572,566</u>	<u>9,859,655</u>
Interest expense, net (Note 14)	3,097,536	3,573,536	6,433,488	7,184,288
Trust expense	394,217	219,383	520,049	583,390
Depreciation	<u>1,774,689</u>	<u>1,745,028</u>	<u>3,532,027</u>	<u>3,489,626</u>
	1,686,537	(464,471)	2,087,002	(1,397,649)
Change in fair value of financial instruments expense (recovery) (Note 15)	<u>(1,029,912)</u>	<u>2,551,269</u>	<u>1,984,100</u>	<u>1,010,486</u>
Income (loss) before income taxes	2,716,449	(3,015,740)	102,902	(2,408,135)
Income taxes expense (recovery):				
Current	52,389	69,203	82,876	137,886
Deferred	<u>495,636</u>	<u>(476,849)</u>	<u>182,637</u>	<u>(588,924)</u>
	548,025	(407,646)	265,513	(451,038)
Net income (loss) and comprehensive income (loss)	<u>\$ 2,168,424</u>	<u>\$ (2,608,094)</u>	<u>\$ (162,611)</u>	<u>\$ (1,957,097)</u>
Net income (loss) per unit (Note 17)				
Basic	\$ 0.12	\$ (0.20)	\$ (0.01)	\$ (0.15)
Diluted	0.11	(0.20)	(0.01)	(0.15)

TEMPLE REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

	<u>Six Months Ended</u>	
	<u>June 30</u>	
	<u>2011</u>	<u>2010</u>
Trust units (Note 16)		
Balance, beginning of period	\$ 62,790,634	\$ 62,491,116
Issuance of Trust units	20,000,000	-
Trust units issued on conversion of debentures	2,473,441	-
Trust units issued on exercise of options	45,275	-
Unit issue costs	<u>(1,053,762)</u>	<u>-</u>
Balance, end of period	<u>84,255,588</u>	<u>62,491,116</u>
Cumulative earnings		
Balance, beginning of period	12,188,940	15,747,702
Net income (loss)	<u>(162,611)</u>	<u>(1,957,097)</u>
Balance, end of period	<u>12,026,329</u>	<u>13,790,605</u>
Cumulative distributions to unitholders		
Balance, beginning of period	(30,150,254)	(25,017,693)
Distribution to unitholders	<u>(3,652,866)</u>	<u>(2,565,070)</u>
Balance, end of period	<u>(33,803,120)</u>	<u>(27,582,763)</u>
Total unitholders' equity	<u>\$ 62,478,797</u>	<u>\$ 48,698,958</u>
Trust units issued and outstanding (Note 16)	<u>18,504,216</u>	<u>12,825,352</u>
Deferred units outstanding	<u>46,953</u>	<u>28,787</u>

TEMPLE REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2011	2010	2011	2010
Cash provided by (used in) operating activities				
Net income (loss) and comprehensive income (loss)	\$ 2,168,424	\$ (2,608,094)	\$ (162,611)	\$ (1,957,097)
Items not affecting cash				
Depreciation	1,774,689	1,745,028	3,532,027	3,489,626
Change in fair value of financial instruments	(1,029,912)	2,551,269	1,984,100	1,010,486
Deferred income taxes	495,636	(476,849)	182,637	(588,924)
Unit based compensation	173,710	17,003	183,709	145,573
Gain on sale of equipment	(8,199)	-	(8,199)	-
Current income taxes	52,389	69,203	82,876	137,886
Income taxes paid	(43,015)	(261,365)	(120,291)	(263,394)
Interest expense - net	3,097,536	3,573,536	6,433,488	7,184,288
Interest received	88,991	85,590	178,137	171,760
Interest paid	(3,632,859)	(4,005,149)	(6,456,697)	(7,081,550)
	<u>3,137,390</u>	<u>690,172</u>	<u>5,829,176</u>	<u>2,248,654</u>
Working capital adjustments				
Change in trade and other receivables	(949,290)	164,850	(1,187,791)	(95,602)
Change in deposits and prepaids	(650,523)	(175,344)	(421,508)	(201,753)
Change in inventories	(48,272)	(31,974)	(43,766)	(112,624)
Change in accounts payables and other liabilities	<u>1,223,542</u>	<u>(6,684)</u>	<u>590,506</u>	<u>230,026</u>
Net cash flow from operating activities	<u>2,712,847</u>	<u>641,020</u>	<u>4,766,617</u>	<u>2,068,701</u>
Cash provided by (used in) financing activities				
Proceeds of unit offering	-	-	20,000,000	-
Unit issue costs	-	-	(1,406,705)	-
Proceeds of long-term debt	-	5,000,000	-	5,000,000
Exercise of options	-	-	35,038	-
Decrease in defeased liability	-	(2,744,883)	-	(2,849,560)
Lump sum principal payments on mortgage loans	(1,000,000)	-	(16,540,000)	(455,000)
Regular repayment of principal on mortgage loans	(1,612,052)	(1,336,283)	(3,319,125)	(2,821,168)
Expenditures on transaction costs	(272,250)	(43,204)	(282,570)	(44,226)
Distributions paid on trust units	(3,035,926)	(1,282,535)	(3,035,926)	(1,282,535)
Net cash flow from financing activities	<u>(5,920,228)</u>	<u>(406,905)</u>	<u>(4,549,288)</u>	<u>(2,452,489)</u>
Cash provided by (used in) investing activities				
Capital expenditures on completed hotel properties	(1,235,031)	(272,929)	(2,112,804)	(480,258)
Decrease in defeasance assets	-	2,773,850	-	2,941,723
Receipt of net investment in lease	33,332	31,060	66,081	61,576
Change in restricted cash	1,147,333	(62,102)	1,085,325	(881,478)
Proceeds on sale of equipment	<u>9,400</u>	<u>-</u>	<u>9,400</u>	<u>-</u>
Net cash flow from investing activities	<u>(44,966)</u>	<u>2,469,879</u>	<u>(951,998)</u>	<u>1,641,563</u>
Change in cash and cash equivalents	<u>(3,252,347)</u>	<u>2,703,994</u>	<u>(734,669)</u>	<u>1,257,775</u>
Cash and cash equivalents, beginning of period	<u>6,614,636</u>	<u>5,955,223</u>	<u>4,096,958</u>	<u>7,401,442</u>
Cash and cash equivalents, end of period	<u>\$ 3,362,289</u>	<u>\$ 8,659,217</u>	<u>\$ 3,362,289</u>	<u>\$ 8,659,217</u>

(unaudited)

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011

1 *Organization*

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

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

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

The Trust operates hotel property investments in Canada.

The consolidated statements for the three and six month periods ended June 30, 2011 were approved for issue in accordance with a resolution of the Board of Trustees on August 22, 2011.

2 *Basis of presentation*

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

Statement of compliance

The condensed interim consolidated financial statements of the Trust have been prepared in accordance with International Financial Reporting Standards ("IFRS"), including IAS 34 and IFRS 1. Comparative amounts for 2010 have been restated to give effect to changes required for the adoption of IFRS. The consolidated financial statements are based on IFRS standards issued and outstanding as at August 22, 2011. Subsequent changes to IFRS standards that are given effect in the Trust's annual consolidated financial statements for the year ending December 31, 2011 could result in the restatement of these financial statements, including the transition adjustments recognized on change-over to IFRS.

The Trust follows accounting policies under IFRS as disclosed in the March 31, 2011 interim report. Subject to certain transition elections disclosed in Note 26 to the March 31, 2011 interim financial statements, the accounting policies in Note 3 to the March 31, 2011 interim financial statements have been applied consistently in all material respects. Note 26 to the March 31, 2011 interim financial statements discloses the impact of the transition to IFRS on the Trust's reported financial position, net income (loss) and comprehensive income (loss) and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Trust's consolidated financial statements for the year ended December 31, 2010.

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011

2 *Basis of presentation (continued)*

Future Changes to Significant Accounting Policies

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

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

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

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011

3 Trade and other receivables

	June 30 2011	December 31 2010
Trade receivables	\$ 4,248,647	\$ 2,892,573
Less: allowance for doubtful accounts	<u>(110,226)</u>	<u>(139,386)</u>
	4,138,421	2,753,187
Other receivables	<u>87,435</u>	<u>284,878</u>
	<u>\$ 4,225,856</u>	<u>\$ 3,038,065</u>

4 Deposits and prepaids

	June 30 2011	December 31 2010
Deposits	\$ 275,527	\$ 325,567
Prepaid expenses	<u>1,796,365</u>	<u>1,324,817</u>
	<u>\$ 2,071,892</u>	<u>\$ 1,650,384</u>

5 Marketable securities

	June 30 2011	December 31 2010
Marketable equity securities	\$ 276,975	\$ 250,500
Guaranteed investment certificates	<u>325,015</u>	<u>325,015</u>
	<u>\$ 601,990</u>	<u>\$ 575,515</u>

Marketable equity securities are recorded at fair value based on published market values and are classified as fair value through net income. Guaranteed investment certificates bear interest at 0.001% - 2.15% (December 31, 2010 - 0.001% - 2.15%) with maturity dates in 2011 and 2012 (December 31, 2010 - 2011).

The following chart summarizes marketable securities:

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Balance, beginning of period	\$ 591,115	\$ 722,783	\$ 575,515	\$ 628,208
Change in fair value of marketable securities	<u>10,875</u>	<u>(117,225)</u>	<u>26,475</u>	<u>(22,650)</u>
Balance, end of period	<u>\$ 601,990</u>	<u>\$ 605,558</u>	<u>\$ 601,990</u>	<u>\$ 605,558</u>

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011

6 *Inventories*

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

During the three months ended June 30, 2011, cost of sales related to inventory was \$1,935,928 (2010 - \$1,707,831) and for the six months ended June 30, 2011 was \$3,614,252 (2010 - \$3,239,627) and is included in hotel operating costs.

7 *Net investment in lease*

In 2002, Temple Gardens Mineral Spa Inc. entered into co-ownership of a Moose Jaw casino complex property. The co-ownership completed the development of a 23,400 square foot building and 140 parking stalls. The entire property is subject to a 25 year lease and the tenant must acquire ownership of the property at the end of the lease term for consideration of \$1. Under the terms of the lease, the tenant is responsible for all and every cost arising from or related to the leased premises, including the cost of replacement of the structure and foundation.

Pursuant to the terms of the co-ownership agreement, the co-owners each hold a 50% equity interest in the co-ownership, with all equity contributions, distributions, and net income allocations being made on this same 50% basis.

Future income related to the finance-type lease is recognized in a manner that produces a constant rate of return on the net investment in the lease. The investment in the lease for purposes of income recognition is comprised of net minimum lease payments and unearned finance income. The effective interest rate of the net investment in lease is 7.31%.

The net investment in lease includes the following:

	June 30 2011	December 31 2010
Total minimum lease payments receivable	\$ 7,312,500	\$ 7,537,500
Unearned income	<u>(2,861,985)</u>	<u>(3,020,904)</u>
Net investment in lease	4,450,515	4,516,596
Less current portion	<u>(158,088)</u>	<u>(139,133)</u>
	<u>\$ 4,292,427</u>	<u>\$ 4,377,463</u>

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011

7 *Net investment in lease (continued)*

Interest income for the three months ended June 30, 2011 and six months ended June 30, 2011 was \$79,168 (2010 - \$81,440) and \$158,919 (2010 - \$163,424), respectively, and is included in interest expense, net.

Future lease payments are summarized as follows:

<u>Twelve Months Ended June 30</u>	<u>Minimum Lease Payments</u>	<u>Unearned Income</u>
2012	\$ 468,336	\$ 310,251
2013	477,500	298,159
2014	477,500	285,041
2015	477,500	270,963
2016	477,500	255,856
Thereafter	4,934,164	1,441,715

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

	<u>June 30 2011</u>	<u>December 31 2010</u>
Current assets	<u>\$ 197,536</u>	<u>\$ 172,589</u>
Non-current assets	<u>\$ 4,292,427</u>	<u>\$ 4,377,450</u>
Current liabilities	<u>\$ 152,653</u>	<u>\$ 142,553</u>
Non-current liabilities	<u>\$ 3,473,572</u>	<u>\$ 3,536,523</u>

	<u>Three Months Ended June 30</u>		<u>Six Months Ended June 30</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Interest revenue	<u>\$ 79,168</u>	<u>\$ 81,440</u>	<u>\$ 158,919</u>	<u>\$ 163,424</u>
Expenses	<u>\$ 61,112</u>	<u>\$ 43,337</u>	<u>\$ 125,965</u>	<u>\$ 108,740</u>

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011

8 *Property and equipment*

Asset additions and disposals are comprised of the following:

<u>Cost</u>	<u>Land</u>	<u>Building</u>	<u>Furniture and Equipment</u>	<u>Total</u>
As at January 1, 2010	\$ 28,200,924	\$224,831,975	\$ 10,628,365	\$ 263,661,264
Additions	-	688,342	187,215	875,557
Dispositions	-	-	(39,145)	(39,145)
As at December 31, 2010	28,200,924	225,520,317	10,776,435	264,497,676
Additions	-	1,124,801	988,003	2,112,804
Dispositions	-	-	(63,659)	(63,659)
As at June 30, 2011	<u>\$ 28,200,924</u>	<u>\$226,645,118</u>	<u>\$ 11,700,779</u>	<u>\$ 266,546,821</u>
<u>Accumulated Depreciation</u>	<u>Land</u>	<u>Building</u>	<u>Furniture and Equipment</u>	<u>Total</u>
As at January 1, 2010	\$ -	\$ (12,696,248)	\$ (2,418,775)	\$ (15,115,023)
Depreciation	-	(5,897,672)	(1,083,380)	(6,981,052)
Adjustment at disposition	-	-	39,144	39,144
As at December 31, 2010	\$ -	\$ (18,593,920)	\$ (3,463,011)	\$ (22,056,931)
Depreciation	-	(2,951,040)	(580,987)	(3,532,027)
Adjustment at disposition	-	-	62,458	62,458
As at June 30, 2011	<u>\$ -</u>	<u>\$ (21,544,960)</u>	<u>\$ (3,981,540)</u>	<u>\$ (25,526,500)</u>
<u>Net book value</u>	<u>Land</u>	<u>Building</u>	<u>Furniture and Equipment</u>	<u>Total</u>
As at January 1, 2010	<u>\$ 28,200,924</u>	<u>\$212,135,727</u>	<u>\$ 8,209,590</u>	<u>\$ 248,546,241</u>
As at December 31, 2010	<u>\$ 28,200,924</u>	<u>\$206,926,397</u>	<u>\$ 7,313,424</u>	<u>\$ 242,440,745</u>
As at June 30, 2011	<u>\$ 28,200,924</u>	<u>\$205,100,158</u>	<u>\$ 7,719,239</u>	<u>\$ 241,020,321</u>

9 *Restricted cash*

	<u>June 30 2011</u>	<u>December 31 2010</u>
Credit union member equity	\$ 104,278	\$ 104,260
Reserves required by mortgage loan agreements	<u>536,005</u>	<u>1,621,348</u>
	<u>\$ 640,283</u>	<u>\$ 1,725,608</u>

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011

10 *Accounts payables and other liabilities*

	June 30 2011	December 31 2010
Accounts payable	\$ 4,633,506	\$ 4,018,053
Accrued liabilities	422,388	254,330
Accrued interest	1,217,984	1,328,974
Deposits	221,092	200,629
Gift certificate liability	<u>2,108,019</u>	<u>2,321,471</u>
	<u>\$ 8,602,989</u>	<u>\$ 8,123,457</u>

11 *Unit based compensation*

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

	June 30 2011	December 31 2010
Trust unit options (a)	\$ 304,922	\$ 57,885
Deferred units (b)	<u>200,020</u>	<u>160,101</u>
	<u>\$ 504,942</u>	<u>\$ 217,986</u>

(a) **Unit options**

The Trust may grant options to trustees, senior officers, employees of the Trust or of a subsidiary of the Trust, management company employees of the Trust or any subsidiary of the Trust, investor relations' consultants and technical consultants to the Trust.

The maximum number of Trust units reserved for issuance under all securities compensation arrangements is limited to 10% of the total number of issued and outstanding Trust units. The maximum number of Trust units that may be issued to a participant shall not exceed 5% of the total number of issued and outstanding Trust units provided that person is other than a consultant or person employed in investor relations activities and 2% of the total number of issued and outstanding units for all consultants and persons employed in investor relations activities.

The Trustees set the exercise price at the time that an option is granted under the plan. The exercise price shall not be less than the discounted market price of the Trust units. The discounted market price is the market price of the Trust units, less a discount, which shall not exceed 25% if the market price is \$0.50 or less, 20% if the market price is from \$0.51 to \$2.00, and 15% if the market price is above \$2.00 as determined under the policies of the Exchange.

The options have a maximum term of five years from the date of grant unless otherwise specifically provided by the Board of Trustees and authorized by the Exchange. For a participant employed in investor relations activities, no option shall be exercisable for a period exceeding 12 months from the date of grant, with no more than 1/4 of the options vesting in any three-month period.

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011

11 Unit based compensation (continued)

(a) Units options (continued)

The following chart summarizes options outstanding:

	Six Months Ended June 30, 2011		Year Ended December 31, 2010	
	Unit options	Weighted Average Exercise Price	Unit options	Weighted Average Exercise Price
Outstanding, beginning of period	534,666	\$ 5.42	467,666	\$ 5.86
Unit options granted during period	400,000	4.20	105,000	3.23
Unit options exercised during period	(11,666)	3.00	(10,500)	3.01
Unit options expired during period	-	-	(27,500)	5.51
Unit options outstanding and vested, beginning and end of period	<u>923,000</u>	<u>\$ 4.92</u>	<u>534,666</u>	<u>\$ 5.42</u>
Weighted average remaining life (years)	<u>3.09</u>		<u>2.28</u>	

	Outstanding	Exercise Price	Remaining Contractual Life (Months)
	20,000	5.00	3
	80,000	5.00	10
	335,000	6.19	16
	63,000	3.01	43
	25,000	3.93	53
	<u>400,000</u>	<u>4.20</u>	<u>60</u>
Total	923,000		
Weighted average		4.92	37.1

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

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

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011

11 Unit based compensation (continued)

(a) Units options (continued)

On June 24, 2011, the Trust granted options to purchase 400,000 units at \$4.20 per unit. The options vested immediately and will expire five years from the date they were granted. The fair value of \$152,836 associated with the options issued, included in trust expense, was calculated using the Black-Scholes model for option valuation and charged to unit-based compensation, assuming a weighted average volatility of 30.30% on the underlying units, a dividend yield rate of 9.55% and the risk free interest rate (typically the Canada bond rate at the date of grant).

The fair value associated with the unit options outstanding as at June 30, 2011 was calculated using the Black-Scholes model for option valuation assuming a weighted average volatility of 30.30% (December 31, 2010 - 24.5%) on the underlying units, dividend yield rate of 9.39% (December 31, 2010 - 9.95%) and a risk free interest rate (typically the Canada bond rate at the financial statement date).

The following chart summarizes unit options:

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Balance, beginning of period	\$ 74,145	\$ 859	\$ 57,885	\$ 1,737
Unit based compensation	152,836	-	152,836	116,370
Exercise of options	-	-	(13,669)	-
Change in fair value of unit options	<u>77,941</u>	<u>(850)</u>	<u>107,870</u>	<u>(118,098)</u>
Balance, end of period	<u>304,922</u>	<u>\$ 9</u>	<u>\$ 304,922</u>	<u>\$ 9</u>

(b) Deferred units

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

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

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011

11 *Unit based compensation (continued)*

(b) *Deferred units (continued)*

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

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

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

The Trust expensed \$20,874 (2010 - \$17,003) for the three months ended June 30, 2011 and \$30,873 (2010 - \$29,203) for the six months ended June 30, 2011 of unit based compensation related to the deferred units issued which was included in Trust expenses in the consolidated statements of income (loss) and comprehensive income (loss).

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

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Deferred units outstanding, beginning of period	42,053	22,528	39,826	18,288
Deferred units granted	<u>4,900</u>	<u>6,259</u>	<u>7,127</u>	<u>10,499</u>
Deferred units outstanding, end of period	<u>46,953</u>	<u>28,787</u>	<u>46,953</u>	<u>28,787</u>

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

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011

11 *Unit based compensation (continued)*

(b) *Deferred units (continued)*

The following chart summarizes deferred units:

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Balance, beginning of period	\$ 188,818	\$ 63,980	\$ 160,101	\$ 49,195
Unit based compensation	20,874	17,003	30,873	29,203
Change in fair value of deferred units	<u>(9,672)</u>	<u>(10,166)</u>	<u>9,046</u>	<u>(7,581)</u>
Balance, end of period	<u>\$ 200,020</u>	<u>\$ 70,817</u>	<u>\$ 200,020</u>	<u>\$ 70,817</u>

12 *Debt*

	June 30 2011	December 31 2010
Secured debt		
Mortgage loans (a)	\$144,187,493	\$164,046,616
Convertible mortgage (b)	4,167,458	4,162,798
Convertible debentures (c)	<u>14,619,480</u>	<u>15,489,600</u>
Total secured debt	<u>162,974,431</u>	<u>183,699,014</u>
Unsecured debt		
Convertible debentures (c)	<u>21,734,617</u>	<u>21,495,561</u>
Unamortized transaction costs		
Mortgage loans (a)	<u>(717,132)</u>	<u>(700,481)</u>
Total debt	<u>183,991,916</u>	<u>204,494,094</u>
Less current portion		
Mortgage loans (a)	51,647,006	69,484,470
Convertible debenture (b)	2,464,500	-
Transaction costs	<u>(448,630)</u>	<u>(383,001)</u>
Total current debt	<u>53,662,876</u>	<u>69,101,469</u>
Total non-current debt	<u>\$130,329,040</u>	<u>\$135,392,625</u>

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011

12 Debt (continued)

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

	Mortgage loans		Convertible Debentures	Convertible Mortgage	Total
	Principal Payments	Principal Maturities			
2012	\$ 5,422,604	\$ 46,224,402	\$ 2,464,500	\$ -	\$ 54,111,506
2013	3,041,048	60,505,552	19,866,100	-	83,412,700
2014	832,963	22,403,855	-	-	23,236,818
2015	160,935	2,549,543	12,603,000	4,500,000	19,813,478
2016	163,313	-	-	-	163,313
Thereafter	<u>2,883,276</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,883,276</u>
	<u>\$ 12,504,139</u>	<u>\$131,683,352</u>	<u>\$ 34,933,600</u>	<u>\$ 4,500,000</u>	<u>\$183,621,091</u>

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

(a) Mortgage loans

	June 30 2011	December 31 2010
First mortgage loans	\$139,725,505	\$152,926,923
Second mortgage loans	<u>4,461,988</u>	<u>11,119,693</u>
Total	144,187,493	164,046,616
Unamortized transaction costs	<u>(717,132)</u>	<u>(700,481)</u>
	143,470,361	163,346,135
Current portion	<u>(51,647,006)</u>	<u>(69,484,470)</u>
	<u>\$ 91,823,355</u>	<u>\$ 93,861,665</u>

Weighted average interest rate

First mortgage loans	6.22 %	6.24 %
Second mortgage loans	6.00 %	11.29 %
Total	6.22 %	6.59 %

As a condition of long-term debt, the Trust is required to maintain certain annual debt service coverage ratios and certain debt to equity ratios. In addition, capital expenditures must not exceed certain maximums. Except as noted below, the Trust was in compliance of all covenants as of June 30, 2011.

As of June 30, 2011, the Trust was not in compliance on two first mortgage loans in the aggregate amount of \$15,203,687, as a result of a breach of the debt service coverage requirement in respect of such mortgage loans. In accordance with IFRS, the balance of the mortgage loans which are in breach of debt service coverage requirements are included in principal repayments in 2012.

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011

12 Debt (continued)

(a) Mortgage loans (continued)

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

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

(b) Convertible Mortgage

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

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

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Convertible mortgage, beginning of period	\$ 4,123,953	\$ 4,110,215	\$ 4,162,798	\$ 4,318,337
Change in fair value of convertible mortgage	<u>43,505</u>	<u>92,259</u>	<u>4,660</u>	<u>(115,863)</u>
Convertible mortgage, end of period	<u>\$ 4,167,458</u>	<u>\$ 4,202,474</u>	<u>\$ 4,167,458</u>	<u>\$ 4,202,474</u>

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011

12 Debt (continued)

(c) Convertible debentures

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

	June 30 2011	December 31 2010
Unsecured		
Series A	\$ 2,464,500	\$ 2,225,444
Series B	<u>19,270,117</u>	<u>19,270,117</u>
Subtotal	21,734,617	21,495,561
Senior Secured	<u>14,619,480</u>	<u>15,489,600</u>
Total	36,354,097	36,985,161
Current portion	<u>(2,464,500)</u>	<u>-</u>
	<u>\$ 33,889,597</u>	<u>\$ 36,985,161</u>

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

During the six months ended June 30, 2011, \$2,149,000 of senior secured convertible debentures were converted into 588,755 Trust units.

Subsequent to June 30, 2011, \$1,524,000 of senior secured convertible debentures were converted into 414,524 Trust units.

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

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

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

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

The Senior Secured debentures are redeemable at the option of the Trust at the principal amount, subject to certain terms and conditions, from November 30, 2012 and prior to November 30, 2014, providing that the 20-day weighted average trading price of the Trust units is at least \$4.5625 and, on or after November 30, 2013, at their principal amount.

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011

12 Debt (continued)

(c) Convertible debentures (continued)

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

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

<u>June 30, 2011</u>	<u>Beginning of Period</u>	<u>Change in Fair value</u>	<u>Conversions</u>	<u>End of Period</u>
Series A	\$ 2,225,444	\$ 239,056	\$ -	\$ 2,464,500
Series B	19,270,117	-	-	19,270,117
Senior Secured	<u>15,489,600</u>	<u>1,649,943</u>	<u>(2,520,063)</u>	<u>14,619,480</u>
	<u>\$ 36,985,161</u>	<u>\$ 1,888,999</u>	<u>\$ (2,520,063)</u>	<u>\$36,354,097</u>
<u>June 30, 2010</u>	<u>Beginning of Period</u>	<u>Change in Fair Value</u>	<u>Conversions</u>	<u>End of Period</u>
Series A	\$ 2,193,651	\$ 24,399	\$ -	\$ 2,218,050
Series B	16,888,172	1,189,979	-	18,078,151
Senior Secured	<u>14,985,000</u>	<u>15,000</u>	<u>-</u>	<u>15,000,000</u>
	<u>\$ 34,066,823</u>	<u>\$ 1,229,378</u>	<u>\$ -</u>	<u>\$35,296,201</u>

The Senior Secured debentures provide that the outstanding amount of the debentures may become payable on demand upon default and acceleration, under certain terms and conditions, of a mortgage loan. At June 30, 2011, the Trust was not in compliance with two first mortgage loans totaling \$15,203,687 as a result of a breach of the debt service coverage covenant requirements in respect of such mortgage loans. If, at a future date, the lenders demand the repayment of the loans, the Senior Secured debentures, with a face value of \$12,603,000 may become payable on demand.

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

	<u>June 30 2011</u>	<u>December 31 2010</u>
Unsecured		
Series A	\$ 2,464,500	\$ 2,464,500
Series B	<u>19,866,100</u>	<u>19,866,100</u>
Subtotal	22,330,600	22,330,600
Senior Secured	<u>12,603,000</u>	<u>14,752,000</u>
	<u>\$ 34,933,600</u>	<u>\$ 37,082,600</u>

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011

13 *Deferred income tax*

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

<u>The Trust</u>	<u>June 30 2011</u>	<u>December 31 2010</u>
Deferred income tax asset (liability) of the Trust relating to the temporary differences between accounting and tax values of:		
Property and equipment	\$ (2,053,689)	\$ (2,854,897)
Convertible debentures and convertible mortgage	136,459	(54,526)
Debt issue costs	718,092	577,723
Other	103,030	31,030
Deferred income tax asset (liability) of the Trust relating to unused tax losses	<u>921,207</u>	<u>2,023,046</u>
Deferred income tax asset (liability)	<u>\$ (174,901)</u>	<u>\$ (277,624)</u>

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

<u>Temple Gardens Mineral Spa Inc.</u>	<u>June 30 2011</u>	<u>December 31 2010</u>
Deferred income tax asset (liability) of the Temple Gardens Mineral Spa Inc. and its wholly owned subsidiaries relating to the temporary differences between accounting and tax values of:		
Property and equipment	\$ (2,591,509)	\$ (2,607,913)
Debt issue costs	2,834	(1,021)
Other	<u>67,268</u>	<u>69,979</u>
Deferred income tax asset (liability)	<u>\$ (2,521,407)</u>	<u>\$ (2,538,955)</u>
Aggregate deferred income tax		
Liability	<u>\$ 2,696,308</u>	<u>\$ 2,816,579</u>

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011

14 *Interest expense, net*

Interest expense, net is comprised of the following:

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Mortgage loans interest	\$ 2,241,333	\$ 2,673,646	\$ 4,727,393	\$ 5,306,595
Amortization of transaction costs	150,098	134,797	265,918	327,002
Interest on convertible debentures	744,054	796,489	1,517,341	1,592,978
Interest on convertible mortgage loan	51,042	50,486	100,973	50,637
Defeasance mortgage interest	-	-	-	64,172
Amortization of defeasance transaction costs	-	3,708	-	14,664
	<u>3,186,527</u>	<u>3,659,126</u>	<u>6,611,625</u>	<u>7,356,048</u>
Interest revenue	(9,823)	(4,150)	(19,218)	(8,336)
Finance lease interest revenue	<u>(79,168)</u>	<u>(81,440)</u>	<u>(158,919)</u>	<u>(163,424)</u>
	<u>\$ 3,097,536</u>	<u>\$ 3,573,536</u>	<u>\$ 6,433,488</u>	<u>\$ 7,184,288</u>

15 *Change in fair value of financial instruments*

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Increase (decrease) in value of:				
Convertible debentures (Note 13 c)	\$ (1,130,811)	\$ 2,352,797	\$ 1,888,999	\$ 1,229,378
Convertible mortgage (Note 13 b)	43,505	92,259	4,660	(115,863)
Unit options (Note 11 a)	77,941	(850)	107,870	(118,098)
Deferred units (Note 11b)	<u>(9,672)</u>	<u>(10,166)</u>	<u>9,046</u>	<u>(7,581)</u>
	(1,019,037)	2,434,040	2,010,575	987,836
Decrease (increase) in value of marketable securities (Note 5)	<u>(10,875)</u>	<u>117,225</u>	<u>(26,475)</u>	<u>22,650</u>
Expense (recovery)	<u>\$ (1,029,912)</u>	<u>\$ 2,551,265</u>	<u>\$ 1,984,100</u>	<u>\$ 1,010,486</u>

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011

16 Trust units

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

	Six Months Ended June 30, 2011		Six Months Ended June 30, 2010	
	Trust Units	Amount	Trust Units	Amount
Outstanding, beginning of period	12,903,795	\$ 62,790,634	12,825,352	\$ 62,491,116
Trust units issue costs	-	(1,053,762)	-	-
Trust units issued by private placement	5,000,000	20,000,000	-	-
Trust units issued on exercise of options	11,666	45,275	-	-
Trust units issued on exercise of convertible debentures	<u>588,755</u>	<u>2,473,441</u>	<u>-</u>	<u>-</u>
Outstanding, end of period	<u>18,504,216</u>	<u>\$ 84,255,588</u>	<u>12,825,352</u>	<u>\$ 62,491,116</u>

17 Per unit calculations

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

- the potential exercise of outstanding unit options to the extent that the unit options are dilutive, and
- the potential conversion of outstanding convertible debentures to the extent that the debentures are dilutive.

Income (loss) per unit calculations are based on the following:

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Income (loss)	<u>\$ 2,168,424</u>	<u>\$ (2,608,094)</u>	<u>\$ (162,611)</u>	<u>\$ (1,957,097)</u>
Diluted Income (loss)	<u>2,409,559</u>	<u>(2,609,589)</u>	<u>(162,611)</u>	<u>(1,958,596)</u>
Weighted average number of Trust units	18,330,576	12,849,395	17,054,073	12,846,903
Weighted average number of diluted options and debenture conversions	<u>4,019,374</u>	<u>-</u>	<u>-</u>	<u>-</u>
Weighted average number of diluted Trust units	<u>22,349,950</u>	<u>12,849,395</u>	<u>17,054,073</u>	<u>12,846,903</u>

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011

17 *Per unit calculations (continued)*

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

	Exercise/Conversion Price	Number of units if converted or exercised at June 30, 2011
Unit options		
	\$ 5.00	100,000
	\$ 6.19	335,000
Convertible debentures Series B	\$ 7.50	2,648,813
Convertible mortgage loan	\$ 15.00	300,000

18 *Related party transactions*

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

Asset management agreement

The Trust entered into an asset management agreement, for a term expiring September 30, 2016, with Shelter Canadian Properties Limited, a unitholder. The agreement provides for Shelter to receive an asset management fee of 1.5% of the gross revenues of the Trust and its subsidiaries on a consolidated basis. The asset management agreement requires Shelter to act as administrator of the Trust by providing accounting, human resource services, office space and equipment and the necessary clerical and secretarial personnel for the administration of the day-to-day activities of the Trust. Key management personnel are provided by Shelter Canadian Properties Limited.

The Trust incurred service fees to Shelter Canadian Properties Limited of \$281,849 for the three months ended June 30, 2011 (2010 - \$234,277) and \$533,790 for the six months ended June 30, 2011 (2010 - \$463,035).

Construction management agreement

The Trust has also entered into a construction management agreement with Shelter Canadian Properties Limited. The agreement provides for Shelter to receive a fee equal to 5% of construction costs and requires Shelter to approve all plans and specifications; manage the tender process; arrange financing and perform construction management services related to the guest room improvements and building upgrades at the Capri Centre. To June 30, 2011, a service fee of \$139,273 (2010 - \$nil) has been charged for such services.

Included in accounts payable and other liabilities is \$690,509 (December 31, 2010 - \$514,665) due to Shelter Canadian Properties Limited relating to the service fees and the construction management fees.

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011

18 *Related party transactions (continued)*

Hotel operating costs include \$14,300 (2010 - \$nil) for the three months ended June 30, 2011 and \$21,800 (2010 - \$nil) for the six months end June 30, 2011 for rental premises. Shelter Canadian Properties Limited, as agent for the beneficial owner is the landlord of the rental premises.

19 *Risk management and fair values*

Risk management

In the normal course of business, the Trust is exposed to financial risk that arises from its indebtedness, including fluctuations in interest rates and in the credit quality of its customers. Management's involvement in operations helps identify risks and variations from expectations. The Trust does not manage risk through the use of hedging transactions. As a part of the overall operation of the Trust, management takes steps to avoid undue concentrations of risk. The Trust manages the risks, as follows:

Liquidity risk

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

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

There is a risk that lenders will not refinance maturing debt on terms and conditions acceptable to the Trust or on any terms at all. The risk associated with the refinancing of maturing debt is mitigated as the maturity dates of the mortgage portfolio are staggered over a number of years. The following are the estimated maturities of the Trust's financial liabilities excluding unit based compensation with convertible debentures and the convertible mortgage disclosed at their face value as at June 30, 2011:

	<u>Total</u>	<u>1 year</u>	<u>2 years</u>	<u>3 years</u>	<u>4 years</u>	<u>5 years</u>	<u>Thereafter</u>
Accounts payable and other liabilities	\$ 8,602,989	\$ 8,602,989	\$ -	\$ -	\$ -	\$ -	\$ -
Debt	<u>183,621,091</u>	<u>54,111,506</u>	<u>33,412,700</u>	<u>23,236,818</u>	<u>19,813,478</u>	<u>163,313</u>	<u>2,883,276</u>
Total	<u>\$192,224,080</u>	<u>\$62,714,495</u>	<u>\$33,412,700</u>	<u>\$23,236,818</u>	<u>\$19,813,478</u>	<u>\$ 163,313</u>	<u>\$ 2,883,276</u>

Interest rate risk

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

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

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011

19 Risk management and fair values (continued)

Market risk

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

Credit risk

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

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

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

	June 30 2011	December 31 2010
Accounts receivable:		
0 to 30 days overdue	\$ 193,255	\$ 404,892
More than 30 days overdue	<u>352,483</u>	<u>247,203</u>
	<u>\$ 545,738</u>	<u>\$ 652,095</u>

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

	Three Months Ended June 30		Three Months Ended June 30	
	2011	2010	2011	2010
Amounts charged to income	\$ <u>602</u>	\$ <u>8,335</u>	\$ <u>24,600</u>	\$ <u>17,535</u>
Percent of revenue	<u>0.00%</u>	<u>0.05%</u>	<u>0.07%</u>	<u>0.06%</u>

Currency risk

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

Other price risk

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

Fair values

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

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011

19 Risk management and fair values (continued)

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

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

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

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

	June 30, 2011		December 31, 2010	
	<u>Quoted Prices</u>	<u>Observed Inputs</u>	<u>Quoted Prices</u>	<u>Observed Inputs</u>
Marketable securities	\$ 276,975	\$ 325,015	\$ 250,500	\$ 325,015
Unit based compensation	-	504,942	-	217,986
Convertible debentures	36,354,097	-	36,985,161	-
Convertible mortgage	-	4,167,458	-	4,162,798

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

The carrying value of the mortgage loans are impacted by changes in market yields which can result in differences between the carrying value and fair value of instruments. The fair value of mortgage loans has been estimated based on the current market rates for debt with similar terms and conditions. The estimated fair value of mortgage loans as at June 30, 2011 is \$150,399,219 (December 31, 2010 - \$164,046,616).

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011

20 *Segmented financial information*

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

Three Months Ended June 30, 2011:

	Fort McMurray	Other	Trust	Total
Room revenue	\$ 6,979,854	\$ 4,911,557	\$ -	\$ 11,891,411
Other hotel revenue	470,248	6,341,976	-	6,812,224
Hotel operating costs	3,310,251	8,440,405	-	11,750,656
Operating income	4,139,851	2,813,128	-	6,952,979
Interest expense, net	1,319,718	1,035,632	742,186	3,097,536
Depreciation	1,110,261	664,428	-	1,774,689
Trust expenses	-	-	394,217	394,217
Change in fair value of financial instruments	43,505	-	(1,073,417)	(1,029,912)
Income taxes	-	35,956	512,069	548,025
Income (loss)	\$ 1,666,367	\$ 1,077,112	\$ (575,055)	\$ 2,168,424
Total assets	\$154,081,305	\$104,350,904	\$ 459,683	\$258,891,892
Total liabilities	\$ 95,817,111	\$ 73,981,020	\$26,614,964	\$196,413,095
Total assets - December 31, 2010	\$155,920,295	\$103,924,312	\$ 636,829	\$260,481,436
Total liabilities - December 31, 2010	\$ 99,782,699	\$ 75,475,072	\$40,394,345	\$215,652,116

Three Months Ended June 30, 2010:

	Fort McMurray	Other	Trust	Total
Room revenue	\$ 5,259,724	\$ 4,472,972	\$ -	\$ 9,732,696
Other hotel revenue	412,610	5,523,224	-	5,935,834
Hotel operating costs	2,953,661	7,641,393	-	10,595,054
Operating income	2,718,673	2,354,803	-	5,073,476
Interest expense, net	1,745,591	1,035,313	792,632	3,573,536
Depreciation	1,097,663	647,365	-	1,745,028
Trust expenses	-	-	219,383	219,383
Change in fair value of financial instruments	92,259	-	2,460,505	2,552,764
Income taxes	-	61,763	(469,409)	(407,646)
Income (loss)	\$ (216,840)	\$ 610,362	\$ (3,003,111)	\$ (2,609,589)
Total assets - December 31, 2010	\$155,920,295	\$103,924,312	\$ 636,829	\$260,481,436
Total liabilities - December 31, 2010	\$ 99,782,699	\$ 75,475,072	\$40,394,345	\$215,652,116

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011

20 *Segmented financial information (continued)*

Six Months Ended June 30, 2011:

	Fort McMurray	Other	Trust	Total
Room revenue	\$ 12,722,567	\$ 9,629,549	\$ -	\$ 22,352,116
Other hotel revenue	896,008	12,121,962	-	13,017,970
Hotel operating costs	6,431,462	16,366,058	-	22,797,520
Operating income	7,187,113	5,385,453	-	12,572,566
Interest expense, net	2,842,869	2,080,345	1,510,274	6,433,488
Depreciation	2,212,886	1,319,141	-	3,532,027
Trust expenses	-	-	520,049	520,049
Change in fair value of financial instruments	4,660	-	1,979,440	1,984,100
Income taxes	-	65,329	200,184	265,513
Income (loss)	\$ 2,126,698	\$ 1,920,638	\$ (4,209,947)	\$ (162,611)

Six Months Ended June 30, 2010:

	Fort McMurray	Other	Trust	Total
Room revenue	\$ 10,212,125	\$ 8,551,856	\$ -	\$ 18,763,981
Other hotel revenue	810,557	10,988,840	-	11,799,397
Hotel operating costs	5,908,906	14,794,817	-	20,703,723
Operating income	5,113,776	4,745,879	-	9,859,655
Interest expense, net	3,532,374	2,063,472	1,588,442	7,184,288
Depreciation	2,195,164	1,294,462	-	3,489,626
Trust expenses	-	-	583,390	583,390
Change in fair value of financial instruments	(115,863)	-	1,127,848	1,011,985
Income taxes	-	130,446	(581,484)	(451,038)
Income (loss)	\$ (497,899)	\$ 1,257,499	\$ (2,718,196)	\$ (1,958,596)

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011

21 *Management of capital*

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

	June 30 2011	December 31 2010
Debt	\$ 183,991,916	\$ 204,494,094
Unitholders' equity	<u>62,478,797</u>	<u>44,829,320</u>
Total	<u>\$ 246,470,713</u>	<u>\$ 249,323,414</u>

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

The overall capital management strategy addresses the following considerations:

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

As of June 30, 2011 and December 31, 2010, total mortgage indebtedness was 49% and 57% respectively of the appraised value of properties. The individual property appraisals were prepared between 2007 and 2010.

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

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

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

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011

22 *Commitments*

Operating lease agreements

The Trust is committed under the terms of operating lease agreements for occupancy and equipment with the following annual lease payments for the 12 months ending June 30 are as follows:

2012	309,730
2013	98,500
2014	33,336
2015	21,487
2016	9,230

Operating cost agreement

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

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

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

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

Hotel management

The Trust has retained Atlific Hotels and Resorts to manage all of the hotels for its existing property portfolio. For the three months ended June 30, 2011, the Trust paid management fees of \$427,672 (2010 - \$357,019) and \$826,387 for the six months ended June 30, 2011 (2010 - \$714,277).

Contingencies

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

23 *Adoption of IFRS*

Effective January 1, 2010, the Trust adopted IFRS and has prepared its opening balance sheet as at January 1, 2010. Financial information was previously issued under Canadian GAAP and has been restated in accordance with IFRS. Details of the accounting policies and transition elections are disclosed in the March 31, 2011 interim report.

Balance sheet transition

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

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011

RECONCILIATION OF BALANCE SHEET INFORMATION BETWEEN GAAP AND IFRS AS OF JUNE 30, 2010

	<u>Canadian GAAP</u>	<u>Changes in Presentation</u>	<u>Changes in Measurement</u>	<u>IFRS</u>
ASSETS				
Current assets				
Cash	\$ 8,659,217	\$ -	\$ -	\$ 8,659,217
Rent and other receivable	2,054,607	-	-	2,054,607
Deposits and prepaids	361,161	252,321	-	613,482
Marketable securities	605,558	-	-	605,558
Inventories	828,844	-	-	828,844
Current portion net investment in lease	<u>129,870</u>	<u>-</u>	<u>-</u>	<u>129,870</u>
Total current assets	<u>12,639,257</u>	<u>252,321</u>	<u>-</u>	<u>12,891,578</u>
Non-current assets				
Property and equipment	245,536,872	-	-	245,536,872
Net investment in lease	4,450,515	-	-	4,450,515
Goodwill	1,608,282	-	-	1,608,282
Other assets	1,901,266	(1,901,266)	-	-
Restricted cash	<u>-</u>	<u>1,648,945</u>	<u>-</u>	<u>1,648,945</u>
Total non-current assets	<u>253,496,935</u>	<u>(252,321)</u>	<u>-</u>	<u>253,244,614</u>
Total assets	<u>\$ 266,136,192</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 266,136,192</u>
LIABILITIES AND EQUITY				
Current liabilities				
Accounts payable and other liabilities	\$ 4,804,300	\$ 1,879,615	\$ -	\$ 6,683,915
Unit based compensation payable	-	-	70,826	70,826
Declared distribution payable	1,282,535	-	-	1,282,535
Debt	54,808,834	-	-	54,808,834
Gift certificate liability	<u>1,879,615</u>	<u>(1,879,615)</u>	<u>-</u>	<u>-</u>
	<u>62,775,284</u>	<u>-</u>	<u>70,826</u>	<u>62,846,110</u>
Non-current liabilities				
Mortgage loans payable	116,078,319	(116,078,319)	-	-
Convertible debentures	31,028,394	(31,028,394)	-	-
Debt	-	147,106,713	4,364,660	151,471,373
Deferred tax liabilities	<u>3,183,487</u>	<u>-</u>	<u>(63,736)</u>	<u>3,119,751</u>
Total long-term liabilities	<u>150,290,200</u>	<u>-</u>	<u>4,300,924</u>	<u>154,591,124</u>
Total liabilities	<u>213,065,484</u>	<u>-</u>	<u>4,371,750</u>	<u>217,437,234</u>
Equity				
Trust Units	62,490,881	-	235	62,491,116
Unit based compensation	342,812	-	(342,812)	-
Equity component of convertible mortgage	471,175	-	(471,175)	-
Equity component of convertible debentures	6,101,487	-	(6,101,487)	-
Cumulative earnings	11,247,116	-	2,543,489	13,790,605
Cumulative distributions to unitholders	<u>(27,582,763)</u>	<u>-</u>	<u>-</u>	<u>(27,582,763)</u>
Total equity	<u>53,070,708</u>	<u>-</u>	<u>(4,371,750)</u>	<u>48,698,958</u>
Total liabilities and equity	<u>\$ 266,136,192</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 266,136,192</u>

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011

23 *Adoption of IFRS (continued)*

Changes in presentation in the balance sheets

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

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

Changes in measurement in the balance sheets

Convertible debentures and convertible mortgage

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

Unit based compensation

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

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

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

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011

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

	<u>Canadian GAAP</u>	<u>Changes in Presentation</u>	<u>Changes in Measurement</u>	<u>IFRS</u>
Revenue				
Hotel revenue	\$ 15,229,834	\$ (15,229,834)	\$ -	\$ -
Interest and other income	524,287	(524,287)	-	-
Room revenue	-	9,732,696	-	9,732,696
Other hotel revenue	-	5,935,834	-	5,935,834
	<u>15,754,121</u>	<u>(85,591)</u>	<u>-</u>	<u>15,668,530</u>
Total revenue				
Expenses				
Hotel operating costs	<u>10,595,054</u>	<u>-</u>	<u>-</u>	<u>10,595,054</u>
Hotel operating income	<u>5,159,067</u>	<u>(85,591)</u>	<u>-</u>	<u>5,073,476</u>
Interest expense, net	4,001,516	(85,591)	(342,389)	3,573,536
Trust expense	219,383	-	-	219,383
Depreciation	1,745,028	-	-	1,745,028
Change in fair value of financial instruments	-	117,225	2,434,044	2,551,269
Marketable securities loss (income)	<u>(117,225)</u>	<u>117,225</u>	<u>-</u>	<u>-</u>
Income (loss) before taxes	<u>(924,085)</u>	<u>-</u>	<u>(2,091,655)</u>	<u>(3,015,740)</u>
Income tax expense (recovery)				
Current	69,203	-	-	69,203
Deferred	<u>(231,234)</u>	<u>-</u>	<u>(245,615)</u>	<u>(476,849)</u>
	<u>(162,031)</u>	<u>-</u>	<u>(245,615)</u>	<u>(407,646)</u>
Net income (loss) and comprehensive income (loss)	<u>\$ (762,054)</u>	<u>\$ -</u>	<u>\$ (1,846,040)</u>	<u>\$ (2,608,094)</u>

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2011

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

	<u>Canadian GAAP</u>	<u>Changes in Presentation</u>	<u>Changes in Measurement</u>	<u>IFRS</u>
Revenue				
Hotel revenue	\$ 29,720,164	\$ (29,720,164)	\$ -	\$ -
Interest and other income	1,014,974	(1,014,974)	-	-
Room revenue	-	18,763,981	-	18,763,981
Other hotel revenue	-	11,799,397	-	11,799,397
	<u>30,735,138</u>	<u>(171,760)</u>	<u>-</u>	<u>30,563,378</u>
Total revenue				
Expenses				
Hotel operating costs	<u>20,703,723</u>	<u>-</u>	<u>-</u>	<u>20,703,723</u>
Hotel operating income	<u>10,031,415</u>	<u>(171,760)</u>	<u>-</u>	<u>9,859,655</u>
Interest expense, net	8,074,809	(171,760)	(718,761)	7,184,288
Trust expense	583,390	-	-	583,390
Depreciation	3,489,626	-	-	3,489,626
Change in fair value of financial instruments	-	22,650	987,836	1,010,486
Marketable securities loss (income)	<u>(22,650)</u>	<u>22,650</u>	<u>-</u>	<u>-</u>
Income (loss) before taxes	<u>(2,139,060)</u>	<u>-</u>	<u>(269,075)</u>	<u>(2,408,135)</u>
Income tax expense (recovery)				
Current	137,886	-	-	137,886
Deferred	<u>(528,641)</u>	<u>-</u>	<u>(60,283)</u>	<u>(588,924)</u>
	<u>(390,755)</u>	<u>-</u>	<u>(60,283)</u>	<u>(451,038)</u>
Net income (loss) and comprehensive income (loss)	<u>\$ (1,748,305)</u>	<u>\$ -</u>	<u>\$ (208,792)</u>	<u>\$ (1,957,097)</u>

TEMPLE REAL ESTATE INVESTMENT TRUST

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2011

23 *Adoption of IFRS (continued)*

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

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

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

Convertible debentures and convertible mortgage

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

Unit based compensation

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

Income tax expense

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

Other impacts

a) Cash flow statement

The transition from Canadian GAAP to IFRS had no significant impact on the cash flow statements for the three and six months ended June 30, 2010.

b) Net loss per unit

As a result of the transition from Canadian GAAP to IFRS basic and diluted net loss per unit decreased \$0.14 and \$0.02 to a loss of \$0.20 and \$0.15 per unit for the three and six months ended June 30, 2010 respectively.