TEMPLE
Hotels Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2018

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Temple Hotels Inc. ("Temple" or the "Company") has been operating as a corporate entity since December 31, 2012, pursuant to a statutory plan of arrangement under the *Canada Business Corporations Act*. Prior to December 31, 2012, Temple operated as Temple Real Estate Investment Trust, an open-ended real estate investment trust which was formed under the laws of the Province of Manitoba on July 12, 2006.

The financial statements of Temple reflect the financial position of the Company as of December 31, 2018. Management's Discussion and Analysis ("MD&A") contains references to Temple Hotels Inc. or the "Company" or simply to "Temple", depending on the context of the discussion.

The MD&A of the Company should be read in conjunction with the audited consolidated financial statements of Temple Hotels Inc. for the year ended December 31, 2018. This MD&A is based on financial information prepared in accordance with International Financial Reporting Standards ("IFRS") and is dated February 20, 2019. Disclosure contained in this document is current to that date unless otherwise noted.

Additional information relating to Temple Hotels Inc., including the Company's Annual Information Form, can be found at www.sedar.com and www.templehotels.ca.

Forward-Looking Statements

Statements contained herein that are not based on historical or current fact, including without limitation, statements containing the words "anticipates", "believes", "may", "continue", "estimate", "expects" and "will" and words of similar expression, constitute "forward-looking statements". Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, events or developments to be materially different from any future results, events or developments expressed or implied by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions, both nationally and in the regions in which the Company operates; changes in business strategy or development/acquisition plans; environmental exposures; financing risk; existing governmental regulations and changes in, or the failure to comply with, governmental regulations; liability and other claims asserted against the Company; and other factors referred to in the Company's filings with Canadian securities regulators. Given these uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. The Company does not assume the obligation to update or revise any forward-looking statements.

Financial Statements

Throughout this report, the consolidated financial statements as of December 31, 2018 will be referred to as the "Financial Statements"; the consolidated balance sheets as of December 31, 2018 will be referred to as the "Balance Sheet"; the consolidated statement of net loss and comprehensive loss for the year ended December 31, 2018 will be referred to as the "Income Statement"; and the consolidated statement of cash flows for the year ended December 31, 2018 will be referred to as the "Statement of Cash Flows".

Monetary Data

Monetary data in tabular form and in the text, unless otherwise indicated or required by context, are in thousands of Canadian dollars, except for per common share, average daily rate ("ADR") and revenue per available room ("RevPar") amounts which are provided in Canadian dollars.

Purchase Price/Acquisition Cost

Unless otherwise noted, all references to "purchase price(s)" or "acquisition cost(s)", as disclosed in this report, exclude closing costs and other adjustments on closing.

Hotel Property Segments

To facilitate more meaningful comparisons in certain sections of this report, the hotel properties are categorized into distinct segments referred to as the "Same Property" segment and the "Sold Property" segment. In addition, the Same Property segment is further categorized into the "Fort McMurray" segment, "Other Alberta" segment and the "Other Canada" segment. Same Property measures the operating performance for properties owned by the Company continuously for a selected reporting period and does not take into account the impact of the operating performance of property acquisitions and dispositions during the selected reporting period.

The Same Property segment consists of the 28 hotel properties which were continuously owned by Temple since January 1, 2017. The Fort McMurray, Other Alberta and Other Canada segments consist of the nine hotel properties located in Fort McMurray, four hotel properties located in Alberta outside of Fort McMurray and the remaining 15 hotels that were located outside of Alberta.

The Sold Property segment consists of one property in Alberta which was sold on September 15, 2017.

In reference to the segments defined in the preceding paragraphs, the word "segment" is used interchangeably with the word "portfolio" throughout this report.

FINANCIAL SUMMARY

	December 31 2018	December 31 2017	December 31 2016
BALANCE SHEET			
Total assets	$448,906	$482,204	$577,428
Total debt	$457,412	$455,851	$529,016
Weighted average interest rate of total debt including revolving loan debt	5.71%	5.62%	5.37%
Weighted average interest of mortgage loan debt	5.44%	5.33%	4.66%
Weighted average term to maturity of mortgage loan debt (years)	1.86	2.35	1.11

	Year Ended December 31		
	2018	2017	2016
KEY PERFORMANCE INDICATORS			
Operations:			
Occupancy *	62%	62%	59%
ADR *	$141.37	$138.88	$139.81
RevPar *	$87.06	$85.70	$82.71
Operating profit margin *	24%	26%	27%
Operating results:			
Total revenue	$165,809	$165,612	$162,236
Hotel operating income **	$39,865	$42,885	$44,548
Provision for impairment	($27,695)	($18,607)	($104,850)
Net loss	($31,924)	($23,033)	($133,177)
Cash flows:			
Cash flow provided by operating activities	$11,332	$11,873	$17,382
Cash flow provided by operating activities, excluding working capital adjustments	$10,825	$14,882	$13,365
Funds from operations *	$11,227	$14,051	$11,640
PER COMMON SHARE AMOUNTS	Basic	Basic	Basic
Net loss	($1.27)	($0.91)	($9.81)
Funds from operations *	$0.45	$0.55	$0.86
Weighted average number of common shares	25,197,471	25,348,718	13,573,459

*** Non-IFRS Measures**

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

** The terms "hotel operating income"; "net operating income" and "NOI" are used interchangeability throughout this report.

Details regarding the calculation of the non-IFRS measures and a reconciliation from IFRS measures, where applicable, are provided in the report.

2018 Key Points

- Revenue increased by $197 during the year ended December 31, 2018 compared to 2017, primarily due to an increase in revenue within the Other Canada and Other Alberta portfolios of $3,106 and $1,798, respectively, partially offset by decreases in revenue within the Fort McMurray and Sold Property portfolios of $2,850 and $1,857, respectively.

- Hotel operating income decreased by $3,020 or 7% during the year ended December 31, 2018 compared to 2017, primarily due to a decrease in hotel operating income within the Fort McMurray and Sold Property portfolios of $3,292 and $483, respectively, offset by an increase in hotel operating income within the Other Alberta and Other Canada portfolios of $391 and $364, respectively.

- FFO decreased by $2,824 during the year ended December 31, 2018, compared 2017. On a basic per common share basis, FFO decreased by $0.10 per common share, compared to 2017.

- On February 23, 2018, the Company entered into a credit facility with Morguard Corporation ("Morguard"), a related party, in the amount of $35,000 ("Credit Facility B"), for a term of three years, and bears interest at the rate of 6.5% per annum. As at December 31, 2018, the amount drawn on Credit Facility B was $35,000.

- On April 2, 2018, the Company fully repaid the 7% Series F convertible debentures in the amount of $34,419.

- On October 1, 2018, the Company redeemed $2,258 of the principal amount of the Series E debentures outstanding.

Operating Activities

- *Net Loss* - Temple completed 2018 with a net loss of $31,924 or $1.27 per common share, compared to a net loss of $23,033 or $0.91 per common share during 2017. The increase in net loss is mainly due to an increase in provision for impairment of $9,088, a decrease in hotel operating income of $3,020 and a decrease in other income of $426, partially offset by an increase in deferred income tax recovery of $2,264, a decrease in interest expense of $949 and a decrease in depreciation of $538.

- *Occupancy and ADR* – The increase in Same Property revenue primarily reflects the higher ADR levels within the Other Canada segment. During 2018, the ADR level of the Other Canada segment increased by $3.61 to $147.65, in comparison to 2017. Improved occupancy levels in the Other Alberta portfolio by 1% to 53%, in comparison to 2017, also contributed to the increase in revenue. The increase in revenue was partially offset by lower occupancy within the Fort McMurray segment in 2018 compared to 2017, as a result of the unfavourable market conditions continuing to affect oil-dependent markets in Alberta.

- *Cash Provided by Operating Activities* – Cash provided by operating activities decreased by $541 in 2018, compared to 2017. After excluding working capital adjustments, cash provided by operating activities decreased by $4,057, compared to 2017.

- *Funds from Operations ("FFO")* – During 2018, FFO decreased by $2,824, compared to 2017. The decrease in FFO mainly reflects a decrease in hotel operating income, due to the factors noted above, and a decrease in other income, partially offset by a decrease in interest expense. On a basic per common share basis, FFO decreased by $0.10 per common share compared to 2017.

- *Asset Impairment* – During 2018, a non-cash provision for impairment of $27,695 was recorded to reflect the impact of the economic condition on the carrying value at ten of Temple’s hotel properties located in Alberta.

Liquidity and Financing Activities

As of December 31, 2018, the unrestricted cash balance of Temple was $15,088 and working capital was $7,006.

- During the year ended December 31, 2018, the Company borrowed an additional $16,500 under its existing revolving loan agreement with Morguard ("Credit Facility A") and the Company used the proceeds to repay a second mortgage, secured by three properties in Nova Scotia, in the amount of $16,000 which had an interest rate of 5.0%.

- On February 23, 2018, the Company entered into Credit Facility B with Morguard in the amount of $35,000, for a term of three years, and bears interest at the rate of 6.5% per annum. As at December 31, 2018, the amount drawn on Credit Facility B was $35,000.

- On April 2, 2018, the Company fully repaid the 7% Series F convertible debentures in the amount of $34,419.

- On October 1, 2018, Temple redeemed $2,258 of the principal amount of the Series E debentures outstanding.

- On December 6, 2018, the Company refinanced a three-loan mortgage portfolio with the incumbent lender for additional mortgage proceeds amounting to $16,223. The mortgage portfolio is secured by three hotels located in Nova Scotia bearing interest at bankers' acceptance plus 3.35% for a three year term.

Investing Activities

As disclosed in the Statement of Cash Flows in the financial statements, the investing activities of Temple resulted in a net cash outflow of $6,915 during 2018. Investing activities primarily reflect cash outflows related to capital expenditures on hotel properties, partially offset by the cash distribution on equity investments.

Debt Covenants

At December 31, 2018, the Company was not in compliance with debt service covenants affecting seven mortgage loans in the aggregate amount of $104,525. The loan covenant breaches are expected to be resolved by debt refinancings, loan modification agreements and/or a waiver of the covenant requirements. None of the lenders have demanded payment of the mortgage loans, however, IFRS requires that the loan balance of mortgage loans in breach of debt covenants be included in the current portion of debt. Subsequent to December 31, 2018, the Company received a waiver in regard to one mortgage loan with an aggregate principal balance of $14,497.

Risks and Uncertainties

Details of the key risks of Temple are provided in the section of this MD&A titled "Operating Risks and Uncertainties".

OVERVIEW OF OPERATIONS AND INVESTMENT STRATEGY

Temple Hotels Inc.

Temple Hotels Inc. is a corporation governed by the *Canada Business Corporations Act* and the constating documents of the Company. The head office of the Company is located at 55 City Centre Drive, Suite 1000 in Mississauga, Ontario.

Temple invests, directly and indirectly, in hotel properties and assets. The primary business activity of the Company is the active management of the acquired/developed properties and the acquisition and development of income-producing hotel properties.

Prior to December 31, 2012, Temple operated as Temple Real Estate Investment Trust, an open-ended real estate investment trust which was formed under the laws of the Province of Manitoba on July 12, 2006.

Stock Exchange Listing

The common shares of Temple are listed on the Toronto Stock Exchange ("TSX") under the trading symbol "TPH" and the Series E convertible debentures are listed on the TSX under the trading symbol "TPH.DB.E".

Overall Investment Objectives and Strategy

Core Business and Strategy

Temple owns a portfolio of income-producing hotel properties. The core business activities of the Company consist of investment, development and management activities which are focused on maximizing the return on the hotel portfolio.

As of December 31, 2018, the hotel portfolio of the Company consists of 28 hotel properties comprising 3,785 rooms, of which nine hotel properties are located in Fort McMurray, Alberta. Temple also has two 50% equity interests in limited partnerships which own hotel properties located in Ontario, comprising 299 rooms.

On June 30, 2016, the Board of Directors (the "Board") announced that it is conducting a comprehensive review of strategic alternatives available to best enhance the long-term interests of Temple and all of its stakeholders (the "Strategic Review"). The review process is continuing and there can be no assurance that the Board’s process will result in any specific action. Temple does not intend to disclose further developments unless and until the Board approves a specific action or otherwise concludes its Strategic Review.

Primary Objectives

The primary long-term investment objectives of the Company are to yield stable and growing cash flows and to maximize the long-term share value of the Company through the active management of its assets, accretive acquisitions, and the performance of value-added capital improvement programs on selected properties, as deemed appropriate.

Financing

The overall financing strategy of the Company is to raise investment capital through the issuance of common shares and/or convertible debentures. In general, new property acquisitions will be funded by arranging new mortgage financing or by 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 common shares.

Temple intends to efficiently utilize and manage leverage, targeting mortgage debt in the range of 50% to 60% of appraised value in order to maximize return on equity while maintaining cash flow stability. In addition, Temple will pursue the upward refinancing of under-leveraged properties or the subsequent arrangement of mortgage financing for properties which are initially acquired without mortgage debt in place.

Temple may 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 common share and/or convertible debenture offerings.

Management

Existing Management Structure

Effective April 1, 2016, Morguard provides asset management services to the Company, pursuant to the asset management agreement. Morguard has a highly qualified management team with years of experience in real estate investment and development activities and in the asset management and property management industry. The Chairman and Chief Executive Officer of Morguard, Mr. K. Rai Sahi, serves as Chief Executive Officer of the Company. Mr. Paul Miatello, the Chief Financial Officer of Morguard, serves as the Chief Financial Officer of the Company.

Additional information regarding the terms of the asset management agreement and remuneration of Shelter and Morguard is provided in the section of this report titled, "Related Party Transactions".

Twenty-nine of thirty properties owned by Temple are currently operated and managed by Atlific Hotels ("Atlific"). Atlific currently manages a portfolio of properties across Canada, including hotels with the Marriott, Hilton, Days Inn, Comfort Inn, Sheraton, Wyndham, Radisson 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 Ltd. have over 80 years of experience in hotel management and manage a portfolio of over 100 properties. Details of the terms of the Atlific management agreements for the hotels in the Temple portfolio are provided in the section of this report entitled "Hotel Management".

PROPERTY PORTFOLIO

Property Portfolio – December 31, 2018

As disclosed in the following chart, the hotel portfolio of Temple consists of 28 hotel properties which are 100% owned by the Company as at December 31, 2018, comprising 3,785 rooms. The geographic location of the hotels is as follows:

• Fort McMurray, Alberta	9 properties	889 rooms
• Other Alberta	4 properties	754 rooms
• Other Western Canada	7 properties	1,038 rooms
• Eastern Canada	8 properties	1,104 rooms

The hotel portfolio includes two "extended-stay" properties (Stanton Suites Hotel, Yellowknife and Clearwater Timberlea, Fort McMurray). During the second quarter of 2018, the balance sheet classification of the Cortona Residence changed from an investment property to property and equipment following the expiry of a long term lease.

Temple also has two 50% equity interests in limited partnerships which own hotels in London and Ottawa, Ontario.

Change in Hotel Portfolio - 2018 vs 2017

On September 15, 2017, Temple sold one hotel property, Holiday Inn Express, Sherwood Park, Alberta, which was acquired in June 2013.

Available Guest Rooms

As of December 31, 2018 and 2017, the hotel portfolio encompassed a total of 3,785 guest rooms. Temple also participates in 50% of the earnings from the two hotels in which it has a 50% limited partnership interest. The two hotels encompass a total of 299 guest rooms.

On April 30, 2018, a long-term lease at the Cortona Residence expired. From May 1, 2018 to October 22, 2018, the property was unavailable, as it transitioned to a hotel and commenced hotel operations.

Financial Statement Presentation

All of the 100% owned hotel properties are classified as "Property and equipment" on the Balance Sheet. The two hotels in which Temple has a 50% equity interest are classified as "Investment in hotel properties" on the Balance Sheet.

Equity Investments in Hotel Properties – December 31, 2018

Property	Location	Acquisition Date	Rooms/Suites
Ontario			
Courtyard Marriott	Ottawa	December 2012	183
Residence Inn Marriott	London	January 2013	116
Subtotal			**299**

The property portfolio of Temple consisted of an average of 3,758 available rooms during 2018, compared to an average of 3,848 available rooms during 2017.

Property Portfolio – December 31, 2018

Property	Location	Acquisition Date	Rooms/Suites
Direct Investments in Hotel Properties			
British Columbia			
Inn at the Quay	New Westminster	June 2012	126
Alberta			
Fort McMurray			
Clearwater Suite Hotel	Fort McMurray	March 2007	150
Merit Hotel & Suites	Fort McMurray	April 2007	160
Franklin Suites	Fort McMurray	April 2007	75
Nomad Hotel	Fort McMurray	April 2007	137
Nomad Suites	Fort McMurray	April 2007	27
Vantage Inn and Suites	Fort McMurray	February 2008	83
Radisson Hotel & Suites	Fort McMurray	February 2012	134
Clearwater Timberlea	Fort McMurray	May 2012	66
Cortona Residence (1)	Fort McMurray	April 2014	57
			889
Other			
Days Hotel and Suites	Lloydminster	June 2008	128
Sheraton Red Deer Hotel	Red Deer	December 2008	241
Hilton Garden Inn	Edmonton	August 2012	160
Acclaim Hotel Calgary Airport	Calgary	November 2013	225
			754
Northwest Territories			
Days Inn and Suites	Yellowknife	March 2007	80
Stanton Suites Hotel	Yellowknife	December 2013	106
			186
Saskatchewan			
Temple Gardens Mineral Spa Resort Hotel (2)	Moose Jaw	October 2006	181
Wingate by Wyndham Regina	Regina	December 2011	118
Saskatoon Inn & Conference Centre	Saskatoon	November 2012	257
			556
Manitoba			
Holiday Inn Winnipeg South	Winnipeg	January 2013	170
Ontario			
Holiday Inn Express	Ottawa	October 2013	115
Days Inn North	Thunder Bay	July 2014	92
Days Inn & Suites	Thunder Bay	July 2014	92
Hilton Garden Inn Toronto Airport West	Mississauga	August 2014	152
Towne Place Suites by Marriott	Sudbury	August 2014	105
			556
Nova Scotia			
The Prince George Hotel	Halifax	March 2013	203
Cambridge Suites Hotel Halifax	Halifax	March 2013	200
Cambridge Suites Hotel Sydney	Sydney	March 2013	145
			548
Total			**3,785**

(1) During the second quarter of 2018, the balance sheet classification of the Cortona Residence changed from an investment to property and equipment following the expiry of its long-term lease.

(2) The Temple Gardens Mineral Spa Resort Hotel includes a 50% co-ownership agreement in regard to a 23,400 square foot casino complex ("the Casino Moose Jaw") which is located adjacent to the Temple Gardens Hotel and Spa.

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ANALYSIS OF OPERATING RESULTS

Analysis of Net Loss and Comprehensive Loss*

	Year Ended December 31		
	2018	2017	Increase/ (Decrease) in Income
Revenue			
Room revenue	$119,151	$120,831	($1,680)
Other hotel revenue	46,658	44,781	1,877
Total revenue	165,809	165,612	197
Hotel operating costs	125,944	122,727	(3,217)
Hotel operating income	39,865	42,885	(3,020)
Interest expense	27,660	28,609	949
Other expense (income)	(810)	(1,236)	(426)
Share based compensation	74	133	59
General and administrative expenses	3,637	3,277	(360)
Depreciation and amortization	16,913	17,745	832
	(7,609)	(5,643)	(1,966)
Equity income on investment in hotel properties	1,069	1,170	(101)
Provision for impairment	(27,695)	(18,607)	(9,088)
Deferred income tax recovery	2,311	47	2,264
Net loss and comprehensive loss	($31,924)	($23,033)	($8,891)
Per Common Share Results:			
Basic and diluted	($1.27)	($0.91)	

* The analysis of net loss and comprehensive loss represents the reformatting of balances from the consolidated statements of net loss and comprehensive loss, per the financial statements of Temple, in order to provide amounts which correspond to the analysis in this report. All of the amounts in the analysis agree to the financial statements with the following exceptions:
(i) Depreciation and amortization amounts have been combined.
(ii) The analysis does not provide a subtotal for "net loss before income taxes".

Per Common Share Results

For 2018, net loss was $1.27 per common share, compared to a net loss per common share of $0.91 in 2017.

Overall Results

Temple completed 2018 with a net loss before equity income, provision for impairment and deferred income taxes of $7,609, compared to a net loss before equity income, provision for impairment and deferred income taxes of $5,643 in 2017, representing an increase in loss of 1,966.

As explained in greater detail in the following sections of this report, the decrease in net loss before equity income, provision for impairment and deferred income taxes mainly reflects a decrease in net operating income of $3,020, a decrease in other income of $426 and an increase of general and administrative expenses of $360, partially offset by a decrease in interest expense of $949 and a decrease in depreciation and amortization of $832.

After providing for equity income, provision for impairment and deferred income taxes, Temple completed 2018 with a net loss of $31,924, compared to a net loss of $23,033 during 2017, representing an increase in net loss of $8,891.

Revenue

Total Revenue

Analysis of Total Revenues

	Year Ended December 31				
	2018		2017		Increase/
	Amount	% of Total	Amount	% of Total	(Decrease)
Revenue					
Room revenue	$ 119,151	72%	$ 120,831	73%	$ (1,680)
Other hotel revenue	46,658	28%	44,781	27%	1,877
Total	$ 165,809	100%	$ 165,612	100%	$ 197

The revenue of Temple is comprised of "room revenue" and "other hotel revenue". Room revenue is generated from the rental of rooms. Other hotel revenue includes food and beverage, spa, video lottery terminal, parking, and gift shop revenues. Revenue from the Cortona Residence is also included in room revenue. Revenue from the "equity interest" hotels is disclosed separately in the financial statements under the line title "equity income on investment in hotel properties". As disclosed in the preceding chart, total revenue increased by $197 during the year ended December 31, 2018, compared to the year ended December 31, 2017, comprised of a $1,877 increase in other hotel revenue, partially offset by a $1,680 decrease in room revenue.

During the year ended December 31, 2018, room revenue and other hotel revenue accounted for 72% and 28% of total revenue, respectively, compared to 73% and 27% during the same period of 2017.

As discussed in the following sections of this MD&A, the relative significance of other hotel revenue varies considerably between hotels and is a major factor affecting hotel profit margins.

Hotel Revenue

Analysis of Total Hotel Revenues

	Year Ended December 31		
	2018	2017	Increase/ (Decrease)
Same Property			
Fort McMurray			
Room revenue	$ 19,408	$ 22,326	$ (2,918)
Other hotel revenue	1,410	1,342	68
	$ 20,818	$ 23,668	$ (2,850)
Other Alberta			
Room revenue	$ 17,587	$ 17,058	$ 529
Other hotel revenue	19,419	18,150	1,269
	$ 37,006	$ 35,208	$ 1,798
Other Canada			
Room revenue	$ 82,156	$ 79,619	$ 2,537
Other hotel revenue	25,829	25,260	569
	$ 107,985	$ 104,879	$ 3,106
Total - Same Property			
Room revenue	**$ 119,151**	**$ 119,003**	**$ 148**
Other hotel revenue	**46,658**	**44,752**	**1,906**
Total hotel revenue	**$ 165,809**	**$ 163,755**	**$ 2,054**
Total - Sold Property			
Room revenue	$ -	$ 1,828	$ (1,828)
Other hotel revenue	-	29	(29)
Total hotel revenue	$ -	$ 1,857	$ (1,857)
Total			
Room revenue	**$ 119,151**	**$ 120,831**	**$ (1,680)**
Other hotel revenue	**46,658**	**44,781**	**1,877**
Total hotel revenue	**$ 165,809**	**$ 165,612**	**$ 197**

Room Revenue

Factors Affecting Revenue

Room revenue for all hotels may be periodically affected by the completion of major hotel renovation programs which involve the temporary removal of rooms from the revenue pool, particularly if the renovations are being completed at a hotel with comparatively high room rates. The room revenue results for the "Sold Property" portfolio are affected by the timing of dispositions.

Comparative Results

During 2018, Same Property room revenue increased by $148, compared to 2017. The increase is comprised of a $2,537 (3%) increase in the Other Canada portfolio and a $529 (3%) increase in the Other Alberta portfolio, offset by a $2,918 (13%) decrease in the Fort McMurray portfolio.

The increase in Same Property room revenue during 2018, compared to 2017, is largely due to an increase in ADR and RevPar for the Other Canada segment and an increase in occupancy and RevPar for the Other Alberta segment, partially offset by unfavourable market conditions affecting oil-dependent markets in the Fort McMurray segment.

Room Revenue Statistics

As disclosed in the following chart, for the year ended December 31, 2018, RevPar for the Same Property portfolio was $87.06, compared to $85.81 for the year ended December 31, 2017.

RevPar for Same Property portfolio results generally reflect an increase in ADR within the Other Canada segment and an increase in occupancy in the Other Alberta segment, partially offset by reduced occupancy levels in the Fort McMurray segment.

Room Revenue Statistics

	Year Ended December 31					
	2018			2017		
	Occ	ADR	RevPar	Occ	ADR	RevPar
Same Property						
Fort McMurray	44%	$ 138.94	$ 61.42	48%	$ 138.35	$ 65.92
Other Alberta	53%	$ 119.79	$ 63.90	52%	$ 120.09	$ 61.98
Other Canada	71%	$ 147.65	$ 105.18	71%	$ 144.04	$ 101.93
Total – Same Property	**62%**	**$ 141.37**	**$ 87.06**	**62%**	**$ 139.00**	**$ 85.81**
Sold Property	-	$ -	$ -	60%	$ 131.42	$ 79.01
Overall Portfolio	**62%**	**$ 141.37**	**$ 87.06**	**62%**	**$ 138.88**	**$ 85.70**

The above chart excludes the Cortona Residence, which commenced operating as a hotel on October 22, 2018.

The occupancy level (Occ) is calculated by dividing the number of rooms available during the reporting period into the number of rooms actually rented. The average daily rate (ADR) is a non-IFRS measure commonly used in the hotel industry to evaluate hotel operations and is calculated by dividing total room revenue by the number of rooms rented.

RevPar is a non-IFRS measure 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 ADR by the occupancy level. RevPar does not include revenues from food and beverage operations or from other hotel services.

Other Hotel Revenue

Other hotel revenue includes food and beverage revenue, spa revenue, video lottery terminal revenue, rental revenue, parking and gift shop revenue. Hotels which encompass more extensive amenities, such as lounges, restaurants, liquor stores, banquet and conference facilities, generate a higher amount of other hotel revenue in comparison to the other hotels.

At December 31, 2018, there are five hotels in the portfolio which generate proportionately higher levels of other hotel revenue, namely the Sheraton Red Deer, Temple Gardens Hotel and Spa, Saskatoon Inn, Prince George Hotel and Days Inn Lloydminster. The Sheraton Red Deer and Days Inn Lloydminster are included in the Other Alberta segment and the remaining three hotels are included in the Other Canada segment. During 2018, the five hotels contributed $34,333 to other hotel revenue, representing 74% of total other hotel revenue. All of the other hotel properties contribute to other hotel revenue to some extent.

Hotels with a higher proportion of other hotel revenue, such as the Sheraton Red Deer, also tend to have a lower overall profit margin due to the comparatively high level of operating costs which are directly related to the food and beverage facilities of the hotel. Increases or decreases in other hotel revenue also typically result in proportionately higher increases or decreases in hotel operating costs, due to the revenue/cost relationship.

During the year ended December 31, 2018, other hotel revenue in the Same Property portfolio increased by $1,906 or 4%, compared to 2017, mainly comprised of an increase of $1,269 and $569 from the Other Alberta and Other Canada portfolios, respectively. The increase at the Other Alberta portfolio was a result of higher food and beverage revenues during the year.

Notwithstanding the above, the Sheraton Red Deer was the most significant contributor to other hotel revenue in the Same Property portfolio during 2018, accounting for $15,336 or 33% of other hotel revenue.

Hotel Operating Costs

Hotel operating costs include all costs related to the operation of the hotel properties, including hotel property management fees.

As the Other Alberta segment derives a greater proportion of its total revenue from other hotel revenue, which has lower profit margins, hotel operating costs for the Other Alberta segment are proportionally high relative to other segments.

Analysis of Hotel Operating Costs

	Year Ended December 31		
	2018	2017	Increase/ (Decrease)
Same Property			
Fort McMurray			
Operating expenses [1]	$ 14,109	$ 14,039	$ 70
Property taxes and insurance	1,703	1,331	372
	$ 15,812	$ 15,370	$ 442
Other Alberta			
Operating expenses [1]	$ 29,794	$ 28,405	$ 1,389
Property taxes and insurance	1,835	1,817	18
	$ 31,629	$ 30,222	$ 1,407
Other Canada			
Operating expenses [1]	$ 70,930	$ 68,723	$ 2,207
Property taxes and insurance	7,573	7,038	535
	$ 78,503	$ 75,761	$ 2,742
Total - Same Property			
Operating expenses [1]	**$ 114,833**	**$ 111,167**	**$ 3,666**
Property taxes and insurance	**11,111**	**10,186**	**925**
	$ 125,944	**$ 121,353**	**$ 4,591**
Total - Sold Property			
Operating expenses [1]	$ -	$ 1,254	$ (1,254)
Property taxes and insurance	-	120	(120)
	$ -	$ 1,374	$ (1,374)
Total			
Operating expenses [1]	**$ 114,833**	**$ 112,421**	**$ 2,412**
Property taxes and insurance	**11,111**	**10,306**	**805**
Total hotel operating costs	**$ 125,944**	**$ 122,727**	**$ 3,217**

Note:

(1) Included in operating expenses are hotel management fees, which comprise of hotel property management fees. Hotel property management fees exclude asset management fees, which are classified within general and administrative expense.

During 2018, hotel operating costs for the Same Property portfolio increased by $4,591, compared to 2017, mainly comprised of a $2,742 (4%) increase at the Other Canada properties, as a result of higher labour costs, a $1,407 (5%) increase in hotel operating costs at the Other Alberta properties due to increased costs associated with food and beverage revenues, and a $442 (3%) increase for the Fort McMurray portfolio. The increase at the Fort McMurray portfolio is a result of higher property taxes and insurance and an increase in operating expenses at the Cortona Residence, partially offset by lower operating expenses in correlation with reduced occupancy.

Operating Income and Profit Margin

Operating Income and Profit Margin

	Year Ended December 31			
	Operating Income		Operating Profit Margin	
	2018	2017	2018	2017
Same Property				
Fort McMurray	$ 5,006	$ 8,298	24%	35%
Other Alberta	5,377	4,986	15%	14%
Other Canada	29,482	29,118	27%	28%
Total - Same Property	$ 39,865	$ 42,402	24%	26%
Sold Property	-	483	-	26%
Total portfolio	$ 39,865	$ 42,885	24%	26%

After accounting for the increase in total revenues and the increase in hotel operating costs, total operating income decreased by $3,020 or 7% in 2018, compared to 2017, comprised of decrease of $2,537 or 6% for the Same Property portfolio and a decrease of $483 due to the Sold Property. The decrease in Same Property operating income reflects a $3,292, or 40%, decrease in operating income for the Fort McMurray segment (of which $1,842 was due to the expiry of a long-term lease at the Cortona Residence) offset by a $391, or 8%, increase in operating income for the Other Alberta segment and a $364, or 1%, increase in operating income for the Other Canada segment.

As disclosed in the preceding chart, the overall profit margin of the entire hotel portfolio decreased 2% from 26% to 24% for 2018 as compared to 2017.

Interest Expense

Total Interest Expense

Interest expense encompasses interest from mortgage loan debt, the revolving loan and convertible debentures, as well as accretion on the debt component of convertible debentures, amortization charges for transaction costs on mortgage loans and convertible debenture offerings and amortization of deferred finance costs on the revolving loan.

During 2018, interest expense in regard to mortgage loan debt accounted for 70% (2017 - 67%) of total interest expense, interest expense in regard to debenture debt accounted for 17% (2017 - 32%) and interest in regard to the revolving loan and other accounted for 13% (2017 - 1%). The change in percentages mainly reflects a decrease in the amount of interest expense related to the debentures, due to the repayment of the Series D and F convertible debentures and partial redemption of the Series E convertible debentures, partially offset by higher revolving loan interest due to increased advances on Morguard facilities and higher mortgage interest resulting from higher interest rates on variable rate loans.

Analysis of Interest Expense

	Year Ended December 31		
	2018	2017	Increase (Decrease)
Mortgage loans			
Interest on mortgage loans	$18,814	$18,494	$320
Amortization of transaction costs	421	565	(144)
Subtotal - mortgage loans	19,235	19,059	176
Revolving Loan and Other			
Interest	3,629	334	3,295
Amortization of transaction costs	-	22	(22)
Subtotal - revolving loan and other	3,629	356	3,273
Debentures			
Interest on convertible debentures	3,668	6,975	(3,307)
Accretion	913	1,811	(898)
Amortization of transaction costs	215	408	(193)
Subtotal - debentures	4,796	9,194	(4,398)
Interest expense	$27,660	$28,609	($949)

Comparative Results for Interest Expense

As disclosed in the preceding chart, total interest expense decreased by $949 or 3% during 2018, compared to 2017. The decrease is comprised of a decrease of $4,398 related to debentures interest, offset by an increase of $3,273 related to revolving loan interest and an increase of $176 related to mortgage loan interest. The change in interest expense mainly reflects a decrease in the amount of interest expense related to the debentures, due to the repayment of the Series D and F convertible debentures. The decrease was partially offset by higher revolving loan interest due to advances on Morguard credit facilities and an increase in interest on mortgage loans due to higher interest on variable rate loans.

The weighted average interest rate of mortgage loan debt increased from 5.33% at December 31, 2017 to 5.44% at December 31, 2018. The weighted average interest rate of the debenture debt increased from 7.14% at December 31, 2017 to 7.25% at December 31, 2018.

Amortization of Transaction Costs

Transaction costs related to mortgage loan debt, the revolving loan, and convertible debenture offerings are capitalized and expensed through amortization charges. Amortization charges represent a "non-cash" expense and are excluded from the determination of cash flow from operating activities. Transaction costs on common shares issued are charged to equity. The actual cash outlay in regard to transaction costs is included in the determination of cash flow from financing activities.

During 2018, total amortization charges in regard to transaction costs amounted to $636 compared to $995 in 2017.

Accretion on Convertible Debentures

In accordance with IFRS, 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 and is carried in the account, net of transaction costs. 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 interest expense.

During 2018, interest expense includes "accretion" charges of $913, compared to $1,811 in 2017.

Other Expense (Income)

Analysis of Other Expense (Income)

	Year Ended December 31		
	2018	2017	Increase (Decrease)
Interest and other revenue	($102)	($130)	$28
Finance lease interest revenue	(233)	(250)	17
Insurance proceeds, net	(533)	(1,388)	855
Other expenses	58	532	(474)
Total - other expense (income)	($810)	($1,236)	$426

During 2018, other income decreased by $426, compared to 2017. The decrease is mainly attributable to a decrease of $855 in net insurance proceeds, partially offset by a decrease of other expenses of $474.

General and Administrative Expense

Analysis of General and Administrative Expense

	Year Ended December 31		
	2018	2017	Increase/ (Decrease)
Professional and legal fees	$533	$443	$90
TSX and other reporting/filing fees	394	297	97
Other administrative costs	223	53	170
Asset management fees	2,487	2,484	3
Total - general and administrative expense	$3,637	$3,277	$360

General

General and administrative expense consists of professional and legal fees, regulatory and filing fees, general administrative costs, acquisition expenses and the asset management fees (i.e. asset management fees related to the gross revenue from the general Company operations).

In 2018, general and administrative expenses increased by $360 compared to 2017. The increase is mainly attributable to the increase in other administrative expenses, an increase in TSX and other reporting/filing fees and an increase in professional and legal fees.

Director Compensation

The Directors of Temple receive annual compensation, based on a pre-established fee schedule, for serving on the Board, acting as a Committee Chair, and attending Board and Committee meetings. The total fees for 2018 amounted to $329 compared to $241 for 2017. Of this amount, $255 (2017 - $108) is included in general and administrative expense and $74 (2017 - $133) is reflected in share based compensation.

Share Based Compensation

Deferred Share Plan

Under the Deferred Share Plan of Temple, Directors, officers, employees and consultants can elect to have their annual compensation paid in the form of deferred shares. In general terms, the number of deferred shares granted is determined by dividing the amount of the compensation by the market price of the common shares, as of the date on which the compensation is payable. On June 25, 2018, the Defined Share Plan for the issuance of additional deferred shares expired.

During 2018, 24,447 deferred shares were issued to Directors under the Deferred Share Plan, at a weighted average market value of $3.03 per common share, representing a total value of $74 or 22% of the total Directors fees. Director fees received in deferred shares are reflected in share based compensation and Director fees paid in cash are reflected in "other administrative costs".

Depreciation and Amortization

During 2018, depreciation and amortization charges decreased by $832 compared to 2017. The decrease in depreciation and amortization charges reflects a lower carrying value resulting from impairment provisions on property and equipment.

Equity Income

As previously discussed, Temple owns a 50% interest in limited partnerships that own the Courtyard Marriott, Ottawa, Ontario, and the Residence Inn Marriott, London, Ontario. The income statement reflects the income from these properties under the caption "Equity income on investment in hotel properties". Equity income decreased by $101 from $1,170 in 2017 to $1,069 in 2018, due to an increase of $112 from higher depreciation, mortgage interest and lower hotel operating income, partially offset by an increase in deferred income tax recovery of $10. The decrease in net operating income was a result of decreased hotel operating income of $161 at Courtyard Marriott due to higher occupancy and ADR in 2017 from the Canada 150 celebration, partly offset by an increase in net operating income of $139 at the Residence Inn Marriott due to an increase in RevPar of $10.51 compared to 2017. Overall profit margin at the Residence Inn Marriott and Courtyard Marriott was 30% for 2018 and 2017.

Provision for Impairment

In accordance with IFRS, management assesses all hotel and investment properties at the end of each reporting period to determine if there is any indication that an asset may be impaired.

At December 31, 2018, the following indicators of impairment were noted:

- The Fort McMurray segment has experienced lower occupancy due to the continued impact of reduced economic activity in Alberta. An impairment was recorded based on the updated market projections as the declines are not expected to reverse in the foreseeable future. In addition, impairment was recorded at the Cortona Residence based on updated market projections including the stabilization of hotel operations.
- The Hilton Garden Inn, Edmonton, Alberta, recently has experienced lower occupancy due to increased supply in the west Edmonton market as well as the continued impact of reduced economic activity in Alberta. An impairment was recorded based on the updated market projections as the declines are not expected to reverse in the foreseeable future.
- Impairment was recorded at the Sheraton Red Deer due to the continued impact of reduced economic activity in Alberta. An impairment was recorded based on the updated market projections as the declines are not expected to reverse in the foreseeable future.

As a result, IFRS requires the completion of a recoverability analysis on the assets in order to determine if an impairment provision should be recorded.

For the purpose of the recoverability analysis, IFRS provides that the recoverable amount of an asset is the higher of its fair value less cost of disposal and its value in use and that it is not necessary to determine both as asset's fair value less costs of disposal and its value in use. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired.

The recoverability analysis included all hotel properties. While some properties had fair values that exceeded carrying amounts, IFRS does not permit the write up of hotel properties in excess of its net book value.

The following schedule reflects the results of the recoverability analysis for properties for which a provision for impairment was recognized for the year ended December 31, 2018.

Hotel property	Location	Recoverable value	Provision for impairment	Cumulative provision for impairment
Clearwater Suites Hotel	Fort McMurray	$ 17,200	$ 1,230	$ 27,165
Clearwater Timberlea	Fort McMurray	7,300	744	20,752
Cortona Residence	Fort McMurray	4,560	5,122	18,173
Franklin Suites	Fort McMurray	5,900	1,274	7,857
Merit Hotel	Fort McMurray	11,200	941	16,667
Nomad Hotel and Suites	Fort McMurray	7,600	4,203	18,251
Radisson Hotel & Suites	Fort McMurray	13,500	1,484	12,339
Vantage Inn and Suites	Fort McMurray	5,700	2,564	9,220
Hilton Garden Inn	Edmonton	16,286	2,741	9,618
Sheraton Red Deer	Red Deer	26,000	7,392	19,036

As a result of the above process, a provision for impairment in the amount of $27,695 was recorded during 2018.

In 2017, the Company recorded a provision for impairment of $18,372 (net of a recovery of $1,956) as an assessment concluded certain hotel properties had indicators of impairment, and a provision for impairment of $235 was recorded on the disposition of the Holiday Inn Express, Sherwood Park, Alberta.

The recoverable value of the hotel properties was determined based on the same valuation techniques that are used by independent valuation professionals and the discounted cash flow method was used to determine value in use. External appraisals and market reports serve to substantiate and guide the internal valuation process of Temple, particularly with respect to key assumptions, including normalized net operating income, inflation rates and discount rates.

Recoverable value estimates are sensitive to changes in forecasted net operating income and temporary fluctuations have the potential to skew recoverable value estimates. As a result, actual operating results are normalized to reflect stabilized future expectations regarding capital expenditures, vacancy rates, inflation, operating costs and rental market conditions. Normalization adjustments are based on appraisals, market reports, historic performance and management projections.

IFRS permits an impairment provision to be reversed in subsequent accounting periods if recoverability analysis at that time supports the reversal. As at December 31, 2018, the Company's accumulated impairment provision was $210,684.

ANALYSIS OF CASH FLOWS

Operating Activities

	Year Ended December 31		
	2018	2017	Increase/ (Decrease) in cash flow
Total revenue	$ 165,809	$ 165,612	$ 197
Hotel operating costs	125,944	122,727	(3,217)
Hotel operating income	39,865	42,885	(3,020)
Additions to tenant inducements	(172)	(198)	26
Amortization of tenant inducements	70	39	31
	(102)	(159)	57
Interest expense	(27,660)	(28,609)	949
Amortization of transaction costs	636	995	(359)
Accretion of convertible debentures	913	1,811	(898)
Cash component of interest expense	(26,111)	(25,803)	(308)
Other income (expense)	810	1,236	(426)
General and administrative expense	(3,637)	(3,277)	(360)
Cash provided by operating activities, before working capital adjustments	10,825	14,882	(4,057)
Working capital adjustments	507	(3,009)	3,516
Cash provided by operating activities	$ 11,332	$ 11,873	$ (541)

The main components of cash flow provided by operating activities are hotel operating income, interest payments and working capital adjustments. Temple completed 2018 with cash flow provided by operating activities of $11,332 compared to $11,873 in 2017. After excluding working capital adjustments, cash provided by operating activities amounted to $10,825 for 2018, representing a decrease of $4,057. The decrease mainly reflects a decrease in hotel operating income of $3,020, a decrease in other income of $426, an increase in general and administrative expenses of $360, and an increase in cash component of interest expense of $308.

Investing Activities

As disclosed in the Statement of Cash Flows in the financial statements, the investing activities of Temple resulted in a net cash outflow of $6,915 in 2018. Investing activities primarily reflect cash outflows related to capital expenditures on completed hotel properties in the amount of $7,437 and an increase in other assets of $622, partially offset by a cash distribution on equity investments of $900.

Financing Activities

As disclosed in the Statements of Cash Flows in the financial statements, the financing activities of Temple resulted in a net cash outflow of $699 in 2018. The net cash outflow is comprised of cash outflows of $34,419 related to convertible debenture redemptions, lump sum principal payments on mortgage loans of $19,276, $13,955 related to regular repayment of principal of mortgage loans, $2,258 related to convertible debenture repurchases, and $711 in common share repurchases, partially offset by net revolving loan advances of $51,500 and proceeds from mortgage debt of $18,723.

Cash Flow Summary

The net cash inflow from operating, investing and financing activities during 2018 was $3,718. After providing for the opening cash balance of $11,370, Temple completed 2018 with a cash balance of $15,088.

Funds From Operations ("FFO")

FFO is a non-IFRS measure that is widely used by the real estate industry to assess the operating performance of an entity. Temple's calculation of FFO is in accordance with the recommendations of the Real Property Association of Canada ("REALPAC"). Readers are cautioned that the method used by Temple for calculating FFO may differ from methods used by other issuers. Accordingly, measures of FFO may not be directly comparable across issuers.

Funds from Operations

	Year Ended December 31	
	2018	2017
Net loss	$ (31,924)	$ (23,033)
Add/(deduct):		
Deferred income tax recovery	(2,311)	(47)
Provision for impairment	27,695	18,607
Depreciation and amortization	16,913	17,745
Amortization of tenant inducements	70	39
Equity investments - depreciation and deferred taxes	784	740
Funds from operations	**$ 11,227**	**$ 14,051**
Weighted average number of common shares	25,197,471	25,348,718
FFO - per common share		
- basic and diluted	$ 0.45	$ 0.55

For 2018, the FFO of the Company decreased by $2,824 compared to 2017. On a basic per common share basis, FFO decreased by $0.10 per common share. The decrease in FFO mainly reflects a decrease in hotel operating income and in other income, partially offset by a decrease in interest expense.

Dividends

Dividends are established by the Directors.

On January 29, 2016, the Company suspended the payment of dividends. The suspension of dividends will permit the Company to retain operating cash flow in order to improve working capital and reduce debt.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Working Capital

Temple requires working capital for day-to-day operations and certain "on-going" funding obligations, including capital expenditures and regular mortgage loan principal payments. Prior to the suspension of payments of dividends, working capital was also directed to the payment of dividends. The primary sources of capital for Temple include cash from operating activities, debt and/or equity offerings and mortgage loan financing. Temple also has a revolving loan from Morguard.

The long-term expectation of Temple is that annual cash flow from operating activities (which is determined after deducting interest payments on debt) will be sufficient to fund on-going capital expenditures and a portion of regular mortgage loan principal payments. A portion of regular mortgage loan principal payments is expected to be funded by the upward refinancing of mortgage loan debt, supplemented from working capital as necessary during certain quarters, depending on the timing of the upward refinancing. The timing of upward refinancing is typically staggered throughout the year.

The repayment of convertible debenture debt may be funded from new share or debenture offerings or other sources.

Capital expenditures related to major renovation or upgrade programs of newly acquired properties are expected to be funded primarily from funds raised from financing activities or working capital to the extent that working capital includes funds raised from financing activities in prior years.

Working capital is a commonly used financial measurement of an entity's liquidity and is generally derived by deducting current liabilities from current assets, excluding short-term debt. Working capital is a non-IFRS measure and the method which is used by Temple for calculating working capital may differ from the method which is used by other issuers. Accordingly, working capital as calculated by Temple may not be comparable to working capital measurements which are provided by other issuers.

	December 31 2018	December 31 2017
Unrestricted cash	$ 15,088	$ 11,370
Working capital	$ 7,006	$ 3,775

As of December 31, 2018, the unrestricted cash balance of Temple was approximately $15,088 and the working capital was $7,006. The cash balance consists primarily of working capital reserves for hotel operations and cash designated for capital expenditures.

Working capital consists of cash, marketable securities, trade and other receivables, deposits and prepaids, inventories, and the current portion of net investment in lease, less accounts payable and other liabilities. Mortgage principal payments and convertible debenture payments due within the twelve month period ending December 31, 2019, are not included in the calculation of working capital.

Contractual Obligations

A summary of the payments due in regard to the Company’s contractual obligations, is provided in the following chart. Payments due are classified by maturity date and are not consistent with IFRS reporting requirements which require loans in breach of covenants to be disclosed as current obligations.

Summary of Contractual Obligations

Payments Due By Period [1]	Total	1 year	2 - 3 years	4 - 5 years	> 5 years
Mortgage loan debt	$ 354,063	$ 212,060	$ 66,910	$ 56,314	$ 18,779
Interest on mortgage loan debt	32,027	13,235	14,066	4,127	599
Convertible debt [2]	40,647	2,258	38,389	-	-
Interest on convertible debt	4,992	2,905	2,087	-	-
Operating leases	12,774	2,843	3,528	1,621	4,782
Accounts payable and accrued liabilities	18,186	18,186	-	-	-
Total	$ 462,689	$ 251,487	$ 124,980	$ 62,062	$ 24,160

(1) The year of maturity for mortgage loan debt in the above schedule reflects the term of contractual obligation and does not reflect the IFRS requirement to disclose loans with covenant breaches as current obligations.

(2) Includes convertible debenture debt reflected at face value.

Mortgage Loan Debt

The total amount of contractual mortgage loan debt due for the one year period ending December 31, 2019, of $212,060, is comprised of the following:

- Regular repayments of principal in the estimated amount of $9,452.
- Principal due of $159,427 in regard to mortgage loans which mature during the twelve month period ending December 31, 2019 on 13 hotel properties. It is expected that all 13 mortgage loans will be renewed on similar terms and conditions at maturity.
- Aggregate principal balance of $43,181 relating to four mortgages which are technically payable on demand but are expected to be amortized and repaid over 15 to 20 year terms.

Debt Covenants

As a condition of certain mortgage loans, the Company is required to maintain annual debt service coverage ratios and/or debt to equity ratios and/or debt to appraised value ratios and arrange for capital expenditures in accordance with predetermined limits. As at December 31, 2018, the Company was not in compliance with debt service covenants affecting seven mortgage loans.

The status of the mortgage loans that are in breach of covenant requirements as of December 31, 2018 is provided below.

Property	Location	Note		Mortgage Balance December 31, 2018	Maturity Date
Holiday Inn Express	Ottawa, ON	(1)	$	12,337	August 2022
Radisson Hotel & Suites	Fort McMurray, AB	(1)		8,691	August 2022
Hilton Garden Inn	Edmonton, AB	(1)		14,121	August 2022
Inn at the Quay	New Westminster, BC	(2)		11,698	November 2019
			$	46,847	
Merit Hotel & Suites	Fort McMurray, AB	(3)	$	12,501	Month-to-month
Clearwater Timberlea	Fort McMurray, AB	(3)		6,412	Month-to-month
Cortona Residence	Fort McMurray, AB	(3)		16,150	Month-to-month
			$	35,063	
Days Inn Yellowknife	Yellowknife, NWT	(4)	$	6,127	July 2019
Stanton Suites Hotel	Yellowknife, NWT	(4)		8,370	July 2019
			$	14,497	
Holiday Inn Winnipeg South	Winnipeg, MB	(5)	$	8,118	Month-to-month
			$	104,525	

(1) The mortgage loan, secured by the three properties, is in breach of a debt service coverage ratio of 1.2 to 1.0 on the combined ratio of the three hotel properties and a 1.0 to 1.0 corporate debt service coverage ratio. Management is in discussion with the lender.

(2) The mortgage loan is in default due to a cross-collateral provision with the three hotel properties noted above.

(3) The mortgage loan is in breach of a debt service coverage ratio of 1.2 to 1.0. Management is in discussion with the lender.

(4) The mortgage loan is in breach of a corporate debt service coverage ratio of 1.05 to 1.0, secured against the two hotels located in Yellowknife. The Company received a waiver from the lender subsequent to December 31, 2018.

(5) The mortgage loan is in breach of a debt service coverage ratio of 1.25 to 1.0. Management is in discussion with the lender.

None of the lenders have demanded payment of the mortgage loans, however, IFRS requires that the loan balance of mortgage loans in breach of debt covenants be included in the current portion of debt. As a result, the current portion of debt includes $34,144 scheduled to retire after December 31, 2019.

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

Convertible Debentures

The repayment of the outstanding balance of convertible debenture debt at maturity represents a funding requirement for Temple.

On October 2, 2017, Temple redeemed $2,259 of the principal amount of the Series E debentures outstanding, which represents 5% of the issued and outstanding Series E debentures (the “Initial Partial Redemption”). Temple has also committed to redeem an additional 5% of the currently issued and outstanding principal amount of Series E debentures on each of September 30, 2018 and September 30, 2019 (the “Additional Partial Redemptions”). Each of the Initial Partial Redemption and the Additional Partial Redemptions will be for a cash payment equal to the principal amount of such redemption plus accrued and unpaid interest to, but excluding the date of redemption.

On October 1, 2018, the first business day after September 30, 2018, Temple redeemed $2,258 of the principal amount of the Series E debentures outstanding.

The 7% Series F convertible debentures had a March 31, 2018 due date. Since March 31, 2018 fell on a weekend, the Company fully repaid the 7% Series F convertible debentures in the amount of $34,419 on April 2, 2018, the first business day after March 31, 2018.

Capital Resources

Existing Cash

As of December 31, 2018, the unrestricted cash balance of Temple was approximately $15,088 and the working capital was $7,006.

Revolving Line of Credit with Morguard

During 2016, Temple entered into Credit Facility A with Morguard for $6,000, secured by a first mortgage charge against the Nomad Hotel, and bearing interest at prime plus 2.00%. The revolving loan agreement allows for a maximum of $6,000 to be borrowed. On November 9, 2017, the credit facility was increased to $13,500 for a period of one year. Subsequently, the credit facility was increased to $50,000. As at December 31, 2018, the amount payable under the revolving loan was $30,000 (December 31, 2017 - $13,500). For the year ended December 31, 2018, Temple incurred interest on the credit facility of $1,846 (2017 - $331).

On February 23, 2018, Temple entered into Credit Facility B with Morguard in the amount of $35,000. The credit facility has a term of three years, is unsecured, and bears interest of 6.5% per annum. As at December 31, 2018, the amount drawn on the credit facility was $35,000. For the year ended December 31, 2018, Temple incurred interest of $1,733 (2017 – $nil).

Debt and/or Equity Offerings

Temple may pursue additional offerings of debt and/or equity as a source of capital. Temple may also issue common shares or securities convertible or exchangeable into common shares to vendors as consideration for real property acquisitions.

Summary

As of December 31, 2018, Temple management believes that it has sufficient sources of capital to meet all current funding requirements in regard to capital expenditures and scheduled debt repayments.

CAPITAL STRUCTURE

Capital Structure

	December 31 2018	December 31 2017
Mortgage loan debt - principal amount	$ 354,063	$ 368,571
Convertible debentures - face value	40,647	77,324
Revolving loans	65,000	13,500
Share capital (net of issue costs)	292,516	295,412
Total capitalization	$ 752,226	$ 754,807

Shares:
Authorized - unlimited
Issued:

December 31, 2018 – 25,022,329
February 20, 2019 – 25,022,329

Debt

The carrying value of the total debt of Temple as disclosed in the financial statements is $457,412 as of December 31, 2018, compared $455,851 as of December 31, 2017. The total debt includes mortgage loans, convertible debentures and any utilized amounts under the revolving line of credit.

The carrying value of mortgage loan debt and convertible debenture debt is net of unamortized transaction costs. The carrying value of convertible debenture debt excludes the equity component. The allocation of the debt and equity component, for each convertible debenture issue, is provided in the notes to the financial statements.

Mortgage Loans

Overall Change in Mortgage Loan Debt

As of December 31, 2018, the mortgage loan debt of Temple amounted to $354,063. All of the mortgage loan debt requires monthly payments of principal and interest.

In total, mortgage loan debt represents 77% of the total debt (at face value) as of December 31, 2018.

The balance of mortgage loan debt, as of December 31, 2018, excluding unamortized transaction costs, decreased by $14,508, compared to the balance as of December 31, 2017. The decrease consists of lump sum principal payments on mortgage loans of $19,276 and regular monthly mortgage loan principal payments of $13,955, partially offset by proceeds from mortgage debt of $18,723 during 2018.

Expenditures on transaction costs for mortgage loan debt amounted to $303 during 2018.

Debt Maturities and Renewal/Refinancings

For the twelve month period ending December 31, 2019, contractual mortgage loan debt comprised of 13 mortgage loans with a principal balance of $159,427 is scheduled to mature. The maturing loans are all expected to be renewed or refinanced. In addition, four of the mortgage loans, having a principal balance of $43,181, are technically payable on demand but are expected to be repaid over 15 to 20 year terms.

Debt Summary

As of December 31, 2018, the weighted average interest rate of the total mortgage loan debt is 5.44%, compared to 5.33% as of December 31, 2017.

Mortgage Loan Debt of Equity Interest Hotels

As of December 31, 2018, the mortgage loan debt of the two equity interest hotels is equal to $8,086 and has a weighted average interest rate of 4.91%.

Convertible Debentures

The following chart summarizes the outstanding convertible debentures as of December 31, 2018 at the face value of the debt.

Analysis of Debenture Conversions

Issue Date - Maturity Date	Series	Interest Rate	Amount Issued	Share Conversions, Debentures Redemptions and NCIB Repurchases to Q4 2017	Debentures Purchased under NCIB to Q4 2018	Debentures Redeemed to Q4 2018	Amount Outstanding Q4 2018
			(face value)	(face value)	(face value)	(face value)	(face value)
Aug. 8/12 - Sept. 30/20 (1)	E	7.25%	$46,000	$ (3,095)	$ -	$ (2,258)	$ 40,647
Feb. 12/13 - Mar. 31/18 (2)	F	7.00%	38,000	(3,581)	-	(34,419)	-
Face value			$ 84,000	$ (6,676)	$ -	$ (36,677)	$ 40,647

(1) The Series E convertible debentures are convertible into common shares at the option of the holder at any time until the September 30, 2020 maturity at a price of $9.75 per common share. In 2017, the terms of the Series E debentures were amended, which included extending the maturity date to September 30, 2020.

(2) The Series F convertible debentures were redeemed on April 2, 2018 on maturity.

On September 28, 2017, holders of the Series E convertible redeemable unsecured debentures approved the following proposed amendments to the Series E debentures, effective October 2, 2017:

i) Decreasing the conversion price from $40.08 to $9.75 per common share of Temple;
ii) Extending the maturity date from September 30, 2017 to September 30, 2020;
iii) Permitting Temple to redeem the Series E debentures, in whole or in part, at any time up to September 30, 2020, at a price equal to the principal amount thereof plus accrued and unpaid interest to, but excluding the date of the redemption; and
iv) Permitting Temple to complete the Initial Partial Redemption without further notice or communication to holders of Series E debentures and to complete the Additional Partial Redemptions.

On October 2, 2017, Temple redeemed $2,259 of the principal amount of the Series E debentures outstanding, which represents 5% of the issued and outstanding Series E debentures.

On October 1, 2018, the first business day after September 1, 2018, Temple redeemed $2,258 of the principal amount of the Series E debentures outstanding.

On March 15, 2018, Temple renewed its NCIB for the purchase of Series E debentures up to $4,184. This NCIB represents 10% of the public float for the Series E debentures and expires on March 14, 2019. As of February 20, 2019, no debentures have been purchased under the NCIB.

Share Capital

The following is a summary of the common share transactions to December 31, 2018.

Description	Common Shares Issued	Equity Raised
Balance, beginning of year	25,269,913	$ 295,412
Common share repurchases	(247,584)	(2,896)
Balance, end of year	25,022,329	$ 292,516

On March 15, 2018, the Company renewed its normal course issuer bid for the purchase of up to 1,263,495 common shares for a twelve month period, representing 5% of the issued and outstanding common shares, expiring on March 14, 2019.

During the year ended December 31, 2018, 247,584 common shares were purchased for cash consideration of $711 at a weighted average price of $2.87 per common share.

HOTEL MANAGEMENT

As at December 31, 2018, Temple has retained Atlific to manage all of the hotels in its existing property portfolio. The management agreement term varies by hotel having a base property management fee of 2% of gross revenue or, in limited cases, 2.5% of gross revenue.

In addition to the base property management fee, the management agreement for each hotel also provides for an incentive management fee. The incentive management fee is equal to 10% of the amount by which the net operating income of the hotel exceeds the budgeted net operating income commencing in the second year after acquisition of the hotels.

Atlific received $3,609 in property management fees during 2018, compared to $3,617 during 2017.

RELATED PARTY TRANSACTIONS

Morguard Corporation

Asset Management Agreement

Pursuant to the terms of the amended and restated asset management agreement dated December 31, 2012, expiring December 31, 2019, Morguard is entitled to receive an asset management fee of 1.5% of the gross revenues of the Company and its subsidiaries on a consolidated basis. The asset management agreement requires Morguard to act as administrator of the Company 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 Company. Key management personnel are provided by Morguard.

For the year ended December 31, 2018, the Company incurred services fees to Morguard of $2,487 (2017 - $2,484).

Construction Management Agreement

The Company has entered into a construction management agreement with the asset manager. The agreement provides for the asset manager to receive a fee equal to 5% of construction costs and requires the asset manager to approve all plans and specifications, manage the tender process, arrange financing and perform construction management services related to the guest room renovations and building upgrades as reflected in approved budgets or acquisition plans. For the years ended December 31, 2018 and 2017, no service fees were charged for such services.

Management compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly and indirectly, and include Directors.

The executive officers of the Company are employed by Morguard, and the Company does not directly or indirectly pay any compensation to them. Any variability in compensation paid by Morguard to the executive officers of the Company has no impact on the Company's financial obligations, including its obligations under the various Agreements with Morguard and Morguard's affiliates.

	Year Ended December 31	
	2018	2017
Director fees	$ 255	$ 108
Deferred shares granted to directors	74	133
	$ 329	$ 241

Other

For the year ended December 31, 2018, interest on convertible debentures to Morguard amounted to $87 (2017 - $166).

SUMMARY OF QUARTERLY RESULTS

The summary of quarterly results provides an overview of the key trends and factors affecting variations in the quarterly results of Temple.

Quarterly Analysis

	2018			
	Q4	Q3	Q2	Q1
Total revenue	$40,014	$45,490	$43,094	$37,211
Net operating income	$6,255	$13,921	$12,142	$7,547
Provision for impairment	($20,910)	-	($6,785)	-
Net income (loss)	($26,126)	$2,780	($3,870)	($4,708)
PER COMMON SHARE				
Net operating income				
- Basic *	$0.25	$0.55	$0.48	$0.30
Net income (loss)				
- Basic	($1.04)	$0.11	($0.15)	($0.19)
Key performance indicators				
- Occupancy *	56%	69%	64%	57%
- ADR *	$139.10	$147.52	$144.63	$132.40
- RevPar *	$78.00	$101.80	$92.33	$75.93
FFO *	($0.03)	$0.28	$0.20	$ -

Quarterly Analysis

	2017			
	Q4	Q3	Q2	Q1
Total revenue	$39,878	$46,106	$43,389	$36,239
Net operating income	$7,579	$15,190	$12,717	$7,399
Provision for impairment	($18,372)	($235)	-	-
Net income (loss)	($23,528)	$3,355	$2,708	($5,568)
PER COMMON SHARE				
Net operating income				
- Basic *	$0.30	$0.60	$0.50	$0.29
Net income (loss)				
- Basic	($0.93)	$0.13	$0.11	($0.22)
Key performance indicators				
- Occupancy *	57%	70%	65%	54%
- ADR *	$136.30	$145.52	$139.00	$132.79
- RevPar *	$77.72	$101.65	$90.81	$72.26
FFO *	($0.02)	$0.32	$0.26	($0.01)

* Non-IFRS measures

Revenue and Operating Income

Subsequent to April 30, 2018, the operating results for the Cortona Residence were affected by the expiry of its long-term lease, which had annual net rent of $2,100. The property transitioned to a hotel and commenced hotel operations on October 22, 2018, which reduced revenue and operating income for the period.

The sale of the Holiday Inn Express, Sherwood Park, Alberta, served to reduce revenue and operating income for periods during the third and fourth quarters of 2017, as the sale occurred September 15, 2017.

The quarterly operating results are affected by seasonal fluctuations in demand for the hotel rooms and will vary by hotel based on geographical location.

Net Income (Loss)

After accounting for operating income, the main factors which affect quarterly net income or loss are variances in interest expense, depreciation and amortization, provision for impairment, general and administrative expenses, and other expense (income).

Interest expense on upward refinanced mortgage loans, fluctuations in the balance of the revolving loan and the line of credit, as well as interest expense related to convertible debenture debt are the main variables affecting interest expense.

The repayment or paydown of mortgage loan debt and convertible debentures, as a result of refinancing or the sale of property, has contributed to quarterly variances in interest expense. During the first quarter of 2017, two mortgages were repaid, resulting in the lump sum principal payments of $10,713 on first mortgage loans, and the Series C convertible debentures amounting to $22,773 were repaid upon maturity. During the second quarter of 2017 the Series D convertible debentures amounting to $34,282 were repaid upon maturity and the Company completed financing on two properties in the amount of $15,588. During the third quarter of 2017, the Holiday Inn Express, Sherwood Park, Alberta, was sold, resulting in the repayment of the $9,102 first mortgage loan, and the refinancing of a five-loan mortgage portfolio which included the pay down of the maturing, aggregate balance by $7,500. During the fourth quarter of 2017, Temple redeemed $2,259 of the principal amount of the Series E debentures outstanding, and extended the maturity to September 30, 2020. During the second quarter of 2018, the Series F convertible debentures amounting to $34,419 and the principal due of $16,000 in regard to a second mortgage loan were repaid upon maturity. Both the Series F convertible debentures and mortgage loan were funded by advances on the revolving loans with Morguard at lower interest rates. During the third quarter of 2018, the Company paid down $3,000 of first mortgage loans and advanced $8,000 on the Company's revolving Credit Facility A. During the fourth quarter of 2018, the Company refinanced a three loan mortgage portfolio for additional proceeds amounting to $16,223 and paid down $15,000 on the Company's revolving Credit Facility A.

Depreciation and amortization charges are mainly affected by acquisitions and dispositions as well as provisions for impairment. Quarterly variances in depreciation and amortization are also affected by major refurbishment programs that can affect the "useful life" estimates used in the calculation of depreciation charges for furniture and equipment.

The provisions for impairment which were recognized in the second and fourth quarters of 2018 and in the fourth quarter of 2017 had a significant non-recurring impact on quarterly results.

During the fourth quarter of 2018 and the second quarter of 2017, other expense (income) includes insurance proceeds of $533 and $2,085, respectively.

Per Common Share Results

The quarterly variance in per common share results reflects the quarterly variance in income as well as changes in the amount of shares issued and outstanding. The number of shares issued and outstanding has increased over the past eight quarters due to the issuance of common share from rights offerings, deferred common shares granted, partially offset by common shares repurchased under the Company's normal course issuer bid plan.

Fourth Quarter Highlights

Analysis of Net loss and comprehensive loss

	Three Months Ended December 31		Increase/ (Decrease)
	2018	2017	in Income
Revenue			
Room	$ 26,733	$ 27,217	$ (484)
Other	13,281	12,661	620
Total revenue	40,014	39,878	136
Operating costs	33,759	32,299	(1,460)
Hotel operating income	6,255	7,579	(1,324)
Interest expense	6,878	7,178	300
Other expense (income)	(498)	611	1,109
Share based compensation	-	30	30
General and administrative expenses	1,040	766	(274)
Depreciation and amortization	4,180	4,362	182
	(5,345)	(5,368)	23
Equity income on investment in hotel properties	129	189	(60)
Provision for impairment	(20,910)	(18,372)	(2,538)
Deferred income tax recovery	-	23	(23)
Net loss and comprehensive loss	$ (26,126)	$ (23,528)	$ (2,598)

Temple completed the fourth quarter of 2018 with a loss before equity income and provision for impairment of $5,345, compared to a loss before equity income, provision for impairment and deferred income taxes of $5,368 during the fourth quarter of 2017, representing a decrease in loss of $23.

The decrease mainly reflects higher other income of $1,109, a decrease in interest expense of $300 and lower depreciation and amortization of $182, partially offset a decrease in hotel operating income of $1,324 and an increase in general and administrative expenses of $274.

After providing for equity income, provision for impairment and deferred income taxes, Temple completed the fourth quarter of 2018 with a net loss of $26,126, compared to a net loss of $23,528 for the fourth quarter of 2017, representing an increase in net loss of $2,598.

OPERATING RISKS AND UNCERTAINTIES

An investment in securities of Temple 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 corporation which invests in hotel properties.

An investment in Temple encompasses a number of risks. The Annual Information Form ("AIF") of the Company for the year ended December 31, 2018, dated February 20, 2019, which is available at www.sedar.com details the risk factors applicable to the Company.

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 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 or other factors which may not necessarily be offset by increases in room rates;
- Increases in costs of travel, particularly automotive travel; and
- Other factors, including acts of terrorism, natural disasters, extreme weather conditions and labour shortages, work stoppages or disputes.

Economic Conditions

Canadian real estate companies are subject to risks generally incidental to the Canadian real estate, credit, capital and financial markets. Sensitivity to global economic conditions, and their impact in Canada, may negatively affect the income received from Temple's properties. Inherent illiquidity may limit Temple's ability to vary its portfolio in response to changes in the global, national and/or local economic conditions. Increased vacancy rates may occur and may adversely affect the income received from Temple's properties. The extent to which Temple relies on debt financing for properties located in secondary regional markets increases the risk that Temple will either be unable to refinance existing indebtedness or result in Temple receiving less favourable terms than that of existing financing arrangements.

The revenue from Temple's hotel properties is subject to the risk of changes in hotel market conditions. While management of Temple believes that the overall hotel market conditions in Canada will remain favourable, there can be no assurance as to the relative strength of future hotel market conditions and the financial results for future periods are uncertain. Hotel market conditions are also subject to normal or unexpected quarterly variances in demand.

The continued and unexpected decline in oil prices has increased the level of uncertainty in resource-dependent communities such as Fort McMurray and, to a lesser extent, the Canadian economy as a whole.

Debt Financing Risk

Temple and its subsidiaries have incurred, and will continue to incur, indebtedness in connection with acquisitions, including indebtedness arising from additional mortgage loans, vendor take-back financing and the issuance of debentures and a line of credit. A portion of the cash flow generated by hotel properties owned by Temple and its subsidiaries will be devoted to servicing the long-term debt of Temple and there can be no assurance that the cash flow from the operation of Temple's hotel properties will be sufficient to meet the required interest and principal payments on debt. During 2018, cash flow from operating activities amounted to $11,332, while principal payments on mortgage loan debt amounted to $13,955. Cash flow from operating activities is net of interest payments on mortgage and other long-term debt of $26,111. Cash flow from operating activities excludes dividends. During 2018, Temple did not declare any dividends.

Temple is subject to the risks associated with debt financing including the risk that cash flow from operations may not increase to a level which will be sufficient to fully meet required payments of principal and interest, the risk that existing debt will not be able to be refinanced or that terms of such refinancings will not be as favourable to Temple as existing debt, the risk that new debenture financing may not be attainable to the extent necessary to retire the outstanding balance of existing debenture debt at maturity, the risk that financing may not be available for any hotel acquisitions that Temple has committed to in the future and the risk that necessary capital expenditures for such purposes as renovations and other improvements will not be able to be financed on favourable terms or at all.

In such circumstances, if Temple were in need of capital to repay indebtedness in accordance with its terms or otherwise, it could be required to liquidate one or more investments in hotel properties at times which may not permit realization of the maximum return on such investments or could be required to agree to additional financing(s) on unfavourable terms. In addition, Temple will be subject to the risk that its interest expense may increase on the refinancing of existing indebtedness or on any portion of its indebtedness that bears interest at floating rates if interest rates increase, which could have a material adverse effect on the results of operations of Temple and its ability to pay dividends. In order to minimize this risk, Temple will attempt to appropriately structure the timing of the renewal of significant indebtedness on each respective hotel property in relation to the time at which mortgage indebtedness on such property becomes due for refinancing. Until such time as the cash flow from operations is sufficient to fully meet the required payments of interest and principal, Temple expects that, over the long-term, the shortfall will be fully funded from the upward refinancing of mortgage loan debt.

The relative decline in oil prices that began during the third quarter of 2014 has created a tightening of mortgage lending conditions for properties in Fort McMurray that affect Temple's ability to renew or refinance mortgage loan debt. To a certain extent, the upward refinancing potential of Temple's mortgage loan portfolio will be constrained until economic conditions improve in Fort McMurray and other oil-dependent lodging markets.

Temple expects that its financing arrangements will contain covenants that will restrict its ability to operate its business in certain ways.

If Temple fails to comply with the restrictions in its financing arrangements, its lenders may be able to accelerate related debt as well as any other debt to which a cross default or cross acceleration provision applies. A default could also allow creditors to foreclose, sell or realize on the property securing such debt or exercise other remedies against Temple. Credit facilities also typically require repayment of funds or cash flow sweeps when certain coverage ratios are not met. In connection with its financing arrangements, Temple expects that it will grant security interests over substantially all of its assets. If Temple is not able to meet its debt service obligations, it risks the loss of some or all of its assets to foreclosure or sale.

As of December 31, 2018, the Company was not in compliance with debt service covenants affecting seven mortgage loans in the aggregate amount of $104,525. Subsequent to December 31, 2018, the Company received a waiver in regard to one mortgage loan with an aggregate principal balance of $14,497. For additional information, see "Liquidity and Capital Resources".

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

Interest Rate Fluctuations and Financing Risk

Financing by Temple and its subsidiaries may include indebtedness with interest rates based on variable interest rates that result in fluctuations in the cost of borrowing. Temple and/or its subsidiaries will be required to refinance its debt from time to time and, if new debt has less favourable terms than existing indebtedness, or if such refinancing cannot be obtained, there is a potential negative impact on the financial conditions of Temple and on cash available to pay dividends.

The Canadian economy is experiencing historically low interest rates, which is having a positive impact on Temple's overall debt costs. An increase in interest rates could significantly affect Temple's ability to meet its financial obligations. In order to minimize this risk, Temple seeks to negotiate fixed-rate term debt with staggered maturities for the majority of debt on its property portfolio. As of December 31, 2018, approximately 65% of the mortgage loan debt of Temple is fixed rate debt. Derivative financial instruments may be utilized by Temple in the management of its interest rate exposure. Temple's policy is not to utilize derivative financial instruments for trading or speculative purposes.

Capital Expenditures Related to Franchise Agreements

Certain of the capital expenditures that are undertaken by Temple are required in order to meet the requirements for quality standards as set out in existing franchise agreements or represent expenditures which are necessary to attain new franchise rights. In the event that the required expenditures are not completed within prescribed time limits, the existing franchise rights of Temple, or the ability of Temple to attain new franchise rights, could be impaired.

During 2018, approximately 35% of Temple's capital expenditures represent expenditures which are associated with property improvement requirements under franchise agreements.

Fluctuations in Dividends

A return on an investment in common shares is not comparable to the return on an investment in a fixed-income security. The recovery of the initial investment in common shares is at risk, and the return on an investment in common shares is based on many performance assumptions. The dividends of Temple are established at the discretion of the Directors. The actual amount of dividends depends on numerous factors, including the actual and projected financial performance of the hotels in Temple's portfolio, its cash reserves, its debt covenants and obligations, working capital requirements, principal and interest payments on its indebtedness, tenant allowances, leasing commissions, capital expenditures and other factors that may be beyond the control of Temple. Dividends may be reduced or suspended at any time. In addition, the market value of the common shares may decline if Temple is unable to provide a satisfactory return to shareholders and that decline may be significant.

In January 2016, Temple suspended the payment of dividends.

Public Market Risk

It is not possible to predict the price at which common shares will trade in the future and there can be no assurance that an active trading market for the common shares will be sustained. The common shares will not necessarily trade at values determined solely by reference to the value of the properties of Temple. Accordingly, the common shares may trade at a premium or a discount to the value implied by the value of the properties of Temple. In addition, the market price for common shares may be affected by changes in general market conditions, fluctuations in the market for equity securities and numerous other factors which are beyond the control of Temple. Recent volatility in the financial markets, in part due to declining oil prices, has adversely affected the trading price of Temple shares and has created some additional uncertainty in the market price, at least for the short-term.

Percentage of Temple's Portfolio in Fort McMurray, Alberta

The property portfolio of Temple has significant exposure to the Fort McMurray, Alberta market. Although Temple will continue to consider hotel acquisition and development opportunities in Fort McMurray, the overall level of exposure to the Fort McMurray market has decreased over the past ten years due to the acquisition of a number of hotel properties in other cities. Temple has 28 hotel properties in its real estate portfolio as of December 31, 2018, of which nine are located in Fort McMurray, Alberta. Based on Same Property hotel operating income of $39,865 for the 28 hotels in 2018, the nine properties in Fort McMurray represent approximately 13%. The nine hotel properties in Fort McMurray, Alberta, encompass 889 guest rooms, representing 23% of the total Same Property guest rooms of the hotel portfolio as of December 31, 2018 and 2017.

During 2018, the nine hotel properties in Fort McMurray accounted for 13% of the total revenue of the Company, while achieving an average occupancy of 44%.

During 2018, the Sheraton Red Deer was the largest contributor to revenue. During 2018, the Sheraton Red Deer in Red Deer, Alberta, accounted for 13% of revenue, while achieving an average occupancy level of 53%.

In total, the Fort McMurray hotel portfolio and the Sheraton Red Deer accounted for 26% of total revenue and 20% of operating income during 2018, compared to 26% and 26%, respectively, during 2017.

Conversion of Apartment Properties to Extended Stay Hotels

In the normal course of business, Temple has acquired, and may continue to acquire, rental apartment or condominium buildings for the purpose of converting them to extended-stay hotel properties. In addition to the completion of "hotel amenity" upgrades, the conversion process may encompass property re-zoning, property re-branding and other matters. The timing of the completion of all matters related to the conversion process may encompass a longer time frame than is envisioned in the Company's business plan. The risk related to the finalization of the conversion process is considered by management to be minimal, as the current value and revenue-generating capacity of properties slated for conversion are unlikely to be adversely affected by delays in the conversion process.

Oil Sands Industry

As disclosed above, Temple has a high concentration of properties in the Fort McMurray, Alberta market. Companies and tradespeople that provide services to the oil sands industry represent the primary market for the Fort McMurray hotels.

The level of development activity in the oil sands industry is one of the main factors affecting hotel market conditions in Fort McMurray. Temple financial results for future periods are subject to numerous uncertainties arising from a slowdown in the oil sands industry, the impact of oil prices on future development in Fort McMurray and the general economy.

The decline in oil prices over the past year has created a higher level of uncertainty in regard to the timing and/or extent of future oil sands development activity and, by association, uncertainty regarding the financial results of Temple's hotels in Fort McMurray.

Land Leases

As of December 31, 2018, Temple has one property, the Acclaim Hotel, located on land leased from the Calgary Airport Authority. Land leases may be subject to periodic rate resets, which may result in significant rental rate adjustments. In addition, there can be no assurance that the landlord of leased lands will renew the land leases on reasonable terms or at all.

Dependence on and Relationships with Asset Manager and Atlific

Until such time as Temple internalizes its asset management functions, the financial performance of Temple will depend in part on the performance of the asset manager pursuant to the asset management agreement. Morguard is currently the administrator pursuant to the asset management agreement. The success of Temple is highly dependent on the services of the management personnel who are provided to Temple pursuant to the terms of the asset management agreement.

The financial performance of Temple will also depend in part on the performance of hotel management, currently being provided by Atlific pursuant to the hotel management agreements entered into between Temple and Atlific with respect to the management of hotel properties owned by Temple. Temple depends on Atlific for all aspects of the day-to-day management of all of its hotel properties owned at the date hereof other than the Acclaim Hotel. There can be no assurance that a suitable replacement would be found in a timely manner or at all if Atlific ceased providing its services to Temple.

Conflicts of Interest

There are potential conflicts of interest to which Directors and officers of Temple are, or may become, subject to in connection with the operations of Temple. Chris J. Cahill is Deputy Chief Executive Officer for AccorHotels, a multinational hospitality company that owns, manages and franchises hotels, resorts, and vacation properties. K. Rai Sahi is a director and officer of Morguard, which provides asset management services to Temple, is engaged in a wide range of real estate and other business activities, including the development and management of real estate, including hotels.

Morguard and its affiliates and associates and its directors and officers, including Mr. Cahill and Mr. Sahi, may become involved in transactions in which their interests actually, or are perceived to, conflict with the interests of Temple. Such conflicts will be subject to the procedures and remedies set out in the *Canada Business Corporations Act*.

Reliance on Key Personnel

The success of Temple is dependent on the services of management personnel.

Other Risks

Other risks are more fully discussed in the other regulatory filings of Temple, including the AIF, a copy of which is available at www.sedar.com.

CRITICAL ACCOUNTING ESTIMATES

The application of the significant accounting policies for purposes of preparing the audited consolidated financial statements, in accordance with IFRS, 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:

- Carrying amount of property and equipment and goodwill - if indications of impairment are present, the carrying amount of property and equipment and goodwill is compared at the end of each accounting period to its recoverable amount in order to determine if there has been any impairment in value. The determination of recoverable amount requires an estimate of normalized first year net operating income, inflation rates and discount rates;
- Depreciation of property and equipment - depreciation expense is based on the estimated useful life of "property and equipment";
- Amortization of intangible assets;
- The expected tax rates of 27.56% and 27.64% for 2017 and 2018, respectively, have been applied in the periods that temporary tax differences of the Company are expected to reverse;
- The fair value of financial instruments estimated based on observed inputs;
- The allowance for doubtful accounts; and
- Share based compensation expense.

The estimates which were used for financial statement reporting purposes are not expected to change from period to period and do not encompass a high degree of uncertainty.

FINANCIAL INSTRUMENTS

The financial instruments of Temple 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 company, including cash, marketable securities, trade and other receivables, deposits, mortgage receivables, accounts payable and other liabilities, mortgage loans and other debt secured by the revenues or assets of hotel properties.

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 other debt are discussed in the preceding sections of this report.

CHANGES TO SIGNIFICANT ACCOUNTING POLICIES

The Financial Statements are based on IFRS standards issued and effective as at February 20, 2019.

Future Changes in Accounting Policies

The following standards will be effective for subsequent annual periods. The Company is currently evaluating the impact of these standards on its financial statements.

(i) *IFRS 16, Leases ("IFRS 16")*

In January 2016, the IASB issued IFRS 16. The new standard requires that for most leases, lessees must initially recognize a lease liability for the obligation to make lease payments and a corresponding right-of-use asset for the right to use the underlying asset for the lease term. Lessor accounting under IFRS 16 is substantially unchanged, lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between an operating or finance lease. This standard will be effective for annual periods beginning on or after January 1, 2019.

At the commencement date of a lease, a lessee will recognize a liability to make lease payments and an asset representing the right-of-use to use the underlying asset during the lease term. Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense or fair value gain (loss) on the right-of-use asset, depending on the balance sheet classification of the asset. The standard includes two recognition exemptions for leases; leases of 'low-value' assets and short-term leases. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events. The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

The Company has completed the issue identification phase and impact assessment of the transition project. As a landlord, lessor accounting is substantially unchanged between IAS 17 and IFRS 16. The Company does not expect the standard to have a substantial impact as lessor accounting is substantially unchanged under IFRS 16, and therefore, leases with tenants are to be accounted for as operating leases in a consistent manner with the current accounting treatment. The Company has reviewed all lease contracts in which it is a lessee, and has noted that there will be a material impact in relation to the Company's land lease, which is recorded as finance lease, and as such, the estimated impact is noted below; the remainder of leases are considered immaterial. The Company will elect to use the exemptions proposed by the standard on lease contracts for which the lease term ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

Based on management's preliminary assessment, when the Company applies IFRS 16 for the first time for the year ending December 31, 2019, total assets as at January 1, 2019 will increase by approximately $2,280 with an increase to total liabilities of approximately $2,280.

(ii) *IFRIC Interpretation 23, "Uncertainty over Income Tax Treatment" ("IFRIC 23")*

IFRIC 23 addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12, *"Income Taxes" ("IAS 12")* and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments collectively;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers the effect of changes in facts and circumstances.

An entity applies IFRIC 23 for annual reporting periods beginning on or after January 1, 2019. The requirements are applied by recognizing the cumulative effect of initially applying them in retained earnings, or in other appropriate components of equity, at the start of the reporting period in which an entity first applies them, without adjusting comparative information. Full retrospective application is permitted, if an entity can do so without using hindsight.

The IFRIC Interpretation is not expected to have a material impact on the Company's consolidated financial statements.

INTERNAL CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Disclosure controls and procedures ("DC&P") are designed to provide reasonable assurance that information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified under Canadian securities law, and include controls and procedures designed to ensure that information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as to allow timely decisions regarding required disclosure.

In accordance with National Instrument 51-109 - Certification of Disclosure in Issuers' Annual and Interim Filings, the CEO and CFO of Temple have evaluated, or caused to be evaluated under their supervision, the effectiveness of DC&P as at December 31, 2018. Based on the evaluation performed, the CEO and CFO have concluded that the DC&P of Temple are appropriately designed and were operating effectively.

Internal Control over Financial Reporting

Temple's internal control over financial reporting ("ICFR") is designed provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. 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.

In addition, 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.

In accordance with National Instrument 51-109 - Certification of Disclosure in Issuers' Annual and Interim Filings, the CEO and CFO of Temple have evaluated, or caused to be evaluated under their supervision, the effectiveness of ICFR as at December 31, 2018. Based on the evaluation performed, the CEO and CFO have concluded that the ICFR of Temple are appropriately designed and were operating effectively. The evaluation was performed in accordance with the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework (2013).

ADDITIONAL INFORMATION

Additional information relating to Temple 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 authorities in Canada.

SUBSEQUENT EVENT

On January 14, 2019, the Company extended the maturity date on a three-loan mortgage portfolio with the incumbent lender for a one year term at an interest rate of 6.0%.

APPROVAL BY DIRECTORS

The content of the 2018 Report of Temple and the delivery of the report to the shareholders have been approved by the Directors.

TEMPLE HOTELS INC.
February 20, 2019