TEMPLE Hotels Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

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Management's Discussion and Analysis

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 June 30, 2019. 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 financial statements of Temple Hotels Inc. for the three and six months ended June 30, 2019 with reference to the Annual Report for 2018. This MD&A is based on financial information prepared in accordance with International Financial Reporting Standards ("IFRS") IAS 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB") and is dated August 6, 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 condensed consolidated financial statements as of June 30, 2019 will be referred to as the "Financial Statements"; the consolidated balance sheets as of June 30, 2019 will be referred to as the "Balance Sheet"; the consolidated statements of net loss and comprehensive loss for the three and six months ended June 30, 2019 will be referred to as the "Income Statement"; and the consolidated statements of cash flows for the three and six months ended June 30, 2019 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, 2018. 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.

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

Non-IFRS Financial Measures

The Company reports its financial results in accordance with IFRS. However, this MD&A also uses certain financial measures that are not defined by IFRS. These measures do not have any standardized meaning prescribed by IFRS and are not necessarily comparable to similar measures presented by other reporting issuers in similar or different industries. These measures should be considered as supplemental in nature and not as substitutes for related financial information prepared in accordance with IFRS. The Company's management uses these measure to aid in assessing the Company's underlying core performance and provides these additional measures so that investors may do the same. Management believes that the non-IFRS measures, described below, which supplement the IFRS measures, provide readers with a more comprehensive understanding of management's perspective on the Company's operating results and performance.

The following discussion describes the non-IFRS measures the Company uses in evaluating its operating results:

Net Operating Income ("NOI")
NOI is defined by the Company as room revenue and other hotel revenue from hotel properties less hotel operating costs as presented in the consolidated statements of income. Operating profit margin is calculated as NOI divided by revenue. NOI is an important measure in evaluating the operating performance of the Company's hotel properties.

A reconciliation of NOI from the IFRS financial statement presentation of room revenue and other hotel revenue from hotel properties and hotel operating costs is provided within the section, "Analysis of Operating Results".

Same Property NOI
Same Property NOI is presented in this MD&A because management considers this non-IFRS measures to be important measures of the Company's operating performance for properties owned by the Company continuously for the current and comparable reporting period and does not take into account the impact of the operating performance of property acquisitions and dispositions.

A reconciliation of Same Property NOI from the IFRS financial statement presentation of room revenue and other hotel revenue from hotel properties and hotel operating costs is provided within the section, "Analysis of Operating Results".

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 materially 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. The Company considers FFO to be a useful measure for reviewing its comparative operating and financial performance.

A reconciliation of net loss (an IFRS measure) to FFO is presented within the section, "Analysis of Cash Flows".

Revenue per Available Room ("RevPar")
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.

> *Occupancy* – The occupancy level is calculated by dividing the number of rooms available during the reporting period into the number of rooms actually rented.
>
> *Average Daily Rate ("ADR")* – The average daily rate 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.

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

FINANCIAL SUMMARY

	June 30 2019	December 31 2018	June 30 2018
BALANCE SHEET			
Total assets	$442,434	$448,906	$475,339
Total debt	$373,690	$457,412	$460,119
Weighted average interest rate of total debt including revolving loan debt and lease liability	5.67%	5.71%	5.58%
Weighted average interest of mortgage loan debt	5.58%	5.44%	5.30%
Weighted average term to maturity of mortgage loan debt (years)	1.85	1.86	2.18

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
KEY PERFORMANCE INDICATORS				
Operations:				
Occupancy	59%	64%	57%	61%
ADR	$144.26	$144.63	$138.90	$138.88
RevPar	$85.42	$92.33	$78.54	$84.18
Operating profit margin	24%	28%	20%	25%
Operating results:				
Total revenue	$40,598	$43,094	$75,129	$80,305
Hotel operating income *	$9,766	$12,142	$15,192	$19,689
Recovery of (provision for) impairment	-	($6,785)	$1,228	($6,785)
Net loss	($713)	($3,870)	($5,604)	($8,578)
Cash flows:				
Cash flow provided by operating activities	$2,371	$1,647	$656	$3,274
Cash flow provided by operating activities, excluding working capital adjustments	$3,039	$4,742	$2,489	$4,984
Funds from operations	$3,428	$4,989	$1,595	$4,933
PER COMMON SHARE AMOUNTS	Basic	Basic	Basic	Basic
Net loss	($0.01)	($0.15)	($0.14)	($0.34)
Funds from operations	$0.06	$0.20	$0.04	$0.20
Weighted average number of common shares	56,491,535	25,156,767	40,904,801	25,250,940

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

Q2 2019 Key Points

- On April 4, 2019, the Company completed a rights offering and issued 25,022,329 common shares at a price of $1.75 per common share for gross proceeds of $43,789.
- On April 8, 2019, the Company fully repaid the 7.25% Series E convertible debentures in the amount of $40,647, which will reduce annual cash interest expense by $2,947.
- On June 5, 2019, the Company completed a rights offering and issued 25,022,329 common shares at a price of $1.50 per common share for gross proceeds of $37,533. The Company used the proceeds to repay its existing revolving loan agreement with Morguard ("Credit Facility A").
- Revenue decreased $2,496 or 6% during the three months ended June 30, 2019 compared to 2018, due to a decrease in revenue within the Other Alberta and Fort McMurray portfolios of $1,461 and $1,451, respectively, partly offset by an increase in revenue of $416 within the Other Canada portfolio.
- Hotel operating income decreased by $2,376 or 20% during the three months ended June 30, 2019 compared to 2018, due to a decrease in hotel operating income within the Fort McMurray and Other Alberta portfolios of $1,534 and $1,008, respectively, partly offset by an increase of $166 within the Other Canada portfolio.
- FFO decreased by $1,561 during the three months ended June 30, 2019, compared to the three months ended June 30, 2018. On a basic per common share basis, FFO decreased by $0.14 per common share, compared to the second quarter of 2018. The increase in the weighted average number of common shares outstanding contributed to the decrease on a per common share basis.

Operating Activities

- *Net Loss* – Temple completed the second quarter of 2019 with a net loss of $713, compared to a net loss of $3,870 during the same period in 2018. The decrease in net loss is mainly due to a decrease to provision for impairment of $6,785, a decrease to interest expense of $928, a decrease to depreciation of $289, and a decrease in general and administrative expenses of $111, partly offset by a decrease in deferred income tax recovery of $2,431 and a decrease in hotel operating income of $2,376. On a per common share basis, the net loss was $0.01 for the second quarter of 2019 compared to a net loss of $0.15 for the second quarter of 2018.

- *Occupancy and ADR* – The decrease in hotel operating income primarily reflects a decrease in occupancy and ADR within the Other Alberta and Fort McMurray segments as a result of the unfavourable market conditions which continue to affect oil-dependent markets in Alberta, partially offset by higher ADR levels at the Other Canada segment in comparison to the second quarter of 2018.

- *Cash Provided by Operating Activities* – Cash provided by operating activities increased by $724 during the second quarter of 2019, compared to the second quarter of 2018. Excluding working capital adjustments, cash provided by operating activities decreased by $1,703, compared to 2018.

- *Funds from Operations* – During the second quarter of 2019, FFO decreased by $1,561, compared to the second quarter of 2018. The decrease in FFO mainly reflects a decline in hotel operating income, due to factors noted above, partially offset by a decrease in interest expense. On a basic per common share basis, FFO decreased by $0.14 per common share, compared to the second quarter of 2018. The increase in the weighted average number of common shares outstanding contributed to the decrease on a per common share basis.

- On April 1 2019, the Sheraton Red Deer Hotel was rebranded to the Cambridge Red Deer Hotel & Conference Centre (the "Cambridge Red Deer").

Liquidity and Financing Activities

- As of June 30, 2019, the unrestricted cash balance of Temple was $15,307 and working capital was $9,058.

- On April 1, 2019, the Company paid down an aggregate balance of $2,500 on three mortgage loans.

- On April 4, 2019, the Company completed a rights offering and issued 25,022,329 common shares at a price of $1.75 per common share for gross proceeds of $43,789.

- On April 8, 2019, the Company fully repaid the 7.25% Series E convertible debentures in the amount of $40,647.

- On June 5, 2019, the Company completed a rights offering and issued 25,022,329 common shares at a price of $1.50 per common share for gross proceeds of $37,533.

- During the second quarter of 2019, the Company repaid $38,000, net of advances, on its Credit Facility A.

- Subsequent to June 30, 2019, the Company paid down an aggregate balance of $2,500 on three mortgage loans.

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 $1,638 during the second quarter of 2019. Investing activities primarily reflect cash outflows related to capital expenditures on hotel properties.

Debt Covenants

At June 30, 2019, the Company was not in compliance with debt service covenants affecting seven mortgage loans in the aggregate amount of $102,904. The loan covenant breaches are expected to be resolved by debt refinancings, loan modification agreements and/or a waiver of the covenant requirements. Subsequent to June 30, 2019, 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".

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 June 30, 2019, the hotel portfolio of the Company consists of 27 hotel properties which are 100% owned, comprising 3,560 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 and a 70% co-ownership interest in one hotel property located in Calgary, Alberta, comprising 225 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 Morguard is provided in the section of this report titled, "Related Party Transactions".

The hotel properties of Temple are currently operated and managed by Atlific Hotels ("Atlific"), with the exception of the Acclaim Hotel located in Calgary, Alberta. 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 – June 30, 2019

As disclosed in the following chart, as at June 30, 2019, the hotel portfolio of Temple consists of 27 hotel properties which are 100% owned by the Company and a 70% co-ownership interest in one hotel located in Calgary, Alberta, comprising 3,785 rooms (3,717.5 rooms on a proportionate ownership basis). 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 three "extended-stay" properties (Stanton Suites Hotel, Yellowknife, Clearwater Timberlea, Fort McMurray and the Cortona Residence, Fort McMurray).

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

Change in Hotel Portfolio – Q2 2019 vs Q2 2018

On March 11, 2019, Temple sold a 30% undivided interest in the Acclaim Hotel, Calgary, Alberta, to an unrelated party. Subsequent to the disposal of the 30% interest in the Acclaim Hotel, the Company's interest in the joint arrangement is accounted for at its share of assets, liabilities, revenues and expense of the joint operation.

Available Guest Rooms

As of June 30, 2019, the hotel portfolio encompassed a total of 3,717.5 guest rooms, compared to 3,785 guest rooms as of June 30, 2018, representing a decrease of 67.5 rooms. The decrease in guest rooms is attributable to the disposition of a 30% interest in the Acclaim Hotel. 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.

Financial Statement Presentation

All of the 100% owned hotel properties and the Company's 70% co-ownership interest 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 – June 30, 2019

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 3,717.5 available rooms in the second quarter of 2019, compared to an average of 3,785 available rooms in the second quarter of 2018.

Property Portfolio – June 30, 2019

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
Cambridge Red Deer Hotel & Conference Centre (2)	Red Deer	December 2008	241
Hilton Garden Inn	Edmonton	August 2012	160
Acclaim Hotel Calgary Airport (3)	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 (4)	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) On April 1, 2019, the Sheraton Red Deer changed its name to the Cambridge Red Deer Hotel & Conference Centre (the "Cambridge Red Deer").

(3) On March 11, 2019, the Company sold a 30% undivided interest in the Acclaim Hotel. Temple owns on a proportionate basis 157.5 rooms.

(4) 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.

ANALYSIS OF OPERATING RESULTS

Analysis of Net Income (Loss) and Comprehensive Net Income (Loss) *

	Three Months Ended June 30			Six Months Ended June 30		
	2019	2018	Increase/ (Decrease) in Income	2019	2018	Increase/ (Decrease) in Income
Revenue						
Room revenue	$29,175	$31,492	($2,317)	$53,418	$57,532	($4,114)
Other hotel revenue	11,423	11,602	(179)	21,711	22,773	(1,062)
Total revenue	40,598	43,094	(2,496)	75,129	80,305	(5,176)
Hotel operating costs	30,832	30,952	120	59,937	60,616	679
Hotel operating income	9,766	12,142	(2,376)	15,192	19,689	(4,497)
Interest expense	5,903	6,831	928	14,086	13,986	(100)
Other expense (income)	124	(64)	(188)	(1,242)	(7)	1,235
Share based compensation	-	39	39	-	74	74
General and administrative expenses	844	955	111	1,601	1,673	72
Depreciation and amortization	3,885	4,247	362	7,937	8,579	642
	(990)	134	(1,124)	(7,190)	(4,616)	(2,574)
Equity income on investment in hotel properties	277	350	(73)	358	512	(154)
Recovery of (provision for) impairment	-	(6,785)	6,785	1,228	(6,785)	8,013
Deferred income tax recovery	-	2,431	(2,431)	-	2,311	(2,311)
Net loss and comprehensive loss	($713)	($3,870)	$3,157	($5,604)	($8,578)	$2,974
Per Common Share Results:						
Basic and diluted	($0.01)	($0.15)		($0.14)	($0.34)	

* The analysis of net 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 the second quarter of 2019, net loss on per common share basis was $0.01, compared to a net loss of $0.15 for the second quarter of 2018. For the first six months of 2019, net loss on a per common share basis was $0.14, compared to a net loss per common share of $0.34 for the first six months of 2018.

Overall Results

Second Quarter Comparatives

Temple completed the second quarter of 2019 with net loss before equity income of $990, compared to a net income before equity income, provision for impairment and income taxes of $134 during the second quarter of 2018, representing an increase in loss of $1,124.

As explained in greater detail in the following sections of this report, the increase in net loss before equity income, provision for impairment and income taxes mainly reflects a decrease in net operating income of $2,376 and an increase in other expense of $188, partly offset by a decrease in interest expense of $928, a decrease in depreciation and amortization of $362 and a decrease in general & administrative expenses of $111.

After providing for equity income, provision for impairment and income taxes, Temple completed the second quarter of 2019 with net loss of $713, compared to a net loss of $3,870 during the second quarter of 2018, representing a decrease in net loss of $3,157.

Six Month Comparatives

Temple completed the first six months of 2019 with net loss before equity income and recovery of impairment of $7,190, compared to a net loss before equity income, provision for impairment and income taxes of $4,616 during first six months of 2018, representing an increase in loss of $2,574.

As explained in greater detail in the following sections of this report, the increase in net loss before equity income, recovery of (provision for) impairment and income taxes mainly reflects a decrease net operating income of $4,497 and an increase in interest expense of $100, partly offset by an increase in other income of $1,235, a decrease in depreciation and amortization of $642, a decrease in share compensation of $74 and a decrease in general and administrative expenses of $72.

After providing for equity income, recovery of (provision for) impairment and income taxes, Temple completed the first six months of 2019 with net loss of $5,604, compared to a net loss of $8,578 during the first six months of 2018, representing a decrease in net loss of $2,974.

Revenue

Total Revenue

Analysis of Total Revenues

	Six Months Ended June 30				
	2019		2018		Increase/
	Amount	% of Total	Amount	% of Total	(Decrease)
Revenue					
Room revenue	$ 53,418	71%	$ 57,532	72%	$ (4,114)
Other hotel revenue	21,711	29%	22,773	28%	(1,062)
Total	$ 75,129	100%	$ 80,305	100%	$ (5,176)

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 "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 decreased by $5,176 or 6% during the first six months of 2019, compared to the first six months of 2018, comprised of a $4,114 decrease in room revenue and a $1,062 decrease in other hotel revenue.

During the first six months ended June 30, 2019 room revenue and other hotel revenue accounted for 71% and 29% of total revenue, respectively, compared to 72% and 28% of total revenue during the first six months of June 30, 2018.

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

	Three Months Ended June 30			Six Months Ended June 30		
	2019	2018	Increase/ (Decrease)	2019	2018	Increase/ (Decrease)
Same Property [(1)]						
Fort McMurray						
Room revenue	$ 3,954	$ 5,348	$ (1,394)	$ 7,334	$ 10,329	$ (2,995)
Other hotel revenue	263	320	(57)	597	597	-
	$ 4,217	$ 5,668	$ (1,451)	$ 7,931	$ 10,926	$ (2,995)
Other Alberta						
Room revenue	$ 3,553	$ 4,638	$ (1,085)	$ 7,558	$ 8,815	$ (1,257)
Other hotel revenue	4,544	4,920	(376)	8,815	9,804	(989)
	$ 8,097	$ 9,558	$ (1,461)	$ 16,373	$ 18,619	$ (2,246)
Other Canada						
Room revenue	$ 21,668	$ 21,506	$ 162	$ 38,526	$ 38,388	$ 138
Other hotel revenue	6,616	6,362	254	12,299	12,372	(73)
	$ 28,284	$ 27,868	$ 416	$ 50,825	$ 50,760	$ 65
Total						
Room revenue	**$ 29,175**	**$ 31,492**	**$ (2,317)**	**$ 53,418**	**$ 57,532**	**$ (4,114)**
Other hotel revenue	**11,423**	**11,602**	**(179)**	**21,711**	**22,773**	**(1,062)**
Total hotel revenue	**$ 40,598**	**$ 43,094**	**$ (2,496)**	**$ 75,129**	**$ 80,305**	**$ (5,176)**

(1) The above chart reflects 70% of the operating results for the Acclaim Hotel commencing March 11, 2019.

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.

Comparative Results

During the second quarter of 2019, Same Property room revenue decreased by $2,317 or 7%, compared to the second quarter of 2018. The decrease is mainly comprised of a $1,394 (26%) decrease in the Fort McMurray portfolio and a $1,085 (23%) decrease in the Other Alberta portfolio. The decline in Fort McMurray is primarily related to increased supply in the region and non-recurring demand in 2018, as well as lower revenue at the Cortona Residence which was 100% occupied on a long-term lease, until April 30, 2018. In addition, the decline in Other Alberta was the result of the sale of a 30% interest in the Acclaim Hotel and the rebranding of Cambridge Red Deer on April 1, 2019. During the transition period of rebranding, temporary signage was used at the hotel and restaurant that resulted in fewer patrons.

The decrease in Same Property room revenue during the second quarter of 2019, compared to the second quarter of 2018, is largely due to a decrease in occupancy and RevPar within the Fort McMurray and Other Alberta segments.

Fort McMurray and Other Alberta segments experienced lower occupancy and RevPar as a result of the unfavourable market conditions which continue to affect oil-dependent markets in Alberta. In addition, the decline in Fort McMurray occupancy and RevPar is attributed to the addition of the Cortona Residence to room revenue statistics beginning on October 22, 2018 when hotel operations commenced.

Room Revenue Statistics

As disclosed in the following chart, for the three months ended June 30, 2019, RevPar for the Same Property portfolio was $85.42, compared to $92.33 for the three months ended June 30, 2018. RevPar for Same Property portfolio results generally reflect decreased occupancy and ADR levels at the Company's Fort McMurray and Other Alberta segments.

Room Revenue Statistics

	Three Months Ended June 30								
	2019					2018			
	Occ		ADR		RevPar	Occ		ADR		RevPar
Same Property										
Fort McMurray	37%	$	133.49	$	48.93	49%	$	140.38	$	68.15
Other Alberta	46%	$	119.66	$	54.99	54%	$	124.51	$	67.60
Other Canada	73%	$	151.92	$	111.26	73%	$	150.99	$	110.43
Overall Portfolio	**59%**	**$**	**144.26**	**$**	**85.42**	**64%**	**$**	**144.63**	**$**	**92.33**

Room Revenue Statistics

	Six Months Ended June 30									
	2019					2018				
	Occ		ADR		RevPar	Occ		ADR		RevPar
Same Property										
Fort McMurray	34%	$	135.86	$	45.63	46%	$	139.03	$	63.51
Other Alberta	49%	$	118.92	$	57.67	54%	$	120.65	$	64.59
Other Canada	69%	$	144.41	$	99.46	69%	$	143.83	$	99.10
Overall Portfolio	**57%**	**$**	**138.90**	**$**	**78.54**	**61%**	**$**	**138.88**	**$**	**84.18**

The above chart reflects 70% of the operating results for the Acclaim Hotel commencing March 11, 2019.

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 or banquet and conference facilities, generate a higher amount of other hotel revenue in comparison to the other hotels.

At June 30, 2019, there are four hotels in the portfolio which generate proportionately higher levels of other hotel revenue, namely the Cambridge Red Deer, Temple Gardens Hotel and Spa, Saskatoon Inn and Prince George Hotel. The Cambridge Red Deer is included in the Other Alberta segment and the remaining three hotels are included in the Other Canada segment. During the second quarter of 2019, the four hotels contributed $7,728 to other hotel revenue, representing 68% 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 Cambridge 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 second quarter of 2019, other hotel revenue in the Same Property portfolio decreased by $179 or 2%, compared to the second quarter of 2018, comprised of a decrease of $376 or 8% from the Other Alberta properties and a decrease of $57 or 18% from the Fort McMurray portfolio, partly offset by an increase of $254 or 4% from the Fort McMurray portfolio.

Notwithstanding the above, the Cambridge Red Deer Hotel & Convention Centre was the most significant contributor to other hotel revenue in the overall portfolio during the second quarter of 2019, accounting for $3,345 or 29% of other hotel revenue.

During the first six months of 2019, other hotel revenue for the Same Property portfolio decreased $1,062 or 5% compared to the first six months of 2018, comprised of decreases in the Other Alberta and Other Canada properties of $989 and $73, respectively.

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

	Three Months Ended June 30			Six Months Ended June 30		
	2019	2018	Increase/ (Decrease)	2019	2018	Increase/ (Decrease)
Same Property [1]						
Fort McMurray						
Operating expenses [2]	$ 3,234	$ 3,388	$ (154)	$ 6,349	$ 6,887	$ (538)
Property taxes and insurance	563	326	237	905	690	215
	$ 3,797	$ 3,714	$ 83	$ 7,254	$ 7,577	$ (323)
Other Alberta						
Operating expenses [2]	$ 7,255	$ 7,563	$ (308)	$ 14,570	$ 14,799	$ (229)
Property taxes and insurance	342	487	(145)	810	953	(143)
	$ 7,597	$ 8,050	$ (453)	$ 15,380	$ 15,752	$ (372)
Other Canada						
Operating expenses [2]	$ 17,365	$ 17,270	$ 95	$ 33,245	$ 33,595	$ (350)
Property taxes and insurance	2,073	1,918	155	4,058	3,692	366
	$ 19,438	$ 19,188	$ 250	$ 37,303	$ 37,287	$ 16
Total						
Operating expenses [2]	**$ 27,854**	**$ 28,221**	**$ (367)**	**$ 54,164**	**$ 55,281**	**$ (1,117)**
Property taxes and insurance	**2,978**	**2,731**	**247**	**5,773**	**5,335**	**438**
Total hotel operating costs	**$ 30,832**	**$ 30,952**	**$ (120)**	**$ 59,937**	**$ 60,616**	**$ (679)**

Note:

(1) The above chart reflects 70% of the operating results for the Acclaim Hotel commencing March 11, 2019.
(2) 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 the second quarter of 2019, hotel operating costs for the Same Property portfolio decreased by $120, compared to the second quarter of 2018, mainly comprised of a decrease of $453 (6%) for the Other Alberta portfolio, partly offset by an increase of $250 (1%) and $83 (2%) for the Other Alberta and Fort McMurray portfolios, respectively.

The decrease in hotel operating costs in Other Alberta reflects the reduction of revenues for the segment.

Operating Income and Profit Margin

Operating Income and Profit Margin

	Three Months Ended June 30				Six Months Ended June 30			
	Operating Income		Operating Profit Margin		Operating Income		Operating Profit Margin	
	2019	2018	2019	2018	2019	2018	2019	2018
Same Property [1]								
Fort McMurray	$420	$1,954	10%	34%	$677	$3,349	9%	31%
Other Alberta	500	1,508	6%	16%	993	2,867	6%	15%
Other Canada	8,846	8,680	31%	31%	13,522	13,473	27%	27%
Total portfolio	$9,766	$12,142	24%	28%	$15,192	$19,689	20%	25%

(1) The above chart reflects 70% of the operating results for the Acclaim Hotel commencing March 11, 2019.

After accounting for the decrease in total revenues and the decrease in hotel operating costs, total operating income decreased by $2,376 or 20% during the second quarter of 2019, compared to the second quarter of 2018, comprised of decreases of $1,534 and $1,008 for the Fort McMurray and Other Alberta segments, respectively, partly offset by an increase of $166 in the Other Canada segment.

As disclosed in the preceding chart, the overall profit margin of the entire hotel portfolio declined from 28% in the second quarter 2018 to 24% in the second quarter of 2019.

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 the first six months of 2019, interest expense in regard to mortgage loan debt accounted for 69% (2018 - 70%) of total interest expense, interest expense in regard to debenture debt accounted for 16% (2018 - 20%), and interest in regard to the revolving loan and other accounted for 15% (2018 – 10%). The change in percentages mainly reflects higher revolving loan interest, due to the timing of advances and repayments from the Company's revolving loan facilities, and lower debenture interest, resulting from the redemption of Series E convertible debentures on April 8, 2019 and the Series F convertible debentures during the second quarter of 2018.

Analysis of Interest Expense

	Three Months Ended June 30			Six Months Ended June 30		
	2019	2018	Increase (Decrease)	2019	2018	Increase (Decrease)
Mortgage loans						
Interest on mortgage loans	$4,673	$4,688	($15)	$9,478	$9,640	($162)
Amortization of transaction costs	121	108	13	236	212	24
Subtotal - mortgage loans	4,794	4,796	(2)	9,714	9,852	(138)
Revolving Loan and Other Interest						
Interest	1,017	1,055	(38)	2,059	1,276	783
Interest on lease liability	28	-	28	59	-	59
Subtotal - revolving loan and other interest	1,045	1,055	(10)	2,118	1,276	842
Debentures						
Interest on convertible debentures	64	776	(712)	795	2,144	(1,349)
Accretion	-	174	(174)	1,269	556	713
Amortization of transaction costs	-	30	(30)	190	158	32
Subtotal - debentures	64	980	(916)	2,254	2,858	(604)
Interest expense	$5,903	$6,831	($928)	$14,086	$13,986	$100

Comparative Results for Interest Expense

As disclosed in the preceding chart, total interest expense decreased by $928 or 14% during the second quarter of 2019, compared to the second quarter of 2018. The decrease is mainly comprised of a decrease of $916 relating to convertible debentures interest. The decrease in total debentures interest expense reflects the redemption of Series E convertible debentures on April 8, 2019.

The weighted average interest rate of mortgage loan debt increased from 5.30% at June 30, 2018 to 5.58% at June 30, 2019. The weighted average interest rate of the credit facilities increased from 5.96% at June 30, 2018 to 6.41% at June 30, 2019.

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 the first six months of 2019, total amortization charges in regard to transaction costs amounted to $426 compared to $370 during the first six months of 2018.

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 the first six months of 2019, interest expense includes accretion charges of $1,269, compared to $556 during the first six months of 2018. Since the Company delivered notice on March 4, 2019, to redeem the outstanding Series E convertible debentures and, on April 8, 2019 they were fully repaid, the accretion expense increased to reflect the contractual change to the redemption date.

Other Expense (Income)

Analysis of Other Expense (Income)

	Three Months Ended June 30			Six Months Ended June 30		
	2019	2018	Increase/ (Decrease)	2019	2018	Increase/ (Decrease)
Interest and other revenue	$ (11)	$ (26)	$ 15	$ (18)	$ (97)	$ 79
Finance lease interest revenue	(54)	(58)	4	(109)	(118)	9
Insurance proceeds, net	(45)	20	(65)	(1,635)	208	(1,843)
Other expenses	234	-	234	520	-	520
Total - other expense (income)	$ 124	$ (64)	$ 188	$ (1,242)	$ (7)	$ (1,235)

During the second quarter of 2019, other expense increased by $188, compared to 2018. The increase is mainly attributable to an increase in other expenses.

During the first six months of 2019, other income increased by $1,235, compared to 2018. The increase is mainly attributable to an increase in net insurance proceeds relating to settlement of an insurance claim under the Company's business interruption policy as part of events in Fort McMurray, partially offset by an increase in other expenses.

General and Administrative Expense

Analysis of General and Administrative Expense

	Three Months Ended June 30			Six Months Ended June 30		
	2019	2018	Increase/ (Decrease)	2019	2018	Increase/ (Decrease)
Professional and legal fees	$ 127	$ 194	$ (67)	$ 208	$ 272	$ (64)
TSX and other reporting/filing fees	86	96	(10)	203	162	41
Other administrative costs	16	19	(3)	55	35	20
Asset management fees	615	646	(31)	1,135	1,204	(69)
Total - general and administrative expense	$ 844	$ 955	$ (111)	$ 1,601	$ 1,673	$ (72)

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).

During the second quarter of 2019, general and administrative expenses decreased by $111 compared to the second quarter of 2018. The decrease is mainly attributable to lower professional and legal fees and lower asset management fees.

During the first six months of 2019, general and administrative expenses decreased by $72 compared to the first six months of 2018. The decrease is mainly attributable to lower asset management fees of $69 and lower professional and legal fees of $64, partly offset by higher TSX and other reporting/filing fees of $41 and higher other administrative costs of $20.

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 the first six months of 2019 amounted to $136, compared to $162 for the first six months of 2018. Of this amount, $136 (2018 - $88) is included in general and administrative expense and $nil (2018 - $74) 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.

Depreciation and Amortization

During the first six months of 2019, depreciation and amortization charges decreased by $642 compared to the first six months of 2018. 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 $154 from $512 in the first six months of 2018 to $358 in the first six months of 2019, due to a decrease of $129 in hotel operating income, an increase in depreciation expense and mortgage interest of $75 and a decrease in other income of $12, partially offset by an increase in deferred income tax recovery of $62. The decrease in operating income was primarily at the Residence Inn, due to a decrease in RevPar of $13.89 compared to the first six months of 2018. Overall profit margin at the Residence Inn Marriott and Courtyard Marriott decreased by 2% from 31% to 29% for the first six months of 2019 as compared to 2018.

Recovery of 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.

During the first six months of 2019, a recovery of impairment of $1,228 was recorded on the Acclaim Hotel, reflecting the hotel value associated with the sale of a 30% undivided interest in the property. On March 11, 2019, Temple sold a 30% undivided interest in the Acclaim Hotel for gross proceeds of $6,450. On disposition, the recoverable amount was equal to the carrying value of the property, which was the sale price less costs to sell.

ANALYSIS OF CASH FLOWS

Operating Activities

	Three Months Ended June 30			Six Months Ended June 30		
	2019	2018	Increase/ (Decrease) in Cash Flow	2019	2018	Increase/ (Decrease) in Cash Flow
Total revenue	$ 40,598	$ 43,094	$ (2,496)	$ 75,129	$ 80,305	$ (5,176)
Hotel operating costs	30,832	30,952	120	59,937	60,616	679
Hotel operating income	9,766	12,142	(2,376)	15,192	19,689	(4,497)
Additions to tenant inducements	-	-	-	(10)	-	(10)
Amortization of tenant inducements	23	10	13	57	21	36
	23	10	13	47	21	26
Interest expense	(5,903)	(6,831)	928	(14,086)	(13,986)	(100)
Amortization of transaction costs	121	138	(17)	426	370	56
Accretion of convertible debentures	-	174	(174)	1,269	556	713
Cash component of interest expense	(5,782)	(6,519)	737	(12,391)	(13,060)	669
Other income (expense)	(124)	64	(188)	1,242	7	1,235
General and administrative expense	(844)	(955)	111	(1,601)	(1,673)	72
Cash provided by operating activities, before working capital adjustments	3,039	4,742	(1,703)	2,489	4,984	(2,495)
Working capital adjustments	(668)	(3,095)	2,427	(1,833)	(1,710)	(123)
Cash provided by operating activities	$ 2,371	$ 1,647	$ 724	$ 656	$ 3,274	$ (2,618)

The main components of cash provided by operating activities are hotel operating income, interest payments and working capital adjustments. Temple completed the second quarter of 2019 with cash provided by operating activities of $2,371, compared to cash provided by operating activities of $1,647 during the second quarter of 2018. Excluding working capital adjustments, cash provided by operating activities amounted to $3,039 for the second quarter of 2019, representing a decrease of $1,703. The decrease in cash provided by operating activities, before working capital adjustments mainly reflects a decrease in hotel operating income of $2,376 and an increase in other expense of $188, partially offset by a decrease in cash component of interest expense of $737 and a decrease in general and administrative expenses of $111.

During the first six months of 2019, Temple generated cash flow from operations of $656, compared to $3,274 during the first six months of 2018. After excluding working capital adjustments, cash from operating activities during the first six months of 2019 amounted to $2,489, representing a decrease of $2,495, compared to the first six months of 2018. The decrease is mainly due to a decrease in hotel operating income of $4,497, partially offset by an increase in other income of $1,235 and a decrease in cash component of interest expense of $669.

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 $519 during the first six months of 2019. Investing activities primarily reflect capital expenditures on hotel properties in the amount of $2,741, partially offset by cash inflows related to net proceeds from sale of property and equipment of $1,849, a cash inflow due to change in other assets of $244, and receipt of net investment in lease of $129.

Financing Activities

As disclosed in the Statements of Cash Flows in the financial statements, the financing activities of Temple resulted in a net cash inflow of $82 during the first six months of 2019. The net cash inflow is comprised of net proceeds of rights offerings of $80,902, partially offset by convertible debenture redemptions of $40,647, net revolving loan repayments of $23,500, lump sum principal payments on mortgage loans of $9,500, and cash outflows of $7,065 related to regular repayment of principal of mortgage loans.

Cash Flow Summary

The net cash inflow from operating, investing and financing activities during the first six months of 2019 was $219. After providing for the opening cash balance of $15,088, Temple completed the first six months of 2019 with a cash balance of $15,307.

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 materially 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

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Net loss	$ (713)	$ (3,870)	$ (5,604)	$ (8,578)
Add/(deduct):				
Deferred income tax recovery	-	(2,431)	-	(2,311)
Provision for (recovery of) impairment	-	6,785	(1,228)	6,785
Depreciation and amortization	3,885	4,247	7,937	8,579
Amortization of tenant inducements	23	10	57	21
Equity investments - depreciation and deferred taxes	233	248	433	437
Funds from operations	**$ 3,428**	**$ 4,989**	**$ 1,595**	**$ 4,933**
Weighted average number of common shares	56,491,535	25,156,767	40,904,801	25,250,940
FFO - per common share - basic and diluted	$ 0.06	$ 0.20	$ 0.04	$ 0.20

During the second quarter of 2019, FFO decreased by $1,561, compared to the second quarter of 2018. The decrease in FFO mainly reflects a decline in hotel operating income and an increase of other expense, partially offset by a decrease in interest expense and general and administrative expenses. On a basic per common share basis, FFO decreased by $0.14 per common share, compared to the second quarter of 2018. The increase in the weighted average number of common shares outstanding contributed to the decrease on a per common share basis.

During the first six months of 2019, FFO decreased by $3,338, compared to the first six months of 2018. The decrease in FFO mainly reflects a decline in hotel operating income and an increase of interest expense, partially offset by an increase in other income and lower general and administrative expenses. On a basic per common share basis, FFO decreased by $0.16 per common share, compared to the first six months of 2018. The increase in the weighted average number of common shares outstanding contributed to the decrease on a per common share basis.

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.

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.

	June 30 2019	December 31 2018
Unrestricted cash	$ 15,307	$ 15,088
Working capital	$ 9,058	$ 7,006

As of June 30, 2019, the unrestricted cash balance of Temple was $15,307 and the working capital was $9,058. The cash balance consists primarily of working capital reserves for hotel operations and cash designated for capital expenditures and the repayment of debt.

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 lease liability due within the twelve month period ending June 30, 2020, 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	$ 332,897	$ 182,935	$ 90,066	$ 47,068	$ 12,828
Interest on mortgage loan debt	25,947	10,043	13,071	2,658	175
Revolving loan debt	41,500	6,500	35,000	-	-
Interest on revolving loan debt	6,013	2,275	3,738	-	-
Lease liability	1,592	9	24	33	1,526
Interest on lease liability	2,099	113	225	221	1,540
Accounts payable and accrued liabilities	18,546	18,546	-	-	-
Other operating leases	6,690	2,506	1,850	1,332	1,002
Total	$ 435,284	$ 222,927	$ 143,974	$ 51,312	$ 17,071

(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.

Mortgage Loan Debt

The total amount of contractual mortgage loan debt due for the one year period ending June 30, 2020, of $182,935, is comprised of the following:

- Regular repayments of principal in the estimated amount of $7,098.
- Principal due of $102,193 in regard to mortgage loans which mature during the twelve month period ending June 30, 2020, on eight hotel properties. It is expected that all eight mortgage loans will be renewed on similar terms and conditions at maturity.
- Aggregate principal balance of $73,644 relating to seven mortgage loans 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, arrange for capital expenditures in accordance with predetermined limits, and maintain ongoing liquidity ratios. As at June 30, 2019, 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 June 30, 2019 is provided below.

Property	Location	Note		Mortgage Balance June 30, 2019	Maturity Date
Holiday Inn Express	Ottawa, ON	(1)	$	12,162	August 2022
Radisson Hotel & Suites	Fort McMurray, AB	(1)		8,568	August 2022
Hilton Garden Inn	Edmonton, AB	(1)		13,921	August 2022
Inn at the Quay	New Westminster, BC	(2)		11,431	November 2019
			$	46,082	
Merit Hotel & Suites	Fort McMurray, AB	(3)	$	12,196	Month-to-month
Clearwater Timberlea	Fort McMurray, AB	(3)		6,244	Month-to-month
Cortona Residence	Fort McMurray, AB	(3)		15,942	Month-to-month
			$	34,382	
Days Inn Yellowknife	Yellowknife, NWT	(4)	$	6,127	September 2019
Stanton Suites Hotel	Yellowknife, NWT	(4)		8,370	September 2019
			$	14,497	
Holiday Inn Winnipeg South	Winnipeg, MB	(5)	$	7,943	Month-to-month
			$	102,904	

(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 June 30, 2019.

(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 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 $33,623 scheduled to retire after June 30, 2020.

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

Convertible Debentures

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 Company delivered notice on March 4, 2019 to redeem the outstanding Series E convertible debentures and on April 8, 2019, the Company fully repaid the 7.25% Series E convertible debentures in the amount of $40,647.

Capital Resources

Existing Cash

As of June 30, 2019, the unrestricted cash balance of Temple was $15,307 and the working capital was $9,058.

Revolving Lines 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 June 30, 2019, the amount payable under the revolving loan was $6,500 (December 31, 2018 - $30,000). For the three and six months ended June 30, 2019, Temple incurred interest on the credit facility of $433 (2018 - $476) and $906 (2018 - $667), respectively.

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 June 30, 2019 and December 31, 2018, the amount drawn on the credit facility was $35,000. For the three and six months ended June 30, 2019, Temple incurred interest of $567 (2018 – $567) and $1,128 (2018 – $586), respectively.

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 June 30, 2019, 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

	June 30 2019	December 31 2018
Mortgage loan debt - principal amount	$ 332,897	$ 354,063
Convertible debentures - face value	-	40,647
Revolving loan	41,500	65,000
Lease liability	1,592	-
Share capital (net of issue costs)	373,418	292,516
Total capitalization	$ 749,407	$ 752,226

Shares:
Authorized - unlimited

Issued:

June 30, 2019 – 75,066,987

August 6, 2019 – 75,066,987

Debt

The carrying value of the total debt of Temple as disclosed in the financial statements is $373,690 as of June 30, 2019, compared to $457,412 as of December 31, 2018. 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 June 30, 2019, the mortgage loan debt of Temple amounted to $332,897. All of the mortgage loan debt requires monthly payments of principal and interest.

In total, mortgage loan debt represents 89% of the total debt (at face value) as of June 30, 2019.

The balance of mortgage loan debt, as of June 30, 2019, excluding unamortized transaction costs, decreased by $21,166, compared to the balance as of December 31, 2018. The decrease consists of lump sum principal payments on mortgage loans of $9,500, regular monthly mortgage loan principal payments of $7,065 and the assumption by the purchaser of $4,601 on the disposal of a 30% interest of a property.

Expenditures on transaction costs for mortgage loan debt amounted to $nil and $104 during the three and six months ended June 30, 2019, respectively.

Debt Maturities and Renewal/Refinancings

For the twelve month period ending June 30, 2020, contractual mortgage debt comprised of eight mortgage loans with a principal balance of $102,193 is scheduled to mature. The maturing loans are all expected to be renewed or refinanced. In addition, seven of the mortgage loans, having a principal balance of $73,644, are technically payable on demand but are expected to be repaid over 15 to 20 year terms.

Debt Summary

As of June 30, 2019, the weighted average interest rate of the total mortgage loan debt is 5.58%, compared to 5.44% as of December 31, 2018.

Mortgage Loan Debt of Equity Interest Hotels

As of June 30, 2019, the mortgage loan debt of the two equity interest hotels is equal to $7,978 and has a weighted average interest rate of 4.73%.

Convertible Debentures

The following chart summarizes the outstanding convertible debentures as of June 30, 2019 at the face value of the debt.

On April 8, 2019, the Company fully repaid the 7.25% Series E convertible debentures in the amount of $40,647.

Analysis of Debenture Conversions

Issue Date - Maturity Date	Series	Interest Rate	Amount Issued	Share Conversions, Debentures Redemptions and NCIB Repurchases to Q4 2018	Debentures Purchased under NCIB to Q2 2019	Debentures Redeemed to Q2 2019	Amount Outstanding Q2 2019
			(face value)	(face value)	(face value)	(face value)	(face value)
Aug. 8/12 – Apr. 8/19	E	7.25%	$46,000	$ (5,353)	$ -	$ (40,647)	$ -

Share Capital

The following is a summary of the common share transactions for the six months ended June 30, 2019.

Description	Common Shares Issued	Equity Raised
Balance, beginning of period	25,022,329	$ 292,516
Common share issuance	50,044,658	81,322
Issue costs	-	(420)
Balance, end of period	75,066,987	$ 373,418

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. No common shares have been purchased under this bid.

On July 9, 2019, the Company initiated a normal course issuer bid for the purchase of up to 3,753,349 common shares for a twelve month period, representing 5% of the issued and outstanding common shares, expiring on July 8, 2020.

On April 4, 2019, Temple issued 25,022,329 common shares at a price of $1.75 per common share for gross proceeds of $43,789 and net proceeds of $43,579 after deducting issue costs. Morguard acquired 21,045,702 of the common shares issued.

On June 5, 2019, Temple issued 25,022,329 common shares at a price of $1.50 per common share for gross proceeds of $37,533 and net proceeds of $37,323 after deducting issue costs. Morguard acquired 18,761,302 of the common shares issued.

Additional information regarding the Stock Option Plan, Deferred Share Plan and Dividend Reinvestment Plan ("DRIP") is disclosed in the Annual Information Form. The Annual Information Form is available on SEDAR at www.sedar.com.

HOTEL MANAGEMENT

With the exception of the Acclaim Hotel, 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 $1,575 in property management fees during the first six months of 2019, compared to $1,617 during the first six months of 2018.

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 three and six months ended June 30, 2019, the Company incurred services fees to Morguard of $615 (2018 - $646) and $1,135 (2018 - $1,204), respectively.

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

	2019		2018	
	Q2	Q1	Q4	Q3
Total revenue	$40,598	$34,531	$40,014	$45,490
Net operating income	$9,766	$5,426	$6,255	$13,921
Recovery of (provision for) impairment	-	$1,228	($20,910)	-
Net income (loss)	($713)	($4,891)	($26,126)	$2,780
PER COMMON SHARE				
Net operating income				
- Basic *	$0.17	$0.22	$0.25	$0.55
Net income (loss)				
- Basic	($0.01)	($0.19)	($1.04)	$0.11
Key performance indicators				
- Occupancy	59%	54%	56%	69%
- ADR	$144.26	$132.92	$139.10	$147.52
- RevPar	$85.42	$71.56	$78.00	$101.80
FFO	$0.06	($0.07)	($0.03)	$0.28

Quarterly Analysis

	2018		2017	
	Q2	Q1	Q4	Q3
Total revenue	$43,094	$37,211	$39,878	$46,106
Net operating income	$12,142	$7,547	$7,579	$15,190
Provision for impairment	($6,785)	-	($18,372)	($235)
Net income (loss)	($3,870)	($4,708)	($23,528)	$3,355
PER COMMON SHARE				
Net operating income				
- Basic *	$0.48	$0.30	$0.30	$0.60
Net income (loss)				
- Basic	($0.15)	($0.19)	($0.93)	$0.13
Key performance indicators				
- Occupancy	64%	57%	57%	70%
- ADR	$144.63	$132.40	$136.30	$145.52
- RevPar	$92.33	$75.93	$77.72	$101.65
FFO	$0.20	$ -	($0.02)	$0.32

* Non-IFRS measures

Revenue and Operating Income

On March 11, 2019, the sale of a 30% undivided interest in the Acclaim Hotel reduced revenues and operating income for the first and second quarters of 2019.

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 an extended stay hotel and commenced operations during Q3 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 subsequent to third quarter 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 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 repayments 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. During the first quarter of 2019, the Company paid down $7,000 of mortgage debt, borrowed an additional $14,500 on the Company’s revolving Credit Facility A and disposed of a 30% interest in a hotel. During the second quarter of 2019, the Company repaid the Series E convertible debentures in the amount of $40,647, repaid $38,000 on the Company’s revolving Credit Facility A and paid down $2,500 of mortgage debt.

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 recovery of impairment in the first quarter of 2019, and 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 first quarter of 2019 and the fourth quarter of 2018, other expense (income) includes insurance proceeds of $1,590 and $533, 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 primarily due to common shares issued in the second quarter of 2019, partially offset by common shares repurchased under the Company’s normal course issuer bid plan in prior quarters. Overall, the weighted average number of common shares has increased 125% from July 1, 2018 to June 30, 2019.

OPERATING RISKS AND UNCERTAINTIES

There are certain risks inherent in an investment in the common shares and activities of Temple that investors should carefully consider before investing in securities of Temple. Risks and uncertainties are disclosed in Temple’s MD&A for the year ended December 31, 2018, and the Operating Risks and Uncertainties section of the Company’s latest Annual Information Form, dated February 20, 2019.

CRITICAL ACCOUNTING ESTIMATES

The application of the significant accounting policies for purposes of preparing the condensed 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.

Temple's condensed consolidated financial statements for the three and six months ended June 30, 2019 and 2018 have been prepared in accordance with IAS 34, *Interim Financial Reporting*, as issued by the IASB. The condensed consolidated financial statements use the same accounting policies and methods of their application as the most recent annual audited consolidated financial statements, except for the adoption of current accounting policies noted below, and should be read in conjunction with the most recent annual audited consolidated financial statements.

Management determined that as at June 30, 2019, there is no change to the assessment of the significant accounting policies most affected by estimates and judgments as detailed in the MD&A for the year ended December 31, 2018.

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 August 6, 2019.

Adoption of Accounting Policies

(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 as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Company is the lessor.

The Company adopted the standard on January 1, 2019 using a modified retrospective approach. The Company elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ("short-term leases"), and lease contracts for which the underlying asset is of low value ("low-value assets").

The Company reviewed all lease contracts in which it is a lessee, and has noted that there was a material impact in relation to the Company's land lease and, as such, the impact is noted below; the remainder of leases are considered immaterial.

Leases previously accounted for as operating leases
The Company recognized right-of-use asset and lease liability for its land lease previously classified as operating lease, except for short-term leases and leases of low-value assets. The right-of-use asset was recognized based on an amount equal to the lease liability. The lease liability was recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Company also applied the available practical expedients wherein it:

- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The adoption of IFRS 16 on January 1, 2019, resulted in the initial recognition of a right-of-use asset included in property and equipment of $2,280 and its corresponding lease liability of $2,280, having a weighted average borrowing rate of 7.25%.

Summary of new accounting policies that have been applied from the date of initial application
At the commencement date of a lease, the Company will recognize a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Interest expense on the lease liability and the depreciation expense on the right-of-use asset is recognized separately.

Right-of-use assets, not meeting the definition of investment property, are measured at cost less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

The Company measures lease liabilities at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The Company applies the recognition exemptions for leases of low-value assets and short-term leases.

(ii) IFRIC Interpretation 23, Uncertainty over Income Tax Treatments ("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. IFRIC 23 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 Company adopted the interpretation on January 1, 2019. IFRIC 23 did not have a material impact on the Company's consolidated financial statements.

Future Changes in Accounting Policies

The future accounting policy changes are discussed in Temple's audited consolidated financial statements for the year ended December 31, 2018, and the notes contained therein.

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 June 30, 2019. Based on the evaluation performed, the CEO and CFO have concluded that the DC&P of Temple are designed 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 June 30, 2019. Based on the evaluation performed, the CEO and CFO have concluded that the ICFR of Temple are designed 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 July 2, 2019, the Company paid down an aggregate balance of $2,500 on three mortgage loans.

APPROVAL BY DIRECTORS

The content of the 2019 Second Quarter Report of Temple and the delivery of the report to the shareholders have been approved by the Directors.

TEMPLE HOTELS INC.
August 6, 2019