

**SKYLINE INVESTMENTS INC.
CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED
September 30, 2017
and 2016
(UNAUDITED)**

SKYLINE INVESTMENTS INC.
CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED SEPTEMBER 30, 2017
(UNAUDITED)

CONTENTS

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION	3
INTERIM CONSOLIDATED STATEMENTS OF INCOME	4
INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)	5
INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY	6 - 8
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS	9
SELECTED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS	10 - 18

SKYLINE INVESTMENTS INC.
INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian Dollars)

	As at		
	September 30, 2017 (Unaudited)	September 30, 2016 (Unaudited)	December 31, 2016 (Audited)
ASSETS			
Current			
Cash and cash equivalents	23,977	28,382	29,837
Trade receivables	5,721	17,763	17,264
Other receivables	9,101	8,517 *)	8,898 *)
Prepayments	3,040	2,466	2,331
Inventories	1,397	1,414	1,780
Real estate inventory	53,416	59,036	58,651
Property held for sale	--	18,731	18,357
Loans to purchasers - current maturity	8,750	1,500 *)	5,565 *)
Restricted bank deposits	66,718 **)	5,423	3,054
Total current assets	172,120	143,232	145,737
Non-current			
Restricted bank deposits	4,771	949	952
Financial derivative	2,962	--	--
Investment properties	88,969	84,452	90,783
Property, plant and equipment, at cost	3,485	140,202	3,920
Property, plant and equipment, at fair value	266,414	--	271,612
Loans to purchasers	30,672	--	--
Other assets	429	402	381
Deferred tax	7,436	6,946	6,368
Total non-current assets	405,138	232,951	374,016
Total Assets	577,258	376,183	519,753
LIABILITIES AND EQUITY			
Current			
Loans payable	24,844	22,548	26,449
Bonds - current maturities	59,065 **)	972	1,105
Trade payables	9,177	6,826	8,025
Other payables and credit balances	14,769	14,566	15,485
Deferred revenue	6,198	5,600	6,910
Income taxes payable	983	2,990 *)	972 *)
Purchasers' Deposits	8,858	5,917	6,698
Total current liabilities	123,894	59,419	65,644
Non-current			
Loans payable	60,044	58,450	61,125
Bonds	47,763	42,317	42,306
Other liabilities	2,178	2,984	2,577
Deferred tax	59,587	30,654 *)	60,729 *)
Total non-current liabilities	169,572	134,405	166,737
Total liabilities	293,466	193,824	232,381
Shareholders' Equity			
Equity attributable to Shareholders of the Company	243,828	163,198	245,968
Non-controlling interest	39,964	19,161 *)	41,404 *)
Shareholders Equity	283,792	182,359	287,372
Total Liabilities and Equity	577,258	376,183	519,753

*) | See note 2d

**) See note 5k

The accompanying notes are an integral part of these interim consolidated financial statements.

On Behalf of the Board of Directors:

Gil Blutrigh
Chairman

Blake Lyon
CEO

Vadim Shub
CFO

November 14, 2017

Date

SKYLINE INVESTMENTS INC.
INTERIM CONSOLIDATED STATEMENTS OF INCOME

(in thousands of Canadian dollars, except per share amounts)

	FOR THREE MONTHS ENDED		FOR NINE MONTHS ENDED		FOR THE YEAR ENDED
	September 30,	September 30,	September 30,	September 30,	December 31,
	2017	2016	2017	2016	2016
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
REVENUE					
Hospitality income	31,044	33,310	88,653	93,395	118,502
Income from investment properties	929	885	2,725	2,796	3,695
Sale of residential real estate	23,026	1,243	24,380	19,578	25,551
Other operation income	6	19	72	237	246
	<u>55,005</u>	<u>35,457</u>	<u>115,830</u>	<u>116,006</u>	<u>147,994</u>
EXPENSES AND COSTS					
Hospitality operating expenses	24,581	26,443	73,034	77,210	99,799
Operating expenses of investment properties	304	494	838	1,141	1,577
Cost of sale of residential real estate	23,028	1,270	23,996	18,573	23,540
Development periodic costs	448	424	1,234	1,259	1,458
Other operation expense	29	84	105	126	85
Depreciation	2,820	1,582	8,129	4,795	6,635
Write-down (appreciation) of real estate inventory to net realizable value	--	--	(355)	2,655	2,993
	<u>51,210</u>	<u>30,297</u>	<u>106,981</u>	<u>105,759</u>	<u>136,087</u>
GROSS PROFIT	3,795	5,160	8,849	10,247	11,907
Loss (gain) from fair value adjustments and disposals	2	127	(4,901)	(2,663)	(7,095)
Selling and marketing expenses	99	206	484	1,059	1,463
Administrative and general expenses	838	1,071	3,052	3,230	4,895
PROFIT FROM OPERATIONS	2,856	3,756	10,214	8,621	12,644
Financial expense	2,332	3,504	6,744	7,780	10,332
Financial income	(627)	(10)	(2,819)	(17)	(211)
Other expense (income)	(1)	(347)	478	(380)	869
Gain on sale of investment	--	(8,592)	17	(8,592)	(8,574)
PROFIT BEFORE INCOME TAXES	1,152	9,201	5,794	9,830	10,228
Income tax expense	248	1,439 *)	1,846	1,566 *)	2,191 *)
PROFIT FOR THE PERIOD	904	7,762	3,948	8,264	8,037
Attributable to:					
Shareholders of the Company	388	6,972	2,295	5,531	3,910
Non-controlling interest	516	790 *)	1,653	2,733 *)	4,127 *)
	<u>904</u>	<u>7,762</u>	<u>3,948</u>	<u>8,264</u>	<u>8,037</u>
BASIC EARNINGS PER SHARE	0.02	0.42	0.13	0.33	0.23
DILUTED EARNINGS PER SHARE	0.02	0.42	0.13	0.33	0.23

*) See note 2d

The accompanying notes are an integral part of these interim consolidated financial statements.

SKYLINE INVESTMENTS INC.
INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands of Canadian Dollars)

	FOR THE THREE MONTHS ENDED		FOR NINE MONTHS ENDED		FOR THE
	September 30,	September 30,	September 30,	September 30,	YEAR ENDED
	2017	2016	2017	2016	December 31,
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	2016
					(Audited)
PROFIT FOR THE PERIOD	904	7,762 *)	3,948	8,264 *)	8,037 *)
OTHER COMPREHENSIVE INCOME					
Items that will not be reclassified subsequently to profit or loss:					
Revaluation surplus (loss) of property, plant and equipment, before income taxes	(3,361)	--	(3,361)	--	132,221
Income taxes	656	--	656	--	(27,769) *)
Items that will or may be reclassified subsequently to profit or loss:					
Exchange differences on translation of foreign operations	(960)	355	(3,428)	(1,054)	(306)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD net of taxes	(3,665)	355	(6,133)	(1,054)	104,146
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, net of taxes	(2,761)	8,117	(2,185)	7,210	112,183
Attributable to:					
Shareholders of the Company	(1,012)	7,313	(745)	4,546	87,277
Non-controlling interest	(1,749)	804 *)	(1,440)	2,664 *)	24,906 *)
	(2,761)	8,117	(2,185)	7,210	112,183

*) | See note 2d

The accompanying notes are an integral part of these interim consolidated financial statements.

SKYLINE INVESTMENTS INC.
INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in thousands of Canadian Dollars)

	Share Capital and Premium	Warrant Certificates	Re-valuation Surplus	Equity Settled Service Reserve	Related Party Surplus	Foreign Exchange translation	Retained Earnings	Total shareholders' equity	Non- controlling Interest	Total
FOR THREE MONTHS ENDED September 30, 2017										
<i>(Unaudited)</i>										
Balance at the beginning of the period	78,779	519	82,744	463	125	4,192	77,912	244,734	41,713	286,447
Profit for the period	--	--	--	--	--	--	388	388	516	904
Other comprehensive income (loss) for the period	--	--	(439)	--	--	(961)	--	(1,400)	(2,265)	(3,665)
Total comprehensive Income (loss) for the period	--	--	(439)	--	--	(961)	388	(1,012)	(1,749)	(2,761)
Dividend Distribution	--	--	--	--	--	--	--	--	--	--
Recognition and amortization of revaluation surplus of property plant and equipment, net of taxes	--	--	(1,224)	--	--	--	1,224	--	--	--
Recognition of Share-based payment	--	--	--	106	--	--	--	106	--	106
Balance at the end of the period	78,779	519	81,081	569	125	3,231	79,524	243,828	39,964	283,792
FOR THREE MONTHS ENDED September 30, 2016										
<i>(Unaudited)</i>										
Balance at the beginning of the period	77,900	519	2,804	936	125	3,883	69,679	155,846	19,649	175,495
Profit for the period	--	--	--	--	--	--	6,972	6,972	790 *)	7,762 *)
Other comprehensive (loss) for the period	--	--	--	--	--	341	--	341	14	355
Total comprehensive Income (loss) for the period	--	--	--	--	--	341	6,972	7,313	804	8,117
Distribution	--	--	--	--	--	--	--	--	(1,292)	(1,292)
Revaluation surplus, recognized net of	--	--	(2,804)	--	--	--	2,804	--	--	--
Recognition of Share-based	--	--	--	39	--	--	--	39	--	39
Balance at the end of the period	77,900	519	--	975	125	4,224	79,455	163,198	19,161	182,359

*) | See note 2d

The accompanying notes are an integral part of these interim consolidated financial statements.

SKYLINE INVESTMENTS INC.
INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands of Canadian Dollars)

	Share Capital and Premium	Warrant Certificates	Re-valuation Surplus	Equity Settled Service Reserve	Related Party Surplus	Foreign Exchange translation	Retained Earnings	Total shareholders' equity	Non- controlling Interest	Total
FOR NINE MONTHS ENDED September 30, 2017										
<i>(Unaudited)</i>										
Balance at the beginning of the period	77,900	519	83,749	1,014	125	4,827	77,834	245,968	41,404	287,372
Options that expired	879	--	--	(879)	--	--	--	--	--	--
Profit for the period	--	--	--	--	--	--	2,295	2,295	1,653	3,948
Other comprehensive income for the year	--	--	(1,444)	--	--	(1,596)	--	(3,040)	(3,093)	(6,133)
Total comprehensive income for the year	--	--	(1,444)	--	--	(1,596)	2,295	(745)	(1,440)	(2,185)
Distribution	--	--	--	--	--	--	(1,829)	(1,829)	--	(1,829)
Recognition and amortization of revaluation surplus of property plant and equipment, net of taxes	--	--	(1,224)	--	--	--	1,224	--	--	--
Recognition of Share-based payment	--	--	--	434	--	--	--	434	--	434
Balance at the end of the period	78,779	519	81,081	569	125	3,231	79,524	243,828	39,964	283,792
FOR NINE MONTHS ENDED September 30, 2016										
<i>(Unaudited)</i>										
Balance at the beginning of the period	77,900	519	2,804	874	125	5,209	71,120	158,551	12,744	171,295
Investment in subsidiary	--	--	--	--	--	--	--	--	5,045	5,045
Profit for the period	--	--	--	--	--	--	5,531	5,531	2,733 *)	8,264 *)
Other comprehensive income for the year	--	--	--	--	--	(985)	--	(985)	(69)	(1,054)
Total comprehensive Income for the year	--	--	--	--	--	(985)	5,531	4,546	2,664	7,210
Distribution	--	--	--	--	--	--	--	--	(1,292)	(1,292)
Revaluation surplus, recognized net of taxes	--	--	(2,804)	--	--	--	2,804	--	--	--
Recognition of Share-based payment	--	--	--	101	--	--	--	101	--	101
Balance at the end of the period	77,900	519	--	975	125	4,224	79,455	163,198	19,161	182,359

*) | See note 2d

The accompanying notes are an integral part of these interim consolidated financial statements.

SKYLINE INVESTMENTS INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands of Canadian Dollars)

	Share Capital and Premium	Warrant Certificates	Re-valuation Surplus	Equity Settled Service Reserve	Related Party Surplus	Foreign Exchange translation	Retained Earnings	Total shareholders' equity	Non- controlling Interest *)	Total
FOR THE YEAR ENDED December 31, 2016										
<i>(Audited)</i>										
Balance at the beginning of the period	77,900	519	2,804	874	125	5,209	71,120	158,551	12,744	171,295
Investment in subsidiary	--	--	--	--	--	--	--	--	5,045	5,045
Profit for the period	--	--	--	--	--	--	3,910	3,910	4,127 *)	8,037 *)
Other comprehensive income for the year	--	--	83,749	--	--	(382)	--	83,367	20,779	104,146
Total comprehensive Income for the year	--	--	83,749	--	--	(382)	3,910	87,277	24,906	112,183
Dividend	--	--	--	--	--	--	--	--	(1,291)	(1,291)
Revaluation surplus, recognized net of taxes	--	--	(2,804)	--	--	--	2,804	--	--	--
Recognition of Share-based payment	--	--	--	140	--	--	--	140	--	140
Balance at the end of the period	77,900	519	83,749	1,014	125	4,827	77,834	245,968	41,404	287,372

*) | See note 2d

The accompanying notes are an integral part of these consolidated financial statements.

SKYLINE INVESTMENTS INC.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian Dollars)

	FOR THREE MONTHS ENDED		FOR NINE MONTHS ENDED		FOR THE
	September 30, 2017 (Unaudited)	September 30, 2016 (Unaudited)	September 30, 2017 (Unaudited)	September 30, 2016 (Unaudited)	YEAR ENDED December 31, 2016 (Audited)
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES					
Cash Flow from Operating Activities					
Profit for the year	904	7,762 *)	3,948	8,264 *)	8,037 *)
Add (deduct) items not involving cash:					
Depreciation and amortization	2,988	1,661	9,451	5,107	7,552
Gain from fair value adjustments	2	127	(4,901)	(2,663)	(7,095)
Gain on sale of investment and other property	--	(8,559)	--	(8,592)	(8,574)
Financing costs from bonds	(1,324)	2,332	2,775	2,332	3,040
Financing (income) cost from financial derivative	1,596	--	(2,962)	--	--
Deferred tax, net	107	(1,493) *)	1,062	(2,241) *)	207 *)
Write-down of real estate inventory to net realizable value	--	--	(355)	2,655	2,993
Equity settled service reserve	106	39	434	101	140
Changes in non-cash working capital					
Trade receivables	(384)	(205)	11,543	(13,208)	(12,709)
Other receivables and prepayments	(1,483)	(1,874)	100	(2,664)	(6,975)
Restricted bank deposits	423	(207)	(1,268)	20	2,386
Inventories	174	229	383	518	152
Real Estate Inventory	(3,063)	(2,200)	(7,368)	6,800	8,817
Trade and other payables and credit balances	(442)	(725)	(4,254)	(4,690)	(1,905)
Income taxes payable	873	2,399	11	3,425	1,556
Purchasers' Deposits	1,151	1,172	2,160	(462)	319
	<u>1,628</u>	<u>458</u>	<u>10,759</u>	<u>(5,298)</u>	<u>(2,059)</u>
Cash Flow from Investing Activities					
Proceeds from asset sold	2,838	--	2,838	460	460
Additions to investment properties	(3)	(155)	(208)	(459)	(671)
Investment in restricted short term deposit	(62,965) **)	--	(62,965) **)	--	--
Investment in restricted long term deposit	--	--	(3,250)	--	--
Additions to property, plant and equipment	(3,164)	(3,156)	(13,876)	(5,990)	(12,509)
Proceeds from sale of property, plant and equipment	--	30,624	76	30,825	30,847
	<u>(63,294)</u>	<u>27,313</u>	<u>(77,385)</u>	<u>24,836</u>	<u>18,127</u>
Cash Flow from Financing Activities					
Bank credit and other short-term loans	3,634	2,728	(4,063)	5,878	8,792
Issuance of bonds payable	65,753 **)	41,524	65,753 **)	41,524	41,461
Repayment of bonds payable	(1,133)	--	(1,133)	--	--
Proceeds on loans payable	709	1,377	20,996	26,840	29,719
Repayments of loans payable	(582)	(55,855)	(17,967)	(71,855)	(72,385)
Distribution by a subsidiary to its non-controlling shareholders	--	(1,292)	--	(1,292)	(1,291)
Dividend Distribution	--	--	(1,829)	--	--
Repayments of loans payable to related parties	--	(16)	--	(6,739)	(6,739)
Change in other liabilities	(156)	--	(399)	(46)	(453)
	<u>68,225</u>	<u>(11,534)</u>	<u>61,358</u>	<u>(5,690)</u>	<u>(896)</u>
Foreign Exchange translation of foreign operations	(774)	(46)	(592)	330	461
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	5,785	16,191	(5,860)	14,178	15,633
Cash and cash equivalents, beginning of the year	18,192	12,191	29,837	14,204	14,204
CASH AND CASH EQUIVALENTS, END OF PERIOD	23,977	28,382	23,977	28,382	29,837
SUPPLEMENTAL CASH FLOW INFORMATION					
Interest paid	2,592	1,739	5,767	5,946	6,564
Interest received	256	10	307	17	211
Income taxes paid	783	221	1,467	221	248
Significant non-cash transactions					
Conversion of third party loan to equity (non-controlling interest)	--	--	--	5,045	5,045
Loans to Purchasers	34,869	--	34,869	--	--

*) See note 2d

***) See note 5k

The accompanying notes are an integral part of these interim consolidated financial statements.

SKYLINE INVESTMENTS INC.
SELECTED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED SEPTEMBER 30, 2017

(in thousands of Canadian Dollars)

1 NATURE OF OPERATIONS

Skyline Investments Inc. ("Skyline" or the "Company") was incorporated on December 4, 1998 under the *Business Corporations Act (Ontario)*. Traded on the Tel-Aviv Stock Exchange (TASE) in Israel and a public issuer in Ontario, Canada. The Company and its subsidiaries are involved in the acquisition, ownership and development of hospitality and destination communities in Ontario and the United States. The Company's normal operating cycle is twelve months except for the development activities, which are in excess of twelve months and typically range between three to four years. The Company is 66.13% owned by Skyline Canada-Israel Ltd, a majority of shares of which are owned by Mishorim Real Estate Investments Ltd (former: Mishorim Development Corporation Ltd.), a public company whose shares are traded on the Tel-Aviv Stock Exchange.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation of the interim condensed consolidated financial statements:

The condensed interim consolidated financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting", and in accordance with the disclosure requirements of Chapter D of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

(b) New standards, interpretations and amendments initially adopted by the Company:

The significant accounting policies and methods of computation adopted in the preparation of the condensed interim consolidated financial statements are consistent with those followed in the preparation of the annual financial statements.

IFRS 15 Revenue from Contracts with Customers ("IFRS 15"):

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios.

Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Furthermore, extensive disclosures are required by IFRS 15.

IFRS 15 will be mandatory effective for annual periods starting from 1st of January 2018 or after. Early implementation is possible. The Company had early implemented IFRS 15 since January 1st 2017. The implementation of IFRS 15 did not had an impact on the Company's financial statements. Revenue recognition from selling residential units will continue to recognized on "interim closing" (as described in note 2 of the annual financial statements) as the conditions of IFRS15.35c do not meet.

IFRS 5, "Assets held for sale"

Non-current asset and / or a group of assets held for sale, as well as the liabilities related to these assets must be available for immediate sale in its present condition, the management must be committed to a plan to sell the asset, and an active program to locate a buyer and complete the plan must have been initiated. The sale should be expected to qualify for recognition as completed in one year from the date of classification and must be highly probable. These assets cease to be amortized from the date of such classification and presented separately as current assets at the lower of their carrying amount or fair value less costs to sell, except investment properties, which are measured at fair value and financial liabilities measured at amortized cost.

(c) Exchange rate (CAD/USD)

Results of operations and balances are affected by changes in US dollar. Since January 1, 2017 until September 30, 2017 the foreign exchange rate of the U.S. dollar compared to the Canadian dollar decreased by approximately 8%. From September 30, 2017 until the date those financial statements were published the U.S. dollar decreased by approximately 2% compared to Canadian dollar.

	<u>30-Sep-17</u>	<u>30-Sep-16</u>	<u>31-Dec-16</u>
Exchange rate (CAD per 1 USD)	1.248	1.312	1.343
Average Exchange rate (CAD per 1 USD)	1.307	1.322	1.325

SKYLINE INVESTMENTS INC.
SELECTED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED SEPTEMBER 30, 2017

(in thousands of Canadian Dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Immaterial adjustment

The comparative figures as for the nine and the three months ended on September 30, 2016, as well as for the year ended December 31, 2016 as presented in the current financial statements, include an immaterial adjustment to reflect the loans to purchasers, split out from other receivables balance and the Company's portion as well as the non-controlling interest in tax liability of the Renaissance Hotel in United States:

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at September 30, 2016		
	As reported in the past	reclassification effect	As currently reported
Other receivables	10,017	(1,500)	8,517
Loans to purchasers - current maturity	-	1,500	1,500
Income taxes payable	3,536	(546)	2,990
Deferred tax (liability)	32,037	(1,383)	30,654
Non-controlling interest	17,232	1,929	19,161

	As at December 31, 2016		
	As reported in the past	reclassification effect	As currently reported
Other receivables	14,463	(5,565)	8,898
Loans to purchasers -	-	5,565	5,565
Income taxes payable	1,667	(695)	972
Deferred tax (liability)	69,417	(8,688)	60,729
Non-controlling interest	32,021	9,383	41,404

INTERIM CONSOLIDATED STATEMENTS OF INCOME

	For the three months ended September 30, 2016		
	As reported in the past	reclassification effect	As currently reported
Income tax expense	1,733	(294)	1,439
Non-controlling interest	496	294	790

	For the nine months ended September 30, 2016		
	As reported in the past	reclassification effect	As currently reported
Income tax expense	1,984	(418)	1,566
Non-controlling interest	2,315	418	2,733

	For the year ended December 31, 2016		
	As reported in the past	reclassification effect	As currently reported
Income tax expense	2,775	(584)	2,191
Non-controlling interest	3,543	584	4,127

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	For the three months ended September 30, 2016		
	As reported in the past	reclassification effect	As currently reported
Profit (Loss) for the period	7,468	294	7,762
Non-controlling interest	510	294	804

	For the nine months ended September 30, 2016		
	As reported in the past	reclassification effect	As currently reported
Profit (Loss) for the period	7,846	418	8,264
Non-controlling interest	2,246	418	2,664

SKYLINE INVESTMENTS INC.
SELECTED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED SEPTEMBER 30, 2017

(in thousands of Canadian Dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

	For the year ended December 31, 2016		
	As reported in the past	reclassification effect	As currently reported
Profit (Loss) for the period	7,453	584	8,037
Income taxes	(35,057)	7,288	(27,769)
Non-controlling interest	17,034	7,872	24,906

3 SEASONALITY AND OTHER DISCLOSURES

The Company's hospitality segment operations are seasonal due to its nature. The results of operations and the revenue are typically substantially better during winter and summer seasons.

The Company's current liabilities include \$83,909 current maturities of long term loans, bonds and short term construction debt. There is a net cash inflow from operations of \$10,759 as per the consolidated statements of cash flow for the nine months ended September 30, 2017. There are cash and cash equivalents and restricted cash totaling \$86,152. A net cash outflow from operations, when applicable, is not expected to adversely affect the Company's business operations, since according to its past experience, financial institutions refinance the loans in addition to the fact that there are a substantial number of potential lenders.

4 FAIR VALUE MEASUREMENT

Categories of assets and liabilities subject to fair value measurement

The estimated fair values of loans payable are as follows:

	Fair value		Carrying amount	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Loans payable	84,844	80,879	84,888	80,998
Bonds Series A (1)	56,348	45,853	50,076	43,289
Bonds Series B (1)	57,845	-	56,752	-
Financial derivative (2)	2,962	-	2,962	-

(1) The Fair value is based on Tel-Aviv Stock Exchange quote (in New Israeli Shekels) for September 30, 2017 and translated to CAD using a currency NIS/CAD quote provided on Bank of Israel web site.

The Carrying amount is net of costs of, which incurred to issue the bonds.

(2) The fair value is based on bank statement as of September 30, 2017

5 SIGNIFICANT EVENTS DURING THE PERIOD

a. Employee stock options plan

On November 14, 2016 the Board of Directors approved granting 290,000 employee options. The option plan was approved by Tel-Aviv Stock Exchange on March 16, 2017. The fair value of the options at the grant date was determined using Binomial model. Where relevant, the expected life used in the models has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions, and behavioral considerations. Expected volatility is based on the historical share price volatility of similar companies including the Parent Company, which management estimates to approximate the volatility in value of the Company's shares.

In February 1, 2017 the Executive Options, that were issued in previous years, expired and the associated value of \$879 was classified from Equity Settled Service Reserve into Share Capital and Premium. In April 2017, 10,000 options were cancelled, as one of the employees has resigned. The remaining amount of executive options is 280,000.

b. Loan refinancing

During March 2017, the Company's subsidiary refinanced one of its properties and obtained a new \$17,000 US 5-year loan, with an option to extend the loan by additional two years. The principal, amortized over 25 years, is to be repaid on a monthly basis as from May 5, 2019. The loan is bearing annual interest of 2.50% above 30 day libor (3.40%). The Company, as a 50% recourse guarantor, is required to maintain certain financial covenants, as customary for this type of transactions.

c. Financial derivative

On January 18, 2017 the Company purchased a financial instrument, to hedge its cash flow exposure to New Israeli Shekel due to its outstanding obligation for Series 1 bonds. As a result of this transaction, the Company will settle its bond obligations like they were borrowed in Canadian dollars at a nominal fixed interest rate in a range of 5.5%-6.5% instead of payment in New Israeli Shekel at 5.2%. This financial instrument covers 100% of expected future payments of the Company's bond obligation and interest. As per an agreement with the Bank, the Company invested \$3,250 in a restricted deposit. The revaluation of the financial instrument is recognized through the statement of income.

d. Credit line

In March 2017, the Company secured a \$20,000 line of credit, while the Horseshoe resort is a collateral. The credit line is bearing an interest of Prime+2% (as for September 30, 2017 approximately 4.90%). The Company is required to maintain certain covenants, as customary for this type of transactions.

SKYLINE INVESTMENTS INC.
SELECTED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED SEPTEMBER 30, 2017
(in thousands of Canadian Dollars)

5 SIGNIFICANT EVENTS DURING THE PERIOD (continued)

e. Contingent liabilities

In May 2017 the Company settled a claim with one of its former service providers and agreed to pay \$430.

f. Dividend distribution

Following the board of directors approval to distribute 5,000NIS (approximately \$1,800) dividend to its share holders, the Company distributed the dividend on April 18, 2017.

g. Port McNicoll disposition

In July 2017 the Company completed the sale of the Port McNicoll Project lands for \$41,967. The buyer paid \$4,197 on closing. The Company provided Vendor's take back (VTB) secured by first mortgage on the project lands totaling \$37,769, bearing 2% annual interest payable in 71 monthly installments of \$350 and annual payment of interest. The balance is payable at the end of six years. The Company can discharge all or portion of the VTB at the buyer's request subject to early payment of all or part of the outstanding balance. On July 19, 2017 the transaction was closed. The Company recorded a revenue \$23,026, equal to present value of the payments received and the VTB against the inventory component of the land sold, the sale of investment property component of the land is recognized in gain from sale of investments. The cost of sale is recorded at the amount similar to the revenue since the property was fair market valued. As a result of this transaction, there was no significant impact to the bottom line. The value of the financial instrument was determined by a third party independent valuator and totaled \$35,499. The valuator used risk adjusted discount rate of approximately 4%.

h. Construction loans

In July 2017 the Company obtained construction loan commitments totaling \$15,200 from two Canadian banks to fund construction of its condominium project at Horseshoe (Slopeside lodge) and land servicing at Blue Mountain at 4.70% annual interest.

i. Acquisition of 13 hotels branded under Marriott Courtyard

On August 2, 2017, the Company signed a conditional agreement for the purchase of 13 fully managed Select-Service hotels in the US for US \$135 million (before transaction costs). The hotels are branded under the Courtyard by Marriott, ranging between 135 to 149 room each, with the combined room count of 1,913. Spread over 9 states in the USA, the properties bring significant geographical diversification, with strong locations in key Midwest, Southeast and Southwest markets. In addition to the acquisition of the properties, the company entered into 13 20-year franchise agreements with Marriott International securing the access to the Marriott's reservation and sales platforms, and replaced Marriott's management with a third party management company (one of the largest in the United State). On November 14, 2017 the transaction was closed. The Company financed the acquisition with a new loan from one of the largest banks in the US. On November 14, 2017 the Company's wholly owned US subsidiary entered into a non-recourse loan agreement of \$89,500 USD financing 65% of the transaction costs at annual variable interest equal to $\text{libor} + 325 \text{ points}$ (approx. 4.50%). The loan is interest only and is issued for a total period of five years including three annual extensions, subject to various conditions, including the primary condition of maintaining particular levels of debt yield on the extension dates ranging between 10% to 11%. In addition to the acquisition financing, the bank also provided a \$31 million line of credit at the same terms that can be used for property improvements and upgrades as might be determined by Management in coordination with Marriott. The borrower would be required to invest 10% of the improvement costs as equity. The company purchased a rate cap to insure against increase in Libor over 3.5% (currently 1.25%).

j. Bonds Series A - extension

On August 29, 2017, the Company closed a private bonds placement to institutional investors. The Company issued 20,000 bond units by extending the original Series A at a determined interest rate of 5.20% (fixed) and raised 20,750 New Israeli Shekels (raise with a premium), net of fees (approximately CAD\$7,300). The bonds issued are subject to the same covenants as the originally issued Series A and it will be repaid accordingly.

k. Bonds Series B

Pursuant to a shelf prospectus issued by the Company on February 23, 2015 and a supplementary Shelf Offering Report issued by the Company on September 24, 2017, the Company issued 164,464 units comprising of NIS 1,000 par value Debentures (Series B) at a fixed interest rate of 5.65% and raised 164,464,000 New Israeli Shekels. The Debentures (Series B) interest and principal is linked to the NIS/US dollar exchange rate. The Debentures (Series B) commenced trading on the Tel Aviv Stock Exchange on September 28, 2017. The Debentures (Series B) are redeemable (principal) in 12 payments that shall be made on January 15 and July 15 in each of the years 2019 to 2023 (inclusive), and the last payment will be on January 15, 2024. Each payment shall redeem 3.25% of the par value of the principal of the Debentures (Series B) except the final payment, which shall be in the amount of the balance of the principal to be redeemed, at the rate of 64.25% of the par value of the principal of the Debentures (Series B).

The interest on the Debentures (Series B) shall be paid in semi-annual payments on January 15 and on July 15 of each of the years 2018 to 2024, with the first payment of interest to be made on January 15, 2018, and the last payment of interest to be made on January 15, 2024. The financial liabilities, as set out in Section 6.2 to the Deed of Trust, include the requirement of the Company to maintain a consolidated nominal equity (excluding minority interests) of not less than 130 million Canadian dollars and a ratio between the Company's consolidated equity (including minority interests) and the total assets of not less than 26%. The financial covenants, as set out in Section 5.4 to the Deed of Trust (regarding Interest Rate Adjustment), include the requirement of the Company to maintain a consolidated nominal equity (excluding minority interests) of not less than 180 million Canadian dollars and a ratio between the Company's consolidated equity (including minority interests) and the total assets of not less than 28.5%. On September 30, 2017, the consolidated nominal equity (excluding minority interests) of the Company was 244 million Canadian dollars and the ratio between the Company's consolidated equity (including minority interests) and the total assets was 49%. Therefore, the Company complies with all covenants and liabilities required in the Deed of Trust.

The proceeds from the raise are required to be repaid in full early if the transaction of acquisition of 13 hotels (as described in note 5i above) does not close by December 25, 2017. Therefore, as the stipulation of finalizing the acquisition was not met yet as of September 30, 2017 the proceeds from the Bond (Series B) were classified to short term restricted bank deposits and the liability of \$58,422 was classified into Bonds - current maturities. See also subsequent events below.

SKYLINE INVESTMENTS INC.
SELECTED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED SEPTEMBER 30, 2017

(in thousands of Canadian Dollars)

6 SEGMENTED INFORMATION

The Company operates within the commercial investment property business, land development business, and hospitality business. The following summary presents segmented financial information for the Company's principal areas of business by industry. All of the Company's operating segments operate in Ontario, Canada, California, USA and Ohio, USA.

(a) General business segments

1. Hospitality USA - Acquisition, ownership and management of hotels, portion of hotels and extended stay operations
2. Hospitality Canada - Acquisition, ownership and management of hotels, portion of hotels and extended stay operations.
3. Investment properties - Acquisition, ownership and management of commercial investment properties.
4. Development - Development, purchase and sale of real estate properties including lands accounted as per IAS 40.
5. Other - Other

(b) The following presents financial information for these segments:

	For the three months ended September 30, 2017 (unaudited)					Total
	Hospitality USA	Hospitality Canada	Investment properties	Development	Other	
REVENUE						
Hospitality income	15,463	15,581	--	--	--	31,044
Income from investment properties	--	--	929	--	--	929
Sale of residential real estate	--	--	--	23,026	--	23,026
Other operation income	--	--	--	--	6	6
	<u>15,463</u>	<u>15,581</u>	<u>929</u>	<u>23,026</u>	<u>6</u>	<u>55,005</u>
EXPENSES AND COSTS						
Hospitality operating expenses	12,862	11,719	--	--	--	24,581
Operating expenses of investment properties	--	--	304	--	--	304
Cost of sale of residential real estate	--	--	--	23,028	--	23,028
Development periodic costs	--	--	--	448	--	448
Other operation expense	--	--	--	--	29	29
Depreciation	1,482	1,334	--	--	4	2,820
	<u>14,344</u>	<u>13,053</u>	<u>304</u>	<u>23,476</u>	<u>33</u>	<u>51,210</u>
SEGMENTED RESULTS	<u>1,119</u>	<u>2,528</u>	<u>625</u>	<u>(450)</u>	<u>(27)</u>	<u>3,795</u>
Loss (gain) from fair value adjustments and disposals	--	--	--	2	--	2
Selling and marketing expenses						99
Administrative and general expenses						838
Financial expense						2,332
Financial income						(627)
Other expense (income)						(1)
PROFIT BEFORE INCOME TAXES						<u>1,152</u>

SKYLINE INVESTMENTS INC.
SELECTED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED SEPTEMBER 30, 2017

(in thousands of Canadian Dollars)

6 SEGMENTED INFORMATION (continued)

	For the three months ended September 30, 2016 (unaudited)					
	Hospitality USA	Hospitality Canada	Investment properties	Development	Other	Total
REVENUE						
Hospitality income	17,235	16,075	--	--	--	33,310
Income from investment properties	--	--	885	--	--	885
Sale of residential real estate	--	--	--	1,243	--	1,243
Other operation income	--	--	--	--	19	19
	<u>17,235</u>	<u>16,075</u>	<u>885</u>	<u>1,243</u>	<u>19</u>	<u>35,457</u>
EXPENSES AND COSTS						
Hospitality operating expenses	13,378	13,065	--	--	--	26,443
Operating expenses of investment properties	--	--	494	--	--	494
Cost of sale of residential real estate	--	--	--	1,270	--	1,270
Development periodic costs	--	--	--	424	--	424
Other operation expense	--	--	--	--	84	84
Depreciation	762	798	--	18	4	1,582
	<u>14,140</u>	<u>13,863</u>	<u>494</u>	<u>1,712</u>	<u>88</u>	<u>30,297</u>
SEGMENTED RESULTS	3,095	2,212	391	(469)	(69)	5,160
Loss (gain) from fair value adjustments and disposals	--	--	--	127	--	127
Selling and marketing expenses						206
Administrative and general expenses						1,071
Financial expense						3,504
Financial income						(10)
Other expense (income)						(347)
Gain on sale of investment						(8,592)
PROFIT BEFORE INCOME TAXES						9,201

SKYLINE INVESTMENTS INC.
SELECTED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED SEPTEMBER 30, 2017

(in thousands of Canadian Dollars)

6 SEGMENTED INFORMATION (continued)

	For the nine months ended September 30, 2017 (unaudited)					
	Hospitality USA	Hospitality Canada	Investment properties	Development	Other	Total
REVENUE						
Hospitality income	50,374	38,279	--	--	--	88,653
Income from investment properties	--	--	2,725	--	--	2,725
Sale of residential real estate	--	--	--	24,380	--	24,380
Other operation income	--	--	--	--	72	72
	<u>50,374</u>	<u>38,279</u>	<u>2,725</u>	<u>24,380</u>	<u>72</u>	<u>115,830</u>
EXPENSES AND COSTS						
Hospitality operating expenses	42,144	30,890	--	--	--	73,034
Operating expenses of investment properties	--	--	838	--	--	838
Cost of sale of residential real estate	--	--	--	23,996	--	23,996
Development periodic costs	--	--	--	1,234	--	1,234
Other operation expense	--	--	--	--	105	105
Depreciation	4,525	3,592	--	--	12	8,129
Write-down (appreciation) of real estate inventory to net realizable value	--	--	--	(355)	--	(355)
	<u>46,669</u>	<u>34,482</u>	<u>838</u>	<u>24,875</u>	<u>117</u>	<u>106,981</u>
	<u>3,705</u>	<u>3,797</u>	<u>1,887</u>	<u>(495)</u>	<u>(45)</u>	<u>8,849</u>
SEGMENTED RESULTS						
Loss (gain) from fair value adjustments and disposals	--	--	--	(4,901)	--	(4,901)
Selling and marketing expenses						484
Administrative and general expenses						3,052
Financial expense						6,744
Financial income						(2,819)
Other expense (income)						478
Gain on sale of investment						17
PROFIT BEFORE INCOME TAXES						<u>5,794</u>

	As at September 30, 2017 (Unaudited)					
	Hospitality USA	Hospitality Canada	Investment properties	Development	Other	Total
Assets	214,025	166,869	39,027	157,070	267	577,258
Liabilities	79,267	144,814	21,751	47,506	128	293,466
	<u>134,758</u>	<u>22,055</u>	<u>17,276</u>	<u>109,564</u>	<u>139</u>	<u>283,792</u>

SKYLINE INVESTMENTS INC.
SELECTED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED SEPTEMBER 30, 2017

(in thousands of Canadian Dollars)

6 SEGMENTED INFORMATION (continued)

	For the nine months ended September 30, 2016 (unaudited)					Total
	Hospitality USA	Hospitality Canada	Investment properties	Development	Other	
REVENUE						
Hospitality income	54,435	38,960	--	--	--	93,395
Income from investment properties	--	--	2,796	--	--	2,796
Sale of residential real estate	--	--	--	19,578	--	19,578
Other operation income	--	--	--	--	237	237
	<u>54,435</u>	<u>38,960</u>	<u>2,796</u>	<u>19,578</u>	<u>237</u>	<u>116,006</u>
EXPENSES AND COSTS						
Hospitality operating expenses	42,821	34,389	--	--	--	77,210
Operating expenses of investment properties	--	--	1,141	--	--	1,141
Cost of sale of residential real estate	--	--	--	18,573	--	18,573
Development periodic costs	--	--	--	1,259	--	1,259
Other operation expense	--	--	--	--	126	126
Depreciation	2,208	2,417	--	53	117	4,795
Write-down (appreciation) of real estate inventory to net realizable value	--	--	--	2,655	--	2,655
	<u>45,029</u>	<u>36,806</u>	<u>1,141</u>	<u>22,540</u>	<u>243</u>	<u>105,759</u>
SEGMENTED RESULTS	9,406	2,154	1,655	(2,962)	(6)	10,247
Loss (gain) from fair value adjustments	--	--	--	(2,663)	--	(2,663)
Selling and marketing expenses						1,059
Administrative and general expenses						3,230
Financial expense						7,780
Financial income						(17)
Other expense (income)						(380)
Gain on sale of investment						(8,592)
PROFIT BEFORE INCOME TAXES						9,830

As at September 30, 2016

(Unaudited)

	Hospitality USA *)	Hospitality Canada	Investment properties	Development	Other	Total
Assets	90,373	92,192	31,137	162,295	186	376,183
Liabilities	58,829	59,547	20,080	55,196	172	193,824
	<u>31,544</u>	<u>32,645</u>	<u>11,057</u>	<u>107,099</u>	<u>14</u>	<u>182,359</u>

*) See note 2d

SKYLINE INVESTMENTS INC.
SELECTED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED SEPTEMBER 30, 2017

(in thousands of Canadian Dollars)

6 SEGMENTED INFORMATION (continued)

	For the year ended December 31, 2016 (Audited)					Total
	Hospitality USA	Hospitality Canada	Investment properties	Development	Other	
REVENUE						
Hospitality income	70,349	48,153	--	--	--	118,502
Income from investment properties	--	--	3,695	--	--	3,695
Sale of residential real estate	--	--	--	25,551	--	25,551
Other operation income	--	--	--	--	246	246
	<u>70,349</u>	<u>48,153</u>	<u>3,695</u>	<u>25,551</u>	<u>246</u>	<u>147,994</u>
EXPENSES AND COSTS						
Hospitality operating expenses	55,875	43,924	--	--	--	99,799
Operating expenses of investment properties	--	--	1,577	--	--	1,577
Cost of sale of residential real estate	--	--	--	23,540	--	23,540
Development periodic costs	--	--	--	1,458	--	1,458
Other operation expense	--	--	--	--	85	85
Depreciation	2,980	3,534	--	--	121	6,635
Write-down (appreciation) of real estate inventory to net realizable value	--	--	--	2,993	--	2,993
	<u>58,855</u>	<u>47,458</u>	<u>1,577</u>	<u>27,991</u>	<u>206</u>	<u>136,087</u>
SEGMENTED RESULTS						
	<u>11,494</u>	<u>695</u>	<u>2,118</u>	<u>(2,440)</u>	<u>40</u>	<u>11,907</u>
Loss (gain) from fair value adjustments and disposals	--	--	(3,850)	(3,245)	--	(7,095)
Selling and marketing expenses	--	--	--	--	--	1,463
Administrative and general expenses	--	--	--	--	--	4,895
Financial expense	--	--	--	--	--	10,332
Financial income	--	--	--	--	--	(211)
Other expense (income)	--	--	--	--	--	869
Gain on sale of investment	--	--	--	--	--	(8,574)
PROFIT BEFORE INCOME TAXES						<u>10,228</u>

	As at December 31, 2016 (Audited)					Total
	Hospitality USA *)	Hospitality Canada	Investment properties	Development	Other	
Assets	160,625	152,415	39,327	167,238	148	519,753
Liabilities	80,055	73,105	21,330	57,773	118	232,381
	<u>80,570</u>	<u>79,310</u>	<u>17,997</u>	<u>109,465</u>	<u>30</u>	<u>287,372</u>

*) See note 2d

7 SUBSEQUENT EVENTS

a. Acquisition of 13 hotels branded under Marriott Courtyard

The acquisition was closed on November 14, 2017. For more information see note 5i above.