

**SKYLINE INVESTMENTS INC.**  
**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED**  
**September 30, 2018**  
**(UNAUDITED)**

**SKYLINE INVESTMENTS INC.**  
**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2018**  
*(UNAUDITED)*

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**SKYLINE INVESTMENTS INC.**
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
*(in thousands of Canadian Dollars)*

	As at		
	September 30, 2018	September 30, 2017	December 31, 2017
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Audited)</i>
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents	25,576	23,977	25,897
Trade receivables	15,557	5,721	6,159
Other receivables	12,831	9,101	12,113
Prepayments	3,983	3,040	3,288
Inventories	1,709	1,397	2,027
Real estate inventory	75,201	53,416	61,008
Loans to purchasers - current maturity	4,727	8,750	7,287
Restricted bank deposits	4,241	66,718	5,175
<b>Total current assets</b>	<b>143,825</b>	<b>172,120</b>	<b>122,954</b>
<b>Non-current</b>			
Financial derivative	3,249	2,962	3,675
Investment properties	88,514	88,969	92,983
Property, plant and equipment, at cost	3,193	3,485	3,235
Property, plant and equipment, at fair value	457,439	266,414	443,355
Loans to purchasers	34,747	30,672	32,968
Other assets	2,560	429	2,544
Deferred tax	7,788	7,436	7,832
Restricted bank deposits	7,257	4,771	4,593
<b>Total non-current assets</b>	<b>604,747</b>	<b>405,138</b>	<b>591,185</b>
<b>Total Assets</b>	<b>748,572</b>	<b>577,258</b>	<b>714,139</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current</b>			
Loans payable	52,029	24,844	33,919
Bonds - current maturities	6,037	59,065	2,450
Trade payables	12,610	9,177	10,456
Other payables and credit balances	24,033	14,769	20,730
Deferred revenue	6,263	6,198	7,519
Income taxes payable	1,118	983	-
Purchasers' deposits	11,374	8,858	9,930
<b>Total current liabilities</b>	<b>113,464</b>	<b>123,894</b>	<b>85,004</b>
<b>Non-current</b>			
Loans payable	185,002	60,044	174,816
Bonds	101,240	47,763	105,277
Other liabilities	1,116	2,178	1,189
Deferred tax	50,344	59,587	51,856
<b>Total non-current liabilities</b>	<b>337,702</b>	<b>169,572</b>	<b>333,138</b>
<b>Total liabilities</b>	<b>451,166</b>	<b>293,466</b>	<b>418,142</b>
<b>Equity</b>			
Equity attributable to Shareholders of the Company	256,863	243,828	255,020
Non-controlling interest	40,543	39,964	40,977
<b>Equity</b>	<b>297,406</b>	<b>283,792</b>	<b>295,997</b>
<b>Total Liabilities and Equity</b>	<b>748,572</b>	<b>577,258</b>	<b>714,139</b>

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

November 14, 2018

Date

**SKYLINE INVESTMENTS INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME**

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

	FOR THREE MONTH PERIOD ENDED		FOR THE NINE MONTH PERIOD ENDED		FOR THE YEAR ENDED
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017	December 31, 2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
<b>REVENUE</b>					
Hospitality income	49,512	31,044	140,206	88,653	118,123
Income from investment properties	1,096	929	3,213	2,725	3,671
Sale of residential real estate	2,428	23,026	19,374	24,380	30,694
Other operating income	5	6	18	72	75
	53,041	55,005	162,811	115,830	152,563
<b>EXPENSES AND COSTS</b>					
Hospitality operating expenses	37,597	24,581	108,057	73,034	98,709
Operating expenses of investment properties	375	304	919	838	1,079
Cost of sale of residential real estate	3,976	23,476	18,832	24,875	26,403
Other operating expense	33	29	70	105	113
	41,981	48,390	127,878	98,852	126,304
	<b>11,060</b>	<b>6,615</b>	<b>34,933</b>	<b>16,978</b>	<b>26,259</b>
Selling and marketing expenses	63	99	381	484	480
Administrative and general expenses	1,808	838	4,446	3,052	5,572
<b>OPERATING INCOME BEFORE DEPRECIATION, VALUATION ADJUSTMENTS AND OTHER INCOME</b>	<b>9,189</b>	<b>5,678</b>	<b>30,106</b>	<b>13,442</b>	<b>20,207</b>
Depreciation	4,321	2,820	12,981	8,129	11,415
Loss (gain) from fair value adjustments	53	2	4,852	(4,901)	(6,715)
Loss on sale of investments	--	--	--	17	17
Other expense	(30)	(1)	118	478	1,111
<b>PROFIT FROM OPERATIONS</b>	<b>4,845</b>	<b>2,857</b>	<b>12,155</b>	<b>9,719</b>	<b>14,379</b>
Financial expense	5,580	2,332	15,436	6,744	11,089
Financial income	(749)	(627)	(1,406)	(2,819)	(3,119)
<b>PROFIT BEFORE INCOME TAXES</b>	<b>14</b>	<b>1,152</b>	<b>(1,875)</b>	<b>5,794</b>	<b>6,409</b>
Income tax (recovery) expense	(31)	248	(157)	1,846	(2,212)
<b>PROFIT FOR THE PERIOD</b>	<b>45</b>	<b>904</b>	<b>(1,718)</b>	<b>3,948</b>	<b>8,621</b>
<b>Attributable to:</b>					
Shareholders of the Company	9	388	(816)	2,295	6,066
Non-controlling interest	36	516	(902)	1,653	2,555
<b>PROFIT FOR THE PERIOD</b>	<b>45</b>	<b>904</b>	<b>(1,718)</b>	<b>3,948</b>	<b>8,621</b>
<b>BASIC EARNINGS PER SHARE</b>	<b>--</b>	<b>0.02</b>	<b>(0.05)</b>	<b>0.13</b>	<b>0.37</b>
<b>DILUTED EARNINGS PER SHARE</b>	<b>--</b>	<b>0.02</b>	<b>(0.05)</b>	<b>0.13</b>	<b>0.36</b>

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

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

(in thousands of Canadian Dollars)

	FOR THE THREE MONTHS ENDED		FOR THE NINE MONTH PERIOD ENDED		FOR THE YEAR ENDED
	September 30, 2018 (Unaudited)	September 30, 2017 (Unaudited)	September 30, 2018 (Unaudited)	September 30, 2017 (Unaudited)	December 31, 2017 (Audited)
<b>PROFIT FOR THE PERIOD</b>	45	904	(1,718)	3,948	8,621
<b>OTHER COMPREHENSIVE INCOME</b>					
<b>Items that will not be reclassified subsequently to profit or loss:</b>					
Revaluation surplus (loss) of property, plant and equipment, before income taxes	--	(3,361)	--	(3,361)	(1,801)
Income taxes	--	656	--	656	6,116
<b>Items that will or may be reclassified subsequently to profit or loss:</b>					
Exchange differences on translation of foreign operations	(1,599)	(960)	2,876	(3,428)	(3,017)
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR net of taxes</b>	<b>(1,599)</b>	<b>(3,665)</b>	<b>2,876</b>	<b>(6,133)</b>	<b>1,298</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR, net of taxes</b>	<b>(1,554)</b>	<b>(2,761)</b>	<b>1,158</b>	<b>(2,185)</b>	<b>9,919</b>
<b>Attributable to:</b>					
Shareholders of the Company	(1,118)	(1,012)	1,592	(745)	10,346
Non-controlling interest	(436)	(1,749)	(434)	(1,440)	(427)
	<b>(1,554)</b>	<b>(2,761)</b>	<b>1,158</b>	<b>(2,185)</b>	<b>9,919</b>

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

**SKYLINE INVESTMENTS INC.**

**CONDENSED 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
<b>FOR THREE MONTH PERIOD ENDED September 30, 2018</b>										
<i>(Unaudited)</i>										
<b>Balance at the beginning of the period</b>	78,779	519	86,600	810	125	6,922	84,115	257,870	40,979	298,849
Profit for the period	--	--	--	--	--	--	9	9	36	45
Other comprehensive income for the period	--	--	--	--	--	(1,127)	--	(1,127)	(472)	(1,599)
Total comprehensive Income for the period	--	--	--	--	--	(1,127)	9	(1,118)	(436)	(1,554)
Recognition of revaluation surplus of property plant and equipment, net of taxes to retained earnings	--	--	(521)	--	--	--	521	--	--	--
Recognition of share-based payment	--	--	--	111	--	--	--	111	--	111
<b>Balance at the end of the period</b>	78,779	519	86,079	921	125	5,795	84,645	256,863	40,543	297,406
<b>FOR THREE MONTH PERIOD ENDED September 30, 2017</b>										
<i>(Unaudited)</i>										
<b>Balance at the beginning of the period</b>	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 for the period	--	--	(439)	--	--	(961)	--	(1,400)	(2,265)	(3,665)
Total comprehensive income for the period	--	--	(439)	--	--	(961)	388	(1,012)	(1,749)	(2,761)
Recognition of revaluation surplus of property plant and equipment, net of taxes to retained earnings	--	--	(1,224)	--	--	--	1,224	--	--	--
Recognition of share-based payment	--	--	--	106	--	--	--	106	--	106
<b>Balance at the end of the period</b>	78,779	519	81,081	569	125	3,231	79,524	243,828	39,964	283,792

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

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

(in thousands of Canadian Dollars)

	Share Capital and Premium	Warrant Certificates	Re-valuation Surplus	Share based Compensation Surplus	Related Party Surplus	Foreign Exchange translation	Retained Earnings	Total shareholders' equity	Non- controlling Interest	Total
<b>FOR THE NINE MONTH PERIOD ENDED September 30, 2018</b>										
<i>(Unaudited)</i>										
<b>Balance at the beginning of the period</b>	78,779	519	87,782	670	125	3,387	83,758	255,020	40,977	295,997
Loss for the period	--	--	--	--	--	--	(816)	(816)	(902)	(1,718)
Other comprehensive income for the period	--	--	--	--	--	2,408	--	2,408	468	2,876
Total comprehensive income for the year	--	--	--	--	--	2,408	(816)	1,592	(434)	1,158
Recognition of revaluation surplus of property plant and equipment, net of taxes to retained earnings	--	--	(1,703)	--	--	--	1,703	--	--	--
Recognition of share-based payment	--	--	--	251	--	--	--	251	--	251
<b>Balance at the end of the period</b>	<b>78,779</b>	<b>519</b>	<b>86,079</b>	<b>921</b>	<b>125</b>	<b>5,795</b>	<b>84,645</b>	<b>256,863</b>	<b>40,543</b>	<b>297,406</b>

	Share Capital and Premium	Warrant Certificates	Re-valuation Surplus	Share based Compensation Surplus	Related Party Surplus	Foreign Exchange translation	Retained Earnings	Total shareholders' equity	Non- controlling Interest *)	Total
<b>FOR THE NINE MONTH PERIOD ENDED September 30, 2017</b>										
<i>(Unaudited)</i>										
<b>Balance at the beginning of the period</b>	77,900	519	83,749	1,014	125	4,827	77,834	245,968	41,404	287,372
Issuance of new shares	879	--	--	(879)	--	--	--	--	--	--
Profit for the year	--	--	--	--	--	--	2,295	2,295	1,653	3,948
Other comprehensive loss for the period	--	--	(1,444)	--	--	(1,596)	--	(3,040)	(3,093)	(6,133)
Total comprehensive Income for the period	--	--	(1,444)	--	--	(1,596)	2,295	(745)	(1,440)	(2,185)
Dividend distribution	--	--	--	--	--	--	(1,829)	(1,829)	--	(1,829)
Recognition of revaluation surplus of property plant and equipment, net of taxes to retained earnings	--	--	(1,224)	--	--	--	1,224	--	--	--
Recognition of share-based payment	--	--	--	434	--	--	--	434	--	434
<b>Balance at the end of the period</b>	<b>78,779</b>	<b>519</b>	<b>81,081</b>	<b>569</b>	<b>125</b>	<b>3,231</b>	<b>79,524</b>	<b>243,828</b>	<b>39,964</b>	<b>283,792</b>

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

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

*(in thousands of Canadian Dollars)*

	Share Capital and Premium	Warrant Certificates	Re-valuation Surplus	Share based Compensation Surplus	Related Party Surplus	Foreign Exchange translation	Retained Earnings	Total shareholders' equity	Non- controlling Interest *)	Total
<b>FOR THE YEAR ENDED December 31, 2017</b>										
<i>(Audited)</i>										
<b>Balance at the beginning of the period</b>	77,900	519	83,749	1,014	125	4,827	77,834	245,968	41,404	287,372
Issuance of shares	879	--	--	(879)	--	--	--	--	--	--
Profit for the period	--	--	--	--	--	--	6,066	6,066	2,555	8,621
Other comprehensive income (loss) for the year	--	--	5,720	--	--	(1,440)	--	4,280	(2,982)	1,298
Total comprehensive Income for the year	--	--	5,720	--	--	(1,440)	6,066	10,346	(427)	9,919
Dividend	--	--	--	--	--	--	(1,829)	(1,829)	--	(1,829)
Recognition of revaluation surplus of property plant and equipment, net of taxes to retained earnings	--	--	(1,687)	--	--	--	1,687	--	--	--
Recognition of share-based payment	--	--	--	535	--	--	--	535	--	535
<b>Balance at the end of the period</b>	<b>78,779</b>	<b>519</b>	<b>87,782</b>	<b>670</b>	<b>125</b>	<b>3,387</b>	<b>83,758</b>	<b>255,020</b>	<b>40,977</b>	<b>295,997</b>

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



**SKYLINE INVESTMENTS INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands of Canadian Dollars)

	FOR THREE MONTH PERIOD ENDED		FOR THE NINE MONTH PERIOD ENDED		FOR THE
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017	YEAR ENDED December 31, 2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
<b>Cash Flow from (used in) Operating Activities</b>					
Profit (Loss) for the period	45	904	(1,718)	3,948	8,621
Add (deduct) items not involving cash:					
Depreciation and amortization	4,778	2,988	13,801	9,451	13,190
Loss (gain) from fair value adjustments	53	2	4,852	(4,901)	(6,715)
Financing costs from bonds including foreign exchange	426	(1,324)	7,115	2,775	6,674
Financing income from financial derivative	118	1,596	426	(2,962)	(3,675)
Deferred tax, net	(414)	107	(1,631)	1,062	(1,784)
Write up of real estate inventory to net realizable value	--	--	--	(355)	(355)
Share based compensation	111	106	251	434	535
<b>Changes in non-cash working capital</b>					
Trade receivables	(2,314)	(384)	(9,398)	11,543	11,540
Other receivables, prepayments and others	2,089	(1,483)	4,042	100	(3,048)
Restricted bank deposits	(678)	423	(2,636)	(1,268)	(2,512)
Inventories	114	174	318	383	(218)
Real Estate Inventory	(5,684)	(3,063)	(18,867)	(7,368)	(14,615)
Trade and other payables and credit balances	(2,357)	(442)	(1,035)	(4,254)	2,944
Income taxes payable	349	873	1,118	11	(972)
Purchasers' deposits	1,555	1,151	1,444	2,160	3,232
<b>Cash Flow from (used in) Operating Activities</b>	<b>(1,809)</b>	<b>1,628</b>	<b>(1,918)</b>	<b>10,759</b>	<b>12,842</b>
<b>Cash Flow from (used in) Investing Activities</b>					
Proceeds from asset sold	--	2,838	--	2,838	3,447
Additions to investment properties	(32)	(3)	(110)	(208)	(2,371)
Investment in restricted short term deposit	--	(62,965)	--	(62,965)	--
Investment in restricted long term deposit	--	--	906	(3,250)	(3,250)
Additions to property, plant and equipment	(6,585)	(3,164)	(16,822)	(13,876)	(22,043)
Proceeds from sale of property, plant and equipment	--	--	--	76	76
Net cash used in a business acquisition (Schedule A)	--	--	--	--	(176,443)
<b>Cash Flow from (used in) Investing Activities</b>	<b>(6,617)</b>	<b>(63,294)</b>	<b>(16,026)</b>	<b>(77,385)</b>	<b>(200,584)</b>
<b>Cash Flow from (used in) Financing Activities</b>					
Bank credit and other short-term loans	4,919	3,634	18,669	(4,063)	3,816
Issuance of bonds payable	--	65,753	--	65,753	62,731
Repayment of bonds payable	(1,413)	(1,133)	(2,705)	(1,133)	(1,133)
Proceeds on loans payable	2,518	709	6,898	20,996	138,566
Repayments of loans payable	(1,224)	(582)	(3,149)	(17,967)	(18,158)
Dividend Distribution	--	--	--	(1,829)	(1,829)
Change in other liabilities	(88)	(156)	(73)	(399)	(460)
<b>Cash Flow from (used in) Financing Activities</b>	<b>4,712</b>	<b>68,225</b>	<b>19,640</b>	<b>61,358</b>	<b>183,533</b>
Foreign Exchange translation of foreign operations	857	(774)	(2,017)	(592)	269
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE YEAR</b>	<b>(2,857)</b>	<b>5,785</b>	<b>(321)</b>	<b>(5,860)</b>	<b>(3,940)</b>
Cash and cash equivalents, beginning of year	28,433	18,192	25,897	29,837	29,837
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>25,576</b>	<b>23,977</b>	<b>25,576</b>	<b>23,977</b>	<b>25,897</b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>					
Interest paid	4,631	2,592	13,925	5,767	7,057
Interest received	3	256	32	307	307
Income taxes paid	8	783	38	1,467	1,706
<u>Investment non-cash transactions</u>					
Loans to Purchasers	--	34,869	4,674	34,869	33,915

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

**SKYLINE INVESTMENTS INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

*(in thousands of Canadian Dollars)*

**Schedule A - Net cash used in the acquisition of the assets and liabilities of the 13 Courtyard Hotels Portfolio in 2017**

	FOR THREE MONTH PERIOD ENDED		FOR THE NINE MONTH PERIOD ENDED		FOR THE
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017	YEAR ENDED December 31, 2017
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Audited)</i>
Working capital, net of cash and cash equivalents	--	--	--	--	(4,337)
Inventory	--	--	--	--	(29)
Property, plant and equipment	--	--	--	--	(172,077)
<b>Net assets acquired</b>	--	--	--	--	(176,443)
<b>Net cash used in acquisition</b>	--	--	--	--	(176,443)

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

**SKYLINE INVESTMENTS INC.**  
**SELECTED NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2018**

(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)*. The Company's shares trade on the Tel-Aviv Stock Exchange (TASE) in Israel and is 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 65.34% owned by Skyline Canada-Israel Ltd, which is majority owned by Mishorim Real Estate Investments Ltd, a public company whose shares are traded on the Tel-Aviv Stock Exchange.

**2 SIGNIFICANT ACCOUNTING POLICIES**

(a) Basis of preparation of the condensed interim 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) Standards, that were initially applied in the period, interpretations and amendments published and not yet in effect and have not been early adopted by the Company, which will or may have an effect on future periods

As explained in Note 2 to the annual financial statements as at December 31, 2017, commencing on January 1, 2018, the Company applies IFRS 9 (2014), Financial Instruments. The standard application had no material effect on the financial statements of 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.

In December 2017 the Company has changed retrospectively its income statement presentation to a more relevant and useful manner due to complexity of analysts and user of the financial statements to understand and analyze the results of operations, specifically after the company's change in accounting policy regarding revaluation model of fixed assets in December 2016.

The management's opinion that the new presentation manner is more relevant and useful and also aligning with other companies which are implementing the revaluation model of IAS 16. The updated manner of presentation is also consistent with the method of reviewing the operational results by the Chief Operating Decision Maker (CODM).

(c) Exchange rate (CAD/USD)

Results of operations and balances are affected by changes in the USD. From January 1, 2018 until September 30, 2018 the foreign exchange rate of the USD compared to the Canadian dollar increased by approximately 5%. From September 30, 2018 until the date these financial statements were published the USD has not changed compared to the Canadian dollar.

	<u>30-Sep-18</u>	<u>30-Jun-18</u>	<u>30-Sep-17</u>	<u>30-Jun-17</u>	<u>31-Dec-17</u>
Exchange rate (CAD per 1 USD)	1.295	1.317	1.248	1.298	1.255
Average Exchange rate (CAD per 1 USD)	1.287	1.278	1.307	1.334	1.299
Change compared to December 31, 2017 or 2016 subsequently	3%	5%	-7%	-3%	-7%

(d) Impact of standards issued but not yet applied by the Company

**IFRS 16 Leases**

IFRS 16 supersedes its predecessor IAS 17 and applies to annual reporting periods beginning on or after January 1, 2019. The Company does not intend to adopt it earlier. IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize right-of-use assets and financial liabilities to pay rentals for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with the new standard's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

When initially applying the standard, a lessee can choose to apply it either retrospectively or to use the 'cumulative catch-up approach', the latter of which the company intends to choose. Accordingly, at January 1, 2019, the Company will recognize lease liabilities and a right-of-use assets in respect of certain leases previously classified as operating leases. Such liabilities will be measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate at that date, while the asset recognized at an amount equal to the lease liability.

While applying this approach the company intend to apply certain practical expedients allowed by the standard. Leases ending within 12 months of the date of initial application will be accounted for as short-term leases, irrespective of whether the original lease term was for more than 12 months and a single discount rate will be applied to a portfolio of leases with reasonably similar characteristics.

Based on currently existing data, the Company estimates, that on the date of initial application, it will recognize financial liabilities in the amount of approximately \$0.5 million and right-of-use assets at the same amount. The net change in annual profit is expected to be insignificant. Certain amounts, however, which are not material, previously recognized as rental expenses, will be replaced by depreciation and interest expenses.

**3 SEASONALITY AND OTHER DISCLOSURES**

Due to the seasonal nature of Company's resorts, which are part of the hospitality segment, revenues of these assets are typically weighted in the winter and summer months as a result of the nature of their operations. The operating expenses of these assets are more evenly spread out during the year, although there are some increases in costs such as labor, costs of food and beverage etc. during the seasonally high periods.

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**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	
	As at September 30, 2018	As at September 30, 2017	As at September 30, 2018	As at September 30, 2017
Loans payable	236,401	84,844	237,031	84,888
Bonds Series A (1)	52,631	56,348	48,372	50,076
Bonds Series B (1)	58,777	57,845	58,905	56,752
Financial derivative (2)	3,249	2,962	3,249	2,962

(1) The Fair value is based on Tel-Aviv Stock Exchange quote (in New Israeli Shekels) for September 30, 2018 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, 2018

**5 SIGNIFICANT EVENTS DURING THE PERIOD**

**a. Employee stock options plan**

On November 14, 2016 the Board of Directors approved an employee stock option plan. On February 21, 2018, 135,000 options were granted to a senior employee. The average value of each option was approximately 7.9 New Israeli Shekel. On March 20, 2018 the Board of Directors approved a grant of 100,000 new options to additional senior employee. The average value of each option was approximately 8.77 New Israeli Shekel. 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 Company's main owner Mishorim Real Estate Investments Ltd., which management estimates to approximate the volatility in value of the Company's shares.

**b. Contingent liabilities**

In 2016 the Company was served claims totaling \$2,138 in relation to certain construction projects and issued a counterclaim of \$4,000. In addition, the Company was served with several smaller claims. Based on it's legal advisors, the management believes that it has proper provision in the financial statements.

**c. Slopeside condominium project**

During the three and nine months ended September 30, 2018, the Company delivered 5 and 23 units to the purchasers and recognized a revenue of \$1,938 and \$8,873 respectively.

**d. Blue Mountain lands**

During the nine month period ended September 30, 2018, the Company delivered Phase 1 and Phase 4 of the Second Nature project at Blue Mountain resort. Phase 1 comprised of 37 single family lots of which 36 where delivered, as well as Phase 4 which includes two land blocks on which 70 residential townhouse to be built. The Company recognized revenue of \$9,682.

**e. Warrants expiration**

All unexercised Series 2 Warrants expired, with no further rights to the holder thereof, on March 5, 2018. See note 20(c) in the consolidated financial statements as for December 31, 2017.

**f. Investment Property impairment - Blue Mountain Lands**

The Company revaluated the lands at the Blue Mountain resort and recorded an impairment of approximately \$4,800.

**g. Inventory impairment**

The Company records inventory items at the assets' net realizable value. During the third quarter of 2018, the Company recognized an inventory write-down of one of its assets in the amount of \$351.

**6 SEGMENTED INFORMATION**

The Company operates within commercial investment property, 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 and in 10 US states.

**(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

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**6 SEGMENTED INFORMATION (continued)**

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

	For the three months ended September 30, 2018 (unaudited)					Total
	Hospitality USA	Hospitality Canada	Investment properties	Development	Other	
<b>REVENUE</b>						
Hospitality income	32,087	17,425	--	--	--	49,512
Income from investment properties	--	--	1,096	--	--	1,096
Sale of residential real estate	--	--	--	2,428	--	2,428
Other operating income	--	--	--	--	5	5
	<u>32,087</u>	<u>17,425</u>	<u>1,096</u>	<u>2,428</u>	<u>5</u>	<u>53,041</u>
<b>EXPENSES AND COSTS</b>						
Hospitality operating expenses	24,714	12,883	--	--	--	37,597
Operating expenses of investment properties	--	--	375	--	--	375
Cost of sale of residential real estate	--	--	--	3,976	--	3,976
Other operating expense	--	--	--	--	33	33
	<u>24,714</u>	<u>12,883</u>	<u>375</u>	<u>3,976</u>	<u>33</u>	<u>41,981</u>
<b>SEGMENTED RESULTS</b>	<u><b>7,373</b></u>	<u><b>4,542</b></u>	<u><b>721</b></u>	<u><b>(1,548)</b></u>	<u><b>(28)</b></u>	<u><b>11,060</b></u>
Loss (gain) from fair value adjustments	--	--	--	53	--	53
Selling and marketing expenses						63
Administrative and general expenses						1,808
Depreciation						4,321
Financial expense						5,580
Financial income						(749)
Other expense						(30)
<b>LOSS BEFORE INCOME TAXES</b>						<u><b>14</b></u>

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**6 SEGMENTED INFORMATION (continued)**

	For the three months ended September 30, 2017 (unaudited)					Total
	Hospitality USA	Hospitality Canada	Investment properties	Development	Other	
<b>REVENUE</b>						
Hospitality income	15,463	15,581	--	--	--	31,044
Income from investment properties	--	--	929	--	--	929
Sale of residential real estate	--	--	--	23,026	--	23,026
Other operating 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>
<b>EXPENSES AND COSTS</b>						
Hospitality operating expenses	12,862	11,719	--	--	--	24,581
Operating expenses of investment properties	--	--	304	--	--	304
Cost of sale of residential real estate	--	--	--	23,476	--	23,476
Other operating expense	--	--	--	--	29	29
	<u>12,862</u>	<u>11,719</u>	<u>304</u>	<u>23,476</u>	<u>29</u>	<u>48,390</u>
<b>SEGMENTED RESULTS</b>	<b>2,601</b>	<b>3,862</b>	<b>625</b>	<b>(450)</b>	<b>(23)</b>	<b>6,615</b>
Loss (gain) from fair value adjustments	--	--	--	2	--	2
Selling and marketing expenses						99
Depreciation						2,820
Administrative and general expenses						838
Financial expense						2,332
Financial income						(627)
Other expense						(1)
Loss on sale of investments						--
<b>LOSS BEFORE INCOME TAXES</b>						<u><b>1,152</b></u>

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**6 SEGMENTED INFORMATION (continued)**

	For the nine months ended September 30, 2018 (unaudited)					Total
	Hospitality USA	Hospitality Canada	Investment properties	Development	Other	
<b>REVENUE</b>						
Hospitality income	99,611	40,595	--	--	--	140,206
Income from investment properties	--	--	3,213	--	--	3,213
Sale of residential real estate	--	--	--	19,374	--	19,374
Other operating income	--	--	--	--	18	18
	<b>99,611</b>	<b>40,595</b>	<b>3,213</b>	<b>19,374</b>	<b>18</b>	<b>162,811</b>
<b>EXPENSES AND COSTS</b>						
Hospitality operating expenses	75,543	32,514	--	--	--	108,057
Operating expenses of investment properties	--	--	919	--	--	919
Cost of sale of residential real estate	--	--	--	18,832	--	18,832
Other operating expense	--	--	--	--	70	70
	<b>75,543</b>	<b>32,514</b>	<b>919</b>	<b>18,832</b>	<b>70</b>	<b>127,878</b>
<b>SEGMENTED RESULTS</b>	<b>24,068</b>	<b>8,081</b>	<b>2,294</b>	<b>542</b>	<b>(52)</b>	<b>34,933</b>
Loss (gain) from fair value adjustments	--	--	--	4,852	--	<b>4,852</b>
Selling and marketing expenses						<b>381</b>
Administrative and general expenses						<b>4,446</b>
Depreciation						<b>12,981</b>
Other expense						<b>118</b>
Financial expense						<b>15,436</b>
Financial income						<b>(1,406)</b>
<b>LOSS BEFORE INCOME TAXES</b>						<b>(1,875)</b>

	As at September 30, 2018					Total
	Hospitality USA	Hospitality Canada	Investment properties	Development	Other	
Assets	350,947	169,301	48,730	179,413	181	748,572
Liabilities	263,312	86,855	21,026	79,822	151	451,166
	<b>87,635</b>	<b>82,446</b>	<b>27,704</b>	<b>99,591</b>	<b>30</b>	<b>297,406</b>

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**6 SEGMENTED INFORMATION (continued)**

	For the nine months ended September 30, 2017 (unaudited)					
	Hospitality USA	Hospitality Canada	Investment properties	Development	Other	Total
<b>REVENUE</b>						
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 operating income	--	--	--	--	72	72
	<b>50,374</b>	<b>38,279</b>	<b>2,725</b>	<b>24,380</b>	<b>72</b>	<b>115,830</b>
<b>EXPENSES AND COSTS</b>						
Hospitality operating expenses	42,144	30,890	--	--	--	73,034
Operating expenses of investment properties	--	--	838	--	--	838
Cost of sale of residential real estate	--	--	--	24,875	--	24,875
Other operating expense	--	--	--	--	105	105
	<b>42,144</b>	<b>30,890</b>	<b>838</b>	<b>24,875</b>	<b>105</b>	<b>98,852</b>
<b>SEGMENTED RESULTS</b>	<b>8,230</b>	<b>7,389</b>	<b>1,887</b>	<b>(495)</b>	<b>(33)</b>	<b>16,978</b>
Loss (gain) from fair value adjustments	--	--	--	(4,901)	--	(4,901)
Selling and marketing expenses						484
Administrative and general expenses						3,052
Depreciation						8,129
Other expense						478
Financial expense						6,744
Financial income						(2,819)
Gain on sale of investment						17
<b>PROFIT BEFORE INCOME TAXES</b>						<b>5,794</b>

	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
	<b>134,758</b>	<b>22,055</b>	<b>17,276</b>	<b>109,564</b>	<b>139</b>	<b>283,792</b>



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**6 SEGMENTED INFORMATION (continued)**

	For the year ended December 31, 2017 (Audited)					Total
	Hospitality USA	Hospitality Canada	Investment properties	Development	Other	
<b>REVENUE</b>						
Hospitality income	70,124	47,999	--	--	--	118,123
Income from investment properties	--	--	3,671	--	--	3,671
Sale of residential real estate	--	--	--	30,694	--	30,694
Other operating income	--	--	--	--	75	75
	<b>70,124</b>	<b>47,999</b>	<b>3,671</b>	<b>30,694</b>	<b>75</b>	<b>152,563</b>
<b>EXPENSES AND COSTS</b>						
Hospitality operating expenses	58,574	40,135	--	--	--	98,709
Operating expenses of investment properties	--	--	1,079	--	--	1,079
Cost of sale of residential real estate	--	--	--	26,403	--	26,403
Other operating expense	--	--	--	--	113	113
	<b>58,574</b>	<b>40,135</b>	<b>1,079</b>	<b>26,403</b>	<b>113</b>	<b>126,304</b>
<b>SEGMENTED RESULTS</b>	<b>11,550</b>	<b>7,864</b>	<b>2,592</b>	<b>4,291</b>	<b>(38)</b>	<b>26,259</b>
Gain from fair value adjustments	--	--	(1,883)	(4,832)	--	(6,715)
Selling and marketing expenses						480
Administrative and general expenses						5,572
Depreciation						11,415
Loss on sale of investments						17
Other expense						1,111
Financial expense						11,089
Financial income						(3,119)
<b>PROFIT BEFORE INCOME TAXES</b>						<b>6,409</b>

	As at December 31, 2017 (Audited)					Total
	Hospitality USA	Hospitality Canada	Investment properties	Development	Other	
Assets	337,056	167,298	39,537	170,079	169	714,139
Liabilities	247,119	92,177	20,912	57,856	78	418,142
	<b>89,937</b>	<b>75,121</b>	<b>18,625</b>	<b>112,223</b>	<b>91</b>	<b>295,997</b>

**7 SIGNIFICANT BUSINESS ACQUISITIONS**

**Additional disclosure**

The 13 Courtyard Marriott hotels acquired on November 14, 2017 were part of the seller's overall activity, which included 60 additional hotels. The seller did not prepare audited financial statements at the level of the acquired activity or at the level of the individual asset. As part of the acquisition transaction, the Company received from the seller partial financial data of the hotels, which are not audited or reviewed, and which include income, operating expenses, marketing expenses and general and administrative expenses. Please see the results of the 13 Courtyard Marriott hotels as part of the consolidated total operating results.

	For the nine month period ended September 30, 2018			For the three month period ended September 30, 2018		
	13 Courtyard Hotels	Company's main operations	Consolidated	13 Courtyard Hotels	Company's main operations	Consolidated
Revenue	51,020	111,791	162,811	16,724	36,317	53,041
Expenses and Costs	35,438	92,440	127,878	12,420	29,561	41,981
<b>Segmented Results</b>	<b>15,582</b>	<b>19,351</b>	<b>34,933</b>	<b>4,304</b>	<b>6,756</b>	<b>11,060</b>
Loss (gain) from fair value adjustments	--	4,852	4,852	--	53	53
Selling and marketing expenses	--	381	381	--	63	63
Administrative and general expenses	--	4,446	4,446	--	1,808	1,808
Depreciation	4,101	8,880	12,981	1,446	2,875	4,321
Other expense	--	118	118	--	(30)	(30)
Financial Expense	9,024	6,412	15,436	3,056	2,524	5,580
Financial Income	--	(1,406)	(1,406)	--	(749)	(749)
<b>Profit before income taxes</b>	<b>2,457</b>	<b>(4,332)</b>	<b>(1,875)</b>	<b>(198)</b>	<b>212</b>	<b>14</b>

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**8 SUBSEQUENT EVENTS**

**Blue Mountain Lands**

On November 13, 2018 the Company's Board of Directors approved to sell the remaining 88 lots of Second Nature (phase 3) for a total consideration of of \$19,976, of which 85% is VTB and 15% cash deposit. The lots will be serviced prior to delivery to the purchaser.