

SKYLINE

I N V E S T M E N T S

Management's Discussion and Analysis

For the three and six months ended June 30, 2018



MANAGEMENT'S DISCUSSION AND ANALYSIS

August 28, 2018

Introduction

This Management's Discussion and Analysis (this "MD&A") of operating results and financial condition of Skyline Investments Inc. ("Skyline", "the Company", "we", "us" or "our") constitutes management's review of the factors that affected the Company's operating performance for the three and six month periods ended June 30, 2018 and June 30, 2017 and its financial position as at June 30, 2018. This MD&A is dated and has been prepared with information available as of August 28, 2018.

This MD&A should be read in conjunction with the Company's condensed interim unaudited consolidated financial statements for the period ended June 30, 2018 and accompanying notes (the "Financial Statements").

The Financial Statements for the period ended June 30, 2018 have been prepared in accordance with International Financial Reporting Standards, using accounting policies adopted by the Company. These accounting policies are based on the International Accounting Standards, International Financial Reporting Standards and IFRS Interpretations Committee interpretations (collectively, "IFRS") that are applicable to the Company. Amounts discussed below are based on our Financial Statements for the period ended June 30, 2018 and are presented in thousands of Canadian dollars, unless otherwise stated.

Additional information relating to the Company, including our most recently filed annual information form for the year ended December 31, 2017 (the "Annual Information Form"), are all available under our SEDAR profile at www.sedar.com.

Except as expressly provided herein, none of the information on the SEDAR website is incorporated by reference into this document by this or any other reference.

Forward-Looking Information

Certain statements contained in this MD&A constitute forward-looking information within the meaning of securities laws. Forward-looking information may relate to the Company's future outlook and anticipated events or results and may include statements regarding the future financial position, business strategy, budgets, projected costs, capital expenditures, financial results, taxes and plans and objectives of or involving the Company. In particular, statements regarding the Company's future operating results and economic performance are forward-looking statements. In some cases, forward-looking information can be identified by terms such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue" or other similar expressions concerning matters that are not historical facts. Examples of such statements include the statements with respect to the Company's strategy, objectives and intentions disclosed in the section entitled "Strategy & Outlook" and "Portfolio Overview", including: the Company's intention to complete future acquisitions and the expected benefits from any such acquisitions; and the Company's intention to implement its student-oriented operating strategy and the expected results this might provide for revenue and net operating income growth through improved occupancy, introduction of value-added leasing and operational revenue streams and increased management efficiencies.

Forward-looking information is subject to certain factors, including risks and uncertainties, which could cause actual results to differ materially from what the Company currently expects. These factors include the ability of the Company to complete future acquisitions, obtain necessary equity and debt financing and grow its business; the future operations and performance of the Company's properties including the anticipated extent of the accretion of any acquisitions and generating improved occupancy levels and rental income; the ability of the Company to reinvest to make improvements and maintenance to its properties; overall indebtedness levels, which could be impacted by the level of acquisition activity Skyline is able to achieve and future financing opportunities; general economic and market conditions and factors; local real estate conditions; competition; interest rates; changes in government regulation; and reliance on key personnel. For more information on these risks and uncertainties readers should refer to the risks disclosed in the section entitled "Risks", as well as the risks disclosed in Skyline's materials

filed with Canadian securities regulatory authorities from time to time, including the Annual Information Form of the Company dated March 23, 2018, which are available under the Company's profile on SEDAR at www.sedar.com.

Forward-looking information contained in this MD&A is based on the Company's current estimates, expectations and projections, which the Company believes are reasonable as of the date hereof. Readers should not place undue importance on forward-looking information and should not rely upon this information as of any other date. While the Company may elect to, it is under no obligation and does not undertake to update this information at any particular time except as may be required by applicable securities laws.

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I. Overview

Skyline is a Canadian investment company listed on the Tel-Aviv Stock Exchange under the symbol SKLN. The Company owns hotels and resorts in Canada and in the United States. Currently, the Company has 19 income producing assets, with 3,199 rooms and 129,918 square feet of commercial space. Skyline employs directly and indirectly approximately 2,000 staff in its Canadian and U.S. resorts. The Company also has a small development business that strategically develops on excess real estate surrounding its resorts to further enhance the cash flow and value of its assets.

The Company's primary operating segments are as follows:

1. US hotels and resorts
2. Canadian hotels and resorts
3. Income producing investment property
4. Development of real estate

Recent History

Over the past couple of years, the Company has focused its capital and investment initiatives on cash flow from hotels and resorts, while at the same time selling non-core development assets. The Company's assets are located in southern Ontario, Canada and in 10 US States. On November 14, 2017 the Company completed an acquisition of 13 Select-Service hotels in the US for \$135 million US. The acquisition consisted of 13 Courtyard Marriott hotels, with a total of 1,913 rooms. The hotels are located in 9 US states and are geographically diverse with strong locations in key Midwest, Southeast and Southwest markets.

The Company is an offering corporation and a reporting issuer in Ontario (following the filing and receipt of a non-offering long form prospectus in 2014) but, as of June 30, 2018, does not have any of its securities listed or quoted on any marketplace in Canada.

II. Strategy & Outlook

The following section contains forward-looking information and users are cautioned that actual results may vary.

Our Strategy

Skyline's business model is centered on 4 distinct strategies.

1. Identification and acquisition of stable cash-flowing hotels with a specific focus in the limited service and select service segments that provide an acceptable risk adjusted rate of return from both current cash flow and value add opportunities. Adjacent development rights are viewed as an independent value creation opportunity;
2. Short and medium term efficiencies in the existing resort and hotel operations,
3. Strategic development with low investment and risk, to further enhance the cash flow and value of the existing asset base and sale of non-core real estate.
4. Diversification of hotel and resort income through acquisition of other retail and/or commercial properties that are complimentary to the existing base of hotels and resorts and that provide stable and predictable cash flow;

Skyline will seek to pursue acquisitions that align with the Company's stringent investment criteria focused on location, valuation and asset quality. However, the Company may also undertake opportunistic acquisitions under circumstances in which management believes a hotel or resort asset requiring value-add capital can be acquired at an attractive valuation and its profitability improved upon completion of repositioning efforts.

When evaluating potential acquisition opportunities, Skyline focuses on: (i) growing markets with strong economic fundamentals ; (ii) markets with multiple demand drivers (including but not limited to; hospitals, universities, multiple corporate head offices, government and private sector investment); (iii) markets that have limited new supply; (iv) properties with strong brand affiliation; (v) properties characterized by a good operating history with

stabilized in-place income, or with potential for value enhancement through re-positioning or other value-add initiatives; and (vi) properties that can be purchased at an attractive valuation, preferably below replacement cost.

Outlook

The Company continues to execute on all components of its strategy, including the assessment of acquisitions, reviewing the performance of existing assets, their future growth in cash flow opportunities and their value in the local markets. The announcement of minimum wage increases in Ontario in 2017 will negatively impact the Company's results from the Canadian Hospitality segment by approximately \$1.6 million in 2018. The minimum wage announcement in the fall of 2017 also included an additional increase in January of 2019. However, due to an electoral change in the Ontario provincial government in June 2018, the 2019 minimum wage increase is expected to be rolled-back.

The Company's strategy is focused on acquisition and operation of cash flowing hotels and resorts with a specific focus in the limited service and select service segments of the hotel industry. The Canadian and US economy is expected to continue to provide a favorable business environment for the Company.

Management believes that the hospitality real estate sector is benefitting from compelling underlying market and economic fundamentals. GDP in the U.S. grew at a rate of 4.1 percent in the second quarter which was the strongest level of growth in four years and unemployment is just 3.9 percent after achieving an 18-year low of 3.8 percent in May of this year. Industry-wide supply continues to grow at very modest levels while demand remains strong.

The hospitality sector will have the greatest leverage to economic growth and inflation of any real estate sub sector. Management believes that the above strong market dynamics make this an opportune time to invest in the limited service and select service segment of the hotel industry. Management also believes select service hotels will be less volatile throughout various economic cycles due to the more simplistic nature of these hotels. Also, as these hotels are not luxury hotels, which tend to decline in popularity immediately in recessions, and are mainly for business travelers which are generally strong throughout cycles. The current portfolio of 13 select service hotels is also spread across nine states limiting the Company's geographic risk.

III. Period Highlights

General Highlights for the period ended June 30, 2018, including subsequent events occurred to date of publication of this report:

- For the three and six months ended June 30, 2018 the Company recorded revenue of \$62,497 and \$109,770 respectively, compared to \$26,112 and \$60,825 recorded in the corresponding periods last year. This represents an increase of 139% and 80% respectively. For further analysis and clarifications – see segmented information below.
- The Company recorded \$1,889 and \$1,763 loss after taxes for the three and six month ended June 30, 2018 respectively, compared to \$1,317 and \$3,044 in the corresponding periods last year.
- The Company's shareholder equity, excluding minority interest was \$257,870 or \$15.40 per share (42.5 NIS based on the NIS/CAD exchange rate on June 30, 2018). This compares to \$14.71 at June 30 2017 or an increase of 6.4% during the previous 12 months.
- The Company's shares closed for trading on June 30, 2019 at 28.19 NIS per share implying a discount of 34.4%.
- On April 13, 2018, Mr. Robert Waxman was appointed as Company's CFO.
- On May 1, 2018, 100,000 options were granted to Mr. Robert Waxman, in accordance with Company's employees stock option plan. On February 1, 2017 The Israel Land Development Overseas Ltd. (together – "ILDC") filed a lawsuit in Israel against Mishorim Real Estate Investments Ltd. ("Mishorim"), Skyline Canada - Israel Ltd. ("Canada-Israel") (a company that owns 52% of Skyline's outstanding shares), and against other defendants who are current and past officers in Canada-Israel (the "claim"). On June 11, 2018 the parties signed a conditional settlement agreement. For more information please refer to a report published on SEDAR on June 13, 2018. **It should be noted that Skyline Investment Inc. was not a party to this lawsuit.**
- On June 14, 2018, the Company announced that it is in negotiations to purchase alone or in cooperation with a partner a portfolio of five hotels comprising 759 rooms located in 3 south-eastern US states. The

total consideration of this portfolio is approximately \$100 million USD for a 100% interest. The Company also announced that it is considering an immaterial investment in a hotel complex located at the western end of Grand Bahama Island

- On March 20, 2018, the Compensation Committee and the Board of Directors of the Company approved an insurance policy for the directors and officers of the Company, for a period of one year commencing on April 1, 2018. The terms of the policy are as follows: insurance coverage in the amount of up to \$11.75 million USD per case and period; an annual premium of \$18,000 USD; and a deductible of \$50,000 USD for Canadian and US claims; and a deductible of \$10,000 USD for any other claim Executives and officers of the Company do not bear any deductible. On August 13, 2018 the Compensation Committee and the Board of Directors of the Company approved, subject to approval of an amendment to the Compensation Policy, an increase to the directors and officers insurance policy, to \$20 million USD per event and per period, with an annual premium of \$28,000 thousand USD per year.
- On August 13, 2018 the Compensation Committee and the Board of Directors of the Company approved the following compensation for directors, (including directors who may be considered controlling shareholders of the Company but excluding directors who receive salary and/or management fees from the Company on a permanent basis), in the amount of the “Fixed Amount” according to the level of the Company’s capital, as it will be set from time to time under the Israeli Companies Regulations. The annual compensation is subject to attending at least 66⅔% of meetings for the year, with pay calculations reviewed semi-annually. In addition, the directors shall be entitled to reimbursement of expenses under the Israeli Companies Regulations.
- On August 28, 2018, a Midroog, the Israeli subsidiary of Moody’s confirmed the Company’s rating of Baa1.il with change the outlook from stable to positive.

IV. Portfolio Overview

At June 30, 2018 Skyline owned 19 income producing assets with 3,199 rooms and 129,918 square feet of commercial space.

Asset Name or Flag	Location	Rooms	Commercial Sq. Ft.
Deerhurst Resort	Huntsville, Ontario	311 ¹	
Horseshoe Valley Resort	Oro Medonte, Ontario	138 ²	
Blue Mountain Retail	Blue Mountain, Ontario	N/A	44,680
Hyatt Hotel	Cleveland, Ohio	293	
Hyatt Hotel (Retail)	Cleveland, Ohio	N/A	54,400
Renaissance Hotel	Cleveland, Ohio	491	
Renaissance Hotel (Retail)	Cleveland, Ohio	N/A	30,838
Bear Valley Ski Resort	Bear Valley, California	53	
Courtyard Marriott	Birmingham Hoover, AL	153	
Courtyard Marriott	Huntsville, AL	149	
Courtyard Marriott	Little Rock, AR	149	
Courtyard Marriott	Tucson, AZ	149	
Courtyard Marriott	Fort Myers, FL	149	
Courtyard Marriott	Arlington Heights, IL	147	
Courtyard Marriott	Deerfield, IL	131	
Courtyard Marriott	Rockford, IL	147	
Courtyard Marriott	Lexington, KY	146	
Courtyard Marriott	Miamisburg, OH	146	
Courtyard Marriott	Holland, OH	149	
Courtyard Marriott	Oklahoma City, OK	149	
Courtyard Marriott	Battlefield(Manassas), VA	149	
Total		3,199	129,918

¹ Included in the total number of rooms are 209 condo owned units.

² Included in the total number of rooms are 16 Copeland condo owned units & 21 Slopeside condo owned units

Key performance indicators

One of the primary key performance indicators in the hospitality industry is Revenue per available room or (“RevPar”). RevPar is a function of the daily occupancy rate expressed as a percentage of total rooms available and the average daily rate or (“ADR”).

Skyline tracks these three metrics for all of its hospitality assets. Year over year the Canadian assets have produced an increase in RevPar as a result of both an increase in ADR and Occupancy. US full service hotels have seen a dip in ADR while increasing Occupancy. This has led to essentially a flat RevPar for Q1 while Q2 year over year has shown an increase of 8.5% driven primarily by a large increase in ADR.

		Q1-2018	Q1-2017	Q2-2018	Q2-2017
Canadian Resorts in CAD	RevPar	\$91.55	\$83.56	\$87.34	\$82.36
	ADR	\$174.72	\$172.06	\$161.66	\$159.86
	Occupancy	52.4%	48.6%	54.0%	51.5%
		Q1-2018	Q1-2017	Q2-2018	Q2-2017
US full service Hotels in USD	RevPar	\$76.57	\$76.38	\$108.05	\$99.57
	ADR	\$133.95	\$136.80	\$155.66	\$146.08
	Occupancy	57.2%	55.8%	69.4%	68.2%
		Q1-2018	Q1-2017 ¹	Q2-2018	Q2-2017 ¹
US select service hotels & Cal. Ski resort in USD	RevPar	\$65.88	\$67.36	\$74.01	\$28.00
	ADR	\$108.19	\$136.62	\$103.48	\$131.45
	Occupancy	60.9%	49.3%	71.5%	21.3%

¹ Excludes 13 US select service hotels purchased on November 14, 2017

Development

The Company has a small development business that strategically develops on excess real estate surrounding its resorts to further enhance the cash flow and value of its assets. The development projects are in and around the Ontario resort properties where additive development projects are expected to achieve two goals; (1) earn development profits that are commensurate with the risk involved and (2) to grow or enhance cash flows of the adjacent/near by asset. The Company has a number of ongoing active development projects and is continually evaluating additional projects and the timing of their launch.

Condominium Projects	Location	Condo Units	Expected Occupancy ¹	Total Budgeted Revenue	Revenue Recognized in Q2/18
Slopeside	Horseshoe Valley Resort	44	Q2 & Q3/18	\$17,660	\$6,935
Lakeside	Deerhurst Resort	150	Q4/18 & Q1/19	\$57,780	\$0

1. Revenue is recognized on unit occupancy and cash is collected on unit closing

Lot Servicing Projects	Location	Lots ¹	Sale Terms ²	Expected Completion ³	Total Budgeted Revenue	Revenue Recognized in Q2'18
Second Nature Phase 1	Blue Mountain Resort	37 SF	25% deposit; 75% VTB	Q2 2018	\$ 6,412 ⁴	\$ 6,232
Second Nature Phase 2	Blue Mountain Resort	54 SF	25% deposit; 75% VTB	Q2 2019	\$ 8,910 ⁴	\$ 0
Second Nature Phase 3	Blue Mountain Resort	88 SF	20% deposit; 80% VTB	Q2 2019	\$ 20,416	\$ 0
Second Nature Phase 4	Blue Mountain Resort	70 TH	No VTB	Q2 2018	\$ 3,450 ⁴	\$ 3,450

1. SF is Single Family Home; TH is Townhomes
2. Deposits received in prior to closing; Vendor Take Back mortgage (“VTB”) received when homes are transferred to buyers. Terms of the VTB may vary and purchaser provides the land as security to Skyline. The purchaser is not allowed to further encumber the asset beyond the VTB. All VTB’s stand in a first collateral position.
3. Revenue is recognized on project completion and title is transferred
4. These amounts are contracted to purchasers and are no longer estimates.

Development Realized Profit

During the quarter ended June 30, 2018 the Company completed and recognized revenue on two phases of the Second Nature Development in Blue Mountain. In addition during the quarter the Company provided occupancy to 18 of 44 units at the Slopeside condominium project at Horseshoe Valley. As of the date of this report 38 of 44 units have sold or conditionally sold. Occupancy for these units is expected during Q3 and Q4 2018. As a result of completing these projects and delivering the condominium units the Company recognized profits from its development group in the amount of \$3,383. This profit does not include previously recognized fair value gains of \$2,673. Cumulative profits from these projects since their acquisition is \$6,056.

Project	Fair Value Gains Recognized in Previous Periods	Gains Recognized in Current Period ¹	Cumulative Gain Realized
Second Nature Phase 1	\$ 1,721	\$ 695	\$ 2,416
Second Nature Phase 4	952	416	1,368
Slopeside @ Horseshoe	–	2,272	2,272
Total	\$ 2,673	\$ 3,383	\$ 6,056

¹ Difference between current period development segment profit \$2,090 and amount in the table \$3,383 is mainly due to other development costs

Fair Value

The Company recognizes certain assets fair value on its Balance Sheet. These assets represent 74% of the total assets of the Skyline Investments as at June 30, 2018.

	Period ended June 30, 2018	Period ended June 30, 2017
Balance at January 1	\$ 540,013	\$ 362,395
Capital expenditure	10,317	10,914
Amortization	(8,660)	(5,309)
Changes in fair value + foreign exchange and other	11,185	(2,109)
Total	\$ 552,855	\$ 365,891

Net Asset Value

The Company is focused on increasing value to shareholders through its hotel business and its development opportunities. The Company, as most real estate companies do, measures value creation through growth in Net Asset Value (“NAV”). Within the Hotel Business the Company creates value to shareholders through 3 distinct behaviours.

- Acquire assets using strict acquisition criteria with the intent of acquiring assets at or below replacement cost
- Operational efficiencies
- Value add opportunities

Each of these items may lead to valuation increases in its assets and as a result the Company’s NAV. Increase in the fair value of its real estate assets is the primary driver of NAV growth.

The Development opportunities add shareholder value by leveraging unutilized assets to provide development profits and further enhance the long term cash flows of the resorts. Development opportunities provide additional rooms to the resort for minimal investment to the resort itself. The Company calculates its NAV using Fair Values disclosed on its balance sheet.

Debt Strategy

The Company employs modest debt levels and endeavors to create an optimized capital stack for each asset and the portfolio as a whole to maximize value and cash flow. The Company's maximum leverage is 65% debt to total capitalization but will endeavour to operate below 55%.

V. Results of Operations

The financial performance and results of operations contained in this MD&A cover the three and six month periods ended June 30, 2018 and 2017.

Non-IFRS Performance Measures

All financial information has been prepared in accordance with IFRS. However, Skyline uses certain non-IFRS measures as key performance indicators including net operating income (“**NOI**”), funds from operations (“**FFO**”), and adjusted earnings before interest, taxes, depreciation and amortization (“Adjusted **EBITDA**”). Skyline believes these non-IFRS measures provide useful supplemental information to both management and investors in measuring the financial performance of the Company.

These are key measures commonly used by entities in our industry as useful metrics for measuring performance. However, they do not have any standardized meaning prescribed by IFRS and are not necessarily comparable to similar measures presented by other publicly traded real estate entities. These measures should be considered as supplemental in nature and not as a substitute for related financial information prepared in accordance with IFRS.

NOI

Skyline defines NOI as property revenues less property operating expenses. Management believes that NOI is a useful key indicator of performance on an unlevered basis as it represents a measure over which management of property operations has control. NOI is also a key input in determining the value of the properties. NOI is used by industry analysts, investors and management to measure operating performance of Canadian companies. NOI represents revenue from cash generating properties less property operating expenses excluding depreciation as presented in the consolidated statements of income and comprehensive income prepared in accordance with IFRS.

Given the seasonality of its hospitality operations, NOI for a fiscal year, or trailing four quarter NOI is considered by the management as a more accurate measure of Skyline revenue producing assets performance.

Skyline calculates NOI by using Operating income before depreciation, valuation adjustments and other income and adjusting for:

- i) Segmented results from Development Segment
- ii) Segmented results from Other
- iii) Selling and Marketing expenses for Development and Timeshare
- iv) Administrative and General expenses

Alternatively, the same result is arrived at by adding segmental results (per note 31 in the consolidated financial statements) of the Hospitality and Investment properties segments.

FFO

FFO is a non-IFRS financial measure of operating performance widely used by the real estate industry, particularly by those publicly traded entities that own and operate income-producing properties. FFO should not be considered as an alternative to net income determined in accordance with IFRS. Skyline calculates its FFO in accordance with the Real Property Association of Canada White Paper on FFO for IFRS issued in February 2018, except for changes in the fair value of financial instruments which are economically effective hedges but do not qualify for hedge

accounting and non-controlling interests. The use of FFO, combined with the required IFRS presentations, has been included for the purpose of improving the understanding of the operating results of Skyline.

Management believes that FFO provides an operating performance measure that, when compared period-over-period, reflects the impact on operations of trends in occupancy, room rates, operating costs and realty taxes and interest costs, and provides a perspective of the Company's financial performance that is not immediately apparent from net income determined in accordance with IFRS. FFO adds back to net income items that do not arise from operating activities, such as fair value adjustments, acquisition transaction costs and deferred income taxes, if any. FFO, however, still includes non-cash revenues related to accounting for straight-line rent and makes no deduction for the recurring capital expenditures necessary to sustain the existing earnings stream.

Adjusted EBITDA

Company's operations include income producing assets and revenue from sale of developed real estate. As such, Management believes Adjusted EBITDA (as defined below) is a useful supplemental measure of its operating performance for investors and debt holders.

EBITDA is defined as Earnings Before Interest, Taxes, Depreciation, and Amortization. The Company calculates its Adjusted EBITDA by applying additional adjustments, as follows:

- deduct gains and losses from fair value adjustments
- deduct other income or expense
- addition of previously recognized revaluation gains included in cost of sale (*)
- deduction of uncollected long-term VTB loans included in the previous adjustment, less subsequent collections thereof.
- write-down of real estate inventory to net realizable value
- cost of share-based compensation

(*) refers to properties initially recognized as investment properties, adjusted to their fair value and later transferred to inventories.

NOI, FFO, and Adjusted EBITDA are not measures defined by IFRS, do not have standardized meanings prescribed by IFRS and should not be construed as alternatives to net income/loss, cash flow from operating activities or other measures of financial performance calculated in accordance with IFRS. NOI, FFO, and ADJUSTED EBITDA, as computed by the Company, may differ from similar measures as reported by other companies in similar or different industries.

VI. Summary of Selected Financial and Operational Information

Revenue is generated by four business units: US Hospitality, Canadian Hospitality, Investment Properties and Development Properties. Hospitality includes: hotel operations, alpine and nordic ski facilities, golf courses, adventure park operations, as well as other businesses, including food and beverage, spa, retail and rental operations, and other related or ancillary activities. As at June 30, 2018 the Canadian Hospitality unit represented 15% and 21% of the three and six month revenues while for the comparable periods in 2017 it represented 35% and 37%; the US Hospitality segment represented 56% and 61% for the three and six months ended June 30, 2018 while for the corresponding three and six month periods the segment represented 59% and 57% of total revenues. The Investment Properties segment's revenue is mainly generated from the Company's income producing properties at the Blue Mountain Resort in Ontario, the retail space located in the Renaissance Hotel and the Arcade at the Hyatt Regency Hotel in Cleveland. Development revenue includes the sale of serviced lots and condominiums.

The revenue from the Hospitality segments driven by the volume of guests and competitive pricing and guests spending patterns. Volume is impacted by a number of factors, including the guest experience, economic conditions, geo-political factors, weather and accessibility of the resorts. The revenue from the Development segment is not typical or consistent by the nature of the business. Project timing and revenue recognition can move from one quarter to another as a result of project delays. Skyline has a number of ongoing projects with various timelines that are expected to provide some regular revenue on an annual basis in an attempt to smooth revenue from this segment.

The selected financial information set out below is based on and derived from the Financial Statements.

Statement of Income	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Revenue	\$ 62,497	\$ 26,112	\$ 109,770	\$ 60,825
Expenses and Costs	49,371	23,515	85,897	50,462
NOI	13,126	2,597	23,873	10,363
Selling and Marketing & administrative and general expenses	1,544	1,342	2,956	2,599
Depreciation	4,365	2,779	8,660	8,660
Loss (gain) from fair value adjustments	4,729	(4,978)	4,799	(4,903)
Loss (gain) on sale of investments and other	47	(22)	148	479
Financial expense	4,974	2,495	9,856	4,412
Financial income	(44)	(741)	(657)	(2,192)
Profit (Loss) before income taxes	\$ (2,489)	\$ 1,731	\$ (1,889)	\$ 4,642
Profit for the period (after tax) per share				
Basic	\$(0.08)	\$0.00	\$(0.05)	\$0.11
Dilute	\$(0.08)	\$0.00	\$(0.05)	\$0.11
FFO ⁽¹⁾	\$8,627	(\$585)	\$13,840	\$3,728
FFO per share	\$0.52	(\$0.03)	\$0.83	\$0.22
Weight average shares outstanding	16,736,780	16,736,780	16,736,780	16,736,060

¹ FFO is a non-IFRS performance measures. Please refer to definition on pages 9.

Selective items from Statement of Financial Position Data	As at June 30, 2018	As at December 31, 2017
Cash and cash equivalents	\$ 28,433	\$ 25,897
Investment properties	88,659	92,983
Property, plant and equipment	464,006	446,590
Total assets	748,322	714,139
Loans and Bonds payable, current	51,892	36,369
Loans and Bonds payable, non-current	291,257	280,093
Total liabilities	\$ 449,473	\$ 418,142

Same assets analysis:

The same asset analysis incorporates results of operation of the assets that the Company held for at least two full periods ending June 30, 2018 and 2017. These assets are comprised of the Company's Ontario Resorts, Blue Mountain Retail, the Bear Valley resort, the Hyatt Regency and the Arcade and The Renaissance Hotel in Cleveland.

The revenue from same assets in the Hospitality (USA and Canada) and Investment Properties segments combined recorded during the three and six months period ended June 30, 2018 was \$27,001 and \$58,515 compared to \$25,605 and \$59,405 in the corresponding periods in 2017. For the comparable three month period the increase is mainly attributable to the improved results at Renaissance and Hyatt while the decrease for the six months is mainly by the unfavourable weather conditions at Bear Valley ski resort as well as decrease in the USD relative to the Canadian dollar. The decrease in US Hospitality segment, was partially offset by the increase in revenue at the Deerhurst Resort.

Expenses (excluding depreciation) during the reporting period for the three and six months ended June 30, 2018 were \$22,582 and \$47,986 respectively compared to \$22,748 and \$48,987 recorded in the corresponding periods in 2017, representing a decrease of \$166 and \$1,001 for the three and six months.

Same asset NOI for the first half of 2018 was up approximately \$100 or 1%. This increase was driven by improved results at the US hotels – Hyatt and Renaissance decrease was primarily driven by a stronger Canadian dollar and weaker than expected margins at Bear Valley as a result of the poor weather conditions. The decrease in NOI was offset by stable results from the Canadian resorts and an improvement at both of the Cleveland properties.

For the three months ended June 30, 2018 the NOI increased by 52% to \$4,419 versus \$2,902 in the corresponding period last year, primarily due to the increase in revenue. For the six months ended June 30, 2018, the NOI went up by 1% to \$10,529 versus \$10,418 in the corresponding period last year. The increase in NOI is a result of improved results at US Hotels – Renaissance and Hyatt which was offset by the drop in revenue during Q1 from poor weather conditions at Bear Valley.

The Company calculates NOI by using Profit from Operations and adjusting for:

	For three months ended June 30,		For six months ended June 30,	
	2018	2017	2018	2017
Operating income before depreciation, valuation adjustments and other income	\$ 11,582	\$ 1,255	\$ 20,917	\$ 7,764
Segmented results from Development Segment	(2,415)	245	(2,090)	45
Segmented results from Other	(3)	60	24	10
Selling and Marketing expenses for Development segment and Other	126	234	318	385
Administrative and General Expenses	1,418	1,108	2,638	2,214
NOI from income producing assets	10,708	2,902	21,807	10,418
Revenue from income producing assets	45,738	25,650	92,811	59,405
Operating expenses of income producing assets	(35,030)	(22,748)	(71,004)	(48,987)
NOI from income producing assets	\$ 10,708	\$ 2,902	\$ 21,807	\$ 10,418
Change in % compared to corresponding period	269.0%		109.3%	

ADJUSTED EBITDA from Operations
ADJUSTED EBITDA from Operations combines
performance of income producing and development activities:

	For three months ended June 30,		For the six months ended June 30,	
	2018	2017	2017	2016
Operating income before depreciation, valuation adjustments and other income	\$ 11,582	\$ 1,255	\$ 20,917	\$ 7,764
Revaluation component included in cost of sale, that was previously recognized in gain (loss) on fair value adjustments of investment property prior to its transfer to inventory	2,674	114	2,674	114
Less the revaluation component that was recognized as part of the cost of sales for which cash has not yet been received (loans to purchasers that were given for a period exceeding the normal operating cycle)	(1,291)	–	(1,291)	–
Add the revaluation component that was recognized as part of the cost of sales for which has been received (loans to purchasers that were given for a period exceeding the normal operating cycle)	377	–	779	–
Write-down of real estate inventory to net realizable value	–	(355)		(355)
Cost of share based compensation	77	86	140	328
ADJUSTED EBITDA from operations	\$ 13,419	\$ 1,100	\$ 23,219	\$ 7,851
Change in % compared to corresponding period	1,120%		196%	

Funds from Operations (FFO)
FFO is defined as Net Income (in accordance with IFRS) adjusted for:

	For three months ended June 30,		For the six months ended June 30,	
	2018	2017	2017	2016
Net income after tax	\$ (1,889)	\$ 1,317	\$ (1,763)	\$ 3,044
Depreciation	4,373	2,751	8,691	5,325
Loss (gain) from fair value adjustments	4,729	(4,978)	4,799	(4,903)
Revaluation component included in cost of sale, that was previously recognized in gain (loss) on fair value adjustments of investment property prior to its transfer to inventory	2,674	114	2,674	114
Less the revaluation component that was recognized as part of the cost of sales for which cash has not yet been received (loans to purchasers)	(1,291)	–	(1,291)	–
Add the revaluation component that was recognized as part of the cost of sales for which cash has been received (loans to purchasers)	377	–	779	–
Write-down of real estate inventory to net realizable value	–	(355)	–	(355)
Profit (loss) from sale of investments	–	(9)	–	17
Non-cash financial expense (income)	1,036	304	1,198	(880)
Deferred income taxes	(1,382)	271	(1,247)	1,366
FFO	\$ 8,627	\$ (585)	\$ 13,840	\$ 3,728

Sales and marketing expenses

Sales and marketing expenses in the three and six months periods ended June 30, 2018 did not change significantly from the expenses in the corresponding periods last year.

Administrative and general expenses

Administrative and general expenses for the three months period ended June 30, 2018 totaled \$1,418, compared to \$1,108 during the corresponding period in 2017 while for the six months ended June 30, 2018 an expense of \$2,638 was recorded compared \$2,214 in the corresponding period last year. The increase in expenses represent severance costs the company committed to pay to some employees as well as to a senior employee who moved to a different position as well as due to Company's increased operations at the head office, resulted from the acquisition of 13 Courtyard by Marriott Hotels.

Fair Value Adjustment

See "Section IV – Portfolio Review", above.

Depreciation

During the three and six months ended June 30, 2018 an increase of \$1,586 and \$3,351 in depreciation was recorded compared to the corresponding periods last year. It is mainly attributable to the 13 Marriott Courtyard hotels purchased in November 14, 2017.

Financing expenses, net

Financing expenses, net for the three and six period ended June 30, 2018 were \$4,930 and \$9,199 respectively, compared to \$1,754 and \$2,220 during the corresponding periods in 2017. The increase in financial expense is mainly due to the issuance of Bonds (series B) as well as a mortgage of \$89,505 USD backed by the 13 Marriott Courtyard Hotels as well as an increase in the construction loans for various development projects. In the

corresponding period last year, most of the financing income was the result of a hedging instrument purchased by the Company for the Series A bonds linked to NIS.

Amortization of financing transaction costs relate to each of the mortgages. The Company amortizes deferred financing costs over the term of the mortgage. Please refer to the “*Liquidity and Financial Position*” for a discussion on the debt of the Company.

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Financial expense as recorded in the statement of income	\$4,974	\$2,495	\$9,856	\$4,412
Interest paid per statements of cashflow	\$4,762	\$1,258	\$9,294	\$3,175

Income Taxes

For the three and six months period ended June 30, 2018, the Company recorded \$600 and \$126 tax income while in the corresponding periods an expense of \$414 and \$1,598 respectively was recorded.

Profit/(Loss) for the period

The loss for the three and six month periods ended June 30, 2018 was \$1,889 and \$1,763 compared to a profit of \$1,317 and \$3,044 in the corresponding periods in 2017. See VIII “*Income Statements and Segmental Highlights*” below.

VII. Balance Sheet Highlights

- The Company’s shareholder equity, excluding minority interest was \$257,870 or \$15.4 per share. This equates to 42.5 NIS per share based on the foreign exchange ratio as of the balance sheet date. The closing price of the company’s shares on June 30, 2018 was 28.19 NIS per share. This compares to the shareholder equity, excluding minority interest of \$255,020 as at December 31, 2017 and increase of 2.1% during the first six months of 2018. The increase is primarily due to an increase in the relative value of the USD vs the CAD plus the profit earned during the period.
- The consolidated assets of the Company on the balance sheet as of June 30, 2018 totaled \$748,322 compared to \$714,139 as of December 31, 2017. The \$34,183 increase is primarily due to investment in the Company’s Hospitality properties (mainly in the US), increase in real estate inventory as a result of ongoing development projects such as the Lakeside Lodge at Deerhurst Resort and the Slopeside at Horseshoe Resort and a VTB loan, as well as, an increase in the USD/CAD exchange rate.
- The consolidated liabilities of the Company on the balance sheet as of June 30, 2018 totaled \$449,473 compared to \$418,142 as of December 31, 2017. The increase of \$31,331 is mainly due to real estate development loans and loans for US Hotels renovations, as well as increase in the USD/CAD exchange rate, as some of the Company’s debt is denominated in USD.
- As at June 30, 2018 there is approximately \$15,500 undrawn on the Company’s line of credit facilities .
- Changes in Trade receivables, other receivables and prepayments: The balance increased from \$21,560 on December 31, 2017 to \$30,973 on June 30, 2018. The main reason for the increase is the delivery of 18 Slopeside condo units at Horseshoe resort. The final closing is expected in Q4 of the current year.
- Current Restricted cash balance: The restricted cash balance decreased by \$1,002 from \$5,175 in December 31, 2017 to \$4,173 on June 30, 2018. The primary reason for the decrease is the classification from a current balance to non-current as a result of a change in management expectations.
- Real estate inventory and other inventory: On June 30, 2018 the balance is \$71,340 compared to \$63,035 recorded on December 31, 2017. The increase of \$8,305 is mainly due to ongoing construction of the Lakeside Lodge condo project at the Deerhurst resort adding approximately \$9,800. This increase was offset by \$4,000 of real estate at Blue Mountain resort that was sold during the quarter. During the current period, the Company continued the construction of the Slopeside condo project at Horseshoe resort and

delivered 18 of the 44 condo units. The net result of the continued construction and delivery of the condo units resulted in increase of \$2,400.

- Loans to purchasers (current and non-current): As of June 30, 2018 the balance was \$40,647 compared to \$40,255 on December 31, 2017. The increase of \$392 is a result of a new VTB loan of \$4,700 provided to the purchaser of Phase 1 Second Nature at Blue Mountain resort that was offset by the monthly repayments of \$350 from the purchaser of Port McNicoll.
- Financial derivative: see Bonds analysis below.
- Investment properties: The Company conducted a third party valuation of the lands at the Blue Mountain resort and recorded a reduction in the fair value of approximately \$4,800. The impairment was due to a change in the valuation method from the income approach to direct comparison. In addition, the recently low volume of sales will effectively reduce the valuation as developers take longer to realize sales.
- Non-current restricted cash: During the reporting period an increase of \$2,054 was recorded – from \$4,593 on December 31, 2017 to \$6,647 on June 30, 2018. The main increase is due to funds reserved for property improvement plan (PIP) of 13 Courtyard Hotels.
- Property Plant and Equipment, at cost: The main change of \$58 is due to amortization,
- Property Plant and Equipment, at fair value: The increase of \$17,474 from \$443,355 on December 31, 2017 to \$460,829. The main increase is a result of capital investments of \$10,200 in the Hyatt, and Renaissance and other properties. An additional increase of \$15,900 was due to foreign exchange differences. Those increases were offset by amortization of \$8,700.
- Deferred taxes (asset): The decrease of \$396 is mainly due to usage of loss carried forward.
- Bonds (both current and non-current): The increase of \$2,174 from \$107,727 on December 31, 2017 to \$109,901 on June 30, 2018 was mainly due to a fluctuation in the foreign exchange that added \$3,200. This addition was offset by a bonds (series A) principle repayment of \$1,300.
- Loans payable (current and non-current): The balance increased from \$208,735 on December 31, 2017 to \$233,248 on June 30, 2018. The main increase of 18,100 was attributable to construction loans. In addition, an increase in USD compared to CAD, increased the CAD balance of US loans by approximately \$8,100. This increase was offset by repayments of \$2,000.
- The increase in Trade payables, other payables and deferred revenue from \$38,705 on December 31, 2017 to \$43,836 on June 30, 2018 was mainly due to seasonal increase in hospitality segment, including Deerhurst resort.
- Purchasers deposits: The decrease in Purchasers deposits from \$9,930 on December 31, 2017 to \$9,819 on June 30, 2018 was a result of two components: a delivery of the Blue Mountain real estate and an increase in the Lakeside Lodge project.
- Tax payable: The increase in tax payable of \$769 is mainly due to delivery of Blue Mountain Lands, Phase 4.
- Deferred tax liability: the decrease of \$1,160 from \$51,856 in December 31, 2017 to \$50,696 in June 30, 2018 is explained primarily by the reduction in value of the Blue Mountain Lands.
- Other liabilities: the change during the period was not significant.

VIII. Income Statement and Segmental Highlights

- For the three and six months period ended June 30, 2018 the Company's consolidated revenue totaled \$62,497 and \$109,770 compared to \$26,112 and \$60,825 in the corresponding period in 2017, respectively, representing an increase of \$36,385 for the three and \$48,945 for the six months. The increase in six months ended June 30, 2018, is a result of the acquisition of the 13 Courtyard by Marriott hotels in late 2017. This acquisition contributed, \$34,300 to revenue for the six month period. In addition, during the six month period the Company recognized \$6,900 of revenue from delivering 18 of 44 condo units at the Slopeside project. The development segment also delivered two phases of the Second Nature project at Blue Mountain, recognizing revenue of \$9,700. For the three months ended June 30, 2018 the increase was mainly a result of the same factors as described above, as both development projects were delivered during the three months ended June 30, 2018 resulting in \$16,700 revenue recognition. The increase in revenue from the 13 Courtyard Marriott hotels for the three months ended June 30, 2018 was \$18,700.
- US Hospitality segment: During the three and six months periods ended June 30, 2018 the segment realized an increase of \$19,771 and \$32,613 respectively compared to the corresponding periods last year to \$35,251 for the three months and \$67,524 for the six months ended June 30, 2018. As described above, the primary reason for the increase is the acquisition of the 13 Marriott Courtyard hotels purchased on

November 14, 2017. The 13 Marriott Courtyard hotels contributed \$18,700 for the three and \$34,300 for the six month ended on June 30, 2018. In addition, during the three months ended June 30, 2018 the US Hospitality segment realized an increase of \$1,500 in revenue compared to the corresponding period last year, the increase was offset by a reduction of \$600 from a stronger Canadian dollar. The \$1,500 increase was due to improvements at both the Renaissance and Hyatt Hotels. For the six months ended June 30, 2018 and increase of \$1,400 was recorded at the Hyatt Hotel. This increase was offset by a combined decrease in revenue of \$3,300 at Renaissance Hotel and Bear Valley resort. The decrease, which is driven mainly from the first quarter ended March 31, 2018, was a result of a decrease in revenue from groups at the Renaissance Hotel and the unfavourable weather conditions at Bear Valley resort. The decrease in revenue includes foreign exchange differences of approximately \$1,500 that offsets the total increase in revenue as a result of a stronger Canadian dollar. The increase in costs for both three and six months ended June 30, 2018 compared to the previous period last year were mainly due to the acquisition of the 13 Marriott Courtyard hotels which added cost of \$12,400 for the three and \$23,000 for the six months periods ended June 30, 2018. The increase in costs was offset by a decrease at the Renaissance Hotel of \$1,600. The remaining difference for both three and six months ended June 30, 2018 was a result of change in the foreign exchange rate and costs at the other US properties.

- Canadian Hospitality segment: During the three and six month period ended June 30, 2018 segmental revenue increased \$144 and \$472 respectively recognizing \$9,388 for the three and \$23,170 for the six month periods respectively. For the three months, the increase is mainly attributable to the Horseshoe resort, while for the six months it was primarily attributable to Deerhurst resort. The Company continues to put efforts towards increasing the revenue at Horseshoe resort during the summer evidenced by launching a water slide this year and the construction of the artificial lake last year. The increase in costs of \$191 for the three and \$460 for the six months ended in June 30, 2018 to \$9,004 and \$19,631 respectively resulted from both Horseshoe and Deerhurst Resorts. This increase is attributable to the new minimum wage enacted in December 2017, that increased from \$11.60 to \$14.00 / hour the expected increase in costs for both Horseshoe and Deerhurst resorts is expected to be approximately \$1,600.
- Investment Properties segment: During the three and six months ended June 30, 2018 an increase in revenue of \$173 and \$321 respectively was recorded to \$1,099 for the three and \$2,117 for the six months ended June 30, 2018. The increase is attributable to the increase in revenue at the Company's retail assets at Blue Mountain resort (approximately \$160) and to the retail property located at the Renaissance Hotel (approximately \$160) in Cleveland. The increase in expenses is mainly attributable to Blue Mountain with addition of Boat House 3 which increased the lease able area. The change in costs for both three and six months ended June 30, 2018 was insignificant.
- For the three and six months ended June 30, 2018 the Company generated NOI of \$10,708 and \$21,807 respectively from its income producing properties, compared to \$2,902 and \$10,418 in the corresponding periods of 2017 an increase of 109% for the three and 269% for the six months.
- For the three and six months ended June 30, 2018, the Company generated Adjusted EBITDA of \$13,419 and \$23,219 respectively from income producing, compared to \$1,100 for the three and \$7,851 for the six months ended in the corresponding periods of 2017 an increase of 1,120% for the three and 196% for the six months.
- The Development segment: During the three and six months ended June 30, 2018, the Company delivered 18 of 44 units at the Slopeside project at Horseshoe Resort and recorded a revenue of \$6,900. In addition the Company recognized revenue of \$9,700 on the delivery of two phases of the Second Nature project at Blue Mountain. In the corresponding period last year the Company delivered and recognized a sale of two Copeland House condo units at Horseshoe Resort and three residential lots at the Deerhurst Resort.
- For a detailed NOI, ADJUSTED EBITDA and FFO analysis see *Non-IFRS Financial Measures* above.

IX. Cash Flow Statement Highlights

As part of its business strategy, the Company looks to acquire real estate properties, adjacent to its hotels and resorts. Those activities may result in negative cash flows from investing activities at acquisition and positive cash flow on disposition. In addition, the Company is involved in construction of various residential real estate projects typically funded by third party financing, which results in negative cash flow from operations and positive cash flow from financing activities during the construction periods and the opposite on closing.

- During the period ended June 30, 2018, the Company's cash and cash equivalents increased by \$2,536 to \$28,433 compared to a decrease of \$11,645 in the corresponding period in 2017. This change is explained,

by a number of items including, funds received from the sale of Second Nature phase 4 and the final deposits on the sale of Second Nature phase 1, cash received from financing activities, including construction loans that financed the increase in the real estate inventory balance.

- During the six months period ended June 30, 2018, the Company recorded a \$109 cash outflow from operations also due to the investment in real-estate inventory, while in the corresponding period last year the Company recorded an inflow from cash from operations of \$9,131, mainly as a result of achieving condominium status and closing with each of the Copeland House purchasers, which, also resulted in a reduction of trade receivables of \$11,927. For more detailed breakdown of this item – please refer to the cashflow statements.
- In the six month period ended June 30, 2018, the Company recorded a negative cash flow of \$9,409 from its investing activities compared to a negative cash outflow of \$14,091 in the corresponding period in 2017. The negative cash flow is mainly due to investment in the US Hospitality properties of \$10,237. This decrease was offset by restricted cash of \$906 that was released.
- During the six month period ended June 30, 2018, net cash from financing activities increased by \$14,928 compared to a decrease of \$6,867 in the corresponding period in 2017. The positive cash flow from bank credit and other short-term loans in the amount of \$13,750 mainly due to construction loans as well as increase in loans payable, in the amount of \$2,455 net, which was offset by repayment of Bonds (series A) principle of \$1,292 and repayment of other various long term loans.

For further information, see cash-flow report in the consolidated financial statements for June 30, 2018 and Section X – “*Liquidity and Financial Position*” below.

X. Liquidity and Financial Position

The foregoing section contains forward-looking information and users are cautioned that actual results may vary.

Liquidity

Skyline intends to fund capital for acquisitions through (i) cash on hand, (ii) issuance of common shares or other securities and (iii) debt financing including floating and fixed rate debt. Cash flow from operating properties represents the sources of cash to fund capital expenditures, debt service and general & administrative expenses.

The Company also has a small development business. Development projects typically have an operating cycle longer than one year and the Company funds most of its investment in real estate development projects through credit from financial institutions.

The Company’s current liabilities include \$51,892 of current maturities of long term loans, bonds and short term construction debt. There is a net cash outflow from operations of \$109 as per the condensed interim consolidated statements of cash flow for the six month period ended June 30, 2018. A net cash outflow from operations, when applicable, is not expected to adversely affect the Company's business operations, as it is the Company’s past experience that lending financial institutions refinance the loans. In addition the number of potential lenders is so large that securing an alternate lender should be reasonably expected. See above under “Cash and loans”. There is however no guarantee that the Company will be able to secure any required refinancing or any additional financing. Readers are reminded that past experience is not a reliable indicator of future results See the “Cautionary Note Regarding Forward Looking Statements” section and the “Risk Factors” section in this MD&A.

In the light of this, the Company’s Board of Directors, examined whether the continuing negative cash flow from the current activity in the solo report as aforementioned could indicate a problem with the Company’s liquidity. In the opinion of the Company’s Board of Directors nothing in the aforementioned negative cash flow shall indicate a problem with the Company’s liquidity, paying heed to the fact, inter alia, that: (a) the majority of the Company’s activity in Canada and the United States is carried out by means of the Company’s subsidiaries; (b) the cash balances held by the Company; (c) the financing sources available to the Company and the Company’s anticipated liabilities.

Cash and loans

As at June 30, 2018, the balance of Cash and cash equivalents of the Company totaled to \$28,433 compared to \$25,897 on December 31, 2017. In addition, as of June 30, 2018 the Company has \$15,500 of available and undrawn funds from its line of credit.

Working capital:

As of June 30, 2018, the working capital of the Company totaled to \$33,549 (in addition to \$15,500 unused lines of credit) compared to \$37,950 in December 31, 2017. The Company's management believes that it has a sufficient working capital.

The following table summarizes the statement of cash flows of the Company:

	Three month period ended June, 2018 (Unaudited)	Three month period ended June, 2017 (Unaudited)	Six month period ended June 30, 2018 (Unaudited)	Six month period ended June 30, 2018 (Unaudited)
Profit (Loss) for the period	\$ (1,889)	\$ 1,317	\$ (1,763)	\$ 3,044
Net cash provided (used) by operations	4,287	(3,221)	(109)	9,131
Net cash provided (used) in investing activities	(6,618)	(5,407)	(9,409)	(14,091)
Net cash provided (used) in financing activities	9,432	2,077	14,928	(6,867)
Foreign Exchange translation of foreign operations	(1,795)	(160)	(2,874)	182
Increase (Decrease) in cash and cash equivalents	5,306	(6,711)	2,536	(11,645)
Cash and cash equivalents, beginning of the period	23,127	24,903	25,897	29,837
Cash and cash equivalents, end of the period	28,433	\$ 18,192	\$ 28,433	\$ 18,192

Under Israeli law the Company is obligated to disclose an unconsolidated stand-alone financial statement of the public entity. These statements are unconsolidated and as a result have none of the operating activity or cash flow that takes place in the wholly owned subsidiaries. The parent public entity has minimal revenue and both head office expenses and interest from the unsecured debt (which is funded from operating activity in the subsidiaries). The following is a translation of this disclosure under Israeli law and if not for the dual reporting requirements would not be included in this MD&A.

In the Company's solo statements dated June 30, 2018, the Company presents a negative cash flow from current activity totalling approximately \$4,378 (and approximately \$3,019 negative cash flow from current activity for the corresponding period last year). The Company presents a positive cash flow of \$915 from current activity for the three month period ended June 30, 2018 compared to a negative cash outflow of \$838 recorded in the corresponding period last year. The Company anticipates that in the future it could present a negative cash flow from current activity in its solo reports as the majority of the Company's activity in Canada and the United States is carried out by means of subsidiaries.

Debt

The Company's long-term debt (loans, mortgages and bonds) principal repayments as at June 30, 2018 are as follows:

As at June 30, 2018	Principal Amount (loans and bonds)	% of Total Principal (excluding unamortized financing costs)
By June 30, 2019	\$ 48,393	14%
By June 30, 2020	34,762	10%
By June 30, 2021	9,978	3%
By June 30, 2022 and thereafter	255,991	73%
Unamortized financing transaction costs (*)	(5,975)	
Total	\$ 343,149	

(*) As of June 30, 2018, the financing transaction costs that is calculated into the bonds balance is \$2,926

(**) The current portion of \$47,558 of **loans payable** in the financial statements includes construction loans that are to be repaid within the 3-4 year operating cycle.

Mortgages have fixed rates that range from 3.35% to 9.13%. The variable rate mortgages ranges from 3.70% to 8.66%. Maturity dates range from August 2018 to December 2024.

The Company has 2 series of bonds that trade on the Tel-Aviv Stock Exchange. The two series are referred to as “**Series A Bonds**” (secured) and “**Series B Bonds**” (unsecured). The Company has been given a rating of Baa1.il from Midroog the Israeli subsidiary of Moody’s.

	Currency	Original Principal	Principal Outstanding at June 30, 2018 in ‘000 NIS	Nominal annual interest rate	Timing of Interest Payments	Maturity Date	Amortization
Series A	NIS	148,240 ¹	137,596	5.20%	Jan/July	Jan 15, 2023	20 Years
Series B	NIS ²	164,464	170,926	5.65%	Jan/July	July 15, 2024	15 Years

¹ Including the extension of 20,000 NIS

² Linked to USD

Series A Bonds

On July 27, 2016, the Company closed its first prospectus offering of Series A Bonds in Israel. The Company issued 128,240 bond units at an interest rate of 5.20% (fixed) and raised 123,300 New Israeli Shekels, net of fees (approximately CAD\$41,500). The Series A Bonds commenced trading on the Tel Aviv Stock Exchange on July 19, 2016. The proceeds were used to refinance a maturing loan of approximately \$32,000 and a credit line of approximately \$11,000. For additional information, see note 15 to the consolidated financial statements.

On August 29, 2017, the Company closed an additional offering of Series A Bonds, by private placement in Israel to institutional investors. The Company issued 20,000 bond units at an interest rate of 5.20% (fixed) and raised 20,750 New Israeli Shekels (raise with a premium), (approximately CAD\$7,000), reflecting an effective interest rate of approximately 5%.

The Series A Bonds are redeemable (principal) in payments that shall be made on January 15 and July 15 of each year with the last payment being on January 15, 2023. Each payment shall redeem approximately 2.56% of the par value of the principal, except the final payment, which shall be in the amount of the balance of the principal to be redeemed, at the rate of 72.5% of the par value of the principal.

The unpaid balance of the principal shall bear a fixed annual interest. The interest shall be paid in semi-annual payments on January 15 and on July 15 of each year with the last payment of interest to be made on January 15, 2023.

The Series A Bonds are supported by a general guarantee of the Company and are backed by a first mortgage on the Deerhurst Resort only (excluding the surrounding developable real estates).

The main financial covenants, as set out in the Series A Deed of Trust, include the requirement of the Company to maintain a maximum outstanding balance of the Series A Bonds to property value ratio (LTV) of not more than

72.5% and a minimum shareholders' equity of \$100,000. The Company complies with all covenants required in the Series A Deed of Trust.

The balance of this section included in "Series A Bonds" is a requirement of the Israeli Security Authority as part of the MD&A disclosure rules.

Hereinafter are details regarding the financial criteria with which the Company has undertaken to comply, pursuant to the deed of trust dated July 12, 2016, for the Company's Series A Bonds ("**the Series A Deed of Trust**").

Financial criterion	Result of calculation as of June 30, 2018
Ratio of the loan to security shall not exceed 0.725 inasmuch as the attached assets include a yielding asset ¹	0.6546
The Company's adjusted equity capital shall be no less than 100 million Canadian dollars ²	258 million Canadian dollars
The ratio between the Company's adjusted equity capital and the Company's total balance sheet shall be no less than 25% ³	34.5%

Restrictions in the matter of distribution of dividends

The Company shall be permitted to "distribute", as the term is defined in the Israeli Companies Law (including by way of independent purchase of the Company's shares) (in this section: "**distribution**"), subject to compliance with the Companies Law requirements for distributions, provided that:

- a. Total equity capital after any distribution shall be no less than 120 million Canadian dollars.
- b. The dividend shall not exceed 50% of the "current net profit" in any calendar year starting from January 1, 2016.
- c. The Company has complied with all other applicable financial criteria under the Israeli Companies Law.

"**Current net profit**" means profit for a period according to the accepted rules of accounting pursuant to the Company's latest quarterly or annual consolidated financial reports, as the case may be, less income and plus costs and expenses that are not cash flow based, which were recognized as profit for the period.

Without derogating from the generality of the aforementioned: income which is not cash flow based could include, for example, an increase in the fair value of real estate for investment and profit from purchase at an incidental price. Expenses and costs which are not cash flow based could include, for example, decrease in the fair value of real estate for investment, depreciation and reductions and expenses due to share based payment.⁴

Notwithstanding the above, the Company shall be permitted to distribute a dividend during a realization of assets (including by way of adding a partner), of up to 50% of the cash flow profit derived from realization of the asset. This is due, in part, to the cash flow profit, which is not included in the current net profit.

¹ The ratio of loan to security is calculated as the ratio of A-B-C to D; in this matter -

A = the balance of the par value of the Series A Bonds that shall be outstanding at the time of the examination, plus interest accrued up to that date in accordance with the terms of the Series A Bonds;

B = the cumulative amount of the collateral value of monetary deposits and/or bank guarantees and/or government securities, inasmuch as they shall be pledged at the time of the examination;

C = value of the collateral of the Income Producing Properties, inasmuch as they shall be pledged at the time of the examination;

D = the balance of the par value of the Series A Bonds that will be held by the Company's wholly-owned subsidiaries at the time of examination, plus interest accrued up to that date in accordance with the terms of the Series A Bonds.

Notwithstanding the aforementioned, in the event all the Pledged Assets are a monetary deposit and/or bank guarantees and/or government securities (i.e. without income producing properties), the Loan to Collateral Ratio shall not exceed 1. It is hereby clarified that the balance of the Bond value (series A) was calculated after reducing the value of a financial derivative instrument designed to hedge the exposure to the Israeli Shekel. The value of the said financial instrument to June 30, 2018 was 9,296,180 NIS. It is clarified that the company is not in breach of the value-to-loan covenant both with or without taking into account the said derivative financial instrument

² "Adjusted Equity" shall mean - the equity under the IFRS rules, less minority interests, plus capital notes and any shareholders' loans that shall be provided, all in accordance with the consolidated financial statements of the Company.

³ "**Total Balance**" shall mean - the total consolidated balance, according to the IFRS rules and in accordance with the consolidated financial statements of the Company; "**Adjusted Equity**" means - the equity under IFRS rules, plus minority interests, Capital Note and all shareholders' loan to be provided, all in accordance with the consolidated financial statements of the Company.

⁴ The Company undertakes to provide further information regarding its non-cash flow income in its annual reports.

“Cash flow profit” means net consideration from sale of the asset, whether this sale is recognized as current net profit or its expenses are recognized as other inclusive profit, less the following components: original cost of purchase, capital investments (CAPEX) executed during the period in which the Company held the asset, transaction costs and taxes. Cash flow profit shall also include any other sum, which as a result of realization, pursuant to accepted accounting rules, it to be transferred from a capital fund to accumulated losses.

Note that, if the sale of the asset was carried out in instalments, the dividend can be made in instalments, pursuant to the table of payments for the sale.

In the event the Company does not distribute a dividend for a particular calendar year, the right to distribute accrues, and the dividend can be distributed future years, subject to compliance with applicable law.

In Thousands Canadian dollars	Six months ended June 30, 2018
Net profit (loss)	\$ (1,763)
Plus: costs and expenses which are not cash flow based	
Depreciation and deductions	8,660
Expenses for share based payment	140
Decrease in fair value of real estate for investment	4,799
Revaluation component included in cost of sale, that was previously recognized in gain (loss) on fair value adjustments of investment property prior its transfer to inventory	2,674
Less the revaluation component that was recognized as part of the cost of sales for which cash has not yet been received (loans to purchasers that were given for a period exceeding the normal operating cycle)	(1,291)
Add the revaluation component that was recognized as part of the cost of sale for which has been received (loans to purchasers that were given for a period exceeding the normal operating cycle)	779
Total additions	15,761
Less: income that is not cash flow based:	
Increase of value of real estate inventory to the net value of realization	-
Total deducted	-
Current net profit	13,998
Current net profit from previous years for which a dividend was not distributed	36,367
Total current net profit balance	\$ 50,365

Additional details pursuant to disclosure required pursuant to the provisions of the deed of trust for Series A Bonds:

1. Financial restrictions and liabilities in regard to the pledging companies: as of the date of the report Skyline Deerhurst Resort Inc. (hereinafter: “**Skyline Deerhurst**”) is a company fully owned by the Company (100%).
2. Restriction on provision of loans: As of the date of the report the Company has not provided a loan/s in favour of Mishorim Real Estate Investments Ltd., the controlling shareholder of the Company.
3. Liquidity: the balance of the cash and cash equivalent as of June 30, 2018 pursuant to the Company’s consolidated financial reports is a total of approximately \$28,433, and the interest and principal payment for the Series A Bonds due July 15, 2018 totals approximately 7,325 NIS.
4. Lien on the Deerhurst chattels: all the liens created under the Deerhurst chattels guarantee, as of the date of the report, constituted a total debt of approximately \$888 Canadian dollars⁵. As of the date of the report Skyline Deerhurst is complying with all the terms of its secured debts by all the liens so created, and the value of all the pledged chattels is insignificant as compared to the overall value of the pledged asset.
5. As of the date of this report, no changes have been made to the terms of the management agreement in regard to Deerhurst (hereinafter: “**The Management Agreement**”) that deviate from that detailed in Appendix D of the Series A Deed of Trust . As of the date of the report, the Company (by means of the subsidiary, as defined in Appendix D of the Series A Deed of Trust), is entitled to management fees and commission by virtue of the management agreement at the following rates:

⁵ The Company had undertaken that all liens that shall be created on the on the Deerhurst chattels shall not guarantee at any time a debt of more than the accrued amount of 3 million Canadian dollars.

- a. 3.5% of the revenues and from the incentives commission which is at a rate of 25% of the Adjusted Profit; in the event of high profitability (pursuant to the terms of the agreement) the Company shall be entitled to 25% of the excess of the EBITDA, subject to the liquidity of the resort and its activity ability.
- b. In the event of sale of the resort, the Company shall be entitled to a commission at a rate of 2% to 5% from the consideration of the sale, and in the event that the rate of the internal return of the investment (IRR) on the date of sale shall exceed 10%, the Company shall be entitled to additional consideration, that shall constitute between 20% and 35% of the excess.

As of the date of the report the Company is complying with all the terms and undertakings pursuant to the Sereis A Deed of Trust , including its compliance with the financial criteria as stated in this section above, and no conditions establishing a case for placing the Series A Bonds for immediate realization of the securities given to guarantee the payment to the Series A Bond holders have been established.

Hereinafter are details of the Deerhurst and Horseshoe assets

The Deerhurst asset

(Data pursuant to 100% share of the Company in the asset 100%)	Year 2018 Quarter 1	Year 2018 Quarter 2	For year ending December 31, 2017
Value of the asset (in '000 Canadian dollars). Evaluation was carried out on September 30, 2017	\$74,900	\$74,900	\$74,900
NOI* for the period (in '000 Canadian dollars)	74	1,246	5,715
Value on the books at the end of the period, in '000 Canadian dollars	73,665	73,517	73,326
Average occupancy rate during the period (%)	48.5%	55.5%	58.00%
RevPar (Canadian dollars)	84.24	95.44	116.66
Total revenues in '000 Canadian dollars**	5,053	6,964	29,700
Average rent per rented room per day for the purpose of annual evaluation (Canadian dollars)	\$173.75	\$171.89	\$201.20

* The evaluation was attached to the quarterly report as of September 30, 2017. Although more than 90 days have passed from the date of preparation of the evaluation, in the Company's estimation there have been no changes that could fundamentally change the conclusions of the evaluation.

** The NOI (EBIDTA) is defined as profit from regular activities after payment of rent to the apartment owners whose units are rented out by the Company to its guests, while neutralizing depreciation and before expenses for management fees paid to affiliated companies that manage the assets. Management fees paid to the external management companies fluctuate between 2%-3% of the sales turnover.

*** In the solo report, before cancellation of the intercompany balances.

The Horseshoe asset

(Data pursuant to 100% share of the Company in the asset 100%)	Year 2018 Quarter 1	Year 2018 Quarter 2	For year ending December 31, 2017
Value of the asset (in '000 Canadian dollars). Evaluation was carried out on September 30, 2017	\$54,000	\$54,000	\$54,000
NOI* for the period (in '000 Canadian dollars)	3,091	(770)	3,853
Value on the books at the end of the period, in '000 Canadian dollars	\$53,933	\$54,190	\$54,237
Average occupancy rate during the period (%)	62.8%	50%	50.2%
RevPar (Canadian dollars)	\$110.97	\$65.79	\$81.25
Total revenues in '000 Canadian dollars**	8,483	2,165	18,044
Average rent per rented room per day for the purpose of annual evaluation (Canadian dollars)	\$176.73	\$131.5	\$161.94

* The evaluation was attached to the quarterly report as of September 30, 2017. Although more than 90 days have passed from the date of preparation of the evaluation, in the Company's estimation there have been no changes that could fundamentally change the conclusions of the evaluation.

** The NOI (EBIDTA) is defined as profit from regular activities after payment of rent to the apartment owners whose units are rented out by the Company to its guests, while neutralizing depreciation and before expenses for management fees paid to affiliated companies that manage the assets. Management fees paid to the external management companies fluctuate between 2%-3% of the sales turnover.

*** In the solo report, before cancellation of the intercompany balances.

Series B Bonds

Under a shelf prospectus dated February 23, 2015 and a supplementary Shelf Offering Report issued by the Company in Israel on September 24, 2017, the Company issued 164,464 units comprising of NIS 1,000 par value Series B Bond at a fixed interest rate of 5.65% and raised 164,464 New Israeli Shekels (approximately \$57,786). The Series B Bonds' interest and principal are linked to the NIS/US dollar exchange rate. The Series B Bonds commenced trading on the Tel Aviv Stock Exchange on September 28, 2017.

The Series B Bond 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 Series B Bonds 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 Series B Bonds.

The interest on the Series B Bonds 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 Series B Deed of Trust, dated September 24, 2017, include the requirement that the Company maintain a consolidated nominal equity (excluding minority interests) of not less than \$130,000 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 Series B 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%. Therefore, the Company complies with all covenants and liabilities prescribed by the Series B Deed of Trust.

The net proceeds were used for the acquisition of 13 Marriott Courtyard hotels.

The balance of this section included in "Series B Bonds" is a requirement of the Israeli Security Authority as part of the MD&A disclosure rules.

Hereinafter are details regarding the financial criteria, pursuant to Section 5.4 of the deed of trust (adjustment of the rate of interest as a result of non-compliance with the financial criteria), as of September 24, 2017 for the Company's Series B Bonds (hereinafter: "**Series B Deed of Trust**").

Financial criterion	Result of calculation as of June 30 2018
The Company's consolidated equity capital (not including minority rights) shall be no less than 180,000 thousand Canadian dollars (this sum shall not be linked to any linkage index whatsoever)	257,870
The ratio of the Company's consolidated capital (including minority rights) to the total balance sheet shall be no less than 28.5%.	Approximately 40%

Hereinafter are details regarding the financial stipulations with which the Company has undertaken to comply, pursuant to Section 6.2 (Financial undertakings) of the Series B Deed of Trust.

Financial criterion	Result of calculation as of June 30 2018
The Company's consolidated equity capital (not including minority rights) shall be no less than 130,000 thousand Canadian dollars (this sum shall not be linked to any linkage index whatsoever)	257,870
The ratio of the Company's consolidated capital (including minority rights) to the total balance sheet shall be no less than 28.5%.	Approximately 40%

The Company clarifies that, as part of the collateral provided to a Canadian bank (in connection with a non-material credit facility of up to 20 million CAD, obtained by the Company in March 2017 (of which, as of today, the Company used approx. 5.5 million CAD), a floating charge was registered over all of the Company's assets (excluding Skyline Deerhurst shares, which are not pledge). The credit facility is not material to the Company. The

floating charge was registered prior to the issuance of the Series B Bonds; it is limited to the amount of the debt, as from time to time in effect, and should the Company wish to increase its credit facility and floating charge, the consent of the Holders of Series B Bonds and/or the Trustee shall be required. In addition to the aforesaid, the Company did not record a current lien on its assets

Hereinafter are details of the financial stipulations with which the Company has undertaken to comply, pursuant to Section 8.1.27 (Causes for immediate defrayal) of the Series B Deed of Trust:

Pursuant to Section 8.1.27 of the Series B Deed of Trust, the Company confirms that there has been no change to its principal activity, furthermore, the scope of the Company's entrepreneurial residential and real estate project, consolidated does not exceed 30% of the Company's total consolidated balance sheet.

Restrictions in the matter of distribution of a dividend

The Company shall be permitted to carry out distribution as this term is defined in the Companies Law (including by way of independent purchase of the Company's shares) (in this section: **"Distribution"**), subject to compliance with the provisions of the Companies Law for the purpose of Distribution and on condition that the following accumulated conditions are met:

- a. The Company's total consolidated equity capital (not including minority rights), pursuant to the Company's consolidated financial reports, after Distribution as aforementioned, shall be no less than a total of 200 million Canadian dollars and, the ratio of the Company's consolidated capital (including minority rights) to the total balance sheet pursuant to the annual or quarterly financial reports that were published prior to the date of passing the resolution as to the Distribution, after execution of the Distribution, shall be no less than 28.5%;
- b. The scope of the Distribution that the Company shall be permitted to make to its shareholders shall not exceed 50% of "the current net profit" for every calendar year, starting from January 1, 2016;
- c. The Company is complying and shall comply after the Distribution with the financial criteria pursuant to Section 6.2a of the Series B Deed of Trust;
- d. The Company has transferred to the trustee approval by the senior officer in the field of finance in the Company pursuant to Section 6.2(i)(d) of the Series B Deed of Trust.

In this matter **"current net profit"** means profit for the period pursuant to the accepted rules of accounting pursuant to the Company's latest quarterly or annual consolidated financial reports, accordingly, less revenues and plus costs and expenses which are not cash flow based, which were recognized in the profit for the period. Without derogating from the generality of the aforementioned: revenues that are not cash flow based could include, for example, an increase in the fair value of real estate for investment and profit from purchase at an incidental price. Expenses and costs which are not cash flow based could include, for example: decrease in the fair value of real estate for investment, depreciation and deductions and expenses due to share-based payment. Notwithstanding the aforementioned, the Company shall be permitted to distribute a dividend during realization of assets (including by way of adding a partner), at a scope of up to 50% of the cash flow profit derived from realization of the asset, and this due to the share of the cash flow profit, which was not included in the current net profit, as defined above. In this matter **"cash flow profit"** means net consideration derived to the Company from sale of the asset, whether this sale was recognized as current net profit or whether its results were recognized as the other inclusive profit, less the following components: cost of the original purchase, capital investments (CAPEX) executed in the period in which the Company held the asset, transaction costs and taxes. Furthermore the cash flow profit shall include any other sum which as a result of realization, pursuant to the accepted rules of accounting, shall be transferred from the capital fund to the accumulated losses. It shall be emphasized that if the sale of the asset was carried out in instalments, it shall be possible to distribute the dividend in instalments, subject to the aforementioned, relatively, pursuant to the payment table of the sale. It shall be stated that in the event that the Company did not distribute a dividend for a certain calendar year, the right to distribute shall accrue for it, and it shall be entitled to distribute it in the coming years, subject to the provisions of the law. See above, calculation of the current net profit as of March 31, 2018. As of the date of the report the Company is complying with all the terms and undertakings pursuant to the

Series B Deed of Trust, including compliance with financial stipulations as stated in this section above, and no conditions have been established for cause for placing the bonds (Series B) for immediate defrayal.

Assets and liabilities of the Company by currency category:

As for June 30, 2018	CAD	NIS (*)	USD	Non-Financial CAD assets in	Non-Financial USD assets in	Total
Assets:						
Cash and cash equivalents	16,874	77	11,482	-	-	28,433
Trade Receivables	9,266	-	3,977	-	-	13,243
Other Receivables	13,163	-	630	-	-	13,793
Prepayments	-	-	-	2,300	1,637	3,937
Restricted back deposits - current and non-current	6,999	2,835	986	-	-	10,820
Financial Derivative	-	3,367	-	-	-	3,367
Loans to purchasers	40,647	-	-	-	-	40,647
Inventories	-	-	-	1,107	716	1,823
Investment Properties	-	-	-	80,212	8,447	88,659
Real Estate Inventory	-	-	-	69,517	-	69,517
Property, plant and equipment	-	-	-	130,885	333,121	464,006
Deferred tax	-	-	-	7,436	-	7,436
Other assets	171	-	2,470	-	-	2,641
Total Assets:	87,120	6,279	19,545	291,457	343,921	748,322
						-
Liabilities:						-
Bonds - current maturities	-	2,663	1,671	-	-	4,334
Loans payable - current	45,617	-	1,941	-	-	47,558
Trade payable	7,352	-	4,029	-	-	11,381
Other payables and credit balances	13,355	-	9,797	-	-	23,152
Deferred revenue	5,951	-	3,352	-	-	9,303
Income tax payables	-	-	-	833	(64)	769
Purchasers' deposits	9,819	-	-	-	-	9,819
Bonds	-	47,459	58,108	-	-	105,567
Loans payable	21,367	-	164,323	-	-	185,690
Deferred tax	-	-	-	32,712	17,984	50,696
Other liabilities	177	-	1,027	-	-	1,204
Total liabilities	103,638	50,122	244,248	33,545	17,920	449,473
Total assets net of Total liabilities	(16,518)	(43,843)	(224,703)	257,912	326,001	298,849

(*) In January 2017 the Company purchased a derivative to hedge its NIS currency exposure to Bonds (series A). See note 15 for the consolidated financial statements as for December 31, 2017

The Company's compliance with financial covenants

As of the date of publication of the report, the Company and its subsidiaries are complying with the financial criteria which it has undertaken to comply with vis-à-vis the banking corporations and the bond holders.

Hereinafter are details regarding the financial criteria which the Company and its subsidiaries have undertaken to comply with in regard to the significant loan agreements to which they are a party:

As regards the loan for 15 million Canadian dollars borrowed by a subsidiary (60%) of the Company in April 2013 and which is described in Note 17(j) of the periodic report:

- a. The borrower complied with the debt service coverage ratio as of June 30, 2018 and the date of the report, which was 1.58:1.00.

- b. As regards the debt service coverage ratio as aforementioned, at the end of each calendar quarter it shall be examined as compared to the previous four quarters as of the date of the examination, and shall be no less than 1.20:1
- c. **“Debt service coverage ratio”** in this matter is the ratio between (1) the EBITDA for the four quarters that preceded the date of the examination and (2) the total payments to the lender (principal and interest) for the period stated in Subsection (1) (not including sums that the borrowers have defrayed by early defrayal).

As regards the loan for 17 million US dollars (approximately 22 million Canadian dollars) taken by the Company’s subsidiary in March 2017, and which is described within the framework of the immediate report dated March 19, 2017 (reference number: 2017-01-025344) and in Note 17 of the consolidated financial reports as of December 31, 2017:

- a. The borrower complied with the fixed charge coverage ratio as of June 30, 2018 and as of the date of the report, which was 1.80:1.00, whereby the minimum required is 1.50:1.00.
- b. The Company is complying with the minimum balance of liquidity required of approximately 6 million Canadian dollars, whereby on June 30, 2018 in the Company’s books there was a cash balance of approximately \$28,433.
- c. “Total consolidated capital” – the Company is required to comply with a minimum capital of some 100 million Canadian dollars consolidated. As of June 30, 2018 the Company’s consolidated capital (including minority rights) is a total of some 302.878 million Canadian dollars.

As regards the loan for some 12.3 million US dollars which was taken by the Company’s subsidiary in March 2016 (The debt was increased to 14.3 million US dollars during the three months ended June 30, 2018), to finance one of the Company’s hotels, and which is described in Note 17h of the consolidated reports for December 31, 2017:

- a. The borrower complied with the debt service coverage ratio as of June 30, 2018 which was 4.55:1.00.
- b. The debt service coverage ratio as aforementioned shall be examined at the end of each calendar quarter as regards the preceding four quarters as of the date of the examination, and shall be no less than 1.30:1.0.
- c. “Debt service coverage ratio” in this matter is the ratio between (1) the EBITDA for the four quarters that preceded the date of the examination and the total payments to the lender (interest) for a one year period.

As regards the loan for some 89.5 million US dollars taken by the Company’s subsidiary on November 14, 2017, to finance purchase of hotels in the Courtyard by Marriot chain, and which is described in Note 17c of the consolidated reports for December 31, 2017:

- a. The Company’s net asset value (apart from the assets purchased) is some 230 million US dollars – the value is required to be no less than 100 million US dollars.
- b. The scope of the cash and cash equivalent totals in approximately 25.1 US dollars – the Company’s liquidity is required to be no less than 10 million US dollars.
- c. The yield of the debt (operating cash flow from the asset divided by the maximum sum of the loan) is irrelevant until one year has passed from the date of taking the loan.

XI. Equity

Outstanding Share Data

The authorized capital of the Company consists of an unlimited number of common shares. A detailed description of the rights, privileges, restrictions and conditions attached to the common shares is included in our Annual Information Form. As of June 30, 2018, the Company had 16,736,780 common shares issued and outstanding. The Company did not issue any common shares during the period.

The Company’s capital resources include amounts raised from the sale of its common shares. The Company’s common shares are listed for trading on the Tel Aviv Stock Exchange.

	As at June 30, 2018
Total outstanding at the beginning of the period	16,736,780
Issued	–
Total outstanding at the end of the period	16,736,780

Other Issued Securities

The Company has also issued Stock Options as outlined in the table below.

	Number of Employee Stock Options As at June 30, 2018	Exercise Price
Total stock options outstanding at the beginning of the period	280,000	26.60 NIS ⁽³⁾
Add: Employee stock options issued ⁽¹⁾	135,000	32.00 NIS
Add: Employee stock options issued ⁽²⁾	100,000	30.72 NIS
Less: Employee stock options cancelled during the period	(60,000)	N/A
Less: Employee stock options exercised	–	
Total stock options outstanding at the end of the period	455,000	

¹ On February 21, 2018 the Board of Directors approved grant of 135,000 new options to senior employee..

² On March 20, 2018 the Board of Directors approved grant of 100,000 new options to senior employee.

³ Weighted average exercise price.

XIII. Factors Affecting Performance

The Company's performance is affected by a number of industry and economic factors and exposure to certain environmental factors, including those further discussed below. These factors represent opportunities but also challenges and risks that the Company must successfully address in order to continue to grow the business and improve its results of operations.

Canadian Hotel and Resorts segment ("Canadian Hospitality")

The hospitality segment in Canada includes the Horseshoe resort and Deerhurst resort.

Competitive Conditions

Deerhurst Resort competes mainly within the Ontario marketplace, with approximately 80% of its guests travelling within the province itself. Guest visits at the resort are divided equally between Leisure Travel (family and couples) and Group Travel (corporate, association, government, and social). Competitors for leisure guest visits include locally owned independent resorts in rural locations known for their natural beauty as well as larger hotel and resort experiences in Ontario's key tourism destinations. Competitors for group travel include all branded hotel chains with conference facilities or branded hotels in major cities within proximity to convention centres. Key differentiators for Deerhurst Resort include its reputation as one of the oldest resorts in the province of Ontario, its lakefront setting in the world renowned Muskoka region, and its outdoor recreation and adventure offerings. Horseshoe resort competes directly with other ski, golf and adventure parks in Simcoe Country behind the industry leading Blue Mountain ski area.

The Company seeks to gain a competitive advantage in the market through:

- *Continued enhancements to its online reservation and booking platform:* The Company has a central reservations system, located at one of its properties, and is constantly improving its online planning and booking platform, offering guests a useful way to make reservations at its hotels. The Company is also in the process of implementing an online booking platform for resort activities, which is expected to streamline guests' trip planning experience.
- *Skyline Hospitality modernization:* The Company is actively upgrading the quality of accommodations and amenities available at its hotels through capital improvements, adding new amenities. Projects

completed over the last year include installation of a new chair lift at Horseshoe Resort, improvement of snow making facilities by adding a new artificial water reservoir that is also used as a new attraction , as a lake in summer, modernization of facilities at Horseshoe and Deerhurst resorts.

- *Joint promotion* of its residential real estate offerings and hospitality experience of its Resorts.

Accessibility from major metropolitan areas

The Company's hotels and resorts are mostly located within the Greater Golden Horseshoe and within driving distance of the Greater Toronto Area (GTA), the most populous metropolitan area in Canada. The Greater Golden Horseshoe, with a population of approximately 8.8 million, encompasses the GTA and is expected to grow to more than 13 million by 2041. The Company's resort properties are located within one hour (Horseshoe Valley) and two hours (Deerhurst) from the GTA, with access via a major highway. Additionally, all properties are proximate to Toronto's Pearson International Airport.

Seasonality

The Hospitality segment in Canada is impacted by seasonality. Resort operations are highly seasonal in nature, with a typical winter/ski season beginning in early December and running through the end of March, and typical summer seasons beginning late in June and ending in early September. In an effort to partially counterbalance the concentration of revenue in the winter months at the Horseshoe Valley Resort in comparison to the summer months at the Deerhurst Resort, the Company offers counter-seasonal attractions such as mountain biking, hiking, guided ATV, Segway and adventure buggy tours, golf and an adventure park (at Horseshoe) and guided snowmobiling tours, dog sledding, skating, snowshoeing and winter hiking (at Deerhurst). These activities also help attract destination conference and group business to the resorts.

The Horseshoe and Deerhurst resorts have complimentary high seasons, with the Horseshoe resort having its high season in the winter season and the Deerhurst resort having its high season during the summer and early fall.

USA Hotel and Resorts segment ("US Hospitality")

Competitive Conditions

Competition in the US hotel industry is generally based on quality and consistency of rooms, restaurant and meeting facilities and services, attractiveness of locations, availability of a global distribution system, and price among other factors. The Company's properties compete within their geographic markets with hotels and resorts that include locally owned independent hotels as well as facilities owned or managed by national and international chains, including such brands as Marriott, Hilton, IHG, and Hyatt. The Company's properties also compete for convention and conference business across the national market. The Company seeks to gain a competitive advantage in the market by upgrading the quality of accommodations and amenities available at the hotels through capital improvements.

In the US, the Company's hotels and resorts are well-positioned within the competitive marketplace. The Cleveland hotels maintain a competitive share of leisure market due to their central downtown location and affiliation with leading international brands Marriott and Hyatt. The Bear Valley Resort in California is a well-known ski resort with proximity to significant population centers such as San Francisco and Sacramento. Skyline's Select-Service Courtyard by Marriott hotels offer geographical diversity with strong locations in key Midwest, Southeast and Southwest markets, and benefit from industry-leading Marriott loyalty program and worldwide distribution system. The Company seeks to gain a competitive advantage in the market by upgrading the quality of accommodations and amenities available at the hotels through capital improvements. Recently completed projects include guestroom renovations at the Hyatt Regency Arcade in Cleveland, Ohio, (114 of which was renovated during 2014 and the balance 180 rooms was renovated during the first six months of 2017) and an investment in Bear Valley resort by installing a new high speed lift and modernization of its equipment. In October 2015, the Company (together with a 50% partner) acquired Renaissance Hotel in Cleveland, Ohio (a 65,000 square foot event and meeting space, which includes 491 rooms, 34 meeting rooms, a number of restaurants and a 304 vehicle parking garage).

Within the next three years, the Company intends to complete the renovation and improvement of all the conference space, common areas and rooms at the Renaissance Hotel.

On August 3, 2017 the Company announced a purchase of 13 Marriott Courtyard hotels in US for a total consideration of \$135 million US (before transaction costs). The 13 hotels acquired include 1,913 rooms and, during 2016, according to financial data provided by the seller, generated revenues of approximately US \$51.1 million and NOI of US \$14.5 million; with an average occupancy rate of 65.4% and average price per night (ADR) of US \$101.5. The hotels are spread over 9 US states and are geographically diverse with strong locations in key Midwest, Southeast and Southwest markets. The transaction was closed November 14, 2017.

Accessibility from major metropolitan areas – Cleveland, Ohio Properties

Northeast Ohio lies along the southern shores of Lake Erie. The major cities of this area are Cleveland and Akron. These two cities are roughly 39 miles apart and are highly interconnected. The region is also part of the Great Lakes Megalopolis, which contains an estimated 59.1 million people.

The Cleveland combined statistical area (CSA) is the largest in Ohio with nearly 2.8 million residents. The region is served by two international airports. It is home to numerous fortune 500 firms and several of the area's largest employers are in the healthcare industry. The Cleveland Clinic is the area's largest employer and is a high-ranking hospital according to U.S. News & World Report. University Hospitals, another well recognized facility, is the second largest employer in the CSA. In 2015 approximately 17.6 people visited Cleveland.

The Company's hotels in the CSA maintain excellent vehicular and pedestrian access that is considered superior to some of its nearby competitors within walking distance to the primary attractions like the Jacks casino, professional sports arenas, the Rock and Roll Hall of Fame, playhouse district, and a new conventions center and medical mart.

Seasonality

Bear Valley Resort in California has strong seasonality patterns having its high season in the winter and low season during the remainder of the year. The resort is also subject to volatile snow conditions. The urban hotels are all-season operations, though stronger during June through October and slower during December through February, and therefore maintain a balanced level of income throughout the year. Second quarter is historically strongest and first quarter is weakest for the 13 Marriott by Courtyard hotels.

Real Estate for Investment segment (“Investment Properties”)

For accessibility analysis, see the discussion included in the Canadian Hospitality Segment above

Competitive Conditions

In the Real Estate for Investment segment, the competition revolves around a number of parameters, with the main ones being: the geographic location of the real estate designated for lease, the demand for rental space in the same area, the amount of rental fees, management and maintenance costs, construction quality of the leased assets, the level of accompanying services and the reputation of the landlord. Regarding the parking facility, the typical competition is with other parking garages and open parking located on the available for construction real estates. The parking availability is impacted by residential or commercial development of these real estates, the resulting increase in volume of business and population and changes in hotel occupancy. The scope of income-generating assets owned by the Company is unsubstantial as compared to the total market. Therefore, the Company is unable to impact competition in the segment of income-generating assets. In places where the Company has direct competitors, there will typically be a preference for the party offering space for which the rental, management and maintenance fees are the lowest.

Seasonality

The Real Estate for Investment segment is impacted by seasonality, with each project being impacted differently. For the commercial and retail components of the Real Estate for Investment segment, the Horseshoe and Deerhurst

Resorts have complimentary high seasons, with the Horseshoe Resort having its high season in the winter and the Deerhurst Resort having its high season during summer and early fall. As assets in the Real Estate for Investment segment are held for long periods, seasonality is not a factor.

Real Estate, Development segment (“Development”)

Management of the Company manages the investment properties, regardless of their accounting classification, as one operating segment.

Competitive Conditions

The Company has extensive real estate holdings at its resorts in Muskoka and Oro-Medonte, Ontario, Canada and Blue Mountain, Ontario, Canada. Real estate operations, through Skyline Resort Communities, a wholly-owned subsidiary of the Company, include the planning, oversight, infrastructure improvement, development, marketing and sale of the real estate holdings. In addition to the cash flow generated from real estate development sales, these development activities benefit the Company’s Hospitality Segment (see in this Section below) through (1) the creation of additional resort lodging and other resort related facilities and venues (primarily restaurants, spas, commercial space, private clubs and parking structures) that provide the opportunity to create new sources of recurring revenue, enhance the guest experience at the resorts and expand the destination bed base; (2) the ability to control the architectural themes of the resorts; and (3) the expansion of the Company’s property management and commercial leasing operations.

Currently, Skyline Resort Communities’ principal activities include the marketing and selling condominium units and lots that are available for sale, which primarily relate to Lakeside Lodge at Deerhurst Resort, (see Section I - Overview above) and Slopeside Lodge at Horseshoe, Golf Cottages and Sanctuary at Deerhurst and at Blue Mountain and planning for future real estate development projects, including rezoning and acquisition of applicable permits. In winter 2017 the Company launched a new 44 condo project - Slopeside Lodge, at the Horseshoe Resort, which has been more than 50% presold and 18 units delivered to purchasers during the three months ended June 30, 2018

In this segment, competition revolves around a number of parameters, with the main ones being the geographic location of the projects and level of demand in the same area, the construction and development quality and the purchase prices and maintenance expenses collected by the applicable condominium corporation. The Company is exposed to competition by a small number of directly competitive companies in the development of condominium units, single family homes, subdivisions, townhomes and retail villages.

The scope of development by the Company is insubstantial compared to the total market. Thus, the Company is unable to significantly impact competition in the market. In locations where there is a direct competitor with the Company, results will typically be more favourable to the party who offers condominium units with a higher level of finishing, at a lower price and with lower maintenance fees. However, the Company believes that it currently has a competitive advance in the Blue Mountain, Horseshoe and Deerhurst areas due to these areas not having competing projects of similar size, and their proximity to hospitality amenities and outdoor activities.

Seasonality

Since the Deerhurst Resort attract mostly clientele interested in summer activities, such properties are typically marketed during summer and spring, compared to the properties located at the Horseshoe Resort and Blue Mountain, that benefit from the opposite seasonality and are typically marketed during the fall and winter seasons.

Seasonality has no impact on the activities of the Company’s other projects in this segment.

XIV. Financial Instruments and Off-Balance Sheet Arrangements

In January, 2017, the Company entered into a derivative arrangement to hedge its exposure to NIS due to the Series A Bonds raise in July 2016. There are no other off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the financial performance or financial condition of the Company. For further information on the financial instrument the Company acquired in January 2017 see Bonds above.

Company's Distributions

The Company does not currently have a dividend distribution policy.

XV. Critical Accounting Policies and Estimates

The preparation of the consolidated financial statements requires management to make judgments and estimates and assumptions that affect the reported amounts and disclosures made in the consolidated financial statements and accompanying notes. Estimates are based upon historical experience and on various other assumptions that are reasonable under the circumstances. The result of ongoing evaluation of these estimates forms the basis for applying judgment with regards to the carrying values of assets and liabilities and the reported amounts of revenues and expenses. Actual results may differ from estimates. The Company's significant accounting policies are described in note 2 to the annual consolidated financial statements, the most significant of which is the fair value of investment properties.

Judgement

Judgment is required in determining whether the acquisition of properties represent an acquisition of discrete real estate assets or constitute a business combination in terms of IFRS 3, Business Combinations ("IFRS 3"). There are some key measurement differences (e.g., goodwill recognition for business combinations vs. no such recognition for asset acquisitions), as well as a difference in the treatment of acquisition related costs (expensed for a business combination vs. capitalized for asset acquisitions) that occur as a result of the determination. The Company accounts for acquisitions as a Business Combination in accordance with IFRS 3.

Estimates

Investment property and property, plant and equipment assets, including property held for sale

Investment properties are measured at fair value in the consolidated balance sheet at each reporting date. Fair values are determined by independent external valuations or detailed internal valuations, generally using the overall capitalization rate ("OCR") method. Under this method, capitalization rates are applied to a stabilized NOI for each property, adjusted for market-based assumptions such as rent increases, long-term vacancy rates, repair and maintenance costs and other forecasted cash flows. Capitalization rates are based on recently closed transactions for similar properties, where available, or investment survey data, taking into account the location, size and quality of the property. The most significant assumption is the capitalization rate as it magnifies the effect of a change in stabilized NOI. An increase in the capitalization rate will result in a decrease to the fair value of an investment property and vice versa. Management monitors and assesses changes in the student housing market, which may affect the valuation parameters applied to the property.

During the reporting period, no significant change in the value of investment property exists, except for the Blue Mountain real estate valuation (see also Section VII – Development *Segment*).

Real estate Inventory

The estimates include real estate inventory that is at various stages of completion. They include the estimations of the costs to complete and net realizable value of the projects and other critical metrics which involve uncertainty.

During the reporting period, there have been no significant write offs of inventory to net realizable value.

Contingencies and lawsuits

When estimating the lawsuits filed against the Company and its subsidiaries, the Company relied on the opinion of its legal advisors. The opinions of legal counsel are based on best professional judgment, taking into account the stage of the proceedings and legal experience gained in various matters. The outcome of the claims adjudged by the courts, could differ from these estimates.

Please see section III "*Periodic Highlights*" for an update on the lawsuit filed between ILDC and Mishorim.

As of June 30, 2018 and the date of this MD&A, there has been no material change in the status of the claims.

XVI. Internal Control over Financial Reporting and Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining the Company's internal control over financial reporting and other financial disclosure and our disclosure controls and procedures. The Company could be adversely impacted if there are deficiencies in disclosure controls and procedures or internal control over financial reporting.

The design and effectiveness of our disclosure controls and procedures and internal control over financial reporting may not prevent all errors, misstatements or misrepresentations. While management continues to review the design and effectiveness of our disclosure controls and procedures and internal control over financial reporting, the Company cannot assure the reader that the disclosure controls and procedures or internal control over financial reporting will be effective in accomplishing all control objectives all of the time.

Deficiencies, particularly material weaknesses, in internal control over financial reporting which may occur in the future could result in misstatements of our results of operations, restatements of our financial statements, a decline in our share price, or otherwise materially adversely affect our business, reputation, results of operation, financial condition or liquidity.

Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's financial statements. Internal control over other financial disclosure is a process designed to ensure that other financial information included in this MD&A, fairly represents in all material respects the financial condition, results of operations and cash flows of the Company for the periods presented in this MD&A.

The Company's disclosure controls and procedures are designed to provide reasonable assurance that material information relating to the Company is made known to management by others, particularly during the period in which the interim filings are being prepared and that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. The Company's disclosure controls and procedures includes controls and procedures designed to ensure that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Company's management, as appropriate to allow timely decisions regarding required disclosure.

Due to its inherent limitations, internal control over financial reporting and disclosure may not prevent or detect all misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may change.

For the period ended June 30, 2018, there has been no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. Management has concluded that there are no material weaknesses in the Company's internal controls over financial reporting as of June 30, 2018.

XVII. Exposure to market risks and ways of managing them

1. **Exchange rates:** The Company's performance is impacted by foreign currency fluctuations, notably of the Canadian dollar relative to the United States dollar. The Company faces large exposure to the

Canadian/U.S. dollar exchange rate since the Company has significant operations and assets in the United States and reports its results in Canadian dollars (see below). As of June 30, 2018 (compared to December 31, 2017), the U.S. dollar increased by approximately 5%. For more information regarding the influence of the foreign exchange rate on Company's equity, see note 30 in the annual consolidated financial statements for the year ended December 31, 2017. From June 30, 2018 until August 28, 2018, the U.S. dollar did not change significantly compared to the Canadian dollar. In Management's view, a weaker Canadian Dollar helps domestic hotels and resorts by encouraging travel to and within Canada and discouraging Canadians to travel to the United States.

In September 2017, the Company issued Series B Bonds denominated in USD, which provides a natural hedge to the Company's anticipated equity investment in the acquisition of 13 Marriott Courtyard hotels in the United States. In January 2017 the Company purchased a cross-currency financial instrument to hedge the exposure to Israeli Shekels following its 2016 raise of Series A Bonds denominated in Israeli Shekels. For more information see note 15 to the consolidated financial statements for December 31, 2017.

Management holds regular discussions on the exposure to various market risks, including changes in exchange rates. The Company's policy is to maintain a correlation between the currency in which the assets are acquired and the currency of the loans the Company takes to finance those assets, in order to maintain equity in that currency. The change in U.S. dollar exchange rate has significant impact on the Company following the raise of Series B Bonds as well as acquisition of the Bear Valley resort in California and Renaissance Hotel in Ohio with the following balance sheet proportions: assets 49%, liabilities 58% and equity 34% based on June 30, 2018 balance sheet. As for June 30, 2018, the Company's U.S. operations for six months contributed 61% of revenue and 57% of segmental result for the period ended June 30, 2017. The Company does not purchase financial instruments that hedge the currency rate risk. Exchange rate risk is minimized by borrowing in U.S. dollars for properties in the United States.

2. **Market Risks:** The Company is subject to a number of risks and uncertainty, primarily risks associated with: the development of future assets, competition, real estate markets, general and regional economic conditions, the availability and cost of financing, and changes in interest rates due to uncertainty in the world markets including Israel, United States and Canada. The Company does not hold or issue derivative financial instruments for trading purposes.

During 2016 there has been an increase of 1,184 in the room supply in downtown Cleveland which is in process of being absorbed by the market. The Company responded to it by improving its facilities in Hyatt and a launch of renovations in Renaissance.

XVII. Risk Factors

Our hospitality operations, real estate development projects, vacation club, and financial results are subject to various risks and uncertainties that could adversely affect our prospects, financial results, financial condition and cash flow. In addition to the other information presented in this MD&A, the following risks should be given special consideration as part of any investment decision in the Company's securities.

Investors should carefully consider all of the information disclosed in this MD&A prior to investing in the securities of the Company. There are certain risks inherent in an investment in the securities of Skyline and in the activities of Skyline, including our hospitality operations, real estate development projects, vacation club, and those set out in Skyline's materials filed with Israeli and Canadian securities regulatory authorities from time to time, which are available under the Company's profile on MAGNA at www.magna.isa.gov.il and SEDAR at www.sedar.com. Current and prospective holders of securities of Skyline should carefully consider such risk factors.

If any of the following or other risks occurs, Skyline's business, prospects, financial condition, financial performance and cash flows could be materially adversely impacted. In that case, the trading price of the securities of Skyline could decline and investors could lose all or part of their investment in such securities, and the future ability of Skyline to make distributions to shareholders could be adversely affected. There is no assurance that risk management steps taken will avoid future loss due to the occurrence of the below described or other unforeseen risks.

Our industry is sensitive to weakness in general economic conditions and risks associated with the overall travel, leisure, and recreational community industries.

Weak economic conditions in Canada and the United States, including high unemployment, erosion of consumer confidence, and the availability and cost of debt, may potentially have negative effects on the travel and leisure industry, the recreational community development industry, and on our results of operations. An economic downturn could negatively impact consumer spending on vacation real estate and at our hospitality outlets. We cannot predict how economic trends will worsen or improve our future operating results. The actual or perceived fear of weakness in the economy could also lead to decreased spending by our guests. We may not be able to increase the price of our offerings commensurate with our costs.

Further, the uncertainty over the duration of these weak economic conditions could have a negative impact on the vacation ownership industry. As a result of weak consumer confidence and limited availability of consumer credit, we may experience weakened demand for our vacation ownership products. Recent improvements in demand trends globally may not continue, and our future financial results and growth could be further harmed or constrained if the recovery stalls or conditions worsen. Moreover, as a result of current economic conditions, an increasing number of existing owners are offering their vacation ownership interests for sale on the secondary market, thereby creating additional pricing pressure on our sale of vacation ownership products, which could cause our sales revenues and profits to decline.

Variations in the timing of peak periods, holidays and weekends may affect the comparability of our results of operations.

Depending on how peak periods, school breaks, holidays and weekends fall on the calendar, in any given year we may have more or less peak periods, holidays and weekends in each fiscal quarter compared to prior years, with a corresponding difference in adjacent fiscal quarters. These differences can result in material differences in our quarterly results of operations and affect the comparability of our results of operations.

We are vulnerable to the risk of unfavorable weather conditions and the impact of natural disasters.

Our ability to attract guests to our resorts is influenced by weather conditions such as rain in the summer and the amount and timing of snowfall during the ski season. Unfavorable weather conditions can adversely affect visits and our revenue and profits. Unseasonably cold or warm weather may influence the momentum and success of the high seasons at our resorts. Unfavorable weather conditions can adversely affect our resorts and lodging properties as guests tend to delay or postpone vacations if conditions differ from those that typically prevail at such resorts for a given season. There is no way for us to predict future weather patterns or the impact that weather patterns may have on our results of operations or visitation.

Climate change may adversely impact our results of operations.

There is a growing political and scientific consensus that emissions of greenhouse gases continue to alter the composition of the global atmosphere in ways that are affecting and are expected to continue affecting the global climate. The effects of climate change, including any impact of global warming, could have a material adverse effect on our business, prospects, financial condition, results of operations and cash flows.

Warmer overall temperatures and other effects of climate change may adversely affect skier and summer visits and our revenue and profits. In addition, a steady increase in global temperatures could shorten the ski season. Changes to the amount of snowfall and differences in weather patterns may increase our snowmaking expense, inhibit our snowmaking capabilities and negatively impact skier perceptions of the ski season.

The high fixed cost structure of our business can result in significantly lower margins if visitation to our hotels and resorts declines.

Our profitability is highly dependent on visitation. However, the cost structure of our business has significant components that cannot be eliminated when skier visits decline, including costs related to utilities, information technology, insurance, year-round employees and equipment. The occurrence of other risk factors discussed herein

could adversely affect visitation at our resorts and we may not be able to reduce fixed costs at the same rate as declining revenues.

We face significant competition.

The hotel, resort, lodging, vacation club, and real estate development industries are highly competitive. Our competitors may have access to greater financial, marketing and other resources and may have access to financing on more attractive terms than us. As a result, they may be able to devote more resources to improving and marketing their offerings or more readily take advantage of acquisitions or other opportunities. Our vacation club competes with the vacation ownership brands of major hotel chains in national and international venues, as well as with the vacation rental options (e.g., hotels, resorts and condominium rentals) offered by the lodging industry. If we are unable to compete successfully, our business, prospects, financial condition, results of operations and cash flows will be materially adversely affected.

Our real estate development projects rely on municipal approvals and adequate infrastructure.

Our real estate development projects require adequate municipal services for sewage treatment, potable water supply, fire flow, and road access. There are risks associated with insufficient capacities, particularly in rural areas, resulting in costly delays and expensive upgrades to sewage treatment plants, pumping stations, water wells, water storage towers, and road intersection improvements.

Timely municipal approvals for Official Plan Amendments, Zoning By-law Amendments, Plans of Subdivisions, Consents for Severance, Site Plan Approvals, Minor Variances to the Zoning By-law, and Building Permits not only depend on adequate municipal services but also on political support. There are considerable risks in being subjected to lengthy appeals procedures initiated either by us, in the absence of required approvals, or by existing residents opposed to our developments.

Our business is capital intensive and dependent on the availability of cash flows and credit facilities.

We must regularly expend capital to construct, maintain and renovate our properties in order to remain competitive, maintain the value and brand standards of our properties and comply with applicable laws and regulations. We cannot always predict where capital will need to be expended in any fiscal year and capital expenditures can increase due to forces beyond our control. Further, we cannot be certain that we will have enough capital or that we will be able to raise capital by issuing equity or debt securities or through other financing methods on reasonable terms, if at all, to execute our business plan. A lack of available funds for capital expenditures could have a material adverse effect on our business, prospects, financial condition, results of operations and cash flows.

Our ability to fund expenditures will depend on our ability to generate sufficient cash flow from operations and/or to borrow from third parties. We cannot provide assurances that our operations will be able to generate sufficient cash flow to fund such costs, or that we will be able to obtain sufficient financing on adequate terms, or at all. In addition, there can be no assurances that future real estate development projects can be self-funded with cash available on hand, through advance pre-sale deposits or through third party real estate financing. Our ability to generate cash flow and to obtain third-party financing will depend upon many factors, including: our future operating performance; general economic conditions and economic conditions affecting the resort industry, the general capital markets; competition; legislative and regulatory matters affecting our operations and business; and our ability to meet our presales targets on our vertical real estate development projects. Any inability to generate sufficient cash flows from operations or to obtain adequate third-party financing could cause us to delay or abandon certain projects and/or plans.

Further, the ability to enter into a revolving corporate credit facility on reasonable economic terms, may adversely affect our ability to obtain the additional financing necessary to acquire additional vacation ownership inventory. The ability to provide consumer financing for vacation ownership customers may impact the results from operations and cash flow.

Our operations and development activities are subject to extensive laws, rules, regulations and policies administered by various federal, provincial, state, regional, municipal and other governmental authorities.

Our operations are subject to a variety of federal, state, provincial, regional and local laws and regulations, including those relating to lift operations, emissions to the air, discharges to water, storage, treatment and disposal of fuel and wastes, land use, remediation of contaminated sites and protection of the environment, natural resources and wildlife. We are also subject to worker health and safety laws and regulations. From time to time our operations are subject to inspections by environmental regulators and other regulatory agencies. While regulatory approvals provide a significant barrier to new entrants in our industry, such approvals may be time consuming and consume considerable capital and manpower resources. Our efforts to comply with applicable laws and regulations do not eliminate the risk that we may be held liable for breaches of these laws and regulations, which may result in fines and penalties or subject us to claims for damages. Liability for any fines, penalties, damages or remediation costs, or changes in applicable laws or regulations, could have a material adverse effect on our business, prospects, financial condition, results of operations and cash flows.

We are subject to environmental laws and regulations in the ordinary course of business.

Our operations are subject to a variety of federal, provincial, state and local environmental laws and regulations including those relating to emissions to the air, discharges to water, storage, treatment and disposal of wastes, land use, remediation of contaminated sites and protection of natural resources such as wetlands. Our facilities are subject to risks associated with mold and other indoor building contaminants. From time to time our operations are subject to inspections by environmental regulators and other regulatory agencies. We are also subject to worker health and safety requirements. We believe our operations are in substantial compliance with applicable material environmental, health and safety requirements. We believe our operations are in substantial compliance with applicable material environmental, health and safety requirements. However, our efforts to comply do not eliminate the risk that we may be held liable, incur fines or be subject to claims for damages, and that the amount of any liability, fines, damages or remediation costs may be material for, among other things, the presence or release of regulated materials at, on or emanating from properties we now or formerly owned or operated, newly discovered environmental impacts or contamination at or from any of our properties, or changes in environmental laws and regulations or their enforcement.

We rely on information technology to operate our businesses and maintain our competitiveness, and any failure to adapt to technological developments or industry trends could harm our business.

We depend on the use of sophisticated information technology and systems, including technology and systems used for central reservations, point of sale, procurement, administration and technologies we make available to our guests. We must continuously improve and upgrade our systems and infrastructure to offer enhanced products, services, features and functionality, while maintaining the reliability and integrity of our systems and infrastructure. Our future success also depends on our ability to adapt our infrastructure to meet rapidly evolving consumer trends and demands and to respond to competitive service and product offerings.

In addition, we may not be able to maintain our existing systems or replace or introduce new technologies and systems as quickly as we would like or in a cost-effective manner. Delays or difficulties in implementing new or enhanced systems may keep us from achieving the desired results in a timely manner, to the extent anticipated, or at all. Any interruptions, outages or delays in our systems, or deterioration in their performance, could impair our ability to process transactions and could decrease our quality of service that we offer to our guests. Also, we may be unable to devote financial resources to new technologies and systems in the future. If any of these events occur, our business and financial performance could suffer.

We are subject to litigation in the ordinary course of business.

We are, from time to time, subject to various asserted or un-asserted legal proceedings and claims. Any such claims, regardless of merit, could be time consuming and expensive to defend and could divert management's attention and resources. While we believe we have adequate insurance coverage and/or accrue for loss contingencies for all known matters that are probable and can be reasonably estimated, we cannot assure that the outcome of all current or future litigation will not have a material adverse effect on us and our results of operations.

The nature of our responsibilities in managing our vacation ownership properties will from time to time give rise to disagreements with the owners of vacation ownership interests and property owners' associations. We seek to resolve any disagreements in order to develop and maintain positive relations with current and potential owners and property owners' associations but cannot always do so. Failure to resolve such disagreements has resulted in litigation, and could do so again in the future. If any such litigation results in a significant adverse judgment, settlement or court order, we could suffer significant losses, our profits could be reduced, our reputation could be harmed and our future ability to operate our business could be constrained. Disagreements with property owners' associations could also result in the loss of management contracts.

Our business depends on the quality and reputation of our brands, and any deterioration in the quality or reputation of these brands could have an adverse impact on our business.

A negative public image or other adverse events could affect the reputation of one or more of our ski resorts, other destination resorts, hotel properties and other businesses or more generally impact the reputation of our brands. If the reputation or perceived quality of our brands declines, our market share, reputation, business, financial condition or results of operations could be adversely impacted. The unauthorized use of our trademarks could also diminish the value of our brands and their market acceptance, competitive advantages or goodwill, which could adversely affect our business.

The maintenance and improvement of vacation ownership properties depends on maintenance fees paid by the owners of vacation ownership interests.

Owners of our vacation ownership interests must pay maintenance fees levied by property owners' association boards. These maintenance fees are used to maintain and refurbish the vacation ownership properties and to keep the properties in compliance with our brand standards. If property owners' association boards do not levy sufficient maintenance fees, or if owners of vacation ownership interests do not pay their maintenance fees, the vacation ownership properties could fall into disrepair and fail to comply with applicable brand standards. If a resort fails to comply with applicable brand standards, the result could be decreased customer satisfaction thereby impairing our ability to market and sell our products.

If we do not retain our key personnel, our business may suffer.

The success of our business is heavily dependent on the leadership of key management personnel, including our senior executive officers. If any of these persons were to leave, it could be difficult to replace them, and our business could be harmed. We maintain "key-man" life insurance on our President. The Company relies on Mr. Gil Blutrigh (who is also Chair of the Board and a controlling shareholder) for his expertise in the Company's areas of operation and ability to promote our business.

We are subject to risks associated with our workforce.

We are subject to various federal, state and provincial laws governing matters such as minimum wage requirements, overtime compensation and other working conditions, citizenship requirements, discrimination and family and medical leave. Our operations in Canada are also subject to laws that may require us to make severance or other payments to employees upon their termination. In addition, we are continuing to assess the impact of U.S. federal healthcare reform law and regulations on our healthcare benefit costs, which will likely increase the amount of healthcare expenses paid by us. Immigration law reform could also impact our workforce because we recruit and hire foreign nationals as part of our seasonal workforce. We have a significant workforce due to our vast operations and if our labor-related expenses increase, our operating expenses could increase and our business, financial condition and results of operations could be harmed.

From time to time, we have also experienced non-union employees attempting to unionize. While only a small portion of our employees are unionized at present, we may experience additional union activity in the future. In addition, future legislation could make it easier for unions to organize and obtain collectively bargained benefits, which could increase our operating expenses and negatively affect our business, prospects, financial condition, results of operations and cash flows.

Our acquisitions or future acquisitions might not be successful.

We have acquired certain resorts, hotel properties and destination resort community development assets. Acquisitions are complex to evaluate, execute and integrate. We cannot assure you that we will be able to accurately evaluate or successfully integrate and manage acquired ski resorts, properties and businesses and increase our profits from these operations. We continually evaluate potential acquisitions and intend to actively pursue acquisition opportunities, some of which could be significant. As a result, we face various risks from acquisitions, including: our evaluation of the synergies and/or long-term benefits of an acquired business; our inability to integrate acquired businesses into our operations as planned; diversion of our management's attention; potential increased debt leverage; litigation arising from acquisition activity; and unanticipated problems or liabilities.

In addition, we run the risk that any new acquisitions may fail to perform in accordance with expectations, and that estimates of the costs of improvements for such properties may prove inaccurate.

We are subject to risks related to currency fluctuations.

We present our financial statements in Canadian dollars. While we have sourced debt in United States dollars for the Hyatt Regency Cleveland hotel and Renaissance Hotel in Cleveland Ohio, and the new Marriot contract. However, a significant fluctuation in the Canada/U.S. exchange rate could impact our net income after tax that is reported in Canadian dollars. Currency variations can also contribute to variations in sales at our hotels and resorts from: United States residents visiting Canada and Canadian residents travelling to the United States.

We borrowed approximately \$110 million dollars through the capital market in Israel, denominated in Israeli Shekels, with a linkage on \$57,786 of our new Series B Bonds to US dollars. A significant fluctuation in the Canada/Israel exchange rate will impact our net income after tax, and cash flow. In January 2017 the Company acquired a financial instrument to cover that exposure. For further information see Bonds (III.b) above.

Certain circumstances may exist whereby our insurance coverage may not cover all possible losses and we may not be able to renew our insurance policies on favorable terms, or at all.

Although we maintain various property and casualty insurance policies and undertake safety and loss prevention programs to address certain risks, our insurance policies do not cover all types of losses and liabilities and in some cases may not be sufficient to cover the ultimate cost of claims which exceed policy limits. If we are held liable for amounts exceeding the limits of our insurance coverage or for claims outside the scope of our coverage, our business, prospects, financial condition, results of operations and cash flows could be materially adversely affected.

In addition, we may not be able to renew our current insurance policies on favorable terms, or at all. Our ability to obtain future insurance coverage at commercially reasonable rates could be materially adversely affected if we or other companies within or outside our industry sustain significant losses or make significant insurance claims.

We are subject to accounting regulations and use certain accounting estimates and judgments that may differ significantly from actual results.

Implementation of existing and future legislation, rulings, standards and interpretations from the International Accounting Standards Board or other regulatory bodies could affect the presentation of our financial statements and related disclosures. Future regulatory requirements could significantly change our current accounting practices and disclosures. Such changes in the presentation of our financial statements and related disclosures could change an investor's interpretation or perception of our financial position and results of operations.

We may not be able to fully utilize our net operating loss carry-forwards.

As of June 30, 2018, we believe we will have net operating loss carry-forward of approximately \$43 million for Canadian and US federal, provincial and state income tax purposes. To the extent available, we intend to use these net operating loss carry-forwards to offset future taxable income associated with our operations. There can be no assurance that we will generate sufficient taxable income in the carry-forward period to utilize any remaining loss carry-forwards before they expire.

Our stock price can be volatile.

The market price of our stock is highly volatile and subject to wide fluctuations in response to factors such as quarterly variations in our operating results, which is beyond our control. We are listed on the Stock Exchange and are subject to the capital markets in the State of Israel. Events beyond our control that take place in the State of Israel may negatively affect our stock price.

An active trading market for our Common Shares may not be sustained.

Although our Common Shares are listed on the Stock Exchange, an active trading market for our Common Shares may not be sustained. Accordingly, if an active trading market for our Common Shares is not maintained, the liquidity of our Common Shares, your ability to sell your Common Shares when desired and the prices that you may obtain for your Common Shares will be adversely affected.

We cannot provide assurance that we will pay dividends.

Any declaration and payment of future dividends to holders of our common stock will be at the discretion of our Board in accordance with applicable law after taking into account various factors, including our financial condition, our operating results, our current and anticipated cash needs, the impact on our effective tax rate, our indebtedness, legal requirements and other factors that our Board deems relevant. Our debt agreements limit our ability to pay dividends.

Because we are a holding company, our ability to pay cash dividends on our Common Shares will depend on the receipt of dividends or other distributions from our subsidiaries. Until such time that we pay a dividend, our investors must rely on sales of their Common Shares after price appreciation, which may never occur, as the only way to realize any future gains on their investment.

Our indebtedness could adversely affect our financial health and prevent us from fulfilling our obligations.

Our level of indebtedness could have important consequences. For example, it could: make it more difficult for us to satisfy our obligations; increase our vulnerability to general adverse economic and industry conditions; require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, real estate developments, marketing efforts and other general corporate purposes; limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; place us at a competitive disadvantage compared to our competitors that have less debt; and limit our ability to borrow additional funds.

Fluctuations in interest rates could negatively affect our business.

Fluctuations to available interest rates as a result of changes to the inflation rate or other factors may negatively impact the business, results of operations and financial position of the Company. As well, increases to the interest rate may impact the stability of tenants and therefore occupancy rates and rental fees, which could negatively impact the value of the Company's assets.

Our business is sensitive to rising travel costs.

Many of our guests travel by vehicle and higher gasoline prices may make travel more expensive and impact the number of guests that visit our properties. As a result, occupancy rates of our hotels and resorts may be negatively impacted, which would impact the Company's revenues.

Our business is sensitive to changes in the real estate industry.

Decreased demand for retail space, decreased rental fees, decreased ability for tenants to meet payment obligations, increased financing costs and improvements at competitive resorts may negatively impact the Company's operations.

The cost of contractors may impact our future projects.

The cost of employing contractors for the Company's projects impacts the Company's profitability. The Company could also be impacted by changes in the cost of raw materials and labour, shortages of raw materials and labour and strikes for unionized labour.

We are subject to certain legal and regulatory matters in Israel that may affect the Company.

The Company is subject to the regulations and requirements of Israeli Securities Law and Israeli Companies Law. It is possible that the Company will be subject to any changes in Israeli law and regulatory requirements and the possible imposition of requirements from time to time by regulators and Stock Exchange authorities in Israel.

The Company is subject to maintaining certain financial conditions.

The Series A Deed of Trust that governs the outstanding Series A Bonds requires the Company to maintain certain financial conditions which may limit the Company's ability to incur additional indebtedness or raise additional equity. These restrictions may limit the Company's ability to take advantage of business opportunities as they arise. More importantly, the Company's ability to comply with the covenants may be affected by changes in economic or business conditions or other events beyond its control. A breach of these covenants by the Company and a corresponding default under the deed of trust in circumstances may result in the aggregate amount of the principal and interest on the Series A Bonds becoming due and payable by the Company or the exercise of collateral. The Company's ability to make accelerated payments will be dependent upon its cash resources at the time, its ability to generate sufficient revenue and its access to alternative sources of funds. Accordingly, the Company's inability to comply with the financial conditions could have a materially adverse effect on the Company's financial condition.

XX. Additional Information

For further information about the Company, please visit the Company's website at www.skylineinvestments.com or the website of the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com or Israeli Securities regulators www.magna.isa.gov.il.

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