

# SKYLINE

I N V E S T M E N T S

## *Management's Discussion and Analysis*

*For the period ended September 30, 2016*



## MANAGEMENT'S DISCUSSION AND ANALYSIS

November 14, 2016

### Introduction

This Management's Discussion and Analysis (this "MD&A") of operating results and financial condition of Skyline Investments Inc. (formerly: Skyline International Development Inc.) has been prepared based upon information available to the Company as at November 14, 2016 and should be read in conjunction with the Company's unaudited consolidated financial statements and related notes as at and for the nine and three months ended September 30, 2016, the Company's audited consolidated financial statements and related notes for the fiscal year ended December 31, 2015 and the Company's annual MD&A for the year ended December 31, 2015. References to "the Company", "we", "us" or "our" are to be taken as reference to Skyline Investments Inc.

Our interim consolidated financial statements for the period ended September 30, 2016 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, and are the same used in preparation of the December 31, 2015 audited consolidated financial statements. The financial statements for the period ended September 30, 2016 are prepared on the basis of all available information up to November 14, 2016. Amounts discussed below are based on our interim consolidated financial statements for the period ended September 30, 2016 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, 2015 (the "Annual Information Form"), are all available under our SEDAR profile at [www.sedar.com](http://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.

Readers are cautioned that this MD&A contains forward-looking statements based upon assumptions and anticipated results that are subject to uncertainties (known and unknown). Should one or more of these uncertainties materialize or should the underlying assumptions prove incorrect, actual results may vary significantly from those expected. Readers are encouraged to read the "Cautionary Note Regarding Forward Looking Statements" section and the "Risk Factors" section in this MD&A.

### Non – IFRS Measures

All financial information has been prepared in accordance with IFRS. However, this MD&A also contains certain non-IFRS financial measures including net operating income ("NOI") and adjusted net operating income ("ANOI"). 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 is used by industry analysts, investors and management to measure operating performance of Canadian companies. NOI represents revenue from properties less property operating expenses excluding depreciation as presented in the consolidated statements of income and comprehensive income prepared in accordance with IFRS.

As one of the factors that may be considered relevant by readers, management believes that these terms are relevant measures in comparing the Company's performance to industry data.

### I. Overview

The Company is an investment company that invests in hotels and resorts in Canada and in the United States. The Company's primary operating segments are as follows:

1. US hotels and resorts – the acquisition, operation, holding, improvement of hotels and resorts in the United States.
2. Canadian hotels and resorts – the acquisition, operation, holding, improvement and asset management of hotels and resorts, including clubs, in Canada and asset management of hotels.
3. Revenue producing investment property – the acquisition, holding, operation and management of rental income-generating assets.
4. Development of real estate and land for investment – the development, construction and sale of real estate mainly designated for residential, and commercial as well as the acquisition, holding and value-enhancing regulatory approval processing of land mainly within the Company’s Canadian resort sites.

In December 2013, the Company was recognized within the Canadian hotel industry with a Pinnacle Award for “Regional Company of the Year” and in 2013 and 2014 was named one of Canada’s Best Managed Companies by Canadian Imperial Bank of Commerce and Deloitte LLP.

Over the past six years, the Company has focused on hotels and resorts management and the development of residential and retail centers within its hotel and resort communities. Currently, the Company’s assets are concentrated in southern Ontario and Cleveland, Ohio, except for a ski resort in the State of California. For additional information, see Business Highlights below.

As of September 30, 2016, the Company owns over two million square feet of real estate, has over 2,600 acres with development rights for almost 6,000 residential units and nearly 1,100 rooms in its holdings, employing more than 1,500 staff. Skyline’s resort assets including the landmark Deerhurst Resort with 45,000 square feet of meeting space and Horseshoe Resort, home to Toronto’s closest ski area. The Company is also creating residential communities at Deerhurst, Horseshoe and, at the historic lakefront of Port McNicoll, Ontario, a restored gateway to the 30,000 Islands, a UNESCO World Biosphere Reserve. Skyline also owns significant commercial and development assets adjacent to some of its properties. Skyline also owns and/or manages all of the retail space at Blue Mountain Village which is Ontario’s largest ski resort.

The Company’s securities trade on the Tel Aviv Stock Exchange under the symbol SKLN. The Company is a reporting issuer in Ontario (following the filing and receipt of a non-offering long form prospectus in 2014) but, as of September 30, 2016, does not have any of its securities listed or quoted on any marketplace in Canada.

Following the periodic review of the Company’s operations and objectives, management’s business strategy is as follows:

1. short term identification of cash-flow positive hotel and resort acquisition opportunities that provide an acceptable investment risk adjusted rate of return from hotel and retail operations and cash flow upside. Adjacent development rights are viewed as a standalone extra value upside;
2. diversification of hotel and resort income through acquisition of other retail and/or office commercial properties that provide steady cash flow;
3. short and medium term efficiencies in resort and hotel operations, development with minimal investment and risk, utilizing existing assets at the hotel or resort; and
4. long term focus on operating margin improvements that improve the return on investment, improve the value of landholdings through resort master planning and regulatory approval processes, and unlock real estate value.

## **II. Outstanding Share Data**

The Company is authorized to issue 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 November 14, 2016, the number of common shares outstanding or issuable pursuant to other outstanding securities is as follows:

<i>Common Shares</i>	Number
Outstanding	16,731,360
Issuable upon exercise of Company warrants (series 2) <sup>(1)</sup>	351,850
Issuable upon exercise of Company options <sup>(2)</sup>	663,040
<hr/>	
Diluted common shares	17,746,250

Notes:

- (1) Each warrant (series 2) is exercisable until March 5, 2018 for one common share for the exercise price of NIS55 (\$19.23) per warrant.
- (2) There are 663,040 stock options under the Company's stock option plan outstanding to directors, officers, employees and others with exercise prices ranging from \$0.01 to \$12.94 per share.

**Bonds**

On July 27, 2016, the Company closed its previously announced bond offering in Israel (the "**Bond Offering**"). Pursuant to a shelf prospectus issued by the Company on February 24, 2015, the Company offered up to 140,000 bond units (Series A) pursuant to the Bond Offering and received offers for 264,454 bond units, an oversubscription of 220% for the institutional round of financing. As a result of the over-subscription, the Company issued 128,240 bond units at a determined interest rate of 5.20% (fixed) and raised 123,300 New Israeli Shekels, net of fees (approximately CAD\$41,500). The bonds commenced trading on the Tel Aviv Stock Exchange on July 19, 2016.

The bonds (Series A) are redeemable (principal) in 12 payments that shall be made on January 15 and July 15 of each year with the first payment being on July 15, 2017 and the last payment being on January 15, 2023. Each payment shall redeem 2.5% of the par value of the principal of the bonds (Series A) 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 of the bonds (Series A).

The unpaid balance of the principal of bonds (Series A) shall bear a fixed annual interest. The interest on the bonds (Series A) shall be paid in semi-annual payments on January 15 and on July 15 of each year with the first payment of interest to be made on January 15, 2017, and the last payment of interest to be made on January 15, 2023.

The 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 lands).

The main financial covenants, as set out in the deed of trust, include the requirement of the Company to maintain a maximum outstanding balance of the 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 deed of trust. The calculated annual effective interest rate is 6.09%

**III. Business Highlights**

General Highlights for the nine months ended September 30, 2016, including subsequent events occurred to date of publication of this report:

- The Company recorded revenue for the nine and three month period ended September 30, 2016, which totaled \$116,006 and \$35,457, respectively, compared to \$67,603 and \$25,053 in the corresponding periods in 2015, respectively, representing an increase of \$48,403 (72%) for the nine months and \$10,404 (42%) for the three months.
- The Company recorded an NOI of \$17,840 (approximately 18.5% of the revenue from income producing properties), compared to the corresponding period in 2015, in which \$11,719 NOI was recorded (approximately 17.5% of the revenue from income producing properties). An increase of 52%.
- The Company delivered 67 lots at Blue Mountain resort and 56 condos at Horseshoe resort, recognizing revenue of \$8 and \$17 million respectively, compared to \$0 last year (39 lots at Blue Mountain were delivered on November 11, 2016, and, therefore \$5.5 million out of \$8 million mentioned above will be recognized in the fourth quarter of 2016).



- The Company firmed up sales of 130 lots and 32 condos for a total expected consideration of \$22 and \$12 million respectively. As a result of those firm sales, the Company recorded \$3 million of revenue for the nine months ended September 30, 2016. During the same period in 2015, the Company firmed up sales of 65 lots and 35 condos for a total expected consideration of \$8 and \$10 million respectively. As of September 30, 2016, not all the sales were recognized in the financial statements.
- Construction of a 67 condominium units project, known as the Copeland House, at Horseshoe Valley resort was completed and construction of a 162 condominium project, known as the Lakeside lodge, at Deerhurst resort began.
- In August 2016, the Company closed the sale of the 82-room boutique Pantages Hotel & SPA. The hotel was sold for total consideration of \$34 million (of it \$4 million is a pass through to private condo owners at the hotel). The transaction was closed at cap rate at 5.5%. As a result of this transaction, the Company recorded a gain of \$8,100. The transaction generated approximately \$17.8 million in free cash flow, after repayment of the property financing. The hotel is located in downtown Toronto. For further details, see note 5f in the consolidated financial statements, for the period ended September 30, 2016.
- During the third quarter of 2016, the Company refinanced a maturing loan with the bonds issued under the Bond Offering. That refinancing increased the effective average duration of the Company's obligations to financial institutions under existing loans from 2.2 years as for June 30, 2016 to 4.5 years as for September 30, 2016, improving the Company's financial flexibility. As at September 30, 2016, the Company's has \$23,520 of current maturities of long term loans and short term loans, including the bonds under the Bond Offering, as opposed to \$75,198 current maturities presented in the June 30, 2016 financial statements. As of September 30, 2016, the Company has \$15 million of unutilized credit lines. In addition, in November 2016, the Company reached an agreement in principal with a financial institution, which would secure a \$20 million line of credit. The credit line will bear an interest of 4.7% for the utilized portion and 0.25% for the unutilized portion. The Horseshoe resort will be used as a collateral. The Company is expecting to have this line of credit in place by the end of the year (see Section XIII – *Liquidity and Cash Flow Analysis* below, as well as the “Cautionary Note Regarding Forward Looking Statements” section and the “Risk Factors” section below).
- The Company commenced the phase 2, 180 room renovation project at Hyatt hotel in Cleveland Ohio in September 2016. The expected cost of the renovation project is \$4.6 million, \$3.2 million of which will be funded from the Property Renovation Reserve (a restricted cash, not reported under cash and cash equivalent balances).
- On July 27, 2016, the Company closed its Bond Offering.

Updates from the previous financial statements:

- In June 2016, a wholly-owned subsidiary of the Company executed a conditional agreement to sell the major portion of the Port McNicoll site to a third party for a total consideration of \$41,360 payable in 120 equal installments, bearing 2% interest. On October 26, 2016, the conditional agreement was cancelled. The Company is in the process of negotiating with a different potential buyer, to sell the site on the similar terms. The site's carrying cost of \$44,546 was reported as part of "Investment Property" (\$18,882) as per IAS 40 and "Real Estate inventory" (\$25,664) per IAS 2. Since the fair value of expected consideration, as determined by independent valuers, was estimated at \$39,661, the Company recognized an impairment of an investment property asset and a write-down of inventory in a cumulative amount of \$4,885, and reclassified \$16,652, following the impairment, from "Investment Property" to "Property Held for Sale". The “Real Estate inventory” portion of the site is presented as part of the current assets.
- During the reporting period, the Company delivered 56 units at Copeland House located at Horseshoe Resort and recognized a total revenue of \$16,794, including \$969 recognized for sale of furniture. The title registration to the purchasers is expected to take place during the next two months.
- In September 2016, a partially owned subsidiary of the Company (60% ownership) executed a firm agreement to sell two parcels of serviced land, of approximately 39 acres at Blue Mountain resort, to an unrelated third party for a total consideration of \$15,400.
- In October 2016, a partially owned subsidiary of the Company (60% ownership) executed an agreement to sell 33 serviced residential lots at Blue Mountain resort for a total consideration of \$5,610.
- In October 2016, Mr. Gil Blutrigh, the president of the Company and Mr. Alex Schnaider, an international investor, entered into a conditional agreement relating principally to the co-ownership of the Company's parent company, Mishorim Development Ltd. If the transaction is completed, Mr. Schnaider and Mr. Blutrigh will hold 37% of Mishorim Development Ltd. Mr. Blutrigh has also provided Mr. Schnaider with

an option to purchase 50% of the Company shares held by Blutrich Holdings Inc. (of which Mr. Blutrich is the controlling shareholder today). If exercised, both Mr. Schnaider and Mr. Blutrich would hold 1.29% of Skyline shares directly. These transactions are conditional only until November 22, 2016 and, accordingly, the transactions may not be completed or become effective.

- On November 14, 2016, the Board of Directors approved a new employee stock option plan (whereby directors, senior officers, employees and consultants may be granted options to purchase common shares) and approved a grant of 290,000 options to key employees.

#### **IV. Balance Sheet Highlights**

- Shareholders' equity, including non-controlling interest as of September 30, 2016 was \$180,430 (approximately 48% of total assets) compared to the equity of \$169,784 (approximately 44% of total assets) as at December 31, 2015. The equity increase in the quarter was primarily due to the profit for the period, and an equity contribution of the Company's partner into the Renaissance hotel as required by the terms of the loan with the financial institution, which resulted in an increase in non-controlling interest and income that was recorded during the nine months ended September 30, 2016.
- The consolidated balance sheet assets of the Company as of September 30, 2016 totaled \$376,183 compared to \$381,858 as of December 31, 2015. The \$5,675 decrease compared to December 31, 2015 is primarily due to the decrease in USD foreign exchange rate compared to CAD.
- The consolidated balance sheet liabilities of the Company as of September 30, 2016 totaled \$195,753 compared to \$212,074 as of December 31, 2015. The \$16,321 decrease compared to December 31, 2015 is primarily due to reduction of \$12,364 loans balance related to the Pantages Hotel, that was repaid in August 2016, following the closing of the sale of the hotel.

#### **V. Income Statement Highlights**

- Revenue for the nine and three month period ended September 30, 2016 totaled \$116,006 and \$35,457, respectively, compared to \$67,603 and \$25,053 in the corresponding periods in 2015, respectively. The increase of \$48,403, or 72% and \$10,404 or 42% compared to the corresponding periods in 2015 is primarily attributable to the inclusion of the results of the Renaissance hotel in Cleveland, which was purchased on October 28, 2015 and the delivery of condo units to purchasers at the Copeland House project, in Horseshoe resort. For further information, including a description of the significant factors that caused a change in total revenue, see Section VII - *Factors Affecting Performance* and segmental analysis below.
- Gross profit (loss) during the nine and three month period ended September 30, 2016 was \$10,247 (8.83% of revenue) and gross revenue was \$5,160 (14.55% of the revenue) compared with gross profits of \$7,147 (10.57% of the revenue) and a gross profit of \$4,103 (16.38% of the revenue) for the corresponding periods in 2015. The increase in the gross profit for the nine months is attributed to the US Hospitality segment, primarily due to the newly consolidated Renaissance Hotel and the Bear Valley resort, which contributed \$4,100 and \$2,000 respectively, to the gross profit. The increase for the three month period ended in September 30, 2016 compared to the parallel period last year is mainly due to consolidation of the Renaissance Hotel.
- In the nine and three month periods ended September 30, 2016, revenue and (gross profit) from the US Hospitality segment (see Section VII - *Factors Affecting Performance* below) was \$54,435 (\$9,406) and \$17,235 (\$3,095) respectively, compared to \$19,938 (\$1,566) and \$6,105 (\$346) respectively, in the corresponding periods in 2015. The increase is primarily attributable to the consolidation of the Renaissance Hotel.
- In the nine and three month periods ended September 30, 2016, revenue and (gross profit) from the Canadian Hospitality segment (see Section VII - *Factors Affecting Performance* below) was \$38,960 (\$2,154) and \$16,075 (\$2,212) respectively, compared to \$44,363 (\$5,100) and \$17,915 (\$3,706) in the corresponding periods in 2015. The decrease is primarily attributable to the sale of Cosmopolitan Hotel, which contributed \$1,600 until the closing in July 2015 and the adverse weather conditions at Horseshoe resort, which reduced the revenue by \$2,000 during the first quarter of 2016. For further information, see segmental analysis below.
- In the nine and three month periods ended September 30, 2016, the Company recorded a revenue and (gross profit) of \$19,578 (loss \$2,962) and \$1,243 (loss \$469) respectively, from the Development segment (see Section VII - *Factors Affecting Performance* below) compared to \$97 (loss \$813) and \$97 (loss \$211)

in the corresponding periods in 2015. The increase is primarily due to delivery of condo units to purchasers at the Copeland House project, at Horseshoe resort. For further information, see segmental analysis below.

- In the nine and three month periods ended September 30, 2016, revenue and (gross profit) from the Investment Property segment (see Section VII - *Factors Affecting Performance* below) were \$2,796 (\$1,655) and \$885 (\$391) respectively, compared to \$2,576 (\$1,402) and \$873 (\$417) in the corresponding periods in 2015. For further information, see segmental analysis below.
- For further information, see Section IX - *Income Statements and Segmental Analysis*.

## **VI. Cash Flow Statement Highlights**

As part of its business development strategy, the Company acquires and sells 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 usually funded by third party financing, which result in negative cash flow from operations and positive cash flow from financing activities during the construction periods and the opposite on closing.

- During the nine month period ended September 30, 2016, the Company's cash and cash equivalents increased by \$14,178 to \$28,382 compared to a decrease of \$8,857 in the corresponding period in 2015. This change was primarily due to a sale of Pantages Hotel. For further information regarding the changes in the cash flow, please see the consolidated financial statements attached.
- During the nine month period ended September 30, 2016, the Company produced negative cash from operations of \$5,298 compared to a negative cash flow of \$8,980 in the corresponding period in 2015. This change was primarily due to the recognition of the Copeland House project, that was not yet closed financially and resulted in an increase in trade receivables, with a corresponding decrease in inventory.
- In the nine month reporting period ended September 30, 2016, the Company generated \$24,836 from its investing activities compared to \$8,459 in the corresponding period in 2015. The positive cash flow from investment activities in the nine month period ended September 30, 2016 is mainly due to the closing of the Pantages hotel sale transaction, while in the corresponding period in 2015 the positive cash inflow was mainly due to the sale of the Cosmopolitan hotel in Toronto, Ontario, by the Company in July 2015.
- During the nine month period ended September 30, 2016, net cash from financing activities decreased by \$5,690 compared to a decrease of \$8,241 in the corresponding period in 2015. The negative cash flow from financing activities during the nine month period ended September 30, 2016 is mainly due to the repayment of loans (including loans to related parties), which was offset by raising bonds, as part of refinancing of the older debt, and proceeds of loans payable (mainly on the Renaissance Hotel acquisition and other construction loans). In the corresponding period in 2015 the negative cash flow was due to loans repayment that exceeded new financing facilities the Company utilized during the corresponding period.
- For further information, see cash-flow report in the consolidated financial statements for September 30, 2016 and Section XIII - *Liquidity and Cash Flow Analysis* below.

## **VII. 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*

Competition in the 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, price and 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 Four Seasons, Hilton, Hyatt, Marriott, Ritz-Carlton, Starwood and Westin. Properties

also compete for convention and conference business across the national market. Specifically, Deerhurst resort competes with other large group and leisure resorts in Ontario's cottage country. 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 rebranding project:* During 2014, the Company started a rebranding project of its hotels and resorts, pursuant to which the Company is actively upgrading the quality of accommodations and amenities available at its hotels through capital improvements. Projects completed over the last year include extensive upgrades to the majority of guestrooms and meeting and conference spaces at the Horseshoe Resort and guestroom renovations at Deerhurst Resort.

#### *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, price and 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 Four Seasons, Hilton, Hyatt, Marriott, Ritz-Carlton, Starwood and Westin. 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. Projects completed over the last year include 114 guestroom renovations at the Hyatt Regency Arcade in Cleveland, Ohio and an investment in Bear Valley resort. 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). The Company is in the process of a phase 2 renovation at Hyatt Regency Cleveland hotel (for more information see Business Highlights above).

During the next three years, the Company intends to complete the renovation and improvement of all the rooms at the Renaissance Hotel.

#### *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.

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 Horseshoe 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 in Cleveland 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.

#### 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 lands 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 lands. The parking availability is impacted by residential or commercial development of these lands, 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 lands in the Real Estate for Investment segment are held for long periods, seasonality is not a factor.

#### Real Estate Development for Sale and Lands 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 in Port McNicoll 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 of remaining condominium units and lots that are available for sale, which primarily relate to Lakeside Lodge at Deerhurst Resort, Copeland House at the Horseshoe Resort (see Section I - Overview above), Swan Island Estates at Port McNicoll, 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 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.

#### *Seasonality*

Since the Port McNicoll project as well as the Deerhurst Resort lands 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.

### **VIII. Discussion of Operations**

Revenue is generated by four broad business units: Canadian Hospitality, US 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. Canadian Hospitality represented 34% and 45% of the Company’s total revenue for the nine and three months ended in September 30 2016 respectively, and 66% and 72% in the comparable periods in 2015, respectively; the US Hospitality segment has grown and represented 47% and 49% of

the Company's total revenue for the nine and three months ended in September 30 2016 respectively, and 29% and 24% in the comparable periods in 2015, respectively. The Investments Properties segment's revenue is mainly generated from the Company's income producing properties at the Blue Mountain Resort in Ontario and the Hyatt Regency Hotel in Cleveland. Development revenue includes the sale of serviced lots, semi-custom single family cottages and condominiums.

The revenue from the Hospitality and Development segments are driven by the volume of guests and competitive pricing. Volume is impacted by a number of factors, including the guest experience, economic conditions, geopolitical factors, weather and accessibility of the resorts.

## **IX. Income Statements and Segmental Analysis**

Please refer to consolidated statements of income and the segmented information note (see note 6) in the consolidated financial statements for the period ended September 30, 2016.

### **Revenue:**

Revenue for the nine and three months period ended September 30, 2016 totaled \$116,006 and \$35,457 respectively, compared to \$67,603 and \$25,053 in the corresponding periods in 2015. The increase for the nine and three months period ended September 30, 2016 of \$48,403, or 72% and \$10,404 or 42%, respectively, compared to the corresponding periods last year is primarily attributable to the increase in the US Hospitality segment, which increased in the current nine and three months periods by \$34,497 and \$11,130 respectively, and to the Development segment which increased by \$19,481 and \$1,146 for the nine and three months respectively (compared to the corresponding periods in 2015). The Canadian Hospitality segment decreased by \$5,403 and \$1,840 for the nine and three months ended in September 30, 2016 respectively compared to the corresponding periods last year. See Section VII - *Factors Affecting Performance* above for additional factors that caused changes in total revenue. For an analysis of gross profit, see Section V – *Income Statement Highlights* above.

### *Canadian Hospitality Segment:*

This segment consists of two resorts, with approximately 500 rooms (both owned and managed), a 20-run ski hill, four golf courses, significant conference and food and beverage operations, and other auxiliary activities. These properties are operated by Skyline Hotels and Resorts Inc.

The Canadian Hospitality Segment recorded a decrease of \$5,403 in revenue for the nine and \$1,840 for the three months periods ended September 30, 2016 compared to the corresponding periods in 2015. The decrease in revenue is mainly due to adverse weather conditions at Horseshoe resort during the 2015-2016 ski season, which resulted in a decrease of \$2,000 in revenue for the nine months compared to the corresponding period in 2016 and due to the sale of the Cosmopolitan hotel in July 2015, which recoded a revenue of approximately \$1,600 during the corresponding period in 2015. In addition, during the reporting period, the revenue at the Deerhurst resort was reduced by \$700. For the three month period ended September 30, 2016 compared to the corresponding period last year, the decrease is mainly attributable to the sale of Cosmopolitan hotel last year as well as a reduction in revenue of approximately \$700 from the Deerhurst resort year-over-year.

During the nine and three months period ended September 30, 2016, the Canadian Hospitality Segment recorded \$36,806 and \$13,863 respectively, in expenses and costs compared to \$39,263 and \$14,209 in the corresponding periods last year. The decrease is attributed primarily to the sale of the Cosmopolitan hotel in July 2015 and the Pantages hotel sale completed in August 2016 (see "Same assets analysis" below).

### *US Hospitality Segment:*

This segment consists of two hotels in Cleveland, Ohio and one resort in California, with 836 rooms, a ski hill and significant conference and food and beverage operations. 784 owned rooms and almost all the of the conference and food and beverage operations are managed by third party property management companies. Skyline is an asset manager of the two hotels in Cleveland, Ohio and an operator of the Bear Valley ski resort in California.

The US Hospitality Segment recorded an increase of \$34,497 (173%) and \$11,130 (182%) in revenue for the nine and three month periods ended September 30, 2016 respectively, compared to the corresponding periods in 2015, with approximately \$28,400 of the increase during the nine month period attributable to the acquisition of the Renaissance hotel in October 28, 2015 and \$4,400 of the increase is attributable to the Bear Valley Ski resort (approximately \$1,000 of the increase is due to foreign exchange difference), which benefited from improved weather conditions at the resort.

During the nine and three months period ended September 30, 2016, the US Hospitality Segment recorded an increase of \$26,657 and \$8,381 in expenses and costs respectively, as compared to the corresponding periods of 2015. \$24,300 of the increase for the nine months is due to the consolidation of the Renaissance Hotel, while an increase of \$2,400 for the nine months is due to increased activity at the Hyatt hotel and Bear Valley resort (an increase of \$1,000 is due to foreign exchange difference) (see “Same assets analysis” below).

#### *Development Segment Revenue:*

In the nine and three months period ended in September 30, 2016, the Company recognized \$19,578 and \$1,243 respectively in revenue from the development segment compared to revenue of \$97 recognized during the corresponding periods last year. \$16,800 of the revenue for the nine months resulted from delivering 56 condo units, at Copeland House project located at Horseshoe resort, to purchasers (of 57 sold in the project in total), including some of which were delivered furnished. The Company is in the process of delivering the additional unit. \$2,168 of the revenue for the nine months was recognized from the delivery of a sold land parcel at Blue Mountain resort and \$530 of the revenue for the nine months was recognized due to a delivery of a house at Deerhurst resort.

In July 2014, the Company launched a new development project known as Lakeside Lodge at the Deerhurst Resort. The project consists of 162 condos, of which 100 units have a waterfront view. When fully sold, it is expected to record estimated revenues of \$50,000 to \$53,000. As of September 30, 2016, the Company has sold 91 condos in the project (firm sales after cooling-off period of 10 days under applicable law in Ontario). The Company secured a \$30 million financing for the project. The Company has completed the demolishing works on site and has commenced construction.

#### *The Net Operating Income (“NOI”) (excluding amortization) for the Canadian Hospitality segment:*

During the nine months ended September 30, 2016, the Company reported an NOI of \$4,571 (11.7% of the segment’s revenue) compared to \$7,671 for the corresponding period of 2015 (17.3% of the segment’s revenue), representing a decrease of 40%. During the three months ended September 30, 2016, the Company reported an NOI of \$3,010 (18.7% of the segment’s revenue) compared to \$4,562 for the corresponding period of 2015 (25.5% of the segment’s revenue). For more details with regard to the decrease, please see *Canadian Hospitality segment* above.

#### *The Net Operating Income (“NOI”) (excluding amortization) for the US Hospitality segment:*

During the nine month period ended September 30, 2016, the Company recorded an NOI of \$11,614, which represents 21.3% of this segment’s revenue compared to \$2,646 for the corresponding period of 2015, which represents 13.3% of the hospitality revenue, a 339% improvement. During the three month period ended September 30, 2016, the Company recorded an NOI of \$3,857, which represents 22.4% of this segment’s revenue compared to \$724 for the corresponding period of 2015, which represents 11.9% of the hospitality revenue, a 433% improvement (note that in the corresponding period, the Renaissance Hotel was not consolidated yet). For more details, please see *US Hospitality segment* above.

### **Non-IFRS Financial Measures**

The Company’s consolidated financial statements are prepared in accordance with IFRS. Included in this MD&A are certain additional IFRS measures and non-IFRS measures, which are measures of Skyline’s historical or future financial performance that are not calculated and presented in accordance with IFRS. These measures are unlikely to be comparable to similar measures presented by other reporting issuers. Skyline uses these measures to better assess its underlying performance and provides these additional measures so that investors and analysts may do the same. The following discussion defines the measures used by Skyline and presents why management believes they are useful supplemental measures of Skyline’s performance.



Skyline is engaged in two distinctive lines of business.

- a. Revenue producing assets: including the Company's three segments – Investment property, Hospitality in Canada, Hospitality in USA
- b. Real Estate Development

These lines of business supplement each other, while the revenue producing assets provide the base for Skyline's operations.

#### Revenue Producing Assets Net Operating Income ("NOI")

Measures which reflect the cash flow generating ability of real estate assets are commonly used by real estate owners which, when considered with IFRS measures, give management a more complete understanding of property level results before debt service. It also facilitates comparisons between Skyline and its competitors. Management believes that revenue producing assets NOI, is one of Skyline's key performance indicators since it helps management, lenders and investors evaluate its core business' ongoing profitability.

Revenue Producing Assets NOI ("NOI") is a common measure of performance in the real estate investment industry. NOI is one measure used by industry analysts and investors in the determination of Skyline's revenue producing assets valuation and the Company's ability to service debt. As a result, Skyline believes that NOI is a useful supplemental measure of its operating performance for investors and debt holders. NOI assumes that the value of real estate investments does not necessarily decrease on a systematic basis over time, an assumption inherent in our application of IFRS (given the depreciation charge), and it adjusts for items included in net income that do not necessarily provide the best indicator of operating performance.

NOI should not be considered a substitute for net income or cash flow from operating activities determined in accordance with IFRS. Skyline's method of calculating NOI may be different from that of other organizations.

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 Profit from Operations and adjusting for:

- i) Gross profit from Development Segment
- ii) Gross profit from Other
- iii) Depreciation and Amortization
- iv) Gain (loss) on fair value adjustments
- v) Selling and Marketing expenses for Development and Timeshare
- vi) Administrative and General expenses
- vii) Non-recurring costs or revenue that may impact cash flow, items are considered non-recurring when a similar revenue or cost is not reasonably likely to occur within the next two years and has not occurred during the prior two years.

#### Adjusted Net Operating Income (ANOI)

Skyline uses ANOI as its measure of normalized operating cash flow from its revenue producing assets is in order to assess the performance of Skyline's revenue producing asset group.

AFFO is defined as NOI adjusted for:

- i) Administrative and General expenses.

- ii) Non-recurring revenue or costs that may impact cash flow, items are considered non-recurring when a similar revenue or cost is not reasonably likely to occur within the next two years and has not occurred during the prior two years.
- iii) Results of operations of revenue producing assets that were not included in the Company's consolidated financial statements for the entire month accounting period.

There is no standard industry- defined measure of ANOI. Skyline's method of calculating ANOI may be different from that of other organizations.

	FOR THREE MONTHS ENDED		FOR NINE MONTHS ENDED		FOR 12 MONTHS ENDED	FOR THE YEAR ENDED
	September 30,	September 30,	September 30,	September 30,	September 30,	December 31,
	2016	2015	2016	2015	2016	2015
PROFIT FROM OPERATIONS	3,756	2,771	8,621	5,173	11,850	8,402
<b>Less segments that are not producing revenue, revenue net of expenses and costs:</b>						
Real estate sales (condos and inventory)	27	(94)	(1,005)	(81)	(936)	(12)
Sale of Timeshare units	65	87	(111)	(15)	111	207
Write-down of real estate inventory to net realisable value	--	--	2,655	--	2,655	--
Loss (gain) from fair value adjustments	127	165	(2,663)	(1,987)	(1,721)	(1,045)
<b>Add:</b>						
Development periodic costs	424	289	1,259	844	1,465	1,050
Depreciation	1,582	1,318	4,795	3,824	6,297	5,326
Selling and marketing expenses	206	384	1,059	1,321	1,601	1,863
<b>Revenue producing assets NOI</b>	<b>6,187</b>	<b>4,920</b>	<b>14,610</b>	<b>9,079</b>	<b>21,322</b>	<b>15,791</b>
<b>Adjusted NOI</b>						
Revenue producing assets NOI	6,187	4,920	14,610	9,079	21,322	15,791
less Administrative and general expenses	1,071	783	3,230	2,640	4,989	4,399
Add Renaissance hotel results prior to acquisition	--	2,298	--	4,976	1,346	6,322
Commissions and fees	--	--	--	--	(4,620)	(4,620)
<b>ANOI</b>	<b>7,258</b>	<b>8,001</b>	<b>17,840</b>	<b>16,695</b>	<b>23,037</b>	<b>21,892</b>

#### *Investment Property Segment:*

This segment consists primarily of the Company's holdings in the retail at the Blue mountain village and some commercial rentals in its urban hotels.

The revenue and gross profit from the Investment Property segment operations for the nine and three month period ended September 30, 2016 was \$2,796 (\$1,655 or 59%) and \$885 (\$391 or 44%) respectively, compared to \$2,576 (\$1,402 or 54%) and \$873 (\$417 or 48%) for the corresponding periods in 2015.

The increase in revenue is mainly due to an increase in the Blue Mountain Resort occupancy rate to 100% and improvement in efficiency.

#### *Same<sup>1</sup> assets analysis:*

<sup>1</sup> For the purposes of the analysis, the Renaissance Hotel results that were consolidated from October 28, 2015 and the associated fees, were excluded from the current reporting period and an adjustment in 2015 and 2016 was made to reflect exclusion of the Cosmopolitan and Pantages Hotels', as they were sold in July 2015 and August 2016, respectively, as well as an exclusion of the hospitality head office.

The same asset analysis incorporates results of operation of the assets that the Company held for at least two full periods ending September 30, 2016 and 2015. These assets are comprised of the Company's Ontario Resorts, Blue Mountain Retail, the Bear Valley resort and Hyatt Regency Arcade.

The revenue from same assets in the Hospitality and Investment segment recorded during the reporting nine month period was \$62,685 compared to \$59,491 in the corresponding period in 2015, representing an increase of \$3,194 (5.4%), which is primarily attributable to increase in revenue at Bear Valley resort in California, US. The expenses and costs during the reporting period were \$53,390 compared to \$50,955 recorded in the corresponding period in 2015, representing an increase of 2,435 (approximately 4.8%).

The Gross operating profit for the current period was \$9,295 (14.8% of the revenue) compared to \$8,536 in the corresponding period in 2015 (14.3% of the revenue), representing an increase of \$759. The increase is primarily attributable to the USA hospitality segment.

The NOI (gross operating profit excluding depreciation costs for the current period was \$12,743 (20.3% of the revenue) compared to \$11,606 in the corresponding period in 2015 (19.5% of the revenue), representing an increase of \$1,137.

#### *Other (Vacation Ownership):*

In late October 2013, the Company launched a "Vacation Ownership" operation so as to optimize the usage of the Company's hotels and resorts. All costs incurred in marketing, operating, and promoting the timeshare business as well as administration, set up and sales costs are expensed as incurred. The Company has made a number of operational changes and reduced staffing levels of the Vacation Ownership operation.

#### Sales and marketing expenses

Sales and marketing expenses in the nine month period ended September 30, 2016 were \$1,059, compared to \$1,321 recorded during the nine month period ended September 30, 2015. The reduction in sales and marketing expenses is attributable to a reduction of \$630 in the sales and marketing activities of the Vacation Ownership and an increase of \$589 due to marketing activities of the Copeland House project at Horseshoe resort in addition to reduction to other marketing activities.

#### Administrative and general expenses

Administrative and general expenses for the nine month period ended September 30, 2016 totaled \$3,230, compared to \$2,640 during the corresponding period in 2015. The increase is attributed primarily to the cost of termination benefits of the former CEO totaling approximately \$300, capital markets consulting fees and severance payments to some of the Company's head office employees.

#### Fair Value Adjustment

See "Section IV - *Income Statement Highlights*", above.

#### Financing expenses, net

Financing expenses, net for the nine month period ended September 30, 2016 were \$7,763, compared to \$5,324 during the corresponding period in 2015. The increase in financial expenses is mainly due to the charge of \$1.7 million due to 4% the Canadian dollar depreciation in relation to Israeli Shekel, that affected the Company's obligations (denominated in Israeli Shekel) to its bond holders in Israel.

#### Income Taxes

The Company's tax expenses in the nine month period ended September 30, 2016 were \$1,984, compared to a tax income of \$1,139 in the corresponding period in 2015. During the reporting period, the Company closed the sale of the Pantages hotel and recorded a capital gain of \$8,105.

## Profit for the period

The profit for the period ended September 30, 2016 was \$7,205, compared to \$1,929 in the corresponding period in 2015. See *IX Income Statements and Segmental Analysis* above.

## X. Summary of Quarterly Results

### Eight quarter comparison:

The table below provides selected quarterly financial information for our eight most recently completed fiscal quarters. This information is unaudited, but reflects all adjustments of a normal, recurring nature which are, in our opinion, necessary to present a fair statement of the results of operations for the periods presented.

Quarter-by-quarter comparisons of our financial results are not necessarily meaningful and should not be relied upon as an indication of future performance.

<i>(in thousands of Canadian Dollars)</i>	Q3-2016	Q2-2016	Q1-2016	Q4 -2015	Q3-2015	Q2-2015	Q1-2015	Q4-2014
<b>REVENUE</b>	35,457	32,453	48,096	29,060	25,053	18,032	24,518	18,642
<b>EXPENSES AND COSTS</b>	30,297	32,976	42,486	22,588	20,950	17,672	21,834	17,003
<b>GROSS PROFIT (LOSS)</b>	5,160	(523)	5,610	6,472	4,103	360	2,684	1,639
Gain (Loss) from fair value adjustments	127	(2,884)	94	(942)	(165)	2,211	(59)	2.162
Selling and marketing expenses	206	397	456	542	384	411	526	809
Administrative and general expenses	1,071	1,035	1,124	1,759	783	795	1,062	(8)
<b>PROFIT (LOSS) FROM OPERATIONS</b>	3,756	929	3,936	3,229	2,771	1,365	1,037	3,000
Financial expense	3,504	2,187	2,089	1,728	1,713	1,871	1,770	1,716
Financial income	(10)	-	(7)	(3)	(13)	--	(17)	(113)
Other expense	(347)	6	(39)	560	-	-	-	-
Gain on sale of investment	(8,592)	-	-	(549)	(3,219)	--	--	--
Gain from bargain purchase	-	-	-	(8,274)	--	--	--	--
<b>PROFIT (LOSS) BEFORE INCOME TAXES</b>	9,201	(1,264)	1,893	9,767	4,290	(506)	(716)	1,397
Income tax expense (recovery)	1,733	(291)	542	3,601	1,195	(150)	94	310
<b>PROFIT (LOSS) FOR THE PERIOD</b>	7,468	(973)	1,351	6,166	3,095	(356)	(810)	1,087
<b>Basic and diluted earnings per share</b>	0.42	(0.19)	0.10	0.21	0.18	(0.06)	(0.05)	0.05
<b>Currency exchange USD/CAD (noon rate)</b>	0.76	0.77	0.77	0.72	0.75	0.80	0.79	0.86



For a discussion of factors that caused variation over the quarters necessary to understand general trends that have developed and the seasonality of the business, see Section VII - *Factors Affecting Performance* above and Section XVI - *Exposure to market risks and ways of managing them* below. Seasonality and competitive conditions are the largest factors.

### **XI. Additional Financial Information**

The Company's assets as at September 30, 2016 totaled \$376,183 compared to \$381,858 in December 31, 2015.

The total non-current consolidated financial liabilities were \$135,788 as at September 30, 2016 compared to \$108,920 in December 31, 2015.

### **XII. Outlook**

The Company's strategy is to continue focusing on investments in cash flowing hotels and resorts, mostly in regions benefiting from economic stability. The Canadian and US economy is expected to continue to provide a favorable business environment for the Company. For more information please see Section II - *Business Highlights* above.

### **XIII. Liquidity and Cash Flow Analysis**

The following table summarizes the statement of cash flows of the Company (for the period of nine months ended September 30, 2016 and 2015 see attached consolidated financial statements as of September 30, 2016):

	Period ended September 30, 2016 <b>(Unaudited)</b>	Period ended September 30, 2015 <b>(Unaudited)</b>	Year ended December 31, 2015 <b>(Audited)</b>
Profit (Loss) for the period	7,846	1,929	8,095
Net cash provided (used) by operations	(5,298)	(8,980)	655
Net cash provided (used) in investing activities	24,836	8,459	(11,658)
Net cash provided (used) in financing activities	(5,690)	(8,241)	10,845
Foreign Exchange translation of foreign operations	330	(95)	(580)
Increase (Decrease) in cash and cash equivalents	14,178	(8,857)	(738)
Cash and cash equivalents, beginning of the period	14,204	14,942	14,942
Cash and cash equivalents, end of the period	28,382	6,085	14,204

#### **Cash Flows from Operations**

As part of its business development strategy, the Company acquires and sells real estate properties. Those activities typically 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 usually funded by third party financing, which result in negative cash flow from operations and positive cash flow from financing activities during the construction periods and the opposite on closing.

During the nine month period ended September 30, 2016, the Company produced negative cash flow from operations of \$5,298 compared to a negative cash flow of \$8,980 in the corresponding period in 2015, primarily due

to the recognition of the Copeland House project, that was not yet closed financially and resulted in an increase in trade receivables. That increase in trade receivables was offset by a corresponding decrease in real estate inventory.

#### Cash Flows Used in Investment Activities

In the nine month reporting period ended September 30, 2016, the Company generated \$24,836 from its investing activities compared to \$8,459 in the corresponding period in 2015. The positive cash flow from investment activities is mainly due to the sale closing of Pantages hotel, while in the corresponding period in 2015 the positive cash inflow was mainly due to sale closing of the Cosmopolitan hotel.

#### Cash Flows from Financing Activities

During the nine month period ended September 30, 2016, the decrease in net cash from financing activities was \$5,690 compared to a decrease of \$8,241 in the corresponding period in 2015. The negative cash flow from financing activities is mainly due to the repayment of loans (including loans to related parties), which was offset by raising bonds, as part of refinancing of the older debt, and proceeds of loans payable (mainly on Renaissance Hotel acquisition and other construction loans). In the corresponding period in 2015 the negative cash flow was due to loans repayment that exceeded new financing facilities the Company utilize during the corresponding period.

#### Liquidity and Capital Resources

##### Cash and loans:

As for September 30, 2016, the balance of Cash and cash equivalents of the Company totaled to \$28,382 compared to \$14,204 on December 31, 2015. During the third quarter of 2016, the Company refinanced a maturing loan with the bonds issued under the Bond Offering. That refinancing increased the effective average duration of the Company's obligations to financial institutions under existing credit facilities from 2.2 years as for June 30, 2016 to 4.5 years as for September 30, 2016, improving the Company's financial flexibility. The Company's has \$23,520 of current maturities of long term loans and short term loans, including the bonds under the Bond Offering, as opposed to \$75,198 current maturities presented in June 30, 2016 financial statements. As of September 30, 2016, the Company has \$15 million of unutilized credit lines. In addition, in November 2016, the Company reached an agreement in principal with a financial institution, which would secure a \$20 million line of credit. The credit line will bear an interest of 4.7% for the utilized portion and 0.25% for the unutilized portion. The Horseshoe resort will be used as a collateral. The Company is expecting to have this line of credit in place by the end of the year.

##### Working capital:

As of September 30, 2016, the working capital of the Company totaled to \$83,267 compared to \$1,108 in December 31, 2015. The increase of \$82,159 in working capital is primarily attributable to a maturing loan that was refinanced by the way of issuing bonds \$41,500 (net of costs) in July 2016 under the Bond Offering, a repayment of a Pantages Hotel loan of \$12,364, and classification of Port McNicoll lands totaling to \$23,009 from non-current to current real estate inventory, as those are expected to be sold during Company's operation cycle (see note 1 to the consolidated financial statements for September 30, 2016).

##### Bonds:

On July 14, 2016, following a shelf prospectus published in 2014, the Company raised 123,300 NIS, net of fees (approximately \$41,500) through the issuance of bonds series A under the Bond Offering. The raised amount will bear an annual nominal interest of 5.2% payable semi-annually. The first interest payment is due on January 15, 2017. The principal is payable on semi-annual basis, while the first principal is due on July 15, 2017. Each principal payment is 2.5% of the raised amount, while the last payment, due on January 15, 2023, will be the remaining 72.5% of the raised amount. The Deerhurst Resort (excluding the surrounding lands) is a collateral for the raised amount. Per the main covenants of the deed of trust, the Company to maintain a maximal LTV of 75% and a minimum shareholders' equity of \$100 million. The Company complies with all covenants required in the deed of trust. The calculated annual effective interest rate is 6.09%.

#### Warrants:

As at November 14, 2016, there remains 351,850 warrants (series 2) outstanding that have an exercise price of NIS55 (\$19.23) per warrant and an expiry date of March 5, 2018. A warrant (series 2) that is not exercised prior to March 5, 2018 expires and is terminated, with no further rights to the holder thereof. A detailed description of the rights, privileges, restrictions and conditions attached to the warrants (series 2) is included in our Annual Information Form.

#### Shares:

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.

#### General:

In the Company's management opinion, it is typical that a real estate development company like Skyline, with an operating cycle of longer than one year, which funds most of its investments and real estate projects through credit from financial institutions, incurs a net cash outflow from operations.

The Company's current liabilities include \$23,520 current maturities of long term loans, bonds and short term construction debt. There is a net cash outflow from operations of \$5,298 as per the interim consolidated statements of cash flow for nine months ended September 30, 2016. This net cash outflow from operations, when applicable, is not expected to adversely affect the Company's business operations, since according to its past experience, financial institutions refinance the loans in addition to the fact that there are a substantial number of potential lenders. 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.

#### **XIV. Financial Instruments and Off-Balance Sheet Arrangements**

As at September 30, 2016, the Company has not entered into any derivative or 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.

#### Company's Distributions

There is no dividend distribution policy to shareholders at this time.

#### **XV. Critical Accounting Policies and Estimates**

The presentation of the consolidated financial statements in accordance with IFRS involves estimates and assumptions that may affect the data presented. Estimates and assumptions are continuously evaluated and are based on management's best knowledge of the relevant facts and circumstances, having regard to previous experience. However, actual outcomes may differ from the amounts included in the financial statements.

The Company believes these estimates to be critical:

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

The estimates include investment property and buildings within property plant and equipment at fair value, determined by external independent appraisers. Valuations involve the use of discount rates and assumptions about occupancy rates, room rates and other critical metrics which involve uncertainty.

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

## 2. 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.

## 3. 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.

During the nine months ended September 30, 2016, there has been no material change in the provisions in respect of claims.

## **XVI. Exposure to market risks and ways of managing them**

The Company appointed Mr. Vadim Shub who is a Certified Public Accountant in Israel, the U.S. and Canada, and who has served as CFO of Skyline Canada since 2007, to assess the Company's exposure to risks.

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 result in Canadian dollars (see below). As of September 30, 2016 (compared to December 31, 2015), the U.S. dollar weakened by approximately 5.2%. For more information regarding the influence of the foreign exchange rate on Company's equity, see note 34d in the annual consolidated financial statements for the year ended December 31, 2015. From September 30, 2016 until November 14, 2016, the U.S. dollar appreciated by approximately 2.7% compared to 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.

As the Company issued bonds in New Israeli Shekel under the Bond Offering, it has an exposure to that currency as well. The management is considering various hedging solutions. As of September 30, 2016, the Company recorded a \$1.7 financial expense due to revaluation of the bonds, as the Canadian dollar weakened compared to the New Israeli Shekel. The management of the company is considering hedging this exposure, subject to the availability and cost of the hedge instruments. The Company has no current hedging activities.

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 acquisition of the Bear Valley resort in California and Renaissance Hotel in Ohio with the following balance sheet proportions: assets 24%, liabilities 29% and equity 17% based on September 30, 2016 balance sheet. The Company's U.S. operations contributed 47% of revenue and 92% of gross profit for the nine month period ended September 30, 2016. 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.



## **XVII. Risk Factors**

Investors should carefully consider all of the information disclosed in this MD&A prior to investing in the securities of the Company. 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.

### **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.**

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.

**We may not be able to fund resort capital expenditures and investment in future real estate projects.**

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 extensive 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 unasserted 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.

**We depend on a seasonal workforce.**

Our outdoor and lodging operations are highly dependent on a large seasonal workforce. We recruit year-round to fill thousands of seasonal staffing needs each season and work to manage seasonal wages and the timing of the hiring process to ensure the appropriate workforce is in place. We cannot guarantee that material increases in the cost of securing our seasonal workforce will not be necessary in the future. Furthermore, we cannot guarantee that we will be able to recruit and hire adequate seasonal personnel as the business requires. Increased seasonal wages or an inadequate workforce could have an adverse impact on our results of operations.

**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 Blutrich (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 lands. 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, 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 \$43 million dollars at the capital market in Israel, denominated in Israeli Shekels, a significant fluctuation in the Canada/Israel exchange rate will impact our net income after tax, and cash flow.

**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 September 30, 2016, we believe we will have net operating loss carry-forwards of approximately \$42 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 is highly 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 never develop or be sustained.**

Although our Common Shares are listed on the Stock Exchange, an active trading market for our Common Shares may not develop on the Stock Exchange or elsewhere or, if developed, that market may not be sustained. Accordingly, if an active trading market for our Common Shares does not develop or 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 deed of trust that governs the outstanding bonds (Series A) 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 bonds (Series A) 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.

**XVIII. 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.

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 nine months ended September 30, 2016, 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 September 30, 2016.

#### **Cautionary Note Regarding Forward Looking Statements**

This MD&A may contain forward looking statements or information, within the meaning of applicable Canadian securities laws, which reflect our current view of future events and financial performance. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements. Forward looking statements can often, but not always, be identified by the use of forward looking terminology such as "may", "will", "would", "could", "should", "expect", "intend", "estimate", "anticipate", "plan", "foresee", "believe" or "continue" or the negatives of such terms or variations of them or similar terminology. Such forward looking statements represent management's current beliefs and are based on information currently available to management that management considers reasonable. The forward looking statements and information contained in this MD&A include, but are not limited to, statements with respect to management's expectations regarding the sufficiency of liquidity and capital resources to maintain our operations, expected growth of our business, payment of interest on borrowings under our credit facilities, the split between current and deferred income taxes in future periods and other information or statements about future events or conditions which may prove to be incorrect.

The forward looking statements and information contained in this MD&A are subject to a number of significant known and unknown risks and uncertainties and other factors that could cause actual results to differ materially from those anticipated, including, but not limited to, risks relating to unfavorable weather conditions, the seasonality of our operations, availability of capital, competition from other ski and four season resorts, changes in laws, regulations and policies and failure to comply with any legal requirements, the impact of any occurring natural disasters, insufficient insurance against material claims or losses, risks relating to Company's access to and use of debt financing, and negative economic, business and market conditions. A more detailed description of these risks is available in our Annual Information Form for the year ended December 31, 2015, which is available on our website and at [www.sedar.com](http://www.sedar.com) under our SEDAR profile. The forward-looking statements contained in this MD&A are based upon assumptions that management believes to be reasonable, including no adverse development in respect of any significant property in which the Company holds an interest; and the absence of other factors that could cause actions, events or results to differ from those anticipated, estimated or intended. However, should one or more of these risks or uncertainties materialize, or should the assumptions underlying the forward looking statements or information prove incorrect, actual results may vary materially from those described herein. Accordingly, there can be no assurance that forward-looking statements or information will prove to be accurate. Readers of this MD&A are cautioned that forward-looking statements and information are not guarantees of future performance. The

Company cannot assure investors that actual results will be consistent with these forward-looking statements or information. Therefore, readers of this MD&A should not place any undue reliance on forward looking statements or information because we give no assurance whatsoever that such expectations will prove to be correct. All of the forward-looking statements and information in this MD&A are expressly qualified by these cautionary statements and other cautionary statements or factors contained herein.

For additional information with respect to risks, uncertainties and assumptions, please refer to the Risk Factors section above and to the Company's Annual Information Form.

The forward looking statements and information herein are made as of the date of this MD&A only, and we have no intention and assume no obligation to update or revise any forward looking statements or information to reflect new events, information, estimates, opinions or circumstances or otherwise, except as required by applicable Canadian securities laws.

*"Gil Blutrich"*

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**Gil Blutrich**

Chairman

November 14, 2016

*"Blake Lyon"*

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**Blake Lyon**

CEO

*"Vadim Shub"*

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**Vadim Shub**

CFO