SKYLINE INVESTMENTS INC.

Consolidated financial statements

for the year ended

December 31, 2018

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for the year ended
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Contents

Independent Auditor's Report

To the Shareholders and the Board of Directors of
SKYLINE INVESTMENTS INC.

Opinion

We have audited the consolidated financial statements of Skyline Investments Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The financial statements for the year ended December 31, 2016 were audited by another auditor who expressed an unmodified opinion on those financial statements on March 23, 2017.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the financial statements and our auditor's report thereon, in the Barne Report, Additional details report (Securities Regulations Periodic and Immediate Reports -1970) and the Annual Report on Effectiveness of Internal Control over Financial Reporting and Disclosure.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis and the Barne Report, Additional details report (Securities Regulations Periodic and Immediate Reports -1970) and the Annual Report on Effectiveness of Internal Control over Financial Reporting and Disclosure prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor’s report is Ran Feldboy.

Brightman Almagor Zohar & Co
Certified Public Accountants
Member of Deloitte Touche Tohmatsu Limited

Tel Aviv, 31 March, 2019

SKYLINE INVESTMENTS INC.

Consolidated statements of financial position

(in thousands of Canadian Dollars)

	Note	As at December 31, 2018	2017
Assets			
Current assets			
Cash and cash equivalents	3	27,983	25,897
Trade receivables	4	36,601	6,159
Other receivables	5	13,421	12,113
Prepayments		2,870	3,288
Inventories	7	1,948	2,027
Real estate inventory	8	64,573	61,008
Loans to purchasers	14	7,959	7,287
Restricted bank deposits	6	4,406	5,175
		159,761	122,954
Non-current assets			
Financial derivative		2,821	3,675
Investment properties	10	90,640	92,983
Property, plant and equipment	11	487,265	446,590
Loans to purchasers	14	25,901	32,968
Other non-current assets	12	2,696	2,544
Deferred tax	13	7,843	7,832
Restricted bank deposits	6	7,510	4,593
		624,676	591,185
Total assets		784,437	714,139
Liabilities and equity			
Current liabilities			
Loans payable	17	56,924	33,919
Bonds	15	6,252	2,450
Trade payables		14,616	10,456
Other payables and credit balances	16	30,114	20,730
Deferred revenue		7,508	7,519
Income taxes payable		671	—
Purchasers' deposits		8,779	9,930
		124,864	85,004
Non-current liabilities			
Loans payable	17	199,465	174,816
Bonds	15	104,628	105,277
Other liabilities		990	1,189
Deferred tax	13	53,650	51,856
		358,733	333,138
Total liabilities		483,597	418,142
Equity			
Equity attributable to Shareholders of the Company	20	260,753	255,020
Non-controlling interest	20	40,087	40,977
		300,840	295,997
Total liabilities and equity		784,437	714,139

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

On behalf of the bc directors:

Gil Blutrich	Blake Lyon	Robert Waxman	March 31, 2019
Chairman	CEO	CFO	Date

SKYLINE INVESTMENTS INC.

Consolidated statements of income

(in thousands of Canadian Dollars)

	Note	For the year ended December 31, 2018	2017	2016
Revenue				
Income from hotels and resorts	22	181,113	118,123	118,502
Sale of residential real estate		46,722	30,694	25,551
Income from investment properties		4,390	3,671	3,695
Other operating income		31	75	246
		232,256	152,563	147,994
Expenses and costs				
Operating expenses from hotels and resorts	23	(142,626)	(98,709)	(99,799)
Cost of sale of residential real estate	24	(42,504)	(26,403)	(27,991)
Operating expenses of investment properties		(1,257)	(1,079)	(1,577)
Other operating expense		(100)	(113)	(85)
		(186,487)	(126,304)	(129,452)
		45,769	26,259	18,542
Selling and marketing expenses		(776)	(480)	(1,463)
Administrative and general expenses	26	(8,010)	(5,572)	(4,895)
Operating income before depreciation, valuation adjustments and other income		36,983	20,207	12,184
Depreciation	25	(21,110)	(11,415)	(6,635)
Gain (loss) from fair value adjustments	10	(3,209)	6,715	7,095
Gain (loss) on sale of investments	11(c)	(1,770)	(17)	8,574
Other expense		(116)	(1,111)	(869)
Profit from operations		10,778	14,379	20,349
Financial expense	27	(19,745)	(11,089)	(10,332)
Financial income		778	3,119	211
Profit (loss) before income taxes		(8,189)	6,409	10,228
Income tax	28 & 13	534	2,212	(2,191)
Profit (loss) for the year		(7,655)	8,621	8,037
Attributable to:				
Shareholders of the Company		(6,887)	6,066	3,910
Non-controlling interest	20	(768)	2,555	4,127
		(7,655)	8,621	8,037
Earnings per share:				
Basic	20	(0.42)	0.37	0.23
Diluted		(0.42)	0.36	0.23

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

SKYLINE INVESTMENTS INC.

Consolidated statements of comprehensive income

(in thousands of Canadian Dollars)

	For the year ended December 31,		
	2018	2017	2016
Profit (loss) for the year	(7,655)	8,621	8,037
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Revaluation of property, plant and equipment, before income taxes	6,192	(1,801)	132,221
Income taxes	(2,139)	6,116	(27,769)
	4,053	4,315	104,452
Items that will or may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	8,089	(3,017)	(306)
Other comprehensive income for the year net of taxes	12,142	1,298	104,146
Total comprehensive income for the year, net of taxes	4,487	9,919	112,183
Attributable to:			
Shareholders of the Company	5,377	10,346	87,277
Non-controlling interest	(890)	(427)	24,906
	4,487	9,919	112,183

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

SKYLINE INVESTMENTS INC.

Consolidated statements of changes in equity

(in thousands of Canadian Dollars)

	Attributable to shareholders of the Company									
	Share capital and premium	Warrant certificates	Revaluation surplus	Share based compensation surplus	Related party surplus	Foreign exchange translation	Retained earnings	Attributable to shareholders of the Company	Non- controlling interest	Total Equity
For the year ended December 31, 2018										
Balance at the beginning of the year	78,779	519	87,782	670	125	3,387	83,758	255,020	40,977	295,997
Profit for the year	—	—	—	—	—	—	(6,887)	(6,887)	(768)	(7,655)
Other comprehensive income for the year	—	—	6,140	—	—	6,124	—	12,264	(122)	12,142
Total comprehensive income for the year	—	—	6,140	—	—	6,124	(6,887)	5,377	(890)	4,487
Transfer upon recognition of depreciation	—	—	(2,400)	—	—	—	2,400	—	—	—
Recognition of share-based payment	—	—	—	356	—	—	—	356	—	356
Transfer upon expiration	519	(519)	—	—	—	—	—	—	—	—
Balance at the end of the year	79,298	—	91,522	1,026	125	9,511	79,271	260,753	40,087	300,840
For the year ended December 31, 2017										
Balance at the beginning of the year	77,900	519	83,749	1,014	125	4,827	77,834	245,968	41,404	287,372
Profit for the year	—	—	—	—	—	—	6,066	6,066	2,555	8,621
Other comprehensive income for the year	—	—	5,720	—	—	(1,440)	—	4,280	(2,982)	1,298
Total comprehensive Income for the year	—	—	5,720	—	—	(1,440)	6,066	10,346	(427)	9,919
Option expiry	879	—	—	(879)	—	—	—	—	—	—
Dividend	—	—	—	—	—	—	(1,829)	(1,829)	—	(1,829)
Transfer upon recognition of depreciation	—	—	(1,687)	—	—	—	1,687	—	—	—
Recognition of share-based payment	—	—	—	535	—	—	—	535	—	535
Balance at the end of the year	78,779	519	87,782	670	125	3,387	83,758	255,020	40,977	295,997
For the year ended December 31, 2016										
Balance at the beginning of the year	77,900	519	2,804	874	125	5,209	71,120	158,551	12,744	171,295
Profit for the year	—	—	—	—	—	—	3,910	3,910	4,127	8,037
Other comprehensive income for the year	—	—	83,749	—	—	(382)	—	83,367	20,779	104,146
Total comprehensive Income for the year	—	—	83,749	—	—	(382)	3,910	87,277	24,906	112,183
Investment in subsidiary	—	—	—	—	—	—	—	—	5,045	5,045
Distribution	—	—	—	—	—	—	—	—	(1,291)	(1,291)
Transfer upon sale of properties	—	—	(2,804)	—	—	—	2,804	—	—	—
Recognition of share-based payment	—	—	—	140	—	—	—	140	—	140
Balance at the end of the year	77,900	519	83,749	1,014	125	4,827	77,834	245,968	41,404	287,372

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

SKYLINE INVESTMENTS INC.

Consolidated statements of cash flows

(in thousands of Canadian Dollars)

	For the year ended December 31,		
	2018	2017	2016
Operating activities			
Profit (loss) for the year	(7,655)	8,621	8,037
Adjustments for:			
Depreciation and amortization	21,110	13,190	7,552
Loss (gain) from fair value adjustments	3,209	(6,715)	(7,095)
Gain on sale of investment and other property	255	—	(8,574)
Financing costs from bonds including foreign exchange	12,446	6,674	3,040
Financing income from financial derivative	854	(3,675)	—
Deferred tax, net	(754)	(1,784)	207
Write-down (up) of real estate inventory to net realizable value	—	(355)	2,993
Share based compensation	356	535	140
Changes in non-cash working capital			
Trade receivables	(30,439)	11,540	(12,709)
Other receivables, prepayments and others	10,170	(3,048)	(6,975)
Restricted bank deposits	(3,054)	(2,512)	2,386
Inventories	79	(218)	152
Real Estate Inventory	(8,239)	(14,615)	8,817
Trade and other payables and credit balances	5,913	2,944	(1,905)
Income taxes payable	671	(972)	1,556
Purchasers' deposits	(1,151)	3,232	319
Cash provided by (used in) operating activities	3,771	12,842	(2,059)
Investing activities			
Proceeds from asset sold	—	3,447	460
Additions to investment properties	(151)	(2,371)	(671)
Investment in restricted long term deposit	906	(3,250)	—
Additions to property, plant and equipment	(27,729)	(22,043)	(12,509)
Proceeds from sale of property, plant and equipment	324	76	30,847
Net cash used in a business acquisition (Schedule A)	—	(176,443)	—
Cash provided by (used in) investing activities	(26,650)	(200,584)	18,127
Financing activities			
Bank credit and other short-term loans	23,225	3,816	8,792
Issuance of bonds	—	62,731	41,461
Repayment of bonds	(2,705)	(1,133)	—
Proceeds from long term loans	13,321	138,566	29,719
Repayments of long term loans	(3,120)	(18,158)	(72,385)
Distribution by a subsidiary to its non-controlling shareholders	—	—	(1,291)
Dividend Distribution	—	(1,829)	—
Repayments of loans payable to related parties	—	—	(6,739)
Change in other liabilities	(199)	(460)	(453)
Cash provided by (used in) financing activities	30,522	183,533	(896)
Foreign exchange translation of cash balances	(5,557)	269	461
Net increase (decrease) in cash and cash equivalents	2,086	(3,940)	15,633
Cash and cash equivalents at beginning of year	25,897	29,837	14,204
Cash and cash equivalents at end of year	27,983	25,897	29,837

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

SKYLINE INVESTMENTS INC.

Consolidated statements of cash flows

(in thousands of Canadian Dollars)

	For the year ended December 31,		
	2018	2017	2016
Supplemental cash flow information			
Interest paid	18,068	7,057	6,564
Interest received	857	307	211
Income taxes paid	(146)	1,706	248
Significant non-cash transactions			
Conversion of third party loan to equity (non-controlling interest)	—	—	5,045
Loans to purchasers	5,129	33,915	—
Schedule A			
Net cash used in acquisition of assets and liabilities of 13 Courtyard Hotels Portfolio			
Working capital, net of cash and cash equivalents	—	(4,337)	—
Inventory	—	(29)	—
Property, plant and equipment	—	(172,077)	—
Net assets acquired and net cash used in acquisition	—	(176,443)	—

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

1 - Nature of operations

Skyline Investments Inc. (the "Company" or the "Group") was incorporated on December 4, 1998 under the Ontario Business Corporations Act, and its registered office is located at 36 King Street East, Suite 700, Toronto, Ontario, Canada.

The Company and its subsidiaries are involved in the acquisition, ownership and development of hospitality and destination communities in Ontario and the United States. The Company's normal operating cycle is twelve months except for the development activities, which are in excess of twelve months and typically range between three to four years.

The Company is 65.34% owned by Skyline Canada-Israel Ltd, a majority of shares of which are owned by Mishorim Real Estate Investments Ltd, a public company whose shares are traded on the Tel-Aviv Stock Exchange.

Company's shares and bonds trade on the Tel Aviv Stock Exchange (TASE).

2 - Significant accounting policies

A. The basis for the presentation of the financial statements

The format for the preparation of the financial statements:

These financial statements have been prepared in accordance with the International Financial Reporting Standards as issued by IASB (hereinafter - "The IFRS standards). These standards include:

a. International Financial Reporting Standards (IFRS).

b. International Accounting Standards (IAS).

c. Clarifications to the International Financial Reporting Standards (IFRIC) and to the International Accounting Standards (SIC).

Furthermore, the financial statements have been prepared in accordance with the provisions of the Securities Regulations (Annual financial statements) – 2010.

B. The principal considerations, estimates and assumptions in the preparation of the financial statements

(1) The principle considerations in the preparation of the financial statements:

In the process of the implementation of the principal accounting policies in the financial statements, the Company has exercised judgment and has considered the following matters, which have the most significant impact on the amounts that have been recognized in the financial statements:

When buying an asset, the Company exercises discretion in assessing whether it comes to purchasing a business or an asset for the purpose of determining the accounting treatment of the transaction. To determine whether an acquisition is a business or and asset, the Company examines, among other things, the nature of the processes that exist at the company, including the extent and nature management, security, cleaning and maintenance services provided to renters. Transactions in which the acquired company is a business, the transaction is accounted for as business combinations as described in note 2D.

By contrast, transactions in which the acquisition is not a business are accounted as a group of assets and liabilities, such transactions cost of acquisition, including transaction costs, are allocated in proportion to the identifiable assets and liabilities acquired, based on their relative fair values at the acquisition date. In the latter case, no goodwill is recognized at the date of acquisition.

(2) Estimates and assumptions in the preparation of the financial statements:

Management is required to make use of estimates, assessments and assumptions, which affect the implementation of the accounting policies and the reported amounts of assets, liabilities, revenues and expenses. The estimates and the assumptions on which they are based are reviewed routinely. Changes in the accounting estimates are reflected in the period in which the change is made in the estimate.

The following are the principal assumptions that have been made in the financial statements in connection with uncertainties at the reporting date and the critical estimates that have been made by the Company where a significant change in the estimates and the assumptions could change the values at which assets and liabilities are stated in the financial statements in the coming reporting year:

i. Investment property

The Company follows the principles of IAS 40 - "Investment properties". Investment properties are land or buildings held to earn rental income or for capital appreciation or both. The initial cost of investment properties is their purchase cost, together with any incidental costs of acquisition. External costs and internal costs are capitalized to the extent they enhance the future economic benefit of the asset.

After initial recognition, the Company measures all of the investment properties at their fair values. A gain or loss arising from a change in the fair value is recognized in profit or loss for the period in which it arises. The fair value of investment property reflects market conditions at the Statement of Financial Position date.

The fair value of investment property is based on a valuation by an independent valuator who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued. The fair value of the investment property is estimated based on the estimated cash flows from the property and the comparison approach. Investment Property is revalued on the basis of the evidence available in the market, using comparable prices adjusted to specific market factors such as property type, location and condition.

ii .Provisions and contingent liabilities

Judgement is used in measuring and recognizing provisions and the exposure to contingent liabilities. Judgement is necessary to determine the likelihood that a pending litigation or other claim will succeed, or a liability will arise and to quantify the possible range of the final settlement. In case of legal claims, the Company relies on its legal advisors to determine the likelihood of the outcome.

iii. Income taxes

Income tax liabilities must be estimated by the Company, including an assessment of the accounting for temporary differences. Any temporary differences will generally result in the recognition of deferred tax assets and liabilities in the financial statements. Management’s judgement is required for the calculation of current and deferred taxes. See note 13 and 28.

(3) Revaluation of property plant and equipment

The Company accounts for its hotels and resorts using the IAS 16.31 Revaluation model, as the management believes it provides a more relevant information to the reader, and the values of these properties can be measured reliably. The changes in revaluation are recognized through other comprehensive income. The fair values of the above mentioned assets, are based on valuations by independent valuators who hold recognized and relevant professional qualifications and have recent experience in the location and category of the property, plant and equipment being valued. The fair value of the hotels is estimated based on the estimated cash flows from the property and the comparison approach. Hotels are revalued on the basis of the evidence available in the market, using comparable prices adjusted to specific market factors such as property type, location and condition. Items of Property, Plant and Equipment other than the above mentioned assets, are measured at cost net of accumulated amortization.

C. Consolidated financial statements

The consolidated financial statements include the financial statements of the companies in which the Company has control (subsidiary companies). Control exists where the Company has the power to influence the investee entity, exposure or rights to variable yields as a result of its involvement in the investee entity as well as the ability to use its power in order to influence the amount of the yields that will derive from the investee entity. The impact of potential voting rights is only taken into account in the testing for control if they are substantive. The consolidation of the financial statements is performed as from the time at which control is achieved and up to the time at which the control ceases.

Significant mutual balances and transactions and any income and loss derived from transactions between the Company and its subsidiaries have been eliminated in the consolidated financial statements.

The non-controlling interests in respect of subsidiary companies represent the equity in the subsidiary companies that cannot be attributed directly or indirectly to the parent company. The non-controlling interests are presented separately under the Company's equity. The profit or loss and each component of other comprehensive income are attributed to the Company and to the non-controlling interests.

The acquisition of non-controlling interests by the Company is recorded against a decrease / increase in equity (a capital reserve in respect of transactions with non-controlling interests), which is calculated as the difference between the consideration that has been paid by the Company and the amount of the portion of the non-controlling interests that have been acquired, which was de-recognized at the time of the acquisition (where the non-controlling interests included part of the other comprehensive income, the Company re-attributes the cumulative amounts that have been recognized under other comprehensive income between the shareholders in the Company and the non-controlling interests).

Losses are attributed to non-controlling interests even if as a result of this the balance of the non-controlling interests in the consolidated statement of financial position is negative.

When subsidiary company, under the contractual arrangements, generates losses, the losses are divide between the Company and the non-controlling interests according to their holdings in subsidiary.

D. Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquire and the equity interests issued by the Company in exchange for control of the acquire. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value (In accordance with IFRS 3), except for certain types of assets measured in accordance with the relevant standards.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquirer's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the ‘measurement period’ (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

When a business combination is achieved in stages, the Company's previously held equity interest in the acquired assets is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquisition prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

E. Foreign currency

In preparing the financial statements of each individual Company entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange on the dates of the transactions. The functional currency for the Company and its Canadian subsidiaries is Canadian dollars.

The functional currency of the Company's US subsidiaries is the US dollar. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences on monetary items are recognized in in the statement of profit and loss in the period for which they arise.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Company's foreign operations are translated into Canadian dollars, the presentation currency, using exchange rates prevailing at the end of each reporting period (1 USD = 1.3642 CAD; 2017: 1 USD = 1.2545 CAD). Income and expense items are translated at the average exchange rates for that period (1 USD = 1.2956 CAD; 2017: 1 USD = 1.2986 CAD). Exchange differences are recognized in other comprehensive income, accumulated in equity and attributed to non-controlling interests as appropriate.

F. Cash and cash equivalents

Cash and cash equivalents on the consolidated statements of cash flows includes cash on hand, deposits held with financial institutions, other short-term highly liquid investments with original maturities of three months or less that are readily convertible amounts of cash which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the consolidated statements of financial position.

Cash whose use has been restricted by the Company in respect of credit agreements, or whose use has been restricted to a specific use under another agreement, are classified by the Company as restricted cash in the statement of financial position.

G. Short-term deposits

Short-term deposits in financial entities, whose original period exceeds three months at the time of the investment in them or in respect of which a restriction applies in respect of their use and which do not meet the definition of cash equivalents. The deposits are presented in accordance with the terms under which they were deposited and their expected redemption times.

H. The period of the operating cycle

The Company's normal operating cycle is twelve months except for the development activities, which are in excess of twelve months and typically range between three to four years.

I. Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument.
Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.
When the fair value estimate of financial assets not traded on an active market includes assumptions that are not supported at observable market prices and rates, the instrument is initially recognized at the transaction price, which incorporates a deferred gain or loss arising from the difference between the estimated fair value and the consideration paid or received. In subsequent periods, the deferred gain or loss will be recognized in profit or loss only if there are changes in variables that market participants consider when pricing financial assets.
All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets:

Debt instruments that meet the following conditions are measured subsequently at amortised cost (using the effective interest method):

• the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
• the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income:

• the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
• the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
All other financial assets are measured at fair value through profit or loss. Specifically:
Investments in equity instruments are classified as at fair value through profit or loss, unless the Group designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at fair value through other comprehensive income on initial recognition. The aforementioned designation at initial recognition, is irrevocable and can be made for each investment separately.
Debt instruments that do not meet the amortised cost criteria or the fair value through other comprehensive income criteria are classified as at fair value through profit or loss. In addition, debt instruments that meet either the amortised cost criteria or the fair value through other comprehensive income criteria may be designated as at fair value through profit or loss upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (accounting mismatch) that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The aforementioned designation at initial recognition, is irrevocable.
The Company has not designated any debt instruments as at fair value through profit or loss.
Debt instruments that are measured subsequently at amortised cost or at fair value through other comprehensive income are subject to impairment.

Impairment of financial assets:

In respect to the Trade receivables, the Company chose to apply a simplified approach for measuring the loss allowance according to the probability of insolvency throughout the lifetime of the instrument. The expected credit losses in respect of these financial assets are estimated based on past experience and borrower-specific factors, general economic conditions and an assessment of both the current trend of the conditions and the forecasted trend of the conditions at the reporting date, including the time value of money as required.
For all other financial instruments, the Company recognizes a provision for impairment according to expected credit losses throughout the lifetime of the instrument, when there is significant increase in credit risk from the date of initial recognition. If, on the other hand, the credit risk of the financial instrument does not increase significantly from the date of initial recognition, the Company measures the provision for impairment by probability of insolvency in the next 12 months. The assessment of whether a provision for impairment should be recognized in accordance with the expected credit loss over the lifetime of the instrument is based on the credit risk from the date of initial recognition and not only when there is objective evidence of impairment at the reporting date or when the failure actually occurred. The Group assumes based on experience directly an in the market place as well as historical default rate history that the credit risk of the financial instruments did not increase significantly from the date of initial recognition and that they have a low credit risk.
The Company monitors the effectiveness of the criteria (historical default rates, experience in the market, assessment of the counter party) used to identify whether there is a significant increase in credit risk and updates them as necessary.
The Company writes off a financial asset when there is information indicating that the borrower is in serious financial difficulties and there is no realistic prospect of recovering the asset.

Derecognition of financial assets:

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.
On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Financial liabilities and equity

Classification as debt or equity:

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments:

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.
Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities:

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at fair value through profit or loss.

Financial liabilities at fair value through profit or loss:

Financial liabilities are classified as at fair value through profit or loss when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at fair value through profit or loss.

The Group has no financial liabilities that were initially designated at fair value through profit or loss.

Financial liabilities measured subsequently at amortised cost:

All other financial liabilities that are not measured at fair value through profit or loss, are measured initially at fair value less transactions costs. Subsequently are measured at amortised cost using the effective interest method.
The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Derecognition of financial liabilities:

The Company derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.
When the Group exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Company accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. The difference between the book value of the financial liability prior to the modification of its terms and the fair value of the liability in accordance with the new terms will be recognized in profit or loss. Transaction costs directly attributable to the change in conditions are also recognized in profit or loss.

It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows o the original financial liability.
If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification discounted using the original effective rate should be recognised in profit or loss.

Derivative financial instruments:

The Company enters into certain derivative financial instruments to manage its exposure to interest rates and foreign exchange rate risks. The Company acquires rate caps and foreign exchange forward contracts.
Derivatives are recognised initially at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.
A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Embedded derivatives:

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host – with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.
Derivatives embedded in hybrid contracts with a financial asset host within the scope of IFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured as either amortised cost or fair value as appropriate.
Derivatives embedded in hybrid contracts with hosts that are not financial assets (e.g. financial liabilities) are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognized in profit or loss.
An embedded derivative in a financial liability at fair value through profit or loss is not separated.
An embedded derivative is presented as a non-current asset or non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and is not expected to be realised or settled within 12 months.

J. Trade Receivables

Trade receivables are due for settlement no more than 120 days from the date of recognition for land development and resale debtors and no more than 30 days for other debtors. The Group always measures the loss allowance for trade receivables at an amount equal to lifetime expected credit loss. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The Company has recognised a loss allowance against certain receivables because historical experience has indicated that these receivables are generally not recoverable. Collectability of trade receivables is reviewed on an ongoing basis. There has been no change in the estimation techniques or significant assumptions made during the current reporting period. The Company writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery.

(in thousands of Canadian Dollars)

K. Inventory and Real Estate Inventory

The Company follows the principles of IAS 2 - Inventories. Inventory comprises of serviced parcels of land, condominiums, land held for current development, food and beverage, and retail goods held for sale in the ordinary course of business of the Company. Inventory is measured at the lower of cost and net realizable value. Cost comprises of all costs of purchase and other costs incurred in bringing the property to its present location and condition, as well as the fair market value of investment property item transferred to inventory, on the transfer date. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Net realizable value for inventory may not equal fair value less costs to sell.

Parcels of land are subdivided into lots, sellable on a standalone basis.

Serviced parcels of land sold to retail customers typically include full infrastructure such as connection to the utilities such as hydro, gas, sewage and water, and roads. Serviced lots allow buyers to construct custom houses on their own. Land not expected to be developed in the next operational cycle is included in non-current inventory.

L. Property, Plant and Equipment

The Company follows the principles of IAS 16 - "Property, plant and equipment". The cost of property, plant and equipment is their purchase cost, together with any incidental costs of acquisition. External costs and internal costs are capitalized to the extent they enhance the future economic benefit of the asset.

Depreciation is calculated so as to write off the cost of property, plant and equipment, less their estimated residual values, which are adjusted, if appropriate, at each Statement of Financial Position date, on a straight-line basis over the expected useful lives of the assets concerned. The principal lives used for this purpose are:

Freehold buildings	-	25-60 years
Furniture and equipment	-	3 to 5 years
Computers and monitors	-	3 to 5 years
Resort equipment	-	10 to 39 years
Appliances in buildings	-	10 years
Leasehold improvements	-	over the term of the lease

A write down or impairment charge is made against the carrying value of the property, plant and equipment where an impairment in value is deemed to have occurred.

As of December 31, 2016, the Company accounts for the Hotels and Resorts in Canada and US using the IAS 16.31 fair value model, as the management believes it provides a more relevant information to the reader, and the values of these properties can be measured reliably. The difference between the fair market value and net book value, net of tax was recognized as a "revaluation surplus" in other comprehensive income. After initial recognition of the revaluation the assets are carried at the revalued amounts, being their fair values at the date of the revaluation, plus additions, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Periodic revaluations are made to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the Statement of Financial Position date. If the assets' carrying amounts are increased as a result of a revaluation, the increases are credited directly to other comprehensive income, net of tax. However, the increases are recognized to the consolidate statement of income to the extent that it reverses a revaluation decrease of the same asset previously recognized in the income statement. If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognized, net of tax, in the income statement to the extent that it exceeds any amount previously accumulated in the revaluation surplus account relating to the same asset. The Company applied IAS 16.31 prospectively.

The fair values of the above mentioned assets, are based on valuations by independent valuators who hold recognized and relevant professional qualifications and have recent experience in the location and category of the property, plant and equipment being valued.

Items of Property, Plant and Equipment other than the above mentioned assets, are measured at cost net of accumulated amortization.

M. Other Assets

Leasing costs are capitalized and amortized on a straight-line basis over the terms of the lease to which they relate.

Major recoverable repair costs of commercial real estate assets are deferred and subsequently recovered from tenants over the estimated period of the repair usage.

N. Impairment of Non-Current Assets

Assets with indefinite useful lives are tested at least annually for impairment and whenever there is an indication that the asset maybe impaired. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the greater of an asset's fair value less costs to sell and the value in use. For the purposes of assessing impairment, assets are Compared at the lowest levels for which there are separately identifiable cash flows.

O. Investment property

Investment property, land or a building or both of them, which is held by the owners (leased under an operating lease) or which is leased under a financial lease for the purpose of producing rental income or an increase in value, or both of these, and not for the purpose of use in production or the supply of goods or services or for administrative purposes, or for sale in the regular course of business.

Investment property is initially measured at cost, including directly attributable acquisition costs following the initial recognition, investment property is measured at fair value, which reflects the market terms at the reporting date. Gains or losses deriving from changes in the fair value of investment property are reflected in profit or loss at the time that they arise. Investment property is not depreciated.

Investment property is de-recognized when it is disposed of or where its use is discontinued and not future economic benefits are expected from its disposal. The difference between the net consideration from the disposal of the property and the balance in the financial statements is recognized in profit or loss in the period in which the property is de-recognized.

For the purposes of determining the fair value of the investment property, the Company engages an independent external appraiser who is an expert in the appraisal of real estate and who has the requisite expertise and experience.

P. The recognition of revenues

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

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

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

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

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

Furthermore, extensive disclosures are required by IFRS 15.

IFRS 15 was mandatory effective for annual periods starting from 1st of January 2018 or after. Early implementation is possible.

The Company had early implemented IFRS 15 since January 1st, 2017. The implementation of IFRS 15 did not have an impact on the Company's financial statements. In particular, revenue from selling residential units will continue to be recognized when the control is passed to the buyer (at "interim closing") as described below and not over time.

The Company's principal sources of revenues and recognition of these revenues for financial statement purposes are as follows:

Resort Revenue
Revenue from resort operations is recognized when services are provided.

Hotel Revenue

Revenue from hotel and restaurant operations is recognized at the time the goods and services are delivered.

Sale of Real Estate
The sale of real estate property is recognized when all material requirements of the sale agreement have been met, the control of ownership have passed to the purchaser and an appropriate deposit has been received.

Season Pass Revenue
Revenue from membership and season passes is shown as deferred revenue and recognized over the period covered by the payment.Revenue from membership initiation fees are recognized when no significant uncertainty to its collectability exists. Revenue from monthly membership fees are recognized on a monthly basis.

Sale of Residential Real Estate
Condominium unit sales are recognized as revenue when the amount due on interim closing is received in cash. That amount usually constitutes 15% to 20% of the total consideration. The interim closing date is the date at which the purchaser takes physical possession of the property. At that time, the purchaser is entitled to occupancy and provides a commitment to obtain a mortgage for the balance of the consideration, which secures collection of the entire consideration. The vendor, at that time, undertakes to transfer title on registration under the Condominium Act of the applicable jurisdiction. The Company considers, that at time of interim closing, substantially the control is transferred to the purchaser and managerial involvement to a degree usually associated with ownership or effective control over the unit is discontinued. In the period between interim closing and title closing, typical duration of which is several months, the purchaser assumes costs typical to ownership, such as insurance and asset related taxes.

Service Revenue
Revenue from sales of services is recognized when the service is performed. Amounts received for which services have not been rendered are accounted for as deferred revenue and classified as a liability. Other revenue such as the sale of gift cards is recognized at the time of use.

Rental Revenue
Income from investment properties include rents by tenants under lease agreements, percentage participation rents, property tax and operating cost recoveries, lease cancellation fees, leasing concessions, parking income and incidental income. Tenant deposits are reflected in other liabilities.

The Company accounts for step-up rents on a straight-line basis over the term of each relevant lease except for percentage participation rent.

Percentage participation rent is recognized after the minimum sales level has been achieved in accordance with each lease.

Q. Provisions

A provision in accordance with IAS 37 is recognized where the Company has an obligation in the present (legal or implicit) as the result of a past event and it is expected that the use of economic resources will be required in order to settle the obligation and it is possible to reliably estimate it. In the event that the impact is significant, provisions are measured whilst discounting the future cash flows that are expected, using a pre-tax interest rate that reflects the market's evaluation regarding the time value of the money, and in certain cases, also the specific risks that are connected to the commitment.

R. Fair value measurement

Fair value is the price that would be received on the sale of an asset or the price that would be paid to transfer a liability in a regular transaction between market participants at the time of the measurement.

Fair value measurement is based on the assumption that the transactions occurs in the main market for the asset or the liability, or in the absence of a main market, in the most advantageous market.

The fair value of an asset or a liability is measured using assumptions that the market participants would use when pricing the asset or the liability, on the assumption that the market participants act to promote their economic interests.

The measurement of the fair value of a non-financial asset takes into account the ability of market participants to generate economic benefits by means of the asset at its optimal use or by selling it to another participant in the market who will use the asset at its optimal use.

The Company used evaluation techniques that are appropriate in the circumstances and for which sufficient obtainable data exists in order to measure the fair value, whilst maximizing the use of relevant data that are observable and minimizing the use of non-observable data.

S. Capitalization of borrowing costs

The Company capitalizes borrowing costs related to the establishment of qualifying assets.

A qualifying asset is an asset that requires substantial period of time to get ready for intended use or sale and includes investment property, fixed assets and inventories that require substantial period of time to get ready for sale.

Capitalization of borrowing costs begin the date on which expenses in respect of the property itself been made, activities to prepare the asset began and borrowing costs incurred, and ceases when all the activities necessary to prepare the qualifying asset for its intended use or sale substantially completed.

In addition to specific costs, the borrowing costs capitalized during the reporting period includes also general borrowing costs on a weighted capitalization rate.

T. Financial lease

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability of the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalize in accordance with Company's general policy on borrowing costs (see note 2S).

U. Assets held for sale

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

V. Employee Benefits

Short-term employee benefits are expensed in the period in which an employee renders services to the Company and they include items such as:
wages, salaries and social security contributions;
short term compensation absences;
non-monetary benefits (such as medical and dental care, life insurance) for current employees;
bonuses payable within twelve months after the end of the period for which the employees render the related service.
The Company offers RRSP (Registered Retirement Savings Plan) matching payments to some of its employees. RRSP is a tax deferred savings plan approved by the Government of Canada to individuals to save. This incentive is discretionary and the Company has no obligation to contribute to the plan once the employee leaves.
The Company does not offer any post termination benefits to its employees.
A liability for a payment in lieu of termination notice is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

W. Income tax

Deferred tax assets and liabilities are determined based on temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using substantively enacted rates and laws that will be in effect when the differences are expected to reverse. The deferred tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither accounting nor taxable income or loss. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred taxes arise from temporary differences on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets and liabilities arising in the same tax jurisdiction are offset.

Deferred taxes arising from investment properties is measured based on the presumption of realization through sale.

X. Earnings per Share

Earnings per share is calculated by dividing profit or loss attributable to shareholders' of the company (the numerator) by the weighted average number of common shares (the denominator).

Basic earnings per share is calculated by dividing profit or loss attributable to shareholders' of the company (the numerator) by the weighted average number of common shares outstanding (the denominator) during the period.

For the purpose of calculating diluted earnings per share, the Company adjusts profit or loss attributable to shareholders of the company, and the weighted average number of shares outstanding, for the effects of all dilutive securities.

Y. Adoption of new Standards and Interpretations and revised Standards

I. New IFRS Standards and Interpretations and amended IFRS Standards that are effective for the current year

1. Impact of initial application of IFRS 9 Financial Instruments

The Company has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018.
IFRS 9 introduced new requirements for:
1) The classification and measurement of financial assets and financial liabilities,
2) Impairment of financial assets, and
3) General hedge accounting.
The adoption of the standard has not had any material impact on the disclosures or on the amount reported in these financial statements.

2. IAS 40 (amendments) Transfers of Investment Property

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that the situations listed in IAS 40 are not exhaustive and that a change in use is possible for properties under construction. Changing in management's intentions regarding the use of investment property, in and of itself, is not sufficient to provide evidence of change in use.
The amendment is applied prospectively to annual reporting periods commencing January 1, 2018 or thereafter.
The adoption of the amendment has not had any material impact on the disclosures or on the amounts reported in these financial statements.

3. IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset or an expense, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability.
The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance
The amendment is applied prospectively to annual reporting periods commencing January 1, 2018 or thereafter.
The adoption of the interpretation has not had any material impact on the disclosures or on the amounts reported in these financial statements.

II. New IFRS Standards, Interpretations and revised IFRS Standards published but not in effect and that were not adopted early by the Group, which are expected or likely to have an effect on future periods

1. IFRS 16 Leases

IFRS 16 supersedes IAS 17 and applies to annual reporting periods beginning on or after January 1, 2019. IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize right-of-use assets and financial liabilities to pay rentals for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with the new standard's approach to lessor accounting substantially unchanged from IAS 17.

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

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

Based on currently existing data, the Company estimates, that on the date of initial application, it will recognize financial liabilities in the amount of approximately $1.1 million and right-of-use assets at the same amount. The net change in annual profit is expected to be insignificant. Certain amounts, however, which are not material, previously recognized as rental expenses, will be replaced by depreciation and interest expenses.

2. Improvements to IFRS Standards - Amendments

IAS 12 Income Taxes

The amendments clarify that an entity should recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

IAS 23 Borrowing Costs

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

IFRS 3 Business Combinations

The amendments to clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest in the joint operation at fair value. The previously held interest to be remeasured includes any unrecognized assets, liabilities and goodwill relating to the joint operation.

IFRS 11 Joint Arrangements

The amendments clarify that when a party that participates in, but does not have joint control of a joint operation that is a business obtains joint control of such a joint operation, the entity does not remeasure its previously held interest in the joint operation.
All the amendments are effective for annual periods beginning on or after 1 January 2019 and generally require prospective application. Earlier application is permitted.
Company's management does not anticipate that the application of the amendments in the future will have an impact on the consolidated financial statements.

3. IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (amendments) - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments states that in case of sale or contribution of assets, that constitute a business, to an associate or joint venture or in case of loss of control in a subsidiary that does contain a business, while maintaining joint control or significant influence, full gains or losses resulting from the transaction must be recognized, including loss of control. However in case of sale or contribution of assets, that does not contain a business, to an associate or joint venture or in case of loss of control in a subsidiary that does not contain a business, while maintaining joint control or significant influence, gains or losses are recognized only to the extent of the unrelated investors' interests in that associate or joint venture.

The effective date of the amendment has yet to be set. Earlier application is permitted.
Company's management anticipates that the application of this amendment may have an impact on the consolidated financial statements in future periods should such sale or contribution occur.

(in thousands of Canadian Dollars)

4. IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to determine whether uncertain tax positions are assessed separately or as a group. The entity must also assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings.

If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.

If no, the entity should reflect the effect of uncertainty in determining its accounting tax position using the expected value method or the most likely amount method according to which that best predicts the results of the uncertainty.

The Interpretation is effective for annual periods beginning on or after 1 January 2019. Entities can apply the Interpretation with either full retrospective application or without restatement of comparatives figures when the cumulative effect of the initial application will be recognized as adjustment of retained earnings as at 1 January 2019.

Company's management anticipates that the application of this amendment may have an impact on the consolidated financial statements in future periods should such uncertainty over income tax treatments arise.

5. IFRS 3 Business Combinations (definition of a business)

The amendment requires that to be considered a "business", an acquired set of assets and activities must include, at least, an input and a substantive process that together significantly contribute to the ability to create outputs.

In addition, the amendment adds a fair value concentration test, according to which it is not a business if, substantially, the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identified assets.

The amendments are effective for business combinations and asset acquisitions for which the acquisition date is on or after 1 January 2020. Earlier application is permitted.

Company's management anticipates that the application of this amendment may have an impact on the consolidated financial statements in future periods should such business combinations and asset acquisitions occur.

3 - Cash and cash equivalents

		As at December 31,	
	Range of Interest	2018	2017
Cash and cash equivalents	0.2% - 0.5%	27,711	25,626
Short-term bank deposits	1%	272	271
		27,983	25,897

4 - Trade receivables

	2018	2017
Due from hospitality guests and clients	5,703	5,923
Amount receivable on sales of condominium units, due on closing	30,948	288
Less - Allowance for doubtful accounts	(50)	(52)
	36,601	6,159

5 - Other receivables

		2018	2017
Government institutions		896	958
Deposit from condominium sales	[2]	10,160	9,790
Other receivables		2,365	1,365
		13,421	12,113

[1] All amounts are short-term. The net carrying value of other receivables is considered a reasonable approximation of fair value.

[2] Deposits from purchasers of various real estate projects of the Company. The deposits are held in trust by the lawyers of the Company projects. This deposits are typically insured and bonded to comply with the Ontario residential construction laws.

(in thousands of Canadian Dollars)

6 - Restricted bank deposits

The deposits in bank institutions are subject to certain externally imposed restrictions with respect to the Company's use of these funds.

Restricted bank deposits as of December 31, 2017 also include $543 (nil in 2018) against which letters of guarantee have been issued in favour of local authorities of the Township where various land development activities are being conducted.

7 - Inventories

	As at December 31,	
	2018	2017
Food & beverage	806	839
Retail	921	905
Other inventory	221	283
	1,948	2,027

8 - Real estate inventory

Residential constructed inventory	(c)	2,692	2,647
Real estate under construction	(b) (c)	27,327	21,032
Serviced parcels of land	(a) (b)	15,424	8,315
Undeveloped land inventory	(a)	1,292	1,802
Parcels of land under construction	(b) (c) (d)	17,838	27,212
		64,573	61,008

(a) Port McNicoll, Ontario

The balance of $2,347 represents 13 residential lots.

(b) Huntsville, Ontario - Deerhurst

In 2016, the Company began construction of a new development condo project - the Lakeside Lodge at Deerhurst Resort. As of December 31, 2018, approximately 92% (2017: 75%) of the project was pre-sold (this pre-sale rate represents approximately $50 million of projected revenue (2017: $42 million)). Approximately $20M of revenue from the project was recognized in the current year. The balance of $39,233 represents the construction in progress at Lakeside Lodge, the Sanctuary lots and Golf Cottage lots both of which are available for sale for residential construction.

(c) Barrie, Ontario - Horseshoe Valley

The balance of $7,643 primarily represents the 8 unsold units at Copeland House, as well as the back nine of the Highland golf course and the construction in progress at Slopeside condominiums.

(d) Blue Mountain Lands

The inventory value of $15,350 represent lands value classified from investment properties and the cost of servicing as for December 31, 2018 ($17,201 in 2017).

(e) The real estate inventory is summarized as follows:

Port McNicoll	(a)	2,347	2,347
Deerhurst	(b)	39,233	30,977
Horseshoe Valley	(c)	7,643	10,483
Blue Mountain Lands	(d)	15,350	17,201
		64,573	61,008

(in thousands of Canadian Dollars)

10 - Investment properties

	As at December 31, 2018	As at December 31, 2017
Balance as at the beginning of the year	92,983	90,783
Expenditures subsequent to acquisition	151	3,127
Net gain (loss) from fair value adjustments	(3,209)	6,715
Transfer to property held for sale, subsequently sold	—	(257)
Transfer to Inventory	—	(6,889)
Foreign Exchange translation and other	715	(496)
Balance as at the end of the year	90,640	92,983
Income producing retail components	42,573	40,703
Lands	48,067	52,280
	90,640	92,983

The fair value model has been used for all the investment properties, and the valuations were performed at December 2018 and December 2017 by independent valuators, who have recent experience in the valuation of properties in the relevant locations. The valuators applied a combination of direct comparison approach and discounted cash flow method when applicable in determining the fair value of the investment properties.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Information regarding the fair value of Investment Properties:

The fair value of the income producing assets is determined based primarily on an estimated discounted future cash flows expected from each property on the stand-alone basis and overall capitalization method. In the calculation of fair value, the appraisers used a CAP Rate between 6.38% and 9.25% (6.38% - 2017) and discount rates between 7.38% and 10.75% (7.38% for the majority of the properties in 2017).

The fair value of the lands is determined passed on primarily direct comparison approach, adjusting for size, location, improvements, etc.

All fair value measurements are at level 3 of the fair value hierarchy, as defined in IFRS 13.

Below are details of the principal non-observable data that were used by the appraisers in determining the fair value of the Company's investment properties:

(a) forecast of the operating profit of the property for a period of up to 10 years as the basis for capitalization;
(b) specific capitalization rate for each asset according to its condition, location and risks specific to that asset,
(c) estimation of the renewal probability of the in place leases;
(d) estimations on the vacancy rates;
(e) estimating the size , location , improvements adjustments;
(f) other factors such as building rights, planning and legal status and more.

The effect of material factors that can not be observed at the fair value:

Decrease (increase) in the discounted cash flow rate by 0.5% will have an estimated impact on the value of the assets of approximately $594. Increase (decrease) in the comparable land values by 5% will have an estimated impact of approximately $2,400 on the value of the lands.

(in thousands of Canadian Dollars)

11 - Property, plant and equipment

For the year ended December 31,	2018			2017		
	Lands Buildings & improvements	Furniture, equipment and other	Total	Lands Buildings & improvements	Furniture, equipment and other	Total
Gross carrying amount as at beginning of year	412,206	89,384	501,590	255,416	63,672	319,088
Accumulated depreciation as at beginning of year	(25,603)	(29,397)	(55,000)	(20,074)	(23,482)	(43,556)
	386,603	59,987	446,590	235,342	40,190	275,532
Acquisitions (a)	—	—	—	154,888	17,189	172,077
Expenditures subsequent to acquisitions	14,577	13,152	27,729	11,477	10,566	22,043
Adjustment to fair value through revaluation surplus	15,170	(8,978)	6,192	(1,513)	(288)	(1,801)
Adjustment of purchase price allocation (a)	862	(862)	—	—	—	—
Foreign Exchange translation	23,790	4,653	28,443	(10,419)	(2,134)	(12,553)
Retained earnings classification (intra equity)	—	—	—	2,357	449	2,806
Disposal, net of gain (loss)	—	(579)	(579)	—	(70)	(70)
Depreciation	(6,210)	(14,900)	(21,110)	(5,529)	(5,915)	(11,444)
Balance as at the end of the year	434,792	52,473	487,265	386,603	59,987	446,590
Balance as at the end of year for items measured at:						
Fair value	434,792	49,052	483,844	386,603	56,752	443,355
Cost	—	3,421	3,421	—	3,235	3,235
	434,792	52,473	487,265	386,603	59,987	446,590
Carrying amount under cost model	297,400	64,334	361,734	266,380	56,692	323,072

(a) Acquisitions

On November 14, 2017, the Company closed the purchase of 13 fully managed Select-Service hotels in the US for US $135 million (before transaction costs). The hotels are branded under the Courtyard by Marriott, ranging between 135 to 149 room each , with the combined room count of 1,913. Spread over 9 states in the USA, the properties bring significant geographical diversification, with strong locations in key Midwest, Southeast and Southwest markets. In addition to the acquisition of the properties, the company entered into 13 20-year franchise agreements with Marriott International securing the access to the Marriott's reservation and sales platforms, and replaced Marriott's management with a third party management company. For more information about the financing of the acquisition see note 17(d) below.

In 2018, the Company updated the original purchase price allocation and as a result reclassified certain amounts between the components presented above. This reclassification has no material impact on depreciation expense as previously recognized. See Note 32.

(b) No assets were sold in 2018. In 2017 the Company sold and closed most of the Port McNicoll project lands.

(c) Security Charges

Security charges are written on substantially all the Company's Property Plant and Equipment, including all the land, building, improvements, movable and not-movable, equipment components, and excluding Bear Valley Resort.

(d) Information regarding the fair value of hotels and resorts

As of December 31, 2016, the Company accounts for its hotels and resorts using the IAS 16.31 Revaluation model.

The fair values of the above mentioned assets, are based on valuations by independent valuators who hold recognized and relevant professional qualifications and have recent experience in the location and category of the property, plant and equipment being valued.

Items of Property, Plant and Equipment other than the above mentioned assets, are measured at cost net of accumulated amortization.

The fair value is determined based primarily on an estimated discounted future cash flows expected from each property on the stand-alone basis. In the calculation of fair value, the appraisers used discount rates of 10% and 12.75% (10.5% - 2017) and terminal Cap Rates between 8.5% and 12.5% (7.75% - 9.0% - 2017).

All fair value measurements are at level 3 of the fair value hierarchy, as defined in IFRS 13.

Below are details of the principal non-observable data that were used by the appraisers in determining the fair value of the Company's hotels and resorts:

(a) forecast of the operating profit of the property for a period of up to 10 years as the basis for capitalization;
(b) specific capitalization rate for each asset according to its condition, location and risks specific to that asset,
(c) required investments in renovations;
(d) estimations on the number of hospitality rooms to be rented from third parties
(e) other factors such as building rights, planning and legal status and more

The effect of material factors that can not be observed at the fair value:

Decrease (increase) in the discounted cash flow rate by 0.5% will have an estimated impact on the value of the assets of approximately $9,300.

Periodic revaluations are made to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the Statement of Financial Position date. The Company has determined that the revaluation of the assets will be carried out once a year, or at longer periods if the value of the asset is not expected to change materially.

12 - Other non-current assets

In 2018, the Other non-current assets includes a balance of $2,635 represent a franchise fee paid to Marriott for the newly acquired 13 Courtyard Hotels. For more information see note 11(a) above.

13 - Deferred tax

(a) Taxation in Canada

The taxable income of the Canadian Group of companies is subject to effective corporate tax rate (combined Federal and Provincial) of 26.5%. A Canadian resident corporation is subject to tax on only one half of realized capital gains. Capital gains for this purpose is generally defined as a difference between the net proceeds and cost. In general, and subject to certain conditions, dividends received by a Canadian company from other Canadian companies and/or from foreign affiliate companies should not be subject to Canadian corporate income tax. Dividends between companies in the Canadian Group are not taxable to the recipient, and are not deductible to the payer. According to the FAPI (Foreign Accrual Property Income) rules, a Canadian resident company may be liable for tax in Canada on undistributed passive income of a foreign affiliate company, but can receive relief for foreign tax imposed on this income. Generally, dividends paid by a Canadian resident company to a foreign resident are subject to withholding tax of 25%. Reduced withholding tax rates may apply under the relevant tax treaty (if applicable). Effective January 1, 2017, under the new Canada-Israel Tax treaty, withholding tax on dividends and interest is limited to 15% and 10% for residents of the treaty country.(or 5% for dividends paid to a company that holds directly (or indirectly) at least 25% of the capital of the company that paid the dividends).

(in thousands of Canadian Dollars)

Non capital losses can be carried forward 20 years or back 3 years to apply against taxable income earned in those years. Allowable capital losses (i.e. one half of actual capital losses) can be carried back three years, but forward indefinitely to apply against capital gains in those years.

(b) Taxation in the U.S.

On December 22, 2017, the United States enacted tax reform legislation through the Tax Cuts and Jobs Act (the Tax Act). This significantly changed US tax laws in a number of ways including but not limited to reducing the corporate tax rate from 35% to 21% and moving from a worldwide tax system to a territorial system.

The Company's US deferred tax assets and liabilities have been remeasured using a tax rate of 21%. Included in deferred income tax expense for changes in tax rate is a $0 ($3.7 million - 2017) in recovery, as well as deferred income taxes in other comprehensive income through the revaluation surplus of $0 ($5.9 million - 2017).

On December 22, 2017, the legislation commonly referred to as the Tax Cuts and Jobs Act was enacted, which contains significant changes to U.S. tax law, including, but not limited to, a reduction in the corporate tax rate, limitation of the tax deduction for interest expense (with certain exceptions), limitation of the deduction for net operating losses arising after 2017 to 80% of current year taxable income and elimination of carryback of such net operating losses, immediate deductions for certain new investments instead of deductions for depreciation expense over time, modifying or repealing many business deductions and credits. The effect of the changes made in the Tax Cuts and Jobs Act remains uncertain and our business and financial condition could be adversely affected. Furthermore, many of the provisions of the Tax Cuts and Jobs Act require guidance through the issuance of treasury regulations in order to assess their effect, and that is an on-going process which continues to create uncertainty as to the ultimate effect of the statutory amendments on us. There may also be technical corrections legislation proposed with respect to the Tax Cuts and Jobs Act, the effect and timing of which cannot be predicted and which may be adverse to us. In addition, it remains uncertain how various states will respond to the newly enacted federal tax law. We will continue to examine and assess the impact this tax reform legislation may have on our business.

(c) Some income and expenses for accounting purposes may be recognized in earlier or later years for tax purposes. These temporary differences result in deferred tax balances and reflect taxes that are expected to become payable, or recoverable, in future periods.

The composition and movement in deferred taxes are as follows:

	Investment Properties & Inventory	Property Plant and Equipment	Carry forward Losses	Depreciation temporary differences	Other	Total
Year ended December 31, 2017						
Balance at beginning of year	(20,605)	(26,495)	12,809	(19,700)	(370)	(54,361)
Amounts carried to:						
Income statement	6,126	—	(1,251)	2,981	(4,998)	2,858
Other comprehensive income	—	6,116	—	—	—	6,116
Foreign currency translation reserve	(666)	(346)	(62)	2,437	—	1,363
	(15,145)	(20,725)	11,496	(14,282)	(5,368)	(44,024)
Year ended December 31, 2018						
Amounts carried to:						
Income statement	1,295	—	4,843	(4,835)	114	1,417
Other comprehensive income	—	(2,139)	—	—	—	(2,139)
Foreign currency translation reserve	3,331	(6,153)	118	(782)	2,425	(1,061)
	(10,519)	(29,017)	16,457	(19,899)	(2,829)	(45,807)

The deferred taxes are calculated at tax rates ranging between 13.25% and 28.83% - see note (d) below. The realization of deferred tax assets is dependent on the existence of sufficient taxable income in the subsequent years.

(in thousands of Canadian Dollars)

Deferred taxes are presented as follows:	As at December 31,	
	2018	**2017**
Within non-current assets	7,843	7,832
Within non-current liabilities	(53,650)	(51,856)
	(45,807)	(44,024)

(d) Tax rates

Deferred Canadian and U.S. federal and provincial income tax is calculated based on the following combined tax rates:

	2018 and forward	2017
Non-capital profit tax rates:		
Ontario	26.50%	26.50%
Ohio, USA (*)	22.98%	34.10%
California, USA (*)	27.98%	39.80%
Other states (on average), USA (*)	24.50%	38.20%
Capital gain tax rates:		
Ontario	13.25%	13.25%
Ohio, USA (*)	21.00%	34.10%
California, USA (*)	27.98%	39.80%
Other states (on average), USA (*)	24.50%	38.20%

(*) Due to tax reform in the United States, the federal corporate taxes rate across US were reduced. As a result the Company recorded income in 2017 from tax due to the reduction of its future tax liability . Effective January 1, 2018 The new federal income rates are 21% vs 35% in 2017.

(e) Non-capital losses

The Company has non-capital losses carried forward for US and Canadian tax purposes of $61,931 as at December 31, 2018, which expire at various dates commencing December 31, 2036 (2017: $43,349).

See also note 28.

14 - Loans to purchasers

Port McNicoll VTB

In July 2017 the Company completed the sale of the Port McNicoll Project lands for $41,967. The buyer paid $4,197 on closing. The Company provided Vendor's take back (VTB) for the balance of the purchase price, secured by a first mortgage on the project lands totaling $37,769, bearing 2% annual interest payable in 71 monthly installments of $350 and annual payment of interest. The balance is payable at the end of six years. The Company can discharge all or portion of the VTB at the buyer's request subject to early payment of all or part of the outstanding balance. At the time of closing of the transaction the Company recorded revenue of $23,026, equal to the present value of the payments received and the VTB against the inventory component of the land sold, the sale of investment property component of the land is recognized in gain from sale of investments. The cost of sale is recorded at the amount similar to the revenue since the property was fair market valued. As a result of this transaction, there was no significant impact to the profit for the period.
As of December 31, 2018 the remaining balance of the loan is $31,824. Of this total $4,197 classified to current maturity (2017: $36,020 of it $4,197 current maturity).

Blue Mountain lands sale VTB

The remaining $3,413 balance of the VTB to Blue Mountain Lands' purchasers classified into current maturity.

15 - Bonds

Bonds Series A

On July, 2016 the Company issued bonds series A and raised NIS 123,222 thousand ($41,461 thousand), net of borrowing costs. Nominal annual interest rate is 5.2%. The bonds are payable semi-annually. Each principal payment equals 2.5% of the nominal raised amount, except the last one. The last payment, for the remaining 72.5% of the principal, is due on January 2023. 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 loan to value ("LTV") of 72.5% and a minimum shareholders equity of $100 mil, with minimum equity to asset value of 25%. There are restrictions to the amount of dividend that can be distributed and other restrictions. As of December 31, 2018, the Company complies with all covenants required in the deed of trust. The annual effective interest rate is approximately 7.30% (considering the cost of financial derivative see 15c below). The Company may, in its sole discretion, at any time, repay the bonds in full or partially subject to premium.

Bonds Series A - extension

On August 2017, the Company closed a private bonds placement to institutional investors. The Company issued 20,000 bond units by extending the original Series A at a determined interest rate of 5.20% (fixed) and raised NIS 20,750 thousand (raise with a premium), ($7,000 thousand). The annual effective interest rate is approximately 5%. The bonds issued are subject to the same covenants as the originally issued Series A and it will be repaid accordingly.

Bonds Series B

On September 2017 the Company issued bonds series B and raised NIS 164,464 thousand ($57,786 thousand). Nominal annual interest rate is 5.65%. The bonds are linked to the NIS/US dollar exchange rate. Principal is redeemable semi-annually. Each payment equals 3.25% of the principal except the last one. The last payment, for the remaining 64.25% of the principal, is due on January 2024. The annual effective interest rate is approximately 6.60%. The main covenants of the deed of trust are, the Company must have a minimum equity excluding minority interests of $180,000 and a ration of consolidated equity excluding minority interest and total assets of not less than 28.5%. As of December 31, 2018, the Company complies with all covenants required in the deed of trust.

a. Composition

	As at December 31,	
	2018	**2017**
Total liability:		
Series A	49,065	51,279
Series B	61,815	56,448
	110,880	107,727
Current maturities:		
Series A	2,463	2,450
Series B	3,789	—
	6,252	2,450
Long term liability:		
Series A	46,602	48,829
Series B	58,026	56,448
	104,628	105,277

Maturity years subsequent to December 31, 2018:

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6 and thereafter	Total
Bonds A	2,463	2,463	2,461	2,468	39,210	—	49,065
Bonds B	3,789	3,797	3,805	3,814	3,819	42,791	61,815
Total	6,252	6,260	6,266	6,282	43,029	42,791	110,880

b. Additional information

	Par value issued *	Nominal interest rate	Outstanding face value as at December 31, 2018	2017
Series A **	148,240	5.20%	137,598	145,034
Series B ***	164,464	5.65%	164,464	164,464

* In thousands of NIS.
** The originally issued 128,240 was 100% hedged as from January 18, 2017. The extension of 20,000 units was not hedged.
*** Linked to US Dollar.

(in thousands of Canadian Dollars)

c. Hedging

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

16 - Other payables and credit balances

	As at December 31,	
	2018	2017
Provision for completion costs	8,356	2,635
Government institutions	634	509
Deferred revenue	10	13
Employees and payroll institutions	5,931	4,369
Due to hotel unit owners	499	446
Due to related parties (see note 18)	105	365
Accrued expenses	11,490	10,534
Other	3,089	1,859
	30,114	20,730

17 - Loans payable

(a) I. Short term liabilities

Short term loans	45,116	21,890
Current maturities of long term loans	11,808	12,029
	56,924	33,919

II. Long term liablilities

Loans and mortgages from financial institutions	202,575	179,781
Finance lease	13,880	13,340
	216,455	193,121
Deferred financing costs	(5,182)	(6,276)
	211,273	186,845
Less - Current maturities of long term loans	(11,808)	(12,029)
	199,465	174,816

III. Additional information

	Weighted average annual interest rate			
	2018	2017		
Loans from financing institutions denominated in:				
CAD	5.92%	5.84%	70,189	48,527
US dollar	6.07%	4.75%	177,502	153,147
Finance lease	3.35% - 9.75%	4.30% - 9.00%	13,880	13,337
			261,571	215,011
Deferred financing cost			(5,182)	(6,276)
			256,389	208,735
Less - short term loans and current maturities of long term loans			(56,924)	(33,919)
			199,465	174,816

(in thousands of Canadian Dollars)

(b) Maturity years subsequent to December 31, 2018:

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6 and thereafter	Total
Development loans	37,249	7,227	—	—	—	—	44,476
Other loans	11,463	6,510	29,767	125,484	15,998	22,691	211,913
	48,712	13,737	29,767	125,484	15,998	22,691	256,389

(c) For charges see note 21(c).

As of December 31, 2018 the amount of $281,445 (2017: $260,014) of the loans are secured by security charges registered to the Company's assets as a first mortgage. A total book value of real estate that are unencumbered by any mortgage charge as of December 31, 2018 is approximately $33,896 (2017: $30,661).

(d) Marriott Courtyard 13 hotels portfolio

On November 14, 2017 a Company's wholly owned US subsidiary entered into a non-recourse loan agreement of $89,505 USD to finance 65% of the transaction costs.

The total loan is comprised of the initial advance amount of $72,505 USD and mezzanine loan component of $17,000 USD, bearing weighted average annual interest rates equal to libor + 325 points (approx. 5.77%) and calculated on the actual number of days elapsed in a 360-day year. The loan is interest only and is issued for a total period of five years including three annual extensions, subject to various conditions, including the primary condition of maintaining particular levels of debt yield on the extension dates ranging between 10% to 11%.

In addition to the acquisition financing, the bank also provided a $31 million USD line of credit at the same terms as for the initial advance loan, that can be used for property improvements and upgrades as might be determined by Management in coordination with Marriott. The borrower would be required to invest 10% of the improvement costs as equity. During the reporting period, 1.4 million USD of the line of credit was drawn for improvements and upgrades of 13 Marriott Courtyards hotels.

The Company purchased a rate cap to insure against increase in Libor over 3.5%.

(e) Line of Credit

In March 2017, the Company had a $20 million line of credit secured by Horseshoe resort and a corporate General Security Agreement, which has been renewed in 2018. At December 31, 2018 the Company had drawn $7,888.

(f) Lakeside Lodge Construction Financing

In June 2016 the Company's subsidiary (100%) met all the conditions precedent and secured a $32,000 construction financing for the Lakeside Lodge 150-condo project at its' Deerhurst resort. The loan bears annual interest of prime+1.75% (minimal interest rate of 4.45%) payable monthly. The Company provided a guarantee of $35,000 for the loan. As per the agreement, the subsidiary's equity in the project is comprised of the project land valued at $6,800 together with $3,000 cash. The loan is due on demand. These terms are still in effect at end of 2018 and the Company had drawn $23,073.

(g) Renaissance

In March 2016, the Company obtained a 4-year interest only financing, with an option to extend the loan by an additional year for its acquisition and renovation of the Renaissance Hotel totaling $29,150 USD ($38,000 CAD). $12,350 US ($16,100 CAD) is used to fund the acquisition with the balance of the funds available to fund future renovation of the property, bearing annual interest of 2.50%-2.75% above 30 day LIBOR. During the extension period option (as described above, and at Company's option), the principal repayment will begin based on the 25 year amortization. As part of the terms of this loan the property is subject to particular financial covenants, including debt service coverage ratio (DSCR) ranging between 1.30-1.40 : 1.00 with partial recourse in addition to the other terms as customary for this type of transactions, as well as a minimum $7,950 USD ($10,250 CAD) of equity. The Company is in compliance with all these covenants. During 2018 the Company drew on the renovation portion of the facility to fund a portion of the renovation at the property. The total increase in the loan was $9.5M ($6.5M USD).

(h) The Company has other secured credit facilities: as part of the regular course of business the Company obtains and repays various loans to facilitate its business activities.

(in thousands of Canadian Dollars)

(i) Blue Mountain Retail

On April 15, 2013, the Company completed the partial acquisition of the retail complex at the Blue Mountain Village. The acquisition was financed with a ten-year first mortgage of $15,000, bearing an annual interest rate of 6.75%. The loan is guaranteed by the Company and an unrelated 40% shareholder in the asset and is subject to a minimum of DSCR covenant of 1.20. See note 33 for subsequent events.

(j) Hyatt Arcade

During March 2017, the Company's subsidiary refinanced the loan on the Hyatt and obtained a new $17,000 US 5-year loan, with an option to extend the loan by additional two years. The principal, amortized over 25 years, is to be repaid on a monthly basis as from May 5, 2019. The loan is bearing annual interest of 2.50% above 30 day libor (2.44%). The Company, as a 50% recourse guarantor, is required to maintain certain financial covenants, as customary for this type of transactions.

(k) As at December 31, 2018 the Company was in compliance with its covenant obligations, including maintaining capital and financing profitability ratios.

18 - Related parties

	As at December 31, 2018	As at December 31, 2017
(a) Short term liabilities:		
Bonus, consulting fees and salary due to a shareholder of a parent company and a chairman *	54	355
Payments on account of loans *	—	(2)
Other current balances *	51	12
	105	365

* See note 16

In December 2017 the Chairman and President of the Company's employment contract expired. During 2018, all amounts paid to and on behalf of him totaled $193. These amounts have been recognized as expenses. The Company has requested these amounts be repaid.

(b) For Provisions, Contingencies and Related Party surplus - see note 21(b).

(c) Expenses paid and accrued to 3 related parties - Chairman (and a joint controlling shareholder), CEO and CFO (key management personnel):

	For the year ended December 31, 2018	2017	2016
Compensation, bonus and benefits	1,240	1,517	1,301
Employee stock option expense recognized on conditionally granted options. See note 20 (d) for additional details	420	321	140

(d) Management of the controlling person's real estate

In 2016 and 2015 the Company managed Toronto downtown hotels assets include a number of the condo units owned by the President in exchange for a management fees varied between 14.5% and 25% of the revenue. In August 22, 2016 the last downtown hotel held by the Company was sold.

(e) In the course of construction of two of the Company's condominium projects, the Company entered into two purchase orders to supply fireplaces from a company that is majority owned by a controlling shareholder of the Company. The CEO of the Company also owns minority stake in the supplying company. The total value of the two purchase orders was $303. The transaction was approved by the Board of Directors.

(f) Related party transactions are measured at the fair value.

(in thousands of Canadian Dollars)

19 - Financial assets and liabilities

(a) Categories of financial assets and liabilities

The carrying amounts presented in the statement of financial position relate to the following categories of financial assets and liabilities:

The following table provides an analysis of financial instruments, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(b) Financial assets

		As at December 31,	
Financial assets at fair value through profit or loss	**Level**	**2018**	**2017**
Financial derivative	Level 2	2,821	3,675

(c) Financial liabilities

The estimated fair values and carrying amounts of loans payable and bonds are as follows:	**Fair value As at December 31,**		**Carrying amount As at December 31,**	
	2018	**2017**	**2018**	**2017**
Loans payable	255,554	209,003	256,389	208,735
Bonds	106,348	120,601	110,880	107,727
	361,902	329,604	367,269	316,462

The carrying value of loans payable to related parties approximate their fair values, since they bear interest at rates which approximate market rates.

Fair values of long-term financial liabilities have been determined by calculating their present values at the reporting date, using fixed effective market interest rates available to the Company. The carrying amount of the loans maturing during the next year is assumed to approximate their fair values.

The carrying amount of the variable interest loans approximates the fair values of these loans.

(d) Fair value of other financial assets and liabilities

The fair value of cash and cash equivalents and marketable securities and deposits approximates their carrying values.

Amounts receivable, accounts payable and accrued liabilities are also assumed to have a fair value that approximates their carrying values due to their short-term nature.

Non-current loans to purchasers approximate their fair values as the interest rates charged correspond to the market rates. In addition, the Company has taken adequate securities on those financial assets.

(in thousands of Canadian Dollars)

20 - Share capital

(a) Authorized: unlimited common shares, without par value.

	For the year ended December 31,		
	2018	**2017**	**2016**
Number of issued and paid-in shares:			
Outstanding at beginning of year (i)	16,736,780	16,731,360	16,731,360
Issue upon exercise of employee options	—	5,420	—
Outstanding at end of year	16,736,780	16,736,780	16,731,360
(i) Including shares issued to a company controlled by the CEO and held in trust	200,000	200,000	200,000

On March 23, 2016 the Board of Directors approved a private allotment of 200,000 shares to a company controlled by the CEO, for a total consideration of 4,793 NIS (approximately $1,638) or 23.96 NIS (approximately $8.2) per share, reflective of the average share price during 30 days prior to the appointment against a loan bearing 3% interest to be repaid in full until February 17, 2021.

The issuance of those shares is treated as share-based payment - options (IFRS 2). Upon repayment of the loans, the corresponding portion of the shares will be reported in the Share Capital. The average value of this share-based compensation was determined by an independent valuator to be NIS 4.23 (approximately $1.5) per share, assuming an average share volatility of 26.4% and the expected useful life of options is between 1-5 years. The valuator applied a Binominal model.

(b) Earnings (loss) per share

The calculation of the basic and diluted earnings per share is based on the following data:	For the year ended December 31,		
	2018	**2017**	**2016**
Earnings for the purposes of basic and diluted earnings per share being profit for the year attributable to shareholders of the Company	(6,887)	6,066	3,910
Weighted average number of shares for the purposes of basic earnings per share	16,536,780	16,536,423	16,531,350
Effect of dilutive potential shares - employee stock options	* —	480,459	179,717
Weighted average number of shares for the purposes of diluted earnings per share	16,536,780	17,016,882	16,711,067

* Dilutive potential shares were eliminated for having an antidilutive impact.

Warrants Series 2 expired in 2018 without being exercised.

(c) Employee stock options

Summary

Details	Nov 2016	Feb 2018	Apr 2018
Grant date	2016-11-14	2018-02-21	2018-03-20
Expiration date	2021-11-14	2023-02-21	2023-03-20
Number of options	290,000	135,000	100,000
Exercise price	9.370	11.572	11.535
Exercise life to date	—	—	—
Cancelled	117,500	—	—
Net	172,500	135,000	100,000
Vested	96,250	—	—
Additional details	[2]	[3]	[3]

(in thousands of Canadian Dollars)

Changes in number of stock options

	For the year ended December 31, 2018	2017
Outstanding at beginning of year	280,000	373,040
Granted	235,000	290,000
Exercised	—	(5,390)
Cancelled	(107,500)	(377,650)
	407,500	280,000

Additional details

[1] The fair value of the options at the grant date was determined using two methods: (1) The OPTIONS XL Binomial and Trinomial Lattice with Exercise Behavior model (for Directors and Employees), and (2) OPTIONS XL Trinomial Lattice with Exercise Behavior: Vesting Tranche Fair Value (for Executives).

Where relevant, the expected life used in the models has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioral considerations. Expected volatility is based on the historical share price volatility of similar companies including the Parent Company over the past 60 months, which management estimates to approximate the volatility in value of the Company's shares.

[2] On November 14, 2016 the Board of Directors approved granting 280,000 employee options, plan of which approved by TASE on March 16, 2017. The fair value of the options at the grant date was determined using Binomial model. Where relevant, the expected life used in the models has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions, and behavioral considerations. Expected volatility is based on the historical share price volatility of similar companies including the Parent Company, which management estimates to approximate the volatility in value of the Company's shares.

In February 1, 2017 the Executive Options, that had been issued in previous years, expired and the associated value of $879 was classified from "Share based compensation surplus" to "Share capital and premium". In April 2017, 10,000 options were cancelled, upon resignation of an employee. During 2018, an additional 107,500 options were cancelled. As at December 31, 2018 and 2017, 407,500 and 280,000 options remain outstanding respectively.

[3] In February and April 2018 Executives of the Company were granted 135,000 and 100,000 options respectively. The options were issued in connection with the existing option plan.

	As at December 31, 2018	2017	2016
[4] Weighted average exercise price (CAD)	10.57	8.88	11.16

[5] The Company recognized $356 stock compensation expense which is included in administrative and general expenses. (2017: expense of $535; 2016: expense of $140).

(in thousands of Canadian Dollars)

21 - Commitments, contingencies and charges

(a) Commitments

Future annual rental payments for office premises and equipment operating leases as well as operating leases that expire at various dates are payable as follows:

2019	391
2020	354
2021	186
Thereafter	370
	1,301

In December 2018 the Company signed a new lease agreement for its new Corporate office location. The agreement is for 4 years. The Company does not have an extension option for the lease.

In addition, the Company entered into operating agreements with third party condo owners at its resorts. Based on the terms of these agreements the resorts use these condos as additional room inventory for its guests , paying the owners a share of the room rental income. The agreements can be terminated by either party upon one year notice.

(b) Contingencies and related party surplus

The Company's compensation policy was approved during the general meeting of shareholders conducted on December 23, 2014 (as amended in 2016 and 2017). The policy sets compensation framework for:

- Company's president or a company under his control is entitled to an annual compensation in the amount of $350 and an annual bonus performance driven up to a maximum amount of $375 for 2017. The contract expired in December 2017.
- Senior Executive Management Team.

(c) Security charges

Security charges are written on the Company's properties to secure the first mortgages received on their purchase. The total liabilities secured under these charges are as described in note 17. These charges include specific covenant requirements for the associated revenue producing properties.

(d) Claims

In 2016 the Company was served claims totaling $2,138 in relation to certain construction projects and issued a counterclaim of $4,000. In addition, the Company was served with several smaller claims. As per the Company's legal advisors, at this stage it is not possible to estimate the Company's chances of success or the likely amount of recovery.

(e) Letters of Credit

The company issued various letters of credit approximating $5,477 as of December 31, 2018 (2017: $4,031). The amounts range from $25 up to $1,649 and have been issued to various municipalities and utilities in connection with the Company's development projects.

(in thousands of Canadian Dollars)

(f) Material agreements

1. Franchise agreements with Marriott International Inc. (the "Marriott")

On November 14, 2017, one of the Company's subsidiaries entered into 13, 20-year franchise agreements with Marriott for its Courtyard Hotels. As part of the terms of this agreement, the Company is entitled to access Marriott reservation system, as well as its sales platforms, in consideration for various payments, including franchise fees and other. Upon early termination of the agreements Marriott is entitled for various termination fees.

2. Management agreements with Aimbridge Hospitality LLC (the "Aimbridge")

On November 14, 2017, one of the Company's subsidiaries entered into 13, 5-year property management agreements with Aimbridge to operate and provide property management services to its Courtyard by Marriott hotels, in consideration for property management fees, and other payments, as customary for this type of agreements. The Company may terminate those agreements with 6 months of advanced notice.

3. Rental agreements with condo owners

Certain subsidiaries entered into agreements with third party real estate owners at its resorts to rent their condos for its hospitality operations in Canada. Upon the terms of these agreements the condo owners are entitled for a variable rental fees based on the lodging revenue from the hospitality guests. These agreements can be terminated by the parties upon a twelve

22 - Income from hotels and resorts

	For the year ended December 31,		
	2018	**2017**	**2016**
Room revenue	113,975	57,967	58,145
Food & beverage revenue	37,151	32,987	32,810
Ski revenue	14,221	14,031	14,626
Other hospitality revenue	15,766	13,138	12,921
	181,113	118,123	118,502

23 - Operating expenses from hotels and resorts

	2018	2017	2016
Room department	29,795	15,216	16,689
Cost of food & beverage	25,662	22,140	23,446
Hotels and resorts administrative and general expenses	22,030	15,979	13,130
Hotels and resorts marketing and sales	14,192	8,880	8,992
Hotels and resorts maintenance and repairs	9,679	7,132	7,599
Cost of ski services	6,222	5,945	5,792
Cost of golf services	1,575	1,743	2,125
Cost of property tax, utilities, and insurance	16,869	10,884	11,237
Hotels management and franchise fee	7,743	2,878	2,742
Other	8,859	7,912	8,047
	142,626	98,709	99,799

24 - Cost of sale of residential real estate

	2018	2017	2016
Cost of sale of condominiums	29,854	500	16,231
Cost of sale of land and development projects	7,500	8,854	3,235
Revaluation component included in cost of sale	2,674	15,552	4,074
Development periodic costs	2,125	1,852	1,458
Write-down (appreciation) of real estate inventory to net realizable value	351	(355)	2,993
	42,504	26,403	27,991

(in thousands of Canadian Dollars)

25 - Depreciation

See note 2 Significant Accounting Policies under "Property, Plant and Equipment".
Depreciation expense includes depreciation of the Company's items of property plant and equipment. See note 11.

26 - Administrative and general expenses

	For the year ended December 31,		
	2018	**2017**	**2016**
Salaries (including directors' fees) *	1,620	1,309	1,398
Recognition of Share-based payment (see note 20)	356	535	140
Compensation, benefits and bonus to key management personnel	1,994	1,517	1,301
Office Rent and Insurance	168	164	148
Legal, audit and consulting	3,071	1,424	1,267
Office, travel expenses and others	755	594	577
Depreciation of property, plant and equipment	46	29	64
	8,010	5,572	4,895

* 2018 - including restructuring costs - $457.

27 - Financial expense

Interest on long-term loans	9,690	4,837	5,870
Interest and foreign exchange revaluation of bonds	6,589	3,956	2,916
Amortization of deferred financing charges	2,337	1,745	848
Interest on short-term loans	159	387	445
Bank charges	970	164	253
	19,745	11,089	10,332
Included in the above - expense paid to related to related parties	—	—	69

28 - Income taxes

(a) Income Tax recovery (expense) included in the Consolidated Income Statements:

Current Income Tax	(883)	(613)	* (1,558)
Prior year taxes (recovery) and refunds	(889)	(33)	* (248)
Deferred Income tax	2,306	2,858	(385)
	534	2,212	(2,191)

(b) Current Canadian and U.S. federal and provincial combined income tax was calculated based on the following tax rates (see also note 13):

Ontario	26.50%	26.50%	26.50%
Ohio, USA (1)	23.00%	34.10%	34.10%
California, USA (1)	28.00%	39.80%	39.80%
Other states (on average), USA (1)	24.50%	38.20%	N/A

(in thousands of Canadian Dollars)

(c) Reconciliation between the statutory tax rate and the effective tax rate:

	For the year ended December 31,		
	2018	**2017**	**2016**
Profit before income taxes	(8,189)	6,409	10,228
Ontario Statutory tax rate	26.5%	26.5%	26.5%
Tax calculated using statutory tax rate	2,170	(1,698)	(2,710)
Increase (decrease) in taxes resulting from:			
Prior year taxes	(889)	(33)	(429)
Changes in tax rates	(358)	3,711	—
Difference in tax rate applicable to income of foreign subsidiaries	—	278	(105)
Tax Transparent Entity (Minority tax)	76	(437)	—
Allowance for tax loss non recoverability	—	(97)	(260)
Difference in tax rate applicable on capital gain	—	704	1,333
Non-Deductible expense (recovery)	(94)	(249)	(43)
Other	(371)	33	23
Income tax (recovery) expense	534	2,212	(2,191)

29 - Employee benefits

	For the year ended December 31,		
	2018	**2017**	**2016**
Wages, Salaries and benefits included in:			
Hospitality operating expenses	57,945	42,806	41,649
Development periodic costs	774	668	606
Administrative and general expenses	3,970	3,361	2,699
	62,689	46,835	44,954

30 - Risks and capital management objectives and policies

The Company's operations are subject to a number of risks and uncertainties, including, but not limited to, risks associated with the development of future properties, competition, the real estate markets and general economic conditions in which the Company competes, the availability and cost of financing and fluctuations in interest rates.

The Company is exposed to various risks in relation to financial instruments. Its financial assets and liabilities by category are summarised in note 19.

The main types of risks the Company is exposed to, related to financial assets and liabilities are interest rate risk, credit risk, foreign exchange risk and liquidity risk.

The Company's risk management is coordinated by its management, in close co-operation with the board of directors, and focuses on actively securing the Company's short to medium-term cash flows by minimizing the exposure to financial markets.

The Company does not actively engage in the trading of financial assets for speculative purposes nor does it trade in options. The most significant financial risks to which the Company is exposed are described below.

The Company does not hold or issue derivative financial instruments for trading purposes.

(a) Interest rate risk

The Company's policy is to minimize interest rate risk exposures on long-term financing. Longer-term loans payable are therefore usually at fixed rates, subject to the financial market availability. On December 31, 2018 and 2017, the Company was exposed to changes in market interest rates through bank borrowings at variable interest rates. Other loans payable are at fixed interest rates. The Company's investments in bonds all pay fixed interest rates.

At December 31, 2018, 38% (2017: 16%) of the Company's indebtedness for borrowed money was issued at fixed rates.

The following table illustrates the sensitivity of profit and equity to a reasonably possible change in interest rates of +/- 1% at December 31, 2018 (2017: +/- 1%). These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in the average market interest rates for each period, and the financial instruments held at each reporting date that are sensitive to changes in interest rates. All other variables are held constant.

	Profit		Equity	
Year ended December 31,	1%	(1%)	1%	(1%)
2018	2,290	(2,290)	2,290	(2,290)
2017	1,288	(1,288)	1,288	(1,288)

(in thousands of Canadian Dollars)

(b) Credit risk

The Company operates as a developer of destination real estate assets, as well as a hospitality manager and owner. As a developer, the Company is exposed to credit risk to the extent that purchasers may fail to meet their obligations under the terms of purchase and sale agreements. This risk is alleviated by minimizing the amount of exposure the Company has to any single sales transaction by collecting sufficient deposits and obtaining confirmations from the purchasers bank on mortgage financing.

Credit risk on development projects is limited to the uncollected amount of all transactions that have not closed. As at December 31, 2018, this amount is limited to $44,888. The Company can mitigate this risk through the deposits that remain in trust and through litigation to recover damages. Both of these items are available to the Company under local laws.

The Company is also exposed to credit risk on certain financial assets recognized at the reporting date, as summarized below:

	As at December 31,	
	2018	**2017**
Cash and cash equivalents	27,983	25,897
Trade receivables	36,601	6,159
Other receivables	13,421	12,113
Restricted bank deposits	11,916	9,768
Loans to purchasers	33,860	40,255
Long-term deposit	2,696	2,544
	126,477	96,736

The Company continuously monitors defaults of customers and other counterparties. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Company's policy is to deal only with creditworthy counterparties.

Some of the unimpaired trade receivables are past due as at the reporting date.

The Company's management considers that all the above financial assets that are not impaired or past due are of good credit quality.

None of the Group's financial assets are secured by collateral or other credit enhancements, except loans to purchasers and trade receivables. Please see note 4 and 5.

In respect of trade and other receivables, the Company is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Trade receivables consists of a large number of customers in various industries and geographical areas. Based on historical information about customer default rates management consider the credit quality of trade receivables that are not past due or impaired to be good.

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

(in thousands of Canadian Dollars)

(c) Liquidity risk

The Company manages its liquidity risks by ensuring that there is adequate cash resources to meet its obligations as they become due. Ultimate responsibility for liquidity risk management rests with the Board of Directors. The Company manages liquidity risk by maintaining adequate reserves and banking facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Group's remaining contractual maturities dates (in years) in respect of financial liabilities:

	Current	year 2	year 3	year 4	year 5	6 years & later
As at December 31, 2018						
Loans payable (*)	63,828	25,869	40,210	134,703	17,320	23,182
Bonds (*)	12,916	12,556	12,160	11,791	47,064	45,446
Trade payables	14,616	—	—	—	—	—
Other payables and credit balances	29,470	154	154	154	154	374
Purchasers' deposits	8,779	—	—	—	—	—
	129,609	38,579	52,524	146,648	64,538	69,002
As at December 31, 2017						
Loans payable (*)	39,500	17,942	26,742	119,769	5,092	37,502
Bonds (*)	7,795	11,714	11,394	11,027	10,685	87,156
Trade payables	10,456	—	—	—	—	—
Other payables and credit balances	20,375	154	154	154	154	419
Purchasers' deposits	9,649	281	—	—	—	—
	87,775	30,091	38,290	130,950	15,931	125,077

(*) Including cash flows for both principal and interest.

The above amounts reflect the contractual undiscounted cash flows, which may differ to the carrying values of the liabilities at the reporting date.

(in thousands of Canadian Dollars)

(d) Foreign Exchange currency risk

Foreign exchange risk arises when individual Group entities enter into transactions denominated in a currency other than their functional currency. The Group's policy is, where possible, to allow group entities to settle liabilities denominated in their functional currency (primarily Canadian Dollars and US Dollars) with the cash generated from their own operations in that currency.

In addition, the risk is raised when the reporting currency is different from the entity's functional currency.

Only New Israeli Shekel to CAD (Bonds Series A) exchange rate exposures is managed by forward foreign exchange contracts (see note 15(c)).

On December 31, 2018, $185,529, or 50%, (2017: $157,094, or 49%,) of the Company's indebtedness for borrowed money was denominated in US dollars.

Assets and liabilities of the Company by currency category, at December 31:

	2018				2017			
	CAD	USD	NIS	Total	CAD	USD	NIS	Total
Assets:								
Cash and cash equivalents	15,623	12,332	28	27,983	11,807	13,868	222	25,897
Trade receivables	33,855	2,746	—	36,601	2,877	3,282	—	6,159
Other receivables	11,254	2,167	—	13,421	11,941	172	—	12,113
Restricted bank deposits	4,536	4,535	2,845	11,916	4,673	1,386	3,709	9,768
Financial derivative	—	—	2,821	2,821	—	—	3,675	3,675
Loans to purchasers	33,860	—	—	33,860	40,255	—	—	40,255
Other assets	—	—	—	—	140	2,404	—	2,544
Total financial assets	99,128	21,780	5,694	126,602	71,693	21,112	7,606	100,411
Non-Financial Assets	288,483	369,352	—	657,835	289,830	323,898	—	613,728
Total Assets	387,611	391,132	5,694	784,437	361,523	345,010	7,606	714,139
Liabilities:								
Trade payables	6,337	8,279	—	14,616	4,630	5,826	—	10,456
Other payables and credit balances	20,805	8,675	—	29,480	12,487	8,243	—	20,730
Purchasers' deposits	8,779	—	—	8,779	9,930	—	—	9,930
Loans payable	75,685	180,704	—	256,389	53,281	155,454	—	208,735
Bonds	—	61,815	49,065	110,880	—	56,448	51,279	107,727
Other liabilities	473	517	—	990	171	1,018	—	1,189
Total financial liabilities	112,079	259,990	49,065	421,134	80,499	226,989	51,279	358,767
Total non-financial liabilities	38,482	23,981	—	62,463	40,947	18,428	—	59,375
Total Liabilities	150,561	283,971	49,065	483,597	121,446	245,417	51,279	418,142
Financial assets net of financial liabilities	(12,951)	(238,210)	(43,371)	(294,532)	(8,806)	(205,877)	(43,673)	(258,356)
Total assets, net of total liabilities	237,050	107,161	(43,371)	300,840	240,077	99,593	(43,673)	295,997
Revenue	102,399	129,857	—	232,256	81,645	70,918	—	152,563

(in thousands of Canadian Dollars)

The following table illustrates the sensitivity of profit and equity to a reasonably possible change in USD exchange rate of +/- 5% at balance sheet dates. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in the average foreign exchange rates for each period, and the financial assets and liabilities held at each reporting date that are sensitive to changes in exchange rates. All other variables are held constant.

	2018		2017	
	5%	(5%)	5%	(5%)
Assets	1,089	1,089	1,056	(1,056)
Liabilities	(13,000)	13,000	(11,967)	11,967
Equity	(11,911)	11,911	(10,912)	10,912
Profit for the year	(41)	41	(368)	368

(e) Asset and liabilities of the Company by expected settlement or recovery period, at Decmber 31:

	2018			2017		
	Within 12 months	More than 12 months	Total	Within 12 months	More than 12 months	Total
Assets:						
Cash and cash equivalents	27,983	—	27,983	25,897	—	25,897
Trade receivables	36,601	—	36,601	6,159	—	6,159
Other receivables	13,421	—	13,421	11,832	281	12,113
Prepayments	2,870	—	2,870	3,172	116	3,288
Inventories	33,396	33,125	66,521	43,221	19,814	63,035
Loans to purchasers	7,959	25,901	33,860	7,287	32,968	40,255
Restricted bank deposits	4,406	7,510	11,916	5,175	4,593	9,768
Financial derivative	—	2,821	2,821	—	3,675	3,675
Investment properties	—	90,640	90,640	—	92,983	92,983
Property, plant and equipment	—	487,265	487,265	—	446,590	446,590
Other non-current assets	—	2,696	2,696	—	2,544	2,544
Deferred tax	—	7,843	7,843	—	7,832	7,832
	126,636	657,801	784,437	102,743	611,396	714,139
Liabilities:						
Loans payable	49,697	7,227	56,924	29,476	4,443	33,919
Bonds - current maturities	6,252	—	6,252	2,450	—	2,450
Trade payables	14,616	—	14,616	10,456	—	10,456
Other payables and credit balances	30,114	—	30,114	20,730	—	20,730
Deferred revenue	7,508	—	7,508	7,519	—	7,519
Income taxes payable	671	—	671	—	—	—
Purchasers' deposits	8,779	—	8,779	9,649	281	9,930
Loans payable	—	199,465	199,465	—	174,816	174,816
Bonds	—	104,628	104,628	—	105,277	105,277
Other liabilities	—	990	990	154	1,035	1,189
Deferred tax	—	53,650	53,650	—	51,856	51,856
	117,637	365,960	483,597	80,434	337,708	418,142
Total assets, net of total liabilities	8,999	291,841	300,840	22,309	273,688	295,997

(f) Capital Management Policies and Procedures

The Company' s capital management objectives are:
• to ensure the Company's ability to continue as a going concern; and
• to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Company monitors capital on the basis of the carrying amount of equity plus loans from related parties, less cash and cash equivalents as presented on the face of the consolidated balance sheets.

The Company's goal in capital management is to maintain a loan-to-overall financing ratio of 70%. This is in line with its parent company's requirement to meet its bond rating obligations.

(in thousands of Canadian Dollars)

The Company sets the amount of capital in proportion to its overall financing structure, i.e. equity and financial liabilities other than the loans payable to related parties. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

Capital for the reporting periods under review is summarized as follows:	As at December 31,	
	2018	**2017**
Shareholders' equity	260,753	255,020
Loans payable	256,389	208,735
Bonds	110,880	107,727
Cash and cash equivalents	(27,983)	(25,897)
Overall Financing	600,039	545,585
Loan to overall financing ratio	61%	58%

(g) Working capital adjustments for items that are longer than 12 months include Assets of ($18,006) and Liabilities of $9,726.

31 - Segmented information

(a) The Company operates within the commercial investment property business, land development business, and hospitality business. The following summary presents segmented financial information for the Company's principal areas of business by industry. All of the Company's operating segments operate in Canada and the United States.

Hospitality segments

The chief operation decision maker reviews and analyzes the US hospitality operations as separate segment, consisted of The Hyatt Regency Arcade and the Renaissance Hotel located in Cleveland, Ohio, The 13 Hotels branded Marriott Courtyard spreaded across 9 different states and the Bear Valley Resort located in California.

Development and investment properties segments

The management of the company manages the lands regardless of their accounting classification, as one operating segment. Therefore, chief operation decision maker reviews and analyzes all the lands (both accounted for IAS 40 and IAS 2) under the development segment.

Business segments are:

US hotels and resorts	Acquisition, ownership and management of hotels and resorts in the US
Canadian hotels and resorts	Acquisition, ownership and management of hotels and resorts in Canada
Investment properties	Acquisition, ownership and management of commercial income producing properties
Development	Acquisition, development and sale of real estate properties and lands

(in thousands of Canadian Dollars)

(b) Segmented financial information:

	US hotels and resorts	Canadian hotels and resorts	Investment properties	Development	Other	Total
For the year ended December 31, 2018						
Revenue	130,729	50,384	4,390	46,722	31	232,256
Costs and expenses	(101,512)	(41,114)	(1,257)	(42,504)	(100)	(186,487)
	29,217	9,270	3,133	4,218	(69)	45,769
Selling and marketing expenses						(776)
Administrative and general expenses						(8,010)
Depreciation						(21,110)
Gain (Loss) from fair value adjustments			1,011	(4,220)		(3,209)
Loss on sale of investments						(1,770)
Other expense						(116)
Financial expense						(19,745)
Financial income						778
Profit (Loss) before income taxes						(8,189)
For the year ended December 31, 2017						
Revenue	70,124	47,999	3,671	30,694	75	152,563
Costs and expenses	(58,574)	(40,135)	(1,079)	(26,403)	(113)	(126,304)
	11,550	7,864	2,592	4,291	(38)	26,259
Selling and marketing expenses						(480)
Administrative and general expenses						(5,572)
Depreciation						(11,415)
Gain from fair value adjustments			1,883	4,832		6,715
Loss on sale of investments						(17)
Other expense						(1,111)
Financial expense						(11,089)
Financial income						3,119
Profit before income taxes						6,409
For the year ended December 31, 2016						
Revenue	70,349	48,153	3,695	25,551	246	147,994
Costs and expenses	(55,875)	(43,924)	(1,577)	(27,991)	(85)	(129,452)
	14,474	4,229	2,118	(2,440)	161	18,542
Selling and marketing expenses						(1,463)
Administrative and general expenses						(4,895)
Depreciation						(6,635)
Gain from fair value adjustments			3,850	3,245		7,095
Gain on sale of investments						8,574
Other expense						(869)
Financial expense						(10,332)
Financial income						211
Profit before income taxes						10,228
As at December 31, 2018						
Assets	392,360	152,370	41,062	198,499	146	784,437
Liabilities	(284,206)	(95,849)	(21,269)	(82,084)	(189)	(483,597)
	108,154	56,521	19,793	116,415	(43)	300,840
As at December 31, 2017						
Assets	337,056	167,298	39,537	170,079	169	714,139
Liabilities	(247,119)	(92,177)	(20,912)	(57,856)	(78)	(418,142)
	89,937	75,121	18,625	112,223	91	295,997

(in thousands of Canadian Dollars)

32 - Significant business acquisitions

2017 Acquisition of Coutyard 13 Hotels.

For information regarding Courtyard Hotels acquisition please see note 11 (a).

Pro forma data

The recently acquired 13 Courtyard hotels were part of the seller's overall activity, which included 60 additional hotels. The seller did not prepare audited financial statements at the level of the acquired activity or at the level of the individual asset. Furthermore, as part of the acquisition transaction, the Company received from the seller partial financial data of the hotels, which are not audited or reviewed, and which include income, operating expenses, marketing expenses and general and administrative expenses.

As a result, the Company is unable to publish pro forma data.

13 Courtyard Hotels operation's contribution in 2017:

	Period ended December 31, 2017
Revenue	5,836
Income before interest, taxes & depreciation	(1,955)

During 2018 the Company engaged an external consultant as part of a purchase price allocation of the assets, these amounts are included in Note 11 as part of the original balances upon acquisition. The allocation among its components is as follows:

	Land	Site & Building Improvements	Furniture, Fixtures & Equipment	Other	Total
CAD	38,129	117,402	16,349	197	172,077
USD	29,945	92,060	12,840	155	135,000

33 - Subsequent events

(a) Blue Mountain retail and building sale

On February 2019 the Company entered into a Purchase and Sale Agreement to sell the Company's commercial retail assets at Blue Mountain to an unrelated party.

The sale is devided into two components. The first component is the Village retail for total consideration of $31,700. The transaction closed on March 28, 2019 at which time the second component will become effective. The second component is the sale of a building called Boathouse 3. The sale of this asset is for total consideration of $2,400 and will close in two years. In the interim period, prior to closing of Boathouse 3 the Company will continue to earn all income on the asset.

The Company owns 60% of all the described assets.

(b) The Company consolidated two of its development loans for Second Nature ($6,000) and increased the total by an additional $6,000. The total facility is now a revolving facility of $12,000 which is sufficient funds to fully service the Second Nature project.