

**SKYLINE INVESTMENTS INC.
CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED**

June 30, 2018

(UNAUDITED)

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

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SKYLINE INVESTMENTS INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian Dollars)

	As at		
	June 30, 2018	June 30, 2017	December 31, 2017
	(Unaudited)	(Unaudited)	(Audited)
ASSETS			
Current			
Cash and cash equivalents	28,433	18,192	25,897
Trade receivables	13,243	5,337	6,159
Other receivables	13,793	7,208 *)	12,113
Prepayments	3,937	3,112	3,288
Inventories	1,823	1,571	2,027
Real estate inventory	69,517	69,446	61,008
Property held for sale	--	18,614	--
Loans to purchasers - current maturity	4,946	4,891 *)	7,287
Restricted bank deposits	4,173	4,029	5,175
Total current assets	139,865	132,400	122,954
Non-current			
Financial derivative	3,367	4,558	3,675
Investment properties	88,659	89,244	92,983
Property, plant and equipment, at cost	3,177	3,724	3,235
Property, plant and equipment, at fair value	460,829	272,089	443,355
Loans to purchasers	35,701	--	32,968
Other assets	2,641	408	2,544
Deferred tax	7,436	7,154	7,832
Restricted bank deposits	6,647	4,918	4,593
Total non-current assets	608,457	382,095	591,185
Total Assets	748,322	514,495	714,139
LIABILITIES AND EQUITY			
Current			
Loans payable	47,558	18,294	33,919
Bonds - current maturities	4,334	2,101	2,450
Trade payables	11,381	5,668	10,456
Other payables and credit balances	23,152	14,993	20,730
Deferred revenue	9,303	7,301	7,519
Income taxes payable	769	110	-
Purchasers' deposits	9,819	7,707	9,930
Total current liabilities	106,316	56,174	85,004
Non-current			
Loans payable	185,690	64,258	174,816
Bonds	105,567	44,055	105,277
Other liabilities	1,204	2,334	1,189
Deferred tax	50,696	61,227	51,856
Total non-current liabilities	343,157	171,874	333,138
Total liabilities	449,473	228,048	418,142
Equity			
Equity attributable to Shareholders of the Company	257,870	244,734	255,020
Non-controlling interest	40,979	41,713	40,977
Equity	298,849	286,447	295,997
Total Liabilities and Equity	748,322	514,495	714,139

*) Reclassified

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

August 28, 2018

Date

SKYLINE INVESTMENTS INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME

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

	FOR THREE MONTH PERIOD ENDED		FOR THE SIX MONTH PERIOD ENDED		FOR THE YEAR ENDED
	June 30, 2018 (Unaudited)	June 30, 2017 (Unaudited)	June 30, 2018 (Unaudited)	June 30, 2017 (Unaudited)	December 31, 2017 (Audited)
REVENUE					
Hospitality income	44,639	24,724	90,694	57,609	118,123
Income from investment properties	1,099	926	2,117	1,796	3,671
Sale of residential real estate	16,752	462	16,946	1,354	30,694
Other operating income	7	--	13	66	75
	62,497	26,112	109,770	60,825	152,563
EXPENSES AND COSTS					
Hospitality operating expenses	34,850	22,544	70,460	48,453	98,709
Operating expenses of investment properties	180	231	544	534	1,079
Cost of sale of residential real estate	14,337	680	14,856	1,399	26,403
Other operating expense	4	60	37	76	113
	49,371	23,515	85,897	50,462	126,304
	13,126	2,597	23,873	10,363	26,259
Selling and marketing expenses	126	234	318	385	480
Administrative and general expenses	1,418	1,108	2,638	2,214	5,572
OPERATING INCOME BEFORE DEPRECIATION, VALUATION ADJUSTMENTS AND OTHER INCOME	11,582	1,255	20,917	7,764	20,207
Depreciation	4,365	2,779	8,660	5,309	11,415
Loss (gain) from fair value adjustments	4,729	(4,978)	4,799	(4,903)	(6,715)
Loss on sale of investments	--	(9)	--	17	17
Other expense	47	(22)	148	479	1,111
PROFIT FROM OPERATIONS	2,441	3,485	7,310	6,862	14,379
Financial expense	4,974	2,495	9,856	4,412	11,089
Financial income	(44)	(741)	(657)	(2,192)	(3,119)
PROFIT BEFORE INCOME TAXES	(2,489)	1,731	(1,889)	4,642	6,409
Income tax (recovery) expense	(600)	414	(126)	1,598	(2,212)
PROFIT FOR THE PERIOD	(1,889)	1,317	(1,763)	3,044	8,621
Attributable to:					
Shareholders of the Company	(1,370)	4	(825)	1,907	6,066
Non-controlling interest	(519)	1,313	(938)	1,137	2,555
PROFIT FOR THE PERIOD	(1,889)	1,317	(1,763)	3,044	8,621
BASIC EARNINGS PER SHARE	(0.08)	--	(0.05)	0.11	0.37
DILUTED EARNINGS PER SHARE	(0.08)	--	(0.05)	0.11	0.36

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

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

(in thousands of Canadian Dollars)

	FOR THE THREE MONTHS ENDED		FOR THE SIX MONTH PERIOD ENDED		FOR THE YEAR ENDED
	June 30, 2018 (Unaudited)	June 30, 2017 (Unaudited)	June 30, 2018 (Unaudited)	June 30, 2017 (Unaudited)	December 31, 2017 (Audited)
PROFIT FOR THE PERIOD	(1,889)	1,317	(1,763)	3,044	8,621
OTHER COMPREHENSIVE INCOME					
Items that will not be reclassified subsequently to profit or loss:					
Revaluation surplus (loss) of property, plant and equipment, before income taxes	--	--	--	--	(1,801)
Income taxes	--	--	--	--	6,116
Items that will or may be reclassified subsequently to profit or loss:					
Exchange differences on translation of foreign operations	1,950	(1,845)	4,475	(2,468)	(3,017)
OTHER COMPREHENSIVE INCOME FOR THE YEAR net of taxes	1,950	(1,845)	4,475	(2,468)	1,298
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, net of taxes	61	(528)	2,712	576	9,919
Attributable to:					
Shareholders of the Company	7	(1,123)	2,710	267	10,346
Non-controlling interest	54	595	2	309	(427)
	61	(528)	2,712	576	9,919

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

SKYLINE INVESTMENTS INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands of Canadian Dollars)

	Share Capital and Premium	Warrant Certificates	Re- valuation Surplus	Equity Settled Service Reserve	Related Party Surplus	Foreign Exchange translation	Retained Earnings	Total shareholders' equity	Non- controlling Interest	Total
FOR THREE MONTH PERIOD ENDED June 30, 2018										
<i>(Unaudited)</i>										
Balance at the beginning of the period	78,779	519	87,195	733	125	5,545	84,890	257,786	40,925	298,711
Loss for the period	--	--	--	--	--	--	(1,370)	(1,370)	(519)	(1,889)
Other comprehensive income for the period	--	--	--	--	--	1,377	--	1,377	573	1,950
Total comprehensive Income for the period	--	--	--	--	--	1,377	(1,370)	7	54	61
Revaluation surplus, recognized net of taxes	--	--	(595)	--	--	--	595	--	--	--
Recognition of share-based payment	--	--	--	77	--	--	--	77	--	77
Balance at the end of the period	78,779	519	86,600	810	125	6,922	84,115	257,870	40,979	298,849

	Share Capital and Premium	Warrant Certificates	Re- valuation Surplus	Equity Settled Service Reserve	Related Party Surplus	Foreign Exchange translation	Retained Earnings	Total shareholders' equity	Non- controlling Interest	Total
FOR THREE MONTH PERIOD ENDED June 30, 2017										
<i>(Unaudited)</i>										
Balance at the beginning of the period	78,779	519	83,464	377	125	4,599	79,737	247,600	41,118	288,718
Issuance of new shares	--	--	--	--	--	--	--	--	--	--
Profit for the period	--	--	--	--	--	--	4	4	1,313	1,317
Other comprehensive income for the period	--	--	(720)	--	--	(407)	--	(1,127)	(718)	(1,845)
Total comprehensive income for the period	--	--	(720)	--	--	(407)	4	(1,123)	595	(528)
Dividend distribution	--	--	--	--	--	--	(1,829)	(1,829)	--	(1,829)
Recognition of share-based payment	--	--	--	86	--	--	--	86	--	86
Balance at the end of the period	78,779	519	82,744	463	125	4,192	77,912	244,734	41,713	286,447

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

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

(in thousands of Canadian Dollars)

	Share Capital and Premium	Warrant Certificates	Re-valuation Surplus	Share based Compensation Surplus	Related Party Surplus	Foreign Exchange translation	Retained Earnings	Total shareholders' equity	Non- controlling Interest	Total
FOR THE SIX MONTH PERIOD ENDED June 30, 2018										
<i>(Unaudited)</i>										
Balance at the beginning of the period	78,779	519	87,782	670	125	3,387	83,758	255,020	40,977	295,997
Loss for the period	--	--	--	--	--	--	(825)	(825)	(938)	(1,763)
Other comprehensive income for the period	--	--	--	--	--	3,535	--	3,535	940	4,475
Total comprehensive income for the year	--	--	--	--	--	3,535	(825)	2,710	2	2,712
Recognition of revaluation surplus of property plant and equipment, net of taxes to retained earnings	--	--	(1,182)	--	--	--	1,182	--	--	--
Recognition of share-based payment	--	--	--	140	--	--	--	140	--	140
Balance at the end of the period	78,779	519	86,600	810	125	6,922	84,115	257,870	40,979	298,849

	Share Capital and Premium	Warrant Certificates	Re-valuation Surplus	Share based Compensation Surplus	Related Party Surplus	Foreign Exchange translation	Retained Earnings	Total shareholders' equity	Non- controlling Interest *)	Total
FOR THE SIX MONTH PERIOD ENDED June 30, 2017										
<i>(Unaudited)</i>										
Balance at the beginning of the period	77,900	519	83,749	1,014	125	4,827	77,834	245,968	41,404	287,372
Issuance of new shares	879	--	--	(879)	--	--	--	--	--	--
Profit for the year	--	--	--	--	--	--	1,907	1,907	1,137	3,044
Other comprehensive loss for the period	--	--	(1,005)	--	--	(635)	--	(1,640)	(828)	(2,468)
Total comprehensive Income for the period	--	--	(1,005)	--	--	(635)	1,907	267	309	576
Dividend distribution	--	--	--	--	--	--	(1,829)	(1,829)	--	(1,829)
Recognition of share-based payment	--	--	--	328	--	--	--	328	--	328
Balance at the end of the period	78,779	519	82,744	463	125	4,192	77,912	244,734	41,713	286,447

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

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

(in thousands of Canadian Dollars)

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

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

SKYLINE INVESTMENTS INC.
CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(in thousands of Canadian Dollars)

	FOR THREE MONTH PERIOD ENDED		FOR THE SIX MONTH PERIOD ENDED		FOR THE
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017	YEAR ENDED December 31, 2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Cash Flow from (used in) Operating Activities					
Profit (Loss) for the period	(1,889)	1,317	(1,763)	3,044	8,621
Add (deduct) items not involving cash:					
Depreciation and amortization	4,721	3,696	9,023	6,463	13,190
Loss (gain) from fair value adjustments	4,729	(4,978)	4,799	(4,903)	(6,715)
Financing costs from bonds including foreign exchange	2,571	1,343	6,689	4,099	6,674
Financing income from financial derivative	1,087	(1,251)	308	(4,558)	(3,675)
Deferred tax, net	(1,358)	98	(1,217)	955	(1,784)
Write up of real estate inventory to net realizable value	--	(355)	--	(355)	(355)
Share based compensation	77	86	140	328	535
Changes in non-cash working capital					
Trade receivables	(7,521)	(70)	(7,084)	11,927	11,540
Other receivables, prepayments and others	1,094	(79)	1,953	1,583	(3,048)
Restricted bank deposits	(923)	(239)	(1,958)	(1,691)	(2,512)
Inventories	(165)	(192)	204	209	(218)
Real Estate Inventory	(3,426)	(2,308)	(13,183)	(4,305)	(14,615)
Trade and other payables and credit balances	5,645	(1,333)	1,322	(3,812)	2,944
Income taxes payable	672	451	769	(862)	(972)
Purchasers' deposits	(1,027)	593	(111)	1,009	3,232
Cash Flow from (used in) Operating Activities	4,287	(3,221)	(109)	9,131	12,842
Cash Flow from (used in) Investing Activities					
Proceeds from asset sold	--	--	--	--	3,447
Additions to investment properties	55	(111)	(78)	(205)	(2,371)
Investment in restricted long term deposit	--	--	906	(3,250)	(3,250)
Additions to property, plant and equipment	(6,673)	(5,354)	(10,237)	(10,712)	(22,043)
Proceeds from sale of property, plant and equipment	--	58	--	76	76
Net cash used in a business acquisition (Schedule A)	--	--	--	--	(176,443)
Cash Flow from (used in) Investing Activities	(6,618)	(5,407)	(9,409)	(14,091)	(200,584)
Cash Flow from (used in) Financing Activities					
Bank credit and other short-term loans	5,921	2,640	13,750	(7,697)	3,816
Issuance of bonds payable	--	--	--	--	62,731
Repayment of bonds payable	--	--	(1,292)	--	(1,133)
Proceeds on loans payable	4,320	2,424	4,380	20,287	138,566
Repayments of loans payable	(802)	(940)	(1,925)	(17,385)	(18,158)
Dividend Distribution	--	(1,829)	--	(1,829)	(1,829)
Change in other liabilities	(7)	(218)	15	(243)	(460)
Cash Flow from (used in) Financing Activities	9,432	2,077	14,928	(6,867)	183,533
Foreign Exchange translation of foreign operations	(1,795)	(160)	(2,874)	182	269
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE YEAR	5,306	(6,711)	2,536	(11,645)	(3,940)
Cash and cash equivalents, beginning of year	23,127	24,903	25,897	29,837	29,837
CASH AND CASH EQUIVALENTS, END OF PERIOD	28,433	18,192	28,433	18,192	25,897
SUPPLEMENTAL CASH FLOW INFORMATION					
Interest paid	4,762	1,258	9,294	3,175	7,057
Interest received	7	18	36	51	307
Income taxes paid	14	684	30	684	1,706
<u>Investment non-cash transactions</u>					
Loans to Purchasers	4,674	--	4,674	--	33,915

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

SKYLINE INVESTMENTS INC.
CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(in thousands of Canadian Dollars)

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

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

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

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

(in thousands of Canadian Dollars)

1 NATURE OF OPERATIONS

Skyline Investments Inc. ("Skyline" or the "Company") was incorporated on December 4, 1998 under the *Business Corporations Act (Ontario)*. The Company's shares trade on the Tel-Aviv Stock Exchange (TASE) in Israel and is a public issuer in Ontario, Canada

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

The Company is 65.35% owned by Skyline Canada-Israel Ltd, which is majority owned by Mishorim Real Estate Investments Ltd, a public company whose shares are traded on the Tel-Aviv Stock Exchange.

2 SIGNIFICANT ACCOUNTING POLICIES

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

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

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

As explained in Note 2 to the annual financial statements as at December 31, 2017, commencing on January 1, 2018, the Company applies IFRS 9 (2014), Financial Instruments. The standard application had no material effect on the financial statements of the Company. The significant accounting policies and methods of computation adopted in the preparation of the condensed interim consolidated financial statements are consistent with those followed in the preparation of the annual financial statements.

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

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

(c) Exchange rate (CAD/USD)

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

	<u>30-Jun-18</u>	<u>30-Jun-17</u>	<u>31-Dec-17</u>
Exchange rate (CAD per 1 USD)	1.317	1.298	1.255
Average Exchange rate (CAD per 1 USD)	1.278	1.334	1.299

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

IFRS 16 Leases

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

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

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

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

3 SEASONALITY AND OTHER DISCLOSURES

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

SKYLINE INVESTMENTS INC.
SELECTED NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE PERIOD ENDED JUNE 30, 2018
(in thousands of Canadian Dollars)

4 FAIR VALUE MEASUREMENT

Categories of assets and liabilities subject to fair value measurement

The estimated fair values of loans payable are as follows:

	Fair value		Carrying amount	
	As at June 30, 2018	As at June 30, 2017	As at June 30, 2018	As at June 30, 2017
Loans payable	233,261	81,426	233,248	82,552
Bonds Series A (1)	54,412	52,067	50,122	46,156
Bonds Series B (1)	58,352	-	59,779	-
Financial derivative (2)	3,367	4,558	3,367	4,558

(1) The Fair value is based on Tel-Aviv Stock Exchange quote (in New Israeli Shekels) for June 30, 2018 and translated to CAD using a currency NIS/CAD quote provided on Bank of Israel web site.

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

(2) The fair value is based on bank statement as of June 30, 2018

5 SIGNIFICANT EVENTS DURING THE PERIOD

a. Employee stock options plan

On November 14, 2016 the Board of Directors approved an employee stock option plan. On February 21, 2018, 135,000 options were granted to a senior employee. The average value of each option was approximately 7.9 New Israeli Shekel. On March 20, 2018 the Board of Directors approved a grant of 100,000 new options to additional senior employee. The average value of each option was approximately 8.77 New Israeli Shekel. The fair value of the options at the grant date was determined using Binomial model. Where relevant, the expected life used in the models has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions, and behavioral considerations. Expected volatility is based on the historical share price volatility of similar companies including the Company's main owner Mishorim Real Estate Investments Ltd., which management estimates to approximate the volatility in value of the Company's shares.

b. Contingent liabilities

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

c. Slopeside condominium project

During the reporting period, the Company delivered 18 units to the purchasers and recognized revenue of \$6,935.

d. Blue Mountain lands

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

e. Warrants expiration

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

f. Investment Property impairment - Blue Mountain Lands

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

6 SEGMENTED INFORMATION

The Company operates within commercial investment property, land development business, and hospitality business. The following summary presents segmented financial information for the Company's principal areas of business by industry. All of the Company's operating segments operate in Ontario, Canada and in 10 US states.

(a) General business segments

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

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6 SEGMENTED INFORMATION (continued)

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

	For the three months ended June 30, 2018 (unaudited)					Total
	Hospitality USA	Hospitality Canada	Investment properties	Development	Other	
REVENUE						
Hospitality income	35,251	9,388	--	--	--	44,639
Income from investment properties	--	--	1,099	--	--	1,099
Sale of residential real estate	--	--	--	16,752	--	16,752
Other operating income	--	--	--	--	7	7
	<u>35,251</u>	<u>9,388</u>	<u>1,099</u>	<u>16,752</u>	<u>7</u>	<u>62,497</u>
EXPENSES AND COSTS						
Hospitality operating expenses	25,846	9,004	--	--	--	34,850
Operating expenses of investment properties	--	--	180	--	--	180
Cost of sale of residential real estate	--	--	--	14,337	--	14,337
Other operating expense	--	--	--	--	4	4
	<u>25,846</u>	<u>9,004</u>	<u>180</u>	<u>14,337</u>	<u>4</u>	<u>49,371</u>
SEGMENTED RESULTS	9,405	384	919	2,415	3	13,126
Loss (gain) from fair value adjustments	--	--	--	4,729	--	4,729
Selling and marketing expenses						126
Administrative and general expenses						1,418
Depreciation						4,365
Financial expense						4,974
Financial income						(44)
Other expense						47
LOSS BEFORE INCOME TAXES						(2,489)

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6 SEGMENTED INFORMATION (continued)

	For the three months ended June 30, 2017 (unaudited)					
	Hospitality USA	Hospitality Canada	Investment properties	Development	Other	Total
REVENUE						
Hospitality income	15,480	9,244	--	--	--	24,724
Income from investment properties	--	--	926	--	--	926
Sale of residential real estate	--	--	--	462	--	462
	<u>15,480</u>	<u>9,244</u>	<u>926</u>	<u>462</u>	<u>--</u>	<u>26,112</u>
EXPENSES AND COSTS						
Hospitality operating expenses	13,731	8,813	--	--	--	22,544
Operating expenses of investment properties	--	--	231	--	--	231
Cost of sale of residential real estate	--	--	--	680	--	680
Other operating expense	--	--	--	--	60	60
	<u>13,731</u>	<u>8,813</u>	<u>231</u>	<u>680</u>	<u>60</u>	<u>23,515</u>
SEGMENTED RESULTS	1,749	431	695	(218)	(60)	2,597
Loss (gain) from fair value adjustments	--	--	--	(4,978)	--	(4,978)
Selling and marketing expenses						234
Depreciation						2,779
Administrative and general expenses						1,108
Financial expense						2,495
Financial income						(741)
Other expense						(22)
Loss on sale of investments						(9)
LOSS BEFORE INCOME TAXES						<u>1,731</u>

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6 SEGMENTED INFORMATION (continued)

	For the six months ended June 30, 2018 (unaudited)					Total
	Hospitality USA	Hospitality Canada	Investment properties	Development	Other	
REVENUE						
Hospitality income	67,524	23,170	--	--	--	90,694
Income from investment properties	--	--	2,117	--	--	2,117
Sale of residential real estate	--	--	--	16,946	--	16,946
Other operating income	--	--	--	--	13	13
	67,524	23,170	2,117	16,946	13	109,770
EXPENSES AND COSTS						
Hospitality operating expenses	50,829	19,631	--	--	--	70,460
Operating expenses of investment properties	--	--	544	--	--	544
Cost of sale of residential real estate	--	--	--	14,856	--	14,856
Other operating expense	--	--	--	--	37	37
	50,829	19,631	544	14,856	37	85,897
SEGMENTED RESULTS	16,695	3,539	1,573	2,090	(24)	23,873
Loss (gain) from fair value adjustments	--	--	--	4,799	--	4,799
Selling and marketing expenses						318
Administrative and general expenses						2,638
Depreciation						8,660
Other expense						148
Financial expense						9,856
Financial income						(657)
LOSS BEFORE INCOME TAXES						(1,889)

	As at June 30, 2018					Total
	Hospitality USA	Hospitality Canada	Investment properties	Development	Other	
Assets	355,093	169,085	46,792	177,179	173	748,322
Liabilities	263,138	90,970	20,996	74,250	119	449,473
	91,955	78,115	25,796	102,929	54	298,849

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6 SEGMENTED INFORMATION (continued)

	For the six months ended June 30, 2017 (unaudited)					
	Hospitality USA	Hospitality Canada	Investment properties	Development	Other	Total
REVENUE						
Hospitality income	34,911	22,698	--	--	--	57,609
Income from investment properties	--	--	1,796	--	--	1,796
Sale of residential real estate	--	--	--	1,354	--	1,354
Other operating income	--	--	--	--	66	66
	34,911	22,698	1,796	1,354	66	60,825
EXPENSES AND COSTS						
Hospitality operating expenses	29,282	19,171	--	--	--	48,453
Operating expenses of investment properties	--	--	534	--	--	534
Cost of sale of residential real estate	--	--	--	1,399	--	1,399
Other operating expense	--	--	--	--	76	76
	29,282	19,171	534	1,399	76	50,462
SEGMENTED RESULTS	5,629	3,527	1,262	(45)	(10)	10,363
Loss (gain) from fair value adjustments	--	--	--	(4,903)	--	(4,903)
Selling and marketing expenses						385
Administrative and general expenses						2,214
Depreciation						5,309
Other expense						479
Financial expense						4,412
Financial income						(2,192)
Gain on sale of investment						17
PROFIT BEFORE INCOME TAXES						4,642

	As at June 30, 2017 (Unaudited)					
	Hospitality USA *)	Hospitality Canada	Investment properties	Development	Other	Total
Assets	158,106	153,912	39,318	162,897	262	514,495
Liabilities	81,833	73,923	20,847	51,350	95	228,048
	76,273	79,989	18,471	111,547	167	286,447

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6 SEGMENTED INFORMATION (continued)

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

	As at December 31, 2017 (Audited)					
	Hospitality USA	Hospitality Canada	Investment properties	Development	Other	Total
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

7 SIGNIFICANT BUSINESS ACQUISITIONS

Additional disclosure

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

	For the six month period ended June 30, 2018		
	13 Courtyard Hotels	Company's main operations	Consolidated
Revenue	34,296	75,474	109,770
Expenses and Costs	23,018	62,879	85,897
Segmented Results	11,278	12,595	23,873
Loss (gain) from fair value adjustments	--	4,799	4,799
Selling and marketing expenses	--	318	318
Administrative and general expenses	--	2,638	2,638
Depreciation	2,655	6,005	8,660
Other expense	--	148	148
Financial Expense	5,968	3,888	9,856
Financial Income	--	(657)	(657)
Profit before income taxes	2,655	(4,544)	(1,889)