

SKYLINE INVESTMENTS INC.
Consolidated financial statements
for the year ended
December 31, 2019

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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. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the three years ended December 31, 2019, 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, 2019 and 2018, and its financial performance and its cash flows for the three years ended December 31, 2019 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 Information

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

- Management's Discussion and Analysis

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 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

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Tel Aviv, Israel

18 March, 2020

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SKYLINE INVESTMENTS INC.**Consolidated statements of financial position**

(in thousands of Canadian Dollars)

	Note	As at December 31,	
		2019	2018
Assets			
Current assets			
Cash and cash equivalents	4	26,874	27,983
Trade receivables, other receivables and prepayments	5	24,510	52,892
Inventories	7	1,782	1,948
Real estate inventory	8	52,235	64,573
Loans to purchasers	12	9,177	7,959
Restricted bank deposits	6	4,222	4,406
		<u>118,800</u>	<u>159,761</u>
Non-current assets			
Financial derivative	13	4,817	2,821
Investment properties	9	59,965	90,640
Property, plant and equipment	10	454,737	487,265
Loans to purchasers	12	27,465	25,901
Other non-current assets	27(g)	2,495	2,696
Restricted bank deposits	6	7,567	7,510
		<u>557,046</u>	<u>616,833</u>
Total assets		<u>675,846</u>	<u>776,594</u>
Liabilities and equity			
Current liabilities			
Loans and leases payable	15	19,324	56,924
Bonds	13	6,209	6,252
Trade payables		9,471	14,616
Other payables and credit balances	14	31,216	30,114
Deferred revenue		8,479	7,508
Income taxes payable		1,484	671
Purchasers' deposits		3,263	8,779
		<u>79,446</u>	<u>124,864</u>
Non-current liabilities			
Loans and leases payable	15	179,746	199,465
Bonds	13	97,535	104,628
Other liabilities		464	990
Deferred tax	11	41,814	45,807
		<u>319,559</u>	<u>350,890</u>
Total liabilities		<u>399,005</u>	<u>475,754</u>
Equity			
Equity attributable to shareholders of the company	18	252,374	260,753
Non-controlling interest	18	24,467	40,087
		<u>276,841</u>	<u>300,840</u>
Total liabilities and equity		<u>675,846</u>	<u>776,594</u>

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

On behalf of the board of directors:

<u>"Shimshon Marfogel"</u>	<u>"Blake Lyon"</u>	<u>"Robert Waxman"</u>	<u>March 18, 2020</u>
Shimshon Marfogel Chairman	Blake Lyon CEO	Robert Waxman CFO	Date

SKYLINE INVESTMENTS INC.**Consolidated statements of income (loss)**

(in thousands of Canadian Dollars)

	Note	For the year ended December 31,		
		2019	2018	2017
Revenue				
Income from hotels and resorts	20	193,585	* 185,534	* 121,869
Sale of residential real estate		41,658	46,722	30,694
		<u>235,243</u>	<u>232,256</u>	<u>152,563</u>
Expenses and costs				
Operating expenses from hotels and resorts	21	(151,371)	* (143,983)	* (99,901)
Cost of sales of residential real estate	22	(36,211)	(42,504)	(26,403)
		<u>(187,582)</u>	<u>(186,487)</u>	<u>(126,304)</u>
		47,661	45,769	26,259
Real estate selling and marketing expenses		(373)	(776)	(480)
Administrative and general expenses	23	<u>(6,439)</u>	<u>(8,010)</u>	<u>(5,572)</u>
Operating income before depreciation, valuation adjustments and other income				
		40,849	36,983	20,207
Depreciation	10	(20,458)	(21,110)	(11,415)
Gain (loss) from fair value adjustments of investment properties	9	(15)	(3,209)	6,715
Gain (loss) on sale of investments	10(c)	(611)	(1,770)	(17)
Other expenses		<u>(1,331)</u>	<u>(116)</u>	<u>(1,111)</u>
Net income from operations				
		18,434	10,778	14,379
Loss from early extinguishment of debt		(2,749)	—	—
Financial expense	24	(21,188)	(19,745)	(11,089)
Financial income		<u>3,267</u>	<u>778</u>	<u>3,119</u>
Net income (loss) before income taxes				
Income tax	25 & 11	<u>(2,236)</u>	<u>(8,189)</u>	<u>6,409</u>
		877	534	2,212
Net income (loss) for the year				
		<u>(1,359)</u>	<u>(7,655)</u>	<u>8,621</u>
Attributable to:				
Shareholders of the Company		(325)	(6,887)	6,066
Non-controlling interest	18	<u>(1,034)</u>	<u>(768)</u>	<u>2,555</u>
		<u>(1,359)</u>	<u>(7,655)</u>	<u>8,621</u>
Earnings per share:				
Basic	18	(0.02)	(0.42)	0.36
Diluted		(0.02)	(0.42)	0.36

* Reclassified. Refer to note 28.

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

SKYLINE INVESTMENTS INC.**Consolidated statements of comprehensive income (loss)**

(in thousands of Canadian Dollars)

	<u>For the year ended December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Net income (loss) for the year	<u>(1,359)</u>	<u>(7,655)</u>	<u>8,621</u>
Other comprehensive income (loss)			
Items that will not be reclassified subsequently to net income (loss):			
Revaluation of property, plant and equipment, before income taxes	(11,419)	6,192	(1,801)
Income taxes	<u>377</u>	<u>(2,139)</u>	<u>6,116</u>
	(11,042)	4,053	4,315
Items that will or may be reclassified subsequently to net income (loss):			
Foreign exchange differences on translation of foreign operations	<u>(8,820)</u>	<u>8,089</u>	<u>(3,017)</u>
Other comprehensive income (loss) for the year net of income tax	<u>(19,862)</u>	<u>12,142</u>	<u>1,298</u>
Total comprehensive income (loss) for the year, net of income tax	<u>(21,221)</u>	<u>4,487</u>	<u>9,919</u>
Attributable to:			
Shareholders of the Company	(8,446)	5,377	10,346
Non-controlling interest	<u>(12,775)</u>	<u>(890)</u>	<u>(427)</u>
	<u>(21,221)</u>	<u>4,487</u>	<u>9,919</u>

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									Total Equity
	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	
For the year ended December 31, 2019										
Balance at the beginning of the year	79,298	—	91,522	1,026	125	9,511	79,271	260,753	40,087	300,840
Net income for the year	—	—	—	—	—	—	(325)	(325)	(1,034)	(1,359)
Other comprehensive income for the year	—	—	(395)	—	—	(7,726)	—	(8,121)	(11,741)	(19,862)
Total comprehensive income for the year	—	—	(395)	—	—	(7,726)	(325)	(8,446)	(12,775)	(21,221)
Transfer upon recognition of depreciation	—	—	(2,397)	—	—	—	2,397	—	—	—
Distribution to non-controlling shareholders	—	—	—	—	—	—	—	—	(2,845)	(2,845)
Recognition of share-based payment	—	—	—	67	—	—	—	67	—	67
Transfer upon expiration	388	—	—	(388)	—	—	—	—	—	—
Balance at the end of the year	79,686	—	88,730	705	125	1,785	81,343	252,374	24,467	276,841
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
Net income 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	519	(519)	—	356	—	—	—	356	—	356
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
Net income 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)	—	—	—	—	—	—
Distribution	—	—	—	—	—	—	(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

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,		
	2019	2018	2017
Operating activities			
Net income (loss) for the year	(1,359)	(7,655)	8,621
Adjustments for:			
Depreciation and amortization	22,329	21,110	13,190
Loss (gain) from fair value adjustments to investment properties	15	3,209	(6,715)
Gain on sale of investment and other property	750	255	—
Financing costs from bonds including foreign exchange	(674)	12,446	6,674
Financing income from financial derivative	(1,996)	854	(3,675)
Deferred tax, net	(2,566)	(754)	(1,784)
Write-down (up) of real estate inventory to net realizable value	—	—	(355)
Share based compensation	67	356	535
Changes in non-cash working capital			
Trade receivables, other receivables, prepayments and others	29,075	(20,269)	8,492
Restricted bank deposits	160	(3,054)	(2,512)
Inventories	139	79	(218)
Real Estate Inventory	12,085	(8,239)	(14,615)
Trade and other payables and credit balances	(3,258)	5,913	2,944
Income taxes payable	813	671	(972)
Purchasers' deposits	(5,516)	(1,151)	3,232
Cash provided by (used in) operating activities	<u>50,064</u>	<u>3,771</u>	<u>12,842</u>
Investing activities			
Proceeds from the sale of assets previously classified as held for sale	—	—	3,447
Additions to investment properties	(312)	(151)	(2,371)
Investment in restricted long term deposit	(266)	906	(3,250)
Additions to property, plant and equipment	(15,142)	(27,729)	(22,043)
Proceeds from sale of investment properties, net of income tax	27,535	—	—
Proceeds from sale of property, plant and equipment, net of income tax	583	324	76
Net cash used in a business acquisition (Schedule A)	—	—	(176,443)
Cash provided by (used in) investing activities	<u>12,398</u>	<u>(26,650)</u>	<u>(200,584)</u>
Financing activities			
Bank credit and other short-term loans	(36,248)	23,225	3,816
Issuance of bonds	—	—	62,731
Repayment of bonds	(6,629)	(2,705)	(1,133)
Proceeds from long term loans	4,635	13,321	138,566
Repayments of long term loans and capital leases	(21,847)	(3,120)	(18,158)
Distribution by a subsidiary to its non-controlling shareholders	(2,845)	—	—
Dividend Distribution	—	—	(1,829)
Change in other liabilities	—	(199)	(460)
Cash provided by (used in) financing activities	<u>(62,934)</u>	<u>30,522</u>	<u>183,533</u>
Foreign exchange translation of cash balances	<u>(637)</u>	<u>(5,557)</u>	<u>269</u>
Net increase (decrease) in cash and cash equivalents	<u>(1,109)</u>	<u>2,086</u>	<u>(3,940)</u>
Cash and cash equivalents at beginning of year	<u>27,983</u>	<u>25,897</u>	<u>29,837</u>
Cash and cash equivalents at end of year	<u>26,874</u>	<u>27,983</u>	<u>25,897</u>

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)

	<u>For the year ended December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Supplemental cash flow information			
Interest paid	20,367	18,068	7,057
Interest received	194	857	307
Income taxes paid	677	(146)	1,706
Significant non-cash investing and financing activities			
Loans to purchasers	4,262	5,129	33,915
Share capital and premium increase	388	—	—
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	<u>—</u>	<u>—</u>	<u>(176,443)</u>

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

SKYLINE INVESTMENTS INC.

Notes to consolidated financial statements

(in thousands of Canadian Dollars)

1 - Nature of operations

Skyline Investments Inc. (the "Company", the "Group" or "Skyline") 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.

Skyline is a Canadian company that specializes in hospitality real estate investments in the United States and Canada. The Company's normal operating cycle is twelve months except, for development activities, which are in excess of twelve months and typically range between one to four years.

As at December 31, 2019, the Company is 49.37% owned by its controlling shareholder, Mishorim Real Estate Investments Ltd ("Mishorim") and 20.25% owned by The Israel Land Development Co. Ltd ("ILDC"). Both are public companies whose shares are traded on the Tel-Aviv Stock Exchange ("TASE").

Until April 18, 2019, the Company was 65.34% owned by Skyline Canada-Israel Ltd ("Skyline Israel"), a majority of shares of which are owned by Mishorim. On April 18, 2019, Skyline Israel distributed the Company's shares owned thereby to Skyline Israel's shareholders: Mishorim and Israel Land Development Overseas Ltd ("Overseas"). Overseas is fully owned by ILDC.

The Company's shares and bonds trade on the Tel Aviv Stock Exchange (the "TASE"), and is a reporting issuer in Canada.

2 - Significant accounting policies

(a) Statement of compliance

The Company has prepared these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS") applicable to the preparation of annual financial statements, and in accordance with the disclosure requirements of the Israeli Securities Regulations (Annual Financial Statements), 2010. These policies have been consistently applied to all periods presented, unless stated otherwise.

(b) Basis of presentation

These consolidated financial statements have been prepared on a going concern basis and are presented in Canadian dollars, which is the functional currency of the Company. These consolidated financial statements have been prepared on a historical cost basis except for investment properties, property, plant and equipment, and certain financial instruments, which are measured at fair value, and real estate inventory, which has been measured at the lower of cost and net realizable value.

(c) Principles of consolidation

These consolidated financial statements comprise the assets and liabilities of all subsidiaries and the results of all subsidiaries for the financial period. The Company and its subsidiaries are collectively referred to as "Skyline" or "The Company" in these consolidated financial statements. Subsidiaries are all entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date control commences and deconsolidated from the date control ceases. All inter-entity balances, income and expenses, and unrealized gains and losses resulting from inter-entity transactions are eliminated in full. Where the Company consolidates a subsidiary in which it does not have 100% ownership, the non-controlling interest is presented separately within the Company's equity. Net income (loss) and each component of other comprehensive income (loss) are attributed to the shareholders of the Company and to the non-controlling interests. Total comprehensive income (loss) of the subsidiaries is attributed to the shareholders of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

(d) Business combinations

Business combinations are accounted for using the acquisition method. The consideration for an acquisition is measured at the aggregate of the fair values of assets transferred and liabilities incurred or assumed. The identifiable assets, liabilities and contingent liabilities acquired are recognized at their fair values at the acquisition date. Acquisition-related costs are generally recognized in net income as incurred. The Company obtains third-party valuations to support management's determination of the fair value of property, buildings and equipment. IFRS 3, Business Combinations ("IFRS 3") requires management's judgement in determining if an acquisition constitutes a business combination or asset acquisition. Refer to note 3 of these consolidated financial statements.

(e) Foreign currency

Functional and presentation currency

Items included in the financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates (the "functional currency"). The functional currency of the Company's U.S. subsidiaries is the U.S. dollar. The functional currency of the Company's Canadian subsidiaries is the Canadian dollar. The functional and presentation currency of the Company is the Canadian dollar.

SKYLINE INVESTMENTS INC.

Notes to consolidated financial statements

(in thousands of Canadian Dollars)

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. At the end of each reporting period, foreign currency denominated monetary assets and liabilities are translated into the functional currency using the prevailing rate of exchange at the statement of financial position date. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at the period end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognized in the consolidated statements of income and comprehensive income. Foreign exchange gains and losses are presented in the consolidated statements of income and comprehensive income.

See further detail on the foreign currency exchange rates used during the period :

	For the year ended December 31,		
	2019	2018	2017
Exchange rates - At balance sheet date:			
CAD / USD	1.299	1.364	1.255
CAD / NIS	2.654	2.752	2.765
Exchange rates - Average during the period then ended:			
CAD / NIS	2.686	2.729	2.773
CAD / USD	1.327	1.296	1.299
Change in rate - during the year ended:			
CAD / USD	(4.8%)	8.7%	(6.6%)
CAD / NIS	(3.6%)	(0.5%)	(3.0%)

(f) Operating cycle

The Company's normal operating cycle is twelve months, except for activities in the development segment, which are typically in excess of twelve months and can range between one to four years. As a result, current assets and current liabilities include items related to the development segment that are expected to be settled within the one to four year operating cycle.

(g) Property, plant and equipment

Recognition and measurement

The company has selected the revaluation model to account for its property, plant and equipment ("PP&E") under IAS 16, "Property, Plant and Equipment" ("IAS 16"). Under the revaluation model, the company's hotel assets that are classified as PP&E, are presented in the statement of financial position at their revalued amounts, which is the fair value at the most recent date of revaluation, less any accumulated depreciation and accumulated impairment losses. Revaluations are performed by independent, third-party appraisers, with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values as at the reporting date.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the properties revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in carrying amount arising on the revaluation of such land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Changes in the carrying value of such PP&E as a result of a revaluation is reflected in other comprehensive income (loss), except to the extent that a revaluation of an item of PP&E results in a negative cumulative revaluation reserve for that item. In this case, the resulting change (and any subsequent reversal) is recognized in net income (loss).

Depreciation on revalued PP&E is recognised in net income (loss). On sale or retirement of revalued PP&E, the attributable revaluation surplus remaining in accumulated other comprehensive income is transferred directly to retained earnings.

An item of PP&E is derecognised upon disposal or when no future economic benefits are expected to arise from its continued use. Any gain or loss arising from the disposal of an item of PP&E is recognized in net income (loss).

SKYLINE INVESTMENTS INC.

Notes to consolidated financial statements

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Depreciation

Depreciation is calculated on a straight-line basis based on the useful lives of each component of PP&E as follows:

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 PP&E where an impairment in value is deemed to have occurred.

Depreciation methods, useful lives and residual values are reviewed periodically and adjusted, if appropriate.

(h) Investment property

The Company considers its non-hotel income producing properties to be investment properties under IAS 40, Investment Property ("IAS 40"), and has chosen the fair value method to account for investment properties in its consolidated financial statements. 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.

Investment property is valued on a highest and best use basis and does not include any portfolio premium that may be derived from economies of scale associated with owning a large portfolio, or the consolidation value from having compiled a large portfolio over a long period of time primarily through individual acquisitions.

Investment properties comprise investment interests held in land and buildings (including integral equipment) held for the purpose of producing rental income, capital appreciation, or both. All investment properties are recorded at cost, including transaction costs, at their respective acquisition dates, and are subsequently remeasured at fair value at each statement of financial position date, with any gain or loss arising from the change in fair value recognized within the consolidated statement of income for the period.

The fair value of the Company's investment properties are determined annually by qualified external appraisers. Management regularly undertakes a review of the valuation of its investment properties between external appraisal dates to assess the continuing validity of the underlying assumptions used, such as cash flows, capitalization rates and discount rates. These assumptions are then tested against market information obtained from independent appraisal firms. Where increases or decreases are warranted, the Company adjusts the carrying value of its investment properties. See notes 3 and 9 for a detailed discussion on the significant assumptions, estimates and valuation methods used.

(i) Real Estate Inventory

Real estate inventory includes serviced parcels of land, condominiums, and land held for development on which the Company expects to earn a return via future sale. Inventory is measured at the lower of cost, including pre-development expenditures and capitalized borrowing costs, and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated selling costs and estimated development costs to complete.

Real estate inventory is reviewed for impairment at each statement of financial position date. An impairment loss is recognized in net income when the carrying value of the asset exceeds its net realizable value.

Transfers into real estate inventory are based on a change in use evidenced by the commencement of development activities with a view to sell, at which point an investment property is transferred to real estate inventory.

(j) Revenue recognition

IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15")

The Company recognizes revenue using a uniform, five-step model in accordance with IFRS 15. The five steps are as follows:

- 1 - Identify the contract(s) with the customer
- 2 - Identify the performance obligation(s)
- 3 - Determine the transaction price
- 4 - Allocate the transaction price to the performance obligation(s)
- 5 - Recognize revenue as the performance obligations are satisfied

The Company's principal sources of revenues under IFRS 15 and their method of recognition are as follows:

SKYLINE INVESTMENTS INC.

Notes to consolidated financial statements

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Hotel and Resort Revenue

Revenue from hotel and resort operations is recognized when services are provided, the amount is earned, and collectability is reasonably assured.

The Company may collect advance deposits prior to the use of a hotel or resort facility. These deposits are recorded as deferred revenue until such time as the related facility is utilized, at which time the customer deposit is recognized in revenue.

Sale of Real Estate

Revenue from contracts with customers for the sale of real estate is recognized at the point in time when control over the property is ready for transfer, which is generally when possession passes to the customer, as the customer then has the ability to direct the use and obtain substantially all of the benefits of the respective property. Revenue is measured at the transaction price agreed to under the contract.

Deposits received from the customer prior to the customer taking possession are recognized as purchasers' deposits (a liability account) until such time as the property is ready for transfer to the customer, at which time the deposit is recognized in revenue.

Season Pass Revenue

Revenue from membership and season passes is initially recognized as deferred revenue. As the Company performs its performance obligations over a set period of time, the Company recognizes this prepayment in revenue over the length of the contract.

IFRS 16, "Leases" ("IFRS 16")

The Company has adopted IFRS 16, effective January 1, 2019. There was no material impact upon adoption. For further details on the adoption of IFRS 16, refer to note 2(o).

The Company recognizes rental revenue using the straight-line method, whereby the fixed lease payments, less any lease incentives (such as cash, rent-free periods and move-in allowances provided to lessees), in-substance fixed payments and any variable lease payments that depend on an index or a rate to be received are accounted for as rental revenue on a straight-line over the term of the related leases.

Variable payments allocated to a lease component (such as certain operating cost recoveries), that do not depend on an index or a rate are accounted for as revenue in the period in which the corresponding operating expense occurs.

Modifications of lease agreements, including reductions in the contractual lease terms, are accounted for as a new lease at the date the modification is effective, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Rent from investment properties including property tax and insurance recoveries which are allocated to lease components are accounted for under IFRS 16.

(k) Interest and other financing costs

Interest and other financing costs include interest on credit facilities, mortgages and bonds, which are expensed at the effective interest rate, and amortization of transaction costs incurred in connection with revolving credit facilities, which are capitalized and presented as other non-current assets and amortized over the term of the facility to which they relate.

The Company capitalizes interest and other financing costs related to development properties using the Company's weighted average cost of borrowing after adjusting for borrowing associated with specific developments. Where borrowing is associated with specific developments, the amount capitalized is the gross interest incurred on such borrowing less any investment income arising on temporary investment of such borrowing.

(l) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income, except to the extent that it relates to a business combination, or items recognized directly in equity or other comprehensive income.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the period using tax rates enacted or substantively enacted by the reporting date, and any adjustment to tax payable in respect of previous years.

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(in thousands of Canadian Dollars)

Deferred income tax is recognized using the asset and liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date, and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax assets are recognized only to the extent that it is probably that future taxable profit will be available against which the temporary differences can be utilized. The carrying amount of a deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

(m) Earnings per Share

Basic earnings per share is calculated by dividing net income or loss attributable to shareholders of the company by the weighted average number of common shares outstanding during the respective reporting period. Diluted earnings per share is calculated in the same manner, after adjusting for the dilutive effects of unexercised, in-the-money stock options outstanding.

(n) Financial instruments

Determination of Fair Value

Financial assets and financial liabilities

Under IFRS 9, Financial Instruments ("IFRS 9"), financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on the purpose for which the financial instruments were acquired or issued, their characteristics and the Company's designation of such instruments. The standards require that all financial assets and financial liabilities be classified as fair value through profit or loss ("FVTPL"), amortized cost, or fair value through other comprehensive income ("FVOCI"). Amortized cost is determined using the effective interest method.

Classification of financial instruments

The following table summarizes the type and measurement the Company has applied to each of its significant categories of financial instruments:

Type	Measurement Base
Financial assets	
Cash and cash equivalents	Amortized cost
Restricted bank deposits	Amortized cost
Trade and other receivables	Amortized cost
Loans to purchasers	Amortized cost
Financial derivative	FVTPL
Financial liabilities	
Loans and leases payable	Amortized cost
Bonds	Amortized cost
Trade payables	Amortized cost
Other payables and credit balances	Amortized cost
Purchasers' deposits	Amortized cost

Cash and cash equivalents

Cash and cash equivalents include cash and guaranteed investment certificates held in banks with a maturity date of less than 12 months, and redeemable on demand.

Restricted bank deposits

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

Trade and other receivables

Such receivables arise when the Company provides services to a third party, and are included in current assets, except for those with maturities in excess of 12 months after the statement of financial position date, which are classified as non-current assets.

Loans to purchasers

Loans to purchasers include vendor-take-back mortgages ("VTB") associated with the sale of non-core lands. These amounts are typically classified as non-current assets as they are long-term in nature, with the portion of the VTB due within 12 months after the statement of financial position date included in current assets.

SKYLINE INVESTMENTS INC.

Notes to consolidated financial statements

(in thousands of Canadian Dollars)

Expected losses for trade receivables, other receivables, and prepayments ("receivables")

A provision for impairment is established based on the simplified expected credit loss ("ECL") model. Under the simplified ECL model, the Company estimates lifetime expected losses for its receivables at each statement of financial position date based on available information. To measure the expected losses, receivables are grouped based on the days past due. The results of the simplified ECL model are used to reduce the carrying amount of the financial asset through an allowance account, and the changes in the measurement of the allowance account are recognized in the consolidated statement of income within operating expenses from hotels and resorts and cost of sales of residential real estate. Bad debt write-offs occur when the Company determines collection is not possible. Any subsequent recoveries of amounts previously written off are credited against operating expenses from hotels and resorts and cost of sales of residential real estate.

Derivatives

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and subsequently remeasured at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative financial instrument is designated as a hedging instrument, and if so, the nature of the item being hedged. Derivatives not designated as a hedging relationship are measured at fair value with changes recognized directly in the consolidated statement of income. The Company does not currently have any derivatives that are designated as a hedging relationship.

Financial liabilities

All financial liabilities are recorded initially at fair value, and subsequently at amortized cost.

Loans and leases payable and bonds

Loans and leases payable and bonds are recognized at amortized cost using the effective interest rate method. Under the effective interest rate method, any transaction fees, costs and discounts directly related to the loan or bond are recognized in interest and other financing costs in the consolidated statement of income within net income over the expected term of the loan or bond. Loan and bond maturities and repayments due more than 12 months after the consolidated statement of financial position date are classified as non-current.

(o) Impact of accounting standards effective January 1, 2019 on the Company's consolidated financial statements

The Company has adopted the following new and revised standards, effective January 1, 2019. These changes were made in accordance with the applicable transitional provisions.

IFRS 16

IFRS 16 supersedes IAS 17, "Leases, and Related Interpretations" ("IAS 17") and applies to annual reporting periods beginning on or after January 1, 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract: i.e. the customer (the "lessee") and the supplier (the "lessor"). From a lessee perspective, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as required by IAS 17 and, instead introduces a single lessee accounting model. The new model requires lessees to recognize right-of-use assets and financial liabilities related to all leases, unless the lease term is 12 months or less, or if the underlying asset has a low value, or both. Lessors continue to classify leases as either operating or finance leases, with IFRS 16's approach to lessor accounting substantially unchanged from lessor accounting under IAS 17.

Lease liabilities are initially measured at the present value of lease payments that are not paid at the commencement date, discounted by using the Company's incremental borrowing rate. Lease payments included in the measurement of lease liabilities comprise future fixed lease payments. Lease liabilities are subsequently measured by increasing the carrying amount to reflect interest on lease liabilities (using the effective interest method) and by reducing the carrying amount to reflect lease payments made. The Company may remeasure lease liabilities (and make a corresponding adjustment to related right-of-use assets) whenever certain lease terms have changed (no such adjustments have been made during the periods presented).

The right-of-use assets comprise the initial measurement of corresponding lease liabilities, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses, if any. Right-of-use assets are depreciated over the shorter period of (i) the lease term, and (ii) the useful life of the underlying asset. Depreciation begins at the commencement date of a lease.

The Company has adopted IFRS 16 for leases in which it is a lessee on a modified retrospective basis without restatement of prior period comparatives, and has adopted IFRS 16 for leases in which it is a lessor with no adjustment on transition. Accordingly, as at January 1, 2019, the Company recognized lease liabilities and corresponding right-of-use assets in the amount of approximately \$1 million, in respect of certain leases previously classified as operating leases. Such liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as at January 1, 2019, while the assets were recognized at an amount equal to the lease liabilities.

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

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(in thousands of Canadian Dollars)

The impact of adopting IFRS 16 did not have a material impact on the Company's net income. Certain amounts, however, previously presented within administrative and general expenses, are now being presented within depreciation and financial expense.

IFRIC 23, Uncertainty over Income Tax Treatments ("IFRIC 23")

IFRIC 23 clarifies how the recognition and measurement requirements of IAS 12 "Income Taxes" ("IAS 12") are applied when there is uncertainty over income tax treatments, and is effective for years beginning on or after January 1, 2019. The Interpretation requires an entity to determine whether uncertain tax positions are assessed separately or as a group, and the entity must also assess whether it is probable that a tax authority will accept an uncertain tax treatment used by an entity in its income tax filings. If it is probable that a tax authority will accept an uncertain tax treatment, 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 it is not probable that a tax authority will accept an uncertain tax treatment, the entity should reflect the effect of uncertainty in determining its accounting tax position by using the method that best predicts the results of the uncertainty. The Company has assessed the impact of IFRIC 23 and has concluded that there is no material impact to the Company's financial statements.

IFRS 3, Business Combinations ("IFRS 3")

The IASB published an amendment to IFRS 3, clarifying 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. The amendment is effective for periods beginning on or after January 1, 2019. The Company has assessed the impact of the amendment and has concluded that there is no material impact to the Company's financial statements.

IAS 12, Income Taxes ("IAS 12")

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. The Company has assessed the impact of the amendment and has concluded that there is no material impact to the Company's financial statements.

IAS 23, Borrowing Costs ("IAS 23")

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. The Company has assessed the impact of the amendment and has concluded that there is no material impact to the Company's financial statements.

IFRS 11, Joint Arrangements ("IFRS 11")

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. The Company has assessed the impact of the amendment and has concluded that there is no material impact to the Company's financial statements.

(p) Future accounting policy changes

IFRS 3

The IASB published an amendment to the requirements of IFRS 3 in relation to whether a transaction meets the definition of a business combination. The amendment clarifies the definition of a business and provides additional illustrative examples, including those relevant to the real estate industry. A significant change in the amendment is the option for an entity to assess whether substantially all of the fair value of the gross assets acquired is concentrated in a single asset or group of similar assets. If such a concentration exists, the transaction is not viewed as an acquisition of a business and no further assessment of the business combination guidance is required. This will be relevant where the value of the acquired entity is concentrated in one property, or a group of similar properties. The amendment is effective for periods beginning on or after January 1, 2020 with earlier application permitted. There will be no impact on transition as the amendments are effective for business combinations for which the acquisition date is on or after the transition date.

3 - Critical accounting estimates, assumptions, and judgements

The preparation of consolidated financial statements in accordance with IFRS requires the use of estimates, assumptions and judgements that in some cases relate to matters that are inherently uncertain, and which affect the amounts reported in the consolidated financial statements and accompanying notes. Areas of such estimation include, but are not limited to: valuation of investment properties; valuation of PP&E, remeasurement at fair value of financial instruments, valuation of accounts receivable, capitalization of costs, accounting accruals, the amortization of certain assets, and account of deferred income taxes. Changes to estimates and assumptions may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates under different assumptions and conditions.

SKYLINE INVESTMENTS INC.

Notes to consolidated financial statements

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The estimates deemed to be more significant, due to subjectivity and the potential risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

(a) Valuation of investment properties and PP&E

Investment properties are measured at fair value as at the consolidated statement of financial position date and hotels and resorts within PP&E are measured using the revaluation model. Any changes in the fair value of investment property are included in net income and any changes in the value of PP&E due to revaluation are included in other comprehensive income. Fair value and revaluation is supported by independent external valuations or detailed internal valuations using market-based assumptions, each in accordance with recognized valuation techniques. The techniques used comprise comparable sales approach, the capitalized net operating income method and the discounted cash flow method. These techniques include estimating, among other things (all considered Level 3 inputs), future stabilized net operating income, capitalization rates, reversionary capitalization rates, discount rates and other future cash flows applicable to investment properties and PP&E. Investment properties under the fair value model and PP&E under the revaluation model are classified as Level 3 in the fair value hierarchy. These valuations are subject to significant judgements, estimates and assumptions about market conditions in effect as at the consolidated statement of financial position date. See notes 10 and 11 for a detailed discussion of valuation methods and the significant assumptions and estimates used.

(b) Valuation of financial instruments

The fair value of financial derivatives are based on assumptions that involve significant estimates. The basis of valuation for the Company's derivatives is set out in note 15(c). The fair values of derivatives reported may differ materially from the amounts they are ultimately settled for if there is volatility between the valuation date and the settlement date.

(c) 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.

(d) Income taxes

Income tax liabilities are based on assumptions that involve significant estimates, 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. See notes 11 and 25.

4 - Cash and cash equivalents

	<u>As at December 31,</u>	
	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	25,874	27,711
Short-term bank deposits	<u>1,000</u>	<u>272</u>
	<u>26,874</u>	<u>27,983</u>

5 - Trade receivables, other receivables and prepayments

Due from hospitality guests and clients	4,343	5,703
Amount receivable, net of allowance for expected credit loss, on sales of condominium units, due on closing	8,323	30,898
Other receivables [1], [2]	9,280	13,421
Prepayments	<u>2,564</u>	<u>2,870</u>
	<u>24,510</u>	<u>52,892</u>

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

[2] See note 16.

6 - Restricted bank deposits

Restricted bank deposits are amounts held with financial institutions that are subject to externally imposed restrictions with respect to the Company's use of these funds, including deposits for the sale of real estate, letters of credit in favour of local authorities where development activities are taking place, and capital expenditures at hotels and resorts. Refer to note 19 (b).

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7 - Inventories

	<u>As at December 31,</u>	
	<u>2019</u>	<u>2018</u>
Food & beverage	760	806
Retail	787	921
Other inventory	<u>235</u>	<u>221</u>
	<u>1,782</u>	<u>1,948</u>

8 - Real estate inventory

Residential constructed inventory	(d)	3,182	2,692
Real estate under construction	(c) (d)	5,645	27,327
Serviced parcels of land	(b) (c)	14,356	15,424
Undeveloped land inventory	(d)	—	1,292
Parcels of land under construction	(c) (d) (e)	<u>29,052</u>	<u>17,838</u>
		<u>52,235</u>	<u>64,573</u>

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

Port McNicoll	(b)	2,347	2,347
Deerhurst	(c)	16,644	39,233
Horseshoe Valley	(d)	6,836	7,643
Blue Mountain Lands	(e)	<u>26,408</u>	<u>15,350</u>
		<u>52,235</u>	<u>64,573</u>

(b) Port McNicoll, Ontario

The balance of \$2,347 represents 13 serviced parcels of land.

(c) Huntsville, Ontario - Deerhurst

During 2019, the Company completed the construction of the Lakeside Lodge condominium development ("Lakeside"). As of December 31, 2019, approximately 98% (2018: 92%) units were sold. Approximately \$37M of revenue from the project was recognized in 2019 (2018: \$21M). The balance of \$16.6M represents the remaining construction in progress at Lakeside Lodge. The balance also includes the Sanctuary lots and the Golf Cottage lots, both of which are available for sale for residential construction.

(d) Barrie, Ontario - Horseshoe Valley

The balance of \$6,836 primarily represents the 8 unsold units at Copeland House and 3 unsold units at Slopeside, as well as construction in progress on various early-stage developments.

(e) Blue Mountain Lands

The inventory value of \$26,407 primarily represents serviced lots related to the Second Nature development project, which is expected to close in early 2020. Refer to note 31.

9 - Investment properties

	<u>As at December 31,</u>	
	<u>2019</u>	<u>2018</u>
Balance as at the beginning of the year	90,640	92,983
Expenditures subsequent to acquisition	312	151
Net gain (loss) from fair value adjustments	(15)	(3,209)
Net proceeds from sale of investment properties	(27,535)	—
Transfer to loans to purchasers	(3,003)	—
Foreign exchange translation and other	(434)	715
Balance as at the end of the year	<u>59,965</u>	<u>90,640</u>
Income producing retail components	11,088	42,573
Lands	<u>48,877</u>	<u>48,067</u>
	<u>59,965</u>	<u>90,640</u>

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During the year ended December 31, 2019, the company sold its commercial real estate assets at Blue Mountain to an unrelated party. The sale is divided into two components. The first component was the village retail assets, which closed in March 2019 for total consideration of \$31.7 million, of which \$3.2 million was given as a VTB loan to the purchaser (refer to note 14). The second component of the sale is for another commercial building at Blue Mountain, for total consideration of \$2.4 million, which is expected to close in 2021. The Company owns 60% of the aforementioned assets.

Valuation basis

The fair value method has been used for all the investment properties, with valuations performed by qualified independent valuers who hold recognized relevant professional qualifications and have recent experience in the location and category of similar properties. The Company discusses the valuation process and verifies all major inputs to the valuations and reviews the results with the external appraisers for all independent valuations.

The fair value of the Company's investment properties is primarily determined using the discounted cash flow ("DCF") and the comparable sales methods. As a result, investment properties are classified as level 3 in the fair value hierarchy. Changes in level 3 fair values are analyzed at each reporting date as part of the discussion between the Company and the appraisers. As part of this discussion, the valuers present a report that explains the reasons for any movements in fair value.

Significant unobservable (level 3) inputs used to determine the fair value of investment properties as at December 31, 2019 are as follows:

- (a) Forecast of the operating profit of the property for a period of up to 10 years;
- (b) specific terminal capitalization rate for each asset according to its condition, location and risks specific to the asset;
- (c) estimation of the renewal probability of any in-place leases;
- (d) estimations of vacancy rates;
- (e) other factors such as building rights, planning and legal status and more.

Discount rates used in applying the DCF method ranged between 10.25% and 10.75% (2018: 7.38%-10.75%), and terminal capitalization rates ranged between 8.25% and 8.75% (2018: 6.38% - 9.25%).

As at December 31, 2019, a 25 basis point ("bps") decrease in both the discount and terminal capitalization rates would increase the fair value of the Company's investment properties by \$353. As at December 31, 2019, a 25 bps increase in both the discount and terminal capitalization rates would decrease the estimated fair value of the Company's investment properties by \$328. An increase or decrease in the comparable land values by 5% will have an estimated impact of approximately \$1,647 on the value of the lands.

10 - Property, plant and equipment

For the year ended December 31,

	2019			2018		
	Lands, buildings & improvements	Furniture, equipment and other	Total	Lands, buildings & improvements	Furniture, equipment and other	Total
Gross carrying amount as at beginning of year	466,605	96,770	563,375	412,206	89,384	501,590
Accumulated depreciation as at beginning of year	(31,813)	(44,297)	(76,110)	(25,603)	(29,397)	(55,000)
	434,792	52,473	487,265	386,603	59,987	446,590
Expenditures subsequent to acquisitions	3,586	11,554	15,140	14,577	13,152	27,729
Recognition of right-of-use assets and lease liabilities upon initial application of IFRS16 (see note 2(c)1)	650	258	908	—	—	—
Capital leases	—	2,355	2,355	—	—	—
Adjustment to fair value through revaluation surplus	(11,761)	342	(11,419)	15,170	(8,978)	6,192
Adjustment of purchase price allocation (a)	—	—	—	862	(862)	—
Transfer to loans to purchasers and real estate inventory	(1,114)	—	(1,114)	—	—	—
Disposals (b)	(583)	(66)	(649)	—	(579)	(579)
Depreciation	(8,752)	(11,777)	(20,529)	(6,210)	(14,900)	(21,110)
Foreign exchange translation	(14,493)	(2,727)	(17,220)	23,790	4,653	28,443
Balance as at the end of the year	402,325	52,412	454,737	434,792	52,473	487,265
Balance as at the end of year for items measured at:						
Fair value	401,180	49,285	450,465	434,792	49,052	483,844
Cost	1,145	3,127	4,272	—	3,421	3,421
	402,325	52,412	454,737	434,792	52,473	487,265
Carrying amount under cost model	280,046	62,809	342,855	297,400	64,334	361,734

SKYLINE INVESTMENTS INC.

Notes to consolidated financial statements

(in thousands of Canadian Dollars)

(a) Acquisitions

The Company did not acquire any new PP&E during the years ended December 31, 2019 and December 31, 2018. In 2018, the Company updated the original purchase price allocation related to the acquisition of 13 select-service hotels completed in 2017. This resulted in a reclassification between Land, Building and improvements and Furniture, equipment and other in the amount of \$862. This reclassification has no material impact on depreciation expense as previously recognized.

(b) Disposals

During the year ended December 31, 2019, the Company completed the sale of certain non-core lands at Horseshoe Valley Resort ("Horseshoe") for \$2.9 million. Of this amount, \$583 was classified as PP&E.

(c) Valuation basis

The fair value method has been used for PP&E, with valuations performed by qualified independent valuers who hold recognized relevant professional qualifications and have recent experience in the location and category of similar properties. The Company discusses the valuation process and verifies all major inputs to the valuations and reviews the results with the external appraisers for all independent valuations.

The fair value of the Company's PP&E is primarily determined using the DCF method. As a result, PP&E are classified as level 3 in the fair value hierarchy. Changes in level 3 fair values are analyzed at each reporting date as part of the discussion between the Company and the appraisers. As part of this discussion, the valuers present a report that explains the reasons for any movements in fair value.

Significant unobservable (level 3) inputs used to determine the fair value of investment properties as at December 31, 2019 are as follows:

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

Discount rates used in applying the DCF method ranged between 10.00% and 12.75% (2018: 10.00%-12.75%), and terminal capitalization rates ranged between 8.25% and 12.50% (2018: 8.50% - 12.50%).

As at December 31, 2019, a 25 basis point ("bps") decrease in both the discount and terminal capitalization rates would increase the fair value of the Company's PP&E by \$13,846. As at December 31, 2019, a 25 bps increase in both the discount and terminal capitalization rates would decrease the estimated fair value of the Company's PP&E by \$13,011.

11 - 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).

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.

SKYLINE INVESTMENTS INC.

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(in thousands of Canadian Dollars)

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 carry back 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, 2018						
Balance at beginning of year	(15,145)	(20,725)	11,496	(14,282)	(5,368)	(44,024)
Amounts carried to:						
Net income (loss)	1,295	—	4,843	(4,835)	114	1,417
Other comprehensive income (loss)	—	(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)
Year ended December 31, 2019						
Amounts carried to:						
Net income (loss)	1,554	1,104	4,031	(1,025)	(3,098)	2,566
Other comprehensive income (loss)	—	377	—	—	—	377
Foreign currency translation reserve	34	634	(441)	836	(13)	1,050
	(8,931)	(26,902)	20,047	(20,088)	(5,940)	(41,814)

The deferred taxes are calculated at tax rates ranging between 13.25% and 27.98% (2018 - 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.

Deferred taxes are presented as follows:

	As at December 31,	
	2019	2018
Within non-current assets	—	—
Within non-current liabilities	(41,814)	(45,807)
	(41,814)	(45,807)

- (d) Tax rates

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

	2019 and forward	2018
Non-capital gain (loss) tax rates:		
Ontario	26.50%	26.50%
Ohio, USA	21.99%	22.98%
California, USA	27.98%	27.98%
Other states (on average), USA	22.87%	24.50%
Capital gain (loss) tax rates:		
Ontario	13.25%	13.25%
Ohio, USA	21.99%	21.00%
California, USA	27.98%	27.98%
Other states (on average), USA	22.87%	24.50%

SKYLINE INVESTMENTS INC.

Notes to consolidated financial statements

(in thousands of Canadian Dollars)

(e) Non-capital losses

The Company has non-capital losses carried forward for US and Canadian tax purposes of \$77,984 as at December 31, 2019, which expire at various dates commencing December 31, 2031 (December 31, 2018: \$61,081).

12 - 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 a 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 plus payment of interest. The balance is payable at the end of six years from the date of sale completion. 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. As at December 31, 2019 the remaining balance of the loan is \$31,124. Of this total \$7,697 is classified as current (2018: \$32,174 with \$4,197 classified as current). As at December 31, 2019, the purchaser has not paid the last ten installments on the seller's loan. In the Company's estimation, this is due to a dispute between Shareholders of the purchaser and it is not expected that the payment of the loan will not be completed. However, for the sake of caution, during the year, the Company initiated a power of sale process and is assessing its options with respect thereto. In view of the loan balance, the Company does not expect that the seller's loan will not be paid in full and it is expected to at least receive payment in the amount of the remaining debt.

Blue Mountain Retail VTB

During the year ended December 31, 2019, the Company sold its commercial real estate assets at Blue Mountain to an unrelated party (see note 14). As part of the sale, which closed in March 2019, a VTB of \$3.2 million was given to the purchaser. The VTB bears 4% interest, due monthly, with the full balance of the VTB due April 2024. As such, this loan is classified as non-current.

Horseshoe VTB

During the year ended December 31, 2019, the Company completed the sale of certain non-core lands at Horseshoe. As part of the sale, the Company took back a VTB in the amount of \$1.5 million. The VTB bears 4.25% interest, due monthly, with the full balance of the VTB due June 2021. As such, this loan is classified as non-current.

13 - Bonds

Series A Bonds

In July, 2016 the Company issued its Series A Bonds and raised NIS 123,222 (\$41,461), net of borrowing costs. The nominal annual interest rate is 5.2%, payable semi-annually (effective interest rate: approx. 7.30%, refer to note 15 (c)). Each semi-annual principal payment is equal to 2.5% of initial principal, with the exception of the final payment due January 2023, which is equal to 72.5% of the initial principal. The Company may, in its sole discretion, at any time, repay the bonds in partial or full, subject to a premium. The Deerpark Resort (excluding the surrounding lands) serves as collateral for Series A Bonds.

The deed of trust states that the Company is required to maintain a maximum loan to value ("LTV") of 72.5%, minimum shareholders equity of \$100,000, and a minimum equity to asset value ratio of 25%. As well, there are restrictions on the amount of dividends that can be paid, among other restrictions. As at December 31, 2019, the Company complies with all covenants per the deed of trust.

Series A Bonds - Extension

In August 2017, the Company closed a private Series A Bond extension placement to institutional investors, raising NIS 20,750 (including premium). The nominal interest rate is 5.20% (Effective interest rate: 5%). The Series A Bond extension is subject to the same covenants and conditions (including repayment terms) as the as the originally issued Series A Bonds.

Series B Bonds

In September 2017, the Company issued its Series B Bonds and raised NIS 164,464 (\$57,786), net of borrowing costs. The nominal annual interest rate is 5.65%, payable semi-annually (Effective interest rate: 6.60%). Each semi-annual payment is equal to 3.25% of initial principal, with the exception of the final payment due January 2024, which is equal to 64.25% of the initial principal. The bonds are linked to the NIS/US dollar exchange rate.

The deed of trust states that the Company is required to maintain minimum equity excluding minority interests of \$180,000, and a minimum equity to asset value ratio (excluding minority interests) of 28.5%. As at December 31, 2019, the Company complies with all covenants per the deed of trust.

SKYLINE INVESTMENTS INC.
Notes to consolidated financial statements

(in thousands of Canadian Dollars)

		As at December 31,						
		2019	2018					
a.	Composition							
	Total liability:							
	Series A	48,239	49,065					
	Series B	55,505	61,815					
		<u>103,744</u>	<u>110,880</u>					
	Current maturities:							
	Series A	2,568	2,463					
	Series B	3,641	3,789					
		<u>6,209</u>	<u>6,252</u>					
	Long term liability:							
	Series A	45,671	46,602					
	Series B	51,864	58,026					
		<u>97,535</u>	<u>104,628</u>					
	Maturity years subsequent to December 31, 2019:							
		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6 and thereafter	Total
	Bonds A	2,803	2,803	2,803	40,643	—	—	49,052
	Bonds B	3,953	3,953	3,953	3,953	41,055	—	56,867
	Total principal repayments	<u>6,756</u>	<u>6,756</u>	<u>6,756</u>	<u>44,596</u>	<u>41,055</u>	<u>—</u>	<u>105,919</u>
	Deferred financing costs							(2,175)
	Total bonds payable							<u>103,744</u>

b.	Additional information	Outstanding face value			
		Par value issued *	Nominal interest rate	as at December 31,	
				2019	2018
	Series A **	148,240	5.20%	130,159	137,598
	Series B ***	164,464	5.65%	153,774	164,464

* In thousands of NIS.

** The originally issued Series A Bonds were 100% hedged to CAD on January 18, 2017. The Series A Bonds extension was not hedged.

*** Linked to US Dollar.

c. Financial Derivative

To mitigate exposure to foreign currency risk, on January 18, 2017 the Company entered into a financial derivative contract to hedge its exchange rate exposure to the New Israeli Shekel related to the Series A bonds. As a result of this transaction, the Company will settle its bond obligations as if they were borrowed in Canadian dollars at nominal fixed interest rates in the range of 5.5%-6.5% instead of settlement in New Israeli Shekels at the fixed rate of 5.2%. This financial derivative covers 100% of expected future payments of the Company's Series A Bond principal and interest obligation for its Series A Bonds (excluding the Series A Bond extension). In connection with the swap, the Company placed \$3,250 in a long term restricted deposit collateral. During December 2019, NIS 2,000 was released from the collateral deposit.

As at December 31, 2019, the value of the financial derivative was \$4,817 (2018: \$2,821). The revaluation gain is recorded in the consolidated statement of income within financial income.

d. See also note 15(c).
14 - Other payables and credit balances

	As at December 31,	
	2019	2018
Provision for completion costs	6,307	8,356
Government institutions	6,047	634
Deferred revenue	10	10
Employees and payroll institutions	4,997	5,931
Due to hotel unit owners	565	499
Due to related parties (see note 18)	6	105
Accrued expenses and other	13,284	14,579
	<u>31,216</u>	<u>30,114</u>

SKYLINE INVESTMENTS INC.
Notes to consolidated financial statements

(in thousands of Canadian Dollars)

15 - Loans and leases payable

		<u>As at December 31,</u>	
		<u>2019</u>	<u>2018</u>
(a) I.	Short term liabilities		
	Short term loans	8,874	45,116
	Current maturities of long term loans and leases	<u>10,450</u>	<u>11,808</u>
		<u>19,324</u>	<u>56,924</u>
II.	Long term liabilities		
	Loans and mortgages from financial institutions	179,503	202,575
	Leases	<u>13,949</u>	<u>13,880</u>
		193,452	216,455
	Deferred financing costs	<u>(3,256)</u>	<u>(5,182)</u>
		190,196	211,273
	Less - Current maturities of long term loans and leases	<u>(10,450)</u>	<u>(11,808)</u>
		<u>179,746</u>	<u>199,465</u>
III.	Additional information		
		Weighted average annual interest rate	
		<u>2019</u>	<u>2018</u>
	Loans from financing institutions denominated in:		
	CAD	4.73%	5.92%
	US dollar	5.70%	6.07%
	Leases	4.23%	3.35% - 9.75%
		15,603	70,189
		172,774	177,502
		<u>13,949</u>	<u>13,880</u>
		202,326	261,571
	Deferred financing costs	<u>(3,256)</u>	<u>(5,182)</u>
		199,070	256,389
	Less - short term loans and current maturities of long term loans and leases	<u>(19,324)</u>	<u>(56,924)</u>
		<u>179,746</u>	<u>199,465</u>

(b) Maturity years subsequent to December 31, 2019:

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6 and thereafter</u>	<u>Total</u>
Development loans	14,590	37	37	37	37	679	15,417
Other loans and leases	<u>4,800</u>	<u>31,626</u>	<u>143,688</u>	<u>3,324</u>	<u>2,058</u>	<u>1,413</u>	<u>186,909</u>
Total principal repayments	<u>19,390</u>	<u>31,663</u>	<u>143,725</u>	<u>3,361</u>	<u>2,095</u>	<u>2,092</u>	<u>202,326</u>
Deferred financing costs							<u>(3,256)</u>
Total loans and leases payable							<u>199,070</u>

(c) Security

As of December 31, 2019 \$229,800 (2018: \$281,445) of the Company's loans payable and bonds (see note 13), excluding capital leases, are secured against the Company's assets. The total value of the Company's real estate assets that are pledged to any loan or bond, excluding capital leases was \$512,837 as at December 31, 2019 (2018: \$608,582).

(d) Marriott Courtyard loan extension

In December 2019, the Company exercised its option to extend the existing loan agreement through 2020, related to its acquisition of 13 select-service Marriott hotels, completed in 2017.

The total value of the loan is \$89,505, and is composed of an initial tranche of \$72,505 USD and mezzanine loan of \$17,000 USD. The total loan bears a weighted average annual interest rates equal to $\text{libor} + 325$ points and is interest only. The Company has 2 more options to extend the loan, subject to certain conditions, to 2021 and 2022.

In connection with the extension, the Company purchased a new rate cap to insure against an increase in Libor over 3.5%.

SKYLINE INVESTMENTS INC.

Notes to consolidated financial statements

(in thousands of Canadian Dollars)

(e) Lines of credit

In March 2017, the Company entered into a credit agreement secured by Horseshoe resort and a corporate General Security Agreement, which was subsequently renewed in 2019 with a maximum principal amount of \$20,000. As at December 31, 2019 no amount was drawn on the facility (2018: \$7,888).

The Company has other various secured credit facilities. As part of the regular course of business, the Company obtains and repays various loans to facilitate its operations.

(f) Lakeside Lodge construction financing

In June 2016 the Company secured \$32,000 in construction financing for the Lakeside Lodge development at 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. Under the terms of the agreement, the Company's required equity in the project is comprised of the project land valued at \$6,800 and \$3,000 cash. As the project was completed in 2019, the Company repaid the loan in full during December 2019.

(g) 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 mortgage of \$15,000, bearing an annual interest rate of 6.75%. During the year ended December 31, 2019, the Company repaid the loan in connection with the sale of the complex (see note 10).

(h) Additional information

The Company has certain variable rate loans that are tied to LIBOR, which will no longer be used as benchmark as of December 31, 2021. The company does not currently expect this change to have a material impact on its financial statements.

The Company was in compliance with its covenant obligations, including maintaining capital and financing profitability ratios as at December 31, 2019 and December 31, 2018, respectively.

16 - Related parties

	As at December 31,	
	2019	2018
(a) Short term assets:		
Other current balances	77	—
Short term liabilities:		
Due to a shareholder of the Company	6	54
Other current balances	—	51
	6	105

In December 2017 the former 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.

(b) Executive compensation expenses related to the former Chairman (and a shareholder), CEO and CFO are as follows:

	For the year ended December 31,		
	2019	2018	2017
Compensation, bonus and benefits	1,440	1,240	1,517
Employee stock option expense (see note 19 (c))	114	420	321

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

SKYLINE INVESTMENTS INC.

Notes to consolidated financial statements

(in thousands of Canadian Dollars)

17 - Financial instruments

(a) Categories of financial assets and liabilities

The fair value of the Company's financial assets and liabilities, except as noted below and elsewhere in the consolidated financial statements, approximates their carrying amount due to the short-term and variable rate nature of these instruments.

The Company has classified and disclosed the fair value of each class of financial instrument based on the fair value hierarchy in accordance with *IFRS 13, Fair Value Measurement* ("IFRS 13"). The fair value hierarchy distinguishes between market value data obtained from independent sources and the Company's own assumptions about market value. The hierarchy levels are defined below:

Level 1: Inputs based on quoted prices in active markets for identical assets or liabilities;

Level 2: Inputs based on factors other than quoted prices included in Level 1, which may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates and yield curves that are observable at commonly quoted intervals; and

Level 3: Inputs which are unobservable for the asset or liability, and are typically based on the Company's own assumptions as there is little, if any, related market activity.

The Company's assessment of the significance of a particular input into the fair value measurement in its entirety requires judgement and considers factors specific to the asset or liability.

The following table presents the Company's estimates of financial assets and liabilities measured at fair value on a recurring basis based on information available to management as at December 31, 2019, aggregated by the level in the fair value hierarchy within which those measurements fall. These estimates are not necessarily indicative of the amounts the Company could ultimately realize.

(b) Financial assets

	Level	As at December 31,	
		2019	2018
Financial assets at fair value through profit or loss			
Financial derivative	Level 2	4,817	2,821

(c) Financial liabilities

The estimated fair values and carrying amounts of loans and leases payable and bonds are as follows:

	Fair value As at December 31,		Carrying amount As at December 31,	
	2019	2018	2019	2018
Loans and leases payable	202,326	255,554	199,070	256,389
Bonds	109,721	106,348	106,677	110,880
	<u>312,047</u>	<u>361,902</u>	<u>305,747</u>	<u>367,269</u>

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.

18 - Share capital

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

	For the year ended December 31,		
	2019	2018	2017
Number of issued and paid-in shares:			
Outstanding at beginning of year (i)	16,736,780	16,736,780	16,731,360
Issue upon exercise of employee options	8,447	—	5,420
Outstanding at end of year	<u>16,745,227</u>	<u>16,736,780</u>	<u>16,736,780</u>
(i) Including shares issued to a company controlled by the CEO and held in trust	200,000	200,000	200,000

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On March 23, 2016 the Board of Directors approved a private allotment of 200,000 shares to a company controlled by the CEO, for total consideration of 4,793 NIS (approximately \$1,638) or 23.96 NIS (approximately \$8.20) per share, reflective of the average share price during 30 days prior to the appointment against a loan bearing 3% interest, due in full in February, 2021.

The issuance of those shares is accounted for as options-based compensation. Upon repayment of the loan, the corresponding number of shares issued or redeemed will be reported in Share Capital. The average value of this option-based compensation was determined by an independent valuator using a Binomial option pricing model to be NIS 4.23 (approximately \$1.5) per share, assuming an average volatility of 26.4% and an expected option life of between 1 and 5 years. Refer to note 18 (c).

(b) Earnings (loss) per share

The inputs used in calculating earnings per share are as follows:

	For the year ended December 31,		
	2019	2018	2017
Net income (loss) attributable to shareholders of the Company	(325)	(6,887)	6,066
Weighted average number of shares outstanding	16,541,038	16,536,780	16,536,423
Dilutive effect of in the money stock options	123,486	* —	480,459
Weighted average number of shares for the purposes of diluted earnings per share	<u>16,664,524</u>	<u>16,536,780</u>	<u>17,016,882</u>

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

The series 2 warrants expired in 2018 without being exercised.

(c) Employee stock options

Summary

<u>Details</u>	<u>Nov 2016</u>	<u>Feb 2018</u>	<u>Apr 2018</u>
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	82,500	—	—
Cancelled	127,500	135,000	—
Net	80,000	—	100,000
Vested	60,000	—	25,000
Additional details	[2]	[3]	[3]

Changes in number of stock options

	For the year ended December 31,	
	2019	2018
Outstanding at beginning of year	407,500	280,000
Granted	—	235,000
Exercised	(82,500)	—
Cancelled	(145,000)	(107,500)
	<u>180,000</u>	<u>407,500</u>

Additional details

[1] The fair value of 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 Company over the past 60 months, which management estimates to approximate the volatility in value of the Company's shares.

SKYLINE INVESTMENTS INC.

Notes to consolidated financial statements

(in thousands of Canadian Dollars)

- [2] On November 14, 2016 the Board of Directors approved granting 280,000 stock options, which was approved by the TASE in March 2017. The fair value of the options at the grant date was determined using the 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, which management estimates to approximate the volatility of the Company's shares.

In February 2017 the stock options that had been issued to certain executives 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.

- [3] In February and April 2018 certain executives of the Company were granted 135,000 and 100,000 options, respectively. The options were issued in connection with the existing option plan. During 2019, 135,000 of these options were cancelled.

	As at December 31,		
	2019	2018	2017
[4] Weighted average exercise price (CAD)	10.61	10.57	8.88

- [5] The Company recognized \$67 in stock compensation expense during the year ended December 31, 2019 (2018: \$356). This amount has been included in administrative and general expenses.

19 - Commitments and contingencies

(a) Claims

In 2016 the Company was served claims totalling \$2.1 million in relation to certain construction projects and issued a counterclaim in the amount of \$4 million. The Company has received judgement relating to one of the construction projects, and as such has provided a total of \$2.6m in the financial statements as at December 31, 2019.

In December 2019, the Company was served a claim from the Company's former President and Chairman (currently serving as a Director) for employment related issues. In addition, the company has been 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.

(b) Letters of Credit

The company issued various letters of credit approximating \$1,713 as at December 31, 2019 (2018: \$5,477). The amounts range from \$26 up to \$608 and have been issued to various municipalities and utilities in connection with the Company's development projects.

(c) Material agreements and commitments

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

On November 14, 2017, one of the Company's subsidiaries entered into 13, 20-year franchise agreements with Marriott upon acquisition of 13 Courtyard by Marriott hotels in the United States. The agreement secures access to Marriott's reservation system, as well as its sales platforms. In the event of early termination of the agreements, Marriott is entitled for various termination fees. In addition, under the agreements, the Company is obligated to undertake a rotational property improvement plan, which involves mandated capital expenditures to ensure that the hotels are in compliance with brand standards.

2. Management agreements with Aimbridge Hospitality LLC ("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 agreement. The Company may terminate those agreements with 90 days of advanced notice.

3. Rental agreements with condo owners

The Company entered into operating agreements with third party condo owners at its resorts. Based on the terms of these agreements, the resorts are able to use these condos as additional room inventory, paying condo owners a share of the room rental income. The agreements can be terminated by either party with 12 months notice.

SKYLINE INVESTMENTS INC.**Notes to consolidated financial statements**

(in thousands of Canadian Dollars)

20 - Income from hotels and resorts

	For the year ended December 31,		
	2019	2018	2017
Room revenue	121,486	113,975	57,967
Food & beverage revenue	36,776	37,151	32,987
Ski revenue	16,130	14,221	14,031
Other revenue	19,193	* 20,187	* 16,884
	<u>193,585</u>	<u>185,534</u>	<u>121,869</u>

* Reclassified. Refer to note 28.

21 - Operating expenses from hotels and resorts

Room department	29,081	29,795	15,216
Cost of food & beverage	25,318	25,662	22,140
Cost of ski services	7,185	6,222	5,945
Selling and marketing and administrative	37,362	36,222	24,871
Repairs and maintenance	11,532	9,679	7,132
Property tax and insurance	8,537	7,588	4,127
Management fees, cost of golf services and other expenses	32,356	28,815	20,470
	<u>151,371</u>	<u>143,983</u>	<u>99,901</u>

22 - Cost of sales of residential real estate

	For the year ended December 31,		
	2019	2018	2017
Cost of sale of condominiums	31,086	29,854	500
Cost of sale of land and development projects	2,492	10,174	8,854
Revaluation component included in cost of sale	—	—	15,552
Development periodic costs	2,633	2,125	1,852
Write-down (appreciation) of real estate inventory to net realizable value	—	351	(355)
	<u>36,211</u>	<u>42,504</u>	<u>26,403</u>

23 - Administrative and general expenses

	For the year ended December 31,		
	2019	2018	2017
Compensation and benefits *	3,087	3,970	3,361
Professional fees	2,240	3,071	1,424
Other expenses	1,112	969	787
	<u>6,439</u>	<u>8,010</u>	<u>5,572</u>

* 2018 amount includes restructuring costs of \$457.

24 - Financial expense

Interest on long-term loans and leases	12,316	9,690	4,837
Interest and foreign exchange revaluation of bonds	5,471	6,589	3,956
Amortization of deferred financing charges	1,757	2,337	1,745
Interest on short-term loans	572	159	387
Bank charges	1,072	970	164
	<u>21,188</u>	<u>19,745</u>	<u>11,089</u>

SKYLINE INVESTMENTS INC.

Notes to consolidated financial statements

(in thousands of Canadian Dollars)

25 - Income taxes

- (a) Income tax recovery (expense) included in the consolidated statements of income (loss):

	For the year ended December 31,		
	2019	2018	2017
Current income tax	(1,570)	(883)	(613)
Prior year income tax expense (recovery) and refunds	(119)	(889)	(33)
Deferred income tax expense	2,566	2,306	2,858
	<u>877</u>	<u>534</u>	<u>2,212</u>

- (b) Current Canadian and U.S. federal and provincial combined income tax was calculated based on the following tax rates (refer to note 11):

Ontario	26.50%	26.50%	26.50%
Ohio, USA	21.99%	23.00%	34.10%
California, USA	27.98%	28.00%	39.80%
Other states (on average), USA	22.87%	24.50%	38.20%

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

	For the year ended December 31,		
	2019	2018	2017
Net income (loss) before income taxes	(2,236)	(8,189)	6,409
Ontario statutory tax rate	26.5%	26.5%	26.5%
Income tax expense calculated using statutory tax rate	593	2,170	(1,698)
Increase (decrease) resulting from:			
Prior year taxes	(119)	(889)	(33)
Changes in tax rates	(185)	(358)	3,711
Difference in tax rates applicable to income of foreign subsidiaries	139	—	278
Tax on transparent entity (minority tax)	—	76	(437)
Allowance for tax loss non recoverability	—	—	(97)
Difference in tax rates applicable to capital gains	206	—	704
Non-deductible expenses (recovery)	—	(94)	(249)
Other	243	(371)	33
Income tax (recovery) expense	<u>877</u>	<u>534</u>	<u>2,212</u>

26 - Employee benefits

Compensation and benefits are included in the following categories in the consolidated statements of net income (loss):

	For the year ended December 31,		
	2019	2018	2017
Hospitality operating expenses	58,875	57,945	42,806
Development periodic costs	702	774	668
Administrative and general expenses	2,920	3,970	3,361
	<u>62,497</u>	<u>62,689</u>	<u>46,835</u>

27 - 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 as described in note 19. The main risks arising from the Company's financial instruments are interest rate, credit, liquidity, and foreign exchange risks. The Company's approach to managing these risks is summarized as follows:

SKYLINE INVESTMENTS INC.

Notes to consolidated financial statements

(in thousands of Canadian Dollars)

(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, 2019 and 2018, 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 bonds all pay fixed interest rates.

At December 31, 2019, 39% (2018: 38%) of the Company's indebtedness was issued at fixed rates. The following table illustrates the sensitivity of net income (loss) to a reasonably possible change in interest rates of +/- 1% at December 31, 2019 (2018: +/- 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.

Year ended December 31,	Net Income (Loss)	
	1%	(1%)
2019	1,171	(1,171)
2018	1,288	(1,288)

(b) Credit risk

The Company operates as a hospitality manager and owner, as well as a developer of destination real estate assets. 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 purchaser's 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, 2019, this amount is limited to \$75,856 (2018: \$44,888). The Company can mitigate this risk through the deposits that remain in trust and through litigation to recover damages. Both of these remedies 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,	
	2019	2018
Cash and cash equivalents	26,874	27,983
Trade receivables and other receivables	21,946	50,022
Restricted bank deposits	11,789	11,916
Loans to purchasers	36,642	33,860
Long-term deposit	2,495	2,696
	<u>99,746</u>	<u>126,477</u>

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.

(c) Liquidity risk

Liquidity risk is the risk that the Company may encounter difficulties in accessing capital and refinancing its financial obligations as they come due. 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.

SKYLINE INVESTMENTS INC.
Notes to consolidated financial statements

(in thousands of Canadian Dollars)

The Group's remaining contractual maturities are as follows:

	Current	2 Years	3 Years	4 Years	5 Years	6 Years & Later
As at December 31, 2019						
Loans and leases payable (*)	29,007	39,461	150,076	3,709	2,247	2,478
Bonds (*)	12,444	12,059	11,690	48,149	43,325	—
Trade payables	9,471	—	—	—	—	—
Other payables and credit balances	25,159	—	—	—	—	—
Purchasers' deposits	3,263	—	—	—	—	—
	<u>79,344</u>	<u>51,520</u>	<u>161,766</u>	<u>51,858</u>	<u>45,572</u>	<u>2,478</u>
As at December 31, 2018						
Loans and leases 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	—	—	—	—	—
	<u>129,609</u>	<u>38,579</u>	<u>52,524</u>	<u>146,648</u>	<u>64,538</u>	<u>69,002</u>

(*) 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.

(d) Foreign Exchange currency risk

Foreign exchange risk is the financial risk exposure to unanticipated changes in the exchange rate between two currencies. The Company'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.

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

On December 31, 2019, \$231,447 or 76%, (2018: \$242,519 or 66%,) 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:

	2019				2018			
	CAD	USD	NIS	Total	CAD	USD	NIS	Total
Assets:								
Cash and cash equivalents	11,533	14,162	1,179	26,874	15,623	12,332	28	27,983
Trade receivables and Other receivables	16,716	4,776	—	21,492	45,109	4,913	—	50,022
Restricted bank deposits	3,734	5,852	2,203	11,789	4,536	4,535	2,845	11,916
Financial derivative	—	—	4,817	4,817	—	—	2,821	2,821
Loans to purchasers	36,643	—	—	36,643	33,860	—	—	33,860
Other assets	—	—	—	—	—	—	—	—
Total financial assets	<u>68,626</u>	<u>24,790</u>	<u>8,199</u>	<u>101,615</u>	<u>99,128</u>	<u>21,780</u>	<u>5,694</u>	<u>126,602</u>
Non-financial assets	<u>228,593</u>	<u>345,638</u>	<u>—</u>	<u>574,231</u>	<u>280,640</u>	<u>369,352</u>	<u>—</u>	<u>649,992</u>
Total assets	<u>297,219</u>	<u>370,428</u>	<u>8,199</u>	<u>675,846</u>	<u>379,768</u>	<u>391,132</u>	<u>5,694</u>	<u>776,594</u>

SKYLINE INVESTMENTS INC.
Notes to consolidated financial statements

(in thousands of Canadian Dollars)

	2019				2018			
	CAD	USD	NIS	Total	CAD	USD	NIS	Total
Liabilities:								
Trade payables	6,267	3,204	—	9,471	6,337	8,279	—	14,616
Other payables and credit balances	14,754	10,414	—	25,168	20,805	8,675	—	29,480
Purchasers' deposits	3,262	—	—	3,262	8,779	—	—	8,779
Loans and leases payable	23,159	175,911	—	199,070	75,685	180,704	—	256,389
Bonds	—	55,505	48,239	103,744	—	61,815	49,065	110,880
Other liabilities	64	400	—	464	473	517	—	990
Total financial liabilities	47,506	245,434	48,239	341,179	112,079	259,990	49,065	421,134
Total non-financial liabilities	35,123	22,703	—	57,826	30,639	23,981	—	54,620
Total liabilities	82,629	268,137	48,239	399,005	142,718	283,971	49,065	475,754
Financial assets net of financial liabilities	21,120	(220,644)	(40,040)	(239,564)	(12,951)	(238,210)	(43,371)	(294,532)
Total assets, net of total liabilities	214,590	102,291	(40,040)	276,841	237,050	107,161	(43,371)	300,840
Revenue	138,721	96,522	—	235,243	102,399	129,857	—	232,256

The following table illustrates the sensitivity of net income 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.

	2019		2018	
	5%	(5%)	5%	(5%)
Assets	1,240	(1,240)	1,089	(1,089)
Liabilities	(12,272)	12,272	(13,000)	13,000
Equity	(11,032)	11,032	(11,911)	11,911
Net income for the year	35	(35)	(41)	41

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

	2019			2018		
	Within 12 months	More than 12 months	Total	Within 12 months	More than 12 months	Total
Assets:						
Cash and cash equivalents	26,874	—	26,874	27,983	—	27,983
Trade receivables, other receivables and prepayments	24,510	—	24,510	52,892	—	52,892
Inventories	40,561	13,456	54,017	33,396	33,125	66,521
Loans to purchasers	9,177	27,465	36,642	7,959	25,901	33,860
Restricted bank deposits	4,222	7,567	11,789	4,406	7,510	11,916
Financial derivative	—	4,817	4,817	—	2,821	2,821
Investment properties	—	59,965	59,965	—	90,640	90,640
Property, plant and equipment	—	454,737	454,737	—	487,265	487,265
Other non-current assets	—	2,495	2,495	—	2,696	2,696
	105,344	570,502	675,846	126,636	649,958	776,594

SKYLINE INVESTMENTS INC.**Notes to consolidated financial statements**

(in thousands of Canadian Dollars)

	2019			2018		
	Within 12	More than 12	Total	Within 12	More than 12	Total
	months	months		months	months	
Liabilities:						
Loans and leases payable	18,497	827	19,324	49,697	7,227	56,924
Bonds - current maturities	6,209	—	6,209	6,252	—	6,252
Trade payables	9,471	—	9,471	14,616	—	14,616
Other payables and credit balances	31,216	—	31,216	30,114	—	30,114
Deferred revenue	8,479	—	8,479	7,508	—	7,508
Income taxes payable	1,484	—	1,484	671	—	671
Purchasers' deposits	3,263	—	3,263	8,779	—	8,779
Loans and leases payable	—	179,746	179,746	—	199,465	199,465
Bonds	—	97,535	97,535	—	104,628	104,628
Other liabilities	—	464	464	—	990	990
Deferred tax	—	41,814	41,814	—	45,807	45,807
	<u>78,619</u>	<u>320,386</u>	<u>399,005</u>	<u>117,637</u>	<u>358,117</u>	<u>475,754</u>
Total assets, net of total liabilities	<u>26,725</u>	<u>250,116</u>	<u>276,841</u>	<u>8,999</u>	<u>291,841</u>	<u>300,840</u>

(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 defines capital as the aggregate of shareholders' equity, loans and leases payable, bonds, less cash and cash equivalents.

The Company seeks to maintain a loan-to-overall financing ratio of 70%, in-line with bond rating obligations.

The Company manages its 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 its 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,	
	2019	2018
Shareholders' equity	252,374	260,753
Loans and leases payable	199,070	256,389
Bonds	103,744	110,880
Cash and cash equivalents	(26,874)	(27,983)
Total capital	<u>528,314</u>	<u>600,039</u>
Loan to overall financing ratio	57%	61%

(g) Other non-current assets

Other non-current assets of \$2,494 (2018: \$2,696) includes fees paid to secure a 20 year franchise agreement with Marriott International in 2017 upon acquisition of 13 Courtyard by Marriott hotels in the United States, which secures access to Marriott's reservation and sales platforms.

28 - Segmented information*Hospitality segments*

The chief operating decision maker reviews and analyzes the US hospitality operations as separate segment, which includes the Hyatt Regency Arcade and the Renaissance Hotels located in Cleveland, Ohio, the 13 Hotels branded Marriott Courtyard located in 9 different states and the Bear Valley Resort located in California. The Canadian hospitality operations include the Deerhurst and Horseshoe resorts located in Ontario, Canada.

Development segment

Management operates the development assets regardless of their accounting classification, as one operating segment. Therefore, the chief operating decision maker reviews and analyzes all land (both accounted for IAS 40 and IAS 2) under the development segment, together.

SKYLINE INVESTMENTS INC.**Notes to consolidated financial statements**

(in thousands of Canadian Dollars)

During 2019 the Company sold its only stand alone commercial property. As a result, the chief operating decision maker no longer considers commercial property to be an identifiable segment, and reviews the remaining commercial assets together with the US and Canadian hotels and resorts segments. As such the company has classified its remaining commercial assets as part of the US and Canadian hotels and resorts segments.

Presentation of comparative information in the consolidated statements of income (loss), has been reclassified in accordance with this change.

Business segments are classified as follows:

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
Development	Acquisition, development and sale of real estate properties and lands

Segmented financial information is as follows:

	US hotels and resorts	Canadian hotels and resorts	Development	Adjustments for commercial property sold	Total
For the year ended December 31, 2019					
Revenue	138,721	54,865	41,657	—	235,243
Costs and expenses	<u>(105,779)</u>	<u>(45,593)</u>	<u>(36,210)</u>	<u>—</u>	<u>(187,582)</u>
	32,942	9,272	5,447	—	47,661
Selling and marketing expenses					(373)
Administrative and general expenses					(6,439)
Depreciation					(20,458)
Gain (Loss) from fair value adjustments					(15)
Loss on sale of investments					(611)
Other expense					(1,331)
Loss from early extinguishment of debt					(2,749)
Financial expense					(21,188)
Financial income					<u>3,267</u>
Profit (Loss) before income taxes					<u><u>(2,236)</u></u>
For the year ended December 31, 2018					
Revenue	* 131,876	* 50,406	46,722	* 3,252	232,256
Costs and expenses	<u>* (101,944)</u>	<u>* (41,299)</u>	<u>(42,504)</u>	<u>* (740)</u>	<u>(186,487)</u>
	29,932	9,107	4,218	2,512	45,769
Selling and marketing expenses					(776)
Administrative and general expenses					(8,010)
Depreciation					(21,110)
Gain from fair value adjustments					(3,209)
Loss on sale of investments					(1,770)
Other expense					(116)
Financial expense					(19,745)
Financial income					<u>778</u>
Profit before income taxes					<u><u>(8,189)</u></u>
For the year ended December 31, 2017					
Revenue	* 70,918	* 48,096	30,694	* 2,855	152,563
Costs and expenses	<u>* (58,982)</u>	<u>* (39,915)</u>	<u>(26,403)</u>	<u>* (1,004)</u>	<u>(126,304)</u>
	11,936	8,181	4,291	1,851	26,259
Selling and marketing expenses					(480)
Administrative and general expenses					(5,572)
Depreciation					(11,415)
Gain from fair value adjustments					6,715
Gain on sale of investments					(17)
Other expense					(1,111)
Financial expense					(11,089)
Financial income					<u>3,119</u>
Profit before income taxes					<u><u>6,409</u></u>

* Reclassified.

SKYLINE INVESTMENTS INC.**Notes to consolidated financial statements**

(in thousands of Canadian Dollars)

	US hotels and resorts	Canadian hotels and resorts	Development	Adjustments for commercial property sold	Total
As at December 31, 2019					
Assets	370,426	146,026	159,394	—	675,846
Liabilities	<u>(267,987)</u>	<u>(87,195)</u>	<u>(43,823)</u>	—	<u>(399,005)</u>
	<u>102,439</u>	<u>58,831</u>	<u>115,571</u>	<u>—</u>	<u>276,841</u>
As at December 31, 2018					
Assets	* 401,139	* 144,007	198,499	* 32,949	776,594
Liabilities	<u>* (287,456)</u>	<u>* (89,670)</u>	<u>(82,084)</u>	<u>* (16,544)</u>	<u>(475,754)</u>
	<u>113,683</u>	<u>54,337</u>	<u>116,415</u>	<u>16,405</u>	<u>300,840</u>

* Reclassified.

29 - Subsequent events

- (a) During Q1 2020, the Company closed on the final 28 units at Lakeside Lodge. As a result, the Company received net cash proceeds of approximately \$10,400.
- (b) During Q1 2020, the Company achieved final closing on its Second Nature 2 & 3 development projects near Blue Mountain. The company received cash proceeds (net of expenses) of approximately \$5,404 and repaid \$2,389 of construction debt.
- (c) The COVID-19 virus is continuing to spread throughout the world, and is impacting the hotel industry. The situation is continually evolving, and the Company is starting to see an impact at our properties. The majority of the Company's properties are located in secondary markets and are primarily geared to domestic business travel, which are not directly impacted by international travel restrictions. However, as local, state and federal governments begin to impose domestic travel restrictions, the Company is beginning to see a slowdown in our business, which will have a financial impact on our Q1 2020 results. Given the fluidity of the situation, the Company is unable to estimate a timeline for resolution of the outbreak and therefore cannot estimate any potential financial impact on our business beyond Q1 2020. In response to the pandemic, the Company has implemented cost control-measures, including reductions to non-essential administrative expenses and capital expenditures, among other initiatives aimed at protecting net operating income.