SKYLINE INVESTMENTS INC.

Condensed interim consolidated financial statements

for the period ended

June 30, 2020

(Unaudited)

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for the period ended

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(Unaudited)

Contents

Review Report for the second quarter
Auditors' review report to the Shareholders of
Skyline Investments Inc.

Introduction:

We have reviewed the accompanying financial information of Skyline Investments Inc. the company and its subsidiaries (hereafter "the company") which includes the condensed consolidated statement of financial position as of June 30, 2020 and the related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for six and three months periods then ended. The board of directors and management are responsible for the preparation and presentation of interim financial information for those periods in accordance with IAS 34 "Interim Financial Reporting" and are also responsible for the preparation of interim financial information for those periods in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on those interim financial information based on our review.

Scope of review:

We conducted our review in accordance with Review Standard (Israel) 2410 of the Institute of Certified Public Accountants in Israel "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion:

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

In addition to that mentioned in the previous paragraph, based on our review, nothing has come to our attention that causes us to believe that the abovementioned interim financial information does not comply, in all material respects, with the disclosure requirements of Section D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Without qualifying our conclusion, we draw attention to note 1b regarding the outbreak of the COVID 19 pandemic crisis and the uncertainty of the estimations of potential effects of the crisis over the company's hospitality operations.

Brightman Almagor Zohar & Co.
Certified Public Accountants
A Firm in the Deloitte Global Network

Tel Aviv,
August 13, 2020

SKYLINE INVESTMENTS INC.

Condensed interim consolidated statements of financial position

(in thousands of Canadian Dollars)

	Note	As at June 30, 2020	As at June 30, 2019	As at December 31, 2019
		(Unaudited)	*(Unaudited)*	*(Audited)*
Assets				
Current assets				
Cash and cash equivalents		40,995	32,227	26,874
Trade receivables, other receivables and prepayments		14,663	62,226	24,510
Inventories		1,515	1,605	1,782
Real estate inventory		28,587	45,329	52,235
Loans to purchasers		10,846	7,561	9,177
Restricted bank deposits		3,119	4,119	4,222
		99,725	153,067	118,800
Non-current assets				
Financial derivative		5,914	3,212	4,817
Investment properties	5	64,323	60,232	59,965
Property, plant and equipment	6	435,545	459,547	454,737
Loans to purchasers		49,272	28,640	27,465
Other non-current assets		3,480	2,560	2,495
Restricted bank deposits		7,496	7,740	7,567
		566,030	561,931	557,046
Total assets		**665,755**	**714,998**	**675,846**
Liabilities and equity				
Current liabilities				
Loans payable	7	57,953	48,434	19,324
Bonds		6,550	6,157	6,209
Trade payables		10,070	11,535	9,471
Other payables and credit balances		24,947	28,048	31,216
Deferred revenue		9,237	9,592	8,479
Current tax liability		894	1,675	1,484
Purchasers' deposits		130	3,754	3,263
		109,781	109,195	79,446
Non-current liabilities				
Loans payable	7	172,562	180,005	179,746
Bonds		99,136	99,747	97,535
Other liabilities		645	547	464
Deferred tax liabilities		32,978	41,656	41,814
		305,321	321,955	319,559
Total liabilities		415,102	431,150	399,005
Equity				
Equity attributable to shareholders of the Company		226,261	252,612	252,374
Non-controlling interest		24,392	31,236	24,467
		250,653	283,848	276,841
Total liabilities and equity		**665,755**	**714,998**	**675,846**

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

On behalf of the board of directors:

"Shimshon Marfogel"	*"Blake Lyon"*	*"Robert Waxman"*	August 13, 2020
Shimshon Marfogel Chairman	Blake Lyon CEO	Robert Waxman CFO	Date

SKYLINE INVESTMENTS INC.

Condensed interim consolidated statements of income

(in thousands of Canadian Dollars)

	Note	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Year Ended December 31, 2019
		(Unaudited)	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Audited)*
Revenue						
Income from hotels and resorts		48,539	96,665	6,972	45,840	193,585
Sale of residential real estate		30,408	33,919	316	27,880	41,658
		78,947	130,584	7,288	73,720	235,243
Expenses and costs						
Operating expenses from hotels and resorts		(45,807)	(74,658)	(11,747)	(36,600)	(151,371)
Cost of sales of residential real estate		(27,341)	(29,927)	(453)	(25,077)	(36,211)
		(73,148)	(104,585)	(12,200)	(61,677)	(187,582)
		5,799	25,999	(4,912)	12,043	47,661
Selling and marketing expenses		(279)	(95)	(248)	(78)	(373)
Administrative and general expenses		(3,237)	(2,237)	(1,648)	(867)	(6,439)
Operating income before depreciation, valuation adjustments and other income		2,283	23,667	(6,808)	11,098	40,849
Depreciation		(10,872)	(9,338)	(5,165)	(4,471)	(20,458)
Gain (loss) from fair value adjustments of investment properties		4,858	290	5,001	818	(15)
Derecognition of investment costs and other capital gains (losses)		—	(1,308)	—	56	(611)
Other expenses		(50)	—	—	(8)	(1,331)
Net income from operations		(3,781)	13,311	(6,972)	7,493	18,434
Loss from early extinguishment of debt		—	(2,749)	—	—	(2,749)
Financial expense	8	(14,099)	(10,687)	(1,345)	(4,800)	(21,188)
Financial income	9	1,997	1,566	(392)	423	3,267
Net income (loss) before income taxes		(15,883)	1,441	(8,709)	3,116	(2,236)
Income tax recovery	10	2,695	171	1,387	(43)	877
Net income (loss) for the period		(13,188)	1,612	(7,322)	3,073	(1,359)
Attributable to:						
Shareholders of the Company		(12,828)	2,410	(7,476)	2,205	(325)
Non-controlling interest		(360)	(798)	154	868	(1,034)
		(13,188)	1,612	(7,322)	3,073	(1,359)
Earnings per share:						
Basic		(0.78)	0.15	(0.45)	0.13	(0.02)
Diluted		(0.78)	0.14	(0.45)	0.13	(0.02)

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

SKYLINE INVESTMENTS INC.

Condensed interim consolidated statements of comprehensive income

(in thousands of Canadian Dollars)

	Six Months Ended June 30,		Three Months Ended June 30,		Year Ended December 31,
	2020	2019	2020	2019	2019
	(Unaudited)	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Audited)*
Net income (loss) for the period	(13,188)	1,612	(7,322)	3,073	(1,359)
Other comprehensive income					
Items that will not be reclassified subsequently to net income (loss):					
Revaluation of property, plant and equipment, before income taxes	(26,903)	(11,932)	(25,833)	(11,932)	(11,419)
Income taxes	6,076	1,462	5,954	1,462	377
	(20,827)	(10,470)	(19,879)	(10,470)	(11,042)
Items that will or may be reclassified subsequently to net income (loss):					
Exchange differences on translation of foreign operations	7,787	(7,062)	(6,452)	(3,579)	(8,820)
Other comprehensive income (loss) for the period, net of taxes	(13,040)	(17,532)	(26,331)	(14,049)	(19,862)
Total comprehensive income (loss) for the period, net of taxes	(26,228)	(15,920)	(33,653)	(10,976)	(21,221)
Attributable to:					
Shareholders of the Company	(26,153)	(8,147)	(33,208)	(5,147)	(8,446)
Non-controlling interest	(75)	(7,773)	(445)	(5,829)	(12,775)
	(26,228)	(15,920)	(33,653)	(10,976)	(21,221)

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

SKYLINE INVESTMENTS INC.

Condensed interim consolidated statements of changes in equity

(in thousands of Canadian Dollars)

	Attributable to shareholders of the Company									
	Share capital and premium	Warrant certificates	Revaluation surplus	Share based compensation surplus	Related party surplus	Foreign exchange translation	Retained earnings	Attributable to shareholders of the Company	Non- controlling interest	Total Equity
For six months ended June 30, 2020 (Unaudited)										
Balance at the beginning of the period	79,686	—	88,730	705	125	1,785	81,343	252,374	24,467	276,841
Net income (loss) for the period	—	—	—	—	—	—	(12,828)	(12,828)	(360)	(13,188)
Other comprehensive income (loss) for the period	—	—	(20,292)	—	—	6,967	—	(13,325)	285	(13,040)
Total comprehensive loss for the period	—	—	(20,292)	—	—	6,967	(12,828)	(26,153)	(75)	(26,228)
Transfer upon recognition of depreciation	—	—	(1,760)	—	—	—	1,760	—	—	—
Recognition of share-based payment	—	—	—	40	—	—	—	40	—	40
Balance at the end of the period	79,686	—	66,678	745	125	8,752	70,275	226,261	24,392	250,653
For six months ended June 30, 2019 (Unaudited)										
Balance at the beginning of the period	79,298	—	91,522	1,026	125	9,511	79,271	260,753	40,087	300,840
Net income (loss) for the period	—	—	—	—	—	—	2,410	2,410	(798)	1,612
Other comprehensive income (loss) for the period	—	—	(4,504)	—	—	(6,053)	—	(10,557)	(6,975)	(17,532)
Total comprehensive Income for the period	—	—	(4,504)	—	—	(6,053)	2,410	(8,147)	(7,773)	(15,920)
Transfer upon recognition of depreciation	—	—	(1,105)	—	—	—	1,105	—	—	—
Distribution to non-controlling shareholders	—	—	—	—	—	—	—	—	(1,078)	(1,078)
Recognition of share-based payment	—	—	—	6	—	—	—	6	—	6
Transfer upon expiration	277	—	—	(277)	—	—	—	—	—	—
Balance at the end of the period	79,575	—	85,913	755	125	3,458	82,786	252,612	31,236	283,848
For three months ended June 30, 2020 (Unaudited)										
Balance at the beginning of the period	79,686	—	87,417	731	125	14,605	76,891	259,455	24,837	284,292
Net income (loss) for the period	—	—	—	—	—	—	(7,476)	(7,476)	154	(7,322)
Other comprehensive income (loss) for the period	—	—	(19,879)	—	—	(5,853)	—	(25,732)	(599)	(26,331)
Total comprehensive Income for the period	—	—	(19,879)	—	—	(5,853)	(7,476)	(33,208)	(445)	(33,653)
Transfer upon recognition of depreciation	—	—	(860)	—	—	—	860	—	—	—
Recognition of share-based payment	—	—	—	14	—	—	—	14	—	14
Balance at the end of the period	79,686	—	66,678	745	125	8,752	70,275	226,261	24,392	250,653
For three months ended June 30, 2019 (Unaudited)										
Balance at the beginning of the period	79,298	—	90,964	1,004	125	6,306	80,034	257,731	38,143	295,874
Net income (loss) for the period	—	—	—	—	—	—	2,205	2,205	868	3,073
Other comprehensive income (loss) for the period	—	—	(4,504)	—	—	(2,848)	—	(7,352)	(6,697)	(14,049)
Total comprehensive Income for the period	—	—	(4,504)	—	—	(2,848)	2,205	(5,147)	(5,829)	(10,976)
Transfer upon recognition of depreciation	—	—	(547)	—	—	—	547	—	—	—
Distribution to non-controlling shareholders	—	—	—	—	—	—	—	—	(1,078)	(1,078)
Recognition of share-based payment	—	—	—	28	—	—	—	28	—	28
Transfer upon expiration	277	—	—	(277)	—	—	—	—	—	—
Balance at the end of the period	79,575	—	85,913	755	125	3,458	82,786	252,612	31,236	283,848
For the year ended December 31, 2019 (Audited)										
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 (loss) for the period	—	—	—	—	—	—	(325)	(325)	(1,034)	(1,359)
Other comprehensive income (loss) for the period	—	—	(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

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

SKYLINE INVESTMENTS INC.

Condensed interim consolidated statements of cash flows

(in thousands of Canadian Dollars)

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2020	2019	2020	2019	2019
			(Unaudited)	*(Unaudited)*	*(Audited)*
Operating activities					
Net income (loss) for the period	(13,188)	1,612	(7,322)	3,073	(1,359)
Adjustments for:					
Depreciation and amortization	11,803	10,396	5,666	5,230	22,329
(Gain) loss from fair value adjustments of Investment properties	(4,858)	(290)	(5,001)	(818)	15
(Gain) loss on sale of investment and other property	—	—	—	—	750
Finance (income) costs from bonds including foreign exchange	5,425	(1,702)	(1,445)	(1,658)	(674)
Finance (income) costs from financial derivative	(1,097)	(391)	550	480	(1,996)
Deferred tax, net	(3,641)	(1,746)	(1,403)	101	(2,566)
Share based compensation	40	6	14	28	67
Changes in non-cash working capital					
Trade receivables	10,096	(7,938)	(428)	(6,095)	23,846
Other receivables, prepayments and others	(725)	618	(792)	685	5,229
Restricted bank deposits	1,019	251	1,311	420	160
Inventories	315	309	(17)	(209)	139
Real estate Inventory	754	17,794	461	15,868	12,085
Trade and other payables and credit balances	(6,504)	348	5,581	5,556	(3,258)
Income taxes payable	743	1,004	32	—	813
Purchasers' deposits	(3,133)	(5,025)	(277)	(1,492)	(5,516)
Cash provided by (used in) operating activities	(2,951)	15,246	(3,070)	21,169	50,064
Investing activities					
Additions to investment properties	(107)	(207)	(56)	(27)	(312)
Investment in restricted long term deposit	444	(230)	(239)	61	(266)
Additions to property, plant and equipment	(2,591)	(7,997)	(1,932)	(2,583)	(15,142)
Income taxes	(1,333)	—	—	—	—
Net proceeds from sale of investment properties	—	27,535	—	—	27,535
Proceeds from sale of property, plant and equipment	86	583	86	583	583
Cash provided by (used in) investing activities	(3,501)	19,684	(2,141)	(1,966)	12,398
Financing activities					
Bank credit and other short-term loans	15,349	(7,255)	(251)	(13,485)	(36,248)
Repayment of bonds	(3,481)	(3,276)	(90)	—	(6,629)
Proceeds from long term loans	10,142	3,977	10,006	101	4,635
Repayments of long term loans	(1,901)	(19,213)	(853)	(4,186)	(21,847)
Distribution to non-controlling shareholders	—	(1,080)	—	(1,080)	(2,845)
Cash provided by (used in) financing activities	20,109	(26,847)	8,812	(18,650)	(62,934)
Foreign exchange translation of cash balances	464	(3,839)	(376)	(1,964)	(637)
Net increase (decrease) in cash and cash equivalents	14,121	4,244	3,225	(1,411)	(1,109)
Cash and cash equivalents at beginning of period	26,874	27,983	37,770	33,638	27,983
Cash and cash equivalents at end of period	40,995	32,227	40,995	32,227	26,874

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

SKYLINE INVESTMENTS INC.

Condensed interim consolidated statements of cash flows

(in thousands of Canadian Dollars)

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2020	2019	2020	2019	2019
			(Unaudited)	*(Unaudited)*	*(Audited)*
Supplemental cash flow information					
Interest paid	7,196	9,923	1,841	3,483	20,367
Interest received	38	91	10	52	194
Income taxes paid (received)	1,495	(61)	—	15	677
Significant non-cash investing and financing activities					
Loans to purchasers	23,652	4,617	—	1,450	4,262
Share capital and premium increase	—	277	—	277	388

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

1 - Nature of operations

(a) 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 June 30, 2020, 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 the Company is a reporting issuer in Canada.

(b) COVID-19 update

At the end of 2019, the COVID-19 virus began spreading rapidly, and on March 2020, the virus was declared a global pandemic by the World Health Organization ("WHO"). This had wide-ranging implications, including international and domestic travel restrictions, temporary closure of businesses, and an immediate contraction in overall global economic activity. The North American hospitality industry has not been immune and has witnessed a slowdown in activity, beginning in March 2020. In response to the crisis, the Company implemented immediate countermeasures, including the early closure of Horseshoe Valley Resort ("Horseshoe") and Bear Valley Resort ("Bear Valley"), a temporary closure of Deerhurst Resort ("Deerhurst") (collectively, the "Resorts"), staff reductions, and other cost containment measures. While Bear Valley will remain closed until the start of the 2020/2021 ski season, Horseshoe and Deerhurst both opened on June 12th in accordance with local public health guidelines.

The Company's hotels located in the USA (the "US Properties") have never closed and are all operating with appropriately reduced staff levels. Given that the majority of the US Properties are primarily located in "drive-to" secondary markets that are not dependant on international air travel, and that a significant percentage of guests are travelling business people, the Company expects that as the recovery unfolds, there will be pent-up demand for this segment.

All of the Company's properties are operating with enhanced cleaning protocols, social distancing initiatives are in place, and staff are required to wear masks for added protection. In the event that the Company is required to place continued restrictions on its occupancy levels, the company expects that there could be an adverse impact on the financial performance of the Resorts and US Properties. The aforementioned risks and uncertainties arising from the COVID-19 pandemic have been taken into consideration when assessing the inputs used to determine the value of certain of the Company's assets, including its Property, Plant, and Equipment, along with the potential for changes in discount rates and capitalization rates.

The Company received independent third party appraisals for approximately 73% of its Resorts and Hotels as at June 30, 2020. For the remainder of the Company's PP&E, the Company undertook specific actions to determine if there was any change in value, including discussion with independent, third party experts, referencing market transactions, and review of internal forecasts. As at June 30, 2020, the Company records the value of its hotels and resorts at $435,545 compared to $454,737 as at December 31, 2019.

In response to the COVID-19 crisis, the Canadian and US Governments unveiled multiple stimulus measures for which the Company has qualified. In the US, Skyline has qualified for loans under the Paycheque Protection Program ("PPP"). US$6.7 million was received during the three and six months ended June 30, 2020. As part of this program, the portion of any loan spent on payroll and other specified costs may be forgiven by the US Government under certain circumstances. During the three and six months ended June 30, 2020, the Company recorded an offset to certain expenses in the amount of $2 million and $2 million, respectively. In addition, the Company believes that it may qualify for the Mainstreet Loans Program ("MLP"), however at this time the Company is not able to estimate the amount of proceeds that will be made available.

In Canada, the Company has received funding under the Canada Employment Wage Subsidy ("CEWS"), which covers up to 75% of employee wages not in excess of $58.7 thousand per eligible employee, subject to certain conditions, between March 15, 2020 and at least December 31, 2020. As a result, during the three and six months ended June 30 2020, the Company recorded an offset to salaries and benefits in the amount of $1.2 million and $1.4 million, respectively.

The Company, as part of its response to the crisis, continuously examines, among other things (in addition to the specific items noted above): the Company's financial position, its results of operations, liquidity, financial strength and flexibility, sources of financing, and its ability to meet lending and other obligations. The Company believes that, as of the date of publication of its condensed consolidated interim financial statements, that it has sufficient liquidity to meet its financial obligations for the foreseeable future, as it has sufficient unrestricted and restricted cash balances, cash flows and other liquid assets. In addition, the Company's lenders in the US have agreed to grant covenant relief for at least the next quarter, where required.

(in thousands of Canadian Dollars)

The deed of trust for the Company's Series A Bonds states that the Company is required to maintain a maximum loan to value ("LTV") of 72.5%, minimum shareholders equity of $100,000 (excluding minority interests), and a minimum equity (including minority interests) 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 June 30, 2020, the Company complies with all covenants per the deed of trust.

The deed of trust states for the Company's Series B Bonds states that the Company is required to maintain minimum equity (excluding minority interests) of $130,000, and a minimum equity to asset value ratio (including minority interests) of 26%. As at June 30, 2020, the Company complies with all covenants per the deed of trust.

Furthermore, the Company employs conservative leverage, has sufficient financing capabilities, and expects to continue to receive government assistance which will cover a portion of its expenses in the near to mid-term. However, given the uncertainty around timing of a resolution of the crisis, future effects of the crisis cannot be fully estimated. Should the crisis worsen and/or extend for a prolonged period, there could be an adverse impact on the operations and financial results of the Company.

2 - Statement of compliance and basis of presentation

(a) Statement of compliance

The Company has prepared these condensed interim consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS") applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34, "Interim Financial Reporting", and in accordance with the disclosure requirements of Chapter D of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970. These policies have been consistently applied to all periods presented, unless stated otherwise.

These condensed interim consolidated financial statements were approved by the Company's Board of Directors on August 13, 2020.

(b) Basis of presentation

The basis of presentation and significant accounting policies adopted in the preparation of these condensed interim consolidated financial statements are consistent with those followed in the preparation of the annual financial statements for the year ended December 31, 2019, except for the impact of newly adopted standards, amendments and interpretations, as described in note 2 (c) hereafter. These condensed interim consolidated financial statements should therefore be read in conjunction with the Company's audited annual financial statements for the year ended December 31, 2019.

(c) Standards that were initially applied during the period

1. *IFRS 3, Business Combinations ("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, which applies to annual reporting periods beginning on or after January 1, 2010. 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. There was no impact on transition as the amendments are effective for business combinations for which the acquisition date is on or after the transition date.

(d) Significant 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. Due to the COVID-19 pandemic, the Company has examined the need for impairment of the Company's PP&E and Investment Properties. For information regarding Management's assumptions and estimates, please refer to note 1 (b).

	As at				
(e) Foreign currency	June 30,		March 31,		December 31,
	2020	2019	2020	2019	2019
Exchange rates - ending rate:					
USD / CAD	1.363	1.309	1.419	1.336	1.299
CAD / NIS	2.531	2.723	2.500	2.705	2.654

(in thousands of Canadian Dollars)

	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Year Ended December 31, 2019
Exchange rates - average rate:					
USD / CAD	1.365	1.334	1.386	1.338	1.327
CAD / NIS	2.570	2.714	2.535	2.687	2.686
Change in rate - compared to prior period ended:					
USD / CAD	4.9%	(4.1%)	(3.9%)	(2.1%)	(4.8%)
CAD / NIS	(4.6%)	(1.1%)	1.2%	0.6%	(3.6%)

3 - Seasonality and other disclosures

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

4 - Fair value of financial assets and liabilities

(a) The estimated fair values and carrying amounts of bonds and loans payable are as follows:

	Fair value as at			Carrying amount as at		
	June 30,		December 31,	June 30,		December 31,
	2020	2019	2019	2020	2019	2019
Bonds	89,145	109,186	109,721	108,621	108,849	106,677
Loans payable	233,790	232,445	202,326	230,515	228,439	199,070

(b) Fair values of long-term financial liabilities have been determined by calculating their present values as at the reporting date, using fixed effective market interest rates available to the Company. The carrying amount of these loans approximate their fair values.

(c) The fair value of bonds is based on the quoted price on the TASE (in New Israeli Shekels) as at the balance sheet date, translated to CAD using a currency NIS/CAD quote per the Bank of Israel web site. The carrying amount presented in the statement of financial position is net of financing costs.

(d) Fair value of other financial assets and liabilities:

The fair value of cash and cash equivalents approximate their carrying values. Amounts receivable, accounts payable and accrued liabilities are assumed to have a fair value that approximates their carrying values due to their short-term nature. Non-current loans to purchasers approximate their fair values as the interest rates charged correspond to the market rate in effect as at June 30, 2020. In addition, the Company has taken adequate security pledges on these assets.

5 - Investment properties

	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019	Year Ended December 31, 2019
Balance as at the beginning of the period	59,965	90,640	90,640
Expenditures subsequent to acquisition	107	207	312
Net gain (loss) from fair value adjustments	4,858	290	(15)
Net proceeds from sale of investment properties	—	(27,535)	(27,535)
Transfer to loans to purchasers and Inventory and from others	(1,034)	(3,003)	(3,003)
Foreign exchange translation and other	427	(367)	(434)
Balance as at the end of the period	64,323	60,232	59,965

(in thousands of Canadian Dollars)

6 - Property, plant and equipment

	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019	Year Ended December 31, 2019
Changes during the period			
Gross carrying amount as at beginning of period	515,746	563,375	563,375
Accumulated depreciation as at beginning of period	(61,009)	(76,110)	(76,110)
	454,737	487,265	487,265
Expenditures subsequent to acquisitions	2,591	7,997	15,140
Recognition of right-of-use assets upon initial application of IFRS16	—	908	908
Capital leases	(138)	—	2,355
Adjustment to fair value through revaluation surplus	(26,903)	(11,932)	(11,419)
Transfer to loans to purchasers and real estate inventory	(225)	—	(1,114)
Disposals and other proceeds	(86)	(583)	(649)
Depreciation	(10,872)	(9,338)	(20,529)
Foreign exchange translation	16,441	(14,770)	(17,220)
Balance as at the end of the period	435,545	459,547	454,737

The revaluation method has been used for PP&E, with valuations performed by qualified independent valuators 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 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 valuators present a report that explains the reasons for any movements in value.

Significant unobservable (level 3) inputs used to determine the fair value of investment properties as at June 30, 2020 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.

The average occupancy rate during Q2 2020 was 13%, and the average daily rate ("ADR") was $119.44. In applying the DCF models, the stabilized occupancy rates ranged between 51% and 78% and ADR ranged between $157.83 and $252.65.

Discount rates used in applying the DCF method ranged between 10.25% and 12.75% (2019: 10.00%-12.75%), and terminal capitalization rates ranged between 8.50% and 12.50% (2019: 8.25% - 12.50%)

As at June 30, 2020, 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 $17,835 thousands. As at June 30, 2020, 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 $14,078 thousands.

7 - Loans payable

	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019	Year Ended December 31, 2019
Balance as at the beginning of the period	199,070	256,389	256,389
Recognition of right-of-use lease liabilities upon initial application of IFRS16	—	908	908
Proceeds from long term loans, including PPP loans	10,142	3,977	4,635
Repayments of long term loans	(1,901)	(19,213)	(21,847)
Change in bank credit and other short-term loans	15,349	(7,255)	(36,248)
PPP loans forgiveness and others	(1,627)	—	—
Amortization of deferred costs and others	931	1,058	1,800
Foreign exchange translation	8,551	(7,425)	(6,567)
Balance as at the end of the period	230,515	228,439	199,070

(in thousands of Canadian Dollars)

8 - Financial expense

	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Year Ended December 31, 2019
Interest on long-term loans and leases	(4,284)	(7,282)	(2,006)	(3,747)	(12,316)
Interest on bonds and Gain from early repayment of bonds	(3,160)	(3,244)	(1,545)	(1,539)	(6,506)
Foreign exchange revaluation of bonds gain (loss)	(5,157)	1,869	2,990	1,357	1,035
Amortization of deferred financing charges	(935)	(891)	(475)	(301)	(1,757)
Interest on short-term loans	(338)	(520)	(200)	(241)	(572)
Bank charges	(225)	(619)	(109)	(329)	(1,072)
	(14,099)	(10,687)	(1,345)	(4,800)	(21,188)

9 - Financial income

	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Year Ended December 31, 2019
Fair value gain (loss) from financial derivative	1,097	391	(550)	(480)	1,996
Other financial income	900	1,175	158	903	1,271
	1,997	1,566	(392)	423	3,267

10 - Income tax recovery

	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Year Ended December 31, 2019
Current income tax	(760)	(1,730)	105	(38)	(1,570)
Prior year income tax expense (recovery) and refunds	(186)	132	(121)	24	(119)
Deferred income tax expense	3,641	1,769	1,403	(29)	2,566
	2,695	171	1,387	(43)	877

11 - Significant events during the period

(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 recorded revenue of approximately $29 million and provided the purchaser with a vendor-take-back mortgage in the amount of approximately $24 million. The Company received cash proceeds (net of expenses) of approximately $5.4 million and repaid $2.4 million of construction debt.

12 - Claims

(a) 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, as at June 30, 2020, has paid $1.8 million of the $2.6 million previously provided for related to these claims.

(b) In December 2019, the Company was served a claim from the Company's former President and Chairman 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, if any.

13 - Segmented information

(a) *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.

(in thousands of Canadian Dollars)

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

(b) Segmented financial information:

	US hotels and resorts	Canadian hotels and resorts	Development	Total
For six months ended June 30, 2020 (Unaudited)				
Revenue	33,293	15,246	30,408	78,947
Costs and expenses	(33,490)	(12,317)	(27,341)	(73,148)
	(197)	2,929	3,067	5,799
Selling and marketing expenses				(279)
Administrative and general expenses				(3,237)
Depreciation				(10,872)
Loss from fair value adjustments				4,858
Other expense				(50)
Financial expense				(14,099)
Financial income				1,997
Net income (loss) before income taxes				(15,883)
For six months ended June 30, 2019 (Unaudited)				
Revenue	73,045	23,614	33,925	130,584
Costs and expenses	(54,238)	(20,414)	(29,933)	(104,585)
	18,807	3,200	3,992	25,999
Selling and marketing expenses				(95)
Administrative and general expenses				(2,237)
Depreciation				(9,338)
Loss from fair value adjustments				290
Derecognition of investment costs and other capital losses				(1,308)
Other expense				—
Loss from early extinguishment of debt				(2,749)
Financial expense				(10,687)
Financial income				1,566
Net income (loss) before income taxes				1,441
For three months ended June 30, 2020 (Unaudited)				
Revenue	5,271	1,701	316	7,288
Costs and expenses	(9,119)	(2,628)	(453)	(12,200)
	(3,848)	(927)	(137)	(4,912)
Selling and marketing expenses				(248)
Administrative and general expenses				(1,648)
Depreciation				(5,165)
Loss from fair value adjustments				5,001
Derecognition of investment costs and other capital losses				—
Other expense				—
Financial expense				(1,345)
Financial income				(392)
Profit (Loss) before income taxes				(8,709)

(in thousands of Canadian Dollars)

	US hotels and resorts	Canadian hotels and resorts	Development	Total
For three months ended June 30, 2019 (Unaudited)				
Revenue	37,460	8,380	27,880	73,720
Costs and expenses	(27,209)	(9,391)	(25,077)	(61,677)
	10,251	(1,011)	2,803	12,043
Selling and marketing expenses				(78)
Administrative and general expenses				(867)
Depreciation				(4,471)
Derecognition of investment costs and other capital losses				818
Loss from fair value adjustments				56
Other expense				(8)
Loss from early extinguishment of debt				—
Financial expense				(4,800)
Financial income				423
Profit before income taxes				3,116
For the year ended December 31, 2019 (Audited)				
Revenue	138,721	54,865	41,657	235,243
Costs and expenses	(105,779)	(45,593)	(36,210)	(187,582)
	32,942	9,272	5,447	47,661
Selling and marketing expenses				(373)
Administrative and general expenses				(6,439)
Depreciation				(20,458)
Loss from fair value adjustments				(15)
Derecognition of investment costs and other capital losses				(611)
Other expense				(1,331)
Loss from early extinguishment of debt				(2,749)
Financial expense				(21,188)
Financial income				3,267
Net income (loss) before income taxes				(2,236)
As at June 30, 2020 (Unaudited)				
Assets	355,725	159,917	150,113	665,755
Liabilities	(279,850)	(99,127)	(36,125)	(415,102)
	75,875	60,790	113,988	250,653
As at June 30, 2019 (Unaudited)				
Assets	402,216	142,835	169,947	714,998
Liabilities	(282,479)	(83,853)	(64,818)	(431,150)
	119,737	58,982	105,129	283,848
As at December 31, 2019 (Audited)				
Assets	370,426	146,026	159,394	675,846
Liabilities	(267,987)	(87,195)	(43,823)	(399,005)
	102,439	58,831	115,571	276,841

14 - Subsequent events

(a) Due to the failure of the original purchaser of the Port McNicoll asset ("PM Asset") to pay the monthly installments of the vendor take back loan ("VTB") and the unilateral measures taken by the Company to sell the PM Asset by virtue of a lien given to the Company as part of the original transaction, on July 8, 2020, the Company signed an agreement with a third party, not affiliated with the Company for the sale of the PM Asset for $33.5 million. Upon signing of the agreement, the buyer made a $300 thousand deposit, and will make an additional payment of $700 thousand on closing, which is expected to occur on August 17, 2020. The Company will provide the buyer with a new $32.5 million VTB that will be repaid as follows:

- Five unequal installments as follows: (a) $1 million to be paid in October 2020; (b) $3 million to be paid in December 2020; (c) $1 million to be paid in February 2021; (d) $1 million to be paid in March 2021; (e) $1.5 million to be paid in June 2021;
- Approximately $12.24 million, to be paid in 35 equal installments, each in the amount of $349,713;
- $12.76 million to be paid on December 31, 2023.

$25 million of the new VTB will bear interest at 1% per annum, beginning on January 1, 2021, and will be paid in monthly installments beginning February 1, 2021.

(b) On July 15, 2020, Gil Blutrich resigned from his position on the Board of Directors of the Company (the "Board"). On July 16, 2020, Blake Lyon (the Company's Chief Executive Officer) was appointed as a temporary member of the Board, until the next meeting of the Company's shareholders.