SKYLINE INVESTMENTS INC.

Condensed interim consolidated financial statements

for the period ended

September 30, 2020

(Unaudited)

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Contents

Review Report for the third quarter
A Review Report of the Auditor to the shareholders of
Skyline Investments Inc.

Introduction:

We have reviewed the accompanying financial information of **Skyline Investments Inc.** the company and subsidiaries (hereafter "the company") which includes the condensed consolidated statement of financial position as of September 30, 2020 and the related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for periods of nine and three months ended on that date. The board of directors and management are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 “Interim Financial Reporting” and they are also responsible for the preparation of this interim financial information in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this 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 abovementioned financial information is not prepared, in all material respects, in accordance with IAS 34.

In addition to the statements in the previous paragraph, based on our review, nothing has come to our attention that causes us to believe that the abovementioned financial information does not comply, in all material respects, with the disclosure requirements of Chapter 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,
November 12, 2020

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SKYLINE INVESTMENTS INC.

Condensed interim consolidated statements of financial position

(in thousands of Canadian Dollars)

	Note	As at September 30, 2020 (Unaudited)	As at September 30, 2019 (Unaudited)	As at December 31, 2019 (Audited)
Assets				
Current assets				
Cash and cash equivalents		34,540	18,778	26,874
Trade receivables, other receivables and prepayments		14,547	66,188	24,510
Inventories		1,301	1,489	1,782
Real estate inventory		26,639	49,194	52,235
Loans to purchasers		13,214	8,357	9,177
Restricted bank deposits		2,796	4,024	4,222
		93,037	148,030	118,800
Non-current assets				
Financial derivative		4,890	5,558	4,817
Investment properties	5	64,131	60,129	59,965
Property, plant and equipment	6	425,173	458,569	454,737
Loans to purchasers		46,900	28,387	27,465
Other non-current assets		3,399	2,560	2,495
Restricted bank deposits		7,240	8,693	7,567
		551,733	563,896	557,046
Total assets		**644,770**	**711,926**	**675,846**
Liabilities and equity				
Current liabilities				
Loans payable	7	57,773	53,166	19,324
Bonds		6,422	6,308	6,209
Trade payables		10,143	7,475	9,471
Other payables and credit balances		23,562	26,892	31,216
Deferred revenue		7,310	7,812	8,479
Current tax liability		869	1,675	1,484
Purchasers' deposits		89	2,833	3,263
		106,168	106,161	79,446
Non-current liabilities				
Loans payable	7	166,742	181,339	179,746
Bonds		94,019	98,952	97,535
Other liabilities		512	649	464
Deferred tax liabilities		31,919	41,601	41,814
		293,192	322,541	319,559
Total liabilities		399,360	428,702	399,005
Equity				
Equity attributable to shareholders of the Company		221,833	256,518	252,374
Non-controlling interest		23,577	26,706	24,467
		245,410	283,224	276,841
Total liabilities and equity		**644,770**	**711,926**	**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"*	November 12, 2020
Shimshon Marfogel Chairman	Blake Lyon CEO and Director	Robert Waxman CFO	Date

SKYLINE INVESTMENTS INC.

Condensed interim consolidated statements of income

(in thousands of Canadian Dollars)

	Note	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Year Ended December 31, 2019
		(Unaudited)	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Audited)*
Revenue						
Income from hotels and resorts		73,814	149,962	25,275	53,297	193,585
Sale of residential real estate		33,024	39,789	2,616	5,870	41,658
		106,838	189,751	27,891	59,167	235,243
Expenses and costs						
Operating expenses from hotels and resorts		(64,515)	(114,691)	(18,708)	(40,033)	(151,371)
Cost of sales of residential real estate		(30,078)	(34,361)	(2,737)	(4,434)	(36,211)
		(94,593)	(149,052)	(21,445)	(44,467)	(187,582)
		12,245	40,699	6,446	14,700	47,661
Selling and marketing expenses		(637)	(216)	(358)	(121)	(373)
Administrative and general expenses		(4,794)	(4,244)	(1,557)	(2,098)	(6,439)
Operating income before depreciation, valuation adjustments and other income		6,814	36,239	4,531	12,481	40,849
Depreciation		(15,454)	(14,869)	(4,582)	(5,440)	(20,458)
Gain (loss) from fair value adjustments of investment properties		4,803	(2)	(55)	(292)	(15)
Derecognition of investment costs and other capital gains (losses)		—	(595)	—	713	(611)
Other expenses		(57)	(509)	(7)	(509)	(1,331)
Net income from operations		(3,894)	20,264	(113)	6,953	18,434
Loss from early extinguishment of debt		—	(2,749)	—	—	(2,749)
Financial expense	8	(16,318)	(17,755)	(2,219)	(7,068)	(21,188)
Financial income	9	1,155	3,857	(842)	2,291	3,267
Net income (loss) before income taxes		(19,057)	3,617	(3,174)	2,176	(2,236)
Income tax recovery	10	3,339	627	644	456	877
Net income (loss) for the period		(15,718)	4,244	(2,530)	2,632	(1,359)
Attributable to:						
Shareholders of the Company		(14,842)	4,655	(2,014)	2,245	(325)
Non-controlling interest		(876)	(411)	(516)	387	(1,034)
		(15,718)	4,244	(2,530)	2,632	(1,359)
Earnings per share:						
Basic		(0.90)	0.28	(0.12)	0.14	(0.02)
Diluted		(0.90)	0.28	(0.12)	0.14	(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)

	Nine Months Ended September 30,		Three Months Ended September 30,		Year Ended December 31,
	2020	2019	2020	2019	2019
	(Unaudited)	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Audited)*
Net income (loss) for the period	(15,718)	4,244	(2,530)	2,632	(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)	(16,414)	—	(4,482)	(11,419)
Income taxes	6,076	1,256	—	(206)	377
	(20,827)	(15,158)	—	(4,688)	(11,042)
Items that will or may be reclassified subsequently to net income (loss):					
Exchange differences on translation of foreign operations	5,060	(5,658)	(2,727)	1,404	(8,820)
Other comprehensive income (loss) for the period, net of taxes	(15,767)	(20,816)	(2,727)	(3,284)	(19,862)
Total comprehensive income (loss) for the period, net of taxes	(31,485)	(16,572)	(5,257)	(652)	(21,221)
Attributable to:					
Shareholders of the Company	(30,595)	(4,269)	(4,442)	3,878	(8,446)
Non-controlling interest	(890)	(12,303)	(815)	(4,530)	(12,775)
	(31,485)	(16,572)	(5,257)	(652)	(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	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 nine months ended September 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	—	—	—	—	—	(14,842)	(14,842)	(876)	(15,718)
Other comprehensive income (loss) for the period	—	(20,292)	—	—	4,539	—	(15,753)	(14)	(15,767)
Total comprehensive loss for the period	—	(20,292)	—	—	4,539	(14,842)	(30,595)	(890)	(31,485)
Transfer upon recognition of depreciation	—	(2,207)	—	—	—	2,207	—	—	—
Recognition of share-based payment	—	—	54	—	—	—	54	—	54
Balance at the end of the period	79,686	66,231	759	125	6,324	68,708	221,833	23,577	245,410
For nine months ended September 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	—	—	—	—	—	4,655	4,655	(411)	4,244
Other comprehensive income (loss) for the period	—	(3,971)	—	—	(4,953)	—	(8,924)	(11,892)	(20,816)
Total comprehensive Income for the period	—	(3,971)	—	—	(4,953)	4,655	(4,269)	(12,303)	(16,572)
Transfer upon recognition of depreciation	—	(2,556)	—	—	—	2,556	—	—	—
Distribution to non-controlling shareholders	—	—	—	—	—	—	—	(1,078)	(1,078)
Recognition of share-based payment	—	—	34	—	—	—	34	—	34
Transfer upon expiration	288	—	(288)	—	—	—	—	—	—
Balance at the end of the period	79,586	84,995	772	125	4,558	86,482	256,518	26,706	283,224
For three months ended September 30, 2020 (Unaudited)									
Balance at the beginning of the period	79,686	66,678	745	125	8,752	70,275	226,261	24,392	250,653
Net income (loss) for the period	—	—	—	—	—	(2,014)	(2,014)	(516)	(2,530)
Other comprehensive income (loss) for the period	—	—	—	—	(2,428)	—	(2,428)	(299)	(2,727)
Total comprehensive Income for the period	—	—	—	—	(2,428)	(2,014)	(4,442)	(815)	(5,257)
Transfer upon recognition of depreciation	—	(447)	—	—	—	447	—	—	—
Recognition of share-based payment	—	—	14	—	—	—	14	—	14
Balance at the end of the period	79,686	66,231	759	125	6,324	68,708	221,833	23,577	245,410
For three months ended September 30, 2019 (Unaudited)									
Balance at the beginning of the period	79,575	85,913	755	125	3,458	82,786	252,612	31,236	283,848
Net income (loss) for the period	—	—	—	—	—	2,245	2,245	387	2,632
Other comprehensive income (loss) for the period	—	533	—	—	1,100	—	1,633	(4,917)	(3,284)
Total comprehensive Income for the period	—	533	—	—	1,100	2,245	3,878	(4,530)	(652)
Transfer upon recognition of depreciation	—	(1,451)	—	—	—	1,451	—	—	—
Recognition of share-based payment	—	—	28	—	—	—	28	—	28
Transfer upon expiration	11	—	(11)	—	—	—	—	—	—
Balance at the end of the period	79,586	84,995	772	125	4,558	86,482	256,518	26,706	283,224
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)

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2020	2019	2020	2019	2019
			(Unaudited)	*(Unaudited)*	*(Audited)*
Operating activities					
Net income (loss) for the period	(15,718)	4,244	(2,530)	2,632	(1,359)
Adjustments for:					
Depreciation and amortization	16,727	16,334	4,924	5,938	22,329
(Gain) loss from fair value adjustments of Investment properties	(4,803)	2	55	292	15
(Gain) loss on sale of investment and other property	—	(714)	—	(714)	750
Finance (income) costs from bonds including foreign exchange	2,057	(736)	(3,368)	966	(674)
Finance (income) costs from financial derivative	(73)	(2,737)	1,024	(2,346)	(1,996)
Deferred tax, net	(4,544)	(2,292)	(903)	(546)	(2,566)
Share based compensation	54	34	14	28	67
Changes in non-cash working capital					
Trade receivables	10,153	(12,361)	57	(4,423)	23,846
Other receivables, prepayments and others	(736)	938	(11)	320	5,229
Restricted bank deposits	1,460	358	441	107	160
Inventories	510	432	195	123	139
Real estate Inventory	2,700	13,929	1,946	(3,865)	12,085
Trade and other payables and credit balances	(11,182)	(8,629)	(4,678)	(8,977)	(3,258)
Income taxes payable	857	1,004	114	—	813
Purchasers' deposits	(3,174)	(5,946)	(41)	(921)	(5,516)
Cash provided by (used in) operating activities	(5,712)	3,860	(2,761)	(11,386)	50,064
Investing activities					
Additions to investment properties	(162)	(297)	(55)	(90)	(312)
Investment in restricted long term deposit	528	(1,299)	84	(1,069)	(266)
Additions to property, plant and equipment	(3,563)	(12,418)	(972)	(4,421)	(15,142)
Income taxes	(1,472)	—	(139)	—	—
Net proceeds from sale of investment properties	—	27,535	—	—	27,535
Proceeds from sale of property, plant and equipment	86	1,283	—	700	583
Cash provided by (used in) investing activities	(4,583)	14,804	(1,082)	(4,880)	12,398
Financing activities					
Bank credit and other short-term loans	15,794	(1,605)	445	5,650	(36,248)
Repayment of bonds	(7,005)	(6,631)	(3,524)	(3,355)	(6,629)
Proceeds from long term loans	12,092	3,977	1,950	—	4,635
Repayments of long term loans	(3,177)	(21,166)	(1,276)	(1,953)	(21,847)
Distribution to non-controlling shareholders	—	(1,080)	—	—	(2,845)
Cash provided by (used in) financing activities	17,704	(26,505)	(2,405)	342	(62,934)
Foreign exchange translation of cash balances	257	(1,364)	(207)	2,475	(637)
Net increase (decrease) in cash and cash equivalents	7,666	(9,205)	(6,455)	(13,449)	(1,109)
Cash and cash equivalents at beginning of period	26,874	27,983	40,995	32,227	27,983
Cash and cash equivalents at end of period	34,540	18,778	34,540	18,778	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)

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2020	2019	2020	2019	2019
			(Unaudited)	*(Unaudited)*	*(Audited)*
Supplemental cash flow information					
Interest paid	12,271	16,001	5,075	6,078	20,367
Interest received	54	109	16	18	194
Income taxes paid (received)	1,758	6	263	67	677
Significant non-cash investing and financing activities					
Loans to purchasers	23,652	5,287	—	670	4,262
Share capital and premium increase	—	288	—	11	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 September 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. 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, as of the date of this report, the remainder of the Company's Resorts are open and operating 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.

As at September 30, 2020, the Company undertook specific actions to determine if there was any change in the value of its PP&E, of which 73% was independently valued as at June 30, 2020. These actions included discussion with independent, third party experts, referencing market transactions, and a review of updated internal forecasts. As at September 30, 2020, the Company records the value of its hotels and resorts at $425,173 compared to $454,737 as at December 31, 2019. Please refer to note 6.

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 nine months ended September 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 nine months ended September 30, 2020, the Company recorded an offset to certain expenses in the amount of $3.6 million and $5.5 million, respectively.

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. Legislation has been proposed to extend CEWS through at least June 2021, however this legislation has not yet been passed. During the three and nine months ended September 30 2020, the Company recorded an offset to salaries and benefits in the amount of $2.4 million and $4.1 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 between the next one and five quarters for certain loans, 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 September 30, 2020, the Company complies with all covenants per the deed of trust.

The deed of trust 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 September 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 November 12, 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).

(e) Foreign currency	As at				
	September 30,		June 30,		December 31,
	2020	2019	2020	2019	2019
Exchange rates - ending rate:					
USD / CAD	1.334	1.324	1.363	1.309	1.299
CAD / NIS	2.570	2.627	2.531	2.723	2.654

(in thousands of Canadian Dollars)

	Nine Months Ended September 30,		Three Months Ended September 30,		Year Ended December 31,
	2020	2019	2020	2019	2019
Exchange rates - average rate:					
USD / CAD	1.354	1.329	1.333	1.320	1.327
CAD / NIS	2.568	2.700	2.566	2.671	2.687
Change in rate - compared to prior period ended:					
USD / CAD	2.7%	(2.9%)	(2.1%)	1.2%	(4.8%)
CAD / NIS	(3.2%)	(4.5%)	1.5%	(3.5%)	(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		
	September 30,		December 31,	September 30,		December 31,
	2020	2019	2019	2020	2019	2019
Bonds	91,067	108,368	109,721	101,729	106,615	106,677
Loans payable	227,148	238,210	202,326	224,515	234,505	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 September 30, 2020. In addition, the Company has taken adequate security pledges on these assets.

5 - Investment properties

	Nine Months Ended September 30,		Year Ended December 31,
	2020	2019	2019
Balance as at the beginning of the period	59,965	90,640	90,640
Expenditures subsequent to acquisition	162	297	312
Net gain (loss) from fair value adjustments	4,803	(2)	(15)
Net proceeds from sale of investment properties	—	(27,535)	(27,535)
Transfer to loans to purchasers and Inventory and from other	(1,033)	(3,003)	(3,003)
Foreign exchange translation	234	(268)	(434)
Balance as at the end of the period	64,131	60,129	59,965

(in thousands of Canadian Dollars)

6 - Property, plant and equipment

	Nine Months Ended September 30, 2020	Nine Months Ended September 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	3,563	12,418	15,140
Recognition of right-of-use assets upon initial application of IFRS16	—	908	908
Capital leases	(148)	—	2,355
Adjustment to fair value through revaluation surplus	(26,903)	(16,414)	(11,419)
Transfer to loans to purchasers and real estate inventory	(225)	—	(1,114)
Disposals and other proceeds	(86)	(626)	(649)
Depreciation	(15,454)	(14,869)	(20,529)
Foreign exchange translation	9,689	(10,113)	(17,220)
Balance as at the end of the period	425,173	458,569	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 September 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 Q3 2020 was 35%, and the average daily rate ("ADR") was $159.60. 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 September 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. As at September 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.

7 - Loans payable

	Nine Months Ended September 30, 2020	Nine Months Ended September 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	12,092	3,977	4,635
Repayments of long term loans	(3,177)	(21,166)	(21,847)
Change in bank credit and other short-term loans	16,396	(1,605)	(36,248)
PPP loans forgiveness	(5,545)	—	—
Amortization of deferred costs	1,273	1,317	1,800
Foreign exchange translation	4,406	(5,315)	(6,567)
Balance as at the end of the period	224,515	234,505	199,070

(in thousands of Canadian Dollars)

8 - Financial expense

	Nine Months Ended September 30,		Three Months Ended September 30,		Year Ended December 31,
	2020	2019	2020	2019	2019
Interest on long-term loans and leases	(6,264)	(9,572)	(1,980)	(2,290)	(12,316)
Interest on bonds and Gain from early repayment of bonds	(4,713)	(4,927)	(1,553)	(1,683)	(6,506)
Foreign exchange revaluation of bonds gain (loss)	(3,161)	(481)	1,996	(2,350)	1,035
Amortization of deferred financing charges	(1,272)	(1,326)	(337)	(435)	(1,757)
Interest on short-term loans	(560)	(583)	(222)	(63)	(572)
Bank charges	(348)	(866)	(123)	(247)	(1,072)
	(16,318)	(17,755)	(2,219)	(7,068)	(21,188)

9 - Financial income

	Nine Months Ended September 30,		Three Months Ended September 30,		Year Ended December 31,
	2020	2019	2020	2019	2019
Fair value gain (loss) from financial derivative	73	2,737	(1,024)	2,346	1,996
Other financial income	1,082	1,120	182	(55)	1,271
	1,155	3,857	(842)	2,291	3,267

10 - Income tax recovery

	Nine Months Ended September 30,		Three Months Ended September 30,		Year Ended December 31,
	2020	2019	2020	2019	2019
Current income tax expense	(1,024)	(1,747)	(264)	(40)	(1,570)
Prior year income tax (expense) recovery and refunds	(181)	82	5	(50)	(119)
Deferred income tax recovery	4,544	2,292	903	546	2,566
	3,339	627	644	456	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.

(c) 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.

(d) During September 2020, the Company reached an extension agreement with its lender on the CY13 hotels. The extension is effective until December 9, 2021. As part of the extension agreement, the lender also agreed to allow partial use of certain restricted cash amounts, use of PPP funds, and approved the change of property manager at two of the CY13 hotels.

(e) Regarding the sale of Port McNicoll, please refer to note 14.

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 September 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.

(in thousands of Canadian Dollars)

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.

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 nine months ended September 30, 2020 (Unaudited)				
Revenue	43,900	29,914	33,024	106,838
Costs and expenses	(43,269)	(21,246)	(30,078)	(94,593)
	631	8,668	2,946	12,245
Selling and marketing expenses				(637)
Administrative and general expenses				(4,794)
Depreciation				(15,454)
Gain from fair value adjustments				4,803
Other expense				(57)
Financial expense				(16,318)
Financial income				1,155
Net loss before income taxes				(19,057)
For nine months ended September 30, 2019 (Unaudited)				
Revenue	106,727	43,235	39,789	189,751
Costs and expenses	(79,836)	(34,855)	(34,361)	(149,052)
	26,891	8,380	5,428	40,699
Selling and marketing expenses				(216)
Administrative and general expenses				(4,244)
Depreciation				(14,869)
Loss from fair value adjustments				(2)
Derecognition of investment costs and other capital losses				(595)
Other expense				(509)
Loss from early extinguishment of debt				(2,749)
Financial expense				(17,755)
Financial income				3,857
Net income before income taxes				3,617
For three months ended September 30, 2020 (Unaudited)				
Revenue	10,607	14,668	2,616	27,891
Costs and expenses	(9,779)	(8,929)	(2,737)	(21,445)
	828	5,739	(121)	6,446
Selling and marketing expenses				(358)
Administrative and general expenses				(1,557)
Depreciation				(4,582)
Loss from fair value adjustments				(55)
Other expense				(7)
Financial expense				(2,219)
Financial income				(842)
Net loss before income taxes				(3,174)

(in thousands of Canadian Dollars)

	US hotels and resorts	Canadian hotels and resorts	Development	Total
For three months ended September 30, 2019 (Unaudited)				
Revenue	33,676	19,621	5,870	59,167
Costs and expenses	(25,592)	(14,441)	(4,434)	(44,467)
	8,084	5,180	1,436	14,700
Selling and marketing expenses				(121)
Administrative and general expenses				(2,007)
Depreciation				(5,531)
Derecognition of investment costs and other capital losses				(292)
Gain from fair value adjustments				713
Other expense				(509)
Financial expense				(7,068)
Financial income				2,291
Net income before income taxes				2,176
For the year ended December 31, 2019 (Audited)				
Revenue	138,720	54,865	41,658	235,243
Costs and expenses	(105,778)	(45,593)	(36,211)	(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 loss before income taxes				(2,236)
As at September 30, 2020 (Unaudited)				
Assets	340,453	155,135	149,182	644,770
Liabilities	(266,432)	(97,444)	(35,484)	(399,360)
	74,021	57,691	113,698	245,410
As at September 30, 2019 (Unaudited)				
Assets	375,497	143,045	193,384	711,926
Liabilities	(274,017)	(87,255)	(67,430)	(428,702)
	101,480	55,790	125,954	283,224
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 ("the previous buyer"), not affiliated with the Company for the sale of the PM Asset for $33.5 million. On October 31, 2020, because no progress had been made in the negotiations with the previous buyer, the Company has, in accordance with its rights, reached alternative agreements with a local developer (the “Buyer”, and collectively with the Company, the “Parties”) for the sale of the PM Asset for a total amount of $33.5 million (the “Transaction”). The Transaction is subject to a 60-day due diligence period during which the Buyer is entitled to cancel the Transaction, followed by 60 additional days before closing. If the Transaction is completed, a total of $5 million (including irrevocable deposits) will be paid to the Company ($250,000 will be paid upon signing of the agreement, $1.5 million will be paid after completion of the due diligence period, and $3.25 million will be paid upon closing). The balance of the consideration in a total amount of $28.5 million will be provided to the Buyer as a VTB, bearing no interest, for a 10-year period, which will be repaid by the Buyer upon the sale of the residential and commercial units to be built on the PM Asset by the Buyer (a total of CAD$50,000 will be repaid for each unit sold).

The VTB will become due and payable after 4 years, and will bear interest at a rate of 5%, if at the end of 4 years the Buyer has not sold at least 100 units (or an amount equal to $7.5 million less $50,000 for each unit sold was not paid to the Company), or if at the end of 7 years the Buyer has not sold 300 units (or an amount equal to $15 million less $50,000 for each unit sold was not paid to the Company). In addition to the sale agreement, another agreement was signed between the Parties under which the Company will provide the Buyer consulting services for real estate development vis-à-vis certain governmental authorities, which will become effective upon transfer of the title to the Property to the Buyer, in return for $10.00 per square foot (0.092 square meter) built on the PM Asset and up to a maximum amount of $20 million. The closing of the Transaction is expected to take place no later than 120 days from the date hereof, subject to fulfillment of several conditions precedent, including completion of due diligence. The PM Asset has approval for over 1,500 units of development. It is estimated that the sale and delivery of approximately 450 units will provide Skyline with cash in excess of its current VTB balance from the two agreements signed by the Parties.