# SKYLINE ANNOUNCES OPERATIONAL RESULTS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2020 AND PROVIDES COVID-19 OPERATIONAL UPDATE

- **Cash and cash equivalents increased by $3.2 million during Q2 2020 despite the worst economic quarter the world has ever experienced;**
- **Q2 2020 revenue from Skyline's hotels and resorts was $7.0 million compared to $45.8 million in Q2 2019, an unprecedented decline of 85% due to the impact of COVID-19;**
- **Skyline's operating expenses from hotels and resorts also declined by 68% including the effect of subsidies received in response to the crisis;**
- **EBITDA for the first six months of 2020 remained positive at $2.3 million versus $23.7 million in the first half of 2019;**
- **Unrestricted cash and available lines of credit as at June 30, 2020 totalled approximately $44 million;**
- **Occupancy of all of the Company's US hotels and Canadian resorts show a steady improvement from their lows in April;**
- **The Company received independent, third-party appraisals for 73% of its US hotels and Canadian resorts as at June 30, 2020, which resulted in a reduction in the Company's shareholders equity of $19.9 million net of tax;**
- **Midroog reaffirmed the Baa1 investment grade rating of the Company's bonds, with negative implications due to COVID-19. All principal and interest payments required have been made and the Company is not in default on any debt covenants;**
- **Skyline announced the sale of the Port McNicoll development lands under a power of sale agreement, which is expected to close on August 17th and will result in $5 million of cash receipts in the second half of 2020; and**
- **Gil Blutrich resigned from the Board of Directors (and previously ceased to be a member of Management) and was replaced on the Board by Blake Lyon.**

**Toronto, Ontario – August 14, 2020.** Skyline Investments Inc. (the "Company" or "Skyline") (TASE: SKLN), a Canadian company that specializes in hospitality real estate investments in the United States and Canada, published its results for the three and six months ended June 30, 2020.

"*The first half of 2020 presented new and unprecedented challenges to the world economy, which directly affected Skyline's properties. Nonetheless, Skyline was able to increase its cash reserves during this period and continues to manage through this unprecedented world event*" commented Blake Lyon, Skyline's Chief Executive Officer. "*During the first two-and-a-half months of 2020, Skyline continued to improve on its operational and financial results, with strong performance from the Courtyard portfolio, near-record results at our ski resorts, and the sale of a significant development project. During Q2, Skyline, along with the entire hospitality industry, experienced a material downturn in occupancy at all of our hotels and resorts, including the temporary closure of Bear Valley, Deerhurst, and Horseshoe. On June 12th, Horseshoe and Deerhurst reopened, in time for Deerhurst's summer high season. Activity has been building at Horseshoe and Deerhurst since reopening, with Deerhurst and Horseshoe achieving 52% average combined occupancy for the month of July 2020 compared to 74% in July of 2019. Skyline responded during this crisis with significant cost reductions and steps to strengthen our liquidity. Unrestricted cash and lines of credit increased during Q2 by $3M to $44 million as at June 30, 2020, and the Company had an additional $14 million in restricted cash and deposits. Our balance sheet strength, combined with Government relief programs are assisting Skyline in its efforts to reduce the effects of COVID-19 and the Company is making all required interest and principal payments.*"

## COVID-19 RECAP AND UPDATE

At the end of 2019, the COVID-19 virus began spreading rapidly, and during Q1 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 temporary closure of Horseshoe Valley Resort ("Horseshoe"), Bear Valley Resort ("Bear Valley"), and 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, with Deerhurst and Horseshoe experiencing 61% and 31% occupancy, respectively, during July 2020 compared to 83% and 53%, respectively, during July 2019.

The Company's hotels located in the United States (the "US Properties") are all open, and are seeing a steady improvement in occupancies. During Q2 2020, the Company's full-service hotels experienced average occupancy of 7.7%, which increased to 21% in July (July 2019: 71%) The Company's select service hotels experienced occupancy of 18% during the second quarter, which increased to 35% in July (July 2019: 71%), with certain properties achieving between 40% and 70% on certain nights. Looking forward, there is significant uncertainty around the timing of a full resolution to the COVID-19 crisis. Given that the majority of the US Properties are primarily located in "drive-to" secondary markets that are not dependant on international air travel, the Company expects that as the recovery unfolds, its US Properties will begin to see continued increases in occupancy.

In response to the COVID-19 crisis, the Canadian and US Governments have unveiled multiple stimulus measures for which the Company qualifies or believes it qualifies. In the US, Skyline received loans under the Paycheque Protection Program ("PPP"). $9.3 million (US$6.7 million) in funds were received during Q2 2020. As part of this program, the portion of any of these loans spent on payroll, utilities, interest and other specified costs may be forgiven by the US Government under certain circumstances. During Q2, the Company recorded an offset to its operating expenses from hotels and resorts in the amount of $2 million to account for this government assistance on the basis that it will be forgiven. The Company is not yet in a position to determine the exact amount of eventual forgiveness; however, any unforgiven portion is repayable over 5 years, with interest payable based on an annual rate of 1%.

In Canada, the Company has applied for and received the Canada Employment Wage Subsidy ("CEWB"), which covers up to 75% of the first CAD $58.7 thousand normally paid to eligible employees, representing a benefit of up to CAD $847 per week, per eligible employee, between March 15, 2020 and at least December 31, 2020. As a result, for the three and six months ended June 30, 2020, the Company recorded an offset to operating expenses from hotels and resorts of $1.2 million and $1.4 million, respectively, and to administrative and general expenses of $0.2 million and $0.2, respectively.

The effect of the COVID-19 virus had a materially negative impact on the economy and businesses, in general, and on the Company's operating and financial results during the second quarter of 2020. Should there be no further relief in the restrictions and/or should government restrictions be renewed, the financial and operating results of the Company could be materially affected. The foregoing update of the Company is based on Management's current assessment of the business and the North American hospitality industry as a whole, and may be considered forward-looking information for purposes of applicable Canadian and Israeli securities legislation. Readers are cautioned that actual results may vary. Refer to the section "Forward-Looking Statements" below.

## SUMMARY OF FINANCIAL RESULTS

| *C$000's* | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| **NOI from Hotels & Resorts** | (4,775) | 9,240 | 2,732 | 22,007 |
| NOI from Hotels & Resorts Margin | (68%) | 20% | 6% | 23% |
| Same Asset NOI | (4,775) | 9,211 | 2,732 | 21,517 |
| Same Asset NOI Margin | (68%) | 20% | 6% | 22% |
| **Adjusted EBITDA** | (6,808) | 11,098 | 2,283 | 23,667 |
| Adjusted EBITDA Margin | (93%) | 15% | 3% | 18% |
| **FFO** | (7,727) | 5,885 | (4,975) | 12,994 |

## INCOME STATEMENT HIGHLIGHTS

*All amounts in millions of Canadian dollars unless otherwise stated*

**Second Quarter 2020 Results**

- **Total revenue for Q2 2020** was $7.3, compared to $73.7 in Q2 2019. Revenue from hotels and resorts decreased by 85% to $45.8 due to the impact of COVID-19. At the same time, Skyline reduced its operating expenses from hotels and resorts by 68% in response to the crisis including the effect of government subsidies. Revenue from the sale of residential real estate was $0.3. In Q2 2020 Skyline sold one unit at Copeland House, while during this period last year Skyline provided occupancy 63 units at Lakeside Lodge and recorded revenue of $27.9.
- **Same asset NOI for Q2 2020** was negative $4.8 compared to $9.2 in Q2 2019. The decrease was driven mainly by the impact of COVID-19 as discussed above.
- **Adjusted EBITDA for Q2 2020** was negative $6.8 compared to $11.1 in Q2 2019. The decrease is attributable to the impact of COVID-19 on the Company's hotels and resorts as discussed above.
- **Fair value gain on investment properties** totalled $4.9 due to increased value of the Company's land located at Blue Mountain.
- **Net financial expense for Q2 2020** totalled $1.7, compared to $4.4 in Q2 2019. Interest expense of $3.8 was $1.8 lower relative to $5.5 Q2 2019 due to the repayment of construction debt in 2019 and lower interest rates. Interest rates decreased during 2020 due to stimulative measures taken by central banks in response to the COVID-19 pandemic. Skyline benefited from this as the majority of its mortgages bear variable interest rates. The decline in interest expense was coupled with net foreign exchange movement of $2.4, which was the result of appreciation of the Canadian dollar relative to the US dollar.
- **FFO for Q2 2020** was negative $7.7 compared to $5.9 in Q2 2019. The decrease was due to the impact of COVID-19 on earnings at hotels and resorts.
- **Net loss for Q2 2020** amounted to $7.3, compared to net income of $3.1 in Q2 2019. Excluding minority interests, the Company had a net loss of $7.5 in Q2 2020, compared to net income of $2.2 in Q2 2019.

- **Total comprehensive loss for Q2 2020** was $33.7 compared to total comprehensive loss of $11.0 in Q2 2019. The Q2 2020 loss was driven by revaluation of the Company's property, plant and equipment, coupled with foreign exchange losses.

**First Half ("1H") 2020 Results**

- **Total revenue for 1H 2020** was $78.9, compared to $130.6 in 1H 2019. Revenue from hotels and resorts decreased by 50% to $48.5 due to the impact of COVID-19. Revenue from the sale of residential real estate was $30.4. During Q1 2020, the Company completed the sale of phases 2 and 3 of the Second Nature development project located near Blue Mountain. Upon final closing of the transaction, the Company recorded revenue of $28.9, received net cash proceeds of $5.4, and repaid construction debt in the amount of $2.4. As part of the transaction, the Company gave the purchaser a 3-year vendor take back loan in the amount of $23.7.
- **Same asset NOI for 1H 2020** was $2.7, a decrease of 87% compared to $21.5 in 1H 2019. The decrease was driven mainly by the impact of COVID-19 as discussed above.
- **Adjusted EBITDA for 1H 2020** was $2.3, a decrease of 90% compared to $23.7 in 1H 2019. The decrease is attributable to the impact of COVID-19 on the Company's hotels and resorts as discussed above.
- **Net financial expense for 1H 2020** totalled $12.1, compared to $9.1 in 1H 2019. Interest expense was $3.3 lower relative to 1H 2019 due to the repayment of construction debt and lower interest rates. Interest rates decreased during 1H 2020 due to stimulative measures taken by central banks in response to the COVID-19 pandemic. The decline in interest expense was offset by net foreign exchange movement of $4.1, which was the result of depreciation of the Canadian dollar relative to the US dollar. This impacted the valuation of the Company's bonds. $6.5 million of non-cash FX gains were also realized, however these gains are included in the Company's other comprehensive income in accordance with IFRS.
- **FFO for 1H 2020** was negative $4.9 compared to $13.0 in 1H 2019. The decrease was due to the impact of COVID-19 on earnings at hotels and resorts.
- **Net loss for 1H 2020** amounted to $13.2, compared to net income of $1.6 in 1H 2019. Excluding minority interests, the Company had a net loss of $12.8 in 1H 2020, compared to net income of $2.4 in 1H 2019.
- **Total comprehensive loss for 1H 2020** was $26.2 compared to total comprehensive loss of $15.9 in 1H 2019. The 1H 2020 loss was driven by revaluation of the Company's property, plant and equipment, offset by foreign exchange gains.

## BALANCE SHEET HIGHLIGHTS

- **Total assets** as at June 30, 2020 were $666 compared to $676 as at December 31, 2019. The decrease was a result of a revaluation of the Company's property, plant and equipment that resulted in a decline in value, offset by an increase in the fair value of the Company's investment property and a $14 increase in cash and cash equivalents.

- **Cash and cash equivalents** were $41 as at June 30, 2020 compared to $26.9 as at December 31, 2019. The increase is driven by the Company accessing its available credit facilities and receipt of funds from the Canadian and US governments, offset by property capital improvements and repayment of bond and loan principal.
- **Net debt** as at June 30, 2020 totalled $295, an increase of $19 compared to net debt of $276 as at December 31, 2019, driven by FX movement in the Company's US dollar-denominated debt.
- **Total Equity** was $251 ($226 attributable to shareholders), representing 38% of total assets. As at June 30, 2020 equity per share attributable to shareholders was 34.20 NIS ($13.51), compared to the closing share price of 12.46 NIS ($4.92), a discount of 64%. As of this date, the Company's shares were trading at 13.11 NIS, implying a discount of 62%.

A breakdown of the change in fair value described above is summarized in the table below:

| ***C$000's*** | **YTD Fair Value Change** | **Tax Impact** | **Net Change – OCI** | **Net Change – Net Income** |
|---|---|---|---|---|
| **Property, Plant & Equipment** | | | | |
| Courtyard by Marriott hotels | (22,597) | 5,154 | (17,443) | - |
| Renaissance | (1,070) | 122 | (948) | - |
| Hyatt Arcade | (1,576) | 360 | (1,216) | - |
| Bear Valley | - | - | - | - |
| Deerhurst | (950) | 252 | (698) | - |
| Horseshoe | (710) | 188 | (522) | - |
| **Total – PP&E** | **(26,903)** | **6,076** | **(20,827)** | **-** |
| | | | | |
| Investment Properties | 4,858 | (1,358) | - | 3,523 |
| **Total Change** | **(22,045)** | **4,741** | **(20,827)** | **3,523** |

## About Skyline

Skyline is a Canadian company that specializes in hospitality real estate investments in the United States and Canada. The Company currently owns 18 income-producing assets with 3,301 hotel rooms and 89,869 square feet of commercial space, and development lands with rights for approximately 2,315 residential units located in three main areas north of Toronto, Canada.

The Company is traded on the Tel Aviv Stock Exchange (ticker: SKLN) and is a reporting issuer in Canada.

**For more information:**


Rob Waxman, CPA CA, CFA
Chief Financial Officer
robw@skylineinvestments.com
1 (647) 207-5312

Ben Novo-Shalem
VP, Asset Management & Investor Relations
benn@skylineinvestments.com
1 (416) 368-2565 ext 2222


*Non-IFRS Measures*

*The Company's consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). However, the following measures: NOI, NOI Margin, FFO, FFO per share and Adjusted EBITDA are not measures recognized under IFRS and do not have standardized meanings prescribed by IFRS, and should not be compared to or construed as alternatives to profit/loss, cash flow from operating activities or other measures of financial performance determined in accordance with IFRS. NOI, NOI Margin, FFO, FFO per share and Adjusted EBITDA as computed by the Company, may differ from similar measures as reported by other companies in similar or different industries. However, these non-IFRS measures are recognized supplemental measures of performance for real estate issuers widely used by the real estate industry, particularly by those publicly traded entities that own and operate income-producing properties, and the Company believes they provide useful supplemental information to both management and readers in measuring the financial performance of the Company. Further details on non-IFRS measures are set out in the Company's Management's Discussion and Analysis for the period ended June 30, 2020 and available on the Company's profile on SEDAR at www.sedar.com or MAGNA at www.magna.isa.gov.il*

*Forward-Looking Statements*

*This release may contain forward-looking statements (within the meaning of applicable securities laws) relating to the business of the Company. In some cases, forward-looking statements can be identified by terms such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue" or other similar expressions concerning matters that are not historical facts. Such statements involve a number of known and unknown risks and uncertainties, many of which are outside our control that could cause our future results, performance or achievements to differ significantly from the results, performance or achievements expressed or implied by such forward-looking statements. Important factors that could cause or contribute to such differences include the extent of the impact of the COVID-19 virus on our business, operations and financial performance, the imposition (or relaxation) of government restrictions (including the duration and terms of such restrictions), expected consumer and commercial behaviour, as well as other risks detailed in our public filings with the Canadian and Israeli Securities Administrators. There can be no assurance that forward-looking statements will prove to be accurate as actual outcomes and results may differ materially from those expressed in these forward-looking statements. Readers, therefore, should not place undue reliance on any such forward-looking statements. Further, these forward-looking statements are made as of the date of this news release and, except as expressly* *required by applicable law, we undertake no obligation to update any forward-looking or other statements herein whether as a result of new information, future events or otherwise.*