SKYLINE INVESTMENTS INC.

Condensed interim consolidated financial statements

for the period ended

June 30, 2021

(Unaudited)

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Contents

Review Report for the second quarter
A Review Report of the Independent 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 June 30, 2021 and the related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for six and three-month periods then ended. 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 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,
August 12, 2021

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SKYLINE INVESTMENTS INC.

Condensed interim consolidated statements of financial position

(in thousands of Canadian Dollars)

	Note	As at June 30, 2021	As at June 30, 2020	As at December 31, 2020
		(Unaudited)	*(Unaudited)*	*(Audited)*
Assets				
Current assets				
Cash and cash equivalents		29,819	40,995	22,436
Trade receivables, other receivables and prepayments		15,843	14,663	15,045
Inventories		1,597	1,515	1,496
Real estate inventory		16,781	28,587	21,995
Loans to purchasers		6,266	10,846	17,449
Restricted bank deposits		4,929	3,119	2,776
		75,235	99,725	81,197
Non-current assets				
Financial derivative		3,801	5,914	5,664
Investment properties	5	68,522	64,323	61,278
Property, plant and equipment	6	431,729	435,545	433,984
Loans to purchasers		50,159	49,272	45,454
Other non-current assets		3,842	3,480	3,666
Restricted bank deposits		7,988	7,496	6,620
		566,041	566,030	556,666
Total assets		**641,276**	**665,755**	**637,863**
Liabilities and equity				
Current liabilities				
Loans payable	7	52,561	57,953	25,338
Bonds		6,061	6,550	6,282
Trade payables		7,433	10,070	9,966
Other payables and credit balances		26,611	24,947	24,229
Deferred revenue		15,648	9,237	9,061
Current tax liability		76	894	379
Purchasers' deposits		2,682	130	110
		111,072	109,781	75,365
Non-current liabilities				
Loans payable	7	148,218	172,562	182,025
Bonds		86,260	99,136	92,460
Other liabilities		85	645	88
Deferred tax liabilities		33,795	32,978	31,496
		268,358	305,321	306,069
Total liabilities		379,430	415,102	381,434
Equity				
Equity attributable to shareholders of the Company		230,791	226,261	226,044
Non-controlling interest		31,055	24,392	30,385
		261,846	250,653	256,429
Total liabilities and equity		**641,276**	**665,755**	**637,863**

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 12, 2021
Shimshon Marfogel	Blake Lyon	Robert Waxman	Date
Chairman	CEO	CFO	

SKYLINE INVESTMENTS INC.

Condensed interim consolidated statements of income

(in thousands of Canadian Dollars)

	Note	Six Months Ended June 30, 2021 (Unaudited)	Six Months Ended June 30, 2020 (Unaudited)	Three Months Ended June 30, 2021 (Unaudited)	Three Months Ended June 30, 2020 (Unaudited)	Year Ended December 31, 2020 (Audited)
Revenue						
Income from hotels and resorts		53,110	48,539	24,919	6,972	91,484
Sale of residential real estate		4,314	30,408	1,398	316	37,878
		57,424	78,947	26,317	7,288	129,362
Expenses and costs						
Operating expenses from hotels and resorts		(38,358)	(45,807)	(18,421)	(11,747)	(80,125)
Cost of sales of residential real estate		(4,412)	(27,341)	(1,838)	(453)	(34,820)
		(42,770)	(73,148)	(20,259)	(12,200)	(114,945)
		14,654	**5,799**	**6,058**	**(4,912)**	**14,417**
Selling and marketing expenses		(193)	(279)	(143)	(248)	(933)
Administrative and general expenses		(3,201)	(3,237)	(1,369)	(1,648)	(5,600)
Operating income before depreciation, valuation adjustments and other income		**11,260**	**2,283**	**4,546**	**(6,808)**	**7,884**
Impairment of real estate properties		—	—	—	—	(1,180)
Depreciation		(9,586)	(10,872)	(4,769)	(5,165)	(20,250)
Gain (loss) from fair value adjustments of investment properties		7,519	4,858	5,125	5,001	4,569
Capital gain		8	—	—	—	—
Other expenses		(680)	(50)	(558)	—	(69)
Net income (loss) from operations		**8,521**	**(3,781)**	**4,344**	**(6,972)**	**(9,046)**
Financial expense	8	(9,715)	(14,099)	(3,263)	(1,345)	(19,627)
Financial income	9	4,126	1,997	972	(392)	2,193
Net income (loss) before income taxes		**2,932**	**(15,883)**	**2,053**	**(8,709)**	**(26,480)**
Income tax recovery	10	(881)	2,695	153	1,387	7,843
Net income (loss) for the period		**2,051**	**(13,188)**	**2,206**	**(7,322)**	**(18,637)**
Attributable to:						
Shareholders of the Company		934	(12,828)	769	(7,476)	(18,000)
Non-controlling interest		1,117	(360)	1,437	154	(637)
		2,051	(13,188)	2,206	(7,322)	(18,637)
Earnings per share:						
Basic		0.06	(0.78)	0.05	(0.45)	(1.09)
Diluted		0.06	(0.78)	0.05	(0.45)	(1.09)

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,
	2021	2020	2021	2020	2020
	(Unaudited)	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Audited)*
Net income (loss) for the period	**2,051**	**(13,188)**	**2,206**	**(7,322)**	**(18,637)**
Other comprehensive income					
Items that will not be reclassified subsequently to net income (loss):					
Revaluation of property, plant and equipment, before income taxes	9,748	(26,903)	9,748	(25,833)	(2,814)
Income taxes	(2,072)	6,076	(2,072)	5,954	2,005
	7,676	(20,827)	7,676	(19,879)	(809)
Items that will or may be reclassified subsequently to net income (loss):					
Exchange differences on translation of foreign operations	(3,668)	7,787	(1,971)	(6,452)	(1,033)
Other comprehensive income (loss) for the period, net of taxes	4,008	(13,040)	5,705	(26,331)	(1,842)
Total comprehensive income (loss) for the period, net of taxes	**6,059**	**(26,228)**	**7,911**	**(33,653)**	**(20,479)**
Attributable to:					
Shareholders of the Company	4,704	(26,153)	6,005	(33,208)	(26,397)
Non-controlling interest	1,355	(75)	1,906	(445)	5,918
	6,059	**(26,228)**	**7,911**	**(33,653)**	**(20,479)**

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 and Related party surplus	Share based compensation surplus	Foreign exchange translation	Retained earnings	Attributable to shareholders of the Company	Non- controlling interest	Total Equity
For six months ended June 30, 2021 (Unaudited)								
Balance at the beginning of the period	79,686	78,678	772	854	66,054	226,044	30,385	256,429
Net income for the period	—	—	—	—	934	934	1,117	2,051
Other comprehensive income (loss) for the period	—	6,935	—	(3,165)	—	3,770	238	4,008
Total comprehensive income (loss) for the period	—	6,935	—	(3,165)	934	4,704	1,355	6,059
Transfer upon recognition of depreciation	—	(1,353)	—	—	1,353	—	—	—
Distribution to non-controlling shareholders	—	—	—	—	—	—	(685)	(685)
Recognition of share-based payment	—	—	43	—	—	43	—	43
Balance at the end of the period	79,686	84,260	815	(2,311)	68,341	230,791	31,055	261,846
For six months ended June 30, 2020 (Unaudited)								
Balance at the beginning of the period	79,686	88,855	705	1,785	81,343	252,374	24,467	276,841
Net 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 income (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	66,803	745	8,752	70,275	226,261	24,392	250,653

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 and Related party surplus	Share based compensation surplus	Foreign exchange translation	Retained earnings	Attributable to shareholders of the Company	Non- controlling interest	Total Equity
For three months ended June 30, 2021 (Unaudited)								
Balance at the beginning of the period	79,686	77,996	796	(612)	66,901	224,767	29,834	254,601
Net income for the period	—	—	—	—	769	769	1,437	2,206
Other comprehensive income (loss) for the period	—	6,935	—	(1,699)	—	5,236	469	5,705
Total comprehensive income (loss) for the period	—	6,935	—	(1,699)	769	6,005	1,906	7,911
Transfer upon recognition of depreciation	—	(671)	—	—	671	—	—	—
Distribution to non-controlling shareholders	—	—	—	—	—	—	(685)	(685)
Recognition of share-based payment	—	—	19	—	—	19	—	19
Balance at the end of the period	79,686	84,260	815	(2,311)	68,341	230,791	31,055	261,846
For three months ended June 30, 2020 (Unaudited)								
Balance at the beginning of the period	79,686	87,542	731	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 loss for the period	—	(19,879)	—	(5,853)	—	(25,732)	(599)	(26,331)
Total comprehensive loss 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	66,803	745	8,752	70,275	226,261	24,392	250,653
For the year ended December 31, 2020 (Audited)								
Balance at the beginning of the year	79,686	88,855	705	1,785	81,343	252,374	24,467	276,841
Net loss for the period	—	—	—	—	(18,000)	(18,000)	(637)	(18,637)
Other comprehensive income (loss) for the period	—	(7,466)	—	(931)	—	(8,397)	6,555	(1,842)
Total comprehensive income (loss) for the period	—	(7,466)	—	(931)	(18,000)	(26,397)	5,918	(20,479)
Transfer upon recognition of depreciation	—	(2,711)	—	—	2,711	—	—	—
Recognition of share-based payment	—	—	67	—	—	67	—	67
Balance at the end of the year	79,686	78,678	772	854	66,054	226,044	30,385	256,429

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,
	2021	2020	2021	2020	2020
	(Unaudited)	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Audited)*
Operating activities					
Net income (loss) for the period	2,051	(13,188)	2,206	(7,322)	(18,637)
Adjustments for:					
Depreciation and amortization	10,326	11,803	5,120	5,666	21,956
(Gain) loss from fair value adjustments of Investment properties	(7,519)	(4,858)	(5,125)	(5,001)	(4,569)
(Gain) loss on sale of investment and other property	(8)	—	—	—	—
Finance (income) costs from bonds including foreign exchange	(631)	5,425	930	(1,445)	2,154
Finance (income) costs from financial derivative	1,863	(1,097)	(522)	550	(847)
Deferred tax, net	506	(3,641)	(175)	(1,403)	(8,561)
Share based compensation	43	40	19	14	67
Changes in non-cash working capital			—	—	
Trade receivables	(814)	10,096	(866)	(428)	9,639
Other receivables, prepayments and others	7,538	(725)	6,056	(792)	(649)
Restricted bank deposits	(2,160)	1,019	(1,579)	1,311	1,427
Inventories	(124)	315	(258)	(17)	267
Real estate Inventory	1,338	754	258	461	6,325
Trade and other payables and credit balances	(524)	(6,504)	3,588	5,581	(13,604)
Income taxes payable	(600)	743	(342)	32	367
Purchasers' deposits	2,572	(3,133)	1,634	(277)	(3,153)
Cash provided by (used in) operating activities	13,857	(2,951)	10,944	(3,070)	(7,818)
Investing activities					
Additions to investment properties	(103)	(107)	(27)	(56)	(397)
Investment in restricted long term deposit	(1,492)	444	(1,293)	(239)	850
Additions to property, plant and equipment	(2,992)	(2,591)	(1,665)	(1,932)	(7,111)
Income taxes	—	(1,333)	—	—	(1,472)
Proceeds from sale of property, plant and equipment	8	86	—	86	86
Cash provided by (used in) investing activities	(4,579)	(3,501)	(2,985)	(2,141)	(8,044)
Financing activities					
Bank credit and other short-term loans	(1,478)	15,349	(1,136)	(251)	12,279
Repayment of bonds	(3,240)	(3,481)	—	(90)	(7,005)
Proceeds from long term loans	7,075	10,142	1,766	10,006	12,329
Repayments of long term loans	(3,436)	(1,901)	(2,148)	(853)	(5,933)
Distribution to non-controlling shareholders	(685)	—	(685)	—	—
Cash provided by (used in) financing activities	(1,764)	20,109	(2,203)	8,812	11,670
Foreign exchange translation of cash balances	(131)	464	(54)	(376)	(246)
Net increase (decrease) in cash and cash equivalents	7,383	14,121	5,702	3,225	(4,438)
Cash and cash equivalents at beginning of period	22,436	26,874	24,117	37,770	26,874
Cash and cash equivalents at end of period	29,819	40,995	29,819	40,995	22,436

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,
	2021	2020	2021	2020	2020
	(Unaudited)	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Audited)*
Supplemental cash flow information					
Interest paid *	6,675	7,196	1,804	1,841	** 14,910
Interest received	362	38	282	10	132
Income taxes paid (received)	963	1,495	364	—	1,790

* Interest paid for the three and six months ended June 30, 2021 includes $167 and $167 (three and six months ended June 30, 2020: $664 and $664) related to the receipt of PPP grants. Interest paid for the year ended December 31, 2020 includes $115 related to the receipt of PPP grants.

** Reclassified.

Significant non-cash investing and financing activities					
Loans to purchasers	1,128	23,652	—	—	27,123

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, 2021, 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 in 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. At the outset of the crisis, the Company implemented immediate countermeasures, including the temporary 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. In December 2020, the local jurisdictions where Horseshoe and Bear Valley are located re-implemented restrictions, causing the partial closure of certain operations at the ski resorts. These restrictions were subsequently removed in February 2021 for the remainder of the ski season. On April 3rd, 2021 the Province of Ontario issued a stay-at-home order, resulting in the temporary closure of certain operations at Horseshoe and Deerhurst. These restrictions began easing on June 11, 2021 for the summer season. As of the date of this report, the Resorts are open and are operating in accordance with 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 dependent on international air travel, and that a significant percentage of guests are travelling business people, the Company expects that as the recovery continues to unfold, 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 June 30, 2021, the Company undertook specific actions to determine if there was any change to the value of its PP&E, including holding discussions with independent, third-party experts, referencing market transactions, and a review of updated internal forecasts and 10-year discounted cash flow models. In addition, the Company received independent, third-party appraisals for 6 of its hotels and resorts. As at June 30, 2021, the Company records the value of its PP&E at $431,729 compared to $433,984 as at December 31, 2020. Please refer to note 6 for more detail regarding the Company's PP&E. For information regarding the operational results of the hospitality sector see note 13.

In response to the COVID-19 crisis, the Canadian and US Governments unveiled multiple stimulus measures for which the Company is eligible. In the US, Skyline has qualified for loans under the Paycheque Protection Program (“PPP”). 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, 2021, Skyline received US$2.0 million ($2.5 million) and US$7.5 million ($9.5 million) in PPP funding, respectively (three and six months ended June 30, 2020, US$6.7 million and US$6.7 million, respectively). For the three and six months ended June 30, 2021, the Company recorded an offset to hotel operating expenses in the amount of $4.5 million and $5.2 million, respectively, related to the PPP (three and six months ended June 30, 2020: $1.3 million and $1.3 million, respectively), and to finance expenses in the amount of $0.2 million and $0.2 million, respectively (three and six months ended June 30, 2020: $0.7 million and $0.7 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 September 25, 2021, as well as the Canada Emergency Rent Subsidy ("CERS"), which covers certain rental and building operating expenses. During the three and six months ended June 30, 2021, the Company recorded an offset to operating expenses from hotels and resorts in the amount of $2.1 million and $4.4 million, respectively (three and six months ended June 30, 2020: $1.2 million and $1.4 million, respectively) and an offset to administrative and general expenses in the amount of $0.3 million and $0.6 million, respectively (three and six months ended June 30, 2020: $0.2 million and $0.2 million, respectively) relating to CEWS and CERS.

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 interim condensed consolidated 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 August 31, 2021 and up to the Q1 2022 for certain loans, where required.

The deed of trust for the Company's Series A Bonds (the “Series A Deed”) 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 number of dividends that can be paid, among other restrictions. As at June 30, 2021, the Company complies with all of the above noted covenants per the deed of trust.

The deed of trust for the Company's Series B Bonds (the “Series B Deed”) 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, 2021, the Company complies with all of the above noted covenants per the deed of trust and has always complied with these covenants since the Series B Bond was issued. Also included in the Series B Deed is a trailing 4-quarter, non-defaulting Bond Operating EBITDA Provision (the “Provision”). The Provision’s limit is $18 million of Operating EBITDA (as defined in Section 1.5.31 of the Series B Deed). Based on the Company’s condensed interim consolidated financial statements for the three and six months ended June 30, 2021, published by the Company on August 13, 2021 (the “Report Date”), Operating EBITDA for the last four quarters was $18.7 million. Pursuant to Section 5.4(D) of the Series B Deed, as the Company meets the Operating EBITDA, then from the Report Date, the interest rate on the outstanding principal balance of the Series B Debentures will decrease by 0.25% so that the annual interest rate on the outstanding principal balance of the Series B Debentures is 5.65%. The exact annual interest rate on the principal of the Series B Debentures for the current interest period, from May 14, 2021 until the Report Date, was 5.9% (the “Adjusted Interest"), due to the Company’s non-compliance with the Provision based on its financial statements for the three months ended March 31, 2021. The annual interest rate to be paid on the balance of the principal of the Debentures for the period commencing on the Report Date and ending on January 15, 2022 (the "Upcoming Interest Payment Date") is 5.65%. The weighted average interest rate to be paid on the Upcoming Interest Payment Date is 2.84413%. The annualized interest rate reflected by the weighted average interest rate to be paid on the Upcoming Interest Payment Date is 5.68825%. The annual and semi-annual interest rates to be paid for the Debentures from and after January 16, 2022 will be 5.65% and 2.825%, respectively.

(in thousands of Canadian Dollars)

The Company employs conservative leverage, has sufficient financing capabilities, and expects to continue to receive government assistance that will cover a portion of its expenses in the near to mid-term. However, given the uncertainty around timing of a full 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 12, 2021.

(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, 2020. 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, 2020.

(c) 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, valuation of financial instruments, valuation of accounts receivable, capitalization of costs, accounting accruals, the amortization of certain assets, and accounting for 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 notes 1(b), 5 and 6.

(d) Foreign currency

	As at				
	June 30,		March 31,		December 31,
	2021	2020	2021	2020	2020
Exchange rates - ending rate:					
USD / CAD	1.239	1.363	1.258	1.419	1.273
CAD / NIS	2.629	2.531	2.645	2.500	2.522

(in thousands of Canadian Dollars)

	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Year Ended December 31, 2020
Exchange rates - average rate:					
USD / CAD	1.247	1.366	1.228	1.388	1.342
CAD / NIS	2.618	2.569	2.657	2.533	2.565
Change in rate - compared to prior period ended:					
USD / CAD	(2.7%)	4.9%	(1.5%)	(4.0%)	(2.0%)
CAD / NIS	4.3%	(4.6%)	(0.6%)	1.2%	(5.0%)

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 evenly incurred throughout the year, with the exception of certain variable costs such as labor, food and beverage costs, and supplies, among others, which are typically higher during peak season.

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 June 30, 2021	Fair value as at June 30, 2020	Fair value as at December 31, 2020	Carrying amount as at June 30, 2021	Carrying amount as at June 30, 2020	Carrying amount as at December 31, 2020
Bonds	97,779	89,145	99,419	94,920	108,621	101,522
Loans payable	202,045	233,790	209,740	200,779	230,515	207,363

(b) The fair value 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 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 rates in effect as at June 30, 2021. In addition, the Company has taken adequate security pledges on these assets.

5 - Investment properties

	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020	Year Ended December 31, 2020
Balance as at the beginning of the period	61,278	59,965	59,965
Expenditures subsequent to acquisition	103	107	397
Net gain (loss) from fair value adjustments	7,519	4,858	4,569
Transfer to loans to purchasers and Inventory and from other	(153)	(1,034)	(3,485)
Foreign exchange translation	(225)	427	(168)
Balance as at the end of the period	68,522	64,323	61,278

(in thousands of Canadian Dollars)

6 - Property, plant and equipment

	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020	Year Ended December 31, 2020
Gross carrying amount as at beginning of period	513,031	* 515,747	515,747
Accumulated depreciation as at beginning of period	(79,047)	* (61,010)	(61,010)
	433,984	454,737	454,737
Expenditures subsequent to acquisitions	2,992	2,591	7,111
Adjustment to fair value through revaluation surplus	9,748	(26,903)	(2,814)
Transfers from (to) real estate inventory, loans to purchasers, and other	2,873	(363)	(373)
Disposals and other proceeds	—	(86)	(86)
Depreciation	(9,586)	(10,872)	(20,251)
Foreign exchange translation	(8,282)	16,441	(4,340)
Balance as at the end of the period	431,729	435,545	433,984

* Reclassified

The revaluation method has been used for PP&E, with valuations for each hospitality asset classified as PP&E performed at least annually 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 Company received independent third party valuations for 6 of the Company's hotels and resorts as at June 30, 2021.

For periods when an independent third-party valuation is not performed, the Company undertakes specific actions to determine if there is any change in the value of its PP&E, including discussions with independent, third-party experts, referencing market transactions, and a review of updated internal forecasts. The Company then uses these inputs in a discounted cash flow analysis over ten years to determine if there is any required revaluation at each reporting date.

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 well as during the review of internal cash flow forecasts. 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 PP&E as at June 30, 2021 are as follows:

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

Discount rates used in applying the DCF method ranged between 10.25% and 13.0% (June 30, 2020: 10.0%-12.75%), terminal capitalization rates ranged between 8.5% and 12.5% (June 30, 2020: 8.25% - 12.5%), and stabilized NOI ranged between $1,339 and $10,011 (June 30, 2020: $1,461 and $11,510).

As at June 30, 2021, 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 $6,879. As at June 30, 2021, 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 $6,509.

(in thousands of Canadian Dollars)

7 - Loans payable

	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020	Year Ended December 31, 2020
Balance as at the beginning of the period	207,363	199,070	199,070
Proceeds from long term loans, including PPP loans	7,075	10,142	12,329
Repayments of long term loans	(3,436)	(1,901)	(5,933)
Change in bank credit and other short-term loans	(1,478)	15,349	12,279
PPP loans forgiveness and other	(4,875)	(1,627)	(8,129)
Amortization of deferred costs	740	931	1,705
Foreign exchange translation	(4,610)	8,551	(3,958)
Balance as at the end of the period	200,779	230,515	207,363

8 - Financial expense

	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Year Ended December 31, 2020
Interest on long-term loans and leases	(3,612)	(4,284)	(1,714)	(2,006)	(9,041)
Interest on bonds and Gain from early repayment of bon(	(2,927)	(3,160)	(1,436)	(1,545)	(6,206)
Foreign exchange revaluation of bonds loss	—	(5,157)	—	2,990	(1,462)
Fair value loss from financial derivative	(1,863)	—	522	—	—
Amortization of deferred financing charges	(740)	(935)	(352)	(475)	(1,705)
Interest on short-term loans	(375)	(338)	(180)	(200)	(711)
Bank charges	(198)	(225)	(103)	(109)	(502)
	(9,715)	(14,099)	(3,263)	(1,345)	(19,627)

9 - Financial income

	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Year Ended December 31, 2020
Fair value gain from financial derivative	—	1,097	—	(550)	847
Foreign exchange revaluation of bonds gain	3,573	—	521	—	—
Other financial income	553	900	451	158	1,346
	4,126	1,997	972	(392)	2,193

10 - Income tax recovery

	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Year Ended December 31, 2020
Current income tax expense	(362)	(760)	(17)	105	(580)
Prior year income tax (expense) recovery and refunds	(13)	(186)	(4)	(121)	(139)
Deferred income tax recovery	(506)	3,641	174	1,403	8,562
	(881)	2,695	153	1,387	7,843

11 - Significant events during the period

(a) On January 10, 2021 at the annual general meeting ("AGM"), the shareholders approved changes to the Company's remuneration policy, including changes to the CEO's compensation. Shareholders also approved the extension of a loan to the Company's CEO, for an additional period of three years, until February 18, 2024, or six months after termination of his employment, whichever is first. As well, an allocation to the CEO of 100,000 stock options (the "Options") was approved, which were granted on February 11, 2021 (the "Grant Date"). The Options have a strike price of 24 NIS, have a vesting period of three years, and expire five years after the Grant Date.

(in thousands of Canadian Dollars)

12 - Claims

(a) In 2016 the Company was served claims totaling $2.1 million in relation to certain construction projects and issued a counterclaim in the amount of $4 million. The Company has received judgement and made payment relating to one of the construction projects, and has also recognized a total liability of $1.3m in the financial statements as at June 30, 2021.

(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.

(c) In May 2021, the Company was served a claim totaling $0.5 million in relation to certain construction projects. 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 settlement, 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.

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, 2021 (Unaudited)				
Revenue	40,248	12,862	4,314	57,424
Costs and expenses	(28,819)	(9,539)	(4,412)	(42,770)
	11,429	3,323	(98)	14,654
Selling and marketing expenses				(193)
Administrative and general expenses				(3,201)
Depreciation				(9,586)
Gain from fair value adjustments				7,519
Capital gain				8
Other expense				(680)
Financial expense				(9,715)
Financial income				4,126
Net income before income taxes				2,932

(in thousands of Canadian Dollars)

	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)
Gain from fair value adjustments				4,858
Other expense				(50)
Financial expense				(14,099)
Financial income				1,997
Net loss before income taxes				(15,883)
For three months ended June 30, 2021 (Unaudited)				
Revenue	20,371	4,548	1,398	26,317
Costs and expenses	(13,341)	(5,080)	(1,838)	(20,259)
	7,030	(532)	(440)	6,058
Selling and marketing expenses				(143)
Administrative and general expenses				(1,369)
Depreciation				(4,769)
Gain from fair value adjustments				5,125
Other expense				(558)
Financial expense				(3,263)
Financial income				972
Net income before income taxes				2,053
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)
Gain from fair value adjustments				5,001
Financial expense				(1,345)
Financial income				(392)
Net loss before income taxes				(8,709)

(in thousands of Canadian Dollars)

	US hotels and resorts	Canadian hotels and resorts	Development	Total
For the year ended December 31, 2020 (Audited)				
Revenue	54,702	36,782	37,878	129,362
Costs and expenses	(51,581)	(28,544)	(34,820)	(114,945)
	3,121	8,238	3,058	14,417
Selling and marketing expenses				(933)
Administrative and general expenses				(5,600)
Impairment of real estate properties				(1,180)
Depreciation				(20,250)
Gain from fair value adjustments				4,569
Other expense				(69)
Financial expense				(19,627)
Financial income				2,193
Net loss before income taxes				(26,480)
As at June 30, 2021 (Unaudited)				
Assets	348,921	148,848	143,507	641,276
Liabilities	(252,310)	(94,690)	(32,430)	(379,430)
	96,611	54,158	111,077	261,846
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 December 31, 2020 (Audited)				
Assets	341,850	150,489	145,524	637,863
Liabilities	(252,866)	(95,741)	(32,827)	(381,434)
	88,984	54,748	112,697	256,429

14 - Subsequent events

(a) On July 25, 2021, the Company announced that, acting in its capacity as lender acting under the power of sale process, it reached an agreement with a third party unrelated to the Company (the “Buyer”) for the sale of the Port McNicoll site for a total amount of $32,500 (the “Transaction”). The Transaction is firm and not subject to any further due diligence period, with closing scheduled for September 30, 2021 (“Closing”). The Buyer has an option to extend Closing by an additional 30 days. Upon completion of the Transaction, a total of $3,000 (including an irrevocable deposit of $1,000 that the Company's lawyers have received in trust) will be paid to the Company. The balance of the consideration, totalling $29,500 will be provided to the Buyer as a first ranking vendor-take-back loan bearing an annual interest rate of 2.5% for a 5-year period (the “VTB”). The Buyer will make monthly payments of $200 every month after Closing for the next five years, which will be applied against both interest and principal. As the Buyer develops the land over the next five years, the Buyer will require partial discharges of security from Skyline, and, as a result, additional principal payments are expected over the life of the VTB. At the end of the VTB, any remaining VTB balance will be due in full.

(b) On August 12, 2021, Skyline received early repayment for the VTB related to phase 3 of the Second Nature development at Blue Mountain (“Second Nature Phase 3”) in the amount of $16,307 including accrued interest of $77. Upon receipt of the funds, Skyline fully repaid a loan, including discharge fees related to Second Nature Phase 3, in the amount of $4,199. As well, Skyline deposited $1,347 in a restricted bank account to secure letters of credit that will be released as lot servicing is completed and/or the homes to be built are occupied by end users. Cash received net of these amounts was $10,761, which will be used to fund expected future development costs related to all phases of Second Nature in the amount of $3,224 (the majority of which are expected to be paid over the next three years and have been accrued as a liability on the balance sheet as at June 30, 2021). The remaining proceeds will be distributed to Skyline and its partner at Blue Mountain.