SKYLINE INVESTMENTS INC.
Condensed interim consolidated financial statements
for the period ended
September 30, 2022
(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, 2022, and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the 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 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.

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

Haifa,
November 10, 20

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SKYLINE INVESTMENTS INC.

Condensed interim consolidated statements of financial position

(in thousands of Canadian Dollars)

	Note	As at September 30, 2022	As at September 30, 2021	As at December 31, 2021
		(Unaudited)	*(Unaudited)*	*(Audited)*
Current assets				
Cash and cash equivalents		29,674	34,983	61,489
Trade receivables, other receivables and prepayments		13,113	16,741	13,136
Inventories		889	1,655	980
Real estate inventory		6,465	10,272	7,034
Loans to purchasers		5,691	6,883	2,022
Financial derivative		—	4,956	—
Restricted bank deposits		4,263	6,254	4,727
Disposal group classified as held for sale		—	198,057	—
		60,095	279,801	89,388
Non-current assets				
Investment properties	5	13,138	12,015	11,971
Property, plant and equipment	6	404,662	323,165	328,390
Loans to purchasers		89,399	33,399	95,951
Other non-current assets		11,686	3,251	12,452
Other investments measured at fair value through profit or loss		25,803	—	28,808
Restricted bank deposits		8,618	10,729	12,744
		553,306	382,559	490,316
Total assets		**613,401**	**662,360**	**579,704**
Current liabilities				
Loans payable	7	54,190	48,598	152,450
Bonds		3,863	50,529	3,569
Trade payables		6,317	7,123	10,889
Other payables and credit balances		22,228	26,544	22,447
Deferred revenue		4,603	10,653	4,568
Current tax liability		—	785	5,155
Other liabilities measured at fair value		—	—	189
Purchasers' deposits		326	4,125	325
Disposal group classified as held for sale		—	5,360	—
		91,527	153,717	199,592
Non-current liabilities				
Loans payable	7	139,792	146,652	24,105
Bonds		42,838	43,490	43,478
Other liabilities		168	87	89
Deferred tax liabilities		19,527	21,699	15,364
		202,325	211,928	83,036
Total liabilities		293,852	365,645	282,628
Equity				
Equity attributable to shareholders of the Company		284,647	261,016	266,249
Non-controlling interest		34,902	35,699	30,827
		319,549	296,715	297,076
Total liabilities and equity		**613,401**	**662,360**	**579,704**

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 10, 2022
Shimshon Marfogel Chairman	Blake Lyon CEO	Robert Waxman CFO	Date

SKYLINE INVESTMENTS INC.

Condensed interim consolidated statements of income (loss)

(in thousands of Canadian Dollars)

	Note	Nine Months Ended September 30,		Three Months Ended September 30,		Year Ended December 31,
		2022	**2021**	**2022**	**2021**	**2021**
		(Unaudited)	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Audited)*
Revenue						
Income from hotels and resorts		97,374	98,226	34,525	45,116	129,293
Sale of residential real estate		1,566	4,897	245	583	7,453
		98,940	103,123	34,770	45,699	136,746
Expenses and costs						
Operating expenses from hotels and resorts		(76,769)	(69,660)	(27,416)	(31,302)	(96,212)
Cost of sales of residential real estate		(1,424)	(5,473)	(10)	(1,061)	(7,677)
		(78,193)	(75,133)	(27,426)	(32,363)	(103,889)
		20,747	**27,990**	**7,344**	**13,336**	**32,857**
Selling and marketing expenses		(80)	(248)	(2)	(55)	(266)
Administrative and general expenses		(5,796)	(4,816)	(2,064)	(1,615)	(8,090)
Operating income before depreciation, valuation adjustments and other income		**14,871**	**22,926**	**5,278**	**11,666**	**24,501**
Impairment of real estate properties		—	(646)	—	(646)	(2,491)
Depreciation		(10,536)	(14,465)	(3,653)	(4,879)	(17,992)
Gain (loss) from fair value adjustments of investment		450	30,984	(83)	23,465	30,976
Gain (loss) from fair value adjustments of financial instruments, net		(2,817)	—	(259)	—	14
Gain (loss) on sale and other capital gains, net, and other expenses, net		(461)	(664)	(67)	8	6,564
Net income (loss) from operations		**1,507**	**38,135**	**1,216**	**29,614**	**41,572**
Financial expense	8	(13,610)	* (13,759)	(6,823)	* (7,394)	* (18,913)
Financial income		3,741	* 1,050	1,243	* 274	* 1,413
Net income (loss) before income taxes		**(8,362)**	**25,426**	**(4,364)**	**22,494**	**24,072**
Income tax recovery (expense)	9	(1,090)	3,071	(1)	3,952	5,506
Net income (loss) for the period		**(9,452)**	**28,497**	**(4,365)**	**26,446**	**29,578**
Attributable to:						
Shareholders of the Company		(8,827)	22,192	(4,297)	21,258	22,926
Non-controlling interest		(625)	6,305	(68)	5,188	6,652
		(9,452)	28,497	(4,365)	26,446	29,578
Earnings per share:						
Basic		(0.53)	1.34	(0.26)	1.28	1.39
Diluted		(0.53)	1.34	(0.26)	1.28	1.39

* See note 2(d).

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,
	2022	2021	2022	2021	2021
	(Unaudited)	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Audited)*
Net income (loss) for the period	**(9,452)**	**28,497**	**(4,365)**	**26,446**	**29,578**
Other comprehensive income					
Items that will not be reclassified subsequently to net income (loss):					
Revaluation of property, plant and equipment, before income taxes	17,412	7,614	(1,911)	(2,134)	15,411
Taxes income (expense)	(4,044)	5,715	428	7,787	3,234
	13,368	13,329	(1,483)	5,653	18,645
Items that may be reclassified subsequently to net income (loss):					
Exchange differences on translation of foreign operations	15,445	524	12,658	4,192	(206)
Other comprehensive income for the period, net of taxes	28,813	13,853	11,175	9,845	18,439
Total comprehensive income for the period, net of taxes	**19,361**	**42,350**	**6,810**	**36,291**	**48,017**
Attributable to:					
Shareholders of the Company	18,806	34,909	5,708	30,205	40,122
Non-controlling interest	555	7,441	1,102	6,086	7,895
	19,361	**42,350**	**6,810**	**36,291**	**48,017**

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	Treasury shares	Related party surplus	Revaluation surplus	Share based compensation surplus	Foreign exchange translation	Retained earnings	Attributable to shareholders of the Company	Non-controlling interest	Total Equity
For the nine months ended September 30, 2022 (Unaudited)										
Balance at the beginning of the period	79,867	—	125	42,189	674	713	142,681	266,249	30,827	297,076
Net loss for the period	—	—	—	—	—	—	(8,827)	(8,827)	(625)	(9,452)
Other comprehensive income for the period	—	—	—	13,686	—	13,947	—	27,633	1,180	28,813
Total comprehensive income for the period	—	—	—	13,686	—	13,947	(8,827)	18,806	555	19,361
Transfer upon recognition of depreciation	—	—	—	(965)	—	—	965	—	—	—
Contribution from non-controlling shareholders	—	—	—	—	—	—	—	—	3,520	3,520
Repurchase of shares (see note 10e)		(433)	—	—	—	—	—	(433)	—	(433)
Recognition of share-based payment	—	—	—	—	25	—	—	25	—	25
Balance at the end of the period	79,867	(433)	125	54,910	699	14,660	134,819	284,647	34,902	319,549
For the nine months ended September 30, 2021 (Unaudited)										
Balance at the beginning of the period	79,686	—	125	78,553	772	854	66,054	226,044	30,385	256,429
Net income for the period	—	—	—	—	—	—	22,192	22,192	6,305	28,497
Other comprehensive income for the period	—	—	—	12,225	—	492	—	12,717	1,136	13,853
Total comprehensive income for the period	—	—	—	12,225	—	492	22,192	34,909	7,441	42,350
Transfer upon recognition of depreciation	—	—	—	(2,003)	—	—	2,003	—	—	—
Distribution to non-controlling shareholders	—	—	—	—	—	—	—	—	(2,127)	(2,127)
Recognition of share-based payment	—	—	—	—	63	—	—	63	—	63
Balance at the end of the period	79,686	—	125	88,775	835	1,346	90,249	261,016	35,699	296,715

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	Treasury shares	Related party surplus	Revaluation surplus	Share based compensation surplus	Foreign exchange translation	Retained earnings	Attributable to shareholders of the Company	Non-controlling interest	Total Equity
For the three months ended September 30, 2022 (Unaudited)										
Balance at the beginning of the period	79,867	(433)	125	56,690	693	3,206	138,785	278,933	30,659	309,592
Net loss for the period	—	—	—	—	—	—	(4,297)	(4,297)	(68)	(4,365)
Other comprehensive income for the period	—	—	—	(1,449)	—	11,454	—	10,005	1,170	11,175
Total comprehensive income (loss) for the period	—	—	—	(1,449)	—	11,454	(4,297)	5,708	1,102	6,810
Transfer upon recognition of depreciation	—	—	—	(331)	—	—	331	—	—	—
Contribution from non-controlling shareholders	—	—	—	—	—	—	—	—	3,141	3,141
Recognition of share-based payment	—	—	—	—	6	—	—	6	—	6
Balance at the end of the period	79,867	(433)	125	54,910	699	14,660	134,819	284,647	34,902	319,549
For the three months ended September 30, 2021 (Unaudited)										
Balance at the beginning of the period	79,686	—	125	84,135	815	(2,311)	68,341	230,791	31,055	261,846
Net income for the period	—	—	—	—	—	—	21,258	21,258	5,188	26,446
Other comprehensive income (loss) for the period	—	—	—	5,290	—	3,657	—	8,947	898	9,845
Total comprehensive income for the period	—	—	—	5,290	—	3,657	21,258	30,205	6,086	36,291
Transfer upon recognition of depreciation	—	—	—	(650)	—	—	650	—	—	—
Distribution to non-controlling shareholders	—	—	—	—	—	—	—	—	(1,442)	(1,442)
Recognition of share-based payment	—	—	—	—	20	—	—	20	—	20
Balance at the end of the period	79,686	—	125	88,775	835	1,346	90,249	261,016	35,699	296,715
For the year ended December 31, 2021 (Audited)										
Balance at the beginning of the year	79,686	—	125	78,553	772	854	66,054	226,044	30,385	256,429
Net income for the period	—	—	—	—	—	—	22,926	22,926	6,652	29,578
Other comprehensive income (loss) for the period	—	—	—	17,337	—	(141)	—	17,196	1,243	18,439
Total comprehensive income (loss) for the period	—	—	—	17,337	—	(141)	22,926	40,122	7,895	48,017
Transfer upon recognition of depreciation	—	—	—	(2,385)	—	—	2,385	—	—	—
Distribution to non-controlling shareholders	—	—	—	—	—	—	—	—	(7,453)	(7,453)
Recognition of share-based payment	—	—	—	—	83	—	—	83	—	83
Transfer upon sale	—	—	—	(51,316)	—	—	51,316	—	—	—
Transfer upon expiration	181	—	—	—	(181)	—	—	—	—	—
Balance at the end of the year	79,867	—	125	42,189	674	713	142,681	266,249	30,827	297,076

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,
	2022	2021	2022	2021	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Operating activities					
Net income (loss) for the period	(9,452)	28,497	(4,365)	26,446	29,578
Adjustments for:					
Depreciation and amortization	11,174	16,216	3,925	5,890	21,983
(Gain) loss from fair value adjustments on investment properties and financial instruments	2,367	(30,984)	342	(23,465)	(30,990)
Gain on sale of investment and other property	—	(8)	—	—	(7,220)
Finance costs from bonds including foreign exchange	2,745	148	2,019	779	523
Finance (income) costs from financial derivative	—	708	—	(1,155)	(536)
Deferred tax, net	(1,085)	(4,140)	(77)	(4,646)	(12,901)
Share based compensation	98	63	35	20	83
Changes in non-cash working capital					
Trade receivables, other receivables, prepayments and others	4,518	22,971	5,640	16,247	24,920
Inventories	159	(160)	(69)	(36)	(259)
Real estate Inventory	569	1,389	(295)	51	1,722
Trade and other payables and credit balances	(5,394)	(2,307)	1,993	(1,783)	(4,670)
Income taxes payable	2,166	(27)	67	573	6,141
Purchasers' deposits	1	4,015	—	1,443	4,073
Cash provided by operating activities	7,866	36,381	9,215	20,364	32,447
Investing activities					
Additions to investment properties	—	(121)	—	(18)	(127)
Release from (Investment in) restricted deposit	5,742	* (7,543)	165	* (3,891)	* (12,538)
Additions to property, plant and equipment	(38,598)	(4,866)	(27,021)	(1,874)	(7,400)
Income taxes	(7,762)	—	—	—	(1,365)
Net proceeds from sale of disposal group, and property, plant and equipment	—	8	—	—	103,983
Disposition of financial derivative	—	—	—	—	6,200
Cash provided by (used in) investing activities	(40,618)	(12,522)	(26,856)	(5,783)	88,753
Financing activities					
Bank credit and other short-term loans	1,832	(5,491)	20	(4,013)	(22,890)
Repayment of bonds	(3,897)	(6,453)	(1,992)	(3,213)	(53,646)
Proceeds from long term loans	130,057	11,178	6,294	4,103	12,511
Repayments of long term loans	(131,064)	(8,818)	(1,580)	(5,382)	(10,993)
Repurchase of shares	(433)	—	—	—	—
Contribution from (Distribution to) non-controlling shareholders	3,520	(2,127)	3,141	(1,442)	(7,453)
Cash provided by (used in) financing activities	15	(11,711)	5,883	(9,947)	(82,471)
Foreign exchange translation of cash balances	922	399	826	530	324
Net increase (decrease) in cash and cash equivalents	(31,815)	12,547	(10,932)	5,164	39,053
Cash and cash equivalents at beginning of period	61,489	22,436	40,606	29,819	22,436
Cash and cash equivalents at end of period	29,674	34,983	29,674	34,983	61,489

* See note 2(d).

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,
	2022	2021	2022	2021	2021
	(Unaudited)	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Audited)*
Supplemental cash flow information					
Interest paid *	10,255	11,112	5,068	4,437	14,168
Interest received	1,437	424	515	62	431
Income taxes paid (received)	7,756	1,074	(6)	111	2,598

* Interest paid for the three and nine months ended September 30, 2022 includes $0 and $0 (three and nine months ended September 30, 2021: $229 and $396) related to the receipt of PPP grants. Interest paid for the year ended December 31, 2021 includes $426 related to the receipt of PPP grants.

	Nine Months 2022	Nine Months 2021	Three Months 2022	Three Months 2021	Year 2021
Significant non-cash investing and financing activities					
Right-of-use assets and lease liabilities	1,447	—	1,447	—	—
Loans to purchasers	—	1,128	—	—	61,112
Other investments measured at fair value through pro	—	—	—	—	28,808
Other non-current assets	—	—	—	—	8,000
Share capital and premium increase	—	—	—	—	181

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

(in thousands of Canadian Dollars)

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 real estate development activities, which are in excess of twelve months and typically range between one to four years.

As at September 30, 2022, the Company is 49.5% owned by its controlling shareholder, Mishorim Real Estate Investments Ltd (“Mishorim”) and 20.3% owned by The Israel Land Development Co. Ltd (“ILDC”). Both are public companies whose shares are traded on the Tel-Aviv Stock Exchange ("TASE").

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 Government Support Update

In response to the COVID-19 pandemic, the Canadian and US Governments unveiled multiple support measures for which the Company was eligible. In the US, Skyline qualified for US $14,247 in total loans under the Paycheck Protection Program (“PPP”). As part of this program, loan funds spent on payroll and other specified costs may be forgiven by the US Government under certain circumstances; the Company has received formal forgiveness of US $13,982 as at September 30, 2022. In Canada, the Canada Employment Wage Subsidy (“CEWS”) and the Canada Emergency Rent Subsidy (“CERS”) programs are no longer in effect and the Company does not expect to receive any further assistance from the Canadian Government in response to the COVID-19 pandemic.

2 - Significant accounting policies

(a) Basis of preparation

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. The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the annual consolidated financial statements. 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, 2021.

These condensed interim consolidated financial statements were approved by the Company's Board of Directors on November 10, 2022.

(b) Significant estimates, assumptions, and judgements

For information regarding Management's significant assumptions and estimates, please refer to note 6.

(c) Foreign currency

	As at				
	September 30,		June 30,		December 31,
	2022	2021	2022	2021	2021
Exchange rates - ending rate:					
USD / CAD	1.371	1.274	1.289	1.239	1.268
CAD / NIS	2.592	2.535	2.708	2.629	2.442

(in thousands of Canadian Dollars)

	Nine Months Ended September 30,		Three Months Ended September 30,		Year Ended December 31,
	2022	2021	2022	2021	2021
Exchange rates - average rate:					
USD / CAD	1.283	1.251	1.304	1.260	1.253
CAD / NIS	2.584	2.601	2.608	2.568	2.577
Change in rate - compared to prior period ended:					
USD / CAD	8.1%	0.1%	6.4%	2.8%	(0.4%)
CAD / NIS	6.1%	0.5%	(4.3%)	(3.6%)	(3.1%)

(d) Immaterial adjustment

The comparative figures as for the nine and the three months ended on September 30, 2021, as well as for the year ended December 31, 2021 as presented in the current financial statements, include an immaterial adjustment due to reclassification of foreign exchange gains from financial income to financial expense, and reclassification of changes in restricted bank deposits from Operating activities to Investing activities:

Condensed interim consolidated statements of income (loss)

	Nine Months Ended September 30, 2021		
	As reported in the past	Effect of the change	As currently reported
Financial expense	(14,291)	532	(13,759)
Financial income	1,582	(532)	1,050

	Three Months Ended September 30, 2021		
	As reported in the past	Effect of the change	As currently reported
Financial expense	(4,576)	(2,818)	(7,394)
Financial income	(2,544)	2,818	274

	Year Ended December 31, 2021		
	As reported in the past	Effect of the change	As currently reported
Financial expense	(19,454)	541	(18,913)
Financial income	1,954	(541)	1,413

Condensed interim consolidated statements of cash flows

	Nine Months Ended September 30, 2021		
	As reported in the past	Effect of the change	As currently reported
Cash provided by operating activities	33,769	2,612	36,381
Cash used in investing activities	(9,910)	(2,612)	(12,522)

(in thousands of Canadian Dollars)

	Three Months Ended September 30, 2021		
	As reported in the past	Effect of the change	As currently reported
Cash provided by operating activities	19,912	452	20,364
Cash used in investing activities	(5,331)	(452)	(5,783)

	Year Ended December 31, 2021		
	As reported in the past	Effect of the change	As currently reported
Cash provided by operating activities	27,518	4,929	32,447
Cash provided by investing activities	93,682	(4,929)	88,753

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			Carrying amount as at		
	September 30,		December 31,	September 30,		December 31,
	2022	2021	2021	2022	2021	2021
Bonds	45,330	96,541	50,156	47,326	95,218	48,478
Loans payable	195,653	201,639	176,411	193,982	200,610	176,555

(b) The fair value of long-term financial liabilities have been determined by calculating their present values as at the reporting date, using 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 September 30, 2022. In addition, the Company has taken adequate security pledges on these assets.

(in thousands of Canadian Dollars)

5 - Investment properties

	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021	Year Ended December 31, 2021
Balance as at the beginning of the period	11,971	61,278	61,278
Expenditures subsequent to acquisition	—	121	127
Net gain from fair value adjustments	450	30,984	30,976
Transfer to real estate inventory, loans to purchasers, and other	—	(153)	(153)
Disposals and other proceeds	—	(80,220)	(80,221)
Foreign exchange translation	717	5	(36)
Balance as at the end of the period	13,138	12,015	11,971

6 - Property, plant and equipment

	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021	Year Ended December 31, 2021
Gross carrying amount as at beginning of period	390,249	513,032	513,032
Accumulated depreciation as at beginning of period	(61,859)	(79,048)	(79,048)
	328,390	433,984	433,984
Acquisitions	16,281	—	—
Expenditures subsequent to acquisition	22,317	4,866	7,400
Net adjustment to fair value through revaluation surplus	17,412	7,614	15,411
Transfers from (to) real estate inventory, loans to purchasers, and other	—	2,850	2,850
Right-of-use assets and lease liabilities	1,447	—	—
Disposals and other proceeds	—	(111,379)	(111,379)
Depreciation and impairment	(10,536)	(15,111)	(18,638)
Foreign exchange translation	29,351	341	(1,238)
Balance as at the end of the period	404,662	323,165	328,390

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.

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 any non-binding offers received on its hotels, and a review of updated internal forecasts. The Company then uses the inputs mentioned above 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 its appraisers as well as during the review of internal cash flow forecasts. As part of this discussion, the appraisers present a report that explains the reasons for any movements in value.

Significant unobservable (level 3) inputs used in the DCF method as at September 30, 2022 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 by third parties;

Discount rates used in applying the DCF method ranged between 9.75% and 13.0%, terminal capitalization rates ranged between 8.25% and 12.5%.

(in thousands of Canadian Dollars)

As at September 30, 2022, 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 $15,845. As at September 30, 2022, 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 $14,790.

7 - Loans payable

	Nine Months Ended September 30,		Year Ended December 31,
	2022	2021	2021
Balance as at the beginning of the period	176,555	207,363	207,363
Proceeds from long term loans, including PPP loans (see note 10d)	130,057	11,178	12,511
Repayments of long term loans (see note 10d)	(131,064)	(8,818)	(10,993)
Change in bank credit and other short-term loans	1,832	(5,491)	(22,890)
Right-of-use assets and lease liabilities	1,447	—	—
PPP loans forgiveness and other	156	(4,875)	(4,875)
Amortization of deferred financing charges	637	1,104	1,500
Transfers to disposal group classified as held for sale	—	(5,360)	(5,360)
Foreign exchange translation	14,362	149	(701)
Balance as at the end of the period	193,982	195,250	176,555

8 - Financial expense

	Nine Months Ended September 30,		Three Months Ended September 30,		Year Ended December 31,
	2022	2021	2022	2021	2021
Interest on long-term loans and leases	(7,245)	(5,509)	(3,095)	(1,674)	(7,218)
Interest on bonds	(2,177)	(4,511)	(775)	(1,584)	(5,852)
Loss from early repayment of bonds	—	(1,829)	—	(1,829)	(2,024)
Foreign exchange revaluation of bonds gain (loss)	(3,263)	759	(2,595)	(2,814)	(946)
Fair value gain (loss) from financial derivative	—	(709)	—	1,154	536
Amortization of deferred financing charges	(637)	(1,104)	(272)	(364)	(1,500)
Interest on short-term loans	(20)	(566)	(2)	(191)	(1,528)
Bank charges	(268)	(290)	(84)	(92)	(381)
	(13,610)	(13,759)	(6,823)	(7,394)	(18,913)

9 - Income tax recovery (expenses)

	Nine Months Ended September 30,		Three Months Ended September 30,		Year Ended December 31,
	2022	2021	2022	2021	2021
Current income tax expense	(233)	(1,035)	(89)	(673)	(7,370)
Prior year income tax recovery (expense)	(1,942)	(34)	11	(21)	(25)
Deferred income tax recovery	1,085	4,140	77	4,646	12,901
	(1,090)	3,071	(1)	3,952	5,506

10 - Significant events during the period

(a) On February 8, 2022, the Company exercised its option to extend the loan associated with its 13 Courtyard by Marriott hotels to June 9, 2022. The loan was fully repaid on April 21, 2022. Refer to note (d).

(b) On February 16, 2022 the Company's shareholders approved a one-time performance bonus of $612, to the Company's CEO and other senior executives, in relation to the Freed Transaction.

(c) On March 16, 2022, the Company extended its loan related to the Hyatt to March 16, 2023 (the "Hyatt Loan Extension"). The Hyatt Loan Extension bears interest at the Bank Bill Swap Bid Rate ("BBSY") plus 350 bps, and there are no covenants associated with the Hyatt Loan Extension. The Company is in the process of securing long-term financing for the Hyatt. The total outstanding balance of the loan as at September 30, 2022 is $15,901 USD.

(d) On April 21, 2022, the Company closed on a loan to finance 12 of its Courtyard by Marriott hotels for a period of 5 years in the amount of up to $129,625 USD (the "New Courtyard Loan"), including an earnout and a line of credit to fund the renovation of the secured Courtyard hotels according to the renovation program. The interest rate on any drawn portion of the New Courtyard Loan will be equal to the 30-day average Secured Overnight Financing Rate ("SOFR") plus 5.54%. The New Courtyard Loan is prepayable after 12 months. From months 13 to 24 the prepayment penalty is equal to the full interest from the time of prepayment through the 24th month plus 0.50% of the principal being repaid. From months 25-30 the prepayment penalty is 0.25% of the principal being repaid. After 30 months Skyline can repay the loan with no penalties. There are no defaulting financial covenants related to the New Courtyard loan.

$92,125 USD was drawn on closing, including a $3,000 USD interest reserve which will be released to Skyline if during the first 36 months of the New Courtyard Loan the debt yield is at least 10% for 2 consecutive quarters and no events of default then exist. If the debt yield test is not met in the first 36 months of the New Courtyard Loan term, the funds will remain as an interest rate reserve for the balance of the New Courtyard Loan term. $30,000 USD will be available as a line of credit during the first 4 years of the New Courtyard Loan term to fund up to 75% of future renovation funding, which will be drawn as renovations are completed. $7,500 USD of additional loan proceeds available to be drawn once all renovations are completed and a debt yield of 11.0% is achieved for 2 consecutive quarters, among other conditions.

(e) On April 24, 2022, the Company commenced a share repurchase plan, which will be in effect until March 31, 2023, with a maximum total purchase amount of $5,000. During the second quarter of 2022 the Company repurchased 44,747 shares at an average price of 25.41 NIS.

(f) On July 11, 2022 the Company closed an agreement of purchase and sale with an unrelated third party for the purchase of the Courtyard by Marriott hotel in Ithaca, New York (the "Courtyard Ithaca") for a purchase price of US$11,250. The Courtyard Ithaca is a leasehold property with the land owned by Cornell University. As part of the Ithaca Acquisition and as a condition precedent, the Company entered into a new lease with Cornell University for a 49-year term, with an upfront payment of US$1,080.

In connection with the acquisition the Company entered into a 5-year financing agreement with a US Bank for 40% of the total Acquisition costs. The rest of the Acquisition costs were financed out of the Company's equity. Interest on the loan is 2.25% over the Wall Street Journal Prime ("WSJP") rate. The Bank has also provided the Company with a line of credit to complete the renovation of $4,075. The line of credit represents 100% of estimated costs of the renovation. For the first 24 months the interest rate on the loan will be floating, and the payments will be interest only. For the last 36 months of the Loan, the interest rate will be fixed at the WSJP rate at such time, plus 2.25%. Payments made during the last 36 months of the loan will be a blend of interest and principal, based on a 20-year amortization schedule.

In connection with the Ithaca Acquisition, Marriott provided the Company a new 15-year franchise for the name Courtyard by Marriott. Urgo Corp., which manages two of Skyline's other Courtyard by Marriott hotels, manages the Courtyard Ithaca.

(g) The Company extended its loan related to the Renaissance hotel to October 7, 2022 and completed during Q4 2022, refer to note 13 - "Subsequent events". The total outstanding balance of the loan as at September 30, 2022 is $20,477 USD.

11 - Claims

(a) In December 2019, the Company was served a claim from the Company's former President and Chairman for $2,400 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.

(b) The Company has been served with claims totaling $1,700 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.

(in thousands of Canadian Dollars)

12 - 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 14 Hotels branded Marriott Courtyard located in 10 different states and the Bear Valley Resort located in California. The Canadian hospitality operations include the Deerhurst and Horseshoe resorts located in Ontario, Canada that were sold during 2021. The chief operating decision maker has not reviewed Deerhurst and Horseshoe as stand-alone entities since the Freed Transaction. The Company continues to review potential acquisitions for Canadian properties that meet its investment criteria.

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

The chief operating decision maker reviews the results of other investments measured at FV through profit or loss on an aggregated basis.

(b) Segmented financial information:

	US hotels and resorts	Canadian hotels and resorts	Development	Total
For the nine months ended September 30, 2022 (Unaudited)				
Revenue	96,822	552	1,566	98,940
Costs and expenses	(77,263)	494	(1,424)	(78,193)
	19,559	1,046	142	20,747
Selling and marketing expenses				(80)
Administrative and general expenses				(5,796)
Depreciation				(10,536)
Loss from fair value adjustments				(2,367)
Gain (loss) on sale and other capital gains, net, and other expenses, net				(461)
Financial expense				(13,610)
Financial income				3,741
Net loss before income taxes				(8,362)
For the nine months ended September 30, 2021 (Unaudited)				
Revenue	64,891	33,335	4,897	103,123
Costs and expenses	(46,929)	(22,731)	(5,473)	(75,133)
	17,962	10,604	(576)	27,990
Selling and marketing expenses				(248)
Administrative and general expenses				(4,816)
Impairment of real estate properties				(646)
Depreciation				(14,465)
Gain from fair value adjustments				30,984
Gain (loss) on sale and other capital gains, net, and other expenses, net				(664)
Financial expense				(13,759)
Financial income				1,050
Net income before income taxes				25,426

(in thousands of Canadian Dollars)

	US hotels and resorts	Canadian hotels and resorts	Development	Total
For the three months ended September 30, 2022 (Unaudited)				
Revenue	34,443	82	245	34,770
Costs and expenses	(27,942)	526	(10)	(27,426)
	6,501	608	235	7,344
Selling and marketing expenses				(2)
Administrative and general expenses				(2,064)
Depreciation				(3,653)
Loss from fair value adjustments				(342)
Gain (loss) on sale and other capital gains, net, and other expenses, net				(67)
Financial expense				(6,823)
Financial income				1,243
Net loss before income taxes				(4,364)
For the three months ended September 30, 2021 (Unaudited)				
Revenue	24,643	20,473	583	45,699
Costs and expenses	(18,110)	(13,192)	(1,061)	(32,363)
	6,533	7,281	(478)	13,336
Selling and marketing expenses				(55)
Administrative and general expenses				(1,615)
Impairment of real estate properties				(646)
Depreciation				(4,879)
Gain from fair value adjustments				23,465
Gain (loss) on sale and other capital gains, net, and other expenses, net				8
Financial expense				(4,044)
Financial income				(3,076)
Net income before income taxes				22,494
For the year ended December 31, 2021 (Audited)				
Revenue	89,587	39,706	7,453	136,746
Costs and expenses	(67,687)	(28,525)	(7,677)	(103,889)
	21,900	11,181	(224)	32,857
Selling and marketing expenses				(266)
Administrative and general expenses				(8,090)
Impairment of real estate properties				(2,491)
Depreciation				(17,992)
Gain from fair value adjustments				30,976
Gain from fair value adjustments of financial instruments				14
Gain (loss) on sale and other capital gains, net, and other expenses, net				6,564
Financial expense				(18,913)
Financial income				1,413
Net income before income taxes				24,072

(in thousands of Canadian Dollars)

	US hotels and resorts	Canadian hotels and resorts	Development	Total
As at September 30, 2022 (Unaudited)				
Assets	445,666	95,020	72,715	613,401
Liabilities	(278,994)	(1,769)	(13,089)	(293,852)
	166,672	93,251	59,626	319,549
As at September 30, 2021 (Unaudited)				
Assets	361,178	143,087	158,095	662,360
Liabilities	(252,906)	(83,218)	(29,521)	(365,645)
	108,272	59,869	128,574	296,715
As at December 31, 2021 (Audited)				
Assets	366,275	117,999	95,430	579,704
Liabilities	(253,119)	(5,854)	(23,655)	(282,628)
	113,156	112,145	71,775	297,076

13 - Subsequent events

On October 7, 2022 the Company closed an extension to the existing US$20 million loan on the Renaissance Hotel, for a period of 6 years and 9 months, until Jun 2029, at 2.75% over the average 30-day SOFR. It was also agreed that the Bank would provide the company with an additional loan in the amount of US$ 16.6 million, to be drawn as needed for the purpose of upgrading and improving the hotel, at 3.5% over the average 30-day SOFR.

The Renaissance Hotel also entered into a transaction with a global industrial products company to sell the tax credits that will be generated as a result of the renovation, for approximate consideration of $11 million. In accordance with the transaction terms, 20% of the consideration was paid at the initiation of the agreement. To ensure that all costs of the renovation can be paid as required, the Bank has also provided the Company with a Bridge Loan for the remaining 80% of the tax credits, at SOFR plus 3.50%. Upon completion of the renovation, the tax credit buyer will provide the remaining funds, which will be used to repay the Bridge Loan.