SKYLINE INVESTMENTS INC.
Condensed interim consolidated financial statements
for the period ended
March 31, 2023
(Unaudited)

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Contents

Deloitte.

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 March 31, *2023,* and the related condensed *consolidated* statements of *profit or loss, comprehensive income*, changes in equity and cash flows for the three-month period 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 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,
May 11, 2023.

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SKYLINE INVESTMENTS INC.

Condensed interim consolidated statements of financial position

(in thousands of Canadian Dollars)

	Note	As at March 31, 2023 (Unaudited)	As at March 31, 2022 (Unaudited)	As at December 31, 2022 (Audited)
Current assets				
Cash and cash equivalents		14,612	44,445	19,503
Trade receivables, other receivables and prepayments		19,829	16,666	20,695
Inventories		801	968	1,102
Real estate inventory		7,194	6,849	6,694
Loans to purchasers		1,859	2,498	1,848
Restricted bank deposits		1,903	2,977	1,618
		46,198	74,403	51,460
Non-current assets				
Financial derivative		3,677	—	4,160
Investment properties	5	13,069	11,850	13,046
Property, plant and equipment	6	399,667	324,687	401,506
Loans to purchasers		89,019	94,603	89,084
Other non-current assets		2,915	15,042	3,238
Other investments measured at fair value through profit or loss		36,880	28,238	36,880
Restricted bank deposits		9,369	12,092	9,973
		554,596	486,512	557,887
Total assets		**600,794**	**560,915**	**609,347**
Current liabilities				
Loans payable	7	28,054	171,183	26,786
Bonds		3,835	3,511	3,828
Trade payables		7,398	6,239	5,832
Other payables and credit balances		20,686	20,260	22,427
Deferred revenue		2,832	2,682	4,626
		62,805	203,875	63,499
Non-current liabilities				
Loans payable	7	167,427	4,684	167,402
Bonds		40,569	41,006	42,474
Other liabilities		2,678	95	2,648
Deferred tax liabilities		15,672	15,684	17,358
		226,346	61,469	229,882
Total liabilities		289,151	265,344	293,381
Equity				
Equity attributable to shareholders of the Company		275,525	265,379	280,458
Non-controlling interest		36,118	30,192	35,508
		311,643	295,571	315,966
Total liabilities and equity		**600,794**	**560,915**	**609,347**

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"	"Neha Kapelus"	May 11, 2023
Shimshon Marfogel Chairman	Blake Lyon CEO	Neha Kapelus VP Finance	Date

SKYLINE INVESTMENTS INC.

Condensed interim consolidated statements of income (loss)

(in thousands of Canadian Dollars)

	Note	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022	Year Ended December 31, 2022
		(Unaudited)	*(Unaudited)*	*(Audited)*
Revenue				
Income from hotels and resorts		34,477	32,023	132,130
Sale of residential real estate		4	267	1,570
		34,481	32,290	133,700
Expenses and costs				
Operating expenses from hotels and resorts		(28,648)	(23,812)	(104,595)
Cost of sales of residential real estate		(12)	(317)	(1,033)
		(28,660)	(24,129)	(105,628)
		5,821	**8,161**	**28,072**
Selling and marketing expenses		—	(25)	(80)
Administrative and general expenses		(2,002)	(1,948)	(8,265)
Operating income before depreciation, valuation adjustments and other income		**3,819**	**6,188**	**19,727**
Depreciation		(3,831)	(3,442)	(14,409)
Gain (loss) from fair value adjustments of investment		30	—	497
Gain (loss) from fair value adjustments of financial instruments, net		—	(572)	8,261
Capital losses, net, and other expenses, net		(3,530)	(125)	(526)
Net income (loss) from operations		**(3,512)**	**2,049**	**13,550**
Financial expense	8	(6,123)	(2,072)	(18,583)
Financial income		1,199	1,264	4,963
Net income (loss) before income taxes		**(8,436)**	**1,241**	**(70)**
Income tax recovery (expense)	9	1,402	(561)	(1,955)
Net income (loss) for the period		**(7,034)**	**680**	**(2,025)**
Attributable to:				
Shareholders of the Company		(5,456)	1,002	(1,549)
Non-controlling interest		(1,578)	(322)	(476)
		(7,034)	680	(2,025)
Earnings per share:				
Basic		(0.33)	0.06	(0.09)
Diluted		(0.33)	0.06	(0.09)

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)

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022	Year Ended December 31, 2022
	(Unaudited)	*(Unaudited)*	*(Audited)*
Net income (loss) for the period	**(7,034)**	**680**	**(2,025)**
Other comprehensive income (loss)			
Items that will not be reclassified subsequently to net income (loss):			
Revaluation of property, plant and equipment, before income taxes	1,440	184	5,487
Taxes income (expense)	248	(51)	(1,345)
	1,688	133	4,142
Items that may be reclassified subsequently to net income (loss):			
Exchange differences on translation of foreign operations	(178)	(2,330)	13,005
Other comprehensive income for the period, net of taxes	1,510	(2,197)	17,147
Total comprehensive income (loss) for the period, net of taxes	**(5,524)**	**(1,517)**	**15,122**
Attributable to:			
Shareholders of the Company	(4,936)	(882)	14,610
Non-controlling interest	(588)	(635)	512
	(5,524)	**(1,517)**	**15,122**

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 March 31, 2023 (Unaudited)										
Balance at the beginning of the period	79,867	(433)	125	45,166	706	12,453	142,574	280,458	35,508	315,966
Net loss for the period	—	—	—	—	—	—	(5,456)	(5,456)	(1,578)	(7,034)
Other comprehensive income (loss) for the period	—	—	—	672	—	(152)	—	520	990	1,510
Total comprehensive income (loss) for the period	—	—	—	672	—	(152)	(5,456)	(4,936)	(588)	(5,524)
Transfer upon recognition of depreciation	—	—	—	(351)	—	—	351	—	—	—
Contribution from non-controlling shareholders	—	—	—	—	—	—	—	—	1,198	1,198
Recognition of share-based payment	—	—	—	—	3	—	—	3	—	3
Transfer upon expiration and exercise	321	—	—	—	(321)	—	—	—	—	—
Balance at the end of the period	80,188	(433)	125	45,487	388	12,301	137,469	275,525	36,118	311,643
For the three months ended March 31, 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 income (loss) for the period	—	—	—	—	—	—	1,002	1,002	(322)	680
Other comprehensive income (loss) for the period	—	—	—	171	—	(2,055)	—	(1,884)	(313)	(2,197)
Total comprehensive income (loss) for the period	—	—	—	171	—	(2,055)	1,002	(882)	(635)	(1,517)
Transfer upon recognition of depreciation	—	—	—	(319)	—	—	319	—	—	—
Recognition of share-based payment	—	—	—	—	12	—	—	12	—	12
Balance at the end of the period	79,867	—	125	42,041	686	(1,342)	144,002	265,379	30,192	295,571
For the year ended December 31, 2022 (Audited)										
Balance at the beginning of the year	79,867	—	125	42,189	674	713	142,681	266,249	30,827	297,076
Net loss for the period	—	—	—	—	—	—	(1,549)	(1,549)	(476)	(2,025)
Other comprehensive income for the period	—	—	—	4,419	—	11,740	—	16,159	988	17,147
Total comprehensive income (loss) for the period	—	—	—	4,419	—	11,740	(1,549)	14,610	512	15,122
Transfer upon recognition of depreciation	—	—	—	(1,442)	—	—	1,442	—	—	—
Contribution from non-controlling shareholders	—	—	—	—	—	—	—	—	4,169	4,169
Recognition of share-based payment	—	—	—	—	32	—	—	32	—	32
Repurchase of shares	—	(433)	—	—	—	—	—	(433)	—	(433)
Balance at the end of the year	79,867	(433)	125	45,166	706	12,453	142,574	280,458	35,508	315,966

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)

	Three Months Ended March 31, 2023 (Unaudited)	Three Months Ended March 31, 2022 (Unaudited)	Year ended December 31, 2022 (Audited)
Operating activities			
Net income (loss) for the period	(7,034)	680	(2,025)
Adjustments for:			
Depreciation and amortization	5,436	3,579	15,353
(Gain) loss from fair value adjustments on investment properties and financial instruments	(30)	572	(8,758)
Capital loss, net	3,964	—	4
Finance costs from bonds including foreign exchange	(641)	(1,471)	3,083
Finance (income) costs from financial derivative	480	—	396
Deferred tax, net	(1,429)	424	(353)
Share based compensation	35	21	137
Changes in non-cash working capital			
Trade receivables, other receivables, prepayments and others	(806)	(1,151)	6,455
Inventories	300	(1)	(65)
Real estate Inventory	(500)	185	340
Trade and other payables and credit balances	(1,178)	(8,158)	(4,136)
Income taxes payable	(34)	139	1,713
Cash provided by (used in) operating activities	(1,437)	* (5,181)	12,144
Investing activities			
Additions to investment properties	—	—	(4)
Release from (Investment in) restricted deposit	322	* 2,252	7,699
Additions to property, plant and equipment	(4,002)	(4,238)	(56,066)
Income taxes	—	(7,077)	(7,762)
Proceeds of loans given to purchasers	—	—	3,167
Net proceeds from sale of property, plant and	—	—	13
Disposition of financial derivative	—	—	(4,568)
Cash used in investing activities	(3,680)	(9,063)	(57,521)
Financing activities			
Bank credit and other short-term loans	1,406	—	3,539
Repayment of bonds	(2,039)	(1,904)	(3,897)
Proceeds from long term loans	311	2,334	132,063
Repayments of long term loans	(641)	(3,053)	(132,949)
Repurchase of shares	—	—	(433)
Contribution from non-controlling shareholders	1,198	—	4,169
Cash provided by (used in) financing activities	235	(2,623)	2,492
Foreign exchange translation of cash balances	(9)	(177)	899
Net decrease in cash and cash equivalents	(4,891)	(17,044)	(41,986)
Cash and cash equivalents at beginning of period	19,503	61,489	61,489
Cash and cash equivalents at end of period	14,612	44,445	19,503

* 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)

	Three Months Ended March 31,		Year ended December 31,
	2023	2022	2022
	(Unaudited)	*(Unaudited)*	*(Audited)*
Supplemental cash flow information			
Interest paid	5,473	3,271	12,990
Interest received	584	510	2,815
Income taxes paid	2	7,077	8,347
Significant non-cash investing and financing activities			
Right-of-use assets and lease liabilities	—	—	1,447
Share capital and premium increase	321	—	—

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 March 31, 2023, 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.

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, 2022.

These condensed interim consolidated financial statements were approved by the Company's Board of Directors on May 11, 2023.

(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		
	March 31,		December 31,
	2023	2022	2022
Exchange rates - ending rate:			
USD / CAD	1.353	1.250	1.354
CAD / NIS	2.667	2.536	2.597

	Three Months Ended March 31,		Year Ended December 31,
	2023	2022	2022
Exchange rates - average rate:			
USD / CAD	1.353	1.267	1.301
CAD / NIS	2.616	2.524	2.581
Change in rate - compared to prior period ended:			
USD / CAD	(0.1%)	(1.4%)	6.8%
CAD / NIS	2.7%	3.8%	6.3%

(in thousands of Canadian Dollars)

(d) Immaterial adjustment

The comparative figures as for the three months ended on March 31, 2022, as presented in the current financial statements, include an immaterial adjustment due to reclassification of changes in restricted bank deposits from Operating activities to Investing activities:

Condensed interim consolidated statements of cash flows

	Three Months Ended March 31, 2022		
	As reported in the past	Effect of the change	As currently reported
Cash provided by operating activities	(3,439)	(1,742)	(5,181)
Cash used in investing activities	(10,805)	1,742	(9,063)

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 financial instruments are as follows:

	Fair value as at			Carrying amount as at		
	March 31,		December 31,	March 31,		December 31,
	2023	2022	2022	2023	2022	2022
Financial assets						
Loans to purchasers	83,977	97,101	84,442	90,878	97,101	90,932
Financial liabilities						
Bonds	43,170	47,292	50,156	44,983	45,103	47,664
Loans payable	199,573	176,352	202,024	195,481	175,867	194,188

(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. The carrying amount presented in the statement of financial position is net of financing costs.

(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.

(in thousands of Canadian Dollars)

5 - Investment properties

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022	Year Ended December 31, 2022
Balance as at the beginning of the period	13,046	11,971	11,971
Expenditures subsequent to acquisition	—	—	4
Net gain from fair value adjustments	30	—	497
Foreign exchange translation	(7)	(121)	574
Balance as at the end of the period	13,069	11,850	13,046

6 - Property, plant and equipment

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022	Year Ended December 31, 2022
Gross carrying amount as at beginning of period	482,210	390,249	390,249
Accumulated depreciation as at beginning of period	(80,704)	(61,859)	(61,859)
	401,506	328,390	328,390
Acquisitions	—	—	16,281
Expenditures subsequent to acquisition	4,002	4,238	39,785
Net adjustment to fair value through revaluation surplus	1,440	184	5,487
Transfers from other receivables	1,735	—	—
Right-of-use assets and lease liabilities	—	—	1,447
Disposals	(3,964)	—	(16)
Depreciation and impairment	(4,731)	(3,442)	(14,409)
Foreign exchange translation	(321)	(4,683)	24,541
Balance as at the end of the period	399,667	324,687	401,506

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.

Significant unobservable (level 3) inputs used in the DCF method as at March 31, 2023 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 timing and amount of investment in the property improvement plans;
(d) Estimations of the average occupancy as well as the average daily rate;
(e) Other factors such as building rights, planning and legal status.

Discount rates used in applying the DCF method ranged between 9.75% and 12.75%, terminal capitalization rates ranged between 8.25% and 12.0%.

(in thousands of Canadian Dollars)

As at March 31, 2023, 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 $10,583. As at March 31, 2023, 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 $9,852.

7 - Loans payable

	Three Months Ended March 31,		Year Ended December 31,
	2023	2022	2022
Balance as at the beginning of the period	194,188	176,555	176,555
Proceeds from long term loans	311	2,334	132,063
Repayments of long term loans	(641)	(3,053)	(132,949)
Change in bank credit and other short-term loans	1,406	—	3,539
Right-of-use assets and lease liabilities	—	—	1,447
Transfers to (from) other non-current assets and other	(332)	2,496	521
Amortization of deferred financing charges	705	137	944
Foreign exchange translation	(156)	(2,602)	12,068
Balance as at the end of the period	195,481	175,867	194,188

8 - Financial expense

	Three Months Ended March 31,		Year Ended December 31,
	2023	2022	2022
Interest on loans and leases	(4,633)	(1,979)	(11,517)
Interest on bonds	(707)	(653)	(2,915)
Foreign exchange revaluation of bonds gain (loss)	8	780	(2,863)
Amortization of deferred financing charges	(705)	(137)	(944)
Bank charges	(86)	(83)	(344)
	(6,123)	(2,072)	(18,583)

9 - Income tax recovery (expenses)

	Three Months Ended March 31,		Year Ended December 31,
	2023	2022	2022
Current income tax expense	(5)	(118)	(28)
Prior year income tax expense	(22)	(19)	(2,280)
Deferred income tax recovery (expense)	1,429	(424)	353
	1,402	(561)	(1,955)

10 - Significant events during the period

(a) On February 8, 2023, with Board approval, the Company completed the donation of the Keewatin passenger ship to a local charity under a special Canadian federal government gifting program. The resulting donation will allow Skyline to receive donation receipt for an amount yet to be determined by a Canadian government authority, that will provide the company with a deferred tax benefit. The carrying value of the Keewatin, as at December 31, 2022, is approximatively $3.9 million ($2.2 million in Property, Plant and Equipment; 1.7 million in Other Receivables), the asset was fully derecognized as of March 31, 2023. As part of the donation, the company may have to provide up to $1 million of cash donation on December 31, 2023 in accordance with the transaction terms (if there will be no other doner).

(b) On March 19, 2023 the Company reported that the loan on the Hyatt Regency Court Hotel, originated in March 2017 for US$17 million, was extended with the current lender for an additional period of 90 days (until June 15, 2023), without obligation to meet any financial covenants. The extension included payment of a one-time fee, and an interest rate of BSBY plus 3.5% (i.e., an annual interest rate of approximately 8.44%). This loan was paid out on April 20, 2023; refer to note 13 – “Subsequent events”.

(c) As of 31 March, a subsidiary of the company did not meet a debt service coverage ratio ("DSCR") loan covenant for a loan that finances the Renaissance Hotel. The Renaissance Hotel is under renovations, with 50% of the rooms taken offline for all of 2023. The fair value of the property is US$ 62 million. Reporting to the lender is scheduled to be made on May 31, 2023, as required by the loan agreement. The subsidiary has the contractual right to cure the breach by depositing approximately US$ 2 million (of which 50% is payable by minority interests) into a restricted cash account with the lender. Because the covenant reporting to the lender did not occur yet, such a cure mechanism has not yet been enacted. The Company is in discussions with the lender to obtain a waiver on the covenant, but also, as noted above, has the contractual right to cure the breach by depositing aforesaid amounts to a restricted cash account with the lender once covenant reporting to the lender is made.

(d) The company complies with the financial covenants of Series B Debentures. It is noted that pursuant to Section 5.4 of the deed of trust (adjustment of the rate of interest as a result of non-compliance with the financial criteria), as of September 24, 2017 for the Company’s Series B Debentures (hereinafter: “Series B Deed of Trust”), the Company is subject to an increase in the interest rate if Operating EBITDA during the last four quarters preceding the review date falls below CA $18.0 million. In such an event, the interest rate on the unpaid balance of the bonds increases by 0.25% on a prospective basis. The total unpaid principal balance of the bonds as of 31 March 2023 is CA$ 44.8 million.

Operating EBITDA is defined in the deed of trust as follows: “Operating EBITDA” - the Company uses this index to measure cash flow from its income producing activities and development activities. The Index is calculated by adjusting operating income (in accordance with IFRS rules) in respect of the following items: neutralizing depreciation and deductions; neutralizing the change in fair value of investment real estate; neutralizing the portion of fair value recognized at the fair value of investment real estate out of the cost upon sale; neutralizing impairment of inventory; and neutralizing expenses for share-based payment.

On February 8, 2023, the Company donated the historic passenger ship Keewatin to a local charity under a special donation program of the Canadian federal government – see Note 10(a). The assets related to the Keewatin derecognized during the first quarter to profit and loss were CA$ 3.9 million. The Company has taken the position that this amount should be treated as an adjusting item in the calculation of the Company's operating EBITDA, on the basis that this is a one-time non-cash item that is not part of core business activities.

In addition, during the period, the company recognized in profit and loss an impairment of development lands recorded in PP&E, in the amount of CA$ 0.9 million. The Company has taken the position that this amount should be treated as an adjusting item in the calculation of the Company's operating EBITDA, on the basis that this non-cash decrease in value is not part of core operating activities, and should be treated similarly to an impairment in investment property. The classification of the lands in as part of PP&E the company's financial statements at the time of purchase was done due to the relatively low value of these lands in proportion to the total portfolio, and the difficulty in separating the value of the lands from the total package of properties under which they were purchased.

Considering the above, Operating EBITDA during the last four quarters is CA$18.4 million. If the items noted above were included in the Operating EBITDA, the Operating EBITDA during the last four quarters would be CA$13.6 million.

On 11 May 2023, the company approached the Bonds Trustee to disclose the above information, presented a written statement of the Company's position, and awaits a response from the Trustee.

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 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 three months ended March 31, 2023 (Unaudited)				
Revenue	34,457	20	4	34,481
Costs and expenses	(28,636)	(12)	(12)	(28,660)
	5,821	8	(8)	5,821
Administrative and general expenses				(2,002)
Depreciation				(3,831)
Gain from fair value adjustments				30
Capital losses, net, and other expenses, net				(3,530)
Financial expense				(6,123)
Financial income				1,199
Net loss before income taxes				(8,436)
For the three months ended March 31, 2022 (Unaudited)				
Revenue	31,717	306	267	32,290
Costs and expenses	(23,785)	(27)	(317)	(24,129)
	7,932	279	(50)	8,161
Selling and marketing expenses				(25)
Administrative and general expenses				(1,948)
Depreciation				(3,442)
Loss from fair value adjustments				(572)
Capital losses, net, and other expenses, net				(125)
Financial expense				(2,072)
Financial income				1,264
Net income before income taxes				1,241

(in thousands of Canadian Dollars)

	US hotels and resorts	Canadian hotels and resorts	Development	Total
For the year ended December 31, 2022 (Audited)				
Revenue	130,204	1,926	1,570	133,700
Costs and expenses	(105,083)	488	(1,033)	(105,628)
	25,121	2,414	537	28,072
Selling and marketing expenses				(80)
Administrative and general expenses				(8,265)
Depreciation				(14,409)
Gain from fair value adjustments				497
Gain from fair value adjustments of financial instruments				8,261
Capital losses, net, and other expenses, net				(526)
Financial expense				(18,583)
Financial income				4,963
Net loss before income taxes				(70)

	US hotels and resorts	Canadian hotels and resorts	Development	Total
As at March 31, 2023 (Unaudited)				
Assets	438,400	100,750	61,644	600,794
Liabilities	(271,707)	(3,521)	(13,923)	(289,151)
	166,693	97,229	47,721	311,643
As at March 31, 2022 (Unaudited)				
Assets	367,402	112,984	80,529	560,915
Liabilities	(246,979)	(85)	(18,280)	(265,344)
	120,423	112,899	62,249	295,571
As at December 31, 2022 (Audited)				
Assets	438,523	101,716	69,108	609,347
Liabilities	(274,628)	(4,269)	(14,484)	(293,381)
	163,895	97,447	54,624	315,966

13 - Subsequent events

(a) On April 20, 2023, a subsidiary of the Company entered into a new loan agreement with a banking corporation in connection with the financing and renovation of the Hyatt Regency Arcade Hotel in Cleveland. The new loan is a CMBS (commercial mortgage-backed security) loan that replaces a previous loan that was extended until June 15, 2023 and the balance of which is approximately US$15.8 million. The previous loan carried interest at BSBY plus 3.5% (i.e, an annual interest rate of approximately 8.44%), and for the extension period of approximately one month, an interest rate of BSBY plus 4.5% (i.e., an annual interest rate of approximately 9.44%). The new loan is in the amount of US$25.0 million for a period of 5 years at the end of which the loan principal will be repaid, at a fixed interest rate of 7.99%. A total of US $1.8 million of the new loan will be used to finance the Hotel's renovation, a total of US$15.8 million was used to repay the previous loan, US$2.3 million will be used for expenses of the transaction and tax and interest reserves related to the new loan, and the balance of approximately US$5.1 million will be used by the Company for general working capital purposes. The loan is paid in monthly interest payments. The principal will be paid at the end of the loan term.

There are no defaulting financial covenants, and no cross default provisions. The subsidiary needs to perform a quarterly assessment of debt service coverage ratio ("DSCR"), to be not be less than 1.4:1 – at closing based on the 12 months ending February 2023 the debt service coverage ratio was 1.75; violations of this financial obligation would result in the lender controlling the cash from the Hotel's operation to ensure all operating costs are paid including debt service until the ratio was back above 1.45:1.