**SKYLINE INVESTMENTS INC.**
**Condensed interim consolidated financial statements**
**for the period ended**
**June 30, 2023**
*(Unaudited)*

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**Condensed interim consolidated financial statements**
**for the period ended**
**June 30, 2023**
*(Unaudited)*

## Contents

**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 statements of financial position as of June 30, 2023, and the related condensed consolidated statements of income (loss), comprehensive income, changes in equity and cash flows for the periods of six and three months 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.

*Emphasis of matter*

Without qualifying our conclusion above, we refer the attention to Note 1b which details, among other, Company’s liabilities and cash flow needs, including obligation to repay bonds (series B) in July 2024 in the amount of $ 50 million Canadian Dollars, and management's and the board's plans. Based on the analysis of debt repayment dates made by the Company, the alternatives and available sources, the Company's board of directors and management are of the opinion that the Company will repay it’s liabilities when they come due.

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

**Haifa,**
**August 23, 2023.**

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**Beit Shemesh**
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**SKYLINE INVESTMENTS INC.**

**Condensed interim consolidated statements of financial position**

(in thousands of Canadian Dollars)

| | Note | As at June 30, 2023 (Unaudited) | As at June 30, 2022 (Unaudited) | As at December 31, 2022 (Audited) |
|---|---|---|---|---|
| **Current assets** | | | | |
| Cash and cash equivalents | | 13,692 | 40,607 | 19,503 |
| Trade receivables, other receivables and prepayments | | 20,433 | 16,727 | 20,695 |
| Inventories | | 722 | 767 | 1,102 |
| Real estate inventory | | 8,267 | 6,170 | 6,694 |
| Loans to purchasers | | 2,252 | 2,883 | 1,848 |
| Restricted bank deposits | | 1,960 | 3,215 | 1,618 |
| | | 47,326 | 70,369 | 51,460 |
| **Non-current assets** | | | | |
| Financial derivative | | 4,418 | — | 4,160 |
| Investment properties | 6 | 13,846 | 12,642 | 13,046 |
| Property, plant and equipment | 7 | 410,258 | 357,792 | 401,506 |
| Loans to purchasers | | 83,036 | 92,099 | 89,084 |
| Other non-current assets | | 2,794 | 13,710 | 3,238 |
| Other investments measured at fair value through profit or loss | | 32,700 | 26,140 | 36,880 |
| Restricted bank deposits | | 12,381 | 8,804 | 9,973 |
| | | 559,433 | 511,187 | 557,887 |
| **Total assets** | | **606,759** | **581,556** | **609,347** |
| **Current liabilities** | | | | |
| Loans payable | 8 | 6,186 | 51,210 | 26,786 |
| Bonds | | 3,743 | 3,633 | 3,828 |
| Trade payables | | 6,650 | 5,430 | 5,832 |
| Other payables and credit balances | | 37,014 | 21,252 | 22,427 |
| Deferred revenue | | 5,113 | 4,442 | 4,626 |
| | | 58,706 | 85,967 | 63,499 |
| **Non-current liabilities** | | | | |
| Loans payable | 8 | 196,569 | 124,505 | 167,402 |
| Bonds | | 39,692 | 42,332 | 42,474 |
| Other liabilities | | 2,489 | 133 | 2,648 |
| Deferred tax liabilities | | 14,234 | 19,027 | 17,358 |
| | | 252,984 | 185,997 | 229,882 |
| **Total liabilities** | | 311,690 | 271,964 | 293,381 |
| **Equity** | | | | |
| Equity attributable to shareholders of the Company | | 258,601 | 278,933 | 280,458 |
| Non-controlling interest | | 36,468 | 30,659 | 35,508 |
| | | 295,069 | 309,592 | 315,966 |
| **Total liabilities and equity** | | **606,759** | **581,556** | **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"* | August 23, 2023 |
|---|---|---|---|
| Shimshon Marfogel<br>Chairman | Blake Lyon<br>CEO | Neha Kapelus<br>VP Finance | Date |

# SKYLINE INVESTMENTS INC.

## Condensed interim consolidated statements of income (loss)

(in thousands of Canadian Dollars)

| | Note | Six Months Ended June 30, 2023 | Six Months Ended June 30, 2022 | Three Months Ended June 30, 2023 | Three Months Ended June 30, 2022 | Year Ended December 31, 2022 |
|---|---|---|---|---|---|---|
| | | *(Unaudited)* | *(Unaudited)* | *(Unaudited)* | *(Unaudited)* | *(Audited)* |
| **Revenue** | | | | | | |
| Income from hotels and resorts | 9 | 66,847 | 62,849 | 32,370 | 30,826 | 132,130 |
| Sale of residential real estate | | 4 | 1,321 | — | 1,054 | 1,570 |
| | | 66,851 | 64,170 | 32,370 | 31,880 | 133,700 |
| **Expenses and costs** | | | | | | |
| Operating expenses from hotels and resorts | | (56,478) | (49,353) | (27,830) | (25,541) | (104,595) |
| Cost of sales of residential real estate | | (22) | (1,414) | (10) | (1,097) | (1,033) |
| | | (56,500) | (50,767) | (27,840) | (26,638) | (105,628) |
| | | **10,351** | **13,403** | **4,530** | **5,242** | **28,072** |
| Selling and marketing expenses | | — | (78) | — | (53) | (80) |
| Administrative and general expenses | | (4,416) | (3,732) | (2,414) | (1,784) | (8,265) |
| **Operating income before depreciation, valuation adjustments and other income** | | **5,935** | **9,593** | **2,116** | **3,405** | **19,727** |
| Impairment of real estate properties | | (900) | — | — | — | — |
| Depreciation | | (7,598) | (6,883) | (3,767) | (3,441) | (14,409) |
| Gain from fair value adjustments of investment properties | | 1,013 | 533 | 983 | 533 | 497 |
| Gain (loss) from fair value adjustments of financial instruments, net | | (4,180) | (2,558) | (4,180) | (1,986) | 8,261 |
| Capital losses, net, and other gains (expenses), net | | (3,140) | (394) | (510) | (269) | (526) |
| **Net income (loss) from operations** | | **(8,870)** | **291** | **(5,358)** | **(1,758)** | **13,550** |
| Financial expense | 10 | (14,906) | (6,787) | (8,783) | (4,715) | (18,583) |
| Financial income | | 2,379 | 2,498 | 1,180 | 1,234 | 4,963 |
| **Net income (loss) before income taxes** | | **(21,397)** | **(3,998)** | **(12,961)** | **(5,239)** | **(70)** |
| Income tax recovery (expense) | 11 | 2,041 | (1,089) | 639 | (528) | (1,955) |
| **Net income (loss) for the period** | | **(19,356)** | **(5,087)** | **(12,322)** | **(5,767)** | **(2,025)** |
| **Attributable to:** | | | | | | |
| Shareholders of the Company | | (16,030) | (4,530) | (10,574) | (5,532) | (1,549) |
| Non-controlling interest | | (3,326) | (557) | (1,748) | (235) | (476) |
| | | (19,356) | (5,087) | (12,322) | (5,767) | (2,025) |
| **Earnings per share:** | | | | | | |
| Basic | | (0.97) | (0.27) | (0.64) | (0.33) | (0.09) |
| Diluted | | (0.97) | (0.27) | (0.64) | (0.33) | (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)

| | Six Months Ended June 30, | | Three Months Ended June 30, | | Year Ended December 31, |
|---|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 | 2022 |
| | *(Unaudited)* | *(Unaudited)* | *(Unaudited)* | *(Unaudited)* | *(Audited)* |
| **Net income (loss) for the period** | **(19,356)** | **(5,087)** | **(12,322)** | **(5,767)** | **(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 | (3,788) | 19,323 | (5,228) | 19,139 | 5,487 |
| Taxes income (expense) | 965 | (4,472) | 717 | (4,421) | (1,345) |
| | (2,823) | 14,851 | (4,511) | 14,718 | 4,142 |
| **Items that may be reclassified subsequently to net income (loss):** | | | | | |
| Exchange differences on translation of foreign operations | (4,708) | 2,787 | (4,530) | 5,117 | 13,005 |
| **Other comprehensive income for the period, net of taxes** | (7,531) | 17,638 | (9,041) | 19,835 | 17,147 |
| **Total comprehensive income (loss) for the period, net of taxes** | **(26,887)** | **12,551** | **(21,363)** | **14,068** | **15,122** |
| **Attributable to:** | | | | | |
| Shareholders of the Company | (21,863) | 13,098 | (16,927) | 13,980 | 14,610 |
| Non-controlling interest | (5,024) | (547) | (4,436) | 88 | 512 |
| | **(26,887)** | **12,551** | **(21,363)** | **14,068** | **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 six months ended June 30, 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 | — | — | — | — | — | — | (16,030) | (16,030) | (3,326) | (19,356) |
| Other comprehensive income (loss) for the period | — | — | — | (1,757) | — | (4,076) | — | (5,833) | (1,698) | (7,531) |
| Total comprehensive income (loss) for the period | — | — | — | (1,757) | — | (4,076) | (16,030) | (21,863) | (5,024) | (26,887) |
| Transfer upon recognition of depreciation | — | — | — | (627) | — | — | 627 | — | — | — |
| Contribution from non-controlling shareholders | — | — | — | — | — | — | — | — | 5,984 | 5,984 |
| Recognition of share-based payment | — | — | — | — | 6 | — | — | 6 | — | 6 |
| Transfer upon expiration and exercise | 321 | — | — | — | (321) | — | — | — | — | — |
| Balance at the end of the period | 80,188 | (433) | 125 | 42,782 | 391 | 8,377 | 127,171 | 258,601 | 36,468 | 295,069 |
| **For the six months ended June 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 income (loss) for the period | — | — | — | — | — | — | (4,530) | (4,530) | (557) | (5,087) |
| Other comprehensive income (loss) for the period | — | — | — | 15,135 | — | 2,493 | — | 17,628 | 10 | 17,638 |
| Total comprehensive income (loss) for the period | — | — | — | 15,135 | — | 2,493 | (4,530) | 13,098 | (547) | 12,551 |
| Transfer upon recognition of depreciation | — | — | — | (634) | — | — | 634 | — | — | — |
| Contribution from non-controlling shareholders | — | — | — | — | — | — | — | — | 379 | 379 |
| Repurchase of shares | — | (433) | — | — | — | — | — | (433) | — | (433) |
| Recognition of share-based payment | — | — | — | — | 19 | — | — | 19 | — | 19 |
| Balance at the end of the period | 79,867 | (433) | 125 | 56,690 | 693 | 3,206 | 138,785 | 278,933 | 30,659 | 309,592 |

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 June 30, 2023 (Unaudited)** | | | | | | | | | | |
| Balance at the beginning of the period | 80,188 | (433) | 125 | 45,487 | 388 | 12,301 | 137,469 | 275,525 | 36,118 | 311,643 |
| Net loss for the period | — | — | — | — | — | — | (10,574) | (10,574) | (1,748) | (12,322) |
| Other comprehensive income for the period | — | — | — | (2,429) | — | (3,924) | — | (6,353) | (2,688) | (9,041) |
| Total comprehensive income (loss) for the period | — | — | — | (2,429) | — | (3,924) | (10,574) | (16,927) | (4,436) | (21,363) |
| Transfer upon recognition of depreciation | — | — | — | (276) | — | — | 276 | — | — | — |
| Contribution from non-controlling shareholders | — | — | — | — | — | — | — | — | 4,786 | 4,786 |
| Recognition of share-based payment | — | — | — | — | 3 | — | — | 3 | — | 3 |
| Balance at the end of the period | 80,188 | (433) | 125 | 42,782 | 391 | 8,377 | 127,171 | 258,601 | 36,468 | 295,069 |
| **For the three months ended June 30, 2022 (Unaudited)** | | | | | | | | | | |
| Balance at the beginning of the period | 79,867 | — | 125 | 42,041 | 686 | (1,342) | 144,002 | 265,379 | 30,192 | 295,571 |
| Net income for the period | — | — | — | — | — | — | (5,532) | (5,532) | (235) | (5,767) |
| Other comprehensive income (loss) for the period | — | — | — | 14,964 | — | 4,548 | — | 19,512 | 323 | 19,835 |
| Total comprehensive income for the period | — | — | — | 14,964 | — | 4,548 | (5,532) | 13,980 | 88 | 14,068 |
| Transfer upon recognition of depreciation | — | — | — | (315) | — | — | 315 | — | — | — |
| Contribution from non-controlling shareholders | — | — | — | — | — | — | — | — | 379 | 379 |
| Repurchase of shares | — | (433) | — | — | — | — | — | (433) | — | (433) |
| Recognition of share-based payment | — | — | — | — | 7 | — | — | 7 | — | 7 |
| Balance at the end of the period | 79,867 | (433) | 125 | 56,690 | 693 | 3,206 | 138,785 | 278,933 | 30,659 | 309,592 |
| **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)

| | Six Months Ended June 30, | | Three Months Ended June 30, | | Year ended December 31, |
|---|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 | 2022 |
| | *(Unaudited)* | *(Unaudited)* | *(Unaudited)* | *(Unaudited)* | *(Audited)* |
| **Operating activities** | | | | | |
| Net income (loss) for the period | (19,356) | (5,087) | (12,322) | (5,767) | (2,025) |
| Adjustments for: | | | | | |
| Depreciation and amortization | 9,563 | 7,249 | 4,127 | 3,670 | 15,353 |
| (Gain) loss from fair value adjustments on investment properties and financial instruments | 3,167 | 2,025 | 3,197 | 1,453 | (8,758) |
| Capital loss, net | 3,964 | — | — | — | 4 |
| Finance costs from bonds including foreign exchar | (898) | 726 | (257) | 2,197 | 3,083 |
| Finance (income) costs from financial derivative | (341) | — | (821) | — | 396 |
| Deferred tax, net | (1,914) | (1,008) | (485) | (1,432) | (353) |
| Share based compensation | 6 | ** 19 | 3 | ** 7 | ** 32 |
| *Changes in non-cash working capital* | | | | | |
| Trade receivables, other receivables, prepayments and others | 4,015 | (1,121) | 4,821 | 30 | 6,455 |
| Inventories | 362 | 228 | 62 | 229 | (65) |
| Real estate Inventory | (1,633) | 864 | (1,133) | 679 | 340 |
| Trade and other payables and credit balances | 1,854 | ** (7,342) | 3,000 | ** 807 | ** (4,031) |
| Income taxes payable | 313 | 2,099 | 347 | 1,960 | 1,713 |
| Cash provided by (used in) operating activities | (898) | * (1,348) | 539 | * 3,833 | 12,144 |

** Reclassified.

| | | | | | |
|---|---|---|---|---|---|
| **Investing activities** | | | | | |
| Additions to investment properties | — | — | — | — | (4) |
| Release from (Investment in) restricted deposit | (2,949) | * 5,577 | (3,271) | * 3,325 | 7,699 |
| Additions to property, plant and equipment | (18,244) | (11,577) | (14,242) | (7,339) | (56,066) |
| Income taxes | — | (7,762) | — | (685) | (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 | (21,193) | (13,762) | (17,513) | (4,699) | (57,521) |
| **Financing activities** | | | | | |
| Bank credit and other short-term loans | 1,602 | 1,812 | 196 | 1,812 | 3,539 |
| Repayment of bonds | (2,039) | (1,904) | — | — | (3,897) |
| Proceeds from long term loans | 33,117 | 123,763 | 32,806 | 121,429 | 132,063 |
| Repayments of long term loans | (22,257) | (129,484) | (21,616) | (126,431) | (132,949) |
| Repurchase of shares | — | (433) | — | (433) | (433) |
| Contribution from non-controlling shareholders | 5,984 | 379 | 4,786 | 379 | 4,169 |
| Cash provided by (used in) financing activities | 16,407 | (5,867) | 16,172 | (3,244) | 2,492 |
| **Foreign exchange translation of cash balances** | (127) | 95 | (118) | 272 | 899 |
| **Net decrease in cash and cash equivalents** | (5,811) | (20,882) | (920) | (3,838) | (41,986) |
| Cash and cash equivalents at beginning of period | 19,503 | 61,489 | 14,612 | 44,445 | 61,489 |
| **Cash and cash equivalents at end of period** | 13,692 | 40,607 | 13,692 | 40,607 | 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)

| | Six Months Ended June 30, | | Three Months Ended June 30, | | Year ended December 31, |
|---|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 | 2022 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Audited) |
| **Supplemental cash flow information** | | | | | |
| Interest paid | 10,309 | 5,187 | 4,836 | 1,916 | 12,990 |
| Interest received | 931 | 922 | 347 | 412 | 2,815 |
| Income taxes paid (received) | (445) | 7,762 | (447) | 685 | 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.

## 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 June 30, 2023, the Company is 52.75% owned by its controlling shareholder, Mishorim Real Estate Investments Ltd (“Mishorim”) and 25.69% 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) The Company’s Financial Position

The Company has an upcoming maturity of its Debentures (Series B) in July 2024, in the amount of approximately $50 million including the expansion of the Series that was completed in July 2023 (See Note 15(a) for details). The Company realistically needs to sell one or more assets in order to pay the Debentures (Series B) at maturity.

The company has negative working capital of $11.4 million. The Company is in the process of renovating several of its hotels (the Cleveland Renaissance Hotel and four of its Courtyard by Marriott Hotels). Renovations are in progress and the Company is engaged with contractors. For their completion, the renovations require significant investment of cash in the upcoming year, while as at this date such investment is not yet fully funded. (See Note 15 (e) for updates on loan agreements related to the Cleveland Renaissance Hotel). It is noted that the Company is a guarantor under certain existing loan agreements and the related guarantor covenants set in under the guarantor agreements require the company to maintain liquidity of CA$12.5 million.

The main sources of cash to meet obligations, according to company’s plans are:

1) Sale of Bear Valley Ski Resort, valued at $24.7 million as at June 30, 2023; with outstanding lease and Vendor Take Back loan liabilities of $5.4 million. The Company is in negotiations with a potential buyer of the property that are not yet firm or binding. The company anticipates cash proceeds of $10 million from the sale, net of discharging debts and approximate taxes, before the repayment date of the bonds. A portion of the sales proceeds are expected to be received after repayment of the Bonds and may be contingent on the Resort’s future performance.

2) Sale of the Hyatt Regency Arcade, valued in the Company’s books at $71.7 million as at June 30, 2023; with outstanding debt of $31.4 million (LTV of 44%) on the property. The Company is engaged with a broker for marketing the property.

3) Contractually scheduled Bridge loan and VTB repayments of principal and interest by Resort Communities Limited Partnership (“RCLP”, the “Freed Transaction”, the “Partnership”), of approximately $10 million Bridge Loan repayments in December 2023 and $15 million of from the VTBs in April 2024. In this regard, see Note 1(c) which outlines developments with Company’s investment in RCLP and related uncertainties which might have an effect on collectability (in terms of timing or amounts) of such loans. While these contractual inflows represent one of the sources of bonds repayment, based on Management and Board of Directors analyses, the Company has other alternatives, such as selling additional assets that are not part of its strategy, or raising debt on unencumbered assets.

Based on analyses of Management and the Company’s Board of Directors, the Company has several options for how it will pay the Debentures (Series B)debt when it is due in July 2024. Based on analyses of Management and the Company’s Board of Directors, the Company will meet all of its financial obligations in the foreseeable future when they come due.

(c) Update on Investment in Resort Communities Limited Partnership

The Company has an investment in Resort Communities Limited Partnership (“RCLP”, the “Freed Transaction”, “the Partnership”), and has provided loans to the Partnership as follows (See Notes 4 and 5 for further detail):

- Equity investment in the Partnership, $32.7 million recorded in the Company’s Consolidated Financial Statements under other investments measured at fair value through profit or loss

- Vendor-take-back mortgages (“VTB”) of $62.7 million included under financial assets as loans to purchasers; including principal and accrued interest

- Bridge Loan of $9.5 million included in Other Receivables; including principal and accrued interest

The Company notes that following the reporting period, RCLP shared audited December 31, 2022 financial statements wherein the report of the external auditors, dated August 04, 2023, drew attention to material uncertainty around RCLP’s ability to continue operating as a going concern. Attention was drawn to short-term debt obligations of the Partnership due in December 2023, and the breach of a loan agreement due to not making scheduled repayments during 2022, resulting in cross covenant violations on other loans. The Partnership financial statements further note that, subsequent to December 31 2022 year-end, the Partnership made payments to satisfy the scheduled repayments that were due in 2022. Further, the Partnership has been in discussions with their existing lender to extend or refinance their debt that is due in December 2023, but there is no certainty that these plans will come to fruition or be refinanced under similar terms as the existing debt.

The Company’s Equity Investment is treated as a financial instrument measured at fair value through profit and loss. The Company engaged an external business valuator to calculate the fair value of the Company’s Equity Investment in RCLP as at June 30, 2023, considering all information available at the reporting date. The independent expert determined the fair value to be $32.7 million; a decrease of $4.2 million compared to a fair value of $36.9 million as at December 31, 2022, which was the date of the previous external fair value assessment. Fair value was based on applying the net asset value approach to RCLP’s unaudited balance sheet as at June 30, 2023, adjusted for other considerations that an arms’ length purchaser would apply, such as a discount to reflect the Company’s position as a minority stakeholder in a limited partnership. The approach included analysis of the third-party valuation reports of RCLP's real estate and hospitality properties, which were all completed within the last 12 months, and support the fair value conclusion.

The VTB loans and Bridge Loan related to RCLP are debt instruments carried on the balance sheet at amortized cost under IFRS 9. The Company engaged the same independent business valuator to opine on the carrying value as well as fair value of the VTBs with the Partnership, and agrees with their conclusions. The Expected Credit Losses (“ECL”) under IFRS 9 were determined by the independent expert to be $5.2 million. The RCLP balance sheet is supported by independently prepared asset appraisals for the Partnership’s assets as at December 31, 2022. These assets constitute the collateral for all the debt arrangements of the Partnership towards the Company. The fair value of the assets is well in excess of any liabilities, including any costs that may be incurred on disposition. This low loan to value (“LTV”) combined with legal rights available to the Company both contractually and under Common Law in Ontario as second mortgagor (behind the senior lender as first mortgagor), support the position that even in the event of default, the Company would recover the value of its Exposure at Default (“EAD”), the carrying value of $62.7 million at June 30, 2023. However, in the event of a default, there may be delays in the collection of contractual cash flows even if the full principal outstanding is eventually collected. This delay leads to the ECL conclusion of $5.2 million against the VTBs, the corresponding provision for which was recorded under financial expenses in the Company’s current period earnings. There was no ECL recorded on the Bridge Loan, and the Company expects to recover the full value of principal and accrued interest in December 2023. The Company has no expectation of loss in the event of default on the Bridge Loan due to the underlying additional security and contractually available remedies, as the Bridge Loan is secured by Freed’s 71% interest in the Partnership. It is further noted that the equity in RCLP would have to be fully depleted before any discount may be applied to the debt holders.

To the best knowledge of the Company, the general partner who also holds approximately 71% in the Partnership’s equity, Freed Corporation (“Freed”) is working with one of the Partnership's current lenders, to refinance all short-term maturities.

(in thousands of Canadian Dollars)

The Company has engaged in conversations wherein Freed has offered to purchase all or part of the Company's interests in the Partnership at a discount, which would potentially allow the Company to generate additional liquidity. There is no certainty that the parties will reach an agreement, and even if they will, the closing of such transaction(s) would occur only several months later.

Further, the company has been informed by Freed that Freed contributed $9.1 million into RCLP during 2023. The company has not received formal detail of the form of this contribution, whether it will eventually be treated as equity or a loan from Freed, and as such cannot confirm whether its 29% equity interest the Partnership has been diluted or not. Such dilution would likely result in an approximate 2% reduction, leading to the Company holding a 27% equity interest in RCLP. All reporting as at June 30th 2023 is based on a 29% equity holding.

## 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 August 21, 2023.

(b) Significant estimates, assumptions, and judgements

For information regarding Management's significant assumptions and estimates, please refer to note 7.

(c) Foreign currency

| | As at | | | | |
|---|---|---|---|---|---|
| | June 30, | | March 31, | | December 31, |
| | 2023 | 2022 | 2023 | 2022 | 2022 |
| Exchange rates - ending rate: | | | | | |
| USD / CAD | 1.324 | 1.289 | 1.353 | 1.250 | 1.354 |
| CAD / NIS | 2.790 | 2.708 | 2.667 | 2.536 | 2.597 |

| | Six Months Ended June 30, | | Three Months Ended June 30, | | Year Ended December 31, |
|---|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 | 2022 |
| Exchange rates - average rate: | | | | | |
| USD / CAD | 1.348 | 1.272 | 1.343 | 1.277 | 1.301 |
| CAD / NIS | 2.665 | 2.573 | 2.719 | 2.621 | 2.581 |
| Change in rate - compared to prior period ended: | | | | | |
| USD / CAD | (2.2%) | 1.6% | (2.2%) | 3.1% | 6.8% |
| CAD / NIS | 7.4% | 10.9% | 4.6% | 6.8% | 6.3% |

(d) Immaterial adjustment

The comparative figures as for the six and the three months ended on June 30, 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:

(in thousands of Canadian Dollars)

**Condensed interim consolidated statements of cash flows**

| | Six Months Ended June 30, 2022 | | |
|---|---|---|---|
| | As reported in the past | Effect of the change | As currently reported |
| Cash provided by operating activities | 179 | (1,527) | (1,348) |
| Cash used in investing activities | (15,289) | 1,527 | (13,762) |

| | Three Months Ended June 30, 2022 | | |
|---|---|---|---|
| | As reported in the past | Effect of the change | As currently reported |
| Cash provided by operating activities | 3,618 | 215 | 3,833 |
| Cash used in investing activities | (4,484) | (215) | (4,699) |

## 3 - Seasonality and other disclosures

Due to the seasonal nature of the Company's hotels and resorts, revenues of some assets are typically higher in the winter months, whereas some are higher in the 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. Please refer to Note 9 for details, noting the seasonality of ski revenue in particular.

## 4 - Freed Transaction

On December 6, 2021, Skyline closed agreements (the “Freed Transaction”) for the sale of a 100% interest in the resort assets and surrounding development lands at Deerhurst and Horseshoe, as well as the remaining development lands at Blue Mountain Resort (“Blue Mountain”) (collectively, the “Assets”), for an aggregate purchase price of $210 million, subject to standard working capital adjustments on closing, to Freed Corporation (“Freed”). Freed, through a newly formed subsidiary, Resort Communities LP ("RCLP") combined the Assets with Muskoka Bay Resort ("Muskoka Bay"), an asset previously owned by Freed and its partners, at an agreed value of $90 million. On closing in 2021, the Company recorded approximately $104 million in net cash inflows from investing activities in its statement of cash flows, as well as the VTB, the Bridge Loan, and the Equity Investment (all as defined below).

The value of real estate assets sold to Resort LP on the closing date was as follows:

| | Canadian hotels and resorts | Development | Total |
|---|---|---|---|
| Real estate inventory | — | 7,518 | 7,518 |
| Investment properties | — | 80,225 | 80,225 |
| Property, plant and equipment | 111,630 | — | 111,630 |
| | 111,630 | 87,743 | 199,373 |

*Vendor Take Back Mortgage*

As part of the Freed Transaction, Skyline provided a secured vendor-take back mortgage loan (“VTB”) in the amount of $59.98 million, bearing annual interest at 5%. Interest is accrued and paid monthly, with the exception of interest related to Deerhurst, which is accrued monthly and will be paid in early 2024 on the 28th month after closing in conjunction with the first scheduled principal repayment, and will be paid monthly thereafter. The principal portion of the VTB will be repaid over four years based on the following schedule:

- $10 million due in April 2024;
- $25 million in June 2025; and
- $25 million in December 2025.

(in thousands of Canadian Dollars)

The VTB is prepayable by RCLP at any time prior to maturity without penalty, and is secured by the underlying assets. As at June 30th 2023, the Freed Vendor-take-back mortgages ("VTB") have a gross balance of $62.7 million including principal and accrued interest, and are included under financial assets as loans to purchasers. Expected credit losses of $5.2 million were booked against this VTB receivable, with the provision for credit losses being recorded under financial expenses for the current period.

*Bridge Loan*

Skyline provided a two-year bridge loan (the "Bridge Loan") to RCLP in the amount of $8 million, which has a guarantee from both Freed and Freed's RCLP holding entity (the 71% owner of RCLP) through a pledge of their interest in RCLP, which is accruing interest at 12% until it is repaid. The Bridge Loan is prepayable at any time prior to maturity without penalty. As at June 30th 2023, the Freed Bridge loan has a balance of $9.5 million including principal and accrued interest, and is included under Other Receivables.

*Equity Investment and Purchase Option*

Skyline holds 29% of the Limited Partnership units in RCLP (the "Equity Investment"), with a fair value at inception of $28.81 million, and certain protective rights laid out in the partnership agreement, including the right to approve certain decisions such as the issuance of additional equity, or issuance of debt above certain amounts. Freed or its affiliates operate and manage the RCLP assets as General Partner, in return for fees set out in the purchase and sale agreements.

Freed had an option until December 31, 2022, to purchase Skyline's Equity Investment for $32.717 million along with a 12% annualized return on this amount in cash (the "Purchase Option"). On December 31, 2022, the option expired without being exercised. Skyline has a put option, and Freed has a call option, for 50% of Skyline's 29% equity, at the end of each of years four and five after the closing of the transaction (i.e., December 10, 2025 and December 10, 2026), based on fair market value at that time, based on a valuation mechanism set out in the agreements (up to 50% of the 29% at the end of year four and up to an additional 50% of the 29% at the end of year five).

The Company's Equity Investment is treated as a financial instrument measured at fair value through profit and loss, with fair value determined to be $32.7 million; a decrease of $4.2 million compared to a fair value of $36.9 million as at December 31, 2022.

Please refer to Note 1(c) for further discussion around the Company's investment in the Partnership.

## 5 - 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 | | |
|---|---|---|---|---|---|---|
| | June 30, | | December 31, | June 30, | | December 31, |
| | 2023 | 2022 | 2022 | 2023 | 2022 | 2022 |
| **Financial assets** | | | | | | |
| Loans to purchasers | 84,231 | 84,687 | 84,442 | 85,288 | 94,982 | 90,932 |
| **Financial liabilities** | | | | | | |
| Bonds | 43,213 | 47,103 | 46,418 | 44,726 | 47,299 | 47,664 |
| Loans payable | 204,753 | 174,781 | 202,024 | 202,755 | 175,715 | 194,188 |

(b) The fair value of financial assets includes loans to purchasers as vendor-take-back mortgages ("VTB"), including the VTBs as part of the Freed Transaction. Fair value has been determined by calculating the present value of the asset as at the reporting date, including considerations for changes in the counterparty risk of the underlying borrower. This analysis on the Freed VTBs was conducted by an independent business valuator engaged by the Company, based on the best information available to the Company as at the reporting date. The Company used consistent methodology to assess the fair value of its other VTB loans.

(in thousands of Canadian Dollars)

(c) 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.

(d) 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.

(e) 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.

(f) The deed of trust states that the Company is required to maintain minimum equity excluding non-controlling interests of $130,000, and a minimum equity to asset value ratio (excluding minority interests) of 26%. As at June 30, 2022, the Company complies with these covenants per the deed of trust.

## 6 - Investment properties

| | Six Months Ended June 30, 2023 | Six Months Ended June 30, 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 | 1,013 | 533 | 497 |
| Foreign exchange translation | (213) | 138 | 574 |
| Balance as at the end of the period | 13,846 | 12,642 | 13,046 |

## 7 - Property, plant and equipment

| | Six Months Ended June 30, 2023 | Six Months Ended June 30, 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 | 18,244 | 11,577 | 39,785 |
| Net adjustment to fair value through revaluation surplus | (3,788) | 19,323 | 5,487 |
| Transfers from other receivables and other payables * | 15,851 | — | — |
| Right-of-use assets and lease liabilities | — | — | 1,447 |
| Disposals | (3,964) | — | (16) |
| Depreciation and impairment | (8,498) | (6,883) | (14,409) |
| Foreign exchange translation | (9,093) | 5,385 | 24,541 |
| Balance as at the end of the period | 410,258 | 357,792 | 401,506 |

* Includes $14.5 million related to expenditures subsequent to acquisition that have not yet been paid.

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.

In the current reporting period, certain assets were revalued by independent appraisers. For assets where independent third-party valuation was not performed, the Company undertook 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 applied the inputs mentioned above in a discounted cash flow analysis over ten years to determine if there is any required revaluation at the reporting date.

(in thousands of Canadian Dollars)

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 June 30, 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 8.50% and 12.75%, terminal capitalization rates ranged between 8.0% and 12.0%.

As at June 30, 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 $6,196. As at June 30, 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 $7,070.

## 8 - Loans payable

| | Six Months Ended June 30, 2023 | Six Months Ended June 30, 2022 | Year Ended December 31, 2022 |
|---|---|---|---|
| Balance as at the beginning of the period | 194,188 | 176,555 | 176,555 |
| Proceeds from long term loans | 33,117 | 123,763 | 132,063 |
| Repayments of long term loans | (22,257) | (129,484) | (132,949) |
| Change in bank credit and other short-term loans | 1,602 | 1,812 | 3,539 |
| Right-of-use assets and lease liabilities | (60) | — | 1,447 |
| Transfers to (from) other non-current assets and other | (422) | (17) | 521 |
| Amortization of deferred financing charges | 1,065 | 365 | 944 |
| Foreign exchange translation | (4,478) | 2,721 | 12,068 |
| Balance as at the end of the period | 202,755 | 175,715 | 194,188 |

## 9 - Income from hotels and resorts

| | Six Months Ended June 30, 2023 | Six Months Ended June 30, 2022 | Three Months Ended June 30, 2023 | Three Months Ended June 30, 2022 | Year Ended December 31, 2022 |
|---|---|---|---|---|---|
| Room revenue | 48,883 | 43,074 | 26,568 | 23,562 | 95,595 |
| Food & beverage revenue | 6,138 | 7,758 | 3,120 | 4,869 | 16,471 |
| Ski revenue | 8,709 | 7,826 | 1,252 | 699 | 10,299 |
| Other hospitality revenue | 3,117 | 4,191 | 1,430 | 1,696 | 9,765 |
| | 66,847 | 62,849 | 32,370 | 30,826 | 132,130 |

## 10 - Financial expense

| | Six Months Ended June 30, 2023 | Six Months Ended June 30, 2022 | Three Months Ended June 30, 2023 | Three Months Ended June 30, 2022 | Year Ended December 31, 2022 |
|---|---|---|---|---|---|
| Interest on loans and leases | (8,006) | (4,168) | (3,373) | (2,189) | (11,517) |
| Interest on bonds | (1,421) | (1,402) | (714) | (749) | (2,915) |
| Foreign exchange revaluation of bonds gain (loss) | 980 | (668) | 972 | (1,448) | (2,863) |
| Amortization of deferred financing charges | (1,065) | (365) | (360) | (228) | (944) |
| Provision for credit losses | (5,231) | — | (5,231) | — | — |
| Bank charges | (163) | (184) | (77) | (101) | (344) |
| | (14,906) | (6,787) | (8,783) | (4,715) | (18,583) |

(in thousands of Canadian Dollars)

## 11 - Income tax recovery (expenses)

| | Six Months Ended June 30, 2023 | Six Months Ended June 30, 2022 | Three Months Ended June 30, 2023 | Three Months Ended June 30, 2022 | Year Ended December 31, 2022 |
|---|---|---|---|---|---|
| Current income tax recovery (expense) | 166 | (144) | 171 | (26) | (28) |
| Prior year income tax expense | (39) | (1,953) | (17) | (1,934) | (2,280) |
| Deferred income tax recovery (expense) | 1,914 | 1,008 | 485 | 1,432 | 353 |
| | 2,041 | (1,089) | 639 | (528) | (1,955) |

## 12 - 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 donor). As at June 30, 2023, the Company has accrued a contingent donation liability of $1 million, based on the Company's best current estimate of amounts that may be donated in the absence of another donor.

(b) 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 1.40 to 1.00 – 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 to 1.00. The DSCR based on the 12 months ending June 30, 2023 was 1.55.

(c) As of March 30, 2023 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 approximately 50% of the rooms taken offline for all of 2023. The fair value of the property is US$ 70 million. The total outstanding value of the loan as at June 30, 2023 is US $20.1 million. The subsidiary has the contractual right to cure the breach by depositing approximately US$ 2 million (of which 50% is payable by minority interests) into a restricted cash account with the lender. After the reporting period, the lender removed all DSCR covenant requirements from this loan until the third quarter of 2024 (See note 15(e) for more details about the amendment to the loan agreement signed on August 15, 2023).

(d) On May 31, 2023, following discussions with the Debentures (Series B) Trustee, and pursuant to Section 5.4 of the Deed of Trust for the Debentures (Series B) of the Company dated September 24, 2017 (the "Deed of Trust"), the Company announced as follows: Based on the Company's reviewed financial statements as of March 31, 2023, published on May 14, 2023 (the "Deviation Date"), the Operating EBITDA (as defined in Section 1.5.31 of the Deed of Trust) for the last four quarters preceding the date of the last financial statements, was CA$ 13.72 million.

(in thousands of Canadian Dollars)

Pursuant to Section 5.4 of the Deed of Trust, if Operating EBITDA during the last four quarters preceding the review date falls below CA $18.0 million, the stated interest rate will increase by 0.25% per year. The exact annual interest rate borne by principal of the Debentures for the current interest period, from January 16, 2023 and until the Deviation Date, is 5.65% (the "Original Interest"). The annual interest rate to be paid for the balance of the principal of the Debentures for the period commencing on the Deviation Date and ending on the next interest payment date (July 15, 2023) (the "upcoming interest payment date") is 5.9%. The weighted interest rate to be paid on the next interest payment date is 2.87%. The annual interest rate reflected by the weighted interest rate is 5.74%. The annual and semi-annual interest rates to be paid for the Debentures for the next periods (from and after July 16, 2023) will be 5.9% and 2.95%, respectively. As at June 30, 2023, the total unpaid principal balance of the bonds is CA$ 43.9 million; the four-quarter trailing Operating EBITDA is $13.72 million. The Company's also has a requirement to have Consolidated Equity (excluding minority interests) of not less than CA$130 million, as at June 30, 2023, the balance is CA $263 million and the Company is in compliance with this covenant.

(e) On June 5, 2023, the General Meeting of Shareholders of the Company approved an amendment to the Compensation Policy of the Company and an update to the terms of office and employment of the Company’s CEO. There was a reduction to the CEO’s base salary, and bonus for the 2023 fiscal year will be based on Board approved sales and purchases of assets rather than operating results. The CEO is entitled to certain provisions for departure benefits available after March 31, 2024. The financial statements have appropriate accruals for any liabilities related to all employee compensation and benefits.

## 13 - 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.

## 14 - 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. while also considering sales of non-core assets including its seasonal resorts and full-service hotels.

*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.

(in thousands of Canadian Dollars)

(b) Segmented financial information:

| | US hotels and resorts | Canadian hotels and resorts | Development | Total |
|---|---|---|---|---|
| **For the six months ended June 30, 2023 (Unaudited)** | | | | |
| Revenue | 66,807 | 40 | 4 | 66,851 |
| Costs and expenses | (56,466) | (12) | (22) | (56,500) |
| | 10,341 | 28 | (18) | 10,351 |
| Administrative and general expenses | | | | (4,416) |
| Impairment of real estate properties | | | | (900) |
| Depreciation | | | | (7,598) |
| Loss from fair value adjustments | | | | (3,167) |
| Capital losses, net, and other gains (expenses), net | | | | (3,140) |
| Financial expense | | | | (14,906) |
| Financial income | | | | 2,379 |
| Net loss before income taxes | | | | (21,397) |
| **For the six months ended June 30, 2022 (Unaudited)** | | | | |
| Revenue | 62,379 | 470 | 1,321 | 64,170 |
| Costs and expenses | (49,321) | (32) | (1,414) | (50,767) |
| | 13,058 | 438 | (93) | 13,403 |
| Selling and marketing expenses | | | | (78) |
| Administrative and general expenses | | | | (3,732) |
| Depreciation | | | | (6,883) |
| Loss from fair value adjustments | | | | (2,025) |
| Capital losses, net, and other gains (expenses), net | | | | (394) |
| Financial expense | | | | (6,787) |
| Financial income | | | | 2,498 |
| Net loss before income taxes | | | | (3,998) |
| **For the three months ended June 30, 2023 (Unaudited)** | | | | |
| Revenue | 32,350 | 20 | — | 32,370 |
| Costs and expenses | (27,830) | — | (10) | (27,840) |
| | 4,520 | 20 | (10) | 4,530 |
| Administrative and general expenses | | | | (2,414) |
| Depreciation | | | | (3,767) |
| Loss from fair value adjustments | | | | (3,197) |
| Capital losses, net, and other gains (expenses), net | | | | (510) |
| Financial expense | | | | (8,783) |
| Financial income | | | | 1,180 |
| Net loss before income taxes | | | | (12,961) |
| **For the three months ended June 30, 2022 (Unaudited)** | | | | |
| Revenue | 30,662 | 164 | 1,054 | 31,880 |
| Costs and expenses | (25,536) | (5) | (1,097) | (26,638) |
| | 5,126 | 159 | (43) | 5,242 |
| Selling and marketing expenses | | | | (53) |
| Administrative and general expenses | | | | (1,784) |
| Depreciation | | | | (3,441) |
| Loss from fair value adjustments | | | | (1,453) |
| Capital losses, net, and other gains (expenses), net | | | | (269) |
| Financial expense | | | | (4,715) |
| Financial income | | | | 1,234 |
| Net loss before income taxes | | | | (5,239) |

(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 gains (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 June 30, 2023 (Unaudited)** | | | | |
| Assets * | 451,178 | 94,479 | 61,102 | 606,759 |
| Liabilities | (292,693) | (5,260) | (13,737) | (311,690) |
| | 158,485 | 89,219 | 47,365 | 295,069 |
| **As at June 30, 2022 (Unaudited)** | | | | |
| Assets * | 400,979 | 101,296 | 79,281 | 581,556 |
| Liabilities | (256,521) | (507) | (14,936) | (271,964) |
| | 144,458 | 100,789 | 64,345 | 309,592 |
| **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 |

* Includes investment in Freed equity and loans, refer to Note 4 for further detail.

## 15 - Subsequent events

(a) On July 11, 2023, Midroog Ltd. changed the rating outlook on the Company's Series B Bonds from "Stable" to "Negative". On July 16 2023, the Company completed a private bonds placement to institutional investors. The Company issued 29,600,000 bond units by extending the original debentures (Series B) at a determined interest rate of 7.39% (fixed) and raised 29,008,000 New Israeli Shekels (raise with a discount), net of fees (approximately CA$ 10.4 million). The bonds issued are subject to the same covenants as the originally issued Series B and it will be repaid accordingly.

(b) On July 25, 2023, the Company opened a US $3 million line of credit with a banking corporation, secured directly by the Company's Courtyard Deerfield hotel, and guaranteed by the Company. The line may be drawn as needed, and is intended for general working capital purposes. The loan term is 24 months when funded, with an interest rate of Wall Street Journal Prime rate + 1.00% (as at June 30th, this would have been 8.25%+1.00% for a total rate of 9.25%), and a non-usage fee of 0.25% on the unadvanced portion of the line of credit, paid annually. The loan has a funded balance debt service covenant ratio ("DSCR") of 1.30:1, to be tested annually commencing as of December 31, 2023.

(c) On August 4, 2023, the Company received audited financial statements of Resort Communities LP Partnership (the "Partnership") as of December 31, 2022, in which the Company holds a 29% limited partner interest together with Freed Corporation ("Freed") which holds 71% in the Partnership and also serves as the general partner, and in these reports the auditors included drawing attention to what is stated in the Note to the Partnership's financial statements regarding the existence of material uncertainty that may indicate significant doubt on the Partnership's ability to continue operating as a going concern. For additional information, see Notes 1(c) and 4.

(d) The Company’s Compensation Committee approved on August 11, 2023 a transaction to purchase D&O insurance policy, including officers who are the controlling shareholder and/or their relatives, for a period of one year commencing on August 14, 2023. The terms of the policy are as follows: insurance coverage in the amount of up to US $20 million per case and for period; the annual premium amount paid by the Company is a total of approximately US $244,000 including Tax as will be required; and the Company's deductible for claims filed against it in all the world will be US $35,000, except claims filed against it in the US in which the deductible will be US $75,000. The deductibles in claims against the Company anywhere in the world, regarding violation of securities laws (except in the USA) will be US $100,000 and no coverage for USA. Officers will have no deductibles.

(e) On August 15, 2023, an amendment was signed to the loan agreement for the renovation and upgrade of the Renaissance Hotel so that the amount of the renovation loan will be US $27.37 million (US $16.62 million original amount, and an additional US $10.75 million) to be drawn as needed. The interest rate for the renovation loan will be an annual SOFR interest rate (which as of August 15, 2023, is 5.30%) plus 4.30%, which will be reduced to an additional 3.50% if the borrower meets a coverage ratio not less than 1.4%. Repayment for the existing loans remains unchanged, whereas the additional loan of US 10.75 million will commence amortization in November 2025 based on a 10-year period. The Company's subsidiary undertook to make a deposit of US 5 million as a debt servicing reserve, and USD 1.5 million as an operating expense reserve. The company owns half of the Renaissance Hotel and as such its 50% investment partner and Skyline each contributed 50% of these amounts. In addition, all previous Debt Service Coverage Ratio (“DSCR”) requirements were deleted, to be replaced by new requirements, with the covenant test starting on September 30, 2024 for the two quarters ending September 30, 2024.