



# SKYLINE

I N V E S T M E N T S

## *Management's Discussion and Analysis*

*For the three months ended March 31, 2023*



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

May 11, 2023

### **Introduction**

This Management's Discussion and Analysis (this "MD&A") of the operating results and financial condition of Skyline Investments Inc. ("Skyline", "the Company", "we", "us" or "our") constitutes management's ("Management") review of the factors that affected the Company's operating performance for the three months ended March 31, 2023 and its financial position as at March 31, 2023. This MD&A is dated and has been prepared with information available as of March 31, 2023.

This MD&A should be read in conjunction with the Company's condensed interim consolidated financial statements for the three months ended March 31, 2023 and 2022 and accompanying notes (the "Financial Statements").

The Financial Statements have been prepared in accordance with International Financial Reporting Standards, using accounting policies adopted by the Company. These accounting policies are based on the International Accounting Standards, International Financial Reporting Standards and IFRS Interpretations Committee interpretations (collectively, "IFRS") that are applicable to the Company. Amounts discussed below are based on our consolidated financial statements for the three months ended March 31, 2023 and are presented in thousands of Canadian dollars, unless otherwise stated.

Additional information relating to the Company is available under our SEDAR profile at [www.sedar.com](http://www.sedar.com).

Except as expressly provided herein, none of the information on the SEDAR website is incorporated by reference into this document by this or any other reference.

### ***Forward-Looking Information***

Certain statements contained in this MD&A constitute forward-looking information within the meaning of securities laws. Forward-looking information may relate to the Company's future outlook and anticipated events or results and may include statements regarding the future financial position, business strategy, budgets, projected costs, capital expenditures, financial results, taxes and plans and objectives of or involving the Company. In particular, statements regarding the Company's future operating results and economic performance are forward-looking statements. In some cases, forward-looking information can be identified by terms such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue" or other similar expressions concerning matters that are not historical facts. Examples of such statements include the statements with respect to the Company's strategy, objectives and intentions disclosed in the section entitled "*Overview*", "*Strategy & Outlook*", "*Liquidity and Financial Position*", and "*Portfolio Overview*", including: the Company's intention to complete future acquisitions and/or dispositions, and the expected benefits from any such acquisitions or dispositions; and the introduction of value-added leasing and operational revenue streams and increased management efficiencies.

Forward-looking information is subject to certain factors, including risks and uncertainties, which could cause actual results to differ materially from what the Company currently expects. These factors include the ability of the Company to complete future acquisitions, obtain necessary equity and debt financing and grow its business; achieving the expected benefits from the Freed Transaction (as defined herein) the future operations and performance of the Company's properties including the anticipated extent of the accretion of any acquisitions and generating improved occupancy levels and rental income; the ability of the Company to reinvest to make improvements and maintenance to its properties; overall indebtedness levels, which could be impacted by the level of acquisition activity Skyline is able to achieve and future financing opportunities; general economic and market conditions and factors; local real estate conditions; competition; interest rates; changes in government regulation; and reliance on key personnel. For more information on these risks and uncertainties readers should refer to the risks disclosed in the section entitled "*Risk Factors*", as well as the risks disclosed in Skyline's materials filed with Canadian securities regulatory

authorities from time to time, including the Annual Information Form of the Company dated March 31, 2023, which are available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

Forward-looking information contained in this MD&A is based on the Company's current estimates, expectations and projections, which the Company believes are reasonable as of the date hereof. Readers should not place undue importance on forward-looking information and should not rely upon this information as of any other date. While the Company may elect to, it is under no obligation and does not undertake to update this information at any particular time except as may be required by applicable securities laws.

### ***Non-IFRS Performance Measures***

All financial information has been prepared in accordance with IFRS. However, Skyline uses certain non-IFRS measures as key performance indicators, including net operating income ("NOI"), funds from operations ("FFO"), FFO per share, and adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA"). Skyline believes these non-IFRS measures provide useful supplemental information to both Management and investors in measuring the financial performance of the Company.

These are key measures commonly used by entities in our industry as useful metrics for measuring performance. However, they do not have any standardized meaning prescribed by IFRS and should not be construed as alternatives to net income/loss, cash flow from operating activities or other measures of financial performance calculated in accordance with IFRS. NOI, FFO and Adjusted EBITDA may differ from similar measures as reported by other companies in similar or different industries. These measures should be considered as supplemental in nature and not as a substitute for related financial information prepared in accordance with IFRS. Please see Part V, "Results of Operations" for the reconciliations of these non-IFRS performance measures.

Skyline also uses certain supplementary financial measures as key performance indicators, including same asset NOI. Supplementary financial measures are financial measures that are intended to be disclosed on a periodic basis to depict the historical or expected future financial performance, financial position, or cash flow, that are not disclosed directly in the financial statements and are not non-IFRS measures.

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## **I. Overview**

Skyline is a Canadian investment company listed on the Tel-Aviv Stock Exchange under the symbol SKLN and is a reporting issuer in Canada. The Company directly and indirectly owns hotels and resorts in Canada and the United States (“US”). As at March 31, 2023, the Company had 17 income producing assets, with 2,856 rooms and 85,238 square feet of commercial space (collectively, the “Properties”). The Company also has a strategic development business that develops excess real estate to further enhance cash flow and the value of its assets. The Company is regularly engaged in discussions with respect to possible acquisitions or dispositions of new properties or portfolios.

The Company is in the very early stages of considering or exploring certain potential corporate transactions as part of its business strategy. The Company does not know whether any such transaction will be advanced or completed. The Company will disclose details regarding any such transactions if and when it is legally required or otherwise deems it appropriate to do so. The Company’s operating segments are as follows:

1. US hotels and resorts
2. Canadian hotels and resorts
3. Development of real estate

The Company focuses its capital and investment initiatives on enhancing cash flow from hotels and resorts, while at the same time selling non-core development assets. As at March 31, 2023, the Company’s assets were located in southern Ontario, Canada and in 11 US States.

The Company is a reporting issuer in the Province of Ontario, Canada (following the filing and receipt of a non-offering long form prospectus in 2014) but, as of March 31, 2023, does not have any of its securities listed or quoted on any marketplace in Canada.

On December 6, 2021, Skyline completed the sale of Deerhurst Resort (“Deerhurst”), Horseshoe Resort (“Horseshoe”), and the remaining development lands at Blue Mountain Resort (“Blue Mountain”) (collectively, the “Freed Assets”) to Freed Corporation (the “Freed Transaction”). The Company has reinvested some of the proceeds for the Freed Transaction, with the acquisition of the Courtyard Ithaca, and continues to assess appropriate investment opportunities.

## **II. Strategy & Outlook**

The following section contains forward-looking information and users are cautioned that actual results may vary. See “*Forward Looking Information*” for additional information.

### *Our Strategy*

Skyline’s business model is centered on 4 distinct strategies:

1. Identification and acquisition of hotels with stable cash flows that provide an acceptable risk-adjusted rate of return, with a specific focus on the limited service and select service segments. Adjacent development rights are viewed as an independent value creation opportunity;
2. Driving short- and medium-term efficiencies in hotel and remaining resort operations;
3. Strategic development with low capital investment and risk, to further enhance the cash flow and value of the existing asset base and sale of non-core real estate; and
4. Diversification of hotel income through acquisition of other retail and/or commercial properties that are complementary to the existing asset base and that provide stable and predictable cash flow.

Skyline will seek to pursue acquisitions that align with the Company’s stringent investment criteria focused on location, valuation and asset quality.

When evaluating potential acquisition opportunities, Skyline focuses on: (i) growing markets with strong economic fundamentals; (ii) markets with multiple demand drivers (including but not limited to: hospitals, universities, multiple corporate head offices, government and private sector investment); (iii) markets that have limited new supply; (iv) properties with strong brand affiliation; (v) properties characterized by a good operating history with stabilized in-place income, or with potential for value enhancement through re-positioning or other value-add initiatives; and (vi) properties that can be purchased at an attractive valuation, preferably below replacement cost.

### *Covenants*

As of the date of this report, the Company was in compliance with its covenants as at March 31, 2023.

## **III. Period Highlights**

Financial highlights for the three months ended March 31, 2023, including subsequent events occurring up to the date of publication of this report are as follows:

- For the three months ended March 31, 2023 the Company recorded revenue of \$34,481, compared to \$32,290 for the three months ended March 31, 2022.
- For the three months ended March 31, 2023, the Company recorded NOI<sup>1</sup> of \$5,821 compared to \$8,161 during the year ended March 31, 2022. March 31, 2023 same asset NOI<sup>2</sup> decreased to \$5,912 compared to \$8,138 during the three months ended March 31, 2022. The decrease is mainly due to hotel renovations.
- The Company recorded net income (loss) attributable to shareholders of (\$5,456) for the three months ended March 31, 2023, compared to \$1,002 for the three months ended March 31, 2022. Including the effect of minority interests, the Company recorded net income (loss) of (\$7,034) during the year ended March 31, 2023, compared to a net income of \$680 during the year ended March 31, 2022.
- The Company's cash and cash equivalents were \$14,612 as at March 31, 2023 compared to \$19,503 as at December 31, 2022. The decrease is primarily attributable to tax payments, net debt repayments and capital expenditures. See section IX "*Cash Flow Statement Highlights*".
- The Company's shareholders' equity, excluding minority interests was \$275,525 or \$16.5 per share (44.0 NIS based on the NIS/CAD exchange rate as at March 31, 2023).
- The Company's Common Shares closed on March 31, 2023 at 11.88 NIS per share, a discount of 73% to the Company's shareholders' equity per share.
- On February 8, 2023, with Board approval, the Company donated the Keewatin passenger ship to a local charity under a special Canadian federal government donation 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 derecognition of the Keewatin caused a one-time non-cash capital loss to be recognized in the earnings of the current quarter. Assets derecognized during the quarter were \$3.9 million, presented in the statement of income as Capital losses net, and other expenses, net. 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).
- On February 14, 2023, the general meeting of the Company's shareholders approved the appointment of Mr. Moshe Shachaf as an outside director of the Company.

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<sup>1</sup> NOI is a non-IFRS performance measure. See "Non-IFRS Performance Measures" for additional information.

<sup>2</sup> Same Asset NOI is a supplementary financial measure and is calculated using the same methodology as NOI, but only including NOI from properties owned for 2 full years prior to December 31, 2022. See "Non-IFRS Performance Measures" and "Same Asset Analysis" for additional information.

- 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. As of the date of the report, 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. Pursuant to the Loan Agreement, the subsidiary has the right to remedy the breach by depositing approximately USD 2 million (of which 50% will be paid by the minority interest shareholder) into the lender's limited cash account. Since the date for reporting to the lender has not yet arrived, the mechanism for correcting the violation has not yet come into effect. 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.
- Please refer to Section XVIII, "Additional Information" for details on subsequent events occurring up to the date of this report.

#### IV. Portfolio Overview

A summary of key performance indicators for the three months ended March 31, 2023 is as follows:

	March 31, 2023	March 31, 2022
<b>TOTAL PORTFOLIO INFORMATION<sup>1</sup></b>		
Number of rooms	2,856	2,749
Number of hotel properties	17	16
Occupancy rate	50%	53%
Average daily room rate	\$171.5	\$146.81
Revenue per available room	\$85.18	\$77.43
<b>HOSPITALITY</b>		
Revenue	34,477	32,023
NOI	5,829	8,211
<b>DEVELOPMENT</b>		
Revenues	4	267
NOI	(8)	(50)
<b>CONSOLIDATED</b>		
Same Asset NOI	5,912	8,138
Adjusted EBITDA	3,819	6,188
<b>FUNDS FROM OPERATIONS (FFO)</b>		
FFO	2,085	5,254
FFO per share	0.13	0.32
<b>CAPITALIZATION AND LEVERAGE</b>		
Equity to Total Assets	52%	53%
Unrestricted Cash	14,612	44,445
Net Debt to Net Capitalization	42%	37%
Loan to Value (only Hospitality)	47%	55%
Weighted average debt face interest rate	8.26%	4.57%
Weighted average debt term to maturity	3.70	1.15

<sup>1</sup> NOI, Adjusted EBITDA, FFO, and FFO per share are non-IFRS performance measures. See "Non-IFRS Performance Measures" for additional information.



As at March 31, 2023 Skyline owned 17 hotel and resort assets with 2,856 rooms and 85,238 sq ft of commercial space.

Asset Name or Flag	Location	Rooms	Commercial Sq. Ft.
Courtyard Marriott	Birmingham Hoover, AL	153	
Courtyard Marriott	Huntsville, AL	149	
Courtyard Marriott	Little Rock, AR	149	
Courtyard Marriott	Tucson, AZ	149	
Courtyard Marriott	Fort Myers, FL	149	
Courtyard Marriott	Arlington Heights, IL	147	
Courtyard Marriott	Deerfield, IL	131	
Courtyard Marriott	Rockford, IL	147	
Courtyard Marriott	Lexington, KY	146	
Courtyard Marriott	Miamisburg, OH	146	
Courtyard Marriott	Holland, OH	149	
Courtyard Marriott	Oklahoma City, OK	149	
Courtyard Marriott	Battlefield (Manassas), VA	149	
Courtyard Marriott	Ithaca, NY	107	
<i>Total Select Service Hotels</i>		<i>2,020</i>	
Hyatt Hotel	Cleveland, Ohio	293	54,400
Renaissance Hotel	Cleveland, Ohio	491	30,838
<i>Total Full-Service Hotels</i>		<i>784</i>	<i>85,238</i>
Bear Valley Ski Resort	Bear Valley, California	52	
<i>Total Resorts</i>		<i>52</i>	
<b>Total</b>		<b>2,856</b>	<b>85,238</b>

One of the primary key performance indicators in the hospitality industry is revenue per available room or (“RevPAR”). RevPAR is a function of the daily occupancy rate expressed as a percentage of total rooms available (“Occupancy”) and the average daily rate or (“ADR”).

Skyline tracks these three metrics for all of its hospitality assets. For the period ended March 31, 2023, Skyline saw a decrease in RevPAR for full-service hotels, driven by a decrease in occupancy rate due to renovations at the Renaissance, and an increase in RevPAR for select service hotels, driven by an increase in ADR, and partially offset by a decrease in occupancy rate. The Company has not experienced material impacts due to inflation or increases in interest rate. While the Company’s portfolio and strong and stable hospitality business base provide the Company with an ability to be flexible to navigate these volatile economic conditions, there can be no assurance regarding the impact of a significant economic contraction or recession on the business, results of operations and financial position of the Company.

A summary of occupancy, ADR, and RevPAR is as follows:

		Q2-2022	Q2-2021	Q3-2022	Q3-2021	Q4-2022	Q4-2021	Q1-2023	Q1-2022
US select service Hotels and a California Ski Resort in USD	RevPAR	\$70.15	\$52.97	\$71.33	\$58.15	\$64.97	\$53.16	\$69.54	\$62.03
	ADR	\$106.83	\$91.86	\$110.09	\$99.22	\$115.54	\$96.93	\$129.94	\$109.05
	Occ.	66%	58%	65%	59%	56%	55%	54%	57%
US full-service Hotels in USD	RevPAR	\$82.13	\$56.10	\$107	\$77.04	\$76.81	\$70.39	\$48.6	\$61.79
	ADR	\$153.10	\$131.57	\$173.24	\$157.96	\$169.24	\$158.67	\$157.64	\$145.99
	Occ.	54%	43%	62%	49%	45%	44%	31%	42%



The table below presents the above metrics for the months of January 2023 through April 2023:

		January 2023	February 2023	March 2023	April 2023
14 US select service Hotels and a California Ski Resort in USD	RevPAR	\$56.34	\$71.27	\$81.18	77.36
	ADR	\$116.02	\$124.50	\$147.32	129.53
	Occupancy	49%	57%	55%	60%
US full-service Hotels in USD	RevPAR	\$39.18	\$46.32	\$60.08	69.24
	ADR	\$143.95	\$157.57	\$168.12	168.03
	Occupancy	27%	29%	36%	41%

### Development

The Company has a strategic development business that develops excess real estate in Ontario. The Company has one ongoing active development project.

The following table summarizes the Company's expected net cash flows from its VTBs:

VTB Loan	Q2 – Q4 2023	2024	2025 and thereafter	Total
Port McNicoll	1,800	2,400	23,191	27,391
Vetta Spa	25	34	740	798
<b>Total – Development</b>	<b>1,825</b>	<b>2,434</b>	<b>23,931</b>	<b>28,189</b>
<b>Freed Transaction VTB</b>	<b>1,112</b>	<b>15,685</b>	<b>51,642</b>	<b>68,440</b>
<b>Total VTB Inflows</b>	<b>2,938</b>	<b>18,119</b>	<b>75,573</b>	<b>96,629</b>

### Fair Value

The Company recognizes the fair value of certain real estate assets on its consolidated statements of financial position. These assets represent 69% of the total assets of Skyline as at March 31, 2023. The Company receives independent, third-party appraisals on all of its hotels and resorts on an annual basis. The appraisals include a comprehensive analysis of market conditions, including any impacts of changes in market interest rates, risk premiums, economic uncertainties and comparable transactions, among other factors. As for its total assets (including fixed assets), the Company takes certain actions on a quarterly basis, to determine if there was any change in value, including discussion with independent, third-party experts, referencing market transactions and non-binding purchase offers, and review of internal forecasts. The Company then uses these inputs in a discounted cash flow analysis over ten years to determine if there is any required revaluation at each reporting date. The following table summarizes the Company's investment properties and property, plant and equipment ("PP&E"):

	As at March 31, 2023	As at December 31, 2022
Balance, beginning of year	414,552	340,361
Capital expenditures	4,002	56,070
Depreciation and impairment	(4,731)	(14,409)
Dispositions	(2,229)	(16)
Right-of-Use Assets	-	1,447
Changes in fair value	1,470	5,984
Foreign exchange & other	(328)	25,115
<b>Balance, end of period</b>	<b>412,736</b>	<b>414,552</b>

### Real Estate Inventory

As part of its normal reporting process, as at March 31, 2023 the Company reviewed its real estate inventory balances for indicators of impairment. The Company reviewed each project, including land owned by it as investment property, and has determined that there was an impairment to real estate inventory as at March 31, 2023 in the amount of \$900 due to decline in appraised value, presented in statement of income as Capital losses net, and other expenses, net.

The Company will continue to monitor any relevant factors that become subsequently apparent, when reassessing the fair value of its real estate inventory as at the next reporting date.

### Net Asset Value

The Company, as most real estate companies do, measures value creation for its shareholders through growth in Net Asset Value (“NAV”), which is equivalent to Equity as presented in the Company’s condensed consolidated statement of financial position. An increase in net asset value is primarily achieved by:

- Using strict acquisition criteria, with the intent of acquiring assets at or below replacement cost;
- Generating operational efficiencies; and
- Taking advantage of value-add opportunities

Each of these items may lead to valuation increases in its assets and, as a result, the Company’s NAV. The Company calculates its NAV using fair values as disclosed on its balance sheet. Increases in the fair value of the Company’s real estate assets is the primary driver of NAV growth.

The Company’s NAV is summarized as follows:

As at March 31, 2023	Balance Sheet Value	Outstanding Secured Liabilities <sup>1</sup>	LTV <sup>2</sup>	Net Asset Value
US select service hotels	\$225,471	\$137,992	61%	\$87,479
US full-service hotels	\$156,800	\$47,774	30%	\$109,026
Resorts	\$25,713	\$-	0%	\$25,713
Development lands	\$10,747	\$3,133	29%	\$7,614
Projects under construction & other	\$255	\$6,449	2529%	\$(6,194)
<b>Total real estate and other</b>	<b>\$418,986</b>	<b>\$195,348</b>	<b>47%</b>	<b>\$223,638</b>
Cash	\$14,612			
Other assets	\$167,196			
<b>Total assets</b>	<b>\$600,794</b>			<b>\$600,794</b>
Total debt	\$239,885			
Other liabilities	\$49,266			
<b>Total liabilities</b>	<b>\$289,151</b>	<b>\$195,348</b>	<b>68%</b>	<b>\$289,151</b>
Non-controlling interest	\$36,118			
<b>Total NAV</b>	<b>\$311,643</b>			<b>\$311,643</b>
NAV <sup>3</sup> per share (CAD)	\$16.50			
NAV <sup>3</sup> per share (NIS)	\$44.00			

<sup>1</sup> Includes secured capital leases

<sup>2</sup> Loan to Value ratio

<sup>3</sup> Excluding non-controlling interest

### *Debt Strategy*

The Company employs modest debt levels and endeavors to create an optimized capital stack for each asset and the portfolio as a whole in order to maximize value and cash flow. The Company will endeavour to operate below 55% of total real estate assets.

## **V. Results of Operations**

The financial performance and results of operations contained in this MD&A cover the three months ended March 31, 2023. Please refer to “Non-IFRS Performance Measures”.

### *NOI*

Skyline defines NOI as property revenues less property operating expenses. Management believes that NOI is a useful key indicator of performance on an unlevered basis as it represents a measure over which management of property operations has control. NOI is also a key input used by Management in determining the value of the Properties. NOI is used by industry analysts, investors and Management to measure operating performance of Canadian companies. NOI represents revenue from cash generating properties less property operating expenses excluding depreciation as presented in the consolidated statements of income and comprehensive income prepared in accordance with IFRS.

Given the seasonality of its hospitality operations, NOI for a fiscal year (or trailing four quarters) is considered by Management as a more accurate measure of the Company’s performance.

Skyline calculates NOI from hotels and resorts as Operating income before depreciation, valuation adjustments and other income, adjusted for:

- i) Segmented results from Development Segment
- ii) Selling and Marketing expenses
- iii) Administrative and General expenses

Alternatively, the same result is arrived at by adding segmented results (per note 12 in the Financial Statements) of the Company’s hotels and resorts. The following table sets out a reconciliation of NOI from hotels and resorts to operating income before depreciation, valuation adjustments and other income:

<b>NOI from Hotels &amp; Resorts</b>		
	<b>For the three months ended March 31,</b>	
	<b>2023</b>	<b>2022</b>
Operating income before depreciation, valuation adjustments and other income	\$3,819	\$6,188
Segmented results from Development Segment	\$8	\$50
Selling and Marketing expenses	\$-	\$25
Administrative and General Expenses	\$2,002	\$1,948
<b>NOI from hotels and resorts</b>	<b>\$5,829</b>	<b>\$8,211</b>
Income from hotels and resorts	\$34,477	\$32,023
Operating expenses of income producing assets	(\$28,648)	(\$23,812)
<b>NOI from hotels and resorts</b>	<b>\$5,829</b>	<b>\$8,211</b>

### *FFO*

FFO is a non-IFRS financial measure of operating performance widely used by the real estate industry, particularly by those publicly traded entities that own and operate income-producing properties. FFO is not an alternative to net income determined in accordance with IFRS. Skyline calculates the financial measure in accordance with the Real

Property Association of Canada White Paper issued in January 2022, except for (i) changes in the fair value of financial instruments which are economically effective hedges but do not qualify for hedge accounting, (ii) non-controlling interest, and (iii) operational revenue and expenses from right-of-use assets. The use of FFO, combined with the data required under IFRS, has been included for the purpose of improving the understanding of the operating results of Skyline.

Management believes that FFO provides an operating performance measure that, when compared period-over-period, reflects the impact on operations of trends in occupancy, room rates, operating costs and realty taxes and interest costs, and provides a perspective of the Company's financial performance that is not immediately apparent from net income determined in accordance with IFRS. FFO excludes from net income items that do not arise from operating activities, such as fair value adjustments, purchase transaction costs, and deferred income taxes, if any. FFO, however, still includes non-cash revenues related to accounting for straight-line rent and makes no deduction for recurring capital expenditures necessary to sustain the Company's existing earnings stream. It should be emphasized that the method of calculation of this indicator by the Company may differ from the method of calculation applied by other companies. The following table sets out a reconciliation of FFO to net income:

<b>Funds from Operations (FFO)</b>		
	<b>For the three months ended March 31,</b>	
	<b>2023</b>	<b>2022</b>
<b>Net income (loss) attributable to shareholders of the Company</b>	(\$5,456)	\$1,002
(Gain) loss from fair value adjustments	\$391	\$523
Depreciation and impairment	\$4,298	\$3,052
Deferred tax	(\$1,368)	\$421
Derecognition of investment costs and other capital losses (gains)	\$3,964	-
Revaluation component included in cost of sale, that was previously recognized in gain on fair value adjustments of investment property prior to its transfer to inventory	\$256	\$256
<b>FFO</b>	<b>\$2,085</b>	<b>\$5,254</b>

#### *Adjusted EBITDA*

The Company's operations include income producing assets and revenue from the sale of developed real estate. As such, Management believes Adjusted EBITDA (as defined below) is a useful supplemental measure of its operating performance for investors and debt holders.

EBITDA is defined as Earnings Before Interest, Taxes, Depreciation, and Amortization. The Company calculates Adjusted EBITDA as follows:

- Income from hotels and resorts;
- Sale of residential real estate;

Less:

- Operating expenses from hotels and resorts;
- Cost of sales of residential real estate;
- Selling and marketing expenses;
- Administration and general expenses

Adjusted EBITDA does not include fair value gains, gains on sale or other expenses, and is presented the Company's consolidated statement of profit and loss for the Three months ended March 31, 2023 as operating income before depreciation, valuation adjustments and other income.

<b>Adjusted EBITDA from Operations</b> <b>Adjusted EBITDA from Operations combines</b> <b>performance of income producing and development activities:</b> <b>(In thousands CAD)</b>		
	<b>For the three months ended March 31,</b>	
	<b>2023</b>	<b>2022</b>
<b>ADJUSTED EBITDA from operations</b>	\$3,819	\$6,188

## **VI. Summary of Selected Financial and Operational Information**

Revenue is generated by three business segments: US hotels and resorts, Canadian hotels and resorts, and Development. Hospitality operations include hotel operations, ski facilities, and other businesses including food and beverage, spa, retail and rental operations, and other related or ancillary activities. The Canadian hotels and resorts segment did not have financially material operations during the year ended March 31, 2023 while the US Hotels and resorts segment contributed 100% of revenue for the three months ended March 31, 2023. Development revenue includes the sale of serviced lots and condominiums.

Revenue from the hotels and resorts segments is driven by the volume of guests, and competitive pricing and guests' spending patterns. Volume is impacted by a number of factors, including the guest experience, economic conditions, geo-political factors, weather and accessibility of the hotels and resorts. Revenue from the Development segment is not typical or consistent. Project timing and revenue recognition can vary from quarter to quarter as a result of the circumstances surrounding individual projects. Skyline has a number of ongoing projects with various timelines that are expected to provide some regular revenue on an annual basis in an attempt to smooth revenue from this segment. The selected financial information set out below is based on and derived from the Financial Statements:

<b>Statement of Income</b>	<b>For the three months ended March 31,</b>		<b>Year ended December 31, 2022</b>
	<b>2023</b>	<b>2022</b>	
Revenue	\$34,481	\$32,290	\$133,700
Expenses and costs	(\$28,660)	(\$24,129)	(\$105,628)
	<b>\$5,821</b>	<b>\$8,161</b>	<b>\$28,072</b>
Selling and marketing & administrative and general expenses	(\$2,002)	(\$1,973)	(\$8,345)
Depreciation & impairment	(\$3,831)	(\$3,442)	(\$14,409)
Gain (loss) from fair value adjustments of investment properties, and financial instruments	\$30	(572)	\$8,758
Capital losses, net, and other expenses, net	(\$3,530)	(\$125)	(\$526)
Financial expense	(\$6,123)	(\$2,072)	(\$18,583)
Financial income	\$1,199	\$1,264	\$4,963
<b>Net income (loss) before income taxes</b>	<b>(\$8,436)</b>	<b>\$1,241</b>	<b>(\$70)</b>
Net income (loss) (after tax) per share (basic and diluted)	(\$0.33)	\$0.06	(\$0.09)

Statement of Income	For the three months ended March 31,		Year ended December 31, 2022
	2023	2022	
FFO <sup>1</sup>	\$2,085	\$5,254	\$9,285
FFO per share (basic)	\$0.13	\$0.32	\$0.56
Weighted avg. shares outstanding <sup>2</sup>	16,500,490	16,545,237	16,519,365

Selected items from Statement of Financial Position	As at March 31, 2023	As at December 31, 2022
Cash and cash equivalents	\$14,612	\$19,503
Investment properties	\$13,069	\$13,046
Property, plant and equipment	\$399,667	\$401,506
Other assets	\$173,446	\$175,292
<b>Total assets</b>	<b>\$600,794</b>	<b>\$609,347</b>
Loans and leases payable, current	\$28,054	\$26,786
Bonds, current	\$3,835	\$3,828
Other current liabilities	\$30,916	\$32,885
Loans and leases payable, non-current	\$167,427	\$167,402
Bonds, non-current	\$40,569	\$42,474
Deferred tax	\$15,672	\$17,358
Other non-current liabilities	\$2,678	\$2,648
<b>Total liabilities</b>	<b>\$289,151</b>	<b>\$293,381</b>

*Same Asset Analysis*

Same Asset Analysis		For the three months Ended March 31,	
		2023	2022
Same Asset Revenue	USA	\$33,735	\$31,720
	Canada	\$20	\$190
	<b>Total</b>	<b>\$33,755</b>	<b>\$31,910</b>
Same Asset NOI	USA	\$5,903	\$7,953
	Canada	\$9	\$185
	<b>Total</b>	<b>\$5,912</b>	<b>\$8,138</b>

The same asset analysis incorporates results of operations of assets that the Company has held for at least two full years ending March 31, 2023.

The combined revenue from same assets in the hotels and resorts (USA and Canada) segments recorded during the three months ended March 31, 2023 was \$33,755, compared to \$31,910 during the three months ended March 31, 2022. The increase is a result of higher revenue from hotels and resorts due to higher RevPAR driven by an increase in ADR, and partially offset by a decrease in occupancy rate.

<sup>1</sup> FFO and FFO per share are non-IFRS performance measures. Please refer to definition in Section V, “Results of Operations” and “Non-IFRS Performance Measures”

<sup>2</sup> Basic and diluted. Excludes 200,000 shares held in trust by a Company controlled by the CEO, which are accounted for as share-based compensation.

During the three months ended March 31, 2023, same asset NOI was \$5,912 compared to \$8,138 for the three months ended March 31, 2022. The decrease is mainly due to hotel renovations.

#### *Selling and marketing expenses*

Selling and marketing expenses for the three months ended March 31, 2023 were \$0, compared to \$25 for the three months ended March 31, 2022. The decrease is a result of lower marketing activity and commissions related to the Company's development operations. As a result of the Freed Transaction, the Company expects that any sales and marketing expenses in subsequent periods will be negligible.

#### *Administrative and general expenses*

Administrative and general expenses for the three months ended March 31, 2023 were \$2,002 compared to \$1,948, for the three months ended March 31, 2022. The increase is due to higher professional services costs partially offset by lower salary expenses and director fees, as well as lower travelling costs.

#### *Fair Value Adjustments*

See "Section IV –Portfolio Overview", above.

#### *Depreciation*

Depreciation for the three months ended March 31, 2023, was \$3,831, compared to \$3,442, for the three months ended March 31, 2022. The increase is primarily due to increase in the PPE balances.

#### *Financial expenses, net*

Financial expenses, net, for the three months ended March 31, 2023 were \$4,924 compared to \$808 for the three months ended March 31, 2022. A summary of financial expenses is as follows:

	For the three months ended March 31,	
	2023	2022
Interest on long-term loans and leases	\$4,633	\$1,965
Interest on bonds	\$707	\$653
Interest on short-term loans	\$-	\$14
<b>Total interest expense</b>	<b>\$5,340</b>	<b>\$2,632</b>
Foreign exchange loss (gain) on bonds payable	(\$8)	(\$780)
Fair value loss (gain) on financial derivative	-	-
<b>Total revaluation due to foreign exchange</b>	<b>(8)</b>	<b>(\$780)</b>
Bank charges	\$86	\$83
Amortization of deferred financing costs	\$705	\$137
VTB & other net financial (income)	(\$1,199)	(\$1,264)
<b>Net other financial expense (income)</b>	<b>(\$408)</b>	<b>(\$1,044)</b>
<b>Financial expenses, net</b>	<b>\$4,924</b>	<b>\$808</b>

Interest expense was \$5,340 for the three months ended March 31, 2023 compared to interest expense of \$2,632 for the three months ended March 31, 2022. The increase was primarily due to higher interest rates. Please refer to X "Liquidity and Financial Position" for a discussion of the Company's debt.

#### *Income Taxes*

Income tax expense (recovery) for the three months ended March 31, 2023 were (\$1,402), compared to \$561 for the three months ended March 31, 2022. See VIII "Income Statement and Segmented Highlights" below.



*Net Income/(Loss) for the period*

Net income (loss) for the three months ended March 31, 2023 was (\$7,034), compared to net income of \$680 for the three months ended March 31, 2022. See VIII “Income Statement and Segmented Highlights” below.

**VII. Balance Sheet Highlights**

- The Company’s shareholders’ equity, excluding minority interests was \$275,525 or \$16.5 per share (44.00 NIS based on the NIS/CAD exchange rate as at March 31, 2023).
- The Company’s Common Shares closed on March 31, 2023 at \$11.88 NIS per share, a discount of 73% to the Company’s shareholders’ equity per share.
- The consolidated assets of the Company as at March 31, 2023 totaled \$600,794, compared to \$609,347 as at December 31, 2022. The \$8,553 decrease is primarily driven by the impact of foreign exchange, and cash tax and interest payments made.
- The consolidated liabilities of the Company as at March 31, 2023 totaled \$289,151, compared to \$293,381 as at December 31, 2022. The decrease of \$4,230 was primarily driven by the bond principal repayment coupled with the recapturing of remaining reserves from several development projects into income.
- As at March 31, 2023 there is approximately \$1,000 available on the Company’s lines of credit.
- Trade receivables, other receivables and prepayments were \$19,829 compared to \$20,695 as at December 31, 2022.
- Real estate inventory and other inventory was \$7,995 as at March 31, 2023 compared to \$7,796 as at December 31, 2022. The increase of \$199 was primarily due to the increase in development inventory.
- Loans to purchasers (current and non-current) were \$90,878 as at March 31, 2023, compared to \$90,932 as at December 31, 2022. The decrease of \$54 is due to payments received, offset by the interest accrued during the period.
- Investment properties were \$13,069 as at March 31, 2023 compared to \$13,046 as at December 31, 2022. The increase of \$23 is primarily due to the fair value changes.
- Restricted bank deposits (current and non-current) were \$11,272 as at March 31, 2023 compared to \$11,591 as at December 31, 2022. The reduction is primarily due to the release of funds held in trust related to the development project.
- Property Plant and Equipment was \$399,667 as at March 31, 2023 compared to \$401,506 as at December 31, 2022. The decrease of \$1,839 is primarily due to derecognition of the Keewatin related to its donation.
- Other non-current assets as at March 31, 2023 were \$2,915 compared to \$3,238 as at December 31, 2022. The \$323 decrease is primarily due to the decrease in deferred financing expenses.
- Other investments measured at fair value through profit and loss, as at March 31, 2023 were \$36,880 compared to \$36,880 as at December 31, 2022.
- Bonds payable were \$44,404 as at March 31, 2023 compared to \$46,302 as at December 31, 2022. The decrease is primarily due to normal principal repayment of the Company’s Series B bond, partially offset by foreign exchange impact.
- Loans and leases payable were \$195,481 as at March 31, 2023 compared to \$194,188 as at December 31, 2022. The \$1,293 increase was primarily due to the impact of foreign exchange.

- Trade payables, other payables, other liabilities and deferred revenue were \$33,594 as at March 31, 2023, compared to \$35,533 as at December 31, 2022. The decrease of \$1,939 was primarily due to recapturing of remaining reserves from several completed development projects into income.
- Deferred tax liability was \$15,672 as at March 31, 2023 compared to \$17,358 as at December 31, 2022. The decrease is primarily due to taxes recognised on fair value changes of Property Plant and Equipment.

#### **VIII. Income Statement and Segmented Highlights**

- For the three months ended March 31, 2023, the Company's consolidated revenue was \$34,481, compared to \$32,290, for the three months ended March 31, 2022. Same asset revenue from hotels and resorts was \$33,755 for the three months ended March 31, 2023 compared to \$31,910 for the three months ended March 31, 2022. The increase was driven by increased ADR at the Company's US hotels and resorts, partially offset by a decrease in occupancy rate due to hotel renovations.
- **US Hospitality segment:** For the three months ended March 31, 2023, the US Hospitality segment recorded an increase in revenue of \$2,740 compared to the three months ended March 31, 2022. The increase in revenue was due primarily to the increase in ADR, partially offset by the decrease in occupancy rate primarily driven by renovations. Expenses increased by \$4,851 for the three months ended March 31, 2023 compared to the year ended March 31, 2022. The increase is attributable to increasing staff levels and other variable operating costs. As a result, NOI decreased by approximately \$2,111 over the year ended March 31, 2023.
- **Canadian Hospitality segment:** During the year ended March 31, 2023, the Company did not have significant activity in the Canadian hotels and resorts segment as the Company sold its existing Canadian resorts as part of the Freed Transaction; however, it continues to look for opportunities to purchase Canadian hotels that meet its investment criteria.
- **Development segment:** During the three months ended March 31, 2023, the Company recognized \$4 of development revenue. This compares to \$267 for the three months ended March 31, 2022.
- For a detailed NOI, Adjusted EBITDA and FFO analysis see "Non-IFRS Performance Measures" and Part V. *Results of Operations* above.

#### **IX. Cash Flow Statement Highlights**

- During the three months ended March 31, 2023, the Company's cash and cash equivalents decreased by \$4,891, compared to a decrease of \$17,044 for the three months ended March 31, 2022. The decrease was primarily driven by the timing of tax payments, capital expenditures, and repayment of outstanding loans.
- During the three months ended March 31, 2023, the Company recorded a cash outflow from operations of \$1,437. This compares to a cash outflow from operations of \$5,181 during the three months ended March 31, 2022.
- During the three months ended March 31, 2023, the Company recorded a cash outflow from investing activities of \$3,680, mainly due to tax payments made, coupled with property capital improvements. In the corresponding period of the previous year, the Company recorded negative cash flow from investing activities totaling \$9,063 primarily due to tax payments made, coupled with property capital improvements.
- During the three months ended March 31, 2023, the Company recorded a cash inflow from financing activities of \$235 compared to a cash outflow from financing activities of \$2,623, for the three months ended March 31, 2022. The cash inflow from financing activities for the three months ended March 31, 2023 was driven primarily by bank credit and contribution from non-controlling shareholders, offset by the repayment of bonds during the period.

- For further information, see the consolidated statements of cash flows in the Company's consolidated financial statements for the period ended March 31, 2023 and Section X – "*Liquidity and Financial Position*" below.

## **X. Liquidity and Financial Position**

The following section contains forward-looking information and users are cautioned that actual results may vary.

### *Liquidity and Capital Resources*

Skyline intends to fund capital for acquisitions through (i) cash on hand, (ii) issuance of common shares or other securities and (iii) debt financing including floating and fixed rate debt. Cash flow from operating properties represents the sources of cash to fund capital expenditures, debt service and general & administrative expenses.

The Company also has a strategic development business. Development projects typically have an operating cycle longer than one year and the Company funds most of its investment in real estate development projects through credit from financial institutions.

The Company's current liabilities include \$31,889 of current maturities of long-term loans, bonds, and short-term construction debt, compared to \$30,614 as at December 31, 2022. The increase was primarily due to the Golf Cottages invoices. Also included in this amount are two mortgages due within the next twelve months totalling \$21,323. 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. This loan was paid out on April 20, 2023; refer to section XVIII Additional Information.

Although the Company may periodically experience a net cash outflow from operations, when such an outflow occurs, it is not expected to adversely affect the Company's business operations, as it is the Company's past experience that lending financial institutions refinance any outstanding loans. In addition, the number of potential lenders is sufficiently large that securing an alternate lender would be reasonably expected. There is, however no guarantee that the Company will be able to secure any required refinancing or any additional financing. Readers are reminded that past experience is not a reliable indicator of future results. See the "Cautionary Note Regarding Forward Looking Statements" section and the "*Risk Factors*" section in this MD&A.

### *Cash and available lines of credit*

As at March 31, 2023, the balance of cash and cash equivalents of the Company totaled \$14,612 compared to \$19,503 as at December 31, 2022. In addition, as at March 31, 2023 the Company has approximately \$1,000 of available and undrawn funds on its line of credit as well as \$11,272 in restricted bank deposits that can be accessed under certain circumstances.

### *Working capital*

As at March 31, 2023, the Company had negative working capital of \$16,607 compared to a negative working capital of \$12,039 as at December 31, 2022. The decrease in working capital was primarily due to, tax payments, net debt repayments and capital expenditures (see "*Liquidity and Capital Resources*" above). In addition, the Company has \$1,000 in available undrawn lines of credit. Management believes that it has a sufficient working capital.

The following table summarizes the statement of cash flows of the Company:

	For the three months Ended March 31,	
	2023	2022
Net income (loss) for the period	(\$7,034)	\$680
Net cash provided by (used by) operations	(\$1,437)	(\$5,181)
Net cash provided by (used by) investing activities	(\$3,680)	(\$9,063)
Net cash provided by (used by) financing activities	\$235	(\$2,623)
Foreign Exchange translation of cash balances	(\$9)	(\$177)
Increase (decrease) in cash and cash equivalents	(\$4,891)	(\$17,044)
Cash and cash equivalents, beginning of the period	\$19,503	\$61,489
<b>Cash and cash equivalents, end of the period</b>	<b>\$14,612</b>	<b>\$44,445</b>

The following table summarizes the Company's financial expenses and cash interest paid:

	Year ended March 31,	
	2023	2022
Financial expenses	\$6,123	\$2,072
Cash interest paid	\$5,473	\$3,271

Under Israeli law the Company is obligated to disclose an unconsolidated stand-alone financial statement of the parent public entity. These statements are unconsolidated and as a result have none of the operating activity or cash flow that takes place in the Company's subsidiaries. The parent public entity has minimal revenue but does have head office expenses and interest from the unsecured debt (which is funded from operating activity in the Company's subsidiaries). The following is a translation of this disclosure under Israeli law and if not for the dual reporting requirements would not be included in this MD&A.

In the Company's solo cash flow statement for the three months ended March 31, 2023, the Company recorded a cash outflow from operations of \$1,359. This compares to a cash outflow from operations of \$7,656 for the three months ended March 31, 2022. The Company anticipates that in the future it could present a negative cash flow from operations in its solo reports as the majority of the Company's activity is carried out through its subsidiaries.

In its solo statements, the Company presents negative consistent cash flow from operating activities. The Company performed an examination of its financial condition, operating results, liquidity, financial strength and flexibility, and its ability to meet its liabilities, including loans provided to it, and it believes that, as of the date of the Report, it has sufficient liquidity to meet its liabilities as they become due, as it has additional cash balances and cash flows as well as other liquid assets and maintains a conservative leverage, and as it has efficient financing capabilities.

In light of this, the Company's Board of Directors examined whether the continuing negative cash flow from the current activity in the solo report as aforementioned could indicate a problem with the Company's liquidity. In the opinion of the Company's Board of Directors, nothing in the aforementioned negative cash flow indicates a problem with the Company's liquidity, paying heed to the fact, inter alia, that: (a) the majority of the Company's activity is carried out by means of the Company's subsidiaries; (b) the cash balances held by the Company; and (c) the financing sources available to the Company and the Company's anticipated liabilities.

## Debt

The Company's long-term debt (loans, mortgages and bonds) principal repayments as at March 31, 2023 are as follows:

As at March 31, 2023	Principal Amount (loans and bonds)	% Of Total Principal (excluding unamortized financing costs)
By December 31, 2023	\$33,474	13.6%
By December 31, 2024	\$42,440	17.2%
By December 31, 2025	\$1,849	0.8%
By December 31, 2026 and thereafter	\$168,619	68.4%
Unamortized financing transaction costs <sup>1</sup>	(\$6,497)	
<b>Total</b>	<b>\$239,885</b>	<b>100%</b>

Loans, mortgages and bonds have fixed rates that range from 1% to 10.97%. The variable rate loans and mortgages range from 6.76% to 10.25%. Maturity dates range from April 2023 to June 2029.

The Company's "Series B Bonds" (unsecured) trade on the Tel-Aviv Stock Exchange. The Company has been given a rating of Baa1.il from Midroog the Israeli subsidiary of Moody's.

	Currency	Original Principal	Principal Outstanding at March 31, 2023 in '000 NIS	Nominal annual interest rate	Timing of Interest Payments	Maturity Date	Amortization
Series B	NIS <sup>2</sup>	164,464	116,142	5.65%	Jan/Jul	Jul 15, 2024	15 Years

## Series B Bonds

Under a shelf prospectus dated February 23, 2015, and a supplementary Shelf Offering Report issued by the Company in Israel on September 24, 2017, the Company issued 164,464 units comprising of NIS 1,000 par value Series B Bond at a fixed interest rate of 5.65% and raised 164,464 NIS (approximately CA \$57,786) (the "Series B Bond Offering"). The Series B Bonds' interest and principal are linked to the NIS/US dollar exchange rate. The Series B Bonds commenced trading on the Tel Aviv Stock Exchange on September 28, 2017.

The Series B Bonds are redeemable (principal) in payments that shall be made semi-annually on January 15 and July 15 from 2019 to 2024 (inclusive). Each payment shall redeem 3.25% of the par value of the principal of the Series B Bonds except the final payment, which shall be in the amount of the balance of the principal to be redeemed, at the rate of 64.25% of the par value of the principal of the Series B Bonds.

The interest on the Series B Bonds shall be paid in semi-annual payments on January 15 and on July 15 of each of the years 2018 to 2024, with the first payment of interest to be made on January 15, 2018, and the last payment of interest to be made on July 15, 2024.

The financial covenants, as set out in Section 6.2 of the Series B Deed of Trust, dated September 24, 2017, include the requirement that the Company maintain a consolidated nominal equity (excluding minority interests) of not less than \$130,000 and a ratio between the Company's consolidated equity (including minority interests) and the total assets of not less than 26%. The financial covenants, as set out in Section 5.4 of the Series B Deed of Trust (regarding Interest Rate Adjustment), include the requirement of the Company to maintain a consolidated nominal equity

<sup>1</sup> As at March 31, 2023, deferred financing costs related to bonds payable were \$428.

<sup>2</sup> Linked to USD.

(excluding minority interests) of not less than CA \$180 million and a ratio between the Company's consolidated equity (including minority interests) and the total assets of not less than 28.5%. Therefore, the Company complies with all covenants and liabilities prescribed by the Series B Deed of Trust.

The net proceeds of the Series B Bond Offering were used for the acquisition of 13<sup>1</sup> Marriott Courtyard hotels.

***The balance of this section included in the "Series B Bonds" section is a requirement of the Israeli Security Authority as part of the MD&A disclosure rules.***

Hereinafter are details regarding the financial criteria, 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 Bonds (hereinafter: "Series B Deed of Trust").

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), if Operating EBITDA during the last four quarters preceding the review date falls below CA \$18.0 million, the interest rate on the unpaid balance of the bonds to be adjusted by 0.25%. 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) in the condensed interim consolidated financial statements for the period ended March 31, 2023. The assets related to the Keewatin derecognized during the first quarter of 2023 were CA\$ 3.9 million (non-cash amount). The position of the Company's management, is that this amount should not be taken as part of the calculation of the Company's operating EBITDA, since it is not part of the core business activity of the Company.

In addition, it should be noted that the Company adjusted the operating income from ordinary operations in connection with the decrease in the fair value of the Bear Valley development lands in the amount of CAD 0.9 million. These lands are not core operating asset in the Company's operations and there are no current plans to develop them. The position of the Company's management, in this regard, is that the decrease in the fair value of the lands should be regarded as a decrease in the fair value of investment properties. The classification of the lands in of the company's financial statements at the time of purchase as PP&E was done due to the relatively low volume of these lands in the Company's assets portfolio, and due to the difficulty in separating the value of the lands from the total package of properties under which they were purchased.

In light of the above, Operating EBITDA for the last four quarters is CA\$18.4 million. If the items mentioned above were included in the operating EBITDA so, in the position of the company's management, the company meets the financial covenant of operating EBITDA. It should be noted that if the amounts related to the ship were taken into account in the calculation of operating EBITDA and the decrease in the fair value of the lands in Bear Valley would not have been taken into account in the calculation of operating EBITDA, operating EBITDA in the last four quarters would have been C\$13.6 million.

On May 10, 2023 the company approached the Trustee and detailed the abovementioned also in writing, and is awaiting a response. The trustee is examining the above and has not yet expressed his opinion.

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<sup>1</sup> Purchased in 2017.

<b>Financial Criterion</b>	<b>Result of Calculation as at March 31, 2023</b>
The Company's consolidated equity capital (not including minority rights) shall be no less than 180,000 thousand Canadian dollars (this sum shall not be linked to any linkage index whatsoever)	\$276 million
The ratio of the Company's consolidated capital (including minority rights) to the total balance sheet shall be no less than 28.5%.	52%
The operating EBITDA of the Company (as defined in Section 1.5.31 of the Trust Deed) in the last four quarters shall be no less than \$18 million Canadian dollars.	CA \$18.4 million

Hereinafter are details regarding the financial stipulations with which the Company has undertaken to comply, pursuant to Section 6.2 (Financial undertakings) of the Series B Deed of Trust.

<b>Financial Criterion</b>	<b>Result of Calculation as at March 31, 2023</b>
The Company's consolidated equity capital (not including minority rights) shall be no less than 130,000 thousand Canadian dollars (this sum shall not be linked to any linkage index whatsoever)	CA \$276 million
The ratio of the Company's consolidated capital (including minority rights) to the total balance sheet shall be no less than 26%.	52%

Hereinafter are details of the financial stipulations with which the Company has undertaken to comply, pursuant to Section 8.1.27 (causes for immediate defrayal) of the Series B Deed of Trust:

Pursuant to Section 8.1.27 of the Series B Deed of Trust, the Company confirms that there has been no change to its principal activity, furthermore, the scope of the Company's entrepreneurial residential and real estate project.

*Certain restrictions pertaining to dividends*

The Company shall be permitted to carry out distributions as this term is defined in the Companies Law (including by way of independent purchase of the Company's shares) (in this section: "Distribution"), subject to compliance with the provisions of the Companies Law for the purpose of Distribution and on condition that the following accumulated conditions are met:

- The Company's total consolidated equity capital (not including minority rights), pursuant to the Company's consolidated financial reports, after Distribution as aforementioned, shall be no less than a total of 200 million Canadian dollars and, the ratio of the Company's consolidated capital (including minority rights) to the total balance sheet pursuant to the annual or quarterly financial reports that were published prior to the date of passing the resolution as to the Distribution, after execution of the Distribution, shall be no less than 28.5%;
- The scope of the Distribution that the Company shall be permitted to make to its shareholders shall not exceed 50% of "the current net profit" for every calendar year, starting from January 1, 2016;
- The Company is complying and shall comply after the Distribution with the financial criteria pursuant to Section 6.2a of the Series B Deed of Trust; and



- d. The Company has transferred to the trustee approval by the senior officer in the field of finance in the Company pursuant to Section 6.2(i)(d) of the Series B Deed of Trust.

In this matter “current net profit” means profit for the period pursuant to the accepted rules of accounting pursuant to the Company’s latest quarterly or annual consolidated financial reports, accordingly, less revenues and plus costs and expenses which are not cash flow based, which were recognized in the profit for the period. Without derogating from the generality of the aforementioned: revenues that are not cash flow based could include, for example, an increase in the fair value of real estate for investment and profit from purchase at an incidental price. Expenses and costs which are not cash flow based could include, for example: decreases in the fair value of real estate for investment, depreciation and deductions and expenses due to share-based payment. Notwithstanding the aforementioned, the Company shall be permitted to distribute a dividend during the realization of assets (including by way of adding a partner), at a scope of up to 50% of the cash flow profit derived from realization of the asset, and this due to the share of the cash flow profit, which was not included in the current net profit, as defined above.

In this matter “cash flow profit” means net consideration derived to the Company from sale of the asset, whether this sale was recognized as current net profit or whether its results were recognized as the other inclusive profit, less the following components: cost of the original purchase, capital investments (CAPEX) executed in the period in which the Company held the asset, transaction costs and taxes. Furthermore, the cash flow profit shall include any other sum which as a result of realization, pursuant to the accepted rules of accounting, shall be transferred from the capital fund to the accumulated losses. It shall be emphasized that if the sale of the asset was carried out in instalments, it shall be possible to distribute the dividend in instalments, subject to the aforementioned, relatively, pursuant to the payment table of the sale. It shall be stated that in the event that the Company did not distribute a dividend for a certain calendar year, the right to distribute shall accrue for it, and it shall be entitled to distribute it in the coming years, subject to the provisions of the law. See above, calculation of the current net profit as of March 31, 2023. As of the date of the report the Company is compliant with all the terms and undertakings pursuant to the Series B Deed of Trust, including compliance with financial stipulations as stated in this section above, and no conditions have been established for cause for placing the bonds (Series B) for immediate defrayal.

*The Company’s compliance with financial covenants*

As of the date of publication of the report, the Company and its subsidiaries comply with the financial covenants undertaken towards financing parties and the bond holders, with the exception of Renaissance loan. For more information on the Renaissance loan, please refer to Section III Period Highlights. The Company is in discussions with the lender and expects that the covenant breach will be resolved in the near term.

**XI. Equity**

*Outstanding Share Data*

The authorized capital of the Company consists of an unlimited number of common shares. A detailed description of the rights, privileges, restrictions and conditions attached to the common shares is included in our Annual Information Form. As of March 31, 2023 (and the date of this MD&A), the Company had 16,700,490 common shares issued and outstanding.

The Company's capital resources include amounts raised from the sale of its common shares. The Company's common shares are listed for trading on the Tel Aviv Stock Exchange.

	As at March 31, 2023
Total outstanding at the beginning of the period <sup>1</sup>	16,700,490
Repurchased during the period	0
<b>Total outstanding at the end of the period</b>	<b>16,700,490</b>

#### *Other Issued Securities*

The Company has also issued Stock Options as outlined in the table below.

	Number of Employee Stock Options As at March 31, 2023	Weighted average exercise Price
<b>Total stock options outstanding at the beginning and the end of the period</b>	<b>200,000</b>	<b>27.35 NIS</b>

## **XII. Factors Affecting Performance**

The Company's performance is affected by a number of industry and economic factors as well as exposure to certain environmental factors, including those further discussed below. These factors represent opportunities but also challenges and risks that the Company must successfully address in order to continue to grow the business and improve its results of operations.

#### *Canadian Hotels and Resorts segment*

The Company continues to explore acquisition opportunities in the Canadian hotel space that align with its acquisition criteria.

#### *Competitive Conditions*

The Ontario marketplace relies significantly on inter-provincial travel, for both leisure and group business. Competitors for leisure guest visits include locally owned independent resorts in rural locations known for their natural beauty as well as larger hotel and resort experiences in Ontario's key tourism destinations. Competitors for group travel include all branded hotel chains with conference facilities or branded hotels in major cities within proximity to convention centers.

The Company will seek to gain a competitive advantage on future Canadian acquisitions by investing in quality properties located in geographic areas with multiple demand generators.

#### *Accessibility from major metropolitan areas*

The Greater Toronto Area (GTA) is the most populous metropolitan area in Canada. The Greater Golden Horseshoe, with a population of approximately 9 million, encompasses the GTA and is expected to grow to 13.5 million by 2041. Proximity to the GTA, including Pearson International Airport, is considered a key competitive advantage in the Canadian hotel marketplace.

<sup>1</sup> Including 200,000 shares held in trust for the Company's CEO.

### *Seasonality*

The Hospitality segment in Canada is impacted by seasonality. Resort operations are highly seasonal in nature, with a typical winter/ski season beginning in early December and running through the end of March, and typical summer seasons beginning late in June and ending in early September. Traditional hotel operations with proximity to metropolitan centres are less impacted by seasonality. The Company will seek to position future investments in the Canadian hotel sector to be less susceptible to seasonality trends.

### *USA Hotels and Resorts segment*

#### *Competitive Conditions*

Competition in the US hotel industry is generally based on quality and consistency of rooms, restaurant and meeting facilities and services, attractiveness of locations, availability of a global distribution system, and price among other factors. The Company's properties compete within their geographic markets with hotels and resorts that include locally owned independent hotels as well as facilities owned or managed by national and international chains, including such brands as Marriott, Hilton, IHG, and Hyatt. The Company's properties also compete for convention and conference business across the national market. The Company seeks to gain a competitive advantage in the market by upgrading the quality of accommodations and amenities available at the hotels through capital improvements.

In the US, the Company's hotels and resorts are well-positioned within the competitive marketplace. The Cleveland hotels maintain a competitive share of the leisure market due to their central downtown location and affiliation with leading international brands Marriott and Hyatt. The Bear Valley Resort in California is a well-known ski resort with proximity to significant population centers such as San Francisco and Sacramento. Skyline's Select-Service Courtyard by Marriott hotels offer geographical diversity with strong locations in key Midwest, Southeast and Southwest markets, and benefit from the industry-leading Marriott loyalty program and worldwide distribution system. The Company seeks to gain a competitive advantage in the market by upgrading the quality of accommodations and amenities available at its hotels through capital improvements. Recently completed projects include guestroom renovations at the Hyatt Regency Arcade in Cleveland, Ohio, (114 of which were renovated during 2014 and the balance 180 rooms were renovated during the first nine months of 2017) and an investment in Bear Valley resort by installing a new high-speed lift and modernization of its equipment. In October 2015, the Company (together with a 50% partner) acquired Renaissance Hotel in Cleveland, Ohio (a 65,000 square foot event and meeting space, which includes 491 rooms, 34 meeting rooms, a number of restaurants and a 304-vehicle parking garage).

The Company intends to complete the renovation and improvement of all the conference space, common areas and rooms at the Renaissance by the end of 2023.

On November 14, 2017, the Company acquired 13 Marriott Courtyard hotels in the US for US \$135 million. The 13 hotels acquired include, in aggregate, 1,913 rooms. The hotels are spread over 9 US states and are geographically diverse with strong locations in key Midwest, Southeast and Southwest markets. On July 11, 2022, the Company acquired the "Courtyard by Marriott" hotel in Ithaca, New York, for US \$11.25 million. The hotel added New York state to the Company's portfolio.

#### *Accessibility from major metropolitan areas – Cleveland, Ohio Properties*

Northeast Ohio lies along the southern shores of Lake Erie. The major cities of this area are Cleveland and Akron. These two cities are roughly 39 miles apart and are highly interconnected. The region is also part of the Great Lakes Megalopolis, which contains an estimated 59.1 million people.

The Cleveland core-based statistical area (CSA) is one of the largest in Ohio with nearly 2.1 million residents. The region is served by two international airports. It is home to numerous fortune 500 firms and several of the area's largest employers are in the healthcare industry. The Cleveland Clinic is the area's largest employer and is a high-ranking

hospital according to US News & World Report. University Hospitals, another well-recognized facility, is the second largest employer in the CSA. In 2019, approximately 19.6 million people visited Cleveland.

The Company's hotels in the CSA maintain excellent vehicular and pedestrian access that is considered superior to some of its nearby competitors within walking distance to the primary attractions like the Jack Cleveland Casino, professional sports arenas, the Rock and Roll Hall of Fame, playhouse district, and a new convention center and medical mart.

#### *Seasonality*

Bear Valley Resort in California has strong seasonality patterns having its high season in the winter and low season during the remainder of the year. The resort is also subject to volatile snow conditions. The urban hotels are all-season operations, though stronger during June through October and slower during December through February, and therefore maintain a balanced level of income throughout the year. The second quarter is historically the strongest and the first quarter is historically the weakest for the 13 Marriott by Courtyard hotels, with similar trend expectations for the Ithaca Courtyard.

#### Real Estate, Development segment ("Development")

As part of the Freed Transaction, the Company sold the majority of its development properties.

The development segment's remaining principal activities include the marketing and selling of lots that are available for sale, Golf Cottages at Deerhurst.

In this segment, competition revolves around a number of parameters, with the main ones being the geographic location of the projects and level of demand in the same area, the construction and development quality and the purchase prices and maintenance expenses collected by the applicable condominium corporation. The Company is exposed to competition by a small number of directly competitive companies in the development of condominium units, single-family homes, subdivisions, townhomes and retail villages.

The scope of development by the Company is insubstantial compared to the total market. Thus, the Company is unable to significantly impact competition in the market. However, the Company believes that it currently has a competitive advantage in its remaining development projects at Deerhurst, due to the Company's proximity to hospitality amenities and outdoor activities.

#### *Seasonality*

Seasonality has no impact on the activities of the Company's existing projects in this segment.

### **XIII. Financial Instruments and Off-Balance Sheet Arrangements**

There are no financial instruments or off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the financial performance or financial condition of the Company.

#### *Company Distributions*

The Company does not currently have a dividend distribution policy.

### **XIV. Critical Accounting Policies and Estimates**

The preparation of the consolidated financial statements requires Management to make judgments and estimates and assumptions that affect the reported amounts and disclosures made in the consolidated financial statements and accompanying notes. Estimates are based upon historical experience and on various other assumptions that are reasonable under the circumstances. The result of ongoing evaluation of these estimates forms the basis for applying judgment with regards to the carrying values of assets and liabilities and the reported amounts of revenues and

expenses. Actual results may differ from estimates. The Company's significant accounting policies are described in note 2 to the consolidated financial statements.

### Estimates

#### *Investment property and property, plant and equipment assets*

Investment properties are measured at fair value in the consolidated statement of financial position. Fair values are determined by independent external valuations or detailed internal valuations, generally using the overall capitalization rate ("OCR") method. Under this method, capitalization rates are applied to a stabilized NOI for each property, adjusted for market-based assumptions such as rent increases, long-term vacancy rates, repair and maintenance costs and other forecasted cash flows. Capitalization rates are based on recently closed transactions for similar properties, where available, or investment survey data, taking into account the location, size and quality of the property. The most significant assumption is the capitalization rate as it magnifies the effect of a change in stabilized NOI. An increase in the capitalization rate will result in a decrease to the fair value of an investment property and vice versa. During the three months ended March 31, 2023, the Company recorded a fair value gain on its Investment Properties of \$30 compared to a fair value gain on its Investment Properties of \$0 during the three months ended March 31, 2022.

The Company has selected the revaluation model to account for its PP&E under IAS 16, "Property, Plant and Equipment" ("IAS 16"). Under the revaluation model, the Company's hotel assets that are classified as PP&E, are presented in the statement of financial position at their revalued amounts, which is the fair value at the most recent date of revaluation, less any accumulated depreciation and accumulated impairment losses. Revaluations are performed by independent, third-party appraisers, or internally with reference to external market data with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values as at the reporting date. During the three months ended March 31, 2023, the Company recorded a positive adjustment to fair value through revaluation surplus of its PP&E in the amount of \$1,440, compared to an adjustment of \$184 for the corresponding previous period.

#### *Contingencies and lawsuits*

When estimating the lawsuits filed against the Company and its subsidiaries, the Company relies on the opinion of its legal advisors. The opinions of legal counsel are based on best professional judgment, taking into account the stage of the proceedings and legal experience gained in various matters. The outcome of the claims adjudged by the courts, could differ from these estimates.

In December 2019, the Company was served a claim from the Company's former President and Chairman for employment related issues. In addition, the Company has been served with several smaller claims. In agreement with the Company's legal advisors, Management concludes that it is not possible, at this stage to estimate the Company's chances of success or the likely amount of recovery.

The Company has been served with claims totaling \$1.7 million in relation to certain construction projects. In agreement with the Company's legal advisors, Management concludes that it is not possible, at this stage to estimate the Company's chances of success or the likely amount of settlement, if any.

## **XV. Internal Control over Financial Reporting and Disclosure Controls and Procedures**

Our Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining the Company's internal control over financial reporting and other financial disclosure and our disclosure controls and procedures. The Company could be adversely impacted if there are deficiencies in disclosure controls and procedures or internal control over financial reporting.

The design and effectiveness of our disclosure controls and procedures and internal control over financial reporting may not prevent all errors, misstatements or misrepresentations. While Management continues to review the design

and effectiveness of our disclosure controls and procedures and internal control over financial reporting, the Company cannot assure the reader that the disclosure controls and procedures or internal control over financial reporting will be effective in accomplishing all control objectives all of the time.

Deficiencies, particularly material weaknesses, in internal control over financial reporting which may occur in the future could result in misstatements of our results of operations, restatements of our financial statements, a decline in our share price, or otherwise materially adversely affect our business, reputation, results of operation, financial condition or liquidity.

Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the Company are being made only in accordance with authorizations of Management and directors of the Company; and (iii) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's financial statements. Internal control over other financial disclosure is a process designed to ensure that other financial information included in this MD&A, fairly represents in all material respects the financial condition, results of operations and cash flows of the Company for the periods presented in this MD&A.

The Company's disclosure controls and procedures are designed to provide reasonable assurance that material information relating to the Company is made known to Management by others, particularly during the period in which the filings are being prepared and that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. The Company's disclosure controls and procedures includes controls and procedures designed to ensure that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Company's Management, as appropriate to allow timely decisions regarding required disclosure.

Due to its inherent limitations, internal control over financial reporting and disclosure may not prevent or detect all misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may change.

For the three months ended March 31, 2023, there has been no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. Management has concluded that there are no material weaknesses in the Company's internal controls over financial reporting as at March 31, 2023.

## **XVI. Exposure to Market Risks and Ways of Managing Them**

**Currency risk:** The Company's performance is impacted by foreign currency fluctuations, notably of the Canadian dollar relative to the United States dollar. The Company faces large exposure to the Canadian/US dollar exchange rate since the Company has significant operations and assets in the United States and reports its results in Canadian dollars (see below). As of March 31, 2023 (compared to March 31, 2022), the Canadian dollar depreciated by 8.3% compared to the US dollar. For more information regarding the influence of the foreign exchange rate on Company's equity, see notes 2(c) in the consolidated financial statements for the period ended March 31, 2023.

In September 2017, the Company issued Series B Bonds denominated in USD, which provides a natural hedge to the Company's equity investment in the acquisition of 13 Marriott Courtyard hotels in the United States. For more information, see note 13 to the consolidated annual financial statements for the year ended December 31, 2022.

Management holds regular discussions on the exposure to various market risks, including changes in exchange rates. The Company's policy is to maintain a correlation between the currency in which the assets are acquired and the currency of the loans the Company takes to finance those assets, in order to maintain equity in that currency. For the three months ended March 31, 2023, the Company's US operations contributed approximately 100% of consolidated revenue. The Company does not purchase financial instruments that hedge the USD/CAD currency rate risk. Exchange rate risk is minimized by borrowing in US dollars for properties in the United States.

**Market Risks:** The Company is subject to a number of risks and uncertainties, primarily risks associated with: the development of future assets, competition, real estate markets, general and regional economic conditions, the availability and cost of financing, and changes in interest rates due to uncertainty in the world markets including Israel, the United States and Canada. The Company does not hold or issue derivative financial instruments for trading purposes.

## **XVII. Risk Factors**

Our hospitality operations, real estate development projects, vacation club, and financial results are subject to various risks and uncertainties that could adversely affect our prospects, financial results, financial condition and cash flow. In addition to the other information presented in this MD&A, the following risks should be given special consideration as part of any investment decision in the Company's securities.

Investors should carefully consider all of the information disclosed in this MD&A prior to investing in the securities of the Company. There are certain risks inherent in an investment in the securities of Skyline and in the activities of Skyline, including our hospitality operations, real estate development projects, vacation club, and those set out below and in Skyline's materials filed with Israeli and Canadian securities regulatory authorities from time to time, including Skyline's most recently filed Annual Information Form, which are available under the Company's profile on MAGNA at [www.magna.isa.gov.il](http://www.magna.isa.gov.il) and/or SEDAR at [www.sedar.com](http://www.sedar.com). Current and prospective holders of securities of Skyline should carefully consider such risk factors.

If any of the following or other risks occurs, Skyline's business, prospects, financial condition, financial performance and cash flows could be materially adversely impacted. In that case, the trading price of the securities of Skyline could decline and investors could lose all or part of their investment in such securities, and the future ability of Skyline to make distributions to shareholders could be adversely affected. There is no assurance that risk management steps taken will avoid future loss due to the occurrence of the below described or other unforeseen risks.

***Our industry is sensitive to weakness in general economic conditions and risks associated with the overall travel, leisure, and recreational community industries.***

Weak economic conditions in Canada and the United States, including high unemployment, erosion of consumer confidence, and the availability and cost of debt, may potentially have negative effects on the travel and leisure industry, the recreational community development industry, and on our results of operations. An economic downturn could negatively impact consumer spending on vacation real estate and at our hospitality outlets. We cannot predict how economic trends will worsen or improve our future operating results. The actual or perceived fear of weakness in the economy could also lead to decreased spending by our guests. We may not be able to increase the price of our offerings commensurate with our costs.



***Variations in the timing of peak periods, holidays and weekends may affect the comparability of our results of operations.***

Depending on how peak periods, school breaks, holidays and weekends fall on the calendar year, in any given year we may have more or less peak periods, holidays and weekends in each fiscal quarter compared to prior years, with a corresponding difference in adjacent fiscal quarters. These differences can result in material differences in our quarterly results of operations and affect the comparability of our results of operations.

***We are vulnerable to the risk of unfavorable weather conditions and the impact of natural disasters.***

Our ability to attract guests to our resorts is influenced by weather conditions such as rain in the summer and the amount and timing of snowfall during the ski season. Unfavorable weather conditions can adversely affect visits and our revenue and profits. Unseasonably cold or warm weather may influence the momentum and success of the high seasons at our resorts. Unfavorable weather conditions can adversely affect our resorts and lodging properties as guests tend to delay or postpone vacations if conditions differ from those that typically prevail at such resorts for a given season. There is no way for us to predict future weather patterns or the impact that weather patterns may have on our results of operations or visitation.

***Climate change may adversely impact our results of operations.***

There is a growing political and scientific consensus that emissions of greenhouse gases continue to alter the composition of the global atmosphere in ways that are affecting and are expected to continue affecting the global climate. The effects of climate change, including any impact of global warming, could have a material adverse effect on our business, prospects, financial condition, results of operations and cash flows.

Warmer overall temperatures and other effects of climate change may adversely affect skier and summer visits and our revenue and profits. In addition, a steady increase in global temperatures could shorten the ski season. Changes to the amount of snowfall and differences in weather patterns may increase our snowmaking expense, inhibit our snowmaking capabilities and negatively impact skier perceptions of the ski season.

***The high fixed cost structure of our business can result in significantly lower margins if visitation to our hotels and resorts declines.***

Our profitability is highly dependent on visitation. However, the cost structure of our business has significant components that cannot be eliminated when visits decline, including costs related to utilities, information technology, insurance, year-round employees and equipment. The occurrence of other risk factors discussed herein could adversely affect visitation at our resorts and we may not be able to reduce fixed costs at the same rate as declining revenues.

***We face significant competition.***

The hotel, resort, lodging, and real estate development industries are highly competitive. Our competitors may have access to greater financial, marketing and other resources and may have access to financing on more attractive terms than us. As a result, they may be able to devote more resources to improving and marketing their offerings or more readily take advantage of acquisitions or other opportunities.

***Our real estate development projects rely on municipal approvals and adequate infrastructure.***

Our real estate development projects require adequate municipal services for sewage treatment, potable water supply, fire flow, and road access. There are risks associated with insufficient capacities, particularly in rural areas, resulting in costly delays and expensive upgrades to sewage treatment plants, pumping stations, water wells, water storage towers, and road intersection improvements.

Timely municipal approvals for Official Plan Amendments, Zoning By-law Amendments, Plans of Subdivisions, Consents for Severance, Site Plan Approvals, Minor Variances to the Zoning By-law, and Building Permits not only

depend on adequate municipal services but also on political support. There are considerable risks in being subjected to lengthy appeals procedures initiated either by us, in the absence of required approvals, or by existing residents opposed to our developments.

***Our business is capital intensive and dependent on the availability of cash flows and credit facilities.***

We must regularly expend capital to construct, maintain and renovate our properties in order to remain competitive, maintain the value and brand standards of our properties and comply with applicable laws and regulations. We cannot always predict where capital will need to be expended in any fiscal year and capital expenditures can increase due to forces beyond our control. Further, we cannot be certain that we will have enough capital or that we will be able to raise capital by issuing equity or debt securities or through other financing methods on reasonable terms, if at all, to execute our business plan. A lack of available funds for capital expenditures could have a material adverse effect on our business, prospects, financial condition, results of operations and cash flows.

Our ability to fund expenditures will depend on our ability to generate sufficient cash flow from operations and/or to borrow from third parties. We cannot provide assurances that our operations will be able to generate sufficient cash flow to fund such costs, or that we will be able to obtain sufficient financing on adequate terms, or at all. In addition, there can be no assurances that future real estate development projects can be self-funded with cash available on hand, through advance pre-sale deposits or through third party real estate financing. Our ability to generate cash flow and to obtain third-party financing will depend upon many factors, including: our future operating performance; general economic conditions and economic conditions affecting the resort industry, the general capital markets; competition; legislative and regulatory matters affecting our operations and business; and our ability to meet our presales targets on our vertical real estate development projects. Any inability to generate sufficient cash flows from operations or to obtain adequate third-party financing could cause us to delay or abandon certain projects and/or plans.

Further, the ability to enter into a revolving corporate credit facility on reasonable economic terms, may adversely affect our ability to obtain the additional financing necessary to acquire additional vacation ownership inventory. The ability to provide consumer financing for vacation ownership customers may impact the results from operations and cash flow.

***Our operations and development activities are subject to extensive laws, rules, regulations and policies administered by various federal, provincial, state, regional, municipal and other governmental authorities.***

Our operations are subject to a variety of federal, state, provincial, regional and local laws and regulations, including those relating to lift operations, emissions to the air, discharges to water, storage, treatment and disposal of fuel and wastes, land use, remediation of contaminated sites and protection of the environment, natural resources and wildlife. We are also subject to worker health and safety laws and regulations. From time to time our operations are subject to inspections by environmental regulators and other regulatory agencies. While regulatory approvals provide a significant barrier to new entrants in our industry, such approvals may be time consuming and consume considerable capital and manpower resources. Our efforts to comply with applicable laws and regulations do not eliminate the risk that we may be held liable for breaches of these laws and regulations, which may result in fines and penalties or subject us to claims for damages. Liability for any fines, penalties, damages or remediation costs, or changes in applicable laws or regulations, could have a material adverse effect on our business, prospects, financial condition, results of operations and cash flows.

***We are subject to environmental laws and regulations in the ordinary course of business.***

Our operations are subject to a variety of federal, provincial, state and local environmental laws and regulations including those relating to emissions to the air, discharges to water, storage, treatment and disposal of wastes, land use, remediation of contaminated sites and protection of natural resources such as wetlands. Our facilities are subject to risks associated with mold and other indoor building contaminants. From time to time our operations are subject to inspections by environmental regulators and other regulatory agencies. We are also subject to worker health and safety requirements. We believe our operations are in substantial compliance with applicable material environmental, health

and safety requirements. We believe our operations are in substantial compliance with applicable material environmental, health and safety requirements. However, our efforts to comply do not eliminate the risk that we may be held liable, incur fines or be subject to claims for damages, and that the amount of any liability, fines, damages or remediation costs may be material for, among other things, the presence or release of regulated materials at, on or emanating from properties we now or formerly owned or operated, newly discovered environmental impacts or contamination at or from any of our properties, or changes in environmental laws and regulations or their enforcement.

***We rely on information technology to operate our businesses and maintain our competitiveness, and any failure to adapt to technological developments or industry trends could harm our business.***

We depend on the use of sophisticated information technology and systems, including technology and systems used for central reservations, point of sale, procurement, administration and technologies we make available to our guests. We must continuously improve and upgrade our systems and infrastructure to offer enhanced products, services, features and functionality, while maintaining the reliability and integrity of our systems and infrastructure. Our future success also depends on our ability to adapt our infrastructure to meet rapidly evolving consumer trends and demands and to respond to competitive service and product offerings.

In addition, we may not be able to maintain our existing systems or replace or introduce new technologies and systems as quickly as we would like or in a cost-effective manner. Delays or difficulties in implementing new or enhanced systems may keep us from achieving the desired results in a timely manner, to the extent anticipated, or at all. Any interruptions, outages or delays in our systems, or deterioration in their performance, could impair our ability to process transactions and could decrease our quality of service that we offer to our guests. Also, we may be unable to devote financial resources to new technologies and systems in the future. If any of these events occur, our business and financial performance could suffer.

***We are subject to litigation in the ordinary course of business.***

We are, from time to time, subject to various asserted or un-asserted legal proceedings and claims. Any such claims, regardless of merit, could be time consuming and expensive to defend and could divert Management's attention and resources. While we believe we have adequate insurance coverage and/or accrue for loss contingencies for all known matters that are probable and can be reasonably estimated, we cannot assure that the outcome of all current or future litigation will not have a material adverse effect on us and our results of operations.

***Our business depends on the quality and reputation of our brands, and any deterioration in the quality or reputation of these brands could have an adverse impact on our business.***

A negative public image or other adverse events could affect the reputation of one or more of our ski resorts, other destination resorts, hotel properties and other businesses or more generally impact the reputation of our brands. If the reputation or perceived quality of our brands declines, our market share, reputation, business, financial condition or results of operations could be adversely impacted. The unauthorized use of our trademarks could also diminish the value of our brands and their market acceptance, competitive advantages or goodwill, which could adversely affect our business.

***If we do not retain our key personnel, our business may suffer.***

The success of our business is heavily dependent on the leadership of key management personnel, including our senior executive officers. If any of these persons were to leave, it could be difficult to replace them, and our business could be harmed.

***We are subject to risks associated with our workforce.***

We are subject to various federal, state and provincial laws governing matters such as minimum wage requirements, overtime compensation and other working conditions, citizenship requirements, discrimination and family and medical leave. Our operations in Canada are also subject to laws that may require us to make severance or other

payments to employees upon their termination. Immigration law reform could also impact our workforce because we recruit and hire foreign nationals as part of our seasonal workforce. We have a significant workforce due to our vast operations and if our labor-related expenses increase, our operating expenses could increase and our business, financial condition and results of operations could be harmed.

From time to time, we have also experienced non-union employees attempting to unionize. While only a small portion of our employees are unionized at present, we may experience additional union activity in the future. In addition, future legislation could make it easier for unions to organize and obtain collectively bargained benefits, which could increase our operating expenses and negatively affect our business, prospects, financial condition, results of operations and cash flows.

***Our acquisitions or future acquisitions might not be successful.***

We have acquired certain resorts, hotel properties and destination resort community development assets. Acquisitions are complex to evaluate, execute and integrate. We cannot assure you that we will be able to accurately evaluate or successfully integrate and manage acquired ski resorts, properties and businesses and increase our profits from these operations. We continually evaluate potential acquisitions and intend to actively pursue acquisition opportunities, some of which could be significant. As a result, we face various risks from acquisitions, including: our evaluation of the synergies and/or long-term benefits of an acquired business; our inability to integrate acquired businesses into our operations as planned; diversion of our management's attention; potential increased debt leverage; litigation arising from acquisition activity; and unanticipated problems or liabilities.

In addition, we run the risk that any new acquisitions may fail to perform in accordance with expectations, and that estimates of the costs of improvements for such properties may prove inaccurate.

***We are subject to risks related to currency fluctuations.***

We present our financial statements in Canadian dollars. To create a natural hedge, we have sourced debt in United States dollars for the Hyatt Regency Cleveland hotel, the Renaissance Hotel in Cleveland Ohio, and the Marriot Hotels. However, a significant fluctuation in the Canada/US exchange rate could impact our net income after tax that is reported in Canadian dollars. Currency variations can also contribute to variations in sales at our hotels and resorts from Canadian residents travelling to the United States.

We borrowed through the capital markets in Israel, denominated in Israeli Shekels, with a linkage on cap \$62 million dollars of our Series B Bonds to US dollars. For further information, see Bonds B above.

***Certain circumstances may exist whereby our insurance coverage may not cover all possible losses and we may not be able to renew our insurance policies on favorable terms, or at all.***

Although we maintain various property and casualty insurance policies and undertake safety and loss prevention programs to address certain risks, our insurance policies do not cover all types of losses and liabilities and in some cases may not be sufficient to cover the ultimate cost of claims which exceed policy limits. If we are held liable for amounts exceeding the limits of our insurance coverage or for claims outside the scope of our coverage, our business, prospects, financial condition, results of operations and cash flows could be materially adversely affected.

In addition, we may not be able to renew our current insurance policies on favorable terms, or at all. Our ability to obtain future insurance coverage at commercially reasonable rates could be materially adversely affected if we or other companies within or outside our industry sustain significant losses or make significant insurance claims.

***We are subject to accounting regulations and use certain accounting estimates and judgments that may differ significantly from actual results.***

Implementation of existing and future legislation, rulings, standards and interpretations from the International Accounting Standards Board or other regulatory bodies could affect the presentation of our financial statements and

related disclosures. Future regulatory requirements could significantly change our current accounting practices and disclosures. Such changes in the presentation of our financial statements and related disclosures could change an investor's interpretation or perception of our financial position and results of operations.

***We may not be able to fully utilize our tax loss carry-forwards.***

As at March 31, 2023, we believe we will have non-capital loss carry-forwards of approximately \$79,781 for Canadian and US federal, provincial and state income tax purposes. To the extent available, we intend to use these net operating loss carry-forwards to offset future taxable income associated with our operations, as well as the Freed Transaction. There can be no assurance that we will generate sufficient taxable income in the carry-forward period to utilize any remaining loss carry-forwards before they expire.

***Our stock price can be volatile.***

The market price of our stock is highly volatile and subject to wide fluctuations in response to factors such as quarterly variations in our operating results, which is beyond our control. We are listed on the Stock Exchange and are subject to the capital markets in the State of Israel. Events beyond our control that take place in the State of Israel may negatively affect our stock price.

***An active trading market for our common shares may not be sustained.***

Although our common shares are listed on the Stock Exchange, an active trading market for our common shares may not be sustained. Accordingly, if an active trading market for our common shares is not maintained, the liquidity of our common shares, your ability to sell your common shares when desired and the prices that you may obtain for your common shares will be adversely affected.

***We cannot provide assurance that we will pay dividends.***

Any declaration and payment of future dividends to holders of our common stock will be at the discretion of our Board in accordance with applicable law after taking into account various factors, including our financial condition, our operating results, our current and anticipated cash needs, the impact on our effective tax rate, our indebtedness, legal requirements and other factors that our Board deems relevant. Our debt agreements limit our ability to pay dividends.

Because we are a holding company, our ability to pay cash dividends on our common shares will depend on the receipt of dividends or other distributions from our subsidiaries. Until such time that we pay a dividend, our investors must rely on sales of their common shares after price appreciation, which may never occur, as the only way to realize any future gains on their investment.

***Our indebtedness could adversely affect our financial health and prevent us from fulfilling our obligations.***

Our level of indebtedness could have important consequences. For example, it could: make it more difficult for us to satisfy our obligations; increase our vulnerability to general adverse economic and industry conditions; require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, real estate developments, marketing efforts and other general corporate purposes; limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; place us at a competitive disadvantage compared to our competitors that have less debt; and limit our ability to borrow additional funds.

***Fluctuations in interest rates could negatively affect our business.***

Fluctuations to available interest rates as a result of changes to the inflation rate or other factors may negatively impact the business, results of operations and financial position of the Company, as interest rate expense represents a significant cost in the ownership of real estate properties. As well, in a rising interest rate environment, the cost of acquiring, financing, developing and renovating properties also increases. Upward pressure on capitalization rates

impacts the availability of accretive target acquisitions and may also have a potential adverse impact on the value of the Company's assets. In an attempt to combat recent inflation through cooling demand, the Federal Reserve began increasing the Federal Funds Effective Rate in the first quarter of 2022, with its most recent increase announced on May 03, 2023. A continued increase in interest rates may also result in a significant increase in the amount paid by the Company to service debt, which could in turn adversely affect the Company's financial condition and results of operations. The Company has available a variety of financial strategies to protect against rising interest rates and inflationary pressures. Specifically, the Company may enter into interest rate swaps, interest rate caps and other hedging measures – the Company entered into one such interest rate cap on its largest USD denominated loan in November 2022. While the Company's portfolio and strong and stable hospitality business base provide the Company with an ability to be flexible to navigate these volatile economic conditions, there can be no assurance regarding the impact of a significant economic contraction or recession on the business, results of operations and financial position of the Company.

***Our business is sensitive to rising travel costs.***

Many of our guests travel by vehicle and higher gasoline prices may make travel more expensive and impact the number of guests that visit our properties. As a result, occupancy rates of our hotels and resorts may be negatively impacted, which would impact the Company's revenues.

***Our business is sensitive to changes in the real estate industry.***

Decreased demand for retail space, decreased rental fees, decreased ability for tenants to meet payment obligations, increased financing costs and improvements at competitive resorts may negatively impact the Company's operations.

***The cost of contractors may impact our future projects.***

The cost of employing contractors for the Company's projects impacts the Company's profitability. The Company could also be impacted by changes in the cost of raw materials and labour, shortages of raw materials and labour and strikes for unionized labour.

***We are subject to certain legal and regulatory matters in Israel that may affect the Company.***

The Company is subject to the regulations and requirements of Israeli Securities Law and Israeli Companies Law. It is possible that the Company will be subject to any changes in Israeli law and regulatory requirements and the possible imposition of requirements from time to time by regulators and Stock Exchange authorities in Israel.

***The Company is subject to maintaining certain financial conditions.***

The Deed of Trust that governs the outstanding bonds (Series B) requires the Company to maintain certain financial conditions which may limit the Company's ability to incur additional indebtedness or raise additional equity. These restrictions may limit the Company's ability to take advantage of business opportunities as they arise. More importantly, the Company's ability to comply with the covenants may be affected by changes in economic or business conditions or other events beyond its control. A breach of these covenants by the Company and a corresponding default under the deed of trust in circumstances may result in the aggregate amount of the principal and interest on the Series B Bonds becoming due and payable by the Company or the exercise of collateral. The Company's ability to make accelerated payments will be dependent upon its cash resources at the time, its ability to generate sufficient revenue and its access to alternative sources of funds. Accordingly, the Company's inability to comply with the financial conditions could have a materially adverse effect on the Company's financial condition.



***Additional issuance of securities by the Company may dilute existing security holders, reduce some or all of the Company's financial measures on a per share basis, reduce the trading price of the Common Shares or other the Company securities or impede the Company's ability to raise future capital.***

The Company may issue additional securities in the future in connection with acquisitions, strategic transactions, financings or for other purposes. To the extent additional securities are issued, the Company's existing security holders could be diluted and some or all of the Company's financial measures could be reduced on a per share basis. Additionally, the Company's securities issued in connection with a transaction may not be subject to resale restrictions and, as such, the market price of the Company's securities may decline if certain large holders of the Company's securities or recipients of the Company's securities in connection with an acquisition, sell all or a significant portion of such securities or are perceived by the market as intending to sell such securities. In addition, such issuances of securities may impede the Company's ability to raise capital through the sale of additional equity securities in the future.

***The Company's business is subject to evolving corporate governance and public disclosure regulations that have increased both the Company's compliance costs and the risk of noncompliance, which could have an adverse effect on the price of the Company's securities.***

The Company is subject to changing rules and regulations promulgated by a number of Israeli and Canadian governmental and self-regulated organizations, including the Stock Exchange and the Canadian Securities Administrators. These rules and regulations continue to evolve in scope and complexity, making compliance more difficult and uncertain. Further, the Company's efforts to comply with such rules and regulations, and other new rules and regulations have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of Management time and attention from revenue-generating activities to compliance activities.

***Certain of the Company's directors and officers serve in similar positions with other public companies, which could put them in a conflict position from time to time.***

Certain of the directors and officers of the Company also serve as directors or officers of, or have significant shareholdings in, other companies, and, to the extent that such other companies may engage in transactions or participate in the same ventures in which the Company participates, or in transactions or ventures in which the Company may seek to participate, the directors and officers of the Company may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. Such conflicts of the directors and officers may result in a material and adverse effect on the Company's profitability, results of operations, financial condition and the trading price of the Company's securities.

## **XVIII. Additional Information**

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 of 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 "**Previous Loan**"). 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%. Out of the new loan proceeds, US \$1.8 million will be used to finance the Hotel's renovation, 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.

In the new loan agreement, there are no defaulting financial covenants. 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.

On April 27, 2023, the Company published Notice of a Special General Meeting of the Company's Shareholders with the agenda including the following matters: an amendment to the Company's Compensation Policy and an update to the terms of office and employment of Mr. Blake D. Lyon, the Company's CEO

On April 30, 2023, Robert Waxman has ceased to hold office as CFO. Neha Kapelus, VP Finance was appointed as Senior Officer effective May 1, 2023.

For further information about the Company, please visit the Company's website at [www.skylineinvestments.com](http://www.skylineinvestments.com) or SEDAR at [www.sedar.com](http://www.sedar.com) or Israeli Securities regulators [www.magna.isa.gov.il](http://www.magna.isa.gov.il).

May 11, 2023