# GENESIS LAND DEVELOPMENT CORP.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2018

The Management's Discussion and Analysis ("**MD&A**") of the financial condition and results of operations of Genesis Land Development Corp. ("**Genesis**", "**the Corporation**", "**we**", "**us**", or "**our**") should be read in conjunction with unaudited condensed consolidated interim financial statements and the notes thereto for the three and six months ended June 30, 2018 and 2017, prepared in accordance with International Financial Reporting Standards ("**IFRS**").

The unaudited condensed consolidated interim financial statements and comparative information have been reviewed by the Corporation's audit committee, consisting of three independent directors, and approved by the board of directors of the Corporation. Additional information, including the Corporation's annual information form ("**AIF**") and the Corporation's MD&A for the year ended December 31, 2017 are available on SEDAR at www.sedar.com.

**All amounts are in thousands of Canadian dollars, except per share amounts or unless otherwise noted. This MD&A is dated as of August 14, 2018.**

## STRATEGY AND 2018 BUSINESS PLAN

### Strategy

Genesis Land Development Corp. ("Genesis" or the "Corporation") is a land developer and residential home builder operating in the Calgary Metropolitan Area ("CMA"), holding a significant portfolio of well-located, entitled and unentitled residential, commercial and mixed-use lands and serviced lots in the CMA.

As a land developer, Genesis acquires, plans, rezones, subdivides, services and sells residential communities and commercial and industrial lands to third-party developers and builders, and also sells lots and completed homes through its home building division. The land portfolio is planned, developed, serviced and sold at opportune times with the objective of maximizing the risk adjusted net present value of the land and to maximize the cash flow available for distribution to shareholders. Home building is operated through a wholly-owned subsidiary, Genesis Builders Group Inc. ("GBG"). GBG designs, constructs and sells single-family homes and townhouses primarily on lands developed by Genesis. The objective of the home building division is to deliver an acceptable return and cash flow from the capital invested in it and to sell incremental Genesis single-family lots and townhouse land parcels.

As part of its overall strategy, Genesis continues to focus on minimizing overhead costs and long term commitments, where possible, to preserve flexibility. Any excess cash on hand is generally used to reduce debt, opportunistically acquire additional development land, issue dividends to shareholders and/or buy back common shares.

### 2018 Business Plan

The business plan for 2018 includes:

1) maximizing the return of capital to shareholders through further dividends, buying back shares and/or re-investing in additional lands in the CMA;
2) making further progress in obtaining additional zoning and servicing entitlements on several of Genesis' properties, which is expected to increase the value and marketability of these lands;
3) refining and implementing plans for the development and sale of lands to maximize the net present value of each project;
4) servicing the final phase of the "Saddlestone" community in Calgary, two new phases in Genesis' Airdrie community and the last phase in the Sage Meadows community;
5) adding additional third-party builders acquiring lots in Genesis' communities, in addition to the five third-party builders already working with Genesis; and
6) increasing the number of units sold by GBG, including building the first phases of two townhouse complexes.

***Obtain Additional Zoning and Servicing Entitlements***

During the first half of 2018, Genesis continued to make progress in obtaining additional zoning and servicing entitlements including:

- <u>Sage Hill Crossing Outline Plan</u>: Calgary City Council approved the Area Service Plan ("ASP") amendment for Sage Hill Crossing in September 2017. Genesis submitted its Outline Plan and Land Use application in December 2017, and has subsequently filed amendments to its original plan, and anticipates approval in early 2019.
- <u>Southeast Lands ASP</u>: The City of Calgary initiated the process for the "Ricardo Ranch" ASP in January, 2018. There are three landowners involved, of which Genesis is the designated lead in dealing with the City. The process started in January and is anticipated to be approved by Calgary City Council in early 2019. Several studies have been completed which will be used to form the final ASP layout. A Public Open House was held by the City in June.
- <u>OMNI ASP</u>: The OMNI ASP was approved by Rocky View County (the "County") in September 2017. The City of Calgary appealed this approval to the Alberta Municipal Government Board in October 2017 which must be resolved before Genesis can proceed with further zoning applications. Mediation between the County and City of Calgary was unsuccessful and the matter will be determined by the Alberta Municipal Government Board following the merit hearing process held in late July / early August 2018. It is not known yet when the Board will make a ruling.

### *Plans for the Development and Sale of Lands*

Genesis continues to develop detailed plans for each of its core lands, with the objective of maximizing the net present value of the land and to sell the land at the most opportune time.

### *Service Additional Phases*

Servicing of four new phases with a three year estimated budget of approximately $61,000 commenced in Q2 2018. Approximately $29,000 of this is expected to be incurred in 2018. Each of these phases is being financed with land project credit facilities from two major Canadian chartered banks. Servicing is expected to be completed in 2020 and will provide a substantial number of future lots and parcels of land for sale, including:

1) The final phase of the Saddlestone community for 121 lots, two multifamily sites totaling 1.9 acres and a 3.2 acre park;
2) The final phase of the Sage Meadows community, servicing 18.1 acres for four multifamily sites (2 of which have been contracted for sale), 31 single-family lots on which GBG is expected to build houses and a previously dedicated school site; and
3) Two new phases in Airdrie, including Bayside 10 for 108 lots and Bayview 1 for a 6 acre park and 102 lots.

### *Sale of Development Lands*

On July 30, 2018, the Corporation completed the sale of a 1.8 acre commercial parcel of land in the Calgary Metropolitan Area for $2,688 which was paid in cash on closing.

Genesis has three additional parcels of land in the Sage Meadows community under contract to sell, comprising three multifamily sites of 7.8, 4.7 and 3.9 acres, respectively. It is expected that the sale of two of the three sites will be completed in August and in late 2018, respectively with the final site closing in 2020, but there can be no assurances that all or any of these transactions will close.

### *$0.24 per Share Special Dividend Declared*

On August 14, 2018, the Board of Directors has declared a special cash dividend of $0.24 per common share for a total of approximately $10,309, payable to shareholders of record on August 28, 2018, and will be paid on September 12, 2018.

### Dividend History and Share Buybacks

Since 2014 when it paid its first dividend, Genesis will have returned over $51.9 million, including the current dividend declared, to shareholders by way of dividends and bought back nearly 2 million common shares for approximately $5.9 million under its normal course issuer bid (approximately 4.4% of the common shares outstanding at the commencement of the program in 2015).

| *($000s, except for number of shares and per share items)* | **Dividend per share** | **Total dividends** | **Shares repurchased and cancelled** | **Cost of repurchases** |
|---|---|---|---|---|
| 2018 (dividend will paid be on Sep.12, 2018) | $0.24 | $10,309 | 300,000 | $1,101 |
| 2017 | 0.46 | 19,896 | 493,085 | 1,456 |
| 2016 | 0.25 | 10,936 | 551,796 | 1,420 |
| 2015 | 0.12 | 5,331 | 628,598 | 1,887 |
| 2014 | 0.12 | 5,386 | - | - |
| Total | **$1.19** | **$51,858** | **1,973,479** | **$5,864** |

### *Add Third-party Builders in Genesis Communities*

In late 2017, one of Genesis' third-party builders in Airdrie was placed in receivership. During Q2 2018, Genesis purchased 54 lots and work-in-progress on Genesis land related to this builder from the receiver. Genesis has resold approximately half of these lots to a third-party builder and has retained the balance on which GBG is expected to build houses.

### *Increase Homes Sold by Genesis Builders Group*

The following table shows new homes sold in the most recent eight quarters:

| Units sold | Q2 2018 | Q1 2018 | Q4 2017 | Q3 2017 | Q2 2017 | Q1 2017 | Q4 2016 | Q3 2016 |
|---|---|---|---|---|---|---|---|---|
| Single-family homes | 24 | 24 | 32 | 40 | 36 | 19 | 56 | 28 |
| Townhouses | - | 9 | 12 | 9 | - | - | - | - |
| Total homes sold | 24 | 33 | 44 | 49 | 36 | 19 | 56 | 28 |

## OVERVIEW OF ALBERTA REAL ESTATE MARKET

The Alberta economy has stabilized and begun to grow as it adjusts to an improved energy pricing environment and recovers from a major recession. However, the Alberta energy sector continues to experience low levels of capital investment and employment. The 2017 gross domestic product ("GDP") growth in Alberta was 6.7% according to the Conference Board of Canada, compared to declines of 3.8% in 2016 and 3.7% in 2015. The Conference Board of Canada has forecast 2.1% Alberta GDP growth for 2018.

The overall Alberta real estate market has been slowly improving as the overall market and economy adjusts, although there have been reduced levels of home purchases in the CMA since late 2014, with house prices flat to slightly down. Detached home sales in the CMA in the first half of 2018 were down nearly 20% year over year, with average prices remaining flat. However, the inventory of detached homes on the market has increased, which may be placing downward pressure on home prices. For 2018, the Conference Board of Canada is forecasting Calgary home sales to be similar to 2017.

In the first half of 2018 ("H1 2018"), there were 8,553 home sales in Calgary, 17% lower than the same period in 2017 and sales for the month of June 2018 were 12% below long term averages according to the Calgary Real Estate Board. The Calgary area real estate market was negatively impacted by changes to mortgage lending rules introduced on January 1, 2018, (primarily the new "B-20" borrowing stress test required to be met by all insured borrowers from federally regulated financial institutions), a general increase in mortgage interest rates and a harsh winter season.

There has been a significant shift over the last several years in the timing of the buying of new CMA homes by many purchasers, with many homes now sold at or close to completion on a quick possession basis, rather than being contracted before construction commences. This trend is continuing and Genesis manages its product mix, timing, inventory and to ensure that it is able to deliver on an efficient and timely basis.

## OPERATING HIGHLIGHTS

Key financial results and operating data for Genesis were as follows:

| *($000s, except for per share items or unless otherwise noted)* | **Three months ended June 30, [1]** | | **Six months ended June 30, [2]** | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| **Key Financial Data** | | | | |
| Total revenues | **18,955** | 38,497 | **33,324** | 54,161 |
| Direct cost of sales | **(14,302)** | (28,392) | **(24,245)** | (38,644) |
| Gross margin | **4,653** | 10,105 | **9,079** | 15,517 |
| Gross margin (%) | **24.5%** | 26.2% | **27.2%** | 28.6% |
| Net earnings attributable to equity shareholders | **540** | 4,209 | **1,227** | 4,913 |
| Net earnings per share - basic and diluted | **0.01** | 0.09 | **0.03** | 0.11 |
| Cash flows (used in) from operating activities | **(1,336)** | 12,251 | **(139)** | 10,722 |
| Cash flows (used in) from operating activities per share - basic and diluted | **(0.03)** | 0.28 | **0.00** | 0.25 |
| **Key Operating Data** | | | | |
| **Land Development** | | | | |
| Total residential lots sold (units) | **64** | 78 | **101** | 129 |
| Residential lot revenues | **12,141** | 17,930 | **17,592** | 26,742 |
| Gross margin on residential lots sold | **4,028** | 7,825 | **6,459** | 11,571 |
| Gross margin (%) on residential lots sold | **33.2%** | 43.6% | **36.7%** | 43.3% |
| Average revenue per lot sold | **190** | 230 | **174** | 207 |
| Development and non-core land sold | **-** | 9,000 | **-** | 9,000 |
| **Home Building** | | | | |
| Homes sold (units) | **24** | 36 | **57** | 55 |
| Revenues [3] | **10,859** | 17,474 | **24,264** | 26,494 |
| Gross margin on homes sold | **1,545** | 3,018 | **3,540** | 4,684 |
| Gross margin (%) on homes sold | **14.2%** | 17.3% | **14.6%** | 17.7% |
| Average revenue per home sold | **452** | 485 | **426** | 482 |
| Homes (with lots) subject to firm sale contracts (units) at the period end | | | **37** | 50 |

| **Key Balance Sheet Data** | **As at Jun. 30, 2018** | **As at Dec. 31, 2017 [4]** |
|---|---|---|
| Cash and cash equivalents | **12,468** | 23,585 |
| Total assets | **285,137** | 301,425 |
| Loans and credit facilities | **21,090** | 30,135 |
| Total liabilities | **65,270** | 81,884 |
| Shareholders' equity | **201,523** | 201,397 |
| Total equity | **219,867** | 219,541 |
| Loans and credit facilities (debt) to total assets | **7%** | 10% |

*[1] Three months ended June 30, 2018 and 2017 ("Q2 2018" and "Q2 2017")*
*[2] Six months ended June 30, 2018 and 2017 ("H1 2018" and "H1 2017")*
*[3] Includes revenues of $4,045 for 24 lots in Q2 2018 and $8,532 for 57 lots in H1 2018 purchased by the Home Building division from the Land Development division (33 and $5,907 in Q2 2017; 47 and $8,075 in H1 2017) and sold with the home. These amounts are eliminated on consolidation.*
*[4] As at December 31, 2017 ("YE 2017")*

## Highlights of Second Quarter

In Q2 2018, Genesis' cash flow used in operating activities was ($1,336) (($0.03) per share), compared to cash flow from operating activities of $12,251 ($0.28 per share) for the second quarter of 2017 ("Q2 2017"), a decrease of $13,587 ($0.31 per share). The difference was primarily due to a $9,000 sale of development land in Q2 2017 with no corresponding sale in Q2 2018, and $5,124 paid for the purchase of lots and work-in-progress from a third-party builder in receivership.

Net income for Q2 2018 was $540 ($0.01 per share), down from $4,209 ($0.09 per share) in Q2 2017 as a result of lower overall revenues. Revenues for Q2 2018 were $18,955, down $19,542 (51%) from $38,497 in Q2 2017. Net income for H1 2018 was $1,227 ($0.03 per share) compared to $4,913 ($0.11 per share) in H1 2017.

Revenues for H1 2018 of $33,324 were down $20,837 (39%) compared to $54,161 in H1 2017. This was primarily due to there being no development land sales in H1 2018, as well as fewer residential lot sales to third-party builders and lower revenues from home sales by the home building division.

The gross margin on residential lot sales in Q2 2018 was 33%, compared to 44% in Q2 2017, was primarily due to the mix of sales by community and product/lot type, the nature and cost of the development work required to ready the lots for sale and the original cost of the land.

The gross margin of the home building division was 14% in Q2 2018, down from 17% in Q2 2017 due to the adjustment of prices to reflect market conditions and the change in product mix to lower priced and lower margin single-family homes.

Total expenses for Q2 2018 were lower than in Q2 2017, with savings of $234 (6%) realized in sales, general and administrative expenses and lower interest expense of $252 (41%) due to lower average loan balances during Q2 2018 compared to Q2 2017.

Genesis' had $12,468 in cash and cash equivalents at June 30, 2018 compared to $23,585 as at December 31, 2017, the decrease being primarily due to the $8,000 payment on the vendor-take-back mortgage payable in the first quarter of 2018. As a result of this payment, total loans and credit facilities as at June 30, 2018 were $21,090, 30% lower than at December 31, 2017. Loans and credit facilities outstanding at June 30, 2018 were 7% of total assets, compared to $30,135 or 10% of total assets at December 31, 2017.

## Land Development

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| | **2018** | **2017** | **% change** | **2018** | **2017** | **% change** |
| **Key Financial Data** | | | | | | |
| Residential lot revenues(1) | **12,141** | 17,930 | (32.3%) | **17,592** | 26,742 | (34.2%) |
| Development land revenues | **-** | 9,000 | N/R(4) | **-** | 9,000 | N/R(4) |
| Direct cost of sales | **(8,113)** | (18,748) | (56.7%) | **(11,133)** | (23,814) | (53.3%) |
| Gross margin | **4,028** | 8,182 | (50.8%) | **6,459** | 11,928 | (45.9%) |
| Gross margin (%)(2) | **33.2%** | 30.4% | | **36.7%** | 33.4% | |
| Write-down of land held for development | **(920)** | (1,095) | (16.0%) | **(920)** | (1,095) | (16.0%) |
| Other expenses(3) | **(1,465)** | (2,401) | (39.0%) | **(2,717)** | (4,616) | (41.1%) |
| Earnings before taxes | **1,643** | 4,686 | (64.9%) | **2,822** | 6,217 | (54.6%) |
| **Key Operating Data** | | | | | | |
| Residential lots sold to third-parties | **40** | 45 | (11.1%) | **44** | 82 | (46.3%) |
| Residential lots sold through GBG – home building | **24** | 33 | (27.3%) | **57** | 47 | 21.3% |
| Total residential lots sold | **64** | 78 | (17.9%) | **101** | 129 | (21.7%) |
| Average revenue per lot sold | **190** | 230 | (17.4%) | **174** | 207 | (15.9%) |

*(1) Includes residential lot sales to third-parties and to GBG*
*(2) Gross margin amount divided by the sum of residential lot sales and development land sales*
*(3) Other expenses includes general and administrative, selling and marketing, (expense) or income from joint venture and net finance expense*
*(4) Not reflective due to percentage change*

### *Gross margin by source of revenue*

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| **Residential lot sales(1)** | **12,141** | 17,930 | **17,592** | 26,742 |
| Direct cost of sales | **(8,113)** | (10,105) | **(11,133)** | (15,171) |
| Gross margin | **4,028** | 7,825 | **6,459** | 11,571 |
| Gross margin (%) | **33.2%** | 43.6% | **36.7%** | 43.3% |
| **Development land sales(2)** | **-** | 9,000 | **-** | 9,000 |
| Direct cost of sales | **-** | (8,643) | **-** | (8,643) |
| Gross margin | **-** | 357 | **-** | 357 |
| Gross margin (%) | **-** | 4.0% | | 4.0% |
| Residential lot and development land gross margin | **4,028** | 8,182 | **6,459** | 11,925 |

*(1) Includes residential lot sales to third-parties and to GBG*
*(2) Includes rebate of $100 on early closing of the 14 acre development land parcel*

The change in gross margin percentages for single-family lots was primarily due to the mix of sales by community and product /lot type, the nature of the development work undertaken before the lots were ready for sale and the original cost of the land and servicing.

### *Revenues and Unit Volumes*

Total residential lot sales revenues in Q2 2018 were $12,141 (64 lots), down 32% from $17,930 (78 lots) in Q2 2017. Total lot sales revenues for the H1 2018 were $17,592 (101 lots), a 34% decrease over the $26,742 (129 lots) sold in H1 2017. In H1 2017, Genesis added two new third-party builders in its Sage Meadows community in Calgary and one in its Bayview community in Airdrie, and as a result saw higher lot sales revenues as Genesis contracted a large number of residential lots to these builders as they initially built an inventory of lots. This did not occur in 2018.

During Q2 2018, 40 lots were sold to third-party builders, down 11% from the 45 lots sold to third-party builders in Q2 2017. In Q2 2018, GBG sold 24 homes on Genesis lots, down 27% from 33 homes sold in Q2 2017.

Seven lots sold to third-party builders in Q2 2018 were premium lots in the Calgary community of Sage Meadows and 33 were in the City of Airdrie (Q2 2017 – 22 and 23 lots, respectively).

There were no development land sales in Q2 2018 compared to $9,000 in Q2 2017. Development land sales occur periodically and comprise sales of commercial, multifamily and other lands that Genesis does not intend to build on through GBG.

### *Gross margin*

Residential lot sales in Q2 2018 had a gross margin of 33%, compared to 44% in Q2 2017. In H1 2018, the margin realized was 37% compared to 43% in H1 2017. However, overall gross margins for residential lot sales and development land sales together were higher in both Q2 2018 and H1 2018 compared to the same periods in 2017.

### *Write-down of land held for development*

During the three and six months ended June 30, 2018, the Corporation recorded a write-down of $920 (2017 - $1,075) due to costs capitalized during the period (mainly property taxes and interest) relating to its Sage Hill Crossing land held for development that is carried at net realizable value. The provision for write-down will be reversed in the future if the net realizable value of the property exceeds its book value.

### *Other expenses*

Other expenses were 39% lower in Q2 2018 compared to Q2 2017, with lower general and administrative expenses, sales and marketing expenses and net finance expenses and depreciation expenses. General and administrative expenses were lower in a number of areas such as consulting and professional services, partially offset by higher compensation expenses during the quarter. Sales and marketing expenses were lower mainly due lower sales commissions due to lower sales. Net finance expense was lower due to (i) the reduction in the outstanding balance of a vendor-take-back mortgage payable ("VTB") on Genesis' Calgary southeast lands following an $8,000 payment in January 2018; (ii) the repayment of a third-party loan by a limited partnership in December 2017, and (iii) $332 of finance income earned on the vendor-take-back mortgage receivable. The latter two items relate to the December 2017 transaction resulting in the final disposition of land held by this limited partnership. Please see information provided under the heading *Vendor-take-back Mortgage Receivable* in this MD&A.

### *Factors Affecting Results of Operations*

A number of factors affect the results of operations, including:

- the cyclicality of the Calgary area real estate market and economy;
- the development and servicing of land and the sale of residential lots and other land parcels occurs over a substantial period of time which creates volatility in the revenues, earnings and cash flows from operating activities;
- land and lot prices and gross margins vary by community and lot type, the nature of the development work required to be undertaken before the land and lots are ready for sale, and the original cost of the land and servicing; and
- seasonality which has historically resulted in higher revenues in the summer and fall months when home building sales often peak.
- changes to the regulatory environment both direct and indirect, for example land development approvals or mortgage rules.

## Home Building – Genesis Builders Group Inc. (GBG)

The home building business of Genesis is operated through its wholly-owned subsidiary, GBG.

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| | **2018** | **2017** | **% change** | **2018** | **2017** | **% change** |
| **Key Financial Data** | | | | | | |
| Revenues[1] | **10,859** | 17,474 | (37.9%) | **24,264** | 26,494 | (8.4%) |
| Direct cost of sales | **(9,314)** | (14,456) | (35.6%) | **(20,724)** | (21,810) | (5.0%) |
| Gross margin | **1,545** | 3,018 | (48.8%) | **3,540** | 4,684 | (24.4%) |
| Gross margin (%) | **14.2%** | 17.3% | | **14.6%** | 17.7% | |
| Other expenses[2] | **(2,203)** | (2,120) | 3.9% | **(4,350)** | (4,624) | (5.9%) |
| (Loss) Earnings before taxes | **(658)** | 898 | N/R[3] | **(810)** | 60 | N/R[3] |
| **Key Operating Data** | | | | | | |
| Homes sold (units) | **24** | 36 | (33.3%) | **57** | 55 | 3.6% |
| Average revenue per home sold | **452** | 485 | (6.8%) | **426** | 482 | (11.6%) |
| Homes (with lots) subject to firm sales contracts (units)at the period end | | | | **37** | 50 | (26.0%) |

*(1) Revenues include residential home sales and other revenue*
*(2) Other expenses includes general and administrative, selling and marketing and net finance expense*
*(3) Not reflective due to percentage change*

### *Revenues and Unit Volumes*

The number of single-family homes and townhomes sold by GBG in Q2 2018 was lower than in Q2 2017, with revenues of $10,859 (24 units) in Q2 2018, 38% lower than $17,474 (36 units) in Q2 2017. Revenues were $24,264 (57 units) in H1 2018, 8% lower than revenues of $26,494 (55 units) in H1 2017.

Homes sold in Q2 2018 had an average price of $452 per home, down 7% compared to $485 in Q2 2017. Homes sold in H1 2018 had an average price of $426 per home, down 12% compared to $482 in H1 2017, due to differences in product mix to lower priced (and lower margin) single-family homes and the adjustment of sales prices to reflect weaker market conditions. 48 single-family homes and 9 townhouses were sold in Q2 2018 compared to 55 single-family homes and no townhouses in Q2 2017.

All homes sold in Q2 2018 were built on residential lots or parcels supplied by Genesis, with lot or parcel revenues of $4,045, while in Q2 2017, 33 of 36 homes were built on residential lots or parcels supplied by Genesis, with lot revenues of $5,907. The remaining 3 homes sold in Q2 2017 were on lots previously acquired by GBG from a third-party developer.

GBG builds single-family homes either after receiving a firm sale contract (a “pre-construction home”) or on a quick possession (“spec”) basis, and builds townhomes generally on a quick possession basis. The delivery time of a pre-construction home can be determined in advance, with a home typically being delivered within 8 to 10 months of a customer signing a purchase agreement. Construction of quick possession homes is started before GBG receives a firm sale contract in order to have sufficient inventory for buyers seeking possession within a short period of time (often 30-90 days), due to the multi-unit nature of town homes and to obtain construction efficiencies. This requires GBG to build homes on a spec basis and to hold them in inventory until sold. The timing of the sale of spec homes is unpredictable, with spec home buyers usually being time sensitive, wanting to take possession in a short time frame. Genesis monitors its home building work-in-progress closely to anticipate and react to market conditions in a timely manner.

Of the 24 homes sold in Q2 2018, 22 were quick possession sales (i.e., contracted and delivered within 90 days) compared to 36 homes sold in Q2 2017 of which 20 were quick possession sales.

### *Gross margin*

GBG's gross margin was 14% in Q2 2018 compared to 17% in Q2 2017 due to GBG reducing sales prices slightly to reflect weaker market conditions and the change in product mix to lower priced and lower margin single-family homes. Genesis had a gross margins on home sales of 15% in H1 2018 as compared to 18% in H1 2017.

### *Other Expenses*

Other GBG expenses in Q2 2018 were 4% higher than in Q2 2017 due to higher marketing expenses and net finance expenses offset by lower general and administrative expenses (including lower compensation expenses).

## Finance Expense

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| | **2018** | **2017** | **% change** | **2018** | **2017** | **% change** |
| Interest incurred | **71** | 203 | (65.0%) | **159** | 436 | (63.5%) |
| Finance expense relating to VTB[1] | **294** | 426 | (31.0%) | **589** | 851 | (30.8%) |
| Financing fees amortized | **75** | 103 | (27.2%) | **91** | 176 | (48.3%) |
| Interest and financing fees capitalized | **(77)** | (117) | (34.2%) | **(152)** | (223) | (31.8%) |
| | **363** | 615 | (41.0%) | **687** | 1,240 | (44.6%) |

*[1] VTB related to Calgary southeast lands*

Interest incurred during Q2 2018 was lower than in Q2 2017 due to lower average loan balances during Q2 2018 compared to Q2 2017. The Corporation paid the third installment of $8,000 on the VTB in January 2018. The imputed rate on the VTB, which has a 0% face rate, is 8%. In addition, the third-party loan owed by a limited partnership was fully repaid in Q4 2017, reducing interest expense in H1 2018.

The weighted average interest rate of loan agreements with various financial institutions was 4.35% (YE 2017 - 3.99%) based on June 30, 2018 balances.

## LIQUIDITY AND CAPITAL RESOURCES

Genesis reduced its debt from $30,135 at YE 2017 to $21,090 at the end of Q2 2018, primarily due to the $8,000 installment paid in early January 2018 on the VTB relating to Genesis' southeast Calgary lands and a $1,541 reduction of land servicing and home building project loans. For additional details, please see information provided under the heading *Loans and Credit Facilities.*

| | June 30, | December 31, | |
|---|---|---|---|
| | **2018** | **2017** | **% change** |
| VTB payable | **14,797** | 22,208 | (33.4%) |
| Land development servicing and home building loans | **6,293** | 7,927 | (20.6%) |
| Total loans and credit facilities | **21,090** | 30,135 | (30.0%) |

| | June 30, | December 31, | |
|---|---|---|---|
| Loans and credit facilities as a percentage of total assets | **2018** | **2017** | **% change** |
| VTB payable | **5.2%** | **7.4%** | (29.6%) |
| Land development servicing and home building loans | **2.2%** | **2.6%** | (16.1%) |
| Loans and credit facilities (debt) to total assets[1] | **7.4%** | **10.0%** | (26.0%) |
| Total liabilities to equity[2] | **30%** | 37% | (20.4%) |

*(1) Calculated as each component of loans and credit facilities divided by total assets*
*(2) Calculated as total liabilities divided by total equity*

## Real Estate Held for Development and Sale

| | June 30, 2018 | December 31, 2017 | % change |
|---|---|---|---|
| Real estate held for development and sale | **225,799** | 213,629 | 5.7% |
| Provision for write-downs | **(13,792)** | (12,872) | 7.1% |
| | **212,007** | 200,757 | 5.6% |

Real estate held for development and sale increased by $11,250 as at Q2 2018 compared to YE 2017. Refer to note 4 in the condensed consolidated interim financial statements for the three and six months ended June 30, 2018 and 2017 which details the gross book value and net book value of real estate held for development and sale.

The following table presents Genesis' real estate held for development and sale as at June 30, 2018.

| | Net Book Value | | |
|---|---|---|---|
| **Real Estate Held for Development and Sale** | **Lots, multifamily & commercial parcels** | **Land held for development[(1)]** | **Total** |
| **Community** | | | |
| Airdrie - Bayside, Bayview, Canals | 18,132 | 26,616 | 44,748 |
| Calgary NW - Sage Meadows | 18,048 | 7,945 | 25,993 |
| Calgary NW - Sage Hill Crossing | - | 43,370 | 43,370 |
| Calgary NE – Saddlestone | 10,056 | 5,265 | 15,321 |
| Calgary SE - Southeast lands | - | 45,056 | 45,056 |
| **Sub-total** | 46,236 | 128,252 | **174,488** |
| Rocky View County - North Conrich[(2)] | - | 4,685 | 4,685 |
| Other assets[(3)] - non-core | 13 | 1,976 | 1,989 |
| **Total - Land development** | 46,249 | 134,913 | **181,162** |
| **Home building work-in-progress** | | | **23,843** |
| **Total land development and home building** | | | **205,005** |
| Limited Partnerships[(2), (4)] | | | 7,002 |
| **Total real estate held for development and sale** | | | **212,007** |

*(1) Land held for development comprises lands not yet subdivided into single-family lots or parcels*
*(2) Includes the undivided interest of Genesis and two limited partnerships in the "Omni" project.*
*(3) Other assets are non-core and being marketed for sale. These assets represent 1.1% (YE 2017 - 1.1%) of Genesis' land portfolio with a carrying value of $1,989 (YE 2017 - $1,981).*
*(4) Net of intra-segment eliminations of $4,194.*

The following table presents the breakdown of Genesis' serviced single-family lots, multifamily and commercial parcels by community as at June 30, 2018.

| Serviced Lots, Multifamily and Commercial Parcels by Community | Net Book Value | Single-family lots | Townhouse units | Townhouse/ multifamily parcels | Commercial parcels |
|---|---|---|---|---|---|
| Airdrie - Bayside, Bayview, Canals | 18,132 | 136 | 85 | 1 | - |
| Calgary NW - Sage Meadows | 18,048 | 31 | - | 2 | 1 |
| Calgary NE - Saddlestone | 10,056 | 128 | 48 | - | - |
| | **46,236** | **295** | **133** | **3** | **1** |
| Other assets - non-core | 13 | 14 | - | - | - |
| **Total** | **46,249** | **309** | **133** | **3** | **1** |

The following table presents the estimated equivalent, if and when developed, by community of single-family lots, multifamily and commercial acres of Genesis' land held for development as at June 30, 2018. There can be no assurance as to when and if this will be achieved.

| | | | Estimated Equivalent if/when Developed | | |
|---|---|---|---|---|---|
| **Land Held For Development by Community** | **Net Book Value** | **Land (acres)[1]** | **Single-family** (lots) | **Multifamily** (acres) | **Commercial** (acres) |
| Airdrie - Bayside, Bayview | 26,616 | 244 | 1,322 | 9 | 2 |
| Calgary NW - Sage Meadows | 7,945 | 22 | 31 | 18 | - |
| Calgary NW - Sage Hill Crossing | 43,370 | 64 | - | 39 | 19 |
| Calgary NE - Saddlestone | 5,265 | 19 | 121 | 2 | - |
| Calgary SE - Southeast lands | 45,056 | 349 | 1,190 | 16 | - |
| | **128,252** | 698 | 2,664 | 84 | 21 |
| Rocky View County - North Conrich[2] | 4,685 | 312 | - | - | - |
| Other assets - non-core | 1,976 | 333 | - | - | - |
| | **134,913** | **1,343** | **2,664** | **84** | **21** |
| Limited Partnerships[2] | 7,002 | 1,437 | - | - | - |
| Total land held for development | 141,915 | 2,780 | 2,664 | 84 | 21 |

*(1) Land not yet subdivided into single-family and other lots or parcels*
*(2) Includes the undivided interest of Genesis and two limited partnerships in the "Omni" project.*

## Amounts Receivable

| | **June 30, 2018** | **December 31, 2017** | **% change** |
|---|---|---|---|
| Amounts receivable | **18,930** | 30,820 | (38.6%) |

Genesis generally receives a minimum 15% non-refundable deposit at the time of entering into a sale agreement for residential lots to a third-party builder. Title to a lot or home that is contracted for sale is not transferred by Genesis to the builder or purchaser until full payment is received, thus mitigating credit risk.

The decrease of $11,890 in amounts receivable was mainly due to the timing of residential lot sales and closings. As at Q2 2018, Genesis had $17,640 in amounts receivable related to the sale of 104 lots to third-party builders and a non-core development land parcel located in British Columbia ($490), compared to $28,500 in amounts receivable as at YE 2017 related to the sale of 156 lots to third-party builders and a non-core development land parcel ($1,315).

Individual balances due from third-party builders at Q2 2018 that were 10% or more of total amounts receivable were $15,852 from three third-party builders (2017 - $25,752 from five customers).

## Vendor-take-back Mortgage Receivable

| | **June 30, 2018** | **December 31, 2017** | **% change** |
|---|---|---|---|
| Vendor-take-back mortgage receivable | **21,219** | 20,558 | 3.2% |

A limited partnership controlled by the Corporation closed the sale of a 319 acre parcel of land on December 15, 2017 for gross proceeds of $41,000. The limited partnership received $20,500 in cash and a $20,500 three year vendor take back first mortgage bearing interest at 6.5% per annum. Interest on the vendor-take-back mortgage is payable annually, in arrears.

## Cash Flows from Operating Activities

Cash flow from the operating activities of Genesis varies quarter to quarter due to the nature of land sales and the timing of the receipt of sale proceeds. Genesis typically receives 15% of the purchase price in cash as a non-refundable deposit from a third-party builder at the time it recognizes all of the sales revenue. The balance of the purchase price is generally received in cash at the time of closing of the sale by the third-party builder to a home buyer, which can be many months later, resulting in a timing difference between sales revenue recognition and the actual receipt of cash. The sale of a lot by GBG to an end buyer is recognized on receipt of the full sale proceeds and the transfer of title to the lot. Land servicing costs can vary from quarter to quarter in both land development and home building. These expenditures are seasonal, can be impacted by weather and may be dependent on expected demand.

| | Three months ended June 30 | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Cash flows (used in) from operating activities | **(1,336)** | 12,251 | **(139)** | 10,722 |
| Cash flows (used in) from operating activities per share – basic and diluted | **(0.03)** | 0.28 | **0.00** | 0.25 |

The decrease in cash flows from operating activities between Q2 2018 and Q2 2017 is explained by the following:

| | Three months ended June 30, | | |
|---|---|---|---|
| | **2018** | **2017** | **Change** |
| Cash inflows from sale of residential lots | **11,121** | 4,527 | 6,594 |
| Cash inflows from sale of development land | **-** | 8,639 | (8,639) |
| Cash inflows from sale of residential homes by GBG | **11,103** | 17,061 | (5,958) |
| Cash outflows for land servicing | **(3,530)** | (2,807) | (723) |
| Cash outflows for home building activity | **(9,136)** | (9,117) | (19) |
| Cash outflows for land acquisitions | **(5,124)** | - | (5,124) |
| General and administrative and other | **(4,040)** | (5,198) | 1,158 |
| Income taxes paid | **(1,730)** | (854) | (876) |
| Total | **(1,336)** | 12,251 | (13,587) |

Cash inflows from the sale and closing of residential lots and development land varies quarter to quarter due to the nature of land sales and the timing of the receipt of sale proceeds. Cash inflows from the sale and closing of residential lots for Q2 2018 and Q2 2017 were $11,121 and $4,527 respectively. There were no cash inflows from development land sales in Q2 2018 compared to $8,639 in Q2 2017. Lower cash inflows from the sale of residential homes was due to the lower number of homes sold in Q2 2018 compared to the Q2 2017 and due to differences in product mix to lower priced single-family homes and the adjustment of sales prices to reflect weaker market conditions.

Cash outflows for land servicing can vary from quarter to quarter as these expenditures are seasonal, impacted by weather and are generally incurred based on expected demand. Genesis began the servicing of four new phases in 2018 and continued development activities in phases started in previous years.

Cash outflows for home building activity varies due to the product mix (i.e. single-family or townhouse) and the management of the pace of construction and work-in-progress to meet anticipated demand.

Cash outflows for land acquisitions in Q2 2018 were due to an agreement with the receiver of a third-party builder in a Genesis community. Under this agreement, the builder's agreement to purchase 23 lots from Genesis was cancelled, Genesis re-purchased from the builder 31 lots for $5,124 for which it had received full payment, and acquired that builder's work-in-progress on these lots and on the 23 returned lots. Refer to note 4 of the condensed consolidated interim financial statements for the three and six months ended June 30, 2018 and 2017.

The outflow of cash for cash-secured letters of credit was lower in Q2 2018 compared to Q2 2017 resulting in lower general and administrative and other cash outflows. The requirement to obtain letters of credit varies as development activities are commenced and completed. Excluding the cash-secured letters of credit, cash outflows for general and administrative expenses for Q2 2018 and Q2 2017 were comparable.

Higher cash outflows for income taxes during 2018 was due to higher 2018 installments triggered by higher 2017 taxes payable on which the next year's installments are based.

## LIABILITIES AND SHAREHOLDERS' EQUITY

The following table presents Genesis' liabilities and equity at the end of Q2 2018 and YE 2017:

| | June 30, | | December 31, | |
|---|---|---|---|---|
| | **2018** | **% of Total** | **2017** | **% of Total** |
| Loans and credit facilities | **21,090** | **7%** | 30,135 | 10% |
| Dividend payable | **-** | **-** | 10,813 | 4% |
| Customer deposits | **4,409** | **2%** | 4,629 | 2% |
| Accounts payable and accrued liabilities | **15,905** | **6%** | 8,938 | 3% |
| Income tax payable | **-** | **-** | 2,785 | 1% |
| Provision for future development costs | **23,866** | **8%** | 24,584 | 8% |
| Total liabilities | **65,270** | **23%** | 81,884 | 28% |
| Non-controlling interest | **18,344** | **6%** | 18,144 | 6% |
| Shareholders' equity | **201,523** | **71%** | 201,397 | 66% |
| Total liabilities and equity | **285,137** | **100%** | 301,425 | 100% |

Total liabilities to equity is as follows:

| | **June 30, 2018** | **December 31, 2017** |
|---|---|---|
| Total liabilities | **65,270** | 81,884 |
| Total equity | **219,867** | 219,541 |
| Total liabilities to equity[1] | **30%** | 37% |

*[1] Calculated as total liabilities divided by total equity*

### Loans and Credit Facilities

The following is a summary of outstanding loan and credit facility balances as at the end of the last five quarters:

| | **Q2 2018** | **Q1 2018** | **Q4 2017** | **Q3 2017** | **Q2 2017** |
|---|---|---|---|---|---|
| Land development servicing loans | - | 2,955 | 6,164 | 8,757 | 1,993 |
| Home building loans | 6,519 | 4,482 | 1,896 | 871 | - |
| Demand operating line | - | - | - | - | - |
| Vendor-take-back mortgage payable | 14,797 | 14,503 | 22,208 | 21,782 | 21,357 |
| | 21,316 | 21,940 | 30,268 | 31,410 | 23,350 |
| Land loan relating to a limited partnership | - | - | - | 4,125 | 8,963 |
| | 21,316 | 21,940 | 30,268 | 35,535 | 32,313 |
| Unamortized deferred financing fees | (226) | (168) | (133) | (154) | (47) |
| Balance, end of period | 21,090 | 21,772 | 30,135 | 35,381 | 32,266 |

The continuity of Genesis' VTB payable and land development servicing loans, excluding deferred financing fees, is as follows:

| | Six months ended June 30, 2018 | | | |
|---|---|---|---|---|
| | Vendor-take-back mortgage payable | Land development servicing loans | **Total** | **Year ended December 31, 2017** |
| Balance, beginning of period | 22,208 | 6,164 | **28,372** | 34,072 |
| Advances | - | 7,825 | **7,825** | 30,574 |
| Repayments | (8,000) | (13,989) | **(21,989)** | (37,976) |
| Interest expense | 589 | - | **589** | 1,702 |
| Balance, end of period | 14,797 | - | **14,797** | 28,372 |

Genesis has various covenants in place with its lenders with respect to its credit facilities. Such covenants include credit usage restrictions; cancellation, prepayment, confidentiality and cross default clauses; sales coverage requirements; conditions precedent for funding; and other general understandings such as, but not limited to, maintaining contracted lot prices, restrictions on encumbrances, liens and charges, material changes to project plans, and material changes in the Corporation's ownership structure.

In addition, GBG has a secured revolving operating line repayable on demand to be used for home construction. This line has a financial covenant requiring that GBG maintain a net worth of at least $6,500 at all times. Net worth is defined by the lender as "Retained Earnings plus Shareholders Loans plus Due to Related Parties (excluding lot payables to related parties) minus Due from Related Parties".

Genesis and its subsidiaries were in compliance with all covenants at Q2 2018 and at YE 2017. Loans and credit facilities are used primarily to finance the costs of developing land, building houses and for land purchases.

Genesis has sufficient liquidity from its cash flows from operating activities, supplemented by credit facilities, to meet the above liabilities as they become due. Project financing facilities are paid down with some or all of the sale proceeds of secured lands. Genesis intends to develop new phases by obtaining financing that is specific to each new phase or phases of land development and also for significant townhouse projects.

**Land development servicing loans**

As at June 30, 2018, Genesis had four land project loan facilities with the ability to fund up to $76,824 of future development and servicing costs. Interest on these facilities is charged at prime +0.75% per annum. Draws on these facilities can be made as land development activities progress. As at June 30, 2018, nil was drawn under these facilities (YE 2017 – four loans and $6,164).

**Home building loans**

GBG has a demand operating line of $6,500 bearing interest at prime +0.75% per annum. As at June 30, 2018, the amount drawn on this facility was Nil (YE 2017 - Nil).

GBG has a townhouse project loan facility with the ability to fund up to $11,225 of construction costs. This facility bears interest at prime +0.90% per annum and is due on August 31, 2020. As at June 30, 2018, $3,576 was drawn under this facility (YE 2017 - $1,896).

GBG has a second townhouse project loan facility with the ability to fund up to $5,981 of construction costs. This facility bears interest at prime +0.90% per annum and is due on March 28, 2020. As at June 30, 2018, $2,943 was drawn under this facility (YE 2017 - nil).

**Demand operating line**

Genesis has a demand operating line of credit of up to $10,000 for general corporate purposes at an interest rate of prime +1.00% per annum. As at June 30, 2018, the outstanding balance of this facility was Nil (YE 2017 - Nil). This facility was used in 2018 and in 2017 for short term cash flow purposes.

**Vendor-take-back mortgage payable**

Genesis granted the VTB on the purchase of the southeast lands in January 2015. As at June 30, 2018, the VTB had an outstanding balance of $16,000 with an unamortized discount of $1,203 (YE 2017 - $24,000 and $1,792 respectively). The outstanding balance is payable in two equal installments of $8,000 each in January 2019 and 2020.

## Provision for Future Development Costs

When Genesis sells lots, land parcels and homes, it often remains responsible for paying for future development costs known as "costs-to-complete".

For the land development business, the provision for future development costs represents the estimated remaining construction and other development costs related to each lot or parcel that has previously been sold, if any. These estimated costs include the direct and indirect construction and other development costs expected to be incurred by Genesis during the remainder of the development process, net of expected future recoveries from third-parties that are allocable to the relevant lot or parcel. The provision is reviewed periodically and, when a prior estimate is known to be different from the actual costs incurred or expected to be incurred, an adjustment is made to the provision for future development costs and a corresponding adjustment is made to land held for development and/or cost of sales.

The cost-to-complete estimates of GBG are additional future costs relating to previously sold homes estimated to be incurred, generally for seasonal and other work (such as paving and landscaping) and estimated warranty charges over the one year warranty period.

The provision for future development costs as at the end of Q2 2018 was $23,051 for the land development business (YE 2017 - $23,809) and $815 (YE 2017 - $775) for GBG. For additional details, please see information provided under the heading "*Critical Accounting Estimates*" in this MD&A.

## Income Tax (Recoverable) Payable

The continuity in income tax (recoverable) is as follows:

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Balance, beginning of period | **2,785** | (42) |
| Provision for current income tax | **2,085** | 6,882 |
| Net payments | **(6,265)** | (4,055) |
| Balance, end of period | **(1,395)** | 2,785 |

Net payments in a period are a combination of installments and final payments on the prior year's taxable income, both of which can vary significantly from period to period. Genesis is current with installments and the payment of final taxes.

## Shareholders' Equity

As at August 14, 2018, the Corporation had 42,952,721 common shares issued and outstanding. The common shares of the Corporation are listed for trading on the Toronto Stock Exchange under the symbol "GDC".

The Corporation purchased and cancelled common shares under its normal course issuer bid ("NCIB") as follows:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | **2017** |
| Number of shares purchased and cancelled | **300,000** | 28,176 | **300,000** | 475,625 |
| Total cost | **1,101** | 92 | **1,101** | 1,393 |
| Average price per share purchased | **3.67** | 3.31 | **3.67** | 2.93 |
| Shares cancelled as a % of common shares outstanding at beginning of period | **0.69%** | 0.07% | **0.69%** | 1.09% |

The Corporation did not repurchase any common shares between July 1, 2018 and August 14, 2018 for cancellation. As of the date of this MD&A, 1,863,022 common shares may be purchased for cancellation under the currently authorized NCIB.

During the six months ended June 30, 2018, The Corporation had purchased and cancelled 300,000 common shares for $1,101 at an average cost of $3.67 per share (representing 0.69% of issued and outstanding shares at the beginning of the year) compared to 475,625 common shares for $1,393 at an average cost of $2.93 at the end of Q2 2017 (representing 1.09% of issued and outstanding shares at the beginning of 2017).

## Contractual Obligations and Debt Repayment

Contractual obligations (excluding accounts payable, accrued liabilities, income taxes payable, customer deposits and provision for future development costs) at the end of Q2 2018 were as follows:

| | Loans and Credit Facilities[1] | Naming Rights | Lease Obligations | Total |
|---|---|---|---|---|
| Current | 7,679 | 500 | 534 | **8,713** |
| July 2019 to June 2020 | 10,061 | 500 | 501 | **11,062** |
| July 2020 to June 2021 | 3,576 | 500 | 184 | **4,260** |
| July 2021 and thereafter | - | - | 17 | **17** |
| Total | 21,316 | 1,500 | 1,236 | **24,052** |

[1] *Excludes deferred financing fees*

In 2012, Genesis entered into a memorandum of understanding with the Northeast Community Society to contribute $5,000 over 10 years for 15-year naming rights to the "Genesis Centre for Community Wellness", a recreation complex in northeast Calgary ($500 each year, terminating in 2021). The first seven installments totaling $3,500 were paid as at June 30, 2018.

In Q1 2017, the Corporation amended its head office lease agreement with Morguard Real Estate Investment Trust to extend the term by 38 months to September 30, 2020. The total basic rent over the extension period is $364. Genesis also has other minor operating leases.

As a normal part of business, Genesis has entered into arrangements and incurred obligations that will impact future operations and liquidity, some of which are reflected as short-term liabilities and commitments in note 7 of the condensed consolidated interim financial statements for the three and six months ended June 30, 2018 and 2017.

**Current Contractual Obligations, Commitments and Provision**

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Loans and credit facilities, excluding deferred financing fees | **7,679** | 12,007 |
| Accounts payable and accrued liabilities | **15,905** | 8,938 |
| Dividend payable | **-** | 10,813 |
| Total short-term liabilities | **23,584** | 31,758 |
| Commitments[1] | **1,034** | 1,074 |
| | **24,618** | 32,832 |

*[1] Commitments comprises naming rights and lease obligations*

At the end of Q2 2018, Genesis had obligations due within the next 12 months of $24,618, of which $7,679 related to loans and credit facilities. Repayment is either linked directly to the collection of lot receivables and sales proceeds or due at maturity. Management is confident that Genesis has the ability to continue to renew or to repay its financial obligations as they become due.

## Provision for Litigation

Two former employees filed a statement of claim against the Corporation and a director on May 27, 2016 alleging wrongful termination of their employment and seeking damages, legal costs and other relief arising out of the termination of their employment contracts with the Corporation. The aggregate amount of the claim is approximately $1,600 and the Corporation recorded this amount as a provision as at December 31, 2017. In 2017, the former employees brought a motion before a Master in Chambers of the Court of Queen's Bench of Alberta for summary judgment asking for awards of liquidated damages, being the amount of their severance entitlements set out in their employment contracts. On April 24, 2017, the Master granted the former employees' application for summary judgment. The Corporation filed a Notice of Appeal on April 28, 2017. The appeal was heard in August 2018 and judgement was reserved. On March 8, 2018, the two former employees served an application for leave to amend their claim to add claims in the amount of $1,100 plus costs and interest in connection with a disputed purported exercise of stock options. The matter has not yet been addressed by the courts. The Corporation intends to vigorously defend against these claims.

## OFF BALANCE SHEET ARRANGEMENTS

### Letters of Credit

Genesis has an ongoing requirement to provide irrevocable letters of credit to municipalities as part of the sub-division plan registration process to indemnify the municipalities in the event that Genesis does not perform its contractual obligations. At Q2 2018, these letters of credit totalled approximately $4,231 (YE 2017 - $5,491).

### Lease Agreements

Genesis has certain lease agreements that are entered into in the normal course of operations. All leases are treated as operating leases and lease payments are included in general and administrative expenses. No asset value or liability has been assigned to these leases on the balance sheet as at Q2 2018 and YE 2017. In the event the lease for the office building is terminated early, Genesis is liable to pay the landlord for the loss of its income for the unexpired portion of the lease, in addition to damages and other expenses incurred by the landlord, if any.

## SUMMARY OF QUARTERLY RESULTS

| | Q2 2018 | Q1 2018 | Q4 2017 | Q3 2017 | Q2 2017 | Q1 2017 | Q4 2016 | Q3 2016 |
|---|---|---|---|---|---|---|---|---|
| Revenues | **18,955** | 14,369 | 65,644 | 31,128 | 38,497 | 15,664 | 28,145 | 29,240 |
| Net earnings[1] | **540** | 687 | 8,713 | 3,372 | 4,209 | 704 | (1,216) | 2,184 |
| EPS[2] | **0.01** | 0.02 | 0.20 | 0.08 | 0.09 | 0.02 | (0.03) | 0.05 |

*[1] Net earnings attributable to equity shareholders*
*[2] Net earnings per share - basic and diluted*

| **Dividends** | Q2 2018 | Q1 2018 | Q4 2017 | Q3 2017 | Q2 2017 | Q1 2017 | Q4 2016 | Q3 2016 |
|---|---|---|---|---|---|---|---|---|
| Dividends declared | **-** | - | 10,813 | 9,083 | - | - | 10,936 | - |
| Dividends paid | **-** | 10,813 | - | 9,083 | - | - | 10,936 | - |
| Dividends declared – per share | **-** | - | 0.25 | 0.21 | - | - | 0.25 | - |
| Dividends paid – per share | **-** | 0.25 | - | 0.21 | - | - | 0.25 | - |

| | Q2 2018 | Q1 2018 | Q4 2017 | Q3 2017 | Q2 2017 | Q1 2017 | Q4 2016 | Q3 2016 |
|---|---|---|---|---|---|---|---|---|
| Residential lots sold to third-parties (units) | **40** | 4 | 37 | 13 | 45 | 37 | 12 | 24 |
| Homes sold (units) | **24** | 33 | 44 | 49 | 36 | 19 | 56 | 28 |

| | Q2 2018 | Q1 2018 | Q4 2017 | Q3 2017 | Q2 2017 | Q1 2017 | Q4 2016 | Q3 2016 |
|---|---|---|---|---|---|---|---|---|
| Development land revenues | **-** | - | 41,000 | 5,234 | 9,000 | - | - | 9,437 |

| **Cash flows (used in) from operating activities** | Q2 2018 | Q1 2018 | Q4 2017 | Q3 2017 | Q2 2017 | Q1 2017 | Q4 2016 | Q3 2016 |
|---|---|---|---|---|---|---|---|---|
| Amount | **(1,336)** | 1,197 | 27,298 | 8,888 | 12,251 | (1,529) | 6,229 | 10,060 |
| Per share basic and diluted | **(0.03)** | 0.03 | 0.62 | 0.21 | 0.28 | (0.03) | 0.14 | 0.23 |

In general, net earnings are mainly affected by the volume of residential lot and home sales, development land parcel sales, and write-downs or recoveries, if any. Seasonality affects the land development and home building industry in Canada, particularly winter weather conditions. For additional details, please see information provided under the heading "*Factors Affecting Results of Operations*" which discusses the factors that affect Genesis' results and seasonality further.

During Q2 2018, Genesis sold 40 residential lots to third-parties, 24 homes and no development land parcels resulting in higher revenues in Q2 2018 compared to Q1 2018.Gross margins in Q2 2018 were higher than in Q1 2018 despite a write-down of $920 in Q2 2018. Higher selling and marketing expenses in Q2 2018 were partially offset by lower general and administrative expenses compared to Q1 2018. Genesis had lower net finance income and higher income tax expense in Q2 2018 compared to Q1 2018. On an overall basis, this resulted in lower net earnings in Q2 2018 compared to Q1 2018.

During Q1 2018, Genesis sold four residential lots to third-parties, 33 homes and no development land parcels. This resulted in lower revenues in Q1 2018 compared to Q4 2017. Higher general and administrative expenses in Q1 2018 were more than offset by lower selling and marketing expenses, net finance expenses and income taxes compared to Q4 2017. On an overall basis, this resulted in lower net earnings in Q1 2018 compared to Q4 2017.

During Q4 2017, Genesis sold 37 residential lots to third-parties and 44 homes. Genesis completed the sale of 319 acres of undeveloped land belonging to a limited partnership for $41,000. On an overall basis, this resulted in higher revenues during Q4 2017 compared to Q3 2017. Genesis incurred lower general and administrative expenses and net finance expense during Q4 2017 offset by higher selling and marketing expenses compared to Q3 2017.

During Q3 2017, Genesis sold 13 residential lots to third-parties and 49 homes. Genesis completed the sale of a 617 acre parcel of land belonging to a limited partnership for $5,234. On an overall basis, lower revenues from residential lot sales and development land sales, partially offset by higher revenues from residential home sales resulted in lower revenues during Q3 2017 compared to Q2 2017. Genesis incurred slightly lower general and administrative, selling and marketing expenses during Q3 2017 compared to Q2 2017. In addition, Genesis had no write-down in Q3 2017.

During Q2 2017, Genesis sold 45 residential lots to third-parties and 36 homes. Genesis also sold a 1,476 non-core development land parcel in Q2 2017 for $9,000. On an overall basis, this resulted in higher revenues during Q2 2017 compared to Q1 2017. Genesis incurred lower general and administrative, selling and marketing expenses and net finance expenses during Q2 2017 compared to Q1 2017. In addition, Genesis had a write-down of $1,095 in Q2 2017.

During Q1 2017, Genesis sold 37 residential lots to third-parties and 19 homes. The 37 unit decrease in home closings between Q1 2017 and Q4 2016 was partially offset by a 25 unit increase in residential lot sales to third-parties. On an overall basis, this resulted in lower revenues during Q1 2017 compared to Q4 2016. Genesis incurred lower general and administrative, selling and marketing expenses and net finance expenses during Q1 2017 compared to Q4 2016. In addition, Genesis had no write-down in Q1 2017. These were the main factors resulting in higher net earnings and EPS during Q1 2017 compared to Q4 2016.

During Q4 2016, Genesis sold 12 residential lots to third-parties and 56 homes (all single-family). This resulted in revenues that were slightly lower than Q3 2016. Genesis also had a write-down of $5,372 in Q4 2016, a difference of $2,079 compared to Q3 2016, which affected the net earnings in Q4 2016.

During Q3 2016, Genesis sold 24 residential lots to third-parties, a 7 acre development land parcel for $9,437 and 28 homes (all single-family). The development land parcel sale and higher residential lot sales resulted in higher revenues in Q3 2016 compared to the second quarter of 2016 ("Q2 2016"), but this was partially offset by the lower residential home revenues. Genesis also had a write-down $3,293 related to of a single parcel of undeveloped non-core land located in Alberta.

## RELATED PARTY TRANSACTIONS

Transactions occurred with the following related party:

1. Underwood Capital Partners Inc. ("Underwood") - controlled by an officer and director, Stephen J. Griggs;

| | **Three months ended June 30,** | | **Six months ended June 30,** | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Paid to Underwood for the services of Stephen J. Griggs as CEO | **85** | 86 | **170** | 179 |

Effective February 16, 2016, the executive services of Stephen J. Griggs as interim and permanent CEO have been and are provided to the Corporation through Underwood, a private corporation controlled by him in accordance with a written agreement dated as of February 16, 2016 and revised effective May 11, 2017. Under this agreement, Underwood was paid a monthly retainer fee until June 15, 2016, at which time the fee was changed to a fee based on days spent, plus travel and related expenses. The agreement may be terminated by either party on thirty days prior written notice. No incentive or severance fees (share or cash based) are payable to Underwood under this agreement.

## SUBSEQUENT EVENTS

Subsequent to Q2 2018, the following occurred:

- please see information provided under the heading *Provision for Litigation* in this MD&A.
- on July 30, 2018, the Corporation completed the sale of a 1.8 acre commercial parcel of land in the Calgary Metropolitan Area for $2,688 which was paid in cash on closing.
- on August 14, 2018, the Corporation's Board of Directors declared a special cash dividend of $0.24 per common share for a total of approximately $10,309, payable to shareholders of record on August 28, 2018, and will be paid on September 12, 2018.

## SUMMARY OF ACCOUNTING CHANGES

No new IFRSs and interpretations were adopted by Genesis since April 1, 2018. For a discussion of new IFRS and interpretations that were adopted since January 1, 2018, refer to Genesis' MD&A for the three months ended March 31, 2018 available on SEDAR at www.sedar.com

## CRITICAL ACCOUNTING ESTIMATES

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgments and estimates that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date for the land development and the home building businesses. On an ongoing basis, management evaluates its judgments and estimates in relation to revenues, expenses, assets and liabilities. Management uses historical experience, third-party appraisals and reports and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions. There were no material changes made to the critical accounting estimates for Q2 2018 and Q2 2017. Refer to note 2(p) in the consolidated financial statements for the years ended December 31, 2017 and 2016 for additional information on judgments and estimates.

### Provision for Future Development Costs

Changes in estimated future development costs (net of recoveries, if any) related to land, lots and homes previously sold by Genesis and for which it has ongoing obligations directly impacts the amount recorded for the future development liability, cost of sales, gross margin and, in some cases, the value of real estate under development and held for sale. This liability is subject to uncertainty due to the longer time frames involved, particularly in land development.

### Impairment of Real Estate Held for Development and Sale

The Corporation estimates the net realizable value ("NRV") of real estate held for development and sale at least annually for impairment or whenever events or changes in circumstances indicate the carrying value may exceed NRV. The estimate is based on valuations conducted by independent real estate appraisers, other professional reports and estimates and take into account recent market transactions of similar and adjacent lands and housing projects in the same geographic area.

### Valuation of amounts receivable

Amounts receivable are reviewed on a regular basis to estimate recoverability of balances. Any overdue amounts and any known issues about the financial condition of debtors are taken into account when estimating recoverability.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

The CEO and CFO have designed Genesis' Disclosure Controls and Procedures ("DC&P") and Internal Control over Financial Reporting ("ICFR") and certified that Genesis' DC&P and ICFR were effective as at June 30, 2018.

There were no changes in the Corporation's ICFR during the three months ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect the Corporation's ICFR.

## RISKS AND UNCERTAINTIES

In the normal course of business, Genesis is exposed to certain risks and uncertainties inherent in the real estate development and home building industries. Real estate development and home building are cyclical and capital intensive businesses. As a result, the profitability and liquidity of Genesis could be adversely affected by external factors beyond the control of management. Risks and uncertainties faced by Genesis include industry risk, competition, supply and demand, geographic risk, development and construction costs, credit and liquidity risks, finance risk, interest risk, management and key personnel risk, mortgage rates and financing risk, general uninsured losses, cyber-security and business continuity risk, environmental risk and government regulations.

There may be additional risks that management may need to consider from time to time. For a more detailed discussion on the Corporation's risk factors, refer to Genesis' AIF for the year ended December 31, 2017 available on SEDAR at www.sedar.com.

## OTHER

Additional information relating to the Corporation can be found on SEDAR at www.sedar.com.

## ADVISORIES

### Forward-Looking Statements

This MD&A contains certain statements which constitute forward-looking statements or information ("forward-looking statements") within the meaning of applicable securities legislation, including Canadian Securities Administrators' National Instrument 51-102 - *Continuous Disclosure Obligations*, concerning the business, operations and financial performance and condition of Genesis. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved".

Forward-looking statements are based on material factors or assumptions made by us with respect to, among other things, opportunities that may or may not be pursued by us; changes in the real estate industry; fluctuations in the Canadian and Alberta economy; changes in the number of lots sold and homes delivered per year; and changes in laws or regulations or the interpretation or application of those laws and regulations. Forward-looking statements in this MD&A include, but are not limited to, statements with respect to Genesis' 2018 business plan, the availability of excess cash on hand and its proposed use, the payment of dividends and/or common share buybacks, the timing of the Sage Hill Crossing Outline Plan and the Southeast Lands ASP, the timing for the final resolution of the OMNI ASP, the expected completion dates of various projects that GBG is currently engaged in and anticipated lot yields for projects under development, plans and strategies surrounding the acquisition of additional land, commencement of the servicing phase and the construction phase of various communities and projects, the financing of these phases and expected increased leverage, anticipated general economic and business conditions, the Alberta real estate cycle, expectations for lot and home prices, construction starts and completions, expenditures on land development activities in 2018, GBG's sales process and construction margins, the ability to continue to renew or repay financial obligations and to meet liabilities as they become due and the aggregate number of common shares that may be repurchased by Genesis' under its NCIB.

Factors that could cause actual results to differ materially from those set forth in the forward-looking statements include, but are not limited to: the impact of contractual arrangements and incurred obligations on future operations and liquidity; local real estate conditions, including the development of properties in close proximity to Genesis' properties; the uncertainties of real estate development and acquisition activity; fluctuations in interest rates; ability to access and raise capital on favourable terms; not realizing on the anticipated benefits from transactions or not realizing on such anticipated benefits within the expected time frame; labour matters, governmental regulations, stock market volatility and other risks and factors described from time to time in the documents filed by Genesis with the securities regulators in Canada available at www.sedar.com, including this MD&A under the heading "Risks and Uncertainties" and the AIF under the heading "Risk Factors". Furthermore, the forward-looking statements contained in this MD&A are made as of the date of this MD&A and, except as required by applicable law, Genesis does not undertake any obligation to publicly update or to revise any of the forward-looking statements, whether as a result of new information, future events or otherwise.