# GENESIS LAND DEVELOPMENT CORP.

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three months ended March 31, 2017 and 2016
(Unaudited)

FIRST QUARTER

**GENESIS LAND DEVELOPMENT CORP.**
**CONDENSED CONSOLIDATED INTERIM BALANCE SHEET**
(Unaudited)
*(In thousands of Canadian dollars)*

| | Notes | March 31, 2017 | December 31, 2016 |
|---|---|---|---|
| **Assets** | | | |
| Real estate held for development and sale | 3 | **240,566** | 242,000 |
| Amounts receivable | | **21,976** | 21,059 |
| Other operating assets | | **7,229** | 5,019 |
| Deferred tax assets | | **7,233** | 6,557 |
| Income tax recoverable | | **673** | 42 |
| Cash and cash equivalents | | **3,958** | 14,318 |
| **Total assets** | | **281,635** | 288,995 |
| **Liabilities** | | | |
| Loans and credit facilities | 4 | **36,616** | 43,295 |
| Customer deposits | | **3,070** | 2,587 |
| Accounts payable and accrued liabilities | | **8,856** | 10,195 |
| Provision for future development costs | | **22,022** | 21,253 |
| **Total liabilities** | | **70,564** | 77,330 |
| Commitments and contingencies | 6 | | |
| Subsequent events | 12 | | |
| **Equity** | | | |
| Share capital | | **54,318** | 54,888 |
| Retained earnings | | **150,713** | 150,740 |
| **Shareholders' equity** | | **205,031** | 205,628 |
| Non-controlling interest | | **6,040** | 6,037 |
| **Total equity** | | **211,071** | 211,665 |
| | | | |
| **Total liabilities and equity** | | **281,635** | 288,995 |

See accompanying notes to the condensed consolidated interim financial statements

**GENESIS LAND DEVELOPMENT CORP.**

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME**

(Unaudited)

**For the three months ended March 31, 2017 and 2016**

*(In thousands of Canadian dollars except per share amounts)*

| | | Three months ended March 31, | |
|---|---|---|---|
| | **Notes** | **2017** | **2016** |
| **Revenues** | | | |
| Sales revenue | | **15,585** | 32,393 |
| Other revenue | | **79** | 31 |
| | | **15,664** | 32,424 |
| Direct cost of sales | | **(10,252)** | (24,190) |
| **Gross margin** | | **5,412** | 8,234 |
| Income from joint venture | | **25** | 144 |
| General and administrative | | **(3,535)** | (3,325) |
| Selling and marketing | | **(600)** | (1,223) |
| | | **(4,110)** | (4,404) |
| Earnings from operations | | **1,302** | 3,830 |
| Finance income | | **16** | 7 |
| Finance expense | | **(625)** | (768) |
| Earnings before income taxes | | **693** | 3,069 |
| Income tax (recovery) | | **14** | (844) |
| Net earnings being comprehensive earnings | | **707** | 2,225 |
| Attributable to non-controlling interest | | **3** | 115 |
| **Attributable to equity shareholders** | | **704** | 2,110 |
| Net earnings per share – basic and diluted | | **0.02** | 0.05 |

See accompanying notes to the condensed consolidated interim financial statements

**GENESIS LAND DEVELOPMENT CORP.**
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY**
(Unaudited)
**For the three months ended March 31, 2017 and 2016**
*(In thousands of Canadian dollars except number of shares)*

| | Equity attributable to Corporation's shareholders | | | | | | |
|---|---|---|---|---|---|---|---|
| | Common shares – Issued | | | | | | |
| | Number of Shares | Amount | Contributed Surplus | Retained Earnings | Total Shareholders' Equity | Non-Controlling Interest | Total Equity |
| **At December 31, 2015** | 44,297,602 | 55,591 | 5,577 | 150,957 | 212,125 | 12,866 | 224,991 |
| Share-based payments | - | - | 71 | - | 71 | - | 71 |
| Repurchase and cancellation of shares (1) | (258,700) | (329) | - | (279) | (608) | - | (608) |
| Net earnings (2) | - | - | - | 2,110 | 2,110 | 115 | 2,225 |
| **At March 31, 2016** | 44,038,902 | 55,262 | 5,648 | 152,788 | 213,698 | 12,981 | 226,679 |
| | | | | | | | |
| **At December 31, 2016** | 43,745,806 | 54,888 | - | 150,740 | 205,628 | 6,037 | 211,665 |
| Repurchase and cancellation of shares (1) | (447,449) | (570) | - | (731) | (1,301) | - | (1,301) |
| Net earnings (2) | - | - | - | 704 | 704 | 3 | 707 |
| **At March 31, 2017** | 43,298,357 | 54,318 | - | 150,713 | 205,031 | 6,040 | 211,071 |

See accompanying notes to the consolidated financial statements

(1) Repurchased and cancelled under normal course issuer bid ("NCIB"). Refer to note 5c
(2) Net earnings being comprehensive earnings

**GENESIS LAND DEVELOPMENT CORP.**
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**
(Unaudited)
**For the three months ended March 31, 2017 and 2016**
*(In thousands of Canadian dollars)*

| | | Three months ended March 31, | |
|---|---|---|---|
| | **Notes** | **2017** | **2016** |
| **Operating activities** | | | |
| Receipts from residential lot and development land sales | | **5,523** | 3,143 |
| Receipts from residential home sales | | **9,197** | 22,045 |
| Other (payments) receipts | | **(1,003)** | 501 |
| Paid for land development | | **(2,973)** | (2,333) |
| Paid for residential home construction | | **(7,530)** | (6,973) |
| Paid to suppliers and employees | | **(3,466)** | (4,121) |
| Interest received | | **16** | 7 |
| Income taxes paid | | **(1,293)** | - |
| **Cash flows (used in) from operating activities** | | **(1,529)** | 12,269 |
| **Investing activities** | | | |
| Acquisition of equipment | | **(81)** | (29) |
| Distribution received from joint venture | | **-** | 3,200 |
| **Cash flows (used in) from investing activities** | | **(81)** | 3,171 |
| **Financing activities** | | | |
| Advances from loans and credit facilities | 4 | **12,510** | 7,444 |
| Repayments of loans and credit facilities | | **(11,889)** | (15,773) |
| Payment on vendor-take-back mortgage | | **(8,000)** | (8,000) |
| Interest and fees paid on loans and credit facilities | | **(70)** | (194) |
| Repurchase and cancellation of shares under NCIB | 5 | **(1,301)** | (608) |
| **Cash flows (used in) financing activities** | | **(8,750)** | (17,131) |
| **Change in cash and cash equivalents** | | **(10,360)** | (1,691) |
| Cash and cash equivalents, beginning of period | | **14,318** | 11,399 |
| **Cash and cash equivalents, end of period** | | **3,958** | 9,708 |

See accompanying notes to the condensed consolidated interim financial statements

## 1. DESCRIPTION OF BUSINESS

Genesis Land Development Corp. (the “Corporation” or “Genesis”) was incorporated as Genesis Capital Corp. under the Business Corporation Act (Alberta) on December 2, 1997.

The Corporation is engaged in the acquisition, development, and sale of land, residential lots and homes primarily in the greater Calgary area. The Corporation reports its activities as two business segments: land development and home building.

The Corporation is listed for trading on the Toronto Stock Exchange under the symbol “GDC”. Genesis’ head office and registered office are located at 7315 - 8th Street N.E., Calgary, Alberta T2E 8A2.

The condensed consolidated interim financial statements of Genesis were approved for issuance by the Board of Directors on May 11, 2017.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the Corporation are the same as those applied in the Corporation’s annual audited consolidated financial statements for the years ended December 31, 2016 and 2015. These policies have been consistently applied to each of the periods presented, unless otherwise indicated.

The unaudited condensed consolidated interim financial statements (“Statements”) of the Corporation are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These Statements are unaudited and have been prepared in accordance with IAS 34 “Interim Financial Reporting”.

The Corporation adopted no new IFRSs and interpretations during 2017.

These Statements do not include all of the information required for annual audited consolidated financial statements and should be read in conjunction with the annual audited consolidated financial statements for the years ended December 31, 2016 and 2015.

### RECENT ACCOUNTING PRONOUNCEMENTS

*IFRS 15, “Revenue from contracts with customers”*

On May 28, 2014 the IASB issued IFRS 15, “Revenue from contracts with customers”. IFRS 15 will replace existing standards and interpretations on revenue recognition. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The standard outlines a single comprehensive model for entities for revenue recognition arising from contracts with customers.

The Corporation has commenced a preliminary assessment of the impact of IFRS 15. The Corporation will perform a detailed analysis of the impact of the standard on its major contracts, IT systems, internal controls and disclosures following the completion of the preliminary assessment. Management continues to evaluate the overall impact of IFRS 15 and expects to apply the standard by the mandatory effective date.

*(All tabular amounts and amounts in footnotes to tables are in thousands of Canadian dollars except number of shares)*

## 3. REAL ESTATE HELD FOR DEVELOPMENT AND SALE

| | Land Under Development | Land Held for Future Development | Home Building | Total | Limited Partnerships | Intra-segment Elimination | Consolidated Total |
|---|---|---|---|---|---|---|---|
| **Gross book value** | | | | | | | |
| As at December 31, 2016 | 122,896 | 98,693 | 19,400 | 240,989 | 72,029 | (4,194) | 308,824 |
| Transfers between categories | (2,168) | - | 2,168 | - | - | - | - |
| Development | 3,615 | 316 | 6,069 | 10,000 | 235 | - | 10,235 |
| Sold | (4,001) | - | (7,668) | (11,669) | - | - | (11,669) |
| As at March 31, 2017 | 120,342 | 99,009 | 19,969 | 239,320 | 72,264 | (4,194) | 307,390 |
| **Less provision for write-downs** | | | | | | | |
| As at December 31, 2016 | 4,000 | 27,676 | - | 31,676 | 35,148 | - | 66,824 |
| As at March 31, 2017 | 4,000 | 27,676 | - | 31,676 | 35,148 | - | 66,824 |
| **Net book value** | | | | | | | |
| As at December 31, 2016 | 118,896 | 71,017 | 19,400 | 209,313 | 36,881 | (4,194) | 242,000 |
| As at March 31, 2017 | 116,342 | 71,333 | 19,969 | 207,644 | 37,116 | (4,194) | 240,566 |

During the three months ended March 31, 2017, interest of $106 (2016 - $189) was capitalized as a component of the development costs above.

*(All tabular amounts and amounts in footnotes to tables are in thousands of Canadian dollars except number of shares)*

## 4. LOANS AND CREDIT FACILITIES

| | **March 31, 2017** | December 31, 2016 |
|---|---|---|
| **Secured by agreements receivable and real estate held for development and sale** | | |
| (a) Land project loan, payable on collection of agreements receivable, bearing interest ranging from prime +0.75% to prime +1.25% per annum, secured by real estate held for development and sale with a carrying value of $35,214, due between September 18, 2017 and November 5, 2017. | **3,090** | 5,566 |
| **Secured by real estate held for development and sale** | | |
| (b) Vendor-take-back mortgage ("VTB") at 0% per annum is measured at amortized cost and whose fair value is based on discounted future cash flows, using an 8% discount rate. The VTB was assumed on January 6, 2015 for $40,000 for the purchase of southeast Calgary lands and is secured by these lands with a carrying value of $44,371. The VTB is to be paid in five annual installments of $8,000 each, commencing January 6, 2016 and ending January 6, 2020. The second installment of $8,000 was paid in January 2017. | **24,000** | 32,000 |
| Unamortized portion of the discount on the VTB. | **(3,069)** | (3,494) |
| (c) Demand operating line of credit up to $10,000, bearing interest at prime +1.0% per annum, secured by real estate held for development and sale with a carrying value of $13,212. | **4,000** | - |
| **Secured by housing projects under development** | | |
| (d) Demand operating line of credit up to $6,500, bearing interest at prime +1.5% per annum, secured by a general security agreement over assets of the home building division. | **-** | - |
| (e) Lot purchase loan, payable on collection of closing proceeds, bearing interest at prime +1.5% per annum, secured by home building projects. The loan was paid off in full and cancelled in Q1 2017. | **-** | 903 |
| | **28,021** | 34,975 |
| **Secured by land held for future development - Limited Partnership** | | |
| (f) Land loan, bearing interest at the greater of 7.25% or prime +3% per annum, secured by land held for future development and sale with a carrying value of $26,124 maturing July 1, 2017. | **8,739** | 8,531 |
| | **36,760** | 43,506 |
| Deferred fees on loans and credit facilities | **(144)** | (211) |
| | **36,616** | 43,295 |

The weighted average interest rate of loan agreements with financial institutions was 5.71% (December 31, 2016 - 5.77%) based on March 31, 2017 balances. The VTB at 0% per annum is measured at amortized cost and its fair value is based on discounted future cash flows using an 8% discount rate, resulting in interest expense of $425 (2016 - $546) for the three months ended March 31, 2017.

During the three months ended March 31, 2017, the Corporation received advances of $12,510 (2016 - $7,444) relating to a loan secured by agreements receivable and real estate held for development and sale, bearing interest of prime + 1% per annum, with due dates of March 31, 2017.

*(All tabular amounts and amounts in footnotes to tables are in thousands of Canadian dollars except number of shares)*

## 4. LOANS AND CREDIT FACILITIES (continued)

Based on the contractual terms, the Corporation's loans and credit facilities are to be repaid within the following time periods (excluding deferred financing fees):

| | |
|---|---|
| April 1, 2017 to March 31, 2018 | 15,829 |
| April 1, 2018 to March 31, 2019 | 7,530 |
| April 1, 2019 to March 31, 2020 | 6,959 |
| April 1, 2020 to March 31, 2021 | 6,442 |
| | 36,760 |

As at March 31, 2017 and at December 31, 2016, the Corporation and its subsidiaries were in compliance with all loan covenants.

## 5. SHARE CAPITAL

a) **Authorized**

Unlimited number of common shares without par value
Unlimited number of preferred shares without par value, none issued

b) **Weighted average number of shares**

The following table sets forth the weighted average number of common shares outstanding for the three months ended March 31, 2017 and 2016:

| | Three months ended March 31, | |
|---|---|---|
| | **2017** | **2016** |
| Basic and diluted weighted average number of common shares | **43,741,756** | 44,201,937 |

The Corporation terminated its stock option plan on March 22, 2016 and all outstanding options were subsequently cancelled. In calculating the diluted earnings for the three months ended March 31, 2016, the Corporation excluded all 800,000 options as their exercise price was greater than the average market price of the Corporation's shares during the period.

*(All tabular amounts and amounts in footnotes to tables are in thousands of Canadian dollars except number of shares)*

## 5. SHARE CAPITAL (continued)

### c) Normal course issuer bid

The Corporation's current NCIB, commenced on September 12, 2016 and terminates on the earlier of (i) September 11, 2017; and (ii) the date on which the maximum number of common shares are purchased pursuant to the bid. The Corporation may purchase for cancellation up to 2,194,320 common shares.

The following table sets forth the number of common shares repurchased and cancelled during the three months ended March 31, 2017 and 2016 under the NCIB.

| | Three months ended March 31, | |
|---|---|---|
| | **2017** | **2016** |
| Number of shares repurchased and cancelled [(1)] | **447,449** | 258,700 |
| Reduction in share capital | **570** | 329 |
| Reduction in retained earnings | **731** | 279 |
| Reduction in shareholders' equity | **1,301** | 608 |

[(1)] The average purchase price per share for the three months ended March 31, 2017 was $2.91 (2016 - $2.35).

## 6. COMMITMENTS AND CONTINGENCIES

Other than the commitments and contingencies discussed below and in the notes to the annual audited consolidated financial statements for the years ended December 31, 2016 and 2015, there were no other material commitments or contingencies as at March 31, 2017.

a) The Corporation has entered into a memorandum of understanding with the Northeast Community Society in 2012, whereby the Corporation will contribute $5,000 over 10 years for 15-year naming rights to "Genesis Centre for Community Wellness", a recreation complex in northeast Calgary ($500 each year, terminating in 2021). The first six installments totaling $3,000 were paid up to and through to the end of March 2017.

b) The Corporation has issued letters of credit pursuant to service agreements with municipalities to indemnify them in the event that the Corporation does not perform its contractual obligations. As at March 31, 2017, the letters of credit amounted to $2,812 (December 31, 2016 – $4,429).

c) The Corporation has office and other operating leases with the following annual payments: not later than one year - $696; later than one year but not later than five years - $1,322; and later than five years - Nil.

## 7. PROVISION FOR LITIGATION

Two former employees filed a statement of claim of against the Corporation on May 27, 2016 alleging wrongful dismissal of their employment and seeking damages, legal costs and other relief arising out of the termination of their employment contracts with the Corporation. The amounts of the claim aggregated approximately $1,600 and the Corporation has recorded this amount as a provision as at March 31, 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 and intends to vigorously defend against the claim. It is estimated that the appeal will be heard in 2018.

*(All tabular amounts and amounts in footnotes to tables are in thousands of Canadian dollars except number of shares)*

## 8. FINANCIAL INSTRUMENTS

The fair values of cash and cash equivalents, restricted cash, accounts payable and accrued liabilities approximate their carrying values as they are expected to be settled within twelve months. The fair value of deposits approximates their carrying value as the terms of deposits are the comparable to the market terms for similar instruments.

The fair values of the Corporation's loans and credit facilities and amounts receivable were estimated based on current market rates for loans of the same risk and maturities.

Fair value measurements recognized in the condensed consolidated interim balance sheets are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values. The three fair value hierarchy levels are as follows:

**Level 1:** Quoted prices (unadjusted) in active markets for identical assets or liabilities;

**Level 2:** Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e. derived from prices); and,

**Level 3:** Inputs for the asset or liability that is not based on observable market data (unobservable inputs).

The estimated fair value of financial assets and liabilities as at March 31, 2017, are presented in the following table:

| | March 31, 2017 | |
|---|---|---|
| | **Carrying Value** | **Estimated Fair Value** |
| **Fair value through profit and loss** | | |
| Cash and cash equivalents | 3,958 | 3,958 |
| Deposits | 3,989 | 3,989 |
| Restricted cash | 1,784 | 1,784 |
| **Loans and receivables** | | |
| Amounts receivable | 21,976 | 20,909 |
| **Other financial liabilities** | | |
| Accounts payable and accrued liabilities | 8,856 | 8,856 |
| Loans and credit facilities, excluding deferred loans and credit facilities fees (note 4) | 36,760 | 36,760 |

Cash and cash equivalents, deposits, and restricted cash are classified under Level 1 of the hierarchy.

The fair values of the Corporation's amounts receivable and of loans and credit facilities were estimated based on current market rates for loans of the same risk and maturities. These are classified as Level 2 of the hierarchy. Accounts payable and accrued liabilities are classified under Level 2 of the hierarchy and their fair value approximates the carrying value due to the short term nature of the financial instruments.

During the three months ended March 31, 2017 and 2016, no transfers were made between the levels in the fair value hierarchy.

*(All tabular amounts and amounts in footnotes to tables are in thousands of Canadian dollars except number of shares)*

## 9. SEGMENTED INFORMATION

The income producing business units of the Corporation reported the following activities for the three months ended March 31, 2017 and 2016:

| Three months ended March 31, 2017 | Land Development Segment Genesis | LP | Intrasegment Elimination | Total | Home Building Segment | Intersegment Elimination | Total |
|---|---|---|---|---|---|---|---|
| Revenues | 8,803 | 9 | - | 8,812 | 9,020 | (2,168) | 15,664 |
| Direct cost of sales | (5,066) | - | - | (5,066) | (7,354) | 2,168 | (10,252) |
| Gross margin | 3,737 | 9 | - | 3,746 | 1,666 | - | 5,412 |
| Income from JV | 25 | - | - | 25 | - | - | 25 |
| G&A, selling & marketing and net finance expense or income | (1,651) | (589) | - | (2,240) | (2,504) | - | (4,744) |
| Earnings (loss) before income taxes and non-controlling | 2,111 | (580) | - | 1,531 | (838) | - | 693 |
| Segmented assets | 252,275 | 37,267 | (26,721) | 262,821 | 24,794 | (5,980) | 281,635 |
| Segmented liabilities[(1),(2)] | 58,320 | 37,016 | (28,168) | 67,168 | 9,193 | (5,797) | 70,564 |
| Segmented net assets[(1),(2)] | 193,955 | 251 | 1,447 | 195,653 | 15,601 | (183) | 211,071 |

| Three months ended March 31, 2016 | Land Development Segment Genesis | LP | Intrasegment Elimination | Total | Home Building Segment | Intersegment Elimination | Total |
|---|---|---|---|---|---|---|---|
| Revenues | 8,656 | 9,232 | (669) | 17,219 | 22,209 | (7,004) | 32,424 |
| Direct cost of sales | (5,726) | (8,214) | 1,187 | (12,753) | (18,441) | 7,004 | (24,190) |
| Gross margin | 2,930 | 1,018 | 518 | 4,466 | 3,768 | - | 8,234 |
| Income from JV | 144 | - | - | 144 | - | - | 144 |
| G&A, selling & marketing and net finance expense or income | (1,559) | (1,445) | 669 | (2,335) | (2,974) | - | (5,309) |
| Earnings (loss) before income taxes and non-controlling | 1,515 | (427) | 1,187 | 2,275 | 794 | - | 3,069 |
| Segmented assets as at December 31, 2016 | 258,583 | 36,971 | (26,677) | 268,877 | 24,929 | (4,811) | 288,995 |
| Segmented liabilities as at December 31, 2016[(1),(2)] | 64,658 | 36,145 | (27,543) | 73,260 | 8,692 | (4,622) | 77,330 |
| Segmented net assets as at December 31, 2016[(1),(2)] | 193,925 | 826 | 866 | 195,617 | 16,237 | (189) | 211,665 |

(1) Segmented liabilities under the Genesis home building segment include $3,970 (December 31, 2016 – due from land segment to home building segment - $287) due to the land development segment.

(2) Segmented liabilities under the LP segment is comprised of accounts payable and accrued liabilities and includes $28,168 (December 31, 2016 - $27,543) due to Genesis.

## 10. RELATED PARTY TRANSACTIONS

Transactions occurred with the following related parties:

a) A corporation controlled by an officer and director,

b) A corporation which is a significant shareholder of Genesis.

Genesis incurred costs of $93 for the three months ended March 31, 2017 (2016 - $71). For the three months ended March 31, 2017, $93 (2016 - $64) related to fees for services from a corporation controlled by an officer and director and Nil (2016 - $7) related to reimbursement of travel and other costs from a corporation which is a significant shareholder of Genesis. Of these amounts, $38 (2016 - $71) is in accounts payable and accrued liabilities as at March 31, 2017.

## 11. CONSOLIDATED ENTITIES

Genesis Limited Partnership #6 and Genesis Limited Partnership #7, part of the LP6/7 group, paid a final distribution of $6,978 to their unit holders during the year ended December 31, 2016. Genesis held 11.75% equity interest in Genesis Limited Partnership #6. The LP6/7 Group entities no longer have any assets or liabilities and are in the process of being wound up. The entities are no longer being consolidated effective January 1, 2017.

## 12. SUBSEQUENT EVENTS

The Corporation closed the sale of a 1,476 acre non-core land parcel on May 2, 2017 for $9,000.

The following wholly owned home building entities were amalgamated with Genesis Builders Group Inc., on May 1, 2017: Ashbury at Saddlestone Inc., Hutton at Bayview Inc., Laurels by Genesis Inc., and Newport at Canals Landing Inc.