GENESIS

# GENESIS LAND DEVELOPMENT CORP.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2016

## STRATEGY AND BUSINESS FOCUS

Genesis Land Development Corp. (“Genesis” or the “Corporation”) is a land developer and residential home builder in the Calgary Metropolitan Area (“CMA”).

Genesis reports its activities as two business segments: land development and home building. Land development involves the acquisition of land held for future development, and the planning, servicing and marketing of residential, commercial and industrial communities. Home building includes the acquisition of lots, and the construction and sale of single-family homes and townhouses.

The common shares of the Corporation are listed for trading on the Toronto Stock Exchange under the symbol “GDC”.

## MARKET OVERVIEW

Both business segments, land development and home building, have been negatively impacted by Alberta’s continuing slowdown in general economic activity caused by the sharp drop in oil and natural gas prices over the last few years. Somewhat offsetting the decline in Alberta’s major industry are low interest rates and a stable low-inflation environment. Genesis has also benefitted from its well-located portfolio of entitled residential and mixed-use land, as the low level of serviced lot inventory in Calgary and approvals process have restricted the supply of new entitled land.

Genesis focuses its land development and home building activities primarily on the entry level and first-time move-up segments, which in 2015 proved to be relatively less susceptible to the continued market decline than the higher end and custom segments.

The weaker overall market conditions are expected to constrain margins and volumes in Calgary’s home building industry throughout 2016 and likely beyond.

Genesis core assets consist of a portfolio of entitled residential and mixed-use land, which are well positioned to deal with the economic downturn. These various factors, along with careful control of costs, positive cash position and significant unutilized debt capacity, provide a strong base for 2016’s challenging economic conditions.

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 months ended March 31, 2016 and 2015, 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, 2015 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 May 12, 2016.**

## CORPORATE HIGHLIGHTS

Key financial results and operating data for the Corporation are as follows

| | Three months ended March 31,[1] | |
|---|---|---|
| | **2016** | **2015** |
| **Key Financial Data** | | |
| Total revenues | **32,424** | 15,773 |
| Direct cost of sales | **(24,190)** | (11,082) |
| Gross margin | **8,234** | 4,691 |
| Earnings (loss) before income taxes | **3,069** | (329) |
| Net earnings attributable to equity shareholders | **2,110** | 60 |
| Net earnings per share – basic and diluted | **0.05** | 0.00 |
| Cash flows from (used in) operating activities | **12,269** | (18,727) |
| Cash flows from (used in) operating activities per share – basic and diluted | **0.28** | (0.42) |
| **Key Operating Data** | | |
| Residential lots sold to third parties (units) | **-** | 3 |
| Residential lots sold through home building business segment (units) | **36** | 15 |
| Development land sold (acres) | **14** | - |
| Average revenue per lot sold | **194** | 179 |
| Homes sold (units) | **42** | 32 |
| Average revenue per home sold | **529** | 478 |
| New home orders (units) | **28** | 19 |

| | As at March 31, | |
|---|---|---|
| | **2016** | **2015** |
| Homes with firm sale contracts (units) | **49** | 124 |
| | **As at Mar. 31,** | **As at Dec. 31,** |
| **Key Balance Sheet Data** | **2016** | **2015**[2] |
| Cash and cash equivalents | **9,708** | 11,399 |
| Total assets | **312,115** | 331,045 |
| Loans and credit facilities | **48,108** | 63,819 |
| Total liabilities | **85,436** | 106,054 |
| Shareholders' equity | **213,698** | 212,125 |
| Total equity | **226,679** | 224,991 |
| Loans and credit facilities ("Debt") to total assets | **15%** | 19% |

(1) *Three months ended March 31, 2016 and 2015 ("Q1 2016" and "Q1 2015")*
(2) *Year ended December 31, 2015 ("YE 2015")*

### Highlights

Volumes and Revenue:

- Genesis sold 42 homes in Q1 2016 with revenues of $22,209 (Q1 2015 – 32 and $15,301 respectively). Of the 42 homes, 36 were built on residential lots supplied by Genesis' land development segment, generating residential lot revenues of $6,969 (Q1 2015 – 18 and $3,230 respectively).
- Sales of homes, delivered on a quick possession basis, were higher at 21 during Q1 2016 compared to 9 during Q1 2015.
- New homes orders were 28 during Q1 2016 compared to 19 in Q1 2015.
- The Q1 2016 closing order book of 49 firm home sales contracts compared to 124 at the close of Q1 2015. This year over year decline is believed to be due to home buyers preferring homes that can be delivered on a quick possession basis, Genesis has been successful in delivering quick possession homes in sufficient volumes to offset the decline in pre-sales orders.
- A 14 acre development land parcel was sold in Q1 2016 with revenues of $10,250 (Q1 2015 – Nil). Refer to the Land Development section of this MD&A for additional information.

Net Earnings:

- Net earnings were $2,110 for Q1 2016 compared to $60 for Q1 2015.

Cash Flows from Operating Activities:

- Cash inflows from operating activities were $12,269 (inflows of $0.28 per share) at Q1 2016 compared to cash outflows of $18,727 (outflows of $0.42 per share) at Q1 2015.

Restructuring:

- Genesis is reviewing and restructuring its business to deal with the continuing challenging economic environment with various initiatives already complete or substantially under way.

## RESULTS OF OPERATIONS

### Restructuring

- The Board of Directors appointed new executives Stephen J. Griggs as Interim CEO and Kirsten Richter, CPA, CA as Interim CFO;
- A detailed review of the 2016 operating and capital budgets was undertaken, leading to significant operating cost reductions and the postponement of major capital projects to serve land not required to be serviced in 2016;
- The workforce has been reduced by 25% through staff reductions and attrition to reflect the current and expected scale of activity, particularly the number of homes expected to be built, with the headcount at March 31, 2016 being 61 compared to 80 at December 31, 2015. This reduction will benefit future quarters as most of the reduction occurred at the end of March 2016 with estimated cost savings of approximately $1,000 per year with one-time costs of approximately $200 recognized in Q1 2016;
- All home building and related activities have been consolidated under Genesis Builders Group Inc. to improve and streamline this business line, and a complete review of its multi-family plan is underway;
- Actively working to reduce the number of newly constructed homes held in inventory for quick possession;
- Every business activity is under review to ensure it is necessary, efficient and effective and to simplify the business where possible. Examples of cost reductions achieved include a reduction in April 2016 of the vehicle fleet by 35%.
- Development, servicing and active disposition plans are being prepared for each land holding to ensure Genesis will realize the maximum value for each asset over a reasonable period of time; and
- Seeking new building groups to acquire fully serviced lots and land in Genesis' communities.

Genesis commends its employees for their leadership and initiative in dealing with the challenges of implementing significant staff reductions and other changes in a short period of time. The restructuring process will continue throughout 2016 with the benefits impacting each successive quarter.

## Land Development

The following factors affect the results of operations, particularly in land development:

1. The development and sale of residential lots and development land occurs over a substantial period of time which creates volatility in the revenues, earnings and cash flows from operating activities.
2. Land and lot prices and gross margins vary by community based on the nature of the development work to be undertaken before the land and lots are ready for sale, and for how long the Corporation has owned the land.
3. Developed lots sold to Genesis' home building business segment defer the related revenues and earnings from those lots until the sale of the home and lot.
4. Seasonality results in higher lot and home building revenues in the summer and fall months when home building sales peak.

| | Three months ended March 31, | | |
|---|---|---|---|
| | **2016** | **2015** | **% change** |
| **Key Financial Data** | | | |
| Residential lot sales[(1)] | **6,969** | 3,230 | 115.8% |
| Development land sales | **10,250** | - | N/R[(4)] |
| Direct cost of sales | **(12,753)** | (1,560) | N/R[(4)] |
| Gross margin | **4,466** | 1,670 | 167.4% |
| Gross margin (%)[(2)] | **25.9%** | 51.7% | |
| Equity income from joint venture | **144** | 172 | (16.3%) |
| Other expenses[(3)] | **(2,335)** | (2,459) | (5.0%) |
| Earnings (loss) before taxes | **2,275** | (617) | N/R[(4)] |
| **Key Operating Data** | | | |
| Residential lots sold to third parties | **-** | 3 | N/R[(4)] |
| Residential lots sold through home building business segment | **36** | 15 | 140.0% |
| Total residential lots sold | **36** | 18 | 100.0% |
| Development land sold (acres) | **14** | - | N/R[(4)] |
| Average revenue per lot sold | **194** | 179 | 8.4% |

*(1) Includes residential lot sales to third parties and to the home building business segment and other revenue*
*(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 and net finance expense*
*(4) Not reflective due to percentage increase*

### Volumes and Revenues

Revenues were higher for Q1 2016 compared to Q1 2015 due to higher volumes of residential lot sales made through the home building business segment and $10,250 from the sale of a 14 acre development land site through a limited partnership..

Residential lots are sold to the home building business segment at market prices.

**Gross margin by source of revenue**

| | Three months ended March 31, | |
|---|---|---|
| | **2016** | **2015** |
| Residential lot sales[(1)] | **6,969** | 3,230 |
| Direct cost of sales | **(3,514)** | (1,560) |
| Gross margin | **3,455** | 1,670 |
| Gross margin (%) | **49.6%** | 51.7% |
| Development land sales | **10,250** | - |
| Direct cost of sales[(2)] | **(9,239)** | - |
| Gross margin | **1,011** | - |
| Residential lot and development land gross margin | **4,466** | 1,670 |

[(1)] *Includes other revenue*
[(1)] *Includes other expenses of $90*

The change in gross margin percentages for single-family lots relates to the mix of sales by community as the gross margin percentage on residential lots typically varies by community, based on the nature of the development work to be undertaken before the lots are ready for sale and how long the Corporation has owned the land.

The development land sale referenced in the table above was for a 14 acre multi-family site in Airdrie. This transaction involves one of the Genesis limited partnerships. The details of the amounts attributed to each of Genesis and the limited partnership are explained in note 3 in the condensed consolidated interim financial statements for the three months ended March 31, 2016 and 2015. The transaction is expected to close in September 2016.

**Equity income from joint venture**

Equity income from Genesis' joint venture was lower during Q1 2016 compared to Q1 2015 due to lower deferred gains and deferred margins as well a small loss in the joint venture during Q1 2016. Genesis formed the joint venture in April 2010 for the purpose of acquiring, developing and selling certain real estate. The joint venture community is now sold out and activity and revenues will be nominal in future years as the joint venture is wound down. Homes built on joint venture lots by the home building business segment result in Genesis recognizing deferred gains and deferred margins. The home building business segment sold five homes in the joint venture community in both Q1 2015 and in Q1 2016.

**Other expenses**

Other expenses were lower for Q1 2016 compared to Q1 2015 mainly due to lower corporate administration, compensation, net finance and selling and marketing expenses. These decreases were partially offset by higher professional services and depreciation expenses. The Restructuring section of this MD&A describes future cost savings expected from a reduction in the number of employees and from other initiatives.

## Home Building

| | Three months ended March 31, | | |
|---|---|---|---|
| | **2016** | **2015** | **% change** |
| **Key Financial Data** | | | |
| Revenues[1] | **22,209** | 15,301 | 45.1% |
| Direct cost of sales | **(18,441)** | (12,785) | 44.2% |
| Gross margin | **3,768** | 2,516 | 49.8% |
| Gross margin (%) | 17.0% | 16.4% | |
| Other expenses[2] | **(2,974)** | (2,733) | 8.8% |
| Earnings (loss) before taxes | **794** | (217) | N/R[3] |
| **Key Operating Data** | | | |
| Homes sold ( single-family units) | **42** | 32 | 31.3% |
| Average revenue per single-family home sold | **529** | 478 | 10.7% |
| New home orders (units) | **28** | 19 | 47.4% |
| Homes with firm sales contracts (units) | **49** | 124 | (60.5%) |

*(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 increase*

### Volumes and revenues

The year over year increase in revenue is a function of both higher volume and higher average revenue per home sold as set out in the table above.

New home orders increased to 28 for Q1 2016 compared to 19 for Q1 2015. Genesis builds homes to meet two sources of market demand:

- Homes built in advance of receiving a firm sale contract to meet the market demand from those buyers seeking quick possession, and
- Homes built after receiving a firm sale contract to meet the market demand from other buyers.

Since the economic downturn from declining oil and natural gas prices commenced in mid-2014, Genesis has seen growth in quick possession orders (21 in Q1 2016 compared to 9 in Q1 2015) and a decline in pre-construction orders (7 in Q1 2016 compared to 10 in Q1 2015). The year over year closing book of firm sales contracts also reflects this shift (49 at March 31, 2016 compared to 124 at March 31, 2015). This creates an obvious challenge in managing construction starts but one that the Genesis home building management team has successfully navigated to date.

### Other expenses

Other expenses increased by 8.8% for Q1 2016 compared to Q1 2015 due to higher professional services expenses, sales and marketing expenses and depreciation expenses, partially offset by lower interest expenses. The Restructuring section of this MD&A describes expected future cost savings from a reduction in the number of employees and from other initiatives.

## Finance Expense

| | Three months ended March 31, | | |
|---|---|---|---|
| | **2016** | **2015** | **% change** |
| Interest incurred | **336** | 393 | (14.5%) |
| Finance expense relating to VTB[1] | **546** | 660 | (17.3%) |
| Financing fees amortized | **75** | 404 | (81.4%) |
| Interest and financing fees capitalized | **(189)** | (435) | (56.6%) |
| | **768** | 1,022 | (24.9%) |

*[1] Vendor-take-back mortgage ("VTB") related to southeast lands acquisition*

The above table explains the lower finance expense in Q1 2016 over Q1 2015 with the largest percentage reduction being the financing fees amortized. In addition, interest expense on the VTB was lower due to the first installment of $8,000 being paid in January 2016.

The weighted average interest rate of loan agreements with various financial institutions was 5.22% (YE 2015 – 4.75%) based on March 31, 2016 balances. The imputed rate on the VTB (which has a 0% face rate) is 8%. The weighted average interest rate of loan agreements was 3.99% (YE 2015 – 3.82%), based on Q1 2016 balances after excluding $8,125 relating to a limited partnership. This loan is guaranteed by Genesis and secured by lands held by the limited partnership.

## SEGMENTED BALANCE SHEET

| | March 31, 2016 | | | | | | December 31, 2015 |
|---|---|---|---|---|---|---|---|
| | Land Development | | | | | | |
| | Genesis | LPs | Intra-segment eliminations | Home Building | Inter-segment Eliminations | Consolidated | Consolidated |
| **Assets** | | | | | | | |
| Real estate held for development and sale | 207,684 | 39,312 | (4,194) | 25,400 | (244) | **267,958** | 288,291 |
| Amounts receivable | 14,449 | 7,821 | - | 161 | - | **22,431** | 17,234 |
| Cash and cash equivalents | 6,584 | 491 | - | 2,633 | - | **9,708** | 11,399 |
| Other assets | 43,220 | 100 | (25,568) | 3,020 | (8,754) | **12,018** | 14,121 |
| **Total assets** | 271,937 | 47,724 | (29,762) | 31,214 | (8,998) | **312,115** | 331,045 |
| **Liabilities** | | | | | | | |
| Loans and credit facilities | 36,390 | 8,073 | - | 3,645 | - | **48,108** | 63,819 |
| Provision for future development costs | 18,590 | - | - | 1,971 | - | **20,561** | 18,926 |
| Other liabilities[1], [2] | 12,913 | 26,664 | (26,377) | 12,321 | (8,754) | **16,767** | 23,309 |
| **Total liabilities** | 67,893 | 34,737 | (26,377) | 17,937 | (8,754) | **85,436** | 106,054 |
| **Net assets** | **204,044** | **12,987** | **(3,385)** | **13,277** | **(244)** | **226,679** | 224,991 |

*[1] Other liabilities under the home building business segment includes $5,607 (December 31, 2015 - $9,095) due to the land development segment related to land and lot purchases, overhead costs and general and administrative expenses.*

*[2] Other liabilities under the LPs segment comprises customer deposits and accounts payable and accrued liabilities and includes $26,377 (December 31, 2015 - $26,704) due to Genesis.*

## LIQUIDITY AND CAPITAL RESOURCES

Genesis has significant unutilized debt capacity, 49 homes with firm sales contracts as at Q1 2016, and a portfolio of entitled land which positions the Corporation to handle the challenging economic conditions in 2016 and possibly beyond. Genesis commenced a normal course issuer bid ("NCIB") in 2015. At Q1 2016, 258,700 common shares (0.58% of common shares outstanding at the beginning of the year) had been purchased and cancelled under the NCIB for a total cost of $608 (average $2.35 per share).

| | March 31, | December 31, | |
|---|---|---|---|
| | **2016** | **2015** | **% change** |
| VTB | **26,867** | 34,321 | (21.7%) |
| Other loans and credit facilities | **21,241** | 29,498 | (28.0%) |
| Total loans and credit facilities | **48,108** | 63,819 | (24.6%) |
| Total liabilities to equity [1] | **38%** | 47% | |
| Loans and credit facilities ("Debt") to total assets | **15%** | 19% | |

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

Genesis regularly reviews credit facilities and manages requirements in accordance with project development plans and operating requirements. Genesis and its subsidiaries were in compliance with all covenants currently and at all period ends.

### Real Estate Held for Development and Sale

| | March 31, | December 31 | |
|---|---|---|---|
| | **2016** | **2015** | **% change** |
| Real estate held for development and sale | **331,064** | 351,397 | (5.8%) |
| Provision for write-downs | **(63,106)** | (63,106) | 0.0% |
| | **267,958** | 288,291 | (7.1%) |

Real estate held for development and sale decreased by $20,333 at Q1 2016 compared to YE 2015. This reduction in land inventory was due to the sale of a development land parcel with a net carrying value of $9,149, the sale of residential lots through the home building business segment and the sale of residential homes. This decrease was partially offset by land development and home building development activities. Refer to note 3 in the condensed consolidated interim financial statements for the three months ended March 31, 2016 and 2015 which details gross book value, provision for write-downs and net book value of real estate held for development and sale.

Subsequent to March 31, 2016, The Corporation waived all conditions for the sale of a 1,653 acre non-core parcel of land located in Kamloops, BC on May 9, 2016. The sale was contracted for gross proceeds of $1,650 and the closing is scheduled for June 2016.

The following tables present Genesis' real estate held for development and sale, and estimated equivalent of single-family lots, townhouse/multi-family units and commercial acreages as at March 31, 2016.

| | Land under development | | | Land held for future development | | Total | | |
|---|---|---|---|---|---|---|---|---|
| **Land development segment** | **Net carrying value** | **Acres[1]** | **Lots** | **Net carrying value** | **Acres[1]** | **Net carrying value** | **Acres[1]** | **Lots** |
| **Residential** | | | | | | | | |
| Airdrie[2] | 37,097 | 169 | 306 | 8,798 | 90 | 45,895 | 259 | 306 |
| Calgary NW[3] | 27,556 | 34 | 90 | - | - | 27,556 | 34 | 90 |
| Calgary NE[4] | 13,950 | 4 | 170 | 5,754 | 33 | 19,704 | 37 | 170 |
| Calgary SE[5] | - | - | - | 44,270 | 349 | 44,270 | 349 | - |
| | 78,603 | 207 | 566 | 58,822 | 472 | 137,425 | 679 | 566 |
| Mixed use[6] | 52,154 | 71 | - | 3,992 | 312 | 56,146 | 383 | - |
| Other assets[7] – non-core | - | - | 14 | 14,113 | 3,463 | 14,113 | 3,463 | 14 |
| **Total land development segment** | **130,757** | **278** | **580** | **76,927** | **4,247** | **207,684** | **4,525** | **580** |
| **Home building business segment[8]** | | | | | | **25,156** | **-** | **28** |
| **Total land and home building segments** | | | | | | **232,840** | **4,525** | **608** |
| Limited Partnerships[9] | | | | | | 35,118 | 2,373 | - |
| **Real estate held for development and sale** | | | | | | **267,958** | **6,898** | **608** |

| | | Developed Lots | To be Developed - Estimated Equivalent | | | Total |
|---|---|---|---|---|---|---|
| | **Acres[1]** | **Single-family** (units) | **Single-family** (lots) | **Townhouse/multi-family** (units) | **Commercial** (acres) | **Single- and multi-family** (units) |
| | | | | | | |
| **Residential** | | | | | | |
| Airdrie[2] | 259 | 306 | 1,208 | 570 | - | 2,084 |
| Calgary NW[3] | 34 | 90 | 34 | 1,869 | 2 | 1,993 |
| Calgary NE[4] | 37 | 170 | 258 | 78 | - | 506 |
| Calgary SE[5] | 349 | - | 1,245 | 834 | - | 2,079 |
| | **679** | **566** | **2,745** | **3,351** | **2** | **6,662** |
| Mixed use[6] | **383** | **-** | **-** | **2,450** | **319** | **2,450** |
| Other assets[7] – non-core | **3,463** | **14** | **1,947** | **-** | **-** | **1,961** |
| **Total land development segment** | **4,525** | **580** | **4,692** | **5,801** | **321** | **11,073** |
| **Home building business segment** | - | **28** | - | - | - | **28** |
| **Total land and home building segments** | **4,525** | **608** | **4,692** | **5,801** | **321** | **11,101** |
| Limited Partnerships[9] | 2,373 | - | 2,621 | 606 | 441 | 3,227 |
| **Real estate held for development and sale** | **6,898** | **608** | **7,313** | **6,407** | **762** | **14,328** |

*[1] Acres comprises townhouse /multi-family, commercial acres and land not yet subdivided into single-family lots*
*[2] Airdrie comprises the communities of Bayside, Bayview and Canals*
*[3] Calgary NW comprises the community of Sage Meadows*
*[4] Calgary NE comprises the community of Saddlestone*
*[5] Calgary SE comprises southeast lands acquired in 2015*
*[6] Mixed use comprises North Conrich and Sage Hill Crossing*
*[7] Other assets are non-core and actively being marketed for disposal. These assets represent 6.8% (YE 2015 – 6.6%) of Genesis' land portfolio with a carrying value of $14,113 (YE 2015 - $14,113).*
*[8] Housing projects under development comprise $6,055 in lots and $19,101 of work-in-progress.*
*[9] Comprises land held for future development and land under development. Net of intra-segment eliminations of $4,194.*

The following tables present the continuity of the each segment's residential lot supply for the period ended March 31, 2016:

**Land Development**

| Project | Lots at Jan. 1, 2016 | Additions made during 2016 | Sold to third-party builders | Sold to home building | Lots at March 31, 2016 |
|---|---|---|---|---|---|
| **Airdrie** | | | | | |
| Bayside and Bayview | 300 | - | - | (4) | 296 |
| Canals | 10 | - | - | - | 10 |
| | 310 | - | - | (4) | 306 |
| **Calgary NW** | | | | | |
| Sage Meadows | 90 | - | - | - | 90 |
| **Calgary NE** | | | | | |
| Saddlestone | 120 | 82 | - | (32) | 170 |
| **Brooks** (non-core) | 14 | - | - | - | 14 |
| **Total** | 534 | 82 | - | (36) | 580 |

**Home Building**

| Project | Lots at January 1, 2016 | Lots purchased in 2016 | Homes sold in 2016 | Lots at March 31, 2016 | Price range of homes sold |
|---|---|---|---|---|---|
| **Airdrie** | | | | | |
| Bayside and Bayview | 3 | 4 | (4) | 3 | $495-$607 |
| | 3 | 4 | (4) | 3 | $495-$607 |
| **Calgary NW** | | | | | |
| Evansridge | 22 | - | (1) | 21 | $539-$539 |
| Kinwood | 9 | - | (5) | 4 | $458-$562 |
| | 31 | - | (6) | 25 | $458-$562 |
| **Calgary NE** | | | | | |
| Saddlestone | - | 32 | (32) | - | $360-$669 |
| **Total** | **34** | 36 | **(42)** | **28** | $360-$669 |

## Amounts Receivable

| | March 31, 2016 | December 31, 2015 | % change |
|---|---|---|---|
| Amounts receivable | **22,431** | 17,234 | 30.2% |

Genesis generally retains title to lots and homes until full payment is received in order to mitigate credit exposure. The increase in amounts receivable is mainly attributable to the sale of the development land parcel.

## Cash Flows from Operating Activities

| | Three months ended March 31, | |
|---|---|---|
| | **2016** | **2015** |
| Cash flows from (used in) operating activities | **12,269** | (18,727) |
| Cash flows from (used in) operating activities per share – basic and diluted | **0.28** | (0.42) |

The $30,996 year over year increase in cash flows from operating activities consists of the following:

| | |
|---|---|
| Lower cash outflows for land acquisition | 10,000 |
| Higher cash inflows from sales of residential homes | 6,778 |
| Lower cash outflows re home building activity | 6,227 |
| Lower cash outflows re land servicing | 3,175 |
| Lower cash outflows re income tax installments | 4,270 |
| Changes in various operating cash flows | 546 |
| Total change in cash flows | 30,996 |

Q1 2015 cash outflows included $10,000 for the acquisition of 349 acres in SE Calgary listed in the table on page 9 of this MD&A and which was classified as an operating activity. The balance of the cost of that acquisition was financed by the VTB loan listed in the Liquidity and Capital Resources table of this MD&A. An $8,000 payment on the VTB loan in Q1 2016 was classified as a financing activity.

The higher cash inflows from sales of residential homes is consistent with the higher volumes and average sales prices explained in the Home Building section of this MD&A. This was achieved while reducing the cash outflow for home building activity by drawing down the investment in home building inventory from $31,109 at December 31, 2015 to $25,400 at March 31, 2016. This inventory reduction is a component of the drive for efficiency and effectiveness outlined in the Restructuring section of this MD&A.

Large cash outflows for land servicing in 2015 contributed to the 534 lots at December 31, 2015 set out in the land development table on page 10 of this MD&A and also included a significant portion of the costs for the 82 lots added in Q1 2016. This explains most of the lower cash outflows for land servicing between Q1 2016 and Q1 2015 and again is a component of the drive for efficiency and effectiveness outlined in the Restructuring section of this MD&A.

Income tax installments were made in Q1 2015 but deferred to Q2 in the current year.

## LIABILITIES AND SHAREHOLDERS' EQUITY

The following table presents Genesis' liabilities and equity:

| | March 31, | | December 31, | |
|---|---|---|---|---|
| | 2016 | % of Total | 2015 | % of Total |
| Loans and credit facilities | **48,108** | **15%** | 63,819 | 19% |
| Customer deposits | **2,297** | **1%** | 3,820 | 1% |
| Accounts payable and accrued liabilities | **12,752** | **4%** | 19,219 | 6% |
| Provision for future development costs | **20,561** | **7%** | 18,926 | 6% |
| Income taxes payable | **1,718** | **1%** | 270 | - |
| Total liabilities | **85,436** | **28%** | 106,054 | 32% |
| Non-controlling interest | **12,981** | **4%** | 12,866 | 4% |
| Shareholders' equity | **213,698** | **68%** | 212,125 | 64% |
| | **312,115** | **100%** | 331,045 | 100% |

### Loans and Credit Facilities

The change in the Corporation's loans and credit facilities were as follows:

| | March 31, 2016 | December 31, 2015 |
|---|---|---|
| Balance, beginning of period – excluding VTB | **29,498** | 23,892 |
| Balance, beginning of period VTB – for land acquisition | **34,321** | 34,321 |
| Advances for land development and home building | **7,444** | 45,524 |
| Repayments from the proceeds of land and home sales | **(23,773)** | (42,719) |
| Interest and financing fees incurred | **812** | 4,276 |
| Interest and financing fees paid | **(194)** | (1,475) |
| Balance, end of period | **48,108** | 63,819 |

The Corporation's loans and credit facilities consisted of the following segmented amounts:

| | March 31, 2016 | December 31, 2015 |
|---|---|---|
| Land development | **36,674** | 50,930 |
| Limited partnerships | **8,125** | 8,125 |
| Home building | **3,670** | 5,194 |
| Unamortized deferred financing fees | **(361)** | (430) |
| | **48,108** | 63,819 |

The following is a summary of drawn and outstanding loan and credit facility balances as at Q1 2016 and as at the end of the previous four quarters:

| | Q1 2016 | Q4 2015 | Q3 2015 | Q2 2015 | Q1 2015 |
|---|---|---|---|---|---|
| Vendor-take-back mortgage | 26,867 | 34,321 | 33,663 | 33,006 | 32,348 |
| Land development loans | 17,932 | 24,734 | 7,940 | 8,427 | 10,235 |
| Home building loans | 3,670 | 5,194 | 5,545 | 8,028 | 8,706 |
| | 48,469 | 64,249 | 47,148 | 49,461 | 51,289 |
| Unamortized deferred financing fees | (361) | (430) | (80) | (74) | (125) |
| Balance, end of period | 48,108 | 63,819 | 47,068 | 49,387 | 51,164 |

Total liabilities to equity follows:

| | March 31, 2016 | December 31, 2015 |
|---|---|---|
| Total liabilities | **85,436** | 106,054 |
| Total equity | **226,679** | 224,991 |
| Total liabilities to equity(1) | **38%** | 47% |

*(1) Calculated as total liabilities divided by total equity*

Genesis has four land project loan facilities authorized for $55,353. Interest on these facilities ranges from prime + 0.75% to prime + 1.25% per annum and draws on these facilities can be made as land development activities progress. $9,807 was drawn against these facilities as at Q1 2016 (YE 2015 - $16,609).

In addition, Genesis has a demand operating line of credit of up to $10,000 for general corporate purposes at an interest rate of prime + 1% per annum. The outstanding balance on this facility was nil as at Q1 2016 (YE 2015 - nil).

The home building business segment has a demand operating line of $6,500 at an interest rate of prime +1.5% per annum. $863 was drawn on this facility as at March 31, 2016 (YE 2015 - $1,427). In addition, a capital project loan at an interest rate of prime +1.5% per annum is also available to the home building business segment with $2,807 drawn as at March 31, 2016 (YE 2015 - $3,767).

Genesis also assumed a VTB on the purchase of the southeast lands in January 2015. The $40,000 VTB has an outstanding balance of $32,000 with an unamortized discount of $5,133 as at March 31, 2016 (YE 2015 –$40,000 and $5,679 respectively) and is payable in five equal installments of $8,000 each, commencing January 2016 and ending in January 2020. The first installment of $8,000 was paid in January 2016.

Genesis also guaranteed an $8,125 loan relating to a limited partnership bearing interest at the greater of 7.25% or prime +3% per annum. The loan is secured by lands held by the limited partnership.

Genesis has various covenants in place with its lenders with respect to certain contracted 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, the home building business segment has a secured revolving operating line repayable on demand to be used for home construction and the acquisition of serviced lots. This line has a financial covenant requiring that Genesis Builders Group Inc. maintain a net worth of at least $11,500 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 Q1 2016 and at YE 2015. Loans and credit facilities are used primarily to finance the costs of developing land, building houses and for land purchases, in certain circumstances.

Genesis has sufficient liquidity from its cash flows from operating activities, supplemented by credit facilities, to meet the above liabilities as they become due. Genesis regularly reviews credit facilities and manages requirements in accordance with project development plans and operating requirements.

## Provision for Future Development Costs

Genesis sells lots and homes for which it is responsible to pay for costs-to-complete. For the home building business segment, costs-to-complete estimates are mainly estimates of the costs likely to be incurred on seasonal work and estimated warranty charges over the one year warranty period. The cost of these remaining services is recognized as a liability when the related revenue is recognized. Provision for future development costs increased by $1,635 at Q1 2016 compared to YE 2015, due to a temporary return of levies. This increase was partially offset by completion of previously recognized cost-to-complete liabilities on residential lots and on residential homes.

## Income Tax Payable

The changes in income tax payable are as follows:

| | March 31, 2016 | December 31, 2015 |
|---|---|---|
| Balance, beginning of period | **270** | 4,433 |
| Provision for current income tax | **1,448** | 5,671 |
| Net payments | **-** | (9,834) |
| Balance, end of period | **1,718** | 270 |

The increase in income tax payable is due to no payments being made during Q1 2016. Income tax payments were made subsequent to Q1 2016.

## Shareholders' Equity

As at May 12, 2016, the Corporation had 44,036,602 common shares issued and outstanding. In addition, options to acquire 550,000 common shares of Genesis were issued and outstanding under Genesis' stock option plan as at the end of Q1 2016.

In February 2016, 285,000 regular options and all 1,272,000 performance options expired in conjunction with two executive officers leaving the Corporation. In April 2016, the Corporation cancelled 250,000 regular stock options on the departure of certain employees from Genesis. The Corporation terminated its stock option plan on March 22, 2016.

In September 2015, Genesis initiated a normal course issuer bid ("NCIB") to purchase and cancel up to 2,246,310 common shares.

During Q1 2016, 258,700 common shares (0.58% of common shares outstanding at the beginning of the period) were purchased and cancelled for a total cost of $608 (average $2.35 per share). The Corporation repurchased for cancellation an additional 42,100 common shares for $112 between April 1, 2016 and May 12, 2016. As of the date of this MD&A, there are 1,316,912 common shares remaining for purchase under the NCIB.

Return on equity, calculated on a rolling 12 month basis, was 6.2% as at Q1 2016 (YE 2015 – 5.2%). Return on equity is calculated by dividing net earnings by average shareholders' equity. Return on equity increased mainly due to higher net earnings on a rolling twelve month basis and excludes Q1 2015 which had net earnings of $60. Net earnings for YE 2015 were largely impacted by lower net earnings of $60 in Q1 2015.

## 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 Q1 2016 were as follows:

| | Loans and Credit Facilities[(1)] | Naming Rights | Lease Obligations | Total |
|---|---|---|---|---|
| Current | 11,200 | 700 | 1,012 | **12,912** |
| April 2017 to March 2018 | 24,891 | 700 | 366 | **25,957** |
| April 2018 to March 2019 | 6,430 | 500 | 45 | **6,975** |
| April 2019 and thereafter | 5,948 | 1000 | - | **6,948** |
| | 48,469 | 2,900 | 1,423 | **52,792** |

*(1) Excludes deferred financing fees*

Based on Genesis' operating history, its relationship with lenders and committed sales contracts, management is confident that Genesis has the ability to continue to meet its obligations as they come due.

Genesis signed a memorandum of understanding in 2012 to contribute $5,000 for the naming rights for 10 years to the "Genesis Centre for Community Wellness", a recreation complex in northeast Calgary ($500 each year, terminating in 2021). The first five installments totaling $2,500 were paid up to and through to the end of March 2016.

Genesis entered into an agreement with the City of Airdrie, to contribute $2,000 for the naming rights for 10 years to "Genesis Place", a recreation complex in the City of Airdrie ($200 each year, terminating in 2017). The first eight installments totaling $1,600 were paid up to and through to the end of March 2016.

Genesis' lease agreement with Morguard Real Estate Investment Trust for Genesis' office commenced on August 1, 2012 and terminates on July 31, 2017. The basic rent per annum was $349 in the first year, which increases progressively to $426 in the fifth year. The lease includes an option in favor of Genesis to extend the term for an additional five-year period at market rent. 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 months ended March 31, 2016 and 2015.

## Current Contractual Obligations

| | March 31, 2016 | December 31, 2015 |
|---|---|---|
| Loans and credit facilities, excluding deferred financing fees | **11,200** | 13,184 |
| Accounts payable and accrued liabilities | **12,752** | 19,219 |
| Total short-term liabilities | **23,952** | 32,403 |
| Commitments[(1)] | **1,712** | 1,708 |
| | **25,664** | 34,111 |

*(1) Commitments comprise naming rights and lease obligations.*

At the end of Q1 2016, Genesis had obligations due within the next 12 months of $25,664, of which $11,200 related to loans and credit facilities. Repayment is either (i) linked directly to the collection of lot receivables and sales proceeds; or (ii) due at maturity. Based on Genesis' operating history, its relationship with lenders and committed sales contracts, management is confident that Genesis has the ability to continue to renew or repay its financial obligations as they come due.

## 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. At Q1 2016, these letters of credit totalled approximately $5,715 (YE 2015 - $6,309).

### 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 in the balance sheet as at Q1 2016 and YE 2015. In the event the lease for the office building is terminated early, Genesis is liable to pay to Morguard for the loss of its income for the unexpired portion of the lease, in addition to damages and other expenses incurred by Morguard, if any.

## SUMMARY OF QUARTERLY RESULTS

| | Q1 2016 | Q4 2015 | Q3 2015 | Q2 2015 | Q1 2015 | Q4 2014 | Q3 2014 | Q2 2014 |
|---|---|---|---|---|---|---|---|---|
| Revenues | 32,424 | 36,575 | 34,918 | 31,822 | 15,773 | 28,509 | 32,984 | 34,765 |
| Net earnings[(1)] | 2,110 | 5,365 | 4,256 | 1,333 | 60 | 2,858 | 4,366 | 7,231 |
| EPS[(2)] | 0.05 | 0.13 | 0.09 | 0.03 | 0.00 | 0.07 | 0.09 | 0.16 |

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

Seasonality affects the land development and home building industry in Canada, particularly as a result of winter weather conditions. Refer to the Results of Operations section of this MD&A which discusses the factors that affect Genesis' results and seasonality further.

During Q1 2016, Genesis sold residential lots to third parties, a development land parcel and 42 homes (all single-family) compared to 50 residential lots to third parties, 51 homes (39 single-family and 12 townhouses) and a non-core development land parcel in the fourth quarter of 2015 ("Q4 2015"). This resulted in lower revenues in Q1 2016 compared to Q4 2015. During Q4 2015, the joint venture in which Genesis is a 50% partner, sold a multi-family land parcel for which Genesis realized a deferred gain of $1,184. Genesis also realized deferred gains from the sale of 10 single family lots and its share of net income from the joint venture in Q4 2015. There was no corresponding multi-family land sale in Q1 2016, and Genesis realized deferred gain from five single-family lots during Q1 2016. These factors results in lower net earnings and EPS during Q1 2016 compared to Q4 2015.

During the third quarter of 2015 Genesis sold 13 residential lots and 67 homes (56 single-family and 11 townhouses). Net earnings in the second quarter of 2015 were affected by a write-down of real estate held for development and sales. Revenues and net earnings were low in the first quarter of 2015 due to lower residential lot and residential home sales.

## RELATED PARTY TRANSACTIONS

Transactions occurred in Q1 2016 with the following related parties:

1. Underwood Capital Partners Inc. ("Underwood") - controlled by an officer and director, Stephen J. Griggs
2. Smoothwater Capital Corporation ("Smoothwater") – a significant shareholder of Genesis and Stephen J. Griggs serves as CEO

Genesis incurred costs of $84 in Q1 2016 (2015 - Nil) from the two entities of which $64 (2015 - Nil) was for Underwood for the services of Stephen J. Griggs as the interim CEO of Genesis. The balance of $20 (2015 - Nil) was to reimburse travel and other costs incurred by the two entities on behalf of Genesis.

## CONSOLIDATED ENTITIES

The Corporation is the general partner in four limited partnership arrangements and a 50% partner in a joint venture. Refer to notes 9 and 12 of the condensed consolidated interim financial statements for the three months ended March 31, 2016 and 2015 for summarized financial information concerning the joint venture and the limited partnerships, respectively.

## SUBSEQUENT EVENTS

Mr. Rauf Muhammad, CPA (Colorado), the interim CFO, resigned from the Corporation on April 19, 2016. A company has been engaged to provide CFO services and Ms. Kirsten Richter, CPA, CA of KM Richter Advisory Services Inc. was appointed interim CFO of the Corporation effective April 18, 2016.

## SUMMARY OF ACCOUNTING CHANGES

The Corporation adopted no new IFRSs and interpretations during Q1 2016.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of consolidated financial statements 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 business segments. On an ongoing basis, management evaluates its judgments and estimates in relation to revenues, expenses, assets and liabilities. Management uses historical experience 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 Q1 2016 and Q1 2015. Refer to note 2(q) in the consolidated financial statements for the years ended December 31, 2015 and 2014 for additional information on judgments and estimates.

### Provision for Future Development Costs

Changes in the estimated future development costs directly impact 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, specifically 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 valuation conducted by independent real estate appraisers and in light of recent market transactions of similar and adjacent lands and housing projects in the same geographic area.

### Valuation of amounts receivables

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

## INTERNAL CONTROL OVER FINANCIAL REPORTING

The interim CEO and interim CFO have evaluated the design of Genesis' Disclosure Controls and Procedures ("DC&P") and Internal Control over Financial Reporting ("ICFR") and concluded that, even though there was a change in management during the first quarter of 2016, Genesis' DC&P and ICFR were effective as at March 31, 2016.

There were no changes in the Corporation's ICFR during the three months ended March 31, 2016 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 businesses; as a result, Genesis profitability could be adversely affected by external factors beyond the control of management. Risks and uncertainties faced by Genesis are industry risk, competition, supply and demand, geographic risk, development and construction costs, credit and liquidity risks, finance risk, interest risk, management risk, mortgage rates and financing risk, general uninsured losses, environmental risk and government regulations.

**Development and Construction Costs**

Genesis may experience loss due to inflation causing higher prices of labor and consulting fees, and costs of materials. Costs of development and building have fluctuated over the past several years and are typically passed on to the customer through higher pricing. Any significant increase that Genesis cannot pass on to the customer may have a negative material impact on profits.

**Credit and Liquidity Risk**

Credit risk arises from the possibility that builders that acquire lots from Genesis may experience financial difficulty and be unable to fulfill their lot payout commitments. Liquidity risk is the risk that Genesis will not be able to meet its financial obligations as they fall due. If Genesis is unable to generate sufficient sales and renew existing credit facilities or secure additional financing, it will impact the Corporation's ability to meet its obligations as they become due. Based on the Corporation's operating history, relationship with lenders and committed sales contracts, Management believes that Genesis has the ability to continue to renew or repay its financial obligations as they come due.

**Finance Risk**

Genesis uses debt and other forms of financing in its business to execute the corporate strategy. Genesis uses project specific credit facilities to fund land development costs and a construction operating line for home construction purposes. Should Genesis be unable to obtain required capital, its ability to achieve these goals could be impacted. In order to reduce finance risk, Genesis endeavors to match the term of financing with the underlying land asset. Management regularly reviews the Corporation's credit facilities and manages the requirements in accordance with project development plans and operating requirements.

There may be additional risks that management may need to consider as circumstances require. For a more detailed discussion on the Corporation's risk factors, refer to Genesis AIF for the year ended December 31, 2015 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 specifically Alberta economy; changes in the number of homes delivered per year; and changes in laws or regulations or the interpretation or application of those laws and regulation.*

*Forward-looking statements in this MD&A include, but are not limited to, statements with respect to the nature of development lands held and the anticipated inventory and development potential of such lands, anticipated general economic and business conditions in 2016 and beyond, including low interest rates, low stable inflation rates, the anticipated impact on Genesis' development and home building activities, restructuring initiatives by Genesis, including cost reductions and benefits therefrom, expected closings of land sales, the ability to manage construct starts, the constraint on margins and volumes in Calgary's home building industry throughout 2016 and possibly beyond, the activity levels and the revenues from the joint venture, the ability to close the book of homes with firm sales contracts and the ability to continue to renew or repay financial obligations and to meet contractual obligations as they become due. Although Genesis believes that the anticipated* *future results, performance or achievements expressed or implied by the forward-looking statements are based upon reasonable assumptions and expectations, the reader should not place undue reliance on forward-looking statements because they involve assumptions, known and unknown risks, uncertainties and other factors many of which are beyond the Corporation's control, which may cause the actual results, performance or achievements of Genesis to differ materially from anticipated future results, performance or achievement expressed or implied by such forward-looking statements. Accordingly, Genesis cannot give any assurance that its expectations will in fact occur and cautions that actual results may differ materially from those in the forward-looking statements.*

*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 or unanticipated impact of general economic conditions in Canada, the United States and globally; the impact of election of governments in Alberta and Canada and the direction of policy which could impact the overall pace of economic growth; 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.*