GENESIS LAND DEVELOPMENT CORP.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2017

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, 2017 and 2016, 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, 2016 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 11, 2017.**

## STRATEGY AND 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 as well as serviced lots in the CMA.

As a land developer, Genesis plans, rezones, subdivides, services and sells residential communities and commercial and industrial lands to third parties, and sells lots and completed homes through its home building business. The land portfolio is planned, developed, serviced and sold 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. Genesis has no immediate plan or need to acquire additional land at this time and all excess cash on hand is expected to be used to issue dividends to shareholders, buy back common shares, or a combination of both.

The home building business, operated through a wholly-owned subsidiary, Genesis Builders Group Inc. ("GBG"), designs, constructs and sells single-family homes and townhouses primarily on lands developed by Genesis. The objective of the home building business is to deliver a significant return and cash flow from the capital invested in it and to sell incremental Genesis single family lots and townhouse land parcels.

Genesis is focused on minimizing overhead costs, which significantly reduce the return on long terms assets. Long term commitments are avoided where possible to preserve flexibility.

### 2017 Business Plan

The business plan for 2017 includes:

1) Maximizing the return of capital to shareholders through dividends and/or buying back shares
2) Obtaining additional land servicing and zoning entitlements which are expected to materially increase the value and marketability of these lands
3) Developing detailed plans for the development and ultimate disposition of all core lands to maximize the net present value of each project
4) Adding one or more third party builders acquiring lots in Genesis communities, in addition to the seven third-party builders working with Genesis at the end of 2016
5) Increasing the number of units sold by GBG, including constructing several townhouse complexes, at reasonable construction margins while optimizing the amount of required capital
6) Servicing a phase of the "Saddlestone" community in Calgary (expected to yield 102 residential lots) and an additional phase in Airdrie (expected to yield 73 residential lots)
7) Selling the remaining non-core land

## OVERVIEW OF ALBERTA REAL ESTATE MARKET

The Alberta economy continues to be negatively impacted by the sharp drop and subsequent partial recovery in oil and natural gas prices over the last several years and is generally expected to continue to be weak and possibly flat for a prolonged period of time. The Alberta economy is very dependent on the oil and gas industry, including the level of investment in the industry, and the price of oil and gas in Alberta. In 2016, real gross domestic product of the province declined by 3.8%, following a decline of 3.7% in 2015. The economic impact in Alberta of the decline in oil and gas prices has included lower levels of employment and weaker consumer confidence, leading to lower levels of new home purchases and significantly lower revenues for governments, constricting their ability to fund the infrastructure required to develop new communities. At the same time, interest rates remain at record lows resulting in low mortgage rates which continues to improve the affordability of homes for many buyers.

Prices for lower and mid-market homes in the CMA have continued to be relatively stable and less impacted by the Alberta economy than higher valued homes, in part because the CMA has a relatively low level of serviced lot inventory available to builders. As a result, Genesis expects to be able to maintain lot and home prices as the level of new serviced lots remains low. In addition, Genesis has made design, finishing and supplier contractual changes to reduce the construction cost of its homes while maintaining quality, in order to maintain construction margins where possible.

There has been a shift over the last several years in timing of buying of new CMA homes, and the vast majority of homes are now sold at or close to completion on a quick possession basis, rather than being contracted before construction commences. Given the capital strength of the Corporation, Genesis is well positioned to build an inventory of homes and to sell units on a quick possession basis and has developed a sales program tailored to current market conditions.

## OPERATING RESULTS

### Net Earnings

Net earnings were $704 for Q1 2017 ($0.02 per share) down from $2,110 for Q1 2016 ($0.05 per share), primarily due to no sales of development land in Q1 2017 and a reduction in the number of new homes sold in the quarter by GBG, relative to Q1 2016.

### Revenues

Revenues for Q1 2017 were $15,664, down from $32,424 in Q1 2016, primarily due to no sales in Q1 2017 of development land and reduction in the number of new homes sold by GBG in Q1 2017, partially offset by a significant increase in the number of lots sold to third parties in Q1 2017:

- There were no development land sale revenues in Q1 2017, while in Q1 2016, a 14 acre development land parcel was sold with revenues of $10,250.

- In Q1 2017, Genesis sold 51 lots, compared to 36 lots in Q1 2016, with total lot sales revenue in Q1 2017 of $8,733 in compared to $6,969 in Q1 2016
    - Genesis sold 37 residential lots to third-parties in Q1 2017 with revenues of $6,565 (nil in Q1 2016)
    - GBG sold 14 homes (36 in Q1 2016) on residential lots owned by Genesis generating residential lot revenues of $2,168 ($6,969 in Q1 2016)

- GBG sold 19 homes in Q1 2017 with revenues of $9,020 compared to 42 homes in Q1 2016 with revenues of $22,209, a decrease of $13,189. Of the 19 homes, 15 homes were sold by GBG on a quick possession basis (i.e. contracted and delivered within 90 days) compared to 17 in Q1 2016.

### Expenses

Expenses which comprise general and administrative expenses, selling and marketing expenses, income from joint venture and net finance expense were $4,719 for Q1 2017, down $446 from $5,165 in Q1 2016. This was mainly due to a reduction in selling and marketing expenses and net finance expense. Net finance expense decreased from $761 in Q1 2016 to $609 in Q1 2017 primarily due to the $8,000 annual payment on the Corporation's vendor-take-back mortgage ("VTB").

**Cash Flow from Operating Activities**

Cash outflows from operating activities were $1,529 (outflows of $0.03 per share) in Q1 2017 compared to cash inflows of $12,269 (inflows of $0.28 per share) in Q1 2016, a reduction of $13,798 ($0.31 per share). Lower cash flows from operating activities were mainly due to lower home closings by GBG in the first quarter of 2017 with lower cash receipts from residential homes sales of $9,197 in Q1 2017 compared to $22,045 in Q1 2016. Refer to page 14 for additional information.

Cash flow from operating activities of Genesis varies quarter to quarter due to the lumpy nature of its business of land sales and the timing of the receipt of sale proceeds. The sale of a lot or of a parcel of land to a third party is recognized as sales revenue at the time of entering into a firm sales contract, provided that a deposit is made of at least 15% of the purchase price. The balance of the purchase price is generally received in cash at the time of closing 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.

**Loans and credit facilities**

Loans and credit facilities were reduced to $36,616 at the end of Q1 2017 compared to $43,295 at YE 2016 (a decrease of $6,679), primarily due to the $8,000 annual payment in January 2017 on the Corporation's VTB for its southeast Calgary lands.

## UPDATE – EXECUTION OF THE 2017 BUSINESS PLAN

Genesis continued to implement its 2017 business plan in Q1 2017, as follows:

**1) Dividends and/or Share Buybacks**

The Corporation is actively re-purchasing common shares when possible, and acquired and cancelled 447,449 common shares for $1,301 in Q1 2017 (representing 1.02% of issued and outstanding shares at the beginning of the year) compared to 258,700 common shares for $608 in Q1 2016 (representing 0.58% of the issued and outstanding shares at the beginning of 2016).

No dividends were declared in Q1 2017.

**2) Obtain Additional Land Servicing and Zoning Entitlements**

In 2017 to date, Genesis has made progress in advancing land entitlements for its long-term lands, including:

<u>Calgary Southeast Lands</u>

On March 13, 2017, the Council of the City of Calgary directed City Administration to include a developer funded Area Structure Plan ("ASP") for Cell E of the Southeast Regional Policy Plan (which includes all of the 349 acres of land owned by Genesis in southeast Calgary) into its 2018 work plan to commence in Q1 2018. The directive also required City Administration to notify developers of the work plans, the intention to work with them under a developer funded process and to commence long term studies in Q2 2017 to be incorporated into the ASP process in Q2 2018.

The Province of Alberta and the City of Calgary announced their intention to complete a new Deerfoot Trail interchange at 212th Avenue in close proximity to the southeast Calgary lands, with construction expected to commence in the summer of 2017. This interchange is expected to be required in order for the southeast lands to proceed to development. There can be no assurances that the ASP as presented will be approved.

<u>Sage Hill Crossing ASP Amendment - Calgary</u>

City of Calgary staff are in the final stages of a developer funded amendment to the existing ASP for the remaining 64 acres of lands owned by Genesis and land owned by other developers (including the City of Calgary) in northwest Calgary in the area known as "Sage Hill Crossing" to permit the construction of up to 1,800 townhomes and other multi-family units and certain mixed use commercial buildings. It is expected that the amendment will be submitted to the Council of the City of Calgary in Fall 2017 for consideration, although there can be no assurances that the ASP as presented will be approved by Council.

Airdrie ASP Amendment

Genesis continued to work towards approval by the City of Airdrie of a Community Area Structure Plan ("CASP") amendment for its remaining 213 acres of un-serviced land in Airdrie, Alberta to permit it to sell an improved mix of lots, expected to be comprised of approximately 1,320 single family lots, 150 townhomes, a commercial site and a school site, together with attractive parks and related amenities. There can be no assurances that the CASP as presented will be approved.

North Conrich "OMNI" ASP Process – Rocky View County

In late 2016, the Council of Rocky View County authorized staff to proceed to prepare a developer funded OMNI Area Structure Plan for the lands owned by Genesis and a limited partnership controlled by Genesis known as "The OMNI" totaling approximately 610 acres, to further the county's vision for highway business development. The Plan is to be prepared in four phases as follows:

| | | |
|---|---|---|
| Phase 1 | Project Initiation | Nov-Dec 2016 |
| Phase 2 | Awareness, Issues and Goals | Dec '16 - Feb '17 |
| Phase 3 | Setting Direction | Feb-May 2017 |
| Phase 4 | Draft Policies and Actions | Jun-Sep 2017 |
| Phase 5 | Plan Completion and Adoption | Sep 2017 - |

An open house was held by Rocky View County on March 2, 2017 and the ASP process is thus far proceeding as expected. However, there can be no assurances that the ASP as presented will be approved.

Airdrie (LPLP2007) Lands

A limited partnership controlled by Genesis owns approximately 319 acres in the City of Airdrie. These lands were acquired in 2009 and are currently zoned as farm land which, together with two adjacent landowners, comprise the "West Land Consortium". On May 1, 2017, the Council of the City of Airdrie passed a motion to approve the CASP justification requests of both the West Lands Consortium (west side of annexation area) and Hopewell (Davy Creek Lands). As a part of this motion, the City indicated that certain remaining servicing capacity would be made available for these two CASP areas. There can be no assurances that the CASP as presented will be approved.

**3) Plan for the Development and Disposition of Core Lands**

Genesis continued to develop detailed plans for each of its core lands, with the objective of developing each so as to maximize the net present value of the land and to sell the land at the most opportune time.

In Q1 2017, Genesis entered into conditional agreements to sell several parcels of land which, if completed, would be closed in late 2017 or 2018. These transactions provide for the payment of the purchase price in cash on closing, subject to the usual adjustments. There can be no assurances that these transactions will go firm and/or close.

**4) Add Third Party Builders in Genesis Communities**

In Q1 2017, Genesis entered into an agreement with and sold 26 lots to a new builder group in Airdrie. Genesis expects that this builder will continue as a member of the Genesis builder partner group in Airdrie following completion and sale of these lots by the builder. The revenue associated with these 26 lots, and the 11 lots sold to other third party builders, was fully recognized during Q1 2017 on receipt of the 15% deposit.

**5) Increase Units Sold by GBG**

GBG continues to focus on improving its sales process to increase volumes, while striving to maintain construction margins. GBG had 26 new home orders during Q1 2017 compared to 28 in Q1 2016 and ended Q1 2017 with 46 firm home sales contracts compared to 49 at the end of Q1 2016.

Traffic to Genesis' show homes was down significantly in Q1 2017 compared to Q1 2016 which negatively impacted its ability to convert visitors into home buyers. Show home traffic may have been impacted by cold and snowy weather in Q1 2017 as there were significantly more sub -20 C (-4 F) temperature days and more snow in Q1 2017 than in Q1 2016 which was an unusually warm period. Towards the end of Q1 2017, traffic to Genesis' show homes started to substantially increase and this has continued into April and early May 2017. Increased traffic may to translate into firm sales. GBG has made several firm sales in Q2 2017 and is in the process of negotiating several other potential sales.

In Q1 2017, GBG continued construction of its "Ashbury" 24 unit townhouse development in northeast Calgary (expected to be completed in Q3 2017), and intends to begin construction in Q2 2017 on the nearby 54 town house unit "The Laurels" and "The Newport" in Airdrie, an 85 unit townhouse development.

**6) Service Additional Phases**

In Q2 2017, Genesis intends to commence land servicing of a phase of the "Saddlestone" community in Calgary (expected to yield 102 residential lots available for sale in 2018) and a phase in the "Bayview" community in Airdrie (expected to yield 73 residential lots available for sale in 2018). In addition, GBG intends to begin construction of an 85 unit townhome project called "Newport" in Airdrie in 2017. Genesis will finance the servicing of these phases and the construction of the townhouse project primarily using new external debt facilities, where possible. As a result, Genesis expects to increase its use of credit facilities in 2017.

**7) Sell Remaining Non-Core Land**

As previously announced, the Corporation had entered into a firm agreement to sell 1,476 acres of non-core land for $9,000. This transaction closed on May 2, 2017, at which time Genesis received the net cash proceeds of closing.

## CORPORATE HIGHLIGHTS

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

| | Three months ended March 31,[1] 2017 | 2016 |
|---|---|---|
| **Key Financial Data** | | |
| Total revenues | **15,664** | 32,424 |
| Direct cost of sales | **(10,252)** | (24,190) |
| Gross margin | **5,412** | 8,234 |
| Earnings before income taxes | **693** | 3,069 |
| Net earnings attributable to equity shareholders | **704** | 2,110 |
| Net earnings per share – basic and diluted | **0.02** | 0.05 |
| Cash flows (used in) from operating activities | **(1,529)** | 12,269 |
| Cash flows (used in) from operating activities per share – basic and diluted | **(0.03)** | 0.28 |
| **Key Operating Data** | | |
| Residential lots sold to third parties (units) | **37** | - |
| Residential lots sold through home building segment (units) | **14** | 36 |
| Average revenue per lot sold | **173** | 194 |
| Homes sold (units) | **19** | 42 |
| Average revenue per home sold | **475** | 529 |
| New home orders (units) | **26** | 28 |
| Development land sold | **-** | 10,250 |

| | As at March 31, 2017 | 2016 |
|---|---|---|
| Homes (with lots) subject to firm sale contracts (units) | **46** | 49 |

| **Key Balance Sheet Data** | As at Mar. 31, 2017 | As at Dec. 31, 2016[2] |
|---|---|---|
| Cash and cash equivalents | **3,958** | 14,318 |
| Total assets | **281,635** | 288,995 |
| Loans and credit facilities | **36,616** | 43,295 |
| Total liabilities | **70,564** | 77,330 |
| Shareholders' equity | **205,031** | 205,628 |
| Total equity | **211,071** | 211,665 |
| Loans and credit facilities ("Debt") to total assets | **13%** | 15% |

*(1) Three months ended March 31, 2017 and 2016 ("Q1 2017" and "Q1 2016")*
*(2) Year ended December 31, 2016 ("YE 2016")*

## Land Development

| | Three months ended March 31, | | |
|---|---|---|---|
| | **2017** | **2016** | **% change** |
| **Key Financial Data** | | | |
| Residential lot sales[1] | **8,812** | 6,969 | 26.4% |
| Development land sales | **-** | 10,250 | N/R[4]% |
| Direct cost of sales | **(5,066)** | (12,753) | (60.3%) |
| Gross margin | **3,746** | 4,466 | (16.1%) |
| Gross margin (%)[2] | **42.5%** | 25.9% | |
| Equity income from joint venture | **25** | 144 | (82.6%) |
| Other expenses[3] | **(2,240)** | (2,335) | (4.1%) |
| Earnings before taxes | **1,531** | 2,275 | (32.7%) |
| **Key Operating Data** | | | |
| Residential lots sold to third parties | **37** | - | N/R[4]% |
| Residential lots sold through home building segment | **14** | 36 | (61.1%) |
| Total residential lots sold | **51** | 36 | 41.7% |
| Average revenue per lot sold | **173** | 194 | (10.8%) |
| Average revenue per acre sold | **-** | 751 | N/R[4]% |
| Development land sold (acres) | **-** | 14 | N/R[4]% |

*[1] Includes residential lot sales to third parties, to GBG 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 change*

### Gross margin by source of revenue

| | Three months ended March 31, | |
|---|---|---|
| | **2017** | **2016** |
| Residential lot sales[1] | **8,812** | 6,969 |
| Direct cost of sales | **(5,066)** | (3,514) |
| Gross margin | **3,746** | 3,455 |
| Gross margin (%) | **42.5%** | 49.6% |
| Development land sales | **-** | 10,250 |
| Direct cost of sales | **-** | (9,239) |
| Gross margin | **-** | 1,011 |
| Residential lot and development land gross margin | **3,746** | 4,466 |

*[1] Includes other revenue*

The change in gross margin percentages for single-family lots is primarily due to the mix of sales by community and product type (such as detached or semi-detached lots) as the gross margin percentage on residential lots typically varies by community and lot type, 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.

**Revenues**

Revenues were lower in Q1 2017 compared to Q1 2016 mainly due to there being no development land sales in Q1 2017. Q1 2016 revenues included the sale of a development land parcel for $10,250. The lack of development land revenues in Q1 2017 was partially offset by higher residential lot sales made to third parties, including 26 lots sold to a new builder partner in Airdrie. The volume of lot sales to third parties is usually higher when new sub-divisions are brought on stream and lot inventory is available.

**Other expenses**

Other expenses were slightly lower for Q1 2017 compared to the same period in 2016, mainly due to reductions in general and administration expenses and selling and marketing expenses. In addition, finance expenses were lower during Q1 2017 partially due to a reduction in the outstanding balance of the VTB. The reduction in other expenses was partially offset by a provision for litigation as described on page 19.

**Factors Affecting Results of Operations**

A number of factors affect the results of operations, particularly in land development, including:

- 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
- 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 the length of time the Corporation has owned the land
- The sale of developed lots to GBG is structured to defer the related revenues and earnings from those lots until the sale of the home and lot to the end purchaser
- Seasonality has historically resulted in higher lot and home building revenues in the summer and fall months when home building sales closings peak.

## Home Building – Genesis Builders Group Inc.

The homebuilding segment of Genesis is operated through its wholly-owned subsidiary, GBG.

| | Three months ended March 31, | | |
|---|---|---|---|
| | **2017** | **2016** | **% change** |
| **Key Financial Data** | | | |
| Revenues(1) | **9,020** | 22,209 | (59.4%) |
| Direct cost of sales | **(7,354)** | (18,441) | (60.1%) |
| Gross margin | **1,666** | 3,768 | (55.8%) |
| Gross margin (%) | **18.5%** | 17.0% | |
| Other expenses(2) | **(2,504)** | (2,974) | (15.8%) |
| Earnings before taxes | **(838)** | 794 | (205.5%) |
| **Key Operating Data** | | | |
| Homes sold (single-family units) | **19** | 42 | (54.8%) |
| Average revenue per single-family home sold | **475** | 529 | (10.2%) |
| New home orders (units) | **26** | 28 | (7.1%) |
| Homes (with lots) subject to firm sales contracts (units) | **46** | 49 | (6.1%) |

(1) *Revenues include residential home sales and other revenue*
(2) *Other expenses includes general and administrative, selling and marketing and net finance expense*

### Volumes and revenues

Revenues from the home building division for Q1 2017 were lower than in Q1 2016 due to GBG selling 19 homes in Q1 2017 compared to 42 homes in Q1 2016, with the homes sold in Q1 2017 having an average price of $475 per home compared to the homes sold in Q1 2016 with an average price of $529. The lower average price per home in 2017 was primarily due to differences in product mix, with 8 high amenity homes sold in Q1 2016 at prices above $640 compared to the more standard product sold in Q1 2017.

Of the 19 homes sold in Q1 2017, 14 were built on residential lots supplied by Genesis' land development segment, generating residential lot revenues of $2,168 (Q1 2016 – 36 and $6,969 respectively). The balance of 5 homes were sold on lots acquired by GBG from a third party in past years.

GBG builds homes either after receiving a firm sale contract (a "pre-construction home") or on a quick possession "spec" 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. Quick possession homes are built in advance of receiving a firm sale contract to meet the market demand from those buyers seeking quick possession.

GBG has seen that many buyers are looking for quick possession of their home, rather than being prepared to wait 8 to 10 months for a home to be built. 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, and spec home buyers are usually 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.

The decrease in total homes sold in Q1 2017 was mainly due to fewer pre-construction homes being delivered by GBG in Q1 2017 compared to Q1 2016. GBG had 15 quick possession closings (i.e. contracted and delivered within 90 days) in Q1 2017 compared to 17 in Q1 2016. GBG has seen a significant decline in pre-construction sales closings with no such closings in Q1 2017 compared to 12 in Q1 2016.

GBG had an opening order book (i.e. homes subject to firm sales contracts) of 39 homes at January 1, 2017 compared to an opening order book of 63 homes at January 1, 2016. At the end of Q1 2017, GBG's book of firm sales contracts remained similar with 46 homes under firm sales contracts, compared to 49 as at March 31, 2016. Of the 39 homes in the opening order book at January 1, 2017, 8 closed in Q1 2017, while of the 63 homes in the opening order book at January 1, 2016, 31 closed in Q1 2016 (of which 12 were pre-construction sales that had been originally scheduled to close in Q1 2016). There were no pre-construction sales homes in the opening order book at January 1, 2017 that were scheduled to close in Q1 2017.

Although the number of homes sold in Q1 2017 was lower than in Q1 2016, new home orders and homes with firm sales contracts for Q1 2017 were only slightly lower at 26 and 46 units respectively compared to 28 and 49 units respectively in Q1 2016.

**Other expenses**

Other expenses of GBG decreased by 15.8% in Q1 2017 compared to Q1 2016. These decreases were achieved due to a restructuring by the Corporation in March 2016 as well as other ongoing cost reduction initiatives, with savings in general and administrative expenses, sales and marketing expenses and net finance expenses. The reduction in other expenses was partially offset by a provision for litigation as described on page 19.

## Finance Expense

| | Three months ended March 31, | | |
|---|---|---|---|
| | **2017** | **2016** | **% change** |
| Interest incurred | **233** | 336 | (30.7%) |
| Finance expense relating to VTB[1] | **425** | 546 | (22.2%) |
| Financing fees amortized | **73** | 75 | (2.7%) |
| Interest and financing fees capitalized | **(106)** | (189) | (43.9%) |
| | **625** | 768 | (18.6%) |

*[1] VTB related to Calgary southeast lands acquisition*

The imputed rate on the VTB, which has a 0% face rate, is 8%. Interest expense on the VTB in Q1 2017 is less than in Q1 2016 following payment of the second installment of $8,000 in January 2017. Interest incurred during Q1 2017 is less than in Q1 2016 due to lower loan balances in 2017.

The weighted average interest rate of loan agreements with various financial institutions was 5.71% (YE 2016 - 5.77%) based on March 31, 2017 balances.

The weighted average interest rate of loan agreements was 3.81% (YE 2016 - 3.81%), based on Q1 2017 balances after excluding $8,739 of debt 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, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Land Development | | | | | |
| | Genesis | LPs | Intra-segment eliminations | Home Building | Inter-segment Eliminations | Consolidated |
| **Assets** | | | | | | |
| Real estate held for development and sale | 187,675 | 37,116 | (4,194) | 20,152 | (183) | **240,566** |
| Amounts receivable | 21,861 | 7 | - | 108 | - | **21,976** |
| Cash and cash equivalents | 2,203 | 41 | - | 1,714 | - | **3,958** |
| Other assets | 40,536 | 103 | (22,527) | 2,820 | (5,797) | **15,135** |
| **Total assets** | 252,275 | 37,267 | (26,721) | 24,794 | (5,980) | **281,635** |
| **Liabilities** | | | | | | |
| Loans and credit facilities | 27,910 | 8,732 | - | (26) | - | **36,616** |
| Provision for future development costs | 21,138 | - | - | 884 | - | **22,022** |
| Other liabilities(1), (2) | 9,272 | 28,284 | (28,168) | 8,335 | (5,797) | **11,926** |
| **Total liabilities** | 58,320 | 37,016 | (28,168) | 9,193 | (5,797) | **70,564** |
| **Net assets as at March 31, 2017** | **193,955** | **251** | **1,447** | **15,601** | **(183)** | **211,071** |
| Net assets as at Dec. 31, 2016 | 193,925 | 826 | 866 | 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) *Other liabilities under the LPs segment largely consist of $28,168 (December 31, 2016 - $27,543) of accounts payable and accrued liabilities due to Genesis.*

## LIQUIDITY AND CAPITAL RESOURCES

Genesis further reduced its debt during Q1 2017 and as at March 31, 2017 has 46 homes (with lots) subject to firm sale contracts and a portfolio of entitled land. Refer to Loans and Credit Facilities section of this MD&A which provides additional information.

| | March 31, 2017 | December 31, 2016 | % change |
|---|---|---|---|
| VTB | **20,931** | 28,506 | (26.6%) |
| Other loans and credit facilities | **6,946** | 6,258 | 11.0% |
| | **27,877** | 34,764 | (19.8%) |
| Loan relating to a limited partnership | **8,739** | 8,531 | 2.4% |
| Total loans and credit facilities | **36,616** | 43,295 | (15.4%) |
| Total liabilities to equity (1) | **33%** | 37% | |
| Loans and credit facilities ("Debt") to total assets | **13%** | 15% | |

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

Genesis regularly reviews its credit facilities and manages its requirements in accordance with project development plans and operating requirements. Genesis and its subsidiaries were in compliance with all covenants at all period ends. Genesis will finance the servicing of two new phases and the construction of a new townhouse project primarily using new external debt facilities, where possible. In addition, Genesis also has various credit lines in place to fund previously commenced land development and home building activities. Genesis expects to fairly significantly increase its use of credit facilities in 2017. Refer to the credit and liquidity risk section of this MD&A for factors that could affect Genesis' liquidity and capital resources.

## Real Estate Held for Development and Sale

| | March 31 2016 | December 31, 2016 | % change |
|---|---|---|---|
| Real estate held for development and sale | **307,390** | 308,824 | (0.5%) |
| Provision for write-downs | **(66,824)** | (66,824) | - |
| | **240,566** | 242,000 | (0.6%) |

Real estate held for development and sale decreased by $1,434 as at Q1 2017 compared to YE 2016. Refer to note 3 in the condensed consolidated interim financial statements for the three months ended March 31, 2017 and 2016 which details gross book value and net book value of real estate held for development and sale. Genesis expects to spend approximately $25,000 on land development activities during 2017. These development activities relate to phases already under development, two new phases commencing in 2017 as per the business plan, as well as some preliminary costs associated with future phases.

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, 2017.

| | 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] | 29,929 | 169 | 155 | 8,696 | 90 | 38,625 | 259 | 155 |
| Calgary NW[3] | 28,671 | 34 | 76 | - | - | 28,671 | 34 | 76 |
| Calgary NE[4] | 14,017 | 17 | 116 | 3,293 | 19 | 17,310 | 36 | 116 |
| Calgary SE[5] | - | - | - | 44,371 | 349 | 44,371 | 349 | - |
| | **72,617** | **220** | **347** | **56,360** | **458** | **128,977** | **678** | **347** |
| Mixed use[6] | 43,725 | 64 | - | 4,358 | 312 | 48,083 | 376 | - |
| Other assets[7] – non-core | - | - | 14 | 10,615 | 1,810 | 10,615 | 1,810 | 14 |
| **Total land development segment** | **116,342** | **284** | **361** | **71,333** | **2,580** | **187,675** | **2,864** | **361** |
| **Home building business segment[8]** | | | | | | **19,969** | **-** | **9** |
| **Total land and home building segments** | | | | | | **207,644** | **2,864** | **370** |
| Limited Partnerships[9] | | | | | | 32,922 | 2,373 | - |
| **Real estate held for development and sale** | | | | | | **240,566** | **5,237** | **370** |

See accompanying footnotes on page 13.

| | Acres[(1)] | Developed Lots | Estimated Equivalent if/when Developed | | | Total |
|---|---|---|---|---|---|---|
| | | Single-family (units) | Single-family (lots) | Townhouse/multi-family (units) | Commercial (acres) | Single- and townhouse/multi-family (units) |
| **Residential** | | | | | | |
| Airdrie[(2)] | 259 | 155 | 1,517 | 162 | 10 | 1,834 |
| Calgary NW[(3)] | 34 | 76 | 31 | 1,869 | 1 | 1,976 |
| Calgary NE[(4)] | 36 | 116 | 217 | 117 | - | 450 |
| Calgary SE[(5)] | 349 | - | 1,984 | - | - | 1,984 |
| | **678** | **347** | **3,749** | **2,148** | **11** | **6,244** |
| Mixed use[(6)] | **376** | **-** | **-** | **2,650** | **336** | **2,650** |
| Other assets[(7)] – non-core | **1,810** | **14** | **1,269** | **-** | **-** | **1,283** |
| **Total land development segment** | **2,864** | **361** | **5,018** | **4,798** | **347** | **10,177** |
| **Home building business segment** | - | **9** | - | - | - | **9** |
| **Total land and home building segments** | **2,864** | **370** | **5,018** | **4,798** | **347** | **10,186** |
| Limited Partnerships[(9)] | 2,373 | - | 2,495 | 800 | 441 | 3,295 |
| **Real estate held for development and sale** | **5,237** | **370** | **7,513** | **5,598** | **788** | **13,481** |

*(1) Acres comprises townhouse/multi-family, commercial acres and land not yet subdivided into single-family and other 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 5.7% (YE 2016 - 5.6%) of Genesis' land portfolio with a carrying value of $10,615 (YE 2016 - $10,612). A 1,476 acre parcel was contracted for sale in March 2017 for $9,000 and the sale closed on May 2, 2017.*
*(8) Housing projects under development comprises $1,560 in lots and $18,409 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 each segment's residential lot inventory for the period ended March 31, 2017:

### Land Development

| Project | Lots at Jan. 1, 2017 | Additions made during 2017 | Sold to third-party builders | Sold to Home Building | Lots at March 31, 2017 |
|---|---|---|---|---|---|
| **Airdrie** | | | | | |
| Bayside and Bayview | 188 | - | (32) | (8) | 148 |
| Canals | 8 | - | (1) | - | 7 |
| | 196 | - | (33) | (8) | 155 |
| **Calgary NW** | | | | | |
| Sage Meadows | 80 | - | (4) | - | 76 |
| **Calgary NE** | | | | | |
| Saddlestone | 122 | - | - | (6) | 116 |
| **Brooks** (non-core) | 14 | - | - | - | 14 |
| **Total** | 412 | - | (37) | (14) | 361 |

### Home Building

| Project | Lots at January 1, 2017 | Lots purchased in 2017 | Homes sold in 2017 | Lots at March 31, 2017 |
|---|---|---|---|---|
| **Airdrie** | | | | |
| Bayside and Bayview | 3 | 8 | (8) | 3 |
| | 3 | 8 | (8) | 3 |
| **Calgary NW** | | | | |
| Evansridge | 10 | - | (4) | 6 |
| Kinwood | 1 | - | (1) | - |
| | 11 | - | (5) | 6 |
| **Calgary NE** | | | | |
| Saddlestone | - | 6 | (6) | - |
| **Total** | **14** | 14 | **(19)** | **9** |

## Amounts Receivable

| | March 31, | December 31, | |
|---|---|---|---|
| | **2017** | **2016** | **% change** |
| Amounts receivable | **21,976** | 21,059 | 4.4% |

Genesis retains title to lots and homes that are contracted for sale until full payment is received in order to mitigate credit exposure to third parties. The increase of $917 in amounts receivable is mainly due to the timing of residential lot sales and closings, the timing of which affects the Corporation's amounts receivable. As at March 31, 2017 the Corporation had 121 lots or $18,928 in amounts receivable compared to 110 lots or $17,528 in amounts receivable as at December 31, 2016, a change of $1,400.

## Cash Flows from Operating Activities

| | Three months ended March 31, | |
|---|---|---|
| | **2017** | **2016** |
| Cash flows (used in) from operating activities | **(1,529)** | 12,269 |
| Cash flows (used in) from operating activities per share – basic and diluted | **(0.03)** | 0.28 |

The $13,798 decrease in cash flows from operating activities between Q1 2017 and Q1 2016 is explained by the following:

| | |
|---|---|
| Lower cash inflows from sale of residential homes | (12,848) |
| Higher cash inflows from residential lot and development land sales | 2,380 |
| Lower cash outflows for other operating costs | 655 |
| Lower other cash receipts | (1,495) |
| Higher cash outflows for income tax installments | (1,293) |
| Higher cash outflows for land servicing | (640) |
| Higher cash outflows for home building activity | (557) |
| Total change in cash flows | (13,798) |

Lower cash inflows from the sale of residential homes are consistent with the lower volumes of home closings sales during 2017.

Higher cash inflows from residential lot and development land sales was due to a larger number of residential lot sales to third parties. Genesis receives 15% cash deposits on lots sold to third-parties at the time of sale, with the 85% balance being received over a period of several months in accordance with a take-down schedule. Revenue recognition of these sales (100% of sale price) occurs at the time of receiving the 15% deposit.

Higher cash outflows for home building activity was partially due to increasing the investment in home building inventory from $19,400 as at December 31, 2016 to $19,969 as at March 31, 2017.

The other differences include lower cash outflows for other operating costs, higher cash outflows for land servicing activity and payment of tax installments in Q1 2017 with no corresponding payment in Q1 2016.

## LIABILITIES AND SHAREHOLDERS' EQUITY

The following table presents Genesis' liabilities and equity at the end of Q1 2017 and YE 2016:

| | March 31, | | December 31, | |
|---|---|---|---|---|
| | **2017** | **% of Total** | **2016** | **% of Total** |
| Loans and credit facilities | **36,616** | **13%** | 43,295 | 15% |
| Customer deposits | **3,070** | **1%** | 2,587 | 1% |
| Accounts payable and accrued liabilities | **8,856** | **3%** | 10,195 | 4% |
| Provision for future development costs | **22,022** | **8%** | 21,253 | 7% |
| Total liabilities | **70,564** | **25%** | 77,330 | 27% |
| Non-controlling interest | **6,040** | **2%** | 6,037 | 2% |
| Shareholders' equity | **205,031** | **73%** | 205,628 | 71% |
| | **281,635** | **100%** | 288,995 | 100% |

Genesis commenced a normal course issuer bid ("NCIB") in 2015 and renewed it in 2016. The NCIB is approved until September 2017 and the Corporation is actively re-purchasing and cancelling common shares. In Q1 2017, The Corporation purchased and cancelled 447,449 common shares for $1,301 at an average cost of $2.91 per share (representing 1.02% of issued and outstanding shares at the beginning of the year) compared to 258,700 common shares for $608 at an average cost of $2.35 in Q1 2016 (representing 0.58% of issued and outstanding shares).

### Loans and Credit Facilities

The change in the loans and credit facilities of Genesis and a limited partnership were as follows:

| | **2017** | **2016** |
|---|---|---|
| Balance at January 1, – excluding VTB | **14,789** | 29,498 |
| Balance at January 1, - VTB for land acquisition | **28,506** | 34,321 |
| Advances for land development and home building | **12,510** | 42,462 |
| Repayments from the proceeds of land and home sales | **(19,889)** | (65,800) |
| Interest and financing fees incurred | **770** | 3,314 |
| Interest and financing fees paid | **(70)** | (500) |
| Balance at March 31, 2017 and December 31, 2016, respectively | **36,616** | 43,295 |

The Corporation's loans and credit facilities, net of deferred financing fees, consisted of the following segmented amounts:

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| Land development | **27,884** | 33,918 |
| Home building | **-** | 863 |
| | **27,884** | 34,781 |
| Limited partnerships | **8,732** | 8,514 |
| | **36,616** | 43,295 |

The following is a summary of drawn and outstanding loan and credit facility balances as at Q1 2017 and as at the end of the previous four quarters:

| | Q1 2017 | Q4 2016 | Q3 2016 | Q2 2016 | Q1 2016 |
|---|---|---|---|---|---|
| Vendor-take-back mortgage | 20,931 | 28,506 | 27,959 | 27,413 | 26,867 |
| Land development loans | 3,090 | 5,566 | 1,004 | 1,410 | 9,807 |
| Land loan relating to a limited partnership | 8,739 | 8,531 | 8,531 | 8,325 | 8,125 |
| Home building loans | - | 903 | 1,344 | 2,148 | 3,670 |
| Demand operating line | 4,000 | - | - | 1,580 | - |
| | 36,760 | 43,506 | 38,838 | 40,876 | 48,469 |
| Unamortized deferred financing fees | (144) | (211) | (280) | (293) | (361) |
| Balance, end of period | 36,616 | 43,295 | 38,558 | 40,583 | 48,108 |

Total liabilities to equity follows:

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| Total liabilities | **70,564** | 77,330 |
| Total equity | **211,071** | 211,665 |
| Total liabilities to equity(1) | **33%** | 37% |

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

As at March 31, 2017, Genesis has three land project loan facilities with the ability to fund up to $28,042 of future development and servicing costs. Interest on these facilities ranges from prime + 0.75% to prime + 1.25% per annum. Draws on these facilities can be made as land development activities progress. As at March 31, 2017, $3,090 was drawn against these facilities (YE 2016 - $5,566).

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. As at March 31, 2017, the outstanding balance of this facility was $4,000 (YE 2016 - Nil).

GBG has a demand operating line of $6,500 at an interest rate of prime + 1.5% per annum. As at March 31, 2017, the amount drawn on this facility was nil (YE 2016 - nil). In addition, during Q1 2017, a lot purchase loan at an interest rate of prime + 1.5% per annum was repaid in full and cancelled (YE 2016 - $903).

Genesis assumed a VTB on the purchase of the southeast lands in January 2015. As at March 31, 2017, the VTB had an outstanding balance of $24,000 with an unamortized discount of $3,069 (YE 2016 - $32,000 and $3,494 respectively). The outstanding balance is payable in three equal installments of $8,000 in January 2018 through January 2020.

Genesis guarantees an $8,739 loan (YE 2016 - $8,531) 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 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 Q1 2017 and at YE 2016. 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 its credit facilities and manages requirements in accordance with project development plans and operating requirements.

## Provision for Future Development Costs

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

For GBG, costs-to-complete estimates are the costs likely to be incurred on seasonal and other work (such as paving and landscaping) and estimated warranty charges over the one year warranty period.

For the land development segment, the provision for future development costs represents the estimated remaining construction costs related to and/or allocated to sold land. This includes all direct construction costs and indirect costs expected to be incurred during the remainder of the construction period, net of expected recoveries, allocable to the portions of the development that have already been sold. The provision is reviewed periodically and, when the 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 under development and/or cost of sales.

Provision for future development costs as at the end of Q1 2017 was $21,138 for the land segment ($20,064 – YE 2016) and $884 ($1,189 – YE 2016) for GBG. These changes were due to normal sales activity in land and home building. The increase was partially offset by completion of previously recognized cost-to-complete liabilities on residential lots and residential homes.

## Income Tax Recoverable

The changes in income tax recoverable are as follows:

| | **March 31, 2017** | **December 31, 2016** |
|---|---|---|
| Balance, beginning of period | **(42)** | 270 |
| Provision for current income tax | **662** | 4,397 |
| Net payments | **(1,293)** | (4,709) |
| Balance, end of period | **(673)** | (42) |

The increase in income tax recoverable is due to the provision for current income tax being lower than the net payments made to date.

## Shareholders' Equity

As at May 11, 2017, the Corporation had 43,294,185 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 NCIB as follows:

| | Three months ended March 31, | |
|---|---|---|
| | **2017** | **2016** |
| Number of shares purchased and cancelled | **447,449** | 258,700 |
| Total cost | **1,301** | 608 |
| Average price per share purchased | **2.91** | 2.35 |
| Beginning of period | **Jan 1, 2017** | Jan 1, 2016 |
| Shares cancelled as a % of common shares outstanding at beginning of period | **1.02%** | 0.58% |

The Corporation repurchased for cancellation an additional 7,644 common shares for $24 between April 1, 2017 and May 11, 2017. As of the date of this MD&A, there are 1,683,431 common shares remaining for purchase under the NCIB.

## 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 2017 were as follows:

| | Loans and Credit Facilities(1) | Naming Rights | Lease Obligations | Total |
|---|---|---|---|---|
| Current | 15,829 | 700 | 696 | **17,225** |
| April 2018 to March 2019 | 7,530 | 500 | 561 | **8,591** |
| April 2019 to March 2020 | 6,959 | 500 | 467 | **7,926** |
| April 2020 and thereafter | 6,442 | 500 | 294 | **7,236** |
| Current | 36,760 | 2,200 | 2,018 | **40,978** |

(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 six installments totaling $3,000 were paid as at March 31, 2017.

In 2008, Genesis entered into an agreement with the City of Airdrie to contribute $2,000 over 10 years for 40-year naming rights to "Genesis Place", a recreation complex in the city of Airdrie ($200 each year, terminating in 2017). The first nine installments totaling $1,800 were paid as at March 31, 2017.

In Q1 2017, the Corporation amended its head office lease agreement with Morguard Real Estate Investment Trust ("Morguard") 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 6 of the condensed consolidated interim financial statements for the three months ended March 31, 2017 and 2016.

### Current Contractual Obligations, Commitments and Provision

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| Loans and credit facilities, excluding deferred financing fees | **15,829** | 22,990 |
| Accounts payable and accrued liabilities | **8,856** | 10,195 |
| Total short-term liabilities | **24,685** | 33,185 |
| Commitments[1] | **1,396** | 1,371 |
| | **26,081** | 34,556 |

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

At the end of Q1 2017, Genesis had obligations due within the next 12 months of $26,081, of which $15,829 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. Management is confident that Genesis has the ability to continue to renew or to repay its financial obligations as they come due.

### 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.

## 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 2017, these letters of credit totalled approximately $2,812 (YE 2016 - $4,429).

### 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 2017 and YE 2016. 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

| | Q1 2017 | Q4 2016 | Q3 2016 | Q2 2016 | Q1 2016 | Q4 2015 | Q3 2015 | Q2 2015 |
|---|---|---|---|---|---|---|---|---|
| Revenues | **15,664** | 28,145 | 29,240 | 26,148 | 32,424 | 36,575 | 34,918 | 31,822 |
| Net earnings[1] | **704** | (1,216) | 2,184 | 2,828 | 2,110 | 5,365 | 4,256 | 1,333 |
| EPS[2] | **0.02** | (0.03) | 0.05 | 0.06 | 0.05 | 0.13 | 0.09 | 0.03 |

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

| | Q1 2017 | Q4 2016 | Q3 2016 | Q2 2016 | Q1 2016 | Q4 2015 | Q3 2015 | Q2 2015 |
|---|---|---|---|---|---|---|---|---|
| Residential lots sold to third parties (units) | **37** | 12 | 24 | 22 | - | 50 | 13 | 3 |
| Homes sold (units) | **19** | 56 | 28 | 40 | 42 | 51 | 67 | 59 |
| Development land revenues | **-** | - | 9,437 | 1,650 | 10,250 | 3,500 | - | 100 |

| **Cash flows (used in) from operating activities** | **Q1 2017** | **Q4 2016** | **Q3 2016** | **Q2 2016** | **Q1 2016** | **Q4 2015** | **Q3 2015** | **Q2 2015** |
|---|---|---|---|---|---|---|---|---|
| Amount | **(1,529)** | 6,229 | 10,060 | 14,394 | 12,269 | (7,193) | 8,919 | (1,324) |
| per share basic and diluted | **(0.03)** | 0.14 | 0.23 | 0.33 | 0.28 | (0.16) | 0.20 | (0.03) |

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. Refer to the Factors Affecting Results of Operations section on page 8 of this MD&A which discusses the factors that affect Genesis' results and seasonality further.

During Q1 2017, Genesis sold 37 residential lots to third parties and 19 homes compared to 12 residential lots to third parties and 56 homes during the fourth quarter of 2016 ("Q4 2016"). 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 a write-down of $5,372 in Q4 2016 with 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) compared to 24 residential lots to third parties, a 7 acre development land parcel for $9,437 and 28 homes (all single-family) during the third quarter of 2016 ("Q3 2016"). This resulted in revenues that were slightly lower than Q3 2016. Genesis also had a write-down of $5,372 in Q4 2016 compared to a write down of $3,293 in Q3 2016, a difference of $2,079 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 the third quarter of 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.

During Q2 2016, Genesis sold 22 residential lots to third parties, a 1,653 acre non-core development land parcel for $1,650 and 40 homes (all single-family). The sale of a development land parcel in the first quarter of 2016 resulted in higher revenues in the first quarter of 2016 ("Q1 2016") compared to Q2 2016, but this was partially offset by the higher volume of residential lot sales in Q2 2016. During Q2 2016, Genesis also incurred $992 of cost of sales expense relating to townhouse projects that were not going to proceed. These were the main factors resulting in lower net earnings during Q2 2016 compared to Q1 2016.

During Q1 2016, Genesis sold no residential lots to third parties, sold a development land parcel for $10,250 and 42 homes (all single-family). During the fourth quarter of 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 the fourth quarter of 2015. There was no corresponding multi-family land sale in Q1 2016, and Genesis realized deferred gains from five single-family lots during Q1 2016. These factors resulted in lower net earnings and EPS during Q1 2016 compared to the fourth quarter of 2015.

During Q4 2015, Genesis sold 50 residential lots to third parties, 51 homes (39 single-family and 12 townhouses) and a non-core development land parcel.

During Q3 2015, Genesis sold 13 residential lots and 67 homes (56 single-family and 11 townhouses).

During Q2 2015, net earnings were affected by a write-down of real estate held for development and sales.

## RELATED PARTY TRANSACTIONS

Transactions occurred 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

| | Three months ended March 31, | |
|---|---|---|
| | **2017** | **2016** |
| Paid to Underwood for the services of Stephen J. Griggs as interim CEO | **93** | 64 |
| Reimbursement of travel and other costs incurred by Smoothwater | **-** | 7 |
| | **93** | 71 |

## CONSOLIDATED ENTITIES

The Corporation is a general partner in three limited group structures and a 50% co-owner in a joint venture. 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 a 11.75% equity interest in Genesis Limited Partnership #6. The LP6/7 Group structure no longer has any assets or liabilities and is in the process of being wound up. The structure is no longer being consolidated effective January 1, 2017.

## 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.

## SUMMARY OF ACCOUNTING CHANGES

The Corporation adopted no new IFRSs and interpretations during Q1 2017.

### 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.

## 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, 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 Q1 2017 and Q1 2016. Refer to note 2(q) in the consolidated financial statements for the years ended December 31, 2016 and 2015 for additional information on judgments and estimates.

### Provision for Future Development Costs

Changes in the estimated future development costs of land previously sold 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 valuations conducted by independent real estate appraisers, other professional reports and estimates and taking into account 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 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 interim CEO and interim 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 March 31, 2017.

There were no changes in the Corporation's ICFR during the three months ended March 31, 2017 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 include 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, cyber-security and business continuity risk, environmental risk and government regulations.

#### Development and Construction Cost Risk

Genesis may be impacted by higher prices of labor, consulting fees, construction services and materials. Costs of development and building have fluctuated over the past several years and are typically passed on to the end customer through higher pricing. Any significant increase that Genesis cannot pass on to the end customer may have a negative material impact on profits.

#### Credit and Liquidity Risk

Credit risk arises from the possibility that third party 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, renew existing credit facilities or secure additional financing, the Corporation's ability to meet its obligations as they become due may be impacted. 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 retain or obtain such credit facilities, its ability to achieve its goals could be impacted. In order to reduce finance risk, Genesis endeavors to match the term of financing with the expected revenues of 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.

### Litigation Risk

All industries are subject to legal claims, with or without merit. The Corporation may be involved from time to time in various legal proceedings which may include the potential liability from its operating activities and, as a public company, possibly from violations of securities laws or breach of fiduciary duty by its directors or officers. Defense and settlement costs can be substantial, even with respect to legal claims that have no merit. Due to the inherent uncertainty associated with litigation, the resolution of any particular legal proceeding could have a material effect on the financial position and results of operations of the Corporation.

### Cybersecurity and Business Continuity Risk

Genesis' operations, performance and reputation depend on how its assets, including networks, IT systems, offices and sensitive information, are protected from cyberattacks. Genesis' operations and business continuity depend on how well it protects, tests, maintains and replace its networks, IT systems and associated equipment. The protection and effective organization of Genesis' systems, applications and information repositories are central to the security and continuous operation of the business.

Cyberattacks and threats (such as hacking, computer viruses, denial of service attacks, industrial espionage, unauthorized access to confidential information, or other breaches of network or IT security) continue to evolve and Genesis' IT defenses need to be regularly monitored and adapted. Genesis may also be exposed to cyber threats as a result of actions that may be taken by its customers, suppliers, employees or independent third parties, whether malicious or not, including as a result of the use of social media, cloud-based solutions and IT consumerization (i.e. the combining of personal and business use of technology devices and applications.) Vulnerabilities could harm Genesis' brand and reputation as well as its business relationships, and could adversely affect its operations and financial results, given that they may lead to: network operating failures and service disruptions, which could directly impact Genesis' ability to maintain its day-to-day business operations and meet its commitments; the theft, loss or unauthorized release of confidential information, including customer or employee information, that could result in financial loss and exposure to claims for damages by customers and employees; physical damage to network assets impacting service continuity as well as corruption or destruction of data; litigation, fines and liability for failure to comply with privacy and information security laws; regulatory investigations and increased audit and regulatory scrutiny that could divert resources from regular operations; loss of customers or impairment of our ability to attract new ones; or lost revenues due to service disruptions and the incurrence of remediation costs.

Genesis has the following in place to reduce and/or manage cybersecurity and business continuity risk: enterprise grade firewalls with the ability to detect port scanning, denial of service attacks and content filtering and application control to permit or deny traffic on the network; signature-based antivirus which runs scans to detect suspicious files and continuously receives updates to counter new threat; email security and anti-spam filtering to scan all incoming and outgoing emails before email delivery is completed; and regular internal and external backups of database and networks files which could be used to restore data in the event of loss of information due to corruption, deletion or encryption due to viruses or malware or system failures.

### Insurance

The Corporation maintains various types of insurance to cover certain potential risks and regularly evaluates the adequacy of this coverage.

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, 2016 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 regulation.*

*Forward-looking statements in this MD&A include, but are not limited to, statements with respect to Genesis' 2017 business plan, the payment of dividends, the purchase of common shares under the normal course issuer bid, anticipated general economic and business conditions, the Alberta real estate cycle, expectations for lot and home prices, minimizing overhead costs, construction starts and completions, development plans for Genesis' core lands, closings of a sale of commercial land in the fourth quarter of 2017 and other conditional agreements, continuing participation of a builder in Genesis' builder partner group, anticipated amendments to the area structure plan for the Sage Hill Crossing area, progress of developments in Airdrie and North Conrich, commencing the servicing phase of the Saddlestone community and the construction phase of the Newport project, the financing of these phases and expected increase in use of credit facilities, plans and infrastructure relating to the southeast lands, expenditures on land development activities in 2017, the wind-up of Genesis Limited Partnership #6 and Genesis Limited Partnership #7, GBG's sales process and construction margins, the ability to build an inventory of homes and sell units on a quick possession basis, and the ability to continue to renew or repay financial obligations and to meet liabilities as they become due.*

*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.*