# MANAGEMENT'S DISCUSSION & ANALYSIS 2014

## FOR THE THREE MONTHS AND YEAR ENDED DECEMBER 31, 2014

GENESIS

# Highlights

EARNINGS FOR 2014 ROSE TO **$17,395,000** FROM **$5,713,000** IN 2013

HOMES WITH FIRM SALE CONTRACTS ROSE TO **137** AT END 2014

FROM **118** AT END 2013

**26 %** INCREASE IN NEW HOME ORDERS TO **239** IN 2014 FROM **189** IN 2013

STRONG CASH FLOW FROM OPERATIONS **$42,169,000** CASH FLOW PER SHARE **$0.94**

**53%** DECREASE IN DEBT TO **$23,892,000** AT END 2014

FROM **$50,373,000** AT END 2013

CASH ON HAND OF **$33,048,000** EXCEEDS DEBT OF **$23,892,000*** AT END 2014

**Includes $7,850,000 of debt relating to a limited partnership.*

*The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Genesis Land Development Corp. ("Genesis" or the "Corporation") should be read in conjunction with the consolidated financial statements and the notes thereto for the year ended December 31, 2014 and 2013, prepared in accordance with International Financial Reporting Standards ("IFRS").*

*The consolidated 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. Additional information, including the Corporation's Annual Information Form ("AIF") 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 March 26, 2015.***

*NON-GAAP FINANCIAL MEASURES AND ADVISORIES*

*This MD&A includes references to certain financial measures which do not have standardized meanings prescribed by IFRS. As such, these financial measures are considered additional GAAP or non-GAAP financial measures and therefore are unlikely to be comparable with similar financial measures presented by other reporting issuers. These additional GAAP and non-GAAP financial measures include net asset value, gross margin before recovery or write-down, and adjusted earnings per share. For a full description of these non-GAAP financial measures and a reconciliation of these measures to their most directly comparable GAAP measures, please refer to "Non-GAAP Financial Measures" on page 18. Please also refer to page 21 for the "Non-GAAP Financial Measures" advisory and the "Forward Looking Statements" advisory.*

**GENESIS LAND DEVELOPMENT CORP.**
**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**For the three months and year ended December 31, 2014**

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## OVERVIEW

Genesis is an integrated, award-winning land developer and residential home builder creating innovative and successful communities in the Calgary Metropolitan Area. Genesis is committed to supporting its communities through partnerships like the Genesis Centre of Community Wellness, and Genesis Place Recreational Centre.

We report our 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, industrial and urban communities. Home building includes the acquisition of lots, and the construction and sale of single- and multi-family homes.

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

## MARKET OVERVIEW

Alberta's general economic conditions were strong throughout the majority of 2014, based on continuing low unemployment and interest rates, low and stable inflation rates, positive net migration to Alberta and above average earnings by Albertans. Our current financial strength is a direct result of the execution of our strategic plan which, among other things, has a focus on reducing debt to enable Genesis to withstand market disruptions, consider shareholder distributions and pursue opportunistic investments.

In the second half of 2014 and into 2015, Alberta saw a softening of economic fundamentals, primarily due to a significant drop in crude oil and natural gas prices that began in the middle of 2014. These factors have resulted in a more competitive and challenging market in 2015, which is expected to constrain margins, profitability and the pace of activity in Calgary's home building industry throughout 2015 and possibly into 2016. How long this softening continues and the depth of any potential impact will be highly dependent on changes to the economy, and more specifically to the oil and gas industry in Alberta, in the second half of 2015.

Entering 2015, Genesis had 137 homes with firm sales contracts that we expect to close in 2015. Our core businesses are running more efficiently, supported by a large portfolio of entitled residential and mixed-use land, which is well positioned and will benefit significantly from a rebound and strengthening of the Alberta economy. These various factors, along with more cash on hand than outstanding loans and significant unutilized debt capacity, provide management with the flexibility to adjust to a variety of changes in the economic environment.

## CORPORATE HIGHLIGHTS

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

| | Three months ended December 31, | | Year ended December 31, | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| **Key Financial Data** | | | | |
| Total revenues | **28,509** | 26,331 | **134,245** | 96,077 |
| Cost of sales[1] | **(21,122)** | (23,697) | **(95,244)** | (84,942) |
| Gross margin | **7,387** | 2,634 | **39,001** | 11,135 |
| Gross margin (%) | **25.9%** | 10.0% | **29.1%** | 11.6% |
| (Write-down) recovery of real estate held for development and sale | **(184)** | (4,155) | **4,177** | (16,282) |
| Gross margin before (write-down) recovery[2] | **7,571** | 6,789 | **34,824** | 27,417 |
| Gross margin before (write-down) recovery (%)[2] | **26.6%** | 25.8% | **25.9%** | 28.5% |
| Earnings (loss) before income taxes | **3,125** | 2,485 | **24,117** | (1,850) |
| Net earnings[3] attributable to equity shareholders | **2,858** | 4,980 | **17,395** | 5,713 |
| Net earnings per share – basic and diluted | **0.07** | 0.11 | **0.39** | 0.13 |
| Adjusted earnings per share – basic and diluted[2] | **0.06** | 0.12 | **0.37** | 0.26 |
| Cash flows from operating activities | **4,099** | 1,086 | **42,169** | 53,952 |
| Cash flows from operating activities per share – basic and diluted | **0.09** | 0.02 | **0.94** | 1.20 |
| **Key Operating Data** | | | | |
| Residential lots sold to third parties (units) | **3** | 62 | **124** | 150 |
| Residential lots sold through the home building business segment (units) | **18** | 36 | **147** | 110 |
| Development land sold (acres) | - | - | **121.91** | 11.28 |
| Average revenue per lot sold to third parties | **208** | 154 | **192** | 171 |
| Average revenue per acre | - | - | **115** | 591 |
| Homes sold (units) | **66** | 42 | **220** | 164 |
| Average revenue per home sold | **422** | 396 | **436** | 387 |
| New home orders (units) | **38** | 54 | **239** | 189 |

| | As at December 31, | |
|---|---|---|
| | **2014** | **2013** |
| Homes with firm sale contracts (units) | **137** | 118 |

| | As at December 31, | |
|---|---|---|
| **Key Balance Sheet Data** | **2014** | **2013** |
| Cash and cash equivalents | **33,048** | 17,678 |
| Total assets | **309,742** | 313,846 |
| Loans and credit facilities | **23,892** | 50,373 |
| Total liabilities | **78,468** | 95,920 |
| Shareholders' equity | **208,101** | 195,483 |
| Total equity | **231,274** | 217,926 |
| Loans and credit facilities ("Debt") to total assets | **7.7%** | 16.1% |

*(1) Includes (write-down) recovery of real estate held for development and sale*
*(2) Non-GAAP financial measure. Refer to page 18 for further information*
*(3) Net of income tax expense*

## STRATEGY AND BUSINESS FOCUS

### Highlights

The ongoing successful implementation of our strategic plan drove solid performance across the Corporation in both our land development and home building business segments in 2014. We realized a turnaround in our home building business and in our overall financial position throughout the year, taking advantage of a robust land and housing market in the Calgary Metropolitan Area during the majority of 2014. These factors resulted in the best overall year of operating results for Genesis, achieving rapidly growing home sales, strengthening profitability, strong cash flow, a reduction in debt levels and a balance sheet poised to support future growth. While there has been softening of economic fundamentals in Alberta during the second half of 2014 and into 2015, we are well situated to weather the expected challenges and continue to achieve positive results.

Earnings rose substantially to new levels:

- Earnings of $2,858 (2013 – $4,980) and $17,395 (2013 - $5,713) for the fourth quarter of 2014 ("Q4 2014") and the year ended December 31, 2014 ("YE 2014"), respectively.
- Large gains in our home building segment resulted in total revenue growth of 8.3% and 39.7% to $28,509 (2013 - $26,331) in Q4 2014 and $134,245 (2013 – $96,077) for YE 2014. Revenue for YE 2014 included the sale of Acheson development land for $14,000.

Continued strong cash flows from operations:

- Cash flow from operating activities for Q4 2014 was $4,099 ($0.09 per share) compared to $1,086 ($0.02 per share) in the fourth quarter of 2013 ("Q4 2013") and was $42,169 ($0.94 per share) at YE 2014 compared to $53,952 ($1.20 per share) at December 31, 2013 ("YE 2013").
- Receipts for YE 2014 included $13,784 from the sale of the non-core Acheson development land parcel while YE 2013 included the receipt of $27,713 from the sale of sites 1 and 2 in the Sage Hill Crossing commercial development.

Balance sheet strengthened:

- Significantly reduced utilization of loans and credit facilities to $23,892 at YE 2014 from $50,373 at YE 2013.
  - Genesis had more cash on hand at YE 2014 ($33,048) than drawn loans and credit facilities ($23,892), largely due to strong cash flows from operating activities and the sale of the non-core Acheson development land parcel in the first quarter of 2014 ("Q1 2014").
  - Debt to total assets dropped to 7.7% at YE 2014 from 16.1% at YE 2013. We have significant unutilized debt capacity to execute our strategic plan, further grow our business and to provide support in the event of a deeper economic downturn.

Home building profitability accelerated:

- The home building business segment achieved continued performance improvements with revenues, gross margins, earnings and volumes up significantly in Q4 2014 and YE 2014 compared to the same periods in 2013.
- Improved efficiencies and higher sales volumes produced increased gross margins of 15.9% and 16.7% for Q4 2014 and YE 2014, respectively, compared to 13.5% and 14.2% for the same periods in 2013.
- Earnings before income taxes and non-controlling interest ("NCI") increased for Q4 2014 and YE 2014 to $1,818 (2013 - $137) and $5,108 (2013 - $254).

Sharply higher increase in YE 2014 new home orders and firm sale contracts:

- Home sales were 66 and 220 for Q4 2014 and YE 2014, compared to 42 and 164 from the same periods in 2013.
- New home orders were 38 and 239 for Q4 2014 and YE 2014 as compared to 54 and 189 in the same periods in 2013. New home orders for the year increased by 26.5% despite a 29.6% decline in new home orders for the quarter.
- Homes with firm sale contracts increased 16.1% to 137 at YE 2014 compared to 118 homes with firm sale contracts at YE 2013, providing a strong base of committed revenue for 2015.

The land development segment continued revenue growth and improved profitability:

- Revenues increased by 24.3% for YE 2014 despite a decrease of 71.1% for Q4 2014.
- Earnings before income taxes and NCI for Q4 2014 and YE 2014 were $1,463 (2013 – $6,716) and $19,629 (2013 – $7,579), respectively.

First ever dividend payment:

- In 2014, Genesis took advantage of its strong earnings and balance sheet to pay its first dividend, a special dividend of $0.12 per share.

Major land acquisition:

- We acquired approximately 350 acres of land located in southeast Calgary along the Bow River for $52.5 million with $40.0 million payable over 5 years at 0% interest rate. The community is expected to include nearly 2,100 homes, parkland and supporting community commercial development. Once completed it will encompass a large scale residential community with multiple product categories in a rapidly growing area within the City of Calgary, and the development time-frame will support the planned growth of both our land development and homebuilding businesses. This transaction closed on January 6, 2015.

The Highlights section of this MD&A should be read in conjunction with the rest of this MD&A, which contains additional information and analysis. Further information on the Corporation's performance is also presented in the Land Development and Home Building sections of this MD&A. These sections are to be read in conjunction with note 17 (segmented information) in the consolidated financial statements for the years ended December 31, 2014 and 2013. These sections of the MD&A present the business segment revenues and expenses before inter-company eliminations.

## RESULTS OF OPERATIONS

Genesis evaluates its land development and home building businesses internally on a segmented basis. The home building business segment is also evaluated against external industry benchmarks for other home builders in the Calgary Metropolitan Area. All costs are segmented, including selling costs, general and administrative costs and finance expense.

Major factors affect the results of our operations, including:

1. The strategic decision to reserve a significant portion of developed lots for our rapidly growing home building business segment defers the related revenues and earnings from those lots until the sale of the home and lot. When lots are sold to a third party home builder, lot sale revenue is recognized pursuant to the terms of the contract and corporate accounting policies. The impact on reported results will be less pronounced as home building volume growth moderates.
2. The development and sale of land (typically represented by a community with one, or a combination, of multi-family, industrial or commercial zoned components) occurs over a substantial period of time. The sales of such parcels do not occur on a predictable schedule as is the general pattern for residential lots. Consequently, the sale of development land and collection of proceeds can create significant volatility in the revenues, earnings and cash flows from operating activities of Genesis.
3. Seasonality affects the land development and home building industry in Canada, particularly as a result of weather conditions during winter operations. As a result, we typically realize higher lot and home building revenues in the summer and fall months when home building sales peak.
4. Lot prices and gross margin on single family lots varies by community based on the nature of the development work to be undertaken before the lots are ready for sale, and are dependent on how long the Corporation has owned the land.

## Land Development

Our strategy is to continue to profitably grow our land development and housing operations in unison, thereby enabling more lots to be sold through our home building business segment. This strategy allows us to realize both the land development margin and the home building margin. In the short-term, and to the extent that lots sold through our home building business segment would otherwise have been sold to third party builders, land development revenue would be deferred as those lots sold through the home building business segment and related profits are not recognized until the home is built and delivered. The impact of the deferral will be reduced as targeted growth in our home building business segment is achieved.

| | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| | **2014** | **2013** | **% change** | **2014** | **2013** | **% change** |
| **Key Financial Data** | | | | | | |
| Residential lot sales[1] | **4,169** | 14,421 | (71.1%) | **45,026** | 40,817 | 10.3% |
| Development land sales | - | - | - | **14,000** | 6,668 | 110.0% |
| Total revenue | **4,169** | 14,421 | (71.1%) | **59,026** | 47,485 | 24.3% |
| Direct cost of sales | **(1,851)** | (8,698) | (78.7%) | **(38,715)** | (27,912) | 38.7% |
| Gross margin before recovery (write-down)[2] | **2,318** | 5,723 | (59.5%) | **20,311** | 19,573 | 3.8% |
| Gross margin before recovery (write-down)(%)[2] | **55.6%** | 39.7% | | **34.4%** | 41.2% | |
| (Write-down) recovery of real estate held for development and sale | **(184)** | (4,155) | (95.6%) | **4,177** | (16,282) | N/R[5] |
| Equity income from joint venture | **903** | 3,213 | (71.9%) | **4,580** | 6,038 | (24.1%) |
| Other net expenses[3] | **(2,558)** | (2,433) | 5.1% | **(8,528)** | (11,433) | (25.4%) |
| Land development EBIT[4] | **479** | 2,348 | (79.6%) | **20,540** | (2,104) | N/R[5] |
| **Key Operating Data** | | | | | | |
| Residential lots sold to third parties | **3** | 62 | (95.2%) | **124** | 150 | (17.3%) |
| Residential lots sold through the home building business segment | **18** | 36 | (50.0%) | **147** | 110 | 33.6% |
| Total residential lots sold | **21** | 98 | (78.6%) | **271** | 260 | 4.2% |
| Development land sold (acres) | - | - | - | **121.91** | 11.28 | N/R[5] |
| Average revenue per lot sold | **199** | 147 | 35.4% | **166** | 157 | 5.7% |
| Average revenue per acre sold | - | - | - | **115** | 591 | (80.5%) |

(1) *Includes residential lot sales and other revenue*
(2) *Non-GAAP financial measure. Refer to page 18 for further information*
(3) *Other net expenses includes general and administrative, selling and marketing and net finance expense*
(4) *Segmented earnings (loss) before income taxes ("EBIT")*
(5) *Not reflective due to percentage increase*

Revenues were lower for Q4 2014 than in Q4 2013 due to decreased volumes of residential lot sales, both to third parties and to the home building business segment. The volume of lot sales are usually higher when new sub-divisions are brought on stream and are also impacted by the pace at which pool lots are picked up by partner builders. Gross margin percentage on residential lots increased to 55.6% in Q4 2014 from 39.7% in Q4 2013. Other net expenses were slightly higher in Q4 2014 compared to Q4 2013 mainly due to an increase in land development segment and corporate personnel that were required for the increase in activities in 2014.

Revenues for YE 2014 were higher than those for YE 2013 due to higher residential lot sales and the sale of a non-core development land parcel and a small multi-family parcel. 2014 included the sale of the non-core Acheson property for $14,000 which was close to its carrying value and thus generated a low gross margin. Eliminating the impact of the sale of this non-core property on both revenue and cost of sales results in a gross margin of 44.1% which is similar to 2013. Gross margin from the sale of development lands is dependent on a variety of factors such as location, supply of land, zoning regulations, interest rates and how long the Corporation has owned the land.

Gross margin on single family lots was higher at YE 2014 at 44.1% compared to 41.9% at YE 2013. This 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.

Other expenses decreased by 25.4% during YE 2014 compared to YE 2013, mainly due to one-time proxy contest costs incurred in the third quarter of 2013 ("Q3 2013"). In YE 2014, we incurred higher selling and marketing expenses related to the sale of the non-core Acheson development land parcel and increased community marketing activity, offset by lower net finance expenses. The land development segment and corporate personnel increased to 32 at YE 2014 from 27 at YE 2013.

## Home Building

| | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| | **2014** | **2013** | **% change** | **2014** | **2013** | **% change** |
| **Key Financial Data** | | | | | | |
| Revenues[1] | **27,832** | 16,668 | 67.0% | **96,029** | 63,570 | 51.1% |
| Cost of sales | **(23,407)** | (14,419) | 62.3% | **(79,985)** | (54,543) | 46.6% |
| Gross margin | **4,425** | 2,249 | 96.8% | **16,044** | 9,027 | 77.7% |
| Gross margin (%) | **15.9%** | 13.5% | | **16.7%** | 14.2% | |
| Other net expenses[2] | **(2,607)** | (2,112) | 23.4% | **(10,936)** | (8,773) | 24.7% |
| Home building EBIT[3] | **1,818** | 137 | N/R[4] | **5,108** | 254 | N/R[4] |
| **Key Operating Data** | | | | | | |
| Homes sold | **66** | 42 | 57.1% | **220** | 164 | 34.1% |
| Average revenue per home sold | **422** | 396 | 6.6% | **436** | 387 | 12.7% |

(1) *Revenues include residential home sales and other revenue*
(2) *Other net expenses includes general and administrative, selling and marketing and net finance expense*
(3) *Segmented earnings before income taxes*
(4) *Not reflective due to percentage increase*

Genesis realized higher revenues as well as higher average revenues per home during Q4 2014 and YE 2014 compared to the same periods in 2013 due to a combination of the sales mix and the larger number of homes sold compared to the same periods in 2013. Single-family homes typically command higher sale prices than multi-family homes or attached duplexes. Of the 66 homes sold during Q4 2014, 54 were single-family homes and 12 were multi-family homes compared to 29 single-family and 13 multi-family homes in Q4 2013. Of the 220 homes sold in 2014, 207 were single-family homes and 13 were multi-family homes compared to 113 single-family homes and 51 multi-family homes in 2013.

Gross margin percentage for 2014 was higher compared to the same periods in 2013 due to a combination of significantly higher volumes, greater operating efficiencies and the overall strength of the home building market in the Calgary Metropolitan Area during the year. The strong housing market in the Calgary Metropolitan Area in 2014 allowed for increases in the selling price of quick possession homes, adding to the improved gross margin percentage.

Other expenses increased by 23.4% and 24.7% in Q4 2014 and YE 2014, respectively, due to higher general and administrative expenses and selling and marketing expenses, but were at a much slower pace of increase than home building revenues. These expenses were necessary to achieve aggressive revenue and profitability targets. The number of employees at YE 2014 increased to 49 from 36 at YE 2013 in order to achieve increased home building volume and customer service targets. The increase in other expenses was partially offset by lower net finance expenses due to reduced debt levels and lower interest rates.

### Finance Expense

| | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| | **2014** | **2013** | **% change** | **2014** | **2013** | **% change** |
| Interest incurred | **360** | 896 | (59.8%) | **1,853** | 3,771 | (50.9%) |
| Financing fees amortised | **201** | 378 | (46.8%) | **991** | 1,518 | (34.7%) |
| Interest and financing fees capitalized | **(294)** | (1,042) | (71.8%) | **(1,736)** | (3,763) | (53.9) |
| | **267** | 232 | 15.1% | **1,108** | 1,526 | (27.4%) |

Interest incurred relates to operating loans secured by land and home building operations. The lower interest incurred during Q4 2014 and YE 2014 compared to the same periods in 2013 was mainly due to significantly lower average outstanding loans and credit facilities. The weighted average interest rate of loan agreements was 5.57% (YE 2013 – 5.83%), based on YE 2014 balances. This was 4.65% (YE 2013 – 5.58%), based on YE 2014 balances, after excluding $7,850 relating to a limited partnership.

## SEGMENTED BALANCE SHEETS

| | December 31, 2014 | | | | | | December 31, 2013 |
|---|---|---|---|---|---|---|---|
| | Land Development | | | | | | |
| | **Genesis** | **LPs** | **Intra-segment eliminations** | **Home Building[1]** | **Eliminations** | **Consolidated** | **Consolidated** |
| **Assets** | | | | | | | |
| Real estate held for development and sale | 152,429 | 55,528 | - | 35,557 | (3,391) | **240,123** | 257,420 |
| Amounts receivable | 17,516 | 4 | - | 140 | - | **17,660** | 23,342 |
| Cash and cash equivalents | 21,019 | 477 | - | 11,552 | - | **33,048** | 17,678 |
| Other assets | 55,512 | 1,059 | (25,146) | 4,781 | (17,295) | **18,911** | 15,406 |
| **Total assets** | 246,476 | 57,068 | (25,146) | 52,030 | (20,686) | **309,742** | 313,846 |
| **Liabilities** | | | | | | | |
| Loans and credit facilities | 8,310 | 7,804 | - | 7,778 | - | **23,892** | 50,373 |
| Provision for future development costs | 18,279 | - | - | 3,666 | - | **21,945** | 20,448 |
| Other liabilities[2] | 17,018 | 25,190 | (25,146) | 32,870 | (17,301) | **32,631** | 25,099 |
| **Total liabilities** | 43,607 | 32,994 | (25,146) | 44,314 | (17,301) | **78,468** | 95,920 |
| **Net assets** | **202,869** | **24,074** | **-** | **7,716** | **(3,385)** | **231,274** | 217,926 |

(1) *Other liabilities under the home building business segment includes $14,164 (2013 - $19,187) due to the land development segment related to land and lot purchases.*

(2) *Other liabilities under the LPs segment comprises customer deposits and accounts payable and accrued liabilities and includes $24,091 (2013 - $21,998) due to Genesis. Refer to note 20 in the consolidated financial statements for the years ended December 31, 2014 and 2013.*

## LIQUIDITY AND CAPITAL RESOURCES

Genesis had more cash on hand than outstanding loans and also had significant unutilized debt capacity, providing management with the flexibility to adjust to a variety of changes in the economic environment. We are able to meet our operating and capital needs through a number of sources, including cash flows from operations and from our short-term and long-term borrowings under our credit facilities. Our debt decreased substantially during 2014 as funds received from the sale of the non-core Acheson development land, lot payouts, and residential home sales were used to pay down related project debt. These activities improved our financial strength by reducing loans and credit facilities outstanding to $23,892, total liabilities to equity ratio to 0.34 and debt to total assets to 7.7% at YE 2014 compared to $50,373, 0.44 and 16.1%, respectively at YE 2013. We regularly review credit facilities and manage requirements in accordance with project development plans and operating requirements. Genesis and its subsidiaries were in compliance with all covenants as at YE 2014 and YE 2013.

### Real Estate Held for Development and Sale

| | December 31, 2014 | December 31, 2013 | % change |
|---|---|---|---|
| Real estate held for development and sale | **292,013** | 317,602 | (8.1%) |
| Provision for write-downs | **(51,890)** | (60,182) | (13.8%) |
| | **240,123** | 257,420 | (6.7%) |

Real estate held for development and sale decreased by $17,297 at YE 2014 compared to the YE 2013. This was primarily due to the sale of the non-core Acheson development land parcel, recoveries of shared costs and the sale of residential lots. This decrease was partially offset by land development activities and recovery of write-downs previously made. Refer to note 4 in the consolidated financial statements for the years ended December 31, 2014 and 2013.

The following table presents our real estate held for development and sale at YE 2014. For additional information on Appraised Value below, see the Non-GAAP measures section of this MD&A on page 18:

| | Land under development | | | | Land held for future development | | | Total | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Land Development Segment** | **Net carrying value** | **Appraised Value** | **Acres** | **Lots** | **Net carrying value** | **Appraised Value** | **Acres** | **Net carrying value** | **Appraised Value** | **Acres** | **Lots** |
| **Residential** | | | | | | | | | | | |
| Airdrie(1) | 32,814 | 96,636 | 213 | 166 | 8,018 | 31,860 | 90 | 40,832 | 128,496 | 303 | 166 |
| Calgary NW(2) | 18,877 | 39,089 | 44 | 27 | - | - | - | 18,877 | 39,089 | 44 | 27 |
| Calgary NE(3) | 14,532 | 33,315 | 4 | 184 | 7,394 | 16,000 | 46 | 21,926 | 49,315 | 50 | 184 |
| | 66,223 | 169,040 | 261 | 377 | 15,412 | 47,860 | 136 | 81,635 | 216,900 | 397 | 377 |
| **Mixed Use(4)** | 51,037 | 79,919 | 71 | - | 18,448 | 26,552 | 1,788 | 69,485 | 106,471 | 1,859 | - |
| **Other assets(5), (9)** | 1,673 | 2,380 | 114 | 14 | 5,018 | 6,780 | 1,990 | 6,691 | 9,160 | 2,104 | 14 |
| **Total Land development segment(6)** | **118,933** | **251,339** | **446** | **391** | **38,878** | **81,192** | **3,914** | **157,811** | **332,531** | **4,360** | **391** |
| **Home Building Business Segment(6),(8)** | | | | | | | | **32,165** | **35,557** | **-** | **151** |
| **Total land and home building segments** | | | | | | | | **189,976** | **368,088** | **4,360** | **542** |
| Limited Partnerships(7) | | | | | | | | 50,147 | 60,170 | 2,387 | - |
| **Real estate held for development and sale** | | | | | | | | **240,123** | **428,258** | **6,747** | **542** |

*(1) Airdrie comprises the communities of Bayside, Bayview and Canals*
*(2) Calgary NW comprises the community of Sage Meadows*
*(3) Calgary NE comprises the community of Saddlestone*
*(4) Mixed use comprises Delacour, North Conrich and Sage Hill Crossing*
*(5) Other assets comprises Brooks, Dawson Creek, Kamloops, Mitford Crossing, Mountain View Village, Prince George and Spur Valley*
*(6) Lots include 308 lots that have been reserved/contracted for sale to the home building business segment from the land segment*
*(7) Comprises land held for future development and land under development. Refer to note 4 in the consolidated financial statements for the year ended December 31, 2014*
*(8) Housing projects under development. Refer to note 4 in the consolidated financial statements for the year ended December 31, 2014*
*(9) Other assets includes non-core assets which represent 3.7% ( 2013 – 10.8%) of Genesis' Land portfolio with a carrying value of $5,789 (2013 - $19,382)*

The following table presents the home building business segment's lot supply at YE 2014:

| Project | Lots at Jan 1, 2014 | Lot purchases in 2014 | Homes sold during 2014 | Lots at December 31, 2014[1] | Lots with firm sale contracts | Unsold lots at December 31, 2014 | Breakdown of unsold lots: Vacant lots | Breakdown of unsold lots: Spec. homes for quick possession | Breakdown of unsold lots: Show-homes | Price range of homes sold |
|---|---|---|---|---|---|---|---|---|---|---|
| **Airdrie** | | | | | | | | | | |
| Bayside | 13 | 149 | (23) | 139 | (4) | 135 | 105 | 26 | 4 | $277-$479 |
| Canals | 50 | - | (43) | 7 | (5) | 2 | - | - | 2 | $298-$646 |
| | 63 | 149 | (66) | 146 | (9) | 137 | 105 | 26 | 6 | $277-$646 |
| **Calgary NW** | | | | | | | | | | |
| Evansridge[2] | 42 | 22 | (35) | 29 | (7) | 22 | 22 | - | - | $371-$562 |
| Kinwood[3] | 82 | 32 | (39) | 75 | (44) | 31 | 10 | 20 | 1 | $433-$667 |
| Sage Meadows | 35 | - | (8) | 27 | (27) | - | - | - | - | $383-$737 |
| Sherwood | 5 | - | (2) | 3 | (3) | - | - | - | - | $789-$1065 |
| | 164 | 54 | (84) | 134 | (81) | 53 | 32 | 20 | 1 | $371-$1065 |
| **Calgary NE** | | | | | | | | | | |
| Saddlestone | 119 | 130 | (70) | 179 | (47) | 132 | 132 | - | - | $254-$705 |
| **Total** | **346** | 333 | **(220)** | **459** | **(137)** | **322** | **269** | **46** | **7** | $254-$1065 |

*[1] Closing supply of lots at YE 2014 includes 459 lots, of which 308 have been reserved/contracted for sale to the home building business segment from the land development segment and 151 lots have been purchased from the land development segment and from the joint venture at market prices*

*[2] Lots purchased from third parties*

*[3] Lots purchased from joint venture*

## Amounts Receivable

| | December 31, 2014 | December31, 2013 | % change |
|---|---|---|---|
| Amounts receivable | **17,660** | 23,342 | (24.3%) |

Amounts receivable decreased by $5,682 for YE 2014 as compared to the prior year. This was mainly as a result of collections of receivables from third parties and change in mix of sales due to our strategy to grow the home building segment, resulting in lower sales to third party builders. Genesis generally retains title to lots and homes until full payment is received in order to mitigate credit exposure.

## Cash Flows from Operating Activities

| | Three months ended December 31, | | Year ended December 31, | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Cash flows from operating activities | **4,099** | 1,086 | **42,169** | 53,952 |
| Cash flows from operating activities per share – basic and diluted | **0.09** | 0.02 | **0.94** | 1.20 |

Cash flows from operating activities were higher in Q4 2014 compared to Q4 2013 due to an increase in the number of sales of residential homes. This increase was partially offset by lower cash receipts from the sale of residential lots to third parties.

Cash flows from operating activities was $42,169 for YE 2014 compared to $53,952 for YE 2013 due to lower receipts from land sales and from the sale of residential lots in 2014. Receipts for YE 2014 included $13,784 from the sale of the non-core Acheson development land parcel while YE 2013 included the receipt of $27,713 from the sale of sites 1 and 2 in the Sage Hill Crossing commercial development. Lower receipts from the sale of residential lots in 2014 were partially offset by higher receipts from the sale of residential homes.

## LIABILITIES AND SHAREHOLDERS' EQUITY

| | December 31, | | December 31, | |
|---|---|---|---|---|
| | **2014** | **% of Total** | **2013** | **% of Total** |
| Loans and credit facilities | **23,892** | **8%** | 50,373 | 16% |
| Customer deposits | **5,515** | **2%** | 5,228 | 2% |
| Accounts payable and accrued liabilities | **22,683** | **7%** | 16,759 | 5% |
| Provision for future land development costs | **21,945** | **7%** | 20,448 | 7% |
| Income taxes payable | **4,433** | **1%** | 3,112 | 1% |
| Total liabilities | **78,468** | **25%** | 95,920 | 31% |
| Non-controlling interest | **23,173** | **7%** | 22,443 | 7% |
| Shareholders' equity | **208,101** | **68%** | 195,483 | 62% |
| | **309,742** | **100%** | 313,846 | 100% |

### Loans and Credit Facilities

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 operating activities, supplemented by credit facilities, to meet the above liabilities as they become due. We regularly review credit facilities and manage requirements in accordance with project development plans and operating requirements.

The following is a summary of drawn and outstanding loan and credit facility balances as at YE 2014 and as at the end of the previous four quarters:

| | Q4 2014 | Q3 2014 | Q2 2014 | Q1 2014 | Q4 2013 |
|---|---|---|---|---|---|
| Land development loans | 16,600 | 16,788 | 16,168 | 23,473 | 40,609 |
| Home building loans | 7,818 | 457 | 4,525 | 10,569 | 11,021 |
| | 24,418 | 17,245 | 20,693 | 34,042 | 51,630 |
| Unamortized deferred financing fees | (526) | (726) | (820) | (1,074) | (1,257) |
| Balance, end of period | 23,892 | 16,519 | 19,873 | 32,968 | 50,373 |

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

| | For the year ended December 31, | |
|---|---|---|
| | **2014** | **2013** |
| Balance, beginning of period[(1)] | **50,373** | 97,224 |
| Advances | **27,484** | 46,511 |
| Repayments | **(55,347)** | (94,214) |
| Interest and financing fees incurred | **2,693** | 3,835 |
| Interest and financing fees paid | **(1,311)** | (2,983) |
| Balance, end of period[(1)] | **23,892** | 50,373 |

*[(1)] Loans and credit facilities includes $7,850 related to a limited partnership which is guaranteed by Genesis*

Total liabilities to equity ratio was as follows:

| | December 31, | |
|---|---|---|
| | **2014** | **2013** |
| Total liabilities | **78,468** | 95,920 |
| Total equity | **231,274** | 217,926 |
| Total liabilities to equity ratio[(1)] | **0.34** | 0.44 |

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

The Corporation's debt decreased substantially during 2014 as funds received from the sale of the non-core Acheson development land, lot payouts, and residential home sales were used to pay down related project debt. These activities improved our financial strength by reducing loans and credit facilities outstanding to $23,892 and the total liabilities to equity ratio to 0.34 at YE 2014 compared to $50,373 and 0.44 at YE 2013.

Genesis has various covenants in place with its lenders with respect to certain contracted credit facilities. Such covenants include: other 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. ("GBG") maintain a net worth of at least $11,500 at all times. Net worth, a non-GAAP financial measure, as defined by the lender is "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 as at YE 2014 and YE 2013.

## Provision for Future Land Development Costs

Genesis sells lots for which it is responsible to pay for costs-to-complete. The cost of these remaining services is recognized as a liability when the related revenue is recognized. Provision for future land development costs increased by $1,497 at YE 2014 compared to YE 2013, mainly due to larger sale volumes net of recoveries from Sage Hill Crossing active phases.

## Income Tax Payable

The changes in income tax payable are as follows:

| | For the year ended December 31, | |
|---|---|---|
| | **2014** | **2013** |
| Balance, beginning of period | **3,112** | 4,617 |
| Provision for current income tax | **6,953** | 2,420 |
| Net payments | **(5,632)** | (3,925) |
| Balance, end of period | **4,433** | 3,112 |

The increase in income tax provision is due to the improved profitability of the Corporation in 2014.

## Non-Controlling Interest

Non-controlling interest increased at YE 2014 compared to YE 2013 mainly due to recovery of write-downs on real estate held for development and sale ($2,903), offset, in part, by expenses incurred by the limited partnerships and paid by Genesis.

Refer to note 20 in the consolidated financial statements for the years ended December 31, 2014 and 2013 for additional information on the limited partnerships.

## Shareholders' Equity

As at March 26, 2015, the Corporation had 44,931,200 common shares issued and outstanding. In addition, options to acquire 2,691,000 common shares of Genesis were issued and outstanding under our stock option plan.

Return on equity was 8.6% at YE 2014 (YE 2013 – 3.0%) calculated on a rolling 12 month basis. Return on equity is calculated by dividing net income by average shareholders' equity. Return on equity increased at YE 2014 as the net income calculated on a rolling 12 month basis was significantly higher than that at YE 2013. Average shareholders' equity as at YE 2014 was higher than that at YE 2013 even after payment of a special cash dividend of $5,386 ($0.12 per share). Changes in the Corporation's net asset value are not reflected in the calculation of return on equity mentioned above.

## Contractual Obligations and Debt Repayment

Our contractual obligations as at YE 2014 were as follows, excluding accounts payable, accrued liabilities, income taxes payable, customer deposits and provision for future land development costs:

| | Loans and Credit Facilities[(1)] | Naming Rights | Lease Obligations | Southeast land purchase | Total |
|---|---|---|---|---|---|
| Current | 16,568 | 700 | 934 | 10,000 | **28,202** |
| January 2016 to December 2016 | 7,850 | 700 | 953 | 8,000 | **17,503** |
| January 2017 to December 2017 | - | 700 | 574 | 8,000 | **9,274** |
| January 2018 and thereafter | - | 2,000 | 62 | 24,000 | **26,062** |
| | 24,418 | 4,100 | 2,523 | 50,000 | **81,041** |

[(1)] *Excludes deferred financing fees*

Management believes that Genesis has sufficient liquidity from its operating activities, supplemented by credit facilities, to meet all obligations.

Investment in naming rights demonstrates our commitment to the communities we are involved in, and helps in the positive recognition of our brand - not only in these communities, but also throughout the cities of Calgary and Airdrie.

Genesis has entered into a memorandum of understanding with the Northeast Community Society, whereby we will contribute $5,000 for the naming rights to the “Genesis Centre for Community Wellness”, a recreation complex in northeast Calgary ($500 each year, terminating October 31, 2021). The first three installments totaling $1,500 were made upto and through 2014.

Genesis entered into an agreement with the City of Airdrie, whereby we will contribute $2,000 for the naming rights to “Genesis Place”, a recreation complex in the City of Airdrie ($200 each year, terminating June 1, 2017). The first seven installments totaling $1,400 were made upto and through 2014.

Genesis entered into an agreement with Morguard Real Estate Investment Trust (“Morguard”) to lease the Genesis’ office building. The basic rent per annum was $349 in the first year, which increases progressively to $426 in the fifth year. The lease with Morguard commenced on August 1, 2012 and terminates on July 31, 2017. The lease includes an option in favor of Genesis to extend the term for an additional five-year period at market rent. Genesis has other minor operating leases as well.

As a normal part of business, we have 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 14 of the consolidated financial statements.

### Current Contractual Obligations

| | December 31, | |
|---|---|---|
| | **2014** | **2013** |
| Loans and credit facilities, excluding deferred financing fees | **16,568** | 36,159 |
| Accounts payable and accrued liabilities | **22,683** | 16,759 |
| Total short-term liabilities | **39,251** | 52,918 |
| Commitments[1] | **11,634** | 1,570 |
| | **50,885** | 54,488 |

*[1] Commitments comprise naming rights, lease obligations and payments for the southeast land acquisition*

As at YE 2014, Genesis had obligations due within the next 12 months of $50,885, of which $16,568 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 our operating history, our 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.

## SELECTED ANNUAL INFORMATION

| | **2014** | **2013** | **2012[1]** |
|---|---|---|---|
| Total revenues | 134,245 | 96,077 | 129,460 |
| Gross margin | 39,001 | 11,135 | 9,051 |
| Net earnings attributable to equity shareholders | 17,395 | 5,713 | 8,861 |
| Net earnings per share – basic and diluted | 0.39 | 0.13 | 0.20 |
| Total assets | 309,742 | 313,846 | 374,341 |
| Loans and credit facilities | 23,892 | 50,373 | 97,224 |

*[1] The figures for 2012 have been restated to incorporate the impact of adopting IFRS 11 Joint Arrangements.*

## SUMMARY OF QUARTERLY RESULTS

| | Q4 2014 | Q3 2014 | Q2 2014 | Q1 2014 | Q4 2013 | Q3 2013 | Q2 2013 | Q1 2013 |
|---|---|---|---|---|---|---|---|---|
| Revenues | 28,509 | 32,984 | 34,765 | 37,987 | 26,331 | 19,734 | 22,402 | 27,610 |
| Net earnings(1) | 2,858 | 4,366 | 7,231 | 2,940 | 4,980 | (4,644) | 1,697 | 3,680 |
| EPS(2) | 0.07 | 0.09 | 0.16 | 0.07 | 0.11 | (0.10) | 0.04 | 0.08 |

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

Seasonality affects the land development and home building industry in Canada, particularly as a result of weather conditions during winter operations. As a result, we typically realize higher home building revenues in the summer and fall months when home building sales peak. Revenues can be impacted by the timing of lot sales, which is less weather dependent. The sale of development land is periodic and not predictable.

In Q4 2014, we sold 3 residential lots and 66 homes (comprising 54 single- and 12 multi-family units) compared to 21 residential lots and 62 homes (comprising 61 single- and 1 multi-family units) in Q3 2014. As a result, revenues and gross margins for both residential lot sales and home sales were lower. Gross margins were lower as residential lots generally have a higher gross margin percentage than homes, which are a blend of lot and home construction costs. In addition, single-family homes typically have a higher gross margin percentage than multi-family homes. In addition, Q4 2014 had lower income from our joint venture compared to Q3 2014. These were the main factors that resulted in lower net earnings and EPS in Q4 2014 compared to Q3 2014.

## JOINT VENTURE

Genesis formed a joint venture ("JV") on April 30, 2010, for the purpose of acquiring, developing and selling certain real estate. The development and sale of the real estate pertaining to the JV is expected to be completed in 2016.

Refer to note 16 of the consolidated financial statements for the years ended December 31, 2014 and 2013 for the summarized financial information of the JV and reconciliation of the summarized financial information to the carrying amount of the Corporation's interest in the JV, which is accounted for using the equity method.

## OFF BALANCE SHEET ARRANGEMENTS

### Letters of Credit

We have an ongoing requirement to provide irrevocable letters of credit to municipalities as part of the subdivision plan registration process. As at YE 2014, these letters of credit totalled approximately $2,641 (YE 2013 - $6,279), and provide a source of funds for the municipalities to complete construction and maintenance improvements to the subdivision should the Corporation be unable to fulfill these obligations. The amount of any particular letter of credit is reduced at various stages of construction. Once the municipality issues a certificate acknowledging completion of the improvements to the project, the letter of credit is returned and cancelled. In the event of a letter of credit, provided to a municipality, is cancelled by the issuing bank for any reason, Genesis will be required to secure the cancelled letter of credit with cash.

### Lease Agreements

We have 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 of YE 2014 and at YE 2013. 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.

## RELATED PARTY TRANSACTIONS

There were no related party transactions for YE 2014 (2013 - $1,244).

## CONSOLIDATED ENTITIES

The Corporation is the general partner in four limited partnership arrangements (refer to note 20 of the consolidated financial statements for the years ended December 31, 2014 and 2013) and a 50% partner in the joint venture (refer to note 16 of the consolidated financial statements for the years ended December 31, 2014 and 2013).

## SUBSEQUENT EVENTS

In January 2015, Genesis paid $10,000 towards the acquisition of 350 acres of land located in southeast Calgary. The community is expected to include nearly 2,100 homes, parkland and supporting community commercial development and supplements the existing asset base of the Corporation while ensuring a long term supply of land. This transaction closed on January 6, 2015. Refer to note 14(a) of the consolidated financial statements for the years ended December 31, 2014 and 2013 for additional information.

Also in January 2015, the Corporation paid $1,777 to the former mortgage holders of a participating mortgage as a partial payout of the 20% participation in profits of a development activity. Refer to note 14(f) of the consolidated financial statements for the years ended December 31, 2014 and 2013 for additional information.

In February 2015, the Corporation signed a commitment letter for a loan facility of $10,000 to be used for general corporate purposes and this will strengthen the Corporation's liquidity resources. The annual interest rate on this facility is prime + 1% and is secured by a continuing collateral mortgage representing a first charge on certain properties held by the Corporation and a general security agreement representing a first charge on all the Corporation's personal property.

## SUMMARY OF ACCOUNTING CHANGES

The Corporation adopted IFRIC 21 *Levies*, amendments to IAS 36 *Impairment of assets*, amendments to IFRS 2 *Share-based payments*, amendments to IAS 24 *Related party disclosure*, amendments to IFRS 8 *Operating segments* and amendments to IFRS 3 *Business combinations* during 2014 and concluded that these do not have a material impact on the Corporation's financial position or performance. Refer to note 3 of the consolidated financial statements for the years ended December 31, 2014 and 2013 for a description of these IFRS amendments and interpretations.

## CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

Refer to note 3 of the consolidated financial statements for the years ended December 31, 2014 and 2013 for information pertaining to accounting pronouncements that were adopted during 2014 and for those that will be effective in future periods.

## 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 YE 2014 and for YE 2013. Refer to note 2(q) in the consolidated financial statements for the years ended December 31, 2014 and 2013 for additional information on judgments and estimates.

### Provision for Future Land 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 as it is based on estimates prepared by independent consultants and management.

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

We estimate the net realizable value ('NRV') of real estate held for future 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, among other factors.

### Share-based payments

The Corporation uses an option pricing model to determine the fair value of share-based payments. Inputs to the model are subject to various estimates about volatility, interest rates, dividend yields, forfeiture rates and expected life of the units issued. Fair value inputs are subject to market factors as well as internal estimates. The Corporation considers historic trends together with any new information to determine the best estimate of fair value at the date of grant.

### 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.

## DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as those terms are defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*. The CEO and CFO have designed, or caused to be designed under their direct supervision, Genesis' DC&P to provide reasonable assurance that:

(i) material information relating to the Corporation, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which the annual filings are being prepared; and

(ii) information required to be disclosed in the annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported on a timely basis.

The CEO and CFO have also designed, or caused to be designed under their direct supervision, Genesis' ICFR to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The ICFR have been designed using the control framework established in Internal Control – Integrated Framework (2013) published by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

The CEO and CFO have evaluated the design and operating effectiveness of Genesis' DC&P and ICFR and concluded that Genesis' DC&P and ICFR were effective as at December 31, 2014. While Genesis' CEO and CFO believe that the Corporation's internal controls and procedures provide a reasonable level of assurance that such controls and procedures are reliable, an internal control system cannot prevent all errors and fraud. It is management's belief that any control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

There were no changes in the Corporation's ICFR during the three months and year ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect the Corporation's ICFR.

## RISKS AND UNCERTAINTIES

In the normal course of business, we are 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, our 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. 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 our Annual Information Form available on SEDAR at www.sedar.com

## TRADING AND SHARE STATISTICS

The Corporation's trading and share statistics for 2014 and 2013 are provided below.

| | 2014 | 2013 |
|---|---|---|
| Average daily trading volume | **45,322** | **35,436** |
| Share price ($/share) | | |
| High | **5.10** | **3.85** |
| Low | **3.30** | **3.26** |
| Close | **3.85** | **3.41** |
| Market capitalization at December 31 | **172,985** | **152,977** |
| Shares outstanding | **44,931,200** | **44,861,200** |

## NON-GAAP MEASURES

Non-GAAP measures do not have any standardized meaning according to IFRS, and therefore may not be comparable to similar measures presented by other reporting issuers. Refer to Advisories on page 21 of this MD&A.

**NAV, and NAV per share** are non-GAAP financial measures and therefore may not be comparable to similar measures presented by other companies. There is no comparable IFRS financial measure presented in the Corporation's consolidated financial statements and thus no applicable quantitative reconciliation for such non-GAAP financial performance measure has been provided. Management believes this measure provides information useful to its shareholders in understanding the Corporation's value, and may assist in the evaluation of the Corporation's business relative to that of its peers. There are risks and uncertainties associated with appraisals and valuations and the NAV provided may not be realizable.

NAV is calculated on a before tax basis, using total land value (prepared by independent certified real estate appraisers) plus additional balance sheet assets less balance sheet liabilities. The value of housing projects under development used in the calculation of NAV is the book value of the work in progress and the appraised value of lots of the home building business. The book value of all remaining assets and liabilities as set forth in the consolidated financial statements of the Corporation has been added to calculate NAV.

The appraised value of lands is the sum of the estimated market value of each property or phase. No discount, if any, has been taken for potential en-bloc sale of assets. Appraisals obtained by Genesis reflect values as of YE 2014. It should be noted that Genesis' real estate appraisals primarily rely on comparable sale transactions for their valuations. In rising markets, valuations tend to lag current values since comparable transactions are often negotiated months in advance of the recorded closing date. In falling markets, valuations also tend to lag due to the absence of comparable sales transactions as buyers and sellers adjust to new market conditions. Management acknowledges that market conditions have softened since YE 2014, however, the independent appraisals are the best estimates of value.

In the second half of 2014 and early 2015, Alberta saw a softening of economic fundamentals primarily due to a significant drop in crude oil and natural gas prices. Genesis obtains appraisals at least annually for all of its properties, with the exception of non–core properties that are actively being marketed for sale. It is our practice to appraise approximately half of our portfolio every six months, and provide and update of NAV at that time.

The following table shows the calculation of NAV:

| | December 31, | |
|---|---|---|
| | 2014 | 2013 |
| Appraised value of land[(1)] | 332,531 | 301,312 |
| Housing projects under development | 35,557 | 30,895 |
| | 368,088 | 332,207 |
| Other balance sheet assets | 69,619 | 56,426 |
| Balance sheet liabilities | (78,468) | (95,920) |
| Add amount due from related entities | 31,033 | 29,039 |
| NAV | 390,272 | 321,752 |
| NAV per share | 8.69 | 7.18 |
| Total shares outstanding | 44,931 | 44,861 |

[(1)] *Appraised value represents 100% Genesis owned lands. Limited partnership lands owned by other limited partnership investors (and the corresponding NCI liability) are excluded from the calculation.*

NAV per share at YE 2014 was $8.69 compared to $7.18 at YE 2013. The increase in the NAV in 2014 can be mainly attributed to increases in the appraised value of the Corporation's land throughout the Calgary Metropolitan Area and profits from the operation of the homebuilding business segment.

## Other Items Used in the Calculation of Net Asset Value

| | December 31, | |
|---|---|---|
| | 2014 | 2013 |
| Other balance sheet assets[(1)] | | |
| Accounts receivable | 17,660 | 23,342 |
| Investment in joint venture | 3,560 | 7,894 |
| Deferred tax assets | 1,358 | 397 |
| Other operating assets | 13,993 | 7,115 |
| Cash | 33,048 | 17,678 |
| Total | 69,619 | 56,426 |
| | | |
| Balance sheet liabilities[(1)] | | |
| Loans and credit facilities | 23,892 | 50,373 |
| Customer deposits | 5,515 | 5,228 |
| Accounts payable and accrued liabilities | 22,683 | 16,759 |
| Income taxes payable | 4,433 | 3,112 |
| Provision for future land developments costs | 21,945 | 20,448 |
| Total | 78,468 | 95,920 |

[(1)] *Book value per financial statements*

**Gross margin before recovery or write-down** is a non-GAAP measure, and therefore may not be comparable to similar measures presented by other reporting issuers. Gross margin before recovery or write-down is calculated by adjusting for recovery or write-down of real estate held for development and sale to the gross margin. Gross margin before recovery or write-down of real estate held for development and sale is used to assess the performance of the business without the effects of recovery or write-down of real estate held for development and sale. Management believes it is useful to exclude recovery or write-down from the analysis as it could affect the comparability of financial results and could potentially distort the analysis of trends in business performance. Excluding this item does not imply it is non-recurring. The most comparable GAAP financial measure is gross margin.

The table below shows the calculation of gross margin before recovery or write-down, which is derived from gross margin.

| | Three months ended December 31, | | Year ended December 31, | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Total revenues | **28,509** | 26,331 | **134,245** | 96,077 |
| Gross margin | **7,387** | 2,634 | **39,001** | 11,135 |
| Adjust for (recovery) write-down[(1)] | **184** | 4,155 | **(4,177)** | 16,282 |
| Gross margin before (recovery) write-down | **7,571** | 6,789 | **34,824** | 27,417 |
| Gross margin before (recovery) write-down (%) | **26.6%** | 25.8% | **25.9%** | 28.5% |

*(1) Recovery or write-down of real estate held for development and sale*

**Adjusted earnings per share** is a non-GAAP measure, and therefore may not be comparable to similar measures presented by other reporting issuers. Adjusted earnings per share is calculated as net earnings attributable to shareholders before recovery or write-down of real estate held for development and sale attributable to shareholders and net of income taxes relating to the recovery or write-down of real estate held for development and sale, divided by the weighted average number of common shares (basic or diluted) outstanding at a specific date. Adjusted earnings per share is used to assess the performance of the business without the effects of recovery or write-down of real estate held for development and sale. Management believes it is useful to exclude recovery or write-down of real estate held for development and sale from the analysis as it could affect the comparability of financial results and could potentially distort the analysis of trends in business performance. Excluding this item does not imply that it is non-recurring. The most comparable GAAP financial measure is earnings per share.

The following table shows the calculation of adjusted earnings per share which is derived from net earnings attributable to equity shareholders.

| | Three months ended December 31, | | Year ended December 31, | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Net earnings attributable to equity shareholders | **2,858** | 4,980 | **17,395** | 5,713 |
| Adjust for (recovery) write-down[(1), (2)] | **(244)** | 314 | **(1,274)** | 8,185 |
| Tax effect of adjustments @ 25% | **61** | (79) | **319** | (2,046) |
| Adjusted earnings | **2,675** | 5,215 | **16,440** | 11,852 |
| Weighted average number of shares - basic | **44,891,526** | 44,861,200 | **44,874,652** | 44,838,401 |
| Weighted average number of shares – diluted | **45,351,368** | 44,917,233 | **45,276,574** | 44,900,321 |
| Adjusted earnings per share – basic and diluted[(3)] | **0.06** | 0.12 | **0.37** | 0.26 |

*(1) Recovery or write-down of real estate held for development and sale*
*(2) Excludes recovery or write-down related to properties held by limited partnerships*
*(3) Adjusted earnings per share – basic and diluted after adjusting for after-tax recovery or write-down*

## OTHER

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

## ADVISORIES

### Non-GAAP Financial Measures

*NAV, gross margin before recovery or write-down and adjusted earnings per share are non-GAAP measures that do not have any standardized meaning as prescribed by IFRS and therefore they may not be comparable to similarly titled measures reported by other companies. Refer to pages 18-20 for an explanation on calculation of the NAV, gross margin before recoveries or impairment and adjusted earnings per share. NAV has no comparable IFRS measure presented in the Corporation's financial statements and therefore no applicable quantitative reconciliation for such non-GAAP measure exists. These non-GAAP measures have been described and presented in this document in order to provide shareholders and potential investors with additional information regarding the Corporation's performance, liquidity and value. Management is of the view that after-tax NAV is not commonly reported in the industry and therefore the presentation of after-tax NAV in this MD&A has been discontinued. After-tax NAV was calculated by deducting estimated taxes payable if all properties had been sold at their market values.*

### 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.*

*Forward-looking statements 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, ability to bring new developments to market, anticipated positive general economic and business conditions in 2015 and beyond, including low unemployment and interest rates, low stable inflation rates, positive net migration, petroleum commodity prices and above average earnings in Alberta and the anticipated impact on Genesis' development and home building activities, Genesis' business strategy, including the geographic focus of its activities in 2015 and beyond, the constraint on margins, profitability and the pace of activity in Calgary's home building industry throughout 2015 and possibly 2016, the expected capital contribution of future earnings and cash flow from land holdings in the Calgary Metropolitan Area, the ability to close the book of homes with firm sales contracts, the ability to meet the objective to increase the closing of home builds in 2015 as compared to 2014, including the ability to significantly increase home builds per year without substantial addition to costs to our production team or infrastructure so as to increase the effect on net margin, net asset value and profitability, the timing and operation of new accounting and operating software and the ability of management to close the gap between net asset value and share price. 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". 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 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; timely leasing of newly-developed properties and re-leasing of occupied square footage upon expiration; dependence on tenants' financial condition; the uncertainties of real estate development and acquisition activity; the ability to effectively integrate acquisitions; fluctuations in interest rates; ability to raise capital on favourable terms; the impact of newly-adopted accounting principles on Genesis' accounting policies and on period-to-period comparisons of financial results; not realizing on the anticipated benefits from transactions or not realizing on such anticipated benefits within the expected time frame; 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 Annual Information Form 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.*

*Caution should be exercised in the evaluation and use of the appraisal results. The appraisal is an estimate of market value at specific dates and not a precise measure of value, being based on subjective comparison of related activity taking place in the real estate market. The appraisal is based on various assumptions of future expectations and while the appraiser's assumptions are considered to be reasonable at the current time, some of the assumptions may not materialize or may differ materially from actual experience in the future.*